

IMPACT STATEMENT

Legislation title: * Authorize contingent loan agreement with Home Forward for Lovejoy Station Apartments (Ordinance)
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Purpose of proposed legislation and background information:

The proposed ordinance authorizes the City to enter into a contingent loan agreement (the "Contingent Loan Agreement") with Home Forward (formerly the Housing Authority of Portland) in connection with the proposed issuance of Home Forward's Multifamily Housing Refunding Revenue Bonds, 2016 (Lovejoy Station Apartments) (the "2016 Bonds"). Proceeds of the 2016 Bonds will be used by Home Forward to refinance currently outstanding bonds that were issued in October 2000 to finance a portion of the costs of developing the Lovejoy Station Apartments (the "2000 Bonds"). Home Forward is refinancing the 2000 Bonds in order to take advantage of lower interest rates and reduce debt service costs.

The Lovejoy Station Apartments is a 181-unit affordable housing project located at 1040 NW 10th Avenue, which was built in 2001 by Home Forward (the "Project"). All units of the Project are reserved for low income households, with 76 studios targeted to households at 40-60% of the area's median family income ("MFI"), 66 one bedroom units at 60-80% of MFI, and 39 two bedroom units at 60-80% of MFI.

City Contingent Loan Obligations. The City currently has five contingent loan agreements with Home Forward that provide credit enhancement for Home Forward bonds, including one for the 2000 Bonds. The total outstanding principal amount of Home Forward bonds carrying a contingent loan agreement with the City is \$25.42 million. To date, the City has never been requested to appropriate funds under any of the contingent loan agreements.

Similar to other contingent loan agreements between the City and Home Forward, the proposed Contingent Loan Agreement provides that the City will lend to Home Forward, upon request, amounts to maintain the Reserve Account in the amount of approximately \$730,000 (based on current market rates) for the 2016 Bonds. Home Forward may only request a loan from the City if revenues from the Lovejoy Station Project plus other general revenues of Home Forward are insufficient to maintain the Reserve Account. The obligation of the City to loan money to Home Forward under the Contingent Loan Agreement is subject to future annual appropriation by the City Council. As such, the City Council has no legal obligation to appropriate funds; however, once funds have been appropriated, the City is obligated to transfer required amounts to the Bond trustee to replenish the Reserve Account. If the City provides a loan to Home Forward under the Contingent Loan Agreement, Home Forward will be obligated to repay the City under a repayment plan to be determined at the time the loan is made.

As noted above, the City and Home Forward previously entered into a contingent loan agreement for the 2000 Bonds. The Contingent Loan Agreement authorized by this ordinance will replace the prior contingent loan agreement upon the successful sale and closing of the 2016 Bonds. The terms of the new Contingent Loan Agreement are materially similar to prior and existing contingent loan agreements.

Project Performance. Portland Housing Bureau staff, in coordination with the City's Debt Manager, have reviewed the Project historic financial and pro formas, and believe that the benefits of refunding the 2000 Bonds and entering into a new Contingent Loan Agreement for the 2016 Bonds support the limited risk of the Contingent Loan Agreement.

Debt service coverage for the outstanding 2000 Bonds has ranged between 1.37x to 1.58x over the last five years. Because the refunding of the 2000 Bonds is estimated to reduce annual debt service payments by approximately \$200,000 per year (based on current market rates) and the amount required to be maintained in the Reserve Account is expected to drop by a like amount, the City's annual exposure is reduced relative to the current contingent loan agreement.

Reducing annual debt service requirements on the 2016 Bonds also increases the likelihood that the Project will continue to generate positive net operating income. Additionally, with the lower annual debt service resulting from the refinancing, debt service coverage levels are expected to increase going forward.

Attached to the Ordinance is the form of Contingent Loan Agreement which has been approved by the City Attorney's Office. The Ordinance provides that the Debt Manager, in concurrence with the City Attorney, may negotiate modifications to the Contingent Loan Agreement as reasonable or necessary to carry out the purposes of the Ordinance or facilitate the refinancing of the Project.

Financial and budgetary impacts:

The City may be asked by Home Forward to provide a loan if annual project cash flow, together with Home Forward general funds, is insufficient to pay the 2016 Lovejoy Station Bonds, or if the Reserve Account falls below the required level. The maximum loan amount to replenish the Reserve Account is approximately \$730,000 per year through July 2033; however no loan requests are currently anticipated. The obligation of the City to loan money to Home Forward is subject to annual appropriation by the Council. However, once appropriated, funds must be transferred to the Bond trustee to replenish the Reserve Account.

Community impacts and community involvement:

This is an administrative action taken to authorize the Contingent Loan Agreement for the 2016 Bonds. No community impact or involvement is anticipated.

Budgetary Impact Worksheet**Does this action change appropriations?**

- ☐ **YES:** Please complete the information below.
☒ **NO:** Skip this section

Fund	Fund Center	Commitment Item	Functional Area	Funded Program	Grant	Sponsored Program	Amount