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Staff Report

ITEM NO. 15

To: Lemoore City Council/
Redevelopment Agency Board

From: Brooke Austin, Housing Specialist

Date: February 3, 2011

Subject: HOME Grant Resolution 2011-05 and Funding Commitment

Discussion:

At the last Council Meeting we discussed the Oleander Terrace Apartment Complex and the unique opportunity the City has to apply for additional HOME Funds to support the project (Please refer to the attached Staff Report for that discussion). This Notice of Funding Availability (NOFA) is being offered by the Department of Housing and Community Development (HCD) as a one-time supplement only to previously awarded projects. Due to the fact that the City of Lemoore was one of the top scorers in the original HOME Application, we have a high probability of being awarded additional funds. With these additional funds, we feel confident that the project will be awarded low-income housing tax credits in the upcoming March round. Because this is a change from the normal NOFA issuance procedure, HCD set the following guidelines, applications are due on February 8th, but applicants are given until February 24th to submit the Governing Board Resolution authorizing submittal of the application. For this reason, staff has submitted the HOME Application to HCD; however, if the Resolution is not approved and submitted to HCD by February 24th, the application will be deemed ineligible for funding from the Supplemental NOFA.

Regrettably, I did not have enough information on hand to address all of Council's concerns at the last meeting. However, Council (which consisted of all existing members except Mr. Gordon) unanimously supported submittal of the original HOME Application, so I did not anticipate the opposition received. In addition, in May 2007, the Board voted 3-1 in favor of issuing the funding commitment with one member absent and in October of 2008, the Council/Board voted 4-1 in favor of purchasing the land and subsequently leasing it to the developer of the project. Therefore, I would like to try to address some of those concerns now.

HOME Funds are made available under Title II of the Cranston-Gonzalez National Affordable Housing Act of 1990 through the Federal Department of Housing and Urban Development (HUD). Jurisdictions that are not eligible to apply directly to HUD must apply for funds to HCD. HCD receives funding from HUD that it must allocate to local jurisdictions. These are Federal funds administered through the State. These are not the State's funds and cannot go back to the State to be used for any other purpose.

"In God We Trust"

A concern was raised regarding the need for affordable housing in Lemoore and the possible effect a new complex would have on existing complexes. Of all new residential construction over the past ten years, less than 5% of the units built were affordable to very-low and low income households. The Montgomery Crossing Apartments are the only affordable complex that has been built in Lemoore in the last ten years. Since the last meeting, you have been provided with a copy of the most recent Market Study for the project. Through its research of demographic trends, demand analysis, existing supply of housing, and interviews with real estate professionals, Novogradac & Company LLP, the Certified Public Accountant firm who prepared the Study, found a demonstrated ongoing need for affordable housing over the foreseeable term. This Market Study is also scrutinized by the other funding agencies involved and if they do not feel that there is a demonstrated need, they will not award funding.

As a result of the concerns expressed, the apartment complexes listed in the Market Study were recently contacted and reported currently having 95%-100% occupancy and all of the affordable complexes maintain waiting lists. In addition, staff checked the Hanford Sentinel for current available rentals in Lemoore and contacted them. The average turnaround time reported to re-rent a unit after a tenant moves out was two weeks to one month. The most common reason reported for vacancies was military transfers and deployments. Other reasons included not being able to afford the rent, lease violations, moving out of the area or purchasing a home. When asked specifically about whether or not they were affected by construction of the new affordable apartment complex in Lemoore, only two complexes reported that a total of three tenants had moved for that reason. In addition, staff researched the ownership of known multi-family rentals in Lemoore and found that the overwhelming majority were not owned by Lemoore Residents (of the 2,415 units identified, only 118 units are owned by City of Lemoore residents).

The concern of "importing" more low income households to Lemoore was also mentioned. As listed in our recently adopted Housing Element, which cited the 2000 Census, approximately 20% of Lemoore's population is extremely low or very low income. Of those that are extremely low income 69.5% and of those that are very low income 77.1% are overpaying (or paying more than 30% of their gross monthly income for housing). None of the available units listed in the Hanford Sentinel are considered affordable to these income categories. This project does not seek to assist those outside our community, but to address the housing needs of that segment of our community that is not currently being served. To accomplish this, the developer has agreed to market the units locally through schools, churches, employers, community groups, etc. for the first 60 days of marketing.

The RDA Implementation Plan (unanimously approved by the RDA Board in December 2009) includes the goal to "Promote Safe and Affordable Housing and Related Amenities for All Segments of the City's Population Base" with the objective to "financially assist in the construction of multi-family and senior housing projects for very low, low and moderate income persons. In addition to fulfilling this goal, Oleander Terrace is also desirable as it will help beautify the area, eliminate blight, complete the neighborhood with the installation of curbs, gutters and sidewalks, and improve the entryway to the City and Downtown. In August of 2006, staff reviewed all potential sites for senior and/or multi-family housing in the City and determined that this site was most

desirable to provide assistance due to its high visibility and the improbability of it being developed due to the long narrow strip along "D Street.

Furthermore, assistance to this project will help the Agency meet the requirement set out in the Health and Safety Code Section 33334.2 "to Use 20% of Tax Increment to Increase, Improve and Preserve the Community Supply of Low and Moderate Income Housing." The Agency currently has a deficit of approximately 30 very low income units in its Housing Production Requirement. 32 of the units are countable towards this requirement and the remaining 33 restricted units will count towards the low-moderate unit requirement.

Questions were also raised regarding the benefits of constructing a project of this type in our community. IMPLAN (Impact analysis for PLANning) software is utilized by many government entities, including multiple departments within the State of California, to estimate the economic impacts of a wide variety of expenditures. Last year, using this software, Keyser Marston Associates, Inc. created a Construction Economic Impact Estimator for redevelopment agencies to determine the economic benefit of redevelopment projects to the community. Staff used this spreadsheet to provide an estimate of how this project may benefit our community. It is estimated that the \$14,242,119 in eligible construction costs for this project will have a total economic impact of \$25,858,319. The total economic impact uses total business revenue and sales as a measure of the total economic activity associated with a project. This amount also includes an estimate of a \$14,316,121 impact on income. Income is what ends up in the pockets of local and state residents and includes employee compensation, rent, property income, proprietor income, and indirect business taxes. In addition, an estimate of \$1,150,849 in local and state revenue is also included. State and local revenues include all revenue sources accruing to state and local governments due to the economic activity associated with a construction project. A project of this magnitude is also estimated to create 187 jobs during the construction phase.

The City of Lemoore was previously awarded \$975,000 in HOME Funds. The City is eligible to apply for an additional \$2,125,000, for a total of \$3,100,000 in Federal funds to go towards the project. Of this amount, \$75,000 is retained by the City for grant administration and activity delivery fees. In addition, the amount loaned to the project of \$3,025,000 will eventually be repaid to the City and can be used for other HOME-eligible activities. If the City does not apply for supplemental HOME funds, HCD may determine that we are unable to meet the expenditure deadline in our current Agreement and disencumber the \$975,000 originally awarded.

If we are successful in receiving additional funds through the Supplemental NOFA, the project must apply for tax credits again in March. The NOFA requires that a project must be financially feasible to apply. In order to be considered financially feasible, the project must have a projected tax credit tiebreaker score at least 10% above the lowest winning score in the second round of 2010. To meet this requirement, the project would need to utilize \$750,000 of the Redevelopment Agency's remaining original commitment, which is \$873,000. The commitment will be a loan with the same terms originally proposed as outlined in the attached commitment letter.

Budget Impact:

\$750,000 of the Low-Moderate Income Housing Fund will be allocated towards this project. The 2010-2011 Low-Moderate Income Housing Fund budgeted \$1,650,000 for a different multi-family project; however, the funding commitment expired December 31, 2010, so those funds will not be expended. The funds can be used for the \$750,000 commitment, if needed this fiscal year. If these funds are not needed until next fiscal year, they will be programmed into the 2011-2012 Budget.

Recommendation:

That Council approve Resolution No. 2011-05, which authorizes the submittal of the HOME Grant Application and, if awarded, the execution of any related documents; and that the Agency Board authorize the Executive Director to execute a new commitment letter for the project in the amount of \$750,000.