



Renewal Enterprise District (RED)

County of Sonoma | City of Santa Rosa

FORSYTH STREET

RED HOUSING FUND: PROGRESS UPDATE AND OVERVIEW

Presentation for the City Council
of Santa Rosa

July 20, 2021



VISION

Sonoma County envisions a **housing market** that is in balance; is **resilient and climate smart** at the regional, neighborhood, and homeowner scale; is **affordable** to area workers and individuals with access and functional needs; is where communities of color and other historically disadvantaged groups, including individuals with limited or no English proficiency and immigrants, have **equal and fair access**; respects designated community separators and urban growth boundaries; has a **diversity** of homes located **near transit, jobs and services**; and is where the economy is vital.

-Recovery and Resiliency Framework



PROJECT CRITERIA

Projects require **ALL** of the following Threshold Criteria:

Infill Site

Mid to High
Density

Residential /
Mixed Use

Transit- Rich /
Planned Area



One or More of the Following:

- Project Readiness
- On or offsite Affordable, Workforce, and/or Mixed-Door Housing
- Serves a Disadvantaged Community
- Energy or Water Efficiency and/or Innovative Design
- Prevailing Wage, Labor Certification and/or Apprenticeship Programs with Local Labor Unions
- Public Outdoor Space
- Proximity to Transit, bike or pedestrian connectivity
- Onsite Child Care



RED PROJECT CRITERIA AND RED HOUSING FUND

RED Housing Fund Bylaws (Article 9, Section 3) “The making of loans by the Corporation consistent with the purposes and policies of the Corporation shall be approved by the Board. The Corporation shall adopt loan policies that are consistent with the Project Criteria adopted by RED.”

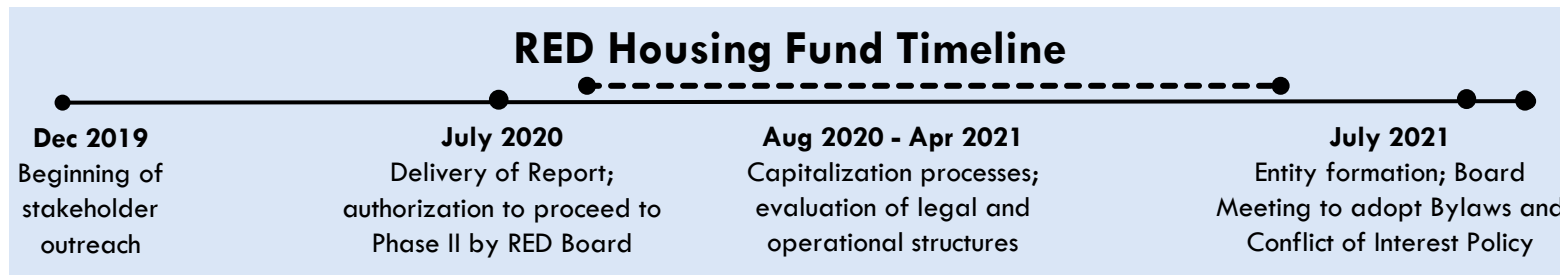
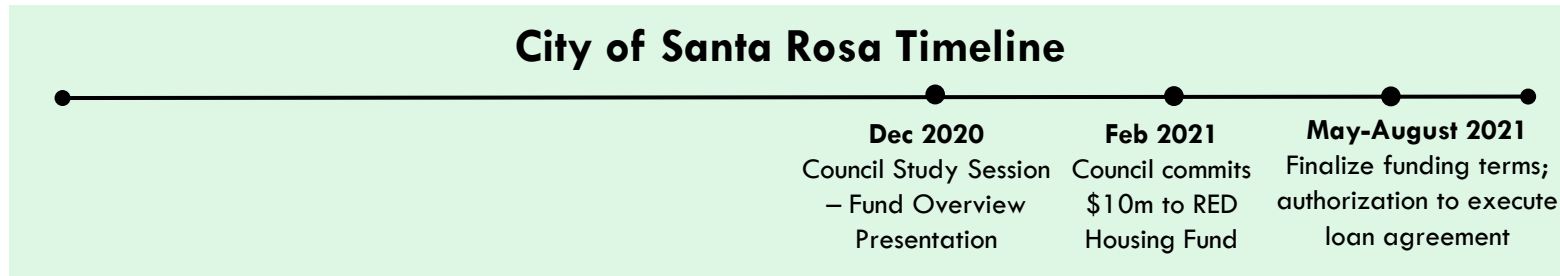
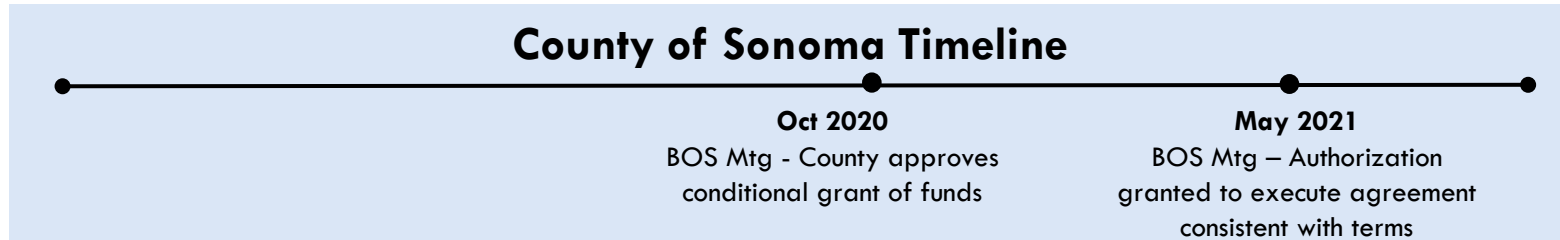
IRS Form 1023

