Legislation Details (With Text)

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Title: APPROVAL OF AMENDMENTS TO LOAN AGREEMENT, PROMISSORY NOTE, DEED OF TRUST AND ASSIGNMENT OF RENTS AND RIDER, AND REGULATORY AGREEMENT (COLLECTIVELY, THE "LOAN MODIFICATION AGREEMENTS") RELATED TO AVALON COURTYARD (HOUSING AUTHORITY)

Sponsors:

Indexes:

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Attachments: 1. Avalon Loan Modification Agreement-60084990-v8

Date	Ver.	Action By	Action	Result

Report to Housing Authority

Tuesday, December 05, 2023

Consent

SUBJECT:

APPROVAL OF AMENDMENTS TO LOAN AGREEMENT, PROMISSORY NOTE, DEED OF TRUST AND ASSIGNMENT OF RENTS AND RIDER, AND REGULATORY AGREEMENT (COLLECTIVELY, THE "LOAN MODIFICATION AGREEMENTS") RELATED TO AVALON COURTYARD (HOUSING AUTHORITY)

I. SUMMARY

Housing Authority seeks approval, and requests authority to take recommended actions related to amending the current loan documents pursuant to a Loan Modification Agreement which include the current promissory note, deed of trust with assignment of rents and regulatory agreement (“**Existing Loan Documents**”) related to the property currently owned by the Avalon Courtyard, LP, a California limited partnership (“**Developer**”), with the purpose of (i) undertaking a substantial rehabilitation of the Avalon Courtyard property located at 22121 S. Avalon Boulevard (APN(s) 7335-013-011, 7335-013-018 and 7335-013-019) (“**Affordable Project**”), (ii) deepening affordability by redesignating ten (10) units to 30% of AMI, and (iii) extending affordability covenants by 25 to 55 additional years (depending on the covenants).

II. RECOMMENDATION

That the Housing Authority Board:

A. APPROVE the Loan Modification Agreement with revisions to the Existing Loan Documents through a restated and amended promissory note, restated and amended deed of trust, and a restated and amended regulatory agreement (and any necessary related documents), which are collectively the "**Loan Modification Documents**" to preserve and support the rehabilitation of the existing Affordable Project, and

B. AUTHORIZE the Chair or her designee to negotiate and execute all documents related to the loan modification for the Affordable Project in accordance with the Loan Modification Documents or as set forth herein, in a form acceptable to the Authority Counsel.

III. ALTERNATIVES

TAKE another action the Board deems appropriate.

IV. BACKGROUND

In February 2012, the Carson Housing Authority ("**Authority**") was established and executed a Transfer Agreement and accepted the housing assets of the former Carson Redevelopment Agency.

Among the housing assets received was the loan and regulatory agreement with Avalon Courtyard apartments, a low-income senior multifamily project located at 22121 S. Avalon Blvd in Carson, CA (APN(s) 7335-013-011, 7335-013-018 and 7335-013-019). The unit configurations consist of 91 one-bedroom units and 1 two-bedroom manager's unit.

In 1992, pursuant to the Disposition and Development Agreement (as amended) the Carson Redevelopment Agency loaned $5,000,000 ("**Agency Loan**") to Avalon Courtyard L.P. for the construction of Avalon Courtyard apartments. A portion of the loan was paid down during construction from a combination of first mortgage proceeds and equity. Upon issuance of the Certificate of Occupancy, the balance of the Agency Loan was $2,691,000. The current principal balance of the loan is $2,691,000 and accrued interest balance as of 6/30/2023 is $2,840,593.

The Agency Loan bears interest at 5% simple interest. The Agency Loan is secured by a deed of trust recorded in second deed position, subordinate to the first mortgage. Under the Agency Loan it receives 32.87% of residual receipts as annual loan payments and which are due and payable in full upon the sale of the Affordable Project, unless otherwise agreed to by the Authority. The Agency Loan current is due and payable in full in 2036.

As noted above, the Agency Loan is currently held by the Authority as successor to the Agency.

The Agency Loan is also supported by a regulatory agreement in favor of the Agency (the Authority as successor) whereby use and occupancy is restricted to senior very low- and low-income households. The affordable rental covenant restricts 45 units to Very Low Income and 46 Units to Low Income. The current affordability covenants in favor of the Authority expire in 2055. The project has also tax credit affordability covenants from its original tax credit financing which covenants expire in 2025.

