



Legislation Text

File #: 22-471, **Version:** 1

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

SUBJECT: Approval of Affordable Housing Funding Commitments and Authorization of Conditional Letters of Commitment Subject to Review by the City Attorney

REPORT IN BRIEF

Approval of Affordable Housing Funding Commitments, authorizing Conditional Letters of Commitment consistent with the Council Direction in a form subject to review by the City Attorney, and authorizing the City Manager or Deputy City Manager to execute all related documents to implement these Affordable Housing projects.

RECOMMENDATION

City Council - Adopt a motion:

- A. Authorizing Conditional Letters of Commitment in a form subject to review by the City Attorney; and,
- B. Authorizing the City Manager or Deputy City Manager to execute all related documents to implement these Affordable Housing projects.

ALTERNATIVES

1. Approve, as recommended by Staff; or,
2. Approve, subject to conditions other than recommended by Staff (identify specific findings and/or conditions amended to be addressed in the motion); or,
3. Deny; or,
4. Continue to a future meeting (date and time to be specified in the motion).

AUTHORITY

Charter of the City of Merced, Section 200.

CITY COUNCIL PRIORITIES

Fiscal Year 2021/22 Adopted Goals and & Priorities, 4. Housing and Homelessness, ii. Policy Direction.

DISCUSSION

This is the second round of funding commitments being considered by the City Council in support of affordable housing production. Previously the Council provided support to the following:

- Meta Housing - Devonwood Village
The City previously considered HOME funds in the amount of \$1,900,000 towards this 154-unit project. The land contract has expired with Meta Housing. The property owner is now under contract with Richman Development Group. This is the developer of Childs and B project. They are seeking funding commitments which will be further defined in this report.
- Central Valley Coalition for Affordable Housing - Gateway Terrace II
The City has pledged Housing Successor Agency funding of \$1,180,361 towards the 50-unit project. The City is working to resolve issues with the U.S. Department of Housing and Urban Development (HUD) related to prior expenditures. Agreements are being prepared including new loan agreements to facilitate this project.
- UPholdings - Mercy Village - Park Ave. and Motel - Homekey
This development group has been working on two projects concurrently. One is the conversion of a motel for permanent supportive housing which has been awarded over \$24 million from Homekey Round 2 funding by the State of California Department of Housing and Community Development (HCD). The other is a new construction project located on Park Avenue for an additional 67 units. The City made funding commitments which could be interchanged depending on best use of the sources. The Park Ave. project will utilize Permanent Local Housing Allocation (PLHA) funding in the amount of \$1,324,969. Those will be matched with other competitive tax credit and potentially bond programs. The City's original commitment for the motel conversion project is being suggested to a different source, swapped, which will be further defined in this report.

As noted in the prior admin report for round one funding commitments, October 18, 2021, as part of the evaluation process several factors are taken into consideration. They include land use entitlements, site control, environmental review, funding program eligibility, and developer experience.

The following new funding commitments are being requested. These recommendations have been made based on review of the draft funding proformas by RSG Inc. This group provides affordable housing support to the City especially in financial viability.

Their review found that the requested City commitments were in line with other project proformas that have been reviewed in Merced in and other area jurisdictions. Those demonstrate a local funding commitment in the range of \$406,500 to \$775,000 per unit.

- Richman Group - Devonwood Village
The City Council has previously approved the 156-unit development project on Devonwood Dr. As noted, this is the same location Meta Housing previously received a funding commitment from the City. That commitment is now being pledged along with additional resources to ensure the project is competitive. The new developer is Richman Development Group. They are under contract with the property owner. Based on the proforma review the recommendation is \$3,137,732 in HOME Investment Partnership Act (HOME) funding. These funds will be in a loan. Additionally, it is recommended that \$1,309,538 in ARPA funds be pledged to the project. These funds would be a grant. In addition to these direct financial

commitments, they are also seeking support through a Residual Receipt Loan for City related fees and the HOME loan. The City did execute a similar instrument to support the Childs and B project. Under this arrangement the City receives repayment after other prior debt is covered on an annual basis, or other term as mutually agreed too.

The project is proposing 154 units with the following income categories;

- 31 Extremely Low
 - 79 Very Low
 - 44 Low
 - 2 manager units
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- Visionary Home Builders
The City Council has previously approved the 108-unit development project on Parsons Ave. Based on the proforma review the recommendation is \$3,500,000 in American Rescue Plan Act (ARPA) to the project. These funds are a grant to the project. The developer is also reviewing the need to demonstrate additional commitment and would like the option of a Residual Receipt Loan for City related fees.

The project is proposing 108 units with the following income categories;

- 11 Extremely Low
 - 53 Very Low
 - 42 Low
 - 2 manager units
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- UPholdings - Motel Conversion - Homekey
Previously the funding commitment to this project was to come from a combination of HOME and HOME ARP. HUD has provided guidance on HOME ARP and prior to any commitment a plan similar to the HUD Annual Plan must be developed specific to these funds. To ensure the project stays on target with the Homekey award timeline the recommendation is to swap funding to \$1,690,462 in (ARPA) funds. This is the same funding amount as previously approved by the City Council. These funds are a grant to the project.

Next Steps

To provide the support necessary to seek additional funding sources, specific conditional letters of commitment and support will need to be drafted to support each developer and project. These letters shall be subject to review by the City Attorney and should follow the direction provided by the Council. The letters may be prepared in a manner that lists a “to not exceed” amount which is consistent with Council direction.

Both Richman Group and Visionary Home Builders will be seeking funding from the State of California Multi Family Super NOFA which has a deadline at the end of June. They have initial funding programs target however those may change prior to the application deadline.

The City's commitment is essential to demonstrate local support. There will be additional local support demonstrated through the City's A 32 Public Facility Finance Program Fee (PFFP) reduction program for affordable housing which the Council recently adopted. Fee estimates for both projects are being prepared and are likely to demonstrate hundreds of thousands in additional local support towards each project. Those figures will also be provided in the commitment letters.

It should be noted that these allocations do not limit future Council actions. They do not commit future year HUD resources - CDBG and HOME, nor do they commit other HCD funding sources.

Each project has land use entitlements, and the developers have site control which are both requirements under the Super NOFA process. Additionally, all California Environmental Quality Act (CEQA) project level review has been completed for both the Parsons and Devonwood projects. ARPA funds are not subject to the National Environmental Policy Act (NEPA) however for the HOME commitment to the Devonwood project NEPA will need to be completed prior to execution of any funding agreement or more formal commitments.

Future Council actions will include consideration of the grant and loan agreements, regulatory agreements - all will have 55-year covenants, and other implementation related documents. If the Devonwood and Parsons project to not obtain funding approval under the HCD Super NOFA, the City may reconsider funding commitment to the projects.

Project scheduling would generally follow this outline:

- June 2022 - City Council commitment and HCD NOFA application submittal
- December 2022 - notice of award from HCD
- April 2023 - Tax Credit applications submitted
- June 2023 - notice of Tax Credit funding
- June to December - agreement preparation and financial close
- December 2023 - construction start
- 15 to 18 months for construction
- Spring - Summer 2024 opening

IMPACT ON CITY RESOURCES

The City Council allocated \$6,500,000 in ARPA funds towards affordable housing. The proposed commitments would equal this allocation. The HOME commitment includes both current funding available, program income, as well as the 2022-23 Annual Plan allocation amount.

ATTACHMENTS

None.