



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: March 30, 2017

Approved

Date

4/7/17

COUNCIL DISTRICT: 5

SUBJECT: APPROVAL OF THE ISSUANCE OF TAX-EXEMPT AND TAXABLE MULTIFAMILY HOUSING REVENUE NOTES AND TAX-EXEMPT BONDS, THE LOAN OF NOTE AND BOND PROCEEDS AND RELATED DOCUMENTS FOR THE VILLA DE GUADALUPE APARTMENTS

RECOMMENDATION

Adopt a resolution of the City Council:

(a) Authorizing the issuance of:

(1) a tax-exempt multifamily housing revenue note designated as "City of San José Multifamily Housing Revenue Note (Villa de Guadalupe Apartments), Series 2017A-1 (the "Series 2017A-1 Tax-Exempt Note") in a principal amount of approximately \$31,090,000;

(2) a taxable multifamily housing revenue note designated as "City of San José Multifamily Housing Revenue Note (Villa de Guadalupe Apartments), Series 2017A-2 (the "Series 2017A-2 Taxable Note" and, with the Series 2017A-1 Tax-Exempt Note, the "Series 2017A Notes") in a principal amount of approximately \$7,410,000; and

(c) tax-exempt multi-family housing revenue bonds designated as City of San José Junior Multifamily Housing Revenue Bonds (Villa de Guadalupe Apartments), Series 2017B (the "Series 2017B Tax-Exempt Junior Bonds" and, with the Series 2017A Notes, the "Series 2017 Obligations") in a principal amount of approximately \$3,404,327;

(b) Approving a loan of Series 2017 Obligations proceeds to Burnham VDG Venture LP, a California limited partnership created by Standard Property Company, a California corporation, to finance the acquisition and rehabilitation of the Villa de Guadalupe Apartments located at 2151 Plaza De Guadalupe, in San José (the "Property");

(c) Approving in substantially final form the Funding Loan Agreement, Borrower Loan Agreement, Junior Indenture of Trust, Junior Loan Agreement, Junior Bond Purchase Agreement, Regulatory Agreement and Declaration of Restrictive Covenants and Junior Bond Purchase Agreement (the "Series 2017 Obligation Documents"); and

(d) Authorizing and directing the City Manager, Director of Finance and Director of Housing, or their designees, to execute and, deliver the Series 2017 Obligation Documents and related documents as necessary.

OUTCOME

Approval of the recommended actions will enable the issuance of multifamily housing revenue obligations for the purpose of financing the acquisition and rehabilitation of an existing 101-apartment rental property, all of which are and will continue to be affordable for an additional period of at least 55 years, except for one manager's unit. This Property serves and will continue to serve low- and very low-income families with current annual incomes up to \$53,580 for an assumed family size of up to two people.

EXECUTIVE SUMMARY

In accordance with the City's Policy for Issuance of Multifamily Housing Revenue Bonds, Standard Property Company, a California corporation (the "Developer"), has requested that the City issue a tax-exempt multifamily housing revenue note ("Series 2017A-1 Tax-Exempt Note"), a taxable multifamily housing revenue note ("Series 2017A-2 Taxable Note"), and tax-exempt junior multifamily housing revenue bonds ("Series 2017B Tax-Exempt Junior Bonds").

The issuance of the Series 2017 Obligations is subject to two not to exceed limitations. The first is that the aggregate amount of the Series 2017A Notes may not exceed \$38,500,000. The second limitation is that the aggregate principal amount of the Series 2017A-1 Tax-Exempt Note and the Series 2017B Tax-Exempt Junior Bonds may not exceed \$38,500,000. The total amount of tax-exempt and taxable notes/bonds outstanding during the acquisition/rehabilitation period will likely exceed \$38,500,000, but at conversion to permanent funding total tax-exempt notes/bonds outstanding will not exceed \$38,500,000, and no Series 2017A-2 Taxable Notes will remain outstanding.

The Series 2017A Notes will be funded and initially purchased by Citibank, N.A. ("Citi"). The Series 2017B Tax-Exempt Junior Bonds will be purchased by a special purpose entity created by the Seller, Standard Guadalupe Venture LP, a California limited partnership formed by the Developer ("Standard Guadalupe").

