



September 22, 2023

TO: CADA Board of Directors

SUBJECT: **September 29, 2023, Board Meeting**
AGENDA ITEM 8
MIDDLE INCOME HOUSING PROGRAM NOTICE OF FUNDING
AVAILABILITY (NOFA)

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

RECOMMENDED ACTION:

Staff recommends that the Board adopt a resolution (Attachment 1) approving the NOFA substantially as presented and authorizing the issuance of the Middle-Income Housing Program Notice of Funding Availability (NOFA).

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, and particular focus on extremely low (30%) and very low (50%) income households. 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 intensified demand for non-regulated units.

Last June, the CADA Board adopted the Middle-Income Housing Program, focused most intensely on 80% AMI households and based on the following program elements:

- 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, is used to finance the project;
- Participation of a public agency with authority to secure and oversee a loan and regulatory agreement is included (CADA's role in this model);
- A for-profit or non-profit Administrative General Partner (AGP) puts together the equity and the financing, contributes capital, and structures the deal, as well as manages the housing upkeep and services, unless fulfilled by the non-profit partner; 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 contributes to providing deed-restricted low- and moderate-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.

As part of the action in June 2023, the Board directed staff to return with a NOFA to collect project applications for use of the remaining \$150,000 budgeted in the CADA 23-24 Budget for this new program. The Program Guidelines, as approved by the Board at the June meeting, provide the basis for the attached NOFA for Board consideration. The NOFA incorporates a cover letter with the funding amount and timeline, followed by the application process, evaluation criteria, and application checklist.

POLICY ISSUES

Providing this program supports CADA's work in building and serving a vibrant Capitol Park Neighbourhood and downtown. 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 downtown housing stock is able to serve.

STRATEGIC PLAN

This program fulfils 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 120 percent of AMI is currently an underserved demographic. This program also further combines environmental sustainability with housing development by weaving together local workforce needs and housing options, and it supports innovation and infill development.

FINANCIAL IMPACT

The amount of funding support requested will vary from application to application, but CADA has set-aside \$250,000 of funding in FY 2023-24 for this program's revolving loan fund. The first \$100,000 was provided to the pilot project at 8th and S Streets. Loans are capped at \$100,000 per project and it is possible that projects will require less funding for this model. Loans will be provided as short-term, secured, low-interest loans with an average five-year term and a minimum of 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 on invested funds are less than three percent.

ENVIRONMENTAL REVIEW

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 or State review processes.

Attachments:

- 1) Resolution 23-43
- 2) Middle-Income Housing Program Notice of Funding Availability (NOFA)

Attachment 1

RESOLUTION NO. 23 - 43

September 29, 2023

Adopted by the Capitol Area Development Authority

RESOLUTION APPROVING ISSUANCE OF A 2023 MIDDLE-INCOME HOUSING PROGRAM NOTICE OF FUNDING AVAILABILITY

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;

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

WHEREAS, the CADA Board of Directors adopted the Middle-Income Housing Program Guidelines on June 30, 2023 and directed staff to return with a Notice of Funding Availability in the new fiscal year.

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

1. The attached Middle-Income Housing Program Notice of Funding Availability is approved; and
2. The Executive Director of CADA is authorized to issue this document and initiate the program application process.

Ann Bailey, Chair

ATTEST:

Tara Gandara
Secretary to the Board of Directors



Attachment 2

September 29, 2023

MEMORANDUM FOR: POTENTIAL APPLICANTS

FROM: Danielle Foster, Executive Director

SUBJECT: **Middle-Income Housing Program
2023 Notice of Funding Availability (NOFA)
Downtown Sacramento**

The Capitol Area Development Authority (CADA) is pleased to announce its newly adopted Middle-Income Housing Program and the release of this Notice of Funding Availability (NOFA) for \$150,000 in funds available at this time with an accompanying affordability agreement and CADA's interest in partnering on projects that serve 80% to 120% of Area Median Income households in accordance with the program guidelines adopted June 30, 2023 and available on the CADA website at www.CADAnet.org. These guidelines are also included at the end of this document for additional reference.

This NOFA furthers the goals of CADA and its forming entities, the State of California and the City of Sacramento, in providing a range of housing types and affordability within the capitol area and downtown. Under this program, short-term loans and a regulatory agreement assist with housing being developed and operated for middle income households in accordance with State definitions under welfare tax code.

Application materials must be submitted electronically to info@cadanet.org using the email subject line "Middle-Income NOFA Response" no later than 5:00 p.m. Pacific Time on October 30, 2023. Applications will be accepted over the counter beginning January 2, 2024 for any remaining funds.

