COUNCIL AGENDA: 6-15-10
ITEM: SJFA #2

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL AND CITY OF SAN JOSE FINANCING AUTHORITY BOARD

FROM: Julia H. Cooper
Leslye Krutko

SUBJECT: **SEE BELOW**

DATE: May 27, 2010

Approved

Date 5-28-10

COUNCIL DISTRICT: 7
SNI AREA: N/A

SUBJECT: APPROVAL OF THE ISSUANCE OF BONDS, LOAN OF BOND PROCEEDS AND RELATED DOCUMENTS FOR THE ORVIETO FAMILY APARTMENTS AND REPEALING PRIOR RESOLUTION

RECOMMENDATION

Adoption of a resolution of the City Council:

(a) Repealing Resolution No. 71579 of the City Council adopted on November 17, 2009;

(b) Authorizing the issuance of tax-exempt multifamily housing revenue bonds in two series designated as "City of San José Multifamily Housing Revenue Bonds (Orvieto Family Apartments), Series 2010B-1 and Series 2010B-2" in the aggregate principal amount not to exceed $14,200,000 (individually, the “Series B-1 Bonds”, the “Series B-2 Bonds” and collectively, "Bonds");

(c) Approving a loan of Bond proceeds to Orvieto Family Apartments, L.P., a California limited partnership (the “Borrower”), for financing a portion of the costs of constructing the Orvieto Family Apartments (the “Project”) located at 80 Montecito Vista Drive in the City of San José (the “City”);

(d) Approving in substantially final form the Series B-1 Senior Trust Indenture with Wells Fargo Bank, National Association, as Trustee (the “Trustee”), the Series B-2 Subordinate Trust Indenture with JP Morgan Chase Bank, N.A., as Bondowner Representative (the “Bondowner Representative”), the Series B-1 Financing Agreement among the City, the Borrower and the Trustee, the Series B-2 Loan Agreement among the City, the Borrower and the Bondowner Representative, Regulatory Agreement among the City, the Borrower and the Trustee, the Intercreditor Agreement among the City, the Trustee, Freddie Mac and the Bondowner Representative, the Bond Purchase Agreement among the City, the Borrower and RBC Capital Markets as Underwriter of the Series B-1 Bonds, and the Official Statement; and

(e) Authorizing the City Manager, Assistant Finance Director, Director of Housing or their designees to execute and, as appropriate, to negotiate, execute and deliver these bond documents and other related bond documents as necessary.

(f) Authorizing the Director of Housing, to negotiate and execute an agreement with the City of San José Financing Authority (the "Authority") related to the groundlease revenues of the Project and ultimate disposition of the Project improvements and the Site.

Adoption of a resolution of the City of San José Financing Authority Board (the "Authority Board"):

a) Repealing Resolution No. 93 of the Authority Board adopted on November 17, 2009;

b) Authorizing the Executive Director of the Authority, or designee, to acquire the Project site (the "Site") from the Borrower and, with the Director of Housing, negotiate and execute a ground lease of the Site back to the Borrower for a term of up to 99 years with such other terms to be negotiated by the Executive Director of the Authority and the Director of Housing.

c) Authorizing the Executive Director of the Authority and Director of Housing to negotiate and execute an agreement with the City related to the ground lease revenues from the Project and the ultimate disposition of the Project improvements and the Site.

OUTCOME

Approval of the recommended actions will allow for the issuance of multifamily housing revenue bonds for the purpose of financing a portion of the costs of constructing 92 one-, two- and three-bedroom family apartment units, 91 of which will be affordable for 55 years, with 1 unrestricted manager's unit.

EXECUTIVE SUMMARY

In accordance with the requirements under the City's Policy for Issuance of Multifamily Housing Revenue Bonds, ROEM Development Corporation (the "Developer") has requested that the City issue tax-exempt multifamily housing revenue bonds for the purpose of lending the bond proceeds to Orvieto Family Apartments, L.P. (the "Borrower") in an aggregate amount up to \$14,200,000. The proceeds of the loan, together with other funds, will finance a portion of the costs of constructing 92 one-, two- and three-bedroom family apartment units to be known as the Orvieto Family Apartments. The incomes for future residents are expected to range from $22,300 to $57,300.

