

# Folsom City Council Staff Report



<b>MEETING DATE:</b>	7/23/2024
<b>AGENDA SECTION:</b>	New Business
<b>SUBJECT:</b>	Resolution No. 11234 - A Resolution of the City of Folsom Conditionally Approving an Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc., Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 52 Affordable Housing Units at the Proposed Harrington Grove Multifamily Affordable Housing Development, and Appropriation of Funds
<b>FROM:</b>	Community Development Department

**RECOMMENDATION / CITY COUNCIL ACTION**

Move to Adopt Resolution No. 11234 - A Resolution of the City of Folsom Conditionally Approving an Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc. Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 52 Affordable Housing Units at the Proposed Harrington Grove Multifamily Affordable Housing Development, and Appropriation of Funds.

**BACKGROUND / ISSUE**

West Development Ventures (an affiliate of Pacific West Communities, Inc.) is requesting \$2.7M in gap financing from the City to assist with the new construction of 52 proposed units of 100% affordable, multifamily rental housing within two (2) residential buildings (Preliminary Site Plan, Attachment 2). Units will be income and rent restricted at levels between 30% and 80% area median income (AMI) and include one-bedroom units (600 SF), two-bedroom units (860 SF), and three-bedroom units (1,118 SF).

The proposed 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.

Aerial of Proposed Project Site



The project is in the early stages of the pre-development planning and financial structuring process and at the time of this staff report has not yet submitted a design review entitlement application for the project to the city.

The development team is vertically integrated, experienced, well-capitalized, with a successful track record in the City (e.g., Peterson Place Apartments) and other local jurisdictions, such as Elk Grove and intends to submit an application to the California Debt Limit Allocation Authority (CDLAC) for an allocation of tax-exempt bonds and an associated application to the California Tax Credit Allocation Committee (CTCAC) for associated 4% Low Income Housing Tax Credits (LIHTC) to help fund the project. The developer plans to submit for the 4% LIHTC in the upcoming August 27, 2024, round with awards announced in December of 2024 and is seeking \$2.7 million from the City as “gap” financing to assist with project.

Given that the project is in the early stages of the pre-development planning and financial structuring process, the City’s affordable housing loan consultant, TDA Consulting (TDA) recommends, and staff agrees, that any preliminary funding award from the City be conditional in nature and time limited. As such, at this time City Council is being asked to approve a gap funding loan amount of up to \$2.7 million for the project with binding commitment for funding based on West Development Ventures securing a 4% LIHTC award during the August 2024 round, among other conditions.

**POLICY / RULE**

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

**ANALYSIS**

**City Housing Funds**

As of June 2024, the City’s total unencumbered housing fund balance available for affordable housing projects is \$18.9 million and is comprised of four separate funds, as summarized in Table 1 below:

Table 1 – Folsom Housing Funds		
Housing Fund Name	Source	Fund Balance
Housing Trust Fund (Fund 221)	Commercial Fees	\$664,295
Folsom Housing Fund (Fund 238)	Inclusionary In-lieu Fees	\$18,033,233
Oaks at Willow Springs (Fund 274)	Willow Springs Inclusionary Fee	\$24,721
Bonds Fund (Fund 280)	Former Redevelopment Bonds	\$144,153
<b>Total</b>		<b>\$*18,866,403</b>

\*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 \$6.1 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 \$214,995 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.

Over the last 18 years the City has utilized housing funds to provide affordable housing loans to support multiple affordable housing projects. A summary of projects and funding amounts is included as Attachment 3.

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 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 is 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.

Based on the timing of the TCAC application due date of August 27, 2024, and the City Council meeting schedule, which includes a recess in August, TDA's review was compressed which limited the opportunity to engage substantively with West Development to sort through the subtle details of the proposed Harrington Grove transaction. As such, the recommendation is to approve the requested city "gap" funding in an amount of up to \$2.7 million for the August 27, 2024, round of funding, and any future commitment for funding beyond this August 2024 round be predicated on the developer's provision of much more substantive due diligence documentation to corroborate the assumptions made in the proforma, overall plan of finance, and project completion strategy. Thus, if the developer does not secure the 4% LIHTC award during the August 2024 round, the developer will be required to submit a new request for city gap funding, which would then be reevaluated prior to future city commitment of funding.

