

Catlin and Main Kelso, WA

FEASIBILITY STUDY

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Introduction

In 2022, the City of Kelso approached Community Frameworks to complete an evaluation of feasibility for a mixed-use low-income housing project on a parcel of City-owned land acquired as part of a 2014 street realignment. The City identified the project's ground floor as a potential new home for Kelso's library and senior center, both important community spaces that would serve to anchor the West Main Pedestrian Zone, a corridor of pedestrian-oriented businesses and residences envisioned as part of the realignment project. The project's upper floors, all residential, would provide the city with much-needed affordable housing, and by bringing residents to the immediate area the project would demonstrate the broader zone's potential for pedestrian-oriented development. As part of the feasibility process, Community Frameworks met with and evaluated potential project sponsors, interviewed stakeholders at the library and the senior center, and worked with the City and Lower Columbia CAP to develop a set of goals for the project, outlined in detail in the next section.

The primary feasibility option under consideration was a 40-unit building atop roughly 12,000 square feet of community space, divided between a library and a senior center. Two other options were studied, one a large 60-unit building and the other a smaller 22-unit building, but neither met the project's requirements for a ground floor large enough to house both the library and senior center. Any potential project would be financed with a mix of low-income housing tax credits and other state and local funding, plus additional funding specifically for the commercial space. Community Frameworks believes that the 40-unit project would meet stakeholder goals and be a valuable long-term asset to the community. Funding for the project will be difficult to assemble, but as an innovative effort to combine services, city facilities, and housing in a single downtown location, the project tells a compelling story that will appeal to funders statewide.

Project Goals

The project's primary stakeholders are the City of Kelso and the Lower Columbia Community Action Program (LCCAP). LCCAP is anticipated to be the project's primary sponsor and developer and will be responsible for owning and managing the property long-term. The City is donating the land for the project. Critical additional stakeholders include:

- Kelso Housing Authority, which will be a key community partner and source of referrals during project operations
- Kelso Public Library, which may relocate to the ground floor of the project
- Kelso Senior Center, which may relocate to the ground floor of the project

LCCAP's stated goals are that the project should:

- Provide much-needed affordable housing units.
- Target very low-to-moderate income households.
- Provide affordable housing for single-person households, seniors, and people living with a disability.
- Strengthen the organization, including by being cash flow positive.
- Minimize regulatory complication for the organization.

The City's goals for the project are that it:

- Activate City-owned land in West Kelso.
- Provide a long-term home for both the Kelso Library and the Kelso Senior Center.
- Anchor the West Main Pedestrian Zone by contributing to a high-quality pedestrian environment in a traditionally underserved area.
- Provide housing for low-income people in the community.

Development Options

Primary Option – 40 Units

The primary option under consideration is a three-story, 40-unit mixed-use building with 20 studio apartments each 408 square feet and 20 one-bedroom apartments each 600 square feet. The ground floor comprises 1,000 square feet of space for residential amenities such as case management offices and project manager offices, plus another 11,428 square feet for community spaces such as a senior center or library. The graphic below shows how the project could be located on the site.

Need to insert photo

The residential portion would be financed with 9% Low Income Housing Tax Credits (LIHTC) along with grants from the State Housing Trust Fund (HTF), Federal Home Loan Bank, and the local government. Fifty percent of the units would be reserved for homeless households to be competitive for the tax credit allocation. 25% of the units would require project-based Section 8 rental vouchers to be competitive for the LIHTC allocation and provide sufficient cash flow for operations costs and case management services for the homeless families.

The commercial/community portion is partially financed with LIHTC. Other sources under consideration for the community portion are State CDBG funding, the Building Communities Fund (BCF), the Library Capital Improvements Program (LCIP), a direct allocation from the state legislature, or a bank loan.

The project as proposed has a number of advantages and disadvantages. The primary advantages are:

1. There is sufficient funding within the project operating budget for all operations and services.
2. The project is cash flow positive.
3. The project provides sufficient ground floor space for the library, senior center, and a multipurpose room.
4. The project would have a transformational effect on the neighborhood and would be a long-term asset to the City.

The primary disadvantages to this plan are:

1. The project faces a funding gap without significant local investment.
2. CDBG funding for the commercial space is very competitive, and this project may not be a fit for the State's priorities. The other funding sources eligible for the commercial portion, such as BCF and LCIP, are even more competitive and may not be available on a timeline that would work for the project.
3. Even if the project is awarded funding for the commercial space, a bank loan may be required.
4. Project-based Section 8 rental assistance is limited in Cowlitz County. At least 11 vouchers will be required and they may not be available.
5. The project would have to commit a significant number of units to special needs populations in order to be competitive for Federal Home Loan Bank Funding.
6. The project would require purchasing additional land around the current site, including the Sons of Norway building.

Other Options Under Consideration – 60 Units and 22 Units

The other options considered were a three-story, 22 unit-building with one-bedroom apartments averaging 620 square feet and a four-story, 60-unit building with one-bedroom apartments averaging 600 square feet. The rationale behind the evaluating the smaller building was to see what would fit on the site as it is currently, without purchasing additional land. The result can be seen below. However, the smaller building's ground floor provided only 7,200 square feet of community space in addition to 1,000 square feet of common space for residents, which was large enough to house a library or a senior center, but not both. Parking would also be limited and confined to a side lot relatively far from the building, adding inconvenience for residents and visitors. The illustration below shows how the smaller option might have fit on the site.



The 60-unit building was evaluated to explore the maximum number of units that could reasonably be fit onto the site, and how that building would fit into the neighborhood. The illustration below shows how the building might have fit on the site. Unfortunately for large projects, the primary state-level funding sources, including the low-income housing tax credit program, have not kept pace with construction cost inflation. There are some advantages to squeezing more units into the same building, but even with half the ground floor reserved for apartments (leaving only 6,500 square feet for community space), the 60-unit project had a feasibility gap requiring a bank loan. It also provided only 50 parking spaces, which would be shared between residents and any community use. Due the funding gap, lack of square footage for the community center, and the parking shortage, the 60-unit project was not seen as a viable option.



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Sponsor Capacity

Sponsor Evaluation Criteria

During development, funders, lenders, and potential tax credit investors will all independently evaluate the project's sponsor according to their own criteria. Of these, the tax credit investor's criteria will be the most stringent, so will form the basis of the sponsor evaluation in this study.

The tax credit investor will evaluate the sponsor in four categories:

- Financial capacity, including assets and liabilities
- Organizational capacity, including board composition and experience, history and connections in the community, and strength of management
- Operational capacity, including experience meeting public funder requirements and history with housing and LIHTC
- Potential red flags, such as evidence of over-extension, year-over-year declines in financial assets, governing board inexperience or excess board vacancy

Lower Columbia CAP

Lower Columbia CAP (LCCAP) is a nonprofit organization primarily serving Cowlitz and Wahkiakum Counties whose purpose is to alleviate, eliminate, and help prevent poverty. LCCAP provides opportunities, resources, and services to low-income and vulnerable people, including rental and housing assistance, educational support, job training, transportation, and financial counseling. The organization also maintains the county food bank, a thrift store, and a co-operative art space. LCCAP has a strong reputation locally and partners regularly with non-profits providing a wide range of services, and would be able to continue to rely on local partners in the operation of a housing project in Kelso.

Financial Capacity

All funders evaluate the financial status of potential project sponsors to assess financial capacity and long-term stability. Generally, LIHTC investors want liquidity levels over \$1 million and a net worth of \$5MM or more, though a lower net worth is easier to overcome than lower liquidity. LCCAP safely meets both requirements. LCCAP also maintains an operating reserve, which speaks to sound long-term fiscal management on the part of the organization and its board of directors.

Investors also typically look at 3-year financial trends to ensure the sponsor does not have undisclosed or ongoing financial problems. LCCAP's available cash dropped in 2020, presumably due to the pandemic, but has otherwise trended upward apart from a large deposit into the operating reserve in 2018. We would expect that any tax credit investor would consider LCCAP's finances favorably.

Organizational Capacity

LCCAP has been operating in the Longview/Kelso community since 1964. It's one of the longest-running self-help organizations targeting low-income families in the country, and has developed a broad base of support in southwest Washington since its founding. The organization's board, of which 1/3 is drawn from sitting public officials, 1/3 from the private sector, and 1/3 from low-income individuals or representatives of low-income individuals, is particularly high-capacity and clearly demonstrates the

level of political and community goodwill LCCAP can call upon. Funders and investors accounting for potential development risks that may stall the project, especially political risks, will be satisfied that LCCAP's board has the local connections to overcome those risks. The board does not have extensive real estate, architectural, construction, or development experience, limiting its capacity to provide direct project oversight, but that is a minor concern that will be mitigated by the board's community and political connections.

In addition, LCCAP has some capacity to provide direct oversight during development and construction. The organization operates a self-help rehab/acquisition program providing technical assistance and construction supervision for low-income homeowners purchasing and rehabilitating their own homes, and have staff with construction experience. While LCCAP's experience with large-scale multifamily construction is limited, investors will be satisfied that the experience on staff, paired with an experienced LIHTC architect, will be sufficient to adequately oversee the construction process.

One aspect of organizational capacity that the investor will not directly evaluate but that must be considered is the sponsor organization's capacity to close on all funding sources, including the tax credits, and start construction. However, the time between receiving funding awards and having funds come in requires of the project sponsor a substantial investment in both manpower and cash. Expenses will be reimbursed at closing, but the organization's leadership team, board, and project staff should be prepared to prioritize the project during the closing process.

