WCHC

Washoe County **HOME** Consortium

City of Reno • City of Sparks • Washoe County

MEMORANDUM

Date: **August 8, 2017**

To: **WCHC Technical Review Committee**

From: **Elaine Wiseman, Manager HAND Division**
Cylus Scarbrough, Management Analyst
Community Development Department, City of Reno

Subject: **Comments on Applications for Round Two of Fiscal Year 2017-2018 HOME Funding**

Three applications were read, reviewed, and presented to the Washoe County HOME Consortium (WCHC) Technical Review Committee (TRC) on July 11, 2017, for project funding for the second round of 2017-2018 HOME funds. At that meeting, TRC members asked staff for more information regarding how the applications meet the WCHC funding priorities. This memo addresses that question and also provides additional information and analysis. The WCHC funding priorities table was adopted in September 2012, and last updated in July 2015. $440,656 is available with the second round of HOME funding.

1. **The Ridge House: Ridge on Watt**

<u>Description:</u>
The Ridge House is requesting a WCHC loan in the amount of $394,000, at 3% interest amortized over 25 years. The purpose of the loan is to acquire a single-family home at 1694 Watt Street to provide six (6) fully-furnished affordable rental units for clients at-risk for homelessness, extremely low-income individuals (0-30% AMI), individuals in recovery, and transition aged youth (18-25). Priority will be given to clients in recovery, and those who have been involved in the criminal justice system. This is an independent living project, yet supportive services such as life-skills training and sober-living guidance will be provided by Ridge House.

Location and Zoning:

1694 Watt Street, built in 1949, is located within the Plumas Neighborhood, which is a stable single-family area with good housing conditions only several blocks west of South Virginia Street, and within walking distance of retail and transit locations. The property is zoned Single-family Residential (SF6). Group homes with the proper licenses are permitted by-right in this district. By definition, group homes are limited to a maximum of six clients plus two staff members, or a maximum of ten clients with disabilities with house parents or guardians.

According to the WCHC funding priorities, developers are encouraged, but not required, to propose project sites outside of areas where the proportion of low-income or any racial or ethnic minority group is more than ten percent higher than the proportion for the region as a whole. Based upon the 2015 Five-Year American Community Survey (ACS) by the Census Bureau, the percent of all families in Washoe County living under the poverty level was 10%, while the poverty rate for Census Tract 3 (1694 Watt Street) was 5.8% during the same period. The population was 88% white in Census Tract 3 according to the 2015 Five-Year ACS as well. This area, therefore, is not located in an area of low-income or racial or ethnic minority concentration.

Analysis:

The Ridge on Watt application meets all of the basic requirements as set out in the WCHC application instructions. All of the required documents have been made available, and the project is eligible for HOME funding. Acquisition of existing standard property, or substandard property in need of rehabilitation, is eligible as part of a rental housing project. After acquisition, rental units must meet HOME rental occupancy, affordability, and lease requirements.

The target population for this project is within WCHC/HOME requirements. The residents will be charged a monthly rent of $300. The 2017 Low HOME Rent limit established by HUD for the Reno-Sparks MSA is $670 for a one-bedroom unit, so the proposed monthly rent falls well below the required limits.

Ridge House currently has an option to purchase the house for $384,804, while the agency will retain $9,157 in professional fees, which is less than the 10% maximum required by HUD. The total cost per unit of WCHC HOME funds equates to $65,667. Projects receiving more than $40,000 in funds from the WCHC Affordable Housing Municipal Loan Program (AHMLP) for acquisition and rehabilitation have a minimum affordability period of 15 years. The application for the Ridge on Watt states that the units will remain affordable for a minimum of 30 years. If funded, Ridge House plans to close on the house in January 2018, and renovation is proposed to be completed in June 2018. The Ridge House received CHDO certification in FY 2016 and currently does not have any outstanding WCHC loans.

For properties receiving assistance for acquisition only (without rehabilitation), the property must meet the HOME property standards for new construction or rehabilitation before acquisition. To ensure compliance with these standards, prior to acquisition, a property inspection must be completed no earlier than 90 days before the commitment of HOME funds.

