



June 23, 2023

TO: CADA Board of Directors

SUBJECT: **June 30, 2023 Board Meeting**
AGENDA ITEM 7

ADOPT A RESOLUTION APPROVING THE MIDDLE-INCOME HOUSING PROGRAM

CONTACT: Danielle Foster, Executive Director
Todd Leon, Development Director

RECOMMENDED ACTION:

Staff is recommending the Board approve a resolution (**Attachment 1**) 1) authorizing a Middle-Income Housing Program (**Attachment 2**) and 2) directing staff to return to the Board in the new fiscal year with a Notice of Funding Opportunity (NOFO) under this new program.

BACKGROUND

Sacramento middle-income households, with incomes at 80-120 percent of the Area Median Income, are experiencing increasing rents and fewer affordable housing opportunities due to increased housing demand and limited state and local resources. The majority of affordable housing programs are now focused on serving lower income households, with incomes below 80 percent of the AMI. This housing gap requires new policy tools and funding programs to avoid a worsening affordability crisis and the associated consequences, including an increasingly limited labor supply, increased long-distance commuting, and household displacement. Middle-income households, particularly those at 80 percent of the AMI, have been affected the most by increasing rents within Sacramento's Central City because the majority of such households do not occupy and do not qualify for regulated affordable housing units and are getting priced out by the intense demand for non-regulated units.

Over the last six months, CADA staff and local partners have been exploring options for the provision of low-income housing units at 80 percent of the AMI and moderate-income units at 120 percent of the AMI, together described here as middle-income housing, through innovative models with minimal public subsidy. Through this exploration, staff has identified the following program elements as essential to providing housing affordable to middle income households without the use of state and federal subsidies:

- Housing that is developed efficiently and cost effectively so that the financing and operational costs can be supported by low-income and moderate-income rents, including smaller units;
- Private equity and a traditional bank loan, such as a Community Reinvestment Act (CRA) loan, to finance the project;

- Participation of a public agency with authority to secure and oversee a loan and regulatory agreement (CADA's role in this model);
- A for-profit or non-profit Administrative General Partner (AGP) to put together the equity and the financing, contribute capital, and structure the deal, as well as to manage the housing over time; and
- Participation of a non-profit to fulfill the role of Managing General Partner (MGP) in partnership with the AGP to achieve the annual certification of the affordable housing units and the resulting welfare tax exemption through the Board of Equalization and County Assessor's Office that's necessary for project viability and sustainability.

By incorporating these elements, the proposed Middle-Income Housing Program will contribute to providing deed-restricted low-income housing units with minimal public investment aside from the welfare tax exemption. It also provides a new type of housing, further diversifying the supply of housing and increasing the availability of affordable options. Use of this creative partnership approach also marshals a range of local organizations working together in solving local housing needs, which is essential to long-term comprehensive solutions.

OVERVIEW OF THE MIDDLE-INCOME PROGRAM

The Middle-income Housing Program is broken into the following sections which include:

- Policy Goals
- Application Process, and
- Evaluation Criteria

A brief summary of each section is provided below.

Policy Goals

- 1) Housing Production and Conversion: Produce deed-restricted middle-income units that remain affordable over time to serve local housing needs and address CADA's affordable housing obligations and the City of Sacramento's commitment to implementing its Housing Element and meeting its Regional Housing Needs Allocation (RHNA).
- 2) City Housing Element Implementation: CADA will provide this funding in alignment with City objectives and will prioritize sites identified within the City's Housing Element as opportunity sites to meet the local RHNA.
- 3) Housing Affordability: Seek new methods to provide affordable housing at 80 to 120 percent of the AMI, while minimizing direct subsidies and ensuring affordability for a minimum of 15 years, with the goal of 55 years.
- 4) Other Community Benefits: Additional benefits to the community will be encouraged such as projects that provide rapid conversion of units to middle-income housing, projects that stimulate the receipt of other tax revenues (e.g., ground floor commercial uses), projects that include other local economic and sustainability benefits (e.g., jobs, business incubation, transit-supportive development), projects that reinvest in aging buildings, and projects that help revitalize blighted or underutilized areas.

Implementation Process

CADA staff will prepare process for implementation of the Middle-Income Housing Program for Board consideration. This will include procedures for solicitation and review of applications and

selection of Program participants that includes the following steps: 1) Preparation and distribution of notification of Program funding availability (NOFA); 2) Submittal of applications, 3) Application Completeness Review and Evaluation, 4) Applicant Interviews (as needed), and 5) Consideration of staff recommendations by the CADA Board.

