



CITY COUNCIL
Staff Report

Meeting Date: February 14, 2017
To: Mayor and City Council
From: Kevin Crawford, City Manager *KC*
Staff Contact: Debbie Fountain, Housing & Neighborhood Services Director
 Debbie.fountain@carlsbadca.gov or 760-434-2935
Subject: Resolution to provide \$4,250,000 in financial assistance to Affirmed Housing for construction of fifty affordable apartment homes restricted for homeless veterans and lower income veteran families, including homeless veterans.

Recommended Action

Adopt a Resolution to provide a residual receipts loan in the amount of \$4,250,000 from the Carlsbad Housing Trust Fund to Affirmed Housing to assist with the financing of construction of fifty (50) affordable apartment homes for homeless veterans and lower income veterans and their families on noncontiguous sites in the northwest quadrant of the City of Carlsbad.

Executive Summary

Affirmed Housing has submitted a request for \$4,250,000 (\$85,000/home) to the City of Carlsbad for financial assistance for the construction of 50 apartment homes for very low and extremely low income homeless veterans and veteran families within the City of Carlsbad. The developer intends to request funding from the Veterans Administration and the Tax Credit Program as well to finance the proposed development, which has an estimated total cost of \$21.4 million. On July 14, 2016, the Housing Commission reviewed the financial request and recommended approval to the City Council; the recommendation remained pending until the development received its approvals. The development has received its approval from the Planning Commission, and the financial assistance request is now being presented to the City Council for consideration.

Discussion

On January 18, 2017, the Planning Commission unanimously approved a 50-unit affordable apartment development that will consist of development on two noncontiguous properties (3606 Harding Street and 965 Oak Avenue) within the historic Barrio Carlsbad neighborhood in the Northwest Quadrant. The Harding Street development will consist of 26 studio, 1, 2 & 3 bedroom rental homes. These rental apartment homes will be available to veteran households at very low and extremely low incomes. A portion of the homes will provide permanent supportive housing for homeless veterans. The Oak Street development will consist of 24 studio, 1 & 2 bedroom rental homes. These rental homes will be available to veteran households at very low and extremely low incomes as well. Similar to the Harding Street development, a portion of the homes will provide permanent supportive housing for homeless veterans.

All of the residents will have access to dedicated on-site services, including services intended to improve housing retention, health, education and employment/career opportunities. A

dedicated case manager will work with the veterans on an individual case plan, offer assistance in applying for benefits, and provide linkages to other community services. Affirmed Housing (developer) has partnered with Interfaith Community Services to be the service provider.

Affirmed Housing (developer) will develop, own, and operate the veteran affordable housing development. Affirmed Housing is experienced and has recognized expertise in developing high-quality affordable apartment communities within San Diego County. Affirmed Housing also developed the Cassia Heights Apartments in Carlsbad, and owns and operates affordable housing developments in other areas of San Diego and Los Angeles counties. Affirmed Housing has a history of building top quality housing developments, and operating/managing them in an outstanding manner. The developer has also developed, owns and manages other affordable homes for special needs populations, such as homeless and lower income veterans.

In considering any financial assistance request for an affordable housing development, staff and the Housing Commission reviewed several factors. The analysis of the developer request is noted below.

Cost Reasonableness

Affirmed Housing provided a development proforma for review by staff and the Housing Commission (Exhibit 2). Since development costs are one of the key variables determining the need for subsidies, it is important that those costs be reasonable. At approximately \$21.4 million total development costs (including land), the average unit development cost of approximately \$428,000 is, in fact, high as compared to other city-assisted developments but reasonable when consideration is given to the continuing high cost of land in Carlsbad, especially land in the Northwest Quadrant of the city, and current costs of construction and related improvements. This project is also being developed outside of a Master Plan and is not being developed to satisfy the inclusionary housing requirements for any other housing development. This development, as currently designed, is intended to be constructed specifically to provide affordable housing for very low and extremely low income households as well as a special needs population – veteran families and chronic homeless veterans which require specialized case management to successfully maintain housing. The projected costs are reasonable for the very low and extremely low income households and the special needs housing; the lower income affordability and the service-enriched development exceed the typical benefit of affordable housing developments in Carlsbad, but also increases the per unit cost requiring additional subsidy from the city. In Carlsbad's Housing Element, "special needs housing" includes seniors, persons with disabilities, large households, single-parent families, homeless, farmworkers, students and military personnel; it is not simply considered housing for the disabled. These populations have special needs for affordable housing for a variety of reasons.

Because the development will have no Master Developer to provide for the land at no cost and/or additional equity, additional funds of \$85,000 per unit are required from the city to provide for the full financing. Affirmed Housing also intends to apply for tax credit revenue and funding from the Veterans Administration. At \$4,250,000, the city's contribution to the financing would represent about 20% of the total funding required for the development which is consistent with our general underwriting policies.

Undue Gain

It is important that any financial assistance from the city have the effect of making the units more affordable and not creating undue gain for any party. If funded, the Developer will receive a "Developer Fee" of \$2 million, or approximately 10% of total project costs (including land). The requested developer fee is consistent with the city's policies and is reasonable considering the complexity of the development/construction, financing and the long term ownership and management of special needs housing. It is important to note an unusual capitalized reserve fund of \$2.1 million for the supportive services is included in the development proforma. This capitalized reserve, to be funded by Veterans Housing Program Funds, is necessary to provide for the supportive services which could not be otherwise supported given the deeply targeted extremely low income units within the development.

Subsidy Analysis

Affirmed Housing is proposing to finance the project with a variety of financing sources, including state and federal tax credit equity together with a loan of veteran funding and a residual receipts loan from the City of Carlsbad in the amount of \$4,250,000 (or \$85,000 per home). The land costs amount to approximately 15% of total costs, which is reasonable considering the location of said properties. The properties were purchased at fair market value. Staff and the Housing Commission are recommending that the direct financial assistance from the city be provided to the project in the amount requested for predevelopment and/or project construction purposes; it is a reasonable request and the rents will be restricted to households at 30% to 50% of the San Diego County Area Median Income, which are in the very low to extremely low income categories and necessary to serve the special needs populations of the homeless veterans and the lower income veterans and their families. This provides a substantial public benefit to the lower income community in Carlsbad, and to these special needs veteran populations.

Form of Assistance

City cash assistance will be in the form of a residual receipts loan secured by a note and deed of trust. The loan will begin accruing after the completion of construction of the improvements. The outstanding principal and accrued interest on the city loan will be amortized over fifty-five years and repaid from cash surplus in equal annual installments of principal and interest. In the event that there is not adequate cash surplus to repay the city loan, the outstanding balance shall accrue with simple interest at 3% per annum. The loan becomes due in full (with interest) at the end of the fifty-five year term. To date, the city has been very successful in receiving regular annual payments on all of its residual receipt loan. If, however, for any reason there is not adequate surplus funds to repay the loan during the term of the loan, the developer will be required to obtain additional financing at the end of the loan term to repay the city loan or the city could exercise an option to have ownership of the development asset transferred to the city. Fortunately, the city's history to date has been favorable and several of the affordable development loans have been, or are expected to be, repaid in advance of the term expiration. The loan proceeds will be provided from the City of Carlsbad's Housing Trust Fund, which may only be used for the purpose of providing affordable housing within Carlsbad.

Summary of uses and sources of funds

The developer's detailed proforma is attached as Exhibit 2. Below is a summary of the proforma:

SUMMARY PROFORMA		
USES OF FUNDS		
	TOTAL	PER UNIT
Land Payment/Costs	\$3,368,000	\$67,360
Direct Construction	\$8,950,000	\$179,000
Financing Fees	\$366,175	\$7,324
Architecture/Engineering	\$750,000	\$15,000
Impact Fees	\$860,000	\$17,200
Other indirect/soft costs (including developer fee of \$2 million and the capitalized reserve account of \$2.1 million that is explained above)	\$7,065,000	\$141,300
Total Sources	\$21,359,175	\$427,184
PERMANENT SOURCES OF FUNDS		
	TOTAL	PER UNIT
Tax Credit Equity (State)	\$1,690,740	\$33,815
Tax Credit Equity (Federal)	\$9,478,435	\$189,569
Veteran Funding Loan	\$3,250,000	\$65,000
Veteran Funding – Capital Reserve	\$2,000,000	\$40,000
Permanent Loan	\$690,000	\$13,800
City Contribution	\$4,250,000	\$85,000
Total Sources	\$21,359,175	\$427,184

Security

The Developer will be required to provide completion bonds to the city and the permanent lender to insure that construction is completed.

Risk

In its role as a lender to the project, the city is exposed to three risks inherent to real estate development. These risks generally include 1) predevelopment (project does not get to construction), 2) construction (project cannot be completed, cost overruns, contractor problems), and 3) operation (revenues do not cover expenses). Adding to this risk, any city financial assistance will be subordinated to conventional and other financing as may be necessary to ensure project financing success.

A number of factors mitigate the identified risks. First, the development team has a strong track record with similar affordable housing projects both inside and outside the City of Carlsbad. The presence of other major financial commitments, such as a tax credit investment, is also key as this means that other stakeholders depend on the success of the project both short and long term. Finally, the position of city and other subordinated financing is a feature that helps attract the necessary private, state and federal financing.

Fortunately, the city's history has been favorable and several of the affordable development loans have been, or are expected to be, repaid in advance of the term expiration. Therefore, the city is confident in its lending practices. To date, the city has provided approximately \$40 million in loans to various affordable developments and developers. As noted above, the city has had a successful track record in receiving residual receipt loan payments annually from affordable housing developers. As a result of the repayments, the Housing Trust Fund has remained well-funded throughout its history and provided the city with the ability to continue to make new loans to produce new affordable housing.

SUMMARY

The financial assistance request was reviewed by the Housing Commission. Based on its review, the Housing Commission is recommending approval of Affirmed Housing's request for financial assistance based on several considerations, which are:

- The proposal's effectiveness in serving the city and special population needs and priorities as expressed in the Housing Element of the General Plan and the Consolidated Plan.
- The proposal's consistency with the city's affordable housing policies and ordinances as expressed in the Housing Element.
- The proposal's development and operating feasibility, emphasizing the development team capacity, financing sources and the role of the city in providing financial assistance or incentives.
- The development will also provide for a \$2.1 million capitalized reserve that will ensure that there are adequate operational funds to assist with case management and special needs of the veteran populations.

Fiscal Analysis

Based on thorough analysis, staff and the Housing Commission have found that the proposed Veterans Housing project involves a capable development team (Affirmed Housing) that is committed to lower income affordable and special needs housing (military personnel and homeless). The financing structure of the project appears to be sound. The proposed city

assistance meets the city’s three key underwriting goals of a strong borrower, reasonable project costs (considering the special circumstances) and a high degree of leveraging. The project is of high quality and exhibits good design and is ideally located. City housing goals are supported by the project’s unit mix and affordability, and the fact that the development is intended to meet the special housing needs of homeless veterans and veteran families.

Staff is recommending that the City Council approve a \$4,250,000 residual receipts loan to Affirmed Housing for the Veterans Housing developments on Oak Avenue and Harding Street within the City of Carlsbad. The loan proceeds will come from the city’s Housing Trust Fund, which funds may only be used for the single purpose of funding affordable housing programs and developments for lower income households. The Housing Trust Fund has a current, unencumbered balance of \$13,340,000.

Existing Fund Balance	Requested Loan Funds	Remaining Fund Balance
\$13,340,000	\$4,250,000	\$9,090,000

Next Steps

With approval of the City Council, appropriate documents, including a Financial Assistance Agreement, Regulatory Agreement, Promissory Note, and Deed of Trust, will be prepared and executed to set forth the terms of the financial assistance (loan) and its repayment. The approving resolution authorizes the Chief Operations Officer to execute the loan documents after review by the City Attorney.

Environmental Evaluation (CEQA)

The City Planner determined that the developments belong to a class of projects that the State Secretary for Resources has found do not have a significant impact on the environment and is, therefore, exempt from the requirement for the preparation of environmental documents pursuant to Section 15194 (Affordable Housing) of the State CEQA Guidelines.

Exhibits

1. Adopt a Resolution to provide a residual receipts loan in the amount of \$4,250,000 from the Carlsbad Housing Trust Fund to Affirmed Housing to assist with the financing of construction of fifty (50) affordable apartment homes for homeless veterans and lower income veterans and their families on noncontiguous sites in the northwest quadrant of the City of Carlsbad.
2. Financial Assistance Request, including development proforma, from Affirmed Housing and other information materials provided by the developer.

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARLSBAD, CALIFORNIA, APPROVING A RESIDUAL RECEIPTS LOAN IN THE AMOUNT OF \$4,250,000 FROM THE CARLSBAD HOUSING TRUST FUND TO AFFIRMED HOUSING TO ASSIST WITH THE FINANCING OF CONSTRUCTION OF FIFTY (50) AFFORDABLE APARTMENT HOMES FOR HOMELESS VETERANS AND LOWER INCOME VETERANS AND THEIR FAMILIES ON TWO NONCONTIGUOUS SITES IN THE NORTHWEST QUADRANT OF THE CITY OF CARLSBAD.

WHEREAS, Affirmed Housing has proposed to construct 50 apartment homes to be affordable to lower income households within the City of Carlsbad for homeless veterans and lower income veterans and their families on two noncontiguous sites within the historic Barrio Carlsbad neighborhood of the City of Carlsbad, and has requested financial assistance from the City of Carlsbad to assist in the financing of said affordable housing project; and,

WHEREAS, the Planning Commission approved said affordable housing development on January 18, 2017; and,

WHEREAS, the request for financial assistance from Affirmed Housing to construct said units was submitted to the City of Carlsbad's Housing Commission for review and consideration, and said Commission recommended that the City Council approve the requested financial assistance in the amount of \$4,250,000 at their public meeting on the 14th day of July, 2016.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Carlsbad, California, as follows:

1. That the above recitations are true and correct.
2. The request for financial assistance from Affirmed Housing is consistent with the goals and objectives of the City of Carlsbad's Housing Element, Consolidated Plan, and the Carlsbad General Plan.
3. The request for financial assistance will assist the affordable housing developer in constructing a total of 50, studio, one, two and three bedroom affordable apartment homes for homeless veterans and lower income veterans and their families on two noncontiguous sites within the Northwest Quadrant of the City of Carlsbad which will be affordable to households ranging from 30% to 50% of area median income for San Diego County. The project, therefore, has the ability to effectively serve the city's housing needs and priorities as expressed in the Housing Element and the Consolidated Plan, and to meet the housing and service needs of the special needs population of homeless military veterans and lower income military veterans and their families.

4. That the City Council hereby approves financial cash assistance in the amount of \$4,250,000 from Carlsbad's Housing Trust Fund to Affirmed Housing Corporation for the construction of fifty (50) affordable apartment homes on two noncontiguous sites within the Northwest Quadrant of the City of Carlsbad, and within the historic Barrio Carlsbad neighborhood, for homeless military veterans and lower income military veterans and their families.
5. That the City Council authorizes the Chief Operations Officer to prepare and execute all documents related to provision of the city assistance in the form of a residual receipts loan, including but not limited to a Financial Assistance Loan Agreement, Note, Deed of Trust, and Regulatory Agreement, subject to review and approval by the City Attorney.

PASSED, APPROVED AND ADOPTED at a Regular Meeting of the City Council of the City of Carlsbad on the __ day of _____, 2017, by the following vote, to wit:

AYES:

NOES:

ABSENT:

MATT HALL, Mayor

BARBARA ENGLESON, City Clerk

(SEAL)

Carlsbad Veteran Housing
 50 Unit Scattered Site (2 sites, 2 buildings)
 9% Tax Credits + City Contribution + Veteran Housing Funds (VHHP)

SOURCES		Per Unit	% Total
Permanent Loan-Non SN Units Only	\$ 690,000	13,800	3.2%
City of Carlsbad Funding	\$ 4,250,000	85,000	19.9%
Veteran Funding Loan (VHHP)	\$ 3,250,000	65,000	15.2%
Veteran Funding-Capital Service Reserve	\$ 2,000,000	40,000	9.4%
State Tax Credit Equity	\$ 1,690,740	33,815	7.9%
Federal Tax Credit Equity	\$ 9,478,435	189,569	44.4%
TOTAL SOURCES	\$ 21,359,175	427,184	100.0%

USES		Per Unit	% Total
Land Purchase	\$ 3,200,000	64,000	15.0%
Land Carry (bridge loan)	\$ 168,000	3,360	0.8%
Land Acquisition Total Cost	\$ 3,368,000	67,360	15.8%
Site Work	\$ 750,000	15,000	3.5%
Structures	\$ 8,200,000	164,000	38.4%
Hard Cost subtotal	\$ 10,410,000	208,200	48.7%
Construction Contingency	\$ 781,000	15,620	3.7%
Architecture & Engineering	\$ 750,000	15,000	3.5%
Construction Interest & Fees	\$ 288,175	5,764	1.3%
Capitalized Reserves	\$ 2,109,000	42,180	9.9%
Taxes & Insurance	\$ 155,000	3,100	0.7%
Cost of Issuance	\$ -	-	0.0%
Escrow & Title	\$ 20,000	400	0.1%
Legal Fees	\$ 150,000	3,000	0.7%
Devel Impact Fees & Permits	\$ 860,000	17,200	4.0%
Tax Credit Fees	\$ 58,000	1,160	0.3%
Misc. Soft Costs	\$ 150,000	3,000	0.7%
Soft Cost subtotal	\$ 4,540,175	90,804	21.3%
Soft Cost Contingency	\$ 260,000	5,200	1.2%
Developer Fee	\$ 2,000,000	40,000	9.4%
TOTAL USES	\$ 21,359,175	427,184	100.0%

FINANCING ASSUMPTIONS	
Permanent Loan Amount (non-SN units)	690,000
Permanent Loan Interest Rate	5.50%
Permanent Loan Term (mo.)	420
Net Operating Income	N/A
Debt Service	\$44,465
Debt Coverage Ratio	N/A
Construction Loan Amount	\$9,279,570
Construction Loan Interest Rate	2.20%
Construction Loan Term (mo.)	24
Loan to Value	43.45%

INCOME					
Type	Qty.	Sub-total	% AMI	Rental Income	
				Net	Total
Studio-SN	25		30%	\$ 447	\$ 11,175
Studio	0	25	40%	\$ 549	\$ -
1BR	0		30%	\$ 435	\$ -
1BR	0		40%	\$ 587	\$ -
1BR	5		45%	\$ 663	\$ 3,315
1BR	5		50%	\$ 739	\$ 3,695
1BR	5		60%	\$ 891	\$ 4,455
1BR Mgr	1	16	mkt	\$ -	\$ -
2BR	0		30%	\$ 521	\$ -
2BR	0		40%	\$ 704	\$ -
2BR	2		45%	\$ 795	\$ 1,590
2BR	1		50%	\$ 886	\$ 886
2BR	4	7	60%	\$ 1,068	\$ 4,272
3BR	0		30%	\$ 601	\$ -
3BR	0		40%	\$ 812	\$ -
3BR	1		45%	\$ 917	\$ 917
3BR	0		50%	\$ 1,023	\$ -
3BR	1	2	60%	\$ 1,233	\$ 1,233
TOTAL	50	50			\$ 31,538
				Annual Residential Income	\$ 378,456
				Excess PBV Income:	\$ -
				Other Income	\$ 12,600
				Total Gross Annual Income	\$ 391,056
				Vacancy @ 5.0%	\$ (19,553)
				TOTAL NET ANNUAL INCOME	\$ 371,503

EXPENSES		
	per unit	
Administrative	\$ 750	\$ 37,500
Management	\$ 420	\$ 21,000
Utilities	\$ 820	\$ 41,000
Payroll	\$ 1,900	\$ 95,000
Insurance	\$ 300	\$ 15,000
Maintenance	\$ 780	\$ 39,000
Other:	\$ 100	\$ 5,000
Other Expenses	Subtotal	\$ 5,070 \$ 253,500
Resident Services	\$ 2,500	\$ 125,000
Replacement Reserves	\$ 300	\$ 15,000
Real Estate Taxes	\$ -	\$ -
Other: (specify)	\$ -	\$ -
ANNUAL EXPENSES	\$ 7,870	\$ 393,500

TAX CREDIT ASSUMPTIONS	
9% Tiebreaker	63.58%
Tax Credits Requested	\$911,826
Equity Pricing	\$1.05
LP Interest	99%
Tax Credit Factor	1.04
Applicable Rate - 9%	N/A
Applicable Rate - 4%	7.69%
Income Escalation	2.00%
Expense Escalation	3.00%
Non-Profit	yes

Carlsbad Veteran Housing

Affirmed Housing is excited to present our concept for Carlsbad Veteran Housing, affordable housing for Veterans, in the City of Carlsbad (the City). We respectfully request the City to enter into an agreement to provide funding for our Carlsbad Veteran Housing concept, outlined below. The concept will provide 50 units of housing for low income Veterans, their families, and homeless Veterans. This is a wonderful opportunity for the City to contribute to the development of beautifully designed, dedicated and permanent homes for those who have served our country, while also providing 50 housing units toward Carlsbad's fair share of the regional need for low, very low and extremely low income housing, as identified in the Housing Element of the City's General Plan.

Veterans, despite their sacrifice and status as people who have served this country, continue to experience a high unmet need for housing. The need for affordable housing is high among Veterans, due to a variety of factors, including the low pay scale of many military personnel.

Due to the proximity to Camp Pendleton and associated North County veteran's services, Carlsbad is an ideal location for housing for military veterans. North County has a high concentration of Veterans and is home to numerous important services for Veterans and their families--notably, the Veteran's Association of North County Resource Center and the VA Oceanside Clinic, offering a wide variety of health, mental health, and benefits assistance programs for Veterans.

About Affirmed Housing

Founded in 1992, Affirmed has successfully developed 38 communities with over 3,000 affordable rental apartments and for sale homes, including our 56 unit family development, Cassia Heights, located in Carlsbad. Additionally, the current Affirmed pipeline of projects includes over 500 apartments, each at various stages of development. Our affordable housing developments include new construction and rehabilitation of rental housing serving low-income families, seniors, and individuals with special needs.

Affirmed has comprehensive knowledge in residential development including site selection, engineering, architecture, construction, relocation and marketing. With extensive expertise in public and private finance, Affirmed is highly skilled and innovative in obtaining development funding and we have secured over \$850,000,000 in funding to date.

Affirmed is increasingly developing and operating Permanent Supportive Housing, which provides permanent housing and wrap around services to special needs individuals utilizing a Housing First model. For instance, we recently completed Vermont Villas in Los Angeles, offering 78 units of Permanent Supportive Housing for senior veterans who were previously homeless or high utilizers of the health care system. It was developed and operated in partnership with PATH, one of our development and service partners who have extensive experience providing housing and services for Veterans and the homeless. We are very proud of this project, which provides affordable homes and services to 78 individuals who were previously unhoused.

Development Vision

Carlsbad Veteran Housing will provide 50 affordable residences for Veterans and their families with incomes of 30-60% of the Area Median Income. A portion of the units will provide Permanent Supportive Housing for homeless veterans with Extremely Low Incomes.

We propose to develop 50 units on two separate sites, which are less than ½ mile apart. The first site is at 965-967 Oak Avenue and the second is at 3606, 3618 and 3630 Harding Street. The building located on Oak Avenue will contain 24 residences and the building located on Harding will contain 26 residences. The Special Needs units will be equally distributed between the two project sites.

These sites are convenient to public transportation, including bus stops and the Sprinter line which provide connection to job centers, health care and services. Shopping, Parks and recreational amenities are also conveniently located nearby, as well as elementary schools for veteran families with children and a senior center for aging veterans.

Both buildings will be two stories over a one story parking garage and will contain a manager's office, community room and Case Manager's offices. The combined square footage of the buildings is approximately 33,000 SF at this time. The studio units are 400 SF, the one bedroom units are 500 SF, the two bedroom units are 750 SF and the three bedroom units are 1,000 SF. We have attached massing models, intended to convey the general size and scale of the buildings. A few architectural vignettes are also provided to offer some examples of potential architectural detail, although currently, both buildings are a blank canvas with respect to design. In coming months, we will work closely with the design team, City staff and key stakeholders to develop a pleasing design which is consistent with the surrounding neighborhood.

Housing for Veterans

Veterans need extra support to successfully transition back into the civilian life. Inadequate transitional programs can result in high risk for a host of problems including drug abuse, violence, family disruptions, and homelessness. Due to the high number of veterans still returning from Iran and Iraq, as well as the low pay scale of many military personnel, affordable housing options are greatly needed for veterans and housing remains a high unmet need.

All of the veterans at Carlsbad Veteran Housing will have access to dedicated on-site services, specifically geared towards their specific needs. This includes services intended to improve housing retention, health, education and employment/career opportunities.

Housing for Veterans with Special Needs

Veterans are at substantial risk of homelessness and are overrepresented within the homeless population in comparison to their representation in the population as a whole. In Carlsbad, 40% of the identified homeless population are Veterans. Nobody who has served this Country should be left to sleep on the streets. Despite the efforts in recent years to reduce or eradicate homelessness among Veterans, it remains a significant issue based on a variety of risk factors detailed below.

Veterans are overrepresented in homeless population due to many risk factors, including: military pay grade, active duty status, length and number of deployments, incidences of Traumatic Brain Injury, Substance Use and other mental illness, and incidences of PTSD. The risk of homelessness continues for many years after service--up to a decade or longer

The Special Needs (homeless) Veterans at Carlsbad Veteran Housing will have access to additional extensive services to enhance their life skills and ability to maintain housing. Such services include a dedicated Case Manager who will work with the Veteran on an individual case plan, offer assistance in applying for benefits, and provide linkages to other community services.

The success of these services depends on delivery by strong organizations with special expertise in working with Veterans. Affirmed has successful partnerships with service providers such as PATH and Community Catalysts, Veteran's Community Services to provide specialized services for Veterans in our other developments . We will enter into a long-term agreement with one of these experienced service providers to provide support to Special Needs Veterans at Carlsbad Veteran Housing.

All of our expert service provider partners have demonstrated track-records helping Veterans retain housing ; linking them to benefits, jobs, and community services; improving their health status; and maximizing their ability to live and work in the community.

Funding for Services

Continuity of quality services is essential to the success of Supportive Housing for Veterans. With that in mind, Affirmed intends to capitalize a reserve account which will ensure the availability of an adequate service budget for a minimum of 15 years. This reserve eliminates the uncertainty that comes along with sources that are annual renewals or appropriations and ensures continuity of services throughout the life of the project. This is a mechanism we've used successfully in other Permanent Supportive Housing projects, in order to ensure sustainability in servicing special needs individuals.

Financial Narrative

Affirmed has structured a financing package that we believe is quite favorable for the City of Carlsbad. We propose to finance the development utilizing 9% Low Income Housing Federal Tax Credits (LIHTCs), State Tax Credits, Permanent Debt, Veterans Housing Program Funds ('VHHP,' which would include funding for housing development plus a capitalized reserve for wrap around Veteran services) and finally a contribution from the City of Carlsbad of \$85,000 per apartment unit.

We will apply to CTCAC as a scattered site, 100% Veteran development and will utilize VHHP as a funding source for development and services. Because the project will meet the special needs housing type through CTCAC, and CTCAC is now dedicating a higher percentage of it's funding to Special Needs, the project is expected to be highly competitive for a 9% tax credit award. Assuming funding is awarded according to our planned schedule, there is a high likelihood of receiving a tax credit award as early as September, 2016.

As the attached proforma summary illustrates, total development costs are projected to be approximately \$21,359,175. Our development budget includes new construction costs of \$10,410,000 for the 50 new apartment units. The cost estimate has been generated by our general contracting affiliate, HA Builders, utilizing assumptions from similar buildings that they are beginning construction on in December of this year. Please note, within the last year construction pricing has increased 7-10% so we have included an appropriate estimate that anticipates a construction start in March of 2017.

Affirmed anticipates that the 9% LIHTCs would generate approximately \$9,478,000 in federal tax credit equity, and approximately \$1,691,000 in state tax credit equity. The permanent debt of approximately \$690,000 assumes a 5.50% interest rate with a 35 year amortization, and is supported by the rental income from the non-special needs units. The City's contribution of \$85,000 per door equates to \$4,250,000 in total capital. The capitalized reserve from VHHP provides for services which could not be otherwise supported given the negative cash flow that stems from the deeply targeted extremely low income units. The expenses for the project include approximately \$10,000/unit/year for the Veteran special needs units and \$5,000/unit/year for the Veteran non-special needs units. The \$5,000/unit/year differential between the two is due to the wrap around services for the special needs units.

We are excited about our vision to leverage the City's contribution of \$4,250,000 to successfully secure \$11,169,000 in federal and state tax credits, as well as \$5,250,000 in Veteran's Program funds. The leverage of State funding in the project's capital stack keeps the City contribution at a range consistent with previous funding for similar affordable housing projects. With our expertise in successfully securing funding, we are confident in our vision both from a development and financial perspective. We look forward to working with the City to bring new housing and services for low-income Veterans to residents of Carlsbad.