File #: 22-1163, **Version:** 1

Recommendation to adopt a Middle-Income Housing Program to include the policy components included herein. (Citywide)

On January 18, 2022, the City Council reviewed the proposed Middle-Income Housing Program (Program) and indicated support for the general goals of the Program. The City Council requested that staff return with a revised Program for consideration. The City Council request also included the following:

1. Prepare policies for new construction projects and acquisition/conversion of existing units;
2. Engage with Waterford Property Company (Waterford) and as necessary, their partners, California State University of Long Beach (CSULB), and California Statewide Communities Development Authority's Community Improvement Authority (CSCDA) for specific input on the program policies;
3. Achieve the City of Long Beach (City) housing affordability goals; and,
4. Demonstrate that proposed projects have adequate financial reserves and maintenance requirements.

The City engaged HR&A Advisors, Inc. (HR&A), to assist the Development Services, Financial Management, City Attorney and City Manager Departments to ensure the Program objectives addressed established City housing policies as well as financial best practices and standards. While recognizing the benefits of this Program and its current statewide popularity, City staff acknowledges that the Middle-Income Housing Program Statewide is new and untested with potential risks, both seen and unforeseen over the long term. The proposed Program, to the greatest extent possible: 1) ensures long term housing affordability; 2) ensures adequate long-term property maintenance; 3) reduces the risk of foreclosure; 4) ensures the available project resources are channeled into the Project to enhance affordability and reduce rents; and, 5) balances the benefits to the City and to the Sponsor/Administrator over time.

The Program provides a framework that can be tailored to the individual characteristics of each proposed transaction. The Program will accommodate transactions involving the conversion of existing developments as well as new construction projects. Recommended Program policies include the following:

· **Housing Production and Preservation:** Encourage the production and preservation of deed-restricted, moderate/middle-income units. This policy would generate Regional Housing Needs Assessment eligible long-term moderate/middle-income housing units.
· **City Property Tax Revenues:** Maintain City property tax revenue. This policy would

allow the City the opportunity to receive an annual fee (Host Fee) to recover its pro rata share of property taxes that would otherwise be lost during the life of the bonds.

· **Housing Affordability:** The household income mix for the project may vary based on individual transaction specifics, but the City's general goal is to provide middle-income housing with the deepest level of affordability possible. Affordable rents should be based on the State Income Limits household income and gross rent schedules. Providing more than a minimum acceptable 10 percent discount to market rents may be used to justify flexibility in the project-specific middle-income rent profile, such as use of the alternative maximum household income and gross rent schedules published by the California Tax Credit Allocation Committee (CTCAC) for some of the project units.

· **Other Public Benefits:** Joint Powers Authorities (Sponsors) and developers (Project Administrators) are encouraged to demonstrate other unique public benefits including but not limited to, the development of protocols for the rapid conversion of units to moderate/middle-income households, additional moderate/middle-income household benefits (e.g., utility subsidies and rent concessions), other City tax revenues (e.g., new sales tax revenue from ground floor commercial uses or net new household spending), other net new local economic benefits (e.g., jobs and economic activity), or preservation of older properties. This policy is intended to accommodate the unique benefits of individual transactions as well as provide an offset against other policy provisions.

To achieve the above-referenced policies, the Program establishes standards between the borrower (Issuer) and purchaser (Bondholder) for all bond agreements (underwriting standards), transaction and annual fee provisions, property transfer and encumbrances, qualifications for JPAs and Sponsors, tenant protection requirements, annual reporting requirements, and application and compliance requirements. The underwriting provisions include the following main provisions, among others:

· A Host Fee equivalent to the City's portion of property taxes;
· A City-selected (or mutually agreed upon) licensed third-party appraiser to verify the property purchase price;
· Tenant rents based on state income limits as well as 55-year deed restrictions for those units with ability to follow CTCAC income limits at the City's discretion with rents to be based on 30 percent of the Los Angeles County Area Median Income;
· A reserve account to adequately maintain the property;
· Additional stipulations to cover bond debt, operational expenses, and construction costs; and,
· An exit scenario to determine the City's potential future financial benefit.

The transaction and Host Fee provisions include:
· All closing costs be consistent with market standards;
· All annual fees, including reserve fees, be evaluated to ensure they meet market standards; and,
· The total amount of interest of the B Bond not be added to the loan balance.

Property transfer and encumbrance standards include:
· The City be allowed to review additional property encumbrances, including additional debt;
· The City shall have the discretion to review and reject changes in ownership, the sponsor, or the property management company; and,
· The right for the City to purchase the property at any point after year 15 of the A Bond term.

The City also prescribes qualifications for the Sponsor's/Administrator project team members that include:
· Demonstration of responsible leadership and financing practices;
· Housing bond-issuance authority and experience;
· Bond issuance authority and a track record of successful transactions;
· Development experience (for new construction transactions); and,
· Experience performing high-quality full asset management of properties under the organization's control.

Tenant protections and occupancy protocols have also been included to avoid involuntary displacement of existing tenants within 12 months following a property's initial acquisition. Annual reporting requirements have been included to review tenant satisfaction and mix as well as property debt and conditions. The Program will also require that City expenses involved with the review of the transaction, including application, third party review, and annual monitoring fee, be paid by the Administrator. The Program policy document is attached and incorporated into this report by reference (Attachment A).

Per the City Council's request, City staff met with Waterford team members on February 18, 2022 to discuss the Program. Waterford provided comments on the Program on March 8, 2022 (Attachment B). Although Waterford agreed with many provisions included in the Program, there were some areas that Waterford disagreed with. City staff incorporated changes to make the Program more flexible with respect to income and rent structure requirements and created requirements for new construction and acquisition/conversion 2022. City staff shared the revised Program with Waterford, who continued to disagree with certain Program components, including those that were updated by staff. The Program was also shared with California Statewide Communities Development Authority, California Municipal Finance Authority and California Community Housing Agency, the Joint Powers Agencies involved with issuing bonds for the middle-income housing projects, but they did not provide any comments on the Program. To address the supplemental developer comments, City staff made additional changes to the Program in the areas of Other Public Benefits, Underwriting Standards, and City Application and Annual Compliance Requirements. The attached chart provides a comparison of certain Program components, Waterford's comments, and a response from HR&A and staff (Attachment C).

City staff will prepare an application and establish a protocol for reviewing these transactions as prescribed in the Program. Upon the City Council's approval of the Program, City staff will

develop and make available the material needed to process such requests.

This matter was reviewed by Principal Deputy City Attorney Richard F. Anthony on August 17, 2022, and by Financial Management Director Kevin Riper and Revenue Management Officer Geraldine Alejo on March 21, 2022.

City Council action is requested on October 4, 2022, to allow pending Program applications to be considered.

City staff anticipate that both the application and implementation processes of the Middle-Income Housing Program will have no net fiscal impact to the City. The Administrator is responsible for Program costs including staffing and consultant services required to support application intake and review. Program expense and revenues will be appropriated in the General Fund Group in the Development Services Department. The department will return to the City Council with a request for appropriations to support the Program, offset by revenues from the Administrator. Additionally, although implementation will remove any residential project in the Program from the tax rolls, the required host fee is expected to offset the associated loss in City property tax revenues. The number of Program applications that may be submitted is currently unknown, and the Program's impact to staffing cannot be fully assessed at this time. However, it is currently anticipated that this recommendation will have a minimal to no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

Approve recommendation.

CHRISTOPHER KOONTZ
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KEVIN RIPER
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APPROVED:

THOMAS B. MODICA
CITY MANAGER