



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 03/13/07
AGENDA ITEM 6
WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Director of Community and Economic Development

SUBJECT: Public TEFRA Hearing Approving the Issuance of Bonds and Initial Resolution with Respect to Finance the Acquisition and Rehabilitation of The Majestic Apartments – 959 Torrano Avenue, Hayward

RECOMMENDATION:

It is recommended that the City Council adopt the attached resolution approving for purposes of Federal tax law the issuance of \$8,500,000 in tax-exempt multifamily housing revenue bonds to assist in the financing of the acquisition and rehabilitation of The Majestic Apartments.

BACKGROUND:

The City has received a request to conduct a public hearing as required by the Internal Revenue Code in order to issue tax-exempt revenue bonds (the "Bonds") in an aggregate amount not to exceed \$8.5 million on behalf of Hayward-Pacific Associates, a California limited partnership (the "Developer"). The Developer will use the proceeds of the Bond Issuance for the acquisition and rehabilitation of a multifamily housing project, known as The Majestic Apartments, located at 959 Torrano Avenue in the City of Hayward (the "Project"). The Developer would convert the units to affordable rental housing, which would result in some adjustment to the rent levels and utility costs paid, and a restriction on the incomes of the tenants to 60% of area median income. The affordability requirements would be for 55 years.

The proposed bond issuance provides an opportunity for the City to convert what is currently a market-rate residential development into a development in which rents will be required to be maintained at levels that are affordable to lower-income households. The developer is not currently requesting any assistance from the City. The property is for sale, and could otherwise be sold to an investor that would continue the property's status as market-rate housing. In addition, the bond issuance would provide funds to undertake maintenance, renovation and structural upgrade improvements as needed to bring the property into first class condition.

Hayward-Pacific Associates is a limited partnership formed by Caleb Roope of Pacific West Communities, Inc. (PWC), and Alexis Gevorgian of AMG & Associates. Mr. Roope and his real estate development and financing firm specialize in the construction and rehabilitation of affordable workforce housing throughout the western United States. With a particular emphasis on the use of the affordable housing tax credit, PWC and its related companies develop multi-

family and senior citizen housing in the states of California, Arizona, New Mexico, Utah, Oregon, Montana, Idaho, Nevada, Colorado, Washington, and Wyoming. Mr. Roope has managed the development and construction of over 60 housing developments over the past 12 years. His companies initiate 8-10 new developments per year resulting in approximately 25 active developments in various stages of development and construction. Mr. Gevorgian has over 14 years of experience in all aspects of real estate acquisition, planning and development. His firm has originated over 3,300 units of affordable rental senior and family housing throughout California in the past 8 years.

The Majestic Apartments are located on Torrano Avenue, one block east of Mission Boulevard. This development consists of a two-story building and a three-story building containing 81 apartments, including 51 one-bedroom units and 29 two-bedroom units. The development appears to be generally well-maintained and includes patios or balconies for each unit, a community recreational room, two saunas, a recently renovated swimming pool, outdoor barbecue area, and laundry facilities. It is a gated community with an intercom system. Parking consists of 110 parking spaces and 16 carports. The three-story building includes an elevator.

The rehabilitation work would include new paint and carpet for each unit and the common areas, and new appliances for approximately half of the units. Similar to the requirements in the recently adopted condominium conversion ordinance, the new appliances will have an ENERGY STAR rating. The roof, balconies, retaining walls, and other systems will be upgraded or repaired as necessary; the exterior will be painted as needed. A property condition report has been prepared for the apartments, which noted minor drainage issues which will be addressed during the rehabilitation. In addition, the property report noted a potential "soft second story" condition, due to the presence of tuck-under carport parking. This condition requires further evaluation, and staff will pay particular attention to this issue and require structural reinforcement as necessary. The rehabilitation work is expected to commence in the summer of 2007, and to be completed by January 2008. The rehabilitation is expected to be conducted generally with tenants remaining on-site.

