



## Affordable Housing Committee Staff Report

**AGENDA TITLE:** Consideration of the proposed loan from the Affordable Housing Fund in support of Cornerstone Village affordable apartment complex  
*Project location: along Bruceville Road south of Laguna Blvd*

**MEETING DATE:** November 17, 2021

**PREPARED BY:** Sarah Bontrager, Housing and Public Services Manager

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### **RECOMMENDED ACTION:**

Staff recommends that the Affordable Housing Committee (Committee) complete its independent review of the loan application for Cornerstone Village affordable apartment complex (Project) and make one of the following recommendations:

1. Staff continue to negotiate or collect additional information from The John Stewart Company and Bethesda (JSCo/Bethesda), with the loan being considered by the Committee again at a future date;
2. The City Council approve the loan;
3. The City Council deny the loan; or
4. Such other recommendation as deemed appropriate by the Committee.

### **BACKGROUND INFORMATION:**

In February 2021, the City released a Request for Proposals (RFP) soliciting eligible multifamily affordable housing projects. The RFP had two phases, the first of which was focused on identifying a project that would submit a 9% tax credit financing application in the July 2021 funding round and the second of which allowed proposals using any other funding sources.

The Committee met on June 30 to review the seven proposals received and requested loan applications from two affordable housing projects, one of which is the Cornerstone Village project. Cornerstone Village is an 84-unit family project proposed by JSCo/Bethesda (Developer). The project will have 21 units for adults with intellectual and/or developmental disabilities, nine units of permanent supportive housing for people experiencing homelessness, and 53 units of family housing. A full-time resident services coordinator will be on-site to offer programming appealing to the interests of all residents, with some targeted programming for special needs populations. The inclusion of units for adults with intellectual and/or developmental disabilities would be a first for Elk Grove.

The loan application submitted by the Developer provided additional information with which to consider the Cornerstone Village project, with a focus on the strength of the development team and the finances and viability of the individual project. At their August 11th meeting, the Committee reviewed the Cornerstone Village application, including revisions to account for updated impact and building fee information. At that time, staff provided a detailed project summary, including strengths and weaknesses (see the attachments to the staff report for the August 11 meeting). The Committee provided direction to staff to enter into loan

negotiations with the Developer with a loan amount of \$3,436,000.

**ANALYSIS:**

On August 11, the Committee asked staff to enter into loan negotiations with the Developer with a loan amount of \$3,436,000. The outcome of loan negotiations is a loan term sheet that is used to prepare the loan documents, including a Loan Agreement, Regulatory Agreement, Promissory Note, Deed of Trust, and Subordination Agreement. The intention of the loan term sheet is to protect the City’s position and minimize risk, as well as to clarify the City’s expectations for the Developer and the senior lender.

The loan term sheet is a form of conditional loan commitment. Commitment of City or other local funds increases competitiveness for State and federal tax credit financing. For the City’s funds to be a factor in the scoring of the application, the Developer must include “conclusive evidence that any public funds have been firmly committed to the proposed project and require no further approvals.” Loan commitments may be subject only to conditions within the control of the applicant (in this case, the Developer).

**Project Status**

To date, commitments to two projects have been made under the RFP released in February.

- In June, the Council made a loan commitment of \$4 million (\$2 million per phase) to the Villages at Bilby, a 126-unit affordable family project. The developer of the project applied for 9% tax credit funding in July and was not awarded; they have two additional opportunities to seek 9% tax credit funding, the next of which will occur in early 2022.
- In September, the Council approved a \$6 million loan commitment for The Lyla, a 294-unit affordable family project. The Lyla applied for 4% tax credit and tax-exempt bond financing in September, and awards have not yet been announced.

JSCO/Bethesda anticipates pursuing several funding sources, including from 4% tax credits/tax-exempt bonds, the California Department of Housing and Community Development Multifamily Housing Program, and California Department of Developmental Services funding for projects serving adults with intellectual and developmental disabilities. Their first funding applications will be submitted in early 2022. In order to include City funding in their application, the City Council must approve a loan commitment by no later than the December 8th Council meeting.

