



TO THE HONORABLE MAYOR AND COUNCIL:

DATE: December 8, 2015

SUBJECT: CONSIDERATION OF REQUEST BY EDEN HOUSINGFOR TO REFINANCE EXISTING AFFORDABLE HOUSING LOANS OF \$3,431,159 AND OBTAIN A NEW LOAN IN THE AMOUNT NOT TO EXCEED \$1.3 MILLION (AFFORDABLE HOUSING FUNDS) TO REPAIR AND RENOVATE TWO APARTMENT COMPLEXES AT 1121 VIRGINIA LANE AND 1140 VIRGINIA LANE TO PRESERVE 91 EXISTING AFFORDABLE HOUSING UNITS; APPROPRIATE UP TO \$1.3 MILLION FROM THE AFFORDABLE HOUSING FUND AS STIPULATED IN NEW LOAN AGREEMENT; AND ADOPT RESOLUTION NO. 15-72 ACKNOWLEDGING THAT THE COUNTY OF CONTRA COSTA WILL ASSIST IN THE FINANCING THROUGH ISSUING TAX EXEMPT REVENUE BONDS FOR THE PROJECT

Report in Brief

Eden Housing, a nonprofit affordable housing developer, owns two apartment buildings in Concord located at 1121 and 1140 Virginia Lane off of Monument Boulevard that contain a total of 91 units. The apartment buildings, previously known as Golden Glen and Maplewood Apartments respectively, are together referred to as Virginia Lane Apartments. These apartments are currently income restricted to provide housing at below-market rents to qualified residents through regulatory agreements. In 1999 and 2006 the City provided housing rehabilitation loans to Eden Housing to acquire and rehabilitate the properties, which improved and increased the City's affordable housing stock. A current balance of approximately \$3,431,159 is owed to the City from these previous loans.

At this time, Eden Housing is requesting new funding from the City's affordable housing fund (non-general fund) in the amount of approximately \$1,286,312 to undertake substantial rehabilitation of the Virginia Lane properties (Attachment 1). These funds would be used to leverage an additional \$14,748,816 in investments from other financing sources including tax credits financing, Contra Costa County housing funds and developer fee contributions. These funds would be used to undertake significant building maintenance and repairs including drainage, building façade work and seismic upgrades.

The City's Housing Program staff and its financial consultant (Seifel Consulting) have reviewed the proposed scope of work, associated financing and toured the two properties. Based on this due diligence, staff recommends that the City Council approve the requested \$1,286,312 loan to Eden Housing and require Eden to enter into a new regulatory agreement requiring the 91 units to remain affordable for a 55 year period. The refinance and the new loan terms will be negotiated including interest rate.

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December 8, 2015

Page 2

As part of Eden Housing's financial plan, they will be pursuing tax exempt financing bonds from Contra Costa County. County staff is amenable to issuing these bonds; however, the County requires City of Concord acknowledgement of this action through adoption of a resolution as presented in Attachment 2.

Staff recommends the City Council adopt Resolution No. 15-74 authorizing the City Manager to negotiate and enter into new loan and regulatory agreements with Eden Housing for the rehabilitation of the Virginia Lane Apartment Buildings to refinance existing City loans of \$3,431,816 and provide an additional loan not to exceed \$1.3 million (totaling approximately \$4,731,816). Staff also recommends the Council adopt Resolution No. 15-72 acknowledging that the County of Contra Costa will be issuing tax exempt revenue bonds for the project.

Background

The City's Housing Element policies (H-2.1) clearly support the conservation and rehabilitation of the existing housing stock through a balanced program of code enforcement and property improvements when and where appropriate. The Housing Element includes an associated program (H.2.1.1) directing the use of public funds to provide assistance in the form of loans or grants to support the rehabilitation and conservation of deteriorated multi-family developments.

The property located at 1121 Virginia Lane was built in 1970, and 1140 Virginia Lane was built in 1964. Eden Housing's involvement with Virginia Lane apartments began in the late 1990s. At the time, Eden, with a loan from the City, moved forward with acquisition and rehabilitation of the two properties in 1999. During construction, Eden ran into unforeseen repairs and deferred maintenance. Eden took measures to defer certain work as well as seek additional funding and cut its own developer fees to address most of the significant repairs in order to provide decent and safe housing for tenants at the two apartment complexes.

Over the course of its ownership Eden has continued to address repairs at the two buildings. Given that the buildings are approximately 50 years old, the buildings are due for a substantial rehabilitation that will comprehensively restore the integrity of the building envelopes, address potential seismic and code violations, enhance the efficiency and operation of the major systems, recapitalize reserves, and improve the residents' quality of life.

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December 8, 2015

Page 3

Both apartment buildings provide below-market rents to income qualified residents. As a part of the rehabilitation of Virginia Lane apartments, Eden Housing is applying for Housing Opportunities for Persons with AIDS (HOWPA) funds from the County. These units would be reserved for fragile populations suffering from health conditions that qualify under the HOPWA program. Additionally, there is an application to the County for HOME funding, which is a federal block grant funding source. The following table provides a breakdown of the affordability levels and type of tenants provided housing at the Virginia Lane apartments:

Number of Bedrooms	Quantity	Affordability Area Median Income_
1	4	30%
2	6	30%
2	3	40%
1	28	50%
2	36	50%
2	12	60%
1	2	Manager's Units
Total	91	

Discussion

City staff retained the services of Seifel Consulting to assist in review of the proposed scope of work and related costs and to understand the extent of repairs and funding so the housing can be preserved as affordable for years to come.

