SUBJECT: Conditional Approval to Convert Bridge Loan of $2.1 Million to MidPen Housing to Permanent Loan for Rehabilitation of Garland Apartments

REPORT IN BRIEF
On January 9, 2007 (RTC 07-010), Council approved a five-year bridge loan of $2.1 million in Housing Mitigation Funds to Mid-Peninsula Housing Coalition or MPHC (now known as “MidPen Housing Corporation”), a non-profit corporation, for acquisition of a twenty-unit apartment building located at 662 Garland Avenue in Sunnyvale. The bridge loan was provided as a temporary mechanism to allow MidPen Housing to acquire the property and later secure tax credit financing to rehabilitate and preserve affordability of the units for fifty-five years. That RTC stated that MidPen Housing would seek City approval to convert the bridge loan to a long-term loan, if and when tax credits were obtained to substantially rehabilitate the project.

MidPen Housing is prepared to submit an application for tax credits to fund the rehabilitation of the apartments at 662 Garland at this time. The tax credit application must be submitted on March 22, 2012 to the California Tax Credit Allocation Committee (TCAC). One of the requirements for that application is evidence of local matching funds for the rehabilitation project, in the form of a long-term “soft loan” (i.e., a residual receipts loan). This loan must be evidenced by a loan commitment letter from the City, which may be conditioned on award of tax credits to the project. Staff has prepared such a letter (Attachment A) for Council review. If the tax credit financing is awarded in June as hoped, staff will return to Council thereafter with formal loan documents and any associated agreements for approval.

Recommended Action: Conditionally approve conversion of the $2.1 million bridge loan secured by 662 Garland Avenue to a fifty-five year residual receipts loan.

BACKGROUND
This property was acquired in 2007 as a potential site to combine with the County health clinic site for an affordable senior housing project. The City eventually obtained a ground lease for a portion of the County clinic property and entered into an agreement with MidPen to develop the senior housing project. After evaluating the potential larger project, the property at 662
Garland Avenue was not incorporated into the senior housing project. This possibility was anticipated at the time, and the alternative plan for use of this property, also described in RTC 07-010, was to rehabilitate the building and retain it as all-age affordable housing for a term of fifty-five years, if tax credit financing could be obtained:

“If a larger development project does not prove feasible within the two-year evaluation period, MPHC will seek approval from the City to recast the debt and seek out tax credit financing. This would then provide the funds for a substantial rehabilitation of the property. It would then be preserved over the 55 years as affordable rental housing for very low income households, including seniors.” RTC 07-010, p. 1.

The bridge loan agreement further noted that “the Project will preserve the affordability of the units to low and very-low-income households during the next few years, while determining the feasibility of combining the site with neighboring parcels as part of a possible site reuse and development with the goal of creating a multi-unit affordable senior housing project.” The loan agreement requires that the units be maintained for and affordable to low income households (those with incomes at or below 80% of area median income) for the five-year term of the bridge loan.

**EXISTING POLICY**

**Sunnyvale General Plan, Housing Element**

**Goal A:** Assist in the provision of adequate housing to meet the diverse needs of Sunnyvale’s households of all income levels.

- **Policy A.2:** Facilitate the development of affordable housing through regulatory incentives and concessions, and/or financial assistance.
- **Policy A.7:** Support collaborative partnerships with non-profit organizations, affordable housing builders, and for-profit developers to gain greater access to various sources of affordable housing funds.

**Goal B:** Maintain and enhance the condition and affordability of existing housing in Sunnyvale.

- **Policy B.3:** Strengthen multi-family neighborhoods through partnership with non-profit housing organizations in the acquisition and rehabilitation of older residential properties and maintenance as long term affordable housing.

**DISCUSSION**

MidPen analysts estimate that this project has a strong chance of obtaining tax credit financing if submitted by the March application deadline, as a number of
potential applicants are not able to apply due to the current uncertainties surrounding redevelopment agency housing set-aside funds, which are a primary source of local matching funds in tax credit applications, or because they have not yet obtained land use entitlements for their projects. This project’s chances of obtaining the credits in future rounds is less certain, as applicants may be ready to apply by that time, significantly increasing the potential competition for a highly limited pool of tax credits.

