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EXECUTIVE MANAGEMENT COMMITTEE
JANUARY 21, 2016

SUBJECT: METRO'S INVOLVEMENT IN AFFORDABLE HOUSING

ACTION: RECEIVE AND FILE UPDATES ON ADDITIONAL AFFORDABLE HOUSING

RECOMMENDATION

RECEIVE AND FILE **updates on Metro's Involvement in Affordable Housing.**

DISCUSSION

In March of 2015, the Metro Board of Directors approved a motion (Attachment A) directing staff to report back on several actions that support affordable housing creation and preservation around transit. Two of those actions were implemented through amendments to the Metro Joint Development (JD) Policy, authorized in July of 2015.

This report discusses the status of additional actions and projects:

- Proposed structure of a Transit Oriented Communities Loan Program
- Development of Memoranda of Understanding with local municipalities
- Analysis of the efficacy of the new Joint Development land discounting policy
- Metro Joint Development affordable housing projects currently in progress
- Affordable Housing Pass Program

Transit Oriented Communities Loan Program

As directed in the March motion, staff has worked with the California Community Foundation, Low Income Investment Fund, and Enterprise Community Partners in order to develop the structure of the housing portion of a Transit Oriented Communities Loan Program (TOCLP), to create and preserve affordable housing around transit. The details of the fund are described in Attachment B, and are summarized below. In addition, Metro is working with LA County Community Development Commission (CDC) to create a structure for the small business portion of the TOCLP.

TOCLP - Housing

The aim of this program is to stabilize neighborhoods with Metro transit investments where increasing housing prices and rents may be causing economic dislocation. The program will assist by creating new affordable housing projects and preserving existing, naturally-occurring lower-rent housing. This would be achieved through two program segments:

- Predevelopment loan segment (15-25% of program depending on its size)
    - This segment of the program would provide predevelopment financing for new affordable housing projects, including such items as entitlements, acquisition, and environmental costs
    - Projects would be required to have site control and a development strategy
    - Financing would leverage typical affordable housing financing (i.e. LIHTC, municipal housing trust funds) and Affordable Housing and Sustainable Communities (AHSC) cap-and-trade funding
    - Financing could create a competitive pipeline of transactions for AHSC funding by providing community based developers, in partnership with financially strong developers, extra resources to act quickly and efficiently
    - The loan origination period would be three years from the establishment of the program
    - Program is intended to be revolving, with terms of 2-3 years

- Preservation and expansion of existing lower-rent housing segment (75-85% of program depending its size) with ultimate conversion to Affordable Housing
    - This segment of the program would provide loans to purchase and preserve existing, naturally-occurring, lower-rent housing properties that support a strategy for future expansion of the number of affordable units
    - Eligible borrowers would need to be non-profit, mission-driven developers or be partnered with a non-profit, mission-driven developer, with encouragement to neighborhood community development corporations to joint-venture with experienced partners
    - Properties would be immediately covenanted as rent restricted housing properties and tenant rents would be stabilized at those affordable at the 80% area median income (AMI) level
    - Loans would provide patient funding to hold properties 5-10 years while developing plans for affordable housing expansion
    - Properties would ultimately be redeveloped into new affordable housing projects with a higher number of units than the original building at 30% to 60% AMI
    - Borrowers would be expected to work to secure AHSC funding as well as typical affordable housing financing to complete projects
    - Loans would have a 5-year term with interest-only payments, plus an optional additional 5-year term, with amortizing payments (residual receipts for the program loan)
    - Funds would revolve as early as every 5 years as loans are repaid from permanent financing sources

- Eligible Geographies
    - For both loan segments, projects would be eligible that are within a ½ mile of existing or near term planned Metro fixed-guideway stations, or within a ½ mile of the intersection of two high frequency bus lines (with peak period headways of 15 minutes or less) - consistent with the State definition for high quality transit areas (HQTAs).

- Leveraging and Risk Allocation of Funds
    - Metro's investment is expected to be leveraged up to 2-3 times with foundation and community development financial institution (CDFI) funding.
    - The proposal assumes Metro's funds would be the most at risk, followed by the Foundations and then the CDFI funds. Metro staff is working with the partners to find mitigation approaches to such risk allocation.

- *Criteria*
    - Staff has prepared a draft of the criteria that would be used to determine, at a staff level, the eligibility of a project for participation in the program. That criteria is included in Attachment C.

TOCLP - Business

In September 2015 the Metro Board approved a motion (Attachment D) that allocated $500,000 of the previously allocated $10,000,000 for a small business loan piece of the TOCLP. At $500,000, potential non-profit and private sector partners determined that this size of a small business program is too small to justify the administrative costs. Staff also consulted the LA County CDC on the potential for partnering with Metro to pursue lending opportunities and leverage County funds. The CDC advised that they could administer the funds, but that a minimum program size that would be workable would be $1,000,000. Staff will continue to explore delivery options for this program.

Previous reports and motions on Metro's involvement with affordable housing have established a nexus between public transit funding and the preservation and creation of affordable housing near transit. Transit riders are disproportionally low-income residents and transit investments may be in neighborhoods with increasing rents that displace residents. Creating and preserving affordable housing near transit can help protect and expand Metro ridership.

A nexus also exists between small businesses and transit investments for the following reasons:

- The location of small businesses adjacent to transit reduces the necessity for multiple trips and further incentivizes use of public transportation rather than single occupant vehicles. Transit riders will be more likely to patronize a small business if it is along or near their path of travel to or from transit.