Additional grants and private funding sources will be used to modify the main floor for ADA compliance, install a fire suppression system, remove the kitchen from the basement, and add two new bedrooms to the basement. Funds will also be used to license the group home with the Nevada State Health Division, Department of Health & Human Services, and the Health Care Quality Care (HCQC) as a licensed health facility for homeless individuals in recovery.

	The Ridge on Watt	
Level I Priorities		
		Staff Analysis
A	Project provides 100% of rent-restricted units at or below 40% of the Area Median Income for family units; at or below 45% of Area median income for senior projects	Yes, as described above.
B	Project provides supportive services	Yes, as described above.
Level II Priorities		
A	Project is located within a transit corridor or a regional center	Yes. South Virginia Street is only four blocks to the east, and there are numerous shopping and transit opportunities within very close walking distance.
B	Project contains one or more green components above and beyond the minimum energy efficiency requirements	Yes. All appliances will meet the Energy Star Certification.
C	Project addresses one or more objectives of the current Consolidated Plan for the region	Yes. The following Annual Goals of the 2015-2019 Five year Consolidated Plan are met: ● Support quality living environments of low and moderate income households and persons with disabilities; ● Expand and preserve affordable and mixed-income housing opportunities; ● Support organizations that provide supportive services to low income, homeless and special needs residents; ● Assist persons who are homeless or at-risk of homelessness obtain housing.
D	Project addresses one or more objectives of the current Regional Plan	Yes. The Regional Plan is very broad in nature, but does generally support rehabilitation of existing housing and infill development.

E	Project addresses one or more objectives of the local 10 year plan to end homelessness titled *"Housing for All"*	Yes. The following objectives of the "*Housing for All*" plan are met: ● Create emergency & transitional shelter ● Increase the supply of permanent supportive & affordable housing ● Increase the short-term and long-term resources available to assist in the prevention and recovery from homelessness ● Increase the number, type and quality of supportive services available
F	Project is a mixed income/use project.	No

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2. Vintage Housing Development: Sky Mountain by Vintage

Description:

Vintage Housing Development is requesting a WCHC deferred loan in the amount of $425,000 to support the construction of a 288-unit multi-family apartment complex at 4855 Sky Mountain Drive. All of the units will be considered affordable to households earning at or below 60% of AMI, while the HOME-designated portion of the project will consist of two (2) units with rents affordable to households below 50% of AMI, and three (3) units with rents affordable to households below 30% of AMI. The HOME units will consist of one 1-bedroom/1-bath unit, two 2-bedroom/1-bath units, and two 3-bedroom/2-bath units.

Location and Zoning:

The 10.4 acre property is at the northwest corner of the intersection of Summit Ridge Drive and Sky Mountain Drive, and has frontage along South McCarran Boulevard. There are numerous retail, banking, and other shopping opportunities within a mile and a half of the property, although not all of these locations are ideally located for pedestrian access due to the presence of Interstate 80 to the north. Despite the presence of a number of other apartment communities located in the immediate area, staff believes that this is an appropriate location for additional medium to higher-density residential development due to its location adjacent to an arterial street (S McCarran BLVD), and its proximity to existing commercial developments.

According to the 2015 Five-Year ACS, the poverty rate for all families within Census Tract 12.02 (Sky Mountain) was 13%, and 10% for all families in Washoe County. While the poverty rate at this location is slightly higher than the County, it is not more than ten percent higher than the proportion of the region as a whole. Additionally, the population was 75% white in Census Tract 12.02 and there were no concentrations of other minority groups greater than ten percent of the region as well.

The property is zoned Community Commercial (CC), and the land is currently a parking lot that formerly served the Great Western Marketplace building, which is now vacant. Apartment communities are a permitted use in the CC district with the approval of a site plan review by the Community Development Department. This is an extra layer of administrative review required for multi-family projects in the CC district, but is still a permitted use if staff determines the project meets all of the development standards of the zoning code and any additional concerns raised by staff. The applicant has held a pre-application meeting with Planning staff to discuss the project, and staff does not anticipate any major planning and zoning challenges that would result in Planning staff recommending denial of the site plan review.

