

Folsom City Council Staff Report

MEETING DATE:	3/25/2025
AGENDA SECTION:	New Business
SUBJECT:	Resolution No. 11346 - A Resolution of the City of Folsom Approving Revisions to the Repayment Terms of an Approved Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc., for the Construction of 52 Affordable Housing Units at the Harrington Grove Multifamily Affordable Housing Development
FROM:	Community Development Department

RECOMMENDATION / CITY COUNCIL ACTION

Move to Adopt Resolution No. 11346 - A Resolution of the City of Folsom Approving Revisions to the Repayment Terms of an Approved Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc., for the Construction of 52 Affordable Housing Units at the Harrington Grove Multifamily Affordable Housing Development

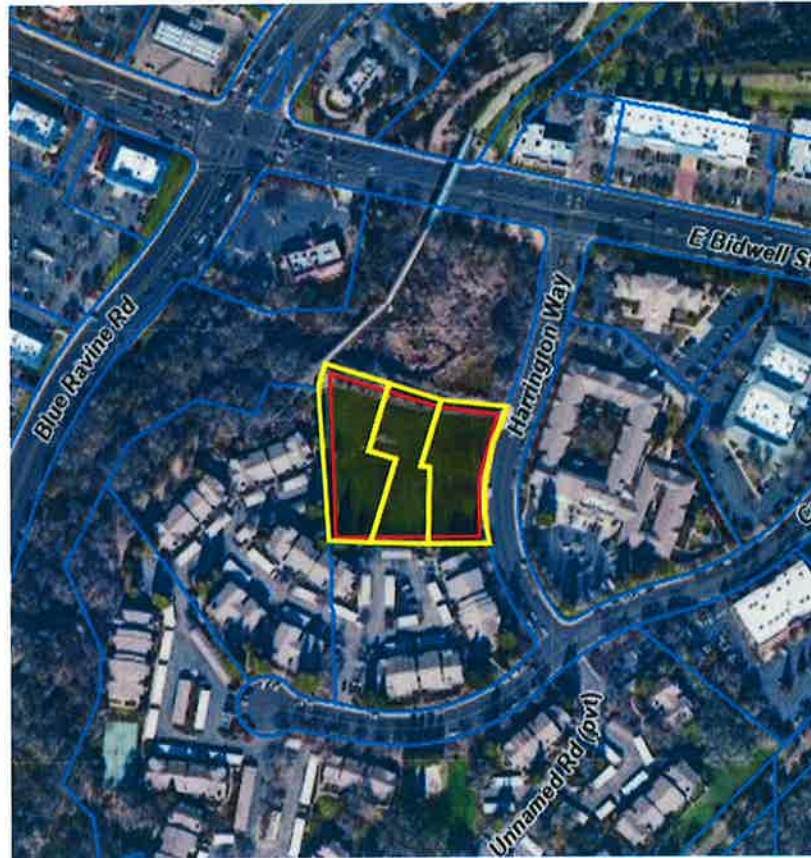
BACKGROUND / ISSUE

On November 20, 2024, the Planning Commission approved a Design Review and Density Bonus application for the Harrington Grove Apartments Project. The Harrington Grove Apartments multifamily project is a new construction, 100 percent affordable multifamily rental development. It will be constructed on a 1.74-acre site located on the west side of Harrington Way, approximately 330 feet south of the intersection of Harrington Way and East Bidwell Street at the address 791 Harrington Way. The approved project consists of 52 one-, two- and three-bedroom units affordable to low-, very-low, and extremely-low-income households.

The project site is located at 751, 771, and 791 Harrington Way in Folsom; south of East Bidwell Street and west of Blue Ravine Road. The neighborhood surrounding the site consists primarily of other multifamily apartment complexes and medical office buildings and located within the East Bidwell Mixed-use overlay. In addition, The development site is strategically located within a half of mile of several amenities. These amenities include full-service grocery stores (Sprouts & Trader Joe's), big-box retail stores (Target and Petco), local retail options (Trail Creek Crossing),

and healthcare facilities (Mercy Hospital, Bare Pharmacy, Kids Care Dental). Additionally, the site is adjacent to the Humbug Willow Creek Trail, bike and pedestrian pathway.

