



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: May 11, 2021

Approved

Date

5/12/2021

COUNCIL DISTRICT: 2

SUBJECT: APPROVAL OF THE ISSUANCE OF TAX-EXEMPT MULTIFAMILY HOUSING REVENUE NOTES AND THE LOAN OF THE PROCEEDS THEREOF AND APPROVING RELATED DOCUMENTS FOR THE BLOSSOM HILL SENIOR APARTMENTS PROJECT

RECOMMENDATION

(a) Adopt a resolution:

- (1) Authorizing the issuance of a tax-exempt multifamily housing revenue note designated as “City of San José Multifamily Housing Revenue Note (Blossom Hill Senior Apartments), Series 2021B” (the “2021B Note”) in a principal amount not to exceed \$39,362,559;
- (2) Approving the loan of 2021B Note proceeds to Blossom Hill, L.P. a California limited partnership created by Charities Housing Development Corporation of Santa Clara County, a California nonprofit public benefit corporation, to finance the construction and development of a 147-unit multifamily development known as Blossom Hill Senior Apartments located at 397 Blossom Hill Road in San José (the “Development”);
- (3) Approving in substantially final form the Funding Loan Agreement, the Project Loan Agreement, Regulatory Agreement and Declaration of Restrictive Covenants, and related documents (collectively, the “2021B Note Documents”);
- (4) Authorizing a reduction in the City’s issuance and annual monitoring fees in the approximate amount of \$213,629 during the term of the 2021B Note notwithstanding the City’s Policy for Issuance of Multifamily Housing Revenue Bonds, as provided below; and

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- (5) Authorizing and directing the City Manager, Director of Housing, Director of Finance, Assistant Director of Finance, Deputy Director, Debt & Treasury Management, or their designees, to execute and deliver the 2021B Note Documents together with any documents ancillary to the 2021B Note Documents.
- (b) Adopt a resolution:
 - (1) Authorizing a change in City Loan terms to allow an increase in the Development's rents and income up to 60% AMI (low income) for new tenants in subsidized units in the event of expiration or termination of Project Based Vouchers, and for all tenants in the event of foreclosure, to the extent the City has determined such increase is needed for feasibility of the Development and is allowed by other funds; and
 - (2) Authorizing the Director of Housing to negotiate and execute loan documents, amendments, and all other documents related to this action in 2(a) above.

OUTCOME

Approval of the recommended actions will enable the issuance of a multifamily housing revenue note for the purpose of financing a portion of the costs to construct the Development, an 147-unit affordable rental apartment project, with apartments restricted to low and extremely low-income senior households (except for two unrestricted managers' units), and remaining affordable for a period of at least 55 years following completion.

The Development will serve senior residents with current maximum annual incomes between 30% and 50% of area median income ("AMI") as adjusted for family size in accordance with the California Health and Safety Code, as may be amended from time to time. Forty-nine of the units will be Permanent Supportive Housing for Chronically Homeless households and will be supported by Project Based Vouchers for at least 15 years.

Approval of the recommended action will allow the City to charge a reduced issuer and annual fee so as to comply with U.S. Treasury regulations pertaining to "related parties".

Approval of the recommended action will also allow the City Loan for the Development to provide for an increase in rents and income restrictions (but not more than 60% AMI) for new tenants in subsidized units in the event of expiration or termination of Project Based Vouchers, and for all tenants in the event of foreclosure, if needed to ensure the Development's continued financial feasibility.

EXECUTIVE SUMMARY

In accordance with the City’s Policy for Issuance of Multifamily Housing Revenue Bonds, Charities Housing Development Corporation of Santa Clara County, a California nonprofit public benefit corporation (the “Developer”), has requested that the City issue a tax-exempt multifamily housing revenue note (the “2021B Note”) in an amount not to exceed \$39,362,559. The 2021B Note will be purchased initially by Wells Fargo Bank, National Association (“Wells Fargo”); after construction and lease-up, California Community Reinvestment Corporation (“CCRC”) intends to purchase the 2021B Note from Wells Fargo.

