DATE: February 10, 2020

SUBJECT

Tax Equity and Fiscal Responsibility Act (TEFRA) hearing regarding issuance of tax exempt bonds by the California Statewide Communities Development Authority (CSCDA) for the Hallmark House Apartments and resolution approving the issuance of bonds

RECOMMENDATION

1. Conduct a Tax Equity and Fiscal Responsibility Act (TEFRA) hearing in consideration of the issuance of tax exempt bond financing by the California Statewide Communities Development Authority (CSCDA) for the benefit of Hallmark 2017, L.P., to provide financing for the acquisition, rehabilitation, improvement, and equipping of a 72-unit affordable multifamily rental housing project generally known as Hallmark House Apartments; and
2. Adopt a resolution approving the issuance of bonds by the CSCDA not to exceed $25,000,000, for the benefit of Hallmark 2017, L.P., to provide financing for the acquisition, rehabilitation, improvement, and equipping of a 72-unit affordable multifamily rental housing project generally known as Hallmark House Apartments.

STRATEGIC PLAN GUIDING PRINCIPLE

Housing

BACKGROUND

From time to time, the City of Redwood City is asked to hold a public hearing associated with a private entity’s issuance of tax-exempt private activity bonds. The entity must be located within Redwood City. The bond issuance does not create a financial obligation for the City, other than the cost of staff time to prepare for the hearing. This cost is partially reimbursed through administrative payments to the City. In the past three years, the City Council has held approximately eight public hearings associated with tax-exempt private activity bonds issued by public finance entities primarily for affordable housing developers in Redwood City, such as Hallmark.
Hallmark 2017, L.P. (the “Borrower”) has requested that the California Statewide Communities Development Authority (“CSCDA”) serve as the municipal issuer of tax-exempt multi-family housing revenue bonds in an aggregate principal amount not to exceed $25,000,000 (the “Bonds”). The proceeds of the Bonds will be used for the purpose of making a loan to the Borrower, to enable the Borrower to finance the acquisition, rehabilitation, improvement and equipping of a 72-unit affordable multifamily housing rental project located at 531 Woodside Road, Redwood City, California (the “Project”), which will be owned and operated by the Borrower.

The subject property was damaged in a fire in 2013. After several years of delays, the owner reported they reached an agreement with their limited partner to buy them out of the partnership and commence with the rebuild. Tax exempt bonds and tax credit financing will be the primary fund source to finance the rebuild. All 72-units onsite will remain affordable in Redwood City.

ANALYSIS

In order for all or a portion of the Bonds to qualify as tax-exempt bonds, the City of Redwood City (“City”) must conduct a public hearing (the “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. Adoption of the resolution is solely for the purposes of satisfying the requirements of the Tax Equity and Fiscal Responsibility Act (TEFRA), the Internal Revenue Code and the California Government Code Section 6500 (and following). Prior to such TEFRA Hearing, reasonable notice must be provided to the members of the community. Notice of the hearing was published on January 30, 2020 in the San Mateo Daily Journal. Following the close of the TEFRA Hearing, an “applicable elected representative” of the governmental unit hosting the Project must provide its approval of the issuance of the Bonds for the financing of the Project.

CSCDA is a joint powers authority sponsored by the League of California Cities (“League”) and the California State Association of Counties (“CSAC”). CSCDA was created by the League and CSAC in 1988 to enable local government and eligible private entities access to low-cost, tax-exempt financing for projects that provide a tangible public benefit, contribute to social and economic growth and improve the overall quality of life in local communities throughout California. CSCDA is comprised of more than 530 members, including the City of Redwood City. CSCDA has issued more than $60 billion through 1,400 plus financings since 1988 and consistently ranks in the top 10 of more than 3,000 nationwide public issuers of tax-exempt debt, as measured by annual issuance amount.

The City initially held a TEFRA Hearing for this project on February 11, 2019. However, there were delays with finalizing the financing for this project and the TEFRA resolution passed in 2019 is only valid for one year. The owner does not expect to secure financing until after the February 11, 2020 deadline. Therefore, the City must hold another TEFRA Hearing for this project. The owner expects to pull permits in mid-February 2020 and close financing by April 2020. Construction is expected to start in May 2020 and be completed by June 2021.

FISCAL IMPACT

There is no fiscal impact to the City. The Bonds will be issued as limited obligations of CSCDA, payable solely from revenues and receipts derived from a loan to be made by CSCDA to the Borrower with the
Bond proceeds. The City bears no liability with respect to the issuance of the Bonds. Further, the City is not a party to any of the financing documents related to the Bond issuance and is not named in any of the disclosure documents describing the Bonds or the proposed financing.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

PUBLIC NOTICE


ALTERNATIVES

The City Council could decide not to adopt the resolution, which would prevent the Borrower from accessing essential bond financing to support existing affordable housing.

ATTACHMENTS

Attachment A - Resolution
Attachment B - TEFRA public hearing notice

REPORT PREPARED BY:

Alin Lancaster, Housing Leadership Manager
alancaster@redwoodcity.org
(650) 780-7299

Alex Khojikian, Deputy City Manager
akhojikian@redwoodcity.org
(650) 780-7302

APPROVED BY:

Melissa Stevenson Diaz, City Manager