

**REPORT/RECOMMENDATION TO THE BOARD OF GOVERNORS
OF THE HOUSING AUTHORITY OF SAN BERNARDINO
AND RECORD OF ACTION**

August 6, 2019

FROM

MARIA RAZO, Executive Director, Housing Authority of the County of San Bernardino

SUBJECT

Issuance of Multifamily Housing Revenue Bonds by the Housing Authority of the County of San Bernardino for the Arrowhead Grove Phase II Affordable Housing Project

RECOMMENDATION(S)

1. Adopt **Resolution No. 2019-120**:
 - a. Authorizing the issuance of up to \$55,000,000 in multi-family housing revenue bonds to fund construction of the “Arrowhead Grove Apartments Phase II” mixed-income rental housing development, to be located at the Southeast corner of Waterman Avenue and Baseline Street in the City of San Bernardino;
 - b. Approving a Master Pledge and Assignment, a Master Agency Agreement, a Tax Regulatory Agreement, a Paying Agent Agreement; and
 - c. Designating the Chairperson, Vice-Chairperson, Chief Executive Officer or Executive Director of the Housing Authority of the County of San Bernardino (Authorized Officer) to approve non-substantive modifications to such documents, subject to review by Legal Counsel.
 2. Direct the Executive Director of the Housing Authority of the County of San Bernardino to transmit all documents to the Secretary within 30 days of execution.
 3. Acknowledge that the documents provided are subject to revisions as the United States Department of Housing and Urban Development or Authorized Officer, in consultation with Legal Counsel, may require or approve.
- (Presenter: Maria Razo, Executive Director, 332-6305)

Public Comment: None

COUNTY AND CHIEF EXECUTIVE OFFICER GOALS & OBJECTIVES

Promote the Countywide Vision.

Provide for the Safety, Health and Social Service Needs of County Residents.

Pursue County Goals and Objectives by Working with Other Agencies.

FINANCIAL IMPACT

Approval of this item will not result in the use of Discretionary General Funding (Net County Cost). The proposed action does not impact the Housing Authority of the County of San Bernardino’s (HACSB) Federal FY 2018-2019 budget. Repayment of the multi-family revenue bonds (“Bonds”) will be limited to specific private revenue sources and will not be an obligation of HACSB. The developer is responsible for the payment of all costs under the financing, including the HACSB’s bond issuer fees.

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BACKGROUND INFORMATION

HACSB, in coordination with developer partner National Community Renaissance of California (the “Developer”), is seeking approval of the issuance of the Bonds in an amount not to exceed \$55,000,000. Proceeds of the Bonds will fund the development of Arrowhead Grove Apartments Phase II (the “Project”), consisting of 184 residential units, of which 147 units will remain affordable for a period of 55 years, 2 units will be manager’s units, and 35 units will be market-rate units. Including the market-rate units is part of HACSB’s strategy to create a mixed-income, mixed-use community to stimulate economic growth and development activity in the surrounding neighborhood. With 136 affordable housing units already built, the development of the Project will further HACSB’s vision of ultimately developing 411 residential units along with commercial facilities to revitalize the former 1943 Waterman Gardens Public Housing development.

Developer’s Bond Request

On December 12, 2018, the Project received California Tax Credit Allocation Committee (TCAC) approval for \$22,511,869 in 4% tax credits and California Debt Limit Allocation Committee (CDLAC) approval for a \$55,000,000 bond allocation. A team to structure the Project financing, including Bank of America Merrill Lynch (BAML) and JP Morgan Chase & Company (Chase), was competitively procured by the Developer and approved by the San Bernardino Housing Commission (Housing Commission) on January 8, 2019 and HACSB Board of Governors on February 12, 2019 (Item No. 53). The Developer is now requesting HACSB approval for issuance of the Bonds to substantially fund construction of the Project. Once construction has been completed, tax credit equity and other available funds will be utilized to replace a portion of the construction (bond) funding with lower cost permanent funding.

