

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: FRANK KASIMOV, PROGRAM SPECIALIST II
HOUSING AND COMMUNITY SERVICES
SUBJECT: SAGE COMMONS PROJECT BASED VOUCHERS – 6 AND 80
COLLEGE AVENUE

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Housing Authority Ad Hoc Committee and the Housing and Community Services Department that the Housing Authority, by resolution, allocate eight (8) Project Based Vouchers to Santa Rosa College Avenue LP for Sage Commons, located at 6 and 80 College Avenue.

EXECUTIVE SUMMARY

Sage Commons is an approved 54-unit permanent supportive housing facility serving extremely low and very low-income people who are homeless or at risk of homelessness. The project applicant, Danco Communities, has received an allocation of competitive 9% tax credits, as well as other funding commitments. The tax-credit investor's underwriting guidelines dictate that they underwrite the special needs population of Sage Commons to less than the Low-Income Housing Tax Credit rents. The addition of eight Project Based Vouchers ("PBVs") is projected to provide sufficient additional rental income over the 15-year tax credit compliance period.

BACKGROUND

Sage Commons is an approved 54-unit permanent supportive housing facility serving extremely low and very low-income people who are homeless or at risk of homelessness (the "Project"), located at 6 and 80 College Avenue, Santa Rosa, California, 95401, Assessor's Parcel Numbers 010-121-020, 010-121-024 and 010-121-025 (see Attachment 1). The Project is more fully explained in the application (Attachment 2) and the Project Narrative (Attachment 3). Construction is anticipated to begin in April 2020.

Danco Communities is an affordable housing developer which has completed 18 housing developments. The company has two approved projects in Santa Rosa, Sage Commons and Boyd Street Family Apartments ("Boyd"), 46 new multifamily units, located at 811 Boyd Street for which the Housing Authority approved a loan.

For Sage Commons, Danco Communities – on behalf of Santa Rosa College Ave LP – has secured an allocation of 9% tax credits, an award of No Place Like Home capital loan and a Capitalized Operating Subsidy (“COSR”) loan, a first mortgage loan commitment, and a loan from the County of Sonoma’s Partnership HealthPlan of California. These sources match the total development cost of \$22,664,674.

PRIOR HOUSING AUTHORITY REVIEW

On June 17, 2019, the Housing Authority considered six applications, including Sage Commons under a prior name, College Avenue Supportive Housing. The Notice of Funding Availability (“NOFA”) targeted multifamily rental projects with application deadlines by July 2019 for two competitive state funding programs. The Housing Authority supported another project, Dutton Flats, for the competitive 9% tax credit allocation program. Dutton Flats received the 9% tax credits and anticipates starting construction by April 1, 2020.

ANALYSIS

The Project-Based Voucher program is a component of the Housing Choice Voucher program and aims to increase affordable housing opportunities and provide an incentive for owners to develop, maintain and improve affordable housing.

Under the regulations at 24 CFR Part 983, Housing Authorities may select proposals and award PBVs in one of two ways. Housing Authorities may solicit proposals using a Request for Proposals (RFP) and select projects on a competitive basis in response to the RFP, such as the most recent Notice of Funding Availability and PBV RFP that the Housing Authority Issued in August 2019 (the “2019 NOFA”). Housing Authorities may also select proposals that have already been awarded other funding in a federal, state or local government housing assistance program provided the funding process was competitive, did not involve any consideration that the project would receive PBV assistance, and occurred within in three years of the PBV proposal selection date.

Sage Commons, then called College Avenue Homeless Housing Project, successfully competed for 9% tax credits allocated by the California Tax Credit Allocation Committee (“CTCAC”) in the 2019 second round funding awards following the CTCAC meeting of October 16, 2019. The tax credit reservation letter is dated October 23, 2019.

Sage Commons is requesting eight (8) PBVs which is below the standard HUD PBV program cap of 25 PBVs or 25% of the total project units, whichever is greater. This cap, however, does not apply to households that are eligible for services, such as the homeless population to be served at Sage Commons.

Programmatically, HUD PBV rules allow the Housing Authority to use up to 20% of its Housing Choice authorization for PBVs. The Housing Authority may project base an additional 10 percent of the Housing Choice allocation above the 20% limit under certain circumstances, including when the units are made available to house individuals and families who are homeless.