The Bonds will be issued in two series. The Series B-1 Bonds, in the currently estimated amount of $7,760,000, will be publicly-offered fixed rate bonds secured by a credit enhancement agreement with Freddie Mac and maturing in approximately 19 years. During the Project's construction lease-up period, Freddie Mac will be secured by a letter of credit from J.P. Morgan Chase Bank ("J.P. Morgan"). The Series B-2 Bonds, in the currently estimated amount of $6,440,000, will be variable rate, draw down bonds purchased by J.P. Morgan Chase. The Series B-2 Bonds will be repaid in full in two installments from tax credit investor equity payments.

The City Council and Authority Board originally approved the issuance of bonds for the Project and a ground lease at its meeting of November 17, 2009. Due to a subsequent change in the tax credit investor and the existence of a funding gap for the Project, the bonds could not issued within the timeframe allowed by the California Debt Limit Allocation Committee ("CDLAC"). Reapplication to CDLAC was made under the current proposed structure in which the funding gap has been addressed.

BACKGROUND

Borrower. The Project's borrower, Orvieto Family Apartments, L.P., is a California limited partnership (the "Borrower"). The Borrower will consist of: (1) Eden Housing, Inc., a California non-profit affordable housing developer, or an affiliate thereof, as the Managing General Partner, (2) the Developer, or an affiliate thereof, and (3) Aegon USA Realty Advisors, or an affiliate thereof.

Project Overview. The Project involves new construction of 92 one, two and three bedroom family apartment units to be known as the Orvieto Family Apartments (the "Project"). Upon completion of the Project, 25 percent of the affordable units (23 units) in the Project will be initially rented to families with incomes that do not exceed 30 percent of the area median income ("AMI"); 15 percent of the affordable units (14 units) will be rented to families with incomes that do not exceed 45 percent of AMI; and 59 percent of the affordable units (54 units) will be rented to families with incomes that do not exceed 50 percent of AMI. One of the Project's 92 units will be an unrestricted manager's unit. The rental restrictions for the Project will remain for a period of 55 years.

City Loan for the Project. On December 16, 2008, the City Council approved an acquisition loan in the amount of $3,680,000 to acquire the subject site. In March 2009, the Borrower bought the site for $3,680,000. On May 19, 2009, the City Council took the final action needed to enable this project to obtain other financing by approving a construction/permanent loan of up to $11,228,000 for the Project. On January 21, 2010, pursuant to the Housing Director's delegation of authority, (a) the construction/permanent loan was increased by $1,200,000 to a total of

$12,428,000 and (b) accrued interest on the acquisition loan interest was capitalized to an amount of up to $164,138.

City as Issuer of Multifamily Housing Bonds. The City's Policy for Issuance of Multifamily Housing Revenue Bonds requires that if the Housing Department makes a project loan, the City must be the issuer of tax-exempt multifamily housing revenue bonds for the purpose of lending the bond proceeds to the project.

Sources of Project Funding. The Bonds will be structured as two series in the aggregate amount of $14,200,000. Bond proceeds will fund a portion of the total Project costs, which are estimated at approximately $26,882,043. The estimated sources of funding for the Project's construction/lease-up period and its permanent period are as follows:

Source	**Construction**	**Permanent**
Bond Proceeds	$14,200,000	$7,760,000
Interim Bond Paydown	(3,925,905)	--
City Loan	9,652,138	9,652,138
Accrued Interest (City Loan)	216,603	216,603
Tax Credit Equity	4,580,555	8,328,282
Interest Income	32,258	32,258
Deferred Funding of Reserves	268,394	--
Lease-Up Income	0	382,304
Deferred Developer Fee	1,858,000	510,458
Total	**$26,882,043**	**$26,882,043**

The City loan amount does not include $2,940,000 attributable to the land cost as it is contemplated that the Authority will own the land and will enter into a long-term ground lease to the Developer.

