King County

Housing Finance Program

2020 Capital Funding – Affordable Housing RFP

PROJECT REVIEW MEMO

I. OVERVIEW

1A. PROJECT INFO

Sponsor/owner	**Multi Service Center (MSC)**
Development consultant	**Shelter Resources**
Project name	**Redondo Heights TOD**
Project location	**27606 Pacific Highway South, Federal Way, 98003**

Project type..... ☒ **Rental** ☒**TOD** ☐ **PSH** ☐**HO** ☐ **DPA**

Project activity..... ☒ **New Construction** ☒ **Rehabilitation** ☒ **Acquisition**

Brief description

This is new construction of 72 units of affordable workforce housing. This project also includes acquisition of two adjacent existing apartment complexes, for a total of 334 total units.

1B. PROJECT COST

Total development cost (TDC)	**$118,577,062**
Total residential development cost	**$118,577,062**
Cost per residential unit/ per square foot	**$357,160/unit $381/square foot**
Total non-residential development cost	NA

1C. KING COUNTY REQUEST

King County Funds requested	**$3,000,000**
% of TDC/ Cost per unit	**3% of TDC / $29,940 cost per unit**
KC Loan term/ interest rate	**50 years/ 1% simple interest – hard pay**

Project applied for funding in prior rounds..... ☒ **YES** ☐ **NO**

Project previously awarded KC funds..... **$7,000,000**

Does request deviate from HFP guidelines.....☐ **YES** ☒ **NO**

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2019 award was for a 262-unit project, with two sites. This year's application adds a third site, 334 units, and requests an additional $3,000,000.

II. PROJECT DESCRIPTION

2A. HOUSING MODEL

of residential units/ managers/ total units..... **332 residential units, 2 manager units/ 334 Total**

Project total square feet/ # of floors..... **Existing and New all 3 floors,**

Project residential/commercial square feet..... **Residential 311,218 total sf / No commercial**

Unit distribution - Income & AMI

Unit/Income	30% AMI	40% AMI	50% AMI	60% AMI	80% AMI	Total	Mgr
Studio			2	2		4	
1 Bedroom			**64**	**26**		90	**2**
2 Bedroom			**112**	**48**		160	
3 Bedroom			**54**	**24**		78	
4 Bedroom							
Total			**232**	**100**		332	**2**

Average unit sizes/other type of units. ..... **132 Silver Shadows Acquisition, 130 units new construction site A, and 72 units new construction frontage site.**

Target population

The project will provide workforce housing to people earning 50 and 60 percent of the Area Median Income (AMI).

2B. CONSTRUCTION TYPE, SITE, & LOCALITY CHARACTERISTICS

Construction type..... ☒ **Wood Frame** ☐ **Steel Construction** ☐ **Combo**

Construction begins/ Construction period..... **9/01/22 start**

Evergreen Sustainable Design Std. (ESDS) Score..... **Clarification forthcoming.**

Project intends to meet higher energy standards (Net-Zero, Passive House, etc.) or include energy efficient systems (solar panels, water systems, etc.)?..... ☐ **YES** ☒ **NO**

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Development Processes

Is zoning compatible?.....☐ **YES** ☒ **NO**

A rezone is required. The City Planning Commission has reviewed the project and voted to move the rezone approval recommendation to the City Council.

Challenges in development of the site?..... ☐ **YES** ☒ **NO**

Neighborhood

Describe the neighborhood.....☐ **Single Family** ☐**Multifamily** ☐**Commercial** ☒**Mixed-use**

The project is located within ½ mile distance parameters from the proposed 272nd Star Lake Link Station and other neighborhood amenities including a Safeway, Bartell Drugs, public library, Chase Bank, Bank of America, various eateries, LA Fitness, and other retail stores. In addition to the proposed light rail station, Metro's Rapid Ride A-Line is located just to the north of the property.

Transit Oriented Development Eligible project?..... ☒ **YES** ☐ **NO**

- ○ ½ mile to high capacity transit?..... ☒ **YES** ☐ **NO**
- ○ Multi-modal?..... ☒ **YES** ☐ **NO**
- ○ Walk/transit score..... **62 / 39**
- ○ Close proximity to community resources and/or services? ☒ **YES** ☐ **NO**

The project is somewhat walkable, scoring a 62-walk score. Existing transit score is low at 39 and the area is considered bikeable. However, the project is located within ½ mile distance from the proposed 272nd Star Lake Link Station.

Nonresidential

Proposed commercial spaces?..... ☐ **YES** ☒ **NO**

Parking requirements?..... ☒ **YES** ☐ **NO**

A total of 565 parking stalls will be provided including 188 existing stalls at Silver Shadows. The balance will be new stalls a portion of which will be underground.

Environmental

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Environmental/site concerns

The Phase I identified the potential for both arsenic and petroleum contamination.

Proposed feasible mitigation measures (in budget) to address issues?..... ☒ **YES** ☐ **NO** ☐ **N/A**

Mitigation, if necessary is the same for both conditions which is removal of the contaminated soil. SRI has consulted with their engineer and contractor who have recommended setting a $228,087 placeholder in the budget.

Development Incentives & Restrictions

Development incentive programs in project location?..... ☐ **YES** ☒ **NO**

Restrictions in development?..... ☐ **YES** ☒ **NO**

2C. ROLES & RESPONSIBILITIES

Project development consultant? .....☒ **YES** ☐ **NO**

MSC is the project sponsor / owner and SRI is the development consultant. SRI has a long and successful history of affordable housing development across Washington State.

General contractor selection process

The project will use a request for qualifications process for the selection of a General Contractor. The selected Contractor will then enter into a pre-construction agreement with the owner to work with the design team to formalize pricing with the owner and the design team. The formalized pricing will include Contractor Design Build MEP, Life Safety, CCTV, and, low Voltage systems, etc. A stipulated sum Construction Contract will then be utilized.

Who will manage construction?

Len Brannen, President and sole shareholder of Shelter Resources, Inc. will be the principal link between construction and management activities in the project partnership. SRI developer Corey Baldwin has 10 years' experience in affordable housing and will oversee construction with architects, contractors and funders.

III. FINANCING & MARKET ANALYSIS

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3A. SOURCES & USES

Permanent Residential Sources of funding

Source	Proposed Amount	Committed Amount	TOTAL
King County	$3,000,000	$7,000,000	$10,000,000
Permanent Loan	$62,230,000		$62,230,000
4% Equity	$33,054,630		$33,054,630
Deferred Developer Fee	$10,644,427		$10,644,427
NOI During Construction	$2,648,005		$2,648,005
TOTAL	$111,577,062	$7,000,000	$118,577,062

Proposed commercial spaces?..... ☐ **YES** ☒ **NO**

Permanent Residential Uses of funding

Type	Amount	Comments
Acquisition Costs	$37,025,000	
Construction/ Rehab Costs	$49,613,318	
Soft Costs	$17,124,580	
Financing Costs	$6,766,168	
Capitalized Reserves	$2,523,092	
Other Development Costs	$887,319	
TOTAL	$118,577,062	

3B. COST EFFECTIVENESS

Appraisal, Acquisition, & Construction

Appraised value/date/tax assessor value..... $31,770,000 (all three sites)

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Appraisal value greater than (or equal to) acquisition costs?..... ☒ **YES** ☐ **NO**

Developer fee..... $13,948,484

$10.6 million loaned back to project as deferred developer fee.

Is project subject WSHFC TDC limits?..... ☒ **YES** ☐ **NO**

TDC is below the WSFHC Limits.

Third-Party Construction Consultant Report

Notable departures in construction costs with comparable projects?..... ☐ **YES** ☒ **NO**

Hillmann Consulting found the total proposed budget to be consistent with general range of anticipated costs in the subject locale for projects of similar scope.

Suggestions to revisions in project design or project team?..... ☐ **YES** ☒ **NO**

Appropriateness of contingency

New construction contingency at 5 percent and rehab contingency at 10 percent appears to be adequate.

Will federal wages be triggered?..... ☐ **YES** ☒ **NO**

3C. MARKET DEMAND

Market study required .....☒ **YES** ☐ **NO**

Date conducted..... 9/15/2020

Capture rate/absorption rate ..... **83 – 111 per month**

Notable findings and Lease-up rate

The study found the proposed use very suitable for the market with no expected impact to existing LIHTC projects.

3D. FINANCING

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How will construction be financed?..... ☒ **Construction Loan** ☒ **LIHTC** ☒**Bonds** ☐ **Other**

Preliminary letters of interest provided? .....☒ **YES** ☐ **NO**

LIHTC Project

Proposed use of LIHTC?..... ☒ **YES** ☐ **NO**

Anticipated 4% round application...	**1/27/2021**
Projected LIHTC pricing.....	**$0.90**
4% LIHTC self-score.....	**Not available**

How does pricing and self-score compare to comparable projects? Letters of Interest received?

Self-score has been requested.

Debt & Contributions

Amount of private debt proposed..... **$62,223,000**

Is debt coverage sufficient?..... ☒ **YES** ☐ **NO** ☐ **N/A**

Permanent loan with 3.75% interest rate, 16 year term, 35 year amortization, and 1.15 DCR.

Can project leverage other financial resources not yet identified..... ☐ **YES** ☒ **NO**

There are few public resources for workforce housing as most are prioritized for PSH.

Sponsor contributions? ..... ☐ **YES** ☒ **NO**

Proposed fundraising? ..... ☐ **YES** ☒ **NO**

IV. PROJECT SERVICES & OPERATIONS

4A. OPERATING PRO FORMA

Annual operating expense total/ per unit $3,962

Rent & utility allowance schedule within AMI limits? ..... ☒ **YES** ☐ **NO**

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Proposed project-based or tenant-based rent subsidies? ..... ☐ **YES** ☒ **NO**

Expected vacancy rate

5%

Expense comparison

At $4,449 per unit, operating costs are about 13 percent lower than average for an affordable housing development.

Replacement & operating reserve payments

At $262 per unit replacement reserves are 24 percent lower than similar affordable housing projects. Operating reserves capitalized at six months operating cost meet the industry standard.

If TOD project, are TOD loan repayment terms included in proforma? ..... ☒ **YES** ☐ **NO** ☐ **N/A**

4B. PROPERTY MANAGEMENT

Property Management Plan

It is anticipated that Cirrus Asset Management will be hired to manage the property. Dan Gavin oversees Cirrus' affordable housing department and holds both the C3P and HCCP designations. In addition, he previously worked with the Cesar Chavez Foundation, which focused on high-quality affordable housing. The company appears to have extensive experience in managing Low Income Housing Tax Credit Projects including six properties in Washington State. The company will employ one manager, one assistant manager, one maintenance supervisor, one assistant maintenance, and one porter on site.

4C. SERVICE MODEL & FUNDING ANALYSIS

Project seeking operating or service subsidies? ..... ☐ **YES** ☒ **NO**

Subsidized Units/ Funding per subsidized unit... **N/A**

Service Funding			
Funder	**Fund Type**	**Amount**	**Awarded?**
Total		Total here	

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Requests for service funding feasible? ..... ☐ **YES** ☐ **NO**

Project competitive for ORS funding? ..... ☐ **YES** ☐ **NO** ☒ **N/A**

4D. REFERRALS

Permanent supportive housing for homeless? .....☐ **YES** ☒ **NO**

Coordinated Entry for All (CEA) participation for ALL homeless units?.....☐ **YES** ☐ **NO** ☒ **N/A**

Referrals/marketing

Marketing and tenant selection process appear to be adequate.

Community Spaces.....☒ **YES** ☐ **NO**

Substantial community space will be provided which MSC intends to use for a variety of social services which could include but are not limited to energy assistance, rent assistance, youth services and employment services. This space will act as a satellite office for MSC, and tenants and community members who utilize this office will also be referred to additional internal and external resources as appropriate. Neighborhood House has reached out to MSC with an interest in operating a Head Start and Early Learning program in the building as well.

Resident Services.....☒ **Referral Services** ☐ **Counseling** ☐**Medical Services** ☐**Financial Assistance**

MSC will provide basic services linking residents to resources as needed including information related to education, employment, housing, health, and transportation. MSC currently provides a variety of programs and services that will be available to eligible residents including but not limited to rent assistance, utility assistance, GED classes, youth and young adult supports, assistance applying for public benefits, and food and clothing. Group workshops like hiring events, resume and interview workshops, youth engagement activities, nutritional education and cooking classes will also be available to residents. These services will be funded out of project cash flow.

V. FUNDING PRIORITIES

5A. FUNDING PRIORITIES

Which source(s) of King County funds is the project compatible with?

☐ **2331 Document Recording Fee** ☒ **RAHP** ☒ **HOME** ☐ **VSHSL** ☐ **MIDD 2** ☒ **TOD**

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HOME fund compatibility is unclear due to an potential choice limiting action related to the purchase of the Silver Shadows property after the award of HOME funds but prior to completion of the environmental review.

This project meets the following 2020 King County RFP priorities:

Homeless/Extremely Low-Income/Affordable Housing

- ☐ A majority of the units (50% or more) are set-aside for homeless individuals and families, and participate in CEA
- ☐ The proposed project serves special needs population such as (but not limited to) households with a member with mental illness, is disabled and/or developmentally disabled, also experiencing homelessness
- ☐ The proposed project provides access to case management and behavioral health services
- ☐ The proposed project leverages other resources for both the construction and operations of the project, including social services expenses

System-connected housing

- ☐ The proposed project will be V**eteran housing**, serving Veterans, Military Service members, and their family members.
- ☐ The proposed project serves a MIDD-eligible population (individuals/households exiting treatment facilities or other institutionalized settings); the sponsor is or is partnering with a State-licensed certified mental health provider

Transit-Oriented Development

- ☒ Project leverages present and future public investment in transit infrastructure, is within ½ mile of a high capacity transit station, and is eligible for the
  - ☒ All-County South pool
  - ☐ All-County North/East pool
  - ☐ Geographic Set-aside (N/E/S/Seattle)
- ☐ Projects funded with 2016 TOD Allocation Plan funding will be required to set aside 10% of the TOD Bond-funded units for tenant referrals from King County or a King County-approved agency operating criminal justice system diversion programs.

Homeownership Development

- ☐ Projects that expand homeownership opportunities for 1) Veterans and their families or
- ☐ 2) Vulnerable Populations who can become homeowners, be stably housed, and avoid intergenerational poverty.

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5B. Federal HOME funds

HOME funding requested?..... ☐ **YES** ☒ **NO**

Rents and UA within HOME rent/utility allowance limits?..... ..... ☒ **YES** ☐ **NO**

Within HOME maximum per unit subsidy limits?..... ☒ **YES** ☐ **NO**

An Environmental Review issue has not yet been resolved which may create an issue with the original award of HOME funds.

Is sponsor a Community Housing Development Organization (CHDO)?..... ☐ **YES** ☒ **NO**

VI. SPONSOR CAPACITY

6A. PORTFOLIO & PERFORMANCE

# of sponsor projects in King County portfolio... **12**

KC - Sponsor Projects (sample)	
Project Name	**Brief Description**
Mitchell Place	Provide 50 units of senior housing.
Radcliff Place	134 units of Senior Housing
Maple Lane Estates	24 affordable apartments.

How have these KC projects performed?

MSC generally provides required reports on time and their projects are generally in good financial condition.

6B. PIPELINE & DEVELOPMENT CAPACITY

Does the sponsor have other projects under construction and/or under development? ... ☐ **YES** ☒ **NO**

# of projects under construction.....

Projects under construction		
Project Name	**Location**	**Brief description**

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# of projects under development..... **0**

How is the sponsor staffed to handle multiple projects?

NA

6C. SPONSOR FINANCIAL SOUNDNESS

Audit findings, material weaknesses and/or corrective action plan required? ..... ☐ **YES** ☒ **NO**

Sponsor's financial audits consistently clear, steady? ..... ☒ **YES** ☐ **NO**

Operating cash provides appropriate levels of liquidity for operations? ..... ☒ **YES** ☐ **NO**

Portfolio maintains strong debt ratios? ..... ☒ **YES** ☐ **NO**

Other notable audit findings.

King County Fiscal Team found no significant concerns related to the internal control reported in 2017-2019. However, MSC has continued to work on documentation and addressing specific risks, and some have been resolved.

In addition to audit reports, were unaudited financial statements also reviewed? ☒ **YES** ☐ **NO**

If unaudited financial statements were reviewed, did they show the same trends as audits? ☒ **YES** ☐ **NO**

If Audits were not available, were unaudited financial statements reviewed? ☒ **N/A** ☐ **YES** ☐ **NO**

If more than one applicant submitted financial statements for review summarize the second applicant's financial statements below. ☐ **N/A**

VII. EQUITY & SOCIAL JUSTICE

How will this project impact the target population of residents and the surrounding community?

The Redondo Heights TOD project is located in an ethnically and culturally diverse area in Federal Way and will be well positioned to serve low and middle income households and provide them with access to amenities and opportunities. The Redondo Heights TOD project will further equity and social justice by providing affordable housing to households who may not be able to afford market rent, especially after construction of the light rail station may make the area even more desirable and expensive.

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Does the applicant have a plan for reviewing structures, policies, and programs with an equity and social justice lens? ☒ **YES** ☐ **NO**

Every three years, MSC conducts a Community Needs Assessment to identify emerging needs and challenges of the communities they serve. As part of this process, the organization sends a survey out to hundreds of diverse stakeholders including but not limited to customers, volunteers, staff, funders, government entities, non-profit organizations, elected officials, private sector representatives and other community members. The current survey does ask questions related to issues of diversity, equity, inclusivity and social justice.

What is the diversity of the board and senior leadership?

Of MSC's Board members, over a third are Latinx, Asian, or African American. 42% of MSC's board is comprised of individuals identifying as women and 5% of the board identify as having a disability. MSC's senior leadership is also diverse with 60% of directors identifying as persons of color, immigrants, or with a disability

VIII. SUMMARY AND RECOMMENDATION

Staff recommends funding this project to the extent that funds are available.

MSC applied for funding under the 2019 King County RFP and was awarded $7,000,000 through a combination of 2019/2020 Biennium TOD – South funds ($4,629,232) and 2018/2020 HOME funds ($2,370,768) to purchase and rehabilitate the Silver Shadow's apartment plus two adjacent vacant parcels to construct additional units for a total of 262 affordable units. The applicant now proposes to purchase an additional parcel fronting highway 99 to build an additional 72 units of affordable housing bringing the total to 334 units of affordable housing.

Total development costs are well below the WSHFC limit and tax credit pricing estimate of $0.90 with Enterprise is reasonable.

The opportunity to provide for additional units for a total of 334 unit since in south King County is rare. King County staff will continue to work with MSC and SRI towards a successful development.

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