In addition to the property improvements, converting this property into an affordable rental property triggers State and Federal regulatory requirements that ensure the property is managed professionally and well maintained. Financing this acquisition and rehabilitation through multifamily revenue bonds requires the developer to permanently fund a "replacement reserve" that ensures funding is available when a roof needs to be replaced, the property needs to be painted, and/or other future upgrades are required. In addition, the financing requires a property management and maintenance fund to ensure the property is well maintained, and professionally managed. Professional property management services will be provided by a 24 hour, on-site property manager who is supported by a large firm with specialty resources to call upon should management challenges arise. The property management firm will screen new tenants with a rigorous application process that includes criminal background checks, credit checks, and previous landlord references, etc.

Information regarding the current income levels of the existing tenants is incomplete and has not been confirmed by staff. Information reported by the Developer on 50 of the 81 units is that approximately 38 tenants would qualify under the income limits, five tenants are over-income and would not qualify, and seven units are currently vacant. Income data is not currently available for the remaining 30 tenants due to the length of their tenure at The Majestic Apartments. To the extent the information gathered on over half the residents is a representative

sample of the tenant incomes, it is expected that 75% of the residents will qualify under the income limits and remain living at the property.

Existing tenants who do not meet the income limits of the financing would be required to move at the end of the rehabilitation process. The Developer has a relocation budget and will hire a relocation consultant to assist these tenants in finding new housing, and will pay their moving expenses for relocation within a 30 mile radius. Staff would also work with the Developer to ensure that the vacation notice is as long as possible (approximately 180 days), and would explore ways to provide homeownership opportunities for tenants that may wish to purchase a home rather than continue to rent. In addition, staff will explore with the developer the feasibility of providing additional relocation assistance along the lines of the City's recently adopted Condominium Conversion Ordinance.

The reported current rent level for the one-bedroom units is \$915 per month on average, and the two-bedroom units \$1,100 on average. Under the proposed new financing, the one-bedroom rents would be set at \$892, and the two-bedroom unit rents would be set at \$1,077. Rent increases will be governed by regulations tied to the multifamily housing revenue bonds to ensure affordability throughout the 55 year period. Tenants will not be subject to unanticipated and unregulated rent increases experienced in market-rate apartment developments.

The Bonds would be tax-exempt private activity bonds for the purposes of the Internal Revenue Code. As such, they require the approval of the City as the elected body of the governmental entity having jurisdiction over the area where the project to be financed is located, following a public TEFRA hearing. This approval is separate from future action by the City to approve the bond resolution and documents. It does not obligate the City to take such future action.

The resolution also authorizes the City's application to the California Debt Limit Allocation Committee (CDLAC) for a private activity bond volume cap in the amount of \$8.5 million. The application would be considered by CDLAC at its next meeting. The proposed application and action does not obligate the City to issue the tax-exempt revenue bonds for the Project at this time. This is a two-step process, and no financing can occur until after the bond allocation is approved by CDLAC and after a bond resolution, with documents prepared by the City's bond counsel is brought to and approved by Council. This would likely occur in the early summer. Therefore, while the City Council is being requested to hold the TEFRA hearing at this time, the City Council will have further opportunity to consider its approval of the bond issuance, and any conditions requisite to that issuance when the bond resolution is brought back to the City Council.

There is no direct or indirect financial impact to the City of Hayward as a result of this proposed financing, except for initial and annual fee revenues to the City for issuance and monitoring. The tax-exempt revenue bonds are payable solely out of the revenues derived by the Developer from the applicable Project. No financial obligations are placed on the City for project financing costs or debt repayment from any other source.

Prepared by:

Maret Bartlett
Maret Bartlett, Redevelopment Director

Recommended by:

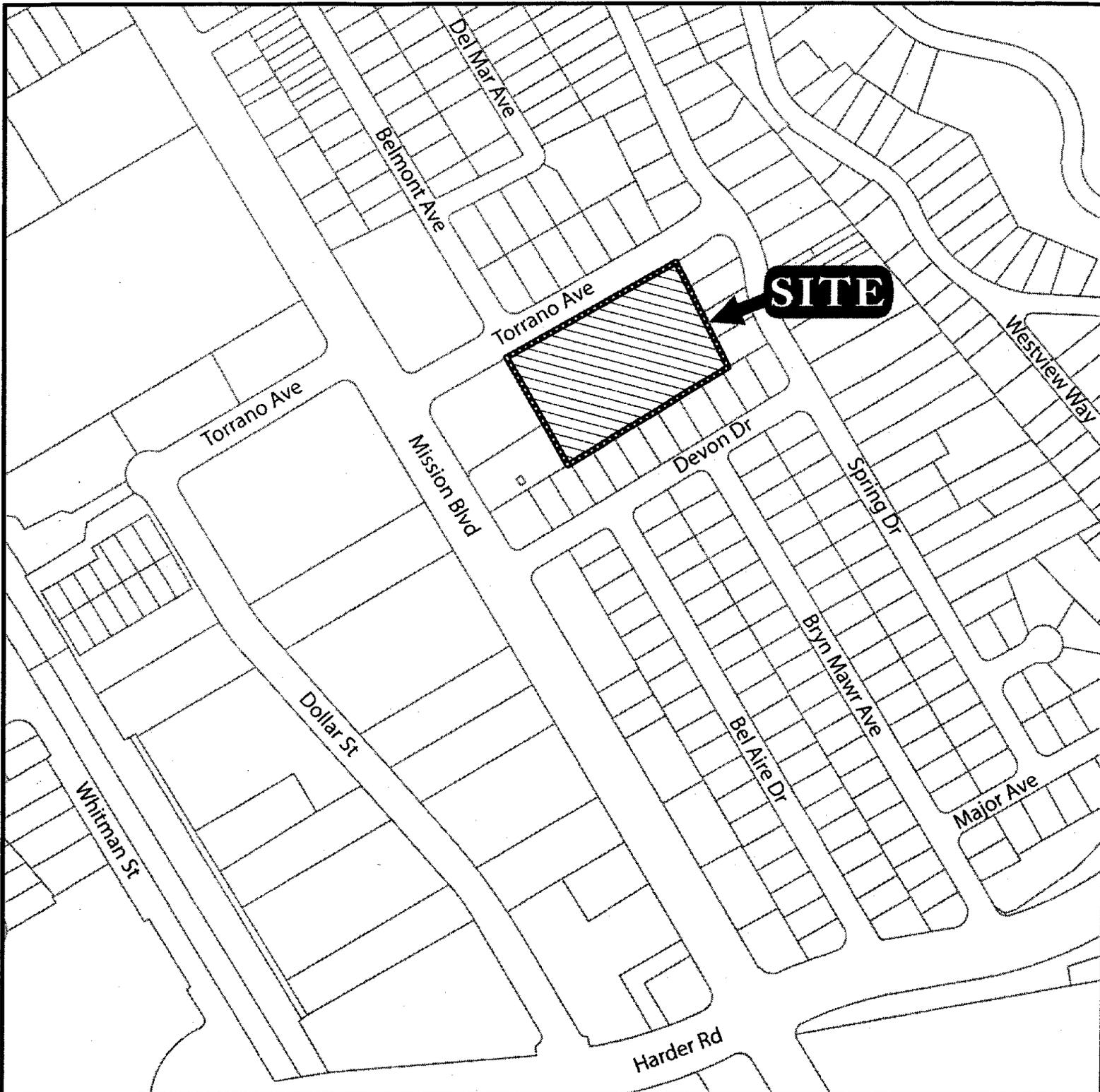
Maret Bartlett for
Susan Daluddung, Director of Community
and Economic Development

Approved by:

Jesús Armas
Jesús Armas, City Manager

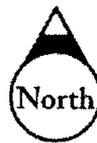
Attachments: Exhibit A - Site Map, The Majestic Apartments
Resolution

Exhibit A
Site Map: The Majestic Apartments



Area Map

Address: The Majestic Apartments
959 Torrano Avenue



DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Mme
2/22/07

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HAYWARD DECLARING INTENTION TO REIMBURSE EXPENDITURES FROM THE PROCEEDS OF TAX-EXEMPT OBLIGATIONS AND DIRECTING CERTAIN ACTIONS

WHEREAS, the City of Hayward (the "City") intends to issue tax-exempt obligations (the "Obligations") for the purpose, among other things, of making a loan to Hayward AMG-Pacific Associates, a California limited partnership, or related entities (the "Owner"), the proceeds of which shall be used by the Owner to finance the acquisition and rehabilitation of an 81-unit multifamily housing facility located at 959 Torrano Avenue in the City of Hayward, California and commonly known as The Majestic (the "Project"); and

