



DATE: December 12, 2017

TO: Mayor and City Council

FROM: Assistant City Manager

SUBJECT Review of Alameda County Measure A1 Affordable Housing Bond
Timeline and Process

RECOMMENDATION

That Council reviews and comments on this report.

SUMMARY

Council has held several discussions regarding affordable housing in general and the housing affordability crisis in the area, particularly concerning the rising costs of both rental and for-sale housing affecting many Hayward households. Particularly, on January 31, 2017, the City Council held a work session to discuss the City's multi-pronged strategy to address the local affordability crisis, which includes the acquisition and construction of long-term deed-restricted affordable permanent housing.

The two main challenges for the City (as for all Bay Area jurisdictions) to construct new long-term deed restricted affordable housing are the significant decreases in funds for federal and State affordable housing programs and the scarcity of land. To compensate for the former, local jurisdictions, including Hayward have been trying to identify new mechanisms to generate funds for affordable housing. Thus, on November 8, 2016, Alameda County voters approved Measure A1, a General Obligation Bond for Affordable Housing, placed on the ballot thanks to the leadership of Alameda County.

Measure A1 will generate \$580 million countywide for affordable housing, including \$460 million for rental housing programs and \$120 million for homeownership programs, as described in the background section of this report. The A1 \$460 million for rental housing development will be allocated in three different ways: A Base City Allocation (BCA); a Competitive Regional Allocation Pool (subdivided in four regions); and a County-wide Innovation and Opportunity Fund.

Under HCD's allocation model, Hayward has received a BCA of approximately \$20.3 million for affordable rental housing development projects, and may access additional funds for this purpose from a \$49.8 million regional competitive pool for projects in Alameda (City),

Hayward, San Leandro and Unincorporated Alameda County. The \$35 million Innovation and Opportunity Fund may also benefit projects located within the City of Hayward. However, these funds, which are envisioned to be provided as repayable loans, will be available on a first-come, first-serve basis countywide to projects that meet very specific criteria. Twenty-five (\$25) million may also facilitate the development of Hayward affordable **ownership** homes.

At the January 31, 2017 work session, Council directed staff to issue a Notice of Funding Availability (NOFA) and/or a Request for Proposals (RFP) to solicit project proposals for affordable rental housing projects that advance Council priorities and the Housing Element policies related to permanent affordable rental housing development in anticipation of the upcoming A1 bond issuance. Due to several reasons, including the delay in the County's adoption of the final program implementation policies and the current uncertainty in affordable housing financing programs (caused mostly by the proposed federal tax reform), staff has had to postpone the issuance of the City NOFA/RFP. This report, however, includes a recommended timeline to issue the City RFP vis-à-vis HCD's timeline for issuance of the different A1 rental development program "pools." A brief summary description of both affordable rental and homeownership projects "in the pipeline" that staff is aware of and the main A1 implementation policies that must be part of the City's NOFA/RFP are part of the report as well.

BACKGROUND

On October 18, 2016, after two discussions on the broad policies and programmatic components of a General Obligation Bond (for Affordable Housing) issuance proposal, the City Council approved a resolution in support of the corresponding ballot measure - Measure A1 (or "A1"). Soon after, on November 8, 2016, 73% of Alameda County voters approved the measure.

The County Board of Supervisors-approved authorizing resolution of the ballot measure reads that Measure A1 will help "*[To] provide affordable local housing and prevent displacement of vulnerable populations, including low- and moderate-income households, veterans, seniors and persons with disabilities; provide supportive housing for homeless people countywide and help low- and middle-income households purchase homes and stay in their communities...*"

Measure A1 will generate \$580 million countywide for affordable housing, including \$460 million for rental housing development and \$25 million for homeownership development, as described in more detail below. The balance of the funds will be used to support down payment assistance and housing rehabilitation programs. This report only addresses funds available for new housing development.

Homeownership Development:

- *Homeowner Housing Development Program (\$25 million)*
GOAL: to assist in the development and long-term affordability of homeownership

housing for low-income first-time homebuyer households (at a maximum of 80% of Area Median Income (AMI)).

Rental Housing Programs:

- *Rental Housing Development Fund – Base City Allocation and Competitive Pool (\$425 million)*
GOAL: to create and preserve affordable rental housing for the County’s most vulnerable current and displaced households, including low-income workforce households.
- *Innovation and Opportunity Fund (\$35 million)*
GOAL: to support the ability of affordable housing developers to respond quickly to opportunities that arise in the market (i.e., properties that are for sale), to preserve and expand affordable rental housing, and prevent displacement of current low-income households.

