



City Council Memorandum

Housing Authority Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR, CITY COUNCIL,
AND HOUSING AUTHORITY BOARD **DATE:** OCTOBER 6, 2020

FROM: OFFICE OF HOMELESS SOLUTIONS **WARD:** 1

SUBJECT: AMENDED AND RESTATED RESOLUTION NO. 23415 ENABLING THE CITY OF RIVERSIDE TO SIGN A STANDARD AGREEMENT AS CO-APPLICANT WITH WAKELAND HOUSING AND DEVELOPMENT CORPORATION FOR AN AWARD OF \$16,826,931 FROM THE STATE OF CALIFORNIA'S AFFORDABLE HOUSING AND SUSTAINABLE COMMUNITIES PROGRAM; AN AHSC CO-APPLICANT AGREEMENT SPECIFYING JOINT RESPONSIBILITIES AND LIABILITY UNDER THE GRANT TO FACILITATE THE DEVELOPMENT OF THE MISSION HERITAGE HOUSING PROJECT AND TRANSIT IMPROVEMENT RELATED TO THE PROJECT; SUBORDINATION AGREEMENT REQUEST FROM BANK OF AMERICA TO PLACE THE HOUSING AUTHORITY'S LOAN AND AFFORDABILITY CONTRACTS BEHIND THE BANK'S LOAN DOCUMENTS; AND MODIFICATION TO LOAN DOCUMENTS WITH MISSION HERITAGE PLAZA LP TO REDUCE THE INTEREST RATE ON THE HOUSING AUTHORITY'S \$3 MILLION RESIDUAL RECEIPTS LOAN FROM THREE PERCENT TO ONE PERCENT SIMPLE INTEREST

ISSUES:

Approve a: (1) restated and amended Resolution No. 23415 enabling the City of Riverside to sign a Standard Agreement as a co-applicant with Wakeland Housing and Development Corporation for an award of \$16,826,931 from the State of California's Affordable Housing and Sustainable Communities Program; (2) AHSC Co-Applicant Agreement specifying joint responsibilities and liability under the grant to facilitate development of the Mission Heritage housing project and transit improvements related to the project; (3) Subordination Agreement request from Bank of America to place the Housing Authority's loan and affordability behind the bank's loan documents; and (4) Modification to Loan Documents with Mission Heritage Plaza LP to reduce the interest rate on the Housing Authority's \$3 million residual receipts loan from three percent to one percent simple interest.

RECOMMENDATIONS:

That the City Council:

1. Approve a restated and amended Resolution No. 23415 enabling the City of Riverside to sign a Standard Agreement as a co-applicant with Wakeland Housing and Development Corporation for an award of \$16,826,931 from the State of California's Affordable Housing

and Sustainable Communities Program;

2. Approve an AHSC Co-Applicant Agreement with Wakeland Housing and Development Corporation specifying joint responsibilities and liability under the grant to facilitate development of the Mission Heritage housing project and transit improvements related to the project; and
3. Authorize the City Manager, or his designee, to sign Affordable Housing and Sustainable Communities Program Standard Agreement and the AHSC Co-Applicant Agreement, making minor corrections as necessary including substitution of the project legal description to accommodate a new parcel map for the project.

That the Housing Authority Board:

1. Approve a Subordination Agreement request from Bank of America to place the Housing Authority's loan and affordability contracts behind the bank's loan documents, making a finding under California Health and Safety Code Section 33334.14 that the subordination of the Authority's Regulatory Agreement is of financial necessity for the Project, and that no other financially viable alternative exists for this action;
2. Authorize the Executive Director, or his designee, to execute the Subordination Agreement, making minor corrections as necessary including substitution of the project legal description to accommodate a new parcel map for the project;
3. Approve the Modification to Loan Documents with Mission Heritage Plaza LP to reduce the interest rate on the Housing Authority's \$3 million residual receipts loan from three percent to one percent simple interest; and
4. Authorize the Executive Director, or his designee, to sign the Modification to Loan Documents, making minor corrections as necessary including substitution of the project legal description to accommodate a new parcel map for the project.

BACKGROUND:

On October 17, 2017, the Housing Authority approved a Development Agreement with Wakeland Housing Development Corporation (DBA Mission Heritage Plaza LP) in the amount of \$3 million to finance land acquisition and construction of a 72-unit affordable housing project combined with new office space for the Fair Housing Council of Riverside County and a new Civil Rights Institute to be located at 3901 and 3933 Mission Inn Avenue and 3942 6th Street in Downtown Riverside (Project).

