Folsom City Council
Staff Report

MEETING DATE:	1/26/2021
AGENDA SECTION:	New Business
SUBJECT:	Affordable Housing Fund Requests and Direction to Staff a. Resolution No. 10583 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in the Amount of $3,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds b. Resolution No. 10584 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in an Amount of $4,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement And Related Documents and Authorizing the City's Allocation of $800,000 In Home Funds Received Through Participation in the SHRA HOME Consortium for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds
FROM:	Community Development Department

RECOMMENDATION / CITY COUNCIL ACTION

Staff respectfully seeks Council direction on affordable housing loan funding requests for the proposed Sage at Folsom Multifamily Affordable Housing Development Project and the proposed Mangini Place Affordable Housing Project.

With respect to the Sage at Folsom Project, staff respectfully recommends that the City Council adopt the following resolutions:

a. Resolution No. 10583 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in the Amount of $3,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

b. Resolution 10584 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in an Amount of $4,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement And Related Documents and Authorizing the City's Allocation of $800,000 In Home Funds Received Through Participation in the SHRA HOME Consortium for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

Please note that only one of the above referenced resolutions will ultimately be implemented, depending on whether or not the Sage at Folsom project is successful in securing highly competitive State tax credits.

BACKGROUND / ISSUE

The City of Folsom has a strong commitment to providing a variety of housing strategies and programs to address the City's need for affordable housing. Since 2002, the City has committed financial assistance for the development of 750 multifamily affordable rental units. All of these units have long-term 55-year affordability requirements. As such, none of the affordable units in Folsom are at risk of conversion to market-rate uses within the next 25 years. Attachment 3 lists the developed and approved affordable rental projects in the City.

The City's Housing Element, which implements the City's "fair share" of the regional affordable housing needs allocated (RHNA) to the City by the Sacramento Area Council of Governments (SACOG), is broken down into four income categories: very low-, low-, moderate- and above moderate-income (see Table 1 below for a breakdown of how these categories are defined in terms of median income and maximum affordable rent.

Table 1 - HUD Income Limits and Corresponding Maximum Affordable Rental Cost

State Defined Income Categories	County Median Income Category	4-Person Household Maximum State and Federal Income Limits Sac County, 2020	Maximum Affordable Gross Rental Cost/Month
Moderate Income	81%-120%	$103,550	$3,020
Median Income	100%	$86,300	$2,158
Low Income	51% -80% of median	69,050	$1,726
Very Low Income	31% - 50% of median	$43,150	$1,079
Extremely Low Income	< 30% of median	$26,200	$655

The City's current Housing Element called for 1,218 very low-income units and 854 low-income units over the eight-year period from 2013 to 2021. During this past Housing Element cycle, the City provided an affordable housing grant in the amount of $780,000 to the Talavera Ridge Apartments for six extremely low-income units and three affordable housing loans totaling over $14 million for the Bidwell Pointe Mixed-use Project, Bidwell Place Apartments and Parkway Apartments (see loan summary and funding breakdown in Table 2 below).

Table 2 - City Loans 2013-2021 Affordable Housing				
Development	Sponsor	Affordable Units	City Loan	Subsidy/Unit
Bidwell Pointe	St. Anton	100	$5,300,000	$53,000
Parkway Apartments	Pacific West Communities	71	$4,680,000	$65,915
Bidwell Place	St. Anton	74	$4,150,000	$56,801
Totals		246	$14,130,000	

City Housing Funds

With regards to City funds, there are currently four types of City funding sources for affordable housing loans. As of December 31, 2020, the City's unencumbered housing fund balance is $7.437 million in funds available to assist future affordable housing projects as shown in Table 3 below. It is important to note, of the four funds, only the Folsom Housing Fund (Fund 238) and the Housing Trust Fund (Fund 221) are expected to generate future City housing funds. During the last 18-month period, the City collected over $3.5 million in inclusionary in-lieu fees as a result of the thriving new single-family housing development (primarily in the Folsom Plan Area) and approximately $180,000 in housing trust fund fees associated with new commercial development. In addition to providing affordable housing loans, these funds are used for other housing related activities such as the Housing Element Update and housing financing consulting services.

Table 3 – Folsom Housing Funds		
Housing Fund Name	Source	Fund Balance
Housing Trust Fund (Fund 221)	Commercial Fees	$1,145,724
Folsom Housing Fund (Fund 238)	Inclusionary In-lieu Fees	$6,129,778
Oaks at Willow Springs (Fund 274)	Willow Springs Inclusionary Fee	$23,730
Bonds Fund	Former Redevelopment Bonds	$138,370
Total		**$7,437,602***

*In addition to providing affordable housing financial subsidies, Total includes funds utilized for consulting services, special reports and other housing related activities.

Earlier this year, the City received a funding request of up to $4.5 million from USA Properties Fund, Inc. (USA) for a proposed 110-unit 100% affordable senior project called Sage of Folsom, to be developed on a 4.6-acre multi-family site at the northeast corner of the intersection of East Bidwell Street and Scholar Way within the Broadstone Unit No. 3 Specific Plan Area.

FIGURE 1: SAGE PROJECT SITE- AERIAL PHOTOGRAPH

In November 2020, the City received a second proposal from St. Anton Communities, LLC (St. Anton) seeking up to $8.25 million in City-funding for a proposed 150-unit 100% affordable project to be known as the Mangini Place Project, which proposes to be developed on a 5.02-acre mixed-use designated site in the Folsom Plan Area on the northwest corner of Mangini Parkway and Savannah Parkway.

In mid-January of 2021, following the passage of the second COVID-19 relief package which significantly changed affordable housing underwriting, St. Anton revised their project and reduced the amount of the requested subsidy (See Analysis section). Under the revised project, St. Anton is now seeking $6.86 million, representing a $1.39 million reduction in requested City-funding for a proposed 152-unit 100% affordable project.

FIGURE 2: MANGINI PLACE PROJECT SITE

Historically, the City has received affordable housing fund requests sequentially and has analyzed and brought those individual requests forward for City Council consideration. In each circumstance, the available funds exceeded the individual requests. Currently, the City has two requests for affordable housing funds, which collectively exceed the current fund approximate balance of $7.437 million. As such, staff is providing information, analysis, and preliminary recommendation to the City Council regarding the two affordable housing fund requests for consideration and direction. See analysis section for project descriptions, requests, financial analysis, considerations, and preliminary recommendation.

POLICY / RULE

Financial support of affordable housing projects is consistent with the City's Housing Element Goal of facilitating affordable housing.

ANALYSIS / COUNCIL DIRECTION

As mentioned in the background section of this report, the City currently has two affordable housing projects requesting affordable housing funds which exceed our current fund balance. Staff is presenting project information, financial analysis, and other considerations with preliminary recommendations and seeking direction from the City Council.

In order to preliminarily evaluate the two affordable housing funding requests (Sage at Folsom and Mangini Place - "Projects"), the City engaged the services of TDA Consulting, Inc. (TDA), a national provider of affordable housing consulting services, to provide technical assistance related to determining whether or not the Projects' proforma projections and City loan requests were reasonable. TDA conducted a preliminary review of each of the Projects' financial proformas. The Projects' assumptions, methodologies, and calculations were reviewed and evaluated for reasonableness and accuracy. For both proposed Projects, TDA concluded that the amount of the City loan request appeared to be appropriate and viable. TDA presented its analysis in project review memos, which are attached to this staff report as Attachment 5 and Attachment 6.

Subsequent to TDA's analysis of the two Projects on December 28, 2020, Congress passed a COVID-19 relief package that included a permanent 4% floor for of Low-Income Housing Tax Credits (LIHTC) projects' tax credit rate. This is a significant change to affordable housing underwriting and will serve to increase the amount of equity that a given affordable housing development project can generate from the syndication of Low-Income Housing Tax Credits. As indicated in the background section of this report, in response to this new development, St. Anton has revised their project and reduced the City subsidy request. At the time of this staff report, the updated project pro forma has been provided to TDA, but their review has not been completed. Given the reduction of the affordable housing funding request, it is anticipated that the TDA review would be equally if not more favorable than the original analysis.

Based on initial TDA analysis of the pro formas, staff consideration of the proposed projects, and the revised Mangini Place funding request, staff is recommending support for the funding of both projects as funding is available. Given that USA has entitlements and is further along in the process, staff is recommending that the City Council review and approve the funding request of that project first, and direct staff to come back with a funding plan for St. Anton's to address the current funding deficit.

Affordable Housing Loan Requests

1. Sage at Folsom Apartments (USA Properties Fund, Inc. –"USA")

Sage at Folsom Apartments (a.k.a. Scholar Senior Apartments) received Planning Commission Planned Development approval on November 18, 2020. The project is a new construction, 100% affordable multifamily rental development and is proposed on the 4.6-acre site located at the northeast corner of the intersection of East Bidwell Street and Scholar Way within the Broadstone Unit No. 3 Specific Plan Area. The Sage project will consist of 110 one-bedroom units affordable to low-, very-low-, and extremely-low-income senior households. The original entitlement application for Sage included 86 units. In response to the City staff's request, USA added 24 units for a total of 110 units and increased the number of units designated for extremely low-income units. Although the original funding request was for $5.6 million, following conversations with staff regarding limited availability of the City's housing funds, USA restructured the project in order to reduce the requested funding needed.

There are two potential project funding strategies pursued by USA: Scenario A, which anticipates receipt of federal HOME funds from the Sacramento Housing Redevelopment Agency (SHRA) and Scenario B, which anticipates a competitive application for State of California tax credits. Scenario A includes $800,000 in SHRA HOME funds and $4.5 million in City affordable housing funds. Scenario B, on the other hand, anticipates an award of competitive State of California tax credits generating equity of approximately $1.8 million and $3.5 million in City affordable housing funds.

Approving the two attached resolutions provides USA with two separate alternatives to secure funding for the Sage at Folsom project. Since the application for State of California tax credits is highly competitive, staff supports this approach because it provides the project with a "contingency" funding source in the event that the project in unable to secure the State tax credits.

Key Project Details:
The following are key project details associated with the Sage at Folsom funding request:

- The project received Planning Commission approval (Planned Development Permit) on November 18, 2020.
- USA owns the 4.2-acre project site and plans to begin construction in 2021.
- The City currently has a total of 926 (604 family and 322 senior) developed and approved affordable rental units (see Attachment 3). The City has not provided funding for a low-income senior project since 2007 and this project will provide 109 additional affordable senior apartments, increasing the total senior affordable units in the City to 431 units.

- USA, with staff's support, applied to SHRA for $800,000 in HOME funds. The total $800,000 amount includes a forward commitment of the City's HOME funding allocation through 2025. SHRA intends to take this request to the SHRA Board on February 3, 2021 and the County Board of Supervisors on February 23, 2021.
- USA plans to submit tax credit application to the State by the February 4, 2021 application deadline. Based on the project's location it should score favorably in terms of proximity to amenities such as medical services, retail, grocery store, pharmacy, parks, and transit. However, in order to be viable, public subsidy is still required for the project to receive a competitive score.

2. Mangini Place (St. Anton Communities, LLC – "St. Anton")

Mangini Place (a.k.a Folsom Ranch) is a proposed 152-unit, 100% affordable multifamily rental development to be located in the Folsom Plan Area located at the northwest corner of Mangini Parkway and Savannah Parkway. The recently submitted project requires design review approval from the Planning Commission, which is tentatively scheduled for this Spring. The Mangini Place project (as recently updated) will consist of 152 one-, two- and three-bedroom units affordable to low-, very-low-, and extremely-low-income households. All units will be family units with no age restrictions. St. Anton's financing plan for this project proposes an overall permanent capital mix which includes a tax-exempt bond first mortgage, equity generated from the sale of federal 4% tax credits million and a City affordable housing loan $6.86 million.

As previously indicated, in response to recent LIHTC changes, St. Anton restructured the proposed Mangini Place project. Under the updated proposal, the project provides two additional units and adjusts the affordability mix. In addition, the updated project has a reduced City subsidy funding request. Table 4 below summarizes these changes.

Table 4 – Mangini Place Project Comparison Summary		
Design Development	**Original**	**Updated/Revised**
Unit #	150	152
Unit Mix	85 1BR, 51 2BR, 14 3BR	92 1BR, 48 2BR, 12 3BR
Affordability Mix	45 @ 50% AMI 103 @ 60% AMI 2 Employee Units	15 @ 30% AMI 16 @ 50% AMI 68 @ 60% AMI 51 @ 70% AMI 2 Employee Units
Funding Request	**$8,250,000** **$55,743/restricted unit**	**$6,860,000** **$45,733/restricted unit**

Key Project Details:
The following are key project details associated with the Mangini Place Apartments funding request:

- The proposed project is tentatively scheduled to be reviewed by the Planning Commission for Design Review in Spring of 2021.
- The City currently has a total of 926 (604 family and 322 senior) developed and approved affordable rental units (see Attachment 3). This project (as recently updated) will provide 154 additional affordable apartments which will be counted towards the City's RHNA during the next 2021 Housing Element planning period.
- The project provides affordable housing units in the Folsom Plan Area which supports General Plan Policy H 3.1 - The City shall encourage residential projects affordable to a mix of household incomes and disperse affordable housing projects throughout the City to achieve a balance of housing in all neighborhoods and communities.
- The project has a pedestrian focus, within walking proximity to Mangini Ranch Elementary school, and proximate to a variety of grocery stores, retail shopping and restaurants.

Funding Analysis

As of December 31, 2020, the City's unencumbered housing fund total is $7.437 million in funds currently available to assist future affordable housing projects. As such, the City currently does not have sufficient housing funds available to fund both projects. However, the City's housing fund balance is growing relatively rapidly given the pace inclusionary housing in-lieu fees are being collected for new market rate for-sale housing development, primarily in the Folsom Plan Area. In the fourth quarter of 2020, the City issued 182 building permits for new single-family homes in the Folsom Plan Area with more home builders coming on-line. For 2021, staff is estimating at least 50 building permits per month with an average inclusionary in-lieu fee of $6,000 per new single-family home. At that rate, the City will grow our Housing Fund by approximately $900,000 per quarter for an estimated total of $3.6 million in 2021. Given the total affordable housing fund ask of $11.36 million for these two projects, the current fund balance of $7.437 million, and the projected rate of fund growth, both projects could potentially be funded over the next 12 to 18 months.

Based on these assumptions, staff is recommending that the City Council approve both funding Scenarios (State tax credits and HOME funds), presented in Resolution No. 10583 and Resolution No. 10584 (but only one of the two Scenarios will be implemented) for the USA project now, and direct staff to bring St. Anton's Mangini Place funding request back to City Council in the future with a specific funding plan as additional housing funds become available, including potential advance in-lieu fee payments from one or more builders in the Folsom Plan Area.

FINANCIAL IMPACT

The City has sufficient housing funds from the City's Housing Fund (Fund 238) available to commit to the Sage at Folsom Project under Scenario A (HOME) or Scenario B (State tax credit). This funding source does not impact the City's General Fund.

As outlined in TDA's Scholar Senior Apartment- Preliminary Project Review Memo (Attachment 5), from the City's perspective, the notable difference between funding scenarios A and B, is the reduction of $1 million in City gap financing. On that grounds alone, Scenario B would obviously be better. The issue, however, is that Scenario B has more execution risk in that it relies on the project successfully competing within an upcoming funding round for a 4% state tax credit award.

An appropriation of $3.5 million will be required if the project is able to secure the preferred State tax credit funding (Scenario B); otherwise, an appropriation of $4.5 million will be required as part of the HOME funding request (Scenario A). The above-identified funding will only be provided upon proof, satisfactory to the City, that the Developer has financing commitments from all other sources of project financing necessary to fund the Project including, but not limited to, an award from the Tax Credit Allocation Committee.

Future funding commitments for the proposed Mangini Place project will most likely become available from the City's Housing Fund (Fund 238) and thus not impact the City's General Fund.

ENVIRONMENTAL REVIEW

An Initial Study, Mitigated Negative Declaration, and Mitigation Monitoring and Reporting Program for the Sage at Folsom project was prepared in accordance with the California Environmental Quality Act (CEQA). With mitigations, the Sage at Folsom project will not have a significant effect on the environment. A Mitigated Negative Declaration was prepared and adopted by the City, and mitigation measures have been included in the project's Conditions of Approval. Environmental review will be conducted for the Mangini Place Affordable Housing Project in accordance with CEQA when the project is presented to the Planning Commission for review and consideration.

ATTACHMENTS

1. Resolution 10583 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in the Amount of $3,500,0000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

2. Resolution 10584 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in an Amount of $4,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement

And Related Documents and Authorizing the City's Allocation of $800,000 In Home Funds Received Through Participation in the SHRA HOME Consortium for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

3. Affordable Multifamily Housing Developments

4. Folsom's Housing Funding "Toolbox"

5. Scholar Senior Apartments (Sage at Folsom) - Preliminary Project Review by TDA

6. Folsom Ranch (Mangini Place) - Preliminary Project Review by TDA

7. Term Sheet for $3,500,000 loan request

8. Term Sheet for $4,500,000 loan request (HOME funds)

9. PowerPoint Presentation – Affordable Housing Fund Request and Direction to Staff

Submitted,

Pam Johns, Community Development Director

Attachment 1

Resolution 10583 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in the Amount of $3,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

RESOLUTION NO. 10583

A RESOLUTION OF THE CITY OF FOLSOM APPROVING AN AFFORDABLE HOUSING LOAN IN THE AMOUNT OF $3,500,000 FROM THE CITY'S HOUSING FUND TO USA PROPERTIES FUND, INC. AND AUTHORIZING THE CITY MANAGER TO EXECUTE A LOAN AGREEMENT AND RELATED DOCUMENTS FOR THE CONSTRUCTION OF 110 AFFORDABLE SENIOR HOUSING UNITS AT THE SAGE AT FOLSOM MULTIFAMILY AFFORDABLE HOUSING DEVELOPMENT PROJECT, AND APPROPRIATION OF FUNDS

WHEREAS, the developer of the proposed Sage at Folsom project, located at the northeast corner of the intersection of East Bidwell Street and Scholar Way within the Broadstone Unit No. 3 Specific Plan Area, is in the process of securing the majority of funding necessary to build the 110-unit multifamily 100% affordable senior housing project in which units will be affordable to extremely low, very-low and low income households; and

WHEREAS, the developer has requested an affordable housing loan from the City of Folsom in the amount of $3,500,000 in order to assist with project financing; and

WHEREAS, the City's commitment to provide the requested affordable housing loan to the project will help the project qualify and compete for additional financing from the California Debt Limit Allocation Committee and Tax Credit Allocation Committee programs; and

WHEREAS, providing financial assistance to affordable housing projects is consistent with the Goal H-3: Facilitating Affordable Housing in the City's Housing Element; and

WHEREAS, the request for an affordable housing loan of $3,500,000 is appropriate given the project's costs and development expenses; and

WHEREAS, funding for the requested affordable housing loan is available from the City's Housing Fund (Fund 238); however, an appropriation will be required; and

WHEREAS, the terms of the affordable housing loan are outlined in the term sheet dated January 21, 2021; and

WHEREAS, the term of the affordable housing loan will be 35 years at three percent simple annual interest, to be repaid with a share of residual cash flow to be generated from the project with final repayment terms subject to approval by the Finance Director; and

WHEREAS, receipt of all loan repayments will be deposited into the City's Housing Fund (Fund 238) and will be used to provide future assistance for affordable housing.

NOW, THEREFORE BE IT RESOLVED THAT the City of Folsom does hereby approve an affordable housing loan, in the amount of $3,500,000 to USA Properties Fund, Inc. or a related affiliate to construct the 110-unit affordable senior multifamily project known as Sage at Folsom, located at the northeast corner of the intersection of East Bidwell Street and Scholar Way within the Broadstone Unit No. 3 Specific Plan Area, subject to the developer entering into an affordable housing loan agreement in a form acceptable to the City Attorney.

BE IT FURTHER RESOLVED that the City Manager is authorized to execute an affordable housing loan agreement, and other related documents, consistent with and in furtherance of this Resolution.

BE IT FURTHER RESOLVED that the Finance Director is directed to appropriate $3,500,000 from the City's Housing Fund (Fund 238) for purpose of providing the affordable housing loan for the construction of the Sage at Folsom project.

BE IT FURTHER RESOLVED that, notwithstanding any provision to the contrary, this Resolution shall be null and void and shall have no force or effect in the event the Sage at Folsom project fails to qualify for financing from the California Debt Limit Allocation Committee and Tax Credit Allocation Committee programs.

PASSED AND ADOPTED this 26th day of January 2021 by the following vote, to wit:

AYES: Councilmember(s):

NOES: Councilmember(s):

ABSENT: Councilmember(s):

ABSTAIN: Councilmember(s):

Michael D. Kozlowski, MAYOR

ATTEST:

Christa Freemantle, CITY CLERK

Attachment 2

Resolution No. 10584 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in an Amount of $4,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement And Related Documents and Authorizing the City's Allocation of $800,000 In Home Funds Received Through Participation in the SHRA HOME Consortium for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

RESOLUTION NO. 10584

A RESOLUTION OF THE CITY OF FOLSOM APPROVING AN AFFORDABLE HOUSING LOAN IN THE AMOUNT OF $4,500,000 FROM THE CITY'S HOUSING FUND TO USA PROPERTIES FUND, INC. AND AUTHORIZING THE CITY MANAGER TO EXECUTE A LOAN AGREEMENT AND RELATED DOCUMENTS AND AUTHORIZING THE CITY'S ALLOCATION OF $800,000 IN HOME FUNDS RECEIVED THROUGH PARTICIPATION IN THE SHRA HOME CONSORTIUM FOR THE CONSTRUCTION OF 110 AFFORDABLE SENIOR HOUSING UNITS AT THE SAGE AT FOLSOM MULTIFAMILY AFFORDABLE HOUSING DEVELOPMENT PROJECT, AND APPROPRIATION OF FUNDS

WHEREAS, the developer of the proposed Sage at Folsom project has requested an affordable housing loan from the City of Folsom in the amount of $3,500,000 (Resolution No. 10583), to assist the project qualify and compete for additional financing from the Tax Credit Allocation Committee program, and this Resolution is expressly subject to the event the project does not qualify or receive financing from the California Debt Limit Allocation Committee and Tax Credit Allocation Committee programs; and

WHEREAS, the developer of the proposed Sage at Folsom project, located at the northeast corner of the intersection of East Bidwell Street and Scholar Way within the Broadstone Unit No. 3 Specific Plan Area, is in the process of securing the majority of funding necessary to build the 110-unit multifamily 100% affordable senior housing project in which units will be affordable to extremely low, very-low and low income households; and

WHEREAS, the developer has requested an affordable housing loan from the City of Folsom in the amount of $4,500,000 in order to assist with project financing, in the event the project fails to qualify or receive financing from the Tax Credit Allocation Committee program; and

WHEREAS, providing financial assistance to affordable housing projects is consistent with the Goal H-3: Facilitating Affordable Housing in the City's Housing Element; and

WHEREAS, the request for an affordable housing loan of $4,500,000 is appropriate given the project's costs and development expenses; and

WHEREAS, the City's commitment to provide the requested affordable housing loan to the project will help the project qualify for additional financing from the HOME Investment Partnerships Program (HOME); and

WHEREAS, the City is allocated HOME funding annually or through a three-year cycle by the Sacramento Housing and Redevelopment Agency (SHRA) HOME Consortium for the purpose of supporting low-income housing creation; and

WHEREAS, the developer has submitted a HOME application to SHRA requesting a $800,000 commitment of the City's HOME allocation to the project which includes a forward commitment of and will utilize the City's Home funds through 2025; and

WHEREAS, the Developer's request for an additional loan of $800,000 in HOME funds is appropriate given project costs and development fees; and

WHEREAS, funding for the requested affordable housing loan is available from the City's Housing Fund (Fund 238); however, an appropriation will be required; and

WHEREAS, the terms of the affordable housing loan are outlined in the term sheet dated January 21, 2021; and

WHEREAS, the term of the affordable housing loan will be 35 years at three percent simple annual interest, to be repaid with a share of residual cash flow to be generated from the project with final repayment terms subject to approval by the Finance Director; and

WHEREAS, receipt of all loan repayments will be deposited into the City's Housing Fund (Fund 238) and will be used to provide future assistance for affordable housing.

WHEREAS, receipt of all loan repayments will be deposited into the City's Housing Fund (Fund 238) and will be used to provide future assistance for affordable housing.

NOW, THEREFORE BE IT RESOLVED THAT, in the event the 110-unit affordable senior multifamily project known as the Sage at Folsom fails to qualify or receive financing from the Tax Credit Allocation Committee program, an affordable housing loan in the amount of $4,500,000 shall be provided to USA Properties Fund, Inc. or a related affiliate to construct the project located at the northeast corner of the intersection of East Bidwell Street and Scholar Way within the Broadstone Unit No. 3 Specific Plan Area, subject to the developer entering into an affordable housing loan agreement in a form acceptable to the City Attorney. The approval provided in this Resolution shall expire December 31, 2021.

BE IT RESOLVED THAT the City of Folsom does hereby authorize commitment of $800,000 in HOME funds received through SHRA to USA Properties Fund, Inc to construct the Sage at Folsom project.

BE IT FURTHER RESOLVED that the City Manager is authorized to execute an affordable housing loan agreement, and other related documents, consistent with and in furtherance of this Resolution.

BE IT FURTHER RESOLVED that the Finance Director is directed to appropriate a total of $4,500,000 from the City's Housing Fund (Fund 238) for purpose of providing the affordable housing loan for the construction of the Sage at Folsom project.

BE IT FURTHER RESOLVED that, notwithstanding any provision to the contrary, this

Resolution shall be null and void and shall have no force or effect in the event the Sage at Folsom project qualifies and receives financing from the Tax Credit Allocation Committee program.

PASSED AND ADOPTED this 26th day of January 2021 by the following vote, to wit:

AYES: Councilmember(s):

NOES: Councilmember(s):

ABSENT: Councilmember(s):

ABSTAIN: Councilmember(s):

Michael D. Kozlowski, MAYOR

ATTEST:

Christa Freemantle, CITY CLERK

Attachment 3

Affordable Multifamily Housing Developments

Affordable Multifamily Housing Developments

Name of Development	Sponsor	Funding Sources	Year Built/ Rehabilitated	Housing Units	Target Income Groups
Folsom Gardens I*	Mercy Housing	Section 8	1970/1997	48	Extremely low-income families
Folsom Gardens II*	Mercy Housing	Section 8	1970/1997	47	Extremely low-income families
Mercy Village	Mercy Housing	Tax credits, CHFA, CDBG and Redevelopment funds, County HOME funds	1960/1999	81	Very low-income families
Creek View Manor	Mercy Housing	Tax credits, CHFA, CDBG, Redevelopment funds, County HOME funds	2007	138	Very low- and low-income seniors
Vintage Willow Creek	USA Properties	Tax credits, CHFA, CDBG and Redevelopment funds	2003	184	Very low- and low-income seniors
Folsom Oaks Apartments	TLCS and Mercy Housing	HUD Section 811, MHP, CHFA, County HOME funds, City funds	2011	18	Extremely low-income households
Forestwood at Folsom Apartments	USA Properties	Tax credits, County HOME funds, City funds	2012	54	Very low- and low-income families
Granite City Apartments	St. Anton Partners	Tax credits, City funds	2013	80	Very low- and low-income families
Bidwell Pointe	St. Anton Partners	Tax credits, City funds	2019	100	Very low- and low-income families
Talavera Ridge	USA Properties	City grant funds	2020	6	Extremely low-income households
Parkway Apartments	Pacific West	Tax credits, City funds	Under Construction	71	Extremely low-, Very low- and low-income families
Bidwell Place	St. Anton Partners	Tax credits, City funds	Pending Construction	75	Extremely low-, Very low- and low-income families
Bidwell Street Studios	Hirani Family Foundation/Sac. Commercial Properties	State grant funds	Pending Construction/ Rehabilitation	24	Extremely low-income households
Total (Family/Senior)				926 (604/322)	

Attachment 4

Folsom's Housing Funding "Toolbox"

Folsom's Housing Funding "Toolbox"

Affordable housing projects typically include numerous and oftentimes complex financing mechanisms including tax credits, conventional debt, developer equity, state and federal funding sources and local government subsidies. The following is an overview of major funding tools that are (of have been) available to Folsom to assist in the production of affordable housing:

- *Redevelopment Bond Funds.* With the dissolution of redevelopment in 2012, the State eliminated this significant financial resource available to the City to assist in the production of affordable housing. However, in September 2015 the Governor signed into law Senate Bill 107, which authorized the City's successor agency to designate the use of and commit 100% of former redevelopment bond proceeds that were issued for affordable housing purposes prior to June 28, 2011. As a result, the City was able to secure $9,602,537.28 in bonds which the City has committed to recently approved affordable housing projects.

- *Inclusionary Housing Ordinance.* The City of Folsom has implemented an inclusionary housing program that requires developers of all new for-sale residential projects greater than 10 units to include at least 10% of their units as affordable to lower-income households. Since its inception in 2002, the City's inclusionary program has undergone several revisions, including the 2013 revisions which reduced the inclusionary requirement from 15% to 10%, added an in-lieu fee alternative, and removed the inclusionary requirements pertaining to rental units in accordance with the 2009 Palmer/Sixth Street Properties, L.P. v. City of Los Angeles court decision. Since 2014, the City has collected over $6,899,347 in inclusionary housing in-lieu fees, with the majority of these fees being attributed to development in the Folsom Plan Area over the last year and a half. It is also important to note that as part of the 2021-2029 Housing Element Update, a program to review the current inclusionary housing in-lieu fee is proposed.

- *Housing Trust Fund (HTF).* In 2002, the Folsom City Council established the housing trust fund as a source of revenue for the development of affordable housing. Currently, Folsom charges a $1.73 per square foot affordable housing fee to all new commercial development. The fee is based on the relationship between employment and need for affordable housing. The HTF has primarily been used with other sources of funding to provide gap funding for affordable rental projects. With the current economic conditions, this fund has not increased much over the past years. As of December 2020, the Housing Trust Fund had an unrestricted cash balance of $1,145,724.

- *Public Local Housing Allocation (PLHA).* Senate Bill 2 (SB 2, Atkins) was part of a 15-bill housing package aimed at addressing the state's housing shortage and high housing costs. Specifically, it establishes a permanent source of funding intended to increase the affordable housing stock in California. The revenue from SB 2 varies from year to year, as revenue is dependent on real estate transactions with fluctuating activity. The legislation directs the California Department of Housing and Community Development (HCD) to use 70 percent of the revenue collected, beginning in calendar year 2019, to provide financial assistance to local governments for eligible housing related projects and programs to assist in addressing the unmet housing needs of their local communities. As part of the Urban

County, the City of Folsom (which is not an entitlement city) is ineligible to receive PLHA funds directly from the state. The City, is however, eligible to receive a proportional share of the County's allocation. Annual distribution for Folsom is 4.95% of the County's allocation which is estimated to be $161,538 a year for a total of $807,692 over the next 5 year period.

- *Combinations of federal and state housing funding sources.* These funding sources include Community Development Block Grant (CDBG) and Home Investment Partnership Program (HOME) funds, each of which are available to the City as part of the City's Consortium Agreement with the Sacramento Housing and Redevelopment Agency (SHRA). The City currently receives $165,000 of CDBG funding annually to support the Seniors Helping Seniors program and to fund participation in the Sacramento region's Renter's Helpline. In February of 2011, the City Council authorized HOME funds in the amount of $625,000 for the Forestwood 55-unit affordable project. As of December 2020, the City's net allocation of HOME funds is over $400,000, which increases annually by approximately $81,000 a year through 2024. Other State funding sources, such as the Infill Infrastructure Grant Program and the recently awarded Bidwell Street Studios $2.5 million Homekey Grant are available through the California Department of Housing and Community Development. These State funding sources are highly competitive, and especially challenging for high opportunity jurisdictions like Folsom. Furthermore, these State funding sources typically require prevailing wage which increases the development costs associated with the project.

- *Federal and state low-income housing tax credits.* Tax credits are available to for-profit and non-profit developers of affordable rental housing. The application for tax credits, especially for the more desirable nine percent tax credits, is extremely competitive; often multiple rounds of applications are required before funds are secured. Since 1999, tax credits have been awarded for the development of seven affordable housing projects in the City totaling more than 697 units in Folsom. Included in this total are the 72-unit Parkway Apartments (currently pending construction) and the 75-unit Bidwell Place Apartments (approved the City earlier this year). Both projects will produce extremely low-, very low- and low-income units using tax credits and city housing funds.

Attachment 5

Scholar Senior Apartments (Sage at Folsom) - Preliminary Project Review by TDA

Scholar Senior Apartments – Preliminary Project Review

Date: November 18, 2020

To: Stephanie Traylor Henry, Senior Planner, City of Folsom

From: Peter Hughes, TDA Consulting
Stephen Lathom, TDA Consulting

Background: The City of Folsom (City) has engaged TDA Consulting, Inc. (TDA) to provide technical assistance related to the City's administration of affordable housing funds. As part of TDA's engagement with the City, we have reviewed information submitted by USA Properties Fund, Inc. (USA) in support of Scholar Senior Apartments (Scholar Senior), a proposed 110-unit multifamily affordable housing development, in an effort to develop an opinion on the reasonableness of USA's request for City affordable housing funds. This preliminary project review seeks to determine whether or not the current project assumptions are commercially reasonable in the context of the general market for affordable multifamily rental housing supported by public gap funding.

This review encompasses two potential project execution strategies offered by USA – *Scenario A*, which anticipates receipt of federal HOME funds from the Sacramento Housing Redevelopment Agency (SHRA) and *Scenario B*, which anticipates a competitive application for State of California LIHTC.

The primary difference between *Scenario A* and *Scenario B* is in the financing structure. There are relatively minor differences in total project cost – due primarily to subtle variations in the calculation of the interest and fees associated with each execution strategy and the relatively minor (<1%) increase in costs associated with upgraded material requirements imposed by SHRA for HOME projects, but the nature, scope, and cost of the project are substantively identical otherwise. For this reason, our review does not place significant emphasis on a side-by-side comparison of each strategy (e.g., HOME funds vs. State LIHTC) but rather considers the impact each strategy might have on the City's award of affordable housing gap funds.

As part of our review, TDA used the sources/uses and operating expense projections provided in USA's project narrative packet to develop a "baseline" proforma using TDA's in-house proforma format. Ensuring that bottom line figures (e.g. total operating and development costs, cash flow projections, etc.) were consistent between TDA's proforma and USA's preliminary financial projections helps to validate the integrity and structure of USA's assumptions and gives us the ability to test the impact of alternative financial assumptions (e.g. changes in DCR or interest rates and terms). Further, we also evaluate the project's ongoing viability by stress testing other factors (e.g. inflation or vacancy rates).

It is important to note that, at this early stage, our review cannot be classified as "underwriting" of USA's proposal. Underwriting would require the availability of substantially more information than has currently been provided, but this is common since developers are unlikely to invest in predevelopment costs ranging from market studies to architectural plans/specifications to other professional reports until their project concept has received at least conditional support for the City's requested investment. As a result, TDA's review is appropriately preliminary in nature and primarily based on whether or not USA's proforma projections and supporting project narrative, as submitted, and taken largely at face value, are internally consistent, structured within industry norms, and therefore likely to be achievable.

Project Summary: Scholar Senior is a proposed new construction, 100% affordable multifamily rental development. The project will be located at 89 Cavitt Drive in Folsom near the northeast corner of East Bidwell Street and Scholar Way. Its 110 one-bedroom/one-bathroom units range in size between 530-574 SF and will be restricted to seniors. USA proposes a mix of extremely low-, very low-, and low-income income/rent restrictions (i.e., 30%, 50%, and 80% AMI respectively). As noted below, while the gross rent potential is the same in both Scenario A and B, the relative mix of 30%/50%/80% units varies in achieving that bottom-line figure.

The project site is located in a well-developed area with a diverse mix of commercial, educational, and residential uses in close proximity to multiple amenities. Broadstone Marketplace – a grocery-anchored retail center that also includes a bank, credit union, drugstore, and multiple neighborhood retail and dining establishments – is located immediately south of the site and connected via a pedestrian walkway along East Bidwell Street. Public transportation is readily available as well, with the nearest bus stop adjacent to the north end of the Scholar Senior site. USA's project narrative proposes updates and improvements to the bus stop as part of the project scope.

Scholar Senior will incorporate sustainable design principles consistent with the California Green Building Standards Code (CALGreen) and is intended to exceed 2016 California Building Energy Efficiency Standards by at least 15%. 12 parking spaces will be dedicated exclusively for electric vehicles and serviced by six (6) charging stations per CALGreen requirements. In addition, the rooftop will include a 199-kW photovoltaic system producing on-site renewable energy for community use. Water-efficient and drought tolerant landscape materials will be employed on-site to further reduce resource consumption and improve operating efficiency.

Financial Review: While regulated affordable housing projects tend to use highly complex financing mechanisms – attempting to take advantage of multiple federal, state, and/or local programs intended to help provide housing at below-market rates so as to be affordable to low-income tenants – the financial evaluation can be distilled into five relatively simple questions:

1. Who does the project seek to serve, and what rents can, and will they pay given both regulatory requirements and market realities? (Revenue)
2. What will it cost to operate the project once built, including the need to set aside reserves for future capital repairs? (Operating Budget)
3. Will the project remain viable over time? (Long Term Proforma/Cash Flow)
4. What will it cost to develop the project? (Development Costs)
5. What sources are available? (Sources)

Revenue: To meet SHRA's low-income targeting requirements, USA has organized projections for rental income, based on income targeting, as depicted in the table below. Here Scenario A and Scenario B are slightly different in the specific mix of income targeting, but both achieve the same gross rent potential. Scenario A has more 30% AMI units but accomplishes that, in comparison, by increasing the number of 80% units.

% AMI Target	# Units Scenario A	# Units Scenario B	Net Rent	Utility Allowance	Gross Rent
30%	6	3	$454	$47	$501
50%	68	73	$787	$47	$834
80%	35	33	$1,288	$47	$1,335
Mkt/Mgr.	1	1	$1,292	$47	$1,339

While initially based on HUD's 2020 HOME rent limits for the MSA, USA's proforma assumes that HOME (and LIHTC) rents will increase at 2.5%/year between now and the anticipated first year of stabilized occupancy in 2025. While not a universal approach to proforma modeling, this is not an unreasonable estimate given recent patterns in California. It does introduce some risk however since future income increases cannot be guaranteed, especially as the impact of the pandemic continues to reverberate across major portions of the economy. This said, given the acute demand for affordable housing in the State of California generally, and the City of Folsom specifically, USA's rent projections appear to be neither unrealistic nor unachievable given this early stage review.

USA's proforma does include a monthly utility allowance of $47/unit, however the methodology used for calculating this monthly amount was not provided in USA's project narrative or proforma. While USA's updated project narrative outlines plans for on-site renewable energy production – a 199-kW rooftop photovoltaic system – the dollar-for-dollar impact on monthly utility costs remains unclear. Likewise, understanding whether this monthly utility allowance figure was benchmarked off of other properties in USA's portfolio or, perhaps, by using a third-party engineer to determine the estimate would be useful.

Our concern is the monthly utility allowance may still be somewhat understated. As a means of comparison, we used SHRA's utility allowance schedule to calculate a monthly utility allowance of $82/unit assuming that all utility consumption would be sourced from electric power and that USA (i.e., the landlord) would pay for all water, sewer, and trash collection charges.

For reference, the impact of a higher utility allowance would be a decrease in contract rents and therefore in net revenue. In an $82/month scenario, this would result in a reduction of more than $45,000 in annual gross rent potential. While not a "deal killing" concern at this early stage of review, this is an important distinction that we recommend be further clarified by USA going forward.

Vacancy is projected at 5% annually which is standard in California markets. Likewise, non-rental income is projected at $176/unit/year, within TDA's recommended underwriting maximum of $240/unit/year. Receipt and review of a third-party rental housing market study – a requirement for SHRA HOME funds investment – should corroborate these baseline estimates.

Operating Costs: Operating expense projections provided by USA are very clearly "early stage" numbers (i.e., limited chart of accounts, no current line-item expenses for repairs and maintenance, lump sum utility estimates, all budget numbers rounded to the nearest hundred, etc.). At $4,808/unit/year, projections do meet the CTCAC required *minimum* of $4,800/unit/year for non-elevator, multifamily buildings. However, USA's projections fall below three operating expense metrics outlined in a Novogradac study[1] for data compiled thru 2019: Large Metropolitan ($5,531/unit), New Construction ($5,351/unit), and Properties with 100< Units< 200 ($5,052/unit). At the same time, we note that this comparison is based on a backward-looking review of operating costs (and in the case of the CTCAC figure this year's underwriting metric), USA has already built in higher-than-current rent assumptions. In a forward-looking approach, it would be fair to also inflate operating costs over the same period when estimating the first year of stabilized operations.

Ultimately, because USA will serve as property manager for Scholar Senior and with a local portfolio of 32 apartment communities appears well positioned to do so, our concern with the potentially low operating expense projection is somewhat more muted than it otherwise might be. This said, we

[1] *2020 Multifamily Rental Housing Operating Expense Report: Survey and Analysis of LIHTC Properties, Novogradac*

recommended that the City request and review historical operating expense reports from comparable properties owned and operated by USA during future due diligence to confirm the validity of USA's operating expense projections for Scholar Senior.

Long Term Proforma/Cash Flow: USA's project narrative included a 15-year cashflow projection which, as noted above, we extended to develop a 20-year cashflow projection for the project. As submitted, and accounting for the nominal increase in NOI resultant from the City's willingness to reduce its requirement for supportive service hours, debt service coverage is 1.25 in the first year of stabilized operations. This represents the upper limit of the industry standard range of 1.15 – 1.25. The proforma operating margin in this scenario is over 23%. As structured, these projections do not seem unreasonable and are likely achievable, especially given the historically low interest rate environment in which we currently find ourselves.

Assuming fully amortizing payments on senior debt after conversion and taking at face value USA's inflation factors of 2.5% for rental income and 3.5% for operating expenses, the 20-year cashflow projects roughly $800K in "free" surplus cash after the repayment of the deferred developer fee (achieved in year 17). If accurate, this would retire only a nominal amount of the accrued interest on the City and SHRA loans (assuming each subsidy is structured to earn 3% simple interest and that collective payment of 50% of surplus cash following retirement of the deferred fee). Said another way, available surplus cash is insufficient to repay <u>any</u> outstanding principal on either subordinate loan in the first 20 years of projected operations. This is not unusual, but it is worth noting.

Development Costs: Total development costs (outlined in the table below) are ~$31.67M or ~$288K/unit. Though still only pre-development estimates, these projections are substantially aligned with similar new construction affordable housing projects also under consideration by the City.

Development Costs[2]	Total	Per Unit	% of Total	Per Sq. Ft.
Acquisition	$1,250,000	$11,364	3.9%	
Site Work and Construction	$19,390,912	$176,281	61.2%	***$332.61***
Soft Costs	$4,783,293	$43,484	15.1%	
Financing Costs	$2,035,686	$18,506	6.4%	
Reserves & Start Up	$546,565	$4,969	1.7%	
Developer Fee	$3,661,166	$33,283	11.6%	
Total Development Costs	**$31,667,622**	**$287,887**	100.0%	***$543.18***

Funding Sources: As noted in the background section above, USA has proposed two different financial structures (shown below as Scenario A and B respectively). Both scenarios include a private first mortgage of ~$12.2M, equity generated from the sale of federal LIHTC of ~$10.2M (at a presumed rate of $0.91), NOI during construction of ~$1M, and a deferred developer fee of ~$2.5-2.7M.

Scenario A includes $800,000 in SHRA HOME funds and $4.5M in City affordable housing funds. Scenario B, on the other hand, anticipates an award of competitive State of California tax credits generating equity of ~$1.8M (at a presumed rate of $0.75) and $3.5M in City affordable housing funds.

[2] For purposes of comparison we utilized the nominally higher cost (~$250K) to develop Scholar Senior based on the updated project narrative and financial information provided by USA in early October 2020. This accounts for the increase in material cost to build the project to meet SHRA's design standards for projects receiving an award of HOME funds.

From the City's perspective, the notable difference between scenarios A and B, is the reduction of $1M in City gap financing. On that grounds alone, Scenario B would obviously be better. The issue, however, is that Scenario B has more execution risk in that it relies on the project successfully competing within an upcoming funding round for a 4% state LIHTC award. If the project is not successful, then it may not happen at all. The question to be considered is whether this $1M "savings" the City might realize is worth the risk of the project not happening. Among the factors in that consideration are the presence of other pipeline projects being considered and the total funding currently available. If agreeing to the competitive application allows the City to commit to two projects, for example, the risk inherent in the competition may be offset by the chance for additional projects and their units in the local marketplace.

Alternatively, the City may elect to move forward under Scenario A utilizing an allocation of HOME funds from SHRA. While the upfront cost to the City would be an additional $1M in City funding (as a partial replacement of State of California tax credit equity), SHRA standards of design require recipients of HOME funds to implement the use of higher quality construction materials (e.g., solid wood cabinets, hard surface countertops, and more durable flooring) which would likely improve the long term physical viability of Scholar Senior. A higher quality project would likewise be an asset to the community for a longer period of time, justifying the larger initial investment of City funding.

Ultimately, there is no "right" answer from a technical standpoint in choosing between the two execution strategies. Both scenarios appear plausible subject to the award of either additional subsidy (SHRA HOME) or equity (State of California LIHTC), but the relative likelihood of accessing those sources seems to vary.

Sources – Scenario A	Total	Per Unit	% of Total
Mortgage	$12,275,000	$111,591	38.8%
LIHTC Equity	$10,298,097	$93,619	32.5%
SHRA HOME Funds	$800,000	$7,273	2.5%
Folsom Loan	***$4,500,000***	***$40,909***	***14.2%***
NOI During Construction	$1,094,899	$9,954	3.5%
Deferred Developer Fee	$2,699,626	$24,196	8.5%
Total Development Costs	**$31,667,622**	**$287,887**	100.0%

Sources – Scenario B	Total	Per Unit	% of Total
Mortgage	$12,287,000	$111,700	39.0%
LIHTC Equity	$10,255,209	$93,229	32.6%
CA State TC Equity	$1,836,680	$16,697	5.8%
Folsom Loan	***$3,500,000***	***$31,818***	***11.1%***
NOI During Construction	$1,101,732	$10,016	3.5%
Deferred Developer Fee	$2,497,427	$22,704	7.9%
Total Development Costs	**$31,408,787**	**$285,534**	100.0%

Preliminary Conclusions & Additional Questions: In addition to the items noted above, there are a couple additional questions raised by our initial review. Neither is necessarily a "showstopper," but each will require attention in any future evaluation of the project if it moves forward and may impact the speed at which it can proceed.

First, at the writing of this memorandum, USA is scheduled to present its proposal for Scholar Senior to the City of Folsom Planning Commission on November 18, 2020 for approval of a Planned Development Permit. This approval is important from a timing perspective and, depending upon the development finance path USA decides to pursue, may be a requirement for submitting an application for HOME funds to SHRA or for tax credits to CTCAC. We recommend the City confirm USA's receipt of this approval prior to a preliminary commitment of AHF subsidy.

Second, the site was created via a parcel split with the adjacent LDS Church. USA's updated project description calls for a partial reconfiguration of the site entry (e.g. ingress/egress) along Cavitt Drive; relocating an existing entry gate among other "driveway improvements." As well, USA's update notes that a private access easement has been recorded on the Parcel Map. TDA reviewed the County of Sacramento Assessor's parcel map but was unable to confirm that this easement has been recorded. We recommend that the City confirm the recording of this easement prior to a preliminary commitment of AHF subsidy.

While still noting that our review of Scholar Senior is preliminary in nature, we believe the information presented with regard to the project narrative, experience and capacity of the development team, development costs, and operating projections provides evidence of a viable project that is generally structured within industry norms for regulated multifamily affordable housing. Following the City's decision about its preferred development financing path, and prior to the City making a preliminary commitment of affordable housing funds, we recommend seeking additional clarity on the items noted herein.

Attachment 6

Folsom Ranch (Mangini Place) - Preliminary Project Review by TDA

Folsom Ranch – Preliminary Project Review

Date: December 28, 2020

To: Stephanie Traylor Henry, Senior Planner, City of Folsom

From: Peter Hughes, TDA Consulting
Stephen Lathom, TDA Consulting

Background: The City of Folsom (City) has engaged TDA Consulting, Inc. (TDA) to provide technical assistance related to the City's administration of affordable housing funds. As part of TDA's engagement with the City, we have reviewed information submitted by St. Anton Communities (St. Anton) in support of Folsom Ranch, a proposed 150-unit multifamily affordable housing development, to develop an opinion on the reasonableness of St. Anton's request for an investment of City affordable housing funds. This preliminary project review seeks to determine whether or not the current project assumptions are commercially reasonable in the context of the market for affordable multifamily rental housing supported by public subsidy.

As part of our review, TDA used St. Anton's static (i.e. PDF, not MS excel) proforma and project narrative to develop a "baseline" excel proforma using TDA's in-house format. Ensuring that bottom line figures (e.g. total operating and development costs, long-term cash flow projections, etc.) were consistent between TDA's format and St. Anton's preliminary financial projections helps to validate the integrity and structure of St. Anton's assumptions and allows us to test the impact of alternative financial assumptions on the total project gap (e.g. changes in DCR or interest rates and terms). Further, it enables us to evaluate the project's ongoing viability by stress testing other assumptions (e.g. inflation or vacancy rates).

We also note that at this early stage, TDA's review cannot be classified as "underwriting" of St. Anton's proposal. Underwriting would require the availability of substantially more information than St. Anton has currently provided, but this is not uncommon since developers are unlikely to invest in predevelopment costs ranging from market studies to architectural plans/specifications to other professional reports until their project concept has received at least conditional support for the City's requested investment. As a result, TDA's review is preliminary in nature and primarily based on whether or not St. Anton's proforma and project narrative, as submitted and taken largely at face value, are internally consistent, structured within market norms and, therefore, likely to be achievable.

Project Summary: Folsom Ranch is a proposed 150-unit, 100% affordable multifamily rental development to be located in the Folsom Plan Area (i.e., Folsom Plan Area Specific Plan and/or Development South of 50) a 3,520-acre area bounded by Highway 50 (north), Prairie City Road (west), White Rock Road (south), and the El Dorado County line (east) in Folsom, California, 95630. Folsom Ranch would be comprised of 85 one-bedroom/one-bathroom units at 685 SF, 51 two-bedroom/two-bathroom units at 945 SF, and 14 three-bedroom/two-bathroom units at 1,135 SF. All units would be available to low-income (60% AMI) and very low-income (50% AMI) tenants under the following unit configuration: 26 one-bedroom, 15 two-bedroom, and four (4) three-bedroom units would be income and rent restricted at 50% AMI; 59 one-bedroom, 34 two-bedroom, and 10 three-bedroom units would be income and rent restricted at 60% AMI. All units would be family units with no age restrictions or preference given for special needs populations.

The specific project site is yet to be determined but would be located in the Folsom Plan Area south of California Hwy 50 so proximity to amenities is a relative matter at this early stage of the development process; ultimately, proximity to amenities will be dictated by the timing and density of commercial property development in the Folsom Plan Area. However, the Palladio Shopping Center – located north of Hwy 50 at Bidwell Street – contains a grocery store, bank, and out-patient medical facilities while other neighborhood retail, entertainment, and dining, as well as several big box retailers are located in the Folsom Gateway Shopping Mall roughly ¼ mile south of Palladio. Public transportation does not currently run south of Hwy 50 – the nearest Folsom Stage Line bus stop is located on Iron Point Road just west of Bidwell Street.

FINANCIAL REVIEW: Projects such as Folsom Ranch are highly complex – taking advantage of multiple state, federal, and local programs intended to help provide housing at below-market rates that are affordable to low-income tenants (as outlined above) – but the initial financial evaluation can be distilled into five relatively simple questions:

1. Who does the project seek to serve, and what rents can, and will they pay given both regulatory requirements and market realities? (Revenue)
2. What will it cost to operate the project once built, including the need to set aside reserves for future capital repairs? (Operating Budget)
3. Will the project remain viable over time? (Long Term Proforma/Cash Flow)
4. What will it cost to develop the project? (Development Costs)
5. What sources are available? (Sources)

REVENUE: St. Anton currently projects rents for all units at the gross 2020 regulatory limits for LIHTC projects (established by limiting rent to 30% of XX% AMI based on imputed occupancy of 1.5 persons per bedroom). Rental revenue is inflated at 2% per annum. These projections also include allowances for tenant-paid utilities of $74/one-bedroom, $95/two-bedroom, and $115/three-bedroom unit calculated using the Sacramento Housing and Redevelopment Agency (SHRA) utility allowance schedule. St. Anton is also projecting $777/unit/year in non-rental income including allowances for in-unit washer and dryer rentals as well as garage rentals for 40% of all units in addition to the more standard NSF, late fees, and miscellaneous/interest charges which are standard "other income" items.

This projection is well in excess of our typical underwriting practice of limiting such revenue to no more than $250/unit/year. Given St. Anton's track record developing and operating multifamily projects, we would expect they can provide operating histories from comparable projects supporting this level of fee-based amenity revenue. This said, we encourage the City to request additional supporting documentation to document requisite demand for these amenities – presumably as part of the third-party market analysis – prior to any formal commitment of City funds.

Vacancy is projected at 5% annually which, in addition to being the California Tax Credit Allocation Committee (CTCAC) minimum vacancy requirement for tax-exempt bond executions, is fairly standard in California markets. This is supported by both the generally tight regional market for affordable multifamily rental housing and, at least in the near term, the fact that St. Anton's most recent development, Bidwell Pointe – located in central Folsom – is currently running at a 2% vacancy rate having received a certificate of occupancy less than 18 months ago. If Folsom Ranch overperforms (i.e., achieves stabilized vacancy of less than 5%) additional resources will be available for repayment of deferred developer fee and/or operating and replacement reserves, contributing to the long-term viability of the project.

Operating Costs: The operating expense projections provided by St. Anton are clearly very "early stage" numbers (i.e., limited chart of accounts, repairs and maintenance budget provided as "lump sum" amount, all budget numbers rounded to the nearest hundred, etc.). Because St. Anton's property manager is an affiliated entity – St. Anton Multifamily – which affords some operating efficiencies that are otherwise difficult to obtain when employing a third-party property management firm, these "best guess" estimates for operations are not uncommon. In addition, having an affiliated entity serve as property manager can also offer efficiencies. As an example, the property management fee for Folsom Ranch is projected at 3%, while the industry standard is normally closer to 5%.

Of note however, is that St. Anton's operating expense projection of $4,413/unit/year falls short of the CTCAC required *minimum* of $4,600-4,800/unit/year, for multifamily buildings (the range is provided because it is not yet known whether Folsom Ranch will contain elevators which have a $200/unit/year operating expense premium). This said, CTCAC policy does allow for a 15% reduction in operating expense budgeting through a waiver request process that requires St. Anton to submit letters of support from both banking (debt) and investor (equity) partners consenting to the proposed budget. St. Anton applied for and was granted this waiver for their recently completed Bidwell Pointe project and, though not mentioned specifically in the project narrative, we presume they are planning the same for Folsom Ranch.

We remark here as well that St. Anton's projections also compare somewhat less favorably with several benchmarks for operating expense trends outlined in a Novogradac & Company study of LIHTC properties nationwide than their Bidwell Place proposal, which we reviewed in March 2020.[1] For example, 2019 operating expenses for new construction LIHTC properties were $5,351/unit, for properties ranging in size between 100 and 200 total units were $5,052/unit, and for properties marketed to families were $5,489/unit. While LIHTC properties located in California specifically (a large data subset in the Novogradac study) averaged $6,013/unit annually. Operating expenses are inflated at 3% in St. Anton's initial projections.

In sum, while it is important to remain cognizant that this is an "early stage" review, there is some evidence that St. Anton's operating expense projections for Folsom Ranch are understated – relying on sustained performance at lower-than industry standard spending levels for ongoing viability.

Long Term Proforma/Cash Flow: As presented, the 20-year cashflow projection for Folsom Ranch appears viable. Revenues are projected to grow at 2% and operating expenses at 3% – both standard metrics for new construction LIHTC developments; though slightly more conservative than the CTCAC allowable 2.5%/3.5%. As submitted, debt service coverage is 1.16 in year-one, 1.32 in year-ten, and 1.49 in year-twenty. If we "stress" Folsom Ranch by including a placeholder for additional operating expenses of $387/unit (i.e., to meet the CTCAC non-waiver minimum for elevator buildings), debt service ratios decline but still meet what we would consider the low-end for industry standard threshold underwriting criteria – 1.10 in year-one, 1.23 in year-ten, and 1.38 in year-twenty.

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[1] *Novogradac 2020 Multifamily Rental Housing Operating Expense Report: Survey and Analysis of LIHTC Properties.*

Additionally, and importantly from the City's perspective, the 20-year cashflow projects just more than $2M in "free" surplus cash *after* the repayment of the entire deferred developer fee. If St. Anton's projections are accurate, this would allow for at least the partial repayment of the City's loan (depending in part on the City's final loan terms and repayment provisions) which could then be deployed as a gap financing source into future affordable housing projects.

DEVELOPMENT COSTS: As submitted, total development costs (outlined in the table below) are $45.4M or ~$302K/unit. These projections are significantly lower than the statewide average for new construction 4% LIHTC transactions which in 2019 was $426,231[2]. Here again, the fact that St. Anton is vertically integrated and employs an identity of interest general contractor – Hurley Contractors (Hurley) – along with its reportedly good track record from the City's standpoint on its prior project – somewhat mitigates TDA's concern about cost projections. According to St. Anton development staff, Hurley builds exclusively for St. Anton; employing the same labor force and subcontractors for all multifamily projects. These factors allow for economies of scale across projects and, when staged in geographical and temporal proximity to other St. Anton projects (e.g., Bidwell Phase II) offer procurement and staging efficiencies that would otherwise add costs. In addition to these factors, St. Anton notes that in its perspective the City has a progressive stance on limiting impact fees for affordable housing projects – further driving down total costs. Because of the very preliminary nature of this review, TDA recommends that the City continue monitoring the cost structure for Folsom Ranch to prevent any unwanted "surprises" once hard construction cost estimates are "firmed up" as the pre-development and due diligence review process moves forward.

FUNDING SOURCES: St. Anton proposes an overall permanent capital mix (outlined in the table below) which includes a tax-exempt bond first mortgage of $17.62M, equity generated from the sale of federal 4% LIHTC of ~$15.14M, the City's loan of affordable housing funds of $8.25M, net operating income during lease-up of ~$270K, a managing general partner loan (GP Loan) of $2M, deferred interest on the City and GP Loans of $615K, and a deferred developer fee of ~$1.47M.

At this early stage of the process St. Anton has not provided letters of interest for either the construction/permanent debt or for the syndication of 4% LIHTC which is currently projected $1.00/credit. Though similar to the $1.01/credit pricing St. Anton quoted for the Bidwell Place project, the national average for LIHTC pricing as currently published by Novogradac is $0.92/credit. The 9% premium St. Anton projects for Folsom Ranch is indicative of both a highly competitive LIHTC syndication market in California and, by extension, strong demand for the delivery of affordable housing units in the Sacramento MSA of which the City of Folsom is a part.

The portion of St. Anton's developer fee that is deferred represents 33% of the total developer fee. Based on current 20-year cash flow projections, this portion of deferred fee will be fully repaid during the eleventh year of stabilized operations which is within normal expectations of equity investors.

Development Costs	Total	Per Unit	% of Total	Per Sq. Ft.
Acquisition	$5,000,000	$33,333	11.0%	
Site Work and Construction	$25,777,654	$171,851	56.8%	***$210.76***
Soft Costs	$6,871,702	$45,811	15.1%	

[2] *California Tax Credit Allocation Committee: 2019 Annual Report (April 2020)*

Financing Costs	$1,738,113	$11,587	3.8%	
Reserves & Start Up	$1,467,045	$9,780	3.2%	
Developer Fee	$4,510,000	$30,067	9.9%	
Total Development Costs	**$45,364,514**	**$302,430**	100.0%	***$370.90***

Sources	Total	Per Unit	% of Total
Mortgage	$17,620,000	$117,467	38.8%
LIHTC Equity	$15,139,251	$100,928	33.4%
Folsom Loan	***$8,250,000***	***$55,000***	***18.2%***
Lease-Up NOI	$269,835	$1,799	0.6%
Managing GP Loan	$2,000,000	$13,333	4.4%
Deferred Interest	$615,000	$4,100	1.4%
Deferred Developer Fee	$1,470,427	$9,803	3.2%
Total Sources	**$45,364,513**	**$302,430**	**100.0%**
Gap (or Surplus)	**$1**	**$0**	**0.0%**

PRELIMINARY CONCLUSIONS: Our initial review of the proforma projections and project narrative provided by St. Anton suggests that Folsom Ranch is generally structured within broadly accepted industry norms for multifamily affordable housing transactions. Certainly St. Anton's successful track record with previous multifamily affordable housing developments provides a measure of confidence in their proposal that may otherwise be lacking and helps mitigate high level concerns about operating expenses and development cost projections at the lower end of industry averages in California.

Still, we feel it is important to keep in mind the nascent stage of this proposal for the City's limited pool of affordable housing funds. While St. Anton has submitted a Design Review stage (i.e, unit configuration(s), amenity package, schematic renderings) application to the City that is currently in process, at this time St. Anton does not have land control or preliminary commitments for project funding (debt or equity). The opportunity cost of committing limited funding to a project that may still be more than a year from ground-breaking (and could morph in the meantime as different execution paths, e.g. seeking state LIHTC or other gap funding sources) may well be other pipeline projects that are closer to fruition.

Attachment 7

Term Sheet for $3,500,000 loan request

Loan Term Sheet

Sage at Folsom

City of Folsom

January 21, 2021

1. Lender: City of Folsom, a municipal corporation
2. Borrower: Folsom 670, L.P., a California limited partnership (to be formed)
    i. General Partners
        1. USA Folsom 670, Inc., a California corporation (to be formed), Administrative General Partner, a wholly owned entity of USA Properties Fund, Inc.
        2. Riverside Charitable Corporation, a California nonprofit public benefit corporation, Managing General Partner
        3. TBD – Tax Credit Investor, Limited Partner
3. Loan Amount: $3,500,000
4. Purpose: Construction and operation of a 110-unit senior rental housing community of which 100 percent (excluding one management unit) will be affordable and deed restricted for 55 years. The planned affordability mix varies between 30% and 80% AMI using TCAC income and rent limits.
5. Timing of Funding: The City's loan will be funded upon closing of the primary construction loan.
6. Interest Rate: 3% simple per annum
    a. Annual Payments: Repayment of the principal amount of the loan together with accrued interest will be to the extent "Residual Cash Flow" exists. Principal and interest payments equal to fifty percent (50%) of "Residual Cash Flow" are due beginning on May 1st of each year until the loan is fully repaid. Notwithstanding, annual payments on the City's loan will be deferred until the earlier of i) 15 years following Permanent Loan Conversion or ii) repayment of the Deferred Developer Fee, provided further that the Deferred Developer Fee note shall carry no interest.
7. Residual Cash Flow: Residual Cash Flow is identified as all income generated by the project after:
    a. Payment of typical operating expenses for the project, including:
        i. Property management fee not to exceed fees which are standard in the industry
        ii. Advertising, legal, accounting, security, and other general office administration expenses
        iii. Payroll, benefits, and payroll taxes
        iv. All utilities
        v. All repair and maintenance costs
        vi. Property insurance
        vii. Property taxes
    b. Replacement reserve replenishment: cash deposited into a reserve for capital replacements of project improvements in such reasonable amounts as are required by the project lenders and/or tax credit investor
    c. Senior amortizing debt service agreed to by the City as of initial closing.

In any year in which payment on the City's loan is deferred, Residual Cash Flow shall be used exclusively as follows:

d. First, for payment of an Asset Management Fee to the Limited Partner in the amount of no more than $7,500 for the first year and escalating at no more than 3% per year thereafter;
e. Second, for payment of a non-cumulative Managing General Partner fee to the non-profit Managing General Partner for their management duties in the amount of 1% of the effective gross income generated by the affordable units capped at $25,000 for the first year and an escalating cap at no more than 2% per year thereafter
f. With all remaining Residual Cash Flow used as payment toward any outstanding Deferred Developer Fee.

These categories as listed above shall not materially change without written approval of the City for the purposes of calculating the annual payment.

8. Term: 35 years from Permanent Loan Conversion. Balance of loan will be due on sale.
9. Balloon Payment: At the expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due.
10. Refinancing: In the event of refinancing, the City will subordinate to the new senior loan on substantially similar terms as the original financing.
11. Conditions: The funding of the City loan is conditioned on the following:
    a. The project has secured the unconditional commitment of all funding sources necessary to develop the project pursuant to the pro forma, including the construction loan, the permanent loan, and 4% federal and state tax credit equity
    b. The Borrower has fee ownership of the land (the developer currently holds fee simple title of the land)
    c. The project has secured all building permits or permit-ready letters and is ready to begin construction
    d. In the event of cost overruns in development of the project, the Developer will defer as much of its estimated developer fee as IRS requirements permit prior to requesting any additional funding from the City.
12. Net Cost Savings/Increased Sources:
    a. Closing will be contingent upon further review by the City and its determination that Borrower has reasonably maximized the permanent loan and tax credit equity within then current market conditions. As of initial/construction loan closing, to the extent project sources are in excess of project costs (assuming a deferred developer fee of $1,879,146) and to the fullest extent allowed by applicable CDLAC and CTCAC Regulations and the Project's award of Bond Volume Cap and Tax Credits, the first $1,000,000 of any such excess shall be used to reduce the City's loan and then any remaining excess shall thereafter be used 50% to further reduce the City's loan and 50% to reduce deferred developer fee.

b. Following completion of construction Borrower shall submit to City a cost certification prepared by a qualified independent auditor acceptable to City setting forth the total sources and uses for the Project. To the extent the Cost Certification shows that project sources are in excess of project costs (assuming a deferred developer fee of $1,879,146), to the fullest extent allowed by applicable CDLAC and CTCAC Regulations and the Project's award of Bond Volume Cap and Tax Credits, such an amount shall first be used to reduce the City's loan to $2.5 million and then any remaining excess shall thereafter be used 50% to further reduce the City's loan and 50% to reduce deferred developer fee.

13. <u>Reporting:</u> Developer will provide the City with annual audited financial statements for the project demonstrating compliance with the formula for the distribution of cash flow.
14. <u>Security:</u> City's loan will be secured by a deed of trust junior to construction and permanent financing sources set forth.

Attachment 8

Term Sheet for $4,500,000 loan request (HOME funds)

Loan Term Sheet
Sage at Folsom
City of Folsom
January 21, 2021

1. Lender: City of Folsom, a municipal corporation
2. Borrower: Folsom 670, L.P., a California limited partnership (to be formed)
    i. General Partners
        1. USA Folsom 670, Inc., a California corporation (to be formed), Administrative General Partner, a wholly owned entity of USA Properties Fund, Inc.
        2. Riverside Charitable Corporation, a California nonprofit public benefit corporation, Managing General Partner
        3. TBD – Tax Credit Investor, Limited Partner
3. Loan Amount: $4,500,000
4. Purpose: Construction and operation of a 110-unit senior rental housing community of which 100 percent (excluding one management unit) will be affordable and deed restricted for 55 years. The planned affordability mix varies between 30% and 80% AMI using TCAC income and rent limits.
5. Timing of Funding: The City's loan will be funded upon closing of the primary construction loan.
6. Interest Rate: 3% simple per annum
    a. Annual Payments: Repayment of the principal amount of the loan together with accrued interest will be to the extent "Residual Cash Flow" exists. Principal and interest payments equal to fifty percent (50%) of "Residual Cash Flow" are due beginning on May 1st of each year until the loan is fully repaid. Notwithstanding, annual payments on the City's loan will be deferred until the earlier of i) 15 years following Permanent Loan Conversion or ii) repayment of the Deferred Developer Fee, provided further that the Deferred Developer Fee note shall carry no interest.
7. Residual Cash Flow: Residual Cash Flow is identified as all income generated by the project after:
    a. Payment of typical operating expenses for the project, including:
        i. Property management fee not to exceed fees which are standard in the industry
        ii. Advertising, legal, accounting, security, and other general office administration expenses
        iii. Payroll, benefits, and payroll taxes
        iv. All utilities
        v. All repair and maintenance costs
        vi. Property insurance
        vii. Property taxes
    b. Replacement reserve replenishment: cash deposited into a reserve for capital replacements of project improvements in such reasonable amounts as are required by the project lenders and/or tax credit investor
    c. Senior amortizing debt service (including the SHRA loan) agreed to by the City as of initial closing.

In any year during which payment on the City's loan is deferred, Residual Cash Flow shall be used exclusively as follows:

a. First, for payment of an Asset Management Fee to the Limited Partner in the amount of no more than $7,500 for the first year and escalating at no more than 3% per year thereafter;
b. Second, for payment of a non-cumulative Managing General Partner fee to the non-profit Managing General Partner for their management duties in the amount of 1% of the effective gross income generated by the affordable units capped at $25,000 for the first year and an escalating cap at no more than 2% per year thereafter
c. With all remaining Residual Cash Flow used as payment toward any outstanding Deferred Developer Fee.

These categories as listed above shall not materially change without written approval of the City for the purposes of calculating the annual payment.

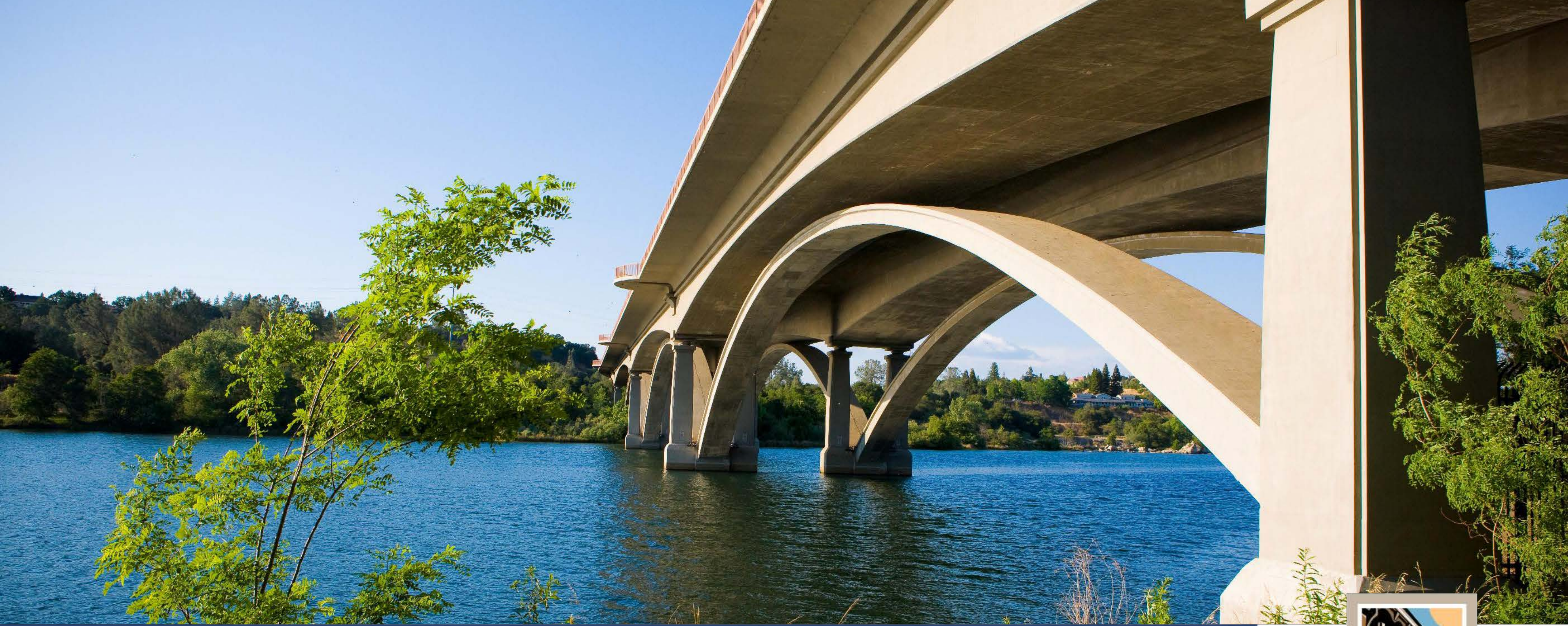
8. <u>Term:</u> 35 years from Permanent Loan Conversion. Balance of loan will be due on sale.
9. <u>Balloon Payment:</u> At the expiration of the loan term, 100% of the principal balance of the loan and all accrued interest will be due.
10. <u>Refinancing:</u> In the event of refinancing, the City will subordinate to the new senior loan on substantially similar terms as the original financing.
11. <u>Conditions:</u> The funding of the City loan is conditioned on the following:
    a. The project has secured the unconditional commitment of all funding sources necessary to develop the project pursuant to the pro forma, including the construction loan, the permanent loan, and 4% federal tax credit equity
    b. The Borrower has fee ownership of the land (the developer currently holds fee simple title of the land)
    c. The project has secured all building permits or permit-ready letters and is ready to begin construction
    d. In the event of cost overruns in development of the project, the Developer will defer as much of its estimated developer fee as IRS requirements permit prior to requesting any additional funding from the City.
12. <u>Net Cost Savings/Increased Sources</u>:
    a. Closing will be contingent upon further review by the City and its determination that Borrower has reasonably maximized the permanent loan and tax credit equity within then current market conditions. As of initial/construction loan closing, to the extent project sources are in excess of project costs (assuming a deferred developer fee of $2,699,626), to the fullest extent allowed by applicable CDLAC and CTCAC Regulations and the Project's award of Bond Volume Cap and Tax Credits, any such excess shall be used to reduce the SHRA Loan. If any excess remains after the SHRA Loan has been eliminated, the first $1,000,000 shall be used to reduce the City's loan and then any amount remaining thereafter used 50% to further reduce the City's loan and 50% to reduce deferred developer fee.
    b. Following completion of construction Borrower shall submit to City a cost certification prepared by a qualified independent auditor acceptable to City setting forth the total sources and uses for

the Project. To the extent the Cost Certification shows that project sources are in excess of project costs (assuming a deferred developer fee of $2,699,626), to the fullest extent allowed by applicable CDLAC and CTCAC Regulations and the Project's award of Bond Volume Cap and Tax Credits, any such excess shall be used to reduce the SHRA Loan. If any excess remains after the SHRA Loan has been eliminated, such amount shall be used to reduce the City's loan to $3.5 million and then any amount remaining thereafter used 50% to further reduce the City's loan and 50% to reduce deferred developer fee.

13. Reporting: Developer will provide the City with annual audited financial statements for the project demonstrating compliance with the formula for the distribution of cash flow.
14. Security: City's loan will be secured by a deed of trust junior to construction and permanent financing sources set forth and SHRA loan.

Attachment 9

PowerPoint Presentation
Affordable Housing Fund Request and Direction to Staff



Affordable Housing Fund Requests and Direction to Staff
Resolution No. 10583 & Resolution No. 10584

CITY OF
FOLSOM

Folsom Housing Funds

Table 3 – Folsom Housing Funds		
Housing Fund Name	Source	Fund Balance
Housing Trust Fund (Fund 221)	Commercial Fees	$1,145,724
Folsom Housing Fund (Fund 238)	Inclusionary In-lieu Fees	$6,129,778
Oaks at Willow Springs (Fund 274)	Willow Springs Inclusionary Fee	$23,730
Bonds Fund	Former Redevelopment Bonds	$138,370
Total		**$7,437,602***

Fee based

Background

Housing Loan Requests

Two Affordable Housing Project Loan Requests

- Sage of Folsom Senior Apartment Project request up to $4.5M Loan
- Mangini Place Apartment Project request of $6.8M Loan

The City has historically received affordable housing fund requests sequentially

Two requests for affordable housing funds collectively exceed the current housing fund balance of $7.437M

Seeking City Council direction on the two affordable housing project fund requests

Background

Housing Loan Requests

Developer Pro Formas analyzed by City's consultant (TDA) for reasonableness and accuracy of assumptions, methods, and calculations

TDA found the proposed loan requests reasonable and comparable to other City approved per unit loans

December 28, 2020, Congress passed, and the President signed, a very significant COVID-19 relief package that included a permanent 4% floor for of Low-Income Housing Tax Credits (LIHTC) projects' tax credit rate

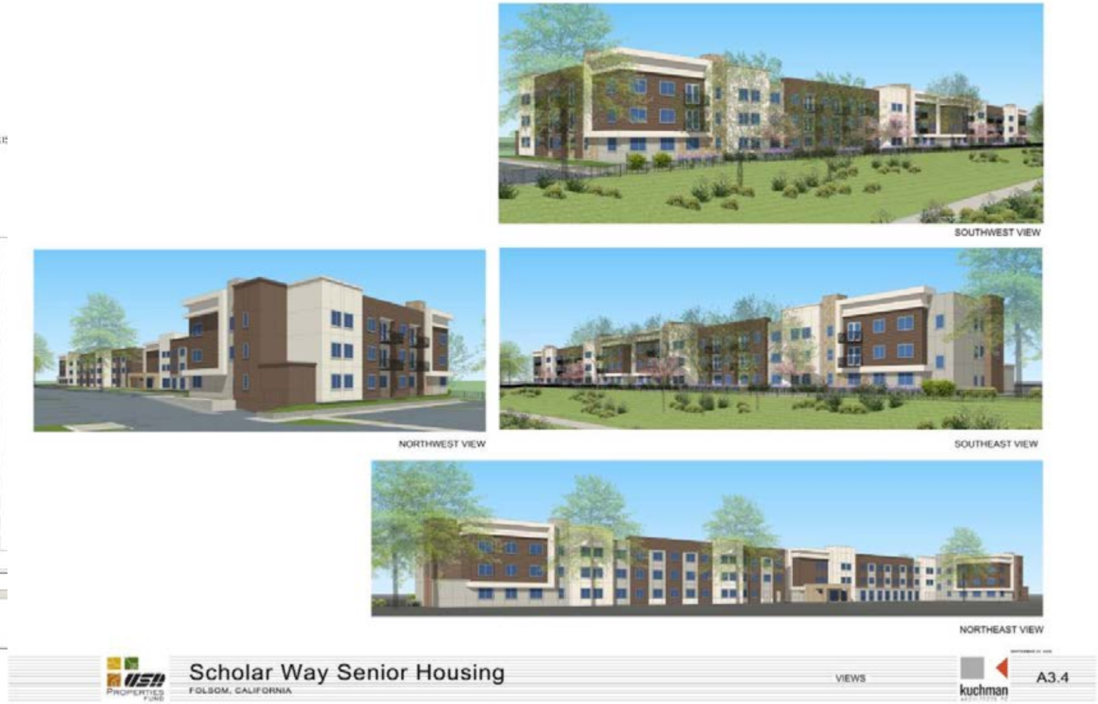
Reduced subsidy request for Mangini Place

Sage at Folsom
Project Details:

- Planning Commission approved in 2020
- 4.2-acres site
- 110 multifamily affordable one-bedroom senior units
- Affordable to low-, very-low-, and extremely-low-income seniors
- Last funding for affordable senior project was in 2007
- Currently, there are 322 affordable senior units
- Requesting up to $4.5M loan from City's Housing Fund
- Two different funding scenarios:
  - Scenario A - $4.5M Loan and HOME funds
  - Scenario B - $3.5M Loan and State tax credits

Sage at Folsom Site Plan and Rendering

East Bidwell Street



Sage at Folsom Funding Request: Two Scenarios

CITY OF FOLSOM

Funding Scenarios	Scenario A (Home Funds)	Scenario B (CA State TC)
Staff Recommendation	Contingency Scenario	Preferred Scenario
Resolution No.	10584	10583
Source	$800,000	$1,836,680
City Loan	$4,500,000	$3,500,000
Cost Per unit	$40,909	$31,818
Affordability Mix	11 @ ELI 30% AMI 58 @ LI 50% AMI 40 @ LI 80% AMI 1 Employee Unit	11 @ ELI 30% AMI 61 @ LI 50% AMI 37 @ LI 80% AMI 1 Employee Unit

Mangini Place
Project Details:

Planning Commission review proposed for Spring 2021

5.02-acres site

First proposed affordable project in the Folsom Plan Area

152 multifamily affordable one-, two-, and three-bedroom units

Project will provide 152 additional units toward RHNA

Affordable to low-, very-low-, and extremely-low-income households

Pedestrian focus - walking distance of elementary school

Requesting $6,860,000 loan from City's Housing Fund

Mangini Place
Proposed Site Plan and Rendering

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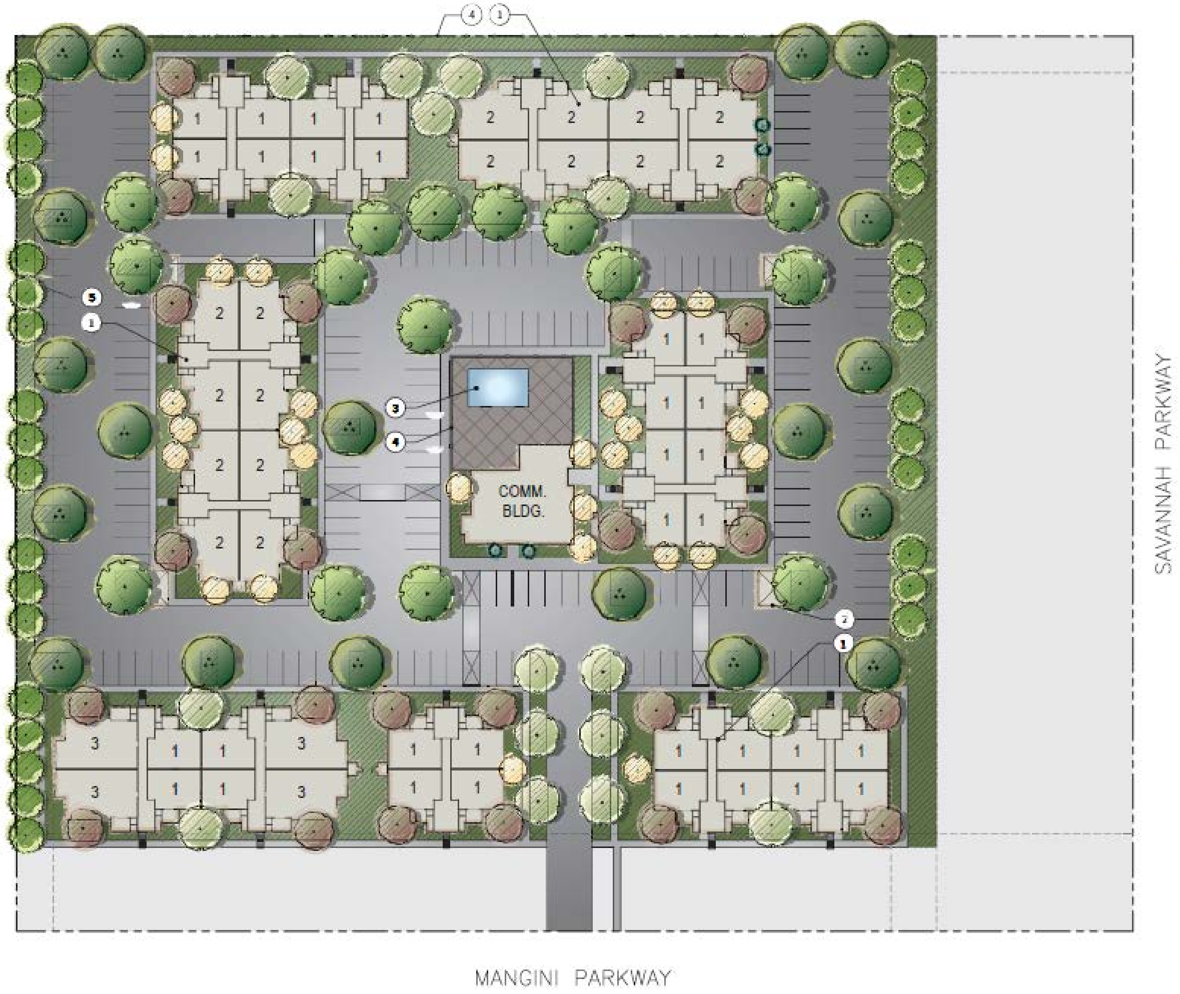

Mangini Housing Loan Request

CITY OF FOLSOM

Mangini Place Project Comparison Summary		
Design Development	**Original**	**Updated/Revised**
Unit #	150	152
Unit Mix	85 1BR, 51 2BR, 14 3BR	92 1BR, 48 2BR, 12 3BR
Affordability Mix	45 @ 50% AMI 103 @ 60% AMI 2 Employee Units	15 @ 30% AMI 16 @ 50% AMI 68 @ 60% AMI 51 @ 70% AMI 2 Employee Units
Funding Request	$8,250,000 $55,743/restricted unit	$6,860,000 $45,733/restricted unit

Folsom Previous Housing Loan Approvals

CITY OF FOLSOM

Housing Loan Request Comparison

Bidwell Point Mixed-use Project: $53,000 per affordable unit

Forestwood Apartment Project: $54,545 per affordable unit

Granite City Apartment Project: $51,000 per affordable unit

Bidwell Place Project: $55,333 per affordable unit

Sage at Folsom Project: $40,909/$31,818 per affordable unit

Mangini Place Project: $45,733 per affordable unit

Funding Analysis

Unencumbered Housing Fund $7.437M

Recent Rapid Growth in IHF

182 Single Family BP in 4th Quarter of 2020

2021 Estimate of 50 Single Family BP per month

Average IHF = $6,000 per unit

Estimate IHF of $900,000 per quarter in 2021

Based on Requests ($11.36M) could fund both projects over the next 12-18 months.

Staff Recommendation

CITY OF FOLSOM

Adopt the following Resolutions for Sage Affordable Senior Housing Project:

Resolution No. 10583 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in the Amount of $3,500,0000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement and Related Documents for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

Resolution No. 10584 - A Resolution of the City of Folsom Approving an Affordable Housing Loan in an Amount of $4,500,000 from the City's Housing Fund to USA Properties Fund, Inc. and Authorizing the City Manager to Execute a Loan Agreement And Related Documents and Authorizing the City's Allocation of $800,000 In Home Funds Received Through Participation in the SHRA HOME Consortium for the Construction of 110 Affordable Senior Housing Units at the Sage at Folsom Multifamily Affordable Housing Development Project, and Appropriation of Funds

Support a future affordable housing loan for the proposed Mangini Place Affordable Housing project and direct staff to bring the item back to City Council with a specific funding plan

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