Under the Rental Housing Development Fund Program, approximately **\$20.3** million is estimated to be available for Hayward projects, with another **\$49.8** million potentially available for Hayward projects through a *competitive* regional pool for projects in Alameda (City), Hayward, San Leandro and Unincorporated Alameda County.

During the General Obligation (G.O.) bond issuance informational and public input meetings, the Alameda County Housing and Community Development Department (HCD), the agency responsible for administering the bond issuance, established the criteria for the development of A1 programs (described below). Consistent with the eligible uses of G.O. Bond proceeds, as stated by HCD, bond proceed-funded programs must:

- Pay for capital-investment related to acquisition or development of real property
- Address critical housing needs
- Be simple to explain
- Be cost effective to administer
- Assure that all parts of Alameda County benefit
- Allocate funds over time
- Build on successful program models within Alameda County and elsewhere
- Leverage other funds whenever possible
- Allow for innovation and creativity

Following an extensive community outreach process that lasted almost a year, on November 7, 2017, the County Board of Supervisors (BOS) approved the final HCD staff-recommended A1 rental and homeownership program implementation policies included here as Attachments II and III, respectively.

DISCUSSION

In response to Council's request for an update of the status of the A1 development funding and potential Hayward projects eligible for such funding, a description of homeownership and rental housing developments in the pipeline follow.

Homeownership (Development)

In partnership with Habitat for Humanity East Bay/Silicon Valley (Habitat), the City has been working towards the development of two sites as affordable homeownership housing: a) the Sequoia Grove project located at A & Walnut, and b) a homeownership development at a City-owned property located at Harder and I-92. Attachment IV contains more background and information about both of these projects.

Sequoia Grove

In June of 2009, the then City of Hayward Redevelopment Agency (the former RDA) used Low and Moderate-Income Housing funds (Low-Mod Funds) to acquire from the City a 0.7-acre parcel of land located at 123-197 A Street (at Meekland, the "Site") for the sum of \$705,000. Due to the use of Low-Mod funds, the Site must be developed for housing affordable to low- and moderate-income households. Consequently, on July 26, 2011, Council authorized staff to negotiate a Disposition and Development Agreement (a "DDA") with Habitat for Humanity for the development of the Site and to submit an application to the State Department of Housing and Community Development ("State HCD") for funding under the Building Equity and Growth in Neighborhoods ("BEGIN").

Habitat's project proposes to build 10 for-sale housing units on the 0.7-acre parcel and these homes would be available to households earning 80% of Area Median Income (AMI). The project has faced numerous delays from the redevelopment dissolution process and most recently from the discovery of soil contamination on the site.

In sum, City staff and Habitat have been diligent in pursuing the development of this critically needed project. The project was entitled on February 3, 2015 and Habitat is currently ready to pull its site development and building permits. However, the significant delays caused by the dissolution of Redevelopment process and the discovery of the presence of contaminants on the site represent new and complex financing challenges to the project including: a) an increase in constructions costs; b) the loss of the \$600,000 in CalHOME and \$460,000 in BEGIN funds due to the project's inability to meet the expenditure deadlines; and c) the additional project costs due to the Site's contamination (estimated at around \$500,000).

In order to continuing to move forward, the City or Authority would have had to substitute and provide additional funding to fill the financing gap (estimated at \$2 million) and Habitat would have had to modify the affordability mix of the properties (i.e., to sell some or all the units to moderate-income households). However, the availability of A1 funding for homeownership development may provide a solution to this challenge. Although the County HCD has not yet released any procurement mechanism to solicit homeownership development project proposals and has not developed the final implementation policies, the basic program parameters specify that the County will fund the project's financing gap up to

approximately \$200,000 per unit. Local jurisdictions may also be required to provide a match as this is a basic requirement for all A1 development programs.

Given that the City's Housing Authority has already made a financial commitment to this project that meets the A1 matching requirement and that it is likely that, pursuant to the preliminary guidelines, A1 will cover the financing gap, staff recommends that the City Council supports the project for A1 funding when the NOFA or application for the homeownership development program is issued. Staff also recommends that Council takes the actions required, if any, to facilitate the development (i.e., to authorize an extension of the DDLA and to modify the approved financing to accept A1 funds).

Staff plans to update Council about the status of the project in the early spring of 2018, when the County expects to release the NOFA or application for this program.

Harder and I-92:

Habitat has also submitted a preliminary proposal to partner with the City to develop a new affordable homeownership development of approximately twenty-two (22) two-story townhomes homes on a vacant 1.32-acre property currently owned by the City (the "Potential Site"). The Potential Site, an abandoned dead-end street on Harder Road (abutting I-92) is between a single family residential neighborhood and a commercial plaza off of Santa Clara Street that has been fenced off from the public for a number of years.

Habitat intends to partially fund the TDC with the home sales proceeds and through fundraising for the low-income homes. Habitat would fundraise approximately \$1.2 million (\$112,000 per low income home). From the City or Housing Authority, Habitat's proposal assumes a financial contribution of \$1.1 million (or \$50,000 per home).

If this development proposal is pursued, the City would have to donate the Potential Site as Habitat's proposal assumes such donation. Alternatively, the Housing Authority could purchase the Potential Site from the City utilizing housing funds and later transfer it to Habitat for \$1. This represents an additional contribution from the City which cannot be quantified at this time as currently there is not an appraisal of the land. However, assuming that the value of the land is at least \$1 million, the City's total investment would be about \$2.1 million.

Habitat's projected budget requires a \$4.4 million A1 funding commitment, which is within the \$200,000 maximum per unit A1 funding investment on homeownership development projects stipulated in the program parameters.

As with the Sequoia Grove project, staff recommends that the City Council supports the project for A1 funding when HCD issues the NOFA or application for the homeownership development program. Staff also recommends that Council takes the actions required to facilitate the development and to commit funds to provide a local funding match for the project.

Table A summarizes the two Habitat homeownership development programs in the pipeline, including the projected Total Development Costs (TDCs) and funding gaps. These programs are described in more detail in Attachment IV.

Table A: Homeownership Developments in the Pipeline

Developer	Location	No. of Units	Type	Population	TDC (millions)	Per unit (P/U) Cost (thousands)	City ask* (millions)	Gap (A1 ask; millions)
Habitat for Humanity	Sequoia Grove (at A & Walnut)	10	Single-Family Townhomes	Low-income families (workforce)	\$11.79	\$536	\$0.0	\$2.0
	West Harder Rd. and I-92	22	Single-Family Townhomes	Low-income families (workforce)	\$6.75	\$675	\$1.1	\$4.4
	Total	32		Totals	\$18.54		\$1.1	\$6.40

* The City and Housing Authority are not providing any cash contributions to the Sequoia Grove project at this point due to the prior contribution of the land for development of the project.

Rental Housing

During the January 31, 2017 Council work session on Housing Affordability strategies, Council directed staff to issue a Notice of Funding Availability (NOFA) and/or a Request for Proposals (RFP) to solicit project proposals for affordable housing projects. The purpose of the NOFA/RFP would be to identify projects that advance Council priorities and the Housing Element policies related to permanent affordable rental housing development in anticipation of the upcoming A1 bond issuance.

Soon after the approval of Measure A1 by the voters, HCD staff suggested that jurisdictions conduct their own procurement process, issue a joint County-City RFP, or rely on the County’s own process to solicit rental housing development proposals. Consequently, staff recommended at the January 31 work session that a City NOFA/RFP was issued. However, because any procurement process was subject to the adoption by the Board of Supervisors (BOS) of the rental housing development program implementation policies (they must be clearly spelled out in the NOFA or RFP), staff has had to postpone the issuance of a City RFP. As mentioned in the background section, the County BOS has only recently adopted said policies.

In addition to the delay in the adoption of the final program implementation policies, the County has not issued the NOFA/RFP for the almost \$50 million competitive regional pool for rental housing development. Given the high housing development costs in the area, it is likely that, in addition to the base City allocation, local projects will need to compete for the regional funding pool as well. This will allow the City to fund and facilitate the development of more affordable units than by committing its base allocation only. County HCD expects to release a NOFA/RFP for the competitive pool in the late spring 2018.

Other considerations and certain developments affecting affordable housing finance have also affected staff's decision to delay the issuance of a City RFP. Among them is *the proposed elimination of tax-exempt bond financing as part of the federal tax reform package*. This proposal¹ has added an additional layer of uncertainty for affordable housing developments that could not compete for 9% Low-Income Housing Tax Credit (LIHTCs or "Tax Credits") but were intending to use 4% tax credits that are used with Tax-Exempt Multifamily Housing Revenue Bonds (tax-exempt bonds or "Bonds"). These projects, most of which are currently on hold, constitute the majority of affordable housing projects due to the highly competitive nature of 9% tax-credit financing.

