



KING COUNTY HOUSING AUTHORITY

TO: Board of Commissioners
FROM: Tim Walter
DATE: March 9, 2014
RE: **Resolution No. 5460:** Authorizing KCHA to refinance the Eastwood Square Apartments

Summary:

Resolution No. 5460 authorizes KCHA to make a loan to Eastwood Square Apartments, a 48-unit multi-family development in Bellevue which is owned by the Authority and leased for 55 years to Park Villa LLC, a privately controlled partnership. The proceeds from this loan would allow the Partnership to refinance existing, high rate debt and provide an opportunity for KCHA to increase its investment return on existing reserves.

Background:

In 2002, KCHA issued approximately \$4 million in private activity tax-exempt bonds and the City of Bellevue advanced \$600,000 to finance KCHA's purchase of the Eastwood Square Apartments, a 48-unit HUD subsidized family development located at 14631 NE 35th St in Bellevue. Immediately upon acquisition of the property, KCHA leased the development to Park Villa LLC, a privately controlled partnership, on a 55-year lease. Park Villa LLC converted the project to a low-income housing tax credit development and completed a \$1 million rehab with proceeds generated from the tax credit equity. Since 2002, Park Villa LLC has made payments as required under the existing lease and now desires to refinance the project to lower the interest rate and cost of financing of the loan. The interest rate on the original loan to Park Villa LLC was 6.95% and the loan amortized over 40 years. All units in the property receive rent subsidies from HUD under HUD's Multifamily Project Based Section 8 program.

In late 2013, KCHA was notified by Park Villa LLC of its intent to refinance the KCHA bond loan to take advantage of the lower interest rate environment. Because of KCHA's underlying fee ownership of the property and KCHA's lessor interest in the financing lease, KCHA has proposed refinancing the original KCHA bond loan with a loan from KCHA internal resources. The term of the loan would be 10 years with an option for KCHA to extend the loan at KCHA's sole option. The interest rate proposed for the new loan is 5% and the loan will continue to amortize over the original loan's remaining term. The new loan would be in an approximate amount of \$4.2 million which would be sufficient to pay off the underlying bond and City of Bellevue loans and to pay any costs incurred by the lender associated with the issuance of the loan. The terms are further outlined in the attached Term Sheet.

Based on loan rate of 5% to the borrower, KCHA expects to generate from \$550,000 to \$1.2 million in interest income over and above what KCHA would expect to generate if the funds were

otherwise invested in KCHA's traditional structured investments. This loan is authorized under RCW 35.82.070(18), which allows housing authorities to "make loans for the refinancing of buildings for housing for persons of low income".

The funds being utilized for the loan are funds that have already been set aside for projected exit tax liabilities on current tax credit partnerships that expire within the next 10 to 11 years thus the investment of these funds will have little impact on KCHA's ability to meet its day to day operating needs.

Risks and Risk Mitigation:

Failure to make payments when due under the loan. Park Villa LLC has made its current payments on time to KCHA every month over the past 12 years. The reduction in interest rate will result in a 20% decrease in the debt payment which will enhance the property's ability to generate sufficient revenue to make the scheduled loan repayments. In addition, KCHA would hold as security a leasehold deed of trust and the underlying lessor interest in the lease. Failure to make the loan repayment as required would not only be a violation of the loan agreement but a violation of the lease. An uncured default under the terms of the lease would permit KCHA to terminate the lease and take possession of the property.

Failure to repay KCHA the outstanding balance of the loan when due. In 10 years, when the loan matures, the balance of the note would be approximately \$3.3 million. The value of the property today is conservatively \$7 - \$7.5 million. Failure to make the payment as required would result in both a violation of the loan agreement and the lease and would result in the termination of the lease with the property reverting back to KCHA ownership. In this situation, KCHA would take possession of the property for a fraction of its market value.

Failure to have sufficient funds on hand to pay exit tax liabilities when due if the loan has not been paid in full as anticipated. KCHA has sufficient funds and access to credit, if necessary, to bridge the payment of exit tax liabilities when due. KCHA also has some flexibility in determining when it will exercise its right to acquire the tax credit investor limited partner interests and therefore can time expected exit tax payments to the expected receipt of the loan repayment.