FIGURE 1: HARRINGTON GROVE PROJECT SITE AERIAL PHOTOGRAPH



In the Spring of 2024, West Development Ventures (an affiliate of The Pacific Companies) requested \$2.7 million in gap financing from the City to assist with the construction of the proposed Project. In evaluating the applicant's request for an affordable housing loan in the amount of \$2.7 million to facilitate the development of a 52-unit affordable multifamily housing project, the City's affordable housing loan consultant, TDA Consulting, Inc. (TDA), conducted a preliminary review of the developer's financial proforma projections and project funding information. The preliminary project's assumptions, methodologies, and calculations were reviewed and evaluated for reasonableness and accuracy. Based on TDA's analysis of a limited set of due diligence documents provided by West Development Ventures including a high-level executive summary, land purchase agreement, conceptual site plan, and early stage proforma TDA found that the proposed Harrington Grove project was generally structured within the range of broadly accepted industry norms for multifamily affordable housing transactions and that the loan amount of \$2.7 million was supported as a reasonable amount to support the project.

On July 23, 2024, the City Council adopted Resolution No. 11234, conditionally approving an affordable housing loan, in the amount up to \$2,700,000, to construct the Harrington Grove Apartments project, with the loan commitment contingent on West Development Ventures securing a 4 percent LIHTC award during the August 2024 round, among other conditions.

On December 11, 2024, the Harrington Grove project successfully secured a bond allocation from the California Debt Limit Allocation Committee (CDLAC). Shortly after, the developer informed the City that some funding sources had changed from what was originally anticipated.

Initially, the developer's proposal included the use of an additional State Tax Credit, which would contribute approximately \$4 million in proceeds to the project. The use of the State Tax Credit significantly reduced their funding request to the City. However, during the final application stage, the developer consulted with experts and discovered that the "additional" State Tax Credit would be highly oversubscribed in the August 2024 funding round. Thus, in order to increase their chances of securing the CDLAC Tax-Exempt Bond allocation, the developer opted to apply without the State Tax Credit.

The absence of the additional State Tax Credit created a \$4 million funding gap for the project. Rather than requesting additional City housing funds, the developer was able to successfully partner with private investors to address the funding shortfall. Due to the low yield and long-term return horizon for the investors, they require repayment of 75 percent of the residual cash flow. This requires the City to consent to modifying the initially approved loan repayment terms, decreasing the City's repayment obligation from 50 percent to 25 percent of the residual cash flow. As a result, the City Council is now being asked to approve a modified term sheet, which adjusts the repayment of the \$2.7 million loan to 25 percent of residual cash flow, instead of the previously approved 50 percent.

POLICY / RULE

Financial support of affordable housing projects is consistent with the City's Housing Element Goal of facilitating affordable housing.

ANALYSIS

As previously discussed, the developer's initial proposal included the use of additional State Tax Credit, contributing approximately \$4 million in proceeds to the project, which significantly reduced their funding request to the City and/or the necessity to pivot to a 9 percent allocation to generate additional equity. However, during the final application stage, the developer consulted experts and identified that the "additional" State Credit would be highly oversubscribed in that round. To increase their chances of securing the CDLAC Tax Exempt Bond allocation, the developer opted to apply without the "additional State Credit." This assessment proved to be correct, as out of the 11 projects in the Northern Region that applied, only 3 were awarded, and none of the awarded projects included state credit requests.

The absence of the "additional" State Credit created a \$4 million funding gap for the project. In lieu of requesting additional funds from the City, the developer approached private investors to utilize a Tax Exempt B-Bond Structure that is typically only used on larger projects in high income counties such as San Mateo, Orange, etc. The yield to the investor is low and is not recapitalized over a very long-time horizon. As such, they require that at least 75 percent of residual cash flow goes to the B-Bond. As such, Pacific West provided an updated pro forma which included the

aforementioned requirements from the private investor. The original City loan amount of \$2,700,000 approved by City Council remained unchanged.

In order to evaluate the applicant's updated pro forma, the City once again engaged the services of TDA Consulting, Inc. TDA conducted a thoughtful review of the developer's updated financial pro forma. The Project's assumptions, methodologies, and calculations were reviewed and evaluated for reasonableness and accuracy. In addition, secondary sources of information (including the term sheet for the B-Bonds) were consulted to confirm or validate the pro forma and additional information was requested of the Project developer to clarify or support specific items in the updated pro forma.

