

**Board Report**

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Agenda Number:45.

**EXECUTIVE MANAGEMENT COMMITTEE
AUGUST 18, 2016**

SUBJECT: METRO'S INVOLVEMENT IN AFFORDABLE HOUSING

**ACTION: AUTHORIZE INVESTMENT IN HOUSING AND SMALL BUSINESS TRANSIT
ORIENTED COMMUNITIES LOAN PROGRAMS**

RECOMMENDATION

AUTHORIZE:

- A. investing \$9,000,000 in the **Metro Affordable Transit Connected Housing Program (Metro MATCH) as described in the Metro MATCH Investment Plan** and \$1,000,000 in a Transit Oriented Community (TOC) Small Business Program to be managed by the Community Development Commission of Los Angeles County (CDC) by establishing a \$10,000,000 Life-of-project budget as empowered by the Board's September 2015 motion (Attachment A);
- B. the CEO or his designee to execute necessary agreements in support of Metro MATCH investment and with the CDC in support of the TOC Small Business Program.

ISSUE

In September 2015, the Metro Board of Directors approved a motion (Attachment A) directing staff to take several actions in support of investing \$10,000,000 in transit oriented affordable housing and small business loan programs including the allocation of \$2,000,000 per year for 5 years. As directed by the Board, staff has worked with a consortium led by the California Community Foundation (CCF) and the Low Income Investment Fund (LIIF) and including Enterprise Community Partners (ECP) to negotiate terms and conditions for investing in Metro Affordable Transit Connected Housing Program (Metro MATCH), focused on funding affordable housing preservation and new development. In addition, Staff has identified the Community Development Commission of the County of Los Angeles (CDC) as a partner to implement a Transit Oriented Communities (TOC) Small Business Program. In the course of these negotiations, staff has identified some changes needed to the funding account and timeline previously recommended to the Board. The recommended actions will allow Metro to invest funding for these programs and to execute the agreements necessary to implement the programs. In addition, an update is provided on efforts to execute Memoranda of Understanding with municipalities to coordinate on the development of affordable housing.

DISCUSSION

Metro Affordable Transit Connected Housing Program (Metro MATCH)

As directed in the September motion, staff has worked with CCF, LIIF and ECP (Housing Consortium) to negotiate a structure for Metro MATCH, which was submitted in draft form to the Board in January 2016. Since then, the Housing Consortium has developed a more detailed investment plan for Metro MATCH, included as Attachment B, which is generally consistent with the structure submitted in January. The investment plan is summarized herein. Staff is recommending Metro to invest \$9,000,000 over three years, and an additional \$120,000 in start-up costs. The reduction from \$10,000,000 to \$9,000,000 is to allow sufficient funding for the Small Business Loan Program.

The aim of Metro MATCH is to stabilize neighborhoods served by Metro transit investments and experiencing rising housing prices and rents, resulting in potential displacement of low-income households. This potential displacement impacts households most likely to use public transit. The program will assist by creating new affordable housing projects and preserving existing, naturally-occurring lower-rent housing threatened by increasing land values and rents with then goal of expanding the number of affordable housing units at these sites. This would be achieved through two program segments:

- *Predevelopment Loan (approximately 25% of program)* - developing approximately 800 units. This program will provide predevelopment financing for experienced borrowers that have projects with evidence of site control and an achievable strategy and schedule for project financing and implementation. A key goal of this program segment is to create a strong pipeline of transactions to compete for available affordable housing construction and permanent funding, with projects in construction within 2-3 years of the predevelopment loan closing.
- *Housing+Transportation Loan (H+T Loan) (approximately 75% of program)* - preserving 500 units initially and expanding to 1500 units, or 2,250 units if the program revolves 1.5 times. This program will provide financing to assist with the costs associated with affordable housing development beyond what is typically available from community lending institutions. In the short term, the program will preserve naturally occurring lower cost housing near transit; non-restricted housing at rents lower than average market rents that are held stable only temporarily by market forces and rent stabilization ordinances. These units are at risk of becoming unaffordable as market prices rise and properties begin to flip. The H+T Loan program will help affordable housing developers purchase multifamily properties in advance of gentrification and displacement forces. In the mid-term, the goal is to redevelop the sites with permanent, covenanted affordable housing at a higher (but appropriate) density than currently exists.

Both program segments would be administered through the investment plan detailed in Attachment B, and summarized below.

Administrative Structure

The Housing Consortium is creating a Single Purpose Entity (SPE) that will administer the Metro MATCH Program. The SPE will be formed and constituted by three to five Community Development Financial Institutions (CDFIs) that meet the qualifications of originating CDFIs described below. The selection of participating lenders will be made by the SPE members as well as Metro staff and the Housing Consortium. Metro has been invited to invest in Metro MATCH through the SPE. The SPE will contract with an administrative agent who will manage the day to day administration of the Program and report to the investors, including Metro.

Participating Originating Lenders and Foundation Funding

CDFIs from across Los Angeles County will be invited to participate in the loan fund. All originating lenders will be required to be nonprofit CDFIs with at least ten years of experience in the Los Angeles County region, with originations of at least \$50 million in multifamily affordable lending, acquisition and predevelopment financing. The fund is expected to raise \$36 - \$66 million in originating loan funds. In addition to CDFI lenders and Metro, the fund is targeting \$11 million in philanthropic Program Related Income (PRI) from foundations which could increase to \$15 million.

Leveraging and Risk Allocation of Funds

Metro's \$9 million investment will be leveraged with the foundation and CDFI funding, creating a total fund estimated to range from \$56 - \$86 million. The investment plan assumes a portion of Metro's funds would be the most at risk, followed by the foundations and then the CDFI funds. To the extent that there is gain from the fund, Metro will receive the first return on investment. The interest rate earned by Metro investment would be 1% net of administrative costs and other fees. The loans are meant to be revolving such that repayment of principal and interest to foundations and Metro would be reinvested back into the fund for additional investments.

Eligibility 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. The criteria requires that projects be: (a) within a ½ mile of fixed-guideway stations and/or the intersection of two 15 minute max frequency peak period buses (of any bus operator), also known as a "High Quality Transit Node;" (b) have a safe path of travel to transit; and (c) have a minimum unit size of 49 units for the Predevelopment segment and/or 20 existing units that will be at least doubled for the preservation segment.

Advisory Committee

Staff is developing the framework for an advisory committee to the manager of the loan fund to advise on such topics as outreach to potential borrowers, geographic distribution, performance goals and metrics and similar matters. Staff will report to the Board on the proposed structure and function of the advisory committee.

Metro Investment

The program structure recommends that Metro invest \$3,000,000 per year over the next 3 fiscal years. This is at variance with the original direction of the September 2015 motion where \$2,000,000 per year for 5 years was proposed. This approach will better attract seed funding in sufficient amounts matched by the foundations to maximize the CDFI capital and support a more efficient loan program.

Transit Oriented Communities (TOC) Small Business Program

The September 2015 Board motion allocated \$500,000 for the creation of a small business loan program. Staff conducted research and informational interviews with non-profit and municipal entities to determine the most effective structure for such a program, and determined that there was no interest by small business loan administrators due to the relatively high administrative costs of such programs compared with the proposed funding. Based on this research, staff has worked with the Community Development Commission of the County of Los Angeles (CDC) to develop a small business loan program assuming an additional \$500,000 could be allocated to create a \$1,000,000 TOC Small Business Program. The program targets tenant improvements to ground floor retail spaces in Metro Joint Development Projects or other affordable housing developments and/or buildings within 500 feet of a High Quality Transit Node. The terms are included as Attachment C and summarized below.

Basic Conditions

- Loans up to \$100,000
- Local businesses with at least 3 years of cash flow
- Tenants would have a 3 year lease with an option to extend to 5 years, which would run the length of the loan
- Developments/existing buildings within 500 feet of High Quality Transit Node
- Geographic distribution across the County
- CDC will provide door to door outreach to small businesses in targeted geographies

Loan Targets

Loans to developers of new or existing affordable projects or other existing property owners adjacent to high-volume transit locations to support tenant improvements of ground floor retail space

- Low-interest loan to developers of new project or owners of buildings with vacant ground floor retail spaces with a priority to affordable housing projects and businesses near transit centers
- Targeted to affordable housing projects or other development/tenanting situations where conventional financing of such tenant improvements is unlikely
- Require property owner to pass on savings to small business tenants through reduced rent payments or flexible lease terms

Metro Investment

This program would require an additional \$500,000 dollar contribution by Metro above that authorized by the Board to create a total of a \$1,000,000 program. The additional \$500,000 is proposed to be allocated from the \$10,000,000 set aside by the Board for the transit oriented communities loan programs in March 2015. The initial \$500,000 was included in the proposed FY2017 budget for this program, and this is sufficient to implement the first year of program funding. Staff will seek the additional funding in FY18.

Memoranda of Understanding (MOUs) with Municipalities

Metro has executed a Memorandum of Understanding with the City of Los Angeles codifying our mutual interest in prioritizing affordable housing funding near transit, and committing to working together to that end. Staff will use this MOU as a model to engage with other interested municipalities.

DETERMINATION OF SAFETY IMPACT

The creation of the proposed Metro MATCH and TOC Small Business Program funds will have no direct impact on safety. The eventual development of transit oriented affordable housing and support of small businesses adjacent to transit stations will offer opportunities to improve safety for transit riders, through better pedestrian and bicycle connections associated with new development.

FINANCIAL IMPACT

Funding in the amount of \$1,500,000 for the Metro MATCH program, including start-up costs, is included in the adopted FY17 budget under cost center 2210, project 610025. Funding in the amount of \$50,000 for start-up costs related to both Metro MATCH and TOC Small Business Programs is included in the adopted FY17 budget under cost centers 2210 and 1210, project 610021.

Since this is a multi year program, the Executive Director of Planning, Project Manager and Cost Center Manager will be responsible and accountable for budgeting funds in future fiscal years.

Impact to Budget

The source of funds for Metro MATCH and TOC Small Business Program investments is General Funds which are eligible for bus/rail operating and capital expenses. Investment in the loan programs and authorization to enter into the necessary agreements may affect future funding of operations and/or capital projects/programs as it is the most flexible fund available to support various projects and programs. No other funds were eligible for consideration.

ALTERNATIVES CONSIDERED

The Board could choose not to invest in the loan programs and structures recommended in this report. This is not recommended because (1) both funds are in direct response to prior Board direction (2) Metro MATCH provides Metro with an opportunity to invest in affordable housing through a consortium of experienced loan administrators and (3) the proposed TOC Small Business Program was developed after extensive industry research and will be administered by an experienced municipal team that works countywide and provides direct, on the ground outreach to small businesses. The Board could choose not to invest in any loan program at all. This is not recommended because the decision to make this investment was based on research and stakeholder feedback that transit investments can contribute to displacement of low-income residents and businesses, and Metro is committed to addressing this issue with innovative solutions.

NEXT STEPS

Upon approval by the Board, staff will enter into the appropriate agreements with the to-be-formed

SPE to invest in Metro MATCH, and enter into the appropriate agreements with the CDC to implement the TOC Small Business Program.

ATTACHMENTS

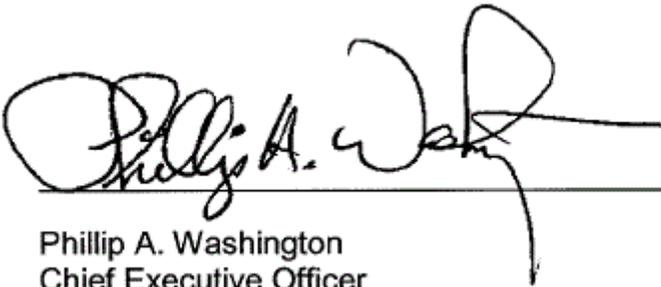
Attachment A - Metro Board of Directors Motion, File #2015-1479, September 27, 2015

Attachment B - Metro MATCH Investment Plan

Attachment C - TOC Small Business Program Terms

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