File #: 2022-514, **Version:** 1

Report to Housing Authority

Tuesday, June 21, 2022

Consent

SUBJECT:

CONSIDER ADOPTION OF RESOLUTION NO. 22-08-CHA TO EVALUATE AFFORDABLE HOUSING PROJECTS OWNED AND OPERATED BY ENTITIES CONTROLLED BY THOMAS SAFRAN AND ASSOCIATES TO REFINANCE AND REHABILITATE VILLAGGIO I AND II AND EXTEND THE MATURITY DATES OF THE LOANS; AND INCREASE RENT SUBSIDY FOR AVALON COURTYARD PROJECT (HOUSING AUTHORITY).

I. SUMMARY

Thomas Safran and Associates ("Developer") has presented a proposal to refinance and rehabilitate the two affordable housing projects known as Villaggio Senior Apartments (also referred to as Villaggio I, as well as Villaggio II, jointly referred as the Villaggio Properties). Another aspect of the proposal is for the Developer to rehabilitate and increase the amount of rent subsidy at the Avalon Courtyard project. Staff recommends the Housing Authority to adopt Resolution No. 22-08-CHA to carry out the required controlling documents to start the refinance process (Exhibit No. 1). The Developer proposes to use HUD Section 223(f) loans to concurrently fund capital improvements, replenish replacement and operating reserves, and extend Avalon Courtyard rental subsidies.

The approval of Resolution No. 22-08-CHA is sufficient authority for the Developer to pursue the refinancing of the loans with CalHFA and the private lender, and to secure new HUD-backed financing on the terms described in the resolution. Amendments to the Housing Authority agreements will likely be required if the Developer is successful obtaining new financing.

II. RECOMMENDATION

TAKE the following actions:

1. WAIVE further reading and **ADOPT** Resolution No. 22-08-CHA of the Carson Housing Authority, "A RESOLUTION OF THE CARSON HOUSING AUTHORITY MAKING CERTAIN FINDINGS AND AUTHORIZING STAFF TO PROCEED TO EVALUATE AFFORDABLE HOUSING PROJECTS OWNED AND OPERATED BY ENTITIES

CONTROLLED BY THOMAS SAFRAN & ASSOCIATES (TSA) WITH RESPECT TO (I) THE REFINANCING AND REHABILITATION OF TWO (2) AFFORDABLE HOUSING PROJECTS COMMONLY KNOWN AS VILLAGGIO I SENIOR APARTMENTS (AKA GRACE HOUSING) AND VILLAGGIO II SENIOR APARTMENTS (JOINTLY VILLAGIO PROPERTIES); (II) EXTEND THE MATURITY DATES OF THE LOANS; AND (III) INCREASE RENT SUBSIDY FOR AVALON COURTYARD PROJECT; AND AUTHORIZING THE EXECUTIVE DIRECTOR TO NEGOTIATE ANY AND ALL DOCUMENTS TO EFFECT THE PROPOSED REFINANCING WHICH SHALL BE PRESENTED TO THE BOARD FOR APPROVAL."

2. AUTHORIZE the Executive Director to negotiate any and all documents to effect the proposed refinancing which shall be presented to the board for approval.

III. ALTERNATIVES

TAKE any action the Board deems necessary.

IV. BACKGROUND

On September 28, 2021 the Developer requested approval to refinance and rehabilitate the three affordable housing projects described above to modify the rate and term of the current loans using HUD Section 224(f) financing to facilitate capital improvements and generate capital that can be used to extend the rental subsidies needed for Avalon Courtyard. The proceeds generated from the Villaggio properties will help support the refinancing of the Avalon Courtyard.

The Developer acquired, developed and now operates a 92-unit affordable housing project located at 22121 South Avalon Blvd. (Avalon Courtyard) pursuant to a disposition and development agreement entered into in 1992, which was amended twice. Through these amendments, the Carson Redevelopment Agency (Former RDA) provided a $5,000,000 loan bearing 5% simple interest and payable from 32.85% of the residual revenue receipts, with a current loan balance of $2,681,000. The Authority loan is subordinate to the first mortgage with Prudential with a remaining balance of $1,695,000. The Carson Housing Authority (Authority) is the successor in interest to the Former RDA.

Developer also developed another affordable project at 555 East Carson Street in 2 phases with the first phase consisting of 84 senior units (Villaggio I) and the second phase consisting of 65 family units (Villaggio II). The following provides a summary of these projects:

Villaggio Properties

As a part of the development of Villaggio I, the Former RDA provided a loan in the original amount of $4,123,756 bearing 3% simple interest payable from 50% of the residual receipt revenue. This loan matures on September 1, 2037 (Villaggio I loan) and is subordinate to a CalHFA loan in the amount of $3,058,372 (Villaggio I CalHFA loan).

As part of the development of Villaggio II, the Former RDA provided a loan in the original amount of $2,611,587 bearing 3% simple interest payable from 50% of the residual receipt revenue. This loan matures on September 1, 2039 and was amended to add $750,000 to the loan (Villaggio II loan) and is subordinate to a CalHFA loan in the amount of $3,804,582.00 (Villaggio II CalHFA loan.)