Based on TDA's analysis, they found the developer's request to be reasonable and did not pose a viability risk. The main change involves the "cost" to the City, which relates to the time-value of repaying the funds. The proposed structure results in the City holding more debt, necessitating refinancing during future recapitalization efforts. Additionally, TDA presented City staff with several recommended revisions to the Term Sheet regarding final disbursement, cost savings provisions, and replacement reserves to benefit the City. These revisions have also been incorporated into the updated Term Sheet.

Given the increasingly competitive nature of securing CDLAC Tax Exempt Bond allocations and the relatively small request of \$2.7 million from the City's \$22 million of housing funds currently available to assist affordable housing projects, city staff supports the revised repayment loan terms as discussed above and as specified in the Loan Term Sheet for the project (Attachment 4).

The total project development costs are estimated to be approximately \$24.3 million, with the majority of the funding expected to come from Tax-Exempt B-Bonds and a permanent loan. The City loan will carry a three percent simple interest rate for a 35-year term. Furthermore, the developer proposes that the loan be repaid with 25 percent of residual cash flow.

Loan Terms

A term sheet outlining the conditions of the loan has been prepared and is included in the staff report (Attachment 4). Key specifics of this term sheet include:

1. Loan amount not to exceed \$2,700,000
2. 3% simple interest
3. 35-year repayment term
4. Repayment equal to 25% of residual cash flow
5. At expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due and payable.

Overall, TDA's analysis of the Project financial proformas and Project details indicates that the requested reduction in loan repayment of 2-5 percent residual cash flow for the \$2,750,000 loan is reasonable. Furthermore, given that the Project has entitlements in place and is further along in the process, staff is recommending that the City Council approved the revised repayment loan terms as discussed above.

FINANCIAL IMPACT

Funding for the requested affordable housing loan for this project is available from the City's housing funds. The requested funding, \$2,700,000, will come from the Folsom Housing Fund (Fund 238). The financial impact of making the noted changes to the loan term sheet will result in a delay in repayment of the loan balance of \$2,700,000 and accrued interest to Fund 238 and will not impact the City's General Fund. As of March 2025, the City's combined housing fund balance is approximately \$22 million in funds available to assist future affordable housing projects.

The above-identified funding will only be provided upon proof, satisfactory to the City, West Development Ventures has financing commitments from all other sources of project financing necessary to fund the project.

ENVIRONMENTAL REVIEW

The Harrington Grove Multifamily project is exempt from environmental review under the California Environmental Quality Act (CEQA) by Section 15183 (Projects Consistent with a Community Plan or Zoning) of the CEQA Guidelines.

ATTACHMENTS

1. Resolution No. 11346 - A Resolution of the City of Folsom Approving Revisions to the Repayment Terms of an Approved Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc., for the Construction of 52 Affordable Housing Units at the Harrington Grove Multifamily Affordable Housing Development
2. Loan Term Sheet
3. Site Plan and Project Elevations
4. City Housing Fund Summary

Submitted,

A handwritten signature in blue ink, appearing to read "Pam Johns", with a long horizontal flourish extending to the right.

Pam Johns, Community Development Director

ATTACHMENT 1

A Resolution of the City of Folsom Approving Revisions to the Repayment
Terms of an Approved Affordable Housing Loan in the Amount of
\$2,700,000 from the City's Housing Fund to Pacific West Communities,
Inc., for the Construction of 52 Affordable Housing Units at the Harrington
Grove Multifamily Affordable Housing Development

RESOLUTION NO. 11346

A RESOLUTION OF THE CITY OF FOLSOM APPROVING REVISIONS TO THE REPAYMENT TERMS OF AN APPROVED AFFORDABLE HOUSING LOAN IN THE AMOUNT OF \$2,700,000 FROM THE CITY'S HOUSING FUND TO PACIFIC WEST COMMUNITIES, INC., FOR THE CONSTRUCTION OF 52 AFFORDABLE HOUSING UNITS AT THE HARRINGTON GROVE MULTIFAMILY AFFORDABLE HOUSING DEVELOPMENT

WHEREAS, West Development Ventures (an affiliate of Pacific West Communities, Inc.) is the developer of the proposed Harrington Grove Apartment project, located at 751, 771, and 791 Harrington Way in Folsom, south of East Bidwell Street and west of Blue Ravine Road; and

