



## Legislation Text

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**File #:** 19-046, **Version:** 1

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*Report Prepared by: Mark Hamilton, Housing Program Supervisor, Housing Division, Department of Development Services*

**SUBJECT:** Adoption of Resolution Allowing the Submittal of a Joint Application with the Richman Group of California Development Company, LLC (Richman Group), and the Central Valley Coalition for Affordable Housing (CVCAH) for the Affordable Housing and Sustainable Communities (AHSC) Program to Obtain Loan and Grant Funding for the Construction of a 119 Unit Affordable Housing Project at 1137 B Street in Merced, California and Approval and Execution of an Enforceable Funding Commitment Agreement, a First Amendment to the Exclusive Negotiating Agreement, and Memorandum of Understanding Between the City, CVCAH and the Richman Group, and Certification of the National Environmental and Protection Agency Environmental Assessment

### REPORT IN BRIEF

Considers Resolution allowing the submittal of a joint application with the Richman Group of California Development Company, LLC (Richman Group), and the Central Valley Coalition for Affordable Housing (CVCAH) for the Affordable Housing and Sustainable Communities (AHSC) Program to obtain loan and grant funding for the construction of a 119 unit Affordable Housing Project at 1137 B Street in Merced, California and approval and execution of an Enforceable Funding Commitment Agreement, a First Amendment to the Exclusive Negotiating Agreement, and Memorandum of Understanding between the City, CVCAH and the Richman Group, and Certification of the National Environmental and Protection Agency Environmental Assessment.

### RECOMMENDATION

**City Council** - Adopt a motion:

- A. Adopting **Resolution 2019-06**, a Resolution of the City Council of the City of Merced, California, authorizing application for the Affordable Housing and Sustainable Communities Program; and,
- B. Approving the enforceable funding commitment agreement between the City of Merced, Central Valley Coalition for Affordable Housing, and Richman Group of California Development Company LLC, a Limited Liability Company; and,
- C. Authorizing the City Manager or the Assistant City Manager to execute the necessary documents to submit the AHSC Program application as a joint applicant with the Richman Group and the Central Valley Coalition for Affordable Housing; and,
- D. Authorizing the City Manager or the Assistant City Manager to sign the National Environmental and Protection Agency Environmental Assessment (EA) for the Childs and B Street project and sign the Authority to Use Grant Funds as the City's Certifying Officer; and,

E. Funding the Childs Court Apartments as submitted. The amount awarded to applicants may not exceed \$1,200,000 of Low-Moderate Income Housing Asset funding for this development and shall be included as part of the 2018 and 2019 HUD Annual Action Plans; and,

F. Funding the Childs Court Apartments as submitted. The amount awarded to applicants may not exceed \$2,000,000 of Community Development Block Grant (CDBG) funding for this development and shall be included as part of the 2019, 2020, 2021, and 2022 HUD Annual Action Plans; and,

G. Funding the Childs Court Apartments as submitted. The amount awarded to applicants may not exceed \$1,910,000 of HOME Investment Partnership Program (HOME) funding for this development and shall be included as part of the 2018, 2019, 2020, 2021, 2022, and 2023 HUD Annual Action Plans; and,

H. Approving the First Amendment to the Exclusive Negotiating Agreement between the City of Merced, the Richman Group of California Development Company, LLC and the Central Valley Coalition for Affordable Housing; and,

I. Approving the AHSC Implementation and Cooperation Memorandum of Understanding between the City of Merced, the Richman Group of California Development Company, LLC. and the Central Valley Coalition for Affordable Housing.

## **ALTERNATIVES**

1. Approve as recommended by staff; or,
2. Approve, subject to other than recommended by staff (identify specific findings and/or conditions amended to be addressed in City Council motion); or,
3. Deny; or,
4. Refer to City Staff for reconsideration of specific items to be addressed in City Council motion); or,
5. Continue to a future City Council meeting (date and time to be specified in City Council motion).

## **AUTHORITY**

Title 24 of the Code of Federal Regulations, Part 570 (the U.S. Housing and Urban Development regulations concerning CDBG including Subpart M of these regulations), Sections 570.705(c) - Loan Guarantees and 570.706 - Federal Guarantee, Subrogation. And per HUD regulations HOME Investment Partnership Program; 24 CFR Part 92.201.

## **CITY COUNCIL PRIORITIES**

In 2015, Housing Staff was directed by Council to pursue the development of new Permanent Supportive Housing projects utilizing non-general fund monies to assist with the construction of affordable housing opportunities combined with permanent supportive housing units in the community.