Currently, the Housing Authority has 114 units under PBV Housing Assistance Payments (“HAP”) contracts, 65 units under Agreement to Enter into HAP (“AHAP”) and 29 units in pre-contract stages for a total of 208 Housing Choice Vouchers set aside as PBVs across eight different projects. PBVs represent approximately 11 percent of total Housing Choice Vouchers.

The initial PBV contract is up to 20 years. The Housing Authority may renew the contract up to the length of the initial contract.

Operating expenses for Sage Commons include services amenities and security to serve its population of individuals who are homeless or at risk of homelessness. Tenants may not be able to pay maximum rents at 30% and 40% of Area Median Income. The combination of high operating costs and low rents creates an operating deficit whereby revenues are insufficient to cover costs.

Danco Communities was awarded loans from the California No Place Like Home (“NPLH”) program to help offset the deficit. NPLH invests in development of permanent supportive housing for people who are experiencing homeless, at risk of homelessness or who need mental health services. NPLH funds are used to finance capital costs and may be used to capitalize operating subsidy reserves for assisted units. The COSR loan is sized to support operating costs of 49% of the project’s units. Operating funds will be drawn from the capital reserve for 20 years.

The tax credit investor for Sage Commons is Raymond James Tax Credit Funds, Inc. (“Raymond James”). Raymond James has indicated that it is following NPLH guidelines for maximum rent for 26 units at \$284/month, or 30% of income, which is assumed to be the 2020 Supplemental Social Security Income of \$945 per month for homeless and at-risk individuals. For the other 27 units, Raymond James is seeking internal approval to underwrite rent at 30% of AMI or \$562/month. The underwriting rent is significantly less than the Low-Income Housing Tax Credit rents of \$562 for 30% AMI units and \$756 for 40% AMI units. Raymond James has indicated that the addition of eight Section 8 Project Based Vouchers (“PBVs”) will provide sufficient additional rental income to meet the Project’s expense obligations to the satisfaction of the tax credit investor over the 15-year tax credit compliance period (Attachment 4).

Staff reviewed the project proforma under different scenarios with and without the additional PBVs and with and without reduced underwriting rent assumptions. With reduced underwriting of rents, the proformas show that eight (8) PBVs provide revenue to cover costs through Year 15.

In addition to the proforma submitted by the applicant, and reviewed by staff, and the analysis prepared by the tax credit investor, a subsidy layering review must be prepared by the California Tax Credit Allocation Committee in compliance with HUD Guidelines prior to the Housing Authority entering into an AHAP Contract. The purpose of the subsidy layering review is to ensure that a project does not receive public subsidies in excess of the total amount necessary to construct and/or maintain affordability.

Eight PBVs will help secure housing for people who are homeless or at risk of homelessness by providing additional revenue to cover necessary Project operational costs.

FISCAL IMPACT

The eight PBVs are currently budgeted and available.

ENVIRONMENTAL IMPACT

The Zoning Administrator approved Resolution No. CUP19-062 on June 20, 2019 and DR19-038, determining that the Project qualifies for exemption under California Environmental Quality Act (“CEQA”) Guidelines Section 15182, and California Government Code Section 65457, which apply to residential projects where a public agency has prepared an environmental impact report on a specific plan in which the density, design and infrastructure of the project is consistent with the adopted specific plan. In addition, Resolution No. CUP19-062 determines that the Project qualifies for a Class 32 exemption under CEQA Guidelines Section 15332 (In-fill Development Projects).

An environmental analysis pursuant to the National Environmental Policy Act must be completed and approved prior to the Housing Authority entering into an AHAP Contract.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The Ad Hoc Committee that was convened to review requests for funding and PBVs under the 2019 NOFA and staff met on February 13, 2020, to review the request and recommend that the Housing Authority allocate eight PBVs for the Project.

The Zoning Administrator approved Resolution No. CUP19-062 on June 20, 2019 approving the project with a supplemental density bonus of 80%. On June 27, 2019, the Zoning Administrator approved Resolution No. DR19-038 approving a design review application and supplemental density bonus of 80%.

NOTIFICATION

The Applicant was notified of the meeting.

ATTACHMENTS

- Attachment 1 – Locational Graphic
- Attachment 2 – Application
- Attachment 3 – Project Narrative
- Attachment 2 – Tax Investor Letter
- Resolution/Exhibit A (Agreement)

CONTACT

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