King County

Housing Finance Program

2020 Capital Funding for Affordable Housing Projects

PROJECT REVIEW MEMO

I. OVERVIEW

1A. PROJECT INFO

Sponsor/owner	**Mount Zion Housing Development (MZHD)**
Development consultant	**Ally Community Development and GS Consulting**
Project name	**Mount Zion Senior Housing at 19th**
Project location	**1722 19th Avenue, Seattle, WA 98122**
Project type	☒ **Rental** ☒**TOD** ☐ **PSH** ☐**HO** ☐ **DPA**
Project activity	☒ **New Construction** ☐ **Rehabilitation** ☐ **Acquisition**

Brief description

MZHD seeks to demolish an existing 4-unit building to create and provide housing to 61 seniors with incomes between 30 – 60% AMI, with 15 units set aside for senior veterans and 5 for disabled seniors.

1B. PROJECT COST

Total development cost (TDC)	**$24,894,464**
Total residential development cost	**$24,443,380**
Cost per residential unit/ per square foot	**$400,711 / $517**
Total non-residential development cost	**$451,083**

1C. KING COUNTY REQUEST

King County Funds requested	**$1,000,000**
% of TDC/ Cost per unit	**4% / $16,393**
KC Loan term/ interest rate	**50 years / 1%**
Project applied for funding in prior rounds	☐ **YES** ☒ **NO**
Project previously awarded KC funds	**$150,000 (per 2019/2020 budget set aside for pre development)**

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

II. PROJECT DESCRIPTION

2A. HOUSING MODEL

of residential units/ managers/ total units..... **61 / 0 / 61**

Project total square feet / # of floors..... **48,163 / 7**

Project residential/commercial square feet..... **47,290 / 873**

Unit distribution - Income & AMI

Unit/Income	30% AMI	40% AMI	50% AMI	60% AMI	80% AMI	Total	Mgr
SRO	5		5			**10**	-
1 Bedroom	9		20	21		**50**	-
2 Bedroom			1			**1**	-
Total	**14**		**26**	**21**		**61**	-

Average unit sizes ..... **SRO – 410sq. ft / 1BR – 511sq. ft / 2BR – 595 sq. ft**

Other type of unit. ..... Five percent of units will be Type A ADA units, fully accessible for people with mobility impairments.

Target population

The project intends to serve senior adults age 55 and older who have been displaced, or who are at risk of being displaced, due to gentrification of the Central District. MZHD intends to use the Seattle Community Preference Policy to give people with historic ties to the neighborhood priority in tenant selection. Fifteen units will be set aside for senior vets & five for disabled seniors.

2B. CONSTRUCTION TYPE, SITE, & LOCALITY CHARACTERISTICS

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

Construction begins/ Construction period..... **June 2021 / 17 months**

Evergreen Sustainable Design Std. (ESDS) Score..... **58.5**

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**

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

Environmental issues were identified, seen next page for detailed findings.

Neighborhood

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

The project is located in Seattle's Central District neighborhood with access to several services, cultural/social amenities, and rapid transit. The project seeks to restore income and racial diversity to a neighborhood that has changed from African American families to its current primarily White residents.

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

- ○ ½ mile to high capacity transit?..... ☒ **YES** ☐ **NO**
- ○ Multi-modal?..... ☒ **YES** ☐ **NO**
- ○ Walk/transit score..... **92 / 71**
- ○ Close proximity to community resources and/or services? ☒ **YES** ☐ **NO**

The project is located in a transit and service-rich neighborhood, on a Bus Rapid Transit line, and within close proximity to services and light rail.

Nonresidential

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

873 SF of commercial space on the ground floor. MZHD is currently working with the Seattle Office of Economic Development to use this space to support small business, W/MBE, or other community economic goals. Absence of commercial rent in operating budget allows MZHD to charge low rent to community businesses.

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

Current zoning does not require any parking but the project is proposing 5 residential stalls for employees and visiting service staff.

Environmental

Environmental/site concerns

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The Phase 1 ESA identified the presence of a decommissioned heating oil tank on the property. MZHD has contracted with an engineering consultant to remove the tank (completed in September 2020) and contaminated soil underneath. A small area of asbestos will be abated before demolition.

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

$35,000 has been included in the budget to address the environmental concerns.

Development Incentives & Restrictions

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

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

2C. ROLES & RESPONSIBILITIES

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

Ally Community Development is partnering with GS Consulting as the Development Consultants. Philippa Nye and Ginger Segel have both been working in affordable housing development for decades and are very experienced with affordable housing finance, construction, and operations. Ally and GS Consulting are facilitating every step of the development process.

MZHD has an active and skilled Board that is making all of the decisions for the project, including target population, design, financing, and public communications. The Board incudes community leaders from the Central District of Seattle

General contractor selection process

MZHD selected Deacon Construction, a general contractor, through a competitive RFQ process to provide preconstruction services. One of the criteria for selection was overhead and profit as well as general conditions costs.

Who will manage construction?

MZHD is not obligated to go with Deacon as the GC but anticipates keeping them on the development/construction team if the construction cost estimates continue to be reasonable and they continue to be responsive to owner direction.

III. FINANCING & MARKET ANALYSIS

3A. SOURCES & USES

Permanent Residential Sources of funding

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Source	Proposed Amount	Committed Amount	TOTAL
City of Seattle	$8,762,944.33	$510,750	$9,273,694
King County	$1,000,000	$123,750	$1,123,750
State HTF	$3,000,000	-	$3,000,000
Sponsor Loan	-	$4,298,917	$4,298,917
WCRA	$6,504,518	-	$6,504,518
State Capital Projects	-	$242,500	$242,500
TOTALS:	$19,267,463	$5,175,917	**$24,443,380**

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

Roughly $450,000 of TDC dedicated to non-residential/commercial space costs. There is no commercial rent included in the operating budget, so MZHD will have the ability to charge a low rent to community businesses.

Permanent Residential Uses of funding

Type	Amount	Comments
Acquisition Costs	**$4,678,630**	
Construction/ Rehab Costs	**$15,867,131**	
Soft Costs	**$2,315,915**	
Financing Costs	**$476,196**	
Capitalized Reserves	**$394,457**	
Other Development Costs	**$711,051**	
TOTAL	**$24,443,380**	

3B. COST EFFECTIVENESS

Appraisal, Acquisition, & Construction

Appraised value/date/tax assessor value..... **$4,750,000 (8/10/2020)**

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

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Developer fee..... **3% developer fee**

Developer owns land and is adding to project cost. Developer fee: $760,488.

Third-Party Construction Consultant Report

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

This third-party report has not yet been received.

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

Revision discussion.

Competitiveness of projects as compared to other-like projects

Competitiveness of project.

Appropriateness of contingency

Appr. of project.

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

Project will use State Prevailing Wages – Residential.

3C. MARKET DEMAND

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

Date conducted..... **8/10/2020**

Capture rate/ Lease-up rate ..... **3% / 20 units per month**

Notable findings

The project would only capture 1% of the current demand, showing a strong need for this housing in the Seattle market.

3D. FINANCING

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

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

LIHTC Project

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

Debt & Contributions

Amount of private permanent debt proposed **$6,504,518**

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

Debt coverage ratio ranges from 1.15 to 1.40 through year 15.

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

Though the project could pursue 4% LIHTC financing, the feasibility analysis done by MHZD consultants reveals that the project would not be competitive enough to secure an allocation of 4% credits. MZHD would need an outside guarantor to utilize the credits, thereby potentially losing developer fee and some operational control of the project.

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

Sponsor grant of $451,083.

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

IV. PROJECT SERVICES & OPERATIONS

4A. OPERATING PRO FORMA

Annual operating expense total/ per unit... **$394,411 / $6,465 per unit**

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

Proposed rents are at the maximum allowable for unit size and AMI levels.

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

Project expects some of the residents to have tenant-based Section 8 vouchers that will allow them to pay 30% of income in rent. DHS Aging & Long-Term Support Administration (ALTSA) will refer and provide services residents for the five units set aside for people exiting nursing homes or state institutions.

Expected vacancy rate

5% vacancy rate based on McKinney Manor actuals (nearby MZHD project).

Expense comparison

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Project operating expenses are similar and aligned with comparable projects in King County's portfolio.

Replacement & operating reserve payments

Replacement reserves are similar and aligned with comparable projects in King County's portfolio. No operating reserve.

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

4B. PROPERTY MANAGEMENT

Property Management Plan

MZHD engages United Marketing (UM) for their property management. UM has 50 years of experience managing subsidized housing including HUD funded Section 8 and 811/202 PRACs, LIHTC, and other public sources. UM staff reports to the Board monthly on the occupancy and financial status of each project. UM employs a Certified Occupancy Specialist who will complete all income certifications.

United Marketing plans to consolidate the staffing for McKinney Manor (nearby MZHD project) and the new project with a Manager, an Assistant Manager, 2 Maintenance Technicians, and a part time janitor. UM's maintenance staff will perform the majority of maintenance and repair functions but will supervise outside contractors for specialized services such as pest control and elevator maintenance. This plan will result in an economy of scale for both projects and estimates operating costs at around $6,000 per unit per year.

4C. SERVICE MODEL & FUNDING ANALYSIS

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

Subsidized Units/ Funding per subsidized unit... **5 subsidized units/ $84,840**

Service Funding		
Funder	**Fund Type**	**Amount**
WA DSHS ALTSA	Services Grant (Committed)	$84,480

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

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

Project not seeking ORS funding.

4D. REFERRALS

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

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

Referrals/marketing

MZHD intends to use Seattle's community/neighborhood preference policy to give people with historic ties to the neighborhood preference in tenant selection. UM will open the waiting list approximately 60 days before certificate of occupancy. Applicants will be considered in the order received and reviewed in compliance with the neighborhood preference policy.

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

The site will include a spacious roof deck that will allow for container gardening on this dense urban infill site, an activity room with a kitchen, in addition to laundry rooms and trash rooms on each floor.

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

Project will benefit from the resident services provided at the adjacent McKinney Manor project, including health/fitness programs and lunches.

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**

The following KC funds are compatible with the project: **RAHP** – 40 of 61 units are for individuals with incomes at or below 50% AMI. **VSHSL (Seniors)** – The project intends to serve seniors 55+. **VSHSL (Veterans)** – 15 units are reserved for veterans. **MIDD 2 –** 5 units are reserved for disabled seniors exiting institutions. MIDD 2 funding compatible for these units if individuals are at or below 30% AMI **TOD** – Eligible for Seattle TOD.

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

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☒ 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.

☒ Repurpose under-utilized publicly owned property or other community assets

☒ Utilize alternative housing models and cost saving construction methods

☒ Serve lower income households between 30% to 50% AMI.

☒ Project is within ½ mile of a high capacity transit station, and is eligible for the:

☐ All-County South pool (2016 TOD)

☐ All-County North/East pool (2016 TOD)

☒ Geographic Set-aside (N/E/S/Seattle) (2019 TOD)

☐ 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.

5B. Federal HOME funds

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

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

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VI. SPONSOR CAPACITY

6A. PORTFOLIO & PERFORMANCE

of sponsor projects in King County portfolio... **0**

6B. PIPELINE & DEVELOPMENT CAPACITY

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

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**

Summary of audited info for the past two years (Assets, Liabilities, Net Worth, Liquidity, Debt Ratios)

King County's Fiscal Team found no significant concerns.

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?

Mount Zion Housing Development was formed by members of Mount Zion Baptist Church in the 1980s to create affordable housing in the Central District, an African American neighborhood. Since that time gentrification has substantially changed the demographics of the area, with the majority of Black residents displaced by rising housing costs. The goal of the project is to provide an affordable housing option to seniors who would otherwise have to leave the neighborhood or have already left the neighborhood due to rising rents. MZHD plans to use the City's new neighborhood preference policy to favor applicants who have historic ties to the neighborhood. The neighborhood went from over 70% African American in the 1970s to less than 18% African American in 2019. MZHD will add 61 affordable units for seniors who otherwise would not be able to live in the neighborhood.

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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**

McKinney Manor has a high occupancy rate and a long waiting list. MZHD is a very hands-on owner, and has limited rent increases over the years responding to the needs of the tenant population and the fact that their incomes have not been rising at the same rate as inflation.

What is the diversity of the board and senior leadership?

The Board of Directors has seven members, with five men and two women. Five of the seven are seniors. All of the Board members are African American, from the community, and some were raised within a few blocks of the site. In the last year the two youngest members joined the team, as MZHD builds its capacity to expand its operations.

VIII. SUMMARY AND RECOMMENDATION

Staff recommends funding this project at the requested amount of $1,000,000.

King County's pool of Seattle projects requesting funding is very competitive. This project is a County priority because it: 1) has a pre-development loan from King County, 2) has a strong racial equity mission, 3) has support from the City, and 4) can move forward without an allocation of scarce LIHTC bonds.

Mount Zion Senior Housing at 19th will be located within Seattle's Central District neighborhood, and is a strong project that seeks to demolish an existing 4-unit building to create and provide housing to 61 seniors with incomes between 30 – 60% AMI, with 15 units set aside for senior veterans and 5 for disabled seniors. With access to several services, cultural amenities, & rapid transit, along with an intent to utilize Seattle's new Community Preference policy, this project seeks to restore income and racial diversity to a neighborhood that has changed from African American families to its current primarily White residents.

MZHD is only requesting $1,000,000 from King County, since the bulk of their funding requests are to the City of Seattle, State HTF, and WCRA (totaling $18M). The absence of a 4% LIHTC funding request makes the project financially competitive. Assuming other public funding requests are awarded, the project can be fully constructed and operated without placing reliance on the very competitive 4% LIHTC allocation.

MZHD Board of Directors, which consists of all African Americans who are members of the Central District community, appear genuinely committed to bridging the gaps in inequity that gentrification and displacement have brought to the historically African American neighborhood. With adoption of a policy that provides preference in tenant selection to those with ties to the community, the board's vision of the project centers around preserving/providing affordable housing to members of an established community at risk of both cultural and physical displacement.

The project is projected to begin construction on 7/1/2021.

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