Genesis
COMMUNITY LOAN FUND

Jan. 27, 2025

Memo to City of Rockland

To: Adam Lachman, Nathan Davis and Tom Luttrell

In Re: Potential program deployment for municipal bond proceeds

- Suggested program ideas are focused on assistance to developers and/or builders to minimize staff time and administrative systems to manage a program. At the bottom is a more complicated direct consumer homebuyer example.

1) Developer home ownership production – somewhat similar to the MH program

<u>For Example:</u>

$90,000 direct application of funds at closing to lower the sale price for "up to 120%AMI home buyers. **$75,000** for "121-140%AMI" buyers. Pledged to developer as a secured loan, which converts to a TIF driven mortgage – to the developer, not the home buyer. Future tax revenues from the new homes are partially captured to pay back the initial funding and used again – This becomes a self-funded revolving fund. Each home is designated as an affordable housing TIF, designed and implemented by the City. You could decide to get more specific in design, location and size/type of homes by writing that into a program description; OR you could let creative proposals percolate up from the developer community and rank/score the projects you choose. Affordability can be secured with a covenant or soft mortgage to the homeowner at closing – burns off in 8-10yrs.

- $2.5MM in initial bond proceeds could spur development of 28-35 homes, scattered in various locations (you can set the program to avoid concentrating all these homes in one location) Funds revolve eventually through TIF capture.

2) Mixed Use development opportunities:

Use financial incentive to specifically target opportunities to add residential units into commercial and/or mixed use developments to further encourage small rental clusters or live/work space developments. Dollar amounts could be based on unit count ($25,000-$75,000/unit direct subsidy) or 0% deferred loan for pre-development and design or infrastructure loans. Recapture from successful operations of finished mixed use space in 5 yrs from cash flow, as an example.

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- $2.5MM in initial bond proceeds could lead directly to production/conversion efforts to produce 35-40 rental units, depending on incentive amount.

3) A better method to address cost burdened renters and increase rental supply may be to assist with early-stage capital. An efficient method is to provide flexible pre-development grants to help cover higher-risk pre-development expenses and pre-construction costs for developers willing to produce new or substantially renovated rental units with an affordable rent limit for specific period (perhaps 10 or 15 yrs). The challenge is that you are asking a property developer/owner to curtail rental income (required lower rents yield lower gross income) without providing an ongoing subsidy or replacement debt. So this benefit will need to be dialed in very specifically with each project to assure the public benefit of lower rents, while at the same time allow/permit the project to be financed and succeed. There is clear evidence that pre-development funding assistance is quite valuable to smaller scale developers who will be perhaps more likely to agree to modest rent restrictions (tied to area median incomes) for a period of time in exchange for precious pre-development capital.

For Example:

123 Main Street - new construction of 16 units. Requires site purchase prior to full permitting. Requires some modest enviro clean-up, and a re-zone to allow for multi-family housing with on-street parking.

Site engineering and design work to achieve permit approvals and modest enviro clean-up add up to $150,000. Developer also needs to acquire the site within 60 days, well ahead of permits ($400,000).

City of Rockland rental development program could provide 2:1 matching 0% deferred payment loan {grant} to developer (with signed agreements) to fund $375,000 of that $550,000 up front to incentivize the project. Most or all of that funding could be ***repaid*** at project PERM closing and/or converts to long term secured grant behind primary lender. The owner agrees to a portion of the 16 units be rented at/below 80% or 90% area median income for a specific period (10yrs or so). Net gain is 5-7 below market rents, and 16 new rental opportunities on Main Street instead of a used car lot or other lower-priority commercial activity.

4) Direct assistance to home-buyer consumers can be seen as popular and a tangible means to demonstrate direct municipal solutions in the housing crisis. Managing and tracking consumer loans and/or grants does require more staff time and will require more administrative structures to achieve compliance and accountability.

Downpayment cash assistance (through low-rate or 0% soft loans) for specific income brackets of potential home-buyers.(120% AMI, maybe 140%?) Requires close work with residential mortgage lenders to assure alignment and compliance harmony. But there is ample opportunity for that. This particular benefit could also potentially be divided into downpayment assistance, AND subordinate term loans to the home-buyers to allow conventional mortgage financing to meet its underwriting maximums.

For Example:

Home cost:	\$600,000 (assumes appraisal is at least this level)
Lender's max loan	\$480,000 80% LTV
Buyer's cash down	\$25,000
City downpayment assist	\$20,000 (*enhances buyer's cash downpmt*)
Subordinate City loan	\$75,000 (*low rate 15yr loan, perhaps deferred payments for 3yrs)* *Requires staff capacity to monitor outsources loan servicing*.

Direct consumer programs require more city staff labor but can also be more easily understood and yield faster, more tangible results. There are vendors to help with education and loan servicing.

We do not recommend a direct-to-consumer **rental assistance program** because of the complexity of income and lease verifications and servicing as well as potential relationship challenges with landlords.