Contra
Costa
County

To: Board of Supervisors

From: John Kopchik, Director, Conservation & Development Department

Date: December 19, 2017

Subject: Substantial Amendments to Annual Action Plans and Funding Recommendations for HOME Investment Partnerships Act Funds

RECOMMENDATION(S):

APPROVE Substantial Amendments to the FY 2016/17 and 2017/18 Annual Action Plans to (1) reprogram $1,927,000 in HOME Investment Partnerships Act funds previously allocated to Veteran's Square Apartments, Pittsburg to projects that are capable of expending the funds by the federal deadline and (2) allocate the reprogrammed funds together with approximately $500,000 in program income and $73,000 in FY 2018/19 funds to Twenty One and Twenty Three Nevin Apartments in Richmond ($2 million), and to Heritage Point Apartments in North Richmond ($500,000).

FISCAL IMPACT:

No General Fund impact. HOME funds are provided to the County on a formula allocation basis through the U.S. Department of Housing and Urban Development. CFDA # 14.239

BACKGROUND:

This recommendation includes reprogramming of HOME Investment Partnerships Act (HOME) funds from a stalled project and reallocation of those funds to projects that are ready to begin construction in December 2017 and January 2018. The recommendation also includes the allocation of unencumbered and anticipated HOME funds.

- [x] APPROVE
- [ ] OTHER
- [x] RECOMMENDATION OF CNTY ADMINISTRATOR
- [ ] RECOMMENDATION OF BOARD COMMITTEE

Action of Board On: **12/19/2017** [x] APPROVED AS RECOMMENDED [ ] OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II Supervisor
Diane Burgis, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: December 19, 2017

David Twa, County Administrator and Clerk of the Board of Supervisors

By: Stephanie Mello, Deputy

Contact: Kara Douglas, 925-674-7880

cc:

On May 10, 2016, the Board of Supervisors adopted the FY 2016/17 Annual Action Plan that included an allocation of $487,000 of HOME funds to Domus Development for the 32 unit Veteran's Square project in Pittsburg. On July 18, 2017, the Board adopted the FY 2017/18 Annual Action Plan that included an additional allocation of $1,440,000 of HOME funds to the Veterans Square project for a total allocation of $1,927,000. That allocation was contingent on

BACKGROUND: (CONT'D)

>

Domus securing additional funds to demonstrate project feasibility by December 2017. Unfortunately, Domus has not been successful in securing enough funding to start construction. The project does have commitments from the City of Pittsburg and the Pittsburg Housing Authority. HOME program regulations have strict time lines for the commitment and expenditure of funds, and the occupancy of HOME-assisted units. The HOME funds allocated to Domus for Veteran's Square are at risk of recapture by the U.S. Department of Housing and Urban Development if the County does not transfer the funds to another viable project that can begin construction in 2018. Domus may reapply for funding in future application cycles.

The County is working with two developers that both have projects ready to start construction in December 2017 or January 2018 and are facing funding gaps due to provisions in the Tax Cuts and Jobs Act of 2017 federal (tax reform). See the attached summary of the federal tax reform provisions and the potential impacts to affordable housing development.

One of the proposals in federal tax reform is to eliminate private activity bonds in 2018. This includes prohibiting drawing any tax-exempt bond funds in 2018 even if the bonds were issued in 2017. Therefore, developers are closing on their construction financing and drawing down funds prior to December 31, 2017. Two other proposals in federal tax reform would create additional funding gaps. The lenders and investors will not close on the construction financing if they are not sure that the project has adequate financing to cover the potential tax reform related funding gaps. The following requests are for funds to demonstrate adequate project funding now. The actual funding gap, if any, may not be known until 2018.

Twenty One and Twenty Three Nevin, Richmond

Twenty One and Twenty Three Nevin (Nevin) is being developed by Richmond Nevin Associates, a California Limited Partnership. An affiliate of Pacific West Companies (PWC) is one of the partners and the sponsor of the development. Nevin consists of the construction of 271 units of affordable housing on two sites in Richmond. Site A is on the southwest corner of Nevin and 23rd Street, and will have 144 units for families, 35 of which will be subsidized with project-based Section 8 assistance. Site B is at 344 21st Street and will have 127 units for seniors and individuals with a disability. All Site B units will have project-based Section 8 assistance. One hundred percent of the units will be made affordable for 55 years to lower income families, seniors, and people with a disability.

PWC is seeking $2.5 million in HOME to close a potential gap due to provisions in the proposed federal tax reform. The need for and amount of a HOME loan will be confirmed once federal tax reform has been signed by the President and it is known what provisions are in the federal tax reform. Staff recommends that up to $2 million of

HOME funds will be loaned to the developer with a 55-year term and three percent interest rate. The loan payments will be made from residual receipts following payments of the subordinate bonds and deferred developer fee. The County loan will be subordinate to both a senior and two tranches of junior bond loans. The exact number of HOME-assisted units will be proportionate to the amount of HOME funds. It is expected there will be up to 25 HOME-assisted units.

Staff recommends that the amount of developer fee that is paid to the developer through the completion of the development be increased from the typical $1.5 million allowed by the county up to $3 million due to the size of the development. The amount of the total developer fee, including the deferred fee, will be the amount allowed by the low income housing tax credit program.

The total development budget is $137 million. In addition to the proposed HOME funds, the project is financed through a combination of tax-exempt bonds and tax credits. The County is the conduit issuer of $110 million in tax exempt bonds. The developer is working with the City of Richmond to identify additional sources of subsidy to off-set the potential gaps from federal tax reform. Should both the County and the City provide loan funds to the development, the County and City will enter into an Intercreditor Agreement to establish co-equal lien position and to share any loan payments on a pro rata basis.

<u>Heritage Point</u>
Heritage Point is being developed by Heritage Point A/G L.P. that includes an affiliate of Community Housing Development Corporation of North Richmond as one of the partners. The development consists of 42 units of affordable multi-family housing on Fred Jackson Way in North Richmond (Heritage Point). One hundred percent of the units will be subsidized with project-based Section 8 vouchers.

Heritage Point is seeking up to $560,000 in County resources to close a potential gap that may occur due to provisions in the proposed tax reform. The need for and amount of a HOME loan will be confirmed once federal tax reform has been signed by the President. Staff recommends that up to $500,000 of HOME funds will be loaned to the developer with a 55-year term and three percent interest rate. The loan payments will be made from a share of the residual receipts proportionate to the HOME share of County funds. The exact number of HOME-assisted units will be proportionate to the amount of HOME funds. It is expected there will be up to 20 HOME-assisted units.

The total development budget is $27.3 million. In addition to the proposed HOME funds, the project is financed through a combination of tax-exempt bonds and tax credits. The County is the conduit issuer of $17 million in tax exempt bonds. Additional County resources include $2.9 million of Community Development Block Grant funds, up to $3,785,929 of Housing Successor funds, and $1,432,830 of Livable Communities Trust funds. On December 12, 2017, the Board approved up to $560,000 in Housing Successor funds to cover what was designated in that Board order as Funding Gap #3. This allocation of HOME funds would replace $500,000 of the Housing Successor allocation.

A notice informing the public of the proposed Substantial Amendments to the Action Plans was printed in the Contra Costa Times on November 25, 2017. This request is for a portion of the anticipated HOME funds for FY 2018/19. Additional funding recommendations will be made to the Board by the Affordable Housing Finance Committee (AHFC) in late January or early February. A Notice of Funding Availability was sent to over 100 jurisdictions, public agencies, affordable housing developers, and interest groups active in the County in October 2017. The Department of Conservation and Development received seven applications requesting $8.85 million in HOME funds. Staff expects to have approximately $4.55 million in HOME funds to allocate. This includes an estimated $550,000 in unallocated funds and loan payments, $2 million in recaptured funds, and $2.2 million in FY 2018/19 grant funds.

Recommendations for the allocation of HOME funds are typically made to the Board by the AHFC. This committee meets as needed once or twice each year. Unfortunately, there were too few members available in December to reach a quorum.

CONSEQUENCE OF NEGATIVE ACTION:

Twenty One and Twenty Three Nevin and Heritage Point projects may not move forward.

ATTACHMENTS

Attachment A