RD:SSG:JGH
8/8/2019

RESOLUTION NO. ______________

A RESOLUTION OF THE COUNCIL OF THE CITY OF SAN JOSE APPROVING CHANGES IN TERMS FOR THE CITY'S OUTSTANDING $4,788,667 LOAN AND OUTSTANDING $4,866,000 GRANT FOR THE MARKHAM PLAZA I, APPROVING A LOAN TO VALUE RATIO IN EXCESS OF 100% AND AUTHORIZING THE DIRECTOR OF HOUSING TO NEGOTIATE AND EXECUTE DOCUMENTS AND AMENDMENTS RELATED TO THOSE CHANGES

WHEREAS, the proceeds of the City's 2019B Bonds will be loaned to Markham Plaza I, L.P., a California limited partnership (the "Borrower"), which together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of the 153-unit rental housing project located at 2000 Monterey Road, known as Markham Plaza I (the "Resyndication"); and

WHEREAS, the City has an outstanding loan on Markham Plaza I in the amount of approximately $4,788,667, consisting of $2,745,588 in principal and $2,043,079 in accrued unpaid interest (the "City Loan"); and

WHEREAS, In connection with the Resyndication, the accrued interest on the City Loan will be capitalized and the City Loan will be assumed by the Borrower; and

WHEREAS, In connection with the Resyndication, the existing City Loan documents will be amended including a change in the fixed interest rate on the City Loan from 4.76% to the applicable federal rate ("AFR") at the long-term rate as of the month of closing, compounded annually, which for September 2019 is 2.21%; and to extend the term of the City Loan by approximately 15 years to 55 years from the closing of the bond financing; and

WHEREAS, the share of the net cash flow to be allocated to the repayment of the City Loan will be reduced from 70% of net cash flow to 50% of net cash flow ; and

WHEREAS, City's Loan to Value ("LTV") policy requires that the combined project debt not exceed 100% of the appraised value of the development in order to reduce the City's risk of potential loss associated with a loan; and

WHEREAS, an appraisal prepared by James G. Palmer Appraisals, Inc. on January 3, 2019 valued the Markham Plaza I development at $26,000,000, and the Resyndication will result in combined debt on the property including the City Loan that exceeds 100% of LTV; and

WHEREAS, the deep affordability of the Development increases the need for public subsidies, while decreasing the project's market value, leading to an increased LTV and staff currently underwrites projects when the projected operating income is expected to be at least 1.15 times the permanent debt service payments rather than on the LTV the Development meets the debt service ratio standard; and

WHEREAS, these actions are intended to ensure the Development's long-term physical and economic viability and to preserve an affordable housing resource for the City;

WHEREAS, staff recommends approval of changes in terms for the City's outstanding loan and outstanding $4,866,000 grant for the Development, approval of a loan to value ratio in excess of 100% and authority to the Director of Housing to negotiate and execute documents and amendments related to those changes, described in the memorandum to Council from the Director of Housing and the Director of Finance dated August 26, 2019.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SAN JOSE THAT:

Changes in terms for the City's outstanding $4,788,667 loan and outstanding $4,866,000 grant for the Development as described in the memorandum to Council from the Director of Housing and the Director of Finance dated August 26, 2019, and a loan to value ratio in excess of 100% are hereby approved, and the Director of Housing is hereby authorized to negotiate and execute documents and amendments related to those changes.

ADOPTED this _____ day of ___________, 2019, by the following vote:

AYES:

NOES:

ABSENT:

DISQUALIFIED:

SAM LICCARDO
Mayor

ATTEST:

TONI J. TABER, CMC
City Clerk