

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
RECOMMENDATIONS – LINDA TUNIS SENIOR APARTMENTS,
600 ACACIA LANE

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, approve a loan of Community Development Block Grant funds in the amount of \$690,000 and an allocation of eight (8) Project Based Vouchers to Caulfield Lane Senior Housing, Inc. 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 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.

On December 16, 2019, the Housing Authority committed funding to three applications. 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. At the January 2020 meeting, the Housing Authority approved a commitment of loan funds to one project and continued consideration of Linda Tunis Senior Apartments to the February meeting.

The NOFA Ad Hoc Committee and staff recommend a loan of Community Development Block Grant (“CDBG”) funds in the amount of \$690,000 and eight (8) PBVs for Linda Tunis Senior Apartments. The recommendations are based upon the NOFA selection criteria and the restrictions, eligibility, procedures and rules of the federal funding

sources. The project includes acquisition of an existing commercial building on an approximately 1.27-acre parcel which will be converted into 26 affordable senior studio apartments with major rehabilitation.

BACKGROUND

The NOFA (see Attachment 1) was issued August 6, 2019, announcing 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, January 16, 2020, and February 13, 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, and January 27, 2020, Housing Authority meetings 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 program requirements.

Federal funding sources and PBVs program requirements include 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 affordable housing activities of a Community Housing

Development Organization (“CHDO”), 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.

Prior Funding Commitments

Based upon the selection criteria and the federal funding program criteria, three applications received funding commitments 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. One project received a commitment of loan funds on January 27, 2020. See Prior Housing Authority Review below for additional details. The Ad Hoc Committee and staff also recommended funding for Linda Tunis Senior Apartments, but consideration of the project was continued to the February 2020 meeting pending confirmation with the U.S. Department of Housing and Urban Development (“HUD”) that the proposed acquisition is an eligible use of CDBG funds.

Linda Tunis Senior Apartments

Linda Tunis Senior Apartments, located at 600 Acacia Lane (see **Attachment 2**), is rehabilitation and conversion of an existing structure (formerly the Scottish Rite Masonic Center) into 26 senior studio apartments targeting households with incomes up to 50% AMI.

PEP Housing, the applicant, owns and operates approximately 17 affordable communities in northern California, many of which are in Petaluma. One property is Acacia Lane Senior Apartments, a 44-unit development located adjacent to Linda Tunis Senior Apartments.

Residents of Linda Tunis Senior Apartments will have access to a large dining room/event space, patio, gardens, dog run and kitchen at the property, as well as amenities at the adjacent Acacia Lane Senior Apartments, including the community room, kitchen, patio and gardens and exercise equipment.

The applicant requested funding in the amount of \$690,000 and eight PBVs to support the Project (see **Attachment 3**) and submitted a letter dated February 6, 2020, amending the application for the legal name of the borrower to be used in loan documents from Petaluma Ecumenical Properties to Caulfield Lane Senior Housing, Inc. (“CLSHI”), a non-profit public benefit corporation (see **Attachment 4**).

PEP Housing acquired an approximately 2.82-acre property improved with two structures for a purchase price of \$3,000,000 in exchange for seller takeback financing in the amount of \$1,000,000. The grant deed recorded on August 15, 2019. PEP Housing will split the existing lot into two parcels. One parcel will be an approximately 1.55 acres with an existing 4,400 square foot structure for PEP Housing administrative offices and other future uses. The other parcel will be approximately 1.27 acres with an existing 20,380 square foot commercial building that will be converted to 26 studio apartments, 25 of which will be for seniors with household incomes up to 50% Area Median Income and one non-restricted resident manager unit (the “Affordable Housing Parcel”).

Petaluma Ecumenical Properties, the owner of record, will sell the Affordable Housing Parcel to its affiliate Caulfield Lane Senior Housing, Inc. (“CLSHI”) concurrent with the closing of the CDBG loan and other funding.

The eight (8) PBVs requested by the applicant will increase rent revenues and support a larger first mortgage loan and help finance the project.

Benefits of Linda Tunis Senior Apartments include (see also **Attachment 5**):

- Conversion of an existing non-residential structure to 26 affordable senior studio apartments.
- Building permits are under review.
- 8-12 month construction period starting July 2020, pending the applicant securing all necessary funding. Interior demolition is scheduled to begin in May 2020.
- Located in the City's northeast quadrant.
- The applicant has obtained grants from foundations and banks.
- Residents will have access to the dining hall/event space, patio, gardens, dog run and kitchen at the site and full access to community spaces and amenities at Acacia Lane Senior Apartments, including the community room, kitchen, patio and gardens and exercise equipment.

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 6**).

