



## Affordable Housing Committee Staff Report - SUPPLEMENTAL

<b>AGENDA TITLE:</b>	Consideration of the proposed \$4,000,000 loan from the Affordable Housing Fund in support of the Villages at Bilby affordable apartment complex <i>Project location: approximately the northeast corner of Big Horn Blvd and Bilby Road</i>
<b>MEETING DATE:</b>	June 9, 2021
<b>PREPARED BY:</b>	Sarah Bontrager, Housing and Public Services Manager

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This staff report supplements the report provided on June 4, 2021, and specifically focuses on changes in the proposed unit sizes for the Villages at Bilby I project. Please refer back to the original staff report for definitions of any capitalized terms used in this report.

Just prior to publication of the June 4 staff report, the Developer submitted a new site plan for Villages at Bilby I based on consultation with their architecture and civil engineering firm. The new site plan made adjustments for open space requirements and Sacramento Regional Transit right-of-way, among other considerations, and necessitated changing the unit mix to replace some one-, two-, and three-bedroom units with studio units. At this time, only Villages at Bilby I is impacted; no changes are expected to Villages at Bilby II.

Following the circulation of the staff report, the Developer provided an updated pro forma and project cost estimate (Attachment 1). This supplemental staff report presents information and analysis on the potential impacts of the proposed changes to the unit mix. An updated loan term sheet for Villages at Bilby I (Attachment 2) that reflects the new proposed unit mix is attached.

### **Project Summary**

The original staff report included a project summary. Table 1 updates that project summary, with changes shown in red text. The project summary combines the two phases, but only Villages at Bilby I had proposed changes.

### **Analysis of Changes**

The most significant change is to the unit mix and sizes. While some of the units, primarily one-bedroom units, were replaced by studio units, the total number of units remained consistent. Square footage per unit increased for one- and two-bedroom units, while falling for three-bedroom units. The square footage of under either proposal is consistent with existing affordable housing in the City. Given high demand for affordable housing, the changes to the type of unit and to the size of units is not anticipated to negatively impact demand. The Developer will obtain an updated market study confirming the viability of leasing the units as proposed.

**Table 1**  
**Villages at Bilby Project Summary**

	Gardens at Quail Run					
Developer	<b>Pacific West Communities, Inc.</b> Idaho-based for-profit affordable housing developer with more than 140 affordable properties in the Western US. In Elk Grove, they have developed three projects: Avery Gardens (opened in 2015), Bow Street Apartments (2019), and Gardens at Quail Run (2021). A fourth project, Gardens at Quail Run II, is moving forward without City subsidy.					
Nonprofit Partner	<b>Riverside Charitable Corporation</b> Southern California-based nonprofit focused on assisting with the development of affordable housing. They will provide on-site social services at the project under the LifeSTEPS model.					
Location	Portion of 10220 W Stockton Blvd (northeast corner of Big Horn Blvd and Bilby Rd)					
Nearby amenities	Will be adjacent to single-family homes and a park (both proposed). Nearest middle/high school about 0.9 miles away; nearest elementary school is 1.4 miles away. Very limited shopping/dining options, though some would likely be built nearby.					
Type of project	Family					
Affordable unit description <sup>1</sup>	<b>Affordability Level (% of AMI)</b>	<b>Total</b>	<b>Studio</b>	<b>1BD</b>	<b>2BD</b>	<b>3BD</b>
	30%	14	1	5	4	4
	40%	20	1	8	5	6
	50%	50	6	14	15	15
	60%	41	4	12	13	12
	<b>TOTAL</b>	<b>125</b>	<b>12</b>	<b>39</b>	<b>37</b>	<b>37</b>
Total number affordable units	125					
Total residential square footage	99,300					
Total project cost	\$47,422,113					
Construction cost	\$30,224,284					
Cost per unit	\$376,366					
Cost per residential sq. ft.	\$477.56					
Loan request	\$4,000,000 <sup>2</sup>					
City subsidy per affordable unit	\$32,000 (8%)					
Other financing/subsidy <sup>3</sup>	\$37,942,113 – 9% tax credits \$5,480,000 – permanent loan					
Project amenities	Community building with fitness equipment and computers, swimming pool, bocce ball court, and children’s play area					
Social services offered	Minimum of 15 hours per week of on-site supportive services, including up to 10 hours per week of after-school programming					
Site control status	Purchase agreement expiring December 14, 2022					

1 The project also includes one two-bedroom manager unit, which is not income-restricted.  
 2 The project is anticipated to be developed in two phases, with each phase receiving a \$2 million loan.  
 3 As proposed, the City’s financing will be junior to the tax credit Land Use Restrictive Agreement and the \$5.5 million permanent loan. A phased approach would have senior loans of approximately \$3 million for the first phase and \$2.5 million for the second phase.

**Table 2**  
**Proposed Changes to Villages at Bilby I Units**

Unit type	Number of units			Unit square footage		
	Original	Proposed	Change	Original	Proposed	Change
Studio	-	12	+12	-	521	n/a
1BD	24	15	-9	568	664	+96
2BD	20	18	-2	780	825	+45
3BD	19	18	-1	1,077	1,017	-60

Most of the changes to the financing structure were relatively minor.

- The overall project cost was slightly reduced, by about \$177,000 (or 0.7 percent).
- Construction costs decreased by about \$157,000 (or 1 percent).
- The amount of tax credits to be received decreased by about \$650,000. This decrease is accommodated by the reduction in project cost and an increase in the anticipated permanent loan amount, which is projected to go from \$2.5 million to \$2.98 million.

Modifying the unit mix to replace some one-, two-, and three-bedroom units with studio units does have a negative impact on the project’s rental income, in that maximum monthly rent on studio units is lower than on larger units. In the revised pro forma, the Developer updated rents using the 2021 maximum rent levels, resulting in projected rental income of \$661,440 in the first year of operations. If the updated incomes were applied to the original unit mix, the project’s rental income would be \$672,348. The difference is relatively minor and not a cause of concern.

Under the revised financial projections, the project has a debt coverage ratio of 1.20 in its first year of operations, meeting the industry standard. The City’s projected loan payment in the first year is \$10,826, a decrease from the \$12,699 originally projected. This decrease is due primarily to the project’s higher debt service on its permanent loan amount. By year 15, the projected payment to the City under the new unit mix scenario slightly exceeds that of the original scenario. This is a minor change and annual loan payments have never been a primary source of affordable housing funding in Elk Grove. The majority of the City’s funding for affordable housing comes from impact fees on new residential development.

Staff does not have any significant concerns about the proposed changes to the unit mix in the project and a revised draft loan term sheet is included for the Committee’s consideration.

**ATTACHMENTS:**

1. Revised pro forma - Villages at Bilby I
2. Revised draft loan term sheet - Villages at Bilby I