



## Legislation Text

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**File #:** 22-049, **Version:** 1

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Staff Report for Resolution Approving the Issuance of California Municipal Finance Authority Qualified 501(c)(3) Bonds in an Aggregate Principal Amount Not to Exceed \$70,000,000 for the Purpose of Financing or Refinancing the Acquisition, Rehabilitation, Improvement and Equipping of Metro 77 & 85 Apartments Located at 77-85 Estabrook Street, San Leandro, CA (by a Nonprofit, Integrity Housing, for Conversion to Primarily Affordable Rental Housing)

### **SUMMARY AND RECOMMENDATIONS**

IH Metro San Leandro LLC with Affordable Housing Alliance II, Inc., dba Integrity Housing as the sole member (the "Borrower") recently requested the City conduct a public hearing under the Tax and Equity Fiscal Responsibility Act ("TEFRA") in connection with the proposed issuance of revenue bonds by the California Municipal Finance Authority (the "CMFA"), a joint exercise of powers authority and public entity of the State of California, in an amount not to exceed \$70,000,000, (the "Bonds"), to assist in financing or refinancing the acquisition, rehabilitation, improvement and equipping of a multifamily rental housing project (known as Metro 77 & 85 Apartments) located at 77-85 Estabrook Street, San Leandro, California (the "Project"). The Borrower is not requesting any City funding assistance for this Project.

Metro 77 & 85 Apartments currently contain 146 total rental housing units that are all market rate. The revenue bond financing will enable the Borrower to acquire the Project and convert 75%, or 110 units, to long term affordable rental housing for low and very low income households. The remaining 25% of the units will remain market rate.

Staff recommends that the City Council:

- 1) Conduct the public hearing under the requirements of TEFRA and the Internal Revenue Code of 1986, as amended (the "Code").
- 2) Adopt the resolution approving the issuance of the Tax Exempt Bonds by the CMFA for the benefit of the Borrower, to provide for the financing of the Project, such adoption is solely for the purposes of satisfying the requirements of TEFRA, the Code and the California Government Code Section 6500 (and following). The Borrower is not seeking any City funding assistance.

### **BACKGROUND**

The Borrower requested that the CMFA serve as the municipal issuer of the Bonds in an aggregate principal amount not to exceed \$70,000,000 of tax-exempt revenue bonds. The proceeds of the Bonds will be used to finance or refinance the acquisition, rehabilitation, improvement and equipping of a multifamily rental housing project (known as Metro Apartments 77-85) located at 77-85

Estabrook Street. The Metro Apartments 77-85 were built in 1963 and 1967, respectively, and contain 146 total rental units. The unit mix for the property is:

- 6 - studios
- 88 - 1 bed/1 bath
- 23 - 2 bed/ 1 bath
- 27 - 2 bed/2 bath
- 2 - 3 bed/2 bath

In order for all or a portion of the Bonds to qualify as tax-exempt bonds, the City of San Leandro must conduct a public hearing (the “TEFRA Hearing”) providing for the members of the community an opportunity to speak in favor of or against the use of tax-exempt bonds for the financing of the Project. Prior to such TEFRA Hearing, reasonable notice must be provided to the members of the community. Following the close of the TEFRA Hearing, an “applicable elected representative” of the governmental unit hosting the Project must provide its approval of the issuance of the Bonds for the financing of the Project.

The CMFA was created on January 1, 2004 pursuant to a joint exercise of powers agreement to promote economic, cultural and community development, through the financing of economic development and charitable activities throughout California. To date, over 300 municipalities, including the City of San Leandro, have become members of CMFA. The City joined the CMFA in 2004. CMFA most recently issued revenue bonds for two existing affordable rental housing projects in San Leandro: Fargo Senior Center in 2012 and Las Palmas Apartments in 2015.

The CMFA was formed to assist local governments, non-profit organizations and businesses with the issuance of taxable and tax-exempt bonds aimed at improving the standard of living in California. The CMFA’s representatives and its Board of Directors have considerable experience in bond financings.