Operational Capacity

Investors will also closely evaluate the sponsor organization's ability to operate the project once construction is complete. The investor will be the majority owner of the project for 15 years, and their investment will only pay off if the project sponsor operates the project in accordance with the LIHTC program's requirements. Primarily, the investor will look at the number and performance of LIHTC properties in the sponsor's portfolio. If rental assistance is needed to operate the property, they will also look at the sponsor's history receiving rental assistance or other public funding.

LCCAP's experience owning LIHTC properties is limited to one 40-unit project in Battle Ground that is nearing its 15-year exit. While that property is in strong shape and has low vacancy and turnover, the investor will require that LCCAP partner with a property manager that has extensive LIHTC experience. The Battle Ground property is currently managed by Cascade Property Management, a Portland firm with extensive LIHTC experience and a firm with whom LCCAP has a strong working relationship. Cascade, or a similar firm, should be expected to be the property manager at any LCCAP project in Kelso.

Any low-income project at this site using public funding will require some amount of rental assistance to remain operational through the 15-year investment period. An investor's first preference for rental assistance is always project-based Section 8 vouchers. Other sources, such as HEN, CHG, and TBRA, are less preferred because they are not contractually-tied to the project and funding levels can fluctuate over time, but LCCAP's status as the administering entity for HEN and CHG in southwest Washington will be enormously helpful overcoming investor concerns about the project's financial outlook. We expect that LCCAP's experience with rental subsidies will be sufficient to alleviate investor concerns, but anticipate that this could be an area where they have additional questions.

Other funders, especially the State of Washington, will also look at LCCAP's history complying with requirements imposed by public funders. Cascade Property Management has experience with many of

the funders that could be involved in this project, and LCCAP has a long history administering funds provided by the State Department of Commerce. The State's threshold for approving funding recipients is substantially lower than a LIHTC investor's, and LCCAP will have no trouble clearing it.

Potential Red Flags

In our study of the documentation provided, we did not notice any significant red flags with LCCAP that would cause a potential tax credit investor to turn down this project. The organization is large and well-capitalized, has construction oversight and services staff, and has a strong and well-connected board of directors that can help overcome potential challenges. LCCAP's inexperience owning LIHTC properties will raise some concern, but continuing the partnership with Cascade Property Management will alleviate those fears. As long as the organization continues its trajectory of sound financial discipline and strong internal management, we anticipate that investors and funders alike would take a positive view of the project and sponsor.

Residential Need and Demand

Like every other city and county in Washington, neither Kelso nor Cowlitz County has enough affordable housing to meet the needs its lower income households. Current county-wide rental vacancy rates are below 2% and rents are increasing by around 4.5% per year, meaning low-income households will be increasingly susceptible to falling into homelessness.¹ The housing stock in Cowlitz County expanded by less than 1% every year from 2010 through 2020, and by less than .1% every year except 2017 and 2019 in the city of Kelso, suggesting that stock will remain tight for the foreseeable future.² With so little new construction, the aging of existing supply will not trickle down and contribute to greater affordability for low-income households, making the need for affordable new construction particularly acute.

The table below shows the growth in housing units and households for Kelso, combined Longview/Kelso, Cowlitz County, and Washington State between 2010 and 2020. For the housing market to remain stable, the numbers should be the same. Larger growth in the number of households than in the number of available housing units suggests a tightening housing market.

Jurisdiction	New Households	New Housing Units	Difference
City of Kelso	236	78	-158
Combined Longview/Kelso	295	176	-119
Cowlitz County	2,425	1,974	-451
Washington State	362,012	315,291	-46,721

The most recent 'CHAS' data from HUD, which is used by local jurisdictions in their consolidated grant planning processes, provides a snapshot of cost burdened renter households in Kelso. HUD considers any household paying more than 30% of its income toward housing as "cost-burdened." HUD also tracks "severely cost-burdened" households, defined as households paying more than 50% of their income to housing. Because these populations pay such a high percentage of their income to housing, they are the most sensitive to tightening housing markets, rent increases, and outside economic shocks. The data shows that there are a total of 2,290 renter households in Kelso, and that 1,000 of them pay more than 30% of their income toward rent. 530 renter households, more than 23% of the total, are paying more than 50% of their income for housing, including 2/3 of the households below 30% of the area median income. In total, over 84% of households below 50% AMI are cost burdened.

¹ Vacancy from 2020 5-year ACS survey. Rent increases from Fall 2022 Runstad Center Apartment Market Report.

² Housing stock numbers from Washington Office of Financial Management

City of Kelso Cost-Burdened Households (Renters Only)				
Household Income ³	Cost Burden > 30%	Cost Burden > 50%	Total Renter Households	% Cost Burdened
Household Income ≥30% AMI	445	350	525	84.7%
Household Income >30% to ≤50%	405	180	485	83.5%
Household Income >50% to ≤80%	100	0	630	15.9%
Household Income >80% to ≤100%	30	0	235	12.8%
Household Income >100% AMI	20	0	410	4.9%
Total	1,000	530	2,290	43.7%

The project anticipated at Catlin and Main would target more than half its units to households earning less than 50% of the area median income, directly addressing the lack of affordable housing units for people in the lowest income brackets. It would also target households coming from homelessness. Homeless data are difficult to gather and are unreliable, but the available data show that Cowlitz County has a significant homeless population. The point-in-time count below shows the number of people in shelters and transitional housing, plus the number of unsheltered people who can be found and counted by volunteers, living in the county over a single night in late January. It is known for substantially undercounting the true homeless population, but nonetheless shows that there is serious demand for units at the low end of the income scale.

Cowlitz County Point-in-Time Count of Homeless Persons ⁴	
Year	Number
2017	331
2018	338
2019	464
2020	328
2021	*
2022	271

**No count in 2021 due to COVID-19 pandemic*

³ <https://www.huduser.gov/portal/datasets/cp.html>. Cowlitz County AMI for a family of 4 is \$79,600.

⁴ PIT data maintained by the Department of Commerce. <https://www.commerce.wa.gov/serving-communities/homelessness/annual-point-time-count/>

Point-in-time counts are supplemented by counts of homeless individuals and households based on those individuals' access to services such as Medicaid, HMIS, or other economic services. These data also consistently undercount the actual homeless population, but they are more representative of the true homeless population than the point-in-time data. Numbers for Cowlitz County are presented below.

Cowlitz County Count of Homeless Persons, based on Medicaid, Economic Service, and HMIS Populations ⁵	
Year	Number
2017	3,440
2018	3,587
2019	3,758
2020	3,603
2021	3,350
2022	3,319

Regardless of its source, the available data show that homelessness is a significant issue facing households in Cowlitz County. Data from the local housing authorities provide a glimpse into the composition of low-income households in the County and offer some insight into the specific type of housing that is most in need locally. The data below are from Housing Opportunities of Southwest Washington's (HOSWWA's) 2022 wait list.

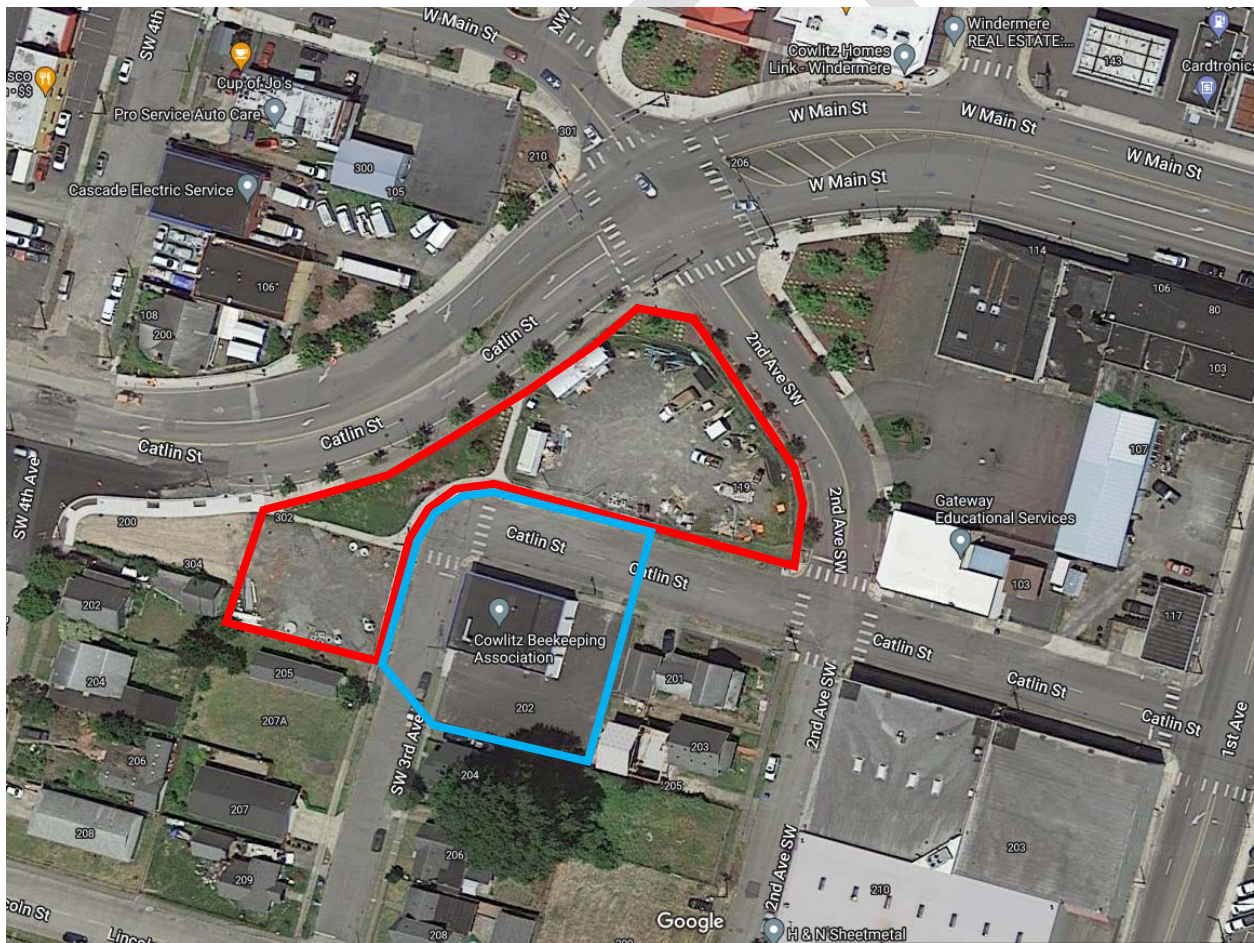
2022 HOSSWA Waiting List Data	
Category	Total
Total on Wait List	3091
Single Families	2218
Families with Children	185
Elderly and Near Elderly Families	1,182
Families with Disabled Member	1561
Displaced Families	218
Homeless Families	697

