

Folsom City Council Staff Report

MEETING DATE:	6/27/2023
AGENDA SECTION:	Consent Calendar
SUBJECT:	Resolution No. 11055 – A Resolution Authorizing the City Manager to Execute a Loan Purchase Agreement Amendment with USA Properties Fund, Inc.
FROM:	Community Development Department

RECOMMENDATION / CITY COUNCIL ACTION

Move to Adopt Resolution No. 11055 – A Resolution Authorizing the City Manager to Execute a Loan Purchase Agreement Amendment with USA Properties Fund, Inc.

BACKGROUND / ISSUE

On February 8, 2011, the City Council approved a bridge loan in the amount of \$500,000 to Forestwood, L.P., a California limited partnership to assist in the development of the 55-unit Forestwood at Folsom affordable housing community (“Project”).

On April 1, 2011, the Project developer, USA Properties Fund, Inc. (“USA”) and the City of Folsom entered into a Loan Purchase Agreement in which USA agreed to purchase the outstanding balance of the \$500,00 bridge loan from the City ten years from when the Project achieved stabilized operations.

On May 8, 2023, USA sent a letter (Attachment 2) to the City requesting a five-year extension to the Loan Purchase Agreement between USA and the City of Folsom. This Resolution will authorize the City Manager to execute an Amendment to the Loan Purchase Agreement with USA to extend repayment of the City loan for an additional five years.

POLICY / RULE

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

ANALYSIS

As noted above, USA is requesting a five-year extension to the Loan Purchase Agreement between USA and the City of Folsom.

The loan's term on its face is for 45 years; however, USA entered into a separate loan purchase agreement with the City by which USA agreed to purchase the loan for the amount of any unpaid balance of the note after ten years, effectively making it a ten-year loan. As such 100 percent of the principal balance and all accrued and unpaid interest are due at the end of the ten-year term. To date, the current remaining loan balance is \$447,742.40.

In 2011, the developer proposed that the City loan carry three percent simple interest and be repaid with 75 percent of net income over ten years. At that time, the cash flow projected by the developer showed sufficient funds available to repay the loan within the aggressive ten-year timeframe; however, the unforeseen negative Area Median Income (AMI) growth that occurred during the past decade impacted the Project's allowable affordable rents and thus reduced the cash flow available to make City loan payments. Furthermore, USA made the decision to not increase rents for existing tenants due to the impacts of COVID-19 on its residents. These factors have resulted in much lower cash flows than originally projected and thus lower payments toward the City loan.

Based on the cumulative impacts of the factors identified above, staff supports USA's request for a five-year extension to the loan purchase agreement in order to allow property cash flows to catch up to what was originally projected.

FINANCIAL IMPACT

Funding for the loan was made from the Housing Trust Fund (Fund 221). The financial impact of making the noted changes to the loan purchase agreement will result in a five-year delay in repayment of the current loan balance of \$447,742.40 and accrued interest to Fund 221 and will not impact the City's General Fund. As of June 2023, the City's combined housing fund balance is \$11,261,436 in funds available to assist future affordable housing projects.

ENVIRONMENTAL REVIEW

The project is exempt from environmental review under Section 15061(b)(3) of the CEQA Guidelines (Review for Exemption) because this is an administrative action that has no potential impact on the environment.

ATTACHMENTS

1. Resolution No. 11055 – A Resolution Authorizing the City Manager to Execute a Loan Purchase Agreement Amendment with USA Properties Fund Inc.
2. USA Properties Fund Letter (dated May 8, 2023)

Submitted,



Pam Johns, Community Development Director

Attachment 1

**Resolution No 11055 - A Resolution Authorizing The City
Manager To Execute A Loan Purchase Agreement Amendment
With USA Properties Fund Inc.**

RESOLUTION NO. 11055

A RESOLUTION AUTHORIZING THE CITY MANAGER TO EXECUTE A LOAN PURCHASE AGREEMENT AMENDMENT WITH USA PROPERTIES FUND INC.

