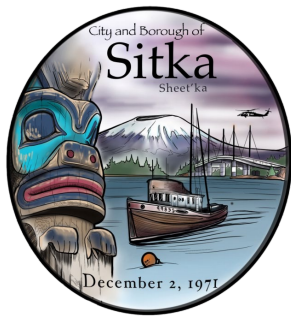


Discussion / Direction / Decision
on the Alaska Housing Finance Corporation's Last
Frontier Housing Initiative Funding Opportunity.




CITY AND BOROUGH OF SITKA

A COAST GUARD CITY

MEMORANDUM

To: Mayor Eisenbeisz and Assembly Members

From: John Leach, Municipal Administrator 

Date: January 3, 2024

Subject: Alaska Housing Finance Corporation's (AHFC) Last Frontier Housing Initiative Funding Opportunity

Background

In early December, the Alaska Housing Finance Corporation (AHFC) reached out to the City and Borough of Sitka (CBS) regarding a significant funding opportunity. AHFC has proposed a grant of \$4.5 million to assist with new housing developments in our area, as part of the Last Frontier Housing Initiative. This grant can be allocated under one of two programs: the Rural Profession Program or the Affordable Housing Program. It is important to note that the grant requires a 15% match commitment from CBS, which is a key consideration for us in determining our ability to accept and effectively utilize this funding. This initiative represents a substantial opportunity for our community to address critical housing needs and support sustainable development.

Analysis

The September 2023 report from the Southeast Conference has emphasized the urgent need for housing development in Southeast Alaska, particularly highlighting the region's struggle with housing and childcare shortages that impact workforce attraction and retention. Responding to this critical need, the AHFC grant, derived from expiring federal funds, is designed to accelerate housing construction in targeted communities.

Under this initiative, the local government or its designated entity will be responsible for designing, developing, and owning the housing project(s). The focus of this funding is to support the construction of a minimum of eight housing units for low-income households, as defined by the U.S. Treasury. AHFC also encourages communities to augment this grant with local philanthropic or other funds and mandates that new constructions comply with high energy efficiency standards.

The project timeline is notably ambitious. With a deadline set for September 1, 2025, for the utilization of federal funds, it requires immediate action from local governments. The first steps would be to submit a non-binding letter of intent to AHFC and assemble a dedicated team to manage the project for both construction and long-term operations.

CBS currently does not operate a municipal housing program; the management of this project, particularly in the long-term, does not fit into the resources/expertise of existing departments which is why a partnership with another organization/agency would be necessary. However, partnering with another organization would still necessitate CBS to establish, manage, and monitor a comprehensive program, entailing a significant audit risk for federal spending compliance. This responsibility would heavily rely on our existing staff and resources particularly in Finance, Planning, Public Works, and Legal, a factor that demands careful consideration of our current operational capacity.

In alignment with Action 1.2 of our Strategic Plan, which calls to "develop a plan to improve housing options for all in Sitka," pursuing this grant aligns with our strategic goals and offers a pathway to address one of our community's identified critical needs.

Moreover, despite the grant's focus on constructing housing units for affordable housing, we should explore the potential of leveraging these funds to 'de-risk' the development of available land. This approach could facilitate basic land development for future sales, potentially reducing initial construction costs and broadening housing options through the creation of new subdivisions. Such a strategic application of the grant could significantly enhance its impact, paving the way for more extensive housing development efforts in Sitka. However, this alternative may not be allowable within the grant restrictions. By submitting the non-binding letter of intent, CBS will be able to continue to engage with AHFC on ways to expand use of the funds beyond what is currently envisioned.

Fiscal Note

The proposed AHFC grant amounts to \$4.5 million. The requirement for CBS is a 15% match, which can be in the form of a financial or in-kind contribution. The 15% match on a \$4.5 million grant equates to \$675,000. This contribution, whether financial or in-kind, would be a significant commitment from CBS and needs to be carefully considered in the context of our current fiscal capabilities and priorities.

It is also important to note that the authorized grant funding of \$4.5 million, while substantial, may not extend far in terms of the requirements and scope of the proposed housing program. Additional funding beyond what the program has offered may be required to bring any housing project to completion.

If CBS were to partner with another agency for this initiative, we should consider setting aside an administrative fee to manage the pass-through grant. This administrative fee would be necessary to cover the costs associated with overseeing and ensuring compliance with the grant's requirements. Moreover, the partnering agency may also require further funding to successfully execute and complete the proposed housing project.

