File #: 2076-2019, **Version:** 1

To: Honorable Chair and Commissioners

From: Vincent Smith, Community Development Director

Prepared By: Lark Ferrell, Housing Manager

TITLE:
Regulatory Agreements for Charter Oaks Apartments (a 75-unit affordable apartment project located at 3017 Browns Valley Road)

RECOMMENDED ACTION:
Adopt a resolution to facilitate the financing of the acquisition and rehabilitation of the Charter Oaks Apartments by authorizing the Executive Director to execute: (1) a Release and Termination of Deferred Loan Regulatory Agreement with Charter Oaks Associates terminating the 2001 Deferred Loan Regulatory Agreement, and (2) a Termination Agreement with Charter Oaks Associates and JPMorgan Chase Bank, N.A. terminating the 2001 Bond Regulatory Agreement relating to Charter Oaks Apartments.

DISCUSSION:
In 2001, the Housing Authority issued $4,215,000 in bonds. The proceeds of these bonds were loaned to Charter Oaks Associates, a California limited partnership, (the “Borrower”) for the acquisition and rehabilitation of Charter Oaks, a 75-unit affordable rental project located at 3017 Browns Valley Road (the “Project”). Additionally, as part of the project’s financing, the Housing Authority made a $237,500 loan to the Borrower. The Housing Authority currently has two regulatory agreements recorded against the property to ensure the ongoing affordability of the Project. This includes (1) the Housing Authority’s 2001 Bond Regulatory Agreement and Declaration of Restrictive Covenants which requires the Project to remain affordable until at least 2056 (“2001 Bond Regulatory Agreement”); and (2) the Housing Authority’s 2001 Deferred Loan Regulatory Agreement, which requires the Project to remain affordable through June 30, 2026 (“2001 Loan Regulatory Agreement”). Both the Housing Authority bonds and loan have been fully repaid.

It has been almost 20 years since the Project was last substantially renovated. Therefore, the Borrower recently created a new limited partnership, Charter Oaks Apartments II, LP (the “Buyer”) for the purpose of financing the renovations. The Buyer would finance the acquisition of the Project and its renovations through the sale of 4% tax credits and the issuance of tax exempt bonds. The new bonds would be issued by the California Statewide Communities Development Authority (CSCDA). The City, as the local jurisdiction, held a hearing authorizing CSCDA to authorize the bond issuance in June 2019.

In conjunction with the new bond issue, the Buyer would be required to enter into a Regulatory Agreement with CSCDA, which will place restrictions on the operations of the Project that are at least

as restrictive, and for a term at least as long, as the restrictions in the 2001 Bond Regulatory Agreement and 2001 Loan Regulatory Agreement. CSCDA has agreed to make the Housing Authority and the owners of the 2001 bonds third party beneficiaries to the CSCDA Regulatory Agreement, which would give the Housing Authority the right to enforce the terms of the CSCDA Regulatory Agreement. This would allow the Housing Authority to terminate the 2001 Bond Regulatory Agreement and the 2001 Loan Regulatory Agreement because the CSCDA Regulatory Agreement will ensure that the Project continues to be operated as if the 2001 Bond Regulatory Agreement and the 2001 Loan Regulatory Agreement remained in place. The proposed Bond Termination Agreement is attached as Attachment 2 and the proposed Termination of Deferred Loan Regulatory Agreement is attached as Attachment 3. The fees for the Housing Authority's bond counsel's work on this transaction would be paid for by the Buyer, so there would be no cost to the Housing Authority.

Authorization of this agenda item would allow the Housing Authority to have the benefits of the CSCDA Regulatory Agreement without having the obligation to continue to monitor the Project. It would also allow the Project to proceed with the proposed financing for its renovations and ensure the continued affordability of the Project for an additional 55 years. Additionally, because the Project is currently an affordable housing project, the Buyer has confirmed no current residents would be permanently displaced by the Project. Therefore, the current residents would all benefit from the improvements.

FINANCIAL IMPACTS:
There is no financial impact by this agenda item.

CEQA:
The Community Development Director has determined that the Recommended Action described in this Agenda Report is not subject to California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15060(c).

DOCUMENTS ATTACHED:
ATCH 1 - Charter Oaks Resolution
ATCH 2 - Bond Termination Agreement
ATCH 3 - Termination of Deferred Loan Regulatory Agreement

NOTIFICATION:
Charter Oaks Associates and its legal counsel, Goldfarb and Lipman, were notified of this agenda item.