



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 06/26/07

AGENDA ITEM 12

WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Director of Community and Economic Development

SUBJECT: Authorization of Issuance of Multi-Family Housing Revenue Bonds (The Majestic Apartments) 2007 Series A and Taxable 2007 Series A-T and Execution of Related Documents

RECOMMENDATION:

It is recommended that the City Council:

- Adopt the attached resolution authorizing the issuance of up to \$7,300,000 in tax-exempt and \$1,100,000 in taxable multifamily housing revenue bonds, to assist in the acquisition and rehabilitation of The Majestic Apartments;
- Authorize the City Manager to execute implementing documents in connection with the proposed issuance.

BACKGROUND:

The Majestic Apartments are located at 959 Torrano Avenue, one block east of Mission Boulevard. The development consists of two buildings containing 81 apartments, including 51 one-bedroom units and 29 two-bedroom units. The apartment complex is being acquired by Hayward-Pacific Associates (the Buyer), which is a limited partnership consisting of Pacific West Communities, Inc. and AMG & Associates. The Buyer has requested that the City issue mortgage revenue bonds in a total amount not to exceed \$8.4 million, in order to finance the acquisition, renovation, and conversion of the property to affordable rental housing.

On March 13, 2007 the City Council conducted a Tax Equity and Fiscal Responsibility Act of 1985 (TEFRA) hearing and conditionally approved a resolution of inducement for federal tax purposes, authorizing the issuance of tax-exempt multifamily mortgage revenue bonds for The Majestic Apartments. The City Council also authorized the City to apply to the California Debt Limit Allocation Committee (CDLAC) for an allocation of multifamily mortgage revenue bonds. On May 25th, 2007, the project was awarded an allocation of \$7.3 million in tax-exempt bonds.

The total cost to acquire and rehabilitate The Majestic Apartments is budgeted at approximately \$13.3 million. In order to obtain enough financing to acquire the property, the Buyer is requesting that the City issue both the \$7.3 million in tax-exempt bonds, as well as \$1.1 million in taxable bonds to achieve the amount of debt financing necessary. All of the bonds would be sold to one buyer, Citibank. In addition, the Buyer expects to raise approximately \$3.5 million of investor equity from the Low-Income Housing Tax Credit Program, and absorb an additional \$1.4 million as deferred developer fees. The purchase price of the property is approximately

\$9.1 million, the rehabilitation budget is approximately \$1.2 million, and the remaining costs are related to financing and development fees.

Staff recently inspected the property with Mr. Alexis Gevorgian of AMG & Associates. The development appears to be generally well-maintained and has pleasant common-area amenities, including a landscaped pool area, a barbecue area, and recreation/party room. With respect to unit interiors, the Buyer estimates that approximately one-half of the units will need new kitchen appliances. Based on staff observations, additional interior repairs, as well as repairs to balconies and patio fencing will also be needed in some units. The back fencing of the development also needs replacement, and landscaping trimmed in that area. Under the terms of the bond and equity partnership documents, the expenditures on the development must be certified by a CPA, and the equity investor partners will provide oversight to ensure that the funds budgeted are used to maintain the property. In addition, the City will sign a letter with the Buyers regarding specific items, including the fencing replacements and landscaping repairs.

At staff's request, the Developer had a structural engineer visually inspect the one apartment building with tuck-under parking, for "soft" second-story structural condition. While current seismic building codes would require additional structural reinforcement if the building were being constructed today, the building appears to be sound and met the building code standards in place at the time it was built. The Buyer will not agree to make additional seismic upgrades without financial participation by the Agency.

Pursuant to the City's Regulatory Agreement, the Buyer would convert the development to affordable housing for a period of 55 years. Of the 80 restricted dwelling units, 72 would be affordable to tenants with incomes at 60% of Area Median Income (AMI) and eight would be affordable to tenants at 50% of AMI. The addition of eight units serving very-low income tenants is a modification from the information reported in the staff report for the TEFRA hearing, and results from the need to deepen the rents for 10% of the units in order to qualify for the tax credit program. As a result, the one-bedroom units will rent from \$742 per month (for five units) to \$892 (46 units), and the two-bedroom units will rent from \$888 per month (three units) to \$1,077 (26 units).

As previously reported, information is only available regarding existing tenancies for 50 of 80 restricted units. Of these, 38 tenants (76%) qualify, seven units are vacant and five existing tenants do not qualify. The Buyer has already budgeted for a relocation consultant and for a moving company to move those residents who do not qualify for continued residency. The Buyer has also agreed to give non-qualifying residents 180-days to move, and up to one year for any non-qualifying senior citizens. Finally, the Buyer has agreed to provide a \$1,000 moving allowance for those non-qualifying residents who wish to move themselves. These provisions will be included in the Regulatory Agreement.

One of the units will be reserved for an on-site manager, who will be supported by a large firm who will screen all new tenants, and has specialty resources to call upon should management challenges arise. The property will be monitored by the City at least once each year, and all tenants will be income certified by the Buyer on an annual basis. The City will receive a fee each year for monitoring the project.

The attached bond resolution authorizes the City Manager to execute the associated bond documents, which are on file in the office of the City Clerk. The resolution also names the law firm of Jones Hall as bond counsel and CSG Advisors as financial advisor to the City in connection with the issuance of the bonds.

The bonds will be secured by a first deed of trust on the property. Hayward Pacific Associates has accepted a proposal from Citibank to purchase all of the bonds, including the taxable bonds. The Master Pledge and Assignment Agreement between the City and Citibank, as the City's agent and holder of the bonds, provides that the City does not back the bonds and is not liable to make bond payments under any circumstances. Payment of the bond principal and interest is solely from the project revenues. Thus, the City is free of any responsibility or obligation to pay principal or interest on the bonds, nor is the City's credit worthiness involved in or affected by this transaction. The City is not providing any additional financing for this project.

