HOUSING AUTHORITY of the
COUNTY OF CONTRA COSTA

Long Term Planning
for Public Housing Portfolio

February 2, 2015

CSG | advisors

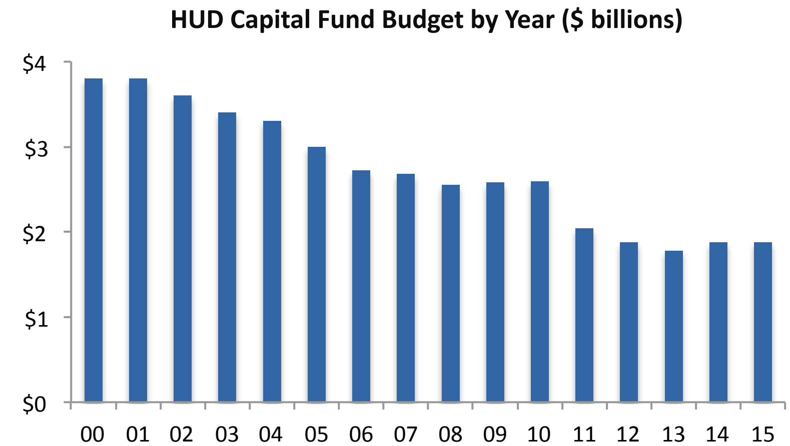
Agenda

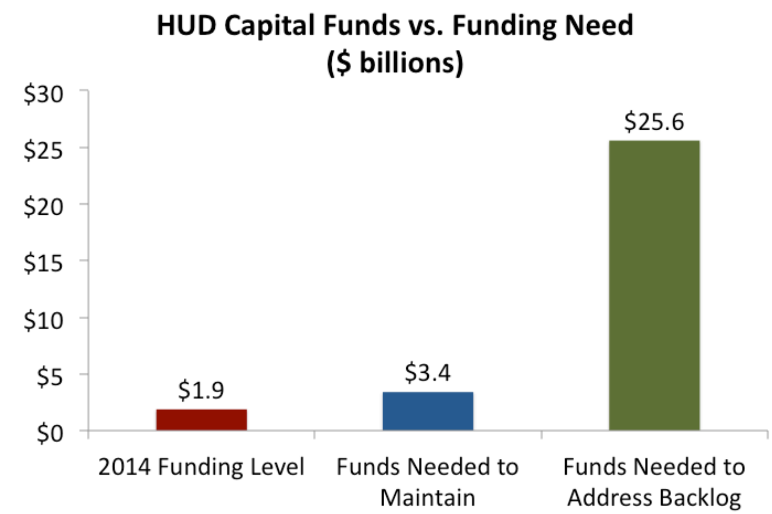
- **Underfunding Challenge**
- Potential Solutions to Address Portfolio Needs
- Recommendations
- Next Steps

Underfunding Challenge: National View

- For the past 15 years, Congress has been chronically underfunding the capital needs of public housing
  - Total HUD capital funding has dropped from approximately $3.8 billion per year in 2000 to $1.9 billion in 2015

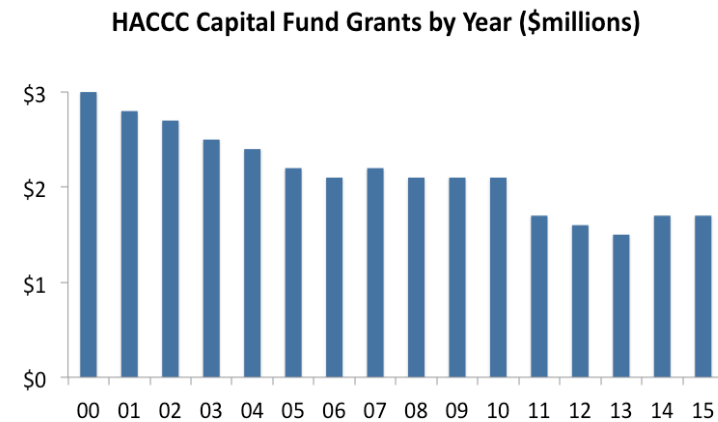
- The backlog of capital needs in public housing is large and growing
  - HUD estimated a capital needs backlog of $25.6 billion in 2010, plus $3.4 billion of annual needs
  - Recent funding levels of less than $2 billion per year are insufficient to maintain the portfolio or address the backlog

