



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Jacky Morales-Ferrand

SUBJECT: CHANGES TO LOANS
AND RESTRICTIONS FOR
HOUSING FOR INDEPENDENT
PEOPLE

DATE: January 12, 2015

Approved

Date

1/15/15

COUNCIL DISTRICTS: 1, 2, 5, 6, 8, 9, & 10

RECOMMENDATION

Adopt a resolution:

1. Authorizing the Director of Housing to negotiate and execute:
 - a. Shared Housing Affordability Restrictions for affordability restricted properties owned by Housing for Independent People (HIP) for the following properties: 3825 Barker Drive; 3456 Calvin Avenue; 1824 Curtner Avenue; 5629, 5668 and 5684 Hoffman Court; 1231 Minnesota Avenue; and 1713 and 1731 Ross Circle.
 - b. Amendments to the City's existing loan documents to allow the HIP's use of project cash flow that would otherwise be due to the City for additional replacement reserve deposits and to fund supportive services as permitted project expenses for the above properties as well as the following properties: 1579 Branham Lane; 239 Burning Tree Drive; 1794 Donna Lane; 1059 Roewill Drive; and 1726 Ross Circle.
 - c. Shared Housing Affordability Restrictions as needed for other affordable supportive shared housing projects for formerly homeless households or individuals.
2. Approving conditional grant commitments from the Low and Moderate Income Housing Asset Fund to HIP for up to \$300,000 to cover the soft costs of rehabilitation and an increase to the grant made under the Homeless Housing Program of up to \$200,000 for additional hard costs incurred in the rehabilitation of its existing affordable rental properties: 1059 Roewill Drive; 3825 Barker Drive; 247-249 Muirfield Drive; 1231 Minnesota Avenue; 2551 Sesame Court; 1713 and 1731 Ross Circle; and 5629, 5668 and 5684 Hoffman Court.

OUTCOME

Approval of these loan document changes, restriction amendments and additional grants to HIP will allow that organization's properties to operate as supportive housing for the homeless and other service intensive populations as originally intended, provide HIP with cash flow to fund supportive services and ongoing maintenance, and complete the funding package for repairs and rehabilitation on ten properties that will provide housing for 31 homeless individuals who are currently living in encampments.

BACKGROUND

HIP was formed in 1980 to provide housing to persons with developmental or psychiatric disabilities. HIP's mission has broadened since that time to include persons with AIDS/HIV and people transitioning from homelessness or at risk of homelessness. The City made loans to HIP to acquire and rehabilitate 14 small affordable housing properties. In 2012, HIP and Abode Services merged in order to enhance HIP's management and organizational capacity. Abode was formed in 1988 with a mission to provide permanent homes for individuals and families experiencing homelessness.

The 14 HIP properties each have between one and six units, with unit sizes from one to six bedrooms, and most restricted to Very Low-Income households (at 50% of Area Median Income, or AMI) or Low- Income households (at 60% of AMI). In total, there are 44 units with 102 individual bedrooms. HIP operates nine (9) of these properties as affordable, supportive "shared housing," wherein each bedroom is rented to an unrelated eligible tenant.

When HIP and Abode Services merged effective January 1, 2012, Abode Services staff took over responsibility for the management of the properties in the HIP portfolio. Upon assuming management responsibilities, Abode realized that: 1) the 14 HIP properties were in need of significant renovations; 2) the properties also lacked funding for the supportive services needed for their target population; and, 3) the rent and income restrictions were not appropriate for the actual targeted tenant population.

In 2012, HIP approached the City to ask for help in resolving these concerns. At that time, due to the dissolution of redevelopment, the City did not have available funding to lend. An alternative was explored to use net cash flow, or residual receipts payments. The City's loan documents for the 14 HIP properties require residual receipt payments ranging from 60% to 80% of net cash flow. HIP was given verbal direction to hold residual receipts payments due to the City while the possibility of modifying the residual receipts requirement was investigated.

On June 17, 2014, the City Council approved grant funding of up to \$1,800,000 from the Homeless Housing Program (HHP) to rehabilitate eight of the current 14 properties in the City's portfolio of HIP loans. In addition to these eight, rehabilitation of another two properties owned by HIP will be funded by the City's grant. This work is expected to commence in the first quarter of 2015. The purpose of this previously approved grant funding is to provide 31

units of housing dedicated to homeless individuals and families currently living in encampments.

ANALYSIS

Shared Housing Affordability Restrictions

HIP's properties are being used as shared housing, with multiple unrelated individuals – each with a separate lease agreement – living in each of the units. The affordability restrictions recorded on the HIP properties were for family rental housing. Although each individual person living in the shared property meets the affordability requirements, when the combined income of all the individuals is added together, the total exceeds the affordability restriction recorded against the property, thereby creating a compliance issue.

This shared housing practice was initiated by HIP in connection with federally funded supportive housing programs. Most of the properties owned by HIP are currently restricted so they can be rented to a single Low-Income household at a rent that does not exceed Low Income Rent (30% of 60% of AMI). The recommendations proposed in this report will allow Shared Housing Affordability Restrictions to be recorded on the properties so that compliance with Community Redevelopment Law is assured. These recommendations will enable the properties to come into compliance by amending City's Affordability Restrictions to allow for the rental of individual bedrooms so long as the target special needs populations are served and appropriate supportive services are provided.

When shared housing restrictions as being proposed herein are recorded against a restricted property, the owner will be able to rent the bedrooms separately to Extremely Low income (ELI) individuals at rents that do not exceed an ELI rent (30% of 30% AMI – approximately \$558/mo) – though restriction at lower income levels may be imposed in certain cases – provided that the property is operated as supportive housing (as defined in Section 20.200.1265 of the Zoning Code) and that the total rent does not exceed what could be charged for the building as a Moderate-Income rental (at 110% of AMI). In the event that the shared housing arrangement ceases, the unit would revert to its original 50% or 60% AMI cap.

The City has identified several additional City-restricted properties that are being used for shared housing to serve the homeless and others in need of supportive services. For the most part, the affordability restrictions and loan agreements for these share housing properties reflect typical family housing occupancy and rent restrictions. It is proposed that this action will authorize the Department to revise the restrictions on those other properties to be consistent with shared housing requirements being proposed for the HIP portfolio.

Zoning Consistency for Shared Housing: The City's Zoning Code requires that shared housing properties provide supportive services as evidenced by a service plan. While these services have been provided by HIP as a matter of practice, the City's existing documents do not currently require these services. The revised loan documents that will be recorded in

accordance with the recommended actions will require that this be documented in a services plan.

Additional Funding for Multi-Property Rehabilitation Grant: The returned bond funds that were committed in June for the \$1,800,000 HHP rehabilitation grant may not be used for project soft costs. Thus, it is recommended that a grant of up to \$300,000 from the Low and Moderate Income Housing Asset Fund be approved to pay for the soft costs associated with the rehabilitation work. Additionally, when the initial rehabilitation grant was approved, some work items were left out of the budget. Staff is recommending that an additional \$200,000 of HHP grant funds be approved to allow for the completion of all outstanding rehabilitation needs.

Use of Project Cash Flow for Replacement Reserve Funding and Supportive Services:

Due to their age, intensive use and small size, HIP's projects present difficult maintenance challenges and produce relatively little cash flow. The multi-property rehabilitation grant is evidence of the deferred maintenance issue that HIP faces. In addition to completing necessary current renovation work, it is also important to ensure that the properties' replacement reserves are adequately funded going forward.

The HIP properties currently generate only minimal cash flow to support required capital improvement work and supportive services. Most (60%-80%) of any cash flow that is generated by the properties after payment of necessary operating expenses is currently owed to the City for repayment of its loans. However, the properties have made only minimal payments to the City, and payments made have been at the expense of property maintenance.

The recommendations contained herein allows HIP to deposit into replacement reserves those funds currently held in suspense (approximately \$160,000).

As noted above, shared housing, to be compliant with the City's zoning requirements, must provide supportive services. The only source available to pay for supportive services is the cash flow from the properties themselves. It is proposed that expenses for approved supportive services be allowed as a project permitted expense, to be paid prior to any payment to the City.

Staff is therefore recommending that replacement reserves and funds for supportive services be funded out of project cash flow in the amount budgeted by HIP and approved by City staff at the beginning of each operating year. Any cash flow amounts left over after funding of operating expenses, replacement reserves and supportive service costs would be placed in an operating reserve account. As a result of the recommended changes, no net cash flow would be available for distributed to either the City or HIP.

The effect of this reallocation of cash flow to replacement reserves and supportive services will postpone repayment of the City's loans to the properties until maturity. However, at current rates of cash flow from the properties, even without these changes the loans would not be repaid before their current maturity dates.

Homeless Housing Program Grant Requirements: The proposed amendments will HIP to record amended restrictions and meet the requirements to receive the HHP rehabilitation grant approved by the Council in June.

The amended loan documents reflecting the zoning requirement for a supportive services plan and the Shared Housing Affordability Restriction are conditions precedent to implementing the multi-property rehabilitation grant approved by the Council in June.

Monitoring: The proposed actions with respect to affordability changes will allow the City to properly monitor the affordability and income compliance of the HIP portfolio within its normal monitoring process. Rent roll and other compliance information will be reviewed annually to ensure that the properties are meeting the redefined affordability criteria. The borrower will also be required to maintain an approved service plan on properties that implement shared residency. The Housing Department's inspection staff will work with HIP to properly scope and budget the needed renovation work. Staff will help to establish the appropriate amount of replacement reserves needed on annual basis pending the results of renovation work. The HIP properties will also be a part of the Housing Department's ongoing annual physical inspection process.

Consideration: In consideration for the changes being recommended in this report, the City will extend its Affordability Restrictions by five years on each property. This will extend the useful life and affordability for properties that provide housing for over 70 persons at risk of homelessness. In addition, the Affordability Restrictions for the property will be amended to require the payment of loan servicing fee of \$19.50 per unit and an affordability monitoring fee of \$19.50 per unit.

EVALUATION AND FOLLOW UP

The recommended actions authorize document changes to facilitate funding of a companion \$1,800,000 rehabilitation grant that was approved by the City Council on June 17, 2014. The Housing Department will conduct annual monitoring for both the previously-awarded grant and the actions recommended herein to ensure compliance, but no further reporting to the Council will be required.

PUBLIC OUTREACH

This memorandum report will be posted on the City Council Agenda Website for the January 27, 2015 meeting.

HONORABLE MAYOR AND CITY COUNCIL

January 12, 2015

Subject: Changes to Loans to Housing for Independent People

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COORDINATION

Preparation of this report was coordinated with the Office of the City Attorney and the City Manager's Budget Office.

BUDGET REFERENCE

Fund #	Appn. #	Appn. Name	Total Appn.	Amt. for Contract	2014-2015 Adopted Budget (Page)	Last Budget Action (Date, Ord. No.)
346	0070	Housing Loans & Grants	\$16,180,000	\$300,000	XI-53	6/17/2014 Ord. 29431
448	2074	Capital Grant Program	\$4,775,000	\$200,000	XI-68	10/7/2014 Ord. 29496

CEQA

Exempt, File No. PP13-108.

/s/

JACKY MORALES-FERRAND
Interim Director of Housing

For questions please contact Jacky Morales-Ferrand of the Housing Department at 408-535-3855.