



## Affordable Housing Committee Staff Report

**AGENDA TITLE:** Review loan applications for the proposed affordable multifamily development projects known as Cornerstone Village and The Lyla

**MEETING DATE:** August 11, 2021

**PREPARED BY:** Sarah Bontrager, Housing and Public Services Manager

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### **RECOMMENDED ACTION:**

Staff recommends that the Affordable Housing Committee (Committee) perform an independent review of the affordable housing loan applications for Cornerstone Village and The Lyla apartment complexes and provide direction to staff on whether to move forward to loan negotiation with one or both applicants and on other related matters.

### **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.

The RFP released in February solicited 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: Ready-to-proceed projects planning to submit a 9% tax credit financing application in the July 2021 funding round. The City Council approved a commitment of \$4 million in funding to the Villages at Bilby project on June 23. The developer submitted an application for tax credits in the July 1st 9% funding round, which, if awarded, would fund the first phase (64 units) of the 126-unit project.
- Phase II: All other projects, including those which are conceptual. On June 30, the Committee reviewed the seven proposals submitted under this phase of the RFP and requested loan applications from two projects:
  - Cornerstone Village, an 84-unit family project proposed by The John Stewart Company and Bethesda (JSCo/Bethesda). The project will have 21 units for people with intellectual and/or developmental disabilities, nine units of permanent supportive housing for people experiencing homelessness, and 53 units of family housing.
  - The Lyla, a 294-unit family project proposed by Pacific West Communities (PWC). The

project will have a mix of studio, one-, two-, and three-bedroom units, including some for people earning 80% of the area median income.

**ANALYSIS:**

The loan application provides additional information with which to consider a project. Review of the loan application focuses on the strength of the development team and the finances and viability of the individual project. The selected developers filed their loan applications by the July 26th deadline.

Following submittal of loan applications, on July 28, the Council adopted a Municipal Code amendment that will require the collection of park fees by the Cosumnes Community Services District (CCSD) on non-mapped, multifamily developments. Both projects would be subject to the park fee, which neither developer anticipated paying the fee in their original proposals. As a result, the City provided each developer with the opportunity to revise their pro forma and financial expectations to accurately reflect current impact and building fees. As of the writing of this report, PWC had provided this information for The Lyla while JSCo/Bethesda was still awaiting updated information from CCSD and non-City agencies. However, JSCo/Bethesda did provide an updated pro forma using more accurate fee estimates.

Both developers revised their City loan requests:

- PWC is requesting \$6,000,000 for The Lyla, an increase of \$2,000,000. The overall project cost increased by \$2.3 million, of which \$2 million is related to the new park fee and \$300,000 is an increase in the developer fee.
- JSCo/Bethesda is requesting \$3,436,000 for Cornerstone Village, an increase of \$500,000. The overall project cost increased by about \$4.1 million, \$3.5 million of which is increased impact fees from the City, parks, and other agencies, and \$390K of which is an increase to the developer fee. All of the increase in the developer fee will be contributed back to the project as equity.

Due to the intricacies of calculating the park fee, which includes as variables the appraised fair market value of land and credit for on-site amenities, the park fees could ultimately be lower or higher than estimated.

Staff evaluated both of the loan applications, following up with each developer to get clarity on certain items. A summary of each project, along with its strengths and weaknesses, is included in **Attachments 2 and 3**. The staff evaluations consider the revised loan requests and updated project costs and financial assumptions.

**Financial Status**

At the time the RFP was released, staff estimated that about \$8 million would be available to fund two to three affordable housing projects. In June, the Council made a \$4 million commitment to the Villages at Bilby project under Phase I of the RFP, leaving about \$4 million available. At the June 30th Committee meeting, the Committee members asked staff to evaluate whether there was any capacity to provide additional funding in order to fund two projects.

After review of the Affordable Housing Fund balance, and accounting for funding needed to support commitments to existing projects and the City's efforts to develop land it acquired for affordable housing, staff estimates there is about \$7 million that could be devoted to funding projects under this RFP. That amount was adequate to fund the two projects with their original requests, which together totaled a little less than \$7 million. However, as noted above, due to the addition of park fees, the City asked for revised requests from each developer. The revised requests are \$6,000,000 for The Lyla and \$3,436,000 for Cornerstone Village.

### **Loan Requests and Commitment**

Both projects are planning to apply for public financing, but have slightly different timeframes:

- PWC anticipates applying for 4% tax credits and tax-exempt bonds. This application is due September 9, 2021.
- JSCo/Bethesda plans to use a variety of funding sources, including 4% tax credits, project-based housing vouchers, California Department of Developmental Services (DDS) capital funding, and the State's Multifamily Housing Program (MHP). The first of their applications, for DDS capital funding, is due in November 2021. They plan to submit their MHP application in April 2022 and their tax credit application in May 2022.

Commitment of City or other local funds increases competitiveness for State and tax credit financing. For the City's funds to be a factor in the scoring of the applications, the developer must generally include "conclusive evidence that any public funds have been firmly committed to the proposed project and require no further approvals." Loan commitments may be subject only to conditions within the control of the applicant.