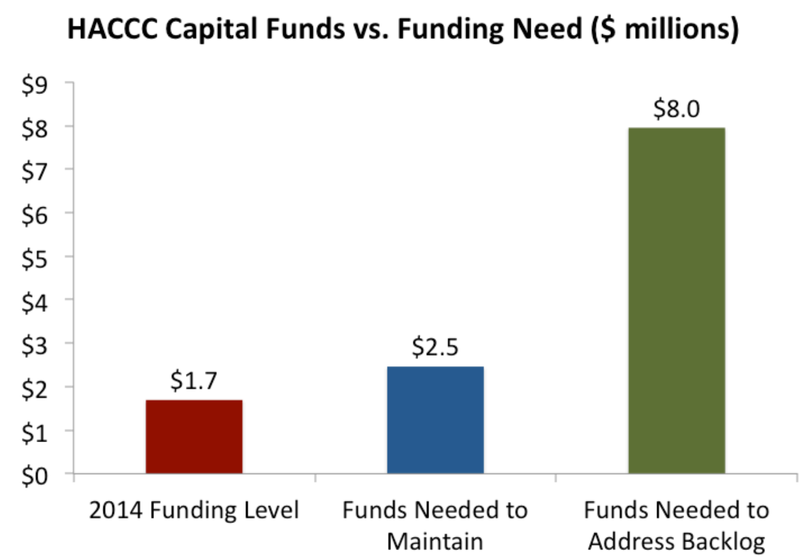




Underfunding Challenge: HACCC View

- HUD's underfunding of Contra Costa's public housing mirrors the national trend
  - 2014 Capital Fund grant was \$1.7 million, down 44% from the \$3.0 million received in 2000
- Contra Costa's public housing has large and growing capital needs
  - \$8 million of immediate capital needs estimated in 2011 (part of \$55 million total over 20 years)
  - \$2.5 million in new capital needs every year, on average
- Even the best management of capital spending can't keep pace with the needs of an aging housing stock given persistently meager federal funding





