



**DATE:** May 4, 2021

**TO:** Mayor and City Council

**FROM:** Assistant City Manager

**SUBJECT:** Affordable Housing Development Funding: Adopt Resolutions Authorizing the City Manager to Prioritize Current Affordable Housing Projects for Allocation of Existing Inclusionary Housing Trust Funds Not-to-Exceed \$4.9 million and to Issue a Notice of Funding Availability (NOFA) to Establish an Affordable Housing Development Pipeline

## **RECOMMENDATION**

That the City Council:

1. Adopts a resolution amending the FY 2021 Housing Division budget by appropriating Four Million Nine Hundred Thousand Dollars (\$4,900,000) from fund balance in the Inclusionary Housing Trust fund to fund affordable housing development loans (Attachment II);
2. Adopts a resolution authorizing the City Manager to negotiate and execute loan documents between the City of Hayward and Developers of existing affordable housing projects, in an amount not-to-exceed Four Million Nine Hundred Thousand Dollars (\$4,900,000) (Attachment III); and
3. Adopts a resolution authorizing the City Manager to issue an affordable housing NOFA to establish an affordable housing funding pipeline (Attachment IV).

## **SUMMARY**

On November 28, 2017, the City Council adopted amendments to the Affordable Housing Ordinance, which increased the affordable housing in-lieu fees paid by housing developers deposited into the Inclusionary Housing Trust Fund. Currently, there is \$4.9 million available in the Inclusionary Housing Trust Fund available to allocate to affordable housing development projects.

Collectively, initial findings from a recent City displacement study, being prepared by HR&A Advisors, draw a picture of low-income households, particularly renters and Black and Hispanic households, who are experiencing intense economic pressure and housing need in Hayward. Study findings demonstrate that those pressures have intensified in the last decade and have already resulted in a loss of low-income Hayward residents. Those who are still living in Hayward are struggling with cost burden, especially Black and

Hispanic households, as housing supply does not align with household income. These trends of economic and housing instability, especially for Black and Hispanic households, are likely exacerbated by the consequences of the COVID-19 pandemic.

Based on these findings, the pipeline of City supported projects, prospective projects, and recommendations from the Homeless Housing Task Force (HHTF), staff recommends that Council prioritize projects that will provide safe and decent affordable housing to low-, very low- and extremely low-income households who are housing insecure and at risk of displacement and homelessness by:

- 1) Awarding existing funds to City supported projects with funding gaps to usher these projects into construction expeditiously, and
- 2) Issuing an affordable housing NOFA to establish a pipeline of projects and to pre-commit Inclusionary Housing Trust Fund (Housing Fund) to expedite the development of affordable housing by awarding monies to projects on the pipeline as funds become available through payment of the affordable housing in-lieu fees.

## **BACKGROUND**

On November 28, 2017, the City Council adopted amendments to the Affordable Housing Ordinance (AHO) based on the Nexus Study prepared by Keyser Marston Associates, Inc that evaluated the impact of the development of new market-rate housing on the need for affordable housing in the City and that supported increases to the affordable housing in-lieu fees paid by housing developers. The AHO provides options to housing developers to comply that are intended to increase the supply of affordable housing. These options include providing on- or off-site affordable units, paying an affordable housing in-lieu fee, and proposing alternate plans. The AHO intends to increase the supply of affordable units by creating mixed-income housing developments in market rate development or by generating fee revenue that is deposited into the Housing Fund to subsidize the development of affordable housing.

### *Inclusionary Housing Trust Fund*

The Housing Fund was established in June 2003 when the City of Hayward adopted the AHO to address the need for affordable housing that is created by the development of market rate housing. The AHO requires that in-lieu fees paid by the developer are deposited into the Housing Fund and that the funds are to be used to increase the supply of housing affordable to moderate-, low-, very low-, or extremely low-income households (See **Table 1**) in the City through:

1. New construction, acquisition of affordability covenants, and substantial rehabilitation of existing housing; or
2. Provision of other residential facilities, including emergency shelters and transitional housing if those facilities mitigate the impact of market-rate housing on the need for affordable housing with special findings made by Council; and
3. Generation of funds to cover up to ten percent (10%) administrative costs.

