

HOUSING INVESTMENT OPPORTUNITIES FOR PG&E SETTLEMENT FUNDS

STUDY SESSION

CITY COUNCIL
DECEMBER 8, 2020



Clare Hartman
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STUDY
SESSION
POLICY
QUESTIONS:

- SHOULD THE CITY INVEST PG&E SETTLEMENT FUNDS INTO HOUSING?
- THROUGH A REGIONAL JOINT POWERS AUTHORITY – THE RED HOUSING FUND?
- THROUGH THE CITY’S HOUSING AUTHORITY?

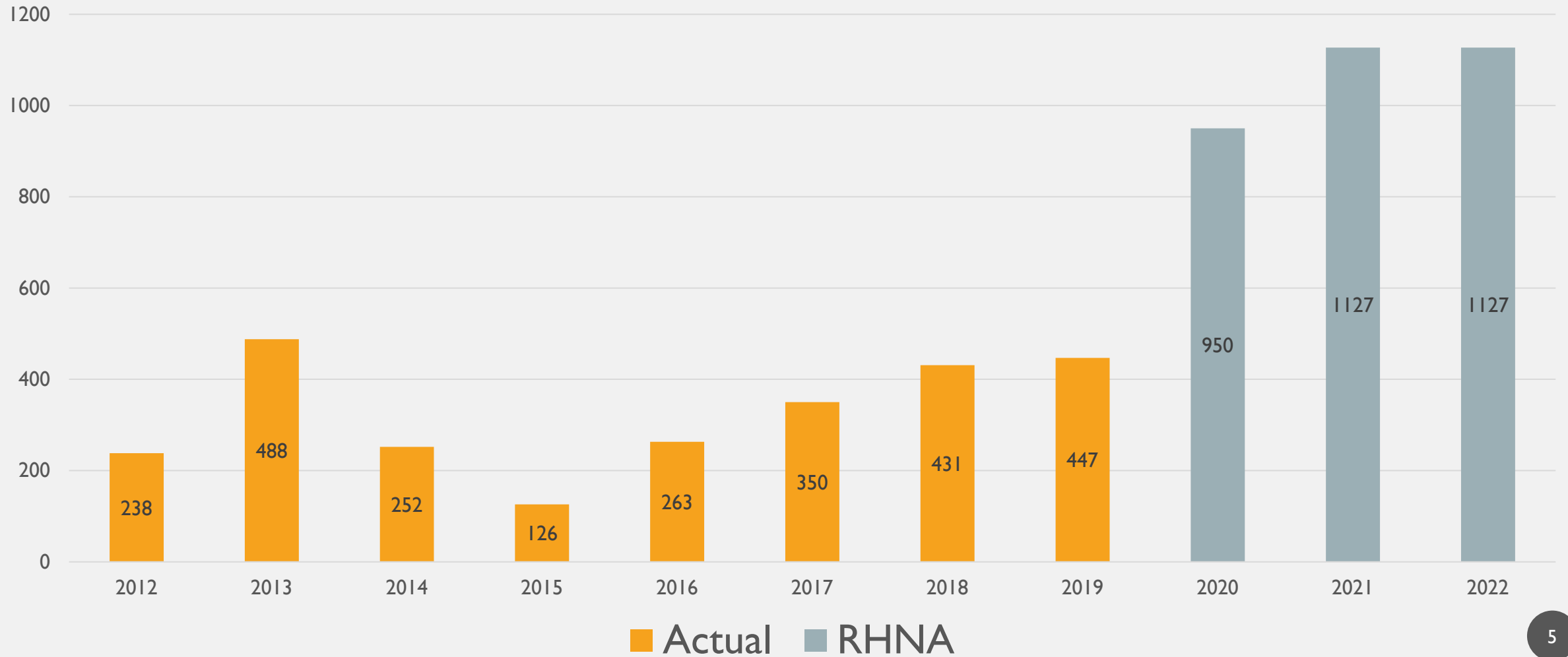
PRESENTATION OUTLINE

- Clare Hartman – Introduction
- Michelle Whitman – Renewal Enterprise District (RED)
- Forsyth Street – RED Housing Fund
- Dave Gouin – City Housing Authority
- Clare Hartman – Wrap up & Questions

