COUNCIL AGENDA: 02-10-15
ITEM: 4.1

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Jacky Morales-Ferrand
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: January 20, 2015

Approved D. DSyL   Date 1/28/15

COUNCIL DISTRICT: 5

SUBJECT: APPROVAL OF THE ISSUANCE OF TAX-EXEMPT AND TAXABLE MULTIFAMILY HOUSING REVENUE NOTES AND LOAN OF NOTE PROCEEDS AND RELATED DOCUMENTS FOR THE POCO WAY APARTMENTS PROJECT

RECOMMENDATION

Adopt a resolution:

a. Authorizing the issuance of (a) a tax-exempt multifamily housing revenue note designated as "City of San José Multifamily Housing Revenue Note (Poco Way Apartments), Series 2015A (the "Series 2015A Tax-Exempt Note") in a principal amount not to exceed $21,833,854 and (b) a taxable multifamily housing revenue note designated "City of San José Multifamily Housing Revenue Note (Poco Way), Series 2015A-T (the "Series 2015A Taxable Note", and with the Series 2015A Tax-Exempt Note, the "Series 2015A Notes") in a principal amount not to exceed $3,000,000;

b. Approving a loan of Series 2015A Note proceeds to McCreery Avenue, L.P., a California limited partnership created by the Housing Authority of the County of Santa Clara, to finance the acquisition and rehabilitation of the Poco Way Apartments located at 1900 Poco Way, in San José (the "Project");

c. Approving in substantially final form the Funding Loan Agreement, Borrower Loan Agreement, Assignment of Deed of Trust, and Regulatory Agreement and Declaration of Restrictive Covenants (the "Series 2015A Documents");

d. Authorizing and directing the City Manager, Director of Finance and Interim Director of Housing, or their designees, to execute and, deliver the Series 2015A Documents and related Series 2015A Documents as necessary;

e. Authorizing the Interim Director of Housing, or her designee, to negotiate and execute all documents necessary to amend and restate existing City loan documents relating to the Project consistent with the terms described below; and

f. Authorizing the Interim Director of Housing, or her designee, to negotiate and execute all documents necessary to govern the use of the Seller Proceeds consistent with the terms described below.

OUTCOME

Approval of the recommended actions will enable the issuance of multifamily housing revenue notes for the purpose of financing the acquisition and rehabilitation of an existing 130-apartment rental development, of which 129 apartments are and will continue to be affordable for a period of at least 55 years, plus one manager's apartment. This Project serves and will continue to serve low and very low-income residents with current annual incomes between $37,150 and $68,370.

EXECUTIVE SUMMARY

In accordance with the requirements under the City's Policy for Issuance of Multifamily Housing Revenue Bonds, the Housing Authority of the County of Santa Clara (the "Developer") has requested that the City issue (a) a tax-exempt multifamily housing revenue note in an amount not to exceed $21,833,854 (the "Series 2015A Tax-Exempt Note") and (b) a taxable multifamily housing revenue note in an amount not to exceed $3,000,000 (the "Series 2015A Taxable Note" and, collectively with the Series 2015A Tax-Exempt Note, the "Series 2015A Notes"). The Series 2015A Notes will be initially purchased and funded by Citibank, N.A. ("Citi").

The proceeds of the Series 2015A Notes will be loaned to McCreery Avenue, L.P., 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 a 130-unit rental apartment housing project known as Poco Way Apartments (the "Project").

The Notes will **not** be paid from or secured by the general taxing power of the City or any other City asset.

In order to approve the new financial structure, the existing City subsidy loan to the Project will be partially paid down, will be redocumented to strengthen the City's rights consistent with current practices, and the interest rate will be increased. In addition, part of the financing proceeds will be used to help preserve the condition of the Developer's existing restricted affordable apartments in San José, and will support the future creation of apartments serving the homeless.

BACKGROUND

Borrower. The Borrower is a California limited partnership. The Borrower will consist of: (1) Avenida Espana HDC, Inc., a nonprofit subsidiary of the Housing Authority of Santa Clara County ("Developer"), as General Partner and (2) Raymond James Tax Credit Funds, or an affiliate thereof, as the tax credit investor limited partner.

