



## Renewal Enterprise District (RED)

County of Sonoma | City of Santa Rosa

# Renewal Enterprise District: Housing Fund Overview

Michelle Whitman  
Executive Director  
Renewal Enterprise District  
[Michelle.Whitman@RenewalEnterpriseDistrict.org](mailto:Michelle.Whitman@RenewalEnterpriseDistrict.org)

FORSYTH STREET



# VISION

Sonoma County envisions a **housing market** that is in balance; is **resilient and climate smart** at the regional, neighborhood, and homeowner scale; is **affordable** to area workers and individuals with access and functional needs; is where communities of color and other historically disadvantaged groups, including individuals with limited or no English proficiency and immigrants, have **equal and fair access**; respects designated community separators and urban growth boundaries; has a **diversity** of homes located **near transit, jobs and services**; and is where the economy is vital.

**-Recovery and Resiliency Framework**



## What is the Renewal Enterprise District?

- A first of its kind, Joint Powers Authority (a partnership) formed by County of Sonoma and City of Santa Rosa to:
  - ✓ Align local government efforts to accelerate production of infill, mid-to-high density housing near transit, jobs, amenities, opportunities and services
  - ✓ Pair private financing with public funds to shorten housing development timelines
  - ✓ Use funds to rapidly meet local, regional, state, and national climate, equity and “smart growth” housing goals



## How Do We Catalyze Smart Growth?

The RED is pursuing the opportunity to create a Housing Fund that:



- Blends private financing and public funds to launch affordable, middle - income and market rate housing developments



- Leverages state and federal grants and finance tools



- Creates housing that realizes policy goals for increased density, access to transit, protection of open space and community separators; improved energy efficiency, climate resilience, and affordability; and to advance equitable access to housing



## Renewal Enterprise District (RED)

County of Sonoma | City of Santa Rosa

# Project Criteria

Projects require **ALL** of the following Threshold Criteria:

**Infill Site**

**Mid to  
High  
Density**

**Residential /  
Mixed Use**

**Transit- Rich  
/ Planned  
Area**



### One or More of the Following:

- Project Readiness
- On or offsite Affordable, Workforce, and/or Mixed-Door Housing
- Pipeline Development
- Serves a Disadvantaged Community
- Energy or Water Efficiency and/or Innovative Design
- Prevailing Wage, Labor Certification and/or Apprenticeship Programs with Local Labor Unions
- Public Outdoor Space
- Proximity to Transit, bike or pedestrian connectivity
- Onsite Child Care



## Renewal Enterprise District

### Facilitating Creation of Housing - A Case Study

**\$33.9mil in State Funding**  
**Free transit passes**  
**Affordable units**  
**Near transit** **Walkable**  
**Connected to downtown** **Bike friendly**



Purchase of new **electric bus**



**75 Affordable Units**



**Free** annual transit pass for low income residents

*Welcome Home*



Access to **JobLink**

Extends **SMART 3.1** mi to Windsor



[renewalenterprisedistrict.org](http://renewalenterprisedistrict.org)

A Powerful Collaboration to Accelerate Climate Smart Housing Development

**Affordable/  
Workforce**

**Infill**

**Transit Oriented**

**Climate Smart**

**High Density**

**Walkable  
Communities**

**Economic  
Drivers**

**Workforce  
Supporting**



## RED HOUSING FUND: PROGRESS UPDATE

Presentation for the Sonoma County Board of Supervisors

May 11, 2021

FORSYTH STREET

# Agenda

- 1. Project Dynamics**
- 2. Capital Raising**
- 3. Fund Formation**
- 4. Conclusion**



# 1. Project Dynamics | Project Workplan

## County of Sonoma Timeline

**Oct 2020**  
BOS Mtg - County approves  
conditional grant of funds

**May 2021**  
BOS Mtg – Update on and  
authorization of funding terms

## City of Santa Rosa Timeline

**Dec 2020**  
Council Study Session  
– Fund Overview  
Presentation

**Feb 2021**  
Council commits  
\$10m to RED  
Housing Fund

**May/ June 2021**  
Finalize funding terms;  
authorization to execute  
loan agreement

## RED Board Timeline

**Feb 2020**  
Board forms RED  
Housing Fund Working  
Group; launch of  
project

**July 2020**  
Board accepts  
Feasibility Report;  
authorizes Phase II

**Aug 2020 - Mar 2021**  
Updates to Board on Fund  
capitalization, governance  
and legal structures

**Apr/May 2021**  
Present to Board legal and  
governance options, Board  
considerations for review,  
draft legal documents

## RED Housing Fund Timeline

**Dec 2019**  
Beginning of  
stakeholder  
outreach

**July 2020**  
Delivery of Report;  
authorization to proceed to  
Phase II by RED Board

**Aug 2020 - Apr 2021**  
Capitalization processes; evaluation of legal  
and operational structures

**2021**  
Target Fund  
launch

2021: Target Fund Launch

# 1. Project Dynamics | Financing Products for Developers

The Fund seeks to provide financing that supports the development of infill housing adhering to the RED's Project Criteria. These products are intended to be offered to developers at as low-cost and long-term as necessary, in order to fully support the projects' financial feasibility and fill developers' financing gaps. These financing products include:

## Subordinate Loans for Affordable Projects

- Flexible financing provided by the Fund to fill gaps in a project's capital stack at all phases of the development process.

## Subordinate Loans for Middle Income and Market Projects

- Construction-phase financing representing ~10% of a project's total development costs, subordinate to a conventional construction loan and with the ability to convert to permanent debt or equity.