The proceeds of the 2021B Note will be loaned to Blossom Hill, L.P., a California limited partnership (the “Borrower”) formed by the Developer. The Borrower will use these proceeds, and other funds, to finance the construction of the Development, a 147-unit rental housing project to be known as Blossom Hill Senior Apartments.

The 2021B Note will not be paid from or secured by the general taxing power of the City or any other City asset.

BACKGROUND

Borrower. The Borrower is a California limited partnership consisting of the following entities:

- (1) General Partner: Blossom Hill Charities LLC, a California limited liability company, the sole member of which is the Developer.
- (2) Limited Partner: An entity to be formed by Wells Fargo.

The Developer has requested that the City issue the 2021B Note for the purpose of lending the proceeds thereof to the Borrower. The proceeds of the 2021B Note, together with other funds, will be used by the Borrower to finance the construction of the Development.

Development Overview. The Development involves the construction of: (a) 145 studio, one-bedroom and two-bedroom apartments with affordability restrictions for households over the age of 62 years old and (b) two unrestricted three-bedroom managers’ units. The unit mix and affordability levels by Area Median Income (AMI) will be as follows:

Blossom Hill Senior Apartments	30% AMI	Monthly Rent	40% AMI	Monthly Rent	50% AMI	Monthly Rent	Total
Studio	39	\$743	39	\$991	39	\$1,238	117
1 Bedroom	5	\$849	5	\$1,133	5	\$1,416	15
2 Bedroom	4	\$955	4	\$1,274	5	\$1,592	13
3 Bedroom	-	\$1,062	-	\$1,416	-	\$1,770	2*
Total	48		48		49		147

* Unrestricted managers’ units

The 2-bedroom units may have a live-in care attendant if required by the resident.

Forty-nine of the units will be Permanent Supportive Housing (“PSH”) for “Chronically Homeless” senior residents – i.e., residents who have experienced homelessness for at least one year or have experienced at least four episodes of homelessness in the prior three years and also has a disabling condition that prevents them from maintaining employment or housing. These units will be supported by Project Based Vouchers (“PBVs”) for at least 15 years. An Agreement to enter into a Housing Assistance Payment (“AHAP”) contract will be provided with respect to the 49 PSH units prior to the Note closing. Supportive services will be provided to these units by the County of Santa Clara (the “County”).

The affordability restrictions for the Development will remain for a period of at least 55 years from the completion of construction.

The Development will consist of a three-story Type V-A wood frame structure above one level of Type 1-A concrete. The ground floor level will contain 13 enclosed parking spaces, bike storage, ground floor community room with kitchen, office and reception spaces, mailboxes, bathrooms and showers, and a mechanical room. The building will be served by two elevators.

There will be a total of 38 parking spaces including the 13 enclosed spaces. The remaining spaces will be surface parking. Five parking spaces will be for ADA van parking. Eleven of the spaces will be wired for charging stations. Parking will include 42 bicycle and three motorcycle spaces.

Residential amenities include property and resident service offices; indoor community gathering space, central mail, an outdoor common landscaped courtyard and second floor terrace, two laundry rooms and a fitness room. Unit amenities include a full kitchen and an ADA-accessible bathroom. All of the units are adaptable, with a required percentage of ADA accessible units for mobility, hearing and visually impaired residents.

The Development will incorporate highly sustainable design features to reduce energy use and environmental impacts, such as drought-tolerant landscape, energy star appliances, central boiler systems with solar panels to heat water, light sensors and EV parking.

The Development will be constructed on a parcel that is currently owned by the Borrower, will be acquired by the County and leased back to the Borrower for a term of at least 59 years. The County will invest \$9,000,000 towards the acquisition of the land, which will result in a total investment by the County of \$19,083,541. This amount exceeds the City investment of \$17,083,885 which is why the County will hold the parcel. Prior to the acquisition by the County, the parcel will be condominiumized into two parcels – one pertaining to the residential uses and the other pertaining to the resident services space.

The Development will be subject to low income housing tax credit (“LIHTC”) restrictions. The Housing Authority of the County of Santa Clara will provide PBVs for the 49 units which will be permanent supportive housing units under a County supportive/homeless housing initiative. The City and County will also provide funding subject to affordability restrictions.

