



BUILDING SUSTAINING LEADING

Date: August 2, 2019

To: Phedra Elliott, Executive Director, Housing Resources Bainbridge

From: Kurt Creager, Executive Vice President, BRIDGE Housing Corporation

Re: Report & Recommendations for the Suzuki Affordable Housing Site

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The following materials constitutes BRIDGE Housing Corporation's ("BRIDGE") final report and recommendations for the Suzuki affordable housing site. This final report contains new information, updated budgets and reflects the deliberation and recommendations of the Housing Resources Bainbridge ("HRB") Board of Directors at their meeting on the draft report and recommendations on July 9, 2019.

These work products are consistent with and in furtherance of the Memorandum of Understanding between HRB and BRIDGE dated March 27, 2019. The agreement calls for BRIDGE to assess the feasibility of developing the City-owned Suzuki Site, a portion of the 13.83 acre site at the SE quadrant of the intersection of New Brooklyn Road and Sportsman Club Road on Bainbridge Island, Washington. Preliminary plans range from 36 units up to 91 units, including a mix of single family detached cottages, townhomes, and accessory dwelling units ("ADUs"). These units are envisioned as a mix of rentals and homeownership units that are permanently affordable for low to moderate income households.

This report assesses the financial feasibility of the preliminary plans in addition to the financial feasibility of a 100-unit alternative which is within the residential and parking capacity for the site. This report and its findings and recommendations may be used by the City of Bainbridge Island to guide disposition of the property as appropriate. The draft report is structured as follows:

- 1) Project Reconnaissance;
- 2) Key Decisions for Funding Strategy;
- 3) Design Refinement, Budget, and Cost Control; and
- 4) Preliminary Financial Proforma.

## **About BRIDGE Housing**

Founded in 1983, BRIDGE Housing Corporation is the largest non-profit developer of affordable housing and workforce housing on the West Coast. As a mission-driven non-profit, BRIDGE's primary goal is to produce high quality homes for working families and seniors at a variety of income levels. We pay close attention to the double-bottom line of financial and social return on investment, always in pursuit of quality, quantity and affordability for the long term. The opinions and conclusions contained within this report are those of the BRIDGE Housing Principal Investigator, Kurt Creager, Executive Vice President, and may be quoted with citation.

## **I. PROJECT RECONNAISSANCE**

BRIDGE conducted site visits over the winter and spring of 2019 and reviewed the June 2018 existing conditions reports commissioned by Olympic Property Group ("OPG") under contract to the City of Bainbridge Island. Additional work is still in process as the OPG scope of work was temporarily suspended until questions regarding the project's financial feasibility could be answered to the satisfaction of the City Council. BRIDGE Executive Vice President, Kurt Creager, also met with OPG and OPG-retained architect Jonathan Davis. An engineering report and a financial alternative analysis prepared by Browne Wheeler Engineers Inc. was also reviewed and addressed in the budget estimates herein. In addition, BRIDGE held subsequent meetings with HRB and Housing Kitsap to conceive and coordinate the delivery of the for sale units for low or moderate income<sup>1</sup> households. BRIDGE is grateful for the assistance of OPG, Davis Studio Architecture & Design, Housing Kitsap and Clark Construction to help articulate and assess the financial feasibility of this proposed project.

## **II. KEY DECISIONS FOR FUNDING STRATEGY**

Given the diversity of uses proposed on-site, the project must be broken into components which will be funded separately but undertaken in a coordinated manner to produce a seamless, inclusive and integrated master plan. The components of the Suzuki project are as follows:

- Open space, sensitive area and habitats (approximately 9.83 acres in each scenario)<sup>2</sup>
- For-sale homes (0-39 detached cottages or townhomes<sup>3</sup>)
- Rental homes (36-61 townhomes<sup>4</sup> and ADUs<sup>5</sup>)
- Community building and amenity space<sup>6</sup>
- Infrastructure to support the site consistent with City standards.

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<sup>1</sup> Low income for purposes of Washington State Law is defined as 51-80% of the Area Median Income, indexed by family size and published by the US Department of Housing & Urban Development annually. Moderate income is 81-120% of Median Income for purposes of this report and recommendations

<sup>2</sup> Wetlands on the site include an historic man-made impoundment which is envisioned to be enhanced for surface water management purposes. The proximity of the site to public schools means many pedestrians use the open space as an alternative to the sidewalk on New Brooklyn Road. These informal trails would be improved to ensure public safety and minimize intrusion into woodland and wetland habitats.

