HOUSING AUTHORITY of the
COUNTY OF CONTRA COSTA

Long Term Planning for Public Housing Portfolio

January 30, 2015 with revisions April 8, 2015

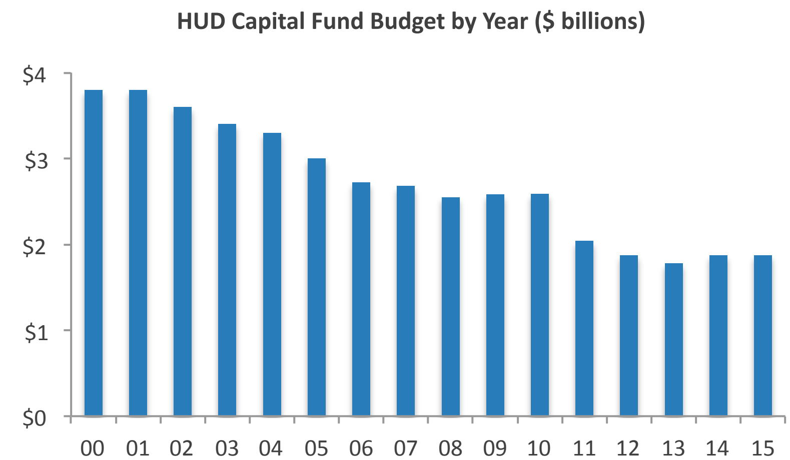
CSG advisors

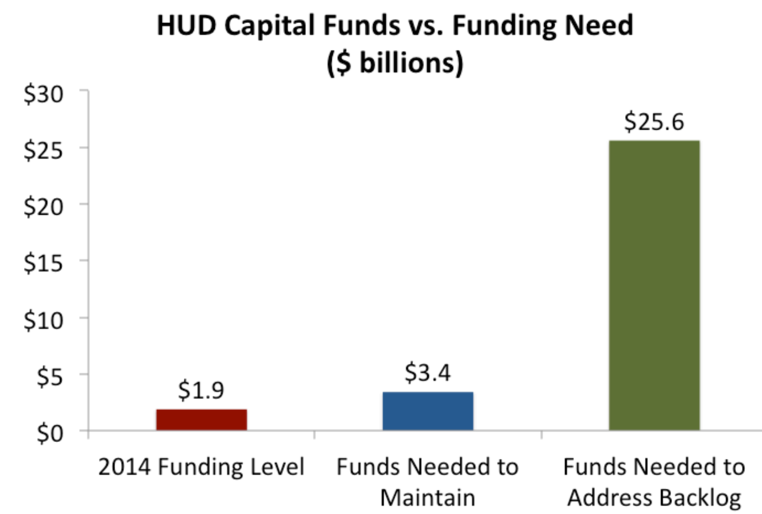
Agenda

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

Underfunding Challenge: National View

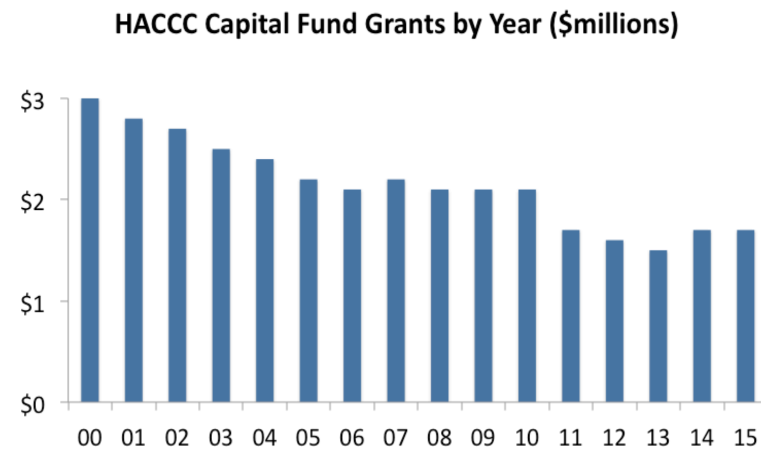
- For the past 15 years, Congress has been chronically underfunding the capital needs of public housing
  - Total HUD capital funding has dropped from approximately $3.8 billion per year in 2000 to $1.9 billion in 2015
- The backlog of capital needs in public housing is large and growing
  - HUD estimated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