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

It is important to note that seeking a commitment from the city during the pre-development stage is common. Developers often are not willing to invest in predevelopment costs ranging from market studies to detailed architectural plans and specifications to other professional reports (e.g., appraisals, ALTA surveys, environmental site assessments, etc.) until they have been preliminarily awarded of City funds. Also, given the relatively small ask of \$2.7 million from the City's \$18.9 million of housing funds currently available to assist affordable housing projects, city staff supports a conditional commitment of City funds, 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 \$23.4 million with the majority of the funding assumed to come from a noncompetitive four percent Tax Credit Equity program and a permanent loan. The City loan will carry a three percent simple interest rate for a 35-year term. Furthermore, as is common practice for repaying affordable housing loans, payments on the City's loan equal to 50 percent of residual cash flow will be deferred as indicated in the summary below.

### **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. The preliminary award shall expire automatically if the project does not receive 4% LIHTC during August 2024 round
2. Loan amount not to exceed \$2,700,000
3. 3% simple interest
4. 35-year repayment term, with potential extension up to 55 years
5. Repayment equal to 50% of residual cash flow.

6. The city's loan will be deferred until the earlier of i) 15 years following Permanent Loan Conversion or ii) repayment of the Deferred Developer Fee, provided further that the Deferred Developer Fee note shall carry no interest.
7. At expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due and payable.

### **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). An appropriation will be required in the amount of \$2,700,000. Funding for the project does not impact the City's General Fund.

The above-identified funding will only be provided upon proof, satisfactory to the City, the project developer 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 Government Code Section 65457 and Section 15182 of the California Environmental Quality Act Guidelines.

### **ATTACHMENTS**

1. Resolution No. 11234 - A Resolution of the City of Folsom Conditionally Approving an Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc., Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 52 Affordable Housing Units at the Proposed Harrington Grove Multifamily Affordable Project, and Appropriation of Funds.
2. Preliminary Site Plan
3. Summary of Housing Loans
4. Loan Term Sheet

Submitted,



Pam Johns, Community Development Director



## ATTACHMENT 1

Resolution No. 11234 - A Resolution of the City of Folsom Conditionally Approving an Affordable Housing Loan in the Amount of \$2,700,000 from the City's Housing Fund to Pacific West Communities, Inc. Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 52 Affordable Housing Units at the Proposed Harrington Grove Multifamily Affordable Housing Development, and Appropriation of Funds.  
Development, and Appropriation of Funds.

**RESOLUTION NO. 11234**

**A RESOLUTION OF THE CITY OF FOLSOM CONDITIONALLY APPROVING AN AFFORDABLE HOUSING LOAN IN THE AMOUNT OF \$2,700,000 FROM THE CITY'S HOUSING FUND TO PACIFIC WEST COMMUNITIES, INC., AUTHORIZING THE CITY MANAGER TO EXECUTE A LOAN AGREEMENT AND RELATED DOCUMENTS FOR THE CONSTRUCTION OF 52 AFFORDABLE HOUSING UNITS AT THE PROPOSED HARRINGTON GROVE MULTIFAMILY AFFORDABLE HOUSING DEVELOPMENT, AND APPROPRIATION OF FUNDS**

**WHEREAS**, West Development Ventures (an affiliate of Pacific West Communities, Inc.) is the developer of the proposed Harrington Grove 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 developer is in the process of securing funding necessary to build the Harrington Grove project consisting of 52-unit multifamily 100% affordable (excluding one manager's unit) housing units affordable to extremely low, very-low and low-income households; and

**WHEREAS**, the project qualified for additional financing from the California Debt Limit Allocation Committee and Tax Credit Allocation Committee programs; and

**WHEREAS**, the development plan includes a mix of one-, two-, and three-bedroom units, with 25% of the units targeted at or below 50% of the Area Median Income (AMI), including more than 10% at 30% 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**, 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**, funding for the affordable housing loan is available from the City's Housing Fund (Fund 238); however, an appropriation will be required; and

**WHEREAS**, the City's funding commitment for the affordable housing loan in the amount of \$2,700,000 is conditional, based on the developer securing a 4% LIHTC award during the August 2024 round;

**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 conditionally approve an affordable housing loan in an 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.

**BE IT FURTHER RESOLVED** that the Finance Director is directed to appropriate up to \$2,700,000 from the City's Housing Fund (Fund 238) to provide an affordable housing loan for the construction of the project known as Harrington Grove.