⁵ These data also maintained by the Department of Commerce. See Snapshot of Homelessness in Washington at <https://www.commerce.wa.gov/serving-communities/homelessness/annual-point-time-count/>

Site Evaluation

Site Location

The Catlin and Main site is located in West Kelso where West Main Street bends and turns into Catlin Street. The main portion of the site is roughly triangular, with frontage on Catlin Street and 2nd Avenue Southwest. The City also owns a small adjacent rectangular plot. For the primary project option, the Sons of Norway building across the street will need to be purchased to provide enough space for parking. Pending the final site layout, the developable area of the smaller option is roughly 22,000 square feet, while the larger option is roughly 52,000 square feet. Apart from the Sons of Norway building, the site is flat, empty, and currently unused. The site currently owned by the City is highlighted in red in the image below, and the Sons of Norway addition is highlighted in blue.



The site is located at the edge of a major commercial strip connecting Longview and Kelso. The nearest grocery store is a Grocery Outlet 0.5 miles away, and a number of restaurants, shops, and office buildings can be found within a half mile. Busses run along 1st Avenue, 7th Avenue, and West Cowlitz Way, with service throughout Kelso and Longview. Kelso City Hall is just across the river, approximately 0.6 miles away, and LCCAP's office in downtown Longview is 0.9 miles south and west. Catlin and Main is

well-placed to win the points that state funders, including the Department of Commerce and the Housing Finance Commission, have traditionally awarded to projects located near grocery stores and other community facilities. It's also well-placed to provide economic and social opportunities to its residents and to contribute to a pedestrian-scale revitalization of West Main Street in this part of Kelso.

Land Transfer

The City of Kelso has indicated that the land already owned by the City will be provided to the project at no or very low cost. As funders evaluate projects, donated land shows the local jurisdiction's commitment to providing affordable housing and is a major point in a project's favor. However, the structure of the land donation, whether an outright sale or a 99-year lease, is less important and can be worked out after negotiation between the project, the City, and the tax credit investor. If the City has a preference for either a sale or a lease, neither the project nor the investor will have trouble accommodating. The land transfer should be expected to occur at or shortly before tax credit closing, currently assumed in Q3, 2024, so the project would lay the groundwork for the transfer in Q1 and Q2 2024.

At the Sons of Norway building, the ideal time for that purchase to take place is also at tax credit closing. However, all funders and investors will require that the project have site control well before then. The most efficient way for the project to secure site control is to buy an exclusive option to purchase the property, the process for which should be started immediately. The City may be able to facilitate this process, which must be complete for funding applications, currently assumed in 2023.

Due Diligence

Title Report

Title reports were requested from Cascade Title for the unimproved rectangular lot at Catlin and SW 3rd and the Sons of Norway lot. A report was also requested for the triangular lot at Catlin and Main. That lot, however, was created by the re-channelization of the two streets and has not yet been reconstituted as an official parcel for title purposes. This would have to be arranged before the land transfer could take place, but would not necessarily have to be complete before funding applications. The process of creating a legal lot is straightforward and could be completed by any local surveyor. Otherwise, there are no title-related barriers to development at any of the three parcels.

Environmental Report

Resources publicly available from the Washington State Department of Ecology, including the leaky underground storage tanks (LUST) list, do not indicate obvious environmental concerns at the project site, though Community Frameworks acknowledges that it lacks the qualifications to make a definitive judgment. The Department of Ecology shows four cleanup sites in the project's vicinity on the west side of the Cowlitz River less than 1 mile from the project. Two of them, at 5th and Main and at Washington Way and Vandercook, have finished cleanup. At the other two, at 6th and Main and at 7th and Main, cleanup is in progress. A Phase I report, which must be completed as a condition of applying for Washington State Housing Trust Fund funding, would identify any environmental issues to be mitigated as part of the project.

Flood Plain Status

According to the Flood Insurance Rate Map published by the Federal Emergency Management Agency (FEMA), the site is within a floodplain but flooding risk is mitigated by levees along the Cowlitz River.

Soil Conditions/Geotechnical Report

A geotechnical study was performed for the project realigning Catlin and Main Streets and was reviewed for this study. That study identified silty soil subject to liquefaction at the site. Liquefaction risk can be mitigated by either shoring up the soil itself, which can be accomplished by installing stone columns or mixing cement directly into the soil, or by driving foundation piles beyond the depth of the liquefiable soil. However, because the geotechnical report was performed for a roadway project rather than a building project, its recommendations for subsurface and foundation work may be inappropriate for Catlin and Main. The project should expect additional costs due to shoring and site stabilization, but will also need to retain a geologist to prepare an additional analysis of the site's geology specific to the proposed project.

SEPA Requirements

Any multifamily development in Kelso of more than four dwelling units requires the project go through the State Environmental Protection Act (SEPA) process and receive approval from the relevant City agency. The SEPA process may require additional 3rd party reports, the most common of which include traffic and parking studies and phase 1 ESA's.

Other Environmental Conditions

According to the US Geological Society, Kelso is in a medium-high frequency earthquake zone, like much of Western Washington, and most of the city is in a moderate to high liquefaction risk zone, including the site. Risk from other natural hazards is low, and risks do not pose a constraint on feasibility, design, or construction. Based on what we currently know, we do not believe above-normal insurance, such as additional flood or earthquake coverage, would be needed for this project.

Zoning Review

Zoning

The Catlin and Main site is zoned General Commercial (GC) within the West Main Pedestrian Overlay. The zoning and overlay promote mixed-use properties with active commercial ground floors and other uses, including residential, on higher floors. There is no minimum or maximum number of dwelling units. Parking requirements are flexible, but the City has indicated that the number of spaces provided should be based on experience at properties with similar populations and unit types. Current zoning provides sufficient development capacity to meet the goals of either project alternative.

City of Kelso GC Zoning with West Main Pedestrian Overlay	
Dwelling Units/Acre	No minimum or maximum requirements
Max Height	60' (can be increased by variance)
Setbacks	Zero or minimal
Max Impervious Area	85%
Open/Recreational Space	150 square feet/residential unit, including: • Private balconies • Shared courtyards/rear yards • Shared front porch • Shared rooftop deck
Façade	Articulation required. Can include: • Windows and/or entries • Change in roofline

	• Change in material and/or fenestration pattern • Building modulation of at least 12" in depth • Vertical elements such as a trellis, green wall, or art element • Other design techniques, by approval
Transparency	Minimum 60% transparent between 30 inches and 12 feet

Parking

Parking requirements in the West Main Pedestrian Overlay zone are intended to minimize parking's impact on the pedestrian environment and on adjacent properties. Wherever possible, parking must be located behind or underneath buildings that face the main street, and access should be from side streets. Additional parking requirements are outlined in the table below.

City of Kelso GC with West Main Pedestrian Overlay Parking	
Residential	1 space per unit, unless reduced by the City based on a site-specific parking analysis
Commercial	None explicitly required
Shared Parking	By agreement with neighboring property owners and approval by the City

The current design anticipates 32 residential parking spaces, 0.8 per unit, plus 16 parking spaces for the commercial portion of the project for a total of 48 spaces, not including on-street parking. The project team surveyed Lower Columbia CAP and the local housing authorities to determine the appropriate number of parking spaces, as shown below, and expects the provided parking to be sufficient.

Stakeholder	% of Clients/Residents with Cars
HOSWWA	90% - 95%
Kelso Housing Authority	62%
Lower Columbia CAP	70%

Land Use

GC zoning allows for community centers, meeting halls, small-scale retail, health care facilities, and professional services offices by right.

Zoning Summary

Either of the proposed development options will fit within the existing zoning and meet the intentions of the West Main Pedestrian Overlay. Zoning-related factors such as parking requirements, building height restrictions, and building setbacks will not substantively limit the size of the project, and the code's requirements for architectural elements are transparent and can be met within the project budget.

