

Rental Incentive Bond Program

October 24, 2023

Work Session

Jennifer Mikelson, Housing Planning Manager





Purpose of Presentation



The purpose of today's presentation is to get feedback from City Council on the draft Rental Incentive Bond Program.

Prop 442 –
approved Nov. 2022

*“Creating rental and
homeownership
opportunities for
residents of Flagstaff”
(\$20,000,000)*



- Redevelop City-owned housing to create additional rental units - \$5M
- Repurpose existing buildings into rental units -\$3M
- **Incentivize private sector to incorporate affordable rental units - \$5M**
- Expand the Homebuyer Assistance Program -\$7M



Context for Program Creation



- **Flagstaff is first in Arizona to undertake activities other than infrastructure/construction with GO bonds**
- **This requires research and due diligence to ensure success**

Guiding Principles

- 1. Make funds available to for-profit and non-profit developers**
- 2. Incorporate affordable units into new development**
- 3. Leverage other funding sources**



Incentivize private sector to incorporate affordable rental units -

“Funding will be utilized to incentivize private developers, including non-profits, to incorporate affordable rental units in market rate developments. This investment is anticipated to create an estimated 400-500 new rental units affordable to the residents of Flagstaff, in addition to the market rate units in the new developments.”

(From Voter Informational Pamphlet)



Role of the Housing Commission

Ordinance 2019-25

“The Housing Commission shall:

*Examine funding sources available for housing in Flagstaff, make recommendations to City Council on potential funding sources, including bond measures, and **provide oversight of any funds approved by the electorate for housing purposes.**”*

- **Housing Commission’s role is to review and make recommendations**
- **City Council has ultimate authority regarding bond funds**



Program Creation and Administration

Incentivizing the private sector to incorporate affordable rental housing into new developments (\$5 million)

Prior to May 2023

- Research / Legal / Procurement / Finance



Working Group

Haley Zoroya

Developer

Sean Slawson

Builder

Devonna McLaughlin

Low-Income Housing Expert

Jacquie Kellogg

Realtor/Property Manager

Rebecca Pryz

Building/Real Estate Professional



Process Recap:

- Working group formed 5/25/23
- June, July and August meetings to develop framework
- Draft program reviewed 8/28/23
- Legal review starting 8/30/23
- Housing Commission recommendation 9/28/23



Rental Incentive Bond Program

Working Group Priorities -

- \$5M in bond funding available at once
- Competitive application process
- Funds provided as loans with forgivable option
- Program requirements are broad, inclusive, and as flexible as possible
 - Support the delivery of both market rate and affordable units
 - Allow for projects at various stages of the development process



Program Description

Incentivize private sector to incorporate affordable rental units via a competitive application process

- Expenditure of program funds is limited to costs directly incurred by the developer in pre-development and construction costs of affordable rental housing development
- Applications that meet the minimum threshold criteria are not guaranteed an award of funds
- Successful applications may be funded for less than the amount requested



Project Eligibility

Eligible Uses

- Any and all costs relating to the development of affordable rental housing that will remain affordable to low-income households earning up to 80% of the Area Median Income (AMI), including the costs of designing, engineering, acquiring, administering, improving, constructing, reconstructing, and equipping such projects and any and all appurtenances or land related thereto.

Ineligible Uses

- Renovation, preservation, or rehabilitation of existing affordable or market rate units.



Project Eligibility – cont'd

Eligible Applicants

- A corporation (including non-profits), limited partnership, limited liability company, unit of local government, tribe, or tribally designated housing entity.
- Applicants with existing affordable housing commitments with the City of Flagstaff.
- Applicants that have benefitted from other city incentive programs.
- Applicants with overdue debts to the City or have received other City-administered grant funds must be in good standing prior to receipt of funding.



Project Eligibility – cont'd



Affordability Period

- Minimum required affordability period is 30 years, additional option for up to 50 years.
- The affordability period shall be sustained regardless of any transfer of ownership.



Submittal Requirements

Min. Threshold Criteria

- Rental project serving max 80% AMI within city limits
- Minimum 10% affordable
- Complete responses to application questions
- Project meets eligible uses, proof of site control

Application Submittal Criteria

- **Developer experience**
- **Project readiness**
- **Financial feasibility**



Award Process



- Housing staff reviews applications for program eligibility.
- Ranking Committee reviews and conducts cost/benefit analysis and provides funding recommendations to Council.
- Council approves funding.
- Letters of award provided.
- Individual contracts go to Council for approval.



Ranking Committee



Membership:

- 4 – 7 people
- Limited staff
- Housing Commissioners
- Other industry professionals as needed
- Ensuring no conflicts of interest

Ranking Committee's Role:

- Reviews applications
- Makes tiered funding recommendations
- Forwards recommendations to Council for final approval



Evaluation Criteria

- Conduct a cost-benefit analysis for each application looking at total community benefit including the provision of affordable and market-rate units
- Credit given for:
 - Experience
 - Project readiness
 - Funding sources leveraged



Loan Terms and Compliance

- Funding provided as loan secured against the property
 - No interest, no payment during 30-year term
 - After 30-year term, loan may be forgiven on a pro-rata basis over next 20 years with extended affordability
 - Loan will be completely forgiven and released after 50 years of affordability compliance
- Loans due and payable immediately if affordable units are not provided in accordance with contract
- Progress reports required during construction
- Annual monitoring and compliance reporting for life of loan



Suggestions for Consideration

- Incentivizing 50-year affordability period (Housing Commission Suggestion)
 - Loans with interest but no payment for 30 years?
 - Interest due and payable at 30 years?
 - Interest and loan forgiven at 50 years?
- When will bond funds be paid out?
 - Upfront at loan approval?or
 - At a trigger point, such as ½ at building permit and ½ at certificate of occupancy?

Council Discussion

Jennifer Mikelson
jmikelson@flagstaffaz.gov