Questions may be submitted on or before October 13, 2023 and a Q&A list will be published on the CADA website no later than October 20, 2023.

Staff anticipates reviewing applications and making recommendations to the CADA Board at its December 8, 2023 Board Meeting. The NOFA and related application checklist can be found on the CADA website, as noted above, or can be requested via email at info@cadanet.org. Program questions can be submitted to the same email.

Attachment- Program Information and Application Checklist
Preliminary Scoring Chart
CADA Project Area

Program Information:

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 secured loan (i.e., maximum of \$100,000 per project) 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:

- 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

1. Distribution of Notification of Funding Availability (NOFA). Staff has prepared the program NOFA for review by the Board and will distribute the notice once approved. CADA plans to **release the NOFA on September 29, 2023. Questions may be submitted on or before October 13, 2023 and a Q&A list will be published on the CADA website no later than October 20, 2023.**
2. Submittal of Proposals. The applicants provide all the information listed in the Middle-Income Housing Program Application Checklist. **Applications will be due no later than October 30, 2023 at 5:00pm.**
3. Applications Completeness Review and Analysis. CADA staff reviews the applications for the required information and makes 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 and a deadline for submittal.

4. Applicant Questions and Interviews (as needed). Questions will be sent to applicants as needed to clarify applications. Interviews will be conducted to learn more if necessary.
5. Application Consideration by the Board. When CADA staff determines that the applications have been reviewed and all necessary information has been gathered, the applications will be ranked and the staff recommendation 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. If the project has a variance from this structure, please explain and include all relevant partners and their related experience:

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. Projects must be located within the City of Sacramento. Priority will be granted to projects within CADA's project areas (map attached), particularly those on sites that align with the City of Sacramento's Housing Element opportunity site list for the Central City. Additional points will also be given to projects that provide more housing units.
2. Financing: Financing of the project must be fully secured prior to the release of CADA funding. Priority will be provided to projects requesting less funding assistance from CADA overall and on a per unit basis, as well as projects that can be completed quickly and offered to residents sooner.
3. Cash Flow and Proforma: 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 and will provide tenant income certifications for on-site review and upon request.
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 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.

4. Middle-Income Housing Program Application Checklist:

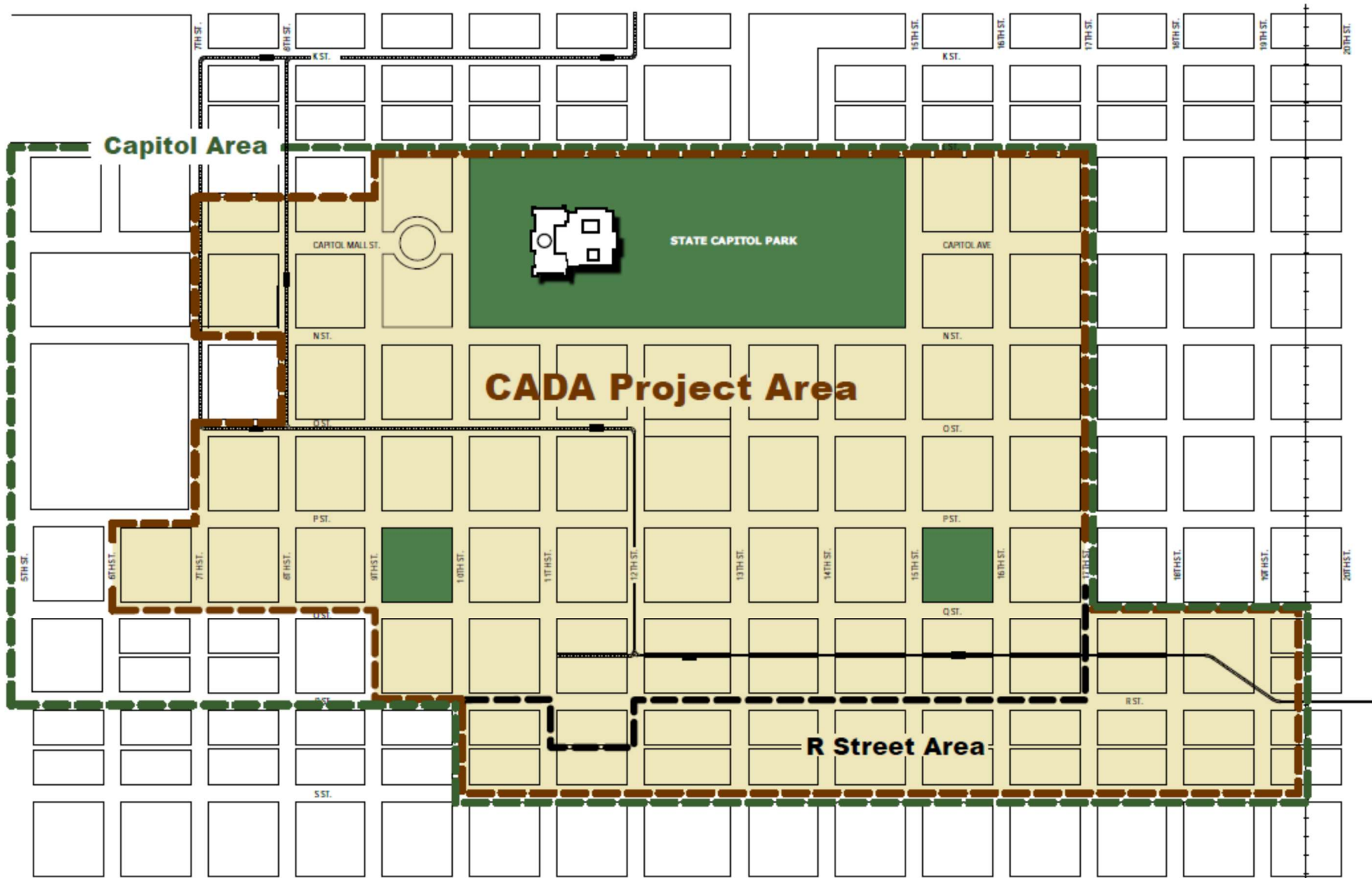
The following information must be submitted to the satisfaction of CADA staff to deem a Middle-Income Housing Program Application complete for review and consideration by CADA staff and the CADA Board. You may provide this information in Word, Excel, or related formats. These documents must be submitted as your project application by emailing them together to info@cadanet.org. Please be succinct with information and do not send more text than necessary to communicate the information below. Text documents shall not exceed 15 pages in total.


Required Item	Description
Project Team Narrative and Roles	Description of the project team, each party's relevant experience, assigned roles within the partnership structure. If the partnership has been created, please include the partnership agreement as well as an organizational chart for the partnership and its partners.
Development Team Credentials	Include information about experience with development and completion of similar projects, including affordable and middle-income units.
Project Narrative Summary	Project narrative will be a summary of the overall project, construction or acquisition information, number of units and size (bedrooms, bathrooms, square footage), affordability levels for units, amenities, innovative aspects, sustainable components, timeline for construction/acquisition and occupancy, entitlement information, and any other relevant information. If an acquisition project, please note any plans for major rehabilitation and whether tenants would be displaced and/or require relocation. Please include the project location, site control information, site information, and whether it was identified as an opportunity site in the City's Housing Element Sites Inventory, web-based map tool found here: www.cityofsacramento.org/Community-Development/Planning/Housing/Housing-Element CADA Project Areas can be found here: www.cadanet.org/resources-agendas/fast-facts under Geographic Area and is attached to the NOFA document.
Project Financial Proforma with Financing Sources	A "live" Excel version of the proforma with formulas for the transaction, including projected income and expenses, reserves, debt coverage ratio, use of CADA funds, etc.


Required Item	Description
Project Financing Summary	Financing narrative for the project, including overall structure of sources and uses. Note any existing funding commitments, partnership resources in the project, and the amount and terms being requested from the CADA funds, and provide any letters of commitments from lender(s) or equity partner(s).
Project Property Management Plan	An overview of how the property will be managed and on-site services and/or referrals planned for the residents.
Project Site Plan and Elevations	Provide the current project site plan and elevations.

Middle-Income Housing Preliminary Scoring Chart

Project Application Component	Details	Maximum Points	Project Score
Project Overview	-Unit Quantity -Innovation -Affordability -Sustainability -Resident Services	35	
Project Location	-Central City -CADA Project Area -Housing Element Opportunity Site	15	
Project Cost	-Total CADA Loan -Cost per Unit	20	
Project Financials	-Feasibility -Limited Partnership Resources	10	
Project Timing	-Timeline for Unit Availability	10	
Experience	-Development Experience -Partnership/ Management Experience -Middle-Income and/or Affordable Housing Experience	10	
		100	



 Boundaries for the State's Capitol Area. The Capitol Area Plan (CAP) (GC 8160-8169.6) is the official state master plan for development within the Central City and is a guide for future state policy in the locating of state buildings and other facilities in the Metropolitan Area.

 Boundaries of CADA's Project Area including R Street Area. CADA develops residential and retail projects in this area as governed by the CAP and Government Code 8180-8194.

April 2007