The Housing Division began describing the various parameters for an eligible project and presented the concept at the 2016 Merced Homeless Summit. After the presentation at the Homeless Summit, the Housing Division published a request for proposals from developers to evaluate the opportunity to continue with this project. The Housing Division received three responses from various developers interested in working with the City on an affordable/permanent supportive project. After an extensive

interview process, the Richman Group was selected as the most qualified. To allow for this project to move forward, Housing staff included the conceptual project in the 2017 and 2018 HUD Annual Plan.

## DISCUSSION

Staff is requesting the that City Council consider the Enforceable Funding Commitment Agreement, resolutions, and associated funding commitments to provide financial assistance to the Richman Group and CVCAH for the construction of multi-family development. The Project includes an approximate 4-acre apartment complex and off-site infrastructure improvements at the corner of Childs Avenue and B Street. As described in Attachment 8, this development includes a courtyard style community comprised of five 3-story buildings with 119 residential dwelling units with a mix of 100% affordable housing, with up to 25% including 30 permanent supportive housing units.

The apartment complex includes a variety of one, two, and three bedroom apartments. Community amenities include a multi-purpose room, manager's and service provider's offices, computer center, fitness room, mailboxes, laundry facilities, a patio and barbecue area, swimming pool, and a play area for children.

In working with the Richman Group to ensure this project is as competitive as possible, staff identified future commitments beyond the City's current year's allocation. The funding agreement is required to demonstrate the available resources committed as part of the Affordable Housing Sustainable Communities grant application. The total amount of the three funding sources in the Enforceable Funding Commitment Agreement totals \$5,110,000 (\$4,030,000 Construction + 1,080,000 Land Acquisition Costs) (Attachment 3). The Developer would use these funds combined with development fees deferrals and additional private grant funds to present a competitive application for the Federal Low-Income Housing Tax Credit and the Strategic Growth Council AHSC applications. The AHSC application is due February 11, 2019, and the Tax Credit Application to the California Debt Limit Allocation Committee and California Tax Credit Allocation Committee is due March 4, 2019. Reimbursement for actual expenditures is allowable for up to 24 months after construction is complete. The requested pre-award commitments are within the financial capacity of the Housing Program (24 CFR 570.200.h.1.i - v and 24 CFR 92.206.(d)(1-5).

The Enforceable Funding Commitment Agreement only guarantees future funds as they are allocated annually from the U.S. Department of Housing and Urban Development (HUD) for Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs. If the City's yearly grant allocation received from HUD for either CDBG or HOME is reduced below the amount committed by this agreement, Housing staff will work with the developer to ensure the project and the funding amounts are budgeted in each HUD Annual Action Plan until the full commitment amount described in the Enforceable Funding Commitment Agreement is reached.

Childs Court Apartment Fiscals: AHSC/4% TCAC  
Total Project Costs: \$40,845,340 (\$343,238.15 per unit)  
Tax Credit Equity: \$14,709,462  
AHSC Application Request: \$14,000,000

The Housing Division currently receives an annual allocation from HUD of approximately one million from the CDBG program and approximately \$400,000 of HOME Investment Partnership Program funds. The Housing Division recommends the following financing contribution for the project:

- a. Fiscal Year 2018/19 Low-Moderate Income Asset funds: \$1,200,000; and,
- b. Fiscal Year 2019/20 Community Development Block Grant funds (B19-MC-06-0044, CFDA# - 14.218, Entitlement Grant): \$500,000; and,
- c. Fiscal Year 2020/21 Community Development Block Grant funds (B20-MC-06-0044, CFDA# - 14.218, Entitlement Grant): \$500,000; and,
- d. Fiscal Year 21/22 Community Development Block Grant funds (B21-MC-06-0044, CFDA# - 14.218, Entitlement Grant): \$500,000; and,
- e. Fiscal Year 22/23 Community Development Block Grant funds (B22-MC-06-0044, CFDA# - 14.218, Entitlement Grant): \$500,000; and,
- f. Fiscal Year 2018/19 Community Housing Development Organization/HOME Investment Partnerships Program (M18-MC-060227, CFDA# - 14.239 HOME): \$410,000; and
- g. Fiscal Year 2019/20 Community Housing Development Organization/HOME Investment Partnerships Program (M19-MC-060227, CFDA# - 14.239 HOME): \$300,000; and,
- h. Fiscal Year 2020/21 Community Housing Development Organization/HOME Investment Partnerships Program (M20-MC-060227, CFDA# - 14.239 HOME): \$300,000; and,
- i. Fiscal Year 2021/22 Community Housing Development Organization/HOME Investment Partnerships Program (M21- MC-060227, CFDA# - 14.239 HOME): \$300,000; and,
- j. Fiscal Year 2022/23 Community Housing Development Organization/HOME Investment Partnerships Program (M22- MC-060227, CFDA# - 14.239 HOME): \$300,000; and,
- k. Fiscal Year 2023/24 Community Housing Development Organization/HOME Investment Partnerships Program (M22- MC-060227, CFDA# - 14.239 HOME): \$300,000.

