



COUNCIL REPORT

DATE: October 8, 2024
CATEGORY: Public Hearing
DEPT.: Housing
TITLE: HUD PRO Housing Grant Application and Establishment of the Acquisition/Preservation Subfund

RECOMMENDATION

1. Authorize staff to submit an application to the U.S. Department of Housing and Urban Development’s Pathways to Removing Obstacles to Housing Grant.
2. Adopt a Resolution of the City Council of the City of Mountain View Establishing the City of Mountain View Acquisition/Preservation Subfund in the Housing Fund, to be read in title only, further reading waived (Attachment 1 to the Council report).
3. Approve and Appropriate \$4 million from the BMR In-Lieu Fees Subfund to the new Acquisition/Preservation Subfund. (Five votes required)
4. Increase appropriation of \$4 million in the Housing Department in the Acquisition and Preservation Subfund for the purpose of implementing the acquisition/preservation program. (Five votes required)
5. If awarded, authorize the City Manager or designee to execute the agreement and any required forms with the U.S. Department of Housing and Urban Development. Upon execution of the grant agreement, authorize an increase in appropriation per the amount in the executed agreement, not to exceed \$4 million, for the acquisition and preservation program in the Housing Department in the Acquisition/Preservation Subfund. (Five votes required)

BACKGROUND

On December 29, 2022, Congress passed the Consolidated Appropriations Act, 2023 (Appropriations Act) directing the U.S. Department of Housing and Urban Development (HUD) to allocate \$85 million for competitive grant funding for the identification and removal of barriers to affordable housing production and preservation. Per HUD, barriers to affordable housing can be caused by: restrictive zoning/land use policies and regulations; prolonged entitlement and permitting procedures; housing preservation obstacles; and/or neighborhood opposition.

The first round of HUD PRO Housing funding was made available in 2023. The City submitted an application requesting \$5 million to facilitate the construction of affordable housing on the City-owned site located at 87 East Evelyn Avenue. HUD received 175 applications and awarded grants to 21 projects. The first round was highly competitive, and the City did not receive funding. Staff met with HUD officials to debrief on the City's application. Staff also reviewed some successful applications from other California jurisdictions and gleaned that HUD appeared to prioritize broader programs and initiatives over individual projects.

On August 13, 2024, HUD published a Notice of Funding Opportunity (NOFO) for Round 2 of the Pathways to Removing Obstacles to Housing (PRO Housing) Program. HUD expects to award approximately 30 applicants ranging between a minimum of \$1 million and a maximum of \$7 million per application. Per the guidelines, HUD is prioritizing applications that demonstrate:

1. Progress and a commitment to overcoming local barriers to facilitate the increase in affordable housing production and preservation; and
2. Acute demand for housing affordable to households with incomes below 100% of the area median income (AMI).

ANALYSIS

Staff recommends submitting a request for \$4 million in Round 2 HUD PRO Housing funding to advance the City's tenant displacement response strategy and acquisition/preservation program. Specifically, the funding request is for advancing the innovative \$20 million acquisition/preservation funding pool as discussed in the March 2024 displacement response Study Session. Staff has utilized the information from the HUD debrief and other successful applications to craft a competitive application.

Application Focus—Advancing the Acquisition/Preservation Funding Pool (“Anchor Fund”)

The City of Mountain View has already made considerable progress towards implementing a number of regulations and actions intended to remove barriers for the production of affordable housing. Consequently, the City currently has a robust affordable housing production pipeline. The City is now actively pursuing policies, actions, and programs that focus on tenant displacement responses, including acquisition and preservation efforts.

Over the past four years, Council held several Study Sessions on the evolution of the City's tenant displacement response strategy. At the March 19, 2024 City Council Study Session, the discussion focused on acquisition/preservation efforts and the development of the Community Ownership Action Plan (COAP) per the City's Housing Element Program 3.2 requirements. Council supported

a reservation of \$4 million in the City's housing funds to catalyze external funding of at least \$16 million to achieve the \$20 million fund for acquisition/preservation of 50 units with a priority on Community Stabilization and Fair Rent Act (CSFRA) units by 2028. The goal is that City funding will leverage external funding at a 4:1 ratio.

To this end, staff has crafted an application that aligns with the City's acquisition/preservation efforts and HUD's preference for innovative programs and initiatives. The City's HUD PRO Housing application is centered on securing \$4 million as part of leveraging external funding towards the \$20 million fund. For the purposes of the HUD application, the fund is termed the "Anchor Fund." Based on staff's debrief with HUD and review of successful applications, having branded terms assists with HUD's review of the application and quickly understanding the funding request. The inspiration for "Anchor Fund" is that the funding will prevent existing families and household in CSFRA from being displaced, achieve housing stability, and allow them to be anchored in the community.

The Anchor Fund will:

- Fund the acquisition/preservation of 50 CSFRA units.
- Support mission-aligned organizations with the expertise to undertake community ownership/acquisition and preservation activities.
- Benefit low-income households.
- Aim to leverage external funding at a 4:1 ratio.

The initial operational aspects of the program will be developed within the "Planning/Start-Up" phase (Years 1 and 2), which includes the selection of a fiscal agent and continued stakeholder engagement as needed to refine the program. During the "Activation" phase (Years 2 and 3), technical assistance programs to support capacity building will be developed. By the "Full Implementation" phase (Years 3 and 4), the program is anticipated to be fully operational and scalable. Note that these estimated time frames are based on: (1) the goal to align this with the completion of the Community Ownership Action Plan (which has a Housing Element deadline of June 30, 2025); (2) the initial implementation of the Community Ownership Action Plan after it is adopted by Council; and (3) potential timing of receipt of funding if the City's HUD PRO Housing application is successful.

The core focus of the HUD PRO Housing NOFO centers on the barriers to housing production and preservation. As shown in Table 1 below, the application includes four identified barriers to affordable housing preservation and how the Anchor Fund will address the barriers.

Table 1: Identified Housing Preservation Barriers and How They Will Be Addressed

Identified Barriers	Addressing the Barriers
<p><u>High Lift to Develop Systems</u></p> <ul style="list-style-type: none"> • Current housing systems do not align with community need. • There are a few cities with established systems to replicate. • City NOFA funding has been primarily used by experienced/sophisticated developers. • New systems are needed, but this takes time, resources, and partnerships to create. 	<ul style="list-style-type: none"> • The City is embarking on the development of these systems. The Anchor Fund is intended to be designed to better suit the target population and address unmet community needs.
<p><u>Insufficient Capacity</u></p> <ul style="list-style-type: none"> • Public agencies not structured for funding projects quickly to respond to acquisition opportunities. • Lack of experienced developers/entities to undertake acquisition/preservation activities related to innovative community ownership models. • Technical assistance for mission-aligned organizations is required to facilitate access to funding. 	<ul style="list-style-type: none"> • City intends to partner with a third-party fiscal agent to design and implement the Anchor Fund. • City application proposes to deploy HUD PRO Housing funds to provide technical assistance to mission-aligned organizations to build capacity and experience to undertake acquisition/preservation and community ownership projects.
<p><u>Lack of Financing</u></p> <ul style="list-style-type: none"> • Insufficient funding available for acquisition/preservation activities. • Current external acquisition/preservation funding programs may have underwriting requirements that are not aligned with project financing or target population needs. 	<ul style="list-style-type: none"> • City will continue to pursue additional external partnership to leverage funding. • Third-party fiscal agent will assist with identifying opportunities to leverage additional external funding, providing recommendations for program modifications as needed, etc.
<p><u>High Acquisition/Rehabilitation Costs</u></p> <ul style="list-style-type: none"> • Region has highest cost in the nation. • Housing stock is aging and rehabilitation costs increase as units become older. 	<ul style="list-style-type: none"> • City has no control over costs, but Anchor Fund will provide funding to facilitate acquisition/preservation projects and innovative models.

<ul style="list-style-type: none">Acquisition and preservation costs are estimated to be \$550,000 to \$600,000 per unit with a subsidy gap of \$400,000.	
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City’s Funding Commitment

To maximize points for the grant application, the City must provide a firm commitment of funding that will be leveraged as part of the Anchor Fund. As noted above, Council supported staff’s recommendation to reserve \$4 million for acquiring and preserving naturally occurring affordable housing. The City’s application requests an additional \$4 million in HUD PRO Housing funds to match the City’s commitment for these efforts. This funding request aligns with the tenant displacement response strategy priorities and the Council’s direction from the study session.

To demonstrate the City’s firm funding commitment, staff recommends establishing a subfund under the Housing Department and to deposit the City’s \$4 million seed funding in the to-be-established subfund. Staff recommends using the BMR In-Lieu fees for this purpose.

Responsiveness to the NOFO

Staff believes the Anchor Fund will be a competitive application. The HUD NOFO provided the application template requiring responses to specific prompts regarding: Need, Soundness of Approach, Vision, Capacity, and Leveraging. The template requires information on overall efforts related to affordable housing, including efforts applicants have already taken to facilitate housing production, streamline processes, and reduce barriers to production. Note that the City’s application is responsive to these prompts, which required discussion on topics related to housing production, even though the City’s application is focused on acquisition/preservation.

Note that the COAP is a separate yet integral part of implementing the Anchor Fund. This NOFO presents an immediate opportunity to leverage City funds to advance the acquisition/preservation funding pool discussed in March 2024. The COAP’s scope of work includes defining “community ownership,” identifying innovative housing models for funding, and establishing funding criteria. This will, in turn, inform the design and implementation of the Anchor Fund. However, the intent of the Anchor Fund is that it could also fund more traditional acquisition/preservation models in addition to the innovative housing models that will be determined through the COAP process.

NEXT STEPS

If Council approves staff’s recommendations, staff will submit a final complete application by the HUD deadline of 8:59 p.m. Pacific Standard Time on October 15, 2024. No announcement date

has been provided. Round 1 NOFO awards were announced in June 2024, and staff anticipates a similar timeline. The funds must be expended by September 30, 2030.

FISCAL IMPACT

The recommended action has no financial impact on the General Fund. If approved, the City would be eligible to apply for \$4 million in PRO Housing Program grant funds. This program does not require cost sharing or matching funds; however, a 1:1 match maximizes the potential points awarded. The City will deposit \$4 million in BMR Fees in a new Housing Department subfund to meet the HUD grant requirements.

LEVINE ACT

California Government Code Section 84308 (also known as the Levine Act) prohibits city officials from participating in any proceeding involving a “license, permit, or other entitlement for use” if the official has received a campaign contribution exceeding \$250 from a party, participant, or agent of a party or participant in the proceeding within the last 12 months. A city official is similarly prohibited from accepting, soliciting, or directing a campaign contribution exceeding \$250 from a party, participant, or agent of a party or participant to any proceeding involving a license, permit, or other entitlement for use for 12 months after a final decision is rendered in said proceeding.

Please refer to the “X” in the checklist below for information about whether the recommended action for this agenda item is subject to or exempt from the Levine Act.

SUBJECT TO THE LEVINE ACT

- Land development entitlements
- Other permit, license, or entitlement for use
- Contract or franchise

EXEMPT FROM THE LEVINE ACT

- Competitively bid contract
- Labor or personal employment contract
- General policy and legislative actions

For more information about the Levine Act, please see the Fair Political Practices Commission website: www.fppc.ca.gov/learn/pay-to-play-limits-and-prohibitions.html.

ALTERNATIVES

1. Do not authorize the application to the HUD’s PRO Housing Grant Program.
2. Utilize \$4 million in General Funds to fund the Acquisition/Preservation Funds.
3. Provide other direction to staff.

PUBLIC NOTICING

The meeting agenda and Council report have been posted on the City’s website, *Palo Alto Daily Post*, *Mountain View Voice*, and announced on Channel 26 cable television.

In addition to City requirements, the HUD PRO Housing grant requires a minimum 15-day public review period prior to a public hearing of the City Council. The public notice and complete draft application were published on September 26, 2024. Notices were also published in Spanish, Chinese, and Russian in the *Palo Alto Daily Post*, *Mountain View Voice*, and on the Housing Department website on the same date. The complete draft application was also published on the Housing Department’s website.

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JB/4/CAM
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- Attachments:
1. City of Mountain View HUD PRO Housing Draft Application
 2. Resolution Establishing the City of Mountain View Acquisition/Preservation Subfund