Evaluation Criteria

The following information will be reviewed by CADA staff as part of the application review process: 1. Limited Partnership Resources and Experience, 2. Project Location and Financing, 3. Tenant Protections & Occupancy Process, 4. Reporting Requirements, and 5. Basic Underwriting Standards.

ANALYSIS

In developing the proposed Middle-Income Housing Program, CADA staff analyzed the existing housing market in the Central City and the unmet need for middle-income housing. Current market rate development is focused on households earning at or above 120 percent of the AMI, with the majority of housing, particularly one-bedroom housing units or larger, focused on households making between \$100,000 and \$150,000 annually. The proposed program will contribute to providing housing for those working in entry-level professional jobs and to a range of other workers, particularly those in smaller households, with annual incomes of between \$57,000 and \$80,000. This might include administrative assistants, assistant planners, building/parks maintenance staff, custodians, dispatchers, parking lot attendants, teachers, sales clerks, and librarians. Staff is excited to support the provision of housing at this affordability level because the market is not otherwise supplying such housing, either through other subsidy programs or by conventional market rate development.

This program fills a gap in local housing options and does so through an innovative public-private-nonprofit framework that can be replicated throughout Sacramento. There may be areas where this housing model can also be paired with Housing Choice Vouchers, providing additional opportunity for a range of incomes. Having middle income housing units within the Central City will provide additional neighborhood stability, reduce the local carbon footprint for workforce households otherwise forced to commute long distances, and increase the labor supply for Central City businesses in times where it has been challenging to recruit and retain reliable employees. Securing a regulatory agreement on this housing type also ensures that housing developed, acquired, or preserved under this program will either start out as or transition to low-income and moderate-income tenants and rents, maintain its affordability over time despite market changes, and provide tenants a transitional year to exit their unit if their income exceeds low- or moderate-income thresholds.

To initiate this program and inform the development community of its availability, staff will return in the new fiscal year with a process and a request for allocation of funding to support outreach and implementation of the program.

FINANCIAL IMPACT

The amount of funding support requested will vary from application to application, but staff will recommend setting aside \$250,000 of funding in FY 2023-24 for this program to create a revolving loan fund. Staff will include a budget for this program as part of the upcoming fiscal year budget. Staff will recommend that loans be capped at \$100,000 per project. Loans will be provided as short-term, low interest loans with an average five-year term and three percent interest rate. Staff will adjust the interest rate to investment return rate plus one point if those returns begin

to increase and could represent a loss compared with what would otherwise be earned on invested funds. Current returns are not higher than three percent.

POLICY

Providing this program supports CADA's work in building and serving a vibrant Capitol Park Neighborhood. Having a variety of housing types and affordability levels within the wider Central City area benefits commercial and residential stability and furthers community health by broadening the available range of household types and income levels that the housing is able to serve.

STRATEGIC PLAN

This program fulfills the following components of the CADA Strategic Plan: fiscal responsibility, collaboration, urban development leadership, creativity, and community stewardship in the provision of mixed-income housing. Utilizing partnerships in the completion of our mission has been and continues to be a hallmark of CADA's work. The strategic plan called for studying the downtown market to identify CADA's niche and this income band at 80 percent to 120percent of AMI is currently an underserved demographic. This program also further combines the environmental sustainability with housing development by weaving together local workforce needs and housing options, and it supports innovation and infill development.

ENVIRONMENTAL IMPACT

This action is exempt under the California Environmental Quality Act (CEQA) as a funding program. CEQA review of projects supported through the proposed program would go through the necessary City review processes.

DEVELOPMENT COMMITTEE

At its May meeting, the Development Committee voted in support of this model and accompanying policy. Additional criteria were added based on discussion from the May 19, 2023 Board meeting.

CONTRACT AWARD CONSIDERATIONS

Not applicable.

Attachments:

1. Resolution
2. Middle-Income Housing Program

Attachment 1

RESOLUTION NO. 23 - 15

June 30, 2023

Adopted by the Capitol Area Development Authority

RESOLUTION APPROVING A MIDDLE-INCOME HOUSING PROGRAM AND DIRECTING STAFF TO RETURN TO THE BOARD WITH AN IMPLEMENTATION PROCESS FOR THIS PROGRAM IN THE NEW FISCAL YEAR

WHEREAS, providing middle-income housing addresses a significant community need, supports community diversity and a stable workforce downtown that will support the economic vitality of the Capitol Area and the Central City;

WHEREAS, staff has learned of a new approach to supporting the provision of middle-income housing that could provide great benefit to the community with very little public subsidy on a per unit basis while providing affordable rental opportunities to low- and moderate- income households;

WHEREAS, CADA has the opportunity to continue its legacy of private-public partnerships while furthering an innovative framework that could be replicated throughout Sacramento; and

WHEREAS, providing CADA funding to support middle-income housing under this Program ensures the ongoing affordability of the housing through long-term regulatory agreements, thereby creating housing market stability and furthering local anti-displacement efforts.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Capitol Area Development Authority that:

1. The attached Middle-Income Housing Program is approved; and
2. The Executive Director of CADA is directed to return to the Board in the new fiscal year with an implementation process for this new program.