## Mezzanine Permanent Loans for Middle Income and Market Projects

- Permanent financing sized to a project's available cash flow after payment of required first-position debt service. Convertible to equity in limited circumstances.

Assuming a \$20 million Fund capitalization, deployed to finance an average 10% of project costs, the Fund **could leverage \$180 million (90% of project costs)** in additional project-level investment from other sources for the initial batch of projects, including construction loans from traditional lenders and equity from investors.

## 2. Capital Raising | Terms for Public Investment

The RED is requesting funding from the County of Sonoma to seed the balance sheet of the Fund (to be matched with capital from the City of Santa Rosa). The terms below assume the funding is provided in the form of a loan; alternatively, under consideration is: whether the loan is forgivable, convertible to a grant, and/or in the form of a grant.

|                                   |   |
|-----------------------------------|---|
| <b>Borrower:</b>                  | Fund entity TBD   |
| <b>Lender:</b>                    | County of Sonoma (the “County”).  |
| <b>Principal Amount:</b>          | \$10 million; to be supplemented with a \$10 million match from the City of Santa Rosa  |
| <b>Geographic Considerations:</b> | Proceeds may be used to support projects that are either 1) in unincorporated areas of the County, or 2) are in an incorporated area of the County in which the municipality a) has an existing Regional Housing Needs Assessment (RHNA) Sharing Agreement in place with the County and b) the municipality is a member of the RED JPA.   |
| <b>Use of Proceeds:</b>           | <p>To offer its investment products (described earlier in this presentation) to developers for infill housing projects that adhere to the RED’s Board-adopted Project Criteria, including any Board-approved amendments.</p> <p>In addition, proceeds may be used to: 1) satisfy financial covenants and establish necessary reserves, 2) invest reserves in permitted investment instruments pertaining to the Fund’s Investment Policy; any income generated from the Fund’s investment reserves may be available for application to the Fund’s operating expenses.</p> |

## 2. Capital Raising | Terms for Public Investment *cont.*

|   |   |
|---|---|
| <b>Term, Interest, Amortization Period:</b> | 20 year term, extendable from time to time upon request by the Fund at the County's option; 0% interest, non-amortizing, with all principal due at maturity.  |
| <b>Subordination:</b>                       | Subordinated to all other capital the Fund raises from private/philanthropic investors. Any losses incurred by the Fund attributable to its lending and/or investing activities will be allocated first to the public sector investments, including the County's loan.        |
| <b>Prepayment:</b>                          | The Loan may be prepaid in whole or in part at any time without penalty.  |
| <b>Affordability Considerations:</b>        | Consistent with the mission of the RED and its Project Criteria, the Fund intends to finance residential and mixed-use projects at a range of income levels, given the vast need for affordable, middle income and market housing.  |
| <b>Reporting:</b>                           | <ul style="list-style-type: none"> <li>Quarterly Reports, providing detail on the Fund's portfolio and financial performance; and</li> <li>Annual Reports, providing detail on the Fund's portfolio and audited financial statements.</li> </ul>                              |
| <b>County Representation:</b>               | It is anticipated that the Fund will have a governing body comprised of a mix of independent representatives and public sector representatives, with independent representatives constituting a majority. The County may appoint (1) individual to the Fund's governing body. |
| <b>Relationship to RED:</b>                 | The Fund will support the mission and policy objectives of the RED, and will finance the types of projects prioritized by the RED which adhere to its Board-adopted Project Criteria.   |

These terms will be reflected in the County's loan agreement with the RED Housing Fund.

## 2. Capital Raising | Philanthropic / Private Capital

The commitments from the public sector will greatly support the Fund's ability to raise capital from additional investors.

1

### Philanthropy

Able to provide low-cost, longer-term capital to support the Fund's lending as well as grants for operational support

A geographic focus or interest in Sonoma County is important

2

### Corporate/ Other Local Stakeholders

May be able to access lower-cost, longer-term capital from treasury and/or philanthropically designated funds

3

### Financial Institutions

Typically providers of the least flexible capital – this may not be immediately usable by the Fund

### 3. Fund Formation | Alternative Legal Structures

The RED Board is evaluating these possible options for the Fund's legal and operating structure:



#### Option 1: Standalone 501(c)(3)

The RED Housing Fund is established as a **standalone 501(c)(3)** corporation.

- 501(c)(3)s are reviewed by the IRS for tax exemption and charitability
- To be eligible for tax exemption, organizations must support one or more “charitable purposes”
- Our team is currently drafting materials (Articles of Incorporation, Bylaws) to submit Form 1023 to the IRS to receive tax-exempt status
- While the Fund may be able to expedite this review, a determination from the IRS could take several months to receive
- The 501(c)(3) may consider establishing an LLC subsidiary to differentiate between its various activities



#### Option 2: Partnering with a CDFI

The RED Housing Fund **partners with an existing** Community Development Financial Institution.

- CDFIs are private financial institutions designed to support lower income and disadvantaged communities
- Our team is currently in discussion with 3 potential partners regarding their interest in a partnership with the Fund
- Depending on the CDFI, the Fund may be created as an LLC subsidiary of the CDFI, or may contract with a CDFI to provide a specific scope of services

## 4. Conclusion | Next Steps

- County approval of terms and authorization of loan based on terms
- County authorizes County Administrator (with County counsel) to execute loan documentation
- Finalize loan documentation
- Close on Fund / funding of the County's loan

Our team is available for any further discussion with County of Sonoma representatives as needed.