



# REPORT

**DATE:** For the Agenda of March 22, 2002 **ITEM 104**

**REPORT NO.:** HCR02-017

**SUBJECT:** Update on FY02 Rental Housing Notice of Funding Availability (Citywide)

## SUMMARY

**Issue:** Should the maximum loan limit of the Fiscal Year 2002 Rental Housing Notice of Funding Availability be changed?

**Recommendation:** It is recommended that the maximum loan limit be changed from \$1 million per project back to the customary \$2 million per project.

**Fiscal Impact:** None at this time.

**Previous Related Action:** On October 12, 2001, the Housing Commission approved a temporary loan limit of \$1 million per project (Housing Commission Report 01-106, "Determination of Housing Commission Priorities for the FY02 Rental Housing Loan Program"). On February 1, 2002 and March 1, 2002 the Commission discussed the use of unrestricted funds at budget planning workshop sessions.

## BACKGROUND

The Housing Commission solicits interest in loans for rental housing development through a Notice of Funding Availability (NOFA) process.

To capitalize on opportunities in Fiscal Year 2001, over \$21 million was committed to NOFA projects. This extremely high level of lending activity used up funds that would have been available for the FY02 NOFA.

To avoid shutting down the housing production pipeline in FY02, a decision was made to: 1) reduce the maximum loan per project to \$1 million (from the usual \$2



million); and 2) fund the NOFA with \$3 million in forward commitments of FY03 funds.

## **DISCUSSION**

Rental Housing NOFA funds are used to cover the difference (or “gap”) between the debt that project rents can support and the cost of developing a project. For FY02, a temporary restriction on the maximum loan amount was put in place to assure that the limited funds available would be committed to the greatest possible number of projects. Now that budget projections for Fiscal Year 2003 are in place and staff have a better understanding of the current demand for funds, it is recommended that the maximum loan per project be raised to \$2 million.

Projects “screened out” by the \$1 million loan cap tend to be larger projects and new construction projects that are seeking an award of federal tax credits. Projects that include federal tax credits offer superior leveraging opportunities for Housing Commission loans. Several developers have told staff that they did not pursue projects in the City this year because of the \$1 million loan limit. This increase in the loan limit would allow a greater variety of projects to seek Housing Commission funding.

For the remainder of this calendar year, reservations of tax credits won't be known until late summer. By that time, FY03 funds will be available and there will be no need to exercise a forward commitment of FY03 funds.

## **ALTERNATIVE**

Leave the \$1 million loan ceiling in place. This will restrict the size of rental housing projects considered for funding.

Submitted by,

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