



Affordable Housing Committee Staff Report

AGENDA TITLE: Proposals for New Affordable Multifamily Development Projects

MEETING DATE: June 30, 2021

PREPARED BY: Sarah Bontrager, Housing and Public Services Manager

RECOMMENDED ACTION:

Staff recommends that the Affordable Housing Committee (Committee) discuss the affordable housing proposals received and select one or more proposers to move forward to the loan application stage. Alternately, the Committee may choose to reject all proposals.

BACKGROUND INFORMATION:

The City has an Affordable Housing Fund (AHF), which is generated by fees on new residential and non-residential development. The AHF must be used to support housing opportunities for low-income households, one option for which is to subsidize new affordable apartment construction. Consistent with the Affordable Housing Loan Program Guidelines, the City released a Request for Proposals (RFP) when the unallocated balance of the AHF exceeded \$5 million in funding available for loans.

In February, the City released an RFP soliciting eligible multifamily affordable housing projects (see **Attachment 1**). The RFP provided minimum criteria for proposals, with a focus on addressing community housing needs and homelessness, maximizing funding sources, and innovation in project design. The RFP had two phases:

- Phase I: Developers planning to submit proposals for projects that would submit a 9% tax credit financing application in the July 2021 funding round were due March 24. Proposals submitted by this deadline must be ready for acquisition and construction activities, including having secured land.
- Phase II: Developers planning to pursue other funding sources, such as 4% tax credit financing, must submit proposals by May 19. Proposals under this phase may include those where the developer has a specific location in mind and those that are more conceptual.

Staff anticipated selecting one project to advance to compete in the July 2021 9% tax credit financing round (Phase I), and one or two more projects in Phase II, depending on the amount of loan requests. Developers who were not selected for funding in Phase I could resubmit for in Phase II, either with the same or a revised project.

In Phase I, the Committee selected the Villages at Bilby, a 126-unit 9% tax credit project proposed by The Pacific Companies. The Committee reviewed the loan application and loan terms on June 9, and the City Council approved the commitment of \$4 million in funding to the project on June 23. The developer plans to apply for tax credits in the July 1 9% funding round.

ANALYSIS:

The City received seven responses under Phase II of the RFP, from for-profit and nonprofit housing developers:

- CRP Affordable Housing and Community Development proposed a 75-unit family project (see **Attachment 2A**).
- Excelerate Housing Group proposed a 67-unit permanent supportive housing project for people experiencing homelessness (see **Attachment 2B**).
- For the Future Housing and Eden Housing proposed a 50-unit project with 33 units of permanent supportive housing and 16 units of workforce housing (see **Attachment 2C**).
- The John Stewart Company and Bethesda proposed an 84-unit project with 21 units for people with intellectual and/or developmental disabilities, 9 units of permanent supportive housing for people experiencing homelessness, and 53 units of family housing (see **Attachment 2D**).
- Mercy Housing California proposed a 60-unit project with 15 units of permanent supportive housing for people experiencing homelessness, and 44 units of family housing (see **Attachment 2E**).
- Mutual Housing California submitted two conceptual projects: a 100-unit senior project and a 100-unit family project, in which 8 units would be set aside as permanent supportive housing for people experiencing homelessness (see **Attachment 2F**).
- The Pacific Companies proposed a 294-unit family project (see **Attachment 2G**).

At this meeting, the Committee will evaluate the proposals received and determine which proposal(s) should move forward to the loan application stage. After one or more loan applications are received and underwritten by staff (including negotiation of loan terms), the Committee will perform an independent review of the loan application and return the loan package to staff with their recommendation, which may include, but is not limited to: 1) continued negotiation and collection of additional information requested from the developer, 2) a recommendation for loan approval by the City Council, or 3) a recommendation for denial by the City Council. The Committee may request loan applications from more than one proposer in order to further evaluate the strengths and weaknesses of the given projects.

Threshold Requirements

The RFP had six main threshold requirements:

- The project must meet certain income targets:
 - For 9% tax credit projects, a minimum of 58% of units for very low-income households (50% of area median income (AMI) or below), with inclusion of extremely low-income units (30% of AMI or below) strongly encouraged. All other subsidized units must be affordable to households earning at or below 60 percent of the area median income, with the exception of one to two unrestricted manager units. *Two projects anticipated 9% tax credit financing and both met this standard.*
 - For non-9% tax credit projects, all subsidized units must be affordable to households earning at or below 80% AMI, with the exception of one to two unrestricted manager units. This would generally exclude a manager unit. *Five projects anticipated funding other than 9% tax credits and all met this standard. The Pacific Companies project included three manager units, which is reasonable given the large project size.*
- The developer must have a successful background in the provision of housing to extremely low-income and very low-income households, including the associated service component. *All proposers have team members with experience constructing, maintaining, and managing projects similar to*

the one proposed. However, some proposers had a greater depth of experience as a company. Both CRP Affordable Housing and Excelerate Housing Group are newer companies, with most of their units being in the planning or development phase.

