



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Department of Housing



Date: October 28, 2014
Board Meeting Date: December 9, 2014
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: William Lowell, Executive Director

Subject: Forgiveness of former Redevelopment Agency Loans to Ocean View Senior Apartments

RECOMMENDATION:

Acting as the Governing Board of Commissioners of the Housing Authority of the County of San Mateo and the Housing Successor to the former redevelopment agency of the City of Pacifica, authorize the Executive Director of the Housing Authority, or the Director's designee, to take all necessary actions, including executing all appropriate documents, to:

- A) Upon BRIDGE's refinancing of the existing CalHFA first mortgage loan, forgive two loans by the former redevelopment agency of Pacifica in the amount of \$250,000 and \$350,000 to National Church Residences of Pacifica; and
- B) Transfer approval of 31 project-based Section 8 vouchers from National Church Residences to BRIDGE following its acquisition of Ocean View Senior Apartments.

BACKGROUND:

The Redevelopment Agency of the City of Pacifica, now dissolved (the "Former RDA"), made a loan of Two Hundred Fifty Thousand Dollars (\$250,000) (the "Senior RDA Loan") and a loan of Three Hundred Fifty Thousand Dollars (\$350,000) (the "Junior RDA Loan") to NCR to assist NCR in the acquisition and rehabilitation of the Ocean View Senior Apartments ("Development"), located at 555 Crespi Drive in Pacifica, California (the "Property").

To evidence the Senior RDA Loan and the Junior RDA Loan (collectively, the "RDA Loans"), NCR executed two promissory notes dated August 25, 2000, naming the Former RDA as beneficiary. To secure the RDA Loans, NCR executed two deeds of trusts dated August 25, 2000 and recorded against the Property on August 31, 2000.

The Former RDA, the City of Pacifica (the "City"), and NCR also entered into a Disposition and Development Agreement (the "DDA") and an Affordable Housing Covenant (the "Affordable Housing Covenant") in connection with the RDA Loans. Upon dissolution of the Agency under California law on February 1, 2012, all housing assets, as defined in Health and Safety Code Section 34176(e), transferred as a matter of law from the Agency to the Housing Authority of the County of San Mateo (HACSM), as the housing successor to the former Agency, pursuant to Health and Safety Code Section 34176(b)(2). Pursuant to Oversight Board Resolution No. 5-2014 passed on October 2, 2014, the Oversight Board for the Successor Agency to the Former Redevelopment Agency of the City of Pacifica officially approved, to the extent any housing assets had not already been transferred to the Housing Authority as housing successor as a matter of law, the transfer of the Senior RDA Loan, the Junior RDA Loan, the Affordable Housing Covenant, the DDA and all other documents evidencing and securing the RDA Loans. At its October 7, 2014, Board meeting, your Board, sitting as the Governing Board of HACSM, took action to accept the designation of HACSM as housing successor agency and approved the retention of the RDA Loans as housing assets.

Concurrently with the RDA Loans, the California Housing Finance Agency ("CalHFA") made a loan of bond financing to NCR, the City made a loan of HELP funds to assist in the acquisition and rehabilitation of the Development. Subsequently, HEART made a loan to NCR and CalHFA extended a second loan to assist the Development.

In order to facilitate rehabilitation of the Development, and ensure continued viability of the Development as an affordable housing development, BRIDGE Housing Corporation or its affiliate ("BRIDGE") intends to acquire the Development from NCR. To improve the financial health of the Development, BRIDGE intends to refinance the existing CalHFA debt on the Property with bond financing and a gap loan from CalHFA, and use those funds to pay off the HELP Loan.

