THE CITY OF PLEASANTON

Kottinger Place Task Force

Wednesday, July 18, 2012
6:30 PM

Pleasanton Senior Center
Classroom
5353 Sunol Blvd., Pleasanton, CA

Agenda

I. Agenda Amendments

II. Meeting Open to the Public

III. Update Regarding Project Schedule and Progress

IV. Discussion of Financing Analysis
   a. Building Program
   b. City Financing Required
   c. Property Management Expenses
   d. Resident Services Programs and Expenses

V. Next Steps

VI. Closing Comments from Task Force Members

For additional information regarding this meeting, contact:

- Steven Bocian, Assistant City Manager (925-931-5002)
- Scott Erickson, Housing Specialist (925-931-5007)

Memo

To: Kottinger Place Redevelopment Task Force

From: Abby Goldware & Jan Lindenthal

Date: July 10, 2012

RE: Financing Analysis Meeting

At the Kottinger Place Redevelopment Task Force Meeting on May 30, 2012, we provided a high-level overview of our financing analysis. Outlined below is a recap of the key assumptions used in this analysis and preliminary conclusions that we shared at the meeting:

1. All the scenarios analyzed assume the existing public housing subsidy at Kottinger Place can be transferred to project-based rental assistance through the HUD disposition process.

2. Pleasanton Gardens participation could be in two forms:
   - the transfer of existing rental assistance to the new project;
   - the contribution of its site for redevelopment, of which the land value would count toward the low-income housing tax credit competition tiebreaker.

3. Given what we heard from the current residents about a desire to live in units that are fully handicapped accessible, the cost to rehabilitate the existing Kottinger Place cottages is roughly equivalent to new construction of a unit on a cost per unit basis. In this scenario, an existing studio cottage unit could be rehabilitated and made fully handicapped accessible for roughly the same cost to build a new, larger one bedroom unit.

4. With all of the site plan options we reviewed at the meeting, phasing of the project is necessary in order to mitigate relocation costs. Although constructing the project in phases reduces construction efficiency, our financial analysis concludes that the construction savings associated with a one phase construction project is offset by the temporary relocation costs and increased risk associated with offsite relocation for the existing tenants, particularly since Federal Relocation Law requires that all tenants return to their units within one year.

5. Increasing the building height to 3 stories has the benefit of adding additional units, and therefore improving operating efficiency, however, it

does not dramatically reduce the financing gap because the new units are not supporting permanent debt. Given that the goal is to provide affordable housing for seniors at very low income levels, the only units that can support permanent debt are those that are already receiving rental assistance (50 at Kottinger Place and 32 at Pleasanton Gardens). The new units would not receive this assistance and, as a result, do not generate sufficient income to support additional debt.

For example: in the medium-density 114-unit scenario (Option 3B), the financing gap is projected to be $4.6M which is $41K per unit. If we increase this option to three stories, we achieve an additional 32 units. The total financing gap is then $6.4M or $44K per unit.

6. The financing gap in these scenarios assumes the equity generated by the 9% Low-Income Housing Tax Credit, and represents the net gap required from other sources. Please see the attached financing resources glossary for an overview of the sources we assumed. None of the scenarios assume the $4M the City has conditionally reserved for this project.

At our July 18th meeting, we plan to review these key assumptions and conclusions in more detail as we walk through the financial analysis associated with the Task Force's preferred site plan options. We look forward to continuing this discussion with you then.

FINANCING RESOURCES GLOSSARY

At the upcoming Kottinger Place Redevelopment Task Force Meeting, we will be reviewing our initial financial projections and analysis. All scenarios assume certain financial resources available to finance affordable housing developments. When we discuss the financing required from the City of Pleasanton it is net of these sources.

Below is a summary of the available sources divided into two sections:

1. Resources assumed to finance the Kottinger Place redevelopment;
2. Resources potentially available, but not assumed to finance the redevelopment.

Resources Assumed to Finance the Kottinger Place Redevelopment

9% Low-Income Housing Tax Credit Investment
All scenarios and phases assume 9% low-income housing tax credits. These credits are allocated through a competitive application process directly to the owners of qualified affordable housing properties. The California Tax Credit Allocation Committee then places a regulatory agreement on the project, which income restricts the units for a 55-year period. In order to finance the construction of housing using these credits, affordable developers sell the credits to an investor who joins the project ownership as a limited partner and makes a large, upfront capital contribution as equity to the project. In exchange for this, the investor (usually a bank or other large company) uses the tax credit earned over the next fifteen years as a dollar-for-dollar reduction of its tax liability.

MidPen's strong balance sheet and track-record has made it a leader in regularly commanding top of the market tax credit pricing and favorable terms. In fact, in the second round of 2011, the bids MidPen received for projects were some of the highest in the State and 13% above the average pricing received for all projects. MidPen partners with some of the most respected, long-standing tax credit investors in the industry. The trusted relationships we have built with these investors ensure that MidPen's projects close financing and start construction on schedule.

Kottinger Place will receive a perfect score per the Tax Credit scoring rubric, as will many other qualified projects in the North and East Bay Region. As a result, the tiebreaker score, which balances cost-efficiency and public financial leveraging, will be the deciding factor in determining which projects receive a tax credit allocation.

All scenarios are assuming a 53% tie-breaker. In round one of the 2012 tax credit competition, projects with tiebreakers between 45% and 67% received an award. MidPen will continue to closely monitor the tax credit competition between now and when the project is ready to apply, and if the project will be successful with a lower tiebreaker, then MidPen will be able to reduce the amount of credits it is returning, thus lowering the City loan.

Alameda County HOME

HOME funds are appropriated by the Department of Housing and Urban Development (HUD) to local jurisdictions annually. The Alameda County Department of Housing and Community Development holds an annual competition to allocate the funding to affordable projects in exchange for income restricting a portion of the units. These funds are loaned to the project for a 55-year term at a 3% interest rate with repayment from available residual project cash flow.

Federal Home Loan Bank's Affordable Housing Program (AHP)

The Federal Home Loan Bank holds semi-annual competitions for its Affordable Housing Program fund. Affordable housing developers can apply for up to $1 million dollars in capital subsidy from this program. This financing program is extremely competitive, and funds are allocated based on a complex scoring formula which allocates additional points to senior housing, making this project more competitive once it receives entitlement approvals. These funds are loaned to the project for a 55-year term at 0% interest.

Section 8 Project-Based Vouchers

All financing scenarios assume the existing rental assistance is transferred to a project-based voucher, which allows the project to leverage conventional debt for the same length as the term of the project-based voucher contract, and ensures these tenants continues to pay no more than 30% of his/her income to rent.

City of Pleasanton

Once all other potential funding sources have been evaluated and applied for, MidPen would work closely with the City of Pleasanton to identify the most cost effective way for it to contribute to the financial feasibility of the project, while minimizing the City's long term investment. City funds would be drawn for predevelopment and construction expenses and loaned to the project for 55 years at 3% simple interest with repayment available from residual project cash flow.

Resources Potentially Available, But Not Assumed

4% Low-Income Housing Tax Credit Investment & Tax-Exempt Bonds

Similar to the 9% low-income housing tax credits, the 4% credits are allocated to owners of qualified affordable housing properties. For projects not located in a federally-designated Difficult to Develop Area or Qualified Census Tract, these credits are also allocated through a competitive application process. In recent years, all qualified projects applying for 4% credits were successful, which means the tiebreaker does not need to be taken into account. The upfront, capital contribution is smaller than the contribution under the 9% credit scenarios, thus creating a larger public financing gap. In order to finance the construction of housing using these credits, affordable developers must also compete for an allocation of tax-exempt bonds from the California Debt Limit Allocation Committee simultaneously.

HUD Section 202

HUD Section 202 historically allocated capital funds and operating subsidies for senior housing developments. In its most recent round, the Section 202 program had approximately $27 million available for the entire San Francisco Region, which includes Phoenix, Tucson, San Francisco Bay Area, Fresno, San Diego, Sacramento, Santa Ana, Honolulu, Las Vegas, and Reno. This was enough to fund approximately 185 units.

This program was not included in HUD's most recent budget, and even if it was, it would be subject to appropriations and approval from Congress. MidPen will continue to monitor the Section 202 Program, but it looks unlikely it will be revived to its previous form.

California Department of Housing & Community Development's Infill Infrastructure Grant Program

This program was originally authorized under Proposition 1C and, to date, HCD has allocated all of the funds. However, there are many projects with old Infill Infrastructure Grant awards that have been unable to move forward and we believe it is likely that these awards will be recaptured in future years providing an important contingency financing plan that should be closely monitored. Based on MidPen's successful experience with this program at two other infill sites, the Kottinger Place and Pleasanton Gardens sites are good candidates to compete successfully for these funds, should they become available.