Construction Schedule. Construction is expected to commence in June 2021 and run through April 2023, with 100% occupancy targeted for August 2023. Some demolition is needed – to remove a 32,000 square foot commercial building. Minor off-site improvements are needed.

City Loan for the Development. The City has agreed to lend to the Borrower for eligible Development Costs up to \$17,669,125 during the construction period (the “City Construction Loan”) and up to \$18,375,000 during the permanent period after construction and lease up, both funded from Low and Moderate Income Asset Funds (the “City Permanent Loan” and, with the City Construction Loan, the “City Loan”). The City Loan will be accompanied by an Affordability Restriction (the “City’s Affordability Restriction”) that is unsubordinated to any deeds of trust. The City’s Affordability Restriction will run for at least 55 years from the completion of the Development.

City as Issuer of Multifamily Housing Bonds. The City’s Policy for Issuance of Multifamily Housing Revenue Bonds requires the City to be the issuer of tax-exempt multifamily housing revenue obligations in connection with the financing or refinancing of affordable rental housing projects for which it has provided, or will be providing, a loan.

Prevailing Wages and Labor Standards. In accordance with City Resolutions No. 61144 and 61716, City prevailing wages policy will apply to the Development and will be overseen by the City’s Office of Equality Assurance. The City’s loans and fee reductions are excluded from the requirements of Part 3 of Chapter 14.10 pursuant to Section 14.10.250.B.

Sources of Project Funding. The 2021B Note will fund a portion of the total Development costs, which are currently estimated to be \$80,461,093. During the construction period, the 2021B Note will be drawn down over time up an estimated amount of \$39,362,459 and bear interest at a variable rate. Following the completion of construction of the Development and its lease-up (“at permanent”), the 2021B Note will be repaid to a remaining principal amount of approximately \$9,528,000, will bear interest at a fixed rate and will be purchased from Wells Fargo by CCRC in accordance with the terms of a loan purchase agreement to be entered into among Wells Fargo, CCRC and the Borrower. The primary source of repayment of the 2021B Note at permanent is anticipated to be low-income housing tax credit proceeds.

The sources and uses of funding for the Development’s construction and permanent phases currently are estimated as follows (actual amounts may vary from these estimates):

**City of San José – Blossom Hill Apartments
Plan of Finance – Sources of Funding**

Source	Construction	Permanent
2021B Note	\$ 39,362,459	\$ 9,528,000
City of San José.....	17,669,125	18,375,000
County of Santa Clara Loan (and accrued interest).....	10,317,712	10,317,712
Tax Credit Equity	3,632,142	36,320,522
Deferred Costs.....	3,559,796	0
Deferred Developer Fee	5,919,859	5,919,859
Total	<u>\$ 80,461,093</u>	<u>\$ 80,461,093</u>

**City of San José – Blossom Hill Apartments
Plan of Finance – Uses of Funding at Permanent**

Uses	Permanent
Acquisition Costs (including Off-Site Improvements).....	\$ 1,596,855
Construction	50,867,294
Architect & Engineering.....	1,954,230
Contingency	3,299,428
Construction Interest	2,767,104
Permit and Impact Fees	3,974,928
Reserves.....	1,745,613
Issuance and Financing Fees.....	964,152
Miscellaneous Financing and Soft Costs.....	4,636,677
Developer Fee.....	8,654,812
Total	<u>\$ 80,461,093</u>

Financing History of the Project – Key Dates. The following are the key dates relating to the financing history of the Development:

- September 15, 2020– City Loan for the Development was approved by the City Council.
- September 18, 2020 - The Director of Finance and Director of Housing signed a Declaration evidencing the intent to reimburse expenditures with the proceeds of obligation for the Development in an amount not to exceed \$45,000,000.
- September 24, 2020 - The City submitted a joint application to CDLAC and CTCAC for a private activity allocation in the amount of \$39,362,559 (CDLAC) and \$2,957,382 in annual 4% Federal tax credits (CTCAC).