Recommendation

In light of the information and analysis presented in this memo, I recommend that the City and Borough of Sitka Assembly carefully consider the potential benefits and responsibilities associated with the AHFC's Last Frontier Housing Initiative Funding Opportunity. Given the alignment with our Strategic Plan and the critical need for housing development in Sitka, it is advisable for the Assembly to thoughtfully evaluate whether to proceed with this opportunity.

Should the Assembly decide in favor of pursuing the grant, the next immediate step would be to submit a non-binding letter of intent to the AHFC. This action would signify our preliminary interest in participating in the initiative and allow us to further explore the feasibility and requirements of the project.

Additionally, if the Assembly decides to move forward, it would be prudent to create and release a Request for Proposals (RFP) to secure a partner for this initiative. Given the necessity for expertise in housing development and the potential need for additional funding and resources, finding a capable and reliable partner will be critical to the success of the housing project.

This decision is pivotal for the future of housing development in Sitka and requires careful deliberation. I urge the Assembly to weigh the potential benefits against the responsibilities and resources required, ensuring that our decision aligns with the best interests of the Sitka community.

Encl: Investing in Southeast Alaska Info Sheet
Rural Professional Housing Slide Deck

INVESTING IN SOUTHEAST ALASKA FILLING A NEED FOR AFFORDABLE HOUSING, BUILDING COMMUNITY

New housing development funds to local governments in Ketchikan & Sitka

A September 2023 report from Southeast Conference says “Continued long-term growth is dependent on the region’s ability to respond to housing and childcare shortages that threaten workforce attraction and retention.”

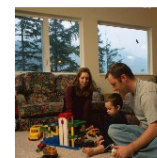
With a minimum 15% community match, AHFC is prepared to respond to this need with a capital investment up to **\$4.5 million in expiring federal funds** to be spent over an aggressive timeline to spur new housing construction in targeted communities.



**15% community
match**

The housing will be designed, developed and owned by the local government (or its designee). Funding from the federal Emergency Rental Assistance program is available for this one-time effort to support construction of no fewer than eight housing units for households meeting the low income definition as determined by U.S. Treasury.

**\$5 million in
AHFC grants**



Communities are encouraged to leverage AHFC’s contribution with local, philanthropic or other funds to the greatest maximum extent.



**At least 9 new
housing units**

New construction must meet AHFC’s minimum criteria for financing, including energy efficiency standards of 5-star-plus or greater.

TIMELINE:

- Week of Dec. 4, 2023: Stakeholder meetings
- 30-days from today: AHFC receives signed, non-binding letter of intent from local government to participate in this housing initiative with key contacts identified

Funds rejected by communities not interested/unable to participate will be re-allocated to communities able to advance these development resources.

- Jan. 1, 2024: AHFC publicly announces local government participation in this Last Frontiers Housing Initiative
- March 1, 2024: Local Government Team Identified; Materials Ordered
- September 1, 2025: Deadline for expenditure of use-it or lose-it federal funds

RESOURCES:

AHFC’s Planning & Program Development Department is leading this effort and positioned to offer technical assistance, including questions about inclusion of Low Income Housing Tax Credits, to support an enhanced development project.

CONTACT: Daniel Delfino, Planning Director, ddelfino@ahfc.us

Rural Professional Housing ***Last Frontier Initiative***

Allocation Plan

Overview: Last Frontier Housing Initiative

The allocation plan summarizes and includes the following:

- Needs assessment: Public Safety and Commissioner survey
- Past allocations and gaps in housing coverage
- Allocation plan assumptions and implied investment limits

