



## Affordable Housing Committee Staff Report

<b>AGENDA TITLE:</b>	Consideration of development partnerships on the City-owned Old Town and Sheldon Farms North sites <i>Project location – Old Town: 9220, 9230, 9240, and 9244 Elk Grove Blvd (APNs 134-0072-016, -015, -014, and -013)</i> <i>Project location – Sheldon Farms North: 8851 Bruceville Rd (APN 116-0012-070)</i>
<b>MEETING DATE:</b>	November 13, 2023
<b>PREPARED BY:</b>	Sarah Bontrager, Housing and Public Services Manager Jack Barnes, Administrative Analyst

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### **RECOMMENDED ACTION:**

Staff recommends that the Affordable Housing Committee (Committee) review information related to the Old Town and Sheldon Farms North procurement and direct staff to work with Mutual Housing California and Abode Communities on letters of intent (LOIs) committing to a partnership to develop affordable housing on City-owned property at the Old Town and Sheldon Farms North sites, respectively.

Alternatively, the Committee could choose to reevaluate the proposals received or to reject all proposals.

### **BACKGROUND INFORMATION:**

The City has an Affordable Housing Fund (AHF), which is generated by fees on new residential and non-residential development. The AHF must be used to support housing opportunities for low-income households. Since its inception, the City has used the majority of AHF funding to provide gap financing in the form of low-interest loans to affordable multifamily projects. Initially, these funds were awarded to projects on a first-come, first-served basis, and from about 2012 to 2021 were awarded via a competitive Request for Proposals (RFP) process.

In 2021, the City transitioned its affordable housing development strategy to concentrate funding on the strategic acquisition of land for affordable housing, focusing on land with potential for innovative project types. In 2021, the City also purchased four parcels in Old Town Elk Grove (9220-9244 Elk Grove Blvd, called the "Old Town site"), totaling about two acres. The same year, the City entered into an agreement to acquire a five-acre site along Bruceville Road, south of Sheldon Rd (8851 Bruceville Rd, called the "Sheldon Farms North site"), of which the City formally took possession in 2023. Currently, the City owns two additional sites designated for affordable housing, but those are not yet ready for development.

In April 2022, using a grant from the Sacramento Area Council of Governments (SACOG), the City began working with Cascadia Partners (Cascadia) to do preliminary design work on the Sheldon Farms North and Old Town sites. Over the next year, the Cascadia team put together exploratory models to estimate the sites' development potential; evaluated the viability of various funding sources; gathered feedback from City staff, affordable housing developers, and community stakeholders; and prepared an RFP incorporating feedback from the engagement efforts.

In April 2023, the City released an RFP soliciting development partners for multifamily affordable housing projects on the Sheldon Farms North and Old Town sites (Attachment 1). The RFP provided minimum criteria for proposals and insight into what a partnership would look like and how the proposals would be evaluated. Interested developers were allowed to submit proposals for one or both sites but the RFP indicated that the City would not choose the same developer for each site. The City's vision for each site was shared in the RFP:

- For the Old Town site, the City envisions affordable housing for low-income seniors that provides a more urban form than previously common in the neighborhood while also integrating Old Town's architectural aesthetic.
- For the Sheldon Farms North site, the City envisions affordable housing for low-income families that builds the City's case for a future expansion of Sacramento Regional Transit's Blue Line light rail to run adjacent to the site. Accordingly, submissions that included funding from the California Strategic Growth Council's Affordable Housing and Sustainable Communities (AHSC) Program were eligible to receive bonus points from review panelists.

While Cascadia's exploratory models included in the RFP illustrated possible, simple site designs, the RFP is clear that the City views the developer and their architect partner as the experts. Successful proposals would highlight the developer's own design and programming solutions for the site and address development feasibility, quality, competitiveness for funding, and unit density.

The RFP designated a financial commitment from the City of \$9 million over the two sites, inclusive of land value (estimated at approximately \$3 million) and direct loan funding.

### **ANALYSIS:**

The City received a total of 23 responses from 16 for-profit and nonprofit housing developers. There were 11 proposals for the Old Town site, from the developers shown below. A summary comparison of the proposals is included in Attachment 2.

- BRIDGE Housing
- Christian Church Homes
- The Danco Group
- EAH Housing
- The John Stewart Company
- McCormack Baron Salazar, Inc.
- The Michaels Organization
- Mutual Housing California
- Related California
- Retirement Housing Foundation
- Visionary Home Builders of California Inc.

For the Sheldon Farms North site, the City received 12 proposals, from the developers shown below. A summary comparison of the proposals is included in Attachment 3.

- Abode Communities
- Community Preservation Partners
- EAH Housing
- The John Stewart Company
- McCormack Baron Salazar, Inc.
- Mercy Housing California and The Pacific Companies
- The Michael's Organization
- Mutual Housing California
- Related California
- Resources for Community Development
- USA Properties Fund, Inc.
- Visionary Home Builders of California Inc.

### **Proposal Review**

Staff used a three-phase approach to review the proposals:

- *Phase 1: Responsiveness*

All the proposals received were generally responsive, though many missed one or more requested items (e.g., prior project contacts, insurance) or did not include clear and complete information on two financing strategies.

- *Phase 2: Proposal Scoring*

Four members of the City staff conducted the initial scoring of the proposals for each site, using the criteria below. A blank scoring sheet is included as Attachment 4.

- Development and operating experience (30 pts)
- Approach to partnership and realization of vision (40 pts)
- Financial capacity, winning funds, and moving quickly (30 pts)
- Inclusion of AHSC in financial plan (3 bonus pts, *only for Sheldon Farms North site*)

There were many strong proposals for each site. Those that scored particularly well had a depth of development experience with the project type (e.g., senior/family, transit-oriented, infill) for the site, a compelling vision for the site, quality resident services, a solid track record of securing funds on other projects, and two viable financing pathways.

- *Phase 3: Interviews*

Based on the staff scoring, four developers were invited to interview for the Old Town site and five developers were asked to interview for the Sheldon Farms North site. Interviewed developers are denoted within Attachments 2 and 3.

In preparation for the interviews, general and proposal-specific questions from staff and Cascadia reviewers were shared with the developers. During the interviews, developers provided further detail on financing, timeline, and capacity, community engagement strategies, any permanent supportive housing (PSH) components to their project, parking, and their flexibility on project design. Additional questions about the feasibility of AHSC and the potential of a phased development were asked of those proposing for Sheldon Farms North.

The interview panel consisted of the four City staff members who initially scored the proposals, along with two affordable housing development professionals from outside agencies (Capital Area Development Authority and the Sacramento Housing and Redevelopment Agency) and one Elk Grove community member. (Unfortunately, the community member invited for the Old Town site interviews did not participate due to an urgent matter.)

The interview panelists scored the developers using the same criteria shared above. Following the interviews, panelists met for a debrief to discuss the projects and scoring.

### **Recommended Project Partners**

The interview panel recommended moving forward with development partnerships with Mutual Housing California (Mutual Housing) for the Old Town site and Abode Communities (Abode) for the Sheldon Farms North site. The Mutual Housing proposal and interview presentation are included as Attachment 5. The Abode proposal and interview presentation are included as Attachment 6.

#### *Mutual Housing*

Mutual Housing proposed an 89-unit senior housing project in the form of a three-story elevator building oriented around multiple courtyards. A mix of studio, one-bedroom, and two-bedroom units will serve seniors earning between 30% and 70% of the area median income. Mutual's loan funding request of the City is \$3 million, inclusive of land value. (See Fiscal Impact section for more information.)

Overall, Mutual Housing scored better than other interviewed developers in the development and operating experience and financial capacity, winning funds, and moving quickly categories. Some strengths of the Mutual Housing proposal include the following:

- Mutual Housing is a well-established local nonprofit affordable housing developer. Their architect and general contractor are also locally-based, and the three companies have worked successfully on several sites.
- Resident services are provided in-house at Mutual Housing's projects, in coordination with a resident council. Services exceed the minimum requirements set by other funding sources.
- Mutual Housing submitted a strong financing plan. They have a history of pursuing—and winning—less traditional funding sources. For this project, their financing Plan A includes \$3M from the California Housing Finance Agency's Mixed Income Program (MIP), which, if awarded, expedites the award of tax credits to a project.
- The project's expected cost was the lowest of all proposals, and Mutual Housing's team indicated in their interview that coming back to local partners for additional gap funding later in the development timeline is not common.
- Mutual Housing acknowledged the importance of community engagement efforts in their interview, something staff sees as essential for this site. They provided some compelling examples of engagement efforts on their previous projects and indicated significant flexibility in site planning and design for this project based on community feedback.

Though they were the strongest proposer overall, Mutual Housing scored lower than other interviewed developers on their approach to partnership and vision. The interview panel had some concerns about the location of parking on site and wanted to see more building frontage along Elk Grove Blvd. However, site design is an iterative process and Mutual Housing indicated an openness to working closely with the City and the surrounding community to revise the project design.

#### *Abode*

Abode proposed a 240-unit family project comprised of seven buildings. The buildings would be oriented towards outdoor amenities and would be denser (four stories) close to Bruceville and step down in density to two or three stories close to the single-family homes to the east of the site. The one-, two-, and three-bedroom units would serve households earning 30% to 80% of the area median income. Abode's funding request of the City is \$5.9 million, inclusive of land value.

Overall, Abode scored better than other interviewed developers in the approach to partnership and vision and financial capacity, winning funds, and moving quickly categories. Some strengths of the Abode proposal include the following:

- The overall project design realized many of the desired aspects described in the RFP. Dynamic façade articulation and a transition from four- to two-story buildings delivers on the City's requested urban form while avoiding abrupt contrast with the single-family detached houses to the site's east.
- Abode's architect partner has a collaborative spirit and an impressive history of designing useful outdoor spaces and incorporating natural elements into their projects. Their team includes two staff with Elk Grove roots and who were familiar with the site and the trail to the south.
- The project's proposed 240 units was the highest of all the proposals received.
- Abode shared a solid community engagement strategy both pre- and post-build, including around managing parking spillover. They provided a specific example of community engagement efforts resulting in real project changes.
- Abode presented three financing pathways and a well-considered rationale around AHSC funding. Their entitlement and funding application timeframe was realistic and included ample time to conduct community engagement.

While Abode was strong in all categories, there are aspects of their vision and site plan that the interview panel hoped would be addressed in the design process, namely the parking ratio and location and increasing the amount of frontage on Bruceville. Staff expects to work collaboratively with Abode on a design that addresses those challenges.

### **Recommendation and Next Steps**

Staff recommends that the Affordable Housing Committee (Committee) review information related to the Old Town and Sheldon Farms North procurement and direct staff to work with Mutual Housing and Abode on LOIs committing to a partnership to develop affordable housing on City-owned property at the Old Town and Sheldon Farms North sites, respectively. If the Committee recommends that staff work with the two developers on LOIs, the LOIs would be presented to the City Council for approval in December or January.

The LOI for each site would outline high-level project details (such as number of units and affordability levels), proposed financial terms, timing and milestones, and other relevant terms and conditions. During the LOI period, each developer will prepare and submit an entitlement application to the City's Development Services Department. They will firm up financial projections and sources and submit applications for loans from the City's Affordable Housing Fund, which will be reviewed by staff and the Committee. At this stage, the City will continue to have sole discretion on whether to accept the loan applications and choose to move forward with project funding and transfer of the properties.

The LOI approach is a flexible exploratory alternative as opposed to the firm loan commitment structure that the City has used for prior projects. It provides flexibility to end a partnership if the City and developer cannot agree on a singular vision or design, or if either party fails to meet partnership expectations. The LOI also allows flexibility for changes to the project to meet the City's vision or to maximize funding competitiveness.

### **ENVIRONMENTAL ANALYSIS:**

The Committee's action only directs staff negotiations for two letters of intent and will not cause a direct physical change in the environment. The Committee's action does not constitute approval of any project or approval of any loan or transfer of any property. The City does not currently have sufficient information concerning either project's design to assess the reasonably foreseeable environmental effects of any future housing project. The Committee's action, therefore, does not constitute the approval of a project under the California Environmental Quality Act ("CEQA"), and it is exempt from CEQA. (Pub. Res. Code §21065; State CEQA Guidelines §§15060(c),(2)(3); 15061(b)(3); 15064(d)(3); 15352; 15378; Laurel Heights Improvement Association of San Francisco, Inc. v. The Regents of the University of California, 47 Cal.3d 376, 398 (1988))

### **FISCAL IMPACT:**

Mutual Housing would need City funding in the amount of \$3 million and Abode would need an estimated \$5.9 million. Both amounts are inclusive of land value. To expand he City already owns the Sheldon Farms North and Old Town sites, which are estimated to be worth approximately \$3 million in total. Therefore, the net outlay of cash funding from the Affordable Housing Fund would be approximately \$5.9 million (\$8.9 million in total request less the \$3 million estimated land value). The AHF currently has more than \$5.9 million in its fund balance, even after accounting for existing commitments to The Lyla (about \$6 million) and Cornerstone Village (about \$5.4 million).

The exact structure of funding would be determined in further conversations with the developers, based on maximizing funding competitiveness. The land transfer could take the form of a market-rate land sale (paid for by the loan from the City), a below market-rate land transfer, or a long-term ground lease. The land transfer strategy will comply with the Surplus Land Act.

During the LOI period, Mutual Housing and Abode will continue evaluating various funding options, and the City will make a formal commitment to fund the projects after a loan application is filed. The more detailed

analysis of the loan application and underwriting stage of the process will provide a greater understanding of fiscal impact, including actual loan amounts and repayment schedules. Typically, loan funding is not provided until all financing is secured, and in many cases until certain construction milestones are met. Therefore, the City is unlikely to disburse any funding until 2025 at the earliest.

**ATTACHMENTS:**

1. Request for Proposals
2. Old Town Project Comparison Sheet
3. Sheldon Farms North Project Comparison Sheet
4. Scoring Templates
5. Proposal and Interview Presentation - Mutual Housing California – Old Town
6. Proposal and Interview Presentation - Abode Communities – Sheldon Farms North