- December 21, 2020 - The City received a private activity bond allocation from CDLAC for the 2021B Note and the Borrower received a reservation of 4% Federal tax credits and State tax credits in the requested amounts.
- February 4, 2021 - The Director of Finance held a TEFRA hearing regarding the issuance of tax-exempt multifamily housing revenue obligations in an amount not to exceed \$45,000,000 to finance the construction of the Development.
- March 4, 2021 - The Mayor certified the actions of the Director of Finance.

ANALYSIS

The Blossom Hill Senior Apartments Development will provide 147 homes for seniors including unhoused seniors in the Blossom Hill and Snell area of San José. The development intends to offer a variety of on-site supportive services for the residents, which will create approximately 15 new job opportunities in San José with additional commercial space that is prioritized for community-oriented health and service agencies.

This section of the report outlines the key elements of the proposed structure for the bond issuance.

Bond Financing Structure

Overview of the Multifamily Housing Revenue Note Financing

General.

Multifamily housing financing historically has involved the issuance of tax-exempt bonds on behalf of private developers of qualifying affordable rental apartment projects. The City would issue tax-exempt bonds and loan the proceeds to the developer/borrower. The advantages of tax-exempt financing to developers include: below-market interest rates and low-income housing tax credits – features that are not available with a conventional multifamily housing mortgage loan.

The 2021B Note operates in a similar manner to tax-exempt multifamily housing bonds. The City Charter provides that the City may issue revenue bonds and execute and deliver revenue notes pursuant to California law. The City is authorized to issue the 2021B Note pursuant to California Health and Safety Code Sections 52075-52098, as amended (the “Act”), which authorize cities to issue revenue bonds and execute and deliver revenue notes for the purpose of financing the acquisition and construction of multifamily rental housing. Section 52011 of the California Health and Safety Code defines “Bonds” to include notes for purposes of the Act. The 2021B Note uses a portion of the State’s annual federal tax-exempt private activity volume cap allocated by CDLAC.

The 2021B Note also allows the Development to qualify for tax credits provided through the California Tax Credit Allocation Commission (CTCAC). The 2021B Note is a limited obligation of the City, payable solely from loan repayments by the Borrower and is not secured by the general taxing power of the City or any other asset of the City.

The note financing structure has become commonplace and is utilized because of a ruling of the Office of the Comptroller of the Currency (“OCC”) that distinguished loans from bonds for purposes of Community Reinvestment Act (“CRA”) credit. Banks have been utilizing the note financing approach on the belief that it meets OCC’s definition of a CRA loan as well as CDLAC’s requirements for tax-exempt financing.

Requirements for Tax-Exemption.

For a private activity multifamily housing revenue bond or note to qualify for tax exemption, federal law requires, among other matters, that one of two restrictions apply: either (1) at least 20% of the units in the housing development must be reserved for occupancy by individuals and families whose income is 50% or less of area median income or (2) at least 40% of the units must be reserved for occupancy by individuals and families whose income is 60% or less of area median income. While this second restriction will be incorporated into the Regulatory Agreement for the 2021B Note, the Development will also be subject to additional affordability restrictions.

Structure of the 2021B Note

Direct Purchase/Funding Structure.

The 2021B Note will be structured as a non-rated and non-credit-enhanced obligation that is directly funded and purchased initially by Wells Fargo. Pursuant to the City’s policies regarding non-credit-enhanced bonds, Wells Fargo will sign an Investor Letter acknowledging that it is a “qualified institutional buyer” or “accredited investor” that is, a sophisticated investor, as required under the City’s Policy for the Issuance of Multifamily Housing Revenue Bonds, who understands and accepts the risks associated with unrated obligations secured solely by the Development rents. If Wells Fargo wishes to transfer the 2021B Note, the new holder must sign and deliver a similar Investor Letter to the City and Fiscal Agent. The 2021B Note may only be transferred in amounts representing not less than 25% of the outstanding principal amount of the 2021B Note to a “Qualified Transferee”, which includes: (a) prior to the Conversion Date, (i) an affiliate of Wells Fargo, (ii) a trust or custodial arrangement established by Wells Fargo, (iii) a government sponsored entity, such as Fannie Mae or Freddie Mac, (iv) CCRC, or (v) a Qualified Institutional Buyer (“QIB”) under the Securities Act of 1933 which is also a commercial bank having capital and surplus of at least \$5 billion and (b) after the Conversion Date, (i) a QIB with capital and surplus of at least \$1,000,000,000, (ii) a limited partnership or fund managed by CCRC or affiliate and whose members consist solely of banks, insurance companies or other financial institutions who also are QIBs, or (iii) a commercial bank that is a member of CCRC.