The total budget for this rehabilitation project is approximately \$19 million and includes refinancing the existing loans and proposed development with a new allocation of low income housing tax credits and tax exempt bonds. Existing soft debt from the City of Concord, the County, and the State of California will remain in place. The non-City sources of funds are as follows:

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December 8, 2015

Page 4

Tax Exempt Bank Permanent Loan	\$ 1,978,000.00
HCD - MHP - Assume/Recast	\$ 1,414,580.00
Contra Costa County - Assume/Recast	\$ 425,029.00
New County HOPWA	\$ 1,030,000.00
New County HOME	\$ 503,750.00
General Partner Equity	\$ 30,333.00
Income from Operations prior to Conversion	\$ 302,936.00
Deferred Developer Fee	\$ 267,573.00
General Partner	\$ 1,249,243.00
Limited Partner (LIHTC Equity)	\$ 7,547,372.00
Total "Non-City" Contributions	\$ 14,748,816.00

With the total non-city funds of \$14.7 million plus the City's existing loan of \$3.4 million and the proposed new City contribution of \$1.3 million equals the total approximate cost of the rehabilitation project of \$19 million.

Eden plans to apply for tax exempt bonds and four percent low income housing tax credits in December 2015. These funds are not competitive and the rehabilitation is expected to commence by June 2016. Given recent statewide changes in the low income housing tax credit (LIHTC) program, Eden can maximize the potential amount of investment from LIHTC if it is able to apply for tax credits by December 15, 2015.

In order for Eden to obtain bond financing, they approached Contra Costa County staff to issue the bonds on their behalf. County staff stated they are willing and able to take on this request. In order for the County to facilitate the bond financing of Eden's project, the County requests the City Council's acknowledgement that the County would be the issuers of these bonds through adoption of a resolution. The City would not accrue any liability or responsibility for the issuance, administration or repayment of the Bonds, and the adoption of a resolution would not obligate the City or any department to take any action in connection with any planning approval, permit or other action necessary for the rehabilitation or operation of the Virginia Lane apartments.

Condition of Buildings

The Virginia Lane buildings are in substantial need of rehabilitation, which was very evident from the site visit and the technical analysis that has been undertaken. Eden contracted with EMG, an expert in building condition assessments, to prepare a Physical Needs Assessment (PNA) that evaluated the condition of each building, and identified what building elements are in need of repair and prioritized the repairs. In addition,

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December 8, 2015

Page 5

Eden retained an experienced General Contractor, Deacon, to review the building conditions and come up with cost effective approaches to undertake the rehabilitation, as well as other technical consultants including a seismic engineer.

Seifel reviewed the PNA and interviewed Deacon during the site visit to understand what rehabilitation elements are most critically needed. The following major categories of high priority improvements would be undertaken if the City commits the requested funding, in conjunction with the total proposed funding from other sources:

- Major repairs to address continued water intrusion problems including new siding, new roofs with 30 to 40 year life spans, new vinyl windows and dry rot repair.
- Building improvements to meet City health, safety and other codes requirements including updated trash enclosures and updated electrical wiring.
- Life-safety improvements to mitigate seismic hazards per the Structural Engineer's recommendation.
- Improved ADA and pedestrian access, including the removal of a bedroom from one unit in order to provide a protected pedestrian entrance, as residents currently have to walk through the drive aisle to access 1121 Virginia.
- Energy and water conservation upgrades, which are largely financed through Federal energy business credits and decreased operating expenses.

Consultant's Conclusion

Seifel concluded that the proposed funding request is reasonable, and both properties require substantial rehabilitation. Eden's pro forma relies upon acquiring all of the sources of funds to undertake the proposed repairs. In order to obtain all outside sources of funds for the project, a collaborative effort between the City, County and Eden is required. Seifel recommended that the City should continue to work with Eden to obtain additional funding from Contra Costa County in order to undertake needed improvements. In short, should the City chose to reinvest in Virginia Lane properties, it will result in the following:

- Substantial health, life safety, environmental and accessibility improvements.
- Enhanced living environment for approximately 270 of the City's residents.
- Continued preservation of 91 units of affordable housing, with an extension of the affordability covenants for another 55 years.
- Increase in total City commitment by approximately \$1,286,312 for a total City contribution of approximately \$4,717,471 in the form of a deferred interest loan payable out of residual receipts

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December 8, 2015

Page 6

from project cash flow (repayment of City loan would be from future project cash flow after operating and mortgage financing expenses).

Seifel's due diligence analysis is included as Attachment 3.

City Affordable Housing Funds

The dissolution of Redevelopment in 2012 was a tremendous blow to the City's Affordable Housing Program and to affordable housing developers Statewide. Affordable housing developers relied on local contributions from the former Redevelopment Agency's affordable housing set-aside funds.

When the State dismantled the Redevelopment programs, it also took any fund balances from the Redevelopment Agencies' affordable housing programs. The City of Concord alone lost an estimated \$8.5 million of affordable housing set-aside funds.

Over the years, the City has been accumulating affordable housing funds through housing in-lieu fee payments and affordable housing loan repayments. Currently, the City's Affordable Housing Program has a fund balance of approximately \$3 million. If the Eden Housing request for approximately \$1.3 million is granted, staff believes it would not negatively impact the City's ability to operate its on-going affordable housing activities.

Staff also anticipates repayment of an affordable housing obligation by the former Redevelopment Agency in the amount of \$9 million over the course of the next 5 years. These repayments come from deferred payment of affordable housing set-aside funds by the former Redevelopment Agency. The Successor Agency's Oversight Board and Department of Finance have confirmed to the City that the \$9 million deferred loan is an enforceable obligation and needs to be repaid to the City's Affordable Housing Program. While this is good news, State Department of Finance still has the opportunity to contest future payments.

Additional Requests for Funds from Existing Affordable Housing Projects:

Eden Housing is not alone in seeking City assistance to support affordable housing. Staff was recently contacted by RCD Housing that owns and operates Camera Circle and Riley Court apartments which provides approximately 100 units of affordable housing. They are interested in refinancing their debt and acquiring new funding to undertake repairs and improvements. It is not clear yet the level of repair and financing required, but RCD is already working on putting together a building conditions report and putting these apartments in line for requests for future State and County (and City) funds. It should be anticipated that such requests will continue to be made periodically by affordable housing providers.