Passage is recommended.

Board of Commissioners
DOUG BARNES, *Chair*
MICHAEL BROWN, *Vice-Chair*
RICHARD MITCHELL
SUSAN PALMER

Executive Director
STEPHEN J. NORMAN



**KING COUNTY
HOUSING AUTHORITY**

December 18, 2013

Park Villa, LLC
2200 Sixth Ave, Suite 2200
Seattle, WA 98121
Attn: Mr. William H. Goldberg

RE: Term Sheet for refinancing of Eastwood Square Apartments

The King County Housing Authority ("KCHA") is pleased to present to you this Term Sheet outlining the general terms and conditions under which KCHA would be interested in providing a loan to refinance the \$4,000,000 Multifamily Family Revenue Bonds, (2001 Eastwood Square Apartments Project) ("Bonds") and the City of Bellevue loan ("City Loan") both of which provided acquisition financing for Park Villa LLC's leasehold interest in the Eastwood Square Apartments. The proposed general terms and conditions of the Loan are as follows:

General Terms & Conditions:

Borrower: Park Villa LLC

Project: Eastwood Square Apartments located at 14631 NE 35th St, Bellevue, WA 98007

Type of Project: 48-unit subsidized apartment complex

Purpose: Refinance the Bonds and the City Loan which provided the original financing for the acquisition of Park Villa's leasehold interest in the Project.

Loan Amount: Approximately \$4,200,000. The total will be adjusted such that the Loan proceeds are sufficient to pay off the Bonds, the City Loan and cover Third Party Costs associated with the Loan.

Interest Rate: 5%

Term: 10 years

Payments: Payments of principal and interest for 120 months

Amortization: Loan will be amortized in equal payments and will be amortized over the remaining term of the Bonds (amortized through 2041)

Loan Fee: .5% of the final Loan amount

Recourse: Non-Recourse

Security: A first leasehold deed of trust and an assignment of leases and rents

Prepayment: Any prepayment shall be subject to a yield maintenance penalty calculated at 5,4,3,2,1,1,1,1,0.

Third Party Costs: Borrower is responsible for all normal and customary third party costs to close including but not limited to legal, appraisal, title insurance, etc.

Loan Covenants: Annual audited financial statement
Quarterly financial statements (within 45 days of each calendar quarter)
Annual rent roll and annual HUD Form 92458
Debt service coverage ratio of 1.25:1.00 or better
Initial loan to value no less than 75%
Annual Compliance Certificate

Additional Requirements:

In addition to the general term and conditions, the final commitment and funding of the Loan shall be conditioned upon:

Evidence of all required consents of the members of Park Villa LLC as well as any amendment(s) necessary per the company's operating agreement for Park Villa LLC to enter into the Loan.

Receipt of all required approvals to amend the Financing Lease between KCHA and Park Villa LLC.

Amendment of the Financing Lease and any other project related document(s).

Any reports or verifications necessary to evidence sufficiency of funds to redeem or defease the Bonds.

Review of current physical needs assessment of the Project and sufficient funds escrowed to satisfy any immediately needed repair work.

Transfer and funding of replacement reserves in an account requiring approval by KCHA for release of reserves (which release shall not be unreasonably withheld).

Receipt of any required legal opinion.

Compliance with statutory and on-going affordability covenants.

Receipt of additional information required by KCHA.

This Term Sheet is not meant to be nor shall it be construed as an attempt to define all of the terms, conditions and requirements of the Loan but to outline the basic business points of the transaction. Further discussion of the specifics of the Loan shall not be precluded by the issuance of this Term Sheet.

Park Villa LLC Term Sheet
December 18, 2013

Upon confirmation from Park Villa LLC of its interest to proceed with the Loan, KCHA will engage legal counsel to draft changes to the Financing Lease and other related documents necessary to permit the refinancing of the Bonds and the City Loan.

