



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
July 16, 2024

TOPIC: Garden Court Apartments Rehabilitation Project

AGENDA TITLE

Public Hearing - Approve an Amended and Restated Regulatory Agreement for the Rehabilitation of Garden Court Apartments Located at 300 East Santa Ana Boulevard, Santa Ana, CA 92701, Adopt a Resolution Approving the Issuance of Revenue Bonds, and Conduct a Tax Equity Fiscal Responsibility Act (TEFRA) Hearing

Legal notice published in the OC Reporter on July 9, 2024.

RECOMMENDED ACTION

1. Authorize the City Manager to execute an amended and restated agreement containing Affordable Housing Covenants with Orange Housing Development Corporation for the rehabilitation of Garden Court Apartments located at 300 East Santa Ana Boulevard, Santa Ana, CA 92701 (APN 398-323-08) (Contingent upon approval of Housing Authority Item # 3) (Agreement No. A-2024-XXX).
2. Approve the Relocation Plan and authorize the City Manager to approve amendments to the Relocation Plan prior to commencement of the rehabilitation of Garden Court Apartments, substantially in the draft form attached hereto, subject to changes consistent with the project approved by the City Manager and City Attorney.
3. Conduct a Tax Equity and Financial Responsibility Act Hearing in consideration of the issuance of tax-exempt bond financing by the California Municipal Finance Authority for C&C Development Co., LLC, to finance the acquisition, rehabilitation, improvement, and equipping of Garden Court Apartments located at 300 East Santa Ana Boulevard, Santa Ana, CA 92701 (APN 398-323-08).
4. Adopt a resolution approving the issuance of revenue bonds by the California Municipal Finance Authority in an amount not to exceed \$55,000,000 for financing the rehabilitation of Garden Court Apartments.

RESOLUTION NO. 2024-XXX entitled A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA ANA APPROVING THE ISSUANCE BY THE CALIFORNIA MUNICIPAL FINANCE AUTHORITY OF EXEMPT FACILITY BONDS FOR THE GARDEN COURT APARTMENTS

5. Determine that the approvals and authorizations provided for herein do not constitute a "project" within the meaning of California Public Resources Code § 21065 and authorize filing a notice of exemption based on the "common sense" exemption of 14 C.C.R. § 15061(b)(3) to the extent any activity would be considered a "project" because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to the California Environmental Quality Act (CEQA).

GOVERNMENT CODE §84308 APPLIES: Yes

DISCUSSION

Garden Court Apartments is an existing 84-unit mixed-income apartment project located at 300 East Santa Ana Boulevard, Santa Ana, CA 92701 (APN 398-323-08) and owned by Orange Housing Development Corporation ("OHDC"). On May 26, 1995, the City of Santa Ana ("City"), the Community Redevelopment Agency, and OHDC entered into an agreement containing covenants that required 41 out of the 84 units on the property to be affordable to families earning 40% of the Area Median Income ("AMI") in perpetuity. The remaining 43 units consist of 42 unrestricted market rate apartments and one manager's unit. The original covenant was entered into as part of a loan the City made for the project under the HOME Investments Partnership Program (24 C.F.R. 92.252) (the "HOME Program").

In February 2024, C&C Development Co., LLC ("C&C") and OHDC approached the City with a proposal to rehabilitate Garden Court Apartments and convert the remaining 42 market rate units at the project to affordable housing units for families earning 80% of the AMI. C&C and OHDC are seeking financing for the rehabilitation. The changes to the existing regulatory agreement are intended to assist with their ability to obtain financing. Thus, as part of this proposal, OHDC and C&C are requesting that the affordability term for the 83 affordable units be set at 55 years, which modifies the existing affordability covenants that require the current 41 affordable units to be restricted in perpetuity.

The amended agreement allows a change in the affordability covenants, but it does not contain an obligation to commence or complete the rehabilitation; the intent is that the amendment would assist OHDC and C&C to obtain financing for the rehabilitation. By this amendment, OHDC seeks to establish the restrictions that: (1) increase the affordability levels for the current 41 affordable units from 40% to 60% AMI, and (2) establish the 80% AMI restrictions for the remaining 42 units that are currently unrestricted. OHDC has stated its intention to repay the City's existing outstanding loan balance of \$925,851 at the time of their construction loan closing. Until such time as the outstanding loan balance is paid, the City has an existing deed of trust on the Property that secures obligations under the original loan agreement, including federal requirements under the HOME Program. Following a four-month due diligence and negotiation process with C&C and OHDC, staff is requesting approval of an Amended and Restated Agreement Containing Affordable Housing Covenants ("Regulatory Agreement") to allow for the rehabilitation of Garden Court Apartments, subject to

OHDC and C&C obtaining financing and subsequent approvals by the City's Planning and Building Agency for the rehabilitation work.

