



**Agenda Item**

**AGENDA STAFF REPORT**

**ASR Control** 20-000490

**MEETING DATE:** 06/23/20  
**LEGAL ENTITY TAKING ACTION:** Board of Supervisors and Orange County Housing Authority  
**BOARD OF SUPERVISORS DISTRICT(S):** 1  
**SUBMITTING AGENCY/DEPARTMENT:** OC Community Resources (Approved)  
**DEPARTMENT CONTACT PERSON(S):** Dylan Wright (714) 480-2788  
 Julia Bidwell (714) 480-2991

**SUBJECT:** Request to Approve Project, Loan and Project-Based Vouchers for Casa Paloma

<b>CEO CONCUR</b> Concur	<b>COUNTY COUNSEL REVIEW</b> No Legal Objection	<b>CLERK OF THE BOARD</b> Public Hearing 3 Votes Board Majority
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**Budgeted:** N/A                                      **Current Year Cost:** N/A                                      **Annual Cost:** FY2020-21:  
 \$950,000

**Staffing Impact:** No                                      **# of Positions:**                                      **Sole Source:** N/A

**Current Fiscal Year Revenue:** N/A

**Funding Source:** See Financial Impact Section                                      **County Audit in last 3 years:** No

**Prior Board Action:** 09/24/2019 #S38F, 07/30/2019 #22, 12/18/2018 #24, 4/24/2018 #38

**RECOMMENDED ACTION(S):**

Acting as the Board of Supervisors:

1. Conduct a public hearing and consider public comments regarding the approval of the development of Casa Paloma, a 71-unit affordable housing development in Midway City, located in unincorporated Orange County.
2. Authorize the OC Community Resources Director or designee to utilize HOME Investment Partnership Act funds for permanent loan financing to AFH Casa Paloma LP, a limited partnership formed by American Family Housing and Veloce Partners, Inc., for the development of Casa Paloma, pursuant to the 2016 Permanent Supportive Housing Notice of Funding Availability Addendum 1.
3. Approve the loan commitment to AFH Casa Paloma LP, in an amount not to exceed \$950,000, subject to contingencies outlined in this Agenda Staff Report.
4. Approve subordination at permanent financing of the \$950,000 permanent loan to an amortized first trust deed conventional loan of \$4,150,000 and a second trust deed loan of \$4,464,144 as set forth in this Agenda Staff Report and authorize the OC Community Resources Director or designee to subordinate to additional senior debt up to 100 percent of the cumulative loan-to-value based on the as-built appraised market value, if necessary, based on any future changes in project financing.
5. Authorize the OC Community Resources Director or designee to execute subordination agreements; standard set of loan documents and restrictive covenants; and such additional agreements, contracts, instructions and instruments necessary or appropriate for permanent loan financing.

Acting as the Board of Commissioners to the Orange County Housing Authority:

6. Approve the selection of Casa Paloma for utilization of 48 Housing Choice and/or Mainstream Project-Based Vouchers in accordance with the policies and procedures identified in the Orange County Housing Authority Administrative Plan and authorize the execution of related documents, instruments and agreements.
7. Authorize the Executive Director of the Orange County Housing Authority to execute any document related to the commitment of the U.S. Department of Housing and Urban Development Housing Choice and/or Mainstream Project-Based Vouchers, which incorporates the business and financial terms set forth in this Agenda Staff Report in a form as approved by County Counsel.

### **SUMMARY:**

Conducting a public hearing and considering public comments for the development of Casa Paloma and approval of the County permanent loan, commitment of 48 Housing Choice and/or Mainstream Project-Based Vouchers and subordination of the County loan at permanent financing to senior debt supports the County's efforts toward the production of supportive housing in Orange County.

### **BACKGROUND INFORMATION:**

On November 10, 2015, the Board of Supervisors (Board) approved issuance of the 2016 Permanent Supportive Housing Notice of Funding Availability (2016 PSH NOFA). The objective of the 2016 PSH NOFA was to provide up to \$8 million in HOME Investment Partnership Act (HOME) funds and/or Orange County Housing Successor Agency (HSA) funds and up to 100 Project-Based Vouchers (PBV) for the acquisition, new construction and acquisition/rehabilitation of supportive housing for extremely low-income households who are experiencing homelessness in Orange County. The 2016 PSH NOFA is one of the strategies implemented by the County to align resources to end homelessness through the development of supportive housing. On April 24, 2018, the Board approved the issuance of Addendum 1 to this 2016 PSH NOFA, which increased the amount of funding by \$4 million, to a total of \$12 million, under this NOFA. The Addendum 1 also increased the number of Veterans Affairs Supportive Housing (VASH) and/or Housing Choice Vouchers by 100, to a total of 200 vouchers, and approved modifications including, but not limited to, increases to the per unit subsidy limits for projects located in participating cities. On December 18, 2018, the Board approved an additional increase in funding by another \$2 million, to a new combined total of \$14 million in HOME and/or HSA funds and the utilization of up to 50 additional VASH vouchers.

American Family Housing (Developer) responded to the 2016 PSH NOFA Addendum 1 with a funding application for a 71-unit affordable rental housing development. The Development, Casa Paloma, will be located at 15162 Jackson Street in Midway City, in unincorporated County.

The Developer is a nonprofit affordable housing developer established in 1985. The Developer owns 52 properties consisting of 282 housing units. Approximately 40 of these units are permanent supportive housing, including Potter's Lane, a 16-unit supportive housing development funded with County capital and PBVs. Veloce Partners, Inc., an affordable housing development consulting firm and developer, will serve as a Co-General Partner.

The Development is the proposed new construction of a four-story apartment building consisting of 71 units (69 rental units and two managers' units), of which 48 units are proposed to serve formerly homeless households. The Development will consist of 59 one-bedroom units, 10 two-bedroom rental units and two two-bedroom managers' units. Rents for 48 of the units will be set at 30 percent of Area Median Income (AMI) and the remaining rental units will be set at 50 percent AMI or below. Capital funding and Orange County Housing Authority (OCHA) Housing Choice and/or Mainstream PBVs are being requested for 41

one-bedroom units and seven two-bedroom units under the 2016 PSH NOFA Addendum 1.

The proposed project site consists of a rectangular, 1.116-acre parcel containing various buildings that formerly housed a pottery manufacturing facility. The site is located in a mixed-use area, with a combination of commercial and industrial uses, as well as single-family and multifamily residential uses, and is zoned C2 (H) in the Housing Overlay Zone. Potter’s Lane, a supportive housing development also developed by American Family Housing, is located opposite the site.

On July 30, 2019, the Board authorized the Health Care Agency to make supportive services available, through Behavioral Health Services and the Whole Person Care Program, to Housing for a Healthy California (HHC) tenants in the Development for at least 55 years. The County’s partnership allowed the Developer to apply for and secure \$4,464,144 in HHC funding for 34 of the units the Development.

On September 24, 2019, the Board approved the Development for \$6,688,000 in Special Needs Housing Program funding for 24 Mental Health Services Act units. On December 10, 2019, the Board approved a 20-year services commitment and approved the Developer to apply for \$6,395,000 in state No Place Like Home Round 2 Competitive Allocation funding. However, based on published self-scores it does not appear likely that the Development will receive a funding award.

**Permanent Financing and Housing Choice and/or Mainstream PBVs**

The Developer is requesting permanent loan financing under the 2016 PSH NOFA Addendum 1 in the amount of \$950,000 to be available to the project after construction has been completed, a Certificate of Occupancy has been issued and conditions placed on the loan have been satisfied. The County loan will be subordinate to financing as outlined in financial summary below. To encumber funds per the U.S. Department of Housing and Urban Development (HUD) requirements, OC Community Resources (OCCR) intends to close the loan at construction closing but fund at permanent loan closing. OCCR is requesting authorization to subordinate to additional senior debt up to 100 percent of the cumulative loan-to-value based on the as-built appraised market value, if necessary, based on any future changes in project financing. In determining the maximum additional senior debt to which the County will subordinate its loan, OCCR will calculate the senior debt plus the County loan and subtract that total from the current (within last six months) as-built appraised market value. If the current as-built appraised market value exceeds the cumulative senior debt plus the County loan, the County may subordinate to additional senior debt, if necessary, for the viability of the project.

Additionally, the Developer is requesting 48 Housing Choice and/or Mainstream PBVs to be available to the Development after construction is completed and a Certificate of Occupancy is issued. The value of the 48 PBVs for the 20-year period is estimated to be \$19,164,480 based on the current Voucher Payment Standards and anticipated Utility Allowance for one- and two-bedroom units. These 48 PBVs will be guaranteed for 20 years, consistent with HUD regulations and will provide rental subsidies to 48 of the apartments restricted to 30 percent AMI by County and/or state funding sources.

The following financial summary highlights the Permanent Financing phase of the Development:

<b>Sources of Funds</b>	<b>Total</b>
Conventional Loan	\$4,150,000
California Department of Housing and Community Development - Housing for a Healthy California	\$4,464,144
County of Orange	\$950,000
California Housing Finance Agency - Special Needs Housing Program	\$6,688,000
Tax Credit Proceeds (9%)	\$17,811,307
General Partner Equity	\$100

<b>Total Development Costs</b>	<b>\$34,063,551</b>
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**County Loan Terms and Project-Based Vouchers:**

Permanent Loan:	\$950,000
Interest Rate:	3 percent simple
Term:	55 years
Security:	Third Deed of Trust
Payments:	Residual Receipts (25 percent)

The County will record rent and occupancy restrictions on 41 one-bedroom and seven two-bedroom units to households experiencing homelessness earning at or below 30 percent AMI for a term of 55 years. An additional 19 units will be restricted by other lenders or the Tax Credit Allocation Committee to households with incomes at or below 50 percent AMI.

OCHA will provide Housing Choice and/or Mainstream PBVs to 48 one-bedroom units for this project. These 48 PBVs will be guaranteed for 20 years, consistent with HUD regulations.

Funding of the County loan and commitment of the Housing Choice and/or Mainstream PBVs are contingent upon the following:

1. County receipt and approval of final project development costs
2. Satisfactory completion of mitigation measures identified for the Development in the Environmental Assessment pursuant to the National Environmental Policy Act (NEPA)

The Project Advisory Committee of the Housing and Community Development Commission concurred with staff recommendations at their May 26, 2020, meeting.

This Development is part of the concerted effort to develop the System of Care. The loan request and project-based voucher award will contribute to the efforts on building a responsive System of Care in Orange County that provides solutions that meet the needs of the homeless populations. The proposed Development has the opportunity to end homelessness by providing supportive housing to 48 extremely low-income homeless and/or formerly homeless households. Additionally, the creation of 19 affordable housing units provides housing stability and security for households with very-low income. The supportive housing units in this Development are part of the 2,700 permanent supportive housing units identified in the Housing Funding Strategy to address housing needs for individuals and households experiencing homelessness. As such, these 48 units of new supportive housing units will contribute to the progress of this Countywide effort.

This project is recommended for approval as it meets the criteria established pursuant to Measure C, a 1980 voter approved ballot measure placed by the Board regarding affordable housing. Measure C allows the County to develop, construct, finance or acquire affordable housing projects within unincorporated Orange County without placing the individual project before the voters, as required under Article 34 of the California Constitution, so long as certain requirements are met. Those requirements include: not using general fund monies, publishing notice of a public hearing to announce the consideration of the project, holding the public hearing to allow consideration of public comments regarding the project and ensuring that the housing built or rehabilitated does not exceed 5 percent of the total dwelling units within unincorporated Orange County. According to the State of California's Department of Finance, the current total number of existing dwelling units in unincorporated County is over 42,000 units. Pursuant to the voter-approved language, approximately 2,100 affordable housing units can be built or rehabilitated in unincorporated County. The current total number of affordable housing units permitted in unincorporated County is 1,405, representing approximately 3 percent of the allowable 5 percent cap. The number of affordable housing units in unincorporated County will increase to 1,474 with the approval of Casa Paloma and will remain under the 5 percent cap.

On June 12, 2020, a Public Notice was published in the Orange County Register advising the public of the opportunity to review and comment on the proposed development and that a public meeting was scheduled for

June 23, 2020.

**Compliance with CEQA:** This action is not a project within the meaning of CEQA Guidelines Section 15378 and is therefore not subject to CEQA, since it does not have the potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. The approval of this agenda item does not commit the County to a definite course of action in regard to a project since it is for approval of the project pursuant to Article 34 of the California Constitution, commitment of County permanent loan and 48 Housing Choice and/or Mainstream Project-Based Vouchers, subordination of the County loan to senior debt for Casa Paloma and to allow the continued support of the production of supportive housing in Orange County. This proposed activity is therefore not subject to CEQA. Any future action connected to this approval that constitutes a project will be reviewed for compliance with CEQA.

**Compliance with NEPA:** Per 24 CFR Part 58, an Environmental Assessment of the project was completion and Authority to Use Grant Funds was issued by HUD for the HOME funds and PBVs on May 21, 2020, and December 6, 2019, respectively.

**FINANCIAL IMPACT:**

Appropriations will be absorbed in BC 15G FY 2020-21 Budget, to be paid upon issuance of the Certificate of Occupancy. This loan will be funded with 100 percent HOME Investment Partnership Act in OC Housing Fund 15G. The 48 Housing Choice and/or Mainstream PBVs available to recipients is funded 100 percent by federal HUD funding and can be absorbed with existing appropriations within OC Housing Authority Fund 15F.

**STAFFING IMPACT:**

N/A

**ATTACHMENT(S):**

Attachment A - Article 34 Referendum  
Attachment B - Article 34 Statement of Votes