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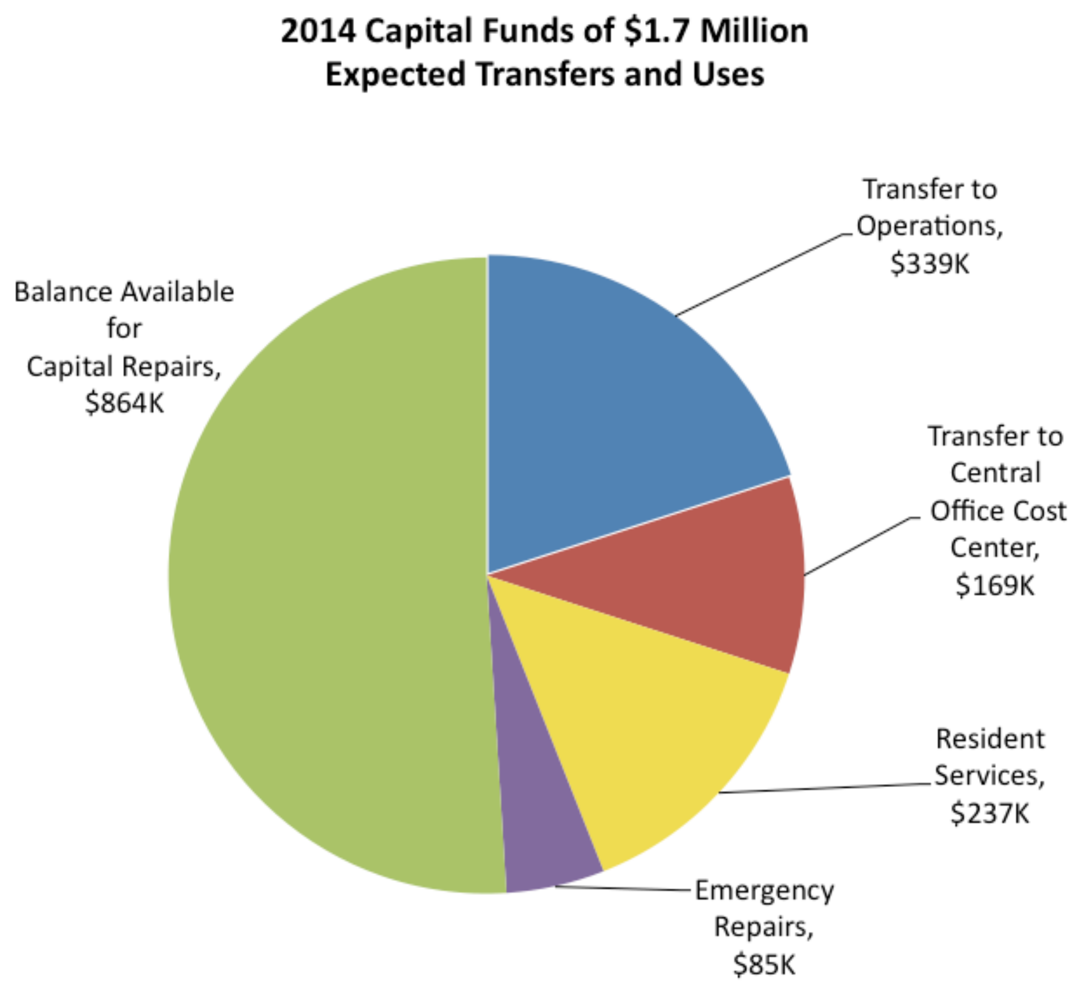
Many Demands on HACCC's Scarce Capital Funds

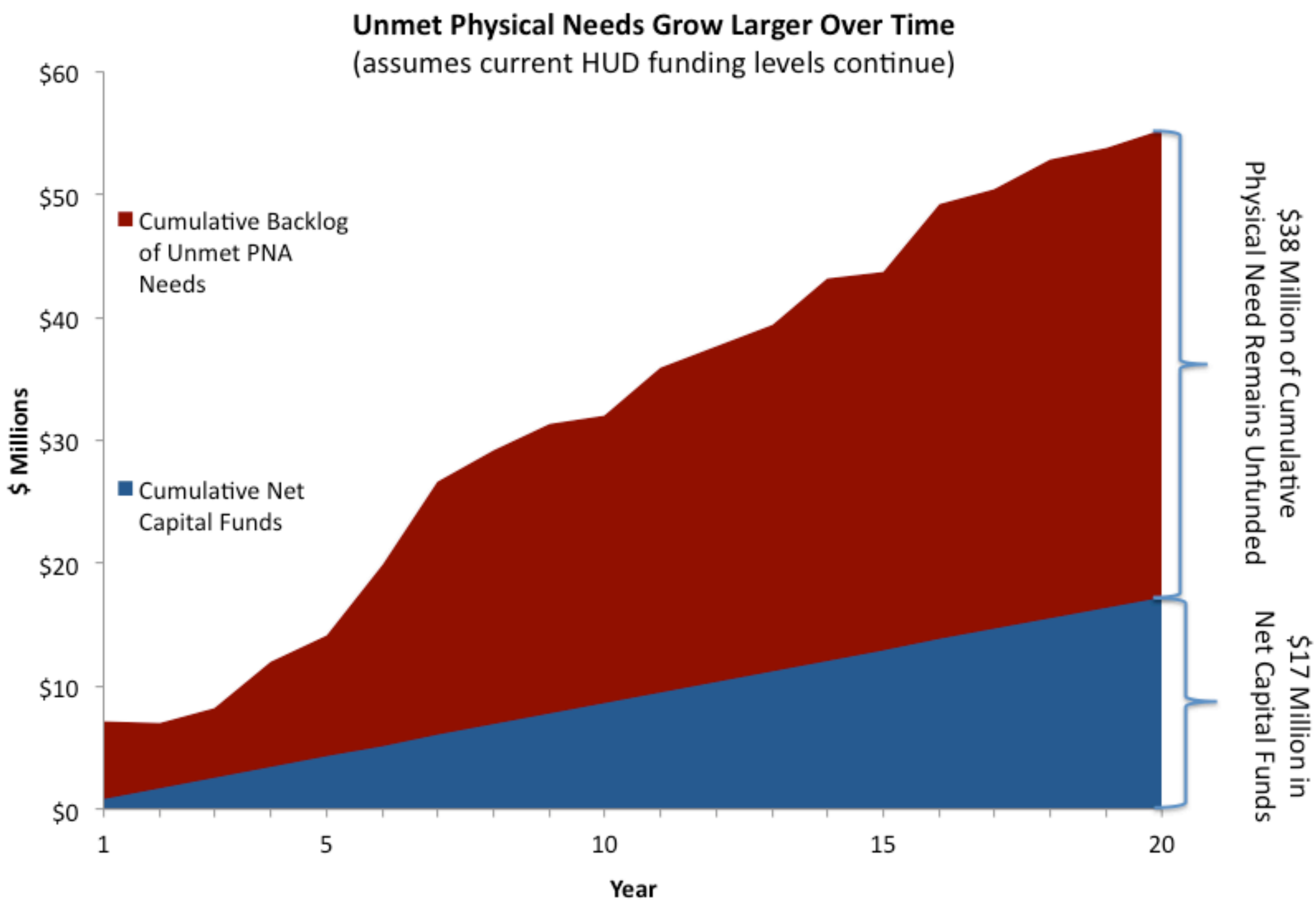
Of $1.7 million in HUD Capital Funds received for 2014:

- (blue) – $339,000 (20%) transferred to Operations
- (red) – $169,000 (10%) transferred to Central Office Cost Center
- (yellow) – $237,000 (15%) transferred to Resident Services
- (purple) – $85,000 (5%) needed for emergency repairs
- (green) – **Approximately $864,000 available to fund $2.5 million in average annual capital needs**



Unmet Capital Needs Grow as the HACCC Portfolio Ages

$55 million of projected capital needs for 1,177 public housing units over the next 20 years vs. $17 million of projected net capital funds at $864,000 per year



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Potential Solutions to Address Portfolio Needs: What Are the Options?

Various options exist; a combination of approaches is often required

- **Continue rehab with existing funds using "triage" approach**
  - Not able to address all needs
  - Negative impacts on residents and neighborhoods
- **Dispose of non-viable properties**
  - Must meet restrictive HUD criteria
  - Potential loss of subsidized units
  - Might generate sales proceeds
  - Could help HACCC focus efforts on preserving remaining properties
- **Redevelop/rebuild properties**
  - High construction and other costs, including tenant relocation
  - Typically very large financing gaps
- **Convert operating subsidy from public housing to Section 8**
  - Potentially larger HUD subsidies
  - Could help facilitate borrowing
  - Existing tenants can usually stay
  - HUD is encouraging conversions through new Rental Assistance Demonstration "RAD" program, but it gives no additional subsidy
- **Find external funding**
  - Local governments (less likely now that redevelopment agencies are gone)
  - State programs
  - Federal low income housing tax credits

Potential Solutions to Address Portfolio Needs: Overview of Low Income Housing Tax Credits

- Since its start in 1987, the low income housing tax credit program has been the nation's primary source of funding for affordable housing production