- Employees of small businesses will be more likely to take transit to work if that small business is adjacent to transit.

- In order to make transit most effective and efficient at serving riders and businesses, development should be concentrated around transit. Concentration of development has the potential to raise land prices and commercial rents that may result in economic dislocation of smaller, less profitable business. Those businesses should be encouraged to stay near or come to transit in order that small businesses will receive equitable benefits from transit investments.

- Metro investments promise jobs, economic development, and community benefit. In order to distribute transit benefits equitably, small businesses should be assisted in and encouraged to remain close to transit, or locate new enterprises near transit.

Timing of Metro Investment

The March motion that directed Metro's investment in this fund called for up to $10 million to be allocated annually at $2 million per year for five years. To leverage the expected foundation and CDFI investments described in this outline, the total $10 million will need to be obligated in a contract. If the $10 million is allocated annually and subject to annual appropriation, the foundation and CDFI investments will be committed each year as well, limiting the number of projects that can be built or preserved each year. A better match for the startup of the program (as year one will include structuring costs) and management of the funds, would be a three-year investment period to match the three-year origination period set forth in the guidelines.

This shorter origination period will mean that new projects can be supported earlier and properties can be purchased and preserved sooner, thereby being more effective and cost-efficient at stabilizing neighborhoods that may be experiencing rapid change and increasing land values.

Memoranda of Understanding (MOUs) with Municipalities

Staff has transmitted a draft MOU to the City of Los Angeles and is negotiating the terms with the City. Metro and the City have attended meetings and exchanged edits on the MOU and are close to finalizing the document. Staff will engage other Cities and the County to pursue similar MOUs upon completion of the MOU with the City of Los Angeles, using the Los Angeles MOU as a template.

Analysis of Impacts of the Discounting Policy

In July of 2015 the Board acted to amend the Metro Joint Development Policy to allow for discounts on joint development ground leases on a case by case basis to help finance affordable housing. The discount is proportionate to the percentage of affordable units and is capped at 30%. Staff transmitted a memorandum to the Board on December 8, 2015 (Attachment E) which analyzes the impacts of the discount policy. At a high level, the goal of reducing the income targets for affordable units is very expensive and cannot be financed by the discounting policy alone. Staff will continue to analyze the effects of the discounting policy and how affordable housing developers are able to use it.

In progress Metro Joint Development Affordable Housing Projects

1st and Boyle - Santa Cecilia
The Santa Cecilia Project at 1st and Boyle in Boyle Heights is under construction with an estimated completion date in late 2016. This project will provide 80 units of affordable family housing and approximately 4,000 square feet of ground floor retail. The affordability ranges are targeted at families at 30%-60% of the area median income.

Westlake MacArthur Park Phase B
The Westlake MacArthur Park Phase B Project in Westlake is fully entitled and expected to begin construction in early 2017. The project will provide 82 affordable housing units and 6,000-12,000 square feet of ground floor retail. The affordability of the units will be a combination of low-moderate, low and very-low income units. The project received $5 million in Affordable Housing Sustainable Communities (AHSC) Cap-and-Trade funding and is seeking additional funding from the City of Los Angeles.

Taylor Yard - Lot 2B
The Taylor Yard - Lot 2B Project is awaiting entitlement approval from the City of Los Angles. The project will provide 42 affordable units. The affordability of the units will be a combination of low-moderate, low and very-low income units.

1st and Lorena
The 1st and Lorena Project was approved by the Boyle Heights Neighborhood Council and is securing entitlements. Through a community outreach process, the project has been modified to include 49 units of affordable family housing with 10,000 square feet of ground floor commercial space. Twenty-four of the units will be offered as supportive housing for veterans.

Cesar Chavez and Soto
The Cesar Chavez and Soto project was approved by the Boyle Heights Neighborhood Council and is beginning entitlements in early 2016. The proposed project is comprised of 77 units of affordable family housing, both two and three bedrooms, and will include 8,500 square feet of ground floor retail. The affordability of the units will be a combination of low-moderate, low and very-low income units. The project is being proposed by Abode Communities, a non-profit affordable housing developer.

1st and Soto
The 1st and Soto project was approved by the Boyle Heights Neighborhood Council and is in a short-term Exclusive Negotiations Agreement with Metro. The proposed project is comprised of 66 units of affordable family housing, studios, one, two and three bedrooms, over 5000 sq. ft. of ground floor commercial space. The affordability of the units will be a combination of low and very-low income units.

In total, these projects would create an additional 396 units of affordable housing, 354 of which are adjacent to or near Metro Rail stations, and all of which are in HQTAs.

<u>Affordable Housing Pass Program</u>

Metro has several existing group rate pass programs which are undergoing a review to streamline the programs. These programs are run by the Communications Department and the Finance and Budget Department, which are reviewing the programs together. As part of that process, they will develop terms for an affordable housing pass program. Current Board direction has requested a program that would be available only to residents of affordable units in Metro joint developments. If the action were expanded, Metro could create a program that would be available to applicants of the AHSC Cap-and-Trade funding. This could award more points to AHSC applications from LA County and gain more funding for transit-oriented affordable housing in LA County.

NEXT STEPS

Staff will pursue these remaining initiatives and report back to the Board on progress and options.

ATTACHMENTS

Attachment A - Board Motion 51.1 - March 2015
Attachment B - TOCLP Housing Structure
Attachment C - Criteria for TOCLP Participation
Attachment D - Board Motion 58 - September 2015
Attachment E - Board Memo - Reporting Back on Item 68 of July 2015 Board of Directors Meeting

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