<sup>3</sup> Approximately 439-569 square feet for 1 bedroom ADUs, 1,000-1,061 square feet for 2 bedroom townhomes, and 1,300-1,381 square feet for 3 bedroom townhomes.

<sup>4</sup> Ibid

<sup>5</sup> Ibid

<sup>6</sup> Envisioned as a single story structure of 3,500 square feet

Financial feasibility will depend on key decisions by the City of Bainbridge Island and HRB:

**Key Decision #1: Land Donation**

Public agencies often leverage the value of public land to create long term public benefits. Given the affordability challenges of Bainbridge Island and the amount of open space desired by the City, BRIDGE concludes that neither the stewards of open space nor an affordable housing developer can support market value for the land. Therefore, it is crucial that the City of Bainbridge Island and its City Council affirm that the land be either donated or leased for a negligible sum of money in exchange for a long-term commitment to preserve the open space and maintain housing affordability. If the City is seeking market value for some or all of the land, the master developer will likely need to reduce the amount of open space or affordability of homes in order to maintain financial feasibility.

The City of Bainbridge Island may choose to transfer the entire site to a single entity or the open space and developable portions of the site to different entities. Based on initial reconnaissance and pending discussions with the City, we believe the Bainbridge Island Metro Park and Recreation District and HRB are the most appropriate candidates. HRB will need evidence of site control to secure the participation of a master development partner and accumulate the necessary funding to build the project. HRB also needs sufficient time to mobilize capital and implement the preferred plan.

While planning discussions have included Housing Kitsap (the housing authority serving Kitsap County), we do not anticipate the agency will act as a master developer given their current priorities and capacity. However, we believe the agency still has an instrumental role in terms of financing (e.g. project-based vouchers) and in an advisory capacity to HRB and the selected master developer given their local expertise in development, construction management, and homeownership programs.

**Key Decision #2: Capital Budget Support from the State Legislature**

A State Capital Budget appropriation is essential for attracting additional financial resources for the proposed project. As detailed in the proforma, while the master developer and HRB can obtain a sizable investment from private lenders and tax credit investors and nominal support from the City and Kitsap County, there remains a significant gap that must be filled by the State. State resources from the Department of Commerce’s Housing Trust Fund prioritizes high-needs populations (e.g. mentally ill, veterans, people with developmental disabilities, farmworkers) which are limited on Bainbridge Island. Moreover, preferences for households earning 30% of Area Median Income or below and for formerly homeless and at-risk populations means that the project as conceived is unlikely to be competitive statewide. Absent a significant change in State priorities or the project’s target population, BRIDGE recommends the City and HRB pursue a capital budget appropriation instead. As detailed in Section III and IV, the project requires an appropriation of \$2.4 million with 91 units and only \$1.2 million under the 100-unit recommended alternative. The use of capital budget earmarks is a standard operating procedure in the Washington State Legislature. In the 2019-2020 Biennial Budget approximately \$46 million was earmarked in the Department of Commerce budget for high

priority capital projects statewide. While funds are routinely available for the highest priority projects, it will take time and a unity of purpose from the elected officials representing Bainbridge Island. Assuming a robust effort by local officials, we estimate it may take as long as one to two years to gain traction and approval for such an appropriation.

**Key Decision #3: Approve Sufficient Density on the Site**

Over the last several years, the City and local stakeholders have proposed a range of alternative programs that balance the desire for affordable housing and environmental conservation with the physical development constraints and limitations of the site. These include Option 1 - 36 units, Option 2 - 55 units, Option 3 - 67 units, and Option 4 - 91 units.

Based on the analysis below and BRIDGE’s 35 years of experience in housing development and financing, a project with fewer than 90 units is not financially feasible and may not attract tax credit investors and funders.

**FINANCIAL FEASIBILITY OF PRELIMINARY OPTIONS & 100-UNIT ALTERNATIVE**

	<b>Option 1</b>	<b>Option 2</b>	<b>Option 3</b>	<b>Option 4</b>	<b>Alternative</b>
Rental	35	36	48	60	60
For-Sale	0	18	18	30	39
Manager	1	1	1	1	1
<b>Total</b>	<b>36</b>	<b>55</b>	<b>67</b>	<b>91</b>	<b>100</b>
City Fee Waivers	\$0.6M	\$0.6M	\$0.7M	\$0.8M	\$0.8M
County HOME/CDBG	\$1.0M	\$1.0M	\$1.0M	\$1.0M	\$1.0M
State Capital Budget	\$6.0M	\$3.4M	\$4.1M	\$2.6M	\$1.2M
<b>Public Subsidies</b>	<b>\$7.6M</b>	<b>\$5.0M</b>	<b>\$5.8M</b>	<b>\$4.4M</b>	<b>\$3.0M</b>
<b>Public Subsidies Per Unit</b>	<b>\$217,000</b>	<b>\$93,000</b>	<b>\$88,000</b>	<b>\$49,000</b>	<b>\$31,000</b>

In the lower density scenarios (Options 1-3), the project does not achieve sufficient economies of scale and incurs the same fixed costs for architecture, engineering, tax credit syndication, etc. while delivering fewer units. A rental project with fewer than 50-60 units may also have difficulty attracting tax credit investors, thereby reducing the amount of tax credit equity generated and increasing the need for subsidies from the City, County or State. BRIDGE estimates the project will require \$88,000-\$217,000 in public subsidies per unit in the lower density scenarios, significantly higher than the \$49,000 required for Option 4.

Based on our financial feasibility analysis, BRIDGE recommends the City and HRB consider Option 4 as the Base Case. While Option 4 still requires a \$2.6 million State Capital Budget request, a challenging amount to obtain as appropriations are typically less than \$1 million, it may be viable if requested over multiple legislative cycles. To reduce the amount requested from the State, BRIDGE also analyzed a 100-unit alternative that provide more economies of scale, 9 additional for-sale units, and complies with the City’s parking requirements. This recommended alternative is more financially feasible and requires only \$1.2 million in State

assistance. We recommend that the City and HRB reassess the Base Case site plan for opportunities to increase density while protecting the open space preserve and utilizing parking more efficiently. Absent an increase in density, the City and HRB may need to consider serving higher income households or selling market-rate homes in order to generate revenues and reduce public subsidies.

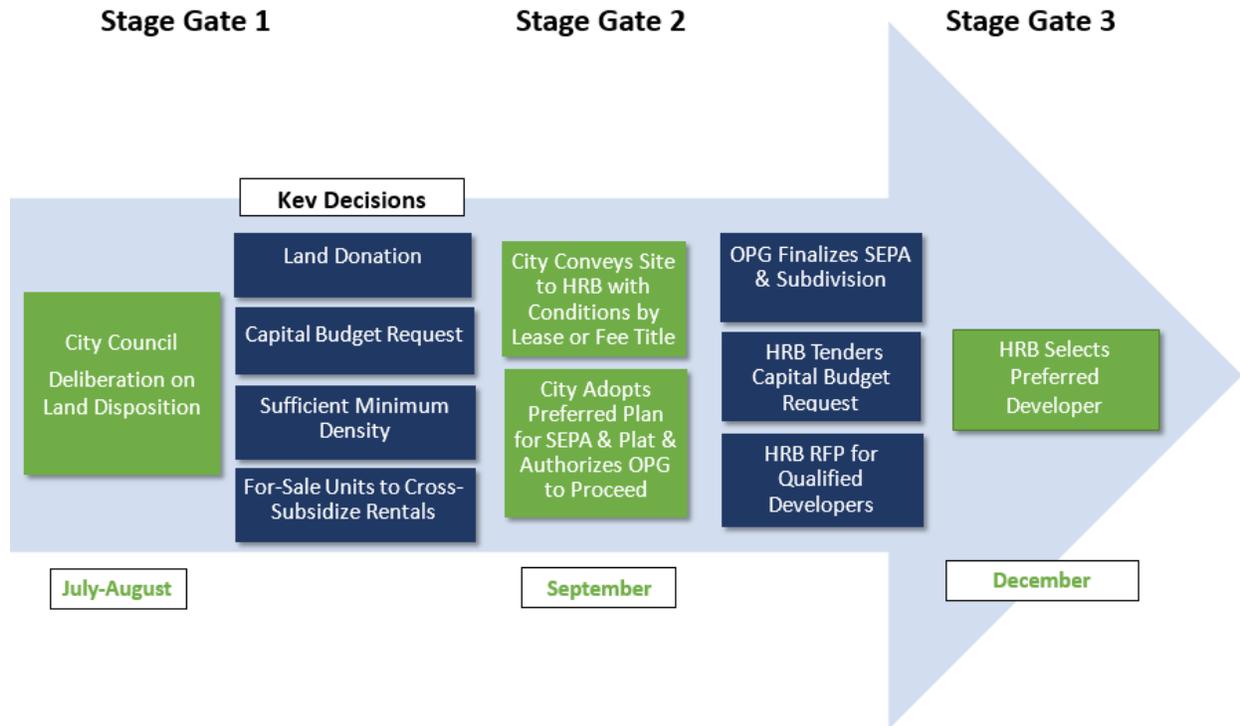


*Site plan for the Base Case (Option 4 – 91 units); Source: Davis Studio Architecture & Design*

#### **Key Decision #4: Build For-Sale Units to Cross-Subsidize Rentals**

Based on our preliminary proforma and understanding of available funding sources, we believe that revenues from for-sale units will be crucial for closing the funding gap for the rental component. The number of for-sale units required depends on the income of homebuyers served and the rental component's ability to obtain sufficient City, County, and State funds. Our preliminary pro forma for the Base Case (Option 4 - 91 units) assumes that 30 units will be reserved for homebuyers earning 140% Area Median Income (AMI), generating approximately \$4.5 million to support the rental building serving households earning 50-80% AMI. The 100-unit recommended alternative includes 39 townhomes, generating \$5.8 million in cross-subsidy and reducing the State Capital Budget support from \$2.4 million to \$1.2 million. The addition of homeownership units for higher-end households will not only enhance financial feasibility but also provide for a truly mixed-income community.

Ultimately, if the City of Bainbridge Island and HRB can come to consensus on the terms of a land donation, obtain a State Capital Budget appropriation, achieve sufficient density on the site, and build for-sale units to cross-subsidize the rental units, we believe the project will be financially feasible. Below is a critical path, outlining the anticipated roles for the City, HRB, and OPG before soliciting and selecting a development partner.



### III. DESIGN REFINEMENT, BUDGET AND COST CONTROL

The team assembled by OPG is exemplary and well-established in the Bainbridge Island market. To establish a preliminary budget, BRIDGE considered two construction methods and validated costs with a contractor experienced in building on the island and across Kitsap County but do not yet have a role or interest in the project.

#### Rental Component

BRIDGE assumes the proposed project will be built with lightweight frame construction typical of most conventional affordable housing projects in Kitsap County. While very little purpose-built affordable housing has been completed on Bainbridge Island, Clark Construction recently completed the Ferncliff Village Townhomes in 2017. BRIDGE believes this project serves as a good comparable for purposes for cost estimating.

#### RENTAL COMPONENT – PRELIMINARY USES – BASE CASE (61 UNITS)

Description	Total Amount	Per Rental Unit
Land, Title and Escrow Holding Costs	\$25,000 \$0	\$417 \$0
<b>subtotal</b>	<b>\$25,000</b>	<b>\$417</b>
Construction	\$12,729,810	\$212,164
Furnishings and Equipment	\$60,000	\$1,000
Hard Cost Contingency	\$954,736	\$15,912
<b>subtotal</b>	<b>\$13,744,546</b>	<b>\$229,076</b>
Architecture/Engineering	\$1,550,000	\$25,833
Permits and Fees	\$844,729	\$14,079
Construction Loan Interest/Fees	\$961,733	\$16,029
Bond Cost of Issuance	\$198,735	\$3,312
Legal	\$90,000	\$1,500
Appraisal/Market Study	\$15,000	\$250
Marketing/Lease-up	\$110,000	\$1,833
Title/Audit/Cost Certification	\$60,000	\$1,000
Insurance	\$111,050	\$1,851
Property Taxes (Exempt)	\$0	\$0
Soft Cost Contingency and Reserves	\$312,668	\$5,211
<b>subtotal</b>	<b>\$4,253,914</b>	<b>\$70,899</b>
Syndication Costs	\$178,047	\$2,967
Developer Fee (Incl. \$1M Recontributed to Project)	\$2,546,077	\$42,435
<b>TOTAL DEVELOPMENT COSTS</b>	<b>\$20,747,584</b>	<b>\$345,793</b>

Using Ferncliff as a comparable, Clark Construction estimated the cost of the three-story townhomes and ADUs to be \$185-220 per square foot for vertical construction, including cost escalation. Horizontal construction (e.g. driveways, landscape, parking, water, sewage, surface water detention) is estimated to range \$30-40 per square foot of vertical construction. For this preliminary budget, we have assumed \$200 and \$30 per square foot for vertical and horizontal costs respectively. Operation and maintenance of the drainage detention facility is planned as a cost of the City of Bainbridge Island. Assuming a 7.5% contingency, BRIDGE estimates a hard cost of \$13.7 million or \$229,000 per unit. In addition to hard costs, BRIDGE estimates approximately \$7 million or \$116,000 per unit in soft costs, including the cost of architecture and engineering, financing, legal, marketing, insurance, reserves, and fees to the developer and City of Bainbridge Island. Based on permit fee schedules, we have budgeted \$845,000 or \$14,000 per unit for transportation impact fees, water and sewer system participation fees, building permit fees, plan check fees, and subdivision fees.

**For-Sale Component**

Construction of the for-sale component will be coordinated with the rental component to attain some economies of scale. To reduce cost, we assume that HRB and the selected master developer will coordinate all architectural and engineering work. Windows, roofing and siding would likely be purchased in bulk for the greatest cost savings possible. Whereas the for-sale component will include townhomes and layouts similar to the rental component, we have assumed costs at \$200 per square foot for vertical construction and \$30 per square foot for horizontal construction. In sum, we anticipate \$12.1 million or \$405,000 per unit in total development costs, including \$276,000 per unit for hard costs and \$129,000 per unit for soft costs.

**FOR-SALE COMPONENT – PRELIMINARY USES – BASE CASE (30 UNITS)**

	<b>Total</b>	<b>Per Unit</b>
Land (Donated)	\$0	\$0
Site Work Costs/Utilities	\$1,080,000	\$36,000
Building Hard Costs	\$7,200,000	\$240,000
Architecture and Engineering	\$207,000	\$6,900
City Permits and Fees (Waived)	\$0	\$0
Selling Expenses	\$830,089	\$27,670
Admin / Insurance	\$498,054	\$16,602
Real Estate Excise Tax	\$295,512	\$9,850
Legal / Accounting / Consultants	\$75,000	\$2,500
Construction Loan Fees/Costs	\$155,177	\$5,173
Construction Loan Interest	\$326,831	\$10,894
Contingency	\$800,075	\$26,669
Developer Fee	\$688,064	\$22,935
<b>TOTAL COSTS</b>	<b>\$12,155,802</b>	<b>\$405,193</b>
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### **Conventional vs. Insulated Concrete Form**

Several market rate developers on Bainbridge Island are using Insulated Concrete Form (ICF) as their preferred building envelope, essentially creating a super-insulated shell sided with COR-TEN steel or finished/sealed concrete. ICF is a superior building envelope in terms of energy efficiency and durability. However, it is rarely used in affordable housing construction because the initial cost is prohibitive. Clark Construction estimated that ICF in a low-rise structure would likely cost \$220-\$310 per square foot for vertical construction, a premium of 20-40% over conventional construction. Given this anticipated premium, we have assumed the project will be built using conventional construction methods.

### **Conventional Site Built vs. Offsite Modular Construction**

BRIDGE is one of the first affordable housing developers to utilize modular construction in California and is actively exploring other innovative technologies that can reduce cost and time.<sup>7</sup> The townhouse typology contemplated for Suzuki is suitable for modular construction and we recommend designing the project as modular-ready. Based on BRIDGE's recent experience, we estimate that modular construction can reduce construction time by up to 3-6 months but cost savings have been insignificant versus conventional construction thus far. Therefore, our budget estimate has not assumed the use of modular construction or any potential savings. While the project may be considered too small for some manufacturers, BRIDGE recommends further study given the benefits of minimizing disruption to the open space and compressing the construction period.

### **Use of Volunteer Labor and Donated Materials**

The use of volunteer labor and donated materials surfaced during deliberations on the proposed project. While there is financial benefit to using volunteers and donated materials, it will complicate quality control and will very likely impair the ability to provide a warranty on the finished product. Moreover, the complexity of project management would place a burden on HRB, the master developer, and their contractors. For these reasons, BRIDGE did not further evaluate the idea in this report.

### **Requirements for Federal Funds**

The project proforma contemplates use of federal funds, HOME and CDBG,<sup>8</sup> for the infrastructure supporting the rental townhomes and ADUs. The use of federal funds means the scope and procedure for environmental review should consider the requirements of the National Environmental Policy Act (NEPA). Olympic Property Group is currently only considering the Washington State Environmental Policy Act (SEPA) for purposes of compliance and entitlements. Should the project utilize federal funds, we recommend expanding OPG's scope to include NEPA or Kitsap County should manage the NEPA environmental review process on behalf of the project.

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<sup>7</sup> BRIDGE's experience with construction technology, including two recently completed modular projects in San Leandro, CA, is summarized in "[Faster, Better, More.](#)"

<sup>8</sup> Community Development Block Grant (CDBG) and HOME Investment Partnership Act Funds (HOME)

Use of HOME and CDBG may also inadvertently trigger federal prevailing wage rate requirements (also known as Davis-Bacon) and, unless carefully managed and separated from the other private funding sources, could create added costs or risks to the master developer or Housing Resources Bainbridge (HRB). Federal prevailing wage rates could add as much as 20% to the cost of building the project if the funds are co-mingled with the private sources used in the vertical construction budget. Additional monitoring and reporting to ensure wage rate compliance will also require significant time and costs from HRB or the master developer.

#### **IV. PRELIMINARY PROFORMA**

Based on the key decisions in Section II and assumptions described in Section III, BRIDGE prepared a preliminary proforma to illustrate how the value of the land donated by the City of Bainbridge Island, the State capital budget appropriation, and revenues from for-sale units can help leverage private debt, private equity, master developer contributions, philanthropy and other resources.

##### **General Assumptions**

- The master developer selected by HRB will develop a minimum of 60 rental units given the high demand for affordable rental housing and to achieve economies of scale. 75% of these units would be configured as rental properties for very low income households earning 50% of Area Median Income (AMI) while the remaining 25% serve low income households earning 80% of AMI. This configuration utilizes income averaging to qualify for Low-Income Housing Tax Credits, aligns with the funding priorities of Kitsap County, and allows the property to qualify for the state's non-profit affordable housing tax exemption which requires at least 75% of units to serve very low-income households.<sup>9</sup> We also anticipate some of these units will be set aside for an appropriate special needs population, such as seniors, and one will be set aside for the on-site property manager.
- HRB, with support from the master developer, will develop the remaining units as for-sale homes. These units would be sold to moderate and middle-income households earning up to 140% of AMI.
- The master developer will construct horizontal infrastructure for both the for-sale and rental units and will be reimbursed by HRB on a pro-rata basis (e.g. by number of units or gross square footage) on a full cost recovery (no profit-no loss) basis.
- The community building and amenity space, while open to residents of both the for-sale and rental units alike, will be paid for as part of the rental phase of the project.
- The project is exempt from Federal prevailing wage requirements due to the limited amount of HOME, CDBG, and project-based vouchers used. State and local sources are also not anticipated to require prevailing wage.
- City land will be leased by HRB and the master developer for \$1.00 for 99 years, with the option to extend if long-term commitments to affordability are met.

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<sup>9</sup> Very low income for purposes of Washington State Law is defined as 0-50% of the Area Median Income, indexed by family size and published by the US Department of Housing & Urban Development annually.

- A homeowner association will be formed by the master developer and HRB, it will be funded on a pro-rata basis (e.g. by number of units or gross square footage) and be responsible for the operations and maintenance of common areas.
- The City of Bainbridge Island or another entity such as the Bainbridge Island Metro Park and Recreation District will fund, develop, and manage the open space independently from the affordable housing components.

**Rental Component**

The proforma for the Base Case and the recommended alternative assumes 60 units of rental housing and 1 unit for an on-site property manager relying on equity generated by 4% Low Income Housing Tax Credits, a tax-exempt bond supported by rental revenues, and revenues from the sale of for-sale units. Additionally, the City, County, and State will provide grants or fee waivers.

**RENTAL COMPONENT – PRELIMINARY SOURCES – BASE CASE (61 UNITS)**

	<b>Construction Period</b>	<b>Permanent Period</b>
Permanent Mortgage	-	\$4,710,290
Construction Loan	\$14,572,656	-
Revenues from For-Sale Units	-	\$4,445,985
City of Bainbridge Island Fee Waivers	\$844,729	\$844,729
Kitsap County HOME	\$500,000	\$500,000
Kitsap County CDBG	\$500,000	\$500,000
State Capital Budget Request	\$1,000,000	\$2,597,052
Investor Equity - Tax Credits - 4%	\$600,345	\$6,003,451
Developer Contribution	-	\$1,006,754
Deferred Developer Fee	-	\$139,323
<b>TOTAL SOURCES</b>	<b>\$18,017,729</b>	<b>\$20,747,584</b>
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- **Construction Loan (\$14.6 million):** During the construction period, the primary source of funding will be a tax-exempt bond-funded construction loan. The proforma assumes a construction loan of approximately \$14.6 million at 4.75% interest for a 12-month construction period, 3-month lease-up period and 3-month period to close permanent financing. It is assumed that bonds will be purchased by a financial institution in a private placement transaction.
- **Permanent Mortgage (\$4.7 million):** The permanent loans are a combination of tax exempt and taxable loans. The tax-exempt mortgage supported by project rents totals \$4.7 million, including \$0.6 million that is supported by revenues from 8 project-based vouchers from Housing Kitsap. This loan is underwritten at a 5% interest rate and 35-year amortization.
- **Revenues from For-Sale Units (\$4.5 million):** BRIDGE assumed that HRB will develop and sell 30 units to middle-income households earning 140% AMI, generating \$4.5

million in surplus revenues that can cross-subsidize the rental component. The actual number of units and income bands served will depend on the rental project's ability to obtain City, County, and State funds. See the "For-Sale Component" section below for detailed assumptions on pricing and target population, including revenues generated under the 100-unit alternative.

- **City of Bainbridge Island Fee Waivers (\$845,000):** Based on the City's permit fee schedules, we have budgeted \$845,000 for transportation impact fees, water and sewer system participation fees, building permit fees, plan check fees, and subdivision fees. Based on recommendations from the City's Affordable Housing Task Force final report issued in July 2018, we assume the City will work with relevant jurisdictions and agencies to waive these fees for affordable housing projects such as the Suzuki site.
- **Kitsap County HOME (\$500,000):** Kitsap County has historically awarded \$180,000 to \$500,000 of HOME funds per project, including awards over multiple funding cycles. The 2020 CDBG/HOME Policy Plan prioritizes affordable housing serving households earning 50% AMI or below, which is well aligned with the proposed income mix. Given the project's scale, income mix, and support from the City and HRB, we have assumed the maximum award.
- **Kitsap County CDBG (\$500,000):** Kitsap County has historically awarded up to \$250,000 of Community Development Block Grants (CDBG) for a capital project. The 2020 CDBG/HOME Policy Plan prioritizes affordable housing serving households earning 50% AMI or below, which is well aligned with the proposed income mix. Given the project's scale, income mix, and support from the City and HRB, we assumed the project will receive an award of approximately \$500,000 over multiple funding cycles.
- **State Capital Budget Request (\$2.6 million):** As discussed in Section II, a State Capital Budget earmark is essential to the project's financial feasibility. State legislators typically have \$2 million for capital projects. Most earmarks have been \$1 million or less, with priority for innovative projects that serve a special population (e.g. supportive senior housing) but do not align with the priorities of the State Department of Commerce's Housing Trust Fund. Assuming a robust effort by local elected officials, we estimate it may take as long as one to two legislative cycles to receive an appropriation and it will likely consist of multiple earmarks to different components of the project (e.g. for-sale, rental, community building). Under the Base Case, the project has a funding gap and requires a State Capital Budget request of \$2.6 million. In the analysis below, BRIDGE also evaluated a 100-unit recommended alternative that only requires \$1.2 million in State Capital Budget support.
- **4% Low Income Housing Tax Credit Equity (\$6 million):** Total equity raised from federal credits is estimated to be approximately \$6 million using a pricing assumption of \$0.95 per dollar of credit. We assume that the project will qualify for tax credits via income averaging which allows for units serving households earning up to 80% AMI. 10% of the tax credit equity will be available during the construction phase.
- **Developer Contribution (\$1 million):** The developer will maximize its developer fee under Washington State Housing Finance Commission tax credit program guidelines but recontribute \$1 million in excess fees back into the project. This unique structure

increases the nominal amount of developer fee and therefore increases the amount of eligible basis and Low Income Housing Tax Credits generated for the project. BRIDGE has utilized this structure for most of its projects in California and is currently funding a Seattle project with a similar approach.

- **Deferred Developer Fee (\$140,000):** The developer will contribute \$140,000 of its developer fee as a project financing source, with repayment coming from cash flow during the first 12 years of operation.

BRIDGE also evaluated other local and State funding sources that are less aligned with the project's target population. Unless the project changes substantially to serve other populations (e.g. formerly homeless, mentally ill, veterans), the project is unlikely to be competitive for these funding sources.

- **Kitsap County AHGP/HHGP:** Kitsap County awards approximately \$250,000 a year through its Affordable Housing Grant Program (AHGP) and has historically prioritized operations and maintenance rather than capital construction. The Homeless Housing Grant Program (HHGP) has awarded \$800,000-\$1 million each year. Given the project's need for capital funds and target population, we do not believe it will be competitive for either program.
- **State Housing Trust Fund:** The State Department of Commerce manages the Housing Trust Fund. For the 2019 funding cycle, which BRIDGE believes is indicative of future cycles, the fund prioritizes housing for (in order of priority):
  - People with behavioral and chronic mental illness;
  - Veterans;
  - People with developmental disabilities;
  - Farmworkers;
  - Other special needs (e.g. seniors, domestic violence survivors, unaccompanied youth);
  - General low-income populations.

There is additional preference for homeless populations. Since the project intends to serve the State's lowest priority population, we do not believe the project will be competitive.

- **Federal Home Loan Bank Affordable Housing Program:** The Federal Home Loan Bank of Des Moines, whose district includes Washington State, awards up to \$1 million for affordable housing projects. Its 2019 Implementation Plan, which BRIDGE believes is indicative of future cycles, prioritizes funding for projects with 20%+ units serving households earning 50% AMI, 20%+ units for formerly homeless households, 20%+ units serving special needs populations (e.g. seniors, households that are mentally ill or suffer from substance or physical abuse) as well as projects serving Native Americans or farmworkers. Recently funded projects have received at least 59 out of 100 points. In order to be competitive, the City and HRB must significantly revise its target population to include a special population such as formerly homeless in addition to the currently envisioned population of households earning 50% AMI or less and seniors.

**For Sale Component**

To support a mixed-income community and generate subsidies for the rental component in the Base Case, we assumed that HRB, with support the master developer, will develop 30 units for households earning up to 140% AMI. For-sale units will be developed and sold under HRB’s existing homeownership program, which allows residents to purchase the home and lease the underlying land from a community land trust controlled by HRB. While HRB has historically served moderate-income households earning up to 120% AMI, the funding gap of the rental component will require the developed to serve middle-income households earning up to 140% AMI. Below is an illustrative for-sale program. The actual program will depend on units built, income mix, and remaining funding gap for the rental component after City, County, and State resources are committed.

<b>Area Median Income</b>	<b>Annual Income</b>	<b>For-Sale Units</b>	<b>Sales Price</b>
140%	\$107,800 (3-person)	10	\$514,188
<u>140%</u>	<u>\$119,700 (4-person)</u>	<u>20</u>	<u>\$572,995</u>
Total Revenues			\$16,601,786
Total Costs			\$12,155,802
<b>Net Surplus</b>			<b>\$4,445,985</b> =====

BRIDGE estimates that pricing for a townhome will range from \$514,000 for a 2-bedroom up to \$573,000 for a 3-bedroom, well below the median price of homes on Bainbridge Island. Pricing was established using HRB’s homeownership program guidelines, which assumes that households will pay no more than 35% of their annual income for principal and interest (4.25% for a 30-year mortgage with 5% down payment), taxes (0.96% of property value), homeowner association fees (\$25/month), ground lease fee (\$50/month), repair reserve fee (\$50/month), and utilities (based on Kitsap County utility allowance schedule for townhomes).

Due to the challenging of obtaining a State Capital Budget appropriation of \$2.6 million for the rental component, BRIDGE also analyzed a 100-unit alternative that allow for 39 for-sale townhomes. The additional 9 units is expected to generate a \$5.8 million surplus, reducing the project’s funding gap from \$2.6 million to \$1.2 million, a significantly smaller and more reasonable request for the State Capital Budget.

<b>Area Median Income</b>	<b>Annual Income</b>	<b>For-Sale Units</b>	<b>Sales Price</b>
140%	\$107,800 (3-person)	13	\$514,188
<u>140%</u>	<u>\$119,700 (4-person)</u>	<u>26</u>	<u>\$572,995</u>
Total Revenues			\$21,582,322
Total Costs			\$15,788,099
<b>Net Surplus</b>			<b>\$5,794,223</b>
			=====



*Site plan for the 100-unit recommended alternative; Source: Davis Studio Architecture & Design*

Based on our analysis of the 91-unit and 100-unit alternatives, BRIDGE recommends that the City and HRB reassess the Base Case site plan for opportunities to provide additional for-sale units while protecting the open space preserve. Absent an increase in for-sale units, the City and HRB may need to consider serving higher income households, selling market-rate homes, raising philanthropy, or obtaining a larger State appropriation.