Building and Development Permit Fees

Building permit and fire/life safety fees are based on the total valuation of all labor and materials used to construct the project. Mechanical and plumbing fees are based on the actual number of fixtures and devices installed. Capital recovery fees and system development fees are also charged for sewer and stormwater impacts and are based on the size of water service provided. Kelso does not charge impact

fees for traffic, schools, or parks, but if an issue is identified through the SEPA review process, the City can require applicants to make improvements or pay a fee in-lieu. Fee estimates are available on the City of Kelso website.

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Ground Floor Activation

Background

Active commercial or community space on the ground floor at Catlin and Main is critical if the project is going to meet the City's goals by anchoring the eastern end of the West Main Pedestrian Corridor and provide a long-term home for one or more community facilities such as the Kelso Library or Kelso Senior Center. Ground floor community space is also an asset for residents, who will have easy access to the community and social programs that libraries and senior centers can provide. A portion of the ground floor should be reserved for the project sponsor, who will need offices for property management and case management, space for maintenance, and a community room for resident use. Ground floor resident and sponsor spaces are typically between 1,500 and 3,000 square feet. The remainder at Catlin and Main can be allocated to other uses.

However, while Community Frameworks is supportive of co-locating affordable housing and community facilities, investors and funders generally prefer that the ground floor in mixed-use affordable housing buildings be legally separated from the residential space and treated as its own separate parcel. In practice, this has a number of implications. None of these are insurmountable, but they all add a layer of complexity to the project that needs to be accounted for:

- There will be two construction contracts, one each for the residential and commercial parts of the building, and potentially two prevailing wage structures
- The residential construction contract and residential funders would construct the ground floor foundation and walls, and would fill out the space occupied by the project sponsor. Other internal improvements would have to be paid for by other funders.
- There may be two ownership entities, one each for the residential and commercial parts of the building
- There must be an agreement for shared maintenance between the commercial and residential entities, including landscaping, roofing, outer walls, and parking lot
- Shared interior space, such as restrooms or meeting rooms, if there is any, would also be subject to a shared maintenance agreement
- The residential entity will be required by the investor to deposit money in a replacement reserve account to pay for capital repairs. The commercial entity should be prepared to do likewise

The discussion below summarizes conversations with the Kelso Library and the Board of the Kelso Senior Center with regard to building new space for each at Catlin and Main. The site is suitable for both uses and we believe that some amount of funding could be found for either.

Kelso Library

The current Kelso Library is located in the Three Rivers Mall just over 1 mile from the site. The library acts as something of an anchor to its corner, but overall the mall is just 50% occupied and may be a candidate for redevelopment. The library currently has 11,627 square feet of space, but library staff and management agree that a smaller space would be acceptable. In the best case, a library would have a computer area with 8-10 stations, a couple of small meeting rooms, a space for kids that could be used

to play board games or as a maker space, and a little bit of reading area. More than anything, however, the library manager has said that the best new feature in a new library would be a door leading outside.

The current projected operating budget does not anticipate that the library would pay rent. There would eventually be a requirement for some support for common area maintenance, but it is not anticipated that this would be onerous. However, the development budget assumes a small bank loan that would be borne by the community space tenants.

Any new library on the ground floor at Catlin and Main would be somewhat smaller than the current location at the Three River Mall, requiring the library to economize somewhat. However, the library may be able to share meeting areas and restrooms with an adjoining use, freeing up room for books, offices, and reading areas. Design issues would be worked out during detailed design, but the current massing indicates sufficient physical square footage to build a facility that could work for the City. Finally, without question, any library on the ground floor at Catlin and Main will have a door to the outside.

Kelso Senior Center

The current Kelso Senior Center is located in the Catlin Center, less than a half mile from the Catlin and Main site. The building, around 6,000 square feet in total, holds events daily or even multiple times per day for seniors in Kelso, including card games, bingo, square dancing, Kiwanis Club meetings, and ukulele lessons. The senior center operates a snack bar out of the back of the building for families coming to the adjacent spray park, and has a kitchen inside that is used three days per week to provide meals for members.

However, the Catlin Center building was built in 1933 and now needs new siding and a new roof at an estimated cost of over \$400,000, plus other deferred maintenance requirements. The Senior Center Board has put in enormous amounts of their own equity, both financial and through hard work, but there is a common recognition that the building needs either substantial outside investment or to be replaced, and it is unclear from where outside investment could come.

In comparison with the library, development costs would be somewhat higher for the senior center, in particular for a new kitchen. The Senior Center Board has also indicated that there would be value in salvaging the dance floor, which may be an option but would come with additional cost. On the operating side, the current pro forma assumes that the senior center would not pay rent, but there would eventually be a requirement for shared maintenance of common spaces and facilities.

The current layout provides just under 3,500 square feet for a senior center. The space could be divided as needed, especially with the addition of a kitchen, while restrooms and smaller meeting rooms could be shared with adjacent uses. Current massing indicates that an appropriately-sized facility fits within the available ground floor space at the project. However, the Senior Center Board raised a number of potential issues with moving the Senior Center to a new location that would have to be worked out in design:

- The current senior center has a gambling license for bingo that would need to be transferred. This is possible, with a fee
- Square dancing and ukulele practice happen in the evenings, and may be disruptive to upstairs tenants. Additional soundproofing would be added, but no amount of soundproofing will prevent 100% of the noise from reaching the residential areas

- Many events, such as card games, can draw 40-50 people and overwhelm the available parking at the current site. When residents were out at work during the day there would be more parking available at the Catlin and Main site than the current site. However, parking in the evenings may be at a premium
- The senior center moved to its current location because residents near its old location, all seniors, were made to feel unsafe by the coming and going of visitors to the center. There is a concern that this could repeat itself at a new facility
- The senior center has significant history, much of it thanks to the work that current members have put into the building, that could not be replaced

Financing Community Facilities

Finding financing for community facilities is challenging. One major advantage that the project has is its location within a qualified census tract, which allows a portion of the low-income housing tax credit funding to be used for community facility construction. However, adding the community facility makes the project more expensive, and as it gets more expensive, it becomes less competitive for tax credit funding. A second option is to create a condominium structure where the community facility would be separated from the residential facility and sold to the City or a separate ownership entity. That would lower the total development cost on the residential project and make it more competitive for residential funding, but it would force the project to find commercial space-specific funding for the entire community space. There are limited sources of public funding for commercial space available from the State, detailed below, but those sources often come with restrictions that make it challenging to use them in mixed-use buildings. None of these challenges are insurmountable, but each potential solution either adds a layer of risk and complexity that can stop the project or require significant concessions from potential tenants with regard to the size and amenities of the new space.

Community Facility Recommendations

At this stage, and given the goals of the project, we believe there is a path forward with a medium-sized building housing both a new library and a new senior center. However, that assumption depends upon relatively low costs of construction for the community facility and upon receiving some sort of commercial-specific funding. A community facility that involves relatively high construction costs (such as a commercial kitchen or substantial HVAC, plumbing, or electrical infrastructure) will require additional commercial-specific funding and may not be feasible.

The primary difficulties in the commercial-specific funding options are the timing and that the sources themselves are extremely competitive. Challenges are explored in detail below, but each source can add significant time and uncertainty to the project. A loan from a bank such as Heritage Bank, also outlined below, can bridge a small gap in funding, but borrowing the full construction cost of the community space would require loan payments beyond any potential tenant's ability to pay. A large community space is possible at Catlin and Main, but will require patience and an understanding of the difficulty in securing and accessing commercial-specific funding.

Capital Funding

Projected Development Budgets

The project's projected total development cost \$18.1MM. Total development costs include hard construction costs, projected to be \$14.9MM, as well as soft costs and financing costs. Soft costs include architecture and engineering fees, development and permitting fees, insurance costs, and site and soil surveys. They are usually calculated as a percentage of construction costs, adjusted for local conditions. Financing costs include any loan fees, construction loan interest, and tax credit fees. Detailed preliminary capital budgets are included in Appendix C.

The anticipated construction budget is based on recent construction projects of similar scope. The primary comparable project was Sunrise Village, a 40-unit project in Longview currently in development for Housing Opportunities of SW Washington. That project will serve a similar population and will be constructed with similar funding sources and prevailing wage requirements. Sunrise Village has a significantly more complicated site, but construction will only consist of two-story wood-framed townhomes. Catlin and Main will have a more expensive construction type, but the community areas are large single rooms which will be much less expensive on a per square foot basis than other parts of the building, so we expect overall costs to be similar. Costs at Sunrise Village are currently estimated at \$302/square foot for construction starting in the third quarter of 2023. Also under review were Pendleton Place, a four-story, 72-unit project in Kitsap County completed in 2022 with costs around \$272/square foot, and new construction projects recently completed by the Vancouver Housing Authority, with costs between \$277 and \$285/square foot.

Based on this research, Community Frameworks assumed a hard construction cost of \$336/square foot for the residential areas and \$270/square foot for the community areas, resulting in a blended cost of \$317/square foot. The estimated budget includes a 10% construction contingency, which can be lowered later in the development process.

Due to the mix of project funders involved, Catlin and Main will be subject to certain regulations that act to increase construction costs. In particular, if the project is awarded more than eight Section 8 project-based vouchers, federal Davis Bacon wage rates will be triggered. The current development pro forma assumes 10 units will have vouchers, Davis Bacon will trigger. Any state or local grants will subject the project to state prevailing wages, though state or local money that is loaned to the project, which includes funds from the State Housing Trust Fund and from HOME, will not trigger state prevailing wages. All state money, including the Housing Trust Fund, will require the project to meet the Evergreen Sustainable Development Standards, which require energy efficiency and green features beyond the state's energy code.