We at King County Housing Authority look forward to the opportunity to work with you on this transaction. Should you have any questions, please feel free to contact either myself at (206) 574.1193 or Tim Walter at (206) 574.1231.

Sincerely,

Daniel R. Watson
Deputy Executive Director
King County Housing Authority

cc: Stephen Norman

HOUSING AUTHORITY OF THE COUNTY OF KING

RESOLUTION NO. 5460

A RESOLUTION of the Housing Authority of the County of King authorizing the Authority to make a loan to Park Villa LLC for the purpose of refinancing the Eastwood Square Apartments and to negotiate, execute and deliver various documents in connection with such transaction, and determining related matters.

ADOPTED March 17, 2014

This document was prepared by:

*FOSTER PEPPER PLLC
1111 Third Avenue, Suite 3400
Seattle, Washington 98101
(206) 447-4400*

HOUSING AUTHORITY OF THE COUNTY OF KING

RESOLUTION NO. 5460

A RESOLUTION of the Housing Authority of the County of King authorizing the Authority to make a loan to Park Villa LLC for the purpose of refinancing the Eastwood Square Apartments and to negotiate, execute and deliver various documents in connection with such transaction, and determining related matters.

WHEREAS, the Housing Authority of the County of King (the “Authority”) seeks to encourage the provision of long-term housing for low-income persons residing within King County, Washington; and

WHEREAS, the Authority has been designated as a “housing associate” of the Federal Home Loan Bank of Seattle (the “Seattle FHLB”); and

WHEREAS, RCW 35.82.070(1) provides that a housing authority may, among other things, “make and execute contracts and other instruments . . .”; and

WHEREAS, RCW 35.82.070(18) provides that a housing authority may, among other things and if certain conditions are met, “make . . . loans for the . . . acquisition, construction . . . rehabilitation, improvement . . . or refinancing of land, buildings, or developments for housing for persons of low income”; and

WHEREAS, pursuant to Resolution No. 3143, adopted by the Board of Commissioners of the Authority (the “Board”) on September 12, 2001, and a Trust Indenture dated as of October 1, 2001 between the Authority and U.S. Bank National Association (now U.S. Bank National Association), as trustee, the Authority issued its Multifamily Housing Revenue Bonds, 2001 (Eastwood Square Apartments Project) (the “2001 Bonds”) in the aggregate principal amount of \$4,000,000, of which \$3,470,000 aggregate principal amount is currently outstanding, to provide

part of the costs of acquiring a 48-unit apartment complex known as the Eastwood Square Apartments located in Bellevue, Washington (the "Project"), which Project is owned by the Authority and leased to Villa Park LLC (the "Borrower"), all to provide housing for low-income persons within King County (the "County"); and

WHEREAS, pursuant to a Funding Agreement between the Authority and the City of Bellevue dated October 12, 2001, the City loaned the Authority \$600,000 (the "City Loan"), of which approximately \$544,000 is currently outstanding, to provide part of the costs of acquiring the Project to be leased to the Borrower, all to provide housing for low-income persons within the County; and

WHEREAS, pursuant to a Lease Agreement dated as of October 1, 2001 (the "Lease"), between the Authority and the Borrower, the Authority has transferred the Project to the Borrower pursuant to a long-term lease agreement; and

WHEREAS, the Authority deems it necessary and convenient to make a loan to the Borrower in an amount not to exceed \$4,200,000 to provide the funds necessary to refinance the costs of the Project, including the repayment of the Bonds and the City Loan (the "Refinancing") in accordance with the Authority's proposal letter dated December 18, 2013 (the "Proposal Letter"); and

WHEREAS, the Authority has determined that the loan authorized herein is important for the feasibility of the Project;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF COMMISSIONERS OF THE HOUSING AUTHORITY OF THE COUNTY OF KING as follows:

Section 1. Authorization of Loan to the Borrower. The Board approves the use of Authority funds to make a loan to the Borrower in a principal amount not to exceed \$4,200,000

for the purpose of carrying out the Refinancing, all in accordance with the Proposal Letter. The maturity date of the loan may be extended at the option of the Authority so long as the agreed upon rate of interest payable on the loan balance at the time of the extension is not less than the U.S. Treasury rate with a similar maturity date. The Executive Director of the Authority is authorized to further negotiate the terms of the loan with the Borrower, and to enter into customary loan documents, including a loan agreement, a deed of trust, assignments of management and other contracts, an amendment to the Lease and a promissory note, in connection therewith. The Board authorizes and directs the Executive Director of the Authority to do everything necessary for the negotiation, execution and delivery, on behalf of the Authority, of all documents as may be useful or necessary to the purpose of this Section 1, as determined by the Executive Director.

Section 2. Expenditures. The Authority is authorized to expend such funds as are necessary to pay, to the extent not paid by the Borrower, for all filing fees, application fees, registration fees, account fees and other costs relating to the actions authorized by this resolution.

Section 3. Execution and Delivery of Additional Documents. The Executive Director is hereby directed, and granted the discretionary authority, to execute and deliver any and all notices and other certificates, documents, agreements and instruments that are necessary or appropriate in his discretion to give effect to this resolution and to consummate the transactions contemplated herein.

Section 4. Authorization of Future Acts. The Board further authorizes and directs the Executive Director and all other proper officers, agents, attorneys and employees of the Authority to carry out, or cause to be carried out, all obligations of the Authority under the documents authorized by this resolution and to perform or cause to be performed such other acts

as they shall consider necessary or advisable in connection with the making of a loan to the Borrower and the application of such proceeds to carry out the Refinancing, or in order to give effect to this resolution and the transactions contemplated herein.

In particular, the Board approves accessing up to \$[4,200,000] of credit from the Seattle FHLB in connection with the loan, and authorizes the Executive Director, in his discretion, to make application to the Seattle FHLB for such extension of credit, to execute agreements pledging collateral (which may include, without limitation, previously authorized Board designated funds) to the Seattle FHLB as required in connection with such extension of credit, to approve the substitution of such collateral from time to time, and to open and maintain any accounts as may be useful or necessary in connection with such transactions.

Section 5. Acting Officers Authorized. Any action required by this resolution to be taken by the Executive Director of the Authority may in the absence of such person be taken by a Deputy Executive Director of the Authority.

Section 6. Ratification and Confirmation. Any actions of the Authority or its officers prior to the date hereof and consistent with the terms of this resolution are ratified and confirmed.

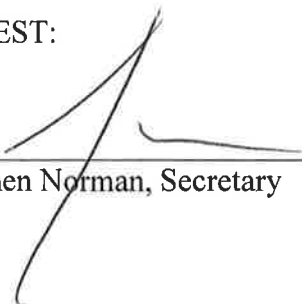
Section 7. Effective Date. This resolution shall be in full force and effect from and after its adoption and approval.

ADOPTED by the Board of Commissioners of the Housing Authority of the County of King at an open public meeting this 17th day of March, 2014.

HOUSING AUTHORITY OF THE COUNTY OF KING

By:  _____
Chair

ATTEST:



Stephen Norman, Secretary

CERTIFICATE

I, the undersigned, the duly chosen, qualified and acting Executive Director of the Housing Authority of the County of King (the "Authority") and keeper of the records of the Authority, CERTIFY:

1. That the attached Resolution No. 5460 (the "Resolution") is a true and correct copy of the resolution of the Board of Commissioners (the "Board") of the Authority, as adopted at a meeting of the Authority held on March 17, 2014, and duly recorded in the minute books of the Authority.

2. That such meeting was duly convened and held in all respects in accordance with law, and, to the extent required by law, due and proper notice of such meeting was given; that a quorum was present throughout the meeting and a majority of the members of the Board of Commissioners of the Authority present at the meeting voted in the proper manner for the adoption of the Resolution; that all other requirements and proceedings incident to the proper adoption of the Resolution have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this Certificate.

IN WITNESS WHEREOF, I have hereunto set my hand this 17th day of March, 2014.



Executive Director of the Authority

CERTIFICATE