

CITY OF SANTA ROSA
HOUSING AUTHORITY

TO: HOUSING AUTHORITY COMMISSIONERS
FROM: FRANK KASIMOV, PROGRAM SPECIALIST II
HOUSING AND COMMUNITY SERVICES
SUBJECT: 2019-2020 HOUSING AUTHORITY LOAN AND PROJECT BASED
VOUCHER NOTICE OF FUNDING AVAILABILITY ADDITIONAL
FUNDING RECOMMENDATIONS

AGENDA ACTION: RESOLUTIONS

RECOMMENDATION

It is recommended by the Housing Authority Ad Hoc Committee and the Housing and Community Services Department that the Housing Authority, by resolution, approve 1) a loan commitment of local funds to Santa Rosa Cannery, LLC, in the amount of \$450,000 for predevelopment costs for Cannery at Railroad Square, 114 multifamily units located at 3 West 3rd Street and 60 West 6th Street; and 2) a conditional loan commitment of Community Development Block Grant funds to PEP Housing in the amount of \$690,000 for acquisition of property for Linda Tunis Senior Apartments, 26 senior units located at 600 Acacia Lane.

EXECUTIVE SUMMARY

The Housing Authority issued the 2019-2020 Notice of Funding Availability (“NOFA”) announcing the availability of \$2,479,000 of local and federal funds and 75 Section 8 Project Based Vouchers (“PBVs”) for affordable housing. In response to the NOFA, issued August 6, 2019, the Housing Authority received 11 project applications and one application from a Community Housing Development Organization (“CHDO”) for operational funds. The requests total \$13,077,050, more than five times the available funding. In addition, there are requests for 128 PBVs, 53 more than available.

Based upon the NOFA selection criteria and the federal funding program criteria, three applications received funding by the Housing Authority on December 16, 2019, five projects were set aside for further review and consideration at the Housing Authority’s January 2020 meeting, and four projects were dismissed from further consideration.

The NOFA Ad Hoc Committee and staff recommend funding two of the five projects that received further evaluation. The recommendations are based upon the NOFA selection criteria and the restrictions, eligibility, procedures and rules of the federal funding sources. The recommendations include:

- 1) ***Cannery at Railroad Square***, 114 multifamily units, located at 3 West 3rd Street and 60 West 6th Street, \$450,000 of local funds for predevelopment costs; and

2) ***Linda Tunis Senior Apartments***, 26 senior units, located at 600 Acacia Lane, \$690,000 of Community Development Block Grant (“CDBG”) funds for acquisition of an existing building formerly used for non-residential purposes to be renovated into senior apartments.

BACKGROUND

The NOFA (see Attachment 1), issued August 6, 2019, announced the availability of \$2,479,000 of local and federal funds as follows:

Funding Source	Amount
Community Development Block Grant (“CDBG”)	\$1,100,000
HOME Investment Partnerships Program (“HOME”)	\$589,000
HOME CHDO	\$100,000
Local funds	\$690,000
TOTAL	\$2,479,000

The Housing Authority chair appointed commissioners Owen and Test to a NOFA Ad Hoc Committee. The Committee and staff reviewed the applications on November 21, 2019, and January 16, 2020, to make recommendations to the Housing Authority.

ANALYSIS

Twelve applications were submitted seeking \$13,077,050, more than five times the available funding. In addition, the applications requested 128 PBVs, 53 more than available. The combined loans from the December 16, 2019, meeting plus the recommendations set forth herein total \$1,406,490 and 8 Project Based Vouchers, leaving \$1,072,510 and 67 PBVs for allocation in a future NOFA. Funds remain because projects do not meet federal requirements.

Federal funding sources and PBVs have restrictions, program rules, deadlines for use of funds and eligibility requirements. For example:

- CDBG and HOME have time constraints for expenditure of the funds;
- HOME funds must be the last funds firmly committed to fill a remaining funding gap and construction must start within 12 months;
- CDBG funds cannot be used for new residential construction;
- CDBG, HOME and PBVs trigger federal environmental review (in addition to state environmental review);
- CDBG, HOME and PBVs may trigger Davis Bacon prevailing wages and associated labor monitoring;
- PBVs are limited by program (i.e., citywide) and by project, with certain exceptions;
- HOME rules require that at least 15% of the local jurisdiction’s HOME allocation be set aside for CHDO affordable housing activities, which follow the same HOME rules as non-CHDO funds with some exceptions; and
- HOME rules also allow limited funds to be used for special assistance to CHDOs.

