

ATTACHMENT 3



CITY COUNCIL AGENDA REPORT

MEETING DATE: 4/4/2023

DEPARTMENT: City Manager

SUBJECT:

RECOMMENDED DEVELOPMENT PARTNER FOR AFFORDABLE HOUSING ACQUISITION, AND CONVERSION OR REHABILITATION PROJECTS

RECOMMENDED ACTION(S):

1. Direct staff to negotiate an Exclusive Negotiation Agreement with Families Forward.
 2. Authorize the City Manager to sign, and the City Clerk to attest the Exclusive Negotiation Agreement and any other relevant documents to progress the project.
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EXECUTIVE SUMMARY:

On January 17, 2023, the City of Lake Forest ("City") and Lake Forest Housing Authority ("Authority") issued a Notice of Funding Availability ("NOFA") for affordable housing acquisition and conversion or rehabilitation projects. The NOFA was issued to enable the selection of a qualified development partner. The NOFA identified approximately \$1.6 million in funds to acquire and convert or rehab affordable housing projects in the City of Lake Forest. The City received Statements of Qualifications ("SOQ") from three non-profit affordable housing developers and providers. An Evaluation Committee comprised of staff followed the City's standard purchasing and contracting process to review and evaluate the SOQs. Ultimately, the Evaluation Committee ranked Families Forward the highest overall.

Based on the evaluation process, staff believe Families Forward is well suited to accomplish the City Council's affordable housing objectives. Staff recommends the City Council and Authority Board direct staff to negotiate an Exclusive Negotiation Agreement ("ENA") with Families Forward. Staff also recommends the City Council authorize the City Manager to sign, and the City Clerk to attest the ENA and any other relevant documents to progress the project.

BACKGROUND:

On January 17, 2023, the City and Authority issued a NOFA for affordable housing acquisition and conversion or rehabilitation projects. The City/Authority extended the submission deadline three times to obtain additional SOQs. The City's Purchasing and Contracting Guidelines require a Request For Qualifications be posted for a minimum of three weeks. The NOFA was open for a total of six weeks.

The NOFA identified approximately \$1.6 million in funds to acquire and convert or rehab affordable housing projects in the City of Lake Forest. It includes funding from two separate sources – the City's Community Development Block Grant ("CDBG") Funds and the Authority's Low and Moderate Income Housing Asset Funds. The NOFA provided an overview of the Lake Forest community, demographics and a summary of the City's housing goals outlined in the 2021-2029 Draft Housing Element. Additionally, the NOFA detailed the available funding sources and the State Department of Housing and Community Development's expenditure parameters governing each funding source.

Exclusive Negotiation Agreement

On December 5, 2017, the City/Authority entered into an ENA with National Community Renaissance ("National CORE") for the development of an affordable housing project. The purpose of the ENA is to establish a specific, limited period of time for a developer to work with the City/Authority regarding the selection of a site and the negotiation of an Affordable Housing agreement for the development and use of City/Authority's funds. The ENA the City/Authority entered into with National CORE is attached for the City Council's information (Attachment).

CDBG Compliance

On April 5, 2022, the City Council approved the Fiscal Year ("FY") 2022-2023 CDBG Program Annual Action Plan. The funding available in FY 2022-23 is larger than in recent years, mostly due to the carry-over of more than anticipated unspent prior-year funds. As part of the plan, the City Council authorized the allocation of approximately \$432,000 to be used toward achieving the City's affordable housing goals.

The CDBG program requires that a CDBG Entitlement grantee must carry out its program in a timely manner, as measured by the rate of expenditure of funds from the grantee's Line of Credit. A CDBG Entitlement grantee, in accordance with the CDBG regulations, must have a balance no greater than one and one-half times its annual grant remaining in the Line of Credit 60 days prior to the end of the program year. If this ratio is not met, the U.S. Department of Housing and Urban Development ("HUD") may reduce the proceeding year's grant allocation.

The expenditure of these funds would help the City achieve its 1.5 ratio by the required deadline.

DISCUSSION:

Staff followed the City's procurement process for professional services. The procurement process typically includes developing a scope of work that is contained within the Request for Proposals. In this instance, the process differed in that the NOFA included broad criteria describing the ideal organization to successfully undertake the various activities associated with the acquisition and conversion or rehabilitation of affordable housing. Staff utilized these criteria to rate the SOQs and the organizations during the interview process. The City's criteria included:

Expertise and experience in the acquisition and rehabilitation projects that consist of substantial rehabilitation;

Expertise and experience in the acquisition and conversion of nonresidential property to multifamily housing units;

Vision and design for a market-feasible affordable project that implements the City's vision for the community and promotes the character of Lake Forest;

Economic viability and financial strength of the proposed project, including marketability and feasibility;

Experience and ability to relatively negotiate an affordable housing agreement, or other appropriate development agreement, that provides the greatest return on investment to the City;

Financial and organizational capacity of the team to successfully complete the project, including the ability to secure financing and leverage other funding sources to build the highest quality housing project.

Evaluation and Selection Process

The City/Authority received SOQs from three non-profit affordable housing developers and providers. These organizations include Families Forward, Habitat for Humanity, and USA Properties. An Evaluation Committee comprised of staff reviewed the SOQs. The Evaluation Committee members were selected based on their knowledge of the City's housing goals. The Committee members are identified in Table 1 below.

Table 1: NOFA Evaluation Committee

Staff Position	Department
Assistant City Manager	City Manager's Office
Director of Finance/City Treasurer	Finance Department
Sr. Management Analyst	City Manager's Office

The Evaluation Committee reviewed and evaluated the SOQs based on the criteria outlined in the NOFA. These criteria included development team qualifications, financial capacity and capability, alignment with community goals, project readiness, project eligibility and affordability, and track record of successful partnerships. The Evaluation Committee utilized the same process to rate the SOQs as other professional consulting services, which require a minimum of 60 points on the qualitative evaluation to advance to the interview portion of the selection process. Each of the three firms advanced to the interview round.

The Evaluation Committee conducted interviews on March 13, 2023. During the interviews, the Evaluation Committee met each firm's development team, learned more about potential projects, and gained a better understanding of each organization's ability to ensure a quality and timely project. The interview scores are based on the following: (1) how the organization plans to accomplish the City's affordable housing goals; (2) the organization's ability to leverage multiple funding sources to maximize the City's contribution; (3) how the organization ensures compliance with federal and state housing laws and requirements; and (4) project schedule. The results of the qualitative evaluation and interview are identified in Table 2 below.

Table 2: NOFA Technical Evaluation and Interview Results

Firm	Technical Review			Subtotal	Qualifications Interview			Subtotal	Total
	Rater				Rater				
	1	2	3		1	2	3		
Families Forward	90	100	93	283	89	95	100	284	567
Habitat for Humanity	63	100	60	223	80	90	96	246	469
USA Properties	88	100	83	271	79	98	76	273	544

As reflected above, Families Forward received the highest cumulative score based upon its SOQs and interview. Families Forward began serving the region in 1984. Its mission is to prevent and end family homelessness by providing access to housing and resources that create lasting stability. Families Forward owns and manages 57 units of affordable housing across Orange County.

It has extensive experience in acquiring and managing condos. The City/Authority previously partnered with Families Forward and provided former redevelopment funding to the organization for the acquisition of a City-owned four-plex. In 2015, Families Forward acquired the property off Saguaro Street. With assistance from public, private, and non-profit partners, it extensively rehabilitated the property and it is now used as affordable housing.

Families Forward proposes to leverage the City/Authority funds with funds from the organization and a potential investment from a third-party to purchase a four-to eight-unit complex it will rehabilitate and turn into affordable housing for very low to low-income families who are at-risk of homelessness. Families Forward offers a comprehensive suite of Housing First support services to promote upward economic mobility and maintain permanent housing.

During the evaluation process, Families Forward was found to be the most qualified firm based on its extensive experience purchasing, rehabilitating, managing, and operating affordable housing projects in the region. Ultimately, the Evaluation Committee ranked Families Forward the highest overall, and staff recommended the City Council/Authority Board select Families Forward as the affordable housing partner.

Recommended Action

Based upon the technical review and interview process, staff recommends the City and Authority elect to partner with Families Forward for the acquisition and conversion or rehabilitation of affordable housing in Lake Forest. Given Families Forward's experience, the Evaluation Committee believes Families Forward will be the best partner to locate a suitable site and execute the project to fulfill the City's affordable housing goals. Due to HUD's timing requirement, staff also recommends the City Council authorize the City Manager to execute an ENA.

Next Steps

Based on the City Council/Authority Board's direction, the next step in this process is to enter into an ENA with Families Forward. Staff would work with the City Attorney's Office to draft the agreement, which would stipulate roles and responsibilities, milestones, project schedule, and other related activities to ensure that certain objectives are completed. In addition, staff will bring back an Affordable Housing Agreement for submission to the City Council/Authority Board for review and approval. The Affordable Housing Agreement shall consist of terms, conditions, covenants, restrictions and agreements acceptable to the City Council/Authority Board.

FISCAL IMPACT:

The fiscal impact associated with preparing the ENA includes staff time and attorney's fees to prepare and review the agreement. As identified in the NOFA, there is currently \$432,703 in CDBG funds and approximately \$1.2 million in funds from the Authority's Low/Moderate Income Housing Asset Fund.

ATTACHMENTS:

1. Exclusive Negotiation Agreement with National CORE

Initiated By: Adrian Grijalva, Senior Management Analyst
Submitted By: Keith Neves, Assistant City Manager
Approved By: Debra Rose, City Manager