

**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

Arrowhead Grove Phase II Affordable Housing Project Financial Closing Documents

RECOMMENDATION(S)

1. Adopt Resolution No. 2019-118:

- a. Authorizing the Housing Authority of the County of San Bernardino to enter into a Development Loan Agreement with Waterman Gardens Partners 2, L.P. in a total amount not to exceed \$3,412,000 for the construction of Arrowhead Grove Phase 2 Affordable Housing Project.
- b. Approve documents ancillary to the Development Loan Agreement(s) including:
 - i. Promissory Note
 - ii. Deed of Trust
 - iii. Regulatory Agreement
- c. Approve a Ground Lease Agreement between the Housing Authority of the County of San Bernardino and Waterman Gardens Partners 2, L.P.
- d. Approve a Ground Lease Loan Agreement between the Housing Authority of the County of San Bernardino and Waterman Gardens Partners 2, L.P. in an amount not to exceed \$970,000 and documents ancillary to the Ground Lease Loan Agreement including:
 - i. Promissory Note
 - ii. Deed of Trust
- e. Approve documents required by the U.S. Department of Housing and Urban Development to complete the conversion of the former public housing units to project-based vouchers under the Rental Assistance Demonstration program including:
 - i. Rental Assistance Demonstration Delayed Conversion Agreement
 - ii. Rental Assistance Demonstration Housing Assistance Payment Contract
 - iii. U.S. Department of Housing and Urban Development Subordination Agreements
 - iv. Releases of Declarations of Trust
 - v. U.S. Department of Housing and Urban Development Use Agreement
 - vi. Consolidated Owner Certification
- f. Approve an Amended and Restated Reciprocal Easement Agreement
- g. Approve a Temporary License and Construction Agreement
- h. Approve a Partial Assignment of Development Agreement and Letter Agreement
- i. Approve Bank Subordination Agreements
- j. Approve an Option Agreement and Right of First Refusal Agreement
- k. Authorize the Chairperson, Vice-Chairperson, Chief Executive Officer, or the Executive Director, upon consultation with Legal Counsel, to make non-substantive modifications, execute and deliver the Loan Agreements, Ground Lease Agreement, and Rental Assistance Demonstration program related documents and the ancillary documents necessary to carry out and close the transaction.

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- I. Direct the Executive Director to transmit all documents and amendments to the Secretary within 30 days of execution.
2. 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)

Note: See related Board of Supervisors Item #15 from the 08/06/2019 Board of Supervisors Meeting.

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 use of Discretionary General Funding (Net County Cost). The Housing Authority of the County of San Bernardino (HACSB) will use annually allocated federal capital resources to fund the capital loan of \$2,300,000 (Item No. 51 - previously approved by HACSB on July 24, 2018) and local unrestricted funding to fund the additional \$1,112,000 loan resulting in a total loan amount of \$3,412,000. HACSB shall also contribute the appraised value of the land to the project in the form of a Ground Lease loan in the amount of \$970,000, bringing HACSB's overall commitment for Phase II to \$4,382,000. HACSB has included funding to support the Waterman Gardens Redevelopment in each year of the Capital Fund program's five year plan as indicated in HACSB's annual Moving to Work Plan, therefore approving this action will not change HACSB's Federal FY 2018-2019 budget.

BACKGROUND INFORMATION

Waterman Gardens, a 252 unit Public Housing site, is the second oldest Public Housing site in the County of San Bernardino and has been operated by HACSB since its development in 1943. One of the goals is to place the property under local control and renovate this part of the City of San Bernardino through reinvention of Waterman Gardens into Arrowhead Grove. HACSB, in partnership with National Community Renaissance of California (NCRC), the City of San Bernardino and the County of San Bernardino has lead a collaborative community and economic development effort in the development of Arrowhead Grove as mixed income and mixed use community. HACSB has been pursuing this revitalization vision by demolishing the 76 year old buildings and developing 411 new residential units and commercial space. To date, 136 new affordable housing units have already been built and occupied. The HACSB governing board is being asked to consider the approval of the next phase of Arrowhead Grove which consists of 184 multifamily housing units (including 147 units affordable to low income families) and includes the construction of significant infrastructure improvements. The actions before HACSB governing board includes the conversion of the former Public Housing into a private development and to approve \$4,382,000 of capital funds to help finance the overall development. HACSB monies will be leveraged with over \$70,000,000 in other funding to continue the build-out of Arrowhead Grove.

