



METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Administration Committee

DATE: December 6, 2017

FR: Executive Director

RE: MTC Resolution No. 4306 – Transit Oriented Affordable Housing (TOAH) II Fund

Staff requests that the Committee refer Resolution No. 4306, which authorizes the Executive Director or his designee to enter into an agreement with the Bay Area Transit Oriented Affordable Housing, LLC, (Fund LLC), and the Low Income Investment Fund (LIIF) for the purpose of converting the Transit Oriented Affordable Housing (TOAH) Fund to a streamlined and restructured TOAH II Fund, to the Commission for approval.

Background

The TOAH Fund provides financing for the development of affordable housing and other vital community services near transit lines throughout the Bay Area. Through the TOAH Fund, for-profit and not-for-profit developers can access flexible, affordable capital to purchase or improve available property in Priority Development Areas for the development of primarily affordable housing and retail space and other critical services, such as childcare centers, fresh food outlets and health clinics. The TOAH Fund is currently managed by the LIIF, a community development financial institution (CDFI) established in 1984 that has financed housing, schools, and childcare and community facilities totaling \$9.5 billion.

Current funders of the TOAH fund include the San Francisco Foundation, the Silicon Valley Community Foundation, the Ford Foundation, Living Cities, numerous CDFIs, Morgan Stanley and Citi Community Capital. MTC's initial investment of \$10 million in 2011 leveraged \$40 million¹ to create the largest lending pool in the country at the time for affordable transportation-oriented development, totaling \$50 million. In the current and proposed structure, MTC funds are the last to be repaid, although it is important to note that there have been no losses to date. In the remote event that the TOAH Fund suffers losses, MTC's capital will be in the first loss position and there is a risk that it will not be repaid at the end of the December 30, 2025 TOAH Fund term, or at the end of the proposed TOAH II extension term, which would end on December 31, 2035.

The TOAH Fund is filling a much-needed gap in financing for affordable housing in the Bay Area. To date, the TOAH Fund has originated nine acquisition or refinance loans, which have created and/or preserved over 950 units of affordable housing across San Francisco, Alameda

¹ Exceeding the Commission requirement of a 3:1 leverage

and Santa Clara counties. The TOAH Fund has been instrumental in helping to originate these projects, and has provided the funding flexibility necessary to deliver them through market and resource challenges, including state and federal reductions in affordable housing funding, that may have otherwise eliminated them.

Summary of Proposed Changes

Based on TOAH Fund experience over the past six years, as well as feedback from TOAH Fund stakeholders, including market-rate and affordable housing developers, CDFIs and government entities, a number of changes are proposed to restructure and streamline the lending program. The increased flexibility provided by restructuring the TOAH Fund will enable the CDFI partners to quickly respond to affordable housing developers' needs.

The recommended changes include:

- Simplifying the financing structure by removing the foundations and banks. This change, which is consistent with financial changes in the market and current industry standards, leaves MTC and the CDFI lenders as the sole capital providers of the Fund. Mirroring the successful Golden State Acquisition Fund with its "one stop" project loan origination and credit underwriting by only CDFI lenders, this change will allow for faster loan execution and will increase the ability of the TOAH Fund to be utilized. While MTC's risk exposure would be marginally increased, the conditions of repayment would remain the same as in the original TOAH Fund.
- Revising the terms and conditions of the specific acquisition and predevelopment loan products offered through the Fund. Revisions have been tailored to reflect current market demand, interest rates, cost increases and the inclusion of eligible locations in Transit Priority Areas (in addition to Priority Development Areas) to better align with state transit oriented development funding.
- Adding an emphasis to assist with the rebuilding efforts in the North Bay through the following addition, "the TOAH Fund will prioritize applications for eligible projects that address housing needs in North Bay fire-affected areas up to \$10 million dollars."

Eligible project types and portfolio-wide funding priorities remain unchanged, as well as the original requirement to leverage MTC's initial \$10 million investment at a minimum of 3:1.

Staff have reviewed the proposed TOAH II business plan and term sheets in detail, and support the proposed changes.

Recommendation

Staff recommends that the Administration Committee refer MTC Resolution No. 4306 to the Commission for approval.



Steve Heminger

SH:tt
Attachment

Date: December 20, 2017
W.I.: 1611
Referred by: Administration Committee

ABSTRACT

Resolution No. 4306

This resolution authorizes the Commission to direct the Executive Director or his designee, with respect to the BAY AREA TRANSIT ORIENTED AFFORDABLE HOUSING FUND (the “FUND”), to negotiate and enter into an Amended and Restated Funding Agreement with BAY AREA TRANSIT ORIENTED AFFORDABLE HOUSING LLC, a California limited liability company, as the “FUND LLC”, and the LOW INCOME INVESTMENT FUND, a California non-profit public benefit corporation, as the “Program Manager,” for the purpose of converting the FUND’s existing TOAH lending program to a streamlined and restructured “TOAH II” lending program, subject to certain specified conditions.

Further discussion of this action is contained in the MTC Executive Director’s Memorandum dated December 6, 2017.

Date: December 20, 2017
W.I.: 1611
Referred by: Administration Committee

RE: Transit Oriented Affordable Housing Fund Restructure

METROPOLITAN TRANSPORTATION COMMISSION
RESOLUTION NO. 4306

WHEREAS, the Metropolitan Transportation Commission (MTC) is the regional transportation planning agency for the San Francisco Bay Area pursuant to Government Code Section 66500 et seq.; and

WHEREAS, MTC and ABAG adopted Plan Bay Area 2040 which included a target to reduce the combined cost of housing and transportation for low-income families by 2040, which are estimated to account for over 70% of these households' income in 2010 and 2040; and

WHEREAS, in 2011, the LOW INCOME INVESTMENT FUND (LIIF), a community development financial institution, was selected to create and manage the Transit Oriented Affordable Housing Fund (FUND) through the FUND LLC; and

WHEREAS, MTC adopted Resolution 3991 on March 23, 2011 authorizing a funding agreement with LIIF for MTC to contribute \$10 million towards the FUND, subject to a Business Plan and other conditions; and

WHEREAS, in order to implement the FUND's lending program, on March 30, 2011, the FUND LLC entered into a multi-party Credit Agreement (the "Credit Agreement") that included LIIF and other Community Development Financial Institutions (the "CDFI Lenders"), private banks, funds, and foundations; and

WHEREAS, the FUND LLC has proposed (a) to terminate the Credit Agreement by repaying all amounts thereunder owed to the CDFI lenders, private banks, funds, and the foundations and (b) to continue leveraging the original MTC \$10 million investment in accordance with a new TOAH II business plan that will convert and streamline the FUND loan program so as to more directly address current challenges in the development of Bay Area affordable housing near existing and proposed transit stations; and

WHEREAS, the Fund is being successfully managed by LIIF; now therefore be it

RESOLVED, that the Commission authorizes the Executive Director to enter into an amended and restated funding agreement with LIIF and the FUND LLC in order to convert the FUND and the existing FUND loan program to TOAH II and to continue MTC's \$10 million investment of funding toward the converted FUND based on the Principles of Agreement outlined in Attachment A.

METROPOLITAN TRANSPORTATION COMMISSION

Jake Mackenzie, Chair

The above resolution was entered into by the Metropolitan Transportation Commission at a regular meeting of the Commission held in San Francisco, California, on December 20, 2017.

Date: December 20, 2017
W.I.: 1611
Referred by: Administration

Attachment A
Resolution No. 4306
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Principles of Agreement

Bay Area Transit Oriented Affordable Housing Fund Conversion to TOAH II

The Commission adopts the following Principles of Agreement to govern the AMENDED AND RESTATED FUNDING AGREEMENT that MTC will enter into with the FUND LLC to continue MTC's \$10 million investment in the FUND's converted and streamlined TOAH II lending program.

1. The FUND term will be extended to December 31, 2035;
2. LIIF, a non-profit public benefit corporation, will continue to manage the FUND as the Program Manager;
3. The FUND's origination period for the TOAH II loan program will be four (4) years from the effective date of the amended and restated funding agreement;
4. The existing MTC \$10 million held by the FUND as TOAH I will be retained by the FUND to be held and deployed in the TOAH II loan program to acquire participation interests in direct project loans to be made by the CDFI Lenders;
5. The FUND will leverage MTC's \$10 million in the TOAH II lending program by at least three (3) times (\$30 million) with capital from that portion of funds in each participated loan that are directly advanced by the CDFI Lenders, equity from the project borrowers, and/or support from government and philanthropic sources, to the extent then committed. With such leveraging, the total anticipated funding for the TOAH II lending program will be at least \$40 million;
6. The FUND will prioritize applications for eligible projects that address housing needs in North Bay five-affected areas up to \$10 million.
7. All TOAH II program loans made by the CDFI Lenders (and in which the FUND LLC will acquire participation interests) will be made to projects in Priority Development Areas or Transit Priority Areas;
8. MTC will continue to be represented on the Fund Advisory Committee to monitor the Fund's progress against the business plan. MTC will not participate in the selection of specific projects;

9. LIIF, as the Program Manager, will cause the FUND to use standard accounting controls, and MTC will have the right to review all financial reports of the FUND;
10. No representative from MTC will participate in the FUND in any paid capacity;
11. MTC funds will remain in the subordinate position to the funds advanced by the CDFI Lenders for repayment during the life of the FUND and at the close of the FUND. As such, after all CDFI Lenders have been fully repaid and reimbursed and all unpaid FUND expenses are paid or reimbursed at the close of the FUND, any balance remaining in the FUND will be returned to MTC unless MTC agrees to reinvest in a new fund, facility or program that promotes transit oriented development.