BACKGROUND

- City Council Priorities - Housing & Affordable Housing
- Renewal Enterprise District (RED)
- PG&E Settlement Funds – Community Outreach
- Sonoma County Board of Supervisors \$10M investment into the RED Housing Fund – contingent on City match
- City Housing Authority Letter of Interest

HOUSING PROGRESS



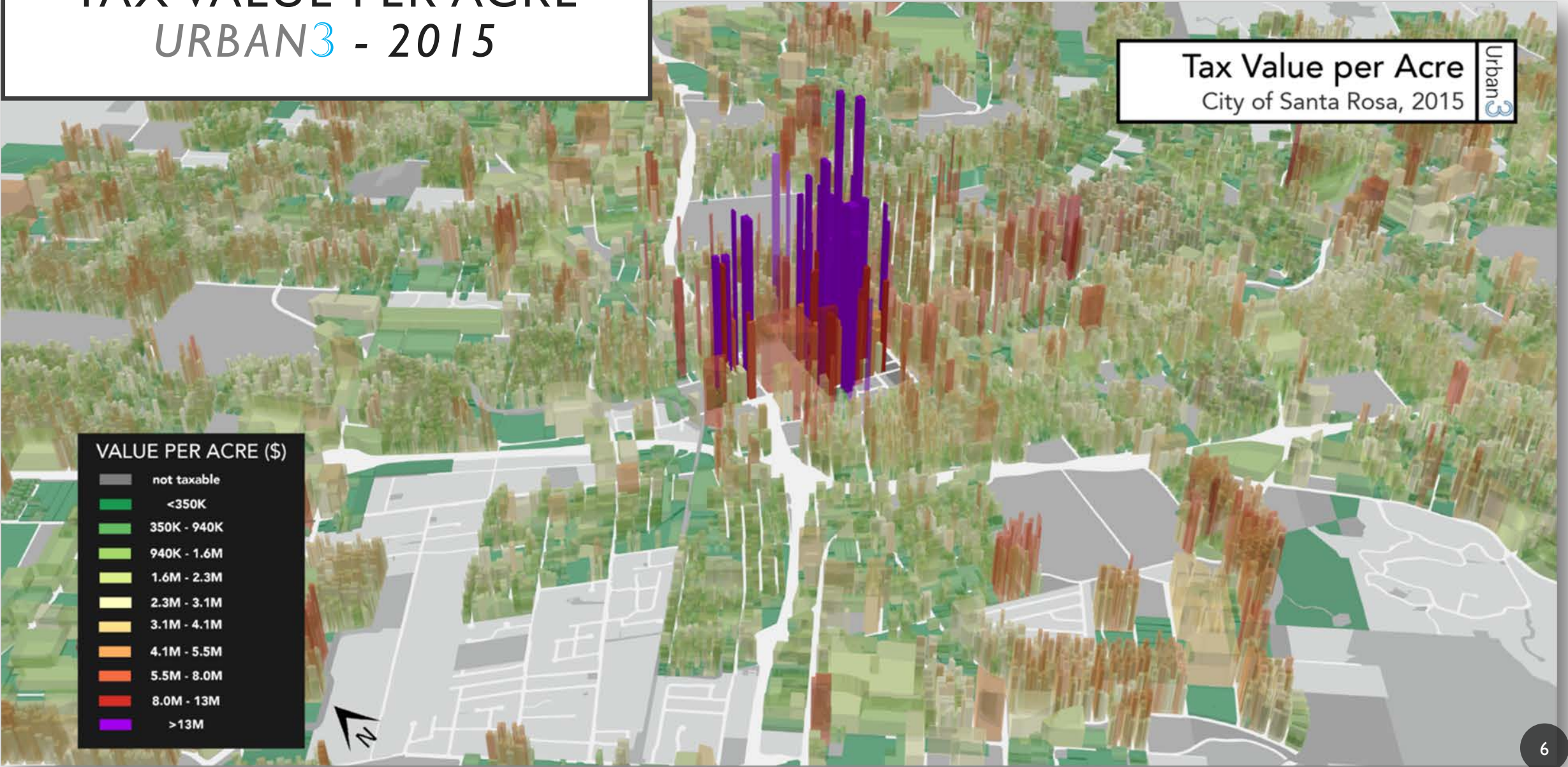
TAX VALUE PER ACRE *URBAN3* - 2015

Tax Value per Acre
City of Santa Rosa, 2015



VALUE PER ACRE (\$)

