

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: JULIE GAREN, PROGRAM SPECIALIST
NICOLE RATHBUN, INTERIM HOUSING AND COMMUNITY SERVICES MANAGER
HOUSING AND COMMUNITY SERVICES
SUBJECT: 3575 MENDOCINO AVENUE PHASE II FUNDING RECOMMENDATION

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department that the Housing Authority, by resolution, approve a conditional commitment of loan funds to BRJE Phase 2 Housing Partners, LP in the amount of \$1,560,000 in HOME funds for construction related costs of 37 affordable housing units and 1 unrestricted managers unit for 3575 Mendocino Avenue Phase II located at 3575 Mendocino Avenue Santa Rosa, CA.

EXECUTIVE SUMMARY

The Fall 2021 Notice of Funding Availability (“NOFA”) announced approximately \$2,260,000 of funds for affordable housing production in Santa Rosa, containing \$694,325 from the Permanent Local Housing Allocation (“PLHA) program and \$1,565,675 from the HOME Investment Partnership program (“HOME”). The Housing Authority (the “Authority”) received two applications and awarded the full amount of PLHA funds available, but neither applicant was eligible to receive the HOME funds which remain in the Authority’s budget. Subsequently, BRJE Phase 2 Housing Partners, LP (“Developer”), the development partnership comprised of Burbank Housing Development Corporation and Related California, notified staff of an unanticipated tax credit funding shortfall for the 3575 Mendocino Avenue Phase II project (the “Project”). On January 31, 2022, the Developer submitted a request for funding in the amount of \$1,560,000 for the Project. The Project was evaluated utilizing the Fall 2021 NOFA rating criteria to assess project readiness, affordability, bedroom size, special needs set asides, leveraging, project competitiveness, developer and management experience, on-site services, amenities, and other factors. With all other funding sources committed, the Project is eligible to receive the HOME funds that were not awarded from the NOFA.

BACKGROUND

The NOFA (see Attachment 1) was published on October 1, 2021, with approximately \$2,260,000 of funds are available from the PLHA and HOME programs, combined. The NOFA funds were comprised of approximately \$694,325 in PLHA program funds and \$1,565,675 in HOME program funds. Two applications were received. While the amount of funds initially requested between the two applications was \$2,670,000, both projects were only eligible for the PLHA program funds. With no eligible project applications, the HOME funds were not awarded and \$1,565,675 in HOME funds remain available in the Authority's budget.

At the time that applications were being accepted for the NOFA, the Project was anticipated to be fully funded from existing funding commitments and the Developer did not submit an application for funding. In late January, the Developer advised staff of a funding shortfall due to a lower-than-expected tax credit equity amount from investors and increased construction costs. The committed funding sources for the Project are listed in the Affordable Housing Loan Application included as Attachment 2. Among the funding sources that have been committed to the project are disaster tax credits that require the project to begin construction by April 10, 2022. The Developer has requested that the Authority consider their request for loan funds in the amount of \$1,560,000 to address the recently identified funding shortfall, allowing the project to proceed on time without jeopardizing the disaster tax credit award of approximately \$20 Million.

ANALYSIS

The Project meets the eligibility requirements for HOME funds, with all of its other funding sources, including disaster tax credits committed. The disaster tax credits have a mandatory construction commencement date of April 10, 2022. The Developer's request for funding is being brought to the Authority for consideration outside of a typical NOFA solicitation process because of the disaster tax credit award timeline that requires this funding request to be considered before the upcoming Fiscal Year 2022-23 NOFA. Due to the expedited timeline to commence construction, waiting to submit an application for funding during a future NOFA and retaining the commitment of disaster tax credits is not possible. If the Developer is unable to secure funding to fulfill the shortfall and does not meet the April 10, 2022, deadline for construction commencement they may lose the approximately \$20 Million disaster tax credit award, significantly delaying the Project.

Additionally, due to restrictions that require HOME funds to be the last funding source committed to a project, the requirement to begin construction within twelve months of an award of HOME funds, and the lack of project applications eligible for HOME funds, from the recent NOFAs, the HOME funds have been relatively difficult to award.

The Project has all other funding sources committed including a previous Housing Authority Commitment of \$11,917,110 in Community Development Block Grant – Disaster Recovery (CDBG-DR) funds, 17 Project-Based Vouchers in Phase I, and 13 Project-Based Vouchers awarded to Phase II and a Sonoma County Community Development Commission commitment of \$2,436,753 in CDBG-DR funds. The Developer submitted a funding application for 3575 Mendocino Avenue Phase II with a loan request letter (see Attachment 3) for Authority review.

Due to the constricted timeline to commence construction, the unanticipated shortfall in tax credit equity affecting the project’s viability, the existing Housing Authority investment in the Project through CDBG-DR funds and Project-Based Vouchers, the Sonoma County Community Development Commission’s commitment of CDBG-DR funds, and the relative difficulty for projects to meet the eligibility requirements for HOME funds, this request is being brought to the Authority for consideration outside of the annual NOFA process.

The Project application earned a score of 83 out of 100 using the point system from the Fall 2021 NOFA. Based on this score and the lack of project applications eligible for HOME funds, the Project would likely have been recommended for award if the application had been submitted in response to the NOFA in October. A summary of the Project and scoring details are provided below.

3575 Mendocino Avenue Phase II Project Summary

Project Description. 3575 Mendocino Avenue Phase II is a 38-unit senior housing development with all one-bedroom units.

The unit affordability mix is;

- 4 units targeted to households with incomes up to 30% of AMI
- 9 units targeted to households with incomes up to 40% AMI
- 15 units targeted to households with incomes up to 50% AMI
- 9 units targeted to households with incomes up to 60% AMI
- 1 unrestricted manager unit.

The Project has 13 Project Based Vouchers previously committed by the Housing Authority. The Project is located at 3575 Mendocino Avenue in the northwest quadrant of Santa Rosa at the site of the former Journey’s End Mobile Home Park. The 3575 Mendocino Avenue Phase II Project Summary is included as Attachment 4.

Application Scoring. The Project scored 83 out of 100 points possible, across the ten scoring categories identified in the NOFA solicitation.

- Readiness: Score 6 out of 10.

- At the time of application, building permit applications have not been submitted.
- Affordability: Score 18 out of 20.
 - The project provides 11% of the restricted units to extremely low-income households at or below 30% of AMI, 24% of units to very-low income households at or below 40% of AMI, 41% of units to very-low income households at or below 50% of AMI, and 24% of units to low income households at or below 60% of AMI.
- Bedroom Size: Score 2 out of 8.
 - 100% of the units are 1-bedroom size units.
- Special Needs Set Asides: Score 12 out of 12.
 - Units targeted to senior households make up 100% of restricted units.
- Leveraging: Score 7 out of 10.
 - The funding currently requested from the Housing Authority is \$1,560,000, and all other funding sources have been committed. The funding amount requested is 5.5% of the total development cost.
- Project Competitiveness: Score 10 out of 10.
 - The project has already been awarded disaster tax credits from the California Tax Credit Allocation Committee (CTCAC) and Community Development Block Grant – Disaster Recovery funds from the Sonoma County Community Development Commission. The project is 95% funded.
- Developer & Management Experience: Score 15 out of 15.
 - The development team, BRJE Phase 2 Housing Partners, LLC is an affiliate of Burbank Housing Development Corporation. Burbank Housing has significant experience in Santa Rosa and the surrounding region with one property that is currently out of compliance due to COVID-19. Burbank Housing is diligently working with staff to remedy the issue.
- On-Site Services: Score 6 out of 7.
 - The project offers on-site services in the form of a services coordinator to assist tenants in accessing off-site services, referrals, and coordinating enrichment activities.
- Amenities: Score 3 out of 3.
 - A community park and a transit stop are located within one half mile of the site location, with retail, grocery, and a library available within one mile from the site.

- Other Factors: Score 4 out of 5.
 - Other factors that were considered for this NOFA included consideration for a previously awarded loan from the Authority, previously awarded Project-Based Vouchers, the percentage of the development cost that has already been committed from funders, and the project's distance from existing affordable housing developments. The project has a previous loan from the Housing Authority in the amount of \$11,917,110 for Phase I, thirteen (13) previously awarded Project-Based Vouchers and committed funding for over 95% of the total development cost, meeting three of the criteria for Other Factors.

Loan Terms. The loan amount is \$1,560,000.00. The terms include three percent (3%) simple interest per annum deferred for fifty-five (55) years, secured by a deed of trust, and payments based on residual receipts. Interest shall commence with the recordation of the deed of trust. The term of affordability through a Regulatory Agreement will be 55 years from the date of initial occupancy.

Environmental. A Sustainable Communities Environmental Assessment (SCEA) was prepared for the project under the California Environmental Quality Act (CEQA). The SCEA was approved by the Santa Rosa Planning Commission and City Council in December 2020. The National Environmental Policy Act (NEPA) Environmental Assessment was completed in July 2021 with a Finding of No Significant Impact. The agreement to provide funds to the project is conditioned on the receipt of an Authority to Use Grant Funds from the United States Department of Housing and Urban Development (HUD) as part of the NEPA environmental review process to add additional federal funding to the project.

PRIOR HOUSING AUTHORITY REVIEW

On January 25, 2021, The Housing Authority approved a conditional commitment of Disaster Recovery Multifamily Housing Program loan funds in the amount of \$11,917,110 to BRJE Phase I Housing Partners, LP for 3575 Mendocino Avenue Phase I for construction costs associated with 94 new affordable senior housing units and committed thirty (30) Project-Based Vouchers to the Project.

On June 21, 2021, the Housing Authority approved 13 Project-Based Vouchers previously awarded to Phase I to be transferred to Phase II.

ARTICLE XXXIV

Article 34 of the California Constitution applies to low rent housing that is developed, constructed or acquired by a public entity or by private developers who receive federal, state or local assistance. The 3575 Mendocino Avenue Phase II project will require an allocation of 37 Article 34 units.

FISCAL IMPACT

The funds are included in the Housing Authority's 2021-2022 budget.

ENVIRONMENTAL IMPACT

The proposed project is in compliance with CEQA, the City Council approved a Sustainable Communities Environmental Assessment in December 2020; the NEPA Environmental Assessment was completed in July 2021. A Notice of Intent to Request for Release of Funds will be required to Publish for a 15-day public comment period in order to release HOME funds to the Project.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Notification of this meeting was sent to the applicant.

ATTACHMENTS

- Attachment 1 – Fall 2021 NOFA
- Attachment 2 – Affordable Housing Loan Application
- Attachment 3 – BRJE Phase 2 Housing Partners Loan Request Letter
- Attachment 4 - 3575 Mendocino Phase II Project Summary
- Resolution

CONTACT

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