The proceeds of the Series 2017 Obligations will be loaned to Burnham VDG Venture LP, a California limited partnership (the "Borrower") formed by the Developer. These proceeds, together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of an existing 101-apartment rental housing complex (the "Project") known as Villa de Guadalupe Apartments (the "Property"). This financing is intended to ensure the Property's long-term physical and economic viability and, in so doing, enable it to lengthen the period for which it will be an affordable housing resource for the City's residents. **The Series 2017 Obligations will not be paid from or secured by the general taxing power of the City or any other City asset.** The City has no loan with respect to the Property.

BACKGROUND

The Developer has requested the City to issue the Series 2017 Obligations for the purpose of lending Series 2017A Notes proceeds to the Borrower. The transaction involves the acquisition and rehabilitation of 101 one-bedroom rental apartments. Upon completion of the Property's rehabilitation:

- 11 apartments (11 percent) will continue to be rented to households with incomes up to 50 percent of the area median income ("AMI"), with current incomes up to \$44,650 for a 2-person family in a one-bedroom apartment, with the limit varying by household size;
- 89 apartments (89 percent) will continue to be rented to households with incomes up to 60 percent of AMI, with current incomes up to \$53,580 for a 2-person family in a one-bedroom apartment, with the limit varying by household size; and
- One apartment will continue to be restricted for a resident manager.

Borrower. The Borrower is a California limited partnership. The Borrower will consist of: (1) Housing on Merit VI, LLC, a subsidiary of the Developer, as Managing General Partner, (2) Burnham VDG Manager L.P., a California limited partnership as Administrative General Partner, and (3) Aegon Asset Management, or an affiliate thereof, as the tax credit investor limited partner.

The Developer has requested that the City issue the Series 2017 Obligations for the purpose of lending Series 2017A Obligation proceeds to the Borrower. The proceeds of the Series 2017 Obligations, together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of the Property.

The Property is currently owned by Standard Guadalupe which will create a special purpose entity to purchase to the Series 2017B Tax-Exempt Junior Bonds. Standard Guadalupe purchased the Property in December 2013. The Property, originally built in 1981, consists of three interconnected residential buildings. The Borrower will be acquiring the Property to recapitalize it and to provide funds for its rehabilitation. The Borrower can qualify for new tax-exempt financing and a new allocation of Low Income Housing Tax Credits – the major sources of funding for acquisition and rehabilitation of existing affordable multifamily properties.

Scope of Work. The current scope of Property rehabilitation is intended to: (a) upgrade major building systems that have become obsolete, (b) reduce operating and maintenance expenses, (c) improve energy efficiency and, (d) improve the safety, functionality, accessibility of the apartments and common areas. Improvements will be made to the:

- Site – failed asphalt repair, slurry seal and restripe; site-wide tree condition assessment and trimming; landscaping improvements resulting in beautification and maintenance and expense savings; sewer line assessments and repairs; new monument and property signage.
- Structure – dry rot repairs; roofing system repair and replacement; complete exterior paint; replacement of windows and sliders.

- Common areas – lobby/entrance and management office re-design; community center upgrades; laundry facility improvements; complete elevator system modernization.
- Electrical – exterior and interior lighting improvements; replace existing generator; fire alarm upgrades.
- Mechanical and Plumbing – remove and replace 101 electric water heaters and through-wall air conditioners.
- Interiors/Finishes – for all units, replace ranges, refrigerators, disposals, kitchen/ bathroom sinks, counter tops, and cabinets; install new flooring, energy efficient light fixtures, new door locks, window coverings and bathroom exhaust fans; paint all walls and ceilings.
- Accessible Units – reconfigure and update 10 units to be ADA-compliant.

This rehabilitation work will take approximately nine months in total. All in-unit rehabilitation will take approximately 5 to 10 days per unit, with tenants having overnight access to their units daily. All units will remain functional with no interruption in service during the rehabilitation. Therefore, the Property rehabilitation will not necessitate the temporary relocation of existing tenants.

