

CALL TO ORDER/ROLL CALL:

Housing and Public Services Manager Sarah Bontrager called the meeting to order at 11:05am with the following in attendance:

Present: Darren Suen, Pat Hume

City staff: Sarah Bontrager, Inez Scott, Jason Behrmann, Darren Wilson, Suzanne Kennedy, Chelsea Mejia, Andre Martin, Tiffany Agrusa

Other attendees: The Pacific Companies: Caleb Roope, Mike Kelley, Brian Cooley
Other: Thad Johnson

APPROVAL OF AGENDA:

Motion: M/S Hume/Suen to approve the agenda as presented. ***The motion passed by the following vote: Ayes: 2; Noes: 0.***

PUBLIC COMMENT:

There was no public comment on non-agendized items.

APPROVAL OF MINUTES:

Motion: M/S Hume/Suen to approve the minutes of June 8, 2016 and December 13, 2017 as presented. ***The motion passed by the following vote: Ayes: 2; Noes: 0.***

REGULAR ITEMS:

Agenda Item 5A: Quail Run Apartments loan consideration

Ms. Bontrager presented the staff report and supplemental staff report detailing the project background and that the developer was requesting a \$5 million loan from the City. The project is similar to other projects the developer has done in the City, including Avery Gardens and the Bow Street Apartments that is currently under construction. Ms. Bontrager explained that staff reviewed the proposal and terms. The City used an underwriting consultant, TDA Consulting, to assist with the review. Ms. Bontrager noted the project's strengths, including development team experience, good location, sound financials, and some extra social services. Ms. Bontrager then explained a few weaknesses, notably that the project's operating expenses are increasing faster than rents are projected to rise. There are factors that help mitigate this type of situation and it has not normally been an issue, but it has potential to be if the market is not strong. Also noted was a concern about the adequacy of the replacement reserve over the 55-year term of the loan.

Ms. Bontrager then mentioned the loan term sheet that outlined what has been negotiated with the

developer and that there are a few outstanding issues for discussion.

Both committee members agreed they would like to ask some questions. The first question was why staff used a loan underwriter seeing how this project was similar to ones in the past. Ms. Bontrager stated that the City has historically involved a consultant in this process, with Bow Street being the only exception. Ms. Bontrager stated staff time was limited for underwriting, and that it's beneficial to get an outside perspective, as the consultant partner underwrites dozens of similar loans every year. The consultant works in other states and has a much broader sense of these types of projects.

Hume asked why wouldn't we use the already negotiated terms from one loan to the other. Ms. Bontrager replied that each time we go through one of these staff tries to negotiate the best possible terms for the City. The details of each transaction are different, the timing in the market is different, and there is a much stronger market than 3-4 years ago potentially more payback potential due to higher rent potential. In the overall affordable housing market resources are scarce, need is high, and the City must ensure it is investing wisely so as to conserve funding for future projects.

The consultant's experience was then discussed, and Ms. Bontrager stated that having a consultant that has national experience is helpful to see the trends of other states and the best practices being used.

Suen asked if we would see repayment at the 15-year refinance mark and Ms. Bontrager stated that most loans refinance at 15 years and that more than likely we would subordinate with the new lender and that it is not necessarily beneficial to the project to get repaid at that time and that many of our loans have not reached that point.

The Pacific Companies then spoke about the detailed income verification the City is requiring. Both parties discussed the pros and cons of self-certification and a more thorough process. Staff's position was to ensure that these units go to those who really need them. Pacific Companies was unsure whether this process would be burdensome as they have not had this type of funding source in the past with such requirements. Both parties agreed that the language of this term seems to be adequate, but the mechanics would need to be worked out down the line.

Annual payments was the next term discussed. The Pacific Companies went over their request to include the following items under the definition of Residual Cash Flow:

- Payment of asset management fees to the tax credit investor limited partner in an amount no greater than \$10,000 per annum escalating at a rate of no more than 3% with payments starting in the first year the project receives a certificate of occupancy;
- Payment of asset management fees to the Managing General Partner of the project partnership in an amount no greater than \$100 per unit per annum escalating at a rate of no more than 3% with payments starting in the first year the project receives a certificate of occupancy; and,
- Payment of the deferred developer fee, if any.

The pros and cons of both parties' language was discussed. It was decided to table this discussion and review other terms and then come back to this term.

Refinancing language was brought up and that The Pacific Companies would like language that was used in Bow Street. Ms. Bontrager said that when it gets to that stage a lot of attorneys will discuss the issues at hand.

Security was the next term discussed. The Pacific Companies requested the same structure as Bow Street with the guarantees and its entities. Committee members agreed to not require personal guarantees.

Bidding/procurement was then discussed. The Pacific Companies went over the language they would prefer and the pros and cons of that was discussed. A progressive structure of fines in both bidding and change orders was agreed upon by the Committee members.

The next term discussed was reserves and The Pacific Companies went over two issues: a 3.5% replacement reserve and a capital needs assessment. It was decided to have a \$250 reserve per unit and an escalator of 3.5% and take language from TCAC and have a capital needs assessment performed at transfer events.

The next term discussed was distributions of cash flow and The Pacific Companies discussed how they do not want an extra calculation to ensure adequate amount of liquid funding remains after distribution of cash flow, and proposed replacing this language with \$10,000. The pros and cons were discussed with the proposed language. It was decided to do away with Section 4 that was proposed by staff and add language that they cannot use operating reserves to make residual payments for things such as property taxes.

The discussion then went back to the previous tabled term annual terms and it was decided that the following would be incorporated:

- Payment of asset management fees to the tax credit investor limited partner in an amount no greater than \$5,000 per annum escalating at a rate of no more than 3% with payments starting in the first year the project receives a certificate of occupancy;
- Payment of asset management fees to the Managing General Partner of the project partnership in an amount no greater than \$100 per unit per annum escalating at a rate of no more than 3% with payments starting in the first year the project receives a certificate of occupancy; and,
- Payment of the deferred developer fee, if any.

Deliberation:

Motion: *M/S Hume/ Suen* Recommendation for loan approval by the City Council, with the terms as modified by the Affordable Housing Committee in their discussion. **The motion passed by the following vote: Ayes: 2; Noes: 0.**

ADJOURNMENT:

The meeting was adjourned at 12:25 pm.

**Prepared by Inez Scott,
Administrative Assistant**