**PASSED AND ADOPTED** this 23<sup>rd</sup> day of July 2024 by the following vote, to wit:

**AYES:** Councilmember(s):

**NOES:** Councilmember(s):

**ABSENT:** Councilmember(s):

**ABSTAIN:** Councilmember(s):

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Michael D. Kozlowski, MAYOR

ATTEST:

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Christa Freemantle, CITY CLERK



# ATTACHMENT 2

## Preliminary Site Plan



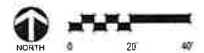
PROJECT DATA			
Jurisdiction	Folsom, CA		
APN: 07111600060000, 07111600070000, 07111600080000	751, 771, 791 Harrington Way		
Current Zoning - CMU Mixed Use Commercial	C - Commercial Land Use		
Gross Land Area (Including Easements and Dedications)	84,530 S.F.	1.94 ACRES	
Net Land Area (Excluding Easements 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		

PROJECT SUMMARY UNIT MIX				
1BED	U1	600 S.F.	24	46.15%
2 BED	U2A	848 S.F.	6	26.92%
	U2B	867 S.F.	8	
3 BED	U3	1,118 S.F.	14	26.92%
	U3A	1,118 S.F.	0	
TOTAL UNITS			52	100%

RENTABLE UNIT MIX TOTAL				
1BED	U1	600 S.F.	24	47.06%
2 BED	U2A	848 S.F.	6	27.45%
	U2B	867 S.F.	8	
3 BED	U3	1,118 S.F.	13	25.49%
	U3A	1,118 S.F.	0	
TOTAL RENTAL UNITS			51	100%

MANAGERS UNIT				
3 BED	U3	1,118	1	2%
TOTAL MANAGER UNITS			1	2%

SITE DATA				
PARKING SUMMARY				
Total Required	1.5 SPACES PER UNIT	1.5	52	78
<b>Total Covered Parking</b>				
Standard Parking Stalls				55
Accessible Stalls - CBC 11B-208.2.3.1		5%	3	2
Accessible Stalls - Van				1
<b>Total Uncovered Parking</b>				
Accessible Stalls - CBC 11B-208.2.3.2		2%	1	0
Accessible Stalls - Van				1
<b>Total Proposed</b>				
				80



346.039 TPC Harrington Way  
Folsom  
June 5, 2024

CONCEPTUAL SITE STUDY  
A01

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



# ATTACHMENT 3

## Summary of Housing Loans

# Housing Loan Summary

July 2024

		Folsom Housing Fund 238	Successor Agency Fund 279	Housing Trust Fund 222	Oaks at Willow Springs Fund 274	
Vintage Willow Creek	2003	\$861,875	\$1,175,625			\$2,037,500
Creekview Manor	2007	\$1,400,000				\$1,400,000
Mercy Village (remodel)	2009	\$1,215,000				\$1,215,000
Forestwood	2011	\$2,500,000		\$500,000		\$3,000,000
Granite City	2012	\$855,000		\$382,000	\$2,829,055	\$4,068,067
Bidwell Pointe	2019	\$5,300,000				\$5,300,000
Parkway (Peterson Place)	2019	\$4,680,000				\$4,680,000
Bidwell Place	2021	\$4,150,000				\$4,150,000
Scholar Way (Sage)	2021	\$2,750,000				\$2,750,000
Mangini Place	2021	\$6,860,000				\$6,860,000
		\$30,571,875	\$1,175,625	\$882,000	\$2,829,055	\$35,460,567

ATTACHMENT 4  
Loan Term Sheet

Loan Term Sheet  
Harrington Grove  
City of Folsom  
July 9, 2024

***This preliminary award and term sheet shall automatically expire if the proposed project does not:***

- i. Receive awards of tax-exempt bond capacity, associated 4% federal Low Income Housing Tax Credits, and state tax credits during the August 2024 "2nd Round" joint application cycle by the California Debt Limit Allocation Committee (CDLAC) and California Tax Credit Allocation Committee (CTCAC); and***
- ii. Satisfy the City's requirements for binding commitment and close on all project financing by July 31, 2025.***

