



City of Palo Alto

City Council Staff Report

(ID # 9637)

Report Type: Action Items

Meeting Date: 10/29/2018

Summary Title: PUBLIC HEARING: TEFRA Hearing for Lytton Gardens to Issue Bonds

Title: TEFRA HEARING Regarding Conduit Financing for the Lytton Gardens Apartments Project Located at 656 Lytton Avenue, Palo Alto, and Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority for the Purpose of the Acquisition, Rehabilitation, Improvement and Equipping of Lytton Gardens Apartments

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 Lytton Gardens 1 LP (Borrower).

Background

Covia Affordable Communities (the “Sponsor”) on behalf of Lytton Gardens 1 LP, or another entity created by the Sponsor or an affiliate thereof (collectively, the “Borrower”), has requested that the California Municipal Finance Authority (the “CMFA”) issue one or more series of revenue bonds in an aggregate principal amount not to exceed \$95,000,000 including but not limited to revenue bonds issued as part of a plan to finance the Project described herein (the “Bonds”) for the acquisition, rehabilitation, improvement and equipping of a 220-unit affordable apartment complex for low-income seniors (the “Project”) to be owned and operated by the Borrower and located at 656 Lytton Avenue within the City of Palo Alto, California (the “City”).

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 Lytton Gardens 1 LP.

As cited in the published notice of October 5 , 2018, 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 Project described herein for the acquisition, rehabilitation, improvement and equipping of a 220-unit affordable apartment complex for low-income seniors to be owned and operated by the Borrower and located at 656 Lytton Avenue within the City of Palo Alto, California.

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. Lytton Gardens is requesting authority to issue up to \$95 million in bonds through the CMFA. The City will receive a fee of approximately \$19,000 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., most recently approving tax-exempt financing through the California Municipal Finance Authority for Channing House on March 20, 2017, [Staff Report ID #7801](#)).

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 Lytton Gardens

NOT YET APPROVED

Attachment A

Resolution No.

Resolution of The City Council of The City Of Palo Alto Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority in an Aggregate Principal Amount not to Exceed \$95,000,000 to Finance a 220-Unit Affordable Apartment Complex for Seniors for the Benefit of Lytton Gardens 1, Lp, A Limited Partnership Formed by Covia Affordable Communities, and Certain Other Matters Relating Thereto

RECITALS

A. Covia Affordable Communities (the "Sponsor") on behalf of Lytton Gardens 1 LP, or another entity created by the Sponsor or an affiliate thereof (collectively, the "Borrower"), has requested that the California Municipal Finance Authority (the "Authority") issue one or more series of revenue bonds in an aggregate principal amount not to exceed \$95,000,000 including but not limited to revenue bonds issued as part of a plan to finance the Project described herein (the "Bonds") for the acquisition, rehabilitation, improvement and equipping of a 220-unit affordable apartment complex for low-income seniors (the "Project") to be owned and operated by the Borrower and located at 656 Lytton Avenue within the City of Palo Alto, California (the "City"); and

B. Pursuant to Section 147(f) of the Internal Revenue Code of 1986 (the "Code"), the issuance of the Bonds by the Authority must be approved by the City because the Project is located within the territorial limits of the City; and

C. The City Council of the City (the "City Council") is the elected legislative body of the City and is one of the "applicable elected representatives" required to approve the issuance of the Bonds under Section 147(f) of the Code; and

D. The Authority has requested that the City Council approve the issuance of the Bonds by the Authority in order to satisfy the public approval requirement of Section 147(f) of the Code and the requirements of Section 4 of the Joint Exercise of Powers Agreement Relating to the California Municipal Finance Authority, dated as of January 1, 2004 (the "Agreement"), among certain local agencies, including the City; and

E. Pursuant to Section 147(f) of the Code, the City Council has, following notice duly given, held a public hearing regarding the issuance of the Bonds, and now desires to approve the issuance of the Bonds by the Authority.

NOW, THEREFORE, the City Council of the City of Palo Alto RESOLVES as follows:

SECTION 1. The foregoing recitals are true and correct.

NOT YET APPROVED

Attachment A

Section 5. 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

[SEAL]