



A Tradition of Stewardship
A Commitment to Service

Agenda Date: 6/6/2017

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Set Time: 9:55 AM

Estimated Report Time: 45 Minutes

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Minh Tran - Interim County Executive Officer
County Executive Office
REPORT BY: Molly Rattigan, Deputy County Executive Officer - 253-4112
SUBJECT: Housing Fund Update

RECOMMENDATION

County Executive Officer requests the following:

1. Discussion and possible direction on the guidelines and long term plan for the Affordable Housing Fund;
2. Discussion and possible direction on a commitment of \$2,000,000 to Burbank Housing's 50 Unit Affordable Rental Housing Project in the City of Napa; and
3. Discussion and possible direction on a commitment of \$900,000 to Burbank Housing's 34 Unit Affordable Home Ownership Housing Project in the City of Napa.

EXECUTIVE SUMMARY

On March 7, 2017, the Board of Supervisors received a report on the Affordable Housing Fund and the commitments made by the fund to support the County's housing needs over the last five years.

Following this report, staff is seeking direction and discussion on three items today:

1. The Affordable Housing Fund Guidelines and/or long term plan;
2. Burbank Housing's request for \$2 Million for the 51 Unit Stoddard West Rental Project in the City of Napa; and
3. Burbank Housing's request for \$900,000 for the 34 Unit Home Ownership Project in the City of Napa.

The two Burbank Housing projects are urgent requests due to the timing of the tax credit application cycle and the

expiration of a purchase agreement for a property on Redwood Road. The County has received formal applications for both projects which are currently under review by the County's housing loan underwriter. Staff is seeking conceptual discussion and direction from the Board on the interest in these projects pending the review of these applications, a complete risk analysis and the identification of funding for these projects. These projects have not yet been reviewed by the Housing Commission and a special meeting would need to be scheduled to meet the requested timeline.

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

Background

On March 7, 2017, the Board of Supervisors received a report on the Affordable Housing Fund and the commitments made by the fund to support the County's housing needs over the last five years. A general overview of this presentation is included below.

According to the Housing and Urban Development (HUD) Department, families that spend more than 30% of their income on housing are considered cost-burdened and may have difficulty affording other necessities like food, clothing, child care, medical care and transportation. HUD estimates 12 million renters in the country spend more than 50% of their income on housing. A family with one full-time minimum wage earner cannot afford a market rate two-bedroom unit in any region of the country. This is due to a severe housing shortage and has created an affordability crisis.

California, the Bay Area and Napa County are no exceptions. More than 1.5 million households in California are estimated to spend more than 50% of their income on rent. The median home price in Napa County is currently \$600,000 and the average rental price for a two-bedroom unit spans from \$1,000 per month (older apartment) to \$2,400 per month. A recent data report from the Gasser Foundation estimates that nearly 50% of Napa County's workforce earns at or below the County's median income.

Income Category	Income Limit for 4 Person Household*	30% of Income for Monthly Rent
Extremely Low Income (30% of Median Income)	\$27,950	\$700
Very Low Income (50% of Median Income)	\$46,550	\$1,165
Low Income (80% of Median Income)	\$74,500	\$1,863
Median Income	\$91,000	\$2,275

Moderate Income (120% of Median Income)	\$109,200	\$2,730
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*Chart updated for 2017 Income Limits

Napa County's Affordable Housing Fund

In 1992, the Board of Supervisors adopted Ordinance No. 1026, which created a Housing Trust Fund (now known as the Affordable Housing Fund) and established housing impact fees for non-residential development projects and affordable housing inclusionary requirements or in-lieu fees for residential development projects. The fees were established through a nexus study that documented the connection between construction, necessary services, jobs created and the need to house workers. Funds deposited into the Affordable Housing Fund must be used to build, preserve and maintain affordable housing. The non-residential fees were last updated in 2014 and residential construction fees for housing projects were updated in 2010.

Since the creation of the fund, \$22 million has been loaned to build over 1,000 units in the incorporated and unincorporated areas in Napa County. In 2010, the County held a significant balance in the Affordable Housing Fund and released a Notice of Funding Availability (NOFA) and new Underwriting Guidelines. Since that time, County staff has continued to make funds available on a revolving basis for projects that are developed within Napa County. While the project development has occurred within the incorporated cities, the County has the opportunity to enter into housing transfer agreements to obtain credit for developing housing.

The County's funds have traditionally been "gap funds," meaning that the primary financing source of the project comes from other loans, grants and tax credits while the County's funds are used to finance the amount necessary to complete the project or leverage additional funds. As a result, the County takes a secondary subordination position on projects. The County is eligible to receive a portion of the residual funds from each development. These residual funds are often relatively small each year and go toward paying down the long-term interest on the County loans. The loans are eligible for forgiveness after 40-55 years and convert to grants upon action by the Board of Supervisors. Finally, funds from the Affordable Housing Fund are used annually to support homeless services, Fair Housing Napa Valley, a home share match program, operations of the farmworker centers and all staff and legal expenses related to managing the fund and issuing loans.

Purpose of Today's Item

Staff is seeking direction and discussion on three items today:

1. The Affordable Housing Fund Guidelines and/or long term plan;
2. Burbank Housing's request for \$2 Million for the 51 Unit Stoddard West Rental Project in the City of Napa;
and
3. Burbank Housing's request for \$900,000 for the 34 Unit Home Ownership Project in the City of Napa.

Current Status of the Affordable Housing Fund

Attached to this agenda item is an updated history of the commitments made by the fund. As requested by the Board, staff has added a column that lists the Regional Housing Needs Allocation (RHNA) credits negotiated for each project for the County's Sixth Housing Element which will be due in approximately 2023. For each Housing Element Cycle, the County is assigned a RHNA number that represents the number of units the County is required to plan for building in that cycle. By exchanging housing funds for RHNA credits, the County secures agreement for

the other jurisdiction to accept a transfer of a portion of the County's RHNA, as authorized by Government Code Section 65584.03. The transfer becomes final when it is approved by ABAG during the Housing Element review process.

As of the writing of this agenda item, staff estimated an ending Fund Balance at the close of FY 2016-2017 of \$5.3 million, of which \$4.3 million is currently committed to projects. Commitments are paid out as projects are constructed, a process that can take years. Staff estimates that \$1 million is available at the end of the Fiscal Year. Assuming revenue consistent with the current fiscal year, staff estimates receiving an additional \$2.2 million in Fiscal Year 2017-2018 and needing \$700,000 for administrative and contractual commitments, including supporting homeless services and the farmworker centers. Additionally, adequate funds must be reserved to implement the programs in the current Housing Element, including funding of farmworker housing and other affordable housing projects in the unincorporated area. Funds generated from development of the Napa Pipe project must be committed to affordable housing at the Napa Pipe project to meet the housing element program at the site. Staff recommends that when projects are feasible in the unincorporated area, they be given priority over other projects to further the goals and policies of the current Housing Element. Staff is also working with LeSar and Associates to develop an accessory dwelling unit loan fund for the unincorporated area. Staff has identified \$100,000 in funds from the Housing Rehab Fund to pilot this project upon Board approval.

Today's report includes two time sensitive requests received from Burbank Housing for funds totaling \$2.9 million. Due to the urgency of these requests, staff has not yet had the opportunity to calendar for review by the Housing Commission and needs to schedule a special meeting. As discussed later in this report, staff would need to identify other funding sources to contribute to these projects or loan to the affordable housing fund to maintain a healthy cash flow and fund balance. Of the existing commitments, all projects are nearing construction with the exception of the 20 unit project on Coombsville Road which has not received competitive tax credits in the last few cycles. The County's commitment to this project expires in 2017 and if a financing plan is not solidified, these funds would become available for consideration by the Board of Supervisors.

In addition to the two requests today, staff is aware of a conceptual request from the City of Calistoga for a project. It is estimated that the amount requested for this project may total \$1.3 million. A formal request has not been received and is not expected until later in 2017. The number of affordable units and the financing plan of this project is still under discussion between the City of Calistoga and the developer.

Staff is also aware of requests that may come more than a year from now. These include the Valle Verde project in the City of Napa, the Manzanita Project in the City of Napa and the Napa Pipe project.

Affordable Housing Fund Guidelines and Strategic Plan

At the March 7, 2017 Board of Supervisors meeting, the Board expressed a desire to look comprehensively at how funds are spent from the Affordable Housing Fund and how projects are prioritized. The County has been operating under the Affordable Housing Fund Guidelines (attached) developed in 2010 at a time when the fund had a significant balance available and hadn't contributed to housing projects in some time. The Guidelines were developed and released via a request for proposal for projects.

In June 2010, the County issued a Notice of Funding Availability (NOFA) in order to allocate up to \$5 million of Affordable Housing Funds to facilitate the development of affordable rental housing projects. Simultaneously, the City of Napa made \$3.5 million available for projects located within the City's boundaries. The County received five proposals, all of which were for development of properties located in the City of Napa. After a rigorous selection process, County and City staff selected two developments for funding. In addition to the \$5 million for general affordable housing, the County also offered an additional \$2 million for projects that served the farmworker community. Unfortunately, there were no proposals for the farmworker funding option. The two projects selected were Oak Creek Terrace, developed by Napa Valley Community Housing, which completed construction in 2016

and the Bridge Housing proposal at the end of Valle Verde drive that proposed a 57-unit development, but was sidelined by legal battles and the property was eventually sold when the project was no longer financially viable.

Since the 2010 process and the lack of competition for affordable housing funds, the County has maintained a rolling application process meaning that viable projects eligible for funds can simply apply using the same application process created in 2010.

Staff has engaged the County's underwriting consultant, LeSar and Associates, to complete a comprehensive review and update of the 2010 Guidelines. Staff is seeking feedback or direction on the Guidelines to be incorporated in the rewrite process. Further, staff is seeking direction on what other elements the Board would like included in the Guidelines and recommends that once updated, the Guidelines continue to function as a strategic plan for the Affordable Housing Fund on a rolling basis. Per the County's agreement with the City of Napa regarding the Napa Pipe project and the City of Napa's assumption of 80% of the RHNA allocation through the life of Measure P (2058) or its successor, the County committed to prioritizing a commensurate amount of the County's Affordable Housing funds to the City of Napa, it leaves very little for funding other jurisdictions unless the County wants to reconsider its commitment to the farmworker centers and homeless services. Staff believes this, and a process for allocating any funds not needed by the City of Napa could be included as part of the updated guidelines.

Stoddard West

Burbank Housing has requested \$2 million from the County of Napa for a 50 unit (plus one Manager's unit) project on Gasser Drive. The request is urgent and Burbank Housing has requested a commitment by June 20, 2017 in order to be eligible to apply for tax credits in the July 2017 cycle. Due to the urgency of this item, staff has not had the opportunity to take this project to the Housing Commission for review. A special meeting would need to be scheduled for the Housing Commission to review this request. The urgency to seek tax credits in the July cycle is due to Napa County's competition with the East Bay counties in future tax credit cycles. Several East Bay counties that compete directly with Napa County for tax credits will have affordable housing bond funds beginning in late 2017/early 2018. The increase of bond funds will increase the leverage power of local funds. The amount of local funds dedicated to a project increases the project's competitive score and puts Napa County and other competing counties at a competitive disadvantage.

By seeking tax credits, Burbank Housing proposes to construct 50 units that serve families with incomes of 60% of Area Median Income or less. This is a lower income level than the average project. Specifically, this project seeks an affordability mix of 5 units to 30% of median income, 13 units to 45% of median income, 20 units at 50% of median income and 11 units at 60% of median income. The unit mix includes 15 one-bedroom apartments, 25 two bedroom flats, 5 two bedroom townhomes and 15 three bedroom apartments. The project also includes a community room, on-site management, a teen room, children's play area, outdoor bar-b-que and picnic areas, open space, a bike room, an electric car charging station and common area solar.