Tax credit equity funds received pursuant to a limited partnership agreement between the Borrower and Aegon USA Realty Advisors (or an affiliated entity) are anticipated to be used to fully pay the Series B-2 Bonds in two installments: (1) by an estimated $3,925,905 during Project construction and (2) by an estimated $2,514,095 following Project completion and lease-up (expected to occur by August 1, 2012). Following Project completion and lease-up, only the Series B-1 Bonds will remain outstanding.

Financing History of Project – Key Dates. On May 22, 2009, the Director of Housing submitted an application to CDLAC for an allocation of up to $14,200,000 in private activity bonds for the Project, pursuant to the Directors of Housing and Finance's Joint Authority under San José Municipal Code Section 5.06.425. On July 6, 2009, the Director of Finance, pursuant to Municipal Code Section 5.06.430, held a TEFRA Hearing to receive public comment on the City's expressed intent to issue an amount not to exceed $16,500,000 in tax-exempt multifamily housing revenue bonds to finance the construction of the Project. On July 22, 2009, the City received a private activity bond allocation of $14,200,000 from CDLAC as requested. On

November 17, 2009, the City Council approved the issuance of $14,200,000 of bonds under the July 22, 2009 CDLAC allocation, however, the bonds were never issued due to a change in tax credit investor and funding gap for the Project. On March 26, 2010, the Director of Housing re-submitted an application to CDLAC for an allocation of up to $14,200,000 in private activity bonds for the Project. On May 26, 2010, the City received the private activity bond allocation as requested based on CDLAC staff recommendation. On June 1, 2010, the Director of Finance, pursuant to Municipal Code Section 5.06.430, is scheduled to hold a new a TEFRA Hearing to receive public comment on the City's expressed intent to issue an amount not to exceed $14,200,000 in tax-exempt multifamily housing revenue bonds to finance the construction of the Project.

CDLAC will require that the bond closing for the Project occur by approximately August 24, 2010, or such later date as provided in the CDLAC Resolution adopted on May 26, 2010. It is anticipated that the Bonds will close on or about July 14, 2010.

ANALYSIS

This portion of the report is divided into several sections to address the items in staff's recommendation to proceed with the Project financing. These sections include descriptions of the Bond financing structure, Bond financing documents, the City funding, financing team participants, financing schedule, Site ownership and groundlease structure.

Bond Financing Structure

Overview of Multifamily Bond Financing

General As a brief summary, multifamily housing revenue bonds are issued to finance qualifying rental apartment projects by private developers. The City issues the bonds and then loans the proceeds to the developer/borrower. The bonds are typically issued as tax-exempt securities. The advantages of tax-exempt bonds to developers include below-market interest rates, long-term financing and low income housing tax credits – features not available in the conventional multifamily housing mortgage loan market. The Bonds are limited obligations of the City, payable solely from loan repayments by the Borrower.

Requirements for Tax-Exemption For multifamily housing revenue bonds to qualify for tax-exemption, federal law generally requires that one of two affordability restrictions must apply: either (1) at least 20 percent of the units in the housing development must be reserved for occupancy by individuals and families of very-low income (50% of area median income) or (2) at least 40 percent of the units must be reserved for occupancy by individuals and families of low income (60% of area median income). The restriction in clause (2) is expected to be incorporated into the Regulatory Agreement and Declaration of Restrictive Covenants for the Project.

Structure of the Bonds

Issuance in Two Series. The Bonds will be issued in two series. The Series B-1 Bonds will provide construction and permanent financing for the Project. The Series B-2 Bonds will provide only construction financing.