1. **Lender:** City of Folsom, a municipal corporation
2. **Borrower:** To be formed Limited Partnership, which shall be a single-purpose, single-asset entity created to be the owner of the project
  - a. **General Partners:**
    - i. Pacific West Communities, Inc (or related party acceptable to the City)
    - ii. West Development Ventures, LLC
    - iii. Central Valley Coalition for Affordable Housing
  - b. **Limited Partner(s):** TBD
3. **Loan Amount:** Not to exceed \$2,700,000
4. **Purpose:** Finance the development of a 52-unit affordable apartment project that income and rent restricted, via deed restriction, for 55 years. Six (6) will be restricted to households at or below 30% of the Area Median Income (AMI); seven (7) units will be restricted to households at or below 50% AMI; 27 units to households at or below 60% Area; and 11 units to households at or below 80% AMI. One (1) additional unit (bringing the total physical count of units to 52) will be a manager's unit to which no income or rent restrictions apply.
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. **Interest Rate:** 3% per annum interest.
7. **Annual Payments:** Annual payments on the City's loan will be equal to 50% 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 of not more than 5% 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; and
  - viii. Costs of social service programs offered to residents.
- b. Deposits to a replacement reserve for capital replacements of project improvements and/or an operating reserve in such reasonable amounts as are required by the City, other project lenders and/or the tax credit investor;
  - c. Payment of the first mortgage debt service;
  - d. Payment of an Asset Management Fees for as long as the tax credit investor remains the limited partner of the partnership (typically 15 years) in an amount not to exceed \$5,000 for Year 1 and escalating at no more than 3% per year thereafter;
  - e. Payment of an Asset Management Fees to the non-profit Managing General Partner for their management duties at \$100 per unit (available for lease to income eligible members of the public) per annum escalating at no more than 3% per year thereafter; and
  - f. Payment of any Deferred Developer Fee (currently estimated to be \$650,000) that is due to the developer per the final as-completed project sources and uses accepted by the City, provided that the Deferred Developer Fee shall carry no interest.

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

- 8. Term: 35 years with balance of loan will be due on sale. Subject to the underwriting needs of the project, however, the City may consider an extended term of up to 55 years.
- 9. Balloon Payment: At the expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due.
- 10. Refinancing: In the event of refinancing, the City will subordinate to a new senior loan on substantially similar terms as the original financing and in an amount not to exceed the then outstanding debt on the senior loan. Subordination in the case of any other refinancing, including for amounts in excess of the then outstanding principal balance of the senior loan, shall require affirmative approval by the City which may be given or withheld in the City's sole discretion.
- 11. Conditions: Binding commitment, closing, and funding of the City loan is conditioned on the following:
  - a. An affirmative determination by the City to proceed with the project based on the City's receipt of all due diligence submissions, third-party reports (e.g., market study, as-is and as-completed appraisals, plan and cost reviews, environmental reports, etc.), and an underwriting report from the City's identified consultant;
  - b. Evidence acceptable to the City that the project has secured the unconditional commitment of all funding sources necessary to develop the project pursuant to the proforma, including the construction loan, the permanent loan, the award of tax-exempt debt capacity, the award and syndication of 4% federal and 30% state Low Income Housing Tax Credits, a deferred developer fee of not less than \$650,000, and/or other similar or substitute financing acceptable to the City;
  - c. Acquisition of fee title to the land by the to be formed ownership entity/borrower;

- d. Approval (which may be conditioned only upon payment of applicable fees) of building permits, licenses, other similar development-related permits and evidence the project will begin construction within 30 days of closing;
- e. Commitments and/or guarantees of project completion in form and substance acceptable to the City by parties acceptable to the City, including but not limited to a commitment to defer the maximum portion of developer fee determined by the City to be reasonable and/or to make general partner contributions as may be needed prior to submitting any request for additional City funding, the approval of any such additional funding to be in the City's sole and absolute discretion.

12. Reporting: Owner will provide the City with annual audited financial statements for the project demonstrating compliance with the formula for the distribution of cash flow.
13. Security: City's loan will be secured by a deed of trust junior only to construction and permanent financing sources approved by the City during its underwriting reviews of the project. At the City's option, the loan will be further secured by an assignment of rents and leases and/or UCC filings which may also be junior to similar filings from the senior lender(s).
14. Covenant Running with the Land: Owner shall cause to be recorded a covenant running with the land, in form and substance acceptable to the City, enforcing income, rent, and other affordability and performance requirements on the Owner and any successors in interest. The covenant running with the land shall be senior to any foreclosable liens, including those associated with the City loan, associated with the planned project financing.