HACSB may utilize its tax-exempt borrowing status to pass on lower interest rate financing (and make federal 4% tax credits available) to developers of affordable housing. The HACSB’s ability to issue bonds is limited under the United States Internal Revenue Code. To issue bonds for a project, HACSB must first submit an application to CDLAC for a tax-exempt multifamily housing revenue bonds allocation. Projects are brought before the Housing Commission, HACSB Board of Governors and local City Council prior to submitting applications to CDLAC. HACSB bond inducement resolutions must be obtained prior to CDLAC application submittal and a City Council Tax Equity, and a Fiscal Responsibility Act (TEFRA) resolution must be secured no later than 30 days after application submittal. The Board of Governors approved the bond inducement resolution on August 7, 2018 (Item No. 33) and the San Bernardino City Council approved the TEFRA resolution on September 5, 2018.

Bonds issued by HACSB to fund construction and permanent loans will not constitute a debt to the County. If the Bonds are ultimately issued for the Project, the Bonds will not be financially obligated to the County or HACSB because security for the repayment of the Bonds will be limited to the specific private revenue sources of the multifamily housing development. Neither the faith and credit, nor the taxing power of the County or HACSB will be pledged to the payment of the Bonds. The Developer is responsible for guaranteeing the loans and the payment of all costs under financing. All financing documents and agreements for the Project are presented in separate items today for approval by the HACSB Board of Governors.

Other Sources of Financing

The estimated total development cost of Arrowhead Grove Phase II is \$79,561,750 for 184 units. Besides the 4% tax credit equity and Bonds, a primary source of development financing is

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\$20,000,000 in Affordable Housing and Sustainable Communities (AHSC) funding awarded to the Project by the State of California Strategic Growth Council. The AHSC funds consist of a \$17,422,714 loan specifically for the affordable housing development, and a grant of \$2,577,286 to be used to support transportation related amenities and infrastructure in the community surrounding the site. The balance of funding required to complete the Project is in the form of soft loans in the amount of \$3,412,000 and a land lease loan in the amount of \$970,000 from HACSB, HOME funding from the County of San Bernardino (County) in the amount of \$2,900,000, the City of San Bernardino in the amount of \$2,330,000 and the NCRC Sponsor Loan (Dignity Health) in the amount of \$1,200,000. Overall estimated construction and permanent financing sources are summarized below:

SOURCES: CONSTRUCTION	AMOUNT	SOURCES: PERMANENT	AMOUNT
Construction Loan Bank of America	\$55,000,000	Acquisition Costs/Closing	\$970,000
4% Tax Credit Equity - Bank of America	\$5,003,607	Architectural Fees & Permits	\$7,059,901
City of San Bernardino - NSP & HOME	\$2,330,000	Construction Costs	\$53,295,617
County of San Bernardino HOME Funds	\$2,900,000	Indirect Construction/Legal	\$1,578,808
HACSB Development Loan	\$3,412,000	Developer's Fee	\$3,000,000
HACSB Land Lease Loan	\$970,000	Rent-Up Costs/Reserves	\$1,867,309
Deferred Costs During Construction	\$2,346,143	Deferred Developer's Fee Equity Contribution	\$6,400,000
Deferred Developer's Fee Equity Contribution	\$6,400,000	Financing Costs	\$5,390,115
NCRC Sponsor Loan (Dignity Health)	\$1,200,000		
Total	\$79,561,750	Total	\$79,561,750

Public Disclosure and Bond Authorization

The Bonds will be sold through a private placement, purchased directly by BAML who will serve as the construction lender. Upon completion of construction and achievement of certain conditions precedent to conversion to the permanent phase, the remaining portion of the Bonds will be purchased directly by Chase who will serve as the permanent lender for the Project. Both BAML and Chase (private lenders) are "qualified institutional buyers" within the meaning of U.S. securities laws. At closing, each of the private lenders each will sign an "Investor's Letter" certifying, among other things, that it is buying the Bonds for its own account and not for public distribution. Because the Bonds will be sold through a private placement, an Official Statement will not be used. In addition, the Bonds will not be subject to continuing disclosure requirements nor will they be credit enhanced or rated. When bonds are issued through a public offering, a third party trustee administers bond proceeds, collects project loan payments, makes bond debt service payments, and protects the interest of bondholders. Under the private placement structure for this transaction, the Bonds private lender will act as both the bond owner's representative (in lieu of a trustee) and as the bondholder/lender. The transfer of the Bonds by

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the lender or any subsequent bondholder will be subject to approval by the HACSB Board of Governors. The transfer of Bonds will also be restricted to transferees who would purchase all of the Bonds (to maintain ownership by a single bondholder), make certain representations to the Authority in the form of an investor letter that they are qualified institutional buyers or accredited investors who are buying the Bonds for investment purposes and not for resale, and have made due investigation of the information they deem material in connection with their purchase of the Bonds.