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December 8, 2015

Page 7

Fiscal Impact

General Funds would not be used to fund the proposed loan of approximately \$1,286,312. The proposal would also refinance the existing \$3.4 million owed by Eden Housing and extend the term for a total of 55 years. Funds are requested to be appropriated from the City's Affordable Housing Fund Balance, which is currently approximately \$3 million. Appropriation of funds would occur at such time negotiated by City Manager and stipulated in new loan agreement.

Public Contact

The Agenda was posted.

Committee Recommendation

The Housing and Economic Development Committee discussed this item at its November 30, 2015 meeting. The Committee members deliberated the item and directed that item be moved to the full Council at its December 8, 2015 meeting with a recommendation for approval.

Recommendation for Action

Staff recommends the City Council adopt Resolution No. 15-74 (Attachment 4) authorizing the City Manager to negotiate and enter into new loan and regulatory agreements with Eden Housing for the rehabilitation of the Virginia Lane Apartment buildings to refinance existing City loans of \$3,431,816 and provide an additional loan not to exceed \$1.3 million (totaling approximately \$4,731,816). Staff also recommends the Council adopt Resolution No. 15-72 acknowledging that the County of Contra Costa will be issuing tax exempt revenue bonds for the project.

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December 8, 2015

Page 8

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Attachment 1: Eden Housing Request
Attachment 2: Resolution No. 15-72
Attachment 3: Seifel Consulting Analysis
Attachment 4: Resolution No. 15-74



Mr. John Montag
Economic Development & Housing Manager
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Concord, CA 94519

22645 Grand Street
Hayward, CA 94541

510.582.1460 Phone
510.582.6523 Fax

November 23, 2015

**Re: Funding Request for Virginia Lane Apartments
1121 and 1140 Virginia Lane, Concord, CA**

Mr. Montag,

Please see enclosed our request for \$1,286,312 in funding for the renovation of Virginia Lane Apartments. Eden is thankful of the City previous commitment to Virginia Lane Apartments and appreciates the City's consideration to add additional funds as a part of the new round of tax credit syndication. As you are aware, the rehabilitation undertaken in 2000 allowed Eden to buy, stabilize and make vital repairs to these apartment buildings. However, there were many physical needs that could not be addressed during that round of renovation and stabilization. With the City's contribution, Eden will address the remaining outstanding physical needs at the properties as well as enhance the quality of live for approximately 269 Concord residents. We look forward to working again with the City to make these much need renovations.

If you have any questions, please address them to the Project Developer, Daniel Rhine, at drhine@edenhousing.org (510.247.8113) or Kevin Leichner, Associate Director of Real Estate Development at kleichner@edenhousing.org (510.247.8160).

A handwritten signature in black ink, appearing to read "Andy Madeira", written over a horizontal line.

Andy Madeira, Senior Vice President





Mr. John Montag
Economic Development & Housing Manager
City of Concord
Concord, CA 94519

22645 Grand Street
Hayward, CA 94541

November 17, 2015

510.582.1460 Phone
510.582.6523 Fax

**Re: Funding Request for Virginia Lane Apartments
1121 and 1140 Virginia Lane, Concord, CA**

Executive Summary

Eden requests \$1,286,312 in funding from the City of Concord in support of a preservation project for the Virginia Lane Apartments, and respectfully requests that if additional funds become available that the City would consider increasing that amount. There is urgency to this request, as a number of our proposed sources of financing are time-sensitive and will not be available at a later time. The City and County provided funding to the property to preserve and preform minor repairs to sites approximately fifteen year ago. The City funds, both new and previously committed, will leverage an additional \$14,838,665 in investment, for a total development cost of \$19,607,461. This \$215,466 per unit in improvements is necessary in order to perform urgent repairs of \$61,872 per unit, or these 50-year old buildings will not continue to be habitable for the next twenty years of service. By the time we reach the end of the compliance period for the new tax credit financing, these projects will have been in service for approximately 70 years.

Since the last application, we removed many items from the scope of work in order to close the gap. While the remaining scope will greatly improve the property, many items that were taken out would greatly improve the quality and longevity of the property. Eden will still be pursuing financing so that these items can added back into the scope of work. We hope to complete this work with the rest of the rehabilitation so that it will be able to leverage tax credit equity and tax exempt bond financing. The items that were taken out are listed in the scope of work section. Also, the expected relocation cost decreased since the last application. With the scope of work within the units decreasing, we are showing a reduced need for relocation. However, this is a very conservative estimate, and more relocation may be necessary.

The County is also responding to this need for investment, and will be committing \$1,000,000 from time-sensitive funding sources to this project. In addition, we are working the County to secure future sources of an additional \$500,000 for a total of \$1,500,000. While we are currently unsure of the \$500,000 commitment, due to uncertainty with the HOME program, if that amount can't be committed we believe it could be made up by better equity pay in or debt terms, a higher appraised value and/or more reduction in scope. While this budget reflects a reduced scope of work, we are actively investigating additional sources of gap financing in order to add additional items we think would greatly benefit the project. In order to apply for tax credit and tax-exempt bond financing, we would need to have the City's commitment prior to December 15th. This would include the new funding commitment and the approval to extend, modify, and assign the existing City financing to the new tax credit partnership.



In exchange for this support, the project will improve the homes of 269 people, including 95 children and 9 seniors, providing stability and reinvestment that benefits the entire neighborhood. Preservation of affordable housing is Goal H-2 of Concord's Housing Element adopted by the City Council on January 6, 2015. The quantified objective for Goal H-2, under Program H-2.1.1 is to provide financial assistance to "100 units conserved as affordable housing for extremely low, very low, and low income households through long-term rent restrictions." Further, since Concord can meet up to 25% of its RHNA goals by supporting substantially rehabilitated units, the substantial rehabilitation of Virginia Lane would provide 91 units towards the City's RHNA goals.