Staff is also requesting City Council to conduct a Tax Equity and Financial Responsibility Act ("TEFRA") Hearing and adopt a resolution for the issuance of tax-exempt bonds. The proposed rehabilitation project, Amended and Restated Regulatory Agreement, draft relocation plan of existing tenants, and TEFRA Hearing are further described below.

Proposed Rehabilitation Project

After recording the Regulatory Agreement, OHDC and C&C Development state that they will proceed with their efforts to obtain financing for the rehabilitation. The proposed rehabilitation project is of an occupied four-story multifamily apartment building (Garden Court Apartments) situated on a 1.44-acre site ("Project"). Currently, the property consists of 41 affordable family units and 42 market-rate units, plus one (1) manager's unit. The unit configuration will not be changed and the unit mix will continue to be comprised of 12 one-bedroom units, 12 one-bedroom units with a den, and 60 two-bedroom units. A total of 41 of the 84 units will be affordable to families at 60% AMI and the remaining 42 units will be affordable to families at 80% AMI. The Regulatory Agreement will allow rent increases for current residents in the 40% AMI units, but those residents will be protected from displacement through a rent escalator cap where the rent will not be increased annually by more than five percent (5%) plus the percentage change in Consumer Price Index, or ten percent (10%), whichever is lower, of the rent authorized under OHDC's original agreement with the City.

As mentioned, the final rehabilitation plans and commencement of rehabilitation is contingent on future financing and planning approvals. Based on the information from OHDC and C&C, upon completion of the rehabilitation, the existing residential building will have updated architectural design features that will align with the newly constructed Legacy Square project across the street. The community and programming spaces will also undergo modernization to enhance the living experience for residents, bringing it on par with market-rate communities. The rehabilitation plan also includes aesthetic enhancements to the façade and landscaping to improve the street frontage on all four sides of the building. Additionally, a small dog run area will be incorporated on the ground floor, facing North Spurgeon Street. Access to the parking garage on the ground floor will be facilitated through two parking garage gates, located on French Street and North Spurgeon Street respectively. Tenants will access their assigned parking spaces from within the parking garage. For residents on the three floors of apartments above the parking garage, access to the garage will be provided via elevator or stairs.

According to the proposal, the rehabilitation of the Project will occur in four (4) separate phases consisting of 21 units undergoing rehabilitation at one time. Due to the extent of the rehabilitation, these units will need to be vacant during the rehabilitation. The relocation plan of existing tenants is further outlined below.

Overall, this Project will establish deed restrictions for 42 new units of affordable

housing for low-income households in the City and rehabilitate the entire property, including the 41 existing affordable housing units, ensuring the Project's sustainability and affordability for the next 55 years. OHDC states the City's current loan balance of \$925,851 will also be repaid at construction loan closing. OHDC and C&C have worked closely with the City since 1994 to provide affordable housing for Santa Ana residents. OHDC and C&C currently own and operate 897 family and senior affordable units across 14 communities within the City. These include revitalization and rehabilitation developments such as Cornerstone Village, Wilshire/Minnie Neighborhood, Townsend and Raitt Neighborhood, and new construction development such as Andalucia Apartments, Depot at Santiago, and Terraces at Santiago. OHDC and C&C have never sold an affordable community they have developed in the City and they maintain a long-term commitment to serving the community.

Amended and Restated Regulatory Agreement

The Amended and Restated Regulatory Agreement is attached as Exhibit 1. The following key terms are incorporated into the Regulatory Agreement:

- **Owner:** Orange Housing Development Corporation, who may request approval from the City in the future to transfer the property to C&C following a tax credit application and/or the rehabilitation of the project.
- **Term:** 55 years from the date the Regulatory Agreement is recorded.
- **Unit Mix:** There will be 41 units designated for families with an income equal to or less than 60% AMI and 42 units designated for families with an income equal to or less than 80% AMI. There will continue to be one (1) unrestricted manager's unit. The rents will be tied to the Tax Credit Allocation Committee rents.
- **Restrictions on Rent Increases for Existing Households Currently Residing in the 60% AMI Units:** The 60% AMI units are the same forty-one (41) units restricted under the Original Agreement. The maximum annual rent increase for tenants currently residing in one of the 60% AMI units shall not exceed five percent (5%) plus the percentage change in Consumer Price Index, or ten percent (10%), whichever is lower, of the rent authorized under the Original Agreement until the rent equals 60% AMI. Rents may be increased only once a year.
- **Selection of Tenants:** A new local preference will be added to the Resident Selection Plan for residents who live or work in the City.
- **Rehabilitation and Maintenance:** OHDC is responsible for the rehabilitation of the Project and ongoing maintenance of the property to ensure it remains in a healthy and safe condition over the 55-year term. The Regulatory Agreement does not contain an obligation for OHDC or C&C to proceed with the rehabilitation as proposed.
- **Consent by Housing Authority:** The Regulatory Agreement removes the Community Redevelopment Agency for the City of Santa Ana as a party. The Housing Authority, as the Successor Agency, will approve this through a consent.