**FISCAL IMPACT**
The recommended action would not impact the General Fund. Its impact on the Housing Fund would be to extend repayment of the current outstanding loan balance over a longer time period (fifty-five years). If the loan is not converted to a long-term loan, the only other feasible way for the loan to be paid back in the near future would be to sell the property with no affordability restrictions and use the sale proceeds to pay back the City bridge loan. Such a sale may lead to displacement of the current tenants over time, as rents are adjusted to market rates. The Housing Fund was created to finance affordable housing projects such as the proposed rehabilitation of Garland Plaza, so the impact of the loan conversion is fully consistent with the intent of the Fund.

**PUBLIC CONTACT**
Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's Web site.

**ALTERNATIVES**
1. Conditionally approve conversion of the bridge loan to a 55-year residual receipts loan as stated in Attachment A.
2. Conditionally approve conversion with modifications as determined by Council.
3. Do not approve conversion of the loan.

**RECOMMENDATION**
Recommended Action:

**Alternative 1:** Conditionally approve conversion of the bridge loan to a 55-year residual receipts loan as stated in Attachment A.

Conditional approval allows the borrower to seek tax credit financing to rehabilitate twenty affordable apartments at 662 Garland Avenue by converting the City’s bridge loan to a long-term residual receipts loan. The rehabilitation
Conditional Approval to Convert Bridge Loan of $2.1 Million to MidPen Housing to Permanent Loan for Rehabilitation of Garland Apartments
March 20, 2012
Page 4 of 4

The project will improve the appearance of the property and the housing conditions for the tenants, while preserving affordability to lower-income households for fifty-five years and improving the energy efficiency of the property. If the loan conversion is not conditionally approved, the chances of the project obtaining tax credits in subsequent application rounds are expected to be substantially less. That would limit the borrower’s ability to repay or refinance the bridge loan in the foreseeable future. This action is consistent with the Council action taken in 2007 and the contingency plan to rehabilitate the property which was contemplated at that time.

Reviewed by:

Hanson Hom, Director, Community Development Dept.
Prepared by: Suzanne Isé, Housing Officer

Approved by:

Gary M. Luebbers
City Manager

**Attachments**

A. Letter of Conditional Commitment
March 20, 2012

Lillian Lew-Hailer  
MidPen Housing Corporation  
303 Vintage Park Dr., Suite 250  
Foster City, CA 94404

Subject: City of Sunnyvale Loan on 662 Garland Avenue, Sunnyvale

Dear Ms. Lew-Hailer:

In 2007, the City of Sunnyvale made an acquisition bridge loan of $2,100,000 to Mid-Peninsula Carroll-Street for acquisition of a rental property of 20 apartments known as Garland Plaza, located at 662 Garland Avenue in Sunnyvale. This bridge loan is due in 2013. The City is committed to preserving Garland Plaza as an important source of affordable rental housing for the community, and to supporting the planned substantial rehabilitation of the property to address the property's current physical needs.

In support of the rehabilitation project, the City will convert the bridge loan to a 55-year, residual receipts loan at 3% simple interest, conditioned upon TCAC award of tax credits for this project. The permanent loan principal at conversion will be equal to the bridge loan principal balance of $2,100,000, plus the accrued interest balance of 413,467. Any interest owing after each annual residual receipts payment will continue to accrue at 3% simple. In exchange for converting the City bridge loan to a permanent loan, Mid-Pen will record a long-term affordability restriction against the property in favor of the City, consistent with TCAC requirements. In order to facilitate the rehabilitation of Garland Plaza and the use of low income housing tax credits, the City's permanent loan may be assigned to and assumed by MidPen Housing Corporation or a Limited Partnership with a MidPen Housing Corporation affiliate as the Managing General Partner.

We thank you for your efforts to improve and preserve Garland Plaza as a long-term affordable housing resource.

Sincerely,

Gary Luebbers  
City Manager