Washington State Housing Trust Fund (HTF)

The Washington State Housing Trust Fund provides funding for a range of housing types for very low-income individuals and families and is traditionally the most important source of funding for affordable housing projects in Washington. The funding level for the Trust Fund is established by the Legislature as part of the biennial capital budget, and HTF staff review applications and award funding annually. The

Legislature has become more involved in the past several years in allocating funding and setting priority populations to be served with the funds.

In the 2021-2023 Capital Budget, the State Legislature appropriated \$129,903,000 for the Trust Fund, later amended to \$202,981,000 thanks to an infusion of money under the American Rescue Plan. The portion of these funds available in the 2022 application round was \$63 million, for which there were 60 applications requesting \$237 million. In 2021, there were 85 project applications requesting a total of \$283 million for around \$80 million in awards, showing how competitive the Trust Fund is. Scoring estimates for each development scenario are given in Appendix B, and more detailed explanations of the scoring criteria can be found in the 2022 HTF Notice of Funding Availability⁶. HTF funds can be used to pay for resident-specific services, office, and community spaces, but cannot be used to pay for community spaces open to the general public, like a library or senior center.

Application due dates have not been set yet for the 2023 cycle, but applications typically open in the early part of June, offer technical assistance through the middle of August, and then are due by the middle of September. Awarded projects are then notified in December. The maximum award per project is expected to be \$5,000,000, with additional limits on the total amount that one agency can receive in a two-year period. Unless the project pursues tax credits, Housing Trust Fund awards are typically the final element of a conventional funding package.

Regardless of the development option chosen at Catlin and Main, Housing Trust Fund financing will be an essential piece of the financial picture. However, the Fund's increased emphasis on cost containment and leveraging of outside sources means that all projects rely on multiple funders with multiple application and award cycles.

Low Income Housing Tax Credit Financing

9% Tax Credit Financing

The low-income housing tax credit (LIHTC) program is the largest source of capital funding in the United States for affordable housing. In the 9% LIHTC program, a project receives an allocation of federal tax credits spread over 10 years in exchange for a commitment to provide affordable housing that would not be available without the tax credit incentive. Ordinarily, the project's developers do not have sufficient tax liability to use the credits, so the credits are "sold" to an investor, typically a large financial firm or tax credit syndicator. Due to the size of most investors and the legal and accounting expenses associated with tax credit projects, LIHTC projects have an effective size threshold below which investors are normally not interested in investing. The smaller development option, modified for a smaller community space, is just above this threshold. At that level, there could be a risk that certain prospective investors turn down the opportunity or purchase the tax credits for a relatively lower price, resulting in less equity for the project.

Tax credit deals are structured such that an entity, typically an LLC or LLLP, is created to own the project after completion. This ownership entity is jointly controlled by the project sponsor, which acts as the managing member and retains a 0.01% ownership stake, and an investor member, which acquires 99.99% of the project in exchange for the equity investment it makes by purchasing the tax credits. The partnership lasts for a minimum of 15 years, after which the managing member typically takes full

⁶ The 2022 NOFA is available here: <https://deptofcommerce.app.box.com/s/phsqana1a6k6adddbx6veir8pqf03h3ud>

ownership of the project along with any remaining debt or taxes owed. In most cases, the transfer of ownership to the managing member occurs with no cash paid to the investor member.

Competition for the LIHTC program is split into four geographic pools to ensure that there is a fair geographic representation of projects across the state. The pools are Seattle, King County except for Seattle, New Metro, and Balance of State. Kelso competes in the Balance of State pool. In the other three pools, local jurisdictions submit priority projects to the Washington State Housing Finance Commission, which then receive that jurisdiction's allocation of credits. The Balance of State pool, on the other hand, is highly competitive, with the greatest scoring priority placed on projects that provide 50% of their housing to homeless households. With that assumption, Community Frameworks' analysis shows that the project will score 180 points. In recent funding rounds, the threshold has been around 180 points, suggesting that it would be competitive. In addition, the Housing Trust Fund and Housing Finance Commission increasingly coordinate the projects they fund, so there is a strong likelihood that a project funded by HTF would also receive LIHTC funding. Either project could increase its score by either receiving a larger allocation of project-based rental assistance or lowering its total development costs, which would entail condominiumizing the community space and removing it from the residential project's total development cost. A detailed breakdown of the project's LIHTC scoring is presented in Appendix B. Without the 50% homeless set-aside, LIHTC funding is not achievable.

As with other residential funders, LIHTC funding has certain restrictions when used to pay for non-residential space. In projects funded with LIHTCs, no more than 25% of the first \$15M of the building's eligible costs can be for the commercial space and no more than 10% thereafter, meaning that very large commercial spaces are almost impossible to fully-fund. In practice, most mixed-use developments that use LIHTC funding legally separate the commercial space from the residential space using a condominium structure, and then find separate financing to pay for the commercial space's construction. In projects where separate financing is difficult to find, the size of the commercial space must shrink to fit within the program guidelines.

Applications for the LIHTC program typically come out in early September and are due in mid-November, with awards announced in December. Awarded projects typically close on financing and begin construction 8-10 months after the award. In order to submit an application, substantial predevelopment work should be completed. This includes completing sufficient architectural work to ensure that an accurate construction cost estimate can be prepared; all capital funding should be committed (except HTF, which issues awards around the same time); a market study must be completed; the site should be under control; the sponsor must demonstrate development and property management capacity; and there should be a letter of interest from a potential equity investor.

4% Tax Credit Financing

The 4% LIHTC program works similarly to the 9% program, but the tax credit equity can pay for only around 30% of the cost of a project, so must be paired with tax-exempt bond financing to fill the gap. The credits are not competitive, but the bond financing award is currently competitive in Washington State. 4% LIHTCs come with all of the expense of the 9% LIHTC program in addition to the expense and complication of the tax-exempt bond financing. Because each project generates fewer tax credits, projects financed using the 4% tax credit must be very large to attract investors. 4% projects in Washington State are at least 80 and up to 260 units, with total development costs starting around \$30

million. Due to the size threshold and the high cost of bond issuance, the 4% program is not a good fit at Catlin and Main.

Federal Home Loan Bank Affordable Housing Program (AHP)

The Federal Home Loan Bank (FHLB) system is a network of eleven regional banks chartered by Congress to provide liquidity and mortgage guarantees for member banks, which in turn provide mortgages locally to individuals. Most consumer banks in Washington are members of the FHLB of Des Moines, Iowa. In addition to their role in the conventional mortgage market, FHLBs contribute 10% of their net income each year to affordable housing. Member banks sponsor housing funding applications to their FHLB, which awards grants based on specific scoring criteria.

For the 2022 funding round, the maximum total award was \$750,000, with a maximum per unit grant of \$40,000. The scoring criteria prioritized housing for homeless and special needs populations and populations below 50% of area median income, and awarded extra points for projects built on donated land. To be competitive, the project as constituted will need to reserve 50+% of the units for homeless households, 50+% for special needs individuals, and will need to receive 100% of the land as a donation. If a way to donate 100% of the land cannot be found, including the Sons of Norway building, the project will not be viable for FHLB funding without reserving 75%+ of the units for either homeless or special needs populations or creating an additional set aside for military veterans. The FHLB Scoring table in Appendix B shows preliminary scoring calculations based on 2022 criteria. 61-62 points is assumed to be the minimum for a competitive application.

Application due dates and technical assistance workshop dates have not been set yet for the 2023 round, but AHP applications for the Des Moines bank are typically due on the last day of May. A member bank must sponsor the application, so identifying a local bank who may be willing to act as sponsor is the first step in the application. Heritage Bank has sponsored a number of Community Frameworks applications in past years and has a branch in Longview, so they may be a viable sponsor.

Some banks with local branches, such as Key Bank and US Bank, are members of other branches of the FHLB and could sponsor an application to the FHLB bank they are a member of. However, all branches award extra points to projects in their district, putting Washington State projects at a disadvantage in districts other than Des Moines.

HUD 811 and HUD 202

The HUD Section 811 and Section 202 programs are capital funding sources available for supportive housing of very low-income households with disabilities (HUD 811) and very low-income seniors (HUD 202). To be eligible for units funded under Section 811, proposed residents must have a qualified disability, characterized as one or a combination of physical disability, developmental disability, or chronic mental illness. They must also have household income of less than 50% AMI. To be eligible for Section 202, proposed resident households must have one or more individuals aged 62 or older at initial occupancy and have household incomes of less than 50% AMI. HUD Section 811/202 units also have operating subsidies discussed in more detail below.

There is a NOFA out currently for Section 202 funding. HUD estimates \$184.6M in available funding, for 35 projects out of submissions from all 50 states. Average awards will be \$5M, and the maximum potential award will be \$20M. Unfortunately, the timing of this project will not line up with the current funding round. Section 811 and 202 funds are highly competitive funding sources, but do not have

reliably consistent funding cycles. The previous Section 202 NOFA was dropped in 2020, while the previous Section 811 NOFA was in 2012. The project at Catlin and Main should not depend upon HUD 202 or 811 funding as a source.

Local Funding Sources (HOME, Document Recording Fee, HB 1406)

Longview-Kelso HOME Consortium

The primary funding source available to the project locally is HOME funding, administered by the Longview-Kelso HOME Consortium. Funding amounts are limited, but a modest local contribution is critical in securing funding from other sources, especially HTF and LIHTCs. The Consortium's 2022 application deadline for HOME funding was May 26, and the total amount available for development was \$74,071. Of that, \$30,000 was allocated and \$44,071 was carried forward to 2023. It is expected that the 2023 application date and available funding will be similar in the 2023 round.

HOME funding is typically used for construction expenses during development, but can be used for pre-development when the project sponsor is a Community Housing Development Organization (CHDO). LCCAP was recently made a CHDO, so could apply to use HOME funding for costs incurred before closing.

Cowlitz County Document Recording Fee

The Cowlitz County Document Recording Fee is eligible for use on goals identified in the County's Homeless Housing Plan, which includes developing affordable housing for homeless persons. As of 2022, the County collects approximately \$850,000 per year, and in 2022, the County awarded \$690,650. Of that amount, \$142,172 went to the County's Coordinated Entry system, \$352,200 went to a new development project, and the rest went to operations and services at existing housing projects and shelters. In years where a Document Recording Fee RFP is issued there is an opportunity for Catlin and Main to win an award for affordable development, but the County has not indicated whether there will be an RFP issued in 2023.

HB 1406 Funding

In 2019, the State passed a bill allowing local jurisdictions to retain a portion of their sales tax intake and apply it to affordable housing. Eligible uses for the credit include acquiring, rehabilitating, or constructing affordable housing, or operations and maintenance of new units of affordable housing. Counties and cities have to opt into the program to take the credit, which Cowlitz County has done.

The amount of funds available depends upon the amount of sales taxes each jurisdiction collected in tax year 2019. In Cowlitz County, the state estimates that the amount of funding available annually will be about \$40,000, though there is an option to bond against the 20-year stream of revenue, increasing the amount available to around \$875,000. Cowlitz County awarded about \$400,000 by RFP in 2022, but has not indicated whether an RFP will be issued for HB 1406 funding in 2023.

Until there is more certainty about the amount of money that will be offered and when it will be made available, the Document Recording Fee and HB 1406 funding cannot be relied upon as a source in the development budget. However, if an RFP is issued in time to fund Catlin and Main, the project would be a strong fit for the County's priorities with the program and there could be a reasonable amount of money available for development.

Community Space Funding

Community Development Block Grants (CDBG)

Community development block grant (CDBG) funds cannot be used to pay for construction of new housing, but they can be used for community facilities that principally benefit low-income people or neighborhoods. Community facilities are broadly defined, and include sidewalks, sewer upgrades, drainage facilities, libraries, and senior centers. In smaller communities, including Kelso, CDBG funds are administered by the State Department of Commerce. Application cycles open in March and awards are in September, and upcoming cycles are expected to have around \$11 million available for awards, with maximum award amounts of \$1 million.

There is a timeline-related challenge to the CDBG funding in that the funder prefers the CDBG award to be the final piece of a project's funding puzzle. The State Housing Finance Commission also prefers the LIHTC award to be the final piece of the funding puzzle, setting up a conflict. The Department of Commerce may be able to defer the CDBG award pending the announcement of the housing awards, but this still sets up a potential political risk that must be managed. If the project has to wait to apply for CDBG funding until after it has received LIHTC funding, it will set the project timeline back by at least 9 months.

State CDBG regulations require that only cities/towns and counties are allowed to apply for funding, so the City would have to take the lead on the CDBG application with support from the development consultant. The project sponsor would then partner with the City, acting as a grant subrecipient, to manage project construction. Each applicant may only submit one application per funding cycle, so the City should plan to prioritize this project if CDBG funding is pursued.

A potential downside of CDBG funding is that any work performed using the funds triggers prevailing wage rates. If these funds were used, the project would try to separate the CDBG scope from the remaining scope to avoid triggering prevailing wages on the entire project. This process is somewhat simpler if CDBG is used to pay for required offsite improvements, such as sidewalk or sewer extensions. If the CDBG funds are used to pay for community space, such as the library or senior center, this process becomes more difficult. However, given the benefits of CDBG, this is generally worthwhile.

Library Capital Improvements Program

The Library Capital Improvements Program (LCIP) is a program administered by the Department of Commerce to help libraries around the state construct or rehabilitate facilities. The program gives priority to libraries on local, state, or federal registers of historic places and to libraries in distressed or rural areas, for which West Kelso would qualify. The program is competitive, awarding only \$10 million, and can only pay for libraries, making combined projects difficult. LCIP staff indicated that a mixed-use library project with a residential component has never applied for nor received funding from the program before, so there may be some issues to be worked out in contracting.

As with CDBG, only governmental units (cities/towns, libraries, and library districts) are eligible to apply, so the City of Kelso would have to take the lead on any application. However, in this case, since the LCIP program has never funded a library in a mixed-use project before, program staff are unsure of whether Catlin and Main's project sponsor could act as a subrecipient for the funds. If the project sponsor could not act as a subrecipient, the City would have to help manage the project during construction, with support from the development consultant.

The LCIP program was initiated by the State Legislature in 2019 and reauthorized in 2021, but it is not known whether the program will be reauthorized with the 2023-2024 biennial budget. If the program is reauthorized, confirmation would come late in spring 2023. The first round of funding applications would come out in early 2024, and fund awards would be finalized with the approval of the 2025-2026 biennial budget in spring 2025. This timeline will not allow an award to be made in time if Catlin and Main intends to move forward with funding applications in 2023. The program's funding timeline would work if the project waited until 2024, but given the competitive nature of the award and the funder's hesitance with using it in mixed-use projects, it is not worthwhile to postpone funding applications for this program alone.

Building Communities Fund (BCF)

The Building Communities Fund is another program administered by the Department of Commerce, this one to help construct nonresidential community and social service centers, such as senior centers. There is no minimum or maximum award amount, but the program is restricted to the nonresidential portions of the building and can only pay for 25%-50% of the project, depending upon the project's size. However, BCF funds have been used successfully in mixed-use, low-income facilities, and the BCF section at the Department of Commerce has experience administering the award for those projects.

The next BCF award cycle will open in spring 2024, with notification of award the following fall. The amount of funding available won't be made clear until after the 2023 budget is finalized, but the program is historically very competitive. BCF awards trigger prevailing wages, and since the funds cannot be used on any of the residential portions of the building, the nonresidential portion would require a separate construction contract. As with the Library Capital Improvements Program, BCF is a competitive award with enough complication in execution that it is not worthwhile to postpone the project until 2024 for the chance to apply. However, if the project is postponed until 2024 for other reasons, the potential size of a BCF award and the funder's experience using BCF in mixed-use developments mean that it should be pursued.

Washington State Direct Allocation

As currently designed, Community Frameworks believes the project stands a reasonable chance of success in securing HTF, FHLB, and LIHTC funding. However, all of those sources have limitations when it comes to paying for the nonresidential portions of the project. For a very large community space which includes both a library and a senior center in addition to the residential portion of the project, paying for the interior improvements will not be possible without either CDBG, Library Capital Improvements, or BCF funding, adding substantial risk to the project's schedule and funding mix. A direct allocation from the legislature provides an easier path toward paying for the large community space in addition to the residential areas.

Direct allocations are most commonly awarded at the beginning of the 2-year budget cycle, but have occasionally been included in the off-year supplemental budget. The current budget cycle is from 2023-2024, so a project seeking a direct allocation in the spring 2023 legislative session would fall in the main budget period. In general, direct allocations require less upfront work than applications for other funders, so there is still time to advocate for one if either the sponsor or the City have strong relationships with their legislators. Sustained relationships with state legislators are crucial in receiving direct allocations of any size, particularly on short notice.

There is debate within the affordable housing community regarding direct allocations, but lobbying for direct allocations is still common and the state's capital budget usually includes multiple allocations ranging from \$500,000 to \$9,000,000 for housing projects. In the case of Catlin and Main, there is a general understanding that mixed-use projects are difficult to develop, especially in smaller communities, and a direct allocation that assists the non-residential portion of a mixed-use building may be easier for housing-minded legislators to support.

Though direct allocations are awarded with less scrutiny, they are still administered by the HTF and have some regulatory and compliance requirements. Community Frameworks believes that the project as it is currently constituted has a good chance to receive enough funding to cover the cost of development, but even a small direct allocation would allow for a more robust community space and would better support the City's goals for the project.

Bank Loan

A final option for paying for improvements to the non-residential portion of the building is to finance with hard debt. Debt comes with long-term risks, but it is generally not competitive in the way that funding applications are. If the City was able to commit to a lease agreement with monthly rent payments, the project sponsor could secure a long-term loan to pay for improvements. One potential partner is Heritage Bank, which offers a community development loan for projects in qualified census tracts, such as Catlin and Main. Heritage Bank's loan offer is interest-only for 7 years at 3% interest, before reverting to a market rate loan with monthly principal plus interest payments. With conservative assumptions at current rates, a \$3,000 monthly payment could pay for around \$475,000 in debt. The City may have access to sources of debt at even lower rates, and if so, could work with the developer and sponsor to come up with a way to use those funds in the project.