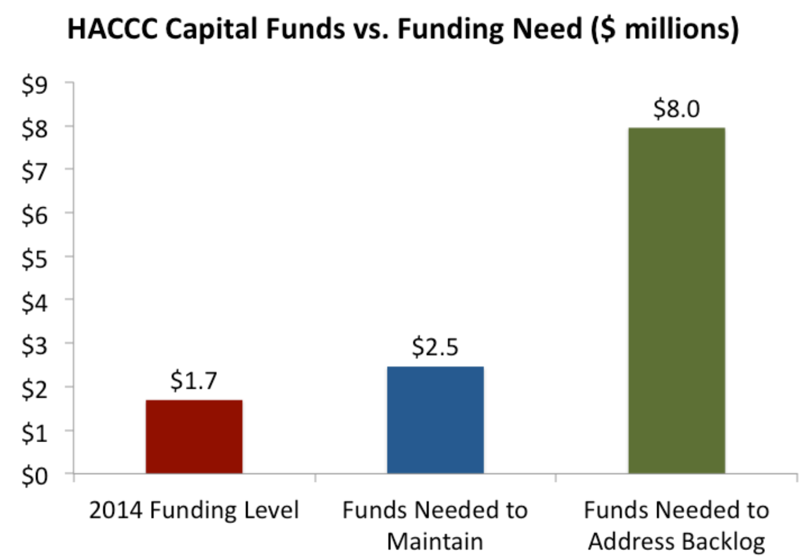




Underfunding Challenge: HACCC View

- 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

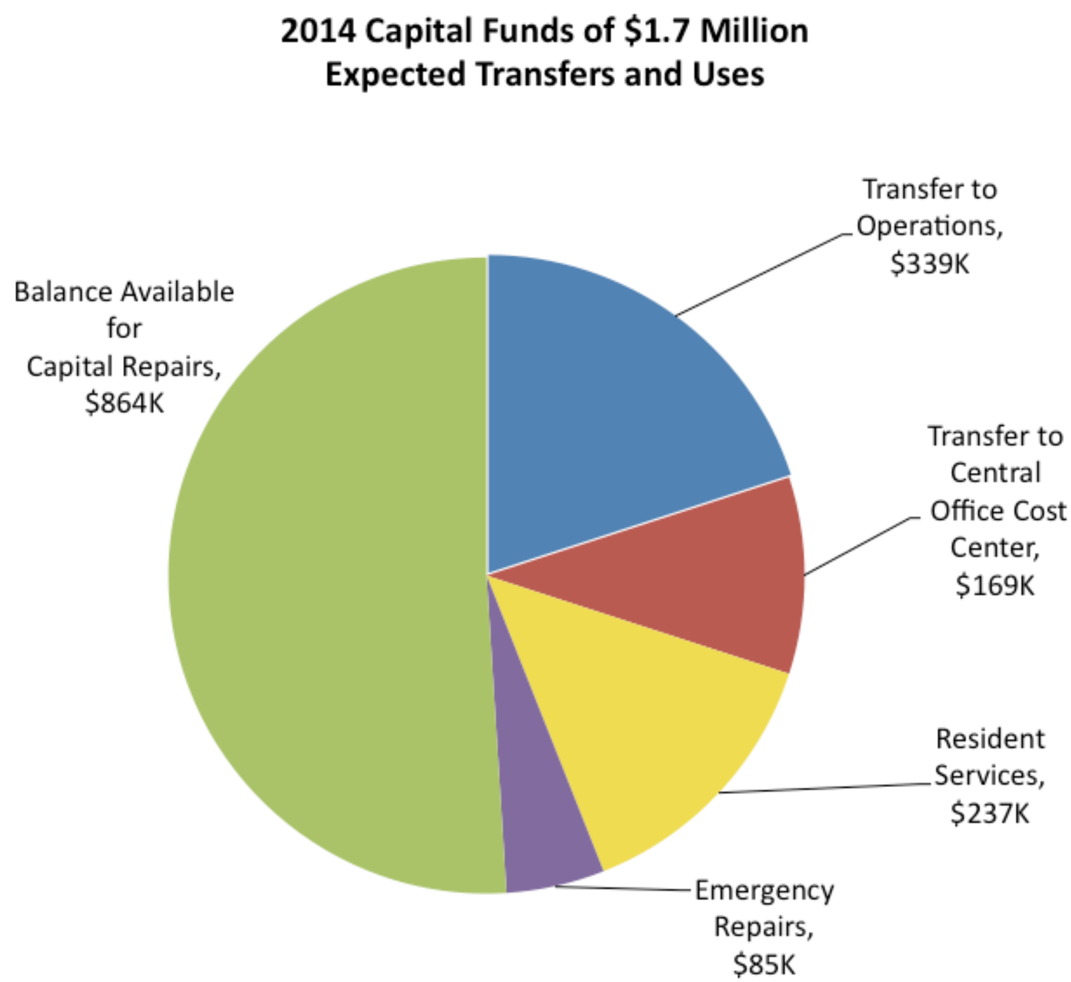




Many Demands on HACCC's Scarce Capital Funds

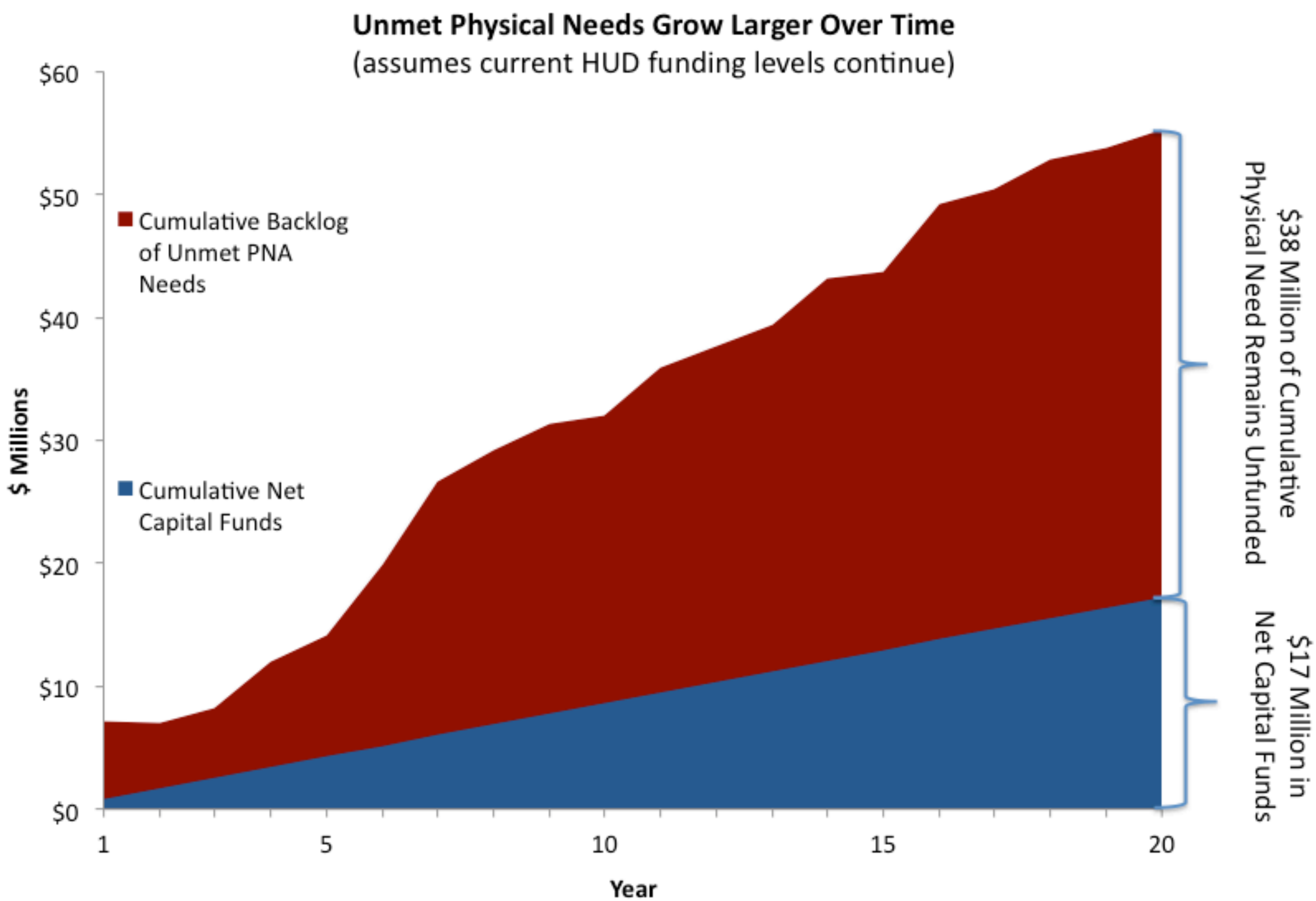
Of $1.7 million in HUD Capital Funds received for 2014:

- (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

Disposition of Non-Viable Properties by Section 18

- HUD generally tries to prohibit the loss of public housing units
- For housing authorities seeking to dispose of or demolish public housing, there are strict requirements and a formal application process
  - Process is governed under Section 18 of the Housing Act of 1937
  - HUD occasionally updates the regulations, and a revision is pending
  - Specific criteria must be met
    - Obsolescence is one possibility, but it requires a specific financial threshold that is typically hard to meet
    - Local conditions adversely affecting the health and safety of residents is another possibility
    - Operating shortfalls and capital needs are generally ***not*** acceptable justifications
  - Resident consultation is required, as are relocation benefits
  - Timeline for HUD review is highly uncertain; 6+ month is not uncommon
- A major benefit of Section 18 HUD approval is that it usually triggers eligibility for new Tenant Protection Vouchers from HUD, although this is not guaranteed
- HUD wants housing authorities to use RAD rather than Section 18

HUD's Rental Assistance Demonstration Program

- New HUD program to help preserve public housing stock
  - Launched in 2012 with first conversions starting about a year ago
  - "Demonstration" status – refinements likely
  - HUD recently got authorization to expand from 60,000 to 185,000 units (of approximately 1.1 million total public housing units)

- Switches the federal funding platform from public housing to Section 8
  - No change in subsidy level for a project – same amount, different label
  - But future funding levels are expected to be more stable – congressional budgets have been favoring Section 8 over public housing
  - Change makes it easier to raise private financing to address repair needs

- Protections for residents
  - Residents continue to pay 30% of income towards rent and they maintain the same basic rights as they possess in the public housing program
  - If temporary relocation needed for rehab, right of return and URA benefits
  - "Choice mobility" after 1-2 years with tenants eligible for portable vouchers

- Approved application for a portion of Las Deltas / North Richmond allows Contra Costa to sell long-term vacant units and move the subsidies elsewhere rather than giving those funds back to HUD

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

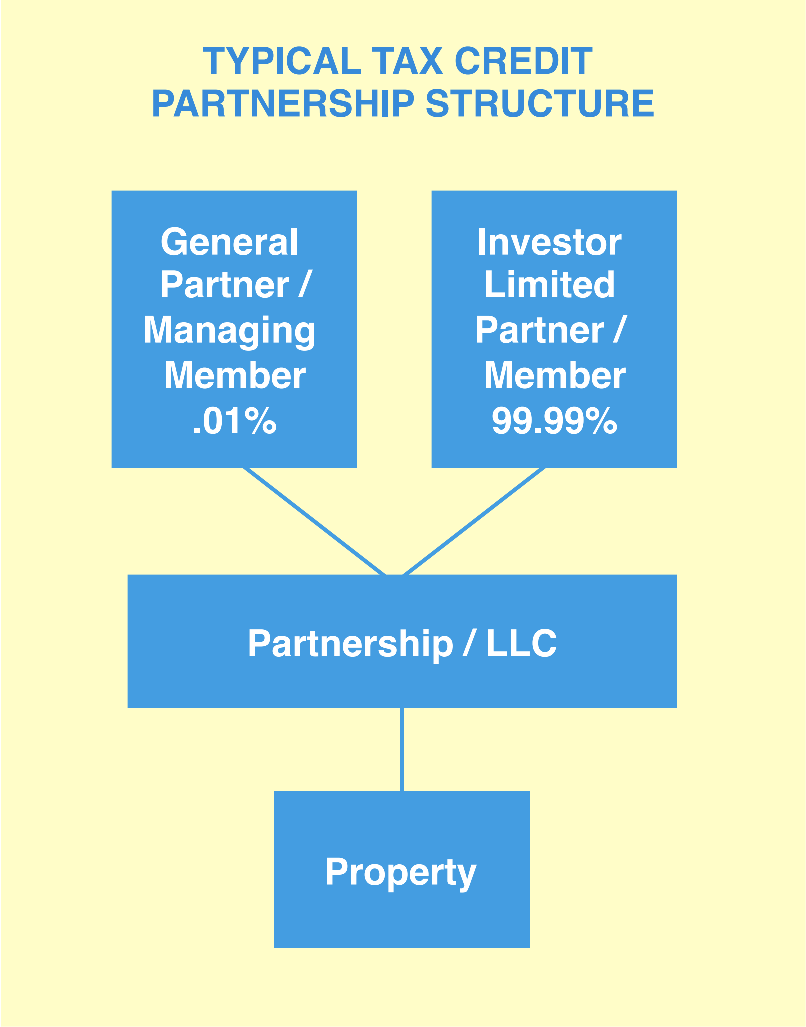
- Funding is provided by private investors seeking tax credits, and their funding does <u>not</u> need to be repaid

- 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

Approach	Affordable Housing Redevelopment		
	with 9% Tax Credits	with 4% Tax Credits	without 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	$55,000	$55,000	$25,000
Developer Fee	$25,000	$25,000	$15,000
Reserves	$5,000	$5,000	$5,000
Total	**$365,000**	**$365,000**	**$325,000**
Funding Sources	*Amount Per Unit*	*Amount Per Unit*	*Amount Per Unit*
LIHTC Equity	$300,000	$130,000	$0
Supportable Debt	$20,000	$20,000	$20,000
Total	**$320,000**	**$150,000**	**$20,000**
Funding Gap	**$45,000**	**$215,000**	**$305,000**

Selected California State Funding Sources

Key California Funding Sources	Summary	Eligible Project Types	Total Funding Available	Maximum Project Funding	Recent Funding Apps. Due
Affordable Housing and Sustainable Communities Program (Cap and Trade)	Program invests in projects that reduce GHG emissions by supporting more compact, infill development patterns, encouraging active transportation and transit usage, and protecting agricultural land from sprawl development.	a) either new construction, acqu/rehab or conversion of nonresidential structure, b) located within 1/2 mile from transit stop, c) include at least 20 percent of total residential units; d) have minimum net density	$120M	$500K- $15M	15-Apr-15
Veterans Housing and Homelessness Prevention Program (Cal- Vet)	Funds will be provided in collaboration with California Housing Finance Agency and California Department of Veterans Affairs as post-construction permanent loans. All funds shall be used for Development Costs.	Affordable rental housing development or transitional housing with deeply affordalbe units at 30% of AMI and 45% of AMI and below.	$75M	$10M	20-Apr-15
Multi-family Housing Program, Supportive Housing Component	Provides funding for the development of rental housing containing permanent supportive housing units under the Multifamily Housing Program.	a) 40% of the units for homeless residents; b) projects must show programs that provide series for supportive housing residents; and c) project must focus on measureable outcomes.	$47.5M	$7M	23-Dec-14
Infill Infrastructure Grant Program	Program's primary objective is to promote infill housing development. The program provides financial assistance for infrastructure improvements necessary to facilitate new infill housing development.	a) located in a urbanized area and locality; b) include at least 15% of total residential units; and c) at least 75 % of the area within the qualifying infill project or infill area.	$40M	$500K- $4M	10-Dec-14

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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)	$18.2 Million, including $9.5M acquisition	$800 K	($1.1 M)
5	El Pueblo (Pittsburg)	$25.1Million, including $8.2M acquisition	$4.6 M	$2.3 M
7	Los Nogales (Brentwood)	$5.6 Million, including $2.1M acquisition	$800 K	$300 K
9	Bridgemont (Antioch) Casa de Serena (Bay Point)	$10.8 Million, including $4.5M acquisition	$1.4 M	$300 K
10	Alhambra Terrace (Martinez) Los Arboles (Oakley)	$9.3 Million, including $4.3M acquisition	$2.0 M	$1.0 M
13	Vista del Camino (San Pablo)	$15.6 Million, including $5.9M acquisition	$3.3 M	$1.8 M

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.