File #: 22-0063, **Version:** 1

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

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.

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

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.

Approve recommendation.

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APPROVED:

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