The Developer has requested that the City issue the Series 2015A Notes for the purpose of lending Series 2015A Note proceeds to the Borrower. The proceeds of the Series 2015A Notes, together with other funds, will be used by the Borrower to finance the acquisition and rehabilitation of the Project.

Project Overview. The Project involves the acquisition and rehabilitation of 130 one-, two, three-, and four-bedroom rental apartments. Currently, and continuing upon completion of the rehabilitation of the Project:

- 126 apartments (approximately 98 percent) will be rented to persons with incomes that do not exceed 50 percent of the area median income ("AMI") (incomes between $37,150 and $57,300);
- three apartments (approximately 2 percent) will be rented to persons with incomes that do not exceed 60 percent of AMI (incomes between $44,310 and $68,370).

One of the Project's 130 apartment units is and will continue to be an unrestricted manager's apartment. The existing affordability restrictions for the Project will remain in place until at least September 22, 2071.

The Project is currently owned by Poco Way HDC, Inc. ("Poco HDC"), a California nonprofit public benefit corporation created by the Developer. The Project, which consists of 21 two- and three-story buildings, was constructed in two phases. The first phase was constructed in the 1960's by a previous owner. In 1996, Poco Way Associates ("Poco Associates"), a California limited partnership formed by the Developer and consisting of Poco HDC as its General Partner, acquired the Project, rehabilitated the existing apartments, and constructed the second phase. On April 30, 2014, Poco HDC purchased the Project from Poco Associates.

The current scope of Project rehabilitation includes installation of solar thermal systems, new site lighting, new insulation, new roofing, new appliances and plumbing fixtures, new cabinetry, new windows, new forced air system, and various structural improvements.

The Project rehabilitation will involve temporary relocation of existing tenants, but no households are expected to be relocated permanently. The Developer will be the displacing agency for the purpose of the relocation obligation, and is holding approximately seven (7) apartments vacant at this time to temporarily accommodate households moving due to rehabilitation. A Relocation Plan was distributed to Project residents on June, 23, 2014, and was approved by the Developer's Board of Commissioners on July 1, 2014. The Developer is budgeting in excess of $2 million for relocation and will conduct approximately ten moving phases.

City Loan for the Project. The City initially made a loan (the "City Loan") to the Project in the amount of $5,786,958 on May 30, 1997, and amended the City Loan on January 26, 2005 to increase the loan amount by $709,000 to $6,475,958. The City Loan was funded with 20% housing set-aside tax increment, carries 55-year affordability restrictions, and matures on June 1, 2036. The City Loan was assumed by Poco HDC in April 2014 in conjunction with the exit of the previous financial equity partner. There have been principal payments on the City Loan lowering the current outstanding balance to $5,490,623.

The outstanding City Loan will be paid down by approximately $1,500,000 and will then be assigned to and assumed by the Borrower, and amended and restated, in connection with its acquisition and rehabilitation of the Project. The terms of the assignment and assumption of the City Loan are discussed in the Analysis section below.

Consistent with City policy, the assignment and assumption of the City Loan will not trigger the City's prevailing wage ordinance given that (a) the City is making no new disbursements or commitments, only extending existing commitments, and (b) the construction work that the City originally funded was completed years ago.

City as Issuer of Multifamily Housing Bonds. The City's Policy for Issuance of Multifamily Housing Revenue Bonds ("Bonds Policy") requires the City be the issuer of tax-exempt multifamily housing revenue bonds (or notes) for the purpose of lending the proceeds to an affordable rental housing project to which it is making a loan, absent compelling reasons for another public entity to serve as bond issuer. As the City's existing loan to Poco Way will remain outstanding in the new financial structure, the Bonds Policy applies; therefore, the City will act as issuer.

Sources of Project Funding. Initially, during the acquisition and rehabilitation period, the Series 2015A Notes will consist of a variable rate Series 2015A Tax-Exempt Note in an estimated amount of $21,806,066 (but in no event more than $21,833,854) and a variable rate Series 2015A Taxable Note in an estimated amount of $2,700,000 (but in no event more than $3,000,000). The Series 2015A Notes will be purchased / funded by Citi.

