



COUNCIL REPORT

DATE: May 9, 2023

CATEGORY: Consent

DEPT.: Community Development

TITLE: **Applying for and Establishing Local Housing Trust Fund and Reprogramming Approved Appropriations for Affordable Housing Projects**

RECOMMENDATION

1. Adopt a Resolution of the City Council of the City of Mountain View Authorizing Application to the Local Housing Trust Fund Program and Certifying to the California Department of Housing and Community Development Compliance with the Local Housing Trust Fund Program Requirements, to be read in title only, further reading waived (Attachment 1 to the Council report).
2. Adopt a Resolution of the City Council of the City of Mountain View Establishing the City of Mountain View Local Housing Trust Fund, to be read in title only, further reading waived (Attachment 2 to the Council report).
3. Approve \$5 million in transfer of funds relating to depositing funds from the Housing Impact Fees Fund to the new Local Housing Trust Fund to serve as the matching funds for the Local Housing Trust Fund grant. (Five votes required)
4. Reprogram approved appropriations from the Housing Impact Fees Fund to the Below-Market-Rate Housing In-Lieu Fees Fund for the following projects:
 - a. \$13.5 million for Alta Housing/Terra Bella II LLC's 108-unit affordable housing development located at 1020 Terra Bella Avenue; and
 - b. \$10 million for the Alta Housing 70-unit affordable housing development located at 1012 Linda Vista Avenue. (Five votes required)

BACKGROUND

Overview of the Local Housing Trust Fund Program

In 2017, the California Legislature approved Senate Bill 3 (SB 3), which authorized the Veterans and Affordable Housing Bond Act of 2018 and authorized the issuance of bonds in the amount of

\$4 billion under the State General Obligation Bond Law to fund a variety of housing programs. One of the housing programs funded by SB 3 is the Local Housing Trust Fund (LHTF) Program. SB 3 allocates \$300 million of the bond proceeds for the LHTF Program. The goal of the LHTF Program is to expand funding sources for housing, increase the supply of affordable housing through the creation of new local housing trust funds, and support ongoing operations of existing local housing trust funds.

The City can set up and operate a local housing trust fund and apply to the LHTF Program directly. A local housing trust fund in the context of the LHTF Program is a fund established to address local housing needs and receive ongoing revenues from dedicated funding sources, such as taxes, fees, or loan repayments, or public and/or private contributions as matching funds to qualify for a dollar-for-dollar match in program funds.

Related Prior Council Direction

At the August 30, 2022 Study Session for the Affordable Housing Strategic Plan, staff highlighted an estimated funding gap of approximately \$66.3 million over the next five years for affordable housing projects in the pipeline. Council unanimously supported Strategy 1, “Develop an affordable housing funding strategy to significantly increase resources to achieve the City’s affordable housing pipeline,” and Strategy 1.b.4, “Seek partnerships with public agencies.” Applying for the LHTF Program on an ongoing basis is one among several resources that would assist in addressing the funding gap and meet Strategy 1. Additionally, the LHTF funding criteria aligns with the needs of the City’s affordable housing project pipeline and does not impose additional requirements (see Table 1 below regarding eligible activities and funding uses).

LHTF Notice of Funding Availability

On March 7, 2023, the Department of Housing and Community Development (HCD) released a Notice of Funding Availability (NOFA) for the LHTF Program. The LHTF Program is a competitive program and will provide approximately \$53 million in matching funds to new and existing local and regional housing trust funds based on the contributions into the housing trust funds. An applicant that is a new local housing trust fund will be eligible for a minimum funding match of \$500,000. A funding maximum of \$5 million applies to all applicants. Fifteen percent (15%) of the NOFA funding has been reserved for new local housing trust funds. Applications are due to the HCD on May 17, 2023.

Eligible activities under the LHTF Program are summarized below:

- Construction or rehabilitation of:
 - Affordable housing;

- Transitional housing; and
 - Emergency shelters.
- Financial assistance to income-eligible first-time homebuyers.
 - Rehabilitation of houses owned by income-eligible occupants.
 - Construction, conversion, or rehabilitation of Accessory Dwelling Units (ADUs) or Junior Accessory Dwelling Units (JADUs).

The LHTF Program application must be accompanied by an authorizing resolution adopted by the City Council (Attachment 1). In addition, prior to the award of funds, which are anticipated to be announced in August 2023, the City must have adopted a Housing Element determined to be compliant by the HCD and submitted a legally sufficient Annual Progress Report. Per the NOFA notice, if an applicant is determined to be out of compliance at the time awards are announced, it will be ineligible to receive funding. Council adopted the Housing Element on April 11, 2023, and staff thereafter submitted the adopted Housing Element to the HCD for review and certification. The HCD has 60 days (or until late June) to review the Housing Element, but based on the HCD’s last communications to staff prior to adoption, staff anticipates that at most nonsubstantive edits may be requested such that the HCD will be able to certify the Housing Element by the August 2023 award announcement date.

LHTF Program requirements and related staff recommendations are discussed in the next section.

ANALYSIS

The LHTF Program assists local and regional housing trust funds in addressing their housing needs by providing matching funds for eligible housing-related projects and programs. The program requirements are summarized in Table 1 below along with staff’s recommendations and analysis.

Table 1: Summary of LHTF Program Guidelines and Staff Recommendations and Analysis

Application Criteria	Requirements/ Thresholds	Staff Recommendation and Analysis
Funding Request	Minimum: \$500,000 Maximum: \$5 million Dollar-for-dollar match of program funds.	Allocate matching funds of \$5 million in local housing trust fund to qualify for maximum match in program funds.

Application Criteria	Requirements/ Thresholds	Staff Recommendation and Analysis
Funding Sources	<p>Taxes, fees, or loan repayments or public and/or private contributions eligible sources.</p> <p>Funds restricted for housing by State or Federal law are ineligible.</p>	<p>Use Housing Impact Fees (HIF) Fund as a funding source.</p> <p>The HIF Fund is designated to assist in providing affordable housing and has ongoing revenues of housing impact fees for all eligible nonresidential projects paid by developers to the City.</p>
Eligible Activities	<p>Payment of predevelopment costs, acquisition, construction, or rehabilitation for:</p> <ul style="list-style-type: none"> • Affordable rental housing projects; • Transitional housing or emergency shelters; and • Permanent supportive housing. <p>Financial assistance for homebuyer/homeowner projects to purchase for-sale housing units or to rehabilitate an owner-occupied dwelling.</p> <p>Construction, conversion, and rehabilitation of ADUs or JADUs.</p>	<p>Prioritize funding for affordable rental housing projects in the City's pipeline. These projects include units for permanent supportive housing, and funding is needed for these projects.</p>

Application Criteria	Requirements/ Thresholds	Staff Recommendation and Analysis
Funding Restrictions	<ul style="list-style-type: none"> • Construction loans and/or permanent financing loans at simple interest rates of up to 3% per annum. • Local matching funds and program funds must be allocated toward the same eligible project. • Matching funds should be on deposit in the Housing Trust Fund at the time of application. 	<p>City guidelines for construction and/or permanent loans align with program requirements.</p> <p>Matching funds are available to place on deposit in the local housing trust fund prior to application.</p>
Funding Uses	<p>Allocation for program and matching funds:</p> <ul style="list-style-type: none"> • Minimum 30% to aid extremely low-income households (30% of area median income (AMI)). • Up to 20% to aid moderate-income households (120% of AMI). • Up to 5% toward administrative expenses. • Balance of funds to aid low-income households (up to 80% of AMI). 	<p>The affordable housing projects in the pipeline meet the funding uses criteria for AMI levels served.</p> <p>Recommend allocating 5% of the funds toward administrative expenses.</p>
Scoring Criteria	<p>Applicants are scored on following factors for up to 100 points:</p> <ul style="list-style-type: none"> • Nonresidential matching fund source. • Less focus on moderate-income households. • Readiness for funding commitment to multi-family rental projects. • Increasing supply of low-income rental housing. • Housing expense burden on low-income households. 	<p>Based on preliminary assessment, staff anticipates scoring highly on the application as:</p> <ul style="list-style-type: none"> • HIF Fund is a nonresidential funding source. • The City has significant pipeline projects focused on low-income households and increasing supply. • Funding committed for several affordable housing projects in the pipeline.

