LOAN TO VISIONARY HOME BUILDERS FOR THE HUNTER STREET APARTMENTS, LOCATED AT 804 NORTH HUNTER STREET

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Approving a $1.28 million Neighborhood Stabilization Program (NSP) loan to Visionary Home Builders of California, Inc. for the purpose of renovating the Hunter Street Apartments located at 804 North Hunter Street; and

2. Authorizing the City Manager, or his designee, to execute all documents, including loan documents and subordination agreements, and take actions necessary and appropriate to carry out the purpose and intent of the resolution.

Summary

The Hunter Street Apartments, located at 804 North Hunter Street (Attachment A - Vicinity Map) is an adaptive reuse project that will convert a vacant office building into housing units. Upon completion, the project will provide 74 housing units, including 2 on-site manager units and 72 units for Veterans with incomes between 30 and 60 percent of the Area Median Income (AMI).

The estimated total cost of the Hunter Street Apartments project is approximately $24 million. In addition to the NSP funds, Visionary is proposing to finance the development with funds from the Affordable Housing and Sustainable Communities (AHSC) program which is administered by the State Housing and Community Development Department (HCD) and Low Income Housing Tax Credits.

In June 2015, the City Council allocated $720,000 of NSP funds to this project (Attachment B - Resolution 2015-06-09-1202). Visionary is now requesting an additional loan of $1.28 million, which if approved would bring the total City loan to $2 million. The additional funding is needed due to a change in the proposed financing which has left a funding gap. Additional local funding is also needed to make the project more competitive when Visionary applies for the other funding, especially the tax credits. The amount of local funds provided to a project is a critical component for successful applications and $2 million is consistent with amounts provided for similar projects.

DISCUSSION

Background

In March 2015, the City issued a Notice of Funding Availability (NOFA) for affordable housing funds.
The purpose of the funding was to provide gap financing for new construction and rehabilitation projects that would result in the provision of housing for households with incomes at or below 80 percent of the AMI. In response to this NOFA, six applications were received from five organizations. On June 9, 2015, the Council approved funding for all the projects, although none of the projects were awarded the total amount that they requested. Among the projects receiving funding was Visionary’s proposed Hunter Street Apartments project. Visionary requested $1.2 million for this project and was awarded $720,000 of NSP funds.

The City received two allocations of NSP funds, known as NSP1 and NSP3, from HUD to help stabilize neighborhoods that were affected by foreclosures. The City received $12.1 million through NSP1 and $4.2 million in NSP3 funding. The funds can only be spent on properties acquired through foreclosure. The NSP guidelines require that at least 25 percent of the original grants and 25 percent of the program income generated from the resale of property go to activities that benefit households earning not more than 50 percent of AMI, which in Stockton is $29,800 per year for a family of four. In order to meet this requirement, an Acquisition, Rehabilitation, and Rental activity was included in the plans that were prepared for the use of both the NSP1 and NSP3 funds. These plans were first approved by City Council, then were submitted to and approved by HUD. The NSP funds that were not used for the Acquisition, Rehabilitation, and Rental activity were used to acquire and rehabilitate foreclosed single-family residences which were resold to qualified low- and moderate-income households.

The Hunter Street Apartments project is eligible for NSP funding because when Visionary purchased the property in March 2015, it was in foreclosure. Of the six projects that requested funding through the NOFA process, this is the only project that is eligible to use NSP funds.

The Hunter Street Apartments project is a proposed adaptive reuse project that will convert a vacant office building into 74 housing units. Two of the units will be for on-site managers and the remaining 72 units will be for Veterans with incomes between 30 and 60 percent of the AMI. The project will include various sized units to accommodate individuals as well as larger families. The unit mix will consist of 8 studio units, 26 one-bedroom units, 24 two-bedroom units, and 16 three-bedroom units. Rents are expected to range from $385 to $810 per month.

The complex will include a community room, daycare, playground, and security features. The project will also be energy efficient and will include rooftop solar panels, insulated glass windows, high efficiency water heaters, and occupancy sensors.

Visionary is partnering with Catholic Charities of San Joaquin who will provide case management services for the residents to help them access needed services, including VA assistance, health care, and transportation.

Present Situation

Visionary estimates that the total development cost for the Hunter Street project will be approximately $24 million. This estimate includes property acquisition, pre-development costs, and project construction with the payment of prevailing wages.

Visionary is proposing a variety of funding sources for the project, including Low Income Housing Tax Credits and AHSC program funds. Visionary had originally proposed to use Veterans Housing and
Homeless Prevention (VHHP) funds, but recently determined this was not a feasible funding source due to the lack of availability of project-based vouchers to provide rent subsidies. VHHP requires pairing with project-based vouchers, which would come from the Housing Authority of the County of San Joaquin. Through discussions with the Housing Authority, it was determined there would not be any vouchers available for this project in the near future.

The elimination of the VHHP funding created a gap in the project budget. To help fill the need for additional funding, and to make the project’s tax credit and AHSC applications more competitive, Visionary has requested an additional loan of $1.28 million to fund the project. If the additional loan is approved, it will bring the City’s total commitment to the project to $2 million. While the amount of City funding allocated to housing projects varies, the requested $2 million is within the range approved for recent projects. Funding for other recent tax credit projects have ranged from $3.5 million for a 30 unit project to $1.9 million for an 82 unit project.

At the time of the initial allocation of funds to the Hunter Street Apartments in June 2015, the amount of available NSP funding was limited, so the project was only awarded $720,000 of the $1.2 million that was requested. NSP funds were being held to cover the yet-to-be determined rehabilitation costs of another NSP multi-family project that the City had already committed to and the amount of program income that would be received from the remaining single-family homes that had been purchased with NSP funds was unknown. Since last June, the funds for the rehabilitation of the other multi-family project have been allocated to that project and the single-family homes have sold, leaving additional NSP funds available. There are now sufficient NSP funds available to meet Visionary’s request.

Allocating additional funds to this project will help the City meet the NSP requirement of funding projects benefiting households with incomes at or below 50 percent of AMI. As noted previously, NSP regulations require a minimum of 25 percent of the grant plus program income to be allocated to projects benefiting households with incomes at or below 50 percent of AMI. Based on previously approved NSP loans, the City has allocated 27 percent of the NSP1 funds and 37 percent of the NSP3 funds to projects meeting this requirement. If expenditures for one of the multi-family projects using NSP1 funds comes in under budget, the City could possibly go under the 25 percent requirement. The additional Hunter Street Apartment loan would increase our allocation to projects meeting this requirement to 33 percent of the NSP1 grant and program income.

If this loan is approved, it will also utilize the remaining NSP funding. There is approximately $1.3 million of uncommitted NSP funding currently available. Other than allocating the remaining funds to the Hunter Street Apartments project, the options for the use of these funds are to allocate them to another multi-family project or reopen the single-family Acquisition, Rehabilitation, and Resale activity. During 2014, the last year that single-family homes were purchased with NSP funds, it became increasingly difficult for the non-profits to purchase the limited number of foreclosed homes and the price of the homes were increasing to the point where they were too expensive for the low- or moderate-income households to purchase them. Several of the last homes to go through the program took over a year from the time the home was acquired out of foreclosure until the homes were resold to a qualified household, compared to four to six months that it had been taking when the program began.

The remaining NSP funds are also insufficient to fund another multi-family project. It is also difficult to find apartment complexes that are in foreclosure, which would be necessary for these funds to be
used. If the additional $1.28 million is allocated to the Hunter Street Apartments, there will be approximately $60,000 of NSP funds remaining which, upon grant close out, can be used for any CDBG eligible use.

It is for the above reasons that a new NOFA was not issued for the use of these remaining NSP funds. Due to federal requirements, the options for the use of NSP funds are limited and finding eligible projects would be difficult.

It is recommended that if approved, the new loan be approved with the same terms as the original $720,000 loan, which was a 55-year, 3 percent interest loan with payments of fifty percent of residual receipts, contingent upon the project receiving all necessary funding (Attachment C - Loan Agreement). Visionary will not receive any of the City’s funding until all of the other financing for the project is secured. Residual receipts are the amount of revenue remaining after all operating expenses are paid. If the annual residual receipt payments do not pay off the loan, the remaining balance is due at the end of the 55-year term. These loan terms are similar to previously approved City loans. As is also typical for this type of project, the City’s loan will be subordinate to the other financing.

In addition to providing much needed housing, this project will also further revitalization efforts proposed in this neighborhood. The June 2015 allocation of housing funds included $1.2 million of Bond proceeds for Anchor Village, a Veteran’s project proposed by Domus Development which will be located approximately two blocks from the Hunter Street Apartments. Grand View Village, an approximately 100 unit apartment complex proposed by VCOR, LP to which the City has allocated $3,485,000, is also nearby. Together these projects will make significant improvements along Hunter Street and assist in the current Downtown revitalization efforts.

FINANCIAL SUMMARY

No General Funds dollars will be used for these projects.

Sufficient funds in the amount of $1.28 million are available in account number 063-8526-640 (NSP1 Loan Expenditure Account) for this project.

Attachment A - Vicinity Map
Attachment B - Resolution 2015-06-19-1202
Attachment C - Loan Agreement