Grey	not taxable
Light Green	<350K
Medium Green	350K - 940K
Bright Green	940K - 1.6M
Yellow-Green	1.6M - 2.3M
Yellow	2.3M - 3.1M
Orange-Yellow	3.1M - 4.1M
Orange	4.1M - 5.5M
Red-Orange	5.5M - 8.0M
Red	8.0M - 13M
Purple	>13M





Renewal Enterprise District (RED)

County of Sonoma | City of Santa Rosa

Renewal Enterprise District: Housing Fund Overview

Michelle Whitman
Executive Director
Renewal Enterprise District
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FORSYTH STREET



Renewal Enterprise District (RED)

County of Sonoma | City of Santa Rosa

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



What is the Renewal Enterprise District?

- A first of its kind, Joint Powers Authority (a partnership) formed by County of Sonoma and City of Santa Rosa to:
 - ✓ Align local government efforts to accelerate production of infill, mid-to-high density housing near transit, jobs, amenities, opportunities and services
 - ✓ Pair private financing with public funds to shorten housing development timelines
 - ✓ Use funds to rapidly meet local, regional, state, and national climate, equity and “smart growth” housing goals



How Do We Catalyze Smart Growth?

The RED is pursuing the opportunity to create a Housing Fund that:



- Blends private financing and public funds to launch affordable, middle - income and market rate housing developments



- Leverages state and federal grants and finance tools



- Creates housing that realizes policy goals for increased density, access to transit, protection of open space and community separators; improved energy efficiency, climate resilience, and affordability; and to advance and ensure equitable access to housing



Renewal Enterprise District (RED)