The Amended and Restated Regulatory Agreement has been signed by OHDC to acknowledge their acceptance of the terms.

Draft Relocation Plan of Existing Tenants

Relocation activities are subject to California Relocation Assistance Law, Government Code Section 7260, et seq., and the Relocation Assistance and Real Property Acquisition Guidelines adopted by the Department of Housing and Community Development as in Title 25, California Code of Regulations Section 6000, et seq.

The rehabilitation of Garden Court Apartments requires 21 units to be unoccupied for the start of the four (4) separate phases referenced above. Based upon resident interviews conducted by Overland, Pacific and Cutler and current household and income information, it is currently anticipated the vacancy of these units will be achieved through the permanent relocation of nine (9) existing households that are currently over-income, six (6) existing vacancies that have been accumulated as of the date of the Staff Report, and the relocation of six (6) income-qualified households who will be relocated on a permanent basis but have the right of first refusal to return to Garden Court Apartments upon completion of the rehabilitation. All households permanently relocated from the property will be receive relocation benefits.

The requirement to relocate income-qualified households may decrease to the extent additional units become vacant at the property due to normal turnover. At the time of relocation, C&C and OHDC will also work to relocate those income-qualified households to existing C&C/OHDC affordable communities in Santa Ana.

The Relocation Plan as of June 27, 2024, is attached as Exhibit 2. With approval by City Council, the Acting City Manager will approve any required amendments or modifications to the Relocation Plan, as reasonably necessary to implement the approval of the Regulatory Agreement to comply with reasonable conditions of financing for rehabilitation of the Project. Any changes to final Relocation Plan will be consistent with the project and approved by the City Manager and City Attorney. The Regulatory Agreement provides that relocation will not commence unless and until the City is provided with advance notice and written confirmation that the relocation is consistent with the Relocation Plan or, to the extent any changes are requested, the City Manager has approved those changes.

Tax Equity Fiscal Responsibility Act Hearing

C&C Development Co., LLC (the "Borrower") has requested that the California Municipal Finance Authority ("CMFA") adopt a financing plan to issue one or more series of revenue bonds, issued periodically, including bonds for refunding such revenue bonds, in an aggregate principal amount not exceeding \$55,000,000 (the "Bonds"). These funds are intended to finance or refinance the acquisition, rehabilitation, improvement, and equipping of the multifamily rental housing project located at 300 East Santa Ana Boulevard, Santa Ana, CA 92701 known herein as the Garden Court Apartments Project.

However, for any portion of the Bonds to qualify as tax-exempt, the City must conduct a public hearing (the "TEFRA Hearing"), allowing community members the opportunity to

voice their opinions regarding the use of tax-exempt bonds for the Project's financing. After the TEFRA Hearing concludes, an “applicable elected representative” of the governmental unit hosting the Project, in this case, the City, must provide approval for the CMFA to issue the Bonds for the Project's financing.

The Bonds to be issued by the CMFA are the sole responsibility of the Borrower. The City bears no financial or legal liability for the Project or bond repayment and incurs no indebtedness.

The TEFRA Resolution (Exhibit 3) and the approval of the Amended and Restated Regulatory Agreement are distinct processes with no direct correlation. Each carries its own significance and implications within the context of the broader framework. While the TEFRA Resolution primarily focuses on tax-exempt financing projects or investments, the approval of the Amended and Restated Regulatory Agreement pertains to the modification and enhancement of contractual terms and obligations. These two actions operate on separate tracks, addressing different aspects of the Project.

The Board of Directors of the California Foundation for Stronger Communities, a California non-profit public benefit corporation (the “Foundation”), serves as the Board of Directors for the CMFA. Through its conduit issuance activities, the CMFA shares a portion of its issuance fees with its member communities and allocates a portion of these fees to the Foundation to support local charities.

FISCAL IMPACT

A TEFRA Hearing Fee for this project in the amount of \$1,011 was received and will be deposited into the Miscellaneous Service Charge account (no. 01102002-53902).

EXHIBIT(S)

1. Amended and Restated Regulatory Agreement
2. Draft Relocation Plan, as of June 27, 2024
3. TEFRA Resolution

Submitted By: Michael L. Garcia, Executive Director of Community Development

Approved By: Alvaro Nuñez, Acting City Manager