Use of Housing Funds is restricted to the above referenced uses and can be applied to either rental or ownership housing. Funds cannot be spent on down-payment assistance. The AHO and collection of the in-lieu fee are based on a nexus between the development of market rate housing and the need to develop more affordable housing.

Since the adoption of the AHO, the City has collected in-lieu fees in the amount of \$10.3 million and committed \$4.89 million on October 2, 2018 to three affordable housing projects providing 259 units of affordable housing. Additionally, \$1 million has been invoiced in in-lieu fees. The developers will pay these fees prior to the issuance of building permits or prior to issuance of certificate of occupancy subject to a 10% increase of the fee; therefore, timing of payment is unpredictable. Currently, the Housing Fund has \$4.9 million in uncommitted funds to apply towards eligible projects.

*Affordable Housing Development Pipeline*

Staff has been tracking affordable housing development. Currently, there are nine projects requiring funding from the City. These projects will provide 646 units of affordable housing targeting seniors, families, teachers; people experiencing homelessness; and households with incomes between extremely low- to low income (see **Table 1**). These projects will need approximately \$43 million of local support to leverage state funds and tax credits. Four of the projects are existing City projects that need an additional \$4.2-\$5.2 million in gap financing (see **Table 3** below). Of these four projects, one is an ownership project that will provide 10 units of housing targeting low to moderate income households. *Attachment V* provides a list of all nine projects in the pipeline with funding gaps.

**Table 1. 2020 California Department of Housing and Community Development Income Limits by income level and household size**

Household Size	1	2	3	4	5
Extremely Low Income 30% AMI	27,450	31,350	35,250	39,150	42,300
Very Low Income 50% AMI	45,700	52,200	58,750	65,250	70,500
Low Income 80% AMI	73,100	83,550	94,000	104,400	112,800
Median Income 100% AMI	83,450	95,350	107,300	119,200	128,750
Moderate Income 120% AMI	100,150	114,450	128,750	143,050	154,500

The funding gaps for existing City projects are created by multiple factors outside the developer’s control. For projects previously funded by the City, causes include increased construction costs, delays related to environmental issues, delays related to dissolution of the

redevelopment agency, and unsuccessful applications for other funding due to competitiveness or changes to the guidelines.

*Housing Element and Regional Housing Needs Allocation (RHNA) Compliance*

Local jurisdictions report progress annually on meeting their RHNA goals. **Table 2** demonstrates progress made toward meeting Hayward’s RHNA goals for the period between 2015-2023 as of the last report year (2020) and estimates potential for compliance by including approved projects and projects pending approval. Permits to construct the units must be issued in order to count toward the City’s RHNA goals. **Table 2** includes projects identified as entitled on the list of affordable housing developments with funding gaps (Attachment V). If the developers are unable to fund the development gap, the City’s estimated RHNA compliance will be reduced by 143 units. Funding additional projects from this list would improve compliance in the very low- and low-income category.

**Table 2. 2023 RHNA Goal Progress in the City of Hayward**

Income Category	Unit Goal	Reported 2020		Approved		Pending Approval		Estimated Compliance		Estimated Deficiency	
		Units	% of Goal	Units	% of Goal	Units	% of Goal	Units	% of Goal	Units	% of Goal
<b>Very low</b>	851	65	8%	203	24%	88	10%	356	42%	524	58%
<b>Low</b>	480	153	32%	70	15%	122	25%	345	72%	135	28%
<b>Moderate</b>	608	72	12%	58	10%	10	2%	140	23%	472	77%

In addition to compliance with the RHNA goals, to allocate the Housing Funds, the City must consider the current housing needs of Hayward residents.

*Hayward Housing Needs*

It is widely recognized that the Bay Area has been in an extended housing crisis for several years. While this crisis impacts all residents, it is particularly harmful for low-income residents, especially those who are people of color and facing historic, systemic racism and discrimination in housing. Hayward has long been considered a more affordable option for both renters and homeowners in the Bay Area. However, the combination of increasing rents and home values along with historic increases in high-paying jobs that are outpacing housing production, is leading to intense displacement pressures on many Hayward residents. Identifying who is most at risk of displacement enables the City to target its affordable housing funds toward those in Hayward with the greatest housing needs.

In November 2020, the City entered into an agreement with HR&A Advisors to conduct a displacement study to meet County requirements for applying a live/work preference for housing built with Measure A1 funds and to better understand who in Hayward is experiencing the greatest displacement pressures. The following section identifies some of study’s initial findings.

**The City of Hayward has a significant housing supply gap, with a substantial imbalance between population growth and housing production that has made housing unaffordable to many.**

- Since 2010, only 458 multifamily units have been built in the City of Hayward.
- Only 17 homes have been built for every job created in the Bay Area.
- Figure 1 to the right illustrates the Hayward housing supply gap relative to what Hayward households can afford. To provide rents affordable to existing Hayward residents, over 4,460 affordable units priced below \$1,250 per month would need to be developed.

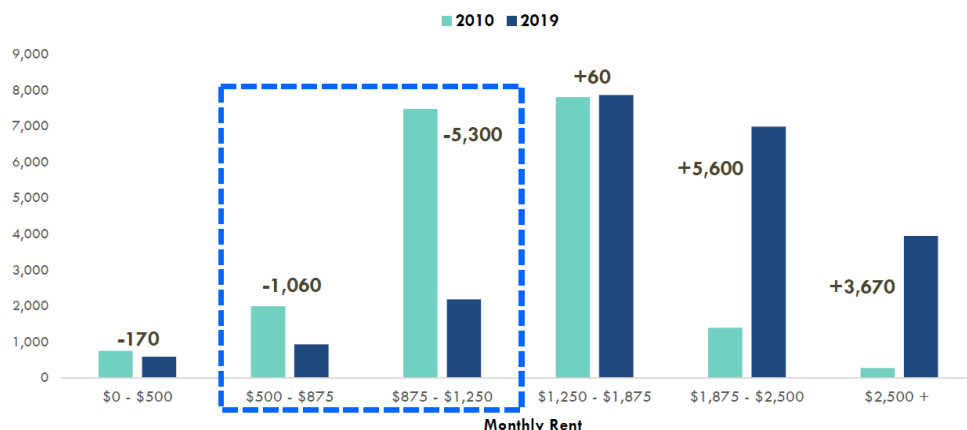
**Figure 1. Hayward Housing Supply Gap (2019)**



**From 2010 to 2019, Hayward has seen a significant loss in naturally occurring affordable rental housing.**

- Low to middle income rental units (affordable to incomes between \$20,000 and \$50,000) are being lost at a significant rate, as shown in Figure 2.
- Over 6,000 naturally occurring affordable rental units have been lost from 2010 to 2019.

**Figure 2. Hayward Rental Unit Distribution by Rent Price (2010-2019)**



Source: 2010-2019 PUMS 5-Year, 2010-2019 ACS 5-Year

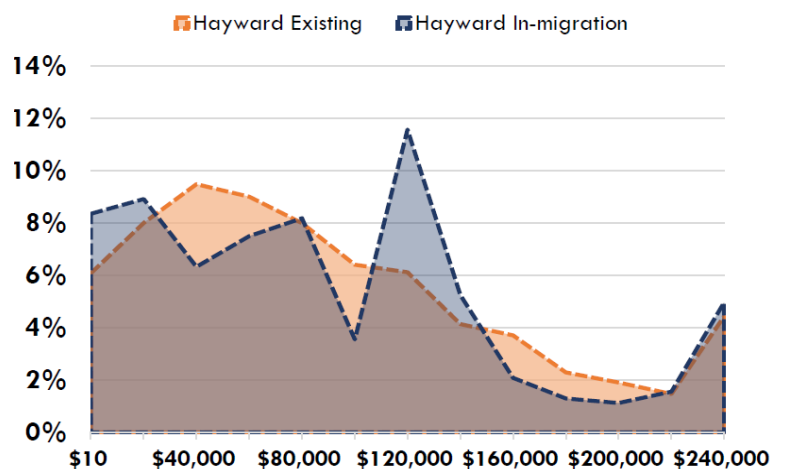
**Affordable homeownership is also increasingly challenging, with few renters able to afford the median home price as home costs increase.**

- To afford the median home in 2000, renters needed an income of at least \$55,000. In 2020, renters need an income of \$150,000 to afford the median home. In 2000, 20% of renters could afford the median home. In 2020, only 6% of renters can afford to purchase a median price home.
- To afford a resale restricted affordable home priced affordable to households making 120% of the area median income (AMI), households would need \$92,000 in annual income. In 2020, about 35% of Hayward renters could afford the affordable sales price for a two-bedroom home.
- As this trend continues, homeownership continues to be out of reach for many current renters, leading them to remain in the rental market for longer or to move to cities with more affordable housing.

