



September 27, 2022

Community HousingWorks  
Attention: Mary Jane Jagodzinski, Senior Vice President  
3111 Camino del Rio North, Suite 800  
San Diego, CA 92108

**Re: *Preliminary Commitment Letter regarding Certain Financial Assistance by the City of Rocklin, consisting of a Loan Sourced from Housing Asset Funds, for the Proposed Construction and Operation of a New Affordable Rental Housing Project (110 Units) on an approximately 1.83-Acre Combined Site Located at Pine, Oak, and Pacific in the City of Rocklin, California***

Dear Ms. Jagodzinski:

This Preliminary Commitment Letter (this "Preliminary Commitment Letter") sets forth the basic terms under which the City of Rocklin ("City") is prepared to proceed with implementation of certain public programs in connection with the development of an approximately 1.83 acre site located at Oak, Pine, and Pacific (the "Site") located within the corporate limits of the City. This Preliminary Commitment Letter will expire on March 26, 2023 which is 180 days after the date of this Preliminary Commitment Letter] (the "Letter Expiration Date"), at which time the terms set forth herein will be null and void unless sooner extended by the City Manager of the City (the "City Manager") which the City Manager acting in his/her sole and absolute discretion; in addition if prior to the Letter Expiration Date a comprehensive affordable housing agreement between City and Community HousingWorks, a California nonprofit public benefit corporation ("CHW") which delineates in greater detail provisions concerning the financing, planning, and development of affordable rental housing units on the Site (an "Affordable Housing Agreement" or "AHA"), this Preliminary Commitment Letter shall be superseded by and shall terminate as of the date the City approves the AHA. In addition, in the event an AHA is not entered into prior to January 31, 2023, the City reserves the right to assign the position of CHW in this Preliminary Commitment Letter to a different entity of City's choosing.

The Site was acquired previously by the former Rocklin Redevelopment Agency (the "Former Agency"). In connection with the implementation of the dissolution of the Former Agency, the City purchased the Site; as such the City is now the beneficial owner of the Site.

The City has desired to attract an experienced developer and operator of affordable rental housing to accomplish the development of the Site for affordable rental housing. As part of

**CITY OF ROCKLIN, CITY MANAGER'S OFFICE**

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the efforts of the City with regard to the Site, the City issued a notice of availability as to the Site and conducted further efforts in furtherance of California laws and regulations pertaining to the disposition of surplus property. In connection with that notice, the City indicated to prospective developers that it was prepared to infuse as a loan an amount of up to Two Million Six Hundred Thousand Dollars (\$2,600,000.00) (the "City Amount") to support the development of affordable rental housing units on the Site. In response to such notice, certain expressions of interest were received regarding the Site; the submittals by various developers requested an infusion of the City Amount of City moneys.

The City engaged a land economist and legal counsel to augment staff efforts to promote the disposition of the Site consistent with applicable laws and consistent with the goal of promoting affordable rental housing. After various proposals were evaluated, at its meeting of May 10, 2022, the City, through the City Council, authorized and directed City staff to proceed directly with negotiations of a comprehensive agreement for the ground lease, development and operation of an affordable rental housing project on the Site. By this direction and authorization, the City acting through the City Council indicated its support of making available the City Amount to assist in defraying the cost of developing affordable rental housing at the Site. At the same meeting, the City Council authorized and directed staff to negotiate toward an agreement providing for the disposition of the Site and its operation for affordable rental housing purposes specifically with CHW. The direction and authorization as given on May 10, 2022 constitutes an encumbrance of moneys within the meaning of Health and Safety Code Section 34176.1(d).

Integral to the designation of CHW as developer as well as the authorization and direction as given on May 10, 2022 was the indication by CHW that it would enter into an AHA with the City, under which CHW would ground lease the Site, acquire significant funding from sources other than the City, and proceed to develop approximately one hundred ten (110) apartment units on the Site, with appropriate amenities. Not fewer than twenty three (23) of the rental units developed would be restricted to rental at affordable rents (as determined consistent with Health & Safety Code Sections 50052.5 and 50053) to households having incomes of not greater than thirty percent (30%) of the area median income ("Extremely Low Income Households") for Placer County ("Median Income"). CHW would additionally develop other units, some of which would be restricted to rental at affordable rent to households having incomes of not greater than fifty percent (50%) of Median Income ("Very Low Income Households"). Over fifteen percent (15%) of the units developed would be restricted to use as affordable rental units to Extremely Low Income Households or Very Low Income Households.

