



**REPORT TO MAYOR AND CITY COUNCIL  
AND REDEVELOPMENT AGENCY BOARD**

AGENDA ITEM

TO: THE HONORABLE MAYOR, CITY  
COUNCIL, AND REDEVELOPMENT AGENCY BOARD DATE: November 6, 2007

SUBJECT: Fair Plaza East TEFRA Hearing and Transfer of Financing

**Report in Brief**

Fair Plaza East is a 68 unit senior apartment complex at 35 West Clover Street. USA Properties wishes to acquire and rehabilitate the complex and keep it affordable for a period of 55 years. This project has been previously reviewed by the Council and the Redevelopment Agency Board on October 12, 2006 and agreement was achieved to commit \$1.5 million in CalHFA HELP and Low-Mod Redevelopment Housing Funds to assist the developer.

Staff recommends that the City Council approve the following actions:

- hold a public hearing, which is a Federal requirement, known as the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing; and
- adopt a resolution which:
  1. approves the issuance of revenue bonds by the Association of Bay Area Governments (ABAG) for nonprofit public benefit corporations for the purpose of financing of a senior housing facility and estimated to be five million dollars;
- adopt an additional resolution that:
  1. authorizes the City Manager to execute any and all documents needed for the City to implement the project; and
  2. approves revision and issuance of the Section 1033 letter to the current owner of the property

Staff also recommends that the Redevelopment Agency Board adopt a resolution that:

1. approves transfer of Redevelopment Agency funding (\$1,250,000 of HELP funds and \$250,000 of tax increment) originally committed to AF Evans to USA Properties Fund or its designees; and
2. authorizes the Executive Director to execute any and all documents needed for the RDA to implement the project.

**Background**

In February of 2006, City staff was approached by AF Evans, an affordable housing developer, in regards to assisting them in the acquisition and rehabilitation of Fair Plaza East. Fair Plaza East is a 68 unit senior apartment complex located at the corner of West and Clover streets. The project was

originally built in the late 70's with a HUD mortgage that ensured it would remain affordable until the mortgage was paid off. The current owner ended up refinancing this mortgage in the early 2000's and the affordability covenants were lifted. To his credit, the owner did maintain the rents at affordable levels, but decided in early 2006 that he wanted to sell the property.

When approached by AF Evans with the opportunity to preserve affordability in this complex for low and very-low income seniors, staff began identifying ways for the City to participate and fill the financing gap. On October 17, 2006, the City Council approved submission of a successful application to the California Housing Finance Agency (CalHFA) for \$1.25 million of HELP Funds. These funds are loaned to the City at 3.5% simple interest for a term of ten years. The City identified the use of Redevelopment Low-Mod Housing Funds as the primary source of repayment for this loan. AF Evans proposed making residual receipts payments (or payments for remaining cash flow after operating expenses and first mortgage payments have been made). It is estimated that AF Evans would have paid \$300,000 towards the total obligation by the time that the City had to repay the funds to CalHFA. The City agreed to subsidize the project by repaying the HELP funds in year ten, but not requiring full repayment until AF Evans refinanced the project in year 15.

Even with the HELP funds in place, AF Evans still needed further subsidy to make the project work. On May 1, 2007, the City committed an additional \$250,000 subsidy of Redevelopment Low-Mod Housing Funds. With funding in place, City staff and AF Evans moved forward to secure bond and tax credit financing for the project. Additionally, to help facilitate the sale to AF Evans, the City Council also approved issuing a letter to the current owner that would provide some tax benefits under Section 1033 of the Tax Code.

In June of 2007, staff was informed by AF Evans that they were withdrawing from the project. Staff immediately contacted other affordable housing developers to continue the project. After discussions with these developers, USA Properties Fund (USA) expressed the most interest in moving forward with the project. USA is currently constructing the Terracina Spring Lake Apartments in the Spring Lake Specific Plan Area. The proximity of this project to that project made the deal attractive to them.

### **Discussion**

Working closely with the USA as well as the owner, staff has managed to negotiate a deal that meets all parties' needs. USA and the City have also secured 17 project based Section 8 Vouchers from the Yolo County Housing Authority. These vouchers allow for a greater cash flow that will increase the payments to the City towards the HELP loan as they are committed to the units, not the individuals that reside in the units. Also, staff and USA were able to negotiate a lower Utility Allowance with the State as well. This also increases the cash flow for the project.