As a Participating Jurisdiction, the City of Merced is required to set aside a minimum of 15% of its HOME funds for use by a Community Housing Development Organization (CHDO). CHDO is a special HUD defined non-profit organization that has, as its mission, the development of affordable housing. The City and the State of California have designated the Central Valley Coalition for Affordable Housing as an eligible CHDO in our community. The Developer has a separate Memorandum of Understanding in place with Central Valley Coalition, which would allow the City the ability to designate the City's HOME funds for a CHDO eligible project. The total amount to be awarded to the project as CHDO set-aside funds would be \$300,000 per year for 5 years. Funding the project through our CHDO will eliminate the duplication of efforts by the City staff for any administrative oversight involving a CHDO project.

The commitment of \$2,000,000 of Community Development Block Grant is a combination of funds being used to replace a water main currently located in B Street, Park and Retention Basin improvements, full-street right-of-way improvements along B Street from Childs Avenue to 15<sup>th</sup> Street, Bus stop and shelter, a bus pull-out, Bikes Lanes along 13<sup>th</sup> & 15<sup>th</sup> Streets (Attachment 9) to

name a few.

The financial package for the Childs Court Apartment project would not absorb all of the Housing Division's Fiscal Year funding amounts. The project would only use approximately one half our annual CDBG allocation, or about 35% - 40% of the total amount available when you consider anticipated program income into the total amounts. HOME funding would be approximately 65% - 70% of our annual allocation. When you consider un-anticipated program income the housing division is anticipating to receive year over year from past projects, the amount being allocated for this project is proportionate with our program and will allow the Housing Division the flexibility to provide financing to other projects.

The benefits of a deferred loan to one based upon "net-proceeds" are for both the City and the Developer. A deferred loan benefits the developer by reducing the required fiscal documentation, payments do not have to be made, and allowing the developer to use the loan amount to receive tax-benefits. A deferred loan benefits the City by reducing the amount of staff time processing invoices and the loan has a greater possibility of being reimbursed when the loan is refinanced. It is a new way of doing business for the Housing Division.

The loan commitment is not guaranteed with General Fund monies in the event the aggregate amount received from HUD for CDBG and HOME program funds is below the contract amount.

The City Housing Division will provide oversight to Central Valley Coalition for Affordable Housing to ensure environmental compliance and monitoring of the project. The oversight is required to ensure the project remains in compliance with the Department of Housing and Urban Developments rules and regulations.

#### History and Past Actions:

- February 26, 2016 - Presentation to the Merced Homeless Summit
- In the spring of 2017 - Housing solicits developers to submit Request for Proposals to facilitate the Childs and B Street Project.
- March 31, 2017 - Submittal of RFP by the Richman Group
- April 2018 - Council approves 2018 HUD Annual Action Plan, which includes the Childs and B Street project.
- June 2018 - County and City approved Lease Agreement with the option to purchase
- October 2018 - Council with the Developer approves The Exclusive Negotiation Agreement.
- December 2018 - Site Plan Application for the project was approved.
- January 2019 - Housing Staff facilitates Community Meetings with Developer inviting the community.

#### **IMPACT ON CITY RESOURCES**

There is no fiscal impact to the City general fund as a result of this action. The City will not have any financial or legal obligations for the tax-exempt status of the bonds, the debt service on the bonds or for any other matter related to the proposed bonds.

The impact to the City would be from the pre-awarding of federal resources to the project within the

Housing Division. The pre-awarding of resources will have a fiscal impact limiting the amount of CDBG and HOME fiscal resources that would have been available to obligate for other projects. However, the amounts identified to be pre-awarded to this project will not affect other debt and fiscal obligations of the Housing Division. A future Disposition and Development Agreement will be negotiated based on the availability of federal funding and awarding of grant and tax credit funding.

## **ATTACHMENTS**

1. Location Map
2. Site Plan & Elevations
3. City Enforceable Funding Commitment Agreement (To be provided at the meeting)
4. First Amendment to the Exclusive Negotiating Agreement (To be provided at the meeting)
5. Memorandum of Understanding (To be provided at the meeting)
6. AHSC Resolution (To be provided at the meeting)
7. Site Plan Committee Resolution
8. Project Scope
9. Off-Site Improvements
10. Option to Purchase
11. Article 34 Legal Opinion
12. Childs Court Apartments NEPA Review
13. PowerPoint Presentation