A 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 Ad Hoc Committee and the staff recommend that the Housing Authority approve an allocation of eight PBVs and a funding commitment of \$690,000 CDBG funds, subject to completion of environmental review pursuant to the National Environmental Policy Act ("NEPA") and to approval by the City of Santa Rosa of permanent entitlements for the project.

Loan Terms.

- Loan Amount: \$690,000.
- Loan Term: Fifty-five (55) years.
- Security: The Loan shall be evidenced by a promissory note secured by a deed of trust and assignment of rents, (including a Rider to the Deed of Trust), which shall be a lien upon the Project.
- Interest Rate: The Loan shall accrue simple interest at a rate of three percent (3%) per annum, simple interest which will accrue as of the date of recordation of the Deed of Trust.
- Payments: Payments of principal and interest will be deferred until such time as net operating income and debt service on all senior loans can be met and additional cash flow is available to make payments; no prepayment penalty.
- Term of Affordability: The Project shall remain affordable for fifty-five (55) years, governed by a Regulatory Agreement recorded against the Property.
- Subordination: The Housing Authority agrees to subordinate its loans to senior financing in a form approved by Housing Authority General Counsel, if required by other lenders.

Project Based Vouchers

The Project-Based Voucher program is a component of the Housing Choice Voucher program of the U.S. Housing and Urban Development Department ("HUD") and aims to increase affordable housing opportunities and provide an incentive for owners to develop, maintain and improve affordable housing. As stated in the NOFA, PBVs are intended to increase the amount of serviceable debt a project can carry, thereby reducing the amount of funds needed from the Housing Authority, and to make the project more competitive for other funding. The NOFA Selection Criteria apply to PBVs as well as funding.

The following projects requested PBVs under this NOFA:

Project Name	Applicant	Location / Quadrant	Number of Units	PBVs Requested
Linda Tunis Sr. Apts.	PEP Housing	600 Acacia Lane / NE	26	8
Del Nido Apartments	Eden Development Inc.	850 Russell Ave / NW	206	8
Cannery at Railroad Square	Santa Rosa Cannery, LLC	3 West 3rd St and 60 West 6th St / NW	114	57
Caritas Homes Phase 1	Burbank Housing Development Corp.	A Street and 7th Street / NE	64	33
Crossings on Middle Rincon	A0711 Santa Rosa, L.P. (UHC)	77 Middle Rincon Rd. 4801, 4847 Sonoma Hwy / NE	89	22
TOTAL			499	128

Linda Tunis Senior Apartments is the only project recommended to receive an allocation of PBVs under this NOFA. The remaining projects that requested PBVs were not recommended for consideration by the NOFA Ad Hoc Committee and staff because of the duration of time before they are proposed to be used.

PEP Housing is requesting eight (8) PBVs which is below the standard HUD PBV program cap of 25 or 25% of the total project units, whichever is greater. This cap, however, does not apply to households that elderly (defined as age 62 or older) or are eligible for services.

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 if the units provide supportive housing to people with disabilities or elderly persons.

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. The allocation of eight (8) PBVs will be governed by a HAP Contract, subject to the following:

- a. Completion and approval of environmental review pursuant to the National Environmental Policy Act; and

- b. Completion of a Subsidy Layering Review by the California Tax Credit Allocation Committee in compliance with HUD Guidelines.

The Project proforma shows that the additional rent provided by eight (8) PBVs provides approximately 2/3 of the annual debt service for a \$1 million loan.

In addition to the proforma submitted by the applicant and reviewed by staff, 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 Agreement to Enter into a Housing Assistance Payments (“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.

The loan funds and the PBVs will provide financial assistance to the Project that will provide affordable housing for very low-income seniors.

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.

On January 27, 2020, the Housing Authority adopted Resolution No. 1681 approving s commitment of loan funds in the amount of \$450,000 to Santa Rosa Cannery, LLC, for Cannery at Railroad Square, 3 West 3rd Street.

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. Pursuant to Article 34, the Housing Authority must approve an allocation of 25 units for Linda Tunis Senior Apartments.

FISCAL IMPACT

The funds are included in the Housing Authority's 2019-2020 budget and the vouchers are available for use in the project.

ENVIRONMENTAL IMPACT

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.

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 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, January 16, 2020, and February 13, 2020, to make funding recommendations to the Housing Authority.

NOTIFICATION

Notification of this meeting was sent to the applicant.

ATTACHMENTS

- Attachment 1 – Notice of Funding and PBV Availability
- Attachment 2 – Linda Tunis Senior Apartments Locational Graphic
- Attachment 3 – Linda Tunis Senior Apartments Loan Application
- Attachment 4 – Linda Tunis Senior Apartments Amending Application Legal Name of Borrower
- Attachment 5 – Linda Tunis Senior Apartments Project Summary
- Attachment 6 – General Plan Housing Policies
- Resolution Linda Tunis Senior Apartments

CONTACT

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