Following the rehabilitation of the Project and its lease-up ("at permanent"), the Series 2015A Taxable Note will be repaid in full with tax credit equity funds, and the Series 2015A Tax-Exempt Note will be reduced to an estimated principal amount of $11,250,000 bearing interest at a fixed rate. Citi will remain the sole holder/permanent lender.

Series 2015A Note proceeds will fund a portion of the total Project costs, which are currently estimated to be $42,440,829. The sources of funding for the Project's acquisition and rehabilitation phase and permanent phase are estimated as follows:

City of San José
Poco Way Apartments
Plan of Finance – Sources of Funding[1]

Source	Acquisition-Rehabilitation	Permanent
Tax-Exempt Note Proceeds	$ 21,806,066	$ 11,250,000
Taxable Note Proceeds	2,700,000	0
City of San José Loan (assuming payment of all accrued interest)	3,990,632	3,990,632
Seller Carryback (plus accrued/deferred interest)	10,025,885	10,025,884
Tax Credit Equity	1,627,421	16,274,213
General Partner Equity	100	100
Income from Operations	0	900,000
Deferred Costs and Fees	2,290,725	0
Total	$ 42,440,829	$ 42,440,829

Financing History of Project – Key Dates. On June 23, 2014, the Director of Finance held a TEFRA hearing regarding the issuance of tax-exempt multifamily housing revenue bonds in an amount not to exceed $30,000,000 to finance the acquisition and rehabilitation of the Project. On July 10, 2014, the Borrower applied to CDLAC for a private activity bond allocation in the amount of $21,833,054. On September 17, 2014, the City received a private activity bond allocation in the amount of $21,833,054 as requested. On October 15, 2014, the Project received from CTCAC an allocation of federal tax credits of $1,435,795 per year. On January 21, 2015, CDLAC approved an extension in the deadline for the issuance of the Series 2015A Tax-Exempt Note to April 21, 2015.

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.

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

Note Financing Structure

Overview of the Multifamily Note Financing

General. Multifamily housing financing typically involves the issuance of bonds on behalf of private developers of qualifying affordable rental apartment projects. The City typically issues tax-exempt bonds and loans the proceeds to the developer/borrower. The advantages of tax-exempt financing to developers include: below-market interest rates and 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 Series 2015A Notes operate in a very similar manner to multifamily housing 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 2015A 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 revenues 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 2015A Tax-Exempt Notes use a portion of the State's federal tax-exempt private activity cap allocated by CDLAC. The Series 2015A Tax-Exempt Notes also allow the Project to qualify for tax credits provided through the California Tax Credit Allocation Commission ("CTCAC"). The Series 2015A Notes 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.

The note financing structure outlined herein is being utilized because of a ruling of the Office of the Comptroller of the Currency ("OCC") that distinguished loans from bonds for purposes of counting maximum Community Reinvestment Act ("CRA") credit. The change occurred when the regulatory compliance oversight of Citi, one of the lenders for the Project, was shifted to OCC from the Office of Thrift Supervision ("OTS"). OTS had viewed tax-exempt financing activity as lending and not as an investment, whether structured as a bond or note, since proceeds of the financing were loaned to the borrower. However, OCC will only treat tax-exempt bond financing activity as an investment, which is considerably less beneficial to Citi than a loan. Citi believes that the Series 2015A Note financing approach meets OCC's definition of a CRA loan as well as CDLAC's requirements for tax-exempt financing with respect to the Series 2015A Tax-Exempt Notes, and has utilized this structure successfully on many other transactions.

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. This second restriction will be incorporated into the Regulatory Agreement for the Series 2015 Tax-Exempt Notes.

Structure of the Series 2015A Notes

Direct Purchase/Funding Structure. The Series 2015A 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 Project rents. If Citi wishes to transfer either of the Series 2015A Notes, the new Series 2015A Note holder must sign and deliver a similar Investor Letter to the Fiscal Agent. Minimum denominations of each Series 2015A Note will be $100,000.

Principal Amounts and Terms. Based on current projections, the Series 2015A Tax-Exempt Note is anticipated to be issued in the amount of $21,806,066 and the Series 2015A Taxable Note is anticipated to be issued in the amount of $2,700,000[2]. After the Project is rehabilitated and leased up, and conversion to the permanent loan phase occurs (the "Conversion Date"), the principal balance of the Series 2015A Tax-Exempt Note is expected to be paid down to approximately $11,250,000 and the principal balance of the Series 2015A Taxable Note is expected to be paid down in full – each with tax credit equity funds. The Conversion Date is anticipated to be 24 to 30 months after Note closing.

