

# REVISED MEMO

Item # 10

March 8, 2007

Revised: 1:25 PM



## MEMORANDUM

**TO: Mayor and City Council**

**FROM: Paul Hilgers, Director  
Neighborhood Housing and Community Development**

**DATE: March 7, 2007**

**RE: CITY COUNCIL AGENDA ITEM #10: GUIDELINES FOR  
IMPLEMENTATION OF GENERAL OBLIGATION BONDS FOR  
AFFORDABLE HOUSING**

Item #10 on the City Council agenda this week presents staff's recommendations regarding the City Council's direction to develop a process that provides accountability in the expenditure of housing bond funds. Your agenda back-up contains an updated memo regarding the process that was followed to develop these recommendations. This summary is intended to highlight the critical issues that have transpired over the past several weeks as we worked to develop these recommendations.

On February 23, 2006, staff presented to stakeholders a plan to administer the first allocation of the GO Housing Bonds. Staff recommended an initial allocation of \$5 million. Staff also recommended three administrative components:

- 1 Strategic Plan Process for Bond Funds to align with NHCD-AHFC's five-year planning process,
- 2 Additional public review, including the creation of a Housing Bond Review Committee (HBRC) and monthly status updates on project applications to the NHCD-AHFC website, and
- 3 Administrative Process to Fund Applications

On Tuesday, March 6<sup>th</sup>, staff received a draft set of recommendations from some of the housing advocates. Staff met with the advocates this morning, and we have reached consensus.

The core of the disagreements with this process seems to be in our initial recommendations on the Administrative Process to access GO Bond Housing funds. Specifically, staff recommends that 60% of the allocation be made available through a quarterly Notice of Funding Availability (NOFA) process. Staff recommendation for the remaining 40% is to allow for GO Bond Housing funds to be used for Council Priorities,

including VMU, TODs and S M A R T Housing developments that meet the core housing affordability values 1) Serve lower-income targets, 2) Create geographic dispersion of affordable housing, and 3) Secure long-term affordability Council Priorities include ‘fast-track’ acquisition funding for qualified non-profit organizations, as well

If Council desires a different allocation strategy, staff would recommend a change for each tract from a 60%-40% split to a 75%-25% split as a guideline The revised recommendation includes

75% for the Notice of Funding Availability Process, 20% to Council Priorities and 5% for Qualified Non-Profit Fast-Track Acquisition

**We also would reiterate that any development that is applying for GO Bond funding must meet project evaluation and underwriting criteria. All project applications must receive a minimum score based on project evaluation and underwriting criteria in order to be considered for funding (See Attachment 1: GO Housing Bond Project Evaluation & Underwriting Criteria).**

### **RECOMMENDATION.**

Staff recommendation is based upon the understanding that existing rules and procedures allow City Council to act in real estate matters with flexibility In balancing these issues, staff proposes that the administrative funding process include the following

- |                                     |                   |
|-------------------------------------|-------------------|
| • NOFA Process                      | 75% of allocation |
| • Council Priorities                | 20% of allocation |
| • Non-Profit Fast-Track Acquisition | 5% of allocation  |

Please note that these percentages are set as guidelines If the demand of eligible projects that are ready to receive funding comes through the NOFA process is greater than the allocated NOFA funding, staff may recommend that additional funding be made available for applications received through the NOFA process If the NOFA process is undersubscribed, staff may recommend that additional funding be made available to Council Priorities and/or Non-Profit Fast-Track Acquisition

In addition, staff recommends the following

- The HBRC shall meet quarterly to review project applications received through the NOFA process
- Staff will provide notification to HBRC on an on-going basis that will include a project description and evaluation summaries of Council Priorities and Non-Profit Fast-Track Acquisition projects If a quorum of the HBRC indicates that a HBRC meeting is

required, then HBRC will set a meeting to review proposals and provide recommendations to the City Council/AHFC Board of Directors

- Brief summaries of the pending NOFA, Council Priority and Non-Profit Fast-Track Acquisition projects will be posted monthly to the website
- Staff will provide a cumulative report for GO Bond expenditures that will include project location information, number of units, income levels served, and other demographic information, following current City of Austin and NHCD-AHFC reporting processes
- Staff will ensure that appropriate compliance requirements are secured through the appropriate legal documents and monitoring will follow current City of Austin NHCD policies and procedures
- Staff will include project evaluation criteria that will provide consideration for replacement of existing affordable units for redevelopment projects

## Attachment 1

### **GO Housing Bond Project Evaluation & Underwriting Criteria**

All projects must meet the following threshold criteria by receiving a minimal score to be considered for funding

- Developer Experience and Qualifications
- Project Budget (budget is reasonable)
- Sources & Uses of Funds (funding is secured)
- Operating Pro Forma (operating costs are covered)
- Financial Underwriting Criteria (e.g., debt coverage ratio)
- Leverage (percent of GO Bond funds relative to total project costs)
- Affordable Units (points awarded for target populations)
- Geographic Dispersion (points awarded for projects where traditionally, affordable housing has not been developed)
- Long-Term Affordability (rental affordability periods of at least 40 years, homeownership affordability periods of 99 years)
- Project Readiness & Development Schedule
- Property Management (if applicable)

In addition to the minimum threshold criteria, the following criteria are also evaluated and scored

- Neighborhood Support
- MBE/WBE Project Participation
- Supportive Services (if applicable)
- Partnership with Non-Profit Entities
- Consideration for replacement of existing affordable units

If a project receives the minimal threshold score, staff will further evaluate the project application and review the following

- Market Risk Analysis
  - Market Trends
  - Neighborhood Market
  - Community Conditions
  - Target Population
  - Affordability
  - Reflects Needs of Target Population
  - Competition
- Applicant (Borrower) Risk Analysis
  - Compatibility of skills with project
  - Capacity for successful completion

- Borrower liquidity
- Borrower equity
- Financial ability to absorb cost overruns, delays, etc
- If rental, capacity for on-going management
- If homeownership, marketing and gap financing needs/availability
- Project Risk Analysis
  - Development Budget Reasonable/Feasible
  - Readiness to Proceed
  - Completion Risk
  - Viability Risk
- Investment Analysis
  - Gap Financing Analysis
  - Fund Source Layering Review
  - Investment/Loan Terms

*\*\*Please note The above summary of project evaluation and underwriting criteria is not all inclusive of the due diligence performed For example, surveys, title policies environmental conditions, etc are also reviewed*

In addition to the threshold requirements, the following per unit, funding amount guidelines will apply to all project applications

#### **Rehabilitation Assistance**

\$20,000	per efficiency unit
\$25,000	per 1 bedroom unit
\$30,000	per 2 bedroom unit
\$35,000	per 3 bedroom units

#### **New Construction for a Non-CHDO**

Maximum limits of \$40,000 per unit in multi-unit structures and/or \$60,000 per unit in single family structures, for a maximum investment of not more than \$500,000

#### **New Construction for a CHDO**

Maximum limits of \$60,000 per unit in multi-unit structures and/or \$80,000 per unit in single family structures, for a maximum investment of not more than \$1,000,000