Virginia Lane in the Late 1990s – Neighborhood Stabilization Project for the City of Concord

Eden's involvement with Virginia Lane began in the late 1990s. At the time, Eden Housing approached the City regarding construction of a new affordable housing development. The City indicated that they were extremely concerned about the Monument Boulevard Corridor – specifically the poor quality of the apartment housing and the many substandard landlords. They encouraged Eden (and others) to seek opportunities to acquire and renovate existing apartment buildings.

Linda Mandolini, who is now the President of Eden Housing, led the efforts to respond to the City's request to find a way to stabilize the neighborhood. Eden worked closely with the City staff and a local broker to identify two existing complexes – Maplewood Apartments and Golden Glen Apartments. Eden did a fair amount of due diligence and discussed the possibility of a complete teardown with the City. There weren't enough resources to rebuild the two properties so we agreed to a moderate rehab scope. Reluctantly, but with a desire to work with the City to help it attain its goals, Eden acquired the two projects. The bulk of the project funding that was available was used for acquisition, leaving a minimal amount available for the rehabilitation that was needed.

Although Eden and the City had performed due diligence regarding the physical condition of the properties, there were issues that were exposed once construction began. Once the envelope was opened, it became apparent that the level of dry rot, particularly at the Golden Glen Properties (1121 Virginia Lane) was severe and that there were not going to be sufficient funds to adequately repair all of the dry rot.

As it was already in construction, Eden worked quickly with its lender, tax credit investor, and the City to formulate a new loan structure that would allow for the deferral of some of the work, including all unit interior work, in the original scope in favor of dealing with the exigent issues related to the dry rot problems. Eden eliminated the community room, a feature they desperately wanted to keep, but just couldn't find the funds to do. The loan restructure wasn't adequate to cover the needs at the property so the City agreed at the time to guarantee an increase in the initial loan, Eden cut and deferred its developer fee, and secured an additional \$800,000 in rehab funding from the State of California to make the deal work.

The measures Eden took were sufficient to deliver decent, safe housing and the financing structure that involved variable rate debt. As interest rates remained generally favorable, a calculated risk

that paid off, the project generated some income over the course of the next 15 years, which was used to help manage continued improvement at the properties and contribute extra funds to reserves. This additional reserve supplement was essential, as Eden spent the next 15 years chasing repairs on a triage basis, in order to keep the buildings habitable and safe.

Eden's management also had a positive impact on the surrounding properties and on the tenants. Eden continues to work with the local community organization, Monument Impact, to continue that positive influence on the local community. Their letter of support for the rehabilitation of Virginia Lane Apartments is attached. Unfortunately, the buildings are of a vintage that they continue to require additional work and at this juncture have several features that make them out of compliance with current building codes, which have changed substantially during the past fifty years. Eden's management team has done an excellent job of making this housing as good as it can be in the circumstances, but the buildings need several critical systems upgrades. Ideally, the effort to upgrade would include building a community room. As it stands now, Eden holds its meetings outdoors when they need to have resident meetings, leaving residents exposed to the elements.

Eden Housing Management, Inc. has been operating Virginia Lane to consistently high standards since 1999, when Eden acquired and syndicated the development. As mentioned earlier, Virginia Lane received crucial financial support from the City of Concord, with a current balance of \$3,446,037, the California Department of Housing and Community Development (HCD), with a current balance of \$1,364,002, and the County of Contra Costa, with a current balance \$409,989. Fifteen years later, as part of this project, the soft loans would be modified, extended, and assumed by the new tax credit partnership.

Eden has been spending its reserves in order to meet some of the capital needs on the property. Over the past year Eden has spent \$372,276 from reserves on roof replacement for two buildings at the 1121 site. We replaced the roofs of the two buildings at 1121 Virginia Lane that had the worst leaks, but all of the remaining roofs at both sites are in urgent need of replacement. In addition, reserve draws paid for about \$16,000 in floor and appliance replacement, as well as \$25,891 in aging payables. As of the middle of September the property has \$9,949 in replacement reserves and \$43,347 in the operating reserve.

Current Demographics

Virginia Lane is home to 269 residents, including 95 children and 9 seniors. Over the last five years, the project has averaged a 2.5% vacancy rate. Our onsite service provider, Monument Impact, has been working with Eden Housing Management to help provide services to these residents, including health presentations, information, and other referral services, to name a few. Unfortunately, without a community room on site, when Virginia Lane residents have their community meetings, they must meet outdoors and are exposed to the elements. If Eden is able to gain addition funding, we hope to change that during this rehabilitation by adding a community room, which will help both Eden and Monument Impact better serve the community.

Current Rent Restrictions

Restricted affordable rents, unlike market rents, are insufficient to fund the major capital investment that is needed every 15-20 years in order to preserve multifamily structures. Virginia Lane, unlike its market-rate counterparts, must depend upon an infusion of new Low-Income Housing Tax Credit equity as part of a strategic refinance in order to recapitalize the reserves and fund the rehabilitation. Due to rent restrictions placed on the property from HCD, rent increases more slowly than expenses, since rent increases are tracked to the Consumer Price Index. County HOME funding from the previous rehabilitation required deeper levels of affordability, and as a result, rents cannot keep up with the expense growth for this property over the long term. Additionally, external forces have been making operating expensive increase faster. Sewer and water costs are on the rise as well as rapid escalation in construction costs due to high construction demand in the Bay Area, which is leading to shortages of labor and materials and driving up prices.

Capital Needs Overview

During the past few years, the pace of systems and building elements wearing out and needing replacement has been accelerating and must be addressed as soon as possible. Unit interiors, with the exception of units that have received some attention on turns, have not been addressed comprehensively in at least 20 years. As you will see from the Physical Needs Inspection forms, which are attached, all but two units were rated as Poor. In addition, the forensic architect evaluated the two sites through visual inspection, interviews, destructive testing and pertinent documents. Those reports have been attached. In their findings, amongst other conclusion, the forensic recommends a full removal of the stucco in order to address underlying issues and restore the integrity of the envelope. Barcelon and Jang Architects are the architects of record and Deacon Corporation is the pre-consulting General Contractor on this project. These consultants were chosen because of their expertise rehabilitating existing, occupied affordable housing projects, addressing water intrusion and original construction issues, and excellent track record with comparable projects.