Plans have been proposed to change the use of the former Great Western Marketplace building for RV storage, which would create very minimal parking demand and would release the need for the adjacent parking lot. The long-term use of the building, furthermore, would be limited to similar activities that have low parking demand.

<u>Analysis:</u>

The Sky Mountain by Village application meets all of the basic requirements as set out in the WCHC application instructions, and the target population for this project is within WCHC/HOME requirements. The project is eligible for HOME funding, but a market study has not yet been provided for review at this time. Also, there was no commitment letter provided by the Nevada Housing Division on the availability of GAHP funding, tax exempt bonds, and 4% low income tax credits. The applicant has stated that they will apply for the tax-exempt debt, 4% LIHTC, and NHD GAHP funds in November 2017.

The requested loan is for $425,000 at 2.5% interest, amortized over 35 years. No payments would be made until Year 16, although interest would accrue at the agreed upon rate. Thereafter, the loan and accrued interest would be amortized and fully paid by the end of year 35. The proforma indicates the project can sustain these repayment terms. The estimated total development cost is $53.76 million, or about $186,657 per unit. The number of units being set aside as HOME-designated units (5) is commensurate with the WCHC HOME share of project funding ($425,000). The HOME-designated units will have a minimum affordability period of 20 years.

As noted above, in addition to the requested WCHC HOME funds, financing for Sky Mountain by Vintage will include tax-exempt bonds issued by the Nevada Housing Division (NHD) and purchased direct by Citibank and equity from the sale of non-competitive 4% Low Income Housing Tax Credits. The developers also plan to apply for gap financing through the NHD Growing Affordable Housing Program (GAHP). The GAHP funding is designed to help innovative, quality affordable housing projects meet the necessary underwriting criteria to utilize the NHD tax-exempt bond and 4% Low-Income Housing Tax Credit programs.

The site is also located within zip code 89523, which is a HUD Small Area Difficult Development Area (SADDA) in 2017, qualifying Sky Mountain by Vintage for a 130% boost in tax credit eligible basis. The eligible basis boost is worth about $4.25 million in additional tax credit equity. The SADDA is a new initiative by HUD, begun in 2016, which provides additional incentives for the creation of affordable housing in middle to upper-income areas with higher development costs.

The applicant has demonstrated an option to purchase the property, and the application materials state that Sky Mountain will potentially close in approximately March 2018, with construction starting shortly thereafter. Per HUD requirements, if the request for Sky Mountain is approved by the TRC, construction of the project must commence within 12 months of the ratification of funds. Completion is estimated by September 2019.

Staff has reviewed the proforma conducted by Praxis Consulting Group, LLC, and determined that the project meets HUD regulations and guidelines. The following is a brief summary of the results of the proforma:

- The per unit capital cost of $186,657 is acceptable;
- The internal Rate of Return is expected to be 5.88%;
- The replacement reserve at $300 per unit is acceptable;
- The assumption regarding vacancy rate (5%), operation income increases (2%) and operational cost increases (3%) are all reasonable, and the rents and utility allowances used are within HOME guidelines.
- The developer fee is $6,900,000, a portion of which will be deferred by the developer. The fee is lower than the Steamboat at the Summit Apartments, which was a project approved by the TRC in the previous round of WCHC funding.

Funding Priorities:

Sky Mountain by Vintage		
Level I Priorities		
		Staff Analysis
A	Project provides 100% of rent-restricted units at or below 40% of the Area Median Income for family units; at or below 45% of Area median income for senior projects.	No. As noted above, while the project is affordable to households at 60% of AMI, only three (3) of the five (5) HOME designated units will have rent-restricted units at or below 40% of AMI.
B	Project provides supportive services	No
Level II Priorities		
A	Project is located within a transit corridor or a regional center	Yes. The number 3 bus has stops directly adjacent to the project along Sky Mountain Drive with regular service to downtown and other nearby commercial areas.
B	Project contains one or more green	Yes. The project contains green components and

	components above and beyond the minimum energy efficiency requirements	will be built to the Nevada Housing Division's high energy efficiency standards.
C	Project addresses one or more objectives of the current Consolidated Plan for the region	Yes. The following Annual Goals of the 2015-2019 Five year Consolidated Plan are met: ● Expand and preserve affordable and mixed-income housing opportunities; ● Address the housing needs of large families; ● Create accessible housing for persons with disabilities located near transit services.
D	Project addresses one or more objectives of the current Regional Plan	Yes. The Regional Plan is very broad in nature, but does generally support development where existing infrastructure and other services are provided.
E	Project addresses one or more objectives of the local 10 year plan to end homelessness titled *"Housing for All"*	No, the project is not designed to meet a homeless mitigation objective.
F	Project is a mixed income/use project.	No. The project will not include any market rate units, and does not incorporate other land uses, although there are retail and transit locations within walking distance.

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3. Community Services Agency & Development Corporation (CSADC), Reno: Lemmon Valley Homeowner Rehabilitation Flood Relief

Description:
CSADC is requesting a WCHC loan for $400,000 to provide homeowner rehabilitation services to property owners that have experienced recent flooding in the Lemmon Valley area of unincorporated Washoe County in 2016-2017. The Lemmon Valley proposal is a housing rehabilitation program that provides direct assistance to income-qualified residents of eligible properties. This is a different use and purpose of the HOME funds as compared to the two previous applications, and the merits of the Lemmon Valley program should be reviewed differently as well.

Location and Zoning:
Lemmon Valley is a census-designated place (CDP) in Washoe County, Nevada. It is about ten miles north of downtown Reno and according to the Census Bureau, and has a total area of 18.4 miles. The population is almost 90% white according to the 2015 Five-Year ACS, and the poverty rate is only 3.7%, compared to 10% of the County.

Analysis:
CSADC is requesting that the assistance be provided in the form of a 0% interest loan to each homeowner, secured by a second deed of trust by CSADC or the WCHC for the term of affordability, at which time the loan would be forgiven. The proposal states that

the HOME assistance would be capped at $50,000 for each homeowner. CSADC would be the facilitator of the trust funds and would receive $10,000 in administrative fees, which is less than the 10% maximum allowable by HUD. Many HOME rehabilitation loans are forgiven or payments substantially reduced after an established period of time if no resale of the property occurs, which is generally a minimum of 20 years.

The Lemmon Valley proposal is a homeowner rehabilitation program that provides direct assistance to eligible applicants, and will have different HOME requirements than the acquisition of property or new construction projects for affordable housing. For example, there are no long-term affordability or occupancy requirements, and the income of the owner-occupants may be higher as well, since the program is open to households at or below 80% of the median income, instead of 60% of the median income. The value of the home after rehabilitation, however, must not exceed 95% of the median purchase price for the area as published by HUD for existing single-family housing, or as determined locally through a market analysis.

Despite the recent flooding in Lemmon Valley, these residents and homeowners in this area may still be eligible for HOME rehabilitation assistance if they are income-qualified, can demonstrate flood insurance if they are within a FEMA designated flood zone, and can demonstrate that the structure will be brought to the minimum rehabilitation standards required by HUD. The minimum rehabilitation standards may be a challenge for many properties that have suffered major or even minor flood damage, as other sources of funding in addition to the HOME funds may be required to bring the structure into full compliance. Ultimately, CSADC will be responsible for evaluating the eligibility of owners to take advantage of the HOME funds, including determining if the HOME assistance will be enough to bring the property up to minimum rehabilitation standards or if additional finances will be necessary.

The WCHC funding priorities table used with the previous two applications are not an appropriate measurement of the potential effectiveness of the proposed use of HOME funds for the Lemmon Valley proposal, and a different set of guidance should be used. For the analysis of the project, staff referred to The HOME Program Final Rule regarding Homeowner Rehab activities found at 24 CFR Part 92.

Concentrating housing rehabilitation assistance through HOME funds in order to benefit a targeted population of homeowners and residents is a valid use and purpose of the program in order to achieve neighborhood revitalization. In fact, concentrating HOME funds for rehabilitation serves a much greater public purpose as targeting this type of assistance will more substantially improve the housing conditions and property values of a neighborhood than will scattered use of the funds throughout the city or region.

Targeting HOME funds for housing rehabilitation should be provided in areas where the jurisdiction has previously identified a need for greater homeownership and neighborhood stability, which is the purpose of the loan forgiveness component of the program. Many jurisdictions target HOME rehabilitation funds in areas that have poor housing conditions due to the lack of income of the residents, lower homeownership rates, and areas with higher crime rates. The goals of targeting HOME rehab funds are to increase homeownership, stabilize and prevent blight, improve housing conditions, reduce crime, and increase the quality of life for residents in low-income neighborhoods.

Staff has concerns that these goals will not be met by targeting HOME rehab funds in Lemmon Valley. While some Lemmon Valley households will certainly be income-eligible for financial assistance, it is not clear that this should be an area of ***targeted*** HOME rehabilitation assistance that would exclude other low-income neighborhoods in the region. The owner-occupancy rate, for example, for all occupied housing units in the Lemmon Valley area was 75% according to the 2015 Five-Year ACS. To compare, it was 56% for Washoe County, and 46% for the City of Reno during the same period. The poverty rate, furthermore, in Lemmon Valley (3.7%) is much lower than the region (10% in Washoe County) as well.

Once again, targeting HOME rehab funds in the Lemmon Valley area for flood damaged properties is a valid use of the program for income-qualified residents that can demonstrate flood insurance. Staff has concerns, however, that the HOME rehab funds will not be enough to bring many of the properties into full rehabilitation compliance standards as required by HUD without significant additional resources due to the recent flooding incidents. Absent a complete list of homes that would qualify for assistance, and without an inspection report for these structures, it is difficult to know if the houses will achieve full compliance standards with the assistance of HOME rehabilitation funds. While it is not required that CSADC have a full inspection report on every property to be recommended for approval by the TRC, the recent flooding in Lemmon Valley does cause concern that the HOME funds will not be fully allocated due to the uncertainty of the structural integrity of the homes.

Staff also has concerns that targeting this area to the exclusion of other low-income neighborhoods is not the most appropriate location to concentrate HOME rehab funds due to the higher homeownership rate and lower poverty rate in Lemmon Valley when compared to the rest of the region.

Staff Recommendation:

Staff can recommend the approval of all three applications for the second round of 2017 HOME funding, although staff preference would be in this order: 1) Sky Mountain by Vintage; 2) The Ridge on Watt; and 3) Lemmon Valley Homeowner Rehabilitation Flood Relief.

1. The Sky Mountain by Vintage project meets four of the WCHC funding priorities. The project also meets a critical need of the community by constructing 288 units of affordable housing entirely below 60% of AMI. Cost burden for low-income renters was identified as the most critical housing concern in the 2015-2019

Consolidated Plan for the City of Reno. The applicant has stated that the project will not move forward if the AHMLP request is not approved by the WCHC.

2. The Ridge on Watt meets all but one of the WCHC funding priorities. Ridge House also provides a wide range of supportive services to its clients, but unlike Sky Vintage, does not support the creation of substantially more affordable housing units, which is a critical concern identified in the Reno Consolidated Plan.

3. The Lemmon Valley Homeowner Rehabilitation Flood Relief proposal is eligible for HOME rehab assistance, but staff has concerns regarding the appropriateness of targeting funds in this area to the exclusion of other low-income residents in the region, as well as the potential unanticipated costs of rehabilitation due to recent flooding.

Next Meetings:

- Directors' Meeting to approve, modify, or deny TRC funding recommendation – September 2017.
- Truckee Meadows Regional Planning Governing Board ratification of funding – October 12, 2017.