Series B-1 Bonds: Public Offering/Credit Enhancement The Series B-1 Bonds will be publicly-offered and credit-enhanced. The Series B-1 Bonds will be secured by a credit enhancement agreement from Freddie Mac. As Freddie Mac does not take construction and lease-up risk, the Borrower has arranged for Freddie Mac, during the Project's construction and lease-up period, to be secured by a letter of credit issued by JP Morgan Chase Bank. The Series B-1 Bonds will be rated "AAA" by Standard & Poor's based on its current assessment of Freddie Mac. RBC Capital Markets Corporation will underwrite and market the Series B-1 Bonds.

Series B-2 Bonds: Bank Purchase/Draw Down Bonds/Unrated The Series B-2 Bonds will be purchased directly by JP Morgan Chase Bank as draw down bonds. At issuance, only a small amount of Series B-2 Bonds proceeds will be released and held by the Trustee to fund Project costs. JP Morgan Chase Bank will purchase the Series B-2 Bonds incrementally as the Project is constructed and requests for payment have been made. Interest accrues on the B-2 Bonds only as proceeds are drawn down. The Series B-2 Bonds will not be rated.

Principal Amount and Term The Bonds will be issued as tax-exempt bonds in an aggregate amount not to exceed $14,200,000. The Series B-1 Bonds and Series B-2 Bonds are expected to be issued in the amount of $7,760,000 and $6,440,000, respectively.

The Series B-1 Bonds are expected to mature in 2019. Starting in 2013 or 2014, the Series B-1 Bonds will repay principal annually on the basis of a 35 year amortization. At maturity in 2019, the Series B-1 Bonds will have a "balloon" balance which will need to be refinanced through a new series of bonds and/or paid from another source.

The B-2 Bonds are expected to mature by August 1, 2012 and will be repaid fully in two installments from tax credit investor equity payments: (1) by an estimated $3,925,905 during construction and (2) by an estimated $2,514,095 following completion and lease-up.

The final dates, principal amounts and other financial terms for the Bonds are subject to change based on final pricing information.

Interest Rate The Series B-1 Bonds will pay a fixed interest rate, not to exceed 7.5%, through maturity. The Series B-2 Bonds will pay a variable rate that is set by formula under the B-2 Series Bond documents.

Bond Financing Documents

The following is a brief description of each document the City Council is being asked to approve and authorize the execution of. Copies of these documents will be posted to the City's agenda website on or about June 3, 2010. Staff recommends that the City's Assistant Director of Finance or other authorized officer of the City be authorized to execute the agreements on behalf of the City as described below ("Authorized Officers"). As modifications may be required prior to the closing, staff also recommends that the Authorized Officers each be authorized to execute the final version of each of these agreements and the Official Statement as may be modified upon consultation with the City Attorney's Office.

Series B-1 Senior Trust Indenture The Series B-1 Bonds will be issued under a Trust Indenture (the "Senior Indenture") between the City and Wells Fargo Bank, National Association, as the trustee (the "Trustee"). The Senior Indenture is executed by the Assistant Director of Finance, or other authorized officer on behalf of the City, and attested by the City Clerk. The Senior Indenture set forth the terms of the Series B-1 Bonds, including the interest rate, final maturity and redemption provisions. The Senior Indenture establishes various funds and accounts for the deposit of Series B-1 Bond proceeds and repayment sources. Pursuant to the Senior Indenture, the Trustee is given the authority to receive, hold, invest and disburse the Series B-1 Bond proceeds and other funds; to authenticate the Series B-1 Bonds; to apply and disburse payments to the Bondholders; and to pursue remedies on behalf of the Series B-1 Bondholders. The Senior Indenture sets forth the guidelines for the administration, investment and treatment of investment earnings generated by each fund and account, and restrictions relating to any subsequent transfer of the Bonds. The Senior Indenture provides that the Borrower will compensate the Trustee for services rendered thereunder.

