



May 12, 2023

TO: CADA Board of Directors

SUBJECT: **May 19, 2023 Board Meeting**
AGENDA ITEM 7

**ADOPT A RESOLUTION APPROVING THE MIDDLE-INCOME HOUSING
MODEL AND PROGRAM POLICY**

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 Model and Program Policy (**Attachment 2**) and 2) directing staff to return to the Board in the new fiscal year with a Request for Proposals under this new model.

BACKGROUND

Sacramento middle-income households, with incomes at 80-120% of 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% of Areawide Median Income (AMI). This housing gap requires new policy tools to avoid an expanded affordability crisis, limited workforce pool, increased commuting, and resulting household displacement. Middle-income households, particularly those at 80% of the Area Median Income, have been impacted the most by increasing rents within the Sacramento downtown area because the majority are not in regulated affordable housing and are quickly getting priced out by the strengthened market demand.

Over the last six months, CADA staff and local partners have been exploring an option for the provision of low-income housing units at 80% of Area Median Income and moderate-income units at 120% of Area Median Income with minimal public subsidy. Through this model, the following pieces come together to provide housing affordable to middle income households without the use of typical 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, smaller unit sizes are more conducive to the model
- Private equity and a traditional bank loan, such as a Community Reinvestment Act (CRA) loan, to finance the project; and

- Partnership from a local public agency through 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 manage the asset over time
- Partnership from a non-profit to fulfill the role of Managing General Partner (MGP) with the AGP to achieve the annual certification of the affordable housing units and the resulting welfare tax exemption that's necessary for project sustainability

This model is able to provide deed-restricted low-income housing units with minimal public investment aside from the welfare tax exemption. It also provides a new type of affordable housing, further diversifying the community and the available affordability options. Use of this creative partnership approach also marshals a range of local organizations working together in solving local housing needs, which is critical to long-term comprehensive solutions.

OVERVIEW OF THE MIDDLE-INCOME MODEL AND POLICY

The Middle-income Housing Policy is broken into several sections which include:

- Policy Goals
- Application Process, and
- Underwriting Criteria

A brief summary of each section is outlined 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 maximize Affordable Housing credit for CADA and the Regional Housing Needs Allocation (RHNA) credit for the City.
- 2) Housing Affordability: Seek new methods to provide affordable housing at 80%-120% of Area Median Income, utilize minimal direct subsidy and ensure affordability for a minimum of 55 years.
- 3) 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, transit-oriented development, etc.), projects that reinvest in an aging building, and projects that help revitalize a blighted or underutilized area.

Application Process

CADA staff will prepare a Request for Proposals process for Board consideration on Middle-Income Housing Model requests per the Policy. Review of the proposals will include the following steps:

- 1) Submittal of Proposals, 2) Application Completeness Review and Analysis, 3) Proposal Interviews (as needed), and 4) Consideration by the CADA Board.

Underwriting 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

When considering the merits of this project model, staff analyzed the existing housing market downtown and the need for this type of middle-income housing. Current market rate development is focused at or above 120% of Area Median Income for Sacramento households, with the majority of housing downtown, particularly one-bedroom housing units or larger, focused on households making \$100,000-\$150,000 annually. This proposed project will be able to provide housing to our downtown workforce working in entry-level professional jobs and to a range of workforce members, particularly smaller households, with annual incomes of \$57,000-\$80,000. Jobs that fit into this income category 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 offering of this housing affordability level that is not currently being served by typical affordable housing development or by conventional market rate development.

This program fills a gap in local housing options and does so through an innovative public-private-non-profit partnership that can be replicated throughout Sacramento. There may be zip codes where this housing model can also be paired with Housing Choice Vouchers going forward, providing additional opportunity for a range of incomes. Having middle income housing units within the downtown will provide additional neighborhood stability, reduce local carbon footprint for workforce households otherwise forced to commute, and increase workforce employee options available to downtown businesses in times where it has been challenging to recruit, such as at the present time. Holding a Regulatory Agreement on this housing type also ensures that projects developed or acquired 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 tenants will have 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 Request for Proposals process and budgeted allocation of funding for outreach and use of this model or similar models that require minimal subsidy and can yield low-income and moderate-income units.

FINANCIAL IMPACT

This amount will vary per project, but staff would recommend setting aside funds each year for this program. Staff will include a budget for this program as part of the upcoming fiscal year budget.