County of Sonoma | City of Santa Rosa

Creating the RED Housing Fund



Capitalization



Legal Structure



Governance, Management and Operations

RED HOUSING FUND: OVERVIEW

Presentation for the City Council of Santa Rosa

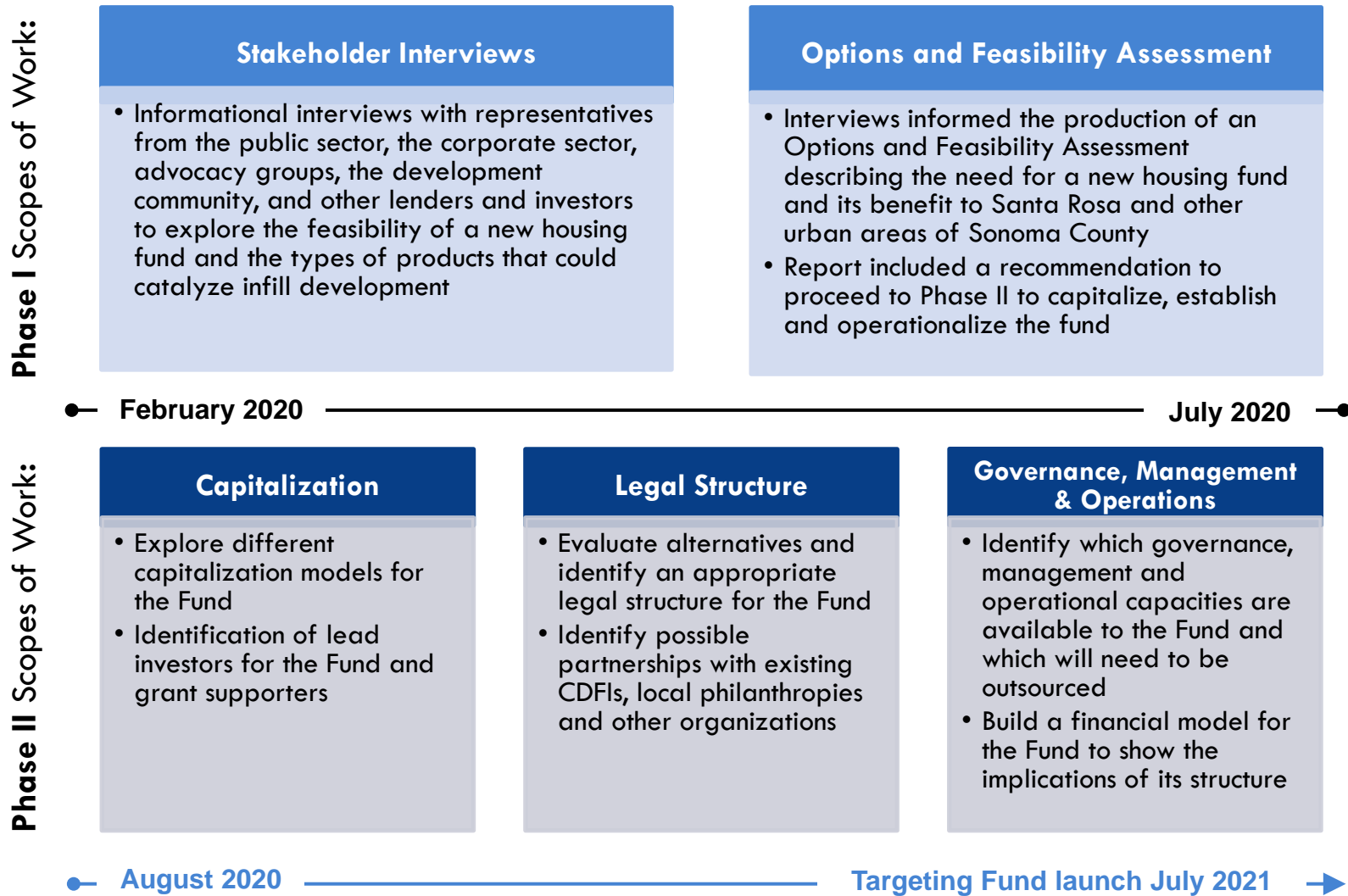
December 8, 2020



Agenda

- 1. Project Dynamics**
- 2. Capital Raising**
- 3. Fund Formation**
- 4. Conclusion**

1. Project Dynamics | Project Workplan



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. Capital Raising | Terms for Public Investment

The RED is requesting loans from the public sector to seed the balance sheet of the Fund. Ideally, this **capital will be as flexible as possible**, allowing the Fund to deliver flexible and low-cost investment products to infill housing projects and to accommodate higher-cost investments from philanthropic and private sources.

Borrower:	Public capital will be loaned to the Fund.
Lender:	The City of Santa Rosa and Sonoma County.
Principal Amount:	Targeting \$10M from both the City and County, for a total of \$20M.
Geographic Considerations:	The Fund will support a range of projects around the County that also meet the RED Project Criteria (located in an infill site, mid- to high-density, be either residential or mixed-use, and within a transit-rich planned area). Loan proceeds from specific loans may be further restricted to certain geographies (e.g., City of Santa Rosa funds used for projects within Santa Rosa).
Use of Proceeds	To offer its investment products (described earlier in this presentation) to developers.
Term, Interest, Amortization Period:	20 years with an option to extend; 0% interest, non-amortizing, with all principal due at maturity.
Subordination:	Subordinated to all other capital the Fund raises from private/philanthropic investors.
Governance Role:	We anticipate creating roles for the Fund’s public sector investors in the Fund’s governance structure.

2. Capital Raising | Private/ Philanthropic Capital

In addition to investments from the public sector, the RED Housing Fund seeks to raise additional capital from private and philanthropic investors, to expand the Fund's lending activities as well as support start-up and operating costs.