The basic structure of the AHA would provide for CHW, or such affiliate thereof as may hereafter be approved by City, to ground lease the Site from the City. CHW has indicated that it intends to seek to divide the Site into two portions (Portion A and Portion B); each such Portion would be developed with a separate financing package utilizing, among other tools, 9% housing tax credits, 4% housing tax credits, multifamily housing bonds (which would be issued as conduit bonds without City liability), a private loan, and a loan by the City of the City Amount. The proposed development of approximately one hundred ten (110) apartment units on the Site with ancillary amenities is referred to for convenience herein as the "Project." As noted above, if the Site is divided, with all mapping and associated costs being borne by CHW, the Site could be developed under two separate ground leases by separate entities, both being CHW or an affiliate thereof which shall have been approved by the City for such purpose. No units at the Site would be restricted on the basis of age. All apartment units would be affordable households of limited income with at least 49% of the units to be restricted

to Extremely Low Income Households and Very Low Income Households. The final determination of affordability levels will be expounded upon more fully in the AHA.

If entry onto the Site and, if applicable, other land owned by the City, is requested by CHW prior to the approval of an AHA, any such entry shall be pursuant to an early entry agreement in form acceptable to the City. As part of the approval of this Preliminary Commitment Letter by the City, the City Manager is delegated authority to enter into an early entry agreement on behalf of the City at such time as the City Manager may deem appropriate.

City is the owner of a fee simple interest in the Site.

#### Land Use Entitlement and City Loan

Further, CHW intends to prepare and submit to the City an application for land use entitlements for the Site, which may include incentives under the State Density Bonus Law, California Government Code Section 65915, *et seq.* and the City's implementing density bonus ordinance ("Land Use Entitlement").

As noted above, the Project will consist primarily of approximately one hundred ten (110) apartment units. Parking, leisure space, and amenities shall be provided as determined under the City's land use approval process.

CHW shall prepare and submit to the City its application for the Land Use Entitlement that includes: Building Plan Check and, if approved, with construction subject to the City's development standards, zoning and other laws and regulations. City will sign as owner such applications as may be customarily required to be signed by a property owner in connection with the City's land use processes.

In connection with implementation of the Project, CHW has requested that City provide to CHW this Preliminary Commitment Letter the City Loan described below.

City states its objective for CHW, by this Preliminary Commitment Letter, to satisfy the provisions of the California Tax Credit Allocation Committee ("TCAC") Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws, California Code of Regulations, Title 4, Division 17, Chapter 1, Section 10300, *et seq.* ("TCAC Regulations"), in particular Section 10325. If CHW receives an award of AHSC program funding and low-income housing tax credits ("Tax Credits"); however, City shall proceed with CHW towards the preparation of an AHA without regard to whether a preliminary reservation of tax credits has first been obtained.

CHW plans to make an application to the California Tax Credit Allocation Committee (TCAC) for 4% Tax Credits and 9% Tax Credits by the second round which occurs in 2023. If CHW's first two applications for 4% Tax Credits and 9% Tax Credits are unsuccessful, the City may, as more particularly provided in an AHA, allow for an additional applications, all to be more particularly set forth in an AHA.

#### City Loan

The Rocklin City Council (the "City Council") has reviewed CHW's requests for the City Loan, and on September 27, 2022 at a public meeting of the City Council, City authorized and approved issuance of this Preliminary Commitment Letter to evidence the preliminary award

of the City Loan and related matters described herein. Accordingly, subject to the conditions described herein, the City Loan comprised of the following financial subsidies and assistance will be provided to CHW to facilitate the Project:

- (i) Subject to satisfaction of conditions precedent determined by City (which will be consistent with conditions precedent to disposition customarily required by the City in agreements pertaining to the long term disposition of interests in property for development), the City will transfer to CHW a long term ground leasehold interest in the Site for not less than period of fifty-seven (57) years (the "Ground Lease"); and
- (ii) A loan in the amount of the City Amount (herein, the "Development Loan"). The Development Loan shall be sourced from money held in the City's Low and Moderate Income Housing Asset Fund pursuant to the Dissolution Law, Health and Safety Code Sections 34170, et seq., in particular sections 34176 and 34176.1 ("Housing Asset Funds"). The Development Loan will be a residual receipts loan in a subordinate lien position; it shall be subject to a City Regulatory Agreement which provides for ongoing affordable housing compliance (a form of which will be included in the AHA), affordability covenants of other public agencies (if applicable), the deed of trust securing repayment of a loan from a private lender ("Primary Loan"), and, if applicable, any loans provided by other public agencies. The priorities as among the various loans and other details shall be set forth with greater particularity in the AHA. In addition to the City making available the Development Loan, it will ground lease the Site; and
- (iii) CHW, as lessee and borrower, will be obligated to repay to City the amounts loaned by the City (the "City Loan"). The City Loan would be repayable from residual receipts generated from the development and operation of affordable rental housing on the Site. It is anticipated that the City's share of residual receipts would be fifty percent (50%) of residual receipts; however, if other public agencies also make loans repayable on a residual receipts basis, the City's portion of the residual receipts would subject to being reduced ratably based upon the relative sizes of the City's and the other public entity's residual receipts loans. Ground lease payments will also be paid out of residual receipts excepting to the extent some other arrangement is provided for in the AHA.

