



CSCDA Moderate-Income Housing Program

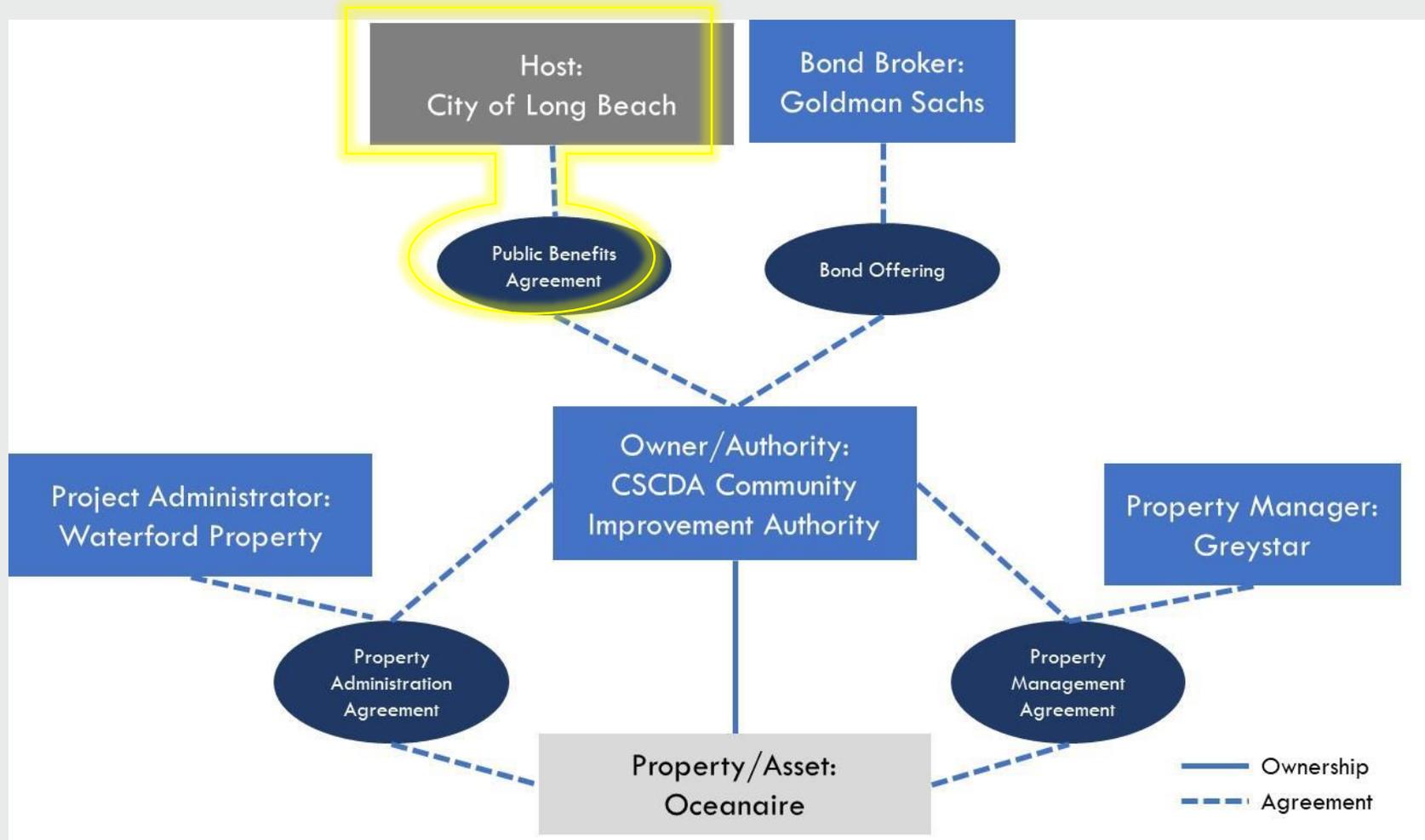
City Council

February 16, 2021

Background

- On November 17, 2020, City Council directed the City Manager, Development Services, and City Attorney to study the benefits and risks of the California Statewide Communities Development Authority (CSCDA) Middle-Income Workforce Housing Program and return within 60 days.
- Staff contracted with HR&A Advisors, Inc. to conduct detailed financial and policy analysis of the proposed Project, the acquisition and conversion of the 216-unit Oceanaire at 150 W. Ocean Blvd.

Summary of Proposed Transaction



Sources: Government Purpose Regulatory Agreement Relating to CSCDA Community Improvement Authority Housing Revenue Bonds Series 2020A; HR&A Advisors, Inc.

Summary of Proposed Transaction

Financial Structure

The acquisition of the Project will be fully financed through a combination of a tax-exempt Essential Housing Revenue Bond (Series A) issued by CSCDA, and a subordinate Series B bond.

The proposed structure also includes \$7.26 million in closing fees and \$1.08 million in annual on-going fees to Waterford, Greystar, and CSCDA.

Sources of Funds	Total	Per Unit
Series A	\$134,934,001	\$624,694
Series A Issuance Premium	\$4,499,095	\$20,829
Series B	\$5,000,000	\$23,148
Total	\$144,433,096	\$668,672

Uses of Funds	Total	Per Unit
Purchase Price	\$122,000,000	\$564,815
Reserve Funds	\$8,161,389	\$37,784
Project Administrator Fees & Reserves	\$4,012,005	\$18,574
Project Administrator Preferred Equity	\$5,000,000	\$23,148
Issuance & Broker Fees	\$5,259,701	\$24,350
Total	\$144,433,096	\$668,672

Sources: Waterford Cash Flow for Loan Sizing, January 20, 2021; HR&A Advisors, Inc.

Potential Transaction Benefits

The Transaction provides the following benefits for the City:

- Addresses “missing middle” comprised of households that earn too much to qualify for traditional affordable housing programs, but do not earn enough for market-rate housing.
- Deed restrictions placed on all 216 units.
- A portion of the deed-restricted units would be leased to moderate-income households to fill vacancies.

Concessions

In response to staff's comments, Waterford and CSCDA have offered the following project modifications:

Modified Affordability Mix

Original Affordability Mix

72 units at 80% AMI

72 units at 100% AMI

72 units at 120% AMI



Updated Affordability Mix

87 units at 80% AMI

43 units at 100% AMI

86 units at 120% AMI

Monitoring and Reporting

CSCDA will provide report of capital expenditures planned and made and photo documentation of the condition of the Project under modified Public Benefits Agreement.

Income & Rent Limits

Income Limits

Household Size	80% AMI	100% AMI	120% AMI
1 Person	\$63,120	\$78,900	\$94,680
2 Person	\$72,080	\$90,100	\$108,120
3 Person	\$81,120	\$101,400	\$121,680
4 Person	\$90,080	\$112,600	\$135,120
5 Person	\$97,360	\$121,700	\$146,040

Source: Waterford Cash Flow for Loan Sizing, January 20, 2021; HR&A Advisors, Inc.

Proposed Rents

Unit Type	Market	80% AMI	100% AMI	120% AMI
Studio	\$2,327	\$1,841	\$2,301	\$2,381
1 bed	\$2,564	\$2,102	\$2,628	\$2,676
2 bed	\$3,529	\$2,366	\$2,958	\$3,549
3 bed	\$5,530	\$2,627	\$3,284	\$3,941
Weighted Avg.	\$3,063	\$2,218	\$2,766	\$3,075

Source: Lennar Rent Roll, December 2020; Waterford Cash Flow for Loan Sizing, January 20, 2021; HR&A Advisors, Inc.

HR&A identified several potential issues to the City should the Council choose to adopt the resolutions and enter into the Public Benefits Agreement as proposed:

1. Affordability Benefits
2. Fiscal Structure Issues Impacting Benefits
3. Property Tax Impacts

Affordability Benefits

The Project Administrator ensures that all future rents for this luxury building remain affordable to moderate income households. However:

- Affordable housing gains are modest overall compared to market.
- Units do not currently count toward RHNA allocation under State law.
- Estimated conversion to middle income units to take four years.

Fiscal Structure - Issues Impacting Benefits

- Financial structure limits the long-term upside for the City, with high upfront and ongoing costs.
- No new units are created; project does not further the City's goal of alleviating the overall supply shortage of housing units
- Timeline for full conversion to moderate-income is estimated at 4 years, during which time property tax revenues will be lost while the project provides only partial affordability benefits.

Property Tax Impacts

- Overall initial annual property tax loss to all taxing bodies is about \$1.5 million.
 - Los Angeles County
 - Long Beach Unified School District
 - Long Beach Community College District
- Annual decrease to the General Fund in property tax revenue of \$264,000.

Exit Scenario Considerations

The City can request a sale of the Project after 15 years and up to 30 years under the Public Benefits Agreement with the sale proceeds potentially offsetting lost tax dollars.

This exit scenario contains a number of risks:

- Selling earlier minimizes lost tax revenue and risk of deferred maintenance, but also reduces affordability benefits.
- City must determine how other taxing agencies get repaid.
- Allowing the project to revert to market rate would maximize sale price but this is unlikely as it would result in loss of all affordability benefits, which is an undesirable outcome for the City.

Staff recommends that this project be designated as a Pilot Project and develop a draft policy any similar future proposed transactions, for the following reasons:

- Uncertainty around Project outcomes.
- Very few projects of this type have been approved.
- Precedent-setting transaction.
- Developer owns major assets and has a positive track record in the City.

Recommendation

- 1) Based on the analysis provided, consider the request to (i) adopt a Resolution authorizing the City to support the California State Communities Development Authority Community Improvement Authority's (CSCDA) issuance of bonds under its Middle-Income/Workforce Rental Housing Program to enact moderate-income deed restrictions on the existing Oceanaire apartment project, at 150 West Ocean Boulevard (Project), and (ii) authorize the execution of a Public Benefits Agreement (PBA) with CSCDA in connection therewith that includes a provision that shares any future sale profits with taxing bodies proportionate to the current tax allocation;
- 2) Request the City Manager to develop a proposed policy for any future similar projects that participate in the Middle Income/Workforce Rental Housing Program; and,
- 3) If action (1) is approved, designate the Project as a pilot, with no similar projects to be approved until the City Council has an opportunity to consider the City Manager's proposed policy (District 2)



Thank you

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