



Date: March 18, 2019

To: Barbara Liebold, City Attorney, City of Lake Elsinore

From: Michael P. Busch, President and CEO
Steven H. Dukett, Managing Director

Memorandum – Applicability of SB 341 to the Cottages at Mission Trail Project

The purpose of this memorandum is to review the Cottages at Mission Trail Project (“Project”) with respect to the applicability of SB 341 to the Project. The Project will be developed by Mission Cottages LP (“Developer”). In addition, Cottages Management, LLC is the Developer’s Administrative General Partner and AOF Mission Trails, LLC is the Developer’s Managing General Partner. The Project will include 122 units that are restricted at the Low-Income AMI level (defined below) and 20 units that are restricted at the Very- Low-Income AMI level (defined below).

The Developer anticipates financing the Project using a variety of resources available for affordable housing project including, but not limited to private activity bond financing, Low-Income Housing Tax Credits (“LIHTCs”), Lake Elsinore Successor Agency-funded loan (with the debt service paid with Redevelopment Property Tax Trust Fund (“RPTTF”) money obtained from the annual Recognized Obligation Payment Schedule (“ROPS” -- Enforceable Obligation No. 12), funding from the Lake Elsinore Successor Housing Agency’s Low- and Moderate-Income Housing Asset Fund (“LMIHAF”), City “Fund 106” loan, Developer loans, etc.

Description Summary

1. The Project site is located along the western side of Mission Trail at Sedco Boulevard, Lake Elsinore, California.
2. The Project will include 143 units (142 rental and 1 manager unit) and related amenities.
3. In total, the Project will consist of 161,492 square feet of building area.
4. The Project is 99.3% affordable to lower and very-low income tenants (20 units at very-low, 122 at lower and 1 manager unit, which may possibly be a lower income unit).

Analysis of Development Costs (per the HUNT Financial Model of 3-14-19)

1. The Developer has projected that the Project will cost \$42,058,943 (say \$42.0 million) to develop or \$294,118.48 per unit (say \$294,000 average per unit).
2. The portion of the Project’s estimated costs related to the affordable units is \$41,764,530.
3. The average cost per square foot is \$260.40 (say \$260).
4. The cost by unit type is:

- a. 2 bedrooms of 829 sf x \$260/sf = \$215,540
- b. 2 bedrooms of 969 sf x \$260/sf = \$251,940
- c. 3 bedrooms of 1147 sf x \$260/sf = \$298,220
- d. 3 bedrooms of 1,203 sf x \$260/sf = \$312,780
- e. 3 bedrooms of 1,219 sf x \$260/sf = \$316,940
- f. 3 bedrooms of 1,222 sf x \$260/sf = \$317,720

Analysis of Unit Costs per Affordability Restriction Level

Very- Low-Income Units:

- a. 2 bedrooms of 829 sf x \$260/sf = \$215,540 x 3 = \$646,620
- b. 2 bedrooms of 969 sf x \$260/sf = \$251,940 x 5 = 1,259,700
- c. 3 bedrooms of 1147 sf x \$260/sf = \$298,220 x2 = 596,440
- d. 3 bedrooms of 1,203 sf x \$260/sf = \$312,780 x 3 = 938,340
- e. 3 bedrooms of 1,219 sf x \$260/sf = \$316,940 x 2 = 633,880
- f. 3 bedrooms of 1,222 sf x \$260/sf = \$317,720 x 5 = 1,588,600
- TOTAL:** **\$5,663,580**

Low-Income Units:

Based on the foregoing, \$5,663,580 is the total estimate cost for the Very- Low-Income AMI restricted units. The manager's unit is 969 sf, which is estimated to cost \$251,940 to develop. To arrive at an estimated cost of only the affordable units, it is necessary to subtract the cost for the manager's unit from the total cost estimate. The result of the computation is \$41,807,003 (i.e., \$43,058,943 - \$251,940 = \$41,807,003). In addition, to arrive at a total estimated cost for the units restricted at the "Low-Income AMI level", it necessary to subtract the estimated costs for very- low-income AMI restricted units from the total development cost for the Project's affordable housing units. The result of that computation is **\$36,143,423** (i.e., \$41,807,003 - \$5,663,580 = \$36,143,423).

Analysis of Funding Allocated by Affordability Category:

The estimated cost of developing the Very- Low-Income AMI restricted units represents about 13.55% of the affordable unit portion of the project ($\$5,663,580 \div \$41,807,003 = 13.55\%$ [rounded to 14%]). The estimated cost of developing the Low-Income AMI restricted units represents about 86.45% of the affordable unit portion of the project ($\$36,143,423 \div \$41,807,003 = 86.45\%$ [rounded to 86%]).

In addition, \$3,000,000 of the Project's total estimated development costs are attributed to the LMIHAF. This principal amount will be raised pursuant to a bond issue. Of this amount, \$420,000 of LMIHAF money is being used to develop Very- Low-Income AMI restricted units ($\$3,000,000 \times .14 = \$420,000$). The resulting number equates to a LMIHAF cost per Very- Low-Income restricted unit of \$21,000 (i.e., $\$420,000 \div 20 = \$21,000$).

In addition, \$2,580,000 of LMIHAF money is being used to develop Low-Income AMI restricted units ($\$3,000,000 \times .86 = \$2,580,000$). The resulting number equates to a LMIHAF cost per Low-Income AMI restricted unit of \$21,500 (i.e., $\$2,580,000 \div 120 = \$21,500$).