WHEREAS, the City is authorized by Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the "Law") to issue and sell revenue bonds for the purpose of financing the acquisition and rehabilitation of multifamily rental housing facilities to be occupied in part by low and very low income tenants; and

WHEREAS, United States Income Tax Regulations section 1.150-2 provides generally that proceeds of tax-exempt debt are not deemed to be expended when such proceeds are used for reimbursement of expenditures made prior to the date of issuance of such debt unless certain procedures are followed, among which is a requirement that (with certain exceptions), prior to the payment of any such expenditure, the issuer must declare an intention to reimburse such expenditure (the "Tax Law Reimbursement Provisions"); and

WHEREAS, this City Council is the elected legislative body of the City; and

WHEREAS, a notice of public hearing in a newspaper of general circulation in the City has been published, to the effect that a public hearing would be held by this City Council regarding the issuance of the Obligations by the City and the nature and location of the Project; and

WHEREAS, this City Council held said public hearing on such date, at which time an opportunity was provided to present arguments both for and against the issuance of such Bonds and the nature and location of the Project; and

WHEREAS, it is in the public interest and for the public benefit that the City declare its official intent to reimburse the expenditures referenced herein;

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Hayward DECLARES and ORDERS as follows:

1. The City intends to issue the Obligations for the purpose of paying the costs of financing the acquisition and rehabilitation of the Project.
2. The City hereby declares that it reasonably expects that a portion of the proceeds of the Obligations will be used for reimbursement of expenditures for the acquisition and rehabilitation of the Project that are paid before the date of initial execution and delivery of the Obligations.
3. The maximum amount of proceeds of the Obligations to be used for reimbursement of expenditures for the acquisition and rehabilitation of the Project that are paid before the date of initial execution and delivery of the Obligations is \$8,500,000.
4. The foregoing declaration is consistent with the budgetary and financial circumstances of the City in that there are no funds (other than proceeds of the Obligations) that are reasonably expected to be (i) reserved, (ii) allocated or (iii) otherwise set aside, on a long-term basis, by or on behalf of the City, or any public entity controlled by the City, for the expenditures for the acquisition and rehabilitation of the Project that are expected to be reimbursed from the proceeds of the Obligations.
5. The Owner shall be responsible for the payment of all present and future costs in connection with the issuance of the Obligations, including, but not limited to, any fees and expenses incurred by the City in anticipation of the issuance of the Obligations, the City's financing fee with respect to the issuance of the Obligations, the City's annual administration fee with respect to administering the provisions of a regulatory agreement with respect to the Project, the cost of printing any official statement, rating agency costs, bond counsel fees and expenses, underwriting discount and costs, trustee fees and expense, and the costs of printing the Obligations. The payment of the principal, redemption premium, if any, and purchase price of and interest on the Obligations shall be solely the responsibility of the Owner. The Obligations shall not constitute a debt or obligation of the City.
6. This City Council hereby further determines that it is appropriate for the City to issue the Obligations to finance the acquisition and rehabilitation of the Project.
7. The law firm of Jones Hall, A Professional Law Corporation, is hereby named as bond counsel to the City in connection with the issuance of the Obligations. The financial advisory firm of CGS Advisors, Inc. is hereby named as financial advisor to the City in connection with the issuance of the Obligations. The fees and expenses of bond counsel and the financial advisor are to be paid solely from the proceeds of the Obligations or directly by the Owner.
8. In the event it is determined that the Bonds will be issued to finance the acquisition, construction and development of the Project, the City Manager is hereby authorized, for and in the name of and on behalf of the City, to make an application to the

California Debt Limit Allocation Committee for an allocation of private activity bonds for the financing of the Project and to execute contracts with bond counsel and the financial advisor in substantially the forms on file with the City Clerk with such changes or deletions as shall be deemed necessary by such officials or staff.

9. The adoption of this Resolution is solely for the purpose of meeting the requirements of the Code and shall not obligate the City, without further formal action to be taken by this City Council, to (i) provide financing to the Owner for the acquisition and rehabilitation of the Project or to issue the Obligations for purposes of such financing; or (ii) approve any application or request for, or take any other action in connection with, any environmental, General Plan, zoning or any other permit or other action necessary for the acquisition, rehabilitation or operation of the Project.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2007

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:

MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward