CITY OF
LONG BEACH

Development Services Department
411 West Ocean Boulevard, 3rd Floor Long Beach, CA 90802
(562) 570-5237

R-23

January 18, 2022

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

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

DISCUSSION

Supply and access to adequate and affordable housing continues to be one of the biggest challenges both in the City of Long Beach (City) and across the State. Over the past several years the City Council has discussed this issue at great length and taken many actions to address the housing shortage, including creating policies and programs (Revenue Tools and Incentives for the Production of Affordable and Workforce Housing, Everyone Home Long Beach, Inclusionary Housing, Enhanced Density Bonus Ordinance), that provide opportunities to develop affordable housing in the City. On November 16, 2021, the City Council approved the Proposed 2021 – 2029 General Plan Housing Element, which demonstrates the City's ability to accommodate the projected 26,502 housing units needed in the City during the next planning cycle (2021-2029). Almost 60 percent of these units are targeted toward affordable households, including approximately 16 percent designated for moderate/middle income households. Moderate income households are those households earning between 81 to 100 percent of the Area Median Income (AMI) and "middle-income" households earn between 101 percent and 120 percent of AMI. Housing affordable to households in these income segments is generally referred to as "workforce housing."

Moderate/middle-income households are not served by housing vouchers or traditional restricted-income housing construction; however, the income levels of these working families often mean housing is unaffordable and difficult to find. As rents and housing prices continue to rise these households have found housing to be out of reach. Unaffordable rents typically result in either overpayment, overcrowding, or both. When households overpay or overcrowd in order to obtain housing there are strains on their health, wellness, financial, and overall stability. The City's ability to address this moderate/middle income segment is very limited. Even with efforts to increase the overall housing supply, during the 2012-2020 Housing Element period, moderate-income housing is the category where the City's has shown the least progress, producing three percent (39 units, not including the Oceanaire project) of its Regional Housing Needs Allocation (RHNA). A Middle-Income Housing Program is one option, among other policy options, to address this area of need.

In 2019, the Joint Powers Authorities (JPA) (Sponsor) that serve as conduit issuers of financing for local governments began structuring proposals with developers (Project Administrators) for local governments to participate in government-owned middle-income rental housing funded by tax-exempt bonds. In this financing structure, bonds finance 100 percent of the transaction and are issued through a JPA to acquire high-end new rental property in which a portion or all of the units are allocated for moderate income households. The bonds are structured in two parts: Series A Bonds, which pay for acquisition, financing, reserves, construction and other costs; and, Series B Bonds, which go to the Project Administrator who often initiated the transaction. The "A Bond" for most Middle-Income Housing proposals pays down principal in the later years and therefore leaves most of the principal balance to be paid towards the end of the bond term (typically year 30 for acquisition of existing buildings). The "B Bond", effectively a form of preferred equity, also carries a tax-exempt interest rate that is typically 10 percent and is required to be paid at the end of the bond term and prior to the local government in the ultimate sale proceeds schedule. The Sponsor and Project Administrators typically receive upfront and ongoing fees in this model.

In 2020, the City was approached by the California Statewide Communities Development Authority's Community Improvement Authority (CSCDA) and Waterford Properties, as Project Administrator, to participate in their Middle-Income Housing program to approve the purchase and conversion of an existing apartment residential development commonly known as the "Oceanaire", located at 150 W. Ocean Boulevard, and authorized the execution of a Public Benefits Agreement with CSCDA. The transaction involved the acquisition of a Class A multifamily apartment building with 216 units in downtown for $120 million or $555,000 per unit. On February 16, 2021, the City Council approved the participation in the Oceanaire transaction on a pilot basis. At the same time, the City Council requested that staff continue to investigate and better understand the opportunities and risks of this financing structure to inform the development of a program to guide Long Beach's future participation in Middle-Income Housing bond transactions.

City staff procured the consulting services of HR&A Advisors, Inc., (HR&A) to assist with the development of a Middle-Income Housing Program (Program). HR&A prepared the financial analysis included in Attachment A. The City's project team included the Development Services and Finance Departments, and City Attorney and City Manager's Offices to ensure that Program objectives addressed established City housing policies as well as financial best practices and standards. While acknowledging the benefits of this Program, and its current statewide popularity, City staff acknowledges that the Middle-Income Housing Program Statewide is a new and untested program with potential risks, both seen and unforeseen over the long term. Staff worked with HR&A to ensure that Program policies and requirements proposed, 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 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 RHNA 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:** JPAs and Sponsors 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, HR&A assisted in the preparation of 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) A Host Fee equivalent to the City's portion of property taxes

b) A City selected (or mutually agreed upon) licensed third-party appraiser to verify the property purchase price

c) Tenant rents based upon state income limits as well as 55-year deed restrictions for those units with ability to follow CTCAC income limits at city's discretion,

d) A reserve account to adequately maintain the property

e) Additional stipulations to cover bond debt, operational expenses, and construction costs

f) An exit scenario to determine the City's potential future financial benefit

The transaction and annual fee provisions include:

a) All closing costs be consistent with market standards
b) All annual fees, including reserve fees, be evaluated to ensure they meet market standards
c) The total amount of interest of the B Bond not be added to the loan balance

Property transfer and encumbrance standards include:

a) The City be allowed to review additional property encumbrances, including additional debt
b) The City have the discretion to review and reject changes in ownership, the sponsor, or the property management company
c) The City can exercise a right 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:

a) Demonstration of responsible leadership and financing practices
b) Housing bond-issuance authority and experience
c) Bond issuance authority and a track record of successful transactions
d) Development of property (for new construction transactions) experience
e) The inclusion of a Municipal Securities Rulemaking Board (MRSB) registered municipal advisor with the fiduciary obligation to ensure the bond transaction closes in accordance with all transaction requirements and sound financial practices.

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. City staff will prepare an application and establish a protocol for reviewing these transactions as prescribed in the Program. Upon the City Council approval of the Program, staff will develop and make available the material needed to process such requests.

This matter was reviewed by Deputy City Attorney Richard F. Anthony and Director of Financial Management Kevin Riper on January 7, 2022.

TIMING CONSIDERATIONS

City Council action is requested on January 18, 2022, to allow pending Program applications to be considered.

FISCAL IMPACT

The number of applications submitted because of this Program is currently unknown. However, the adoption of the Program will require the Administrator to fund staffing and consultant costs associated with the application intake and review. Though any residential project in this Program will be off the tax rolls, a host fee is required and the loss of property tax is expected to be fully offset for the City by this fee. This recommendation has 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.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

OSCAR W. ORCI
DIRECTOR OF DEVELOPMENT SERVICES

Kevin Riper

KEVIN RIPER
DIRECTOR OF FINANCIAL MANAGEMENT

ATTACHMENT A – HR&A POLICY TERMS

APPROVED:

THOMAS B. MODICA
CITY MANAGER

HR&A Analyze. Advise. Act.

700 South Flower Street, Suite 2995, Los Angeles, CA 90017
T: 310-581-0900 | F: 310-581-0910 | www.hraadvisors.com

MEMORANDUM

To:	Patrick Ure, Manager, Housing and Neighborhood Services Bureau, City of Long Beach
From:	HR&A Advisors, Inc.
Date:	January 10, 2022
Re:	Proposed City of Long Beach Middle-Income Housing Policy and Term Sheet

Purpose

In 2020, Long Beach was approached by California Statewide Communities Development Authority's Community Improvement Authority ("CSCDA") and Waterford Properties ("Waterford") to participate in their Middle-Income Housing program and approve the purchase and conversion of an existing residential development commonly known as the "Oceanaire." The transaction involved the purchase of a Class A multifamily building with 216 units in the downtown area for $120 million or $555,000 per unit. The Oceanaire was slow to lease up as a market rate property with occupancy well below 95 percent. Following review of the proposed transaction by City staff and HR&A Advisors, Inc. ("HR&A"), the Long Beach City Council approved participation in the Oceanaire transaction on a pilot basis. At the same time, the Council requested that City staff continue to investigate and better understand all the opportunities and risks to inform the development of a policy to guide Long Beach's future participation in Middle-Income Housing projects sponsored by a Joint Powers Authority ("JPA") or another bond-issuing entity that involves tax-exempt bonds and an exemption of *ad valorem* property tax.

This memorandum responds to this request by outlining recommended terms for the City to participate in any such future Middle-Income Housing proposals in a way that achieves and balances City housing and municipal finance goals. This memorandum also includes recommendations for a new Middle-Income Housing transaction application submittal and review process (see Appendix A). The recommendations are based on HR&A's previous detailed analysis of the Oceanaire transaction, analysis of Middle-Income Housing proposals in other California cities, review of Middle-Income Housing transaction terms developed by other cities (including San José, Mountain View and Chula Vista), a "white paper" on this subject co-authored with CSG Advisors and The California Housing Partnership Corporation, and HR&A's experience underwriting numerous affordable housing development projects.

Background on Middle-Income Housing Transactions

In 2019, JPAs that serve as conduit issuers of financing for local governments began structuring proposals for local governments to participate in government-owned middle-income rental housing funded by tax-exempt bonds. After the local government agrees to join a JPA and approves participation in a transaction, the JPA obtains the power to purchase, own and finance existing or newly constructed apartment buildings within the jurisdiction, which also provides an exemption from *ad valorem* property tax during the term of bond financing and project ownership, because the JPA is a public agency. The JPAs restrict some or all units to moderate-income households, which are defined as those who earn between 81 percent and 120 percent of Area Median Income ("AMI") for each county.[1] These rent levels have not typically been subject to long-

[1] In this memo, the term "middle-income" housing has the same meaning as "moderate-income" and "workforce" housing, and includes the entire 81% to 120% x AMI household income range and associated maximum gross rents.

term deed restrictions in transactions approved to date, including the Oceanaire project. Middle-Income Housing transaction sponsors typically include the JPA, a developer or an affiliated entity to act as project administrator and asset manager ("Project Administrator"), a Property Management company working under contract with the JPA and/or the Project Administrator (collectively, the "JPA Project Team"), and investment firms and bond legal counsel.

Middle-Income Housing tax-exempt bonds provide 100 percent of the project financing required to purchase or build the project including all associated financing and transaction fees. The bonds are generally structured in two pieces: Series A and Series B. The Series A Bond pays for acquisition, financing, reserves and other project costs. The "A Bond" for most Middle-Income Housing proposals does not pay down principal until the later years and therefore leaves most of the principal balance to be paid towards the end of the bond term (typically year 30 for acquisition of existing buildings). The subordinate "B Bond" is given to the Project Administrator which often initiates the proposal. This "B Bond", effectively a form of preferred equity, also carries a tax-exempt interest rate that is typically 10 percent, and is required to be paid at the end of the bond term and prior to the local government in the ultimate sale proceeds schedule.

The household income restrictions have not typically been deed-restricted for a 55-year term like other affordable housing projects; but could be, even though that would exceed the usual bond financing term, and require new financing to continue supporting the deed restriction after the bonds and other project costs are paid off. A Public Benefit Agreement with the JPA typically provides the local government the ability to force a sale of the project or purchase the project directly at any point between the 15th year of the bond financing and the bond termination year, pay off any outstanding bond debt and realize the net sale proceeds. Otherwise, the JPA sells the property on its own initiative at the end of the bond term, repays any outstanding debt, and reverts any additional net sale proceeds to the local government. Given the very high leverage and lack of significant bond principal amortization in these transactions, the outstanding debt is likely to be large at the very end of the bond term. In addition, the transaction's financial model depends on net income from rent growth over operating expenses every year sufficient to make annual debt payments, and hence creates default risk if market conditions and/or project management do not generate the required level of annual net income. The combination of these and many other transaction risk factors may temper the potential future financial benefit for the local government.

Recommended Policies for City Participation in Tax-Exempt Bond Financing

It is recommended that the City consider participating in future Middle-Income Housing transactions only if they are consistent with the following City policies:

1. **Housing Production and Preservation:** Middle-Income Housing transactions are intended to encourage the production and preservation of deed-restricted, moderate-income units. The City seeks to maximize the number of units that will qualify for Regional Housing Needs Allocation credit, through conversion of existing market rate units and/or new construction and 55-year deed-restricted affordable units.

2. **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 (among other City benefits as noted below) 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.

3. **Maintain City Property Tax Revenues:** Maintaining City property tax revenue that would otherwise be exempted should be a priority consideration in structuring the transaction.

4. **Other Public Benefits:** Middle-Income Housing transactions that provide unique public benefits may obtain modifications to the proposed terms and conditions presented below. Examples of such benefits may include, but are not limited, to the following:

    a. New construction, for which all project units will be counted for the City's Regional Housing Needs Allocation;
    b. Conversion within 12 months of all existing project units to Middle-Income Housing;
    c. Generation of other new City tax revenues (e.g., sales tax revenue from ground floor commercial uses or new household spending), and other new local economic benefits (e.g., jobs and economic output); and
    d. Preservation of properties that are more than 10 years old.

Proposed Middle-Income Housing Bond Transaction Terms and Conditions

To implement the above City policies, it is further recommended that future Middle-Income Housing transactions comply with the following terms and conditions:

1. **Underwriting Standards:** All applications must meet the following basic prudent underwriting standards:
    a. *City Property Tax*: No project shall be considered that does not provide the City with a "host fee" in an amount equivalent to the City's share of the otherwise exempted *ad valorem* property tax.
    b. *Third Party Appraisal*: The acquisition price for existing properties to be converted and/or land for a new construction project must be verified by a third-party appraisal from a City selected or mutually agreed upon licensed appraiser with the cost paid by the JPA or Project Administrator.
    c. *Maximum Rents:* Tenant rents per the State Income Limits household income and gross rent schedules shall not exceed 30 percent of household income, net of a tenant-paid utility allowance published by the Long Beach Housing Authority.[2] The maximum affordable rents shall be at least 10 percent below current market rents for equivalent units at the time of initial rental and re-leasing of vacant units, subject to review by City staff. Use of the alternative CTCAC maximum gross rent schedule for some project units will be at the City's discretion.
    d. *Cumulative Rent Discounts:* Over the term of the bonds the net present value of cumulative rent discount to market rate rents shall be approximately equal or greater than the net present value of cumulative foregone property tax revenue to all taxing entities.
    e. *Deed Restriction*: The affordability restrictions will include a minimum 55-year deed restriction, subject to review and approval by the City Attorney.
    f. *Cost and Rent Exceptions*: The City may also consider alternative rental/housing cost standards, in its sole discretion. In the event there are other covenants on the property (e.g., for new construction, any requirements to replace existing affordable units), the most restrictive rent standard shall apply.
    g. *Unit Mix*: The specific project unit mix by number of bedrooms, location within the project and allocation by middle-income household income category will be subject to City review and consideration
    h. *Capital Expenditure Reserves*: A minimum of $300 per unit per year escalating at no less than 3.0 percent per year. The required level of annual reserves may increase based on

[2] https://www.longbeach.gov/haclb/owners-and-agents/utility-allowance-schedule/

the type and age of property at the sole discretion of the City. A JPA- or Project Administrator-provided, third-party physical needs assessment over the entire bond term summarized as a capital repairs program will be evaluated in determining these requirements. Furthermore, replacement reserves shall be part of Net Operating Income calculations and used in sizing the A Bond.

i. *Minimum Debt Service Coverage Ratio:* The A and B Bonds must have a minimum annual debt service coverage ratio of 1.0 beginning in year 1, defined as Net Operating Income plus the actual drawdown of interest and coverage reserves divided by the scheduled bond interest and/or principal payment for all A and B Bonds. One additional debt service coverage ratio commonly used in such bond transactions, calculated by dividing the Total Net Revenues plus any funds available in the Capitalized Interest Account and the Coverage Reserve Fund, for a particular period, by the Net Debt Service for the Outstanding Series A Bonds or Series of Bonds for the same period, should not be less than 1.20 beginning in year 1.

j. *Bond Principal Amortization:* Projects in which bond principal is significantly reduced over the course of the bond term will be given more favorable consideration by the City.

k. *Annual Rent Growth:* Rents charged on all middle-income units shall not increase more than the lesser of: (1) the annual change in 100 percent of AMI rents per the CTCAC rent schedule over the prior twelve months, or (2) at least a 10 percent discount to market rents for the same type of unit, and in no event exceed a maximum of 4.0 percent per year. Rents charged on all existing market-rate units for tenants that do not income quality shall increase annually by the maximum amount allowed by the Tenant Protection Act of 2019,[3] namely 5.0 percent plus the applicable Consumer Price Index ("CPI") or 10%, whichever is lower to encourage conversion to moderate-income units.

l. *Operating Expense Growth:* Annual operating expenses should be projected to grow at a minimum of 3.0 percent per year. Accumulated capital reserves should be used to conduct major renovation as scheduled in the capital repairs program.

m. *Exit Scenario:* In estimating the City's potential future financial benefit from the transaction, the income capitalization rate assumed by the JPA and Project Administrator at the end of the A Bond term must be at least 100 basis points greater than the capitalization rate for comparable housing developments at the time of project application review.

n. *Construction Cost:* For new construction projects, all workers must be paid applicable prevailing wages. The hard costs for new construction projects must be verified by a City approved, qualified and licensed general contractor with the estimate cost paid by the JPA or Project Administrator. The construction costs should include a contingency of at least 10 percent, depending on the level of design on which the estimate is based.

2. **Transaction & Annual Fees:** The JPA's and Project Administrator's annual fees must comply with the following terms:

   a. *Closing Fees*: Initial closing fees shall be evaluated to ensure that they meet market standards and are fully accounted for in the pro-forma provided by the JPA and Project Administrator to the City. Closing fees include all bond origination (including without limitation issuer and legal fees and underwriter's discount), Project Administrator and ownership fees. Total fees should not exceed 2.0 percent of either the total development cost for new construction or the acquisition price for an existing building.

[3] California Civil Code Section 1947.12 (a) (1).

b. Ongoing Fees to JPA and Project Administrator: The annual fees paid to all entities potentially including the JPA, Project Administrator, and Property Manager shall be evaluated to ensure they meet market standards.
c. *Asset Management Reserves:* For existing buildings, reserves for asset management fees, which contribute to a project's overall debt load, shall be initially funded at three years' worth of payments and not replenished.
d. *Accrual:* No capitalization of accrued interest for a B Bond is allowed.

3. **Property Transfer and Encumbrance:** The City reserves, at minimum, the following rights related to the transfer or additional encumbrance of the property. Disclosures shall be made by the JPA within three business days of incurring any additional debt and other reportable events as defined by the Securities and Exchange Commission ("SEC") Section 15c2-12 disclosure rules.
   a. *Additional Debt*: After the initial bond issuances, the City shall have the right to approve the amount and terms of any additional subordinate debt exceeding $50,000 in aggregate.
   b. *Forced Sale*: The City shall have the ability to force a sale or exercise a purchase option, as applicable, at any point after year 15 of the A Bond term.
   c. *Transfers*: City shall have sole and absolute discretion to approve or reject any changes to the: a) ownership of the project, including changes that are made in whole or in part; b) Asset Manager/Project Administrator; and c) Property Manager. Any request to change the Asset Manager/Project Administrator or Property Manager (including any proposed transfers of controlling interests therein) shall be presented to the City for approval. Further, the City may request a transfer or replacement of a Property Manager for any failure to maintain the project or comply with the terms of the Property Management Agreement.

4. **Joint Powers Authority and Project Team Member Qualifications**: The City requires the following professional experience parameters for the JPA Project Team members:
   a. *Joint Powers Authority and Other Sponsors*: The JPA and its consultants, shall demonstrate to the City's reasonable satisfaction that it operates with responsible leadership and financing practices and has appropriate housing bond-issuing authority and experience, as evidenced by information on current performance on other Middle-Income Housing transactions.
   b. *Project Administrators or Asset Managers:* Project Administrator or Asset Management companies will evidence no less than 40 years of combined experience of key principal staff in the following areas:
      i. Identifying real estate properties for acquisition, negotiating terms, conducting due diligence, documenting, and closing acquisitions;
      ii. Borrowing or underwriting debt and/or equity investments in multifamily transactions;
      iii. Developing properties from the ground up;
      iv. Overseeing substantial rehabilitation of multifamily projects of at least 100 units; and
      v. Performing high-quality full asset management of properties under control, including hiring and overseeing reputable property management companies experienced with affordable housing compliance and operations, as well as financial workouts and restructuring.
   c. *Property Managers*: The Property Manager shall have successful experience managing at least five large scale affordable housing apartment developments in Los Angeles County as well as extensive experience managing apartment buildings with deed-restricted affordable units and associated compliance administration. Property Management

companies should have experience working diligently and cooperatively with local governments to resolve apartment building condition and safety problems.

   d. *Municipal Advisor:* The JPA's project team shall also include an independent, Municipal Securities Rulemaking Board ("MRSB") registered municipal advisor that has a fiduciary obligation to ensure the bond transactions closes per these terms and conditions and any other requirements reflected in: (1) City Council approval to enter into the transaction; (2) the terms of the Public Benefit Agreement; (3) the terms of a Regulatory Agreement and Deed Restriction (as applicable); and (4) sound public finance practice.

5. **Tenant Protections & Occupancy Process**: For acquisition of existing projects, the City requires that the JPA Project Team adhere to the following measures to avoid involuntary displacement of existing tenants within the 12 months following a property's acquisition:
   a. *Noticing*: Each tenant shall be provided with a written notice advising them of their rights under the terms of the City-approved transaction, Regulatory Agreement, and deed restriction (as applicable) and on-going JPA project team compliance procedures to maintain their eligibility to reside in any market-rate or income and rent restricted units by category, as applicable. A copy of the notice shall also be provided to the City Manager. The notice shall include procedures for the conversion of tenancies of any market rate units to price-restricted units in a way that does not cause involuntary displacement of existing tenants during their tenure.
   b. *Maximum Household Income:* Following conversion to restricted rents of all occupied market-rate units at the commencement of lease-up, no units shall be rented to tenants with incomes that exceed 120 percent of AMI.
   c. *Existing Tenants:* Existing tenants who meet household income requirements should be transitioned first into more deeply affordable units at their option, prioritizing those with the highest proportion of income spent on rent payments.
   d. *Affirmative Marketing: The* Property Manager shall include contact information on the City's Affordable Housing Development List. The Project Administrator or Property Manager will maintain a waiting list and follow the affirmative marketing procedures in compliance with the California Department of Housing and Community Development's Affirmative Furthering Fair Housing.[4]
   e. *Compliance with City's Local Preference Policy:* The Property Manager shall coordinate with City staff to implement the City's Local Housing Preference Policy and Priority System Guidelines, to the extent possible.
   f. *Section 8*: In accordance with California Government Code Sections 12927 and 12955, as amended, 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.

6. **City Reporting Requirements:** The City requires the following annual reporting by the JPA Project Team to the Director of Development Services:
   a. *Tenant Satisfaction Survey:* The Property Manager will conduct an annual tenant satisfaction survey with responses from a representative sample of at least 20 percent of tenants.
   b. *Market Rents & Property Discounts*: The Project Administrator will provide an annual report on submarket rents and discounts. The report will draw on comparable rent and market data that is mutually agreed upon by the City and the JPA Project Team. Rents for each

[4] https://www.hcd.ca.gov/community-development/affh/index.shtml

type of unit in a project shall be set annually, or at the renewal of tenants' leases if less than 12 months.

c. *Tenant Summary:* The Property Manager will provide an annual summary of tenant attributes including household size, income and rent information on a form acceptable to the Director of Development Services.

d. *Property Financial Report:* The Project Administrator will provide an annual financial report that details operating expenses and debt metrics associated with the project.

e. *Property Condition:* The Property Manager shall continually maintain the units in a condition which, at a minimum, satisfies the Uniform Physical Conditions Standards promulgated by the U.S. Department of Housing and Urban Development (24 CFR §5.705). The project shall also be subject to the City's rotation of property inspections set forth by the City's Code Enforcement Division.

f. *City Requests for Other Information:* The JPA Project Team shall respond within 10 calendar days in writing to any reasonable written request from the City for other information about project's maintenance conditions or leasing practices.

g. *Public Benefit Agreement Requirements:* The above reporting requirements must be included in the transaction's Public Benefit Agreement or shall otherwise be enforceable by the City.

7. **City Application and Annual Compliance Requirements:** The following costs shall be paid by the JPA and/or Project Administrator for the City's transaction application review and annual transaction compliance review:

   a. *City Application Fee*. A City transaction application review fee to pay for City staff time to review and process the application.

   b. *Third Party Underwriting Review Costs:* The JPA or Project Administrator shall enter into a reimbursement agreement with the City to pay for the City's reasonable cost to retain independent professionals to review each proposed Middle-Income Housing transaction application and its degree of adherence to the above City terms and conditions.

   c. *Annual Monitoring Fee:* All projects will be required to pay the City's annual affordable housing monitoring fee (currently $170 per unit) as increased from time-to-time.

Appendix A

Proposed Middle-Income Housing Transaction Application and Review Process

City staff will prepare an application form for City Council consideration of a proposed Middle-Income Housing transaction, which may be a conversion of an existing apartment building or a new construction project. Review of the application contents, including its degree of adherence to City terms and conditions for such transactions, and City Council decision making will include the following steps:

1. *Initial Consultation Meeting.* A Middle-Income Housing transaction Applicant must first conduct a meeting with City staff to introduce and discuss the proposed transaction, and the City's application and review process.
2. *Submittal of the Application.* The applicant must complete the City application form and provide all the information listed below in the Middle-Income Housing Application Information Checklist.
3. *Application Completeness Review.* City staff, with advice from independent professional advisors, will review the transaction application 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.
4. *Application Analysis Review.* City staff and independent professional advisors will conduct analysis of the proposed transaction, including its degree of adherence to the City's required terms and conditions and seek to clarify any questions or need for additional information from the Applicant to complete their analysis. The City staff's independent professional advisors will prepare a memorandum for review by the Applicant summarizing its initial review of the proposed transaction and its adherence or lack of adherence to City terms and conditions. This process may take 60 days or more, depending on project specifics.
5. *Meet and Confer Process.* City staff, its independent professional advisors and the Applicant will meet and confer to attempt to resolve any areas in which the proposed transaction does not adhere to the City's terms and conditions. The schedule required for such discussions will depend on project specifics.
6. *Application Consideration by the City Council.* When City staff determines that the foregoing meet and confer process has reached a conclusion, and after consultation with the City Manager and Mayor, the matter will be scheduled for a City Council hearing in not less than 30 days, to allow for preparation and distribution of a City staff report (including a final memorandum by the independent professional advisors) and publication of a public notice about the hearing. Final approval to enter into the transaction and approve required documents, or to disapprove the application, or take other related action(s) will be by majority vote of the City Council.

Middle-Income Housing Application Information Checklist

The following information must be submitted to the satisfaction of City staff to deem a Middle-Income Housing transaction application complete for review and consideration by the City Council:

Requested Item	Description
Long Beach Application	To be determined
JPA Project Team Narrative & Org Chart	Include a narrative description of the experience and roles of each of member of the JPA Project Team and other parties. Include information on current Middle-Income Housing bonds as well as real estate portfolio performance.
Property Information	Detailed information about the location, age, size and current uses of the property.
Regulatory Agreements	Copies of any existing regulatory agreements covering the project site.
Property Tax History	Copies of property tax bills for all project parcels from the last five years, if available
Full Project Financial Pro Forma	A "live" or dynamic Excel version of the financial pro forma with formulas for the proposed transaction, reflecting current and projected income and expenses, reserves, bond payments, debt coverage ratio, proposed basis for annual rent increases and a schedule of all transaction fees for the project, and estimated sale disposition and net proceeds scenarios at year 15 and termination of the bond term, along with notes on all key assumptions.
Existing Rent Roll	Trailing 12 month rent roll at the property, if applicable.
Historic Revenue and Expenses	Full accounting of revenue and expenses of up to the last five years, if applicable.
Payroll and Staffing Plan	Detailed payroll and staffing plan for the proposed project.
Capital Expenditure Plan	Detailed capital expenditure plan with estimated financing levels over the entire bond term for the proposed project.
Purchase and Sale Agreement	A copy of the draft purchase and sale agreement.
Draft Public Benefit Agreement	A copy of the draft Public Benefit Agreement between the JPA and the City.
Copies of Draft Agreements	Copies of the draft agreement between JPA and Project Administrator, and between the Project Administrator/JPA and the Property Manager.
Public Offering Statement	A copy of the draft documents for the proposed bond transactions or a comparable recently closed transaction by the same Applicant.
Offering Memorandum	Underwriter offering memorandum from a previously marketed transaction or similar marketing materials.
Property Conditions Assessment	Property Condition Assessment report for the project, if available. For a conversion project, information about the scope and cost of any recent remodel or major capital improvements since initial stabilized operation. For both existing buildings and new construction projects, the assessment should evaluate future replacement requirements over the bond term.
Appraisal	A copy of a draft or final appraisal or similar document justifying the proposed valuation of the building and property (for conversion projects) or land (for new construction projects).
Market Rent Study	Study that supports the restricted rent discount to market rents proposed by the Applicant.
Executed Reimbursement Agreement and Payment of City Application Fee	A fully executed reimbursement agreement, payment of fees for the City's independent professional advisors, and payment of the City application processing fee.