



COUNCIL REPORT

DATE: September 10, 2024
CATEGORY: Consent
DEPT.: Housing
TITLE: **Application for State Funding—Local Housing Trust Funds**

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. Approve a transfer of \$5 million from the Housing Impact Fees Fund to the City’s existing Local Housing Trust Fund to serve as the matching funds for the Local Housing Trust Fund grant. (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. Eligible applicants—including cities and counties—are required to establish a “local housing trust fund” and submit competitive applications for funding. If awarded, the state funding must be deposited into the local housing trust fund and the awarded jurisdiction must also deposit its own funding into the trust fund to match the state contribution. The goal of the LHTF Program is to use state funding as an incentive for jurisdictions to allocate local resources to address local housing needs, thereby increasing the total available funding sources for housing throughout the state.

Related Prior Council Direction

At the Study Session for the Affordable Housing Strategic Plan on August 30, 2022, staff highlighted a significant funding gap related to the City's 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 align 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).

Prior LHTF Application and Award

The City first applied for this program in Fiscal Year 2022-23. On May 9, 2023, Council adopted a resolution to establish the City of Mountain View Local Housing Trust Fund and to transfer \$5 million from the Housing Impact Fees Fund into the new fund to act as the local match contribution. In addition, Council adopted a resolution authorizing the submission of a Local Housing Trust Fund Program application to the California Department of Housing and Community Development (HCD). As a result of the application, on October 2, 2023, the City was awarded \$4,205,452 in LHTF program funds. On February 13, 2024, Council adopted a resolution to accept these funds and allocate them to two Alta Housing affordable housing projects located at 1020 Terra Bella Avenue and 1012 Linda Vista Avenue for predevelopment costs.

Current LHTF Notice of Funding Availability

On July 9, 2024, HCD released a Notice of Funding Availability (NOFA) for the 2024 LHTF Program. The LHTF Program 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. The maximum funding award per applicant is \$5 million, and 15% of the NOFA funding has been reserved for new local housing trust funds. Applications are due to the HCD on September 17, 2024.

Eligible activities under the current LHTF NOFA are as follows:

- 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, cities must have a state-certified 2023-31 Housing Element and have submitted a 2023 Housing Element Annual Progress Report to be eligible to apply. Per the NOFA notice, if an applicant is determined to be out of Housing Element compliance at the time awards are announced, they will be ineligible to receive funding. Council adopted the Housing Element on April 11, 2023, and it was certified by HCD on May 26, 2023. The Annual Progress Report went to Council for review on March 26, 2024 and was submitted to HCD on March 27, 2024.

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

ANALYSIS

While there are several eligible uses for LHTF funding, the application scoring prioritizes the new construction of affordable rental housing. Staff recommends that the City's application prioritize funding projects in the affordable housing pipeline, which includes permanent supportive housing units. This would maximize the City's competitiveness for the LHTF NOFA.

Staff recommends utilizing \$5 million from the Housing Impact Fees (HIF) as matching funds. The LHTF application scoring criteria award more points to applicants that use a nonresidential funding source as the source of matching funds. Selecting the HIF Fund as the source for matching funds would make the City's application more competitive as it is a commercial linkage fee, which is considered a nonresidential funding source. There is sufficient balance in the

Housing Impact Fees Fund to use for this purpose, and there will be no negative funding impact to existing affordable housing projects.

If awarded 2024 LHTF funds, it would be staff's recommendation to use them for two projects that are next in the City's affordable housing pipeline, which are the 87 East Evelyn Avenue project and the 57-67 East Evelyn Avenue project. These projects are located on two adjacent properties, one of which is a City-owned site. Upon completion, they would collectively add 406 units of affordable housing to the City, plus six manager's units. For this reason, they are considered priority projects that the City has undertaken extensive efforts to advance in the last fiscal year. Receiving an award of LHTF funds would act to free up City funds that would have otherwise been used for these two projects. Leveraging LHTF funds will increase the amount of City funds that are available to commit to the affordable housing pipeline, allowing them to be used more efficiently and effectively. The amount of funding allocated to each project will be determined by staff based on project needs at that time, factoring in allowed administrative costs.

On September 26, 2023, Affirmed Housing was selected as the developer for the 87 East Evelyn Avenue project. At the upcoming Council meeting on December 17, 2024, staff is bringing the terms of the lease agreement and funding recommendation for Affirmed Housing for Council's approval. For the 57-67 East Evelyn Avenue project, a NOFA application was submitted by Charities Housing in June 2024. Staff will bring a funding recommendation to the NOFA Committee in October 2024, and then a recommendation to Council for approval on December 17, 2024.

The City's grant application aligns with the LHTF program requirements. These 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.	Recommendation: Request \$5 million in LHTF funding. Allocate matching funds of \$5 million into the City's 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>Recommendation: Use Housing Impact Fees (HIF) Fund as a funding source.</p> <p>The HIF Fund is designated to assist in providing affordable housing and receives ongoing revenue from housing impact fees paid by developers to the City for nonresidential projects.</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>Recommendation: Utilize LHTF funds towards existing projects that meet the LHTF eligibility criteria.</p> <p>Prioritize funding for affordable rental housing projects in the City’s pipeline. Two existing projects that meet these criteria are the affordable housing projects at 87 East Evelyn Avenue and 57-67 East Evelyn Avenue.</p>
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>The City’s guidelines, LHTF application, and proposed projects conform with these restrictions.</p> <p>City guidelines for construction and/or permanent loans align with program requirements.</p> <p>Local matching funds and program funds would be allocated towards the projects at 87 East Evelyn Avenue and 57-67 East Evelyn Avenue.</p> <p>There are sufficient HIF funds available to place on deposit in the City’s trust fund prior to application.</p>

Application Criteria	Requirements/ Thresholds	Staff Recommendation and Analysis
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>Recommendation: Use 30% of the LHTF funding to aid extremely low-income households, 65% of the LHTF funding to aid low-income households and the remaining 5% for administrative expenses.</p> <p>The affordable housing projects located at 87 East Evelyn Avenue and 57-67 East Evelyn Avenue meet the funding uses criteria for AMI levels served. The City will retain 5% of the funding award to cover administrative costs.</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. • Increasing supply of low-income rental housing. • Housing expense burden on low-income households. • Readiness for funding commitment to multi-family rental projects. 	<p>Based on preliminary assessment, staff anticipates scoring 85 points on the application.</p> <ul style="list-style-type: none"> • HIF Fund is a nonresidential funding source. • The projects at 87 East Evelyn Avenue and 57-67 East Evelyn Avenue are focused on extremely low- and low-income households rather than moderate-income households. • The City is in the process of exhibiting readiness for funding commitment by bringing these projects to the NOFA Committee and Council.

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 2024 Local Housing Trust Fund Program grant funds. The final award will be decided as part of the competitive application. 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. Should the grant be awarded, staff will return to the City Council to amend the budget by appropriating revenue and corresponding expenditures.

Included in the recommendation is the transfer of \$5 million from the City's Housing Impact Fee Fund to the City's Local Housing Trust Fund as the match requirement for the NOFA. There is sufficient balance available in the Housing Impact Fee Fund for this action.

ALTERNATIVES

1. Do not adopt a resolution authorizing the City to apply for the 2024 Local Housing Trust Fund Program, which results in no application being submitted and would forego the opportunity to secure external funding sources to help fill the City's affordable housing funding gap.
2. Adopt a resolution authorizing the City to apply for the 2024 Local Housing Trust Fund Program and transferring \$5 million from the City's General Fund into the City's existing Local Housing Trust Fund to serve as the matching funds for the Local Housing Trust Fund grant.
3. 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.

Prepared by:

Alec Vybiral
Housing Officer

Julie Barnard
Affordable Housing Manager

Approved by:

Wayne Chen
Housing Director

Audrey Seymour Ramberg
Assistant City Manager

AV-JB/4/CAM
850-09-10-24CR-2
204489

Attachment: 1. Resolution Authorizing Local Housing Trust Fund Program Application