Based on the above, the development of the Project will create 20 Very- Low-Income AMI units for a total use of \$420,000 of LMIHAF (or about \$21,000 per unit) and 120 Low-Income AMI units for a total use of \$2,580,000 of LMIHAF (or about \$21,500 per unit). In addition, the \$3,000,000 LMIHAF contribution will be raised pursuant to a bond issue. This analysis does not consider the interest costs associated with the bond financing.

Applicability of SB 341 Requirements

Summary of Mission Trail Apartments, Lake Elsinore SB 341 Eligible Units

Per the May 1, 2018 Regulatory Agreement and Declaration of Restrictive Covenants between the City and Mission Trail LE, LP, which included LMIHAF funded affordable apartments, Mission Trail LE, LP received a \$7,520,000 loan of LMIHAF money in exchange for eight (8) units that are restricted at the Very- Low-Income AMI level and 21 units that are restricted at the Low-Income AMI level. In that case, the Very- Low-Income AMI units represented 27.59% (rounded to 28%) of the total and the Low-Income AMI units represented 72.41% (rounded to 72%) of the total. With respect to the use of funds, \$2,105,600 is attributable to Very- Low-Income AMI units and \$5,414,400 is attributable to Low-Income AMI units.

Summary of Use of LMIHAF for Mission Trail and Cottages at Mission Trail

| | <u>Mission Trail</u> | <u>Cottages at Mission Trail</u> | <u>TOTALS</u> |
|----------------|-----------------------------|---|----------------------|
| Lower: | \$5,414,400 | \$2,580,000 | \$7,994,400 |
| Very-Low: | \$2,105,600 | \$420,000 | \$2,525,600 |
| Extremely-Low: | <u>0</u> | <u>0</u> | <u>0</u> |
| TOTALS: | \$7,520,000 | \$3,000,000 | \$10,520,000 |

My review of the matter assumes that the City wishes to strictly apply SB 341 compliance factors in providing funding for the Project (in other words, the City is not able to offset any of its SB 341 compliance obligation on any other projects and is aware of its obligations with respect to extremely low-income housing given that this developer is not proposing to develop this type of unit).

Per City records, the Lake Elsinore Successor Housing Agency (“LESHA”) held approximately \$11 million its Low and Moderate-Income Housing Asset Fund (“LMIHAF”). For the purposes on this report, only the above two projects have received commitments of LMIHAF funds and no other withdrawals or commitments have occurred. Although it is likely that the amount of funds within the LMIHAF has increased somewhat due to interest earnings and potentially from program income, for the purposes of this analysis, it is assumed that the LMIHAF equals about \$11 million.

Based on the application of the pertinent provisions of SB 341 (specifically, HSC § 34176.1 (a) (3) (A)), the following obligations regarding the LMIHAF would apply:

| | |
|--|---------------------|
| Extremely- Low-Income (30% or less of AMI): | 30% of LMIHAF |
| Very- Low-Income (more than 30% and less than 60% of AMI): | Up to 70% of LMIHAF |
| Lower-Income (60% to 80% of AMI): | Up to 20% of LMIHAF |

It is important to state that SB 341 compliance is based on funding usage and not on unit count. With the foregoing in mind, there are three ways to divide the LMIHAF (this example uses \$11 million as the amount in the LMIHAF).

1. Fund only extremely low income and very- low-income targeted projects. In this approach, the LESHAF would divide its LMIHAF as follows:

| | |
|------------------------|-------------|
| Extremely- Low-Income: | \$3,300,000 |
| Very- Low-Income: | \$7,700,000 |

2. Fund all three affordability target groups within the applicable limits. In this approach, the LESHAF would divide its LMIHAF as follows:

| | |
|------------------------|-------------|
| Extremely- Low-Income: | \$3,300,000 |
| Very- Low-Income: | \$5,500,000 |
| Lower-Income: | \$2,200,000 |

3. Reduce the allocation for lower income benefiting units to fund more very- low-income benefitting units (not to exceed 70% overall; in this example \$7,700,000) and/or more extremely- low-income benefitting units (not to exceed 100%; in this example \$11million).

SB 341 Summary and Recommendations

Based on the foregoing, the Lake Elsinore SHA is not in compliance with SB 341 at this time. The SHA has over committed to Low-Income AMI units (at about 400%), has under-committed to Very- Low-Income AMI units (about 300% percent) and has not committed any funds for Extremely- Low-Income AMI units (based on the above is about \$2.2 million short). Therefore, it is recommended that the SHA focus all of its near-term efforts at creating affordable housing units to the benefit of Extremely- Low-Income AMI units first and once the minimum amount is attained for that income category, to then focus on the Very- Low-Income AMI units. As a corollary, it is recommended that the SHA not use any of its LMIHAF for the purpose of creating more Low-Income AMI units until such time that it is in compliance with SB 341. Of course, any other funding source would not be so restricted.

Thank you for providing UFI the opportunity of preparing this analysis for the City. If there are any questions, please direct them to either Michael Busch at (714) 283-9334 or michaelb@urbanfuturesinc.com or to Steven Dukett at (714) 923-3542 or stevend@urbanfuturesinc.com.

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