- *The project location must meet the criteria for a 9% tax credit project. Generally, this would be a project near services, shopping, and transit resources. All proposers expect to obtain the maximum number of points for site amenities in a tax credit application. Comparatively, amenities were greatest on projects proposed by Excelerate Housing Group, John Stewart Company, Mercy Housing, Mutual Housing (senior project), and The Pacific Companies. All projects are in what the California Tax Credit Allocation Committee (TCAC) considers the high or highest opportunity zones, which provide a substantial portion of the site amenities points.*
- *The project must include on-site social services providing resident support for no less than 15 hours per week. Such services may include up to 10 hours per week of after-school programming and/or senior activities. All projects met this threshold. Many projects, especially those serving special needs populations, plan to provide one or more full-time staff to support resident needs. Larger projects, like that proposed by The Pacific Companies, may need a greater service commitment to meet the needs of all residents.*
- *The project must offer a repayment schedule that provides for meaningful loan repayment at the earliest point during the loan term. All proposers offered payment based on residual receipts. The estimated amount of annual payment varied between projects, with several projecting no annual payments to the City for the first 10-15 years. Effectively, this means that all loans would be negatively amortizing.*
- *The project must be deed-restricted to provide affordable rents and occupancy for a minimum of 55 years. All proposers accepted this term, which is generally also required for tax credit financing.*

Project Comparison

Attachment 3 shows a side-by-side comparison of some of the key features of each project.

Scoring

A scoring rubric for each project is included (**Attachments 4A – 4G**) to facilitate Committee member review and scoring of the proposals. In the scoring rubric, staff has provided some project-specific comments to assist in the review.

Next Steps

At this meeting, the Committee will evaluate the proposals received and determine which developer(s), if any, should move forward to the loan application stage. The loan application stage will provide additional information that may be used in underwriting the project, including an appraisal, audited financial statements, 30-year pro forma, Articles of Incorporation, and 501(c)(3) letter(s).

The Affordable Housing Loan Program Guidelines spell out the steps on making a funding recommendation to the City Council. Once the complete loan application is submitted by the developer, staff will complete underwriting, which includes an analysis of the project pro forma, review of due diligence documents, and negotiation of loan terms. Following the completion of staff's underwriting, staff will make a recommendation to the Committee. The Committee then performs an independent review of the application and recommends either that staff continue to negotiate or collect additional information from the developer, that the Council approve the loan, or that the Council deny the loan.

Staff expects the Committee to discuss a recommendation in late August, with the Council considering the loan on September 8. If the project(s) selected do not anticipate applying for funding in the September 4%

tax credit round, the timeframe for review may be amended to better align with the deadlines of the funding sources. Regardless of funding source, a City loan commitment is generally necessary in order for an application to be competitive.

Options

The Committee has three primary options:

1. Request a loan application from one of the proposers.
2. Request a loan application from more than one of the proposers. Two or more loan packages could be underwritten to allow the Committee to make a recommendation on each using more complete information.
3. Reject all proposals. As a part of rejecting the proposals, the Committee could direct staff to release another Request for Proposals or to devote available funding to other eligible uses of the Affordable Housing Fund.

FISCAL IMPACT:

At the time the RFP was released, funding available in the AHF was around \$8 million, from which staff anticipated funding two to three loans. On June 23, the Council made a loan commitment of \$4 million to the Villages at Bilby project, reducing the estimated available funding to \$4 million. In all, the proposers requested about \$28.8 million in City loan funding, which far exceeds currently available funding.

The more detailed analysis of the loan application and underwriting stage of the process will provide a greater understanding of fiscal impact, including actual loan amount and repayment schedule.

ATTACHMENTS:

1. Request for Proposals (includes Q&A and Affordable Housing Loan Program Guidelines)
2. Proposals Received
 - a. CRP Affordable Housing and Community Development
 - b. Excelerate Housing Group
 - c. For the Future / Eden Housing
 - d. John Stewart Company / Bethesda
 - e. Mercy Housing California
 - f. Mutual Housing California
 - g. The Pacific Companies
3. Project Comparison
4. Scoring Rubrics
 - a. CRP Affordable Housing and Community Development
 - b. Excelerate Housing Group
 - c. For the Future / Eden Housing
 - d. John Stewart Company / Bethesda
 - e. Mercy Housing California
 - f. Mutual Housing California – senior project (F1) and family project (F2)
 - g. The Pacific Companies