### CHW's Project Proforma

The City Loan has been evaluated and determined and this Preliminary Commitment Letter is provided in material reliance and based on City's review of CHW's application for the City Loan and its development proforma and projected cash flows for the Project assuming the approval of 4% Tax Credits and 9% Tax Credits.

### City Loan Terms

The City Loan (whether documented as one or two loans evidenced by one or two promissory notes) will have the following terms, and shall be more fully described and defined in the AHA:

- Loan by City will be in the approximate amount of the City Amount;
- Disbursement procedures for release of the loan proceeds: the City Amount will be disbursed as progress payments toward completion of construction of improvements, as shall be further set forth in the AHA;

- Principal amount shall bear three and No/100ths percent (3%) simple interest per annum;
- Repayment of the City Loan shall be from fifty percent (50%) of residual receipts (subject to and after payment of operating expenses, debt service, deferred developer fee, if any, and partnership related fees to be defined and described in the AHA); provided that City acknowledges if other public agencies provide loans repayable on a residual receipts basis, the City's share may be adjusted ratably (the percentage payable to City as so determined is referred to herein for convenience as the "City Share"). If the Site is divided, the allocation of the City Loan shall be accomplished as provided in the AHA, with each Portion standing alone.
- Remaining principal and accrued interest under the City Loan shall be due in full upon the 55<sup>th</sup> anniversary of the Closing or earlier upon sale, non-permitted refinancing or default;
- If the City Loan is repaid in full before the termination of the term of the Ground Lease, rent under the Ground Lease shall be paid to the City in the amount of a percentage equal to the City Share of residual receipts, based on the same calculation as payments on the City Loan;
- CHW shall be responsible to implement the development of the Site in conformity with all applicable laws, including without limitation including without limitation, to the extent applicable, California Labor Code Section 1720, *et seq.*
- Cost savings from the Project, if any, will be applied to pay down the principal first then accrued interest of the City Loan.

Conditions to the City Loan

City's obligations to provide the City Loan to CHW for the Project are subject to each and all of the following conditions:

1. Approval by the City and the City Manager, or as it/he/she elects by the City Council, of the AHA to be entered into by and between or between the City and CHW (or a limited partnership development entity, of which CHW or an affiliate of CHW is the managing general partner) that more specifically describes and authorizes the terms of and disbursement of proceeds and conditions for each and all aspects of the City Loan, including without limitation the construction, completion, operation, financing, refinancing, transfer, management and maintenance of the Project.
2. The unit and affordability mix of the Project shall be not less than as described above, with the final allocation and identification of units to be further described in the AHA. The Site shall be restricted in a manner to be set forth in greater detail in the AHA for a period of not less than fifty seven (57) years, addressing covenants, conditions, and restrictions, including without limitation income limits and rent limitations, as well as property maintenance and, if applicable transfers. The foregoing requirements shall be set forth in a regulatory agreement which shall be recorded as to CHW's leasehold interest in the Site, to be recorded among the official land records of the County Recorder of the County of Placer.
3. No units within the Project shall be restricted on the basis of age.
4. Execution of the AHA shall be in a form to be reviewed and approved by City's City Attorney or special counsel.