On December 17, 2013, HACSM provided NCR a conditional approval of its request of thirty-one (31) project-based Section 8 vouchers conditioned upon NCR providing, by March 31, 2014, information to demonstrate to the Authority that the Development will have adequate sources of funding to accomplish the proposed refinancing plan without additional resources from the County of San Mateo (the "Conditional Approval"). On February 25, 2014, the Authority granted NCR an extension of the deadline to provide such financial information until December 31, 2014. NCR intends to make an additional request to further extend the deadline until after BRIDGE acquires the Development and, subject to applicable terms and conditions, HACSM agrees to grant such an extension.

To ensure a fiscally viable project, the RDA Loans should be forgiven, and the Section 8 approval transferred to BRIDGE.

DISCUSSION:

NCR acquired the Development when it was under threat of condemnation for an estimated \$11.2 million, in an effort to preserve it as affordable housing. NCR financed the acquisition through a combination of funding sources, including CalHFA, the City of Pacifica, HACSM, and the County of San Mateo.

The project was minimally renovated in 2000, and has had some additional renovations completed since then, however a full scale renovation of the project has never been done. Given that the building was originally constructed in 1973, there are many outstanding capital needs at the project.

NCR and BRIDGE Housing Corporation have entered into a Purchase and Sale Agreement in which BRIDGE intends to purchase the Development, refinance the project, renovate the building, and continue to operate the project as affordable housing targeted to senior citizens.

The CalHFA first mortgage, CalHFA second mortgage, and HELP loan will be required to be repaid in the refinancing transaction. In addition to principal repayment, CalHFA is requiring the payment of a bond prepayment fee of approximately \$625,000. In order to make the refinancing of the project feasible, San Mateo HEART and HOME/CDBG loans are expected to be resubordinated and extended and the former RDA loans are requested to be forgiven.

BRIDGE has applied for financing to CalHFA and anticipates a late first quarter or early second quarter 2015 construction start. A schedule of projected milestones is as follows:

- Purchase and Sale Agreement Signed 8/21/14
- Application to CalHFA for financing 10/28/14
- Execution of Loan and Affordable Housing Covenant Modifications Forgiveness Agreements, or Releases by City, County, and HEART by 12/31/14
- CalHFA Board Approval (financing approval) 1/14/15
- Tax Credit Allocation Committee Board Approval (tax credit allocation) 1/29/15
- California Debt Limit Allocation Commission Board Approval (tax exempt bond allocation) 3/18/15
- Construction Loan Closing* 4/15/15
- Construction Start 5/15/15

*Construction Loan Closing date assumes CalHFA will begin the construction loan closing process prior to allocation of bonds by CDLAC.

The existing RDA Loan documents as currently drafted impose recourse liability on NCR and impose certain rehabilitation standards on the owner that are unrealistic for BRIDGE to assume given the condition of the Property. Similarly, the DDA imposes construction obligations which are no longer applicable and the Affordability Covenant imposes certain affordability requirements that impose certain maintenance standards on the owner that are unrealistic for BRIDGE to assume given the Development's

current condition. Under the proposed plan, HACSM would execute a Loan Forgiveness Agreement effective upon BRIDGE's acquisition of the Property, under which BRIDGE would be required to record a new long-term Affordability Covenant.

BRIDGE is not willing to assume any liabilities created by NCR, including potential payment or operational defaults, under the RDA Loans. Forgiveness of the RDA Loans would be a necessary condition for BRIDGE's project to be financially viable. Likewise, the transfer of the Section 8 commitment will ensure that BRIDGE has a viable project to operate.

The requested actions contribute to the Shared Vision 2025 outcome of a Livable Community by making possible a project refinancing that will preserve a 100-unit senior housing complex affordable to low-income seniors.

FISCAL IMPACT:

There is no Net County Cost. The proposed action involves HACSM, as housing successor to the former Pacifica RDA, forgiving two loans (that did not involve HACSM-controlled funds) in a total principal amount of \$600,000 plus accrued interest. Should the loans not be forgiven, there is little likelihood they would ever be repaid, and great likelihood that the Development would fail, eliminating 100 units of affordable housing for low-income seniors in San Mateo County.