



City of Palo Alto

City Council Staff Report

(ID # 5655)

Report Type: Action Items

Meeting Date: 4/6/2015

Summary Title: TEFRA Hearing for the Stevenson House to Issue Bonds

Title: TEFRA HEARING: Regarding Conduit Financing for the Stevenson House Project Located at 455 East Charleston Road Palo Alto, and Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority for the Purpose of Financing the Acquisition and Rehabilitation of a Multifamily Rental Housing Facility

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

- 1) Conduct a public hearing under the requirements of the Tax Equity and Fiscal Responsibility Act of 1983 (TEFRA) and the Internal Revenue Code of 1986, as amended (Code); and
- 2) Adopt a resolution (Attachment A) approving the issuance of the bonds by the California Municipal Finance Authority (CMFA) for the benefit of Palo Alto Senior Housing Project, Inc. Stevenson House LP (Borrower).

EXECUTIVE SUMMARY

A TEFRA hearing was held on April 7, 2014 where Council adopted a resolution for the issuance of tax exempt bonds for rehabilitation of the Stevenson House. A new public hearing and resolution are needed tonight because the public hearing and approval must be within 1 year of the bond closing. The closing did not occur in the required timeframe; hence the new hearing and resolution. CMFA and the Stevenson House are expected to close the not to exceed \$20,250,000 financing on 4/30/15.

This report is virtually the same as that presented on April 7, 2014 with the exception of a date change for public noticing.

BACKGROUND

The Related Companies of California, working with the Palo Alto Senior Housing Project, Inc., (PASHPI) a California nonprofit public benefit corporation, is undertaking a major rehabilitation of the Stevenson House, a low income senior rental facility. Like most affordable housing rehabilitations, this project is being funded by a variety of different sources, including loans

from the City and County, tax credits, and the subject tax exempt bonds. Related and PASHPI requested that the CMFA serve as the municipal issuer of bonds for the Stevenson House project in an aggregate principal amount not to exceed \$20,250,000 of tax exempt revenue bonds. Proceeds from the issuance of the bonds will be used to: (1) finance the acquisition and rehabilitation of a 120 unit multifamily rental housing facility for seniors located at 455 East Charleston Road in the City of Palo Alto, known as Stevenson House; and (2) pay certain expenses incurred in connection with the issuance of the Bonds. The facility to be financed is to be owned by PASHPI Stevenson House LP, a California limited partnership. The facility will be managed by the Borrower or another entity selected by the Borrower. All or a portion of the rental units in the facility will be rented to seniors of low or very low income.

In order for all or a portion of the bonds to qualify as tax-exempt bonds, the City of Palo Alto must conduct a public hearing (TEFRA Hearing), providing 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 the 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 proposed project must provide its approval of the issuance of the bonds for the financing of the project.

DISCUSSION

Since the facilities to be financed with the proceeds of the CMFA’s debt are located within the jurisdiction of the City of Palo Alto, the City has been asked to conduct a TEFRA hearing and adopt a resolution (Attachment A) that approves both the issuance of bonds by the CMFA for the benefit of PASHPI Stevenson House LP.

As cited in the published notice of March 20, 2015, the public hearing is simply an opportunity for all interested persons to speak or to submit written comments concerning the proposal to issue the debt and the nature or location of the facility to be financed; however there is no formal obligation on the part of the borrower or the Council to respond to any specific comments made during the hearing or submitted in writing.

The bonds are intended to finance the acquisition, and rehabilitation of a multifamily rental housing facility located at 455 East Charleston Road, Palo Alto, California 94306.

The CMFA is a joint exercise of powers authority that the City became a member of on April 14, 2008. The Joint Exercise of Powers Agreement provides that the CMFA is a public entity, separate and apart from each member executing such agreement. The debts, liabilities and obligations of the CMFA do not constitute debts, liabilities or obligations of the members executing such agreement. The bonds to be issued by the CMFA for the project will be the sole responsibility of the borrower, and the City of Palo Alto 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 of Palo Alto or the State of California but are to be paid for solely from funds provided by the borrower.

The City is in no way exposed to any financial liability by reason of its membership in the CMFA. In addition, participation by the City in the CMFA does not impact the City's appropriations limits and will not constitute any type of indebtedness by the City. Outside of holding the TEFRA hearing, adopting the required resolution, no other participation or activity of the City or the City Council with respect to the issuance of the bonds will be required. Based on the benefits of the project to the Palo Alto community and the lack of any financial obligations on the part of the City, staff recommends that Council approve the attached resolution.

RESOURCE IMPACT

As stated, the City will incur no financial obligation from approval of the recommendations. The Related Companies of California, working with the Palo Alto Senior Housing Project, Inc. is requesting authority to issue up to \$20,250,000 million in bonds through the CMFA. The City will receive a fee for its services when the bonds are issued.

POLICY IMPLICATIONS

Actions recommended in this report are consistent with Council's prior actions in supporting non-profit financings under the TEFRA (e.g., approving tax-exempt financing through the California Municipal Finance Authority for the Stevenson House project, CMR: 184:08).

ENVIRONMENTAL REVIEW

Action on this item does not constitute a project under Section 21065 of the Public Resources Code.