In light of the above, staff recommends tying the City's RFP issuance with HCD's procurement process for the regional competitive pool, to the extent possible, and issuing a NOFA/RFP that incorporates the recently-adopted A1 implementation policies, the City's Housing Element goals, and the City Council priorities with the goal of identifying projects that:

- Are shovel-ready and can deliver the affordable units relatively fast by demonstrating that they have submitted a development application and/or have secured some form of site control.
- Leverage A1 and the City's funding with other sources of funding.
- Are located within close proximity to a "major transit stop" or an area with amenities that will benefit the population served by the development.
- That provide homes to serve City's Housing Element-identified target populations (including households with special needs, including seniors, persons with disabilities, single-parents, large families, and the homeless) and A1-identified populations, which, in addition to the City's priorities, include veterans, emancipated youth, and re-entry individuals.
- Provide at least the A1-required units affordable to extremely low-income households 20% at 20% of AMI.
- That advance other City Council priorities.

As part of this work session, staff would like Council feedback on these priorities for the City NOFA/RFP process. Are there other criteria that are important for inclusion in the NOFA/RFP?

Staff is aware of four different rental housing development projects in different planning stages at the moment (a detailed description of each project is included as Attachment IV). Some of these developers have been working towards obtaining some level of site control and conducting due diligence for over a year now but none of them has filed a development

¹ As of the date of this report, only the House version of bill contains this provision. The Senate version, which has been approved, does not include this provision.

application with the City’s Development Services Department yet. It is likely that these developments will respond to the City’s NOFA/RFP. Table B contains a summary of the rental housing developments in the pipeline further described in Attachment IV.

Table B: Affordable Rental Housing Developments in the Pipeline

Developer	Location	No. of Units	Type	Population	TDC (millions)	P/U Cost (thousands)	Projected Gap (millions)
Allied Housing	2595 Depot Rd.	63	Micro studio apts.	Low-income individuals, homeless, veterans	\$33.18	\$526	\$15.6
Meta Housing	29497 to 29553 Mission Blvd	78	One-, two-, and three-bedroom apts.	Low-income households., homeless, veterans	\$41.37	\$530	\$11.7
MidPen Housing	29831 Clear Brook Circle	60	One-bedroom apts.	Seniors	\$26.00	\$433	\$10.8
Bridge Housing	24985 Hesperian Blvd	159	One- and two-bedroom apts.	Families	\$60.67	\$382	\$22.6
	Total	360				Total	\$60.7

Summary of Local Funding Availability/A1 Local Match

To access A1 moneys for rental housing, cities must submit a funding application to HCD and projects must provide evidence that they have both City support and a City-funding match. To comply with the matching requirement, A1 implementation policies specify that cities must provide (at a minimum) the equivalent of the City-required development and planning fees applicable for the specific project. Currently, the City has a balance of approximately \$9.9 million in local funds for affordable housing development from the Inclusionary Housing Ordinance Trust Fund (funds from fees paid by development projects subject to an inclusionary obligation) and from the Hayward Housing Authority Fund (the former Redevelopment Agency Low- and Moderate-Income Housing Fund). These funds are the only local funds available that maybe utilized as match for A1-funded projects.

Table C is a summary of the A1 funds that the City may have access to and the local funds that the City may use as match for rental and homeownership housing development.

Table C: Total Available Funds for Rental and Homeownership Affordable Housing Development

A1-Base City Allocation	\$ 20.30
A1-Regional Competitive*	\$ 12.50
City-AHO Funds	\$ 4.97
City Housing Authority Funds	\$ 4.94
	\$ 42.71

* Assumes the four jurisdictions in the Mid County region gain or access equal parts from the competitive pool for the region (\$49.8 million divided by 4).

A1 program implementation policies do not require a local match for homeownership development projects. They specify that A1 will fund the projects’ funding gap up to a maximum of \$200,000 per unit. HCD has surveyed the local jurisdictions (including Hayward) and expects that, with this level of per unit A1 investment, the program funds will be used up at once with the first bond issuance. For this reason, staff believes that accessing these funds will be very competitive and that a timely local support and a local commitment will be essential for these projects to receive A1 funding.