While there are several eligible uses, the application scoring prioritizes affordable rental housing. Prioritizing funding from the local housing trust fund for the affordable housing projects in the pipeline, which include permanent supportive housing units, would enable the City to score highly in the competitive application.

Based on the program requirements, staff recommends setting up a new local housing trust fund and transferring \$5 million from the HIF Fund as matching funds. If the HCD awards the City the requested funds, then the City's local housing trust fund would have \$5 million in additional funding to provide loans for the construction or rehabilitation of affordable housing developments, thereby increasing the amount of City funds available to allocate to other projects in the pipeline anticipated to be brought to Council for a funding commitment approval in the short term.

As noted above, selecting the HIF Fund as the funding source would make the City's application competitive as it is a commercial linkage fee and, therefore, a nonresidential funding source. However, given the City's extensive affordable housing pipeline and practice to forward-commit funding that the City is expected to receive but does not yet have, the HIF Fund currently has a shortfall of approximately \$10 million. To free up enough HIF Funds to make the necessary local match, staff recommends full funding for the two projects below to be reprogrammed from the HIF Fund to the BMR In-Lieu Fees Fund. This will also allow both projects to receive funding from just one funding source (BMR In-Lieu Fees Fund) rather than two sources, which will streamline administration of the projects. The two projects are as follows:

- Reprogram \$13.5 million in HIF Funds already appropriated (\$12.2 million development loan appropriated on March 14, 2023 and \$1.3 million for predevelopment costs appropriated on September 13, 2022) for 1020 Terra Bella Avenue to the BMR In-Lieu Fees Fund; and
- Reprogram \$10 million in HIF Funds already appropriated (\$8.7 million development loan and \$1.3 million for predevelopment costs appropriated on February 14, 2023) for 1012 Linda Vista Avenue to the BMR In-Lieu Fees Fund.

There is sufficient balance in the BMR In-Lieu Fees Fund to reprogram the appropriations, and there will be no funding impact to the affordable housing projects.

FISCAL IMPACT

The recommended action has no financial impact on the General Fund. If approved, the City would be eligible to apply for up to \$5 million of the 2023 Local Housing Trust Fund Program grant funds. The funding would supplement City funding for programs and initiatives related to the 2022-2027 Affordable Housing Strategic Plan, the City's Housing Element, and the City's Federal Consolidated Plan. Included in the recommendation is the transfer of \$5 million from the City's Housing Impact Fee Fund to the proposed new Local Housing Trust Fund, once established. In addition, the recommendation includes reprogramming already-approved

appropriations of \$23.5 million from the Housing Impact Fee Fund to the Below Market Rate Housing In-Lieu Fees Fund. There is sufficient budget available in the Housing Impact Fee Fund and the Below Market Rate Housing In-Lieu Fees Fund for these actions.

ALTERNATIVES

1. Do not adopt a resolution authorizing the City to establish a Local Housing Trust Fund and apply for the Local Housing Trust Fund Program, which results in no application being submitted.
2. Provide other direction to staff.

PUBLIC NOTICING

The meeting agenda and Council report have been posted on the City's website and announced on Channel 26 cable television.

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- Attachment:
1. Resolution Authorizing Local Housing Trust Fund Program Application
 2. Resolution Authorizing Establishment of a City of Mountain View Local Housing Trust Fund