The proposed project includes \$13.5 million in tax credit equity and \$3.5 million in tax exempt financing. This project has been identified as a priority project by the City of Napa. The City is working towards contributing \$3 million towards the project plus eight project based vouchers to assist with the overall financing. The City is also quickly working through the entitlement process to make the project eligible for the next 9% tax credit round.

Staff is seeking direction on whether the Board is interested in contributing to the Stoddard West project. Given that the Affordable Housing Fund does not have enough available fund balance to allocate to a project, staff would need to identify available funds that could be dedicated to this project or loaned to the Affordable Housing Fund to be paid back in future years. Potential sources for loans or contributions include: General Fund, Tobacco Master Settlement Funds or the Accumulated Capital Outlay funds. Staff will be prepared to discuss financing options and would need to return to the Board on June 13th and and/or June 20th with requested budget and commitment

actions. If the Board is interested in pursuing this project, staff would recommend the commitment only extend through the July 2017 tax credit application period. If Burbank Housing does not receive tax credits this cycle, the organization would have to revisit the financing needs and opportunities and approach the County with alternative plan to consider.

Redwood Road

Burbank Housing has a purchase agreement with Trinity Education Center to acquire a parcel on Redwood Road in the City of Napa and is requesting \$900,000 from the County of Napa and \$900,000 from the City of Napa to construct a 34 unit, attached duet style for-sale project. The 3 bedroom, 2.5 bath and 1 car garage homes will range in size from 1,100-1,200 square feet. The total cost of the project is \$14.5 million (approximately \$426,000 a unit). The entitlement for market rate homes exists on the property and Burbank is working with the City of Napa to seek adjustments to the entitlements for a income restricted project.

If received, funds from the project would convert to down payment assistance loans to the homeowners at sale. The homes would be made affordable for purchase for those at median income or below with at least 14 of the homes dedicated for those at 80% of median income or below. The homes would be deed restricted and could only be resold to those meeting the income requirements set by the project to ensure the homes remain available and affordable. Burbank Housing is also pursuing other sources of down payment assistance including the Napa Valley Vintners, the Federal Home Loan Bank, Golden State Finance Authority and CalHFA.

The homes would be offered to first time home buyers only (defined as those that haven't owned a home in three years). Prospective homebuyers will submit an application and will be pre-screened for qualifications. Once pre-qualified, homebuyers will be entered into a lottery, which will not guarantee a home but will determine which order loans will be processed. Once homebuyers have been selected, they will be offered loans from several funding sources. Down payment assistance loans would be fully deferred (payable only upon resale) and accrue interest at a very nominal percentage annually.

Staff is seeking direction on whether the Board is interested in contributing to the Redwood Road project. Similar to the Stoddard West project, staff would need to identify available funds that could be dedicated to this project or loaned to the Affordable Housing Fund to be paid back as revenues come in. Potential sources for loans or contributions include: General Fund, Tobacco Master Settlement Funds or the Accumulated Capital Outlay funds. Staff will be prepared to discuss financing options and would need to return to the Board in late June or early July as Burbank Housing needs to close on the property in August 2017. If the Board directs staff to seek funds for this project, outreach for potential homebuyers would begin immediately and construction would begin shortly after the closing date. Burbank Housing has offered to provide a special outreach session for County staff that may qualify for this program.

Regional Housing Need Allocation Credits

If the Board is interested in contributing to the Stoddard West project and/or the Redwood Road project, staff would pursue a RHNA Transfer agreement with the City of Napa as a condition of the loan. The City of Napa and Napa County already have a RHNA transfer agreement in place for 80% of the County's allocated housing in the next housing element cycle if the Napa Pipe project is developed and is annexed to the City of Napa. This would need to be considered and factored into the RHNA transfer negotiations; however, for the sake of today's discussion, staff recommends seeking 20 RHNA credits for Stoddard West and 17 RHNA credits for Redwood Road if Napa Pipe remains undeveloped.

SUPPORTING DOCUMENTS

A . Guidelines

B . Affordable Housing Fund History

CEO Recommendation: Approve

Reviewed By: Carlos Solorio