Several complicating factors that are driving the cost of construction are the presence of asbestos- and lead-containing materials in unit interiors, need for seismic reinforcement to address potential soft-story conditions at 1121 Virginia Lane, challenging site conditions for construction staging and access, anticipated full reskinning of the buildings, expected decay of some structural components that will require complete replacement to an extent that has not yet been determined, potential electrical or plumbing issues that will be uncovered during construction, significant code compliance requirements that will be triggered by the scope of rehabilitation, and known site drainage and sewerage issues.

In addition, as part of the proposed scope of rehabilitation, Eden would install, as budget and siting allow, a number of green improvements including solar photovoltaic and/or solar thermal to offset energy use and laundry gray water reuse for irrigation, energy-efficient windows and mechanical systems, and climate-appropriate landscaping. These energy efficiency upgrades are close to self-financing due to the Federal energy business credits plus Low-Income Housing Tax Credits we earn

for the work, additional solar incentives, and the offset to operating expenses that they provide that allows us to leverage additional mortgage. Therefore, it is not recommended that these items be valued engineered, since the cost savings to the total budget would be minimal.

Below are the highlights of the scope of work:

High Priority/Mandatory

Envelope

- Removal of existing stucco siding and replacement with more resilient cement board siding.
- New roofs: There have been leaks in many of the buildings at 1121 Virginia Lane. We will be replacing the current roofs with roofs that have a 30 year warranty. We will be replacing old shingles at 1140 Virginia Lane with a 40 year warranty shingled roof.
- New vinyl windows, which will help prevent water intrusion and improve energy efficiency.
- Dry rot repair.

City Requirements

- Updated trash enclosures, per City requirement.
- Updated electrical wiring.

Life-Safety

- Moment frames for the soft stories per structural Engineer's recommendation.
- Removal of a bedroom from a 2br unit to provide protected pedestrian entrance to the 1121 site. The residents currently have to walk through the drive aisle to access the site. For safety reason, we are proposing a protected pedestrian walkway by removing a bedroom from a 2br unit.
- Redo drainage line behind Building D to prevent water intrusion from adjacent property.

Tax Credit Requirements/PNA

- Replacement of kitchen cabinets for all units, new vinyl flooring, as well as unit doors, bedroom doors, bathroom doors, and closet doors (referenced in the PNA).

Access

- New ADA-compliant play equipment, and outdoor furnishings.
- 5 new ADA-accessible units, per required building standards.

Energy Upgrades (largely financed through Federal energy business credits and decreased operating expenses)

- Solar PV and Solar Hot Water.
- Greywater system that uses processed laundry water to irrigate landscaping.

Items Removed From Scope (Eden will continue to look for additional funds to add these items back into the scope):

- New community room at 1121 Virginia Lane, which includes a new office for resident services, a kitchen, and community room for gatherings.
- Brand new water efficient landscaping and refurbished play area.
- New HVAC system in bedrooms
- Updated plumbing fixtures

To the extent that any additional funds become available, we are asking that the City maintain its contributed amount so that these important additional items can be brought back in scope. The current scope show the bare minimum of work to keep the building watertight, replace outdated unit interiors, and prevent structural damage in the future, so that these buildings can last another 20+ years.

Due to the scope of potentially invasive rehabilitation, the presence of asbestos- and lead-containing materials in unit interiors, temporary relocation will be necessary on the 5 ADA units. However, this is a very conservative estimate. With the reduced scope, we anticipate less work within the units, but the number of units that need to be temporarily relocated may increase if more damage is discovered or more work disrupts HAZMAT in the units than anticipated. Eden estimates that each household will be displaced for up to 45 days and, pending constructability review. Eden will be retaining a third-party relocation consultant with substantial experience in affordable housing relocation to direct all relocation activities in accordance with Federal and State relocation law. In addition, Eden advised its residents at a resident meeting in mid-December 2014 that relocation could potentially begin for the initial group of households as soon as early 2016.

This development is a crucial housing resource located in a high-cost area and within a Qualified Census Tract. This United States Department of Housing and Urban Development (HUD) designation means that over 50% of the population in the census tract that Virginia Lane is located in has incomes lower than 60% of the area median gross income or has a poverty rate great that 25%. The rehabilitation, when completed, is anticipated to support an enhanced resident-quality-of-life at Virginia Lane and help to uplift the surrounding community. The current service provider, Monument Impact, will continue to provide on-site programs, including its innovative computer literacy program, housed in a modestly-sized facility at 1140 Virginia Lane. In addition, the project, as site constraints allow, will try to add up to 1,000 square feet of community space.

Recapitalization Overview

In order to make the financing possible, in addition to the funding application to the City, the project is requesting \$1,500,000, in support, \$500,000 from Contra Costa County HOME funds and an additional \$1 million from County Housing of Persons with AIDS (HOPWA) funds. The project would restrict 3 units as HOME units, and 10 HOPWA units, with the HOPWA units restricted to 30 percent of Area Median Income per the County's requirements. Eden anticipates retaining all households currently living at Virginia Lane and maintaining affordability at the current level, with the exception

of a new restriction of 30 percent Area Median Income restriction on ten units, in order to qualify for the HOPWA funding.