Avalon Courtyard turns 30 years old in 2025. The Sponsor (Thomas Safran & Associates) has secured a very competitive award of tax-exempt bonds and 4% federal tax credits to finance the substantial rehabilitation of the Affordable Property and the extension and preservation, with added deepened affordability provisions, of the existing affordable rent restrictions.

The request outlined below for the Board's consideration will result in (i) added affordability, (ii) more than $6,000,000 of capital improvements to the community, and (iii) extend affordability through 2079-2080.

Summary of the Loan Modification Documents

A. Regulatory Agreement: The Developer's request is to amend and restate the regulatory agreement to:

1. Extend affordability rent restrictions from expiring in approximately 2055 to 2080 (an additional 25 years of affordability), and
2. Reduce the 45 current HCD Very-Low-Income Units to 35 HCD Very-Low-Income Units, with the 10 re-designated units becoming 30% AMI TCAC Extremely-Low-Income Units (deeper affordability), and
3. Subordinate affordability restrictions to the Freddie Tax Exempt First Mortgage.
4. Proposed Amended Affordability Extensions. The amended affordability in favor of the Authority and new TCAC and CDLAC affordability restrictions would be as follows:
    - Carson Housing Authority
        - Ten (10) TCAC 30% AMI ELI Units (new/deepened affordability)
        - Thirty-five (35) HCD 50% AMI VLI Units
        - Forty-six (46) HCD 60% AMI LI Units
    - TCAC/CDLAC
        - 10% of the units at 30% AMI (TCAC) (new)
        - 10% of the units at 50% AMI (TCAC)
        - 80% of the units 60% AMI (TCAC)
    - Note that except for 30% AMI Units, Authority rent levels are more restrictive rents.

B. Other Loan Documents:

1. Allow a transfer by Developer to an affordable housing entity to allow a tax credit entity which will be related to Developer.
2. Allow for a "No-Cash-Out" sale, whereby the entirety of the outstanding Authority principal and accrued interest is assumed by the Buyer. This request is consistent

with the "No Net Project Equity" CDLAC/CTCAC requirements, which permit an Exit Tax payment to the Investor Limited Partner, in accordance with CDLAC/CTCAC scoring requirements.

3. Increase the interest rate from 5% simple interest not to exceed 7% simple interest moving forward.

4. Extend the loan maturity date from 2036 to 2080.

5. Post loan closing: maintain Authority's share of Net Capital Proceeds at 100%: the Authority receives 100% of Net Capital Proceeds after repayment of first mortgage and transaction costs.

6. Maintain the Authority's Residual Receipts Percentage at 32.87%.

7. Modify Residual Receipts/Net Cash Flow calculation to allow CDLAC & CTCAC permitted developer fee to be paid prior to the residual receipts' calculation.

8. Subordinate the Revised Loan Documents to the Freddie Max Tax-Exempt First Mortgage (17-year term, 40-year amortization).

9. Any other technical adjustments which may be required or deemed appropriate by the Authority Counsel.

C. Summary of CDLAC/CTCAC Sources and Uses at application are as follows:

Category	**Item**
"No-Cash-Out" Sale / Acquisition	$14,289,748
Transaction Costs	$1,737,307
Capital Improvements/Rehabilitation	$6,104,409
Capital Improvements/Rehabilitation Contingency	$661,924
Reserves	$367,737
Temporary Relocation	$460,000
Soft Costs	$1,070,560
Soft Cost Contingency	$278,147
Developer Fee	$1,981,467
Total	**$25,951,299**

V. FISCAL IMPACT

There is no fiscal impact to the Authority from this transaction. The residual receipts percentage for the Authority remains the same, the nominal interest rate increases from 5% to not more than 7% simple interest, and the term of the loan is extended by 44 years (from 2036 to 2080). The Authority will benefit from deeper affordability at lower income levels with respect to 10 units. In return, the Authority is asked to approve the new entity assuming the loan on a "no cash out" basis, and the Authority is asked to subordinate its loan to a new Freddie Mac Tax-Exempt First Mortgage loan.

VI. EXHIBITS

1. Loan Modification Agreement (with attachments) (pgs. 5-97)

1.

Prepared by: John S. Raymond, Assistant City Manager