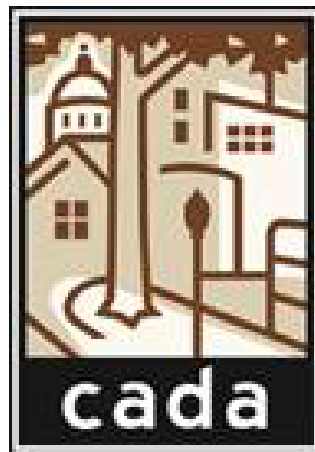
Ann Bailey, Chair

ATTEST:

Tara Gandara
Secretary to the Board of Directors

Attachment 2

Middle Income Housing Program



Adopted on June 30, 2023

1. Introduction and Program Goals

Middle-income households in Sacramento have experienced increasing rents and risk of displacement, indicating a growing issue that requires new tools to reduce worsening of the affordability crisis faced by lower income groups. Adoption and implementation of a Middle-Income Housing Program allows public-private-non-profit partnerships to form and creatively respond to this local need for middle income (80% to 120% Area Median Income) housing. This program can be used for new construction, acquisition (with or without rehabilitation subject to CADA staff review) of existing housing to become affordable to middle income households, and preservation of existing affordable housing at risk of either losing its affordability restriction or without one in a neighborhood identified to be at risk of gentrification and displacement of existing residents through loss of housing affordability.

For each middle-income housing project selected under this program, CADA will provide a small loan (i.e., maximum of \$100,000) and enter into a regulatory agreement to monitor maintenance, affordability, and upkeep of the units. CADA will partner with selected applicants, which may include private for-profit developers and housing nonprofits, to accomplish the affordability goals of the program.

The goals of this Program are to:

- **Housing Production and Conversion:** Produce deed-restricted middle-income units that remain affordable over time to serve local housing needs and address CADA's affordable housing obligations and the City of Sacramento's commitment to implementing its Housing Element and meeting its Regional Housing Needs Allocation (RHNA).
- **City Housing Element Implementation:** CADA will provide this funding in alignment with City objectives and will prioritize sites identified within the City's Housing Element as opportunity sites to meet the local RHNA.
- **Housing Affordability:** Seek new methods to provide affordable housing at 80 to 120 percent of the AMI, while minimizing direct subsidies and ensuring affordability for a minimum of 15 years, with the goal of 55 years.
- **Other Community Benefits:** Additional benefits to the community will be encouraged such as projects that provide rapid conversion of units to middle-income housing, projects that stimulate the receipt of other tax revenues (e.g., ground floor commercial uses), projects that include other local economic and sustainability benefits (e.g., jobs, business incubation, transit-supportive development), projects that reinvest in aging buildings, and projects that help revitalize blighted or underutilized areas.

2. Application Process and Timeline

CADA staff will prepare a process for implementation of the Middle-Income Housing Program. This will include procedures for solicitation and review of applications and selection of Program participants that includes the following steps: 1) Preparation and distribution of notification of Program funding availability (NOFA); 2) Submittal of applications, 3) Proposal Completeness Review and Evaluation, 4) Applicant Interviews (as needed), and 5) Consideration of staff recommendations by the Board.

1. Preparation and Distribution of Notification of Program Funding Availability (NOFA). Staff will prepare the program NOFA process for review by the Board and will distribute the notice once approved.
2. Submittal of Proposals. The Partnership provides all the information listed in the Middle-Income Housing Proposal Information Checklist.
3. Proposal Completeness Review and Analysis. CADA staff reviews the proposal and required information and make a "completeness" determination within 30 days. Applicants will be notified if their application is complete, or if deemed incomplete, what additional information is required to deem the application complete.
4. Proposal Interviews (as needed). Interviews will be conducted to learn more about the proposal and the applicants.
5. Proposal Consideration by the Board. When CADA staff determines that the proposal has been reviewed and all necessary information has been gathered, the matter will be scheduled for a Board meeting for action on staff recommendations.