Operating/Service Funding

Regardless of the development's eventual form, Catlin and Main will have ongoing operation and service funding needs that cannot be met by income from rents affordable to the target population. The operating budget, including expenses such as property management, maintenance, janitorial, owner-paid utilities, and others necessary to keep the property livable and safe for residents, was built using estimates based on LCCAP's costs at Magnolia Gardens, a 40-unit project developed with LIHTCs in Battle Ground. Costs there are around \$5,000 per unit per year. Service costs vary according to the tenant population, but services are essential for certain tenants to gain the skills necessary to transition to stability and self-sufficiency and at minimum include case management of approximately 1 FTE for every 25 homeless families. Service needs are greater in projects with higher proportions of disabled residents, formerly homeless residents, or extremely low-income residents, and services will be required by funders including the Housing Trust Fund and the State Housing Finance Commission.

At Catlin and Main, the level of services necessary to ensure resident success in the larger development scenario was estimated at 0.8 FTE, or \$48,000, which was included in the operating budget and assumes a 50% homeless set-aside. If the sponsor chooses to seek a 75% homeless or special needs set-aside, which would make the FHLB AHP application more successful, additional service funding may be required.

The options for operations and services funding in Washington State are presented below.

Project-Based Section 8 Vouchers

Project-based Section 8 vouchers are the gold standard for rental assistance. Housing authorities have the option to project-base up to 20% of their allotment of Section 8 vouchers, which ties those vouchers to a specific unit (or project) for 20 years. Project-basing ensures that the unit remains affordable for anyone moving into it, rather than forcing a household to find private market housing that will accept the voucher as payment. While many of the project's residents may enter tenancy with their own Section 8 vouchers, project-basing ensures sufficient operating and service funding for the length of the project-based voucher contract.

Project-basing vouchers provides a steady, dependable revenue stream, and is the best option to guarantee the project's long-term operational stability. The preliminary operating and service budgets indicate that project would have sufficient cash flow for operations and services if 25% plus one of the units received a commitment of project-based vouchers. There are also points available on the LIHTC application for projects with vouchers, and being over 25% represents a significant threshold.

HUD Section 811 and 202

Most HUD 811 and 202 units are paired with Project Rental Assistance Contract (PRAC) operating/service subsidies. Tenants of Section 811/202 units pay 30% of their adjusted household income, and the 811/202 subsidy will pay the difference up to the contract rents. PRAC contracts have a three-year term, renewable based on availability of funds. If the project receives an award of HUD 202 or 811 funding, the operating funds would be a key component of the project's operating funding mix.

However, due to the relatively low chance of receiving the award, the project should not count on 811/202 operating subsidy until the development subsidy is in hand.

Department of Social and Health Services ALTSA Vouchers

The Aging and Long Term Support Administration (ALTSA) is a program administered by the Washington State Department of Health Services. ALTSA offers supportive housing services to help their clients transition away from skilled nursing facilities or state psychiatric hospital into independent housing in the community. ALTSA vouchers pay market rate rent up to 120% FMR. Case management and personal care services are available to ALTSA clients, as are transitional funds to help tenants furnish their units. ALTSA completes their own tenant evaluation process annually, and also helps coordinate services. ALTSA vouchers are only available on one-year terms, but funding has been regularly renewed by the State. Thanks to the consistency of the funding and the fact that DSHS helps provide and coordinate services for ALTSA residents, it would be worthwhile for the project to pursue a limited number of ALTSA vouchers.

Washington State Operations and Maintenance Fund (O&M Fund)

The State Department of Commerce has a fund dedicated to providing operating and maintenance grants to projects serving households below 30% of the area median income. Funds are typically aimed at developments where residents' incomes and rents paid are so low that projects would otherwise struggle to cover costs basic operations. Awards are made for either short- or long-term commitments (5 or up to 20 years) and have specific reporting requirements. However, projects applying for State O&M funding are typically already in operation and have operating projections showing less income than expenses for the upcoming year. A new project at Catlin and Main will not be able to attract funders or investors if it can't demonstrate a way to remain cash-flow positive for at least 15 years after construction, so the State O&M fund is not a good fit at this stage of development.

Balance of State Continuum of Care (CoC) Bonus Program

The federal government's primary funding program for homeless housing and services is the Hearth Act, which amended and reauthorized the McKinney Vento Homeless Assistance Act and created the Continuum of Care Bonus Program. Cowlitz County does not have an existing Continuum of Care contract with HUD, so the County's portion of HUD's CoC allocation is rolled into Washington's "Balance of State" pool and awarded in a competitive process by the State Department of Commerce. Each year, existing projects apply for one-year renewals of operating and service funding. Generally, the vast majority of the available funding goes to renewals, but many years HUD has had new funding available that is allocated to the Continuums through a bonus program. In addition, occasionally existing programs will be discontinued and their funding re-allocated.

In 2022, the Washington State COC had \$648,660 in available bonus funds. These funds can be used for either permanent supportive housing or rapid re-housing of chronically homeless people. All funding grants under the CoC program are for one year, with the expectation that the grant will be renewed in subsequent years as long as the grantee's performance is sufficient.

However, in order to be eligible for CoC bonus funding, projects must serve chronically homeless people, where chronic homelessness is defined as either long-term homelessness or frequent episodes of homelessness in the last several years. Catlin and Main will house homeless households, but not necessarily chronically homeless households, which have higher service and reporting thresholds.

Community Frameworks does not recommend depending upon this source for projects that primarily serve homeless families.

Local Funding Sources

Cowlitz County Document Recording Fee

As noted above, Cowlitz County's Document Recording Fee is eligible for use on any goal identified in the County's 10-Year Plan to End Homelessness, which includes increasing access to affordable housing units and maintaining and preserving current housing. However, the County is not certain that an RFP will be issued for these funds in 2022, so Document Recording Fee funds should not be relied upon for continuous annual funding of services and operations.

HB 1406 Funding

Eligible uses for the HB 1406 funding include operations and maintenance of new units of affordable housing. As discussed in the capital section, until County identifies how these funds will be used and is able to commit to either regular RFPs or a long-term contract, the project should not plan on using 1406 funding for ongoing operations and services at Catlin and Main.

Consolidated Homeless Grant (CHG)

Recently, the state has consolidated different state and federal sources for funding homeless programs into the CHG, which is administered by local jurisdictions. In Cowlitz County, the majority of available funding is contracted with Lower Columbia CAP. Rental assistance through CHG is a tapered program that can pay for 100% of a tenant's rent at first before declining over time, but with LCCAP as the project sponsor, any tapering in rent could be foreseen and mitigated. Ensuring that incoming tenants are connected with CHG support would be a valuable way to ensure stable rental income during operations.

Housing and Essential Needs (HEN)

The HEN program is also managed locally by LCCAP. HEN provides access to essential needs, including rental assistance, for low-income individuals who are unable to work due to a physical or mental impairment lasting at least 90 days. HEN has the benefit of being a long-term program that can provide income assistance for as long as needed, but is intended only to replace income until an individual is eligible to receive social security. The monthly benefit is accordingly small, and would be best paired with another form of supplemental rental assistance.

Tenant-Based Rental Assistance (TBRA)

TBRA is a third tenant rental subsidy partially managed by LCCAP. TBRA is a type of HOME funding in which households receive a subsidy enabling them to pay up to the jurisdiction's rent standard, which is often higher than standard HOME rents. In view of the fact that TBRA is tied to the tenant rather than to the unit, investors and funders will not consider it to be as secure over the 15-year tax credit period as project-based Section 8 vouchers. However, because it can pay up to the rent standard, TBRA units can be enormously helpful in stabilizing a project's operating budget. Moreover, because LCCAP has successfully administered TBRA funding in the past, investors will typically feel confident in LCCAP's ability to quickly refer TBRA-eligible households to the project as units come open.

Community Space Funding

As constructed, the operating pro forma assumes no income and no expenses related to the non-residential side of the project. Once construction is complete, it is expected that the non-residential

portion will be either condominiumized and transferred to the City or master-leased and sub-leased to the City at nominal cost, but that the City would assume all costs of operations. There will be an expectation that the City contribute to its portion of the building's shared maintenance costs, such as its portion of grounds maintenance, but these costs are expected to be relatively minor.

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Project Schedule

The schedule below shows the fastest possible development timeline using the funding sources detailed above. Funding applications start in March 2023, and construction begins in the middle or end of 2024. Funders occasionally change application timelines and priorities, but large deviations from the schedule below are rare. Finally, though we think this project has a good chance to be funded, initial funding applications may not be successful and the project may have to re-apply in subsequent rounds.

Action Item & Task Date	2022	2023	2024	2025	2026
Complete Feasibility Study	December				
Go/No Go Decision		January			
Select Project Sponsor		January			
Secure Predevelopment Funding		January			
Select a Design Team		February			
Negotiate Site Control at Sons of Norway		February			
CDBG Application		March			
Complete Property Due Diligence		April			
Preliminary Design and Cost Estimates		May			
Local Capital Funding Application		May			
FHLB Application		May			
Local Government Funding Commitment		July			
Third Party Construction Cost Estimates		August			
State HTF Application		September			
9% LIHTC Application		November			
State HTF & FHLB Funding Commitments		December			
9% LIHTC Award		December			
Full Funding		December			
Select Investor & General Contractor			April		
Complete Final Design, Apply for Permits			June		
Close on Finance, Start Construction			October		
Predevelopment Complete			October		
Complete Construction, Occupancy				December	
100% Occupancy					March
Project Close Out					November

Predevelopment Work Plan and Budget

Predevelopment typically refers to the period between deciding to pursue a project and closing on the permanent financing. This period can be 18 – 36 months depending on the financing sources and whether or not the applications for funding are successful on their first attempt. The soonest that this project could be fully funded is December 2023 and the soonest the project could close on its permanent financing is October 2024. The minimum predevelopment period for this project is 21 months from January 2023.

