



City Council Agenda Item

City Council Meeting Date: September 17, 2019

TO: Jim Throop, City Administrator

FROM: Chanel Ovalle, Community Development Program Manager
c_ovalle@ci.lompoc.ca.us

SUBJECT: Public Hearing on Issuance of Tax-Exempt Bonds for Arbor Square Apartments; Adoption of Resolution No. 6278(19); Subordination of Regulatory Agreement to Tax-Exempt Bonds

Recommendation:

Staff recommends the City Council:

- 1) Receive public testimony in consideration of the issuance of tax-exempt bond financing by the California Statewide Communities Development Authority (CSCDA) for the benefit of LIH Arbor Square LP (Borrower), to provide financing for the acquisition, rehabilitation, improvement, and equipping of a 126-unit multifamily rental housing project generally known as Arbor Square Apartments (Project); and
- 2) Adopt Resolution No. 6278(19) (Attachment 1) approving the issuance of bonds by the CSCDA not to exceed \$38,000,000 for the benefit of Borrower, to provide financing for the Project; and
- 3) Approve Subordination of Regulatory Agreement (Attachment 2) to the CSCDA not to exceed \$38,000,000 for the benefit of Borrower; or
- 4) Provide alternate direction.

Background/Discussion:

The Borrower has requested the CSCDA serve as the municipal issuer of tax-exempt multi-family housing revenue bonds in an aggregate principal amount not to exceed \$38,000,000 (Bonds). The proceeds of the Bonds will be used for the purpose of making a loan to the Borrower, to enable the Borrower to finance the Project located at 800 N. G Street, Lompoc, California, which will be owned and operated by the Borrower. The Borrower will substantially rehabilitate the Project with the proceeds of the Bonds and the affordability covenants will extend for 55 years from the closing of the financing.

In order for all, or a portion of, the Bonds to qualify as tax-exempt bonds, the City must conduct a public hearing pursuant to the Tax Equity and Fiscal Responsibility Act (TEFRA Hearing) to provide the members of the community an opportunity to speak in favor of, or against, the use of tax-exempt bonds for the financing of the Project. Adoption of Resolution No. 6278(19) is solely for the purposes of satisfying the requirements of TEFRA¹, the Internal Revenue Code and California Government Code sections 6500 *et seq.* The City will not in any way be responsible for repaying the Bonds. Prior to the TEFRA Hearing, reasonable notice must be provided to the members of the community. Following the close of the TEFRA Hearing, an “applicable elected representative” of the governmental unit hosting the Project must provide its approval of the issuance of the Bonds for the financing of the Project. A public notice was published in the Lompoc Record on September 4, 2019 (Attachment 3).

CSCDA² is a joint powers authority sponsored by the League of California Cities (League) and the California State Association of Counties (CSAC). CSCDA was created by the League and CSAC in 1988 to enable local government and eligible private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth and improve the overall quality of life in local communities throughout California. CSCDA is comprised of more than 530 members, including the City. CSCDA has issued more than \$60 Billion worth of non-taxable bonds through 1,600 plus financings since 1988 and consistently ranks in the top 10 of more than 3,000 nationwide public issuers of tax-exempt debt, as measured by annual issuance amount.

Request for Subordination of Regulatory Agreement

Subordination of the City’s regulatory agreement, which also ensures the property is used for affordable housing, to the debt financed by the Bonds will allow the Borrower to obtain the Bonds by the CSCDA not to exceed \$38,000,000 for the benefit of Borrower, to provide the Project. The property has deferred maintenance and the bond financing will allow maintenance to be completed.

The agreement to subordinate will not change the requirements of the Regulatory Agreement, including the payment of annual mitigation fees or its maturity of December 15, 2031. Mitigation fees are paid and current. If the Bonds are not repaid and foreclosure occurs as a result, then the agreement to subordinate the Regulatory Agreement to the Bonds could cause the City’s security for repayment of those mitigation fees to be lost. However, that is unlikely and has not occurred with any of the other TEFRA financings the City has approved.

Fiscal Impact:

There is no fiscal impact to the City. The Bonds will be issued as limited obligations of CSCDA, payable solely from revenues and receipts derived from a loan to be made by CSCDA to the Borrower with the Bond proceeds. The City bears no liability with respect

¹ Tax Equity and Fiscal Responsibility Act

² California Statewide Communities Development Authority

to the issuance of the Bonds. Further, the City is not a party to any of the financing documents related to the Bond issuance and is not named in any of the disclosure documents describing the Bonds or the proposed financing.

Conclusion:

Adoption of Resolution No. 6278(19) and approval of the subordination of the Regulatory Agreement will allow much needed improvements to a low-income housing property in need of rehabilitation. The Project will remain as affordable housing after the renovations. Staff will continue to monitor the property for compliance with the City's regulatory agreement and annual mitigation fees will continue to be due and received by the City.

Respectfully submitted,

Chanel Ovalle, Community Development Program Manager

APPROVED FOR SUBMITTAL TO THE CITY ADMINISTRATOR:

Christie Alarcon, Community Development Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Jim Throop, City Manager

Attachments: 1) Resolution No. 6278(19)
2) Subordination of Regulatory Agreement