Financing Options

Eden has investigated a number of gap financing options as it has worked on the predevelopment for this project. These include the following:

California Department of Housing and Community Development Multifamily Housing Program (HCD MHP)	The project would not score competitively for the MHP application, due to loss of points in categories like "Percentage of Units for "At-Risk", Family or Special Needs" (since there are no 3 bedroom units at Virginia Lane, it does not score well for family). Also, Virginia Lane would likely not receive points for "Readiness to Proceed."
Federal Low Income Housing Tax Credit 9%	Virginia Lane does not qualify for this Federal tax credit type because there are no three bedrooms at the project.
Federal Home Loan Bank Affordable Housing Program (AHP)	AHP is not an option, since we would not be competitive. Additionally, changes in the way the FHLB determines acquisition values between related parties would prevent AHP from being feasible.
City of Concord Community Development Block Grant (CDBG)	When speaking to the City of Concord around a year ago, we were informed that the CDBG allocation for the City would be used for code compliance. As Concord is its own entitlement jurisdiction, County CDBG funds cannot be awarded to this project.
Adding more units to the project (densification)	Adding units to Virginia Lane would not be feasible due to site and parking constraints. In addition, the cost of adding more units would increase the financing gap because the cost significantly outweighs the additional mortgage that could be supported by the rental revenue.
Housing Authority of the County of Contra Costa RAD Vouchers	The RAD vouchers from the Housing Authority would provide a subsidy only up to or below most of the current rents.
Demolition and Replacement	With new construction costing around \$300,000 per unit, the project funding gap between rehabilitation and new construction would require substantial additional funds. Further, new construction would likely cause permanent relocation of existing residents.

Financing Plan

Along with the \$1,286,312 million dollar request to the City, Eden Housing plans to apply for both 4% Low Income Housing Tax Credits and Tax-Exempt Bonds in December. Tax-exempt bonds will

provide a \$9,541,000 construction loan at a below-market interest rate. The LIHTC syndication is expected to bring in \$7,547,372 in equity from the limited partner. Additionally, Eden will refinance the first mortgage on the property.

Eden will request that the current loans on the property from the State, County and City be extended, modified and assigned to the new tax credit partnership. Eden would ask that these loans be extended for another 55 years at the applicable federal rate or OID. Accordingly, these loans would be extended so that they restart another 55 years of affordability restrictions on the property. Additionally, Eden plans to defer and contribute up to \$1.5 mil of the \$2.3 in order to support the success of this rehabilitation.

In preparing this pro forma, Eden made some critical assumptions regarding acquisition value, developer fee, loan rates and terms, and investor pay-ins, as described below.

- At this time, Eden is using the amount of debt on the property as the acquisition value of the project for tax credit purposes.
 - The investor's exit from the tax credit partnership occurred on October 8th. As part of the buyout process, Colliers International appraised the property earlier this year. The appraised value, as determined by this third-party, was less than the amount of debt on the property. The California tax credit committee has proposed a rule change that we anticipate it will adopt in October that would allow the debt on the property to be used for acquisition value, which is what we are representing in this pro forma.
 - In the time that has elapsed since the appraisal was performed earlier this year, a couple of nearby properties have been purchased for between \$100,000 and \$140,000 per unit. These properties did not have affordability restrictions, but rents were in the range of 50% and 60% tax credit rents. (As a reminder, Virginia Lane has many units with deeper restrictions that are required by the existing HCD financing). Due to these recent sales, it might be possible that a reappraisal that considers nearby comparable properties could derive a higher appraised value.
 - Eden does contemplate having the property reappraised closer to the bond and tax credit submittal deadline, but cannot speak for the appraiser and what he or she might determine to be the appraised value at that time. If he or she more heavily weights market-rate sales comparable (rather than the Net Operating Income valuation), the property may appraise for more. However, we have looked at this possibility with our third-party financial consultant and, while it would help to reduce the financing gap, it would not entirely resolve it.
- Eden requests that the full allowable developer fee per the California tax credit regulations be included in eligible basis. While Eden does not expect to earn this developer fee in cash during the construction period – the pro forma shows Eden deferring and contributing approximately \$1.5 million in order to balance sources and uses – including this developer

fee in basis will result in \$350,000 - \$450,000 in additional limited partner investor equity (the final amount will be affected by the pay-in rate), an essential source in support of performing the work that is needed at Virginia Lane. As a nonprofit mission-based developer committed to constructing and preserving affordable housing, Eden would benefit from earning more upfront developer fee, which would ultimately be reinvested in creating and preserving more affordable housing, but anticipates deferring or contributing most of its allowable fee in support of this rehabilitation.

- Loan rates and investor equity pay-in have been modeled conservatively, based on the current market, with a cushion for any market changes that may occur during the time that will elapse between now and closing the construction financing. Even if the loan terms and investor equity pay-in are significantly better than has been modeled, Eden would ask that the City to maintain the amount it ultimately pledges and that the project commit the extra funding to increasing the scope of work to include additional contingency for unseen conditions, capitalizing reserves to a greater extent, and/or funding more of Eden's developer fee. Eden requests the same treatment for any unspent contingency that may be remaining at the conclusion of the rehabilitation.

Current and future Ownership

Virginia Lane LP is the current owner of the property. Eden has set up a new entity, VL, LP, which will become the new tax credit partnership. Currently, VL LLC, is the managing general partner of VL, LP, while Baywood Apartments, Inc. is the temporary Limited Partner until a tax credit investor is selected.

Timeline

Currently, Eden is applying to both the City and the County for funding. Eden plans to apply for Tax Credits and Tax Exempt Bonds by 12/15/15, which means that both the City and County funding would need to be committed by that date. The project would have its CTCAC and CLDAC allocation in mid-February. The project would look to have its construction close by May and then start work in June. Work is estimated to take thirteen months, with work extending from 2016 through 2017.

Conclusion

Eden respectfully requests \$1,286,312 million in City funding and, should any additional City funding become available, consideration for additional funding beyond the \$1,286,312 million that is requested. There is significant urgency to this request, as our current favorable mortgage interest rate and record-high Low Income Housing Tax Credit equity pay-ins will not last. In addition, the County sources of funding for this project – HOPWA – must be obligated and spent within the next few months. It is anticipated that HOME funds will not be available in future years, as Congress has

reduced the budget appropriation by 95 percent. In summary, the financing plan that we are presenting here is time-sensitive and it might not be possible to replicate it in the future.