Series B-2 Subordinate Trust Indenture The Series B-2 Bonds will be issued under a Subordinate Trust Indenture (the "Subordinate Indenture") between the City and JP Morgan Chase as Series B-2 Bondowner Representative (the "Bondowner Representative"). The Subordinate Indenture is executed by the Assistant Director of Finance, or other authorized officer on behalf of the City, and attested by the City Clerk. The Subordinate Indenture sets forth the terms of the Series B-2 Bonds, including the interest rate, final maturity and repayment provisions. The Subordinate Indenture establishes various funds and accounts for the deposit of Series B-2 Bond proceeds and repayment sources. The Subordinate Indenture sets forth the guidelines for the administration of each fund and account, and restrictions relating to any subsequent transfer of the Series B-2 Bonds. The Indenture provides that the Borrower will compensate the Bondowner Representative for services rendered thereunder.

Financing Agreement This agreement (the "Financing Agreement") is among the City, the Trustee and the Borrower and pertains to the Series B-1 Bonds. The Financing Agreement is executed by the Assistant Director of Finance or other authorized officer on behalf of the City. The Financing Agreement provides for the loan of the Series B-1 Bond proceeds to the Borrower for the construction of the Project and for the repayment of such loan by the

Borrower. The City's rights to receive payments under the Financing Agreement will be assigned to the Trustee, along with certain other rights under the Senior Indenture and Intercreditor Agreement; however, certain reserved rights have been retained by the City, such as the City's right to indemnification.

Loan Agreement This agreement (the "Loan Agreement") is among the City, JP Morgan Chase Bank and the Borrower, and is executed by the Assistant Director of Finance or other authorized officer on behalf of the City. The Loan Agreement provides for the loan of Series B-2 Bond proceeds to the Borrower for the construction of the Project and for the repayment of such loan by the Borrower – which repayment will be funded from tax credit equity payments. The loan will be evidenced by a Note. The interest of the City in receiving payments and other rights under the Subordinate Indenture, the Loan Agreement and the Note, will be assigned to the Bondowner Representative; however, certain reserved rights have been retained by the City, such as the City's right to indemnification.

Regulatory Agreement and Declaration of Restrictive Covenants This agreement (the "Regulatory Agreement") is among the City, the Trustee and the Borrower. The Regulatory Agreement is executed by the Assistant Director of Finance and the Director of Housing, or other authorized officers on behalf of the City. The Regulatory Agreement contains certain covenants and restrictions regarding the Project and its operations intended to assure compliance with Federal tax and State bond law requirements. The Regulatory Agreement restricts the rental of Project units (excepting one manager's unit) to low- or very-low income families for a period of 55 years.

Intercreditor Agreement This agreement (the "Intercreditor Agreement") is among the City, the Trustee, the Borrower, Freddie Mac and JPMorgan Chase Bank. This document is executed by the Assistant Director of Finance or other authorized officer on behalf of the City. The Intercreditor Agreement assigns the exclusive right to exercise all rights and remedies (other than the City's reserved rights) under the Financing Agreement and the Borrower's loan documents with JP Morgan Chase and Freddie Mac: (1) to JP Morgan Chase during the Project's construction and lease-up period and (2) to Freddie Mac at the Project's permanent phase.

Bond Purchase Agreement This agreement ("Purchase Agreement") is among the City, the Borrower and RBC Capital Markets Corporation (the "Underwriter"), under which the Underwriter will purchase the Series B-1 Bonds. The Purchase Agreement sets forth certain representations and warranties of the City and the Borrower, the documents to be executed at closing, and the conditions that may allow the Underwriter to cancel its purchase of the Bonds. This document is executed by the Assistant Director of Finance or other authorized officer on behalf of the City.

Official Statement This document is the public offering statement for the issuance of the Series B-1 Bonds. This document is executed by an authorized officer of the Borrower. The City does not execute the Official Statement. This document is prepared by the Underwriter's counsel. This document describes the terms and structure of the Series B-1 Bonds, the flow of funds, Project and the security for the Series B-1 Bonds. The City will not circulate the Official Statement until JP Morgan Chase and Freddie Mac have issued their final credit approvals. During the marketing period for the Series B-1 Bonds, the Official Statement will be issued in preliminary form. After the Series B-1 Bonds are sold, the final pricing information will be included and the Official Statement will become "final".

A copy of the draft preliminary Official Statement, in substantially final form, will be posted on the agenda website on or about June 3, 2010. If any Councilmember has any personal knowledge that any of the material information in the Official Statement is false or misleading, he or she should promptly advise City staff of the matter; City staff, bond counsel and the financial advisor will be available at the Council meeting on June 15, 2010 to address any questions, issues and/or concerns.

Financing Team Participants

The financing team participants consist of:

• City's Financial Advisor	Ross Financial
• Bond Counsel	Quint & Thimmig LLP
• Trustee	Wells Fargo Bank, National Association
• Underwriter	RBC Capital Markets Corporation

All costs associated with the Financial Advisor, Bond Counsel, Trustee and Underwriter are contingent on the sale of the Bonds and are expected to be paid from tax credit equity funds advanced at Bond closing, or another available funding source.

Financing Schedule

The current proposed schedule is as follows:

• Council Approval of Bond Documents	June 15, 2010
• Distribute Preliminary Official Statement	June 16, 2010
• Price the Series B-1 Bonds	June 23, 2010
• Pre-Close and Close Bonds	July 12 and 14, 2010
• CDLAC Deadline for Bond Closing	August 24, 2010

It is possible that requirements of an additional source of funds that the City is seeking could delay the Bond pricing and closing into August. Staff has requested up to a $525,000 grant from the State of California Department of Toxic Substances to pay for project soil remediation clean-up costs. If awarded, the City would substitute grant funds for previously-approved Low and Moderate Income Housing Funds funding this project, thereby reducing the level of City resources to be spent on the Project. A separate City Council memo will be submitted for approval to accept the grant award and will contain more details.

City Loan Commitment

On May 19, 2009, via Resolution No. 74913, the City Council approved a loan to the Borrower of up to $11,228,000 to finance a portion of the costs of constructing the Project and to provide a permanent mortgage. On January 21, 2010, under the Housing Director's delegation of authority, the construction/permanent loan was increased by $1,200,000 and accrued interest of up to $164,138 of accrued interest was capitalized.

Since the November 17, 2009 City Council meeting, the Borrower has identified the availability of State tax credits in the amount of approximately $2,000,000 as an additional funding source for the Project. This funding source is expected to be confirmed at the California Tax Credit Allocation Committee's meeting on June 9, 2010.

When the City Council originally approved the issuance of bonds for the Project on November 17, 2009, the staff report indicated that the City would not permit the issuance of bonds if a funding gap existed. At present, it does not appear that a funding gap exists.

Ground Lease of Project Site

As was approved originally by the City Council and Authority Board on November 17, 2009, the City proposes that the Authority take ownership of the Site from the Borrower and lease it to the Borrower at the time of Bond closing. This structure is proposed because the ground lease provides certain long-term benefits, as discussed below, and because the City cannot allow encumbrances on its fee interest if it takes ownership of the Site and subsequently leases the Site back to the Borrower. The senior lender has indicated that it will require a security interest in both the fee and leasehold. The Authority, by contrast, is permitted to allow encumbrances on land to which it takes title. Of the City's approved loan amount, $2,940,000 is allocable to the purchase of the unimproved Site (the amount of the acquisition loan less site infrastructure improvements), which the Borrower acquired with the City's acquisition loan funds. At the time of the Site's transfer to the Authority and the execution of the agreement between the City and the Authority, the City's loan commitment amount would then be reduced by the cost of the land.

