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REPORT TO THE CITY IN ITS CAPACITY AS HOUSING SUCCESSOR TO THE REDEVELOPMENT AGENCY OF THE CITY OF FRESNO AND FRESNO REVITALIZATION CORPORATION

DATE: November 15, 2018

FROM: MARLENE MURPHEY, Executive Director

SUBJECT

Repayment of Affordable Housing Loans to the City of Fresno in its Capacity as Housing Successor related to 1608 and 1636-1660 Broadway

RECOMMENDATION

It is recommended that the City of Fresno in its capacity as Housing Successor to the Redevelopment Agency (HSA) approve repayment of affordable housing loans related to 1608 and 1636-1660 Broadway.

EXECUTIVE SUMMARY

The former Redevelopment Agency funded the Brio on Broadway affordable housing project located at 1608 and 1636-1660 Broadway using housing-set aside funds. The Project owner seeks to pay off certain loans through a onetime payment of $941,996.44 based upon a 4% discount rate.

BACKGROUND

In March 2011, the former Redevelopment Agency approved two OPA's with FFDA Properties, LLC for the development of affordable housing projects at 1608 Broadway (Broadway 1) and 1636 -1660 (Broadway 2) that together produced 46 multi-family units. The former Redevelopment Agency utilized housing set aside funds now administered by the city acting in its capacity as Housing Successor to the Redevelopment Agency of the City of Fresno (Agency) to fund the projects referred to as Brio on Broadway. Pursuant to the OPA's the sum of $1,740,000 payable over 35 years is interest free for the first ten years commencing upon the issuance of the certificate of completion dated August 18, 2015. After the 10th year, commencing on August 17, 2025 $1,740,000 is amortized for 25 years with interest at 1% per annum payable in monthly installments fully due and payable at the end of the 35th year on August 17, 2050. The OPA's also provided for separate loans of the same amount that are forgiven upon expiration of the 55 year affordability covenants.

The OPA's provide for the transfer of ownership to entities having experience in the operation of affordable rental housing. With FHS approval, the property was sold by FFDA Properties LLC to Russell Long in March 2017. Recently, Mr. Long expressed his interest in paying off the $1,740,000 interest bearing loan. The OPA provides that loans can be paid off in whole or in part at any time without penalty. Mr. Long initially proposed paying off the loan on a net present value basis using a discount rate of 8% based upon the rate of return on investment projected from apartment buildings and real estate. At 8% the payoff amount is $666,465. The Agency consulted with Bob Williams Managing Director of RBD Capital Markets. Mr. Williams is highly experienced in municipal finance with over 30 years of investment banking experience. He is lead banker and program manager for the Statewide Community Infrastructure Program (SCIP) sponsored by the CA Statewide Community Development Authority. In consultation Mr. Williams, the Agency responded that 4 to 4.5% is a reasonable discount rate based upon the lowest estimated rate available to issue a housing bond and therefore represents the Agency's cost of capital. The Agency sought and Mr. Russell has agreed to a 4% discount rate resulting in loan payoff of $941,966.44. The loan discount rate continues to factor in the 1% loan interest rate and the 55 year affordability covenants remain in place.

According to the OPA terms, the loan repayment does not commence until August 17, 2025 at which time monthly payments of approximately $6,500.00 begin. The unique opportunity to receive the proposed advanced payoff in a lump sum of over $940,000 enables the Agency to immediately reinvest a substantial sum in the production of affordable housing at a critical time of need. The diminished life and income stream of the Agency constrains its ability to borrow or raise funds. The large lump sum repayment provides capital otherwise unavailable to produce more affordable housing in the near term.

If the item is approved the HSA intends to enter into escrow instructions with the Mr. Long, the borrower wherein the Agency shall deposit the original promissory notes and reconveyances of the deeds of trust to be released to the borrower upon the title company's receipt of the sum of $941,996.41. The borrower and HSA shall equally share the expense for all title, escrow and other closing costs except title insurance cost shall be born solely by the borrower.

ENVIRONMENTAL FINDINGS

N/A

LOCAL PREFERENCE

N/A

FISCAL IMPACT

The advanced payoff of housing loans has a positive impact enabling the Agency to reinvest the funds in the production of affordable housing.