



Legislation Text

File #: 20-417, **Version:** 1

Report Prepared by: Scott McBride, Director of Development Services, Housing Division/Department of Development Services

SUBJECT: Public Hearing to Allow Interested Persons to be Heard Prior to the Completion and Submittal of an Application to the United States Department of Housing and Urban Development (HUD) in the Amount of \$2,000,000 for Financing Through the Section 108 Loan Guarantee Program for the Childs Court Apartments - Childs and B Street Transit Oriented Development (TOD) Affordable Housing Project

REPORT IN BRIEF

Public Hearing to allow interested persons to be heard prior to the completion and submittal of an application to the United States Department of Housing and Urban Development (HUD) in the amount of \$2,000,000 for financing through the Section 108 Loan Guarantee Program for the Childs Court Apartments - Childs and B Street Affordable Housing Transit Oriented Development (TOD) Project.

RECOMMENDATION

City Council - Adopt a motion:

- A. Recommend the City Council conduct the Public Hearing, receive any testimony given; and,
- B. Provide direction to Staff regarding the Proposed HUD 108 Loan Application; and,
- C. Continue the Public Hearing to the September 8, 2020, meeting.

ALTERNATIVES

- 1. Approve, as recommended by staff; or,
- 2. Approve, with modifications; or,
- 3. Deny the request completely; or,
- 4. Refer to staff for reconsideration of specific items as requested by Council; or,
- 5. Continue to a future City Council meeting (date and time to be specified in the motion).

AUTHORITY

Municipal Code Section 200; Code of Federal Regulations, Title 24, Part 570 - Community Development Block Grants, Subpart M - Loan Guarantees.

CITY COUNCIL PRIORITIES

The Childs Court Apartments - Childs and B Street Affordable Housing Transit Oriented Development

(TOD) Project has been included in the City's HUD Annual Plan and Consolidated Plan (Con Plan). Funding has also been included in adopted budgets. The Council has also pledged commitments of support and approval in various ways including;

- Issuance of a Request for Proposals (RFP) to solicit qualified developers for the Childs and B St. site in March 2017
- Awarding approval of the RFP to the Richman Group and Central Valley Coalition for Affordable Housing in May 2017
- Execution of a Ground Lease and Option to Purchase with Merced County for 1137 B Street, site location with Merced County in 2018
- Execution of an Exclusive Negotiating Agreement with the project developer in October 2018
- First Amendment to the Exclusive Negotiating Agreement in January 2019
- Approval of an Enforceable Funding Commitment Agreement in February 2019 outlining the City's commitment of \$6,580,000 in funds from various funds and sources
- Adoption of City Council Resolution 2019-06 in February 2019 authorizing the application to the State of California Affordable Housing Sustainable Communities program for funding support
- Approval of City Council Resolution 2019-82 in December 2019 authorizing the application and issuance of bonds under the California Statewide Community Development Authority for project financing
- Acceptance of Monetary Donation from the Central Valley Opportunity Fund (CVOF) in May 2020 in the amount of \$1,080,000 for land acquisition costs

DISCUSSION

The City of Merced is an entitlement community and receives funding from HUD annually under the Community Development Block Grant (CDBG) and HOME programs. Distribution of the funds is tied to community priorities and an adopted Consolidated or Con Plan and Annual Action Plans that are approved each year. The program funds are used towards community services, supporting affordable housing rehabilitation, construction of affordable housing, and public infrastructure - improvements in qualifying areas.

HUD does not allow for CDBG funds to be retained or banked for future projects. The City has target expenditures measured each May 1st. Should the City not meet expenditure requirements it can negatively affect future year allocations.

To allow an agency to leverage funding for larger projects that exceeds an annual contribution, HUD offers the Section 108 Loan Guarantee Program. This program provides the opportunity to leverage future CDBG funding allocations when needed.

Currently the City is eligible to apply for just over \$4 million in HUD 108 funds. Uses are the same as normal CDBG and HOME and may include economic development, housing rehabilitation, public facilities, affordable housing construction, and other physical development projects in qualifying areas or serving qualifying areas. The funds can be used by a designated public entity to undertake eligible projects, or alternatively, can be loaned to a third-party developer to undertake a project. This flexibility makes the Section 108 program an important public investment tool. The City has previously used this tool for other housing projects including the Grove Apartments.

Specific to the Childs Court Apartments - Childs and B Street TOD Affordable Housing Project the City entered into an Enforceable Funding Commitment Agreement in February 2019. This included CDBG and HOME as well as HOME Community Housing Development Organization (CHDO) funding. The proposed funding commitment approved and pledged exceeded a single year allocation amount. The proposed amount of CDBG at that time was expected to be \$2 million. The HUD 108 process is necessary to fulfill the City's financial contribution. This contribution was needed by the private developer to leverage funding under the State Tax Credits Program, Federal Tax Credits, Affordable Housing Bonds, as well as the State of California Affordable Housing Sustainable Communities (AHSC) program. They are competitive programs that require public commitment or leverage. The overall project budget is approximately \$48,250,000 million.

The City's financial commitment will increase slightly from the Enforceable Commitment Agreement level of \$6,580,000 to \$6,895,000. However, it should be noted that the project developer will repay the present value of the land, \$1,080,000 which will lower the actual City overall financial contribution. This land repayment was originally not included in the pro forma, the land was to be sold at a below market rate of \$100 but has been added after consultation by the Developer with their bond and tax credit counsel.

The City and Developer are working to finalize a Disposition Development Agreement (DDA) and other funding documents which will provide for the full commitments from the City consistent with the Enforceable Funding Commitment Agreement. In summary the DDA and other instruments will provide for the following;

- Enterprise Funds - \$1,470,000
- Housing Successor Agency - \$1,200,000
- HOME Funds - \$1,145,000
- HUD 108 - \$2,000,000
- Land Value - \$1,080,000

Commitment - \$6,895,000 less property payback over 55 years - \$5,815,000 in total. There will be principle and interest on the HUD 108 loan which is further described in the following section.

HUD 108 Details

Loan Summary - The proposed HUD 108 amount is \$2,000,000. The interest rate is 2% amortized over 20 years. The \$2,000,000 includes \$12,000 for Closing Fees charged by HUD. The net amount, \$1,988,000, would be available to the project. The total amount repaid for principal and interest on the loan will be \$2,510,100.

Purpose of Funds - Loan proceeds will be used for issuance costs for the HUD 108 Loan, site acquisition, site improvements, infrastructure improvements, and development of solar energy systems.

National Objective - Provision of housing for Low - and Moderate - income households. The project will develop 118 new multi-family residential units for households at 30% and 50% of Area Median Income (AMI), with one site manager unit for a total 119 units. A section of the units will be available

for documented homeless individuals.

Eligible Activity - Public infrastructure, environmental remediation, and loan closing costs.

Displacement - The project will not displace any residents or existing businesses.

Repayment - Loan repayment of both principal and interest is proposed through the use of the City's annual CDBG entitlement funds. Rent levels projected for the project do not provide sufficient revenue to service the loan debt. The City's repayment would be over the 20-year life of the loan. Payments will average \$125,505 per year. The City may also seek refinancing during the loan term.

Next Steps - a Notice of the Public Hearing was posted on the City's Web Site on July 30, 2020, providing notice of the hearing on August 17, 2020. The notice additionally discussed the 30-day comment period of the proposed application. The comment period will be from July 31, 2020, through August 31, 2020. Any public comments provided will be made available at the September 8, 2020, City Council Meeting.

IMPACT ON CITY RESOURCES

None.

ATTACHMENTS

1. Draft HUD 108 Loan Guarantee Application Package