WHEREAS, the development plan includes a mix of one-, two-, and three-bedroom units, with 25 percent of the units targeted at or below 50 percent of the Area Median Income (AMI), including more than 10 percent at 30 percent AMI which will help the City fulfill its lower-income regional housing needs allocation (RHNA) for very-low income and extremely low-income households; and

WHEREAS, on July 23, 2024, the City Council adopted Resolution No. 11234, conditionally approving an affordable housing loan, in the amount up to \$2,700,000 for the project; and

WHEREAS, on December 11, 2024, the Harrington Grove project successfully secured a bond allocation from the California Debt Limit Allocation Committee (CDLAC).; and

WHEREAS, initially, the developer's proposal relied on an additional State Tax Credit to provide around \$4 million for the project, reducing their funding request to the City. However, they later found out that the State Tax Credit would be highly oversubscribed; and

WHEREAS, to improve their chances of securing the CDLAC Tax-Exempt Bond allocation, they decided to apply without the State Tax Credit; and

WHEREAS, in lieu of asking for more funds from the City, the developer turned to private investors to use a Tax Exempt B-Bond Structure which requires repayment of 75 percent of the residual cash flow, and

WHEREAS, this requires the City to consent to modifying the initially approved loan repayment terms, decreasing the City's repayment obligation from 50 percent to 25 percent of the residual cash flow; and

WHEREAS, providing financial assistance to affordable housing projects is consistent with the Goal H-3: Facilitating Affordable Housing in the City's Housing Element; and

WHEREAS, given the increasingly competitive nature of securing CDLAC Tax Exempt

Bond allocations and the relatively small request of \$2.7 million from the City's \$22 million of housing funds currently available to assist affordable housing projects, city staff supports the revised repayment loan terms; and

WHEREAS, the primary term of the affordable housing loan will be 35 years at three percent simple annual interest, to be repaid with a share of residual cash flow to be generated from the project with repayment terms subject to approval by the Finance Director; and

WHEREAS, receipt of all loan repayments will be deposited into the City's Housing Fund (Fund 238) and will be used to provide future assistance for affordable housing.

NOW, THEREFORE BE IT RESOLVED by the City Council of the City of Folsom that the City Council does hereby approve revisions to the repayment terms of an approved housing loan in the amount up to \$2,700,000 to Pacific West Communities, Inc., to construct the 52-unit affordable multifamily project known as Harrington Grove located at 751, 771, and 791 Harrington Way, subject to the borrower entering into an affordable housing loan agreement in a form acceptable to the City Attorney.

BE IT FURTHER RESOLVED that the City Manager is authorized to execute an affordable housing loan agreement, and other related documents, consistent with and in furtherance of this Resolution.

PASSED AND ADOPTED this 25th day of March 2025 by the following vote, to wit:

AYES: Councilmember(s):

NOES: Councilmember(s):

ABSENT: Councilmember(s):

ABSTAIN: Councilmember(s):

Sarah Aquino, MAYOR

ATTEST:

Christa Freemantle, CITY CLERK

ATTACHMENT 2

Loan Term Sheet

Loan Term Sheet
Harrington Grove
City of Folsom
February 20, 2025

1. Lender: City of Folsom
2. Borrower: Limited partnership to be created for this Project ("Owner")
 - a. General Partners:
 - i. Pacific West Communities, Inc (or related party)
 - ii. West Development Ventures, LLC
 - iii. Central Valley Coalition for Affordable Housing
3. Loan Amount: Not to exceed \$2,700,000
4. Purpose: Construction and operation of a 52-unit affordable apartment project that will be deed restricted for 55 years. The planned affordability mix is six (6) units at 30% Area Median Income ("AMI"), seven (7) units at 50%AMI, 27 units at 60% AMI and 11 units at 80% of the AMI and one unrestricted manager's unit.
5. Timing of Funding: The City's loan will be funded in conjunction with either (a) the primary construction loan or (b) issuance of building permits, whichever is later.
6. Project Completion & Final Disbursement: The City will retain 5% of the total loan amount for final disbursement until project completion. Project completion will be defined as:
 - a. Issuance of a final certificate of occupancy for the project; and
 - b. Evidence satisfactory to the City that the project has been completed lien free and substantially in accordance with the final architectural plans and specifications; and
 - c. Evidence satisfactory to the City that all required project reserve accounts (e.g., operating reserve, replacement reserve) are fully funded.
7. Interest Rate: 3% per annum simple interest.
8. Annual Payments: Annual payments on the City's loan will be equal to 25% of the "Residual Cash Flow" generated by the project. "Residual Cash Flow" is defined as all rental and other income generated by the project after:
 - a. Payment of typical operating expenses for the project, including:
 - i. Property Management Fee not to exceed 3.93% of the project's effective gross income.
 - ii. Advertising, legal, accounting, security, and other general office administration expenses.
 - iii. Utilities
 - iv. Payroll expenses and payroll taxes
 - v. Maintenance, repairs, grounds, pool & turnover costs
 - vi. Property insurance
 - vii. Taxes and assessments
 - viii. Costs of social service programs offered to residents

- b. Cash deposited into a reserve for capital replacements of project improvements (\$250/unit/year inflating at 3.5% annually) and/or an operating reserve in such reasonable amounts as are required by the City, other project lenders, and/or tax credit investor.
- c. Payment of the first mortgage debt service;
- d. Payment of Asset Management Fees for as long as the tax credit investor remains the limited partner of the partnership (typically 15 years) not to exceed \$7,500 annually; and
- e. Payment of Asset Management Fees to the non-profit Managing General Partner for their management duties at \$100 per unit per year escalating at no more than 3% per year thereafter; and
- f. Payment of any Deferred Developer Fee that is due to the developer per the borrower's final cost certification as accepted by the City.

These categories as listed above shall not materially change without written approval of the City for the purposes of calculating the annual payment.

9. Loan Term: 35 years. Balance of loan will be due on sale or refinancing (subject to the "Refinancing" section below).
10. Affordability Period: 55 years, as evidenced by a deed restriction on title to be signed at closing.
11. Balloon Payment: At the expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due.
12. Refinancing: In the event of refinancing, the City will subordinate to the new senior loan on substantially similar terms as the original financing and will receive a principal payment from 50% of the net new senior loan proceeds equal to up to 50% of the outstanding principal balance of the City loan, or, if the total outstanding balance of the City loan is less than 50% of the net new senior loan proceeds received by the Developer, then the total balance due to the City.
13. Conditions: The funding of the City loan is conditioned on the following:
 - a. The project has secured the unconditional commitment of all funding sources necessary to develop the project pursuant to the pro forma, including the construction loan, the permanent loan, and 9% tax credit equity (or such substitute financing as may be available from TCAC).
 - b. The Developer has purchased fee ownership of the land.
 - c. The project has secured all building permits and is ready to begin construction.
 - d. In the event of cost overruns in development of the project, the Developer will defer as much of its estimated developer fee as IRS requirements permit prior to requesting any additional funding from the City.
14. Reporting: Developer will provide the City with annual audited financial statements for the project demonstrating compliance with the formula for the distribution of cash flow.
15. Security: City's loan will be secured by a deed of trust junior to construction and permanent financing sources set forth.

ATTACHMENT 3
Site Plan and Project Elevations



346.039 TPC Harrington Grove
Folsom, CA
October 18, 2024

PROJECT DATA

Jurisdiction	Folsom, CA
APN: 07111600080000, 07111600070000, 07111600080000	751, 771, 791 Harrington Way
Current Zoning - CMU Mixed Use Commercial	BP-PD
Gross Land Area (Including Easements and Dedications)	84,530 S.F. 1.94 ACRES
Net Land Area (Excluding Easements and Dedications)	70,512 S.F. 1.62 ACRES
Total Units Proposed	52
Product Type: Affordable Multi-Family	
Density Proposed (DU/AC.)	26.80
Density Proposed per Net Acre (DU/AC.)	32.12

LOT COVERAGE

BUILDING FOOTPRINT PROPOSED				
	3s-22A 3 STORY 22 Units	3s-30B 3 STORY 30 Units		Total
Footprint (sf)	10,259	11,781		
Count	1	1		2
Total	10,259	11,781		22,040 S.F.
Lot Area				84,530 S.F.
Lot Coverage Proposed (With Easements)				26%

