



CITY COUNCIL AGENDA REPORT

MEETING DATE: 6/20/2023

DEPARTMENT: City Manager

SUBJECT:

CONSIDERATION OF ADDITIONAL FUNDING TO SUPPORT THE AFFORDABLE HOUSING ACQUISITION AND CONVERSION OR REHABILITATION PROJECT

RECOMMENDED ACTION(S):

1. Authorize the City Manager to issue a new Exclusive Negotiation Agreement in the amount of \$1,832,703 and resume negotiations 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.
 3. Adopt a Resolution entitled: A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE FOREST, CALIFORNIA, AMENDING THE 2021-23 OPERATING BUDGET; AMENDING APPROPRIATIONS FOR FISCAL YEAR 2022-23
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EXECUTIVE SUMMARY:

At its meeting on April 4, 2023, the City Council/Lake Forest Housing Authority Board ("Authority Board") directed staff to negotiate an Exclusive Negotiation Agreement ("ENA") with Families Forward and authorized the City Manager to execute any related documents (Attachment 1). The purpose of the ENA is to establish a specific, limited period for Families Forward to work with the City of Lake Forest ("City") and Lake Forest Housing Authority ("Authority") regarding the selection of a site for a project and the negotiation of an Affordable Housing Agreement for the development and use of available funds of the City and Authority.

Prior to signing the ENA, Families Forward notified staff that the funding identified in the Notice of Funding Availability ("NOFA") was no longer adequate to purchase a property for conversion or rehabilitation. Pursuant to these discussions, Families Forward requested additional funding in the amount of \$200,000 for its Affordable Housing Acquisition and Conversion or Rehabilitation Project ("Project"). The funds would be used to acquire property within Lake

Forest for conversion or rehabilitation by Families Forward and add an affordability covenant on the property for a term of 55 years.

At this time, staff is recommending the City Council authorize additional funding in the amount of \$200,000 to the Project. If approved, the total allocation for the Project would increase to \$1,832,703. Staff also recommends the City Council approve the attached Resolution amending the 2021-23 Operating Budget, amending appropriations for Fiscal Year (“FY”) 2022-23 (Attachment 2).

BACKGROUND:

On April 5, 2022, the City Council approved the FY 2022-23 Community Development Block Grant (“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.

On January 17, 2023, the City and Authority issued a NOFA for the Project. The NOFA was issued to enable the selection of a qualified development partner. The NOFA identified approximately \$1.6 million in funds for acquiring, converting, or rehabilitating affordable housing projects in the City. The NOFA funding sources included the City’s CDBG funding and \$1.2 million in funds from the Authority’s Low/Moderate Income Housing Asset Fund.

The City received Statements of Qualifications (“SOQ”) from three nonprofit 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, Families Forward received the highest overall ranking from the Evaluation Committee (Attachment 3).

On April 4, 2023, the City Council/Authority Board directed staff to negotiate an ENA with Families Forward. The purpose of the ENA is to establish a specific, limited period of time for Families Forward to collaborate with the City and Authority in selecting a project site and negotiating an Affordable Housing Agreement for the development and use of the City’s/Authority’s available funds.

DISCUSSION:

The NOFA required the inclusion of a “Conceptual Project Proposal” as part of each firm’s SOQ. The Families Forward proposal described how it would identify neighborhoods in need of redevelopment that may benefit from rehabilitation, as

defined as one of the Goals in the City's 2021-2029 Housing Element.¹ At the time of its submission, Families Forward estimated it could obtain a four-to-eight-unit complex and convert or rehabilitate it into affordable housing using the funds identified in the NOFA. However, upon being selected as the City's partner on this project and initiating direct negotiations with property owners, Families Forward concluded it could not afford to purchase a property with the allotted funds.

Families Forward analyzed the market and assessed potential properties for acquisition or rehabilitation to fulfill the NOFA objectives. Unfortunately, prevailing market conditions have resulted in an increase in property costs, exceeding their initial estimates and projections. Currently, property for sale in the target areas is in excess of funds available. The escalation in property costs has impacted Families Forward's ability to secure suitable properties within the budget outlined in the NOFA.

Families Forward also evaluated potential alternatives to mitigate the effects of the high property costs. However, these alternatives have proven to be either suboptimal in achieving the desired outcomes or infeasible within the existing budgetary constraints. Therefore, Families Forward is requesting an additional \$200,000 to fund the project. This funding would come from the City's Affordable Housing In Lieu Fees.

As identified in the NOFA, there is currently \$432,703 in the City's Community Development Block Grant funds and \$1.2 million in the Housing Authority's Low and Moderate Income Housing Asset Fund. If approved, an additional \$200,000 would be allocated from the City's Affordable Housing In Lieu Fees. This funding would be used to purchase a property in Lake Forest for affordable housing conversion or rehabilitation purposes. The proposed Budget Resolution would amend the 2021-23 Operating Budget (Attachment 2).

Recommended Action

Staff recommends the City Council authorize additional funding in the amount of \$200,000 to the Project for a total of \$1,832,703 and direct the City Manager to issue a new ENA. Staff also recommends the City Council approve the attached Resolution amending the Housing Authority's Low and Moderate Income Housing Asset Fund and the Affordable Housing In Lieu Fund for FY 2022-23 of the 2021-23 Operating Budget.

¹ Housing Element Goal 2: Maintenance and enhancement of the quality of existing residential neighborhoods

Next Steps

Based on the City Council'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 update 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:

Approval of the attached resolution would appropriate \$1,200,000 to the Low and Moderate Income Housing Asset Fund and \$200,000 to the Affordable Housing in Lieu Fund for Fiscal Year 2022-23 of the 2021-23 Operating Budget.

ATTACHMENTS:

1. Meeting Minutes – April 4, 2023, City Council Meeting
2. City Council Resolution Amending Fiscal Year 2022-23 of the 2021-2023 Operating Budget
3. April 4, 2023, City Council Agenda Report

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