The recommendations and next steps following this Council work session are outlined in the Next Steps section below.

ECONOMIC IMPACT

Social research indicates that access to affordable housing can improve education outcomes, increase health and wellbeing, boost economic activity, and lower the costs for state and local governments to provide emergency housing, mental health crisis services, emergency medical care, and other services to assist the homeless or families and individuals with a housing crisis. The projects described in this report that may potentially be funded with A1 and the local sources of funding will help the City achieve these and other socio-economic benefits. The specific project benefits will be further described when the proposals are presented to Council as funding for any project must be reviewed and approved by Council.

FISCAL IMPACT

The use of Housing Authority or AHO Trust funds as a match for A1-funded projects or the implementation of the projects subsidized with these funds does not have an impact on the City’s General Fund. However, the use of local housing-related funds will help the City leverage other funding and attract significant investment of other non-local dollars in Hayward.

STRATEGIC INITIATIVES

The identification of potential projects for A1 funding commitment supports the Complete Communities strategic initiative. The purpose of the Complete Communities initiative is to create and support structures, services, and amenities to provide inclusive and equitable access with the goal of becoming a thriving and promising place to live, work, and play for all. This item supports the following goal and objectives:

- Goal 2: Provide a mix of housing stock for all Hayward residents and community members, including the expansion of affordable housing opportunities and resources.
- Objective 1: Centralize and expand housing services.
 - Objective 2: Facilitate the development of diverse housing types that serve the needs of all populations.
 - Objective 4: Increase the supply of affordable, safe and resilient housing in Hayward.

SUSTAINABILITY FEATURES

To be competitive for other sources of funding, affordable housing development proposals must include energy-efficient and sustainable features that exceed the applicable standards. Thus, to the extent that A1 base City allocation commitments will help Hayward affordable housing development proposals compete for and/or leverage other sources of funding, A1 proceeds would help the City to achieve other local sustainability goals. However, specific environmental benefits and sustainability features of proposed projects will be described upon review of those projects by Council.

PUBLIC CONTACT

Staff will ensure compliance with public noticing requirements, if any, when the projects described in this report are brought forward for Council review, approval and funding commitment consideration.

NEXT STEPS

Rental Housing

Staff recommends:

- Developing an RFP that incorporates the recently-adopted A1 rental implementation policies, the City's Housing Element goals, and the City Council priorities within the next three months.
- Bringing back an item to the City Council in the early spring of 2018 to discuss the parameters of the RFP to be able to issue it when HCD releases the NOFA/RFP for the approximately \$50 million A1 regional competitive pool. **HCD expects to issue this NOFA/RFP in the late spring of 2018.** Accessing these funds is necessary for the City to be able to fully or partially fund the projects' funding gaps which, as clearly

illustrated by Table B, will likely require the layering of several sources of funding. Conducting the local procurement in the late spring of 2018 (along the same timeline as HCDs) may also allow the projects to access other sources of funding that may issue NOFAs by the late spring.

- Working with the developers of the four rental housing projects described in this report on their applications for the A1 competitive regional pool funds.

The application for the Cities' BCA allocation is available now. Although the County has set a schedule of review for projects that are planning to apply for AHSC (Affordable Housing and Sustainable Communities) program funding and/or for 9% LIHTCs during the first or second 2018 rounds, cities may submit applications anytime now. For this reason, Council may decide to direct staff to prepare an A1-funding application or applications in partnership with the development or developments that leverage A1 and City funding to a greater extent, may be able to deliver the units sooner, serve 20% of AMI households, and households identified as target populations by the A1 implementation policies.

Homeownership Housing

Staff recommends:

- Bringing back an item when the A1 NOFA or application for the homeownership development program is issued for the City Council to: a) issue its support of the 10-unit Sequoia Grove project, and b) to take the actions required, if any, to facilitate the development (i.e., to authorize an extension of the DDLA and to modify the approved financing to accept A1 funds). This project is fully entitled and is not requesting additional funding from the City. **HCD expects to issue the NOFA/RFP for the homeownership development program in the late Spring of 2018 as well.**
- Bringing back an item when the A1 NOFA or application for the homeownership development program is issued for the City Council to: a) issue its support of the 22-unit Harder and I-92 project located in City-owned property and b) to take the actions required to facilitate the development including committing funds to provide a local funding match for the project.

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Approved by:



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