Housing Assistance Payment Contract. The Property is currently 100% occupied. A project-based Housing Assistance Payment (HAP) contract from the U.S. Department of Housing and Urban Development covers 100% of the apartments. The term of the HAP contract will be extended prior to the issuance of the Series 2017A Notes and Series 2017B Tax-Exempt Junior Bonds. The HAP contract results in the payment of rent subsidies, which reduces the amount of rent paid by the tenants, promotes continued 100% occupancy and maximizes net operating income available to pay debt service on the Series 2017 Obligations.

No City Loan for the Property. The City has not made a loan for the Property.

City as Issuer of Multifamily Housing Bonds. The City's Policy for Issuance of Multifamily Housing Revenue Bonds (the "City's Policy") is that, with limited exceptions, it shall be issuer of any multifamily housing bonds for affordable housing properties in its authority.

Sources of Project Funding. The proceeds of the Series 2017 Obligations will fund a portion of the total project costs during the construction and permanent phases. The Series 2017A Notes will be purchased/funded by Citi and the Series 2017B Tax-Exempt Junior Bonds will be purchased by a special purpose entity created by Standard Guadalupe, the seller of the Property.

During the acquisition and rehabilitation period, the Series 2017A Notes will be variable rate and the Series 2017B Tax-Exempt Junior Bonds will be fixed rate. Following the rehabilitation of the Property and its lease-up and stabilization ("at permanent"), the Series 2017A-2 Taxable Note will be fully repaid from the tax credit equity proceeds. The Series 2017A-1 Tax-Exempt Note will have a not to exceed 3535-year term with a 35-year amortization, subject to mandatory repayment in approximately sixteen years at Citi's option. The Series 2017B Tax-Exempt Junior Bonds will have approximately a 3636-year term and will be interest only, payable quarterly,

with the potential for some principal amortization, subject to prepayment upon the sale or refinancing of the Property.

The sources of funding for the Property’s acquisition and rehabilitation phase and permanent phase are estimated as shown in the table below. These estimates include the expected initial issuance amounts of each of the Series 2017 Notes and the Series 2017B Tax-Exempt Junior Bonds.

City of San José		
Villa de Guadalupe Apartments		
Plan of Finance – Sources of Funding¹		
Source	Acquisition- Rehabilitation	Permanent
Series 2017A-1 Tax-Exempt Note Proceeds.....	\$ 31,090,000	\$ 31,090,000
Series 2017A-2 Taxable Note Proceeds.....	7,410,000	0
Series 2017B Tax-Exempt Junior Bond Proceeds.....	3,404,327	3,404,327
Tax Credit Equity.....	6,646,468	15,227,100
Deferred Developer Fee.....		5,423,969
Total.....	<u>\$ 48,550,795</u>	<u>\$ 55,145,396</u>

Financing History of the Property – Key Dates. The following are the key dates relating to the financing history of the Property:

- October 14, 2016 – The City on behalf of the Borrower applied to the California Debt Limit Allocation Committee (“CDLAC”) for a private activity bond allocation of \$38,500,000.
- October 24, 2016 – The Director of Finance held a TEFRA hearing regarding the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed \$40,000,000 to finance the acquisition and rehabilitation of the Property.
- October 28, 2016 – The Mayor certified the actions of the Director of Finance.
- December 14, 2016 – The City received a private activity bond allocation in the requested amount of \$38,500,000.
- December 14, 2016 – The Project received from the California Tax Credit Allocation Committee (“CTCAC”) an allocation of federal tax credits in the requested amount of \$1,655,567 per year, which credits will be sold in exchange for Tax Credit Equity.

¹ Estimated as of the date of this report. The actual amounts may vary from these estimates.

ANALYSIS

This portion of the report is divided into several sections to address the items in staff's recommendation to proceed with the financing for the Project. These sections describe the financing structure, financing documents, financing team participants, and financing schedule.

Financing Structure

Overview of the Multifamily Housing Financing

General. Multifamily housing financing historically has involved the issuance of tax-exempt bonds on behalf of private developers of qualifying affordable rental apartment properties. The City would issue tax-exempt bonds and loan the proceeds to the borrower, generally a limited partnership formed by the developer. The advantages of tax-exempt financing to developers include below-market interest rates and an entitlement to federal low income housing tax credits – features that are not available with a conventional multifamily housing mortgage loan. The bonds are limited obligations of the City, payable solely from loan repayments by the borrower and not by the general taxing power of the City or any other asset of the City.