Distribution of Population

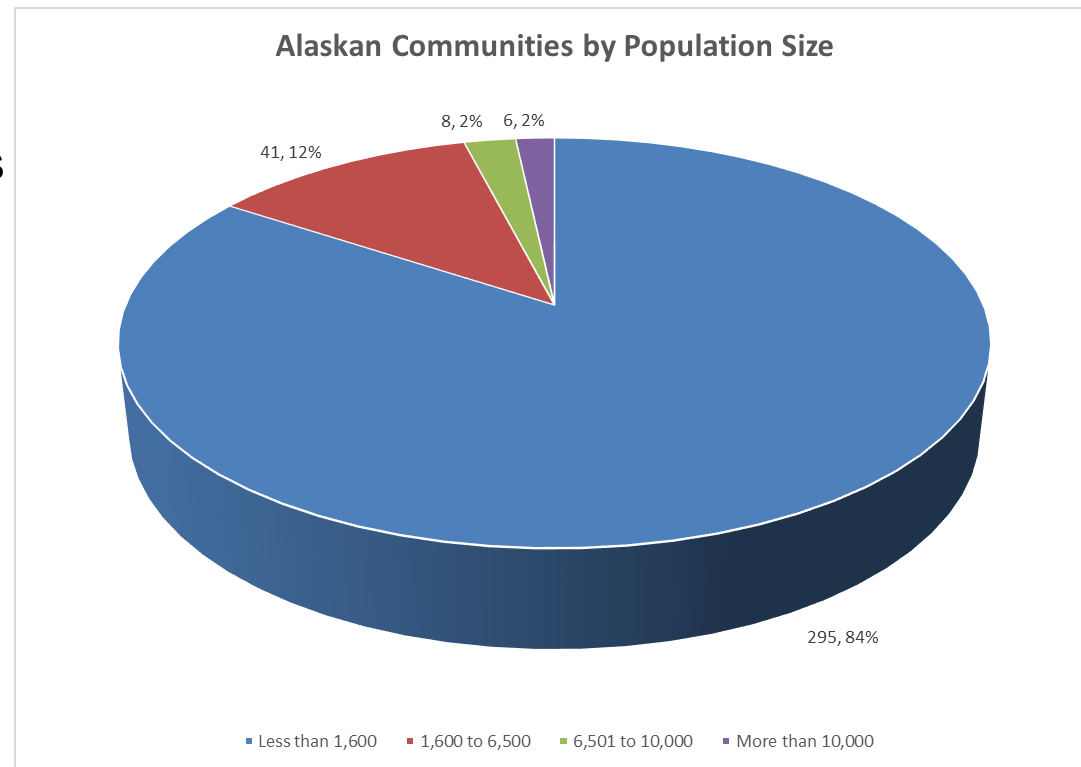
Community Population Facts

Alaska has 350 distinct communities

- 295 have 1,600 or less people
- 336 have 6,500 or less people
- 344 have 10k or less people

8 communities have populations between 6,500 and 10,000, but only two of these are not connected by road to Anchorage or Fairbanks.

These two communities are
Ketchikan and Sitka



New Housing Developments in Focus Areas*

Community	Rural Professional Program	Affordable Housing Programs
Bethel	2015	2022
Kotzebue	2023, 2004	2001
Nome	2020, 2008	2022, 2008
Sitka**	N/A	2007
Ketchikan**	N/A	2022, 2009

Historically, these five communities have experienced challenges in utilizing development resources that serve “small communities” or urban hubs.

*Notes the two most recent award cycles where AHFC funded new housing builds in the respective communities.

**Sitka and Ketchikan are the only two communities not connected by road to Anchorage with populations above the 6,500 threshold for “small communities.”

Allocation Plan: Summary

Allocate available funding through three channels:

- 1) Increase the funds available for the current Rural Professional Housing round to facilitate seven (7) statewide developments.

Awarded funding (11/21) to build / renovate 17 rural professional housing units in: Hoonah, Napakiak, Talkeetna, Thorne Bay, Togiak, Venetie, and Yakutat.

- 2) Announce targeted rural professional and affordable housing funds to governments in Bethel, Nome and Kotzebue.
- 3) Announce targeted affordable housing funds to governments in Ketchikan and Sitka.

Last Frontier Housing Initiative: Southeast

Southeast Affordable Housing Initiative: Sitka and Ketchikan

\$4.5M (each) to Sitka and Ketchikan to develop affordable housing using Emergency Rental Assistance (ERA) funding, conditioned on the local governments:

- Identifying / securing land
- Assembling the development team (builder / architect)
- Recruiting the property manager
- Securing at least 15% Match to the development(s)
- Scope approval & vehicle to backstop cost overruns
- Delivering a minimum of 8 affordable housing units

Regardless of the construction completion, all ERA funding must be paid out prior to 9/30/2025 to satisfy the Treasury program rules.

*Dedicated Alaska Housing staff will be available to provide technical assistance and support through the development process.