Middle-Income Housing Program

City Council Meeting – January 18, 2022

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Background

- Long Beach households earning between 81 and 120 percent of Area Median Income (AMI) have traditionally struggled to find affordable housing
- The Housing Element will require 4,158 middle income units in the next cycle (2022-2029)
- In late 2020 City Staff contacted by California Statewide Communities Development Authority (CSCDA) and a local Developer regarding a bond-financing tool for Middle-Income Housing
- On February 16, 2021, the City Council approved participation in the Oceanaire transaction on a pilot basis and requested staff to prepare and recommend a Long Beach Middle-Income Housing Program

CSCDA Middle Income Housing Bond Program Overview

- Middle-income rental housing projects are funded by tax-exempt bonds
- In conjunction with the bonds a City enters into a Public Benefit Agreement (PBA) with a Sponsor or Joint Powers Authority (JPA) and a developer (Administrator)
- Bonds are typically structured in two parts, a Series A Bond and a Series B Bond
- The A Bond pays for acquisition, financing, reserves, and related costs
- The B Bond serves as a form of equity for the project administrator
- The bonds provide 100 percent project financing, including all financing and transaction fees

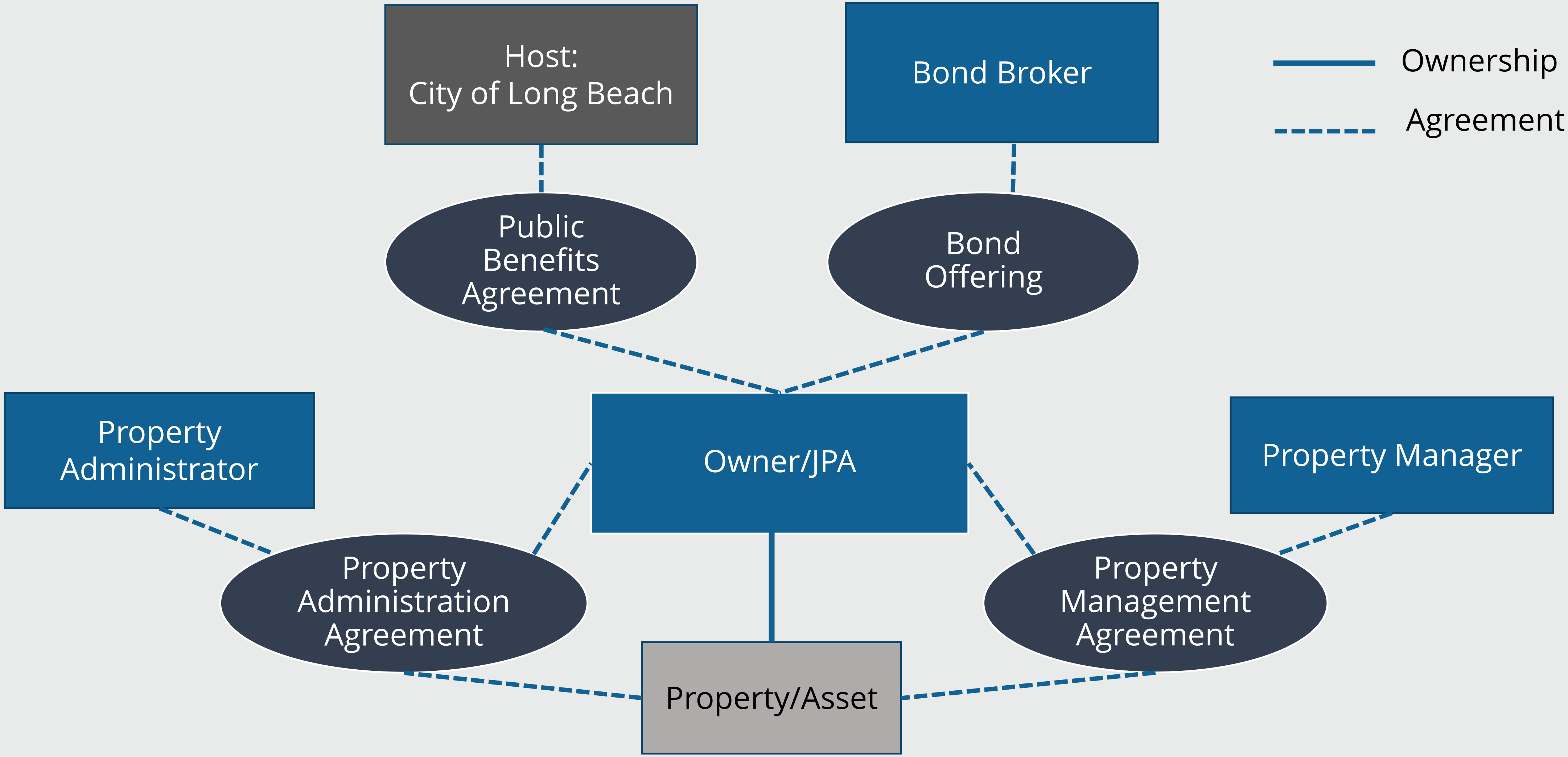
Program Description

- The JPA (Owner) has the ability to purchase, own and finance existing or newly constructed apartment buildings and can restrict some or all units to moderate/middle-income households
- In the PBA, the City provides the JPA with an ad valorem property tax exemption during the term of the bonds
- The household income restrictions terminate at the end of the bond term, typically 30 years
- The PBA typically allows the City the right to force a sale of the building at any point after the 15th year of the series A Bond's term and realize any net proceeds from the sale

City Objectives for the MIH Program

- Ensures long term housing affordability
- Ensures adequate long- term property maintenance
- Reduces the risk of foreclosure
- Ensures the available project resources are channeled into the Project to enhance affordability and reduce rents
- Balances the benefits to the City and to the Sponsor/Administrator over time

Middle-Income Rental Housing Program



Proposed Policies for City Participation

- **<u>Housing Production and Preservation:</u>** Transactions should produce and preserve deed-restricted, moderate-income units that will qualify for Regional Housing Needs Allocation credit
- **<u>Housing Affordability</u>:** Affordable rents should be based on the State Income Limits household income and gross rent schedules, but may vary based on individual transaction specifics
- **<u>Maintain City Property Tax Revenues:</u>** Transactions should be structured to maintain City property tax revenue that would otherwise be exempted through payment of an annual "host fee"
- **<u>Provide Other Public Benefits:</u>**
    - New construction to be counted for the Regional Housing Needs Allocation
    - Conversion within 12 months to Middle-Income Housing for existing projects
    - Creation of other City tax revenues and jobs
    - Preservation of properties that are more than 10 years old

Middle-Income Housing Bond Transaction Terms and Conditions

- Underwriting Standards:
  - Host fee in lieu of City Property Tax
  - Third party appraisal
  - Tenant rents shall not exceed 30 percent of household income, net tenant-paid utility allowance
  - Net present value of cumulative rent discounts to market rate shall equal or exceed cumulative foregone property tax revenue
  - Affordability restrictions to include a minimum 55-year deed restriction
  - Cost and rent exceptions may be allowed if there are other covenants already existing on the property
  - Unit mix subject to City review and consideration

Middle-Income Housing Bond Transaction Terms and Conditions (cont)

- <u>Underwriting Standards:</u>
  - Capital expenditure reserves of a minimum of $300 per unit per year
  - Bonds must have a minimum debt service ratio of 1.0 beginning in Year 1
  - Favorable consideration for projects in which bond principal is significantly reduced over the course of the bond term
  - Annual rent growth limited, and in no event exceed 4.0 percent per year
  - Operating expenses should be projected to grow at a minimum of 3.0 percent per year
  - Income capitalization rate at the end of the A Bond term must be at least 100 basis points greater than comparable housing developments
  - Hard costs for new construction to be verified by a City-approved General Contractor and all workers must be paid prevailing wages

Transaction and Annual Fees

- Closing fees shall be evaluated to ensure that they meet market standards and should not exceed 2 percent of the development cost
- Ongoing fees to all entities shall be evaluated to ensure they meet market standards
- Asset management reserves shall be initially funded at three years' worth of payments
- No capitalization of accrued interest for a B Bond is allowed

Property Transfer and Encumbrance

- After bond issuance the City shall have the right to approve the amount and terms of any additional subordinate debt exceeding $50,000
- The City shall have the ability to force sale, or exercise a purchase option, at any point after Year 15 of the A Bond term
- The City shall have sole and absolute discretion to approve or reject any changes to Ownership, Asset Manager/Project Administrator, and Property Manager

Qualifications of Project Team Members

- The City shall be satisfied that any Joint Powers Authority or Other Sponsors have appropriate housing bond-issuing authority and experience
- Project administrators must evidence no less than 40 years of combined experience of key principal staff
- Property Managers shall have successful experience managing at least five large scale affordable housing apartment communities
- Municipal advisor shall also include an independent, Municipal Securities Rulemaking Board registered municipal advisor

Tenant Protections and Occupancy Process for Acquisition of Existing Projects

- Noticing provided to each tenant advising them of their rights under the terms of the City-approved transaction
- Following conversion, no units shall be rented to tenants with incomes that exceed 120 percent of AMI
- Prioritize transitioning existing tenants into more deeply affordable units
- Property Manager will follow the affirmative marketing procedures in compliance with the California Department of Housing and Community Development Affirmative Furthering Fair Housing
- Compliance with City's Local Preference Policy
- Property Manager shall not discriminate in renting to voucher holders

Annual City Reporting Requirements

- Tenant satisfaction survey with response from at least 20 pertcent of tenants
- Market Rents and Property Discounts
- Tenant Summary to include household size, income and rent
- Property Financial Report
- Property Condition Report
- Response within 10 days to any reasonable request from the City about maintenance conditions or leasing practices
- These reporting requirements must be included in the transaction’s PBA

City Application and Annual Compliance Requirements

- City transaction application review fee to pay for City staff time
- Third party underwriting review costs to be reimbursed by the JPA or Project Administrator
- Annual affordable housing monitoring fee (currently $170 per unit)

Recommendation

Adopt a Middle-Income Housing Program to include the policy components included herein.

Thank you

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