



MEMORANDUM

To: Molly Rattigan, Deputy County Executive Officer, County of Napa
Nancy Johnson, Housing and Community Development Program Manager

From: Liz Tracey, Senior Principal, LeSar Development Consultants

Date: August 27, 2019

Re: Review of Manzanita Family Apartments Loan Increase

Project Background

The Manzanita Family Apartments project (the Project) is a proposed affordable housing development for families with a reservation of County of Napa (the County) affordable housing funds in the amount of \$500,000. It was approved via Resolution No. 2019-23 by the County Board of Supervisors, pending submittal of a complete application and Board determination of loan terms. Due to rising construction costs, the Project requires additional funding, and County staff has proposed setting aside \$750,000 in Homeless Emergency Assistance Program (HEAP) Funds for this purpose. This additional funding would provide for a total of \$1,250,000 in financial assistance from the County. With the additional funding from the County, the Project will have all the subsidy sources required to commence development.

Through its Continuum of Care program, the County has access to the HEAP funds from the State of California's Department of Housing and Community Development (HCD). The allocation of \$750,000 of the County's HEAP monies will fill the final funding gap for Manzanita and move the project in to construction. In exchange for the HEAP funding, SAHA will reserve six units for the homeless Coordinated Entry System for placement by the County for the project's affordability period. All units receiving HEAP funding will be reserved for incomes at 30% of area median income (AMI).

The HEAP funds will need to be encumbered by December 31, 2019 and fully spent by June 30, 2021. The units are projected to be completed and occupied by December 31, 2021, and staff at DHCS has confirmed that it will be acceptable to expend the funds and have the units completed after the June 30, 2021 deadline for expenditure.

The Manzanita project will contain 50 permanently affordable apartment units to very low-income families, with one non-income restricted three-bedroom manager's unit. The unit mix provides for 22 extremely low income units at 30% AMI, 3 units at 50% AMI, and 25 units at 60% AMI (unit mix detailed in the chart below, page 4). As a condition of the HEAP fundings, six of the 30% AMI units will be set aside for homeless households that will be referred under the County's Homeless Services Coordinated Entry System.

The Project site is a vacant lot located at 2951 Soscol Ave, in the City of Napa (City), in the County of Napa (County). It will be receiving a subsidy in the amount of approximately \$1.5mm from the City of Napa, most of which represents the value of the site being donated to the development of the Project.

Sponsored and to be developed by Satellite Affordable Housing Associates (SAHA), the Project has received commitments of financing from a series of subsidy programs from HCD, the Federal Home Loan Bank of San Francisco, land contribution and some additional cash assistance from the City of Napa, and Project Based Section 8 subsidies from the City of Napa Housing Authority, in addition to commercially available tax credit equity and debt financing. The Project is expected to commence construction by the Spring of 2020.

The County of Napa has requested that LeSar Development Consultants (LDC) review the updated development proforma to 1) assess the feasibility of the Project given the updated unit mix and funding structure.

Details on the subsidy funding sources that are committed to the Project are as follows:

- \$4,400,000 in Affordable Housing and Sustainable Communities from the State of California's Strategic Growth Council
- \$3,796,456 in Home Investment Partnerships Program (HOME) funds from HCD
- \$4,543,887 in National Housing Trust Fund (NHTF) funds from HCD
- \$500,000 Affordable Housing Program (AHP) funds from the Federal Home Loan Bank of San Francisco.
- 20 Project Based Section 8 vouchers from the Housing Authority of the City of Napa. These vouchers will provide for a 20-year first term with an option for a 20-year renewal. The vouchers provide a rent subsidy to the Project for all but 2 of the 30% AMI units. The amount of revenue these vouchers will generate will total \$310,932 in the first year.
- Operating subsidies from Napa County's Emergency Service Grant (ESG) funding for the remaining two of the 30% AMI units.
- Low income housing tax credits, known as 4% tax credits, from an investor, which has yet to be selected. The pricing per credit at 97 cents is conservative and the Project should be able to attract several investor offers at that price or higher.
- The Project is planning to secure debt financing by a tax-exempt mortgage in the amount of \$2,844,000—the loan will be tax exempt as a condition of procurement of the 4% tax credit program
- Finally, SAHA is contributing a portion of its \$3.9mm developer fee back to the Project in the form of a sponsor contribution of \$1,325,979; this means its net and earned developer fee will be in the amount of approximately \$2.3mm. Of this earned developer fee amount, SAHA will defer about \$600,000, to be repaid from Project residual cash flow.

Since the Project submitted an application for funding to the County in the summer of 2018, total development costs have risen by \$3.35mm, in part due to rising financing and construction costs, including an additional \$1.1mm in contingency in case construction costs continue their sharp rise.

1. Uses

a) Development Budget

Cost Per Unit: SAHA's proposed development budget, at about \$677,000 per unit, appears roughly in line with similar projects for affordable housing projects under development in the greater Bay Area. LDC reviewed other new construction projects in the same geographic area from the California Tax Credit Allocation Committee (CTCAC) and found per unit development costs to be \$650,000 or higher.

Prevailing Wage: One of the requirements of using State of California HOME funds is that any developer must pay prevailing wages to all laborers working on affordable housing developments. SAHA will comply with all state and federal regulations regarding the payment of prevailing wage, as applicable.

b) Operating Proforma

Operating Expenses

The proforma for the Manzanita project shows operating expenses in the amount of \$8,146 per unit per year, including the manager's unit. The prior operating budget assumed \$7,002 per unit per year. This operating budget is significantly above the minimum TCAC requirements for a special needs project, set at \$6,000 in the North and East Bay Region. Higher costs reflect the on-site services that will be provided to the residents, in addition to high monitoring fees for the NHTF and HOME subsidy sources, at over \$20,000 per year.

Replacement Reserves

The level of replacement reserves for the initial proposal of this Project is set at \$500 per unit per year, in compliance with the current HCD regulations.

Debt Service

The mortgage payment assumes a tax exempt rate of about 4.5%, yielding a payment of \$215,708. The Project is also required to pay debt service to HCD, set at 0.42% of the AHSC loan, per HCD's regulations. The other HCD funding is structured as grant funding and does not require a mandatory payment.

Asset Management Fee

A nominal partnership asset management fee is included in the distribution of cash flow after payment of debt service, at \$5,000 per year, increasing by 3% annually. SAHA as General Partner is entitled to take a partnership management fee as well, but this payment will not be made until after it can collect its deferred developer fee.

Residual Receipts

The \$1,250,000 loan from the County will be structured with a 3% simple interest rate, repayable from Project residual cash flow, as available. These residual receipt payments are structured as a 50/50 split between SAHA as the sponsor and the various public sector lenders, including HCD, the City of Napa, and the County. The development proforma would provide for HCD to receive 31%, the City would receive 11%, and the County would receive 8% of the residual cash flow, with SAHA receiving 50% of residual cash flow. The percentages allocated between HCD, the City and the County represent each lender's proportionate share of the development sources to the transaction. Because of the priority repayment of SAHA's deferred developer fee and general partnership management fees, the County is not projected to receive any repayment on its \$1,250,000 loan until after 2034.

2. Income Targeting

The current unit affordability levels range from 30% - 60% and this mix has changed very little since it was first reviewed. 20 of the 30% AMI units will receive project-based Section 8 vouchers, and the remaining 2 of the 30% AMI units will receive funding from the County's ESG grant.

| Manzanita Family Apartments - Current Unit Mix | | | | | |
|---|----------------|----------------|----------------|-----------------------|--------------|
| | <i>30% AMI</i> | <i>50% AMI</i> | <i>60% AMI</i> | <i>Manager's Unit</i> | TOTAL |
| <i>1 Bedroom</i> | 9 | 0 | 16 | 0 | 25 |
| <i>2 Bedrooms</i> | 7 | 2 | 4 | 0 | 13 |
| <i>3 Bedrooms</i> | 6 | 1 | 5 | 1 | 13 |
| | 22 | 3 | 25 | 1 | 51 |

Conclusion

Based on LDC's review of the updated financial information and related documents, the County of Napa should feel comfortable moving forward with this additional funding to the Manzanita project. In its loan documents, the County should require evidence of full expenditure of the HEAP funds by the expenditure deadline of June 30, 2020.

Attachments

1. Sources and Uses Development Budget
2. Operating Cash Flow

| Updated Sources and Uses Development Budget | | | |
|--|------------|-------------------------------|------------|
| Development Sources | | Development Uses | |
| Tax-Exempt Permanent Loan | 2,844,000 | Land Cost/Acquisition | 2,442,000 |
| HCD AHSC | 4,400,000 | Site Work | 2,935,020 |
| HCD National Housing Trust Fund | 4,543,887 | New Construction | 16,510,530 |
| HCD State HOME | 3,796,456 | Architectural & Engineering | 1,200,215 |
| Seller Carry Back Financing | 1,185,000 | Construction & Perm Financing | 2,540,462 |
| City of Napa | 1,523,940 | Reserves | 560,294 |
| Napa County | 1,250,000 | Contingency Cost | 2,274,450 |
| FHLB AHP | 500,000 | Local Development Impact Fees | 1,268,474 |
| Deferred Developer Fee | 599,188 | Developer Fee | 3,940,444 |
| GP Contribution | 1,325,879 | Legal Fees | 25,000 |
| Equity Investor (TBD) | 12,578,418 | Other Project Costs | 849,879 |
| | | | |
| TOTAL | 34,546,768 | TOTAL | 34,546,768 |
| | | cost per unit | 690,935 |

15 YEAR PROJECT CASH FLOW PROJECTIONS - Manzanita, Napa, CA

| REVENUE | MULTIPLIER | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 | YEAR 6 | YEAR 7 | YEAR 8 | YEAR 9 | YEAR 10 | YEAR 11 | YEAR 12 | YEAR 13 | YEAR 14 | YEAR 15 |
|--|------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Gross Rent | 1.025 | \$514,296 | \$527,153 | \$540,332 | \$553,841 | \$567,687 | \$581,879 | \$596,426 | \$611,336 | \$626,620 | \$642,285 | \$658,342 | \$674,801 | \$691,671 | \$708,963 | \$726,687 |
| Less Vacancy | 5.00% | -25,715 | -26,358 | -27,017 | -27,692 | -28,384 | -29,094 | -29,821 | -30,567 | -31,331 | -32,114 | -32,917 | -33,740 | -34,584 | -35,448 | -36,334 |
| SPN/Non-S8 Units | 1.025 | 11,376 | \$11,660 | \$11,952 | \$12,251 | \$12,557 | \$12,871 | \$13,193 | \$13,522 | \$13,861 | \$14,207 | \$14,562 | \$14,926 | \$15,299 | \$15,682 | \$16,074 |
| Less Vacancy | 10.00% | -1,138 | -1,166 | -1,195 | -1,225 | -1,256 | -1,287 | -1,319 | -1,352 | -1,386 | -1,421 | -1,456 | -1,493 | -1,530 | -1,568 | -1,607 |
| Rental Subsidy | 1.020 | 310,932 | 317,151 | 323,494 | 329,964 | 336,563 | 343,294 | 350,160 | 357,163 | 364,306 | 371,593 | 379,024 | 386,605 | 394,337 | 402,224 | 410,268 |
| Less Vacancy | 5.00% | -15,547 | -15,858 | -16,175 | -16,498 | -16,828 | -17,165 | -17,508 | -17,858 | -18,215 | -18,580 | -18,951 | -19,330 | -19,717 | -20,111 | -20,513 |
| Miscellaneous Income | 1.025 | 2,448 | 2,509 | 2,572 | 2,636 | 2,702 | 2,770 | 2,839 | 2,910 | 2,983 | 3,057 | 3,134 | 3,212 | 3,292 | 3,375 | 3,459 |
| Less Vacancy | 5.00% | -122 | -125 | -129 | -132 | -135 | -138 | -142 | -145 | -149 | -153 | -157 | -161 | -165 | -169 | -173 |
| Total Revenue | | \$796,531 | \$814,967 | \$833,835 | \$853,144 | \$872,905 | \$893,129 | \$913,827 | \$935,009 | \$956,688 | \$978,875 | \$1,001,581 | \$1,024,821 | \$1,048,605 | \$1,072,947 | \$1,097,860 |
| EXPENSES | | | | | | | | | | | | | | | | |
| Operating Expenses: | 1.035 | | | | | | | | | | | | | | | |
| Administrative | | \$55,976 | \$57,935 | \$59,963 | \$62,062 | \$64,234 | \$66,482 | \$68,809 | \$71,217 | \$73,710 | \$76,290 | \$78,960 | \$81,723 | \$84,584 | \$87,544 | \$90,608 |
| Management | | 38,307 | 39,648 | 41,035 | 42,472 | 43,958 | 45,497 | 47,089 | 48,737 | 50,443 | 52,209 | 54,036 | 55,927 | 57,885 | 59,910 | 62,007 |
| Utilities | | 57,208 | 59,210 | 61,283 | 63,428 | 65,647 | 67,945 | 70,323 | 72,785 | 75,332 | 77,969 | 80,698 | 83,522 | 86,445 | 89,471 | 92,602 |
| Payroll & Payroll Taxes | | 150,943 | 156,226 | 161,694 | 167,353 | 173,211 | 179,273 | 185,547 | 192,042 | 198,763 | 205,720 | 212,920 | 220,372 | 228,085 | 236,068 | 244,331 |
| Insurance | | 44,910 | 46,482 | 48,109 | 49,793 | 51,535 | 53,339 | 55,206 | 57,138 | 59,138 | 61,208 | 63,350 | 65,567 | 67,862 | 70,237 | 72,696 |
| Maintenance | | 68,106 | 70,490 | 72,957 | 75,510 | 78,153 | 80,889 | 83,720 | 86,650 | 89,683 | 92,821 | 96,070 | 99,433 | 102,913 | 106,515 | 110,243 |
| Other Operating Expenses (specify): | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Operating Expenses | | \$415,450 | \$429,991 | \$445,040 | \$460,617 | \$476,738 | \$493,424 | \$510,694 | \$528,568 | \$547,068 | \$566,216 | \$586,033 | \$606,544 | \$627,773 | \$649,746 | \$672,487 |
| Transit Pass/Tenant Internet Expns | 1.035 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Service Amenities | 1.035 | 55,000 | 56,925 | 58,917 | 60,979 | 63,114 | 65,323 | 67,609 | 69,975 | 72,424 | 74,959 | 77,583 | 80,298 | 83,109 | 86,018 | 89,028 |
| Replacement Reserve | \$500 pupa | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 | 25,500 |
| Real Estate Taxes | 1.020 | 1,798 | 1,834 | 1,871 | 1,908 | 1,946 | 1,985 | 2,025 | 2,065 | 2,107 | 2,149 | 2,192 | 2,236 | 2,280 | 2,326 | 2,372 |
| Other Bond & County Monitoring Fee | 1.000 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 | 7,400 |
| Other NHTF & HOME Monitoring Fe | 1.030 | 21,840 | 22,495 | 23,170 | 23,865 | 24,581 | 25,319 | 26,078 | 26,860 | 27,666 | 28,496 | 29,351 | 30,232 | 31,139 | 32,073 | 33,035 |
| Total Expenses | | \$526,988 | \$544,145 | \$561,898 | \$580,270 | \$599,280 | \$618,951 | \$639,306 | \$660,370 | \$682,166 | \$704,720 | \$728,059 | \$752,210 | \$777,201 | \$803,062 | \$829,822 |
| Cash Flow Prior to Debt Service | | \$269,543 | \$270,822 | \$271,936 | \$272,874 | \$273,626 | \$274,178 | \$274,521 | \$274,640 | \$274,522 | \$274,154 | \$273,522 | \$272,611 | \$271,404 | \$269,885 | \$268,038 |
| MUST PAY DEBT SERVICE | | | | | | | | | | | | | | | | |
| Tax-Exempt Permanent Loan | | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 | 215,708 |
| HCD AHSC Loan | | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 | 18,480 |
| | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Debt Service | | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 | \$234,188 |
| Cash Flow After Debt Service | | \$35,355 | \$36,634 | \$37,748 | \$38,686 | \$39,438 | \$39,990 | \$40,333 | \$40,452 | \$40,334 | \$39,966 | \$39,334 | \$38,423 | \$37,216 | \$35,697 | \$33,850 |
| Percent of Gross Revenue | | 4.27% | 4.33% | 4.36% | 4.36% | 4.35% | 4.31% | 4.25% | 4.16% | 4.06% | 3.93% | 3.78% | 3.61% | 3.42% | 3.20% | 2.97% |
| 25% Debt Service Test | | 15.10% | 15.64% | 16.12% | 16.52% | 16.84% | 17.08% | 17.22% | 17.27% | 17.22% | 17.07% | 16.80% | 16.41% | 15.89% | 15.24% | 14.45% |
| Debt Coverage Ratio | | 1.151 | 1.156 | 1.161 | 1.165 | 1.168 | 1.171 | 1.172 | 1.173 | 1.172 | 1.171 | 1.168 | 1.164 | 1.159 | 1.152 | 1.145 |
| OTHER FEES** | | | | | | | | | | | | | | | | |
| GP Partnership Management Fee | | | | | | | | | | | | | \$5,733 | \$30,087 | \$28,354 | \$26,287 |
| LP Asset Management Fee | 1.03 | 5,000 | 5,150 | 5,305 | 5,464 | 5,628 | 5,796 | 5,970 | 6,149 | 6,334 | 6,524 | 6,720 | 6,921 | 7,129 | 7,343 | 7,563 |
| Incentive Management Fee | | | | | | | | | | | | | | | | |
| Total Other Fees | | 5,000 | 5,150 | 5,305 | 5,464 | 5,628 | 5,796 | 5,970 | 6,149 | 6,334 | 6,524 | 6,720 | 12,654 | 37,216 | 35,697 | 33,850 |
| Remaining Cash Flow | | \$30,355 | \$31,484 | \$32,444 | \$33,223 | \$33,810 | \$34,194 | \$34,362 | \$34,302 | \$34,000 | \$33,443 | \$32,615 | \$25,769 | \$0 | \$0 | \$0 |
| Deferred Developer Fee** | \$0 | \$30,355 | \$31,484 | \$32,444 | \$33,223 | \$33,810 | \$34,194 | \$34,362 | \$34,302 | \$34,000 | \$33,443 | \$32,615 | \$25,769 | | | |