### **Next Steps**

Following a review of the loan applications, the next step is to enter into loan negotiations. The outcome of loan negotiations is a loan term sheet that will be used to prepare the loan documents, including a Loan Agreement, Regulatory Agreement, Promissory Note, Deed of Trust, and Subordination Agreement. The intention of the loan term sheet is to protect the City's position and minimize risk, as well as to clarify the City's expectations for the developer and the senior lender.

The loan term sheet is an essential part of the City's loan commitment.

### **Options**

The Committee's responsibility is to perform an independent review of the loan applications and return the loan package to staff with their recommendation.

The Committee has the following options:

1. Direct staff to enter into loan negotiations with both of the loan applicants. In this case, staff would work with both of the developers on loan terms, including proposed loan amounts, and would return to the Committee with a recommendation to make a commitment to one or both of the applicants based on funding availability and the favorability of the loan terms.
2. Direct staff to enter into loan negotiations with one of the loan applicants. In this case, staff would focus on reaching an agreement with one developer related to loan terms and would bring a loan term sheet back to the Committee for review. If an agreement on loan terms could not be reached, the Committee could enter into loan negotiations with the other developer.
3. Direct staff to enter into loan negotiations with neither of the loan applicants. This would effectively conclude the RFP process. Funds available would remain in the Affordable Housing Fund pending release of another RFP, which could be for privately-owned property or property owned by the City.
4. Provide direction to staff to collect additional information requested from the developer(s) to aid in making a decision on loan terms negotiation. With this choice, the requested information would be presented to the Committee again at a future date.

5. Make such other recommendation as deemed appropriate by the Committee.

A Committee meeting is tentatively scheduled for August 25th to review the outcome of loan terms negotiation and make a recommendation to Council on the approval or denial of one or more loans. In the event the Committee recommends approval of at least one loan, the Council could consider the item at its September 8th meeting.

### **Staff Recommendation**

Funding each project fully would cost \$9.4 million, exceeding the amount staff estimates is available for funding. However, staff recommends entering into loan negotiations with both of the loan applicants, with the goal of funding both projects by maximizing available funding from other sources.

Specifically, staff recommends funding the projects at the following amounts:

- The Lyla - \$3,500,000. The proposed effective developer fee rate is 12.45% of the total project cost, exceeding the City's standard of 10%, as stated in the RFP. Staff suggests that PWC take the full developer fee and contribute the amount over 10% back to the project as equity, a common strategy in affordable housing financing. Under this strategy, about \$2.5 million in contributed equity would be added to the project's funding source, reducing the amount of local funding needed to about \$3.5 million.
- Cornerstone Village - \$3,436,000. This project has numerous financial sources, and JSCo/Bethesda plans to absorb most of the increased impact fees through increased requests from other funding sources. Their effective developer fee rate (less contributed equity of \$2.75 million) is 4.85%.

### **ENVIRONMENTAL DETERMINATION:**

The Committee's action will not cause a direct physical change in the environment, nor a reasonably foreseeable indirect physical change in the environment. In addition, the Committee's action at this stage does not constitute a commitment by the City to issue a loan to either project. The Committee's action, therefore, does not constitute the approval of a project under the California Environmental Quality Act ("CEQA"), and it is exempt from CEQA. (Pub. Res. Code § 21065, CEQA Guidelines §§ 15060(c),(2)(3); 15061(b)(3); 15064(d)(3); 15352; 15378.)

### **FISCAL IMPACT:**

The developers originally requested conditional loan commitments from the City totaling around \$6.94 million from the Affordable Housing Fund. Staff originally estimated that about \$8 million would be available under the RFP, which included two phases. An existing commitment of \$4 million to the Villages at Bilby project means about \$4 million is available under the second phase of the RFP; however, at the Committee's request, staff reviewed the Affordable Housing Fund balance and believes about \$7 million is reasonably available to devote to these two requests, which amount is in addition to the \$4 million previously committed to the Villages at Bilby. There is not adequate funding available to fully fund the two applicants' revised requests. However, funding is available to fund both requests at the staff recommendation levels noted above.

If approved, the conditional loan commitment will reserve the monies for the length of the commitment period and preclude other projects from consideration.

There is adequate funding for the Affordable Housing Fund to cover staff costs associated with making one or more loans, including the creation of loan documents to secure the City's investment. The proposed

annual payments on the loan are projected to cover staff costs associated with regular monitoring of the project's physical and financial condition.

No General Fund contribution is anticipated for the loan or for the project monitoring and oversight.

**ATTACHMENTS:**

1. Request for Proposals (includes Q&A and Affordable Housing Loan Program Guidelines)
2. Cornerstone Village loan application evaluation
  - a. Cornerstone Village loan application
  - b. Cornerstone Village proposal
3. The Lyla loan application evaluation
  - a. The Lyla loan application
  - b. The Lyla proposal