5. As Housing Asset Funds will be used to make the City Loan, CHW shall comply with all applicable requirements of the California Community Redevelopment Law, Health and Safety Code Section 33000, et seq., and the Dissolution Act, Health and Safety Code Section 34170, et seq., in particular Sections 34176 and 34176.1.
6. CHW shall comply with all applicable federal, state and local laws and regulations.
7. CHW shall comply with and complete environmental review of the Project pursuant to all applicable federal and state laws and regulations, including the California Environmental Quality Act ("CEQA") and the National Environmental Protection Act ("NEPA") and approval thereof, as applicable.
8. In connection with the development of the Project and subject to compliance with the TCAC Regulations, CHW may receive a developer fee as permitted by TCAC and subject to further elaboration in the AHA.
9. As and if applicable, CHW will comply with the federal Davis-Bacon Act and California Labor Code Section 1720, *et seq.*, relating to prevailing wages ("Prevailing Wage Laws"); in this regard, the City and CHW understand that such laws and regulations include exemptions that may apply to the Project, but under the AHA CHW will assume responsibility for and indemnify the City (and the City) relating to the Prevailing Wage Laws as such may be applicable to the Project. Any moneys infused by the City will come exclusively from the City's Low and Moderate Income Housing Asset Fund.
10. The City Loan proceeds will be disbursed during construction at such time as all funding sources are committed and available for disbursement, and subject to such terms and conditions precedent as are customary for disposition and development agreements entered into by the City.
11. The AHA shall provide that the Closing and each of the following conditions precedent shall be met prior to the disbursement of any portion of the Development Loan (and, if the Site has been divided, each of the following shall have been satisfied for the applicable Portion of the Site):
  - a. All grading permits shall have been issued, or be ready to issue, and the City shall have issued a letter stating that building permits are ready to issue, subject only to the completion of grading of the Site for the Project.
  - b. CHW shall have secured all necessary institutional financing and funding for the Primary Loan to undertake and complete construction and thereafter operation of the Project. Such financing and funding shall be sufficient to pay all development costs of the Project, through lease-up, as set forth in a final budget (to be defined in the AHA) and consistent with the approved proforma (or as otherwise approved by City).
  - c. CHW shall have provided evidence to City that CHW has obtained insurance policies, certificates, and additional insured or other endorsements therefor acceptable to City, as described in the AHA.
  - d. CHW shall have provided construction security in favor of City, which may include a completion guarantee from CHW and/or a letter of credit, and/or payment and performance bonds from the general contractor and subcontractors for the Project (or some combination of any or all of the above), in an amount sufficient to ensure the Project will be completed, all invoices paid, and all workers paid in conformity with applicable federal and state labor laws, and otherwise in compliance with

- applicable federal and state laws, and placed in service within the time set forth in the schedule for the Project as approved by City.
- e. CHW shall submit and obtain approval of the City for (i) the construction contract with its general contractor and the subcontracts therefor, (ii) the limited partnership agreement for the limited partnership entity to be formed to own and operate the Project under the Ground Lease, (iii) management, scope and funding for all required supportive services, and (iv) the marketing and tenant selection plans for the Project.
12. City's preliminary award of the City Loan is and shall remain subject to all covenants, conditions, and restrictions set forth in the AHA, and in particular City's analysis of all the available funding sources and development and operating costs of the Project and the overall economic feasibility of the Project, including without limitation all funding sources and terms therefor including the supportable debt (construction and permanent financing), market value of Tax Credits and tax credit investor equity, deferred developer fee, if any, and other subordinate debt, if any.
  13. By consideration and action to approve this Preliminary Commitment Letter, City hereby authorizes the City Manager to sign this Preliminary Commitment Letter on behalf of City.
    - a. Further, upon approval and execution of an AHA, the City Manager (or his/her duly authorized representative) is authorized to implement the AHA and take all further actions and execute all documents referenced therein and/or necessary and appropriate to carry out the transaction contemplated by this Preliminary Commitment Letter, and thereafter the AHA including all exhibits, instruments and implementing agreements thereto. To the extent necessary during the implementation hereof and thereof, the City Manager is authorized to make technical or minor changes and interpretations of this Preliminary Commitment Letter and the AHA, as necessary to properly implement and carry out the Project provided any and all such changes shall not in any manner substantially affect City's rights and obligations under this Preliminary Commitment Letter and the AHA.
    - b. In addition, the City Manager is authorized, on behalf of the City, to sign all other documents necessary or appropriate to carry out and implement this Preliminary Commitment Letter, the AHA and the Project, including all exhibits thereto and including causing the issuance of warrants in implementation thereto, and to administer City's obligations, responsibilities and duties to be performed thereunder so long as substantially consistent with this Preliminary Commitment Letter and the AHA. Any and all substantial changes to this Preliminary Commitment Letter or to the terms and provisions of the AHA and implementing agreements and instruments thereto shall require the consideration and action of the City Council.

Should you have any questions or require additional information, please contact Sherri Conway, Assistant City Manager, at (916) 625-5176 or by email at [Sherri.Conway@rocklin.ca.us](mailto:Sherri.Conway@rocklin.ca.us)

Sincerely,


DocuSigned by:  
  
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City of Rocklin  
By: Aly Zimmermann, City Manager

**AGREED AND ACCEPTED**

as of September 27, 2022:

**COMMUNITY HOUSINGWORKS**, a California nonprofit public benefit corporation

DocuSigned by:  
  
CA63DE0973B14EC...  
By: Mary Jane Jagodzinski  
Senior Vice President