The following principal documents are required to be executed on behalf of the HACSB:

Master Pledge and Assignment (between the HACSB and the lender in its respective capacities as Agent and Bondholder):

Under the terms of the Master Pledge and Assignment, HACSB is the lender in its capacity as Agent and as initial Bondholder. As the initial Bondholder HACSB will issue the Bonds and as Agent will loan the proceeds of the Bonds to the borrower for the purpose of developing the Project. The Master Pledge and Assignment sets forth the terms for the security of the Bonds, and for HACSB and the Agent to assign their respective rights to certain collateral, including payments on the loan and to the lender within its capacity as Bondholder. Any transfer by the lender within its capacity as either Bondholder or Agent will be subject to the approval of the HACSB.

Master Agency Agreement (among the HACSB and the lender, as Agent):

Pursuant to the Master Agency Agreement between the HACSB and the lender, the HACSB will appoint the lender as agent of the HACSB for the purpose of making a loan to the borrower pursuant to a loan agreement entered into between the lender and the borrower. Pursuant to the Master Agency Agreement, the lender acts as Agent for the HACSB in respect of the enforcement of certain rights including the right to collect and enforce the collection of loan payments, monitor Project construction and related budgets, enforce the maintenance of required insurance, and enforce other covenants and requirements. These rights will be used by the lender to protect its financial interests in respect of the loan, and to provide information and meet certain reporting obligations of the HACSB, in its capacity as Agent.

Tax Regulatory Agreement (between the HACSB and the borrower):

A Tax Regulatory Agreement will be executed by the HACSB and the borrower, and will be recorded against the property in order to ensure the long term use of the Project as affordable housing and to ensure that the Project complies with all applicable federal and California laws.

Paying Agent Agreement (between the lender and the borrower):

Pursuant to the Paying Agent Agreement between the lender and the borrower, the borrower will appoint the lender as paying agent and bond registrar for the bonds.

Other Bond Documents

The HACSB is expected to execute miscellaneous certificates and receipts required in furtherance of the principal bond documents and in connection with the closing of the transaction.

The Project is consistent with the housing needs identified in the County's 2015-20 Consolidated Plan. The resolution allows for non-substantive modifications to documents or

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exhibits attached to the principal bond documents in order to conform to the transaction. In addition, the resolution allows for the execution of a subsequent Regulatory Agreement, which will ensure the long term use of the Project as affordable housing available for low-income families. The resolution also will permit the Authorized Officer to complete the bond process, allowing the agent (lender) to disburse the funds for the Borrower to start construction.

The proceeds of the Bonds will be utilized to implement the Countywide Vision through the provision of affordable rental housing in support of a well-planned, balanced, and sustainable county.

The County's Debt Advisory Committee (DAC) reviewed this item on July 29, 2019. The San Bernardino County Housing Commission reviewed this item on July 16, 2019, and recommended approval to the Board of Governors.

PROCUREMENT

Not applicable.

REVIEW BY OTHERS

This item has been reviewed by County Counsel (Robert Messinger, Principal Assistant County Counsel, 387-8979) on July 22, 2019; Finance (Kathleen Gonzalez, Administrative Analyst, 387-5412) on July 23, 2019 and Finance and Administration (Robert Saldana, Deputy Executive Officer, 387-4599) on July 29, 2019.

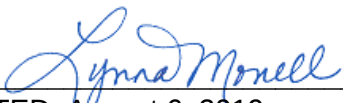
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Record of Action of the Board of Governors
Housing Authority of the County of San Bernardino

APPROVED

Moved: Dawn Rowe Seconded: Sylvia Miller
Ayes: Josie Gonzales, Curt Hagman, Robert A. Lovingood, Sylvia Miller, Jessie Muñoz, Dawn
Rowe, Janice Rutherford

Lynna Monell, SECRETARY

BY 
DATED: August 6, 2019



cc: File - JPA-Housing Authority of the County of San Bernardino
jll 08/8/2019