***Hayward has seen a decline in low-income residents and a significant increase in households earning over \$100,000 a year.***

- The number of households earning less than \$55,000 a year has decreased 29% from 2010-2019, while the number of households earning more than \$100,000 has increased 72%.
- New migrants into Hayward have significantly higher average incomes (\$108,000) compared to current residents (\$86,000). This exacerbates pressure on low-income households who remain and indicates that the loss of low-income households is likely due to displacement, not to economic gains among previously low-income households.

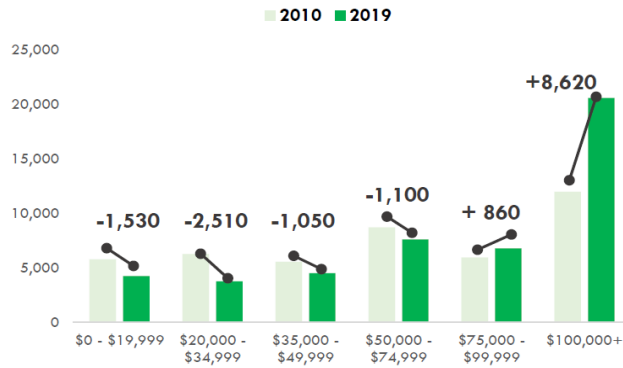
**Figure 3. Average Income of In-Migrants to Hayward**



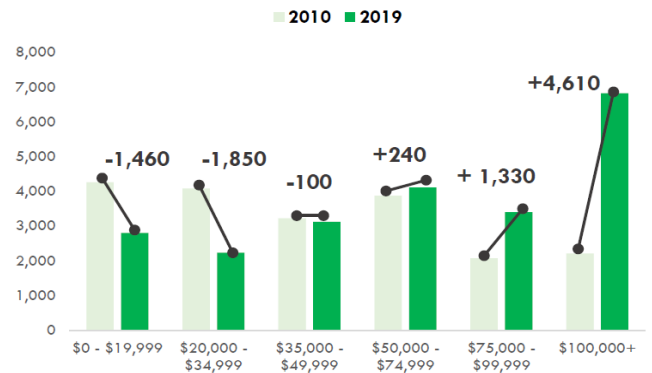
***Trends in income changes are particularly pronounced among renter households.***

- From 2010 to 2019, the number of renter households earning less than \$35,000 has decreased 24%, while the number of renter households earning more than \$100,000 a year has increased 209% (see Figures 4 and 5).
- Among the low-income renters remaining in Hayward, 52% are housing cost-burdened (i.e., paying more than 30% of their income on housing costs) and the number of overcrowded rental units increased by 91% from 2010 to 2019.