In May 2019, the City of Riverside (pursuant to Resolution No. 23415) applied with Wakeland Housing and Development Corporation (Wakeland) as a Co-Applicant for Affordable Housing and Sustainable Communities (AHSC) funding from the State Department of Housing and Community Development. AHSC funding, a smart growth program, is a combination of a soft loan for housing development and a grant for related transit development around the housing project.

On June 21, 2019, the State awarded the Mission Heritage Project an AHSC housing soft loan of \$7,030,231 and an accompanying transit grant for the City of \$9,796,700, for a total AHSC award of \$16,826,931. The Project is slated to break ground in early 2021 and transit improvements are scheduled to be completed 18 months after the start of the housing project.

DISCUSSION:

Recently, Wakeland submitted to Housing Authority staff requests to modify the agreements related to the Project's AHSC award and the Housing Authority \$3 million residual receipts loan to close on the funding loan needed to complete the Project.

Resolution (Attachment 1): The amended and restated Resolution changes are immaterial in nature and merely align funding thresholds stated in Resolution No. 23415 with actual awarded AHSC amounts and allow the City to sign the AHSC Standard Agreement as a co-applicant.

AHSC Co-Applicant Agreement (Attachment 2): The City was required to be an AHSC co-applicant as it is the entity with legal authority to complete required transportation projects. Although the City is a co-applicant for the entire AHSC application, the parties recognize that the City will only be actively utilizing transit funds and that housing funds would be directly utilized by Wakeland as permanent financing in the Project. The Co-Applicant Agreement specifies the duties of each entity, defines the projects, funding, timelines and outcomes, and remedies to mitigate risk among the AHSC grant parties.

Subordination Agreement (Attachment 3): Bank of America, the Projects senior lender, is requesting the Housing Authority to subordinate its \$3 million Deed of Trust and Regulatory Agreement (affordability covenant) to the bank's loan documents. Wakeland submitted a subordinate request to the Housing Authority on behalf of Bank of America (Attachment 4). The Housing Authority's Regulatory Agreement has always been recorded on real property in first position to ensure the affordable housing requirements remain on the property during the affordability period (55 years for affordable rental housing projects). If the Project falls into default with Bank of America, there is a remote possibility that the Housing Authority could lose these affordable housing units. Bank of America will have the authority to sign the Subordination Agreement after the close of financing for the Project, estimated at mid-November of this year.

Modification to Loan Documents with Mission Heritage Plaza LP to decrease the Housing Authority's interest rate (Attachment 5): The Housing Authority loan on the Project is 3% simple interest and repayment is made from residual receipts (remaining income after all Project expenses have been made) generated from the Project. The 3% simple interest is viewed by the Project's financial partners as a contingent liability on the Project, which may exceed the ability of the Project to amortize losses in future years under current federal tax code and create a long-term financial risk in capital accounts to the Project. Reducing the Housing Authority's interest rate to 1% interest (\$3.3 million reduction in interest earned) would mean that the loan would lose value relative to inflation in future years and may potentially impact any residual repayments or accelerations of repayments under potential project defaults.

Wakeland has also requested the State of California, another lender in the Project, to reduce its loan rate to 0.42% (Attachment 5). As the Amendments contemplated here diminish the Housing Authority's financial standing in the Project, staff is seeking Board direction on approval of the Modification to Loan Documents.

Capital accounts are characterized as a combination of new operating income and losses from interest payments, management fees, and depreciation. Some of these losses can be depreciated, but recent federal tax code changes have placed new restrictions on the amounts of these transactions. In a scenario with no interest rate reductions, Wakeland estimates that the Project will begin producing substantial capital losses (in the millions of dollars) beyond the ability for depreciation beginning in 2033. With an interest rate reduction from the Housing Authority

(and State), losses will still occur (in the hundreds of thousands of dollars), but can be substantially mitigated.

The contracts attached to this staff report utilize a 2018 legal description which will be updated after the recordation of a new parcel map in late October or early November of this year. The City will substitute the updated legal description before the contracts can be recorded.

FISCAL IMPACT:

Wakeland is requesting the Housing Authority to reduce their loan's interest rate from 3% to 1%, which will reduce interest earned by \$3.3 million over 55 years. The Project's financing, in the amount of \$45 million, is scheduled to be completed in October of this year, and the Project will begin construction in early 2021.

Prepared by: Michelle Davis, Housing Authority Manager
Certified as to
availability of funds: Edward Enriquez, Chief Finance Officer/City Treasurer
Approved by: Moises Lopez, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Resolution
2. AHSC Co-Applicant Agreement
3. Subordination Agreement
4. Letter from Wakeland Development requesting a Subordination Agreement
5. Modification to Loan Documents
6. Interest Reduction Request Letter from Wakeland Development to the State of California
7. Presentation