**Loan Terms**

Staff negotiated loan term sheets that include a summary of the key aspects of the loan (Attachment 1). Staff’s chief goals in loan negotiations included the following:

- Mitigating risk to the City;
- Ensuring the long-term maintenance of the project;
- Promoting future affordable housing options, both by requiring meaningful repayment and operating in a way that encourages people to move up and on from affordable housing when they can afford market-rate housing;
- Ensuring that high-quality social services will be provided to all residents; and
- Providing cost controls to ensure the effective expenditure of public funds.

Highlights of the loan terms include the following:

- Loan amount of \$3,436,000;
- Interest rate of 4%;
- City commitment extends until October 31, 2023;

- Disbursements tied to close of construction financing, project framing completion, construction completion, cost certification, and project stabilization;
- Provisions to assist the City in ensuring that the project's costs are reasonable;
- A requirement to provide a full-time resident services coordinator to provide high-quality, on-site social services, including services targeted to formerly homeless households and adults with intellectual and developmental disabilities;
- Requirements related to insuring and reporting on the property; and
- A Regulatory Agreement that will restrict the units as affordable for a period of 55 years.

### **Options**

The Committee's responsibility is to perform an independent review of the loan application and return the loan package to staff with their recommendation. The Committee has the following options:

1. Provide direction to staff to collect additional information requested from the Developer and continue loan terms negotiation. With this choice, the loan would be presented to the Committee again at a future date.
2. Make a recommendation for loan approval by the City Council.
3. Make a recommendation for loan denial by the City Council.
4. Make such other recommendation as deemed appropriate by the Committee.

### **Next Steps**

If the Committee chooses to recommend that the Council approve or deny the loan, the Council is expected to consider the item on December 8. If approved by Council, this timeframe will allow the Developer to apply for other project financing sources in early 2022. In the event the Committee asks for additional information or continued negotiation, it may have an impact on the Developer's ability to pursue certain funding sources in early 2022. Most funding sources have only one or two application periods per year.

### **ENVIRONMENTAL DETERMINATION:**

The Committee's action only recommends financing and will not cause a direct physical change in the environment, nor a reasonably foreseeable indirect physical change in the environment. The Committee's action at this stage is merely a recommendation to Council and does not constitute approval of a commitment by the City to issue a loan to the project, nor does it constitute the approval of the project. The City has not received a planning application for construction of the proposed housing project. The City does not have sufficient information concerning project design to assess the reasonably foreseeable environmental effects of any future housing project at this time. The Committee's action, therefore, does not constitute the approval of a project under the California Environmental Quality Act ("CEQA"), and it is exempt from CEQA. (Pub. Res. Code § 21065, CEQA Guidelines §§ 15060(c),(2)(3); 15061(b)(3); 15064(d)(3); 15352; 15378; *Laurel Heights Improvement Association of San Francisco, Inc. v. The Regents of the University of California*, 47 Cal.3d 376, 398 (1988))

### **FISCAL IMPACT:**

Staff originally estimated that about \$8 million would be available under the RFP, which included two phases. An existing commitment of \$4 million to the Villages at Bilby project meant about \$4 million was available under the second phase of the RFP; however, at the Committee's request, staff reviewed the Affordable

Housing Fund balance and found there was about \$7 million reasonably available to devote to the Cornerstone Village and Lyla projects.

At their August 30th meeting, the Committee determined that they wanted to move forward with funding the Cornerstone Village project at \$3,436,000 and The Lyla project at \$6,000,000 (though that amount may be reduced if the amount of the park fee is ultimately lower than currently projected). Depending on when the three funded projects are built, this strategy may require borrowing against future revenues of the Affordable Housing Fund and/or impact the City's ability to complete other priority affordable housing projects.

If approved, the conditional loan commitment will reserve the monies for the length of the commitment period and preclude other projects from consideration.

There is adequate budget in the Affordable Housing Fund to cover staff costs associated with making one or more loans, including the creation of loan documents to secure the City's investment. The cost of staff time to process loans is small in comparison to the value of the loans, and the cost of staffing to support the goals of the Affordable Housing Fund is budgeted annually. In the event that the annual payments on the loan are not adequate to cover staff costs associated with long-term monitoring of the project's physical and financial condition, the Affordable Housing Fund has sufficient funding for staffing.

No General Fund contribution is anticipated for the loan or for the project monitoring and oversight.

**ATTACHMENTS:**

1. Draft loan term sheet – Cornerstone Village