Refinancing Proceeds - CalHFA loans will be refinanced with a HUD-insured 223(f) first mortgage. After repayment of the loans and fees approximately $3,058,372 (Villaggio I) and $3,712,500 (Villaggio II) will be generated. The new loan amount will increase by approximately $7,750,000. The proceeds will be reinvested back into the projects. The Developer is proposing to use $3.5 million for capital improvements and $1.5 million for replacement and operating reserves. The remaining proceeds would be used to pay off a portion of the Authority loans in the amount of $1.75 million will be paid to Authority to reduce the existing loan.

Controlling Documents

The Authority loans and regulatory agreements for both Villaggio Properties are subordinate to the CalHFA deed of trust on each project. The Developer is requesting that Authority subordinate to the new 35-year HUD 223(f) loans. As part of the subordination, Developer is requesting that the affordability covenants detailed in the regulatory agreements remain subordinate to the senior lender and that the loan maturity dates be extended by an additional 36 years. It should be noted that they are not requesting that the term of affordability be extended past the current 40-year term. In addition, there is no proposed change in the affordability limits. The Developer is proposing this structure to increase competitiveness for a future tax credit award. They are also requesting that the Authority modify the existing interest rates on the loans from 3% simple interest to 1% simple interest.

Avalon Courtyard

Refinancing Proceeds - The Prudential loan will be refinanced with a HUD-insured 223(f) first mortgage loan to increase the new loan by $3,850,000. With the proceeds generated, TSA is proposing to use approximately $3,000,000 million for capital improvements and $850,000 for replacement and operating reserves. None of the proceeds generated from the refinance will go back to the Developer.

Controlling Documents

The Authority loan and regulatory agreement for Avalon Courtyard is subordinate to the Prudential deed of trust. The Developer is requesting that Authority subordinate to the new 35-year HUD 223(f) loan. Similar to the Villaggio Properties, the Developer is requesting that the affordability covenants detailed in the regulatory agreements remain subordinate to HUD and that the loan maturity dates be extended by an additional 35 years. It should be noted that they are not requesting that the term of affordability be extended past the current 55-year term. MGP of Villaggio is the current managing general partner and the Developer would like to change to Housing Corporation of America. The more notable requests involve approving an additional 15 years of project based rental subsidies, amending the rental restrictions, and modifying the residual receipt calculation. TSA is proposing that the repayment of the Villaggio Properties' loans in the amount of $1.75

million be rolled over to the Avalon Courtyard project in the form of a project-based subsidy.

Rental Subsidies

There are currently 11 units that receive Housing Choice Vouchers (“HCV”) from the Housing Authority of the County of Los Angeles. Section 8.4 of the DDA establishes a Senior Citizen Rental Assistance Program that provides rental subsidies to the units not covered by HCV. The subsidy program is set to expire in 2025 and the Developer is proposing that the term be extended by 15 years to 2040. Furthermore, they are requesting that the $1.75 million in proceeds generated by the Villaggio refinancing be reinvested into this project to finance the additional 15 years of rental subsidies.

Rental Restriction Amendments

The Developer has asked to modify the affordability limits on the HCV units upon expiration of the rental subsidy. Currently, the units are designated as follows: 9 low-income units and 2 very low-income units. The DDA calls for all 91 units to be restricted to Health and Safety Code (“HSC”) rents detailed in Section 50053. HSC rents set very low-income units at 50% AMI and low-income units at 60% AMI. The project was also financed with federal tax credits (“TCAC”), which also restricts the rents. Typically, HSC rents are lower than TCAC rents and a developer/operator will use the lesser of the two rents. The Developer is requesting that when HCV-holder residents move out of a unit that they be allowed to lease the unit to new tenants using the TCAC 60% AMI rents instead of the HSC rents. Current residents would continue to pay the lower HSC rents.

Residual Receipt Modifications

As currently defined in Section 2.6.i of the DDA, “Positive Net Cash Flow” (otherwise known as residual receipts) does not allow for the deduction of partnership management fee. The Developer is requesting that a fee in the amount of $12,500 escalating annually at the same rate as the rental rate increase. The new $12,500 fee would replace the current limited partner audit fee and base partnership management fee, which are $2,500 and $5,000 per year, respectively. According to 2019 and 2020 audited financial statements for Avalon Courtyard that the Developer provided, the current limited partner audit fee and base partnership management fee do not increase annually.

Staff is recommending the approval of refinancing to effectuate Avalon Courtyard and Villaggio I and II to new senior loans and to amend and subordinate the existing loans. RSG Consultants (“RSG”) has been retained by the Authority to advise staff with respect to documentation and requirements to complete the refinancing of the loans for these projects. All documents relating to the refinance will be reviewed by the City Attorney’s office for accuracy and completeness.

V. FISCAL IMPACT

There will be no fiscal impact directly to the Housing Authority. These developments subsidize affordable housing in the City without using City funds. The funds generated from the refinance will be allocated to Avalon Courtyard in the amount of $3,000,000 for capital improvements and $850,000 for replacement and operating reserves. Villaggio I and II generated funds allocated in the amount of $3,500,000 for capital improvements, $1,500,000 replacement and operating reserves; and $1,750,000 will be paid to reduce existing loan. Total funds generated for both projects totaling $11,600,000.

VI. EXHIBITS

1. Resolution No. 22-08-CHA (pgs. 6-8)

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