WHEREAS, on February 8, 2011, the City Council approved a bridge loan in the amount of \$500,000 to Forestwood, L.P., a California limited partnership to assist in the development of the 55-unit Forestwood at Folsom affordable housing community (“Project”); and

WHEREAS, on April 1, 2011, the Project developer, USA Properties Fund, Inc (“USA”) and the City of Folsom entered into a Loan Purchase Agreement in which USA agreed to purchase the outstanding balance of the \$500,00 bridge loan from the City ten years from when the Project achieved stabilized operations; and

WHEREAS, on May 8, 2023, USA, sent a letter to the City requesting a five-year extension to the Loan Purchase Agreement between USA and the City of Folsom due to unforeseen factors that lowered the Project cash flows; and

WHEREAS, financial support of affordable housing projects is consistent with the City’s Housing Element goals; and

WHEREAS, based on the cumulative impacts of unforeseen factors that lowered the Project’s cash flows, staff supports USA’s request for a five-year extension to the loan purchase agreement.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Folsom that the City Manager is authorized to execute a Loan Purchase Agreement Amendment with USA Properties Fund Inc., in a form approved by the City Attorney.

PASSED AND ADOPTED on this 27th day of June 2023, by the following roll-call vote:

AYES: Councilmember(s):

NOES: Councilmember(s):

ABSENT: Councilmember(s):

ABSTAIN: Councilmember(s):

Rosario Rodriguez, MAYOR

ATTEST:

Christa Freemantle, CITY CLERK

Attachment 2

Loan Extension Request Letter



May 8, 2023

VIA E-MAIL

Stephanie Traylor Henry
Senior Planner
City of Folsom
50 Natoma Street
Folsom, CA 95630

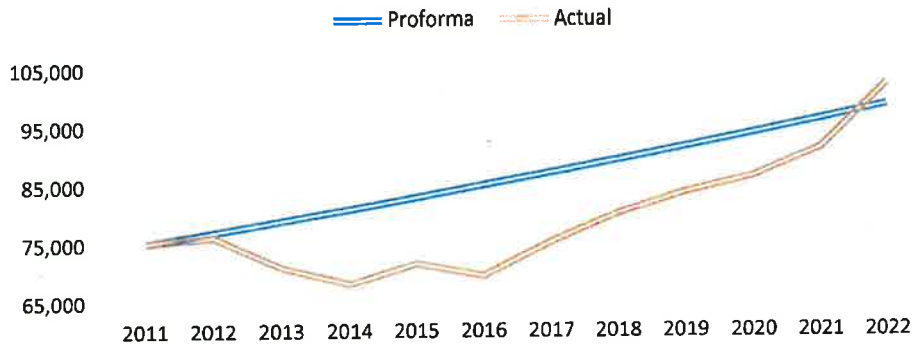
RE: Forestwood at Folsom - \$500K City loan purchase

Dear Ms. Henry:

The purpose of this letter is to respectfully request a five (5) year extension to the Loan Purchase Agreement dated April 1, 2011, between USA Properties Fund, Inc. (“USA”) and the City of Folsom (“City”). In 2011, the City provided a \$500K loan to Forestwood, L.P., a California limited partnership to assist in the development of our 55-unit affordable housing community in the City, Forestwood at Folsom (“Project”). As a condition of the City making this loan USA agreed to purchase the outstanding balance of this loan from the City 10 years from when the Project achieved stabilized operations.

At the time of this original underwriting USA utilized industry and TCAC accepted standards for rent and expense growth (2.5%/3.5%). Unforeseen at the time was the negative Area Media Income (AMI) growth for the Sacramento MSA that occurred which impacted the allowable rents and therefore the cash flow available to make City loan payments. As demonstrated in the chart below, the actual AMIs since inception of the project have just now caught up with the proforma projections using the industry accepted 2.5% annual rent growth.

SACRAMENTO AMI GROWTH



Stephanie Henry
City of Folsom
May 8, 2023
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In addition, in 2020, USA made the decision to not increase rents for existing tenants due to the impacts of COVID-19 on our residents. We believe this was the right decision even though it impacted the cash flow available to make payments on the City loan and deferred developer fee note. Additionally, we continue to moderate yearly rent increases to 5-7% so that rent increases can be reasonably absorbed by our residents.