The nominal maturity of the Series 2015A Tax-Exempt Note is anticipated to be 32 years after closing. Principal of the Series 2015A Tax-Exempt Note remaining on the Conversion Date will amortize on a 30-year basis commencing on the Conversion Date. Citi has an option to require the Borrower to prepay the Series 2015A Tax-Exempt Note in full 17 years after Series 2015A Note closing, with six month's prior notice. Assuming the exercise of such mandatory prepayment option, the Borrower will need to refinance the remaining balance of the Series 2015A Tax-Exempt Note or to repay the remaining balance from another funding source.

Interest Rates. During the acquisition and rehabilitation period, the Series 2015A Tax-Exempt Note will pay interest only at a variable rate equal to 30-day LIBOR (London Inter-Bank Offered Rate) plus a margin of 1.40% and the Series 2015A Taxable Note will pay interest only at a variable rate equal to 30-day LIBOR plus a margin of 2.00%.

[2] The resolution authorizes the issuance of up to $21,833,854 of the Series 2015A Tax-Exempt Note and up to $3,000,000 principal amount of the Series 2015A Taxable Note in case the projections change at the time of Closing.

After the Conversion Date, interest on the Series 2015A Tax-Exempt Note will be paid at a fixed rate that is estimated to be approximately 4.60% based off of the 17 year LIBOR swap index plus a spread of 1.55%. After the Conversion Date, the Series 2015A Taxable Note will have been repaid, and will no longer be outstanding.

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 January 27, 2015.

Funding Loan Agreement. The Series 2015A 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 2015A Note proceeds and other funds established under the Agreement; to authenticate the Series 2015A Notes; to apply and disburse payments to the Series 2015A Note holders; and to pursue remedies on behalf of the Series 2015A 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 2015A 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, and provides for the loan of Series 2015A Note proceeds to the Borrower for the acquisition-rehabilitation and permanent financing of the Project, and for the repayment of such loan by the Borrower. The Loan Agreement will be executed by the Director of Finance, or another authorized officer, on behalf of the City. The loan will be evidenced by two notes (the "Loan Notes") in amounts that correspond to the principal amount of Series 2015A Tax-Exempt Note and the Series 2015A Taxable Note. 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 2015A Notes; however, certain reserved rights have been retained by the City, such as the City's right to indemnification.

Assignment of Deed of Trust. The Borrower's loan repayment obligations to the City will be secured by a Deed of Trust, of which the City is the beneficiary. The sole source of funds for the City's repayment of the Series 2015A Notes will be payments from the Borrower under the Loan Notes. At closing the City will assign (without recourse) its rights as beneficiary under the Deed of Trust, thereby permitting the holders of the Series 2015A Notes to pursue the remedies set forth in the Deed of Trust against the Borrower directly.

Regulatory Agreement and Declaration of Restrictive Covenants. This agreement (the "Regulatory Agreement") is among the City, the Fiscal Agent and the Borrower. The Regulatory Agreement contains certain covenants and restrictions regarding the Project 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 Project apartments (except for the one manager's apartment) to low- and very low-income residents for a period of at least 55 years.

Financing Team Participants

The financing team participants for both the Series 2015A Notes consist of:

- City's Financial Advisor: Ross Financial
- Bond Counsel: Hawkins, Delafield & Wood LLP
- Fiscal Agent: U.S. Bank
- Funding Lender: Citibank, N.A.

All costs associated with the Financial Advisor, Bond Counsel and Fiscal Agent are contingent upon the sale of the Series 2015A Notes and will be paid from Series 2015A Note proceeds, tax credit equity and/or Borrower funds.

Financing Schedule

The current proposed schedule is as follows:

- Council Approval of Notes/Note Documents February 10, 2015
- Pre-Close Notes February 18, 2015
- Close Notes February 20, 2015
- CDLAC Deadline for Note Closing April 21, 2015

City Subordinate Financing

City Loan Terms

After pay-down of approximately $1,500,000 at closing of this financing in February 2015, the outstanding balance of the City Loan will be $3,990,632. The City Loan will be assigned to and assumed by the Borrower, and amended and restated loan documents will be executed concurrently with the issuance of the City's Series 2015A Notes. The table below describes the material amendments to the terms of the City Loan and related documents.