The financing for the Property involves the issuance of both notes and bonds.

The Series 2017A Notes operate in a very similar manner to the Series 2017B Tax-Exempt Junior Bonds. The City Charter provides that the City may issue revenue bonds and execute and deliver revenue notes pursuant to California law. The City is authorized to issue the Series 2017A Notes pursuant to California Health and Safety Code Sections 52075-52098, as amended (the "Act"), which authorize cities to issue revenue bonds and execute and deliver revenue notes for the purpose of financing the acquisition and rehabilitation of multifamily rental housing. Section 52011 of the California Health and Safety Code defines "Bonds" to include notes for purposes of the Act.

The Series 2017A-1 Tax-Exempt Note, along with the Series 2017B Tax-Exempt Junior Bonds, use a portion of the State's federal tax-exempt private activity cap allocated by CDLAC. The Series 2017A-1 Tax-Exempt Note and Series 2017B Tax-Exempt Junior Bonds also allow the Property to qualify for tax credits provided through CTCAC.

The note financing structure is being utilized because of a ruling of the Office of the Comptroller of the Currency ("OCC") that seemed to distinguish loans from bonds for purposes of counting maximum Community Reinvestment Act ("CRA") credit. OCC is said to treat tax-exempt bond financing activity as an investment rather than as a loan for CRA purposes. For the past several years, banks have been utilizing the note financing approach on the belief that it meets OCC's definition of a CRA loan as well as CDLAC's requirements for tax-exempt financing.

The Series 2017 Obligations are limited obligations of the City, payable solely from loan repayments by the Borrower and are not secured by the general taxing power of the City or any other asset of the City.

Requirements for Tax-Exemption. For a multifamily housing revenue note or bond to qualify for tax-exemption, federal law generally requires that one of two restrictions must apply: either (1) at least 20% of the apartments in the housing development must be reserved for occupancy by individuals and families whose income is 50% or less of area median income or (2) at least 40% of the apartments must be reserved for occupancy by individuals and families whose income is 60% or less of area median income. The second restriction will be incorporated into the Regulatory Agreement for the Series 2017 Obligations.

Structure of the Series 2017A Notes

Direct Purchase/Funding Structure. The Series 2017A Notes will be structured as non-rated and non-credit-enhanced obligations that are directly purchased/funded by Citi as the initial purchaser/lender. Pursuant to the City's policies regarding non-credit-enhanced Notes, Citi will sign an Investor Letter acknowledging that it is a "qualified institutional buyer" or an "accredited investor" – that is, a large institutional investor who understands and accepts the risks associated with unrated note secured solely by the Property rents. If Citi wishes to transfer either of the Series 2017A Notes, the new Series 2017A Note holder must sign and deliver a similar Investor Letter to U.S. Bank National Association as the fiscal agent. Minimum denominations of each Series 2017A Note will be \$100,000.

Principal Amounts and Terms. Based on current projections, the Series 2017A-1 Tax-Exempt Note is anticipated to be issued in the approximate amount of \$31,090,000 and the Series 2017A-2 Taxable Note is anticipated to be issued in the amount of \$7,410,000. After the Property is rehabilitated and leased up, and conversion to the permanent loan phase occurs (the "Conversion Date"), the principal balance of the Series 2017A-2 Taxable Note is expected to be paid down in full with tax credit equity funds. The Conversion Date is anticipated to be in approximately 9 months after Note closing. The maturity of the Series 2017A-1 Tax-Exempt Note is anticipated to be 33 years after the Closing Date. The maturity of the Series 2017A-2 Taxable Note is anticipated to be 3 years after Closing Date. Principal of the Series 2017A-1 Tax-Exempt Note remaining on the Conversion Date will amortize on a 35-year basis commencing on the Conversion Date. If the Series 2017A-1 Tax-Exempt Note remains outstanding at maturity, the Borrower will need to refinance or repay from other sources any principal that has not been amortized. The Series 2017A-1 Tax-Exempt Note is subject to mandatory prepayment at the option of Citi in 16 years. It is expected that Citi will require such prepayment. At such point, the Borrower will need to refinance the remaining balance of the Series 2017A-1 Tax-Exempt Note or repay the remaining balance from another funding source.