Staff has also negotiated a Payment In Lieu Of Taxes (PILOT) Fee with USA in regards to this project. With affordable housing developments, the property owners generally receive a property tax waiver. Many cities collect a PILOT Fee which reimburses the City for their portion of the lost property tax revenue for the project. For this project, this fee begins at approximately \$11,000 in the first year. This fee will increase by two percent a year consistent with Proposition 13. Staff will

deposit the residual receipt payments, as well as the PILOT Fee into a sinking fund to repay the City's HELP loan debt. Under the deal negotiated with USA, as well as with these additional cash flow items, the City is committing less subsidy up front and will have more funds available in the sinking fund to repay CalHFA in year 10. In the AF Evans proforma, there would be approximately \$300,000 in the sinking fund in year 10. Under the last proforma provided by USA, this sinking fund now expected to be \$500,000 in year 10. In addition, USA is only asking for an additional \$58,000 of Redevelopment Funds for the project and \$33,000 for a financing prepayment penalty. These additional loans would be paid from residual receipts and the PILOT Fee as well.

The total of the amount requested from Redevelopment Funds is approximately \$91,000. This is \$159,000 less than what was requested by AF Evans. Even though USA is only requesting a portion of the tax increment funding, staff is recommending the Council approve using up to the \$250,000 that was originally committed to the project for unexpected costs.

Staff is supportive of this project in its current form. The City is left in a better financial position than the previous proposal by AF Evans that did have Council and Agency approval. Even though USA is not guaranteeing that the City will be completely paid off in year 15, they have agreed that the City's loans will be repaid prior to them pulling any additional funds from the property for the company.

These units will be affordable for 55 years. By using redevelopment funds, the Redevelopment Agency can count these units towards the affordable housing goals required by state redevelopment law. This project also helps the City to meet its goals outlined in the Consolidated Plan for the Community Development Block Grant Program where the City agreed to construct or rehabilitate affordable housing units.

The additional advantage of this project is the implementation of the PILOT Fee. This fee will be paid in perpetuity. After the City's loans have been repaid, the PILOT Fee can be used for staffing costs involved in long term monitoring for the project that is required by the state and federal programs involved or for any other uses that the City designates.

It should be noted that the numbers provided to the City by USA on the latest proforma are very conservative estimates. This proforma assumes that the Fair Market Rents paid by HUD on Section 8 units will remain constant next year. Based on the new rents recently announced, these rents are expected to rise approximately \$91 per unit. What is not known is the payment standard that the Yolo County Housing Authority will allow. To avoid over estimating cash flow, USA has decided to leave next year's rents the same as this year's. There are also currently 36 units that are occupied by seniors with Section 8 vouchers. These vouchers will add additional cash flow to the project (because the vouchers pay higher than market rents or the rents charged in the other units), however, because these people can move at anytime, we are not allowed to consider this additional revenue in the evaluation of the pro forma. This "hidden" cash flow will increase the amount of funds that will be in the sinking fund for the CalHFA payoff in year 10.

USA is also requesting that the City Council hold a public hearing, which is a federal requirement, known as the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing, and to adopt a resolution

which would approve the issuance of revenue bonds by the Association of Bay Area Governments for the purpose of financing of a senior housing facility. These bonds are estimated to be around \$5,000,000.

As announced in the published notice in the *Daily Democrat* this hearing is simply an opportunity for all interested persons to speak or to submit written comments concerning the proposal to issue the debt and the nature or location of the Project. While such comments may be received and considered by the City Council, there is no obligation on the part of the City Council to respond to any specific comments made or submitted during the TEFRA hearing. The issuance of the bonds, as well as an application for Low-Income Housing Tax Credits will complete the financing package for the project and will allow USA to finish acquisition and begin rehabilitation work.

**Other than holding a Public Hearing and approving the Authority to issue the bonds, there is no financial or other obligation to the City in regards to the bond financing.**

If this entire financing package is not approved, USA will not move forward and the current owner will look for market rate buyers, who most likely will raise rents resulting in significant displacement of the current residents.

### **Fiscal Impact**

Currently the expected immediate fiscal impact would be the expenditure of up to \$250,000 from Redevelopment Low-Mod Housing Funds to fill the gap on this transaction. Additionally, based on the current proforma, the Agency will expect to pay an additional \$1.1 million in Low-Mod Housing Funds in 10 years to repay the CalHFA HELP Loan. Again, these numbers are based on conservative estimates, and staff expects more money to be available in the sinking fund in year 10. The Agency is expected to be repaid when refinancing occurs in year 15. Even though USA is only requesting a portion of the tax increment funding, staff is recommending the Council approve using up to the \$250,000 that was originally committed to the project for unexpected costs.

