



CITY OF LONG BEACH

DEPARTMENT OF COMMUNITY DEVELOPMENT

C-12

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

March 14, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

- (1) Adopt the attached Resolution authorizing the re-issuance of Tax-Exempt Multifamily Mortgage Revenue Bonds in an amount not to exceed \$15,236,000 and issuance of Tax-Exempt Multifamily Mortgage Revenue Bonds in an amount not to exceed \$6,000,000 as financing for the Decro Scattered Site Housing Rehabilitation Project;
- (2) Authorize the City Manager to execute all documents necessary to complete this transaction as indicated in the Resolution;
- (3) Approve the amendment of the Fiscal Year 2005-2006 Federal Action Plan to make HOME funds available for the project; and
- (4) Approve the Second Amendment to the Affordable Housing Agreement with Decro Long Beach, L.P., and authorize the City Manager to execute it and all documents necessary or desirable for implementation thereof. (Districts 1, 6 & 9)

DISCUSSION

On March 23, 2004, the City Council adopted a Resolution authorizing the issuance, sale and delivery of Multifamily Mortgage Revenue Bonds for the Decro Scattered Site Rehabilitation (Decro) Project in the amount of \$15,236,000. Subsequent to the City Council action, bonds were issued on April 8, 2004. This is for the rehabilitation of 320 residential units existing in 12 separate buildings scattered throughout the Community.

At the time the bonds were issued, the construction budget was based on initial analysis of the 12 sites encompassing 320 apartments that make up this project. Work was initiated by the project contractor shortly after the bonds were sold, and the majority of work was completed on five of the twelve properties as of March 2005. However,

because of torrential rains in 2004/2005, significant damage occurred to a number of units. The result was an increase in construction costs and relocation costs. The new project scope requires a \$16,984,174 increase in funding from various sources (shown in Attachment "A").

Revised funding sources requiring City action include the following:

- Technical re-issuance for Federal tax purposes of the original bond issue of \$15,236,000. These bonds (Series 2004A) are currently held by Charter Mac Equity Issuer Trust. Changes to the original terms and conditions of the existing bonds, including extension of the original completion date and extension of a lower interest rate through the new completion date to enhance project feasibility, result in the need for a technical re-issuance of the 2004 bonds. Charter Mac will continue to hold the re-issued bonds.

Pursuant to City policy and state law, on March 13, 2006, a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing was conducted in the office of the City Treasurer regarding the potential technical re-issuance by the City of \$15,236,000 in bonds to provide financing for this project.

- A new \$6,000,000 Multifamily Housing Revenue Bond Issue. The issuance of these 2006 Bonds was preliminarily approved by the City Council by a resolution adopted on October 18, 2005. Since project costs have increased, this issuance is necessary to maintain the tax credit equity contribution to the project by satisfying the Internal Revenue Service (IRS) requirement that 50 percent of a tax-exempt project's cost be covered by tax-exempt bond funds. At the conclusion of the project, these bonds will be retired by new tax credit equity supplied by the limited partner, and through additional cash invested in the project by Decro, Long Beach, L.P.

Pursuant to City policy and state law, on October 18, 2005, a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing was conducted in the office of the City Treasurer regarding the potential issuance by the City of \$6,000,000 in bonds to provide additional financing for this project.

- An addition of \$8,000,000 HOME funds to the project loan. The additional funds include \$2,000,000 for project contingency. At the end of the project, any unused contingency will be returned to the City's HOME fund balance. The existing loan includes \$2,000,000 in HOME funds loaned to the project when it was initiated in 2004, and \$1,046,000 in "emergency" HOME funds approved by the Long Beach Housing Development Company (LBHDC) in September 2005. The emergency funds were immediately made available to the project to repair water damage to several of the properties to make them weather-tight during the interim period before the balance of the funding was secured. The total amount of HOME funds that will be committed to this rehabilitation project will be \$11,046,000, or

\$34,519 per unit for 55 years of affordable rents. This amount is significantly less than the cost of new construction of similar units in today's market. These units contribute to meeting the City's Regional Housing Needs Allocation (RHNA) for lower income households.

In order to facilitate the additional HOME funding for the project, it is necessary to modify the HOME Action Plan for this fiscal year. The LBHDC recommended approval of this action in December 2005. The amended Action Plan budget was the subject of a public hearing held by the Community Development Advisory Commission (CDAC) on February 15, 2006. No public comment was received on this matter. The Commission voted unanimously to support the amendment and use of the funds to complete the Decro Project, citing the importance of retaining the affordability of the 320 units for an additional 55 years, the relatively low cost of rehabilitation vs. new construction, and the scattered-site nature of the project as significant pluses. A chart showing the proposed amendment to the Action Plan is shown in Attachment "B". City Council approval is required to adopt the amendment to the Action Plan, which has been included in the recommended action.

Loan and affordability conditions pertaining to this transaction are reflected in an Affordable Housing Agreement with Decro Long Beach, L.P. The new loan terms, adding the funds for the project, require a second amendment to the Affordable Housing Agreement dated February 10, 2004 and amended on December 1, 2005.

To proceed with the additional bond issuance, it is necessary for the City Council to adopt the attached Resolution authorizing the re-issuance of the \$15,236,000 in 2004 Tax Exempt Multifamily Mortgage Revenue Bonds and the issuance of \$6,000,000 in new Tax Exempt Multifamily Mortgage Revenue Bonds for the completion of the rehabilitation of the Decro Scattered Site Properties. A total of \$21,236,000 in bond funds will be issued and used for the project, with \$6,000,000 of this total to be retired at the completion of project construction.

This letter was reviewed by Deputy City Attorney Everett Glenn on March 7, 2006, and Budget Management Officer David Wodynski on March 6, 2006.

TIMING CONSIDERATIONS

City Council action is requested on March 14, 2006, to meet the March 21, 2006 California Debt Limit Allocation Committee deadline for issuance of the bonds.

FISCAL IMPACT

There are two financial elements related to the requested action:

1. There are no direct City costs, other than staff time, related to the bond issue. The developer will repay the bond debt with revenue from project rents. There will be a one-time payment by the developer to the City of \$25,000 to pay for the City's incidental costs related to issuing the bonds. The developer will be responsible for all other professional fees and costs related to the bond issue. Other routine annual costs related to the bonds, such as Trustee fees, will be paid directly by the developer.
2. Additional federal HOME funds must be allocated for the project. To provide the required budget, the City's 2005-2006 Action Plan was amended. There is sufficient funding within the Community Development Grants Fund (SR150) in the Department of Community Development (CD) to cover the total of \$8,000,000 in additional HOME funds being allocated to the project.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



PATRICK H. WEST
DIRECTOR OF COMMUNITY DEVELOPMENT



MICHAEL A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

PHW/ES/LAM/lm

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APPROVED:



GERALD R. MILLER
CITY MANAGER

Attachments:

Attachment "A" – Decro Scattered Site Rehab Project – Sources and Uses Comparison

Attachment "B" – FY 2005-2006 Proposed Action Plan Amendment Chart Resolution