



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: SEE BELOW

DATE: June 6, 2016

Approved

D. D. S. Y. L.

Date

6/16/16

COUNCIL DISTRICT: 3

**SUBJECT: SUBSTITUTION OF HOME FUNDS IN EXISTING LOAN
COMMITMENT FOR SECOND STREET STUDIO APARTMENTS**

RECOMMENDATION

Adopt a resolution committing up to \$8,000,000 of federal HOME Investment Partnership Program funds, which will substitute for up to \$8,000,000 of already committed Low- and Moderate-Income Housing Asset Funds, in a construction-permanent loan to Second Street Studios L.P. ("Borrower"), an affiliate of First Community Housing ("Sponsor"), for construction of the Second Street Studio Apartments to be constructed at 1140 South Second Street ("Development").

OUTCOME

Approval of the recommended action will enable the City to enter into a contractual HOME Agreement with the borrowing entity for Second Street Studio Apartments by the July 31, 2016, commitment deadline imposed by the U.S. Department of Housing and Urban Development ("HUD"). This action will allow the City to retain use of its federal HOME funds as well as to prepare for the expected construction start of this Development, which will create 134 apartments for the chronically homeless.

BACKGROUND

On June 17, 2014, the City Council approved a construction-permanent loan of up to \$8,000,000 from the Low- and Moderate-Income Housing Asset Fund ("Housing Asset Fund") to First Community Housing, or its affiliate, for the development of the Second Street Studio Apartments, to be constructed at 1140 South Second Street ("Development"). At that time, the

staff report indicated that it was expected that federal HOME funds would eventually be substituted for a portion of Housing Asset Funds.

On September 15, 2015, the City Council increased the City's funding commitment by \$6,452,000, for a total commitment of \$14,452,000 of Housing Asset Funds, enabling the Development to integrate a chronically homeless population into its 134 affordable apartments.

Staff now recommends that a portion of the total loan commitment be funded by federal HOME Investment Partnership Program funds. In order to meet a HUD-imposed deadline for the commitment of HOME funds of July 31, 2016, a HOME Agreement must be executed no later than that date, the conditions for which are analyzed below.

ANALYSIS

There are several complicating factors driving staff's recommendation to commit HOME funds to this Development at this time:

- HUD's HOME regulations require that the funds be committed to an affordable housing development within 24 months of HUD's award of the HOME entitlement grant to a locality. In this context, the City is facing a July 31, 2016, deadline to commit approximately \$2,485,000 of HOME funds to an eligible use.
- The HOME regulations require that HOME program income (i.e., repayments from existing HOME-funded loans) be expended before any additional funds are drawn down from HUD. For the subject HOME funding commitment, it is anticipated that up to \$2,828,000 will be from program income and up to \$5,172,000 will be drawn down from HUD (the latter category includes the \$2,485,000 that needs to be committed by July 31st).
- The HOME regulations further require that several prerequisites be met prior to a locality entering into a HOME Agreement for an affordable housing development. One prerequisite is that all other development funding has been committed. The Development's sponsor has applied for highly-competitive 9% Low-Income Housing Tax Credits, for which the California Tax Credit Allocation Committee has indicated that it expects to make an award on June 8, 2016. Given this award, the Sponsor should have obtained commitments from a tax credit equity investor and senior lenders by the end of July, which then will enable the City to sign a HOME Agreement with the Borrower.
- HUD disburses HOME funds to localities only on a reimbursement basis, so there needs to be a local source to fund payments to developers on a temporary basis until the HUD reimbursement is received. In this case, the Housing Asset Fund is that source of local front money. HOME reimbursements through the HUD invoicing system will be used to

partially repay the Housing Asset Fund. Staff anticipates that this reimbursement will take place prior to June 2017.

- In order to make a funding commitment of HOME funds to a development, the development's approval pursuant to the National Environmental Policy Act (NEPA) must be finalized prior to the commitment. Second Street Studios' NEPA approval was obtained on January 22, 2016.

With this approval, City funding for the Development will be a combination of Housing Asset Funds and HOME funds, with the latter being advanced from the Housing Asset Fund until the HOME funds can be drawn down from HUD.

The terms and conditions of the HOME Agreement will be finalized, and the HOME Agreement and all other related documents will be executed, by the Director of Housing under her Delegation of Authority to negotiate and execute City Council-approved loans pursuant to Chapter 5.06.335 of the City's Municipal Code.

EVALUATION AND FOLLOW-UP

The 2016-17 Consolidated Annual Performance Evaluation Report (CAPER) will include reference to the final amount of HOME funds ultimately committed to the Development. Project Construction is expected in September 2016 and be completed within 20 months. The Department will provide City Council with notice of the ground-breaking and grand opening events.

PUBLIC OUTREACH

This Memorandum will be posted on the City's Council Agenda website for the June 28, 2016 Council Meeting.

COORDINATION

Preparation of this report was coordinated with the Office of the City Attorney and the City Manager's Budget Office.

FISCAL IMPLICATIONS

The recommended commitment of up to \$8,000,000 of HOME funds to the Second Street Studio Apartments Development will satisfy a key HUD requirement for the use of these federal funds. Once the City receives the HOME reimbursement from HUD, the Housing Asset Fund will be repaid and then those funds can be used to finance future affordable housing developments.

HONORABLE MAYOR AND CITY COUNCIL

June 6, 2016

Subject: Substitution of HOME Funds for Second Street Studio Apartments

Page 4

Staff will return to the City Council for appropriation actions to implement the use of HOME funds, if needed.

CEQA

Mitigated Negative Declaration, File No. PDC07-086, adopted 8/26/2008.

/s/

JACKY MORALES-FERRAND
Director, Housing Department

For questions, please contact Jacky Morales-Ferrand, Director of Housing, at (408) 535-3855.