- Tax credits can be used to help fund new construction or rehabilitation

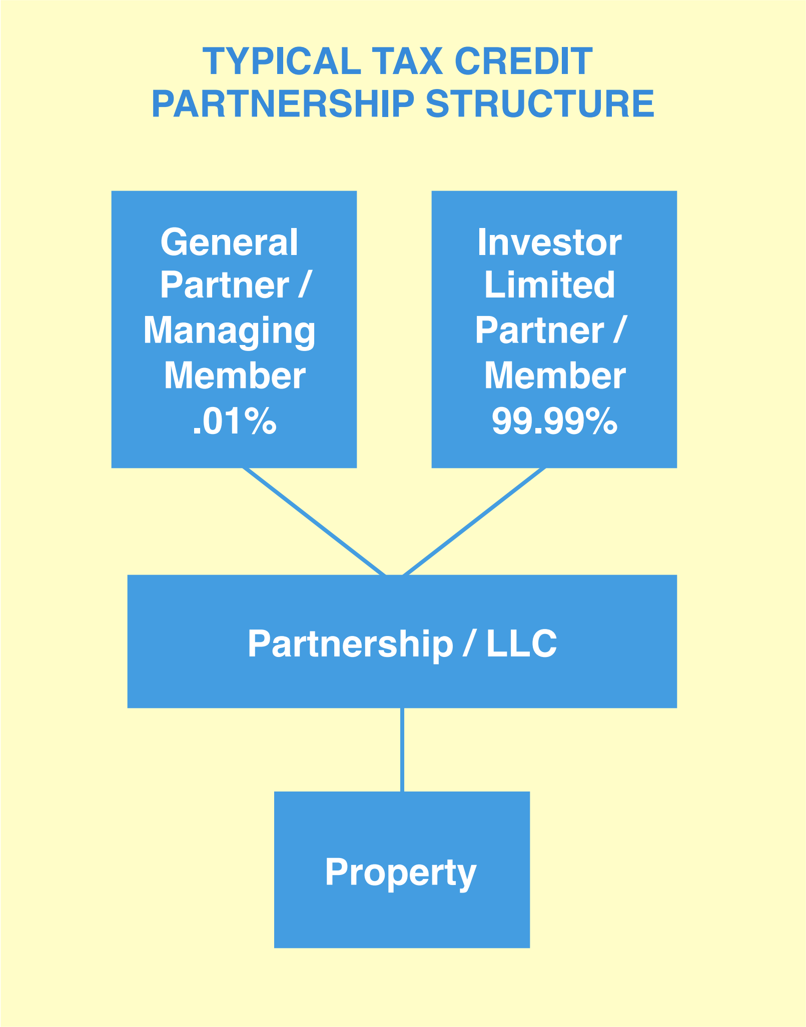
- Funding is provided by private investors seeking tax credits, and their funding does <u>not</u> need to be repaid

- Two main types of tax credits
  - "9% credits" can typically fund 60-90% of project costs, but it is very hard to win an allocation in the highly competitive process run by the state
  - "4% credits" are less valuable, typically funding just 20-50% of project costs, but unlike 9% credits it is easy to get an allocation

- Tax credit financing is complex and has relatively high transaction costs

Potential Solutions to Address Portfolio Needs: Tax Credit Structuring

- Property needs to be owned by a partnership or limited liability company rather than HACCC directly
  - HACCC, an affiliate, or a third-party developer it hires can serve as general partner
  - Investor serves as limited partner
- HACCC can retain a right to buy out the investor limited partner in approximately 15 years
- HACCC can continue owning the land and ground lease it to partnership
- Property can continue to receive HUD operating subsidies



Potential Solutions to Address Portfolio Needs: Sample Budget for Redevelopment Using Tax Credits

	Affordable Housing Redevelopment		
	without Tax Credits	with 4% Tax Credits	with 9% Tax Credits
Project Budget	*Amount Per Unit*	*Amount Per Unit*	*Amount Per Unit*
Demolition & Relocation	$10,000	$10,000	$10,000
Infrastructure	$20,000	$20,000	$20,000
Hard Costs + Design	$250,000	$250,000	$250,000
Other Costs	$25,000	$55,000	$55,000
Developer Fee	$15,000	$25,000	$25,000
Reserves	$5,000	$5,000	$5,000
Total	**$325,000**	**$365,000**	**$365,000**
Funding Sources	*Amount Per Unit*	*Amount Per Unit*	*Amount Per Unit*
LIHTC Equity	$0	$130,000	$300,000
Supportable Debt	$20,000	$20,000	$20,000
Total	**$20,000**	**$150,000**	**$320,000**
Funding Gap	**$305,000**	**$215,000**	**$45,000**