- **Primary Primary Activities of the RED Housing Fund.** “RHF will provide financing that is currently not available in the Sonoma County market to support development of housing consistent with the RED Project Criteria.”
- **Selection Procedures and Criteria** “RHF will issue periodic requests for proposals from developers active in Sonoma County with proposed projects that meet the Renewal Enterprise District (RED) and RHF criteria. To be eligible for RHF financing, proposed projects must be consistent with the RED Board’s adopted Project Criteria...RHF’s selection process will be guided by these Criteria.”

Amending RED Project Criteria At its sole discretion, the RED Board may amend the Project Criteria, by Resolution, approved with a majority vote.

- 1. Project Dynamics**
- 2. Financial Review**
- 3. Fund Structure**

1. Project Dynamics | Project Workplan



2021: Target Fund Launch

1. Project Dynamics | Investment Products for Developers

The Fund intends to provide financing that supports the development of infill housing adhering to the RED's Project Criteria. These products are intended to be offered to developers at as low-cost and long-term as necessary, in order to fully support the projects' financial feasibility and fill developers' financing gaps. These financing products include:

Subordinate Loans for Affordable Projects

Flexible financing provided by the Fund to fill gaps in a project's capital stack at all phases of the development process.

Subordinate Loans for Middle Income and Market Projects

Construction-phase financing representing ~10% of a project's total development costs, subordinate to a conventional construction loan and with the ability to convert to permanent debt or equity.

Mezzanine Permanent Loans for Middle Income and Market Projects

Permanent financing sized to a project's available cash flow after payment of required first-position debt service. Convertible to equity in limited circumstances.

Proceeds from financing provided to a project by the Fund may be used to pay for any eligible project development costs – including **predevelopment, acquisition, construction and/or rehabilitation costs.**

2. Financial Review | Base Case Draft Financial Projections

Draft Base Case: No Cap on Use of Interest Revenue for Expenses

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 15</u>	<u>Year 20</u>
Project Interest Earnings	\$38,125	\$479,375	\$92,818	\$26,522
Origination Fees	\$77,500	\$122,500	\$0	\$0
Grants	\$250,000	\$0	\$0	\$0
Reinvestment of Excess Proceeds	\$0	\$13,484	\$53,378	\$109,849
Total Revenue	\$365,625	\$615,359	\$146,195	\$136,370
Revenue available for Expense Coverage	\$365,625	\$615,359	\$146,195	\$136,370
Start Up	\$100,000	\$100,000		
Fund Management (loan servicing, reporting, underwriting, monitoring)	\$126,000	\$182,120	\$91,584	\$85,946
Third Party Staff/Oversight	\$75,000	\$76,500	\$98,961	\$109,261
Legal, Audit, Insurance, Admin	\$56,000	\$56,720	\$47,501	\$52,445
Total Expenses	\$357,000	\$415,340	\$238,046	\$247,653
Net Income	\$8,625	\$200,019	(\$91,851)	(\$111,282)
Cumulative Net Income / (Losses) over 20 Years				\$603,596

**These projections are in draft form and are for discussion purposes only; all assumptions remain subject to change.*

Note: Projections have been escalated annually at a constant rate.

2. Financial Review | Draft Financial Projections with Interest Cap

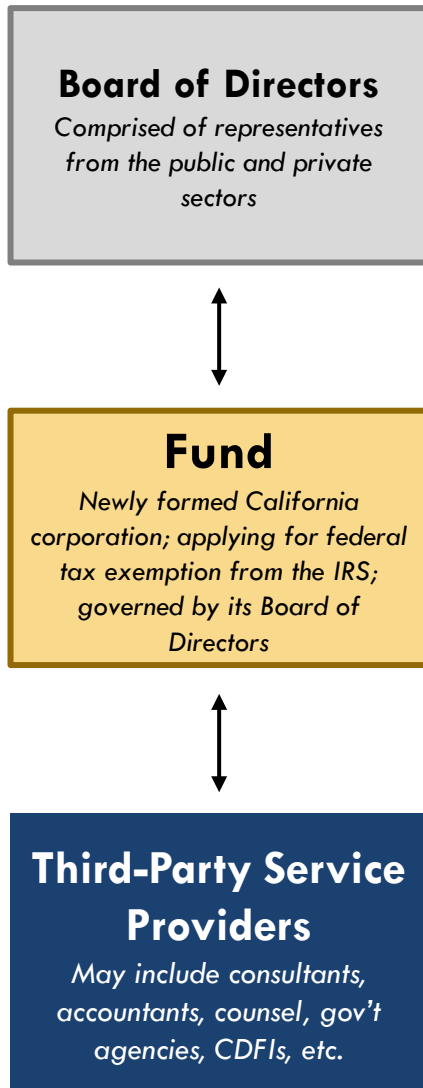
Draft Scenario 1: Use of Interest Revenue for Expenses capped at 50% in Year 1-3, 0% thereafter

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 15</u>	<u>Year 20</u>
Project Interest Earnings	\$38,125	\$479,375	\$92,818	\$26,522
Origination Fees	\$77,500	\$122,500	\$0	\$0
Grants	\$250,000	\$0	\$0	\$0
Reinvestment of Excess Proceeds	\$0	\$13,464	\$38,576	\$83,410
Total Revenue	\$365,625	\$615,339	\$131,393	\$109,931
Revenue available for Expense Coverage	\$346,563	\$375,651	\$38,576	\$83,410
Start Up	\$100,000	\$100,000	\$0	\$0
Fund Management (loan servicing, reporting, underwriting, monitoring)	\$126,000	\$182,120	\$91,584	\$85,946
Third Party Staff/Oversight	\$75,000	\$76,500	\$98,961	\$109,261
Legal, Audit, Insurance, Admin	\$56,000	\$56,720	\$47,501	\$52,445
Total Expenses	\$357,000	\$415,340	\$238,046	\$247,653
Net Income	(\$10,438)	(\$39,689)	(\$199,471)	(\$164,243)
Cumulative Net Income / (Losses) over 20 Years				(\$3,772,330)

**These projections are in draft form and are for discussion purposes only; all assumptions remain subject to change.*

Note: Projections have been escalated annually at a constant rate.

3. Fund Structure | Operational Overview



Board Composition:

- 3 Representatives appointed by the County of Sonoma, the City of Santa Rosa, and the RED Board
- 4 Independent Directors recommended by the RED Board and appointed by counsel
- If desired, non-voting Advisory members from the RED Board
- Only **3 Board members** are required to form the entity; the rest will be added later in the year

Legal Structure:

- Earlier this month RED counsel submitted the Articles of Incorporation, forming the Fund as a California nonprofit public benefit corporation
- The Fund's Board plan to adopt the Bylaws for the Fund's governance, and authorize the submission of the Form 1023 to the IRS, in which the corporation applies for federal tax-exempt status

Operations:

- Initially, the Fund will need to contract with service providers to support in start-up tasks, such as the implementation of loan manual, underwriting guidelines, and lending infrastructure
- On an ongoing basis, the Fund will require third-parties to support in its loan servicing and monitoring, reporting to stakeholders, fiscal operations, and annual audit and tax procedures

3. Fund Structure | Board Responsibilities and Background

The RED Housing Fund's Board will be able to provide input on:

- The adoption and modification of governing documents (Articles of Incorporation, Bylaws, etc.);
- The addition of new Board members;
- The approval of new investments into the Fund and their respective terms;
- Approval of the Fund's annual budget;
- Financial oversight (including the review of interim financials, acceptance of an annual audit, and the filing of the Form 990) and reporting procedures
- Lending/investing decisions (or the delegation of these decisions to a committee of the Board); and
- New products, partnerships, or programs.

As the primary decision makers for the Fund, the Council may want to appoint and/or recommend individuals with backgrounds in:

Housing & Community
Development

Philanthropy

Finance

Advocacy

Nonprofit Law