**BEFORE THE CITY COUNCIL OF THE CITY OF CONCORD
COUNTY OF CONTRA COSTA, STATE OF CALIFORNIA**

**A Resolution of the City Council of the City of
Concord Acknowledging that the County of Contra
Costa will Assist in the Financing of Various Multi
Family Residential Rental Housing Facilities**

Resolution No. 15-72

WHEREAS, the County of Contra Costa (the “County”) has been requested to consider the issuance by the County of tax-exempt revenue bonds or the incurrence of debt (referred to in this Resolution as the “Bonds”) under the provisions of Chapter 7 of Part 5 of Division 31 of the Health and Safety Code (the “Act”) to finance costs of the acquisition, construction and/or rehabilitation of various residential rental housing facilities identified in Exhibit A to this Resolution (collectively, the “Housing Facilities”), all of which are located in Concord (the “City”); and

WHEREAS, the County has requested that the City acknowledge that the County will be issuing the Bonds in several series to assist in the various financings of the Housing Facilities, and the County seeks confirmation that the City supports the proposed financings; and

WHEREAS, the City Council now desires to acknowledge the County’s role in issuing the Bonds and to confirm that the City supports the financing of the acquisition, construction and/or rehabilitation of the Housing Facilities with the proceeds of the Bonds to be issued by the County.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CONCORD DOES
RESOLVE AS FOLLOWS:**

Section 1. That the City Council hereby acknowledges the County’s efforts in facilitating the financing of the Housing Facilities through the issuance of the Bonds pursuant to the Act.

Section 2. That the City Council hereby expresses its support for the several financings for the Housing Facilities.

Section 3. That the City shall have no responsibility whatsoever for the issuance, administration or repayment of the Bonds, and the adoption of this Resolution shall not obligate the City of any department thereof to take any action in connection with any planning approval, permit or other action necessary for the rehabilitation or operation of the Housing Facilities.

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Memorandum

Date: November 19, 2015
To: Mr. John Montagh, City of Concord
From: Seifel Consulting
Subject: Concord Virginia Lane Due Diligence Analysis

The City of Concord retained Seifel Consulting (Seifel) to review a funding request from Eden Housing Inc. (Eden) to substantially rehabilitate the Virginia Lane apartment developments located in Concord's Monument Boulevard neighborhood. Seifel conducted a site visit with City staff to verify the need for the proposed rehabilitation improvements, reviewed Eden's funding proposal and analyzed the financial feasibility of the project. Seifel's due diligence analysis included requesting and analyzing a series of technical documents on the need for the rehabilitation, anticipated rehabilitation costs and the proposed funding plan from Eden. In addition, Seifel interviewed Eden staff regarding specific elements of the proposed project, and worked with them to refine their proposal to the City to focus on the highest priority rehabilitation items, given funding limitations.

This memorandum is organized into the following sections:

- A. Project Description and Funding Proposal
- B. Due Diligence Findings
- C. Conclusion

The analysis in this memorandum documents why Eden's funding request is reasonable and will help the City of Concord preserve and substantially rehabilitate an important source of affordable housing, consistent with the City's Housing Element goals.

A. Project Description and Funding Proposal

Virginia Lane consists of two existing apartment developments, located just off of Monument Boulevard, and which are jointly staffed and maintained by Eden as a 91-unit development:

- Maplewood Apartments (1121 Virginia Lane), with 53 apartments
- Golden Glen Apartments (1140 Virginia Lane), with 38 apartments

Eden's involvement with Virginia Lane began in the late 1990s when Eden approached the City regarding the potential development of new affordable housing. Given the City's concern regarding the poor quality and management of apartment buildings in the Monument Boulevard Corridor, the City encouraged Eden to seek opportunities to acquire and renovate existing apartment buildings within this neighborhood.

Eden worked closely with City staff and a local broker to identify the two existing complexes on Virginia Lane that were in need of stabilization and that could be acquired. Although Eden performed due

diligence on the buildings' condition and discussed with the City the possibility of a complete teardown and rebuild, the City did not have sufficient funds to enable Eden to buy the buildings and undertake substantial rehabilitation or new construction.

In 1999, the City, Contra Costa County and State of California Housing and Community Development Department (HCD) committed and then provided funding to Eden to acquire Virginia Lane, but only provided sufficient funds to undertake minor repairs that were critically needed to house residents. (The City provided about \$2.4 million, Contra Costa County about \$290,000 and State HCD about \$1.4 million in funding, at that time.) Since then, many critical building components have continued to age, and the property needs major repair, as further described below. Virginia Lane has insufficient reserves and project cash flow to pay for immediate and long-term repairs.¹

Eden is applying to the City for an additional \$1.29 million in loan funds to undertake substantial rehabilitation of Virginia Lane. Eden is also requesting that if additional City funds become available, the City would consider increasing its funding commitment in order for Eden to undertake additional high priority rehabilitation projects.

With this funding request, the City will have contributed about \$3.7 million in capital funding for the project, and there is about \$1.1 million in accrued interest on the City's original loan, which will be repaid out of residual cash flow from the project, as the project stabilizes.

The County committed \$1 million in HOPWA funding toward the rehabilitation, in November 2015. Additionally, Eden is working with the County to potentially secure an additional \$500,000 in HOME funds, for a total of \$1.5 million.

The project's need for funding is timely, as Eden plans to apply for tax exempt bonds and four percent low income housing tax credits in December 2015. These funds are not competitive and the rehabilitation is expected to commence by June 2016. Given recent statewide changes in the low income housing tax credit (LIHTC) program, Eden can maximize the potential amount of investment from LIHTC if it is able to apply for tax credits this December.