**Figure 4. Household Income Distribution**



**Figure 5. Renter Household Income Distribution**



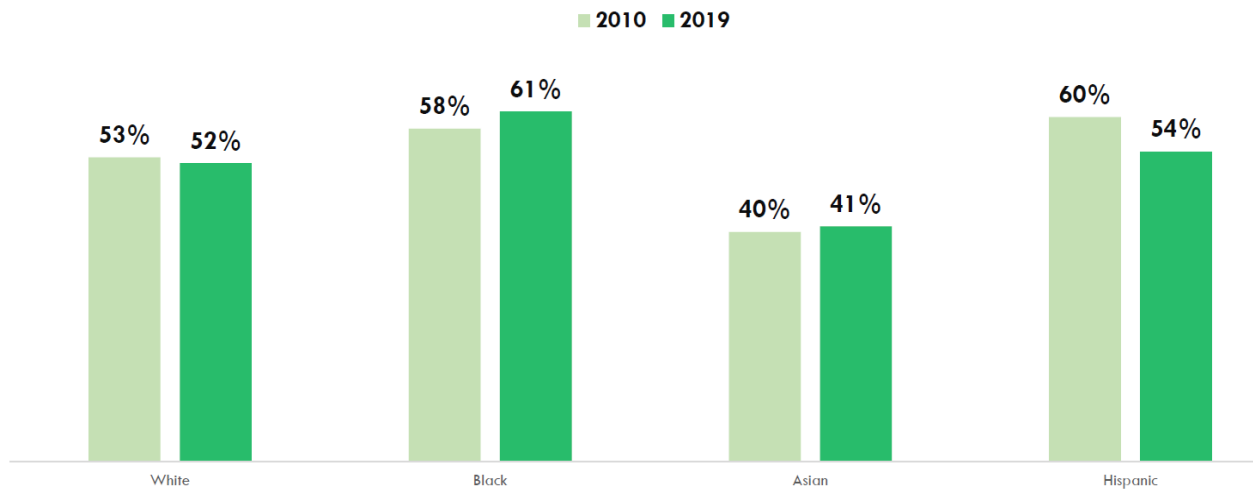
Note: 2010 data is adjusted for inflation.

Source: 2010-2019 PUMS 5-Year, 2010-2019 ACS 5-Year

**Black and Hispanic households experience even greater displacement pressure compared to other racial and ethnic categories.**

- Black and Hispanic households experience greater cost burden compared to White and Asian households, as shown Figure 6.

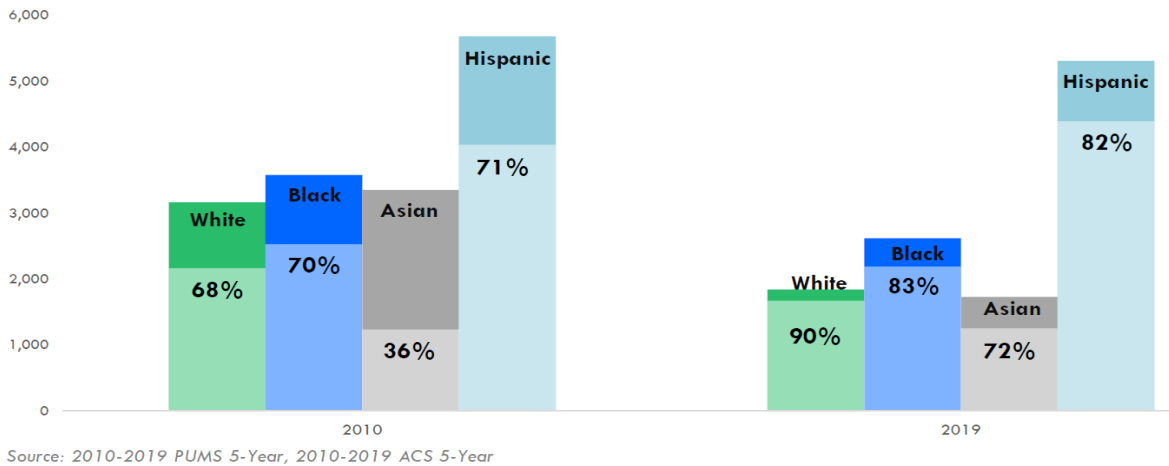
**Figure 6. Hayward Renter Cost Burden by Race**



Source: 2010-2019 PUMS 5-Year, 2010-2019 ACS 5-Year

- A larger share of lower-income renters in Hayward are cost burdened now compared to in 2010. As shown in Figure 7, the four largest racial and ethnic groups making less than \$75,000 are more cost burdened now than they were in 2010.
- Black and Hispanic renters represent a disproportionate share of cost-burdened renters overall. Black households make up 18% of Hayward renters, but 22% of all cost-burdened renters. Similarly, Hispanic households make up 41% of renters, but almost half of all cost burdened renters.

**Figure 7. Change in Cost Burden of Households under \$75,000, by Race**



***Homelessness, which is the most extreme outcome of displacement, is increasing in Hayward.***

- There was a 23% increase in individuals experiencing homelessness in Hayