



**REPORT TO CITY COUNCIL AND
HOUSING AUTHORITY**
City of Sacramento 20
915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org

Public Hearing
February 9, 2010

Honorable Chair and Members of the Housing Authority

Title: Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

Location/Council District: 3351 Duckhorn Drive, District 1

Recommendation: Adopt 1) a **Housing Authority Resolution** a) approving the refunding of \$6,720,000 in tax-exempt mortgage revenue bonds to refinance the project; and b) authorizing the Executive Director or her designee to execute the following documents for the refunding of the bonds: Subordinate Trust Indenture, Subordinate Loan Agreement, First Supplement to Amended and Restated Regulatory Agreement and Declaration of Restrictive Covenants, and First Supplemental Amended and Restated Trust Indenture; and 2) a **City Resolution** indicating that the City Council has conducted a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing related to the proposed refunding.

Contact: Christine Weichert, Assistant Director of Housing and Community Development, 440-1353; Jeree Glasser-Hedrick, Housing Finance Program Manager, 440-1302

Presenter: Bernadette Austin, Housing Finance Analyst

Department: Sacramento Housing and Redevelopment Agency

Description/Analysis

Issue: The Reliant Group ("Developer") has submitted a request to the Sacramento Housing and Redevelopment Agency ("Agency") for the refunding (refinancing) of \$6,720,000 of outstanding tax-exempt mortgage revenue bonds on The Loft at Natomas Apartments ("Project") located at 2900 Duckhorn Drive. The Project is a mixed-income development in Natomas consisting of 188 units, of which 20 percent are restricted to very low-income households and 80 percent are market rate units.

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

The Housing Authority of the City of Sacramento issued the original bonds in 2002. These bonds restrict the affordability on the very low-income units until 2057. However, a portion of the bonds issued in 2002 were subject to a floating interest rate. The requested \$6,720,000 in bonds will be directly purchased by an entity affiliated with the Developer. This transaction will secure a fixed interest rate and will provide flexibility in the repayment schedule, which will preserve the long-term viability of the property. Additional background is provided as Attachment 1, a map is included as Attachment 2, and a project summary page is provided as Attachment 3.

Policy Considerations: The recommended actions are consistent with previously approved mortgage revenue bond policy. Regulatory restrictions on the property are specified in a Regulatory Agreement between the Developer and the Housing Authority of the City of Sacramento. Compliance with the Regulatory Agreement will be monitored by the Agency on a regular basis.

Environmental Considerations:

California Environmental Quality Act (CEQA): The proposed action is exempt from environmental review under CEQA Guidelines Section 15310, which exempts loans and bond financing funding mechanisms for existing structures.

Sustainability Considerations: The Project has been reviewed for consistency with the goals, policies and targets of the Sustainability Master Plan and the 2030 General Plan. If approved, the project will advance the following goals, policies and targets Goal number six – Urban Design, Land Use, Green Building, and Transportation specifically by reducing dependence on the private automobile by providing efficient and accessible public transit and transit-supportive land uses, and reducing long commutes by providing a wide array of transportation and housing choices near jobs for a balanced, healthy City.

Other: There is no federal funding associated with this project; therefore, the National Environmental Policy Act (NEPA) does not apply.

Committee/Commission Action: At its meeting of January 20, 2010, the Sacramento Housing and Redevelopment Commission considered the staff recommendation for this item. The votes were as follows:

AYES: Burruss, Chan, Dean, Fowler, Gore, Morgan, Morton, Otto, Rosa, Shah, Stivers

NOES: None

ABSENT: None

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

Rationale for Recommendation: The actions recommended in this report enable the Agency to continue to fulfill its mission to provide a range of affordable housing opportunities in the City.

Financial Considerations: This report does not request any amendments to the Agency budget. The bonds are not an obligation of the Housing Authority, the City, or Sacramento Housing and Redevelopment Agency. The bonds are solely the obligation of the project's owner and credit enhancement provider. The Agency will receive a one-time issuance fee of 0.125 percent (12.5 basis points) of the bond amount which is payable at the time of refunding. The Agency will also continue to collect an annual payment for monitoring of the regulatory restrictions and administration of the bonds, in the amount of 0.15 percent (15 basis points). This fee is payable in advance in equal semi-annual installments.

M/WBE Considerations: The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully Submitted by: 
LA SHELLE DOZIER
Executive Director

Recommendation Approved:


RAY KERRIDGE
City Manager

Table of Contents

Report	pg. 1
Attachments	
1 Background	pg. 4
2 Map	pg. 6
3 Summary Page	pg. 7
4 Housing Authority Resolution	pg. 8
5 City Resolution	pg. 11

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

Attachment 1

Background

The Lofts at Natomas Apartments (“Project”) is a mixed-income project located at 3351 Duckhorn Drive in North Natomas. The Project consists of 188 units, of which 20% are restricted to very low-income households and 80% are market rate units. The Project originally included 37 units, which fulfilled a portion of the City inclusionary housing requirement for Alleghany Properties. The Housing Authority of the City of Sacramento issued the original bonds in 2002, and these bonds restrict the affordability on the very low-income units until 2057. The project has been operating without incident over the last seven years and is in good physical condition.

The Reliant Group (“Developer”) acquired the Project in July 2009. In this transaction, \$3,030,000 of the original bond debt was paid off, and \$21,490,000, the remaining balance of the financing, was assumed by the Developer. Of the amount that was assumed, \$14,770,000 was credit enhanced by Fannie Mae and collateralized based on the property value. The remaining \$6,720,000 in bond proceeds were enhanced by a letter of credit issued by Wells Fargo and secured by cash collateral provided by the Developer.

The Developer has submitted a request to the Agency for the refunding (refinancing) of \$6,720,000 of outstanding floating-rate tax-exempt mortgage revenue bonds on the Project. This refunding will allow the Developer to secure a new loan for the balance of \$6,720,000 with an entity affiliated with the Reliant Company. The transaction will result in a fixed interest rate and a more flexible residual receipt repayment schedule. By stabilizing the interest rate of the permanent debt and providing flexibility to the repayment schedule, the long-term viability of the property will be preserved, providing adequate resources to sufficiently fund operating expenses, resident services, and replacement reserves. Approval of this refunding request will allow this successful mixed-use multifamily housing property to continue operations for the life of the project.

The Reliant Group was formed in 1992 and specializes in acquiring bond and tax credit financed affordable multifamily apartment communities. Reliant has purchased over 8,000 units of affordable and market rate multifamily housing across the country, including properties in Citrus Heights and Sacramento. Over the past 17 years Reliant has acquired over \$1.5 billion of real estate and loan assets, and an additional \$550 million of debt has been purchased from a variety of private sellers, banks and foreign institutions.

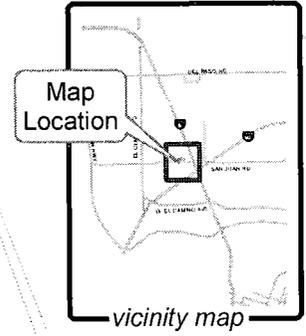
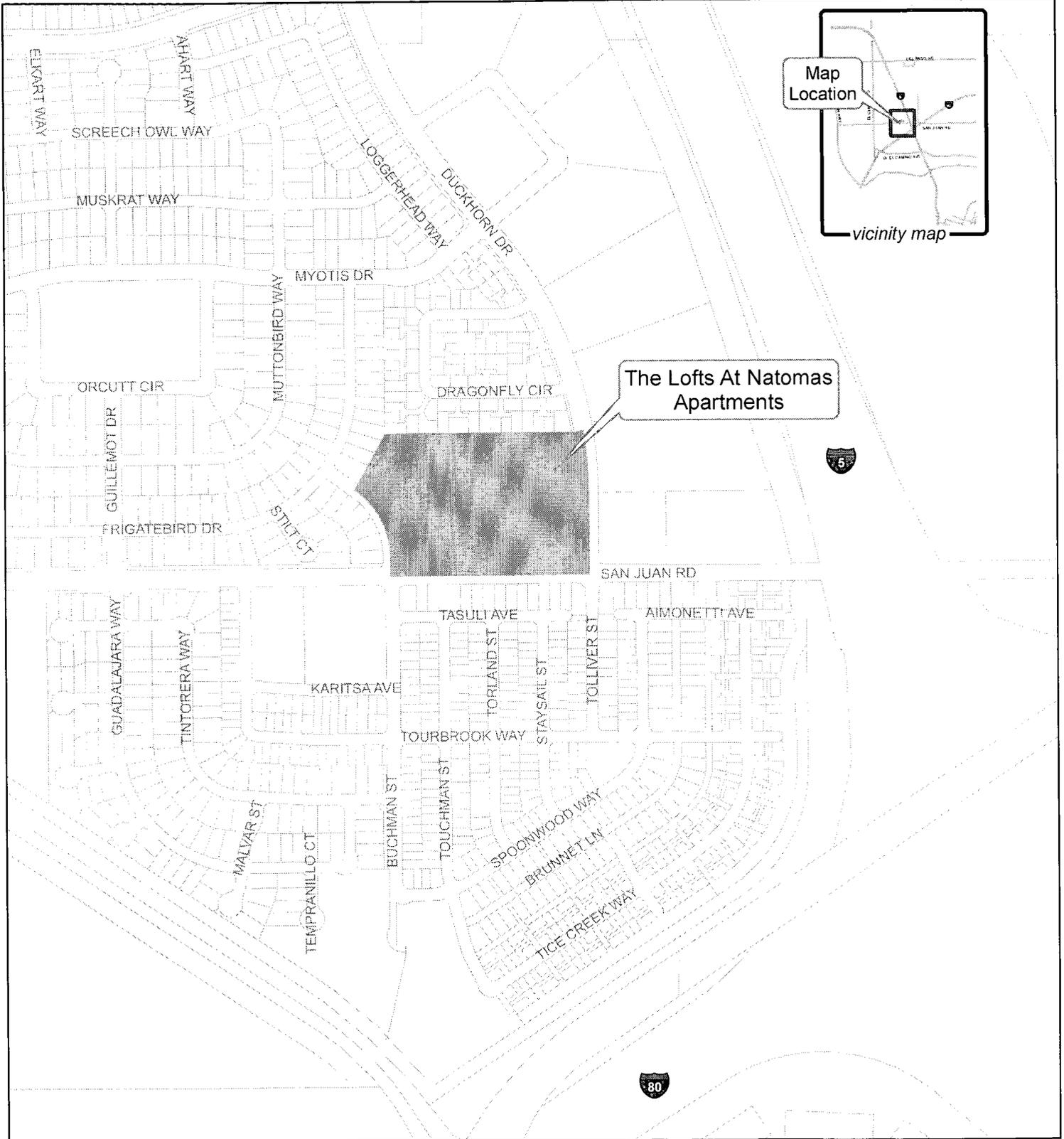
February 9, 2010

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

Agency staff has approved the current property manager FPI Management and the current resident services provider Rainbow Housing Assistance Corporation. FPI Management has been providing property management for multi-family housing for over 40 years and currently has a portfolio of 54,000 units. Within their overall inventory, FPI Management manages restricted units in a variety of low- and moderate-income programs, including the Low Income Housing Tax Credit, HUD insured mortgages, USDA, mortgage revenue bonds, and Section 8. Rainbow Housing Assistance Corporation was formed in 2002 and provides resident services for over 4,000 households living in affordable housing communities.



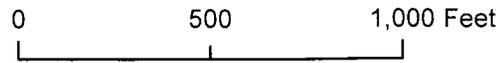
The Lofts At Natomas Apartments



The Lofts At Natomas Apartments



Project Location



SHRA GIS
January 6, 2010

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

**Summary Page
The Lofts**

Address Number of Units	3351 Duckhorn Drive, North Natomas 188		
Affordability	20% of units @ or below 50% of AMI 80% of units @ Market		
Unit Mix		<u>50% AMI</u>	<u>Market Rate</u>
1 BD/1 BA		11	95
2 BD/2 BA		28	54
Resident Facilities	Clubhouse with pool, fitness center, resident activities courts, washer/dryer hook-ups in every unit, barbeque/picnic areas playgrounds/tot lots, garages		
Bond Proceeds		<i>Per Unit</i>	<i>Per Sq. Ft.</i>
Senior Bonds	\$ 14,770,000	\$ 78,564	\$ 78.16
Subordinate Bonds	\$ 6,720,000	\$ 35,745	\$ 35.56
Total Bond Proceeds	\$ 21,490,000	\$ 114,309	\$ 113.72
Bond Comparison	<u>2002</u>	<u>2010</u>	
Bond Rate (All In)	variable rate	variable rate	fixed rate
Maturity Date	6/15/2036	6/15/2036	6/15/2036
Bond Issuance	\$24,520,000	\$14,770,000	\$6,720,000
Management			
Owner/Developer	The Reliant Group		
Property Management Company	FPI		
Letter of Credit Provided By	Fannie Mae		

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for the The Lofts at Natomas Apartments

RESOLUTION NO. 2010 -

Adopted by the Housing Authority of the City of Sacramento

on date of

**AUTHORIZING THE ISSUANCE, EXECUTION AND DELIVERY OF
SUBORDINATE MULTIFAMILY HOUSING REVENUE BONDS,
AUTHORIZING THE EXECUTION AND DELIVERY OF A
SUBORDINATE TRUST INDENTURE, A SUBORDINATE LOAN
AGREEMENT AND OTHER DOCUMENTS RELATING THERETO; AND
APPROVING OTHER ACTIONS AND MATTERS RELATING THERETO
(The Lofts at Natomas Apartments)**

BACKGROUND

- A. The Housing Authority of the City of Sacramento (the "Authority") is authorized pursuant to Chapter 1 of Part 2 of Division 24 of the California Health and Safety Code (the "Act") to issue revenue bonds and make loans for the purpose of financing and refinancing multifamily rental housing projects to be occupied in whole or in part by persons of low and very low income; and
- B. In 2002, the Authority reissued revenue bonds designated as the Housing Authority of the City of Sacramento Variable Rate Demand Multifamily Housing Revenue Bonds (The Lofts at Natomas Apartments) 2002 Issue F (the "Original Bonds") pursuant to the provisions of an Amended and Restated Trust Indenture (the "Senior Indenture"), dated as of April 1, 2003, by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Senior Trustee") and loaned the proceeds from the sale thereof to The Lofts, LP, a Nevada limited partnership (the "Original Borrower"), to finance the acquisition, construction and development of a 188-unit multifamily rental housing development located in the City of Sacramento, California and commonly known as The Lofts at Natomas Apartments (the "Project"); and
- C. The Project has been transferred to The Lofts Apartments, L.P., a California limited partnership (the "Borrower"), and the Borrower has requested that the Authority issue and sell its subordinate revenue refunding bonds hereinafter designated (the "Bonds") to provide funding for a mortgage loan (the "Loan") to be made to the Borrower to refinance the Project and redeem a portion of the outstanding Original Bonds, and to amend the Senior Indenture in connection therewith; and
- D. The Authority hereby finds and declares that this resolution is being adopted pursuant to the powers granted by the Act; and

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

- E. All conditions, things and acts required to exist, to have happened and to have been performed precedent to and in connection with the issuance of the Bonds as contemplated by this resolution and the documents referred to herein will exist, have happened and have been performed in due time, form and manner as required by the laws of the State of California, including the Act; and
- F. The proposed action is exempt from environmental review under CEQA Guidelines Section 15310, which exempts loans and bond financing funding mechanisms for existing structures and there is no federal funding associated with this project; therefore, the National Environmental Policy Act does not apply.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE HOUSING AUTHORITY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

Section 1. The Authority hereby finds and declares that the above recitals are true and correct.

Section 2. Pursuant to the Act and the Indenture (as defined below), the issuance of the subordinate revenue refunding bonds designated "Housing Authority of the City of Sacramento Subordinate Multifamily Housing Revenue Refunding Bonds (The Lofts at Natomas Apartments) Subordinate Issue 2010," in an aggregate principal amount not to exceed \$6,720,000, is hereby authorized. The Chairperson or Executive Director of the Authority, or their designee (the "Authorized Officers"), each acting alone, are hereby authorized and directed to execute the Bonds for and in behalf of the Authority by manual or facsimile signature, in the form set forth in the Indenture, with such changes, deletions and insertions as may be approved by such Authorized Officers and legal counsel to the Authority, such approvals being conclusively evidenced by the execution and delivery thereof, and the Clerk of the Sacramento Housing and Redevelopment Agency or her designee (the "Clerk") is hereby authorized and directed, if required, to attest the Bonds in said form and otherwise in accordance with the Indenture.

Section 3. The Subordinate Trust Indenture (the "Indenture") by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), in the form on file with the Clerk, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized for and in behalf of the Authority to execute and deliver the Indenture with such changes, additions or deletions as may be approved by such Authorized Officer and legal counsel to the Authority, such approvals to be conclusively evidenced by the execution and delivery thereof.

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

- Section 4. The Subordinate Loan Agreement by and among the Authority, the Borrower and the Trustee (the "Loan Agreement"), in the form on file with the Clerk, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized for and in behalf of the Authority to execute and deliver the Loan Agreement with such changes, additions and deletions as may be approved by such Authorized Officer and legal counsel to the Authority, such approvals to be conclusively evidenced by the execution and delivery thereof.
- Section 5. The First Supplement to Amended and Restated Regulatory Agreement and Declaration of Restrictive Covenants by and among the Authority, the Senior Trustee and the Borrower (the "First Supplement to Regulatory Agreement"), in the form on file with the Clerk, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized for and in behalf of the Authority to execute and deliver the First Supplement to Regulatory Agreement with such changes, additions or deletions as may be approved by such Authorized Officer and legal counsel to the Authority, such approvals to be conclusively evidenced by the execution and delivery thereof.
- Section 6. The First Supplemental Amended and Restated Trust Indenture by and between the Authority and the Senior Trustee (the "First Supplement to Regulatory Agreement"), in the form on file with the Clerk, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized for and in behalf of the Authority to execute and deliver the First Supplemental Trust Indenture with such changes, additions or deletions as may be approved by such Authorized Officer and legal counsel to the Authority, such approvals to be conclusively evidenced by the execution and delivery thereof.
- Section 7. The Bonds, when executed, shall be delivered to the purchaser thereof upon the payment of the purchase price for the Bonds.
- Section 8. All actions heretofore taken by the officers and agents of the Authority with respect to the sale and issuance of the Bonds are hereby approved, confirmed and ratified, and the proper officers of the Authority, including the Authorized Officers, are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute any and all certificates, agreements and other documents, which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Bonds in accordance with this Resolution, including but not limited to those certificates, agreements and other documents described in the Indenture, the Loan Agreement, the First Supplement to Regulatory Agreement, the First Supplemental Trust Indenture and other documents herein approved.
- Section 9. This Resolution shall take effect immediately upon its adoption.

RESOLUTION NO. 2010 –

Adopted by the Sacramento City Council

on date of

APPROVING THE ISSUANCE OF TAX-EXEMPT OBLIGATIONS AND DIRECTING CERTAIN ACTIONS

BACKGROUND

- A. The Housing Authority of the City of Sacramento (the “Issuer”) intends to issue tax-exempt obligations in a principal amount not to exceed \$6,720,000 (the “Obligations”) for the purpose of refinancing the acquisition and construction of a 188-unit multifamily housing facility located at 3351 Duckhorn Drive, Sacramento, California and commonly known as The Lofts at Natomas (the “Project”); and
- B. The Issuer is authorized by Chapter 1 of Part 2 of Division 24 of the Health and Safety Code of the State of California to issue and sell revenue refunding bonds for the purpose of refinancing the acquisition, construction and development of multifamily rental housing facilities to be occupied in part by low and/or very low income tenants; and
- C. In order for the Obligations to be considered “qualified exempt facility bonds” under Section 142(a) of the Internal Revenue Code of 1986, as amended (the “Code”), Section 147(f) of the Code requires that the “applicable elected representatives” of the area in which the Project is located hold a public hearing on and approve the issuance of the Obligations; and
- D. This City Council is the elected legislative body of the City; and
- E. A notice of public hearing in a newspaper of general circulation in the City has been published, to the effect that a public hearing would be held by this City Council regarding the issuance of the Obligations by the Issuer and the nature and location of the Project; and
- F. This City Council held said public hearing on the published date, at which time an opportunity was provided to present arguments both for and against the issuance of such Obligations and the nature and location of the Project; and
- G. It is in the public interest and for the public benefit that the City approve the issuance and delivery of the Obligations for the purpose of refinancing the acquisition and construction of the Project;

Approval of Refunding Tax-Exempt Mortgage Revenue Bonds for The Lofts at Natomas Apartments

H. The City shall not have any liability for the repayment of the Obligations or any responsibility for the Project;

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

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

Section 2 Solely for the purpose of fulfilling the requirement of Section 147(f) of the Code, the City hereby approves the issuance and delivery of the Obligations.

Section 3. This resolution shall take effect upon its adoption.