Business Term	**Summary of Change**	**Existing City Loan**	**Amended City Loan**
Maturity Date	34-year extension	June 1, 2036	55 years from closing (estimated to be February 2070)
Interest Rate	Increase from 0% simple to approximately 2.41% annually compounding	0% simple	A fixed rate equal to annually-compounding Applicable Federal Rate ("AFR") for February 2015 as published by the IRS (2.41% as of February 2015)

As a part of this transaction, the existing City Loan will be subordinated to the new 2015A Tax-Exempt and Taxable Notes being issued by the City, increasing significantly the amount of senior debt to which the City Loan is subordinate. The senior debt is currently approximately $3.5 million, but will increase to a projected $24.5 million during rehabilitation, then is expected to be paid down to approximately $11.25 million on the Conversion Date as shown in the Sources of Funding section in this Memorandum. Due to the restricted rents of the Project, it is expected that the loan-to-value ratio ("LTV"), taking into account the senior debt and the City Loan during the rehabilitation period, will exceed 140%, which is in excess of the City's maximum LTV guideline of 100%. However, after the Conversion Date and the pay-down of the 2015 Tax-Exempt and Taxable Notes, the combined senior debt and City Loan LTV is expected to be below 80%, well within the City's guidelines. Further, exceeding 100% LTV during the construction phase is now common occurrence for affordable housing developments, and project operations are expected to be feasible after Conversion with debt service coverage on the permanent senior debt of at least 1.20 times. For these reasons, the City's risk is reasonable, and is warranted in order to produce a benefit to the Project's residents and neighborhood by the significant rehabilitation to be performed.

Use of Financing Proceeds

The issuance of the 2015A Notes will generate approximately $3,000,000 of proceeds in excess of those needed for the repayment of the existing senior debt and the rehabilitation of the Project. Normally, all such excess proceeds would be used to pay down the City Loan consistent with the no cash-out limitation new senior financing, but the City has agreed in this instance to allow half of these excess proceeds, approximately $1,500,000, to be paid to Poco HDC for distribution to the Developer (the "Seller Proceeds") under certain conditions. As the Developer shares the City's policy priorities to house homeless individuals and families, and as the Developer is uniquely positioned to serve this population and controls the allocation of valuable housing resources, staff recommends that the Developer and Seller be required to use of the Seller Proceeds in the following manner:

- One-third of proceeds—up to a maximum of $500,000—will be allocated to the Developer's Real Estate pool of funds created by Developer's Board action on December 2, 2014, to be used for the preservation or support of affordable housing properties owned by the Developer that are located in the City of San José. Individual expenditures of this $500,000 will not be subject to City approval but will be made in accordance with the Developer's Board action that established the pool of funds. The City will receive quarterly reporting on the use of these funds.

- Two-thirds of proceeds—approximately $1,000,000—will be deposited in a sub-account controlled by the Developer (not to be co-mingled with other funds) and used to support the creation of a minimum of ten (10) apartments—unless a lesser amount is acceptable to and permitted by the City—in San José that are new or newly-available to chronically homeless people. The funds will be used to support new homeless housing opportunities that are additive to the Developer's existing 100-voucher commitment for homeless units and any VASH or MHSA vouchers for the homeless. The funds may be used in new or existing properties in San José for operating, transition, or services reserves needed to support this population. All expenditures of this $1,000,000 will be subject to City approval.
    - The City will receive quarterly financial statements for the sub-account until all funds are expended, and will receive annual reporting on occupancy, services, and reserve levels as the chronic homeless units are created.
    - The Developer must provide a feasible plan for the expenditure of the funds and creation of new units for chronically homeless people within 12 months.
    - If the funds are not expended as outlined above within 24 months of the presentation of the feasible plan, subject to extension at the City's discretion, remaining funds will be released to the City as a repayment of the City Loan.

Developer has agreed to these requirements for the use of the funds, which will be further defined in the documents negotiated and executed in connection with this transaction.