Attached is the proforma and actual income and expenses for the past 10 years which demonstrates the cumulative impact of these issues. Due to the demonstrated combination of these issues, we are requesting a five (5) year extension to the loan purchase agreement to allow property cash flow to catch up to what was originally projected.

Thank you for your consideration and I look forward to discussing this request with you at your earliest convenience.

Sincerely,



Darren Bobrowsky
Senior Vice President
dbobrowsky@usapropfund.com
916-871-9540

Attachment – Proforma to Actual NOI

Forestwood at Folsom

Proforma Cash Flow

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Project Year:	1	2	3	4	5	6	7	8	9	10	
Effective Gross Income:	\$ 615,545	\$ 630,934	\$ 646,707	\$ 662,875	\$ 679,446	\$ 696,433	\$ 713,843	\$ 731,689	\$ 749,982	\$ 768,731	
Total Operating Expenses:	262,872	271,558	280,535	289,813	299,403	309,315	319,560	330,149	341,094	352,408	
Net Operating Income:	352,673	359,376	366,172	373,061	380,043	387,118	394,283	401,540	408,887	416,323	
Senior Debt Service:	265,439	265,439	265,439	265,439	265,439	265,439	265,439	265,439	265,439	265,439	
Priority Distributions*:	43,107	48,945	54,860	60,852	66,921	73,066	79,287	85,581	91,949	98,388	
Avail. For DDF and City Loan	44,126	44,992	45,873	46,770	47,683	48,612	49,558	50,520	51,500	52,496	TOTAL
75% of Cash Flow to City Loan	33,095	33,744	34,405	35,077	35,762	36,459	37,168	37,890	38,625	39,372	361,597

Actual Cash Flow

	Apr 2014	Apr 2015	Apr 2016	Apr 2017	Apr 2018	Apr 2019	Apr 2020	Apr 2021	Apr 2022	Partial year Apr 2023	
Project Year	1	2	3	4	5	6	7	8	9	10	
Total Income	548,501	588,281	614,241	615,521	594,354	645,935	669,560	717,905	729,526	718,646	
Total Expenses	264,494	258,120	252,637	269,345	264,908	273,443	259,822	293,351	319,147	315,962	
Net Operating Income	284,007	330,162	361,604	346,176	329,445	372,491	409,738	424,554	410,379	402,684	
Senior Debt Service:	265,439	265,439	265,439	265,439	265,439	265,439	265,439	265,439	265,439	265,439	
Priority Distributions*:	43,107	48,945	54,860	60,852	66,921	73,066	79,287	85,581	91,949	98,388	
Avail. For DDF and City Loan	(24,539)	15,778	41,305	19,884	(2,915)	33,986	65,012	73,534	52,992	38,857	
75% of Cash Flow to City Loan	-	11,833	30,978	14,913	-	25,489	48,759	55,150	39,744	226,868	

Actual vs. Proforma

Project Year	1	2	3	4	5	6	7	8	9	10	
Proforma - Avail for City & DDF	44,126	44,992	45,873	46,770	47,683	48,612	49,558	50,520	51,500	52,496	482,129
Actual - Avail for City & DDF	(24,539)	15,778	41,305	19,884	(2,915)	33,986	65,012	73,534	52,992	38,857	313,893
Difference	(68,665)	(29,214)	(4,568)	(26,885)	(50,598)	(14,626)	15,454	23,014	1,492	(13,639)	(168,236)

Priority Distributions *

	Annual Esc.
SHRA Loan Admin Fee (.15% of Loan):	\$938
Social Services Fee (Subordinate):	\$ 20,400 2.0%
Managing General Partner Fee:	\$ 1,500 2.0%
Asset Management Fee (TC Investor):	\$ 7,500 3.0%

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to facilitate double-sided printing.*



CITY OF
FOLSOM
DISTINCTIVE BY NATURE