3. Evaluation Criteria

To achieve Program goals and objectives, applications for funding support will be reviewed against the evaluation criteria. Following initial publication of notification of program funding availability, CADA will consider proposals on a rolling basis until annual budget allocations are exhausted.

Limited Partnership Resources and Experience

The following professional experience parameters for members of the Limited Partnership is required:

1. Managing General Partner (MGP) with experience in providing affordable housing and similar types of housing units, including experience with processing the welfare tax exemption and reporting on affordability.
2. Administrative General Partner with adequate and assembled resources, in partnership with the MGP, to develop or acquire the housing contained in the proposal.
3. Property Manager shall have successful experience managing similar types of housing and shall understand how to complete affordability reporting with the Managing General Partner.

Project Location, Feasibility and Financing

1. Project Location: CADA will review the project location for need for the unit types being proposed and for the benefits provided to the surrounding neighborhood and area. Priority will be granted to projects within CADA's project areas, particularly those on sites that align with the City of Sacramento's Housing Element opportunity site list.
2. Financing: Financing of the project must be fully secured prior to the release of CADA funding.
3. Cash Flow and Pro Forma: Analysis must show the project is feasible by analysis of the project operational budget, debt, and partner obligations

Tenant Protections & Occupancy Process

For acquisition of existing projects, the Partnership is required to take the following measures to avoid involuntary displacement of existing tenants within the 12 months following a property's acquisition:

1. Noticing: Each tenant shall be provided with a written notice advising them of their rights under the terms of the approved transaction and deed restrictions and ongoing compliance procedures to maintain their eligibility to reside in any market-rate or income and rent restricted units by category, as applicable. The notice shall include procedures for the conversion of tenants of any market-rate units to deed-restricted units in a way that does not cause involuntary displacement of existing tenants.
2. Maximum Household Income: Following conversion to deed-restricted rents of all occupied market-rate units at the commencement of lease-up, no units shall continue to be rented to tenants with incomes that exceed 120 percent of AMI.
3. Existing Tenants: Existing tenants who meet household income requirements should be transitioned first into income-qualifying units at their option, prioritizing those with the highest proportion of income spent on rent payments.
4. Section 8: In accordance with SB 329, the Property Manager shall not discriminate in renting units to Housing Choice or VASH (for veterans) voucher holders including those receiving rental assistance from any local, federal, state, or non-profit agency.
5. Renters Insurance: Owners may not make payment of rental insurance premiums a condition of occupancy.

Reporting Requirements

The following annual reporting is required:

1. Property Condition: The Property Management Company shall continually maintain the affordable units in a condition which, at a minimum, satisfies the Uniform Physical Conditions Standards promulgated by the Department of Housing and Urban Development (24 CFR §5.705). CADA will periodically inspect a sample of units to ensure housing quality.
2. Tenant Summary: The property manager will provide an annual rent roll summary of tenant attributes including household size, income and rent information on a form acceptable to the CADA.
3. Requests for Other Information: The Partnership team shall respond within 10 calendar days in writing to any reasonable written request from CADA for other information about the project's property maintenance conditions or leasing practices.

Basic Underwriting Standards

All applications will be reviewed against the following basic underwriting standards.

1. Additional Debt: After initial assistance, CADA debt will need to be repaid prior to additional debt on the property. CADA will also be informed of any additional debt.
2. Annual Monitoring Fee: All projects will be required to pay the CADA's annual monitoring fee.
3. Annual Rent Growth: Rents charged on all units shall be based on 30% of the monthly targeted income, minus any utilities paid by tenant.
4. Debt Service Coverage Ratio Minimum: The financing package, including all series of bonds where relevant, must have a minimum debt service coverage ratio of 1.00 in each year the bonds for the project are outstanding.
5. Deed Restriction: The affordability restrictions will include a 15-55-year deed restriction for all projects, and otherwise be subject to review and approval by CADA.
6. Asset Management and Replacement Reserves: For new and existing buildings, reserves for asset management fees and replacement items shall be adequately funded based on the needs of the property.
7. Partnership Fees: Ensuring that fees collected by the partnership are reasonable and consistent with industry standards.

8. Ongoing Fees: The total ongoing fees to all entities potentially including the owner, property administrator, property manager shall be evaluated to ensure they do not exceed market standards.
9. Operating Expense Growth: Expenses should be projected to grow at a minimum of three percent per year. Accumulated capital reserves should be used to conduct major renovation as laid out in the capital repairs Policy, as well as address unplanned emergencies.
10. Vacancy: Vacancy should be assumed at no less than five percent.
11. Debt Obligations: There shall be no additional debt obligations issued on the property without notice to CADA.