As set forth in the NOFA, evaluation criteria include project readiness; financial feasibility of the project; qualifications, capability and expertise of the development team to finance, design, build/rehabilitate and manage affordable housing; affordability levels; number of units; unit mix (number of bedrooms); any information requested in the Loan Application; Housing Authority

policies; and preferences; and completeness, accuracy, and quality of the proposal/application. The Housing Authority reserves the right to weigh certain selection criteria over others.

Eligible projects include land acquisition, predevelopment, new construction, rehabilitation (with or without acquisition), conversion from market rate, or preservation for extremely low, very low and low-income households. Funds may be used for rental and/or ownership projects. Mixed-use projects (containing both residential and nonresidential space) are eligible, however, the non-residential component of the project must be self-supporting.

Based upon the selection criteria and the federal funding program criteria, three applications received funding by the Housing Authority on December 16, 2019, five projects were set aside for further review and consideration by the Housing Authority at this meeting, and four projects were dismissed from further consideration.

Projects Recommended for Funding

On January 16, 2019, the Ad Hoc Committee and the Department of Housing and Community Services reviewed the five projects that received further evaluation and recommend funding for two projects, as follows:

Funding Recommendations Following Further Review

Project Name	Applicant	Location / Quadrant	Number of Units	Funding Requested / Recommended
Cannery at Railroad Square	Santa Rosa Cannery, LLC	3 West 3rd St and 60 West 6th St / NW	114	\$2,379,000 / \$450,000
Linda Tunis Senior Apartments	PEP Housing	600 Acacia Lane / NE	26	\$690,000 / \$690,000

Cannery at Railroad Square – 3 West 3rd Street and 60 West 6th Street

Cannery at Railroad Square, located at 3 West 3rd Street and 60 West 6th Street (see **Attachment 2**), is new construction of 114 multifamily units targeted to households with incomes ranging from 30% - 80 % of Area Median Income (“AMI”) in studio, 1-bedroom and 2-bedroom units.

The John Stewart Company, the project sponsor, is experienced in development and property management of affordable and market rate housing in the Bay Area and Los Angeles. Since 1978, the John Stewart Company has developed in excess of 45 projects with over 5,500 units, most of which are affordable, and manages over 400 properties containing approximately 35,000 units, most of which are affordable.

The applicant requested \$2,379,000 in local and federal funds and 57 Project Based Vouchers (See **Attachment 3**). The applicant submitted a revised request in the amount of \$450,000 – based upon available funds – for predevelopment costs to prepare a detailed application submittal to the Planning and Economic Development Department (See **Attachment 4**). The project is not eligible for federal funding at this time because HOME funds need to be the last money in the project budget and CDBG funds spent in a timely manner. Approximately \$450,000 of local funds are available.

The Ad Hoc Committee and staff recommend funding in the amount of \$450,000 to be used for predevelopment costs, such as architecture, engineering and environmental studies

As shown in **Attachment 5**, benefits of Cannery at Railroad Square include:

- The development is a catalyst Project in Railroad Square;
- The project is located within the Downtown Station Area Specific Plan Area, a Priority Development Area, close to SMART, bus, pedestrian/bicycle paths, offices, retail, services, restaurants, and entertainment;
- The funds can be used for predevelopment costs in the next six months;
- The project preserves historic resources of cannery walls and water tank tower;
- Prior environmental contamination has been remediated;
- The high-density development at 54 units per acre is appropriate for the location;
- The applicant owns the property;

Development of the Cannery at Railroad Square is consistent with General Plan affordable housing policies and, therefore, public objectives to meet community needs with housing for low-income households, for example, Policy H-C-4, H-C-5, H-C-6, H-C-8, H-C-10, and H-C-15 (see **Attachment 9**).

A project concern is that the project is in an early stage of development with most of the funding not yet committed and construction estimated to start in 2021 and completion expected in 2023.

Loan Terms.

- Loan amount: \$450,000
- Security: Secured by a deed of trust recorded against the property
- Interest: three percent (3%) simple per annum commencing with the recordation of the deed of trust.
- Loan Term: The predevelopment loan term is five (5) years from recordation of the deed of trust, unless this term is extended by the Executive Director, which extension shall be tied to milestones leading to issuance of building permits and construction of the project. The initial loan term, including extensions, if any, (the "Initial Loan Term") shall automatically be extended to a total loan term of fifty-five (55) years ("Full Loan Term") if during the Initial Loan Term, the City of Santa Rosa has issued building permits for construction of the entire project.
- Payments: (1) Initial Loan Term: If the loan becomes due and payable during the Initial Loan Term, the principal and interest shall be paid in full in equal yearly installments within five (5) years of the due date with no prepayment penalty; (2) Full Loan Term: If the loan is extended to fifty-five (55) years, payments of principal and interest are deferred until the loan is due with payments based on residual receipts.
- Term of Affordability: The Project shall remain affordable for fifty-five (55) years, governed by a Regulatory Agreement recorded against the property. If the loan becomes due and payable during the Initial Loan Term, the Regulatory Agreement will be released following repayment of the loan principal and interest.

Linda Tunis Senior Apartments

Linda Tunis Senior Apartments, located at 600 Acacia Lane (see **Attachment 6**), is rehabilitation and conversion of an existing structure (formerly the Scottish Rite Center) into 26 senior studio apartments targeting households with incomes up to 50% AMI.

PEP Housing, the applicant, owns and operates Acacia Lane Senior Apartments, a 44-unit development on the property adjacent to Linda Tunis Senior Apartments, and approximately 16 more communities in northern California, many of which are in Petaluma.

The applicant requested funding in the amount of \$690,000 and eight PBVs to support the Project. The Ad Hoc Committee and the staff recommend that the Housing Authority approve a conditional funding commitment of \$690,000 CDBG funds for acquisition and eight PBVs (see **Attachment 7**).

PEP Housing has acquired the property from its former owner for a purchase price of \$3,000,000 in exchange for seller takeback financing in the amount of \$1,000,000. The acquisition includes two existing buildings. Linda Tunis Senior Apartments will be located in the larger structure. The smaller building will be used as PEP Housing's administrative offices. The CDBG funds will be used to partially pay down the seller takeback note for the larger structure in an amount not to exceed \$690,000. The square footage of the larger structure is approximately 82% total area of both buildings.

As shown in **Attachment 8**, benefits of Linda Tunis Senior Apartments include:

- 8-month construction period starting July 2020, pending the applicant securing all necessary funding; Demo in Feb. 2020;
- Building permits are under review;
- Located in the City's northeast quadrant;
- The applicant owns the property with \$1,000,000 seller takeback note;
- Fundraising includes grants from foundations and banks;
- Residents will have access to the dining hall/event space at the site and full access to community spaces and amenities at Acacia Lane Senior Apartments, which is on the adjacent parcel to the north.

Development of Linda Tunis Senior Apartments is consistent with General Plan affordable housing policies and, therefore, public objectives to meet community needs with housing for low-income households, for example Policies H-C-4, H-C-5, H-C-8, H-C-10 and H-C-15 (see **Attachment 9**).

A project concern is that the project has a temporary, 5-year approval for housing. The applicant is expected to submit applications for a use permit and density bonus to gain permanent entitlements for 26 senior apartments. The loan will be conditional upon obtaining permanent land use approval and completion of environmental review pursuant to the National Environmental Policy Act.

Loan Terms. The loan amount is \$690,000 for a fifty-five (55) year term, secured by a deed of trust recorded against the property, at three percent (3%) simple interest per annum with payments deferred for the loan term and payments based on residual receipts. Interest shall commence with the recordation of the deed of trust. The Project shall remain affordable for fifty-five (55) years, governed by a Regulatory Agreement recorded against the property.

Projects not Recommended for Funding

Three projects that were evaluated further are not recommended for funding or Project Based Vouchers, as follows:

Projects Not Recommended for Funding Following Further Review

Project Name	Applicant	Location / Quadrant	Number of Units	Amount Requested
Del Nido Apartments	Eden Development Inc.	850 Russell Ave / NW	206	\$1,000,000
Boyd Street Family Apartments	Danco Communities	811 Boyd Street / SW	46	\$2,479,000
Hearn Veterans Village Phase 2	Community Housing Sonoma County	2149 West Hearn Ave / SW	24	\$845,560

Del Nido Apartments

Del Nido Apartments does not meet the project readiness selection criterion nor Federal funding restrictions, program rules, and deadlines. The project involves resyndication to apply for additional tax credits and rehabilitation. Under current projections, project construction would not start until 2022. HOME funds are not eligible, as they need to be the last funds in the project, and CDBG has timeliness requirements that will not be achieved with the proposed schedule. As an alternative strategy, staff asked Eden Development Company to identify a rehabilitation project that could be completed within a shorter time period in advance of resyndication. The applicant carefully reviewed options and later informed staff that a rehabilitation project in advance of resyndication could impact the long-term, resyndication strategy. Therefore, due to readiness, the Ad Hoc Committee and staff do not recommend funding for Del Nido Apartments.

Boyd Street Family Apartments

The Housing Authority supported Boyd Street Family Apartments in a prior NOFA with a loan commitment in the amount of \$200,000. Danco Communities, the project sponsor, has submitted applications to the California Tax Credit Allocation Committee and the California Debt Limit Allocation Committee (“CDLAC”) for tax credits and tax-exempt bonds, respectively, and to the City of Santa Rosa for a tax-exempt bond public hearing, which was held on January 14, 2020. CDLAC staff is recommending approval of the bonds. The proformas in the applications show confirmed funding sources that match project costs. Therefore, the Ad Hoc Committee and do not recommend additional Housing Authority funding for Boyd Street Family Apartments.

Hearn Veterans Village Phase 2

The Housing Authority approved a loan commitment in February, 2019, for Hearn Veterans Village Phase 2 in the amount of \$285,000 for predevelopment costs, in part with HOME CHDO funds. HOME rules allow a jurisdiction to utilize a portion of its HOME allocation for

predevelopment costs of a CHDO, and this limit has been met. The project is not eligible for other HOME funds at this time. Further evaluation would be needed to determine if the project's infrastructure, or public facilities would be eligible CDBG activities; regardless, it is not likely that an infrastructure project could be completed to meet CDBG timeliness requirements. Therefore, due to federal funding rules and constraints, the Ad Hoc Committee and Staff do not recommend funds for the project at this time.

PRIOR HOUSING AUTHORITY REVIEW

Under this NOFA, the Housing Authority approved the following on December 16, 2019:

- 1) Adopted Resolution No. 1677 approving a Further Advance of loan funds to Community Action Partnership of Sonoma County ("CAPSC") for rehabilitation of 400 Earle Street in the amount of \$129,778 and extend the existing loan term to start a new 55-year term;
- 2) Adopted Resolution No. 1678 approving 2) a Further Advance of loan funds to CAPSC for rehabilitation of 2602 Giffen Avenue in the amount of \$103,712 and extend the existing loan term to start a new 55-year term; and
- 3) Adopted Resolution No. 1676 approving a conditional grant of HOME Investment Partnerships Program funds to Community Housing Sonoma County ("CHSC") for CHDO operational funds in the amount of \$33,000 to support CHSC's Hearn Veteran's Village Phase 2 project.

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. An Article 34 allocation must be made for 113 units for Cannery at Railroad Square and 25 units for Linda Tunis Senior Apartments.

FISCAL IMPACT

The funds are included in the Housing Authority's 2019-2020 budget.

ENVIRONMENTAL IMPACT

Cannery at Railroad Square. This action is exempt from the California Environmental Quality Act ("CEQA") because the activities to be undertaken with the proceeds of the Housing Authority loan are predevelopment activities, such as architecture, engineering, landscape architecture, and environmental studies that will ultimately enable the borrower to apply to the City of Santa Rosa for entitlements. The Housing Authority loan is not a commitment by the City of Santa Rosa to approve the project; and the loan is due and payable on its terms whether or not the City of Santa Rosa approves the project. As a result, the predevelopment activities are not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guideline section 15378. Similarly, pursuant to CEQA Guidelines Section 15061(b)(3), the activity is covered by the general rule that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty

that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA.

Linda Tunis Senior Apartments. A 5-year temporary use permit was granted pursuant to CEQA Guidelines Section 15061(b)(3): the activity is covered by the common-sense exemption that CEQA applies only to projects which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. For the future use permit and density bonus to establish permanent entitlement for 26 units on the site, staff of the Planning and Economic Development Department have indicated that the project will qualify for a Class 32 exemption from CEQA pursuant to CEQA Guidelines Section 15332, In-Fill Development Projects.

COUNCIL/BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The Housing Authority chair appointed commissioners Test and Owner to a NOFA Ad Hoc Committee. The Committee and staff reviewed the applications on November 21, 2019, and January 16, 2020, to make funding recommendations to the Housing Authority.

NOTIFICATION

Notification of this meeting was sent to each of the applicants.

ATTACHMENTS

- Attachment 1 – Notice of Funding and PBV Availability
- Attachment 2 – Cannery at Railroad Square Locational Graphic
- Attachment 3 – Cannery at Railroad Square Loan Application
- Attachment 4 – Cannery at Railroad Square Limited Predevelopment Budget
- Attachment 5 – Cannery at Railroad Square Project Summary
- Attachment 6 – Linda Tunis Senior Apartments Locational Graphic
- Attachment 7 – Linda Tunis Senior Apartments Loan Application
- Attachment 8 – Linda Tunis Senior Apartments Project Summary
- Attachment 9 – General Plan Housing Policies
- Resolution Cannery at Railroad Square
- Resolution Linda Tunis Senior Apartments

CONTACT

Frank Kasimov, fkasimov@srcity.org (707) 543-3465.