FLOOR AREA PROPOSED

	3s-22A 3 STORY 22 Units	3s-30B 3 STORY 30 Units	(Private Balcony area & Garages Excluded)	
			Residential Community Center	Total
Level 1	4,102	8,527	2,770	
Level 2	6,141	8,527		
Level 3	6,141	8,527		
Building Floor Area	19,154	25,581		
Total Floor Area (sf)	19,154	25,581		
Total Gross Floor Area Proposed				44,735 S.F.
Floor Area Ratio Proposed (With Easements)				0.53

1. PARCEL MERGER & BOUNDARY LINE ADJUSTMENT TO BE COMPLETED PRIOR TO ISSUANCE OF GRADING OR IMPROVEMENT PLANS
2. LANDSCAPE AS SHOWN IS CONCEPTUAL FOR REFERENCE ONLY. SEE LANDSCAPE PLAN BY OTHERS FOR MORE INFORMATION

WAIVERS REQUESTED

- W1. REDUCE REQUIRED SIDE YARD SETBACK AT BP - PD ZONE FROM 15 FEET TO 5 FEET TO INCREASE AMOUNT OF AFFORDABLE HOUSING IN THE CITY OF FOLSOM.
- W2. INCREASE HEIGHT LIMIT TO 40 FEET MAXIMUM & 3 STORIES TO INCREASE.
- W3. WAIVE REQUIREMENT FOR A PLANNED DEVELOPMENT PERMIT WITHIN THE PD COMBINING ZONE DISTRICT TO STREAMLINE THE PERMIT PROCESS SO THAT CONSTRUCTION OF AFFORDABLE HOUSING IN THE CITY OF FOLSOM CAN COMMENCE SOONER.



ARCHITECTURAL SITE PLAN A0.3

SDG Architects, Inc.
3361 Walnut Blvd, Suite 120
Brentwood, CA 94513
925.634.7000 | sagarchitects.com





COMMUNITY CENTER

LEFT ELEVATION



UNIT 3R

UNIT 3

RIGHT ELEVATION



COMMUNITY CENTER

UNIT 2AR

UNIT 1

UNIT 3R

FRONT / REAR ELEVATION
SEE SHEET A4.1 FOR COLOR AND MATERIALS

- 40'-0" MAXIMUM HEIGHT
- COMPOSITION SHINGLES
- BOARD & BATT SIDING
- EXTERIOR PRIVATE DECKS w/ METAL RAILING, TYP.
- LAP SIDING





LEFT ELEVATION



RIGHT ELEVATION



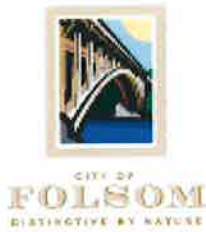
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- LAP SIDING



ATTACHMENT 4

City Housing Fund Summary



City Housing Fund Summary

As of March 2024, the City's total cash housing fund balance available for affordable housing projects is \$22,453,512 million and is comprised of four separate funds, as summarized in Table 1 below. Of this amount \$2.7 million from Fund 238 is committed to the Harrington Grove Apartment project.

Table 1 – Folsom Housing Funds Cash Balance		
Housing Fund Name	Source	Fund Balance
Housing Trust Fund (Fund 221)	Commercial Fees	\$853,783
Folsom Housing Fund (Fund 238)	Inclusionary In-lieu Fees	\$21,424,273
Oaks at Willow Springs (Fund 274)	Willow Springs Inclusionary Fee	\$25,761
Bonds Fund (Fund 280)	Former Redevelopment Bonds	\$149,695
Total		\$*22,453,512

*In addition to providing affordable housing financial subsidies, Total includes funds utilized for consulting services, special reports, and other housing related activities.

It is important to note of the four types of housing funds, only the Folsom Housing Fund (Fund 238) and the Housing Trust Fund (Fund 221) are expected to generate future City housing funds. During the past year, the City collected over \$4.9 million in inclusionary in-lieu fees as a result of the thriving new single-family housing development (primarily in the Folsom Plan Area) and approximately \$169,918 in housing trust fund fees associated with new commercial development. In addition to providing affordable housing loans, these funds are used for other housing related activities such as the Housing Element Update and housing financing consulting services.

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to facilitate double-sided printing
and minimize paper use.*



CITY OF
FOLSOM
DISTINCTIVE BY NATURE