The Authority Resolution would allow for a long-term ground lease of up to 99 years, with such shorter term as the Executive Director of the Authority and the Director of Housing are able to negotiate with the tax credit equity investor and other financial parties to the Orvieto transaction. In addition, the Authority Resolution would allow the Executive Director of the Authority and the Director Housing to negotiate terms relating to ground lease rent, annual residual payments from Project cash flow and other matters.

It is to the City's benefit for the Authority to own the land and lease it to the Project. Such benefits include the potential for long-term control of the Site, including ownership of both the land and the building at the end of the lease term, provided there is no foreclosure by the senior lender. There is also the potential for future ground lease payments as revenues to the Housing Department. Further, the City's long-term affordability restrictions will remain senior to other encumbrances with this ground lease structure—which is a superior lien position compared to the land being owned by the Borrower—so the lease enhances the City's ability to enforce long-term affordability on the Site.

EVALUATION AND FOLLOW-UP

This Memorandum presents the set of recommendations related to the City Council's approval of the issuance of the Bonds for the Orvieto Family Apartments and requires no follow-up to the City Council. Once the Bonds close, anticipated in mid-July 2010 and the construction of the Project commences, the Housing Department will provide updates in its Quarterly Production Updates to the City Council.

PUBLIC OUTREACH

- ☐ **Criterion 1**: Requires Council action on the use of public funds equal to $1 million or greater. **(Required: Website Posting)**

- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**

- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This request does not meet any of the above criteria. Instead, the method of notifying the community of the City's intent to issue tax-exempt private activity bonds is for the City Finance Department to hold a Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing. The TEFRA Hearing initially was held on July 6, 2009 and will be re-held on June 1, 2010, both times by the Director of Finance. The public hearing notice was published in the *San José Mercury News* on June 19, 2009 for the July 6, 2009 hearing and May 10, 2010 for the June 1, 2010 hearing.

COORDINATION

This report has been prepared by the Finance Department in coordination with the Housing Department and the City Attorney's Office.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *2007-2012 Five-Year Housing Investment Plan*, adopted by City Council on June 12, 2007, to increase the supply of affordable housing, and with the

City's *Consolidated Plan 2005-2010* to provide housing units for very low- and extremely low-income households. This action is also consistent with the City's Policy 1-16, Policy for the Issuance of Multifamily Bonds, which requires the City to issue tax-exempt multifamily housing revenue bonds for projects within the City limits that also have a City loan or grant commitment, with certain limited exceptions.

COST IMPLICATIONS

All costs of the Project will be paid from Bond proceeds, City loan proceeds, tax credit equity, income from operations, and deferred developer fee. Compensation for the financing team participants (financial advisor, bond counsel, and trustee), as well as the costs of the financing, are contingent on the sale of the Bonds and will be paid most likely from tax credit equity at Bond closing.

The Bonds are tax-exempt obligations secured by a first priority lien against the Borrower's leasehold interest in the 1.71-acre site located at 80 Montecito Vista Drive and the improvements thereon, a first priority lien against the Authority's fee interest in the site in favor of JP Morgan Chase Bank during the Project's construction phase and, in the case of the Series B-1 Bonds, a Freddie Mac credit enhancement agreement. No payment of the Bonds will be paid from or guaranteed through the general taxing power of the City or any other City asset.

From this Bond issuance, the City will receive an issuance fee of approximately $60,500. The City will also receive an annual fee for monitoring the Bonds and the Regulatory Agreement. Under current City policy, the annual fee is equal to one-eighth of a point (0.125%) of the original principal amount of the Bonds (approximately $17,750 per year). The total of these bond fees to be paid to the City will be approximately $380,000 over the life of the Bonds.

BUDGET REFERENCE

This section is not applicable to the issuance of Bonds requested in this staff report.

CEQA

Resolution No. 72877, Goble Lane Environmental Impact Report, file number PP09-086

/s/
JULIA H. COOPER
Assistant Director of Finance

/s/
LESLYE KRUTKO
Director, Housing Department

For questions, please contact Julia Cooper, Assistant Director of Finance at 408-535-7011.