COUNCIL REPORT

CITY OF MOUNTAIN VIEW

DATE: September 17, 2019

CATEGORY: Consent

DEPT.: Community Development

TITLE: **Resolution to Join California Community Housing Agency**

RECOMMENDATION

Adopt a Resolution Authorizing the City to Become an Additional Member of the California Community Housing Agency; Supporting the California Community Housing Agency's Issuance of Tax-Exempt Bonds for the Production, Preservation, and Protection of Middle-Income Rental Housing; and Authorizing the City Manager or His Designee to Enter Into Purchase Option Agreements with the California Community Housing Agency for Middle-Income Rental Housing Created Within City Limits, to be read in title only, further reading waived (Attachment 1 to the Council report).

BACKGROUND

Increasing the affordability, diversity, and supply of housing has been a Council major goal since 2015. In recent years, facilitating housing for moderate-income households has become an important priority for the City and regionally throughout the Bay Area. For rental units, this means monthly rental costs affordable to households earning up to 120 percent of the Area Median Income (AMI), adjusted for household size.

Most public funding sources for affordable housing—including Federal, State, regional, and local programs—are targeted for households earning 60 percent of AMI and below, driven primarily by low-income housing tax credit program requirements. As such, there have not been meaningful public subsidies for moderate-income housing, and market-rate housing does not typically produce affordable housing on its own. Although certain housing markets might have more "naturally affordable" rents, that highly depends on local conditions and certain macroeconomic factors. In Mountain View, the presence of a significant number of older apartment buildings, as well as the Community Stabilization and Fair Rent Act, result in average Citywide rents that are between approximately 100 percent and 130 percent of AMI. However, rents for newer market-rate units are significantly higher. For example, new two-bedroom units have asking rents between $5,500 per month to $8,000 per month, well above moderate-income levels. "Missing middle" describes the dearth of moderate-income housing due to the lack of a market mechanism as well as public programs for such housing.

The California Community Housing Agency (CalCHA) was formed as a joint powers authority (JPA between Kings County and the Housing Authority of Kings County to finance the production and preservation of moderate-income housing, generally targeting households earning up to 120 percent of AMI. Note that CalCHA's moderate-income limit is based on income limits from the California Tax Credit Allocation Committee (TCAC), which are higher than the income limits set by the Department of Housing and Community Development (HCD). For a moderate-income, one-person household, this means an annual income of up to $123,000 (TCAC limit) instead of $110,000 (HCD limit); for a household of four, this means an annual income of up to $175,560 (TCAC limit) instead of $158,000 (HCD limit). Using the higher TCAC income limits means that moderate-income rents would be approximately $3,100 per month for a one-person household and $4,400 per month for a four-person household, which is approximately $200 per month to $400 per month higher than if HCD limits were used. However, under current market conditions, rents for newer buildings are still significantly higher than TCAC-based moderate-income rents.

CalCHA is authorized to issue revenue bonds and to undertake various activities to meet its objectives, including new development (rental or ownership), acquisition and rehabilitation of existing units, operations and maintenance, and asset management. CalCHA is allowed to issue bonds for activities outside of Kings County, but it requires local agencies, including cities and counties, to first join the JPA. For cities, this means Council adoption of a resolution to join the CalCHA. Cities that have recently joined the JPA include Santa Rosa and Fairfield, where CalCHA has acquired two properties and created 676 deed-restricted moderate-income units in the past six months. Catalyst is evaluating a potential project in Menlo Park (which also recently joined the JPA), and staff has been informed that other jurisdictions are in discussions as well.

ANALYSIS

CalCHA operates in partnership with the Catalyst Housing Group ("Catalyst"). Catalyst's primary roles are to: identify viable acquisition or development opportunities, receive approval from CalCHA to pursue the opportunity, perform all due diligence, enter into the purchase and sale agreement, work with CalCHA to issue the bonds, and—upon closing the transaction—oversee all asset management of the properties.

Staff has met with Catalyst to better understand the business model. Below is a summary of key aspects:

- **Target Population:** CalCHA's focus is on creating affordable housing for households earning up to 120 percent of AMI.

- **Types of Activities:** CalCHA can issue bonds to finance new construction or acquisition of existing properties. To date, CalCHA has focused on the acquisition of existing market-rate rental properties and deed-restricting them to moderate-income rents. Whether new construction or acquisition/preservation, the types of transactions that CalCHA enters into are highly dependent on the economics of each opportunity.

  – *Preservation:* CalCHA has the flexibility to acquire either newer buildings that need little or no rehabilitation, or older buildings that might require some or significant rehabilitation. For older buildings, Catalyst conducts due diligence to determine the appropriate and necessary level of rehabilitation. Any rehab work is done upfront and is financed through the bond issuance proceeds. The project also includes increasing the maintenance reserve that is set aside and factored into the pro forma spanning the project's 30-year debt-repayment period.

  – *Existing Tenants:* Catalyst's due diligence when assessing a potential preservation project includes analyzing a property's current rents and existing household incomes. The JPA's policy is that no existing household shall pay more than market rents and, if existing rents are greater than CalCHA's restricted rents, then rents would be lowered. Additionally, the policy of the JPA is that there be no displacement. In the event that an existing household is over 120 percent of AMI, those households are allowed to stay in their units. Upon voluntary turnover, those vacated units will then be released to qualifying moderate-income households. The JPA is structured in a way that allows for this type of flexibility and financing structure, whereas typical public subsidies, including local housing funds, come with restrictions that would create deeper affordability levels but would, therefore, not be able to respond to mitigating potential displacement impacts as effectively.

- **Financing and Obligations:** CalCHA issues tax-exempt, 30-year bonds to finance its housing activities. Debt repayments are paid solely out of the project's revenues and additional cash flow after debt repayment goes entirely to the jurisdiction in which the property is located. There is no contribution of City funds as part of project financing. Any and all debts, liabilities, and obligations of CalCHA are its own and not of any of its members. All properties financed by CalCHA are exempt from property tax; the property tax exemption, combined with very low-cost financing, are the two key components that enable project feasibility.

- **City Purchase Option:** After the 15th year, the City has a 14-year option period to purchase the property. The purchase price is equal to the outstanding balance on the bonds at that time. If the bonds have been paid in full, the City would have several options, one of which is to exercise its purchase option at no cost (because the debt has been entirely repaid). Other options could include: acquiring the asset for $0 and adjust the affordability levels, purchasing at no cost, and turn the property over to a nonprofit to operate the property, or selling the asset with all proceeds passing to the City. What the City decides to do with the property once it has acquired it depends on its policy priorities, but the CalCHA program allows jurisdictions to make that determination.

- **City Approval:** As mentioned, the JPA requires jurisdictions to join as additional members (by adopting a resolution) before CalCHA can issue bonds for eligible development or acquisition activities in those jurisdictions. Subsequently, CalCHA/Catalyst coordinates with City staff if a development or acquisition opportunity is identified. The City Manager or other authorized designee must sign the purchase option agreement prior to any transaction that CalCHA/Catalyst executes. This allows jurisdictions the mechanism to ensure that a potential investment also aligns with the community's housing needs.

Staff suggests that any excess cash flow from any project that the City receives, or any proceeds from the sale of a property that the City has acquired, be placed into a new housing fund to facilitate the production and preservation of affordable housing. Because there are no restrictions on the excess cash flow or sales proceeds (unlike the City's BMR or housing impact fee programs), the City could use such funds to implement a program that is more flexible to serve a wider range of needs, such as various AMI levels or addressing displacement. This account/program can be developed at a later time.

FISCAL IMPACT

The CalCHA program appears to include several components that could have a fiscal impact for participating jurisdictions. Housing activities financed by CalCHA do not require any local funding. Any excess cash flow from projects would go to the City. Participating jurisdictions have a 14-year purchase option window (beginning after the

15th year) to acquire the property from the JPA. Depending on if and when a jurisdiction exercises that option, there could be an acquisition cost. If the bonds have been fully repaid, then there is no acquisition cost. If a jurisdiction decides to acquire the property and operate it—whether directly or in partnership with an asset management organization—the jurisdiction would receive some or all of the project's revenues. A jurisdiction could sell the property, once acquired, and receive the proceeds from the sale.

ALTERNATIVES

1. Do not adopt a resolution to join CalCHA.

2. Provide other direction.

PUBLIC NOTICING—Agenda posting.

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WC/2/CAM
821-09-17-19CR
190524

Attachment: 1. Resolution to Join California Community Housing Agency

Exhibit A. Exercise of Joint Exercise of Powers Agreement Relating to the California Community Housing Agency

Exhibit B. Purchase Option Agreement