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 the commercial and residential stability of downtown and furthers the community health by broadening the available range of household types and income levels that the housing is able to serve.

STRATEGIC PLAN

This program and its policy fulfil 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% to 120% AMI is currently an underserved demographic. This model also further combines the environmental sustainability with housing development by weaving together local workforce needs and housing options, and it supports new innovation and a complex infill concept.

ENVIRONMENTAL IMPACT

This action is exempt under the California Environmental Quality Act (CEQA) as the provision of a funding program. CEQA review of project developments would go through the necessary City review process.

CONTRACT AWARD CONSIDERATIONS

Not applicable.

Attachments:

1. Resolution
2. Middle-Income Housing Model and Program Policy

Attachment 1

RESOLUTION NO. 23 - 15

May 19, 2023

Adopted by the Capitol Area Development Authority

RESOLUTION APPROVING A MIDDLE-INCOME HOUSING MODEL AND PROGRAM POLICY AND DIRECTING STAFF TO RETURN TO THE BOARD WITH A FORMAL REQUEST FOR PROPOSALS UNDER THIS POLICY 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 City;

WHEREAS, staff has learned of a new approach to providing 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 model that could be replicated throughout the City; and

WHEREAS, making a CADA loan to this type of middle-income development created under this Policy ensures the ongoing affordability of the housing through long-term regulatory agreements, creating housing market stability and furthering local anti-displacement.

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

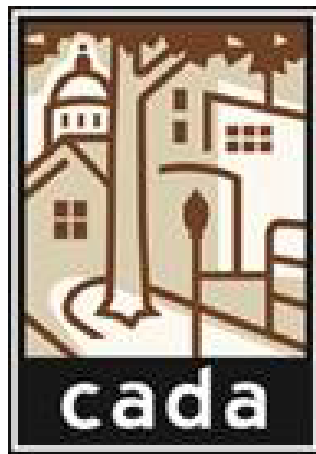
1. The attached Middle-Income Housing Model and Program Policy is approved; and
2. The Executive Director of CADA is directed to return to the Board in the new fiscal year with a Request for Proposals under this new policy.

Ann Bailey, Chair

ATTEST:

Tara Gandara
Secretary to the Board of Directors

Middle Income Housing Model and Program Policy



Adopted on May 19, 2023

1. Introduction and Policy Goals

Middle-income households in Sacramento have experienced increasing rents and risk of displacement, indicating a growing issue that requires new policy tools to reduce expansion of the affordability crisis faced by lower income groups. Adoption and implementation of a Middle-Income Housing Model and Program Policy 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.

For each approved Middle-Income Housing Project under this model, CADA will provide a small loan and enter into a regulatory agreement to monitor maintenance, affordability and upkeep of the units. CADA will assist the project partnership that will typically include both a private for-profit and housing non-profit in order to accomplish the affordability goals of the project.

The goals of this Policy are to:

- **Housing Production and Conversion:** Produce deed-restricted middle-income units that remain affordable over time to serve local housing needs and maximize Affordable Housing credit for CADA and the Regional Housing Needs Allocation (RHNA) credit for the City.
- **Housing Affordability:** Seeking new methods to provide affordable housing at 80%-120% of Area Median Income, utilizing minimal direct subsidy and ensuring affordability for a minimum 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, transit-oriented development, etc.), projects that reinvest in an aging building, and projects that help revitalize a blighted or underutilized area.

2. Application Process and Timeline

CADA staff will prepare a Request for Proposals process for Board consideration on Middle-Income Housing Model requests per the Policy. Review of the proposals will include the following steps: 1) Submittal of Proposals, 2) Proposal Completeness Review and Analysis, 3) Proposal Interviews (as needed), and 4) Consideration by the Board.

1. **Submittal of Proposals.** The Partnership provides all the information listed in the Middle-Income Housing Proposal Information Checklist.
2. **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.
3. **Proposal Interviews (as needed).** Interviews will be conducted to learn more about the proposal and the applicants.
4. **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.

3. Underwriting Standards

To achieve Policy goals and objectives, Middle-Income Housing transactions will be reviewed against the following underwriting standards. After the program Request for Proposals, CADA will consider proposals on a rolling basis to accommodate market transactions.

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.
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 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.