Interest Rates. During the acquisition and rehabilitation period, the Series 2017A-1 Tax-Exempt Note will pay interest only at a variable rate equal to SIFMA (the tax-exempt weekly variable rate index) plus a margin of 2.35%, and the Series 2017A-2 Taxable Note will pay interest only at a variable rate equal to 30-day LIBOR plus a margin of 2.25%.

After the Conversion Date, interest on the Series 2017A-1 Tax-Exempt Note will be paid at a fixed rate that will be set prior to the Closing Date based on a formula² and is estimated to be 5.025% based on current market conditions. After the Conversion Date, the Series 2017A-2 Taxable Note will have been repaid, and will no longer be outstanding.

Structure of the Series 2017B Tax-Exempt Junior Bonds

Direct Purchase. The Series 2017B Tax-Exempt Junior Bonds will be structured as non-rated, non-credit-enhanced, subordinate obligations that are directly purchased by a special purpose entity formed by Standard Guadalupe as the seller of the Property. The Series 2017B Tax-Exempt Junior Bonds will be paid from 5050% of the excess Property cash flow after payment of the Series 2017A Notes. Pursuant to the City's policies regarding non-credit-enhanced Bonds, Standard Guadalupe will sign an Investor Letter acknowledging that it is a "qualified institutional buyer" or an "accredited investor" – that is, a large institutional investor who understands and accepts the risks associated with an unrated note secured solely by the Property rents after payment of the Series 2017A Notes. If a Series 2017B Tax-Exempt Junior Bond purchaser wishes to transfer the Series 2017B Tax-Exempt Junior Bonds, the new Series 2017B Tax-Exempt Junior Bondholder must sign and deliver a similar Investor Letter to U.S. Bank National Association as the trustee. The 2017B Tax-Exempt Junior Bonds can only be transferred in whole.

Multifamily housing transactions for acquisition-rehabilitation projects often involve subordinate seller carryback financing as a funding source. Generally, such seller carryback financing is provided directly to the borrower on a taxable basis. The Series 2017B Tax-Exempt Junior Bonds, in substance, operate in a similar fashion to the more traditional form of seller carryback financing. By issuing through the City, interest on the Series 2017B Tax-Exempt Junior Bonds will be tax-exempt. The tax-exempt interest provides an additional benefit to the Property that is needed to offset a reduction in tax credit pricing recently caused by the proposed tax policies.

Principal Amounts and Terms. Based on current projections, the Series 2017B Tax-Exempt Junior Bonds are anticipated to be issued in the amount of \$3,404,327.

The maturity of the Series 2017B Tax-Exempt Junior Bonds is approximately 36 years after the anticipated Closing Date. The Series 2017B Tax-Exempt Junior Bonds will pay interest only on a quarterly basis through maturity. There may be some principal amortization. At the earlier of maturity, sale of the Property or its refinancing, the Series 2017B Tax-Exempt Junior Bonds will become due at which point, the Borrower will need to refinance the outstanding balance of the Series 2017B Tax-Exempt Junior Bonds or repay the outstanding balance from another funding source.

² The formula is equal to the 16 year U.S. Dollar LIBOR swap curve plus a spread of 2.25% + the annual City monitoring fee of 0.125%

Interest Rates. The interest rate on the Series 2017B Tax-Exempt Junior Bonds will equal 100% of the prevailing Applicable Federal Rate (the “AFR”), which is currently 2.788%. The Internal Revenue Service sets the AFR rate each month.

Financing Documents

The following is a brief description of each document the City Council is being asked to approve and authorize its execution. Copies of these documents will be available in the City Clerk’s Office on or about April 7, 2017.

Funding Loan Agreement. The Series 2017A Notes will be issued under a Funding Loan Agreement (the “Agreement”) among the City, Citi, as funding lender, and U.S. Bank, as the fiscal agent (the “Fiscal Agent”). The Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City, and attested by the City Clerk. Pursuant to the Agreement, the Fiscal Agent is authorized to receive, hold, invest, and disburse Series 2017A Note proceeds and other funds established under the Agreement; to authenticate the Series 2017A Notes; to apply and disburse payments to the Series 2017A Note holders; and to pursue remedies on behalf of the Series 2017A Note holders. The Agreement 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 a Series 2017A Note. The Borrower Loan Agreement (described below) obligates the Borrower to compensate the Fiscal Agent for services rendered under the Agreement.

Borrower Loan Agreement. This document (the “Loan Agreement”) is between the City and the Borrower. The Loan Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City. The Loan Agreement provides for the loan of Series 2017A Note proceeds to the Borrower for the acquisition-rehabilitation and permanent financing of the Property, and for the repayment of such loan by the Borrower. The loan will be evidenced by two notes (the “Loan Notes”) in amounts and with terms that mirror each of the Series 2017A Notes. The City’s rights to receive payments under the Loan Notes will be assigned to the Fiscal Agent, along with certain other rights under the Agreement, the Loan Agreement, and the Series 2017A Notes; however, the City has retained certain reserved rights, such as the City’s right to indemnification.

Junior Indenture of Trust. The Series 2017B Tax-Exempt Junior Bonds will be issued under a Junior Indenture of Trust (the “Junior Indenture”) between the City and U.S. Bank, as trustee (the “Trustee”). The Junior Indenture will be executed by the Director of Finance, or another authorized officer, on behalf of the City, and attested by the City Clerk. Pursuant to the Junior Indenture, the Trustee is authorized to receive, hold, invest, and disburse Series 2017B Tax-Exempt Junior Bond proceeds and other funds established under the Junior Indenture; to authenticate the Series 2017B Tax-Exempt Junior Bonds; to apply and disburse payments to the Series 2017B Junior Bondholders; and to pursue remedies on behalf of the Series 2017B Bondholders. The Junior 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 a Series 2017B Tax-Exempt Junior Bonds. The Junior Loan Agreement (described below) obligates the Borrower to compensate the Trustee for services rendered under the Junior Indenture.

Junior Loan Agreement. This document (the “Junior Loan Agreement”) is between the City and the Borrower. The Junior Loan Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City. The Loan Agreement provides for the loan of Series 2017B Tax-Exempt Junior Bond proceeds to the Borrower for the acquisition-rehabilitation and permanent financing of the Property, and for the repayment of such loan by the Borrower. The junior loan will be evidenced by a junior note (the “Junior Loan Note”) in an amount and with terms that mirror the Series 2017B Tax-Exempt Junior Bonds. The City’s rights to receive payments under the Junior Loan Note will be assigned to the Trustee, along with certain other rights under the Junior Indenture, the Junior Loan Agreement, and the Series 2017B Tax-Exempt Junior Bonds; however, the City has retained certain reserved rights, 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 Fiscal Agent/Trustee, and the Borrower. The Regulatory Agreement contains certain covenants and restrictions regarding the Property and its operations intended to assure compliance with the Internal Revenue Code of 1986. The Regulatory Agreement is executed by the Director of Finance and Director of Housing, or other authorized officers, on behalf of the City. The Regulatory Agreement restricts the rental of 100 of the Property’s apartments to low-income and very low-income residents for a period of at least 55 years.

Junior Bond Purchase Agreement. This agreement (the “Purchase Agreement”) is among the City, the Borrower, and the special purpose entity to be formed by Standard Guadalupe (the “Purchaser”). The Purchase Agreement sets forth the conditions under which the Purchaser will purchase the Series 2017B Tax-Exempt Junior Bonds. It contains certain representations and warranties of the City and the Borrower, identifies the documents to be executed at closing, and specifies the conditions that may allow the Purchaser to cancel its purchase of the Series 2017B Tax-Exempt Junior Bonds. The Director of Finance or other authorized officer will execute the Purchase Agreement on behalf of the City.

Financing Team Participants

The financing team participants for the Series 2017 Obligations consist of:

- City’s Financial Advisor: Ross Financial
- Bond Counsel: Orrick, Herrington & Sutcliffe LLP
- Fiscal Agent/Trustee: U.S. Bank National Association
- Funding Lender: Citibank, N.A.

- Series 2017B Bond Purchaser: Standard Guadalupe Venture LP³

All costs associated with the Financial Advisor, Bond Counsel, and Fiscal Agent/Trustee are contingent upon the sale of the Series 2017 Obligations and will be paid from Series 2017 Obligation proceeds, tax credit equity, and/or Borrower funds.

Financing Schedule

The current proposed schedule is as follows:

- Council Approval of Series 2017 Obligation Documents April 18, 2017
- Pre-close Series 2017 Obligations April 25, 2017
- Close Series 2017 Obligations April 26, 2017
- CDLAC Deadline for Series 2017 Obligation Closing June 12, 2017

City Funding

There is no City funding for the Property.

EVALUATION AND FOLLOW-UP

This Memorandum presents the set of recommendations related to the City Council's approval of the issuance of the Series 2017 Obligations and requires no follow-up to the City Council. Once the Series 2017 Obligations close, anticipated in late April 2017, and the acquisition and rehabilitation of the Property commences, the Housing Department will provide updates in its Quarterly Construction Reports posted at www.sjhousing.org under "Reports & Data."

PUBLIC OUTREACH

The method of notifying the community of the City's intent to issue the tax-exempt private activity Note is the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing. The TEFRA Hearing was held on October 24, 2016 with the Director of Finance. The public hearing notice for the October 24, 2016 hearing was published in the *San José Post - Record* on September 30, 2016.

This Memorandum and the Series 2017 Obligation Documents will be posted on the City's website for the April 18, 2017 meeting.

³ Standard Guadalupe will form a special purpose entity for the purchase of the Series 2017B Tax-Exempt Junior Bonds.

COORDINATION

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

COMMISSION RECOMMENDATION / INPUT

This item was not heard by the Housing and Community Development Commission, as approvals of affordable development financing do not fall under the functions, powers and duties of the Commission delineated in Section 2.08.2840 of the San José Municipal Code.

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *Consolidated Plan 2015-2020*, adopted by City Council on May 5, 2015, to provide homes for very low- and extremely low-income households; and with Goal H-2 of the City's *Housing Element 2014-2023*, adopted by City Council on January 27, 2015, to "increase, preserve, and improve San José's affordable housing stock."

COST SUMMARY/IMPLICATIONS

All issuance costs will be paid from proceeds of the Series 2017 Obligations, tax credit equity and/or Borrower funds. The Series 2017 Obligations will not be paid from, nor secured by, the general taxing power of the City or any other City asset.

City Fees

Under the City's Policy, the City charges an upfront issuance fee based on the total amount of tax-exempt and taxable obligations issued: 0.50% of the first \$10 million principal amount of such obligations and 0.25% of the remaining principal amount. Based on the currently estimated aggregate initial size of \$38,500,000 for the Series 2017A Notes and \$3,404,327 for the Series 2017B Tax-Exempt Junior Bonds, the City will receive an upfront issuance fee of \$129,761. The City will also receive an annual fee for monitoring the Property and reporting its compliance to CDLAC. Bond fees will be deposited into Fund 440.

Under the City's Policy, for for-profit sponsors, the annual fee for monitoring the Property will equal one-eighth of one percent (0.125%) of the original par of tax-exempt obligations that are issued, with a minimum fee of \$7,500. Based on this formula and an estimated \$34,494,327 aggregate principal amount of tax-exempt Series 2017 Obligations, the annual fee will be \$43,118.

The Borrower is obligated to pay this fee throughout the 55-year Regulatory Agreement term; if the Series 2017 Obligations mature or is redeemed prior to maturity, the City has the option to

HONORABLE MAYOR AND CITY COUNCIL

Subject: Villa de Guadalupe Apartments Note and Bond Issuance

March 30, 2017

Page 13

require the Borrower to prepay the annual fee due for the remainder of the Regulatory Agreement term.

CEQA

Exempt under CEQA Guidelines Section 15301, Existing Facilities (File No. PP17-028).

/s/

JULIA H. COOPER

Director, Finance

/s/

JACKY MORALES-FERRAND

Director, Housing Department

For questions, please contact Derek Hansel, Assistant Director of Finance, at (408) 535-7041.

Attachment A: Site Map

Attachment
SITE MAP

2151 Plaza De Guadalupe, San José
Council District 5

