



CITY OF MILPITAS AGENDA REPORT (AR)

Item Title:	Authorize the City Manager to approve Terrace Gardens' request to transfer surplus cash to the Terrace Gardens Replacement Reserve Account
Category:	Community Development
Meeting Date:	8/13/2019
Staff Contact:	Sharon Goei, 408-586-3260; Robert Musallam, 408-586-3275
Recommendation:	Authorize the City Manager to approve Terrace Gardens' request to transfer surplus cash to the Terrace Gardens Replacement Reserve Account.

Background:

Terrace Gardens is a 148-unit rental senior housing project located at 186 Beresford Court that restricts occupancy to very low and extremely low income senior households. On January 6, 1987, the Milpitas Redevelopment Agency and City Council adopted Resolutions No. 79 and No. 5393, respectively, which supported the financing of land and facilities to construct the Terrace Gardens apartments and to improve the current buildings and structures that already existed on the development site.

On November 17, 1987, the City of Milpitas and Terrace Gardens Inc. entered into a regulatory agreement allowing Terrace Gardens Inc. to develop the 148-unit rental housing project, with the entire capital cost of the project to be funded by the City through its Redevelopment Agency. The land upon which the project was constructed was conveyed from the City to Terrace Gardens Inc. by grant deed. As a condition of the City's assistance, Terrace Gardens Inc. agreed to the terms, conditions, and compliance within the Regulatory Agreement.

The Regulatory Agreement identifies the following terms and conditions that pertain specifically to the relationship of the City and Terrace Gardens Inc.: (1) On or before the first day of each fiscal year, Terrace Gardens Inc. will submit an operating budget to the City, and the operating budget shall be subject to the prior approval of the City before being adopted by Terrace Gardens Inc.; (2) Within 120 days following the end of each fiscal year, Terrace Gardens Inc. shall furnish the City with a complete annual financial report; and (3) Terrace Gardens Inc. may make disbursements from a Surplus Cash Account only with the prior written approval of the City, and shall disburse all or any portion of the account to the City or City's designee upon 30 days prior written notice from the City.

Analysis:

Community Development Block Grant Funds

The FY 2019-20 application period was from January 18-February 28, 2019. The Community Advisory Commission made their recommendations on the Community Development Block Grant (CDBG) allocation to City Council on March 28, 2019 and amended the recommendations on May 1, 2019 based on the actual Department of Housing and Urban Development (HUD) allocation to the City. On June 11, 2019, the City recommended that the City Council approve a total of \$84,000 under capital projects to Terrace Gardens for repair/replacement work. Over the past 4 years, including FY 2019-20, Terrace Gardens has been allocated \$265,464 in CDBG funds for capital projects.

Surplus Cash

The Terrace Gardens Board of Directors did not indicate the amount of surplus cash in the amount of \$114,890 in their Surplus Cash Account for FY 2017 and FY 2018 until April 16, 2019. At that time, the Board requested that the City allow them to deposit the surplus cash into its reserve account for replacements (Replacement Reserve Account) for capital expenses. The total amount of surplus cash for FY 2017 (\$18,143) and FY 2018 (\$96,747) is \$114,890. The balance in the Replacement Reserve Account as of December 31, 2018 is \$2,262,343. The Board cited that the property reserve study shows that reserves are not plentiful for a 30-year old property that will continue to need increasing expenditures to maintain its operation. The request was forwarded to the Building and Housing Department staff on May 21, 2019. Both the CDBG application period and recommendations to City Council had been completed prior to the Board of Directors at Terrace Gardens indicating the amount of surplus cash, thus not providing the City an opportunity to consider surplus cash when determining a final CDBG allocation.

At the May 23, 2019 Terrace Gardens Board meeting, Mari Tustin, Senior Vice President of the John Stewart Company who wrote the official request to the City, added that the fire alarm system recently failed and that an unexpected major capital expense is needed for the fire alarm system replacement. At the time, the estimated cost to replace the fire alarm system was approximately \$20,000. At the July 25, 2019 Board meeting, Marina Sanchez, the Terrace Gardens property manager, provided an update on the cost of the fire alarm system to the Board of Directors. Due to unforeseen circumstances, the final expense paid to replace the fire alarm system was \$58,599.50.

Given the large, unexpected capital expense incurred which demonstrates the need to prepare for future unexpected expenses to replace systems on an aging property, it is staff's recommendation that the surplus cash be transferred from the Terrace Gardens Surplus Cash Account to the Terrace Gardens Replacement Reserve Account. In conjunction with releasing the surplus cash, the City will closely monitor any future CDBG fund requests in relation to any surplus cash requests that the Board at Terrace Gardens submits.

Policy Alternatives:

Alternative 1: Request the Board of Directors at Terrace Gardens transfer the surplus cash to an account of the City's choosing.

Pros: This alternative would add \$114,890 to a City's account.

Cons: Terrace Gardens would not be able to transfer the surplus cash into its Replacement Reserve Account or utilize any funding.

Reason for Not Recommending: Given the age of the buildings and the property reserve study showing that reserves are not plentiful for a 30-year old property, staff believes it is reasonable for Terrace Gardens to transfer the surplus cash into its Replacement Reserve Account to cover unexpected expenses in the future.

Fiscal Impact:

If the City Council approves staff's recommendation of allowing the Board of Directors at Terrace Gardens to transfer the surplus cash into the Terrace Gardens Replacement Reserve Account, there is no fiscal impact to the City budget other than staff time related to this action.

California Environmental Quality Act:

The action being considered has no potential for causing a significant effect on the environment and is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15061(b)(3).

Recommendation:

Authorize the City Manager to approve Terrace Gardens' request to transfer surplus cash totaling \$114,890 to the Terrace Gardens Replacement Reserve Account.

Attachments:

2 Request letters from Terrace Gardens, Inc. regarding 2017 and 2018 surplus cash