



# City of Palo Alto

## City Council Staff Report

(ID # 10976)

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**Report Type: Action Items**

**Meeting Date: 2/10/2020**

**Summary Title: PUBLIC HEARING: TEFRA Hearing for Wilton Court**

**Title: TEFRA HEARING Regarding Conduit Financing for Palo Alto Housing Corporation, on behalf of the Wilton ECR, L.P. Project Located at 3703-3709 El Camino Real, Palo Alto; and Approving the Issuance of Revenue Bonds by the California Municipal Finance Authority for the Purpose of Financing the Acquisition, Development, Construction and Equipping of a 59-unit Multifamily Rental Housing Facility for Low-income Households and Other Matters Relating Thereto**

**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 1982 (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 for the benefit of Wilton ECR, L.P. (Borrower).

### **Background**

Palo Alto Housing Corporation (the "Sponsor"), on behalf of the Wilton ECR, L.P., a limited partnership or another entity to be created by the Sponsor or an affiliate of the Sponsor (such limited partnership or other entity, as applicable, being referred to herein as 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 \$32 million (the "Bonds"), for the acquisition, development, construction and equipping of a 59-unit multifamily rental housing facility for low-income households (the "Project"), to be located in the City of Palo Alto, California (the "City"), at 3703-3709 El Camino Real.

In order for all or a portion of the bonds to qualify as tax-exempt bonds, the Federal Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") requires the City to (a) conduct a public hearing commonly referred to as a "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 and (b) adopt a Resolution approving the issuance of the Bonds by the Authority for the benefit of Borrower's Project.

According to TEFRA requirements, prior to the hearing, reasonable notice must be provided to the members of the community. This was done by Borrower's financing team with coordination with the City Clerk's Office. 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.

There is no financial impact to the City from its approval of the issuance of the Bonds. The Authority will act as issuer and perform all the necessary legal and administrative responsibilities associated with the financing. The Bonds are special, limited obligations of the Authority payable solely through the repayment of the loan by the Borrower which will be used to pay the principal of and interest on the Bonds. The Bonds issued by the Authority are not an obligation of the City or any member of the Authority. Neither the full faith or credit, nor the taxing power of the City, any member of the Authority, the State or any political subdivision is pledged to the repayment of the Bonds.

#### **Discussion**

Since the Project is 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 the issuance of bonds by the Authority for the benefit of the Borrower.

As cited in the published notice of January 10, 2020 in the *Daily Post*, 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, development, construction and equipping of a 59-unit multifamily rental housing facility for low-income households, to be located in the City of Palo Alto, California, at 3703-3709 El Camino Real. TEFRA approval is a precondition to the use of tax-exempt obligations for the Project, without which the financing of the Project as affordable housing would have to be abandoned

The California Municipal Finance Authority 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 Authority is a public entity, separate and apart from each member executing such agreement. The debts, liabilities and obligations of the Authority do not constitute debts, liabilities or obligations of the members executing such agreement. The bonds to be issued by the Authority 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 not exposed to financial liability by reason of its membership in the Authority. In addition, participation by the City in the Authority 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.

### **Stakeholder Engagement**

The unanimous City Council approval of this project on January 14<sup>th</sup> reflects a year of work by the City Council and staff to put in place new ordinances that incentivize the development of affordable housing in Palo Alto. The Department of Planning and Development Services coordinated with the Palo Alto Housing Corporation and the community (e.g. Ventura Neighborhood Association, members of the local disability community, etc.).

### **Resource Impact**

As stated, the City will incur no financial obligation from approval of the recommendations. Palo Alto Housing Corporation, on behalf of the Wilton ECR, L.P. is requesting to issue up to \$32 million in bonds through the California Municipal Finance Authority. For its services, the City will receive a fee of 25 percent of Authority's issuance fee, which based on \$32 million bonds issuance, is \$13,820.

Separately, the City Council has provided funding to the Palo Alto Housing Corporation to support this project in the total amount of \$20.5 million through separate City Council actions ([CMR 10143](#) and [CMR 10928](#)). The City's contribution will take the form of an affordable housing loan, which will be supported by a Promissory Note and Deed of Trust secured by the property.

### **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 Enterprise Development Authority for Bowman International School on November 4, 2019, Staff Report [CMR 10675](#) and tax-exempt financing through the California Municipal Finance Authority for Channing House on October 29, 2018, Staff Report [CMR 9637](#)).

### **Environmental Review**

Action on this item does not constitute a project.

### **Attachments:**

- Attachment A: TEFRA Resolution for Palo Alto Housing Corporation on Behalf of the Wilton ECR, LP

NOT YET APPROVED

Resolution No. \_\_\_\_\_

Resolution of the 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 \$32,000,000 to Finance a Multi-Family Rental Housing Facility for Low-Income Households for the Benefit of Wilton ECR, L.P., a Limited Partnership Formed by Palo Alto Housing Corporation, and Certain Other Matters Relating Thereto

RECITALS

A. Palo Alto Housing Corporation (the "Sponsor"), on behalf Wilton ECR, L.P., or another entity to be 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 \$32,000,000, including but not limited to revenue bonds issued as part of a plan to finance the Project described herein (the "Bonds") for the acquisition, development, construction and equipping of a 59-unit multi-family rental housing facility for low-income households (the "Project"), to be owned and operated by the Borrower and located at 3703-3709 El Camino Real within the City of Palo Alto, California (the "City").

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 to be located within the territorial limits of the City.

C. The 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.

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.

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

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]