Attachments:

- Attachment A: TEFRA Resolution for Stevenson House (PDF)

Attachment A
Not Yet Approved

Resolution No. _____

Resolution of the Council of the City of Palo Alto Approving the Issuance of
Multifamily Housing Revenue Bonds by the California Municipal Finance
Authority for the Purpose of Financing the Acquisition and Rehabilitation of a
Multifamily Rental Housing Facility Known as Stevenson House

A. Pursuant Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Act"), certain public agencies (the "Members") have entered into a Joint Exercise of Powers Agreement, effective on January 1, 2004 (the "Agreement") in order to form the California Municipal Finance Authority (the "Authority"), for the purpose of promoting economic, cultural and community development, and in order to exercise any powers common to the Members, including the issuance of bonds, notes, or other evidences of indebtedness.

B. The City of Palo Alto (the "City") is a member of the Authority.

C. The Authority is authorized to issue and sell revenue bonds for the purpose, among others, of financing or refinancing the acquisition, rehabilitation and rehabilitation of multifamily rental housing projects.

D. The Related Companies of California, working with the Palo Alto Senior Housing Project, Inc., a California nonprofit public benefit corporation, has requested that the Authority issue one or more series of revenue bonds in an aggregate principal amount not to exceed \$20,250,000 (the "Bonds"), and lend the proceeds of the Bonds to PASHPI Stevenson House LP, a California limited partnership (the "Borrower") for the purpose of financing the costs of the acquisition and rehabilitation of a 120 unit multifamily residential rental housing facility for seniors located at 455 East Charleston Road in the City known as Stevenson House (the "Project"), to be owned by the Borrower and to be operated by the Borrower or another entity selected by the Borrower.

E. In order for the interest on Bonds to be tax-exempt, section 147(f) of the Internal Revenue Code of 1986, as amended (the "Code") requires that an "applicable elected representative" of the governmental unit, the geographic jurisdiction of which contains the site of Project to be financed with the proceeds of the Bonds, hold a public hearing on the issuance of the Bonds and approve the issuance of the Bonds following such hearing.

F. The Authority has determined that the City Council (the "Council") is an "applicable elected representative" for purposes of holding such hearing.

G. In response to a request by the Authority, the Council held a public hearing on April 7, 2014, regarding the issuance of Bonds by the Authority to finance the Project and, following the public hearing, the Council adopted Resolution No. 9400 approving the issuance by the Authority of the Bonds.

H. For reasons beyond the control of the Borrower, the issuance of the Bonds has been delayed, and the Bonds are now expected to be issued on April 30, 2015.

Not Yet Approved

I. Applicable Internal Revenue Service regulations require that the public hearing and Council approval occur within one year of the date of issuance of the Bonds, so the Authority has requested that the Council hold another public hearing regarding the financing of the Project, and adopt a resolution following the new public hearing approving the issuance by the Authority of the Bonds proceeds of which will be used to finance the Project.

J. Notice of the new public hearing has been duly given as required by the Code and the Council has heretofore held the new public hearing at which all interested persons were given an opportunity to be heard on all matters relative to the financing of the Project and the and the Authority's issuance of the Bonds therefore, and the Council now desires to again approve the issuance of the Bonds by the Authority.

The City Council of the City of Palo Alto RESOLVES as follows:

SECTION 1: The Council hereby affirms its approval of the issuance of the Bonds by the Authority for the purpose of providing funds to make a loan to the Borrower to enable the Borrower to finance costs of the Project. It is the purpose and intent of the Council that this Resolution constitute approval of the issuance of the Bonds (a) by the "applicable elected representative" of the governmental unit having jurisdiction over the area in which the Project is located in accordance with section 147(f) of the Code, and (b) by the Council in accordance with Section 4 of the Agreement.

SECTION 2: The issuance of the Bonds shall be subject to approval of the Authority of all financing documents relating thereto to which the Authority is a party. The City shall have no responsibility or liability whatsoever with respect to repayment or administration of the Bonds.

SECTION 3: The adoption of this Resolution shall not obligate the City or any department thereof to (i) provide any financing to acquire or rehabilitate the Project; (ii) approve any application or request for or take any other action in connection with any planning approval, permit or other action necessary for the acquisition, rehabilitation or operation of the Project; (iii) make any contribution or advance any funds whatsoever to the Authority; or (iv) take any further action with respect to the Authority or its membership therein.

SECTION 4: The officers of the City are hereby authorized and directed to do any and all things and to execute and deliver any and all agreements, documents and certificates which they deem necessary or advisable in order to carry out, give effect to and comply with the terms and intent of this Resolution and the financing transaction approved hereby.

SECTION 5: The City Clerk is hereby directed to forward a certified copy of this Resolution to the bond counsel for the Bonds, addressed as follows:

Paul J. Thimmig, Esq.
Quint & Thimmig LLP
900 Larkspur Landing Circle, Suite 270
Larkspur, CA 94939-1726

SECTION 6: This Resolution shall take effect immediately upon its adoption.

INTRODUCED AND PASSED:

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

City Clerk

Mayor

APPROVED AS TO FORM:

APPROVED:

City Attorney

City Manager or Designee

Director of Administrative Services