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Recommendations:
Summary of Proposed Approaches by Property

Rehabilitation. HACCC would comprehensively rehabilitate the existing properties over the next 10-15 years, financing the work with 4% tax credits, supportable debt, and other sources as necessary

Alhambra Terrace *(Martinez)*
Bridgemont *(Antioch)*
Casa de Mañana *(Oakley)*
Casa de Serena *(Bay Point)*
Elder Winds *(Antioch)*
Hacienda *(Martinez)*
Kidd Manor *(San Pablo)*
Los Arboles *(Oakley)*
Los Nogales *(Brentwood)*
Vista del Camino *(San Pablo)*
El Pueblo *(Pittsburg)*
(if can't win 9% credit awards)

Redevelopment. HACCC would demolish the existing buildings and rebuild new affordable units on the original property, financing the work with 9% tax credits and other sources

El Pueblo *(Pittsburg)*, potentially *(to extent it can win 9% credit awards)*
Portions of Las Deltas *(North Richmond)*, potentially *(depending on developer interest and financial feasibility)*

Disposition with Offsite Replacement or Relocation without Replacement. HACCC would seek HUD approval to dispose of these properties and would relocate the existing residents by acquiring off-site replacement units or by using Section 8 vouchers

Portions of Las Deltas *(North Richmond)*
Bayo Vista *(Rodeo)*

Recommendations:
Prioritize Rehab Based on Financing Potential and Need

- **Phase 1 - Initial Portfolio.** Plan an initial 4% tax credit transaction for rehab of Casa de Mañana, Elder Winds, Hacienda and Kidd Manor
  - These properties have the best potential to raise external financing and may not require significant HACCC funds up front
  - Combining multiple properties into a single financing could provide economies of scale to limit transaction costs
  - Transaction could generate developer fees to HACCC to help pay for staff and potentially allow reinvestment in future phases

- **Phase 2 – Years 5-9.** Rehab Bridgemont, Casa de Serena, El Pueblo (to the extent it can't be redeveloped using 9% credits), and Los Nogales as a second phase after the first phase is completed
  - These properties are considered high priority for capital improvements
  - Waiting until first phase is complete could allow HACCC to reinvest proceeds from the initial phase, boosting financial feasibility

- **Phase 3 – Years 10-13.** Begin rehab for Alhambra Terrace, Los Arboles, and Vista del Camino as additional funding becomes available
  - These properties have less urgent capital needs than phases 1 and 2

Recommendations:
Potential Schedule of Rehabilitation Properties

Begin in Year	Sites	Cost	Funding Gap	Net Gap / (Surplus)
1	Casa de Mañana (Oakley) Elder Winds (Antioch) Hacienda (Martinez) Kidd Manor (San Pablo)	$8.7 Million	$800 K	($1.1 M)
5	El Pueblo (Pittsburg)*	$16.9 Million	$4.6 M	$2.3 M
7	Los Nogales (Brentwood)	$3.5 Million	$800 K	$300 K
9	Bridgemont (Antioch) Casa de Serena (Bay Point)	$6.3 Million	$1.4 M	$300 K
10	Alhambra Terrace (Martinez) Los Arboles (Oakley)	$5.0 Million	$2.0 M	$1.0 M
13	Vista del Camino (San Pablo)	$9.7 Million	$3.3 M	$1.8 M

** Timing and amounts shown reflect El Pueblo as rehab (i.e., if 9% credit strategy for new construction is unsuccessful).*

Recommendations:
El Pueblo *(Pittsburg, 171 units)*

- Good candidate for redevelopment
  - Existing buildings are over 60 years old and have high projected 20-year capital needs of $8.8 million (over $50,000 per unit)
  - Strong neighborhood characteristics mean good potential for developer interest and external funding
  - Low density of existing property may provide opportunity to rebuild with additional units and serve a wider range of income levels