Predevelopment expenses vary widely from project to project, but can be substantial. Community Frameworks estimates that from the feasibility study through the time the project submits its funding applications, it will spend approximately \$205,000. The application period is the point of greatest risk to the project sponsor, so finding partners willing to share in the risk is an important consideration. Costs for the application period are broken down below and in the Risk Assessment in Attachment A. Options for paying these expenses include:

- The City of Kelso, which has been granted \$50,000 for this feasibility study and has an additional \$200,000 for predevelopment and some development expenses
- Impact Capital, which has a phase I predevelopment loan of up to \$85,000 for up to 3 years at zero interest
- The Community Foundation of Southwest Washington, which may have grant funds available
- Finally, any predevelopment expenses not paid by grants or loans will be paid directly by the project sponsor

From the end of funding applications through financial closing, which is the point when expenses paid by the sponsor are reimbursed, costs vary widely but can be another \$300,000 or more. The primary consultants (development consultant, contractor, architect, and attorney) typically agree to wait until closing for full payment, reducing the project's cash requirements. As a result, the major expenses between applications and financial close, such as insurance and permit fees, are incurred close to the closing date and reimbursed relatively soon after. Risk is relatively low during this period, so costs are typically borne by the project sponsor. Once funding has closed, any predevelopment funds advanced by the sponsor or loaned by Impact Capital will be reimbursed by permanent funding sources.

Based on the work plan and expenses for similar projects, a budget for expenses anticipated through the end of funding applications is presented below. Expenses are estimated based on similar projects.

Anticipated Expenses through Funding Applications	
Feasibility Study	\$50,000
Development Services	\$80,000
Design	\$40,000
Option to Purchase Sons of Norway	\$5,000
Third Party Reports	\$20,000
Contingency/Miscellaneous ⁷	\$10,000
Total	\$205,000

Revenue Sources for Expenses through Funding Applications	
Grant to City of Kelso for Feasibility Study	\$50,000
Remaining City of Kelso Funding	\$150,000
Sponsor Contribution	\$5,000
Total	\$205,000

Community Frameworks' estimated work hours through funding applications are:

Date	Tasks	Time Estimate
December 2022 – March 2023	Impact Capital Predevelopment Loan, facilitate sponsor and architect selection, site control documents, CDBG application, pre-application to FHLB	135 hours
April – June 2023	Preliminary design and construction costs, site due diligence, application to FHLB and City of Kelso HOME	240 hours
July – September 2023	Application to State Housing Trust Fund	220 hours
September – November 2023	9% LIHTC application	100 hours
Total	695 hours @ average of \$115 per hour plus direct expenses, totaling \$80,000 for predevelopment services, in addition to the \$50,000 under current feasibility contract.	

⁷ Includes loan fees for a predevelopment loan, if necessary

Conclusion: Recommendations and Next Steps

Community Frameworks believes that the project as constituted is likely to succeed in the near- to medium-term in its applications for funding. The project is well aligned with public funder priorities, is at an appropriate scale for the community, and meets stakeholder goals for community space and affordable unit production. However, even with full funding from a number of state and federal sources, the project faces a funding gap of around \$875,000. The other development options considered included a 60-unit project that would make a more transformational impact on the city but would take more time and come with more risk, and a smaller project would not provide the necessary community space to house both the library and senior center.

The primary risks for the project in the near term are:

- **Construction Costs:** The budget is based on construction costs that reflect the current market plus an escalation contingency. However, if construction costs significantly outpace inflation in the upcoming years, or if the project requires multiple funding rounds before it succeeds and does not receive a corresponding increase in capital funding, the project sponsor may need to decrease the unit square footage and/or investigate strategies to reduce construction costs.
- **Operating Funding:** This project is only feasible with rental subsidies for the homeless units. Project-based Section 8 vouchers are the most reliable source of rental subsidies.
- **Capital Funding – HTF and 9% LIHTC:** These sources are extremely competitive and even though this project fits squarely in the programs' priorities, it is still difficult to receive an award. Many project sponsors reapply and get funded in subsequent years.
- **Capital Funding – Commercial Sources:** These sources are also extremely competitive and require an understanding of each funder's application timeline. The first application deadline will be in March 2023.
- **Funding Gap:** The current funding gap is significant, though not insurmountable. The funding gap must be closed before the major state application deadlines, especially LIHTC.

The next steps in moving forward with the project are:

1. Confirm selection of the project sponsor.
2. Work with the project sponsor and project stakeholders to select a development option.
3. Select a development consultant and enter into a development agreement. If the sponsor elects to pursue the project with the assistance of Community Frameworks, CF will submit a proposal for development services that includes a fee split and division of development responsibilities.
4. The sponsor and development consultant should develop an application workplan to map out available funding opportunities and match funding with the selected project.
5. Enter into a purchase option agreement to transfer ownership of the land. Actual ownership would not transfer until September 2024 at the earliest.
6. Apply for an Impact Capital Phase I Predevelopment Loan, if necessary.
7. Build community support for the project, including meeting with civic leaders, potential local funders, and any sources of project-based rental assistance.
8. Select a project architect.

Appendix A: Risk Assessment

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Appendix B: Scoring

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Housing Trust Fund Scoring

Priorities	Points Available	Proposed Score
1. Populations Served	35	21.5
Number of Targeted Units	10	5
Proportion of Targeted Units	10	5
Proportion Homeless	5	4
AMI	10	7.5
2. Privately Owned Housing Stock	10	10
3. Need & Local Priority	15	6.93
Need by Rent Burden	6	2.47
Need by Homeless Per Capita	6	1.46
Local Support	3	3
4. Development Costs	5	2.5
5. Level of HTF Investment	15	10.5
Leverage compared to geographic/LIHTC Categories	5	3.5
HTF per unit compared to similar	10	7
6. Project Scope & Housing Model (including the homeless service model if applicable)	15	12
7. Equity and Organizational Cultural Competency	5	3
Total	100	66.43

FHLB Scoring

Criteria			Calculation	Points Available	Proposed Score
Conveyed Land			(Sq. Ft. Donated/Sq. Ft. in Project)*5	5	5
Non-profit sponsorship				10	10
Income Targeting			20 points if 60% of units are below 50% AMI	20	20
Promotion of Empowerment				5	5
Housing for Homeless			20% - 50% Homeless = 5 50% - 75% Homeless = 7 75%+ Homeless = 10	10	7
Special Needs			20% - 50% Special Needs = 5 50% - 75% Special Needs = 7 75%+ Special Needs = 10	10	7
Veteran or Agricultural Worker			20% - 50% = 2 50%+ = 5	5	0
Max 23	In-District Project			5	5
	Native Housing			13	0
	New construction of 24 units or less			10	0
	Sponsor-driven, SF, owner-occupied			10	0
	AHP Subsidy/Unit			5	3
Max 12	Preservation of Federally-Assisted Housing			10	0
	Adaptive Reuse			5	0
	Rehab/Demo Vacant/Abandoned			5	0
	Acquisition of Naturally-Occurring Affordable Housing			5	0
	Owner-occupied Rehab			12	0
Total				100	62

LIHTC Scoring

Priority ⁸	Calculation	Points Available	Proposed Score
Income Set-Asides	50% @ 30% AMI, 10% @ 40% AMI, 40% @ 60% AMI	60	60
Additional Low-Income Housing Use Period	2 points/year up to 22 years	44	44
Housing Commitments for Priority Populations	50% of Total Units as Supportive Housing for the Homeless	35	35
Leverage Scoring	Non-Metro - 23% and above	10	10
Public Leverage	2 points if over 50% of leverage is public resources	2	2
Federal Project-Based Rental Assistance	10%-25% = 2, 26%-49% = 3, 50%+ = 4	4	3
Developer Fees	10% = 10, 11% = 8, 12% = 6, 13% = 4, 14% = 2, 15% = 0	10	10
At Risk of Loss or Market Conversion	0-79 units = 4, 80+ units = 6	6	0
Historic Property	5 points for meeting definition of Historic Property (must use federal Historic Tax Credit)	5	0
Eligible Tribal Area	5-10 points for projects on Indian Reservation or in tribal service area	10	0
Location Efficient Projects ⁹	2 points for projects providing access exceeding ESDS minimum	2	2
Job Centers	1 point for projects in or near the top 50 job growth places	1	1
Nonprofit Sponsor	5 points for nonprofit sponsorship	5	5
Donation in Support of Local Housing Needs	5 points for \$25,000 donation	5	5
Eventual Tenant Ownership	2 points for projects with plan for tenant ownership after the 15-year compliance period	2	0
Energy Consumption Model for Calculating Utility Allowance	2 points for projects where utility allowance is based on an energy consumption model	2	2
Cost Containment Incentive	1 point for projects below the applicable TDC limit at the time of the application	1	1
Total		204	180

⁸ Certain preferences are specific to King County or to other large counties around the state. They are not applicable to Catlin and Main (or other projects in its competition pool) and have been removed from this chart.

⁹ This priority may be removed for the 2023 application. It has not been removed as of December 2022, so is included here

Appendix C: Capital Budgets

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Appendix D: Operating Budgets

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