

R-43

October 4, 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

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;

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- 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.

TIMING CONSIDERATIONS

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

FISCAL IMPACT

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.

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SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



CHRISTOPHER KOONTZ
ACTING DIRECTOR OF DEVELOPMENT SERVICES



KEVIN RIPER
DIRECTOR OF FINANCIAL MANAGEMENT

ATTACHMENTS: ATTACHMENT A – LONG BEACH MIDDLE-INCOME HOUSING PROGRAM
ATTACHMENT B – WATERFORD COMMENTS ON MIP
ATTACHMENT C – CHART ADDRESSING ADDITIONAL COMMENTS

APPROVED:



THOMAS B. MODICA
CITY MANAGER

City of Long Beach Middle-Income Housing Program

The Program provides a framework for evaluating City participation in middle-income workforce housing proposals. The Program will accommodate transactions involving the conversion of existing developments as well as new construction projects. All proposals are subject to City Council review and approval.

POLICY ITEM	NEW CONSTRUCTION	ACQUISITION/CONVERSION
<p><u>Housing Production/Preservation and Affordability</u></p>	<p>50% of units restricted at HCD moderate-income rents for 55 years with Regulatory Agreement (must qualify for RHNA credit at moderate-income level).</p> <p>Remainder of units at TCAC moderate-income rents based on 30% of Income calculation.</p> <p>Modifications to these production requirements may be negotiated provided that a project provides other public benefits that qualify in the Other Public Benefits category below.</p> <p>Must comply with the City's Inclusionary Housing, No-Net-Loss requirements, and any applicable entitlement requirements.</p>	<p>A minimum 25% of units are restricted at 100% AMI HCD moderate-income rents for 55 years with Regulatory Agreement. Units must have been market-rate prior to conversion and must realize a minimum 10% reduction in average monthly rents from previous 12 months.</p> <p>Remainder of units at TCAC moderate-income rents based on 30% of income calculation with 55-year Regulatory Agreement.</p> <p>Modifications to these production requirements may be negotiated provided that a project provides other public benefits that qualify in the Other Public Benefits category below.</p> <p>The total number of units allowed to be converted during the 2021 through 2029 Housing Element planning period is 1,040 (25% of moderate-income RHNA allocation of 4,158 per Assembly Bill 787).</p>
<p><u>City Property Tax Revenues</u></p>	<p>100% of City property taxes reimbursed through Host Fee.</p>	<p>100% of City property taxes reimbursed through Host Fee.</p>
<p><u>Other Public Benefits</u> Projects that provide unique public benefits may obtain modifications to the proposed Terms and Conditions presented below.</p>	<p>All units are able to be counted toward RHNA goals with some portion counting toward moderate-income production goals.</p> <p>Generation of other new City tax revenues and other new local economic benefits.</p>	<p>Conversion of all units to Middle-income units within 12 months of conversion is encouraged as a goal.</p> <p>A minimum of 25% of units are able to be counted toward RHNA goals.</p> <p>Generation of other new City tax revenues and other new local economic benefits.</p> <p>Preservation of properties that are more than 10 years old.</p>

TERMS AND CONDITIONS	NEW CONSTRUCTION	ACQUISITION/CONVERSION
<p><u>Underwriting Standards</u> All applications must meet the following basic prudent underwriting standards:</p>	<p>a. <i>City Property Tax</i>: 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 <i>ad valorem</i> property tax.</p> <p>b. <i>Third Party Appraisal</i>: 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.</p> <p>c. <i>Maximum Rents</i>: Tenant rents per the State Income Limits household income and gross rent schedules shall not exceed 30% of household income, net of a tenant-paid utility allowance published by the Long Beach Housing Authority.¹ The maximum affordable rents shall be at least 10% below current market rents for equivalent units at the time of initial rental of vacant units, subject to review by City staff. Use of the alternative CTCAC maximum gross rent schedule is allowed for some project units based on 30% income calculation. TCAC rents based on 35% income calculation will be considered at the City's discretion.</p> <p>d. <i>Cumulative Rent Discounts</i>: 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.</p> <p>e. <i>Deed Restriction</i>: The affordability restrictions will include a minimum 55-year deed restriction, subject to review and approval by the City Attorney.</p> <p>f. <i>Cost and Rent Exceptions</i>: 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.</p> <p>g. <i>Unit Mix</i>: 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</p> <p>h. <i>Capital Expenditure Reserves</i>: A minimum of \$300 per unit per year escalating at no less than 3.0% per year. The required level of annual reserves may increase based on 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.</p> <p>i. <i>Minimum Debt Service Coverage Ratio</i>: 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</p>	

¹ <https://www.longbeach.gov/haclb/owners-and-agents/utility-allowance-schedule/>

	<p>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.</p> <p><i>j. Bond Principal Amortization:</i> Projects in which bond principal is significantly reduced over the course of the bond term will be given more favorable consideration by the City.</p> <p><i>k. Annual Rent Growth:</i> Rents charged on all middle-income units shall not increase more than the lesser of: (1) the annual change in 100% of AMI rents per the CTCAC rent schedule over the prior twelve months, or (2) at least a 10% discount to market rents for the same type of unit, and in no event exceed a maximum of 4.0% per year. Rents charged on all existing market-rate units for tenants that do not income qualify shall increase annually by the maximum amount allowed by the Tenant Protection Act of 2019,² namely 5.0% plus the applicable Consumer Price Index ("CPI") or 10%, whichever is lower to encourage conversion to moderate-income units.</p> <p><i>l. Operating Expense Growth:</i> Annual operating expenses should be projected to grow at a minimum of 3.0% per year. Accumulated capital reserves should be used to conduct major renovation as scheduled in the capital repairs program.</p> <p><i>m. Exit Scenario:</i> 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.</p> <p><i>n. Require Developer to obtain a wage determination from State Department of Industrial Relations.</i></p>
<p>Transaction and Annual Fees The JPA's and Project Administrator's annual fees must comply with the following terms:</p>	<p><i>a. Closing Fees:</i> 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% of either the total development cost for new construction or the acquisition price for an existing building.</p> <p><i>b. Ongoing Fees to JPA and Project Administrator:</i> 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.</p> <p><i>c. Asset Management Reserves:</i> 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.</p>

² California Civil Code Section 1947.12 (a) (1).

	<p>d. <i>Accrual</i>: No capitalization of accrued interest for a B Bond is allowed.</p>
<p><u>Property Transfer and Encumbrance</u> 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.</p>	<p>a. <i>Additional Debt</i>: 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.</p> <p>b. <i>Forced Sale</i>: 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.</p> <p>c. <i>Transfers</i>: 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.</p>
<p><u>Joint Powers Authority and Project Team Member Qualifications</u> The City requires the following professional experience parameters for the JPA Project Team members:</p>	<p>a. <i>Joint Powers Authority and Other Sponsors</i>: 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.</p> <p>b. <i>Project Administrators or Asset Managers</i>: Project Administrator or Asset Management companies will evidence no less than 10 years of extensive experience of key principal staff in the following areas:</p> <ul style="list-style-type: none"> 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 (new construction only); iv. Overseeing substantial rehabilitation of multifamily projects of at least 100 units (acquisition/rehabilitation only); 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. <p>c. <i>Property Managers</i>: 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.</p>

Tenant Protections and Occupancy Process

For acquisition of existing projects, the City required 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.

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.

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.

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% 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

		<p>Development's Affirmative Furthering Fair Housing.³</p> <p>e. <i>Compliance with City's Local Preference Policy:</i> 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.</p> <p>f. <i>Section 8:</i> 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.</p>
<p><u>City Reporting Requirements</u> The City requires the following annual reporting by the JPA Project Team to the Director of Development Services.</p>		<p>a. <i>Market Rents & Property Discounts:</i> 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 type of unit in a project shall be set annually, or at the renewal of tenants' leases if less than 12 months.</p> <p>b. <i>Tenant Summary:</i> 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.</p> <p>c. <i>Property Financial Report:</i> The Project Administrator will provide an annual financial report that details operating expenses and debt metrics associated with the project.</p> <p>d. <i>Property Condition:</i> 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.</p> <p>e. <i>City Requests for Other Information:</i> 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.</p> <p>f. <i>Public Benefit Agreement Requirements:</i> The above reporting requirements must be included in the transaction's Public Benefit Agreement or shall otherwise be enforceable by the City.</p>

³ <https://www.hcd.ca.gov/community-development/affh/index.shtml>

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. City will make a best effort and act in good faith to limit underwriting review costs.
- 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.
- d. *City will make best effort and act in good faith to limit underwriting review costs*

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.



March 8, 2022

Oscar Orci
Community Development Director
Long Beach Development Services
411 W. Ocean Blvd., 3rd Floor
Long Beach, CA 90802

RE: COMMENTS TO PROPOSED HR&A “MIDDLE-INCOME” POLICY

Dear Mr. Orci:

On behalf of Waterford Property Company and the California Statewide Communities Development Authority (CSCDA), I would like to thank you for City Staff’s engagement on the proposed “middle-income” work-force housing program. Pursuant to the City’s request for Waterford and CSCDA’s comments to the proposed HR&A “middle-income” policy please find the following comments to *HR&A’s Proposed Middle-Income Housing Bond Transactions Terms and Conditions*:

1. Underwriting Standards:

- a. City Property Tax: Agreed
- b. Third Party Appraisal: Agreed; This is consistent with bond underwriting standard.
- c. Maximum Rents: This is not consistent with underwriting standards and is not workable for a successful bond issuance.
- d. Cumulative Rents: Agreed
- e. Deed Restriction: This is something that we are open to discussing but this is not in the best interest of the City. It eliminates financial flexibility for future City Councils.
- f. Cost and Rent Exceptions: This item is unclear. If this is referring to keeping all existing affordable units subjects to pre-existing regulatory agreements with lower rents in place, than this agreeable.
- g. Unit Mix: This is only applicable for new construction projects.
- h. Capital Expenditure Reserve: Agreed
- i. Minimum Debt Service Coverage Ratio: This is not consistent with the underwriting standards for these transactions.
- j. Bond Principal Amortization: Agreed
- k. Annual Rent Growth: Waterford recommends using the same language that is in the Regulatory Agreement for the Oceanaire transaction. The language caps rent growth at the lesser of “AMI growth or 4%”.
- l. Operating Expense Growth: Agreed
- m. Exit Scenario: Agreed
- n. Construction Cost: Agreed

2. Transaction and Annual Fees:

- a. Closing Fees: This is not consistent with the underwriting standards for these transactions.

130 Newport Center Dr., Suite 230 Newport Beach, CA 92660

- b. Ongoing Fees to JPA and Project Administrator: Agreed
- c. Asset Management Reserves: Agreed
- d. Accrual: This is not consistent with the underwriting standards for these transactions.

3. Property Transfer and Encumbrance:

- a. Additional Debt: This is not consistent with the underwriting standards for these transactions.
- b. Forced Sale: Agreed
- c. Transfers: This is not consistent with the underwriting standards for these transactions.

4. Joint Powers Authority And Project Team Members Qualifications:

- a. Joint Powers Authority And Other Sponsors: Agreed
- b. Project Administrators or Asset Managers: Waterford meets these standards but disagrees with the criteria. This is an arbitrary requirement and discriminates based on age.
- c. Property Managers: Agreed
- d. Municipal Advisor: No. This is unnecessary and redundant. The City is not part of the issuance.

5. Tenant Protections and Occupancy Process:

- a. Noticing: Agreed
- b. Maximum Household Income: Agreed
- c. Existing Tenants: Agreed
- d. Affirmative Marketing: Agreed
- e. Compliance with City Local Preference Policy: Agreed
- f. Section 8: Agreed if they income qualify

6. City Reporting Requirements:

- a. Tenant Satisfaction Survey: This is not consistent with the underwriting standards for these transactions or traditional affordable housing projects.
- b. Market Rents and Property Discounts: This is not consistent with the underwriting standards for these transactions or traditional affordable housing projects.
- c. Tenant Summary: Agreed
- d. Property Financial Report: Agreed
- e. Property Condition Report: The administrator will agreed to do Property Condition Assessments every five years but having the City do inspections creates liability for the City.
- f. City Requests for Other Information: Agreed
- g. Public Benefit Agreement: Agreed.

7. City Application and Annual Compliance Requirements:

- a. City Application Fee: Agreed
- b. Third Party Underwriting Costs: Agreed
- c. Annual Monitoring Fee: Agreed

Appendix A Comments

This process seems acceptable for new development projects, but property acquisitions have a much different timeline.

In closing I would like to thank City Staff for its diligent work on the middle-income housing program. The middle-income program is an extremely innovative financing tool for cities to provide homes for the “missing-middle” demographic. The key take away is to point out that if the City adopts a Middle-Income Housing “MIH” Policy that allows for projects to be financed. If the City adopts the criteria as drafted MIH projects will not financially feasible in Long Beach. We look forward to working with you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sean Rawson', with a long horizontal flourish extending to the right.

Sean Rawson
Co-Founder
Waterford Property Company

City of Long Beach Middle-Income Housing Program

The Program provides a framework for evaluating City participation in middle-income workforce housing proposals. The Program will accommodate transactions involving the conversion of existing developments as well as new construction projects. All proposals are subject to City Council review and approval.

POLICY ITEM	NEW CONSTRUCTION	ACQUISITION/CONVERSION	DEVELOPER COMMENTS	HR&A/STAFF RESPONSE
<p><u>Housing Production/Preservation and Affordability</u></p>	<p>50% of units restricted at HCD moderate-income rents for 55 years with Regulatory Agreement (must qualify for RHNA credit at moderate-income level).</p> <p>Remainder of units at TCAC moderate-income rents based on 30% of Income calculation.</p> <p>Modifications to these production requirements may be negotiated provided that a project provides other public benefits that qualify in the Other Public Benefits category below.</p> <p>Must comply with the City's Inclusionary Housing, No-Net-Loss requirements, and any applicable entitlement requirements.</p>	<p>A minimum 25% of units are restricted at 100% AMI HCD moderate-income rents for 55 years with Regulatory Agreement. Units must have been market-rate prior to conversion and must realize a minimum 10% reduction in average monthly rents from previous 12 months.</p> <p>Remainder of units at TCAC moderate-income rents based on 30% of income calculation with 55-year Regulatory Agreement.</p> <p>Modifications to these production requirements may be negotiated provided that a project provides other public benefits that qualify in the Other Public Benefits category below.</p> <p>The total number of units allowed to be converted during the 2021 through 2029 Housing Element planning period is 1,040 (25% of moderate-income RHNA allocation of 4,158 per Assembly Bill 787).</p>	<p>Desires all units at higher TCAC rents with 10% reduction in average monthly rent from previous 6 months.</p>	<p>City's goal is to receive RHNA credit for both new construction and conversion units, which requires the use of HCD rents as proposed. In addition, this policy item already allows for modifications if other public benefits are provided - <u>retain</u>.</p>
<p><u>City Property Tax Revenues</u></p>	<p>100% of City property taxes reimbursed through Host Fee.</p>	<p>100% of City property taxes reimbursed through Host Fee.</p>		
<p><u>Other Public Benefits</u> Projects that provide unique public benefits may obtain modifications to the proposed</p>	<p>All units are able to be counted toward RHNA goals with some portion</p>	<p>Conversion of all units to Middle-income units within 12 months of conversion is encouraged as a goal.</p>	<p>This requirement is not possible and will impact financing.</p>	<p>Staff changed this to a goal instead of a mandate.</p>

<p>Terms and Conditions presented below.</p>	<p>counting toward moderate-income production goals.</p> <p>Generation of other new City tax revenues and other new local economic benefits.</p>	<p>A minimum of 25% of units are able to be counted toward RHNA goals.</p> <p>Generation of other new City tax revenues and other new local economic benefits.</p> <p>Preservation of properties that are more than 10 years old.</p>	<p>This is not consistent with state law and has no bearing on the public benefit of the project.</p>	<p>Receiving RHNA credit for the units is critical to compliance with the Housing Element and the meaningful affordability provided by the lower rents is a direct public benefit - <u>retain</u>.</p>
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TERMS AND CONDITIONS	NEW CONSTRUCTION	ACQUISITION/CONVERSION	DEVELOPER COMMENTS	HR&A/STAFF RESPONSE
<p><u>Underwriting Standards</u> All applications must meet the following basic prudent underwriting standards:</p>	<p>a. <i>City Property Tax:</i> 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 <i>ad valorem</i> property tax.</p> <p>b. <i>Third Party Appraisal:</i> 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.</p> <p>c. <i>Maximum Rents:</i> Tenant rents per the State Income Limits household income and gross rent schedules shall not exceed 30% of household income, net of a tenant-paid utility allowance published by the Long Beach Housing Authority.¹ The maximum affordable rents shall be at least 10% 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 is allowed for some project units based on 30% income calculation. TCAC rents based on 35% income calculation will be considered at the City’s discretion.</p> <p>d. <i>Cumulative Rent Discounts:</i> 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.</p> <p>e. <i>Deed Restriction:</i> The affordability restrictions will include a minimum 55-year deed restriction, subject to review and approval by the City Attorney.</p> <p>f. <i>Cost and Rent Exceptions:</i> 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.,</p>	<p></p>	<p>Require 10% reduction in rent at initial lease up and remove re-leasing/City review requirement.</p>	<p>This request is consistent with AB 787 – policy to be changed to remove re-leasing/City review requirement.</p>

¹ <https://www.longbeach.gov/haclb/owners-and-agents/utility-allowance-schedule/>

	<p>for new construction, any requirements to replace existing affordable units), the most restrictive rent standard shall apply.</p> <p>g. <i>Unit Mix</i>: 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.</p> <p>h. <i>Capital Expenditure Reserves</i>: A minimum of \$300 per unit per year escalating at no less than 3.0 % per year. The required level of annual reserves may increase based on 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.</p> <p>i. <i>Minimum Debt Service Coverage Ratio</i>: 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.</p> <p>j. <i>Bond Principal Amortization</i>: Projects in which bond principal is significantly reduced over the course of the bond term will be given more favorable consideration by the City.</p> <p>k. <i>Annual Rent Growth</i>: Rents charged on all middle-income units shall not increase more than the lesser of: (1) the annual change in 100% of AMI rents per the CTCAC rent schedule over the prior twelve months, or (2) at least a 10% discount to market rents for the same type of unit, and in no event exceed a maximum of 4.0% per year. Rents charged on all existing market-rate units for tenants that do not income qualify shall increase annually by the maximum amount allowed by the</p>	<p>This requirement is not achievable.</p> <p>Remove “(2) at least a 10% discount to market rents for the same type of unit.”</p>	<p>HR&A disagrees based on how they define debt service coverage ratio (DSCR) as included in the proposed policy – <u>Retain</u>.</p> <p>This policy requirement is in place in order to maintain meaningful affordability for these units -<u>Retain</u>.</p>
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	<p>Tenant Protection Act of 2019,² namely 5.0% plus the applicable Consumer Price Index (“CPI”) or 10%, whichever is lower to encourage conversion to moderate-income units.</p> <p><i>l. Operating Expense Growth:</i> Annual operating expenses should be projected to grow at a minimum of 3.0% per year. Accumulated capital reserves should be used to conduct major renovation as scheduled in the capital repairs program.</p> <p><i>m. Exit Scenario:</i> 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.</p>		
	<p><i>n. Construction Cost:</i> 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%, depending on the level of design on which the estimate is based</p>	<p>This is not consistent with affordable housing projects and is not required by the City when affordable housing loans are provided, and this was not required for the Plenary project.</p>	<p>The Plenary project did commit to the payment of prevailing wages.</p> <p>Not all affordable housing projects are subject to prevailing wages, but some developers include them in an abundance of caution.</p> <p>Staff recommends that the language be modified to require a developer to obtain a determination from the State Department of Industrial Relations, unless the City Council wishes to impose this as a requirement.</p>
<p><u>Transaction and Annual Fees</u> The JPA’s and Project Administrator’s annual fees must comply with the following terms:</p>	<p><i>a. Closing Fees:</i> 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 % of either the total development cost for new construction or the acquisition price for an existing building.</p>		

² California Civil Code Section 1947.12 (a) (1).

	<ul style="list-style-type: none"> b. <i>Ongoing Fees to JPA and Project Administrator:</i> 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. <i>Asset Management Reserves:</i> 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. <i>Accrual:</i> No capitalization of accrued interest for a B Bond is allowed. 		
<p><u>Property Transfer and Encumbrance</u> 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.</p>	<ul style="list-style-type: none"> a. <i>Additional Debt:</i> 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. <i>Forced Sale:</i> 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. <i>Transfers:</i> 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. 	<p>City cannot withhold approval rights for a refinance.</p> <p>The bond investors should have control over this, not the City.</p>	<p>This policy item does not relate to a refinance, rather it provides the City with approval rights over the developer incurring additional debt on the property – <u>Retain</u>.</p> <p>This is standard language used in all affordable housing Regulatory Agreements and allows the City to ensure strong and successful property management and operation of the property – <u>Retain</u>.</p>
<p><u>Joint Powers Authority and Project Team Member Qualifications</u> The City requires the following professional experience parameters for the JPA Project Team members:</p>	<ul style="list-style-type: none"> a. <i>Joint Powers Authority and Other Sponsors:</i> 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. <i>Project Administrators or Asset Managers:</i> Project Administrator or Asset Management companies will evidence no less than 10 years of extensive experience of key principal staff in the following areas: <ul style="list-style-type: none"> i. Identifying real estate properties for acquisition, negotiating terms, conducting due diligence, documenting, and closing acquisitions; 		

	<ul style="list-style-type: none"> ii. Borrowing or underwriting debt and/or equity investments in multifamily transactions; iii. Developing properties from the ground up (new construction only); iv. Overseeing substantial rehabilitation of multifamily projects of at least 100 units (acquisition/rehabilitation only); 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. <p>c. <i>Property Managers:</i> 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.</p> <p>d. <i>Affirmative Marketing:</i> 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.</p> <p>e. <i>Compliance with City's Local Preference Policy:</i> 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.</p> <p>f. <i>Section 8:</i> 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</p>		
<p><u>Tenant Protections and Occupancy Process</u> For acquisition of existing projects, the City required that the JPA Project Team adhere to the following measures to</p>	<p>a.</p>	<p>a. <i>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</i></p>	

<p>avoid involuntary displacement of existing tenants within the 12 months following a property's acquisition.</p>		<p><i>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.</i></p> <p>b. <i>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% of AMI.</i></p> <p>c. <i>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. Affirmative Marketing: The Property Manager shall include contact information on the City's Affordable Housing Development List. The Project Administrator or</i></p>		
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		<p>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.³</p> <p>d. <i>Compliance with City's Local Preference Policy:</i> 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.</p> <p>e. <i>Section 8:</i> 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.</p>		
<p><u>City Reporting Requirements</u> The City requires the following annual reporting by the JPA Project Team to the Director of Development Services.</p>		<p>a. <i>Market Rents & Property Discounts:</i> 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 type of unit in a project shall be set annually, or at the renewal of tenants' leases if less than 12 months.</p> <p>b. <i>Tenant Summary:</i> 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.</p>		

³ <https://www.hcd.ca.gov/community-development/affh/index.shtml>

	<ul style="list-style-type: none"> c. <i>Property Financial Report:</i> The Project Administrator will provide an annual financial report that details operating expenses and debt metrics associated with the project. d. <i>Property Condition:</i> 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. e. <i>City Requests for Other Information:</i> 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. f. <i>Public Benefit Agreement Requirements:</i> The above reporting requirements must be included in the transaction's Public Benefit Agreement or shall otherwise be enforceable by the City. 		
<p><u>City Application and Annual Compliance Requirements</u> 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.</p>	<ul style="list-style-type: none"> a. <i>City Application Fee.</i> A City transaction application review fee to pay for City staff time to review and process the application. b. <i>Third Party Underwriting Review Costs:</i> 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. City will make a best effort and act in good faith to limit underwriting review costs. c. <i>Annual Monitoring Fee:</i> 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. 	<p>Cost shall not exceed \$40,000 and may adjust with inflation.</p>	<p>Modify policy to indicate that the City will make a best effort and act in good faith to limit underwriting review costs.</p>

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	Provide a "live" or dynamic Excel version of the financial pro forma with formulas 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. <i>(Developer objected to "live" pro forma requirement and stated that it is not customary to provide for any affordable housing transaction. That is not true, a "live" pro forma is always provided for affordable housing projects in Long Beach – Retain.</i>
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.