- Financial feasibility of redevelopment hinges on availability of 9% tax credits
  - Would require 2-3 allocations, stretching over multiple years
  - Highly competitive statewide allocation process, and the state can change its rules and funding priorities from year to year
  - Without 9% tax credits, funding gap for redevelopment would be too large and HACCC would need to revert to a rehabilitation strategy

- Recommendation:
  - Seek input from multiple developers to refine plan
  - Anticipate a long-term process with multiple phases
  - Identify an initial phase and competitively select a developer
  - Retain flexibility to adjust future phases depending on funding availability and other factors

Recommendations:
Las Deltas *(North Richmond, 211 units)*

- Better candidate for disposition or redevelopment than rehabilitation
  - Existing buildings are at least 55 years old and have high projected 20-year capital needs of $10.3 million (nearly $50,000 per unit)
  - Chronic vacancy and turnover issues

- 90 of the 211 units already have contingent HUD approval for Section 8 project-based voucher conversion under Rental Assistance Demonstration
  - Represents a major success in addressing long-term vacant units while preserving access to HUD subsidies
  - HACCC is exploring ways to replace units on-site or off-site

- HACCC expects to refine approaches over next year
  - Input from potential developers is critical
  - Financial feasibility of development options is a key question
  - Disposition proceeds could potentially provide funding for replacement of some existing units
  - Need to be wary of spending disproportionate share of HACCC resources

Recommendations:
Bayo Vista *(Rodeo, 244 units)*

- Advancing age of the property and location next to refinery raise questions of whether the property is suitable for continued residential use
  - 52-year old property with projected 20-year capital needs of $15.4 million (over $60,000 per unit)
  - Immediately adjacent to oil refinery
  - Preliminary draft of NEPA study suggests proximity hazards for at least a portion of the property

- HUD may support disposition given environmental considerations

- If HUD would approve a disposition, it would also likely provide new Section 8 Tenant Protection Vouchers to facilitate relocation of existing residents to more suitable residential developments
  - Would represent an increase of HUD subsidy given that tenant protection vouchers would be based on HUD Fair Market Rents rather than existing subsidy level (unlike RAD vouchers)

- Recommendation:
  - Initiate discussions with HUD on potential for disposition approval and tenant protection vouchers

Recommendations:
Concerns and Risks Related to Proposed Approaches

- HUD Requirements and Resident Concerns
  - Any approach must meet HUD requirements and be responsive to the needs of existing residents

- Use of Section 8 Project-Basing Capacity
  - HACCC would need to use its limited project-basing capacity on up to 500 Section 8 vouchers to make the proposed approaches financially feasible (HACCC's currently remaining project-basing capacity is approximately 884 units)

- Potential Net Loss of Affordable Units
  - Dispositions without replacement or conversions to Section 8 using HACCC's existing vouchers could result in fewer total affordable housing units available

- Development and Financing Risks
  - Whether HACCC serves as its own developer or hires a third-party developer to implement approaches, there are significant risks associated with real estate development and financing, especially with external lenders and tax credit investors involved

- Time and resource constraints
  - Rehabilitation and redevelopment activities take a long time and require significant staff time and agency resources

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Next Steps

- Refine approach based on input from Board
- Discuss Bayo Vista with HUD to assess likelihood of disposition approval and tenant protection vouchers
- Discuss El Pueblo and Las Deltas with developers to explore options and feasibility
- Consult with other stakeholders, including residents, local agencies, and HUD
- Prepare detailed feasibility analyses and schedules for initial phase(s)
  - Get appraisals and capital needs assessments of initial rehabilitation properties (Casa de Mañana, Elder Winds, Hacienda, and Kidd Manor)
  - Identify all potential external funding sources
  - Determine HACCC resource availability, including funding and staffing
- Present specific transactions to Board for consideration
- Competitively procure any needed assistance for each project, including architects and engineers, legal and financial advisors, developers, tax credit investors, etc.