It should be noted that the State mortgage revenue bond program is becoming increasingly competitive as more builders and investors utilize this program. As a result, it is becoming more difficult to obtain a full allocation of funds, even when additional housing affordability is provided, such as in this case. It is for this reason that additional debt, in the form of the taxable bonds portion, is being requested to complete the financing. Citibank, as a sophisticated institutional buyer, is fully informed about the tax difference between the two bond forms.

If the City Council approves the attached resolution, the financing will be scheduled to close at the end of July. The rehabilitation work is expected to commence this summer, and to be completed in early 2008.

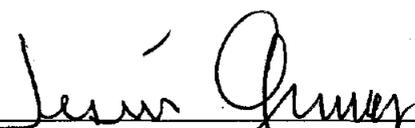
Prepared by:


Maret Bartlett, Redevelopment Director

Recommended by:


Susan J. Daluddung, Director of Community
and Economic Development

Approved by:


Jesús Armas, City Manager

Attachments: Draft Resolution

DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Councilmember _____

me
6/18/07

RESOLUTION OF THE CITY OF HAYWARD
AUTHORIZING THE ISSUANCE, SALE AND DELIVERY
OF CITY OF HAYWARD MULTIFAMILY HOUSING
REVENUE BONDS (THE MAJESTIC) 2007 SERIES A AND
TAXABLE 2007 SERIES A-T, AUTHORIZING THE
EXECUTION AND DELIVERY OF A MASTER PLEDGE
AND ASSIGNMENT, A MASTER AGENCY AGREEMENT
AND A REGULATORY AGREEMENT, AND
AUTHORIZING THE EXECUTION AND DELIVERY OF
AND APPROVING OTHER RELATED DOCUMENTS AND
APPROVING OTHER RELATED ACTIONS IN
CONNECTION THEREWITH

WHEREAS, Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the "Act"), authorizes cities to incur indebtedness for the purpose of financing the acquisition, construction/rehabilitation and development of multifamily rental housing facilities to be occupied in part by persons of low and very low income;

WHEREAS, the City of Hayward (the "City") hereby finds and declares that it is necessary, essential and a public purpose for the City to engage in a program (the "Program") of financing the acquisition, rehabilitation and development of multifamily rental housing facilities, and has determined to borrow money for such purpose by the issuance of revenue bonds as authorized by the Act;

WHEREAS, the City hereby finds and declares that this resolution is being adopted pursuant to the powers granted by the Act;

WHEREAS, Hayward Pacific Associates, a California Limited Partnership (the "Borrower"), has requested that the City issue and sell the Bonds (hereinafter defined) for the purpose of financing the acquisition, rehabilitation and development of a multifamily rental housing project commonly known as The Majestic, located at 959 Torrano Avenue, Hayward, California, (the "Project"); and

WHEREAS, all conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of the Bonds and the implementation of the Program as contemplated by this resolution and the documents referred to herein exist, have happened and have been performed in due time, form and manner as required by the laws of the State of California, including the Act.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Hayward, as follows:

Section 1. The City hereby finds and declares that the above recitals are true and correct.

Section 2. Pursuant to the Act and the Pledge and Assignment (hereinafter defined), revenue bonds of the City, designated as "City of Hayward Multifamily Housing Revenue Bonds (The Majestic) 2007 Series A" and "City of Hayward Multifamily Housing Revenue Bonds (The Majestic) Taxable 2007 Series A-T" in an aggregate principal amount not to exceed \$8,400,000 (the "Bonds"), are hereby authorized to be issued. The Bonds shall be executed by the manual or facsimile signature of the Mayor or City Manager of the City, and attested by the manual or facsimile signature of the City Clerk of the City, in the form set forth in and otherwise in accordance with the Pledge and Assignment.

Section 3. The form of master pledge and assignment by and among the City, Citicorp North America, N.A., as Agent, and Citibank, N.A., as Holder (the "Pledge and Assignment"), in the form on file with the City Clerk, is hereby approved. The Mayor or City Manager is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Pledge and Assignment in said form, with such additions thereto or changes therein as are recommended or approved by the Mayor or City Manager upon consultation with bond counsel to the City, including such additions or changes as are necessary or advisable in accordance with Section 8 hereof, the approval of such additions or changes to be conclusively evidenced by the execution and delivery by the City of the Pledge and Assignment.

Section 4. The form of master agency agreement by and between the City and Citibank, N.A., as agent (the "Agency Agreement"), in the form on file with the City Clerk, is hereby approved. The Mayor or City Manager is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Agency Agreement in said form, with such additions thereto or changes therein as are recommended or approved by the Mayor or City Manager upon consultation with bond counsel to the City, including such additions or changes as are necessary or advisable in accordance with Section 8 hereof, the approval of such additions or changes to be conclusively evidenced by the execution and delivery by the City of the Agency Agreement.

Section 5. The form of regulatory agreement and declaration of restrictive covenants relating to the Bonds (the "Regulatory Agreement") between the City and the Borrower, in the form on file with the City Clerk, is hereby approved. The Mayor or City Manager is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Regulatory Agreement in said form, with such additions thereto or changes therein as are recommended or approved by such officers upon consultation with bond counsel to the City, including such additions or changes as are necessary or advisable in accordance with Section 8 hereof, the approval of such additions or changes to be conclusively evidenced by the execution and delivery by the City of the Regulatory Agreement.

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**