Principal Amounts and Terms.

Based on current projections, the estimated maximum par amount of the 2021B Note will be \$39,362,559. After the Development is constructed and leased up, and conversion to the permanent loan phase occurs (the “Conversion Date”), the 2021B Note is expected to be paid down to a permanent loan amount that is estimated at \$9,528,000 – at which point it will be purchased from Wells Fargo by CCRC. The source of 2021B Note paydown on the Conversion Date will be low income housing tax credit proceeds. The Conversion Date is anticipated to occur approximately 32 months after 2021B Note closing, subject to one six-month extension.

The maturity of the 2021B Note is expected to be approximately 20 years after Conversion. The 2021B Note will amortize on a 20-year basis.

Interest Rate.

During construction, the interest rate on the 2021B Note will be variable and based on one-month LIBOR¹ plus a spread. For calculation purposes, the all-in rate is assumed to be 3%. It is expected that bank documents will include acceptable LIBOR succession language. After June 30, 2023, when the LIBOR index terminates, the rate will be tied to a “Benchmark Replacement” rate, which means the Federal Funds Rate plus a Benchmark Replacement Adjustment or an alternative benchmark rate (which may include the “secured overnight financing rate published by the Federal Reserve Bank of New York) plus an a Benchmark Replacement Adjustment. The interest rate will convert to a fixed rate after the Conversion Date based on the 10-year US Treasury rate plus a spread – with the rate set prior to 2021B Note closing. The estimated permanent loan rate is approximately 3.932% based on the projection provided by the Borrower’s advisor, California Housing Partnership.

Financing Documents

The following is a brief description of the documents the City Council is being asked to approve and authorize its execution. Copies of these documents will be available in the City Clerk’s Office on or about on or about May 11, 2021.

Funding Loan Agreement.

The Funding Loan Agreement is among the City, Wells Fargo, as funding lender (the “Funding Lender”) and U.S. Bank National Association as fiscal agent (the “Fiscal Agent”). The Funding Loan Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City, and attested by the City Clerk. Pursuant to the Funding Loan Agreement, the Fiscal Agent is authorized to receive, hold, invest, and disburse 2021B Note proceeds and other funds established thereunder; to authenticate the

¹ Acronym for “London Interbank Offered Rate,” which represents the average rate at which a leading bank can obtain unsecured funding in the London interbank market. LIBOR serves as a benchmark for various interest rates. Obligations of parties to such transactions are typically expressed as a spread to LIBOR. Most LIBOR settings are expected to end in 2023 as the world financial markets transition to other rate indices.

2021B Note; and to apply and disburse payments to the Noteholder. The Funding Loan Agreement allows for Wells Fargo to pursue remedies on behalf of itself as the Noteholder. The Funding Loan Agreement sets forth the guidelines for the administration, investment and treatment of investment earnings generated by each fund and account, and restrictions relating to any subsequent transfer of the 2021B Note. The Project Loan Agreement (described below) obligates the Borrower to compensate the Fiscal Agent for services rendered under the Funding Loan Agreement.

Project Loan Agreement.

The Project Loan Agreement is among the City, the Fiscal Agent and the Borrower (the “Project Loan Agreement”). The Project Loan Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City. The Project Loan Agreement provides for the loan of 2021B Note proceeds to the Borrower for the construction of the Development, and for the repayment of such loan by the Borrower. The loan of 2021B Note proceeds will be evidenced by a promissory note (the “Project Note”) that corresponds to the repayment terms of 2021B Note. The City’s rights to receive payments under the Project Note will be assigned to Wells Fargo, along with certain other rights under the Project Loan Agreement; however, certain reserved rights have been retained by the City, such as the City's right to receive fees, notices and to indemnification.

Regulatory Agreement and Declaration of Restrictive Covenants.

The regulatory agreement and declaration of restrictive covenants (the “Regulatory Agreement”) is among the City, the Fiscal Agent and the Borrower. The Regulatory Agreement contains certain covenants and restrictions regarding the Development and its operations intended to assure compliance with the Internal Revenue Code of 1986. The Regulatory Agreement is executed by the Director of Finance and Director of Housing, or other authorized officers, on behalf of the City. The Regulatory Agreement restricts the rental of Development units to low-income residents for a period of at least 55 years after 50% of the units in the Development are first occupied.

Financing Team Participants

The financing team participants for the 2021B Note consists of:

- **City’s Municipal Advisor:** Ross Financial
- **Bond Counsel:** Kutak Rock, LLP
- **Fiscal Agent:** U.S. Bank National Association
- **2021B Note Purchaser:** Wells Fargo Bank, N.A.

All costs associated with the City’s Municipal Advisor, Bond Counsel and Fiscal Agent are contingent upon the sale of the 2021B Note and will be paid from 2021B Note proceeds, tax credit equity and/or Borrower funds.

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Financing Schedule

The current proposed schedule is as follows:

- Council Approval of 2021B Note/Note Documents May 25, 2021
- CDLAC Deadline for 2021B Note Closing June 21, 2021

Public Disclosure Report Relating to Conduit Revenue Obligations

The Borrower, through its financial consultant, California Housing Partnership, has prepared a public disclosures report pursuant to California Government Code Section 5852.1, providing good faith estimates of certain costs associated with the issuance of the 2021B Note. This report is provided in Attachment B to the staff report.

City Subordinate Financing

The City has agreed to lend up to \$17,669,000 during the construction period and up to \$18,375,000 during the permanent period after construction and lease up of Low and Moderate Income Housing Asset Funds. As authorized by the recommended actions and under her Delegation of Authority, the Director of Housing will negotiate City Loan documents.

City Issuance and Monitoring Fees

City Policy.

The City's Policy for Issuance of Multifamily Housing Revenue Bonds would normally require that the issuance fee and annual monitoring fee be calculated as follows:

Issuance Fee is an amount equal to the sum of (a) 0.50% of the first \$10,000,000 issued and (b) 0.25% of the remaining par issued.

Annual Fee applicable to not-for-profit developers is an amount equal to 0.125% of the par at Conversion for the 55 year term of the regulatory period.

Based on a maximum Note par of \$39,362,559 and the expected par of \$9,528,000 at Conversion, the City's Policy would require an issuance fee of \$123,406, an annual monitoring fee of \$49,203 during construction and lease-up, and an annual monitoring fee of \$11,910 throughout the 55-year Regulatory Agreement term. If the 2021B Note matures or is redeemed prior to maturity, the City has the option to require the Borrower to prepay the annual fee due for the remainder of the Regulatory Agreement term.

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Recommended Exception to the City Policy due to “Related Party” Considerations. Wells Fargo is serving as the initial Note purchaser and a Wells Fargo-affiliated entity is serving as the low income housing tax credit investor in connection with the Development’s funding. Under the Federal tax code, the purchaser and tax credit investor are considered “related parties.” According to Bond Counsel, the Federal tax code limits the fees that the City can collect in connection with a related parties issuance to 0.125% of the tax-exempt obligations outstanding while Wells Fargo is the Funding Lender. The Regulatory Agreement will require the Borrower retain an independent rebate consultant to ensure that the resulting fees paid by to the City comply with Federal tax code. Because of the “related party” limitation, the fees projected to be received by the City in connection with the issuance of the Note and the annual monitoring of the Development are projected to be \$295,586 in aggregate fees through the term of the 2021B Note compared to approximately \$509,215 in aggregate fees that the City would otherwise have received in the absence of a “related party.” Following the purchase of 2021B Note by CCRC, the City may collect its annual monitoring fee without regard to the “related party” limitation, which would be \$11,910 per year.

Notwithstanding this limitation on City bond-related fees, staff recommends proceeding with the proposed financing structure as part of a Housing Department pilot program for projects obtaining private activity bond allocations before June 30, 2021 to allow issuances with related parties and request Council approval for the consequential fee reductions. The pilot program will allow staff to evaluate whether the increased tax benefit from a related party transaction exceeds the impact to the City due to reduced fees, and whether the costs of this approach are substantially less than alternative financing structures that do not involve related parties.

The City Loan Documents will contain the following provision pertaining to “related parties”:
Absent City Council approval, Developer will not admit partners nor enter into participation agreements nor otherwise take or allow any action that would lead to the violation of the requirements of Qualified Program Investment Requirements as defined in Section 148 of the Internal Revenue Code, or the requirements of applicable Treasury regulations (collectively, the “Related Parties Limitations”). *This project is anticipated to receive City Council approval for a specific Lender and Borrower relationship that does not comply with the Related Parties Limitations in connection with the 2021B Note.*”

CONCLUSION

The recommended actions will enable the issuance of a multifamily housing revenue note for the purpose of financing a portion of the costs to construct the Development with apartments restricted to low and extremely low income households, and remaining affordable for a period of at least 55 years following completion.

The Development will serve some of the most vulnerable populations in San José. It will be restricted to residents with current maximum annual incomes between 30% and 50% of AMI. The Development will provide 49 PSH to seniors who are Chronically Homeless.

Approval of the recommendation action will allow the City to charge a reduced issuer and annual fee so as to comply with U.S. Treasury regulations pertaining to “related parties” for this specific transaction

Approval of the recommendation action will also allow the City Loan for the Development to provide for an increase in rents and income restrictions (but not more than 60% AMI) for new tenants in subsidized units in the event of expiration or termination of subsidy contracts, and for all tenants in the event of foreclosure, if needed to ensure the continued financial feasibility of the Development.

EVALUATION AND FOLLOW-UP

This Memorandum presents the set of recommendations related to the City Council’s approval of the issuance of the 2021B Note and requires no follow-up to the City Council. Once the 2021B Note closes, anticipated in late May 2021, and the construction of the Development commences, the Housing Department will provide updates in its Quarterly Construction Reports posted at www.sjhousing.org under “Reports & Data.”

CLIMATE SMART SAN JOSE

The recommendation in this memo aligns with one or more of Climate Smart San José energy, water, or mobility goals. The Blossom Hill development is designed to prioritize sustainability and environmentally friendly features such as solar panels, energy-efficient fixtures, Energy Star appliances and a Build-It-Green environmental design certification. The Development is centrally located, seniors from this community will have grocery, pharmacy, restaurants, various retail shopping, light rail and bus connections within walking distance from their home.

PUBLIC OUTREACH

The method of notifying the community of the City's intent to issue the tax-exempt private activity Bonds is the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing. The TEFRA Hearing was held on February 2, 2021 before the Director of Finance. The public hearing notice for this hearing was published in the *San José Post - Record* on January 15, 2021. No public comments were made at the TEFRA hearing.

This Memorandum and the 2021B Note Documents will be posted on the City's website for the May 25, 2021 meeting.

COORDINATION

This report has been prepared by the Finance Department and the Housing Department in coordination with the City Attorney's Office and the Budget Office.

COMMISSION RECOMMENDATION/INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing do not fall under the functions, powers and duties of the Commission delineated in Section 2.08.2840 of the San José Municipal Code.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *Consolidated Plan 2015-2020*, adopted by City Council on May 5, 2015, to provide homes for very low- and extremely low-income households; and with Goal H-2 of the City's *Housing Element 2014-2023*, adopted by City Council on January 27, 2015, to "increase, preserve, and improve San José's affordable housing stock."

COST SUMMARY/IMPLICATIONS

The Borrower will pay all issuance costs of 2021B Note from tax credit equity and/or Borrower funds. The 2021B Note will not be paid from, nor secured by, the general taxing power of the City or any other City asset.

The City is expected to receive revenue from the issuance of the Note and annual monitoring in an aggregate amount that does not exceed 0.125% of the outstanding 2021B Note – anticipated to be approximately \$343,487.43 through 2021B Note maturity.

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Funding in the amount of \$18,375,000 has been previously appropriated in the Low and Moderate Income Housing Asset fund for a Construction-Permanent Loan. There is no fiscal impact to the General Fund as a result of this action.

CEQA

Mitigated Negative Declaration for the Blossom Hill Mixed-Use Project, File Nos. CP18-022 and T18-034.

/s/

JULIA H. COOPER
Director of Finance

/s/

JACKY MORALES-FERRAND
Director, Housing Department

For questions, please contact Nikolai J. Sklaroff, Deputy Director of Finance, Debt & Treasury Management at (408) 535-7832 or Rachel VanderVeen, Deputy Director of the Housing Department at (408) 535-8231.

Attachment A: Site Map

Attachment B: Public Disclosure Report

ATTACHMENT A – DEVELOPMENT OVERVIEW AND SITE MAP

Charities is proposing to develop a 147-unit four-story mixed-use development. The ground level will be a combination of services, commercial, management, amenities and parking. All residential units will be on floors 2-4. All residential units are fully equipped with kitchens and bathrooms that are ADA adaptable. Charities intends to lease the commercial space to senior-focused social service and health providers which will be available to the residents as well as the larger surrounding community during normal business hours.



Resident services will have expertise focused on senior health, socialization, and support with the goal of prolonging residents' independence. A full-time service coordinator will be available on-site whose role is to assess the needs of the residents and act as a navigator for the residents to connect them with the myriad of services that exist throughout the County of Santa Clara. The services offered include but are not limited to transportation sourcing, social events, holiday celebrations, educational programs, and linkage to other community services. The County of Santa Clara will provide services or contract with an experienced, local service agency, to provide intensive case management services to residents who have a disabling condition. These services include but are not limited to case management, supporting self-sufficiency, benefits coordination, and improvement of health & wellness. In addition to the services mentioned above, Charities intends to work with Second Harvest Food Bank to deliver nutritious food periodically to all residents.



ATTACHMENT B – PUBLIC DISCLOSURE REPORT

PUBLIC DISCLOSURES RELATING TO CONDUIT REVENUE OBLIGATIONS

Pursuant to California Government Code Section 5852.1, the borrower (the “Borrower”) identified below has provided the following required information to the City of San José (the “City”) prior to the City’s regular meeting (the “Meeting”) of its City Council (the “City Council”) at which Meeting the City Council will consider the authorization of conduit revenue Note as identified below.

1. Name of Borrower: **Blossom Hill, L.P., a California limited partnership.**
2. City Council Meeting Date: **May 25, 2021.**
3. Name of Bond Issue / Conduit Revenue Obligations: **City of San Jose Multifamily Housing Revenue Note (Blossom Hill Senior Apartments) Series 2021B (the “Note”)**
4. Private Placement Lender or Note Purchaser, Underwriter or X Financial Advisor (mark one) engaged by the Borrower from which the Borrower obtained the following required good faith estimates relating to the Note:
 - (A) The true interest cost of the Note, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of the Note (to the nearest ten-thousandth of one percent): **(a) 3.0% during construction and 3.932% at permanent (estimated rate as of 3/29/21; rate is variable during construction and fixed during permanent with rate to be set prior to closing).**
 - (B) The estimated finance charges of the Note, which mean the sum of all fees and charges paid to third parties: collectively, **\$1,688,205 (\$963,199 paid at closing per the costs of issuance budget, \$343,886 paid during the term of the Note and \$381,120 paid from Note maturity through the end of the 55 year compliance period in the Regulatory Agreement).**
 - (C) The amount of proceeds received, or deemed received, by the public body for sale of the Note less the finance charges of such Note described in subparagraph (B) and any reserves or capitalized interest paid or funded with proceeds of such Note: an estimated **\$37,193,933 (All finance charges funded from a source other than the proceeds of the Note; construction interest funded from Note proceeds).**
 - (D) The total payment amount, which means the sum total of all payments the Borrower will make to pay debt service on the Note plus the finance charges of the Note described in subparagraph (B) not paid with the proceeds of such Note (which total payment amount shall be calculated to the final maturity of such Note): **\$45,297,939 (consisting of: (a) estimated principal and interest payments of \$43,609,734 with respect to the Note and (b) estimated finance charges identified in (B)).**

This document has been made available to the public at the Meeting of the City Council.

Dated: April 6, 2021

Information provided by: California Housing Partnership Corporation