

RESOLUTION NO. 2008-25

A RESOLUTION of the City of Bainbridge Island, Washington, relating to adoption of a Housing Trust Fund Policy Plan to guide the management, establishment of funding priorities, and administration of the Housing Trust Fund outlined in Chapter 3.38 of the Bainbridge Island Municipal Code to support the development and preservation of affordable housing in accordance with the City's Comprehensive Plan

WHEREAS, the City of Bainbridge Island (the "City") adopted a Comprehensive Plan on September 1, 1994, which establishes the long-range vision for the island and identifies the important characteristics that the community desires to retain, promote and foster; and

WHEREAS, the City adopted an updated Comprehensive Plan on December 8, 2004; and

WHEREAS, the City's Comprehensive Plan, required by the Growth Management Act, includes a Housing Element that establishes goals and policies for the provision of housing for the citizens and the City; and

WHEREAS, a 90-Day Mayor's Committee recommended the framework for a local source and use of funding for the City for Bainbridge Island Housing Trust Fund; and

WHEREAS, it is in the public interest to establish the City of Bainbridge Island Housing Trust Fund for the promotion, retention, preservation and creation of affordable housing as defined in BIMC 18.06.565 and for the accomplishment of other public purposes as set out in the Comprehensive Plan; and

WHEREAS, the City Council established a new chapter of the Bainbridge Island Municipal Code, Chapter 3.38, that establishes a special revenue fund to be designated as the "Affordable Housing Fund"; and

WHEREAS, the Advisory Board outlined in BIMC Chapter 3.38.050, and the Housing Trust Fund Executive Committee, which consists of volunteers appointed by the City to administer this sub-fund, jointly reviewed, the existing policy plan and completed its review of the management, funding priority and administration goals set forth therein; and

WHEREAS, this plan shall be officially designated the “Housing Trust Fund Policy Plan” to guide the City of Bainbridge Island’s contribution to affordable housing for the poor and infirm; now, therefore

THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND, WASHINGTON, DO ORDAIN, AS FOLLOWS:

Section 1. The Housing Trust Fund Policy Plan is hereby added as the official policy guide as follows:

“PURPOSE AND MISSION OF THE CITY OF BAINBRIDGE ISLAND HOUSING TRUST FUND

“The mission of the Housing Trust Fund is to ...encourage development of moderate and lower income housing and to provide funding for income groups not serviced by other funding sources currently available.”

“...The targets of the Housing Trust Fund are those households on which the Island depends upon as clerks, teachers, public employees, wait staff, artists, crafts people, skilled workers...In short, those people who make the Island run day to day in an interesting and economically viable way.”

- Mayor’s 1998 Housing Trust Fund 90 Day Study.

Sources of Funding

The City of Bainbridge Island Housing Trust Fund (“BIHTF”) is a funding source to support the development of affordable housing within the City of Bainbridge Island. There are three revenue sources that capitalize the BIHTF.

1. *Private Contributions.* Private donations are accepted from any individual, organization or group.
2. *City Matching Funds.* The second source is a dollar for dollar match of the private contributions made to the BIHTF by the City of Bainbridge Island from general funds.
3. *City Funds.* A third source is the City of Bainbridge Island. The City of Bainbridge Island shall work with the BIHTF Executive Committee to help provide stable funding. This will include, but not be limited to, payments of fee-in-lieu related to the inclusive (inclusionary) housing ordinance and annual funding requests in the budget. The City funds shall help the BIHTF to meet funding targets as set by the BIHTF Executive Committee, which will help to ensure regular funding opportunities.

BIHTF Management

These are three agencies with roles in the financial decisions involving BIHTF funds:

1. Health, Housing and Human Services Council (“HHHS”);
2. BIHTF Executive Committee, supported by a Financial Advisor that is appointed by the BIHTF and the Mayor; and
3. Bainbridge Island City Council.

HHHS holds one non-voting position on the Executive Committee.

The remainder of the Executive Committee is comprised of five to seven citizens at-large. The Committee reviews the applications for funding. Their findings and recommendations are submitted to the City Council for final approval. Should they wish, the BIHTF Executive Committee may utilize the services of a Financial Advisor in reviewing any applications they deem necessary due to the complex nature of the application or project. Additionally, the BIHTF Executive Committee may convene, with the help of HHHS and City Staff, a Citizen Advisory Board (“CAB”) to review any applications for additional community input.

The City Council is the final authority regarding the use of BIHTF funds.

In its first few years, the HTF conducted one open, competitive funding round each year. Since the BIHTF Executive Committee determined that the HTF process should be flexible to be able to respond quickly to certain requests for funding, emergency requests may be made on an “as needed basis” throughout the year.

Eligible Applicants

The BIHTF provides assistance to:

- Non-profit organizations
- For-profit developers
- Public housing authorities
- Public development authorities
- Partnerships of any combination of the above.

Use of Funds

BIHTF assistance may be used for:

- Acquisition of real property for affordable housing
- Construction of affordable housing
- Rehabilitation of existing structures to be used for affordable housing
- Refinancing of existing loans.
- Seed money to facilitate affordable housing projects, including but not limited to due diligence and design.

Benefit

The City's funds may be used only to assist projects benefiting households whose incomes are at or below 80% of median income as outlined in the BIMC 3.38.015 and 18.06.565. Eligible projects may include housing that is available to households with incomes above 80% of the median. However, the applicant must demonstrate that the benefit resulting from public funds in the BIHTF is restricted to households with incomes at or below 80% of the area median income. Notwithstanding this restriction, private funds donated to the Housing Trust Fund may be used to assist households below middle income as defined in BIMC 3.38.015 and 18.06.565.

Form of Assistance (loan/grant)

Funds can be given to the applicant in the form of a grant, deferred loans or repaid over time as amortized loans at attractive interest rates. The type of assistance will be determined by the applicant and evaluated by the criteria contained in this Plan. The applicant requests the type of assistance they believe will best serve their project. The final determination as to the type of assistance will be made by the City Council.

Policies

Consistency with Bainbridge Island Housing Needs/Goals

The City of Bainbridge Island housing goals, policies and objectives are set forth in its Comprehensive Plan. Proposals are evaluated for consistency with these policies. In addition, the 1998 Mayor's 90-day Committee recommended a long-term objective that funds be distributed proportionally between several types of housing (i.e., rental, transitional, home ownership).

Key issues include:

- Is the project consistent with local housing goals and policies?
- Has the community already taken some steps to help initiate the proposal, or expressed support for the proposal?

Timeliness

Can the components of the project described in the application, individually and collectively, be delivered in an appropriate time frame? Is the applicant premature in requesting funding?

Key issues include:

- What are the time frames for commitment of funding sources?
- Does site control cover all the time frames for funding commitment?
- How soon will the project be ready to go?
- If the project is in the early stages of the development process, does making a commitment now help the project in any way (e.g., help to secure other funding)?
- Are there any warning flags that suggest possible delay? If so, have they been accounted for, or could they adversely affect the proposal?

Level of Affordability

The applicant must identify the income (expressed as a percentage of the Seattle MSA median income) of the intended tenants. Key issues to evaluate include:

- Are the tenants low-income?
- Are the proposed rents (including utilities) affordable to the proposed tenants?
- If applicable, have the proposed rents been compared to the existing rents in the project?
- Has there been a comparison of proposed rents to average rents in the project’s local area?

Displacement/Relocation

This section only applies to "existing" residential units, and new construction that requires displacement of households. It also does not apply to vacant units. If existing tenants are displaced or must be relocated, they may be eligible for financial compensation.

The key issues include:

- Will temporary or permanent displacement/relocation occur?
- Is there a reasonable plan to address any potential displacement/relocation?
- Have all reasonable efforts been made to avoid/reduce displacement/relocation?

I. PRIORITIES

The following is a list of criteria that establish the priorities funding. The criteria will be assigned a “weighting” value and be used in conjunction with the criteria for feasibility to establish an overall score and ranking.

| | | | |
|----|--|-------|---|
| 1. | Creates permanently affordable housing, i.e.: | | |
| | * 30 Year Commitment or more | | 5 |
| | * 15 - 29 Year Commitment | | 3 |
| 2. | Provides rental housing (The lower the income served the higher the score) | Up To | 5 |
| 3. | Provides home ownership opportunities | Up To | 5 |
| 4. | Provides mixed-income housing to more than one income level within a single development (The lower the income the higher the score) | Up To | 5 |
| 5. | Demonstrates a high degree of leverage of other funding sources | | |
| | * Less than 5% of overall budget requested | | 5 |
| | * 5% to 10% of overall budget requested | | 3 |
| | * Greater than 10% of overall budget | | 0 |
| 6. | Type of Funding Requested | | |

| | | | |
|-----|--|-------|-----------|
| | * Bridge Loan | | 5 |
| | * Amortized Loan | | 3 |
| | * Grant | | 1 |
| 7. | How well does this project preserve existing Affordable housing opportunities? (The lower the income served the higher the score) | Up To | 5 |
| 8. | Makes existing housing more affordable (The lower the income served the higher the score) | Up To | 5 |
| 9. | Provides a continuum of housing (i.e. shelter or transitional housing, nursing homes, aging-in-place) | Up To | 5 |
| 10. | Duration of HTF Commitment (The shorter the period the higher the score) | Up To | 5 |
| 11. | Number of Units Proposed (The higher the number of units the higher the score) | Up To | 5 |
| 12. | Per Unit Amount of BIHTF Funds Requested (The higher the amount, the lower the score) | Up To | 5 |
| 13. | Total Cost/ Unit (The higher the cost/unit, the lower the score) | Up To | <u>5</u> |
| | Maximum Points Achievable | | 65 |

II. FEASIBILITY

The following criteria will provide a basis for determining whether the project and organization is capable of accomplishing established goals in a reasonable time frame. The City's housing planner will assist the BIHTF Executive Committee in their evaluation of proposals using the following criteria.

A. Organization/Team (15 points maximum)

A successful project starts with a sponsor who is experienced and well organized. When appropriate, the sponsor may pull in other players for the team to help with the project, as well as to operate it after construction. By knowing who is involved in project development, and who will be involved in operating the project after construction, the BIHTF Executive Committee is more able to evaluate the potential success of the proposal.

Key issues include:

- Are the key team members identified -- do they have the right experience?
- Does the sponsor have experience developing projects like the proposal? If not, has the sponsor brought in team members that have appropriate experience?
- Is the construction manager identified -- does she/he have sufficient and successful prior experience?

- For providing housing-related social services, are the agencies/individuals identified, and do they have the appropriate skills?
- Will the proposal have the potential to increase the capacity of the sponsor thus increasing the area's overall organizational capacity to provide affordable housing?

B. Budgets (60 points maximum)

There are numerous elements to any project budget. The various elements of the budgets are evaluated to determine whether the proponent has carefully considered all costs associated with the project such as reasonableness of costs, timeliness and matching or leveraged funds.

1. Development Budget (20 points maximum)

Applicants must provide detailed breakdowns of development costs.

The development budget will be evaluated and scored based upon criteria such as:

- Completeness - are all line items addressed?
- Do any of the line items appear to stand out (too high or too low)?
- Are the overall per unit costs reasonable?
- Are the BIHTF per unit costs reasonable?
- How do the Costs compare with other projects with similar type work?
- Are the BIHTF costs eligible for CDBG fund use?

2. Operations/ Support Services Budget (20 points maximum)

The purpose of this budget is to show all the costs associated with the daily operation and management of the project after it is completed, such as staff, supplies, insurance, professional services, utilities, repairs, reserves and the like.

Evaluation criteria include:

- Completeness - are all of the costs included, or are important items missing?
- Is the vacancy rate built into the rent income project appropriate?
- Are there "rainy day" funds (operating reserves and replacement reserves)?
- Do the costs provided appear reasonable?
- Continuity - will the budget support maintenance and operations for the life of the project?
- Is the net operating income sufficient for the projected debt service?
- Is there a positive cash flow (e.g., for projects with debt is there an appropriate debt coverage ratio)?

For some projects, support services are an integral part of the housing program. In these cases, information is requested on the support services budget. The purpose of this budget is to identify all the casework, assessment, counseling, training/seminars, and other support services which are provided by the sponsor or by another agency (for or in cooperation with the sponsor). These may be provided on or off-site.

Key issues to evaluate include:

- Does the support services budget account for all services provided?
- Are the funding sources for the support services realistic?
- Is funding for support services potentially available on an ongoing basis? If not, what plans does the sponsor have in the event a specific funding source is lost?

3. Funding Sources, Uses and Commitments (20 points maximum)

Most projects begin with a series of cost estimates useful for conceptualizing and preliminary review. Yet before funds are actually committed to a project, costs are verified. An appraisal, the Purchase and Sale Agreement, inspection reports, bids and the like, give certainty to costs - and confidence that there won't be any financial surprises down the road. To the extent confirming information (e.g., appraisal) is not provided with the application, conditions will be included in the contract requiring the missing information be provided prior to receiving local funds.

Key issues include:

- Are the cost confirmations current?
- Who performed the confirmations?
- Do the confirmations verify the proposed project?

In this section, the applicant identifies the amounts and sources of all the funds required for development of the project. The applicant also provides the current status of the funds -- whether they have been approved (or not) for the project.

Key issues include:

- Does the total of all sources equal the total of the development budget?
- Does the ratio of BIHTF dollars to other dollars seem high/have other potential sources of funding been reasonably assumed?
- Are private funding sources included at a reasonable level?
- Is it realistic to expect other public funding sources to commit at the level indicated?
- Does the schedule for the commitment of other funds seem timely?
- Is there too much dependence upon a single funding source?

C. Management Plan (15 points maximum)

This section addresses management staff, tenant selection, tenant involvement with management decision-making (such as tenant councils, apartment manager, etc.), terms of occupancy, routine facility maintenance, and (if emergency or transitional housing) what are the support service provisions for the proposal.

Key issues to be evaluated include:

- Are the daily and overall management provisions clearly set forth and sound?
- Do the provisions (including, if appropriate, the availability of services) seem appropriate for the type of facility?

- If support services are included, how are they integrated into the project?
- Do the tenants have reasonable opportunities for interaction with management?

D. Site Control/Site Issues (10 points maximum)

Does the applicant have the "right" to use the property as proposed? This evaluation also includes the appropriateness of the site for the proposed use.

Key evaluation criteria include:

- Is there formal site control (e.g., ownership, binding option or purchase agreement)?
- Does the agreement allow sufficient time for the project to secure all financing, permits, etc.?
- Is the proposed use allowed under local land use regulations - applicants are required to provide information confirming that the proposed use is allowed (letter from, etc.)?
- Is the site appropriate for the proposed use (e.g., is there access to necessary services for residents)?
- Potentially significant site constraints must be identified and addressed.

Underwriting

Underwriting criteria establish the documentation and other relevant information required to evaluate project feasibility and to ensure that funds are not made available until certain conditions are met, therefore minimizing the likelihood a project will not be completed.

Good underwriting can also maximize the City's ability to protect its long-term interests in the property such as maintaining affordability, sound property maintenance, and ensure repayment or recapture of BIHTF funds. Finally, underwriting criteria will determine in what form funds will be made available (e.g., grant, amortized loan, or deferred loan). These underwriting criteria are incorporated into the funding contract, the promissory note and/or regulatory agreement.

Funds can be given to the applicant in the form of a grant, or repaid over time in the form of an amortized or "deferred" loan.

Key criteria include:

- Does the project have enough cash flow initially to make loan repayments immediately?
- Does the project have the potential to increase cash flow in the future, thus allowing repayment at some future point in time, or when certain cash flow standards are achieved (e.g., net operating income is greater than a predetermined percentage of gross income)?
- Would loan repayment affect affordability in the project?
- Is a project incapable of repayment due to the income of the residents (e.g., transitional housing, very low-income families, or handicapped individuals)?

Formal Agreements

Legal agreements (contracts, promissory note, deeds of trust and regulatory agreements) are used to formalize the financial relationship between the lender, the City of Bainbridge Island, and the recipient.

Key elements of these agreements include:

Contract:

- Lists conditions (as described above) that must be met prior to releasing funds (e.g. other funding commitments, permits, final budgets).
- All funding conditions must be met before funds are released.
- Any significant revision to the scope of work or budget must be submitted for review and approval of the BIHTF Executive Committee.
- Establishes time frames in which key steps must be completed or funding reservation can be withdrawn unless an extension is approved by the BIHTF Executive Committee.
- Establishes timing/procedures for drawing funds. (In what proportion local funds will be drawn relative to other finding sources. For example, for private developers, developer funds may be expected to be spent proportionally to local funds).
- City can recapture any BIHTF monies not expended or not used for intended purposes.
- Allows that a percentage of total funds may be withheld until substantial completion of funded activities.
- Upon final completion of funded activities, a final report shall be submitted to the BIHTF Executive Committee within the calendar year that demonstrates in text, pictures, and/or graphics how the project scope has been carried out to completion.

Promissory Note:

- Establishes any terms for repayment of funds.
- Secured by recorded deed of trust.
- City can cure defaults on any “senior” loans.
- Subordinates City loan to “senior” loans (typically private loans).
- Funds made available as a non-recourse loan to applicant.

Regulatory Agreement:

- Recorded agreement, establishing the levels, duration and terms of affordability.
- Specifies project’s monitoring/reporting obligations.
- If an ownership project, establishes process for resale, and how to calculate future affordable price.”

Section 2. If any section, sentence, clause or phrase of this resolution shall be held to be invalid or unconstitutional by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of any other section, sentence, clause or phrase of this resolution.

PASSED by the City Council this 10th day of September, 2008.

APPROVED by the Mayor this 11th day of September, 2008.

Darlene Kordonowy, Mayor

ATTEST/AUTHENTICATE:

Rosalind D. Lassoff, CMC, City Clerk

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| FILED WITH THE CITY CLERK: | September 3, 2008 |
| PASSED BY THE CITY COUNCIL: | September 10, 2008 |
| RESOLUTION NO.: | 2008-25 |