Financing Plan

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The development team successfully secured a variety of loan commitments to undertake the construction and permanent resources to construct and operate the next 184 unit phase of Arrowhead Grove. Below is a summary of the construction and permanent financial resources:

Construction Financing Plan:

SOURCES: CONSTRUCTION	AMOUNT	USES: CONSTRUCTION	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

Permanent Financing Plan:

SOURCES: PERMANENT	AMOUNT	USES: PERMANENT	AMOUNT
JP Morgan Chase Perm Loan	\$19,909,000	Acquisition Costs/Closing	\$970,000
4% Tax Credit Equity - Bank of America	\$25,018,036	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	\$2,900,000	Indirect Construction/Legal	\$1,578,808
HACSB Development	\$3,412,000	Developer's Fee	\$3,000,000

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SOURCES: PERMANENT	AMOUNT	USES: PERMANENT	AMOUNT
Loan			
HACSB Land Lease Loan	\$970,000	Deferred Developer's Fee Equity Contribution	\$6,400,000
AHSC HCD Funding	\$17,422,714	Lease Up Costs/Reserves	\$1,867,309
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

Total development cost per unit is \$432,401 and the total for 184 units equals \$79,561,750. The cost per unit includes the development of the 184 units, a retention basin, ancillary parking and off-site improvements to Olive Street and Baseline Road. As part of the financing package, the California Strategic Growth Council (SGC) awarded the project \$20,000,000 under the Affordable Housing and Sustainable Communities (AHSC) program. \$17,422,714 of the \$20,000,000 will become the permanent loan for the project and \$2,577,286 comprises the AHSC grant which will fund specific improvements that will enhance the surrounding community in regards to public transit, bike routes, and new sidewalks, providing safe routes to schools for local children. Unique to this project is the NCRC Sponsor loan through which Dignity Health is providing NCRC short term financing in the amount of \$1,200,000 to assist with the addition of market rate rental units on site, thus solidifying the "mixed-income" community concept. There is sufficient cash flow in the project to pay the NCRC sponsor loan off within 5 years of construction completion.

Implementation Actions

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

Ground Lease and Ground Lease Loan Agreements (between HACSB and the Limited Partnership in its respective capacities as Property Owner (Lessor) and Property Developer (Lessee)): HACSB will lease approximately 9 acres of the former Waterman Gardens public housing site in San Bernardino to the Limited Partnership developing Phase II (184 units) of the new Arrowhead Grove rental housing development for a term of ninety (90) years. The lease shall be financed by a Ground Lease Loan in the amount of \$970,000 representing the current appraised value of the leased premises.

Development Loan Agreement (between HACSB and the Limited Partnership in its respective capacities as Lender and Borrower): HACSB will provide a capital loan to the Limited Partnership in the amount of \$3,412,000 for the purpose of assisting in the construction of the project. The loan will be a below market interest rate, residual receipts loan with a 55 year term and will be subordinate to the permanent tax-exempt bond loan. An associated Regulatory Agreement will be recorded requiring that the housing remain affordable to lower-income families over the term.

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Rental Assistance Demonstration (RAD) Program Agreements (between HACSB and the Limited Partnership in its respective capacities as Contract Administrator and Owner): HACSB will enter into various RAD Program Agreements with the Limited Partnership, as required by the U.S. Department of Housing and Urban Development (HUD) to provide long-term rental assistance in the form of Project-based housing choice vouchers for 116 of the 184 housing units to be constructed. Included will be a RAD Housing Assistance Payments (HAP) Contract providing the terms and conditions for receipt of HUD rental subsidies over a twenty (20) year term (renewable for an additional 20 years). Also included will be a RAD Conversion (or Delayed Conversion) Commitment outlining RAD program requirements and timing of the subsidies to be provided.

Ancillary Documents: HACSB will execute documents ancillary to the above Agreements, including Promissory Notes, Deeds of Trust, and Regulatory Agreements associated with the Loan Agreements. HACSB will also execute a Temporary License and Construction Agreement authorizing NCRC to enter the property to construction improvements and an Option Agreement and Right of First Refusal to allow HACSB to purchase the project at the end of the fifteen year tax credit compliance period. For the RAD transaction, HUD also requires Subordination Agreements, releases of the HUD Declarations of Trust on the underlying land, a HUD Use Agreement, a Consolidated Owner Certification and other Certifications and Assurances. Other miscellaneous documents required to be executed in order to close the financing include an Amended and Restated Reciprocal Easement Agreement, a Partial Assignment of Development Agreement and Letter Agreement, and Bank Subordination Agreements.

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, 387-5423) on July 29, 2019.

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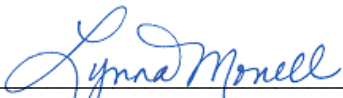
Record of Action of the Board of Governors
Housing Authority of the County of San Bernardino

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 w/
attachments

jll 08/7/2019