## **Analysis**

The Borrower (dba Integrity Housing) is based in Irvine, California. Integrity Housing is a 501(c)(3) nonprofit and originally began in 1993 as Affordable Housing Alliance II, Inc. (AHA). In 2010, AHA rebranded to Integrity Housing. Presently, Integrity Housing’s housing inventory is in California, Arizona, Colorado, Oregon, and Texas. To date, Integrity Housing’s current portfolio consists of 34 properties, totaling 2,824 units with an additional 935 units either under contract or in development.

The benefit to the City will be that the Borrower will be able to acquire Metro 77 & 85 Apartments and convert 75% , or 110 units, of the total 146 units to affordable rental housing: 30 units will be set-aside for very low income renters (at or below 50% area median income) and 80 units will be targeted to low income renters (at or below 80% area median income). The remaining 36 units will remain market rate. As required by the revenue bond, the affordable units must remain affordable for 30 years. In addition, the City may count the 110 units being converted to long-term affordable rental units towards its current 2015-2023 Regional Housing Needs Goals for very low and low income housing unit production.

Below is a breakout by unit type and income level for the proposed Project:

	<b>Units</b>	<b>50% AMI 20%</b>	<b>80% AMI 55%</b>	<b>Market 25%</b>
Studio	6	1	3	2
1x1	88	18	48	22
2x1	23	5	13	5
2x2	27	5	15	7
3x2	2	1	1	0
<b>Total Units</b>	<b>146</b>	<b>30</b>	<b>80</b>	<b>36</b>

The proposed rehabilitation work by the Borrower includes: roof replacement, elevator cab and mechanical, identifying and resolving any potential Americans with Disabilities Act (ADA) issues, structural reinforcement, and all deferred maintenance. Additionally, interior unit renovations include new floors, appliances, cabinets, lighting fixtures, installing washer/dryers, plumbing fixtures, doors, bathrooms, etc.

The Borrower anticipates that all existing residents will income qualify under the new affordability levels. Resident's specific income levels will be determined upon lease renewals. Residents whose income qualify them under the 50% AMI limit will have their rent reduced to the applicable 50% AMI rent level. If a resident's income is above the 80% AMI level, the market rate portion of the property allows them to remain in place in an unrestricted unit. It is expected that there will no resident displacement due to the diversity of income set asides.

If the City had declined to hold the TEFRA public hearing, the Borrower would have asked Alameda County to conduct the public hearing.

### **Applicable General Plan Policies**

**Goal 56: AFFORDABLE HOUSING CONSERVATION:** Encourage the preservation and rehabilitation of the existing affordable housing stock.

*Policy 56.02 - Rehabilitation of Renter-Occupied Housing Stock*

### **Summary of Public Outreach Efforts**

Prior to a TEFRA hearing, reasonable notice must be provided to the community for an opportunity to speak in favor of or against the use of tax-exempt bonds. Legal requirements for notification of this meeting included notice in *The Daily Review* on Friday, January 28, 2022.

### **Legal Analysis**

The City Attorney has reviewed and approved this staff report, resolution and related documents.

### **Fiscal Impacts**

The Borrower is not requesting any City funding for this project. The Bonds to be issued by the CMFA for the Project will be the sole responsibility of the Borrower, and the City will have no financial, legal, moral obligation, liability or responsibility for the Project or the repayment of the Bonds for the financing of the Project. All financing documents with respect to the issuance of the Bonds will contain clear disclaimers that the Bonds are not obligations of the City or the State of California but are to be paid for solely from funds provided by the Borrower.

The Board of Directors of the California Foundation for Stronger Communities, a California non-profit public benefit corporation (the "Foundation"), acts as the Board of Directors for the CMFA. Through its conduit issuance activities, the CMFA shares a portion of the issuance fees it receives with its member communities and donates a portion of these issuance fees to the Foundation for the support of local charities. With respect to the City of San Leandro, it is expected that a portion of the issuance fee attributable to the City (estimated at this time to be approximately \$15,000) will be granted by the CMFA to the general fund of the City. Such grant may be used for any lawful purpose of the City.

### **ATTACHMENT(S)**

#### **Attachment(s) to Staff Report**

- None

#### **Attachment(s) to Related Legislative Files**

- Attached to Resolution:
  - None

**PREPARED BY:** Tom Liao, Director, Community Development Department