B. Due Diligence Findings

The buildings are in substantial need of rehabilitation, which was evident from both the site visit and the technical analysis that has been undertaken. Eden contracted with EMG to prepare a Physical Needs Assessment (PNA) that evaluates the condition of each building, identifies what building elements are in need of repair and prioritizes the repairs. In addition, Eden retained an experienced General Contractor (Deacon) to review the building conditions and to devise cost-effective approaches to undertake the rehabilitation, as well as other technical consultants, including a seismic engineer.

Seifel reviewed the PNA and interviewed Deacon during the site visit to understand what rehabilitation elements are most critically needed, as there is not sufficient funding to undertake all of the improvements identified in the PNA. The following major categories of high priority improvements would be undertaken if the City were to commit this level of funding:

¹ Reserves have been depleted due to the need for ongoing repairs to the buildings. Over the past year, Eden has spent \$372,276 from reserves on roof replacement for two buildings at the 1121 site. These funds were used to replace the roofs of the two buildings at 1121 Virginia Lane that had the worst leaks, but all of the remaining roofs at both sites are in urgent need of replacement. In addition, reserve draws paid for about \$16,000 in floor and appliance replacement, as well as \$25,891 in aging payables. As of mid-September, the property has \$9,949 in replacement reserves and \$43,347 in the operating reserve.

- Major repairs to address continued water intrusion problems (including new siding, new roofs with 30- to 40-year life spans, new vinyl windows and dry rot repair).
- Building improvements to meet City Requirements, including updated trash enclosures and updated electrical wiring.
- Life-safety improvements to mitigate seismic hazards per the Structural Engineer's recommendation.
- Improved ADA and pedestrian access (including the removal of a bedroom from one unit in order to provide a protected pedestrian entrance, as residents currently have to walk through the drive aisle to access 1121 Virginia).
- Energy and water conservation upgrades, which are largely financed through Federal energy business credits and resulting decreased operating expenses.

Seifel reviewed Eden's funding plan in detail and agree that Eden has identified all relevant funding sources that could be cost effectively utilized for this rehabilitation effort. Eden will work to maximize the amount of revenues that are generated from LIHTC, and Eden has contributed more than half of its eligible developer fee (in the form of a General Partner contribution and fee deferral) to enable the undertaking of further rehabilitation.

Seifel reviewed Eden's financial pro forma, and the proposed high priority rehabilitation projects can be feasibly undertaken if the City and County provide the requested level of funding to Virginia Lane. Should less funding be available, the scope of the rehabilitation would need to be reduced. If additional funding is available or not all of the construction contingency funds are needed, additional rehabilitation improvements would be undertaken. Seifel worked with Eden to identify and prioritize these improvements, and Eden is committed to implementing as many of the needed improvements as possible, following this order of priority.

The total budget for the substantial rehabilitation of Virginia Lane is \$19 million, which includes refinancing the development with a new allocation of LIHTC and tax exempt bonds. Existing loans (soft debt) from the City of Concord, the County and the State of California will remain in place.

C. Conclusion

As described above, the property needs to be substantially rehabilitated, and the proposed funding request is reasonable. The City should continue to work with Eden to obtain additional funding from Contra Costa County in order to undertake the high priority improvements. The City's additional investment in Virginia Lane would result in the following:

- Substantial health, life-safety, environmental and accessibility improvements.
- Enhanced living environment for approximately 270 of the City's residents.
- Continued preservation of 91 units of affordable housing, with an extension of the affordability covenants for another 55 years.
- Increase in total City commitment in the form of a deferred interest loan payable out of residual receipts from project cash flow (total City principal contribution of about \$3.7 million, plus \$1.1 million in accrued interest on the City's original loan to date).

**BEFORE THE CITY COUNCIL OF THE CITY OF CONCORD
COUNTY OF CONTRA COSTA, STATE OF CALIFORNIA**

**A Resolution Authorizing the City Manager to
Negotiate and Enter into a Loan Agreement with
Eden Housing to Fund Repair and Rehabilitation at
1121 and 1140 Virginia Lane Concord**

Resolution No. 15-74

WHEREAS, Eden Housing owns and operates two apartment buildings located at 1121 and 1140 Virginia Lane that provide 91 units of affordable housing to income eligible residents; and

WHEREAS, the City of Concord has provided loans for acquisition and rehabilitation of these properties starting in 1999; and

WHEREAS, the buildings require additional rehabilitation and repair in order to preserve these units into the future; and

WHEREAS, Eden Housing is requesting the City to provide additional funds in the amount of \$1,286,312 and to refinance existing City loans in the amount of approximately \$3.4 million; and

WHEREAS, these funds would be used to leverage approximately \$14 million in outside funding from a variety of sources.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CONCORD DOES
RESOLVE AS FOLLOWS:**

Section 1. The City Council authorizes the City Manager to negotiate and enter into new loan and regulatory agreements with Eden Housing for the rehabilitation of Virginia Lane apartment buildings located at 1121 and 1140 Virginia Lane.

Section 2. The City Council authorizes the City Manager to refinance existing City loans of approximately \$3,431,816 and provide an additional loan not to exceed \$1.3 million (totaling approximately \$4,731,816).

Section 3. The City Council appropriate up to \$1.3 million from the City Affordable Housing funds at such time stipulated by the new loan agreement negotiated by the City Manager.

Section 4. This resolution shall become effective immediately upon its passage and adoption.

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PASSED AND ADOPTED by the City Council of the City of Concord on December 8, 2015,
by the following vote:

- AYES:** Councilmembers -
- NOES:** Councilmembers -
- ABSTAIN:** Councilmembers -
- ABSENT:** Councilmembers -

I HEREBY CERTIFY that the foregoing Resolution No. 15-74 was duly and regularly adopted at a regular meeting of the City Council of the City of Concord on December 8, 2015.

Joelle Fockler, CMC
City Clerk

APPROVED AS TO FORM:

Brian M. Libow
Interim City Attorney