DALY CITY HOUSING DEVELOPMENT FINANCE AGENCY

AGENDA

REGULAR MEETING

COUNCIL CHAMBERS – 333 90TH STREET

MONDAY, MARCH 12, 2018 – 7:00 PM

For those wishing to address the Agency Board on any Item on the Agenda or under Public Appearances/Oral Communications, please complete a Speaker Card located at the entrance to the Council Chambers and submit to a Staff Member as early in the meeting as possible.

Persons with disabilities who require auxiliary aids or services in attending or participating in this meeting should call the office of the City Clerk at 991-8078 as soon as possible.

CALL TO ORDER

ROLL CALL

APPROVAL OF MINUTES

February 26, 2018

RESOLUTIONS

1. HIP Housing Development Corporation Request for Housing Trust Funds for Acquisition and Rehabilitation of 115-131 E. Moltke Street Apartments

PUBLIC APPEARANCE – ORAL COMMUNICATIONS

NOTE: Speakers are limited to two minutes, unless modified by the Chair. The Board cannot take action on any matter raised under this item.

ADJOURNMENT
The meeting was called to order by Chairperson at 8:36 P.M.

ROLL CALL: Commissioners Present:

Juslyn Manalo, Chairperson
Ray Buenaventura, Vice Chairperson
Michael Guingona
Judith Christensen
Glenn Sylvester
Patricia Martel, Executive Secretary/Director
Rose Zimmerman, General Counsel
K. Annette Hipona, Assistant Secretary

MINUTES:

Special Meeting of January 8, 2018

It was moved by Vice Chairperson Buenaventura, seconded by Commissioner Sylvester and carried to approve the Special Meeting minutes of January 8, 2018.

RESOLUTION:

Adjustment to 2017-18 Daly City Housing Development Finance Budget

Betsy Zobell, Housing Community Development Director, reviewed the agenda report with the Commissioners.

It was moved by Commissioner Guingona, seconded by Commissioner Sylvester and carried by roll call vote to approve the following resolution:

HFA-44 Authorizing Adjustment to Their 2016-17 Budget

ADJOURNMENT:

It was moved by Commissioner Sylvester, seconded by Commissioner Christensen and carried to adjourn the meeting of the Daly City Housing Development Finance Agency at 8:36 P.M.

__________________________
Assistant Secretary

Approved this ________ day
of ________ March ________ 2018.

__________________________
Chairperson
Meeting Date: March 12, 2018

Subject: HIP Housing Development Corporation Request for Housing Trust Funds for Acquisition and Rehabilitation of 115-131 E. Moltke Street Apartments

Recommended Action

The Housing Development Finance Agency "(Agency") appropriate up to $2.9 million in Housing Trust Fund to HIP Housing Development Corporation ("HHDC") for acquisition and rehabilitation of 16 units located at 115-131 E. Moltke Street, authorize execution of a Conditional Loan Agreement with HHDC and enter into a contract to transfer 260 Abbot to HHDC contingent upon successful negotiation of transfer terms. Authorize the Executive Director or her designee to execute the applicable conditional loan agreement as necessary subject to approval of form and substance by the Agency Counsel.

Background

Over the last two years rising rents and growing demand for housing has resulted in a critical shortage of housing affordable to households of all income levels. In particular, lower income rental households are negatively affected by these conditions. Staff estimates that over 1,000 households have been displaced due to a shrinking supply of housing affordable to households earning less than 60 percent of the Area Median Income for San Mateo County (Approximately $70,000 per year for a household of three persons).

Pursuant to the priorities set in the draft Housing Trust Fund Policy and Procedures Manual, the City’s Housing Element and the City’s Five-Year HUD Consolidated Plan, staff has devoted significant effort to identifying opportunities to develop and preserve affordable rental housing in Daly City. Since October of 2014, there have been no ownership transfers of multifamily properties of 5 or more units in Daly City.

In February of this year, HHDC contacted the Agency about the opportunity to purchase 16 apartment units located at 115 through 131 E. Moltke. HHDC is an experienced non-profit housing developer with over 240 units in their portfolio including 18 units located at 1293 Hillside. In addition, HHDC’s parent organization, Human Investment Project (HIP) is a respected social service agency providing a variety of services to assist low income renters including a homesharing program, various housing scholarship programs and extensive housing counseling services.

HHDC has already entered into a purchase contract for the subject properties. The sale is scheduled to close on March 15, 2018. Real estate sales that close with short escrow periods are an unfortunate characteristic of the current extremely competitive real estate market. Properties suitable for affordable housing development or preservation are rarely advertised and generally are sold with little opportunity for buyer due diligence. Fortunately, HHDC has a relationship with an investor who has agreed to serve as assignee for the sale with an agreement to transfer the property back to HHDC when they are able to finalize various funding resources and the extent of rehabilitation needs.

HHDC has submitted a request for funding from Agency to subsidize their acquisition of the E. Moltke properties. The Agency’s commitment to provide “first in” funding will provide HHDC
and the investor with a confidence level to proceed with property acquisition and negotiation of other funding sources.

HHDC has described two acquisition/subsidy options:

- Agency subsidy financing in the amount of $3.2 million for acquisition/rehabilitation of the 16 E. Moltke units
- Agency subsidy financing in the amount of $2.9 million for acquisition/rehabilitation of the 16 E. Moltke properties AND transfer of the City’s 5 units located at 260 Abbot for an approximate price of $200,000, with affordability deed restrictions

Staff has reviewed financial data submitted by HHDC and has enlisted the firm of Devine & Gong, a consulting firm with expertise in the acquisition, rehabilitation and operation of affordable housing projects, to assist with evaluation of the funding request. Based on an initial review, the potential acquisition and use of Daly City Housing Trust Funds to subsidize the acquisition appears to be consistent with the priorities and policies identified in the draft Housing Trust Fund Policy and Procedures Manual.

The proposed acquisition represents a rare opportunity to create a new permanently affordable housing asset in Daly City and will prevent the likely displacement of 16 existing renter households.

Discussion

On March 6, 2018 staff met with the Affordable Housing Committee comprised of Mayor Juslyn Manalo and Councilmember Glenn Sylvester. The Committee considered current market conditions, the scale of the affordability crisis in Daly City and the amount being requested by HHDC relative to other recent affordable housing projects. Based on these considerations, provision of up to $2.9 million to HHDC for the subject acquisition would be a responsible use of the Housing Trust Fund. The Committee directed staff to structure the conditional loan commitment with defined milestones that the developer must meet in order to preserve their funding commitment and progress towards final loan documents. These milestones include, but are not limited to:

- Documentation of the reasonability of the property acquisition price, as evidenced by an appraisal
- Completion of a Phase I Environmental Review
- A Physical Needs assessment of the properties carried out by a qualified third party with no relation to HHDC
- Data on the existing tenants, including household sizes and income levels
- Preparation of final pro forma financial data including a source and uses statement, a detailed rehabilitation budget and a 10-year operating statement reflecting anticipated expenses and revenues
- Determination of the optimal affordable rent structure and deed restrictions
- Securing of additional funding sources
Given the preference for further due diligence review of the project, it is recommended that Daly City Housing Trust Funds be offered in the form of a conditional loan with a 12-month term. This will allow staff and the developer to determine building rehabilitation needs, current household incomes and the availability of other financing resources prior to executing final loan documents with mutually agreeable terms and affordability requirement.

**Fiscal Impact**

Provision of up to $2.9 million in Daly City Housing Trust Fund resources will have no General Fund impact. Given current Trust Fund deposits and commitments, an allocation of $2.9 million to the HHDC acquisition of the E. Moltke properties will leave approximately $100,000 for other Trust Fund priorities.

**Recommendation**

Given the critical need for rental housing affordable to lower income households and the extreme scarcity of acquisition opportunities, providing up to $2.9 million to HHDC for the purchase and operation of the properties located at 115-131 E. Moltke is a rare opportunity to preserve and improve affordable housing in Daly City. Based on an initial review of HHDC’s application, the proposed acquisition meets the criteria for Daly City Housing Trust Fund investment described in the draft Housing Trust Fund Policy and Procedures Manual.

Staff recommends appropriation of $2.9 million from the Housing Trust Fund for the purpose of acquisition and rehabilitation of the properties located at 115-131 E. Moltke. These funds will be offered in the form of a conditional loan agreement. Final loan terms and affordability requirements will be reflected in permanent loan and affordable housing agreements between the Housing Development Finance Agency and HHDC. These permanent agreements will be presented for consideration by the Agency Board within the next 12 months.

Respectfully submitted,

Betsy ZoBell
Housing and Community Development Supervisor

Tatum Mothershead
Economic & Community Development Director