

To: ABAG Executive Board

From: Clarke J. Howatt, ABAG Public Finance Director
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Date: 2 January 2013

Re: ABAG Financial Services • ABAG Finance Authority for Nonprofit Corporations •
Affordable Housing Financing Program Highlights

Summary

At the January 2013 Meeting of the ABAG Executive Board, ABAG Staff is scheduled to present information concerning the Agency's Financial Services Program that has to date provided more than \$8 Billion in capital financing on behalf of its membership. The presentation will focus on the activities of the ABAG Finance Authority for Nonprofit Corporations; highlighting the Authority's highly successful program for financing affordable multi-family housing with case studies of two capital project financings completed on behalf of the City and County of San Francisco. This memorandum provides background for that presentation.

ABAG Financial Services

The nationally award winning ABAG Financial Services Program is unique among councils of governments, offering an unparalleled level of financial services to its members. In these critical times of limited room in state and local budget, the program brings together a range of public agencies and private organizations to maximize resources, and opens up the municipal bond market and other financing opportunities, providing better access to capital at low interest rates. This innovative program offers ABAG members an opportunity to save considerably on public financing costs for their own needs and provides expertise and turnkey assistance when ABAG members want to serve non-profits and other qualifying organizations in their own jurisdictions.

These activities include:

ABAG Credit Pooling ABAG's longest running financial services program. To date, 46 credit pools have funded more than 120 projects totaling more than \$300 million. This program is important because public entities often need to fund acquisitions or small projects where costs are not high enough to make stand-alone public financing cost effective. The Credit Pooling Program consolidates the capital funding needs of participating municipal borrowers so that transaction costs and market interest rates are significantly lowered for all borrowers.

ABAG Leasing, started in 1996 to offer the lowest possible market lease rates, professional management, and fair terms to cities, counties, and school districts. The program is designed to provide public agencies with a simple and cost-effective means of financing or refinancing equipment and facilities. Each lease transaction is competitively bid, either individually or on a pooled basis, providing the public agency the lowest possible interest rate from the several companies responding.

The *ABAG Special Assessment Bond Roundup Program (SABR)* offers an efficient and inexpensive way for local government agencies and developers working with those agencies to issue Special Assessment and Mello-Roos Bonds. SABR pools lower the cost of issuance for participants while allowing for customized terms and conditions. To date, ABAG has provided more than \$260 million in SABR issuances.

The *ABAG Finance Authority for Nonprofit Corporations (the "Authority")* provides economical conduit financing to nonprofit organizations and other borrowers serving the public in the areas of health and social services, affordable housing, and education. The Authority simplifies the debt issuance process of both the borrower and the jurisdiction in which the borrower is located by issuing conduit tax-exempt bonds. All financings are coordinated with the Authority member in whose jurisdiction the project is located. Projects financed by the Authority have involved facility acquisition and rehabilitation, equipment acquisition, and new construction. Borrowers include both nonprofit entities such as hospitals, schools, California 501(c)(3) nonprofit housing developers, as well as for-profit entities such as tax credit partnerships. The flexibility of working with the Authority and its low-cost structure allows borrowers efficient and economical access to the tax-exempt bond market. To date the Authority has provided more than \$6.45 billion in low cost capital financing on behalf of its member jurisdictions.

ABAG Finance Authority Multifamily Housing Bond Program

An important component of the Authority's work, its *Multifamily Housing Bond Program* has, to date, provided more than a billion dollars in capital financing to either build or preserve more than 12,000 units in nearly one hundred mixed-use, mixed-income, multifamily housing projects – each with an affordable component.

The need for affordable housing in the Bay Area remains a pressing concern. For many working class people, a residence within reasonable commuting distance of work is still a financial impossibility. This well documented concern -- directly related to many of the other current challenges facing local policymakers and planners: employment growth, land use, and transportation issues to name only a few -- is often at the forefront of the ABAG discussion. In a recent survey of ABAG's Membership, affordability and location of housing was marked as the number one issue of concern.

Legislation has also renewed ABAG's obligation to calculate and disseminate affordable housing needs determination for its Members. Although this task carries with it some controversy for the Agency, ABAG maintains a long-standing, overarching commitment to policy supporting affordable housing.

In an effort to complement ABAG's housing policy and planning efforts, the ABAG Finance Authority's housing finance program offers a practical tool for local governments dealing with the increasing shortage of affordable housing in their own jurisdictions. The program seeks to

provide low-cost financing for smaller urban projects and an efficient, competitive lending vehicle for larger developments.

Providing conduit bond financing for the acquisition, construction and rehabilitation of multifamily and senior housing, the program offers assistance in overcoming the many obstacles to completing projects that serve the working class and other less fortunate families in our communities. The flexibility of working with the Authority and its low-cost structure allows borrowers efficient and economical access to the tax-exempt bond market. At the same time, the Authority's program preserves the accountability of developments to local government, since all multifamily financing projects issued through the Authority must carry the sponsorship of a local jurisdiction that is also an Authority Member.

Basis for Tax-Exemption and Regulation of Affordability

Federal tax code and state housing regulation allow both nonprofit entities (California 501(c)(3) housing developers) as well as various for-profit entities to borrow in the tax-exempt housing bond market. Both types of owners must develop projects that demonstrate public benefit by either preserving or providing new affordable housing stock. A 501(c)(3) borrower must provide housing facilities consistent with its nonprofit mission. The relatively complex restrictions governing non-501(c)(3)-owned projects (usually structured as partnerships in order to accommodate tax-incentivized equity investment: please see the discussion below under "Project Ownership and Financing Structures"), require that to qualify for 100% tax-exempt bond financing, a new acquisition or construction project must reserve at least 40% of its units for low income residents or reserve at least 20% of its units for very low income residents. The rents for the restricted units must also be limited to affordable levels.

Although some of the for-profit partnership-owned projects financed through the Authority have been structured at or around the above minimums, many of these projects have reserved all or nearly all their units in permanent affordable status. As stated above, to qualify for tax-exempt financing, projects must meet specific federal and state regulatory minimum thresholds for affordability. Moreover, every multi-family housing project financed through the Authority (unlike many projects financed through other conduit issuers in California) is subject to the input and regulation of the local jurisdiction (Authority Member) sponsoring the project.

In order to serve the diverse preferences of its individual Member jurisdictions, the Authority sets no additional affordability thresholds above statutory minimums. As with decisions concerning land use and project design, the Authority defers to its local Member jurisdiction that is sponsoring the project if the jurisdiction desires to impose additional requirements on the project. While in certain situations sponsoring jurisdictions may impose above-minimum restrictions, in fact, the policies of many Authority member jurisdictions direct development toward mixed use/mixed resident income levels rather than toward development of neighborhoods with concentrated very low-income residents. Nearly all of the projects financed through the Authority include one or more non-housing components (mixed-use) such as retail, commercial, or community space.

Project Ownership and Financing Structures

The typical applicant for multi-family housing financing through the Authority is a single purpose partnership sponsored by either a nonprofit developer or a non-exempt developer together with a nonprofit partner acting as General Partners. Generally, but not in all cases, the General

Partner(s) will take on a limited partner for tax-credit equity investment (so called 4% tax credits) which can provide for up to about 30% of the cost basis of an affordable apartments project. Many projects also rely on additional equity investment by the developer and/or additional sources of capital such as grants and loans from local jurisdiction(s).

Partnering with the State of California

Under State Regulations and the Federal Tax Code, if an affordable housing project is to be allocated the rights to tax-credits for investment equity, it is precluded from issuing tax-exempt debt other than Private Activity Bonds, the interest on which is subject to the Federal Alternative Minimum Tax. Federal law has also set a cap for each state on the amount of allocation that can be granted for Private Activity Bonds. In California, Private Activity Bond allocation (restricted by the State's per capita limit) is awarded by the California Debt Limit Allocation Committee ("CDLAC"). CDLAC allocates to bond issuers, so the Authority actually applies for and is granted such allocations on behalf of developers (financing applicants). Unlike in the highly competitive "9%" federal tax credit program (which prohibits co-use of tax-exempt bonds) which may supply a majority of project costs through tax-credit equity investment, the rights to 4% tax credits are received automatically if a project receives a bond allocation from CDLAC. It is important to note that in Authority Financings CDLAC Private Activity Bond allocation is not applied for nor is it awarded on behalf of local jurisdictions, nor are CDLAC's bond allocations capped at the local jurisdictional level. The Authority becomes a party to a Bond Regulatory Agreement in connection with each application it submits to CDLAC and receives bond allocation. This agreement, between the Authority (as bond issuer) and the developer, binds the parties to the commitments to low and/or very low income tenants made in the CDLAC application that resulted in an allocation.

Recent Federal Support

The Authority, along with all other local housing finance agencies ("HFAs"), experience significant challenges during the course of the housing downturn of the last few years. The downturn compromised the ability to continue HFAs' established role in providing affordable housing resources for working families. To stabilize the U.S. housing market, the Obama Administration sponsored an initiative for state and local HFAs to help with mortgage rate reduction and provide families with access to affordable rental housing and homeownership. Using authority provided to the Treasury Department under the Housing and Economic Recovery Act, the initiative offered the Multifamily New Bond Issuance program (the "HFA Program"). The HFA Program afforded otherwise unavailable access to capital for new development and helped reduce borrowing costs through direct federal government purchase of housing bonds at interest rates more favorable than HFAs might achieve in the private market.

The Authority submitted an application and received allocation for participation in two phases of the HFA Program. In the first phase the Authority was one of only nine agencies nationwide to close a loan using the new Program. In the Treasury's more successful second phase, the Authority and was one of only four California agencies to receive and close with Program allocation. About the same time details of this Program were being made public, the Authority received applications from a San Francisco-based developer for two mixed income, mixed use, transit oriented developments that were to run on a concurrent financing timeframe. Furthermore, the financing terms for both proposals qualified under the Program's parameters. These two projects are highlighted below.

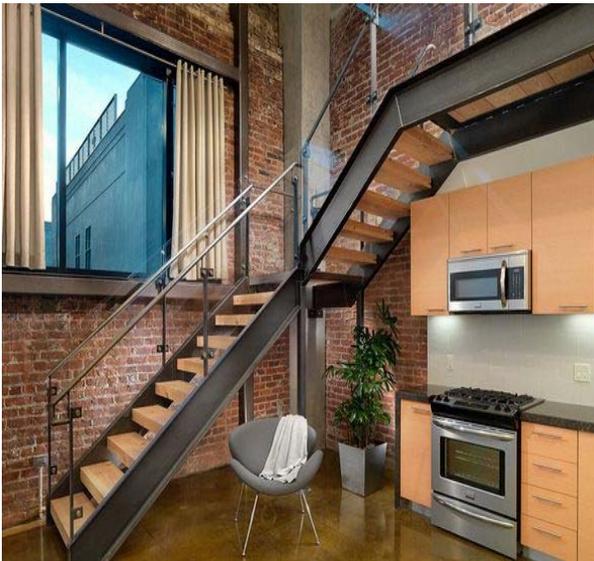
Arc Light Co. Apartments

Arc Light Co. Apartments (“Arc Light”) is a 94-unit multifamily development located at the northeast corner of Townsend Street and Clarence Place (between Second and Third) one block from the Ballpark in the South Beach Neighborhood of the City and County of San Francisco. The project site is the former California Electric Light Company Station B building, a 22,000 square foot brick faced commercial structure built in 1888 and now listed as a “Contributory Building” in the City’s South End Historic District.



The Arc Light project preserved the majority of the existing historic building exterior and now provides 12 studio apartments, 43 one-bedroom, 38 two-plus bedrooms, 1 three-bedroom unit (approximately 71,484 square feet of floor area), underground storage for up to 46 vehicles, and roughly 4,000 square feet of ground floor retail/restaurant space within and above the existing brick walls of the historic building. Twenty percent of the units are rented to qualified residents at restricted rents. The new five-story concrete structure is set back approximately 40 feet from the Townsend Street façade to diminish Arc Light’s visual impact on

the neighborhood. The style of the new addition is contemporary in design and utilizes modern and visually “light” materials that differentiate the new construction from the old portions of the existing building.



The multi-award winning Arc Light project includes many sustainable features: a 40kw rooftop solar PV system; 5,500 square feet of usable green open space (two roof decks, two interior courtyards, private outdoor balconies); environmentally conscious products; high efficiency appliances, fixtures and fittings, including flow restrictors on all faucets; Energy Star Qualified appliances, and energy-efficient lighting, windows, and water heating systems. This level of high quality construction resulted in Arc Light becoming San Francisco's first LEED For Homes Mid-rise Gold certified residential project. *LEED certification provides independent, third-party verification that a building project meets the highest green building and performance measures, and the Gold Certification is the highest recognition level of these standards.* Indeed, approximately \$483,000 in solar tax credits and grants were secured by the developer

for the Arc Light project. Additional sources of funds for construction of Arc Light include a California Department of Housing and Community Development (“HCD”) Infill Infrastructure (Proposition 1C) grant in the amount of \$3,561,360. The Authority issued \$32,462,900 in tax-exempt bond financing for the Arc Light project.

Potrero Launch Apartments

Potrero Launch Apartments, located on Third Street between 19th and 20th Streets in the City of San Francisco, is a new development of three new mixed-use buildings tied into the preservation and renovation of two existing historic masonry buildings. The housing development encompasses 255,000 total square feet and includes 196 residential units—35 studio apartments, 82 one-bedroom, and 79 two-bedroom units. Approximately twenty percent (39) of the units are reserved for qualified residents and offered at restricted rents so as to be affordable to families not earning in excess of 50% of the San Francisco County median income adjusted for household size. The development also consists of approximately 17,000 square feet of ground floor retail including a neighborhood-serving grocery store and 2,400 square feet of on-site day care for the neighborhood. Additional features include a landscaped rooftop with a sun deck, custom spa and grilling area, an ultra-modern social lounge, and a fitness center with adjoining yoga studio, and open-air Zen garden. The community also has access to a below-grade garage with approximately 157 parking spaces (37 independently accessed and 120 stacked), 57 bicycle spaces, one City Carshare space and two off-street loading spaces. Public transportation is also easily accessible, as the new Muni Third Street Light Rail Station is immediately adjacent to the project at 20th Street.



The Potrero Launch developer was instrumental in launching the GreenTrust. The GreenTrust is San Francisco’s first non-profit, neighborhood-based open space trust fund. Its purpose is to promote the maintenance and expansion of green spaces in the Central Waterfront beginning with the development of a strategic “Greenprint” plan that would provide a detailed baseline conditions analysis, open space/greening projects analysis, and financial tools for funding neighborhood greening efforts within the context of the Draft Central Waterfront Plan. Also a component of the Potrero Launch community is approximately 11,500 square feet in usable open space in

the form of: a large internal landscaped courtyard, a shared roof-top open space, private terraces and balconies; and, several new publicly accessible “pocket plazas” along the Third Street frontage.

The Potrero Launch is a LEEDTM Gold-Certified green residential project that has many sustainable building elements, including the following sample list: flow restrictors on all faucets; photovoltaic panels; material for all cabinets and countertops free of added formaldehyde; high efficient heating system; fully commissioned building systems, and water efficient landscaping.

The Authority issued \$58,385,000 in Multifamily Housing Revenue Bonds for the construction funding of Potrero Launch in December 2010. Additional sources of funds included \$810,790 in solar tax credits and a



California Department of Housing and Community Development (“HCD”) Infill Infrastructure (Proposition 1C) grant in the amount of \$7,378,080. Potrero Launch was given the 2010 San Francisco Business Times Real Estate Deals of the Year Award, in part because of its contribution to increase housing and business activity in the city during an economically challenging time when very few housing projects were getting done.