The request for tax increment funds described above can be accommodated within existing resources; this obligation will not impair the RDA's ability to meet other debt payment requirements or financial commitments.

### **Public Contact**

A public notice was published in the *Daily Democrat* advertising the TEFRA hearing. The City Council Agenda was posted.

### **Alternative Courses of Action**

1. Staff recommends that the City Council and Redevelopment Agency Board approve the following actions:

- hold a public hearing, which is a Federal requirement, known as the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing; and
- adopt a resolution which:
  1. approves the issuance of revenue bonds by the Association of Bay Area Governments (ABAG) for the purpose of financing of a senior housing facility and estimated to be five million dollars;
- adopt an additional resolution that:
  1. authorizes the City Manager to execute any and all documents needed for the City to implement the project; and
  2. revise and issue the Section 1033 letter to the current owner of the property
- adopt a resolution that:
  1. approves transfer of all (\$1,250,000 of HELP funds and \$250,000 of tax increment) the Redevelopment Agency funding originally committed to AF Evans to USA Properties Fund or its designees; and
  2. authorizes the Executive Director to execute any and all documents needed for the RDA to implement the project.

2. Cease further consideration of the actions described herein.

**Recommendation for Action**

Staff recommends that the City Council approve Alternative No. 1

Prepared by: Jamie McLeod,  
Associate Housing Analyst

Reviewed by: Cynthia Shallit,  
Redevelopment Manager

Reviewed by: Barry Munowitch, AICP  
Assistant City Manager

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Mark G. Deven  
City Manager

**Attachments:**

- 1) TEFRA Resolution
- 2) City of Woodland Financing and Commitment Resolution
- 3) Redevelopment Agency Funding Transfer Resolution
- 4) Draft Section 1033 Letter

**RESOLUTION OF THE CITY COUNCIL OF  
THE CITY OF WOODLAND**

**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION OF THE CITY OF WOODLAND APPROVING  
THE FAIR PALZA EAST PROJECT WITH USA PROPERTIES  
FUND**

WHEREAS, Fair Plaza East is a 68 unit senior apartment complex that is currently being rented to low and very-low income seniors without affordability covenants,

WHEREAS, the current owner has expressed interest in selling the project, but would be preferred the sale be to an affordable housing developer,

WHEREAS, the City Council has previously approved city assistance to AF Evans to help them acquire and rehabilitate the property and add a 55 year affordability covenant to maintain its affordability to senior households,

WHEREAS, AF Evans has dropped the project, but USA Properties Fund has expressed interest in reviving the process; and

WHEREAS, the City Council has previously approved issuance of a Section 1033 letter to the current owner.

NOW THEREFORE LET IT BE RESOLVED THAT, the City of Woodland approves USA Properties Fund and/or its designee as the developer for the Fair Plaza East Project and

- 1) The City Manager of the City of Woodland is hereby authorized and empowered to execute in the name of the City of Woodland all necessary applications, contracts, agreements, and amendments
- 2) The City Manager is authorized to revise and issue the Section 1033 letter to the current owner of the property.

PASSED AND ADOPTED THIS 6<sup>th</sup> DAY OF NOVEMBER, 2007, BY THE FOLLOWING VOTE:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

\_\_\_\_\_  
David M. Flory, Mayor

ATTEST:

APPROVED AS TO FORM:

\_\_\_\_\_  
Sue Vannucci, City Clerk

\_\_\_\_\_  
Ann Siprelle, City Attorney

RESOLUTION NO. \_\_\_\_\_

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WOODLAND  
APPROVING THE ISSUANCE OF REVENUE BONDS BY THE ABAG  
FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS  
ON BEHALF OF USA PROPERTIES FUND, INC.

WHEREAS, the ABAG Finance Authority for Nonprofit Corporations (the "Authority"), proposes to issue tax-exempt multifamily housing revenue bonds in an approximate amount of \$5,000,000 (the "Bonds") and to lend the proceeds thereof to USA Properties Fund, Inc., together with its successors or assigns or any limited partnership or limited liability company established by USA Properties Fund, Inc. (the "Borrower"), to be used for the acquisition and rehabilitation of a 68-unit multifamily rental senior housing development commonly known as the Fair Plaza Apartments (the "Project") located at 35 West Clover Street in the City of Woodland, California (the "City");

WHEREAS, Section 147(f) of the Internal Revenue Code of 1986 requires the City Council of the City of Woodland (the "Council"), as the elected representative of the City, the host jurisdiction of such facilities, to approve the issuance of the Bonds after a public hearing has been held following reasonable notice;

WHEREAS, a public hearing was held by the Council on this 6th day of November, 2007, following duly published notice thereof, and all persons desiring to be heard have been heard; and

WHEREAS, it is in the public interest and for the public benefit that the Council, as the elected representative of the City, the host jurisdiction of the subject multifamily housing residential facility, approve the issuance and delivery by the Authority of the Bonds;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WOODLAND:

Section 1. The Council hereby finds and determines that the foregoing recitals are true and correct.

Section 2. The Council hereby finds, determines and declares that issuance by the Authority of the Bonds in the maximum principal amount of \$5,000,000 for the purposes described above is hereby approved.

Section 3. The issuance and delivery of the Obligations shall be subject to the approval of and execution by the Authority of all financing documents relating thereto

to which the Authority is a party and subject to the sale of the Obligations by the Authority.

Section 4. The adoption of this Resolution shall not obligate (i) the City to provide financing to the Borrower for the acquisition, rehabilitation and development of the Project or to issue the Obligations for purposes of such financing; or (ii) the City, or any department of the City, to approve any application or request for, or take any other action in connection with, any environmental, General Plan, zoning or any other permit or other action necessary for the acquisition, rehabilitation, development or operation of the Project.

Section 5. The City Clerk shall forward a certified copy of this Resolution and a copy of the affidavit of publication of the public hearing notice to:

Thomas A. Downey  
Jones Hall, A Professional Law Corporation  
650 California Street, 18<sup>th</sup> Floor  
San Francisco, California 94108

Section 6. This resolution shall take effect upon its adoption.

**PASSED AND ADOPTED** this 6th day of November, 2007, by the following roll call vote:

Ayes:	Council Members
Noes:	Council Members
Abstain:	Council Members
Absent:	Council Members

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David M. Flory, Mayor

Approved as to Form:

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Ann M. Siprelle, City Attorney

ATTEST:

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Sue Vannucci, City Clerk

AGENCY RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE REDEVELOPMENT AGENCY OF  
THE CITY OF WOODLAND APPROVING A FUNDING  
TRANSFER FOR THE FAIR PLAZA EAST APARTMENTS  
PROJECT AND ASSUMING THE CONDITIONS OF THE HELP  
LOAN FROM THE CITY OF WOODLAND FOR THE PROJECT**

**WHEREAS**, the Redevelopment Agency of the City of Woodland is required to set aside 20% of its Tax Increment Funds to increase, improve and preserve housing affordable to very-low, low and/or moderate income persons in the community;

**WHEREAS**, the Fair Plaza East Apartments (the "project") are being purchased by USA Properties Fund, a for-profit affordable housing developer, in an effort to keep the units affordable to very-low and low-income seniors;

**WHEREAS**, the City Council has previously supported the project by approving an application for a Housing Enabled by Local Partnerships (HELP) loan, in the amount of \$1.25 million, from the California Housing Finance Agency (CalHFA) in October of 2006, which application was approved by CalHFA in January 2007;

**WHEREAS**, the Redevelopment Agency Board has approved an additional loan of \$250,000 of Redevelopment Low-Mod Housing Funds in May of 2007 to assist in the acquisition and rehabilitation of the project;

**WHEREAS**, these commitments were originally made to AF Evans, who has subsequently exited the project;

**NOW, THEREFORE, THE REDEVELOPMENT AGENCY OF THE CITY  
OF WOODLAND DOES HEREBY RESOLVE AS FOLLOWS**

**Section 1.** The Agency hereby authorizes a loan to USA Properties Fund, in an amount not to exceed \$250,000, from Redevelopment Agency Low/Mod Housing Set-aside Funds to assist USA Properties Fund in the acquisition and rehabilitation of the Fair Plaza East Apartments, subject to the terms and conditions set forth in Section 2, below.

**Section 2.** The Redevelopment Agency's Executive Director is hereby authorized and directed, in consultation with Agency Counsel, to prepare and enter into a loan agreement, affordable housing covenant, and all other agreements and documents as are necessary to provide the Agency loan to USA Properties Fund, subject to the following terms and conditions:

a. The Agency loan shall not exceed \$250,000, to be funded from the Agency's Low/Mod Housing Set-aside Funds;

b. The Agency loan shall be repaid, with simple interest at the rate of 3.5% per annum. Annual payments shall be made from residual receipts from the project, with the entire remaining outstanding balance due in 31 years. The Agency loan

shall be evidenced by a note, and secured by a deed of trust to be recorded against the project as a condition to funding of the loan;

c. Funding of the Agency loan shall be conditioned on the execution and delivery by USA Properties Fund of a 55-year affordable housing covenant, to be recorded against the project;

d. USA Properties Fund shall provide evidence satisfactory to the Agency's Executive Director that it has sufficient financing and equity capital to undertake and complete the acquisition and rehabilitation of the project;

e. The Agency loan funds shall be used by USA Properties Fund solely to pay a portion of the costs for the acquisition and rehabilitation of the project; and

f. The loan agreement, affordable housing covenant and other related documents shall contain such other terms and conditions as are deemed appropriate by the Agency's Executive Director, in consultation with Agency Counsel.

**Section 3.** The Redevelopment Agency hereby authorizes the Agency to assume the roles and responsibilities from the City of Woodland for the Housing Enabled by Local Partnerships (HELP) award in the amount of \$1.25 million, that was approved by the California Housing Financing Agency (CalHFA) for this project, and loan the HELP funds to AF Evans to assist with the acquisition and rehabilitation of the project.

**Section 4.** The Agency Executive Director is hereby further authorized and directed, in consultation with Agency Counsel, to incur any indebtedness, prepare and execute in the name of the Woodland Redevelopment Agency all required documents, assign Community Development Department staff to program administration, and to take other actions necessary to facilitate the proposed HELP program as described in the approved application, and obtain funding of the HELP loan from CalHFA pursuant to the same terms and conditions approved for the City of Woodland, which terms and conditions are set forth in the draft CalHFA Loan Agreement currently on file with the Agency Secretary and the City Clerk.

**Section 5.** The Agency Executive Director is hereby further authorized and directed, in consultation with Agency Counsel, to prepare and enter into a loan agreement and all other agreements and documents as are necessary to provide the HELP loan to USA Properties Fund, subject to the following terms and conditions:

a. The HELP loan shall not exceed \$1,250,000, to be funded from the HELP funds to be obtained by the Agency from CalHFA;

b. The HELP loan shall be repaid, with simple interest at the rate of 3.5% per annum. The entire outstanding balance, including principal and interest, shall be due in 31 years. The HELP loan shall be evidenced by a note, and secured by a deed of trust to be recorded against the project as a condition to funding of the loan;

c. Funding of the HELP loan shall be conditioned on the execution and delivery by USA Properties Fund of the 55-year affordable housing covenant, to be recorded against the project as a condition to the \$250,000 Agency loan;

d. USA Properties Fund shall provide evidence satisfactory to the Agency's Executive Director that it has sufficient financing and equity capital to undertake and complete the acquisition and rehabilitation of the project;

e. The Agency funds shall be used by USA Properties Fund solely to pay a portion of the costs for the acquisition and rehabilitation of the project, which costs may only be eligible costs under the HELP program; and

f. The loan agreement and other related documents shall contain such other terms and conditions as are standard for HELP loans, or as are otherwise deemed appropriate by the Agency's Executive Director, in consultation with Agency Counsel.

PASSED AND ADOPTED this 6<sup>th</sup> day of November 2007 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

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Chairman

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Secretary

Kent Calfee  
Fair Plaza II Ltd.  
611 North Street  
Woodland, CA 95695

November 7, 2007

Re: Acquisition of Real Property Located at 35 West Clover Street, Woodland, California  
(Assessor Parcel Number 064-242-06)

Dear Mr. Calfee:

This letter concerns certain real property located at 35 West Clover Street in the City of Woodland, California (Assessor Parcel Number: 064-242-06) ("Property"). The City of Woodland ("City") is informed that you are the current fee simple owner of the Property and that USA Properties Fund, Inc. ("USA") seeks to acquire your interest in the Property.

The City is authorized by California Government Code Section 37350.5 to acquire property by condemnation and the City and USA have negotiated in good faith to acquire the Property and to pay just compensation for its acquisition. Pursuant to the terms of the Agreement, USA will acquire the Property from you through escrow in lieu of the City exercising its power of condemnation. The City has determined that the Property is necessary for a public use, specifically the provision of affordable housing.

If the USA's acquisition of the Property is not successful, then the City plans to initiate the process necessary to consider the acquisition of the Property through the exercise of its condemnation powers. The City's action in this regard will be subject to the appropriate notices, hearings, and other procedural prerequisites and, of course, upon the City's governing body's ability to make the necessary legal findings.

Sincerely,

Mark G. Deven  
City Manager