Consideration to City

In consideration for agreeing to the 34-year extension of the City Loan, its assignment to and assumption by the Borrower, and the payment to the Seller described above, the Borrower has agreed to increase the interest rate from 0% simple to annually-compounding AFR (approximately 2.41%). By allowing the Developer to use a portion of the financing proceeds, the City will support the preservation of existing affordable apartments and will foster the creation of ten (10) apartments newly-available to chronically homeless households, consistent with the high-priority City goal of housing the homeless.

EVALUATION AND FOLLOW-UP

This Memorandum presents the set of recommendations related to the City Council's approval of the issuance of the Series 2015A Notes, which requires no follow-up to the City Council. The Housing Department will report periodically to the City Council on the status of its Homeless

Program strategies, including the creation of housing opportunities for the chronically homeless under this action.

PUBLIC OUTREACH

The method of notifying the community of the City's intent to issue the tax-exempt private activity notes is the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing. The TEFRA Hearing was held on June 23, 2014, with the Director of Finance. The public hearing notice for the June 23, 2014 hearing was published in the *San José Post - Record* on May 19, 2014. This memorandum will be posted on the City's website for the February 10, 2015 Council agenda.

COORDINATION

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

FISCAL/POLICY ALIGNMENT

This action is consistent with the City's *2007-2012 Five-Year Housing Investment Plan*, adopted by City Council on June 12, 2007, to increase and preserve the supply of affordable housing. The City's forthcoming Housing and Neighborhood Investment Plan also will have these priorities. This action is also consistent with the City's *Consolidated Plan 2010-2015* to provide housing for very low- and extremely low-income households. Further, this action also supports the City's priority of creating housing opportunities for homeless households.

COST SUMMARY/IMPLICATIONS

All financing issuance costs will be paid from proceeds of the Series 2015A Notes, tax credit equity, and/or Borrower funds. The Series 2015A Tax-Exempt Note is a tax-exempt obligation and the Series 2015A Taxable Note is a taxable obligation, each secured by a mortgage loan payable from the Project. None of Series 2015A Notes will be paid from, nor secured by, the general taxing power of the City or any other City asset.

City Fees. Based on currently estimated initial sizes of $21,663,067 for the Series 2015A Tax-Exempt Note and $2,500,000 for the Series 2015A Taxable Note, the City will receive an upfront issuance fee of $85,408. The City will also receive an annual fee for monitoring the Project. Under the City's Policy for the Issuance of Multifamily Housing Revenue Bonds applicable to nonprofit borrowers, the annual fee before the Conversion Date is different from the annual fee charged after the Conversion Date. Before the Conversion Date, the annual fee is equal to one-eighth of a point (0.125%) of the initial principal amount of the bonds (or notes); after the

Conversion Date, the annual fee is equal to one-eighth of a point (0.125%) of the principal amount of the bonds (or notes) on the Conversion Date, with a minimum fee of $7,500. Based on this formula, an initial $24,163,067 aggregate principal amount of Series 2015A Notes prior to the Conversion Date and an expected $11,250,000 principal amount of Series 2015A Notes to be outstanding on the Conversion Date, the annual fee will be $30,204 prior to the Conversion Date and $13,875 after the Conversion Date. The Borrower is obligated to pay this fee throughout the 55-year Regulatory Agreement term. If the Series 2015A Tax-Exempt Note matures or is redeemed prior to maturity, the City has the option to require the Borrower to prepay the annual fee due for the remainder of the Regulatory Agreement term.

Appropriation. No appropriation of funds is required at this time. Compensation for the financing team participants (Financial Advisor, Bond Counsel and Fiscal Agent), as well as the costs of the Series 2015A Notes, are contingent on sale of the Series 2015A Notes and will be paid from Series 2015A Note proceeds, tax credit equity and/or Borrower funds. The actions related to issuance proceeds involve the use of funds external to the City budget.

CEQA

Exempt, File No. H95-042.

/s/	/s/
JULIA H. COOPER	JACKY FERRAND-MORALES
Director of Finance	Interim Director of Housing

For questions regarding financing, please contact Julia Cooper, Director of Finance at (408) 535-7011. For questions regarding the subordinate City Loan, please contact Jacky Morales-Ferrand, Interim Director of Housing, at (408) 535-3855.