Foundations and Philanthropies

- Includes both local and regional foundations focused on housing, homelessness and disaster relief
- Able to provide program-related investments (PRIs) – low-cost, longer-term capital that can support the Fund's lending – and/or grants

Corporations

- Includes both major local employers as well as other corporations in the region supporting greater housing development and equity
- Low-cost loans from corporate treasury funds or other corporate sources; grants

Banks

- Local and regional banks are anticipated to lend to projects alongside the Fund, as construction and/or permanent lenders
- Possibility of additional grant support, and of some low-cost debt being available

Assuming a \$20 million Fund capitalization, deployed to finance an average 10% of project costs, the Fund **could leverage \$180 million (90% of project costs)** in additional project-level investment from other sources for the initial batch of projects, including construction loans from traditional lenders and equity from project developers.

3. Fund Formation | Identifying a Legal Structure

With a target source of flexible capital identified, options for the legal structure of the Fund will need to be evaluated. At the outset, our team will evaluate whether the Fund can be created as a program or subsidiary of the RED. If this structure proves to be infeasible and/or limits the ability of the Fund to support certain types of projects, alternative structures will be considered.

Strengths and Additional Considerations associated with this structure include:

Strengths	Additional Considerations
<ul style="list-style-type: none"> • Strong mission alignment and local knowledge • Holistic approach to infill housing development • Existing relationships with other sources of financing and local developers • Streamlined timeline for Fund creation which could result in additional cost savings 	<ul style="list-style-type: none"> • Determine whether to expand its in-house capacities or contract externally • As a JPA, additional requirements may apply to investment timing and terms



3. Fund Formation | Alternative Legal Structures

Should a subsidiary or program of the RED prove infeasible, possible alternative structures for the Fund may include:

Subsidiary of an Existing CDFI

- The Fund is created as a subsidiary of an existing community development financial institution (CDFI).
- **Strengths:** Existing lending infrastructure and expertise; potential to access additional pools of capital via CDFI Fund; other funder relationships.
- **Additional Considerations:** Fund needs to be integrated into existing CDFI's capital, governance, management, and operating structure, which may constrain its flexibility, utility and dilute its focus on Santa Rosa and Sonoma County.

Subsidiary of a Local Foundation

- The Fund is created as a subsidiary of a local foundation.
- **Strengths:** Mission alignment and local knowledge; investment tracking and reporting capabilities.
- **Additional Considerations:** Missing investment underwriting, origination, and servicing capabilities; legal / tax implications would need to be understood.

Creation of a New 501(c)(3)

- The Fund is created as a new 501(c)(3).
- **Strengths:** Full control on governance, mission and lending infrastructure; can accept broadest range of investments from public, private and philanthropic investors.
- **Additional Considerations:** Need to identify and fill all missing capacities; the process to create a new 501(c)(3) may be fairly expensive and time-intensive.

4. Conclusion | Next Steps

- Our team is available for any further discussion with the City of Santa Rosa's representatives as needed.
- We are reaching out to potential private and philanthropic investors and are confident that a City commitment would help to move those conversations forward.
- Keeping the criteria and desired outcomes from the previous slide in mind, we are evaluating available legal, governance, management and operations structures and anticipate making a recommendation to the RED staff and Board.

CITY HOUSING AUTHORITY

- Expressed interest to continue its Housing Partnership with the City Council
- Current portfolio and structure in place to accelerate housing
 - Without additional administrative costs
 - Portfolio Value of \$120 million
 - Over 4,000 units
 - Averages \$5 million annual investment
 - Achieves and ROI of 15-20% annually by reinvesting loan payments into new housing projects
- City Council Housing Action Plan and CDBG-DR most recent one-time funding examples

CITY HOUSING AUTHORITY

- Actively sponsors developments in Smart Growth/Priority Development Areas
- Leverages a variety of investment products based on funding sources
 - from Very Low Income to Market Rate
- Works in partnership to blend public and private investment
- Offers a range of investment categories
 - Production
 - Acquisition/Rehabilitation
 - Homeownership
 - Special Needs Facilities

INVESTMENT CONSIDERATIONS

- Use of one-time funds
- Variety of investment platforms available
- Variety of investment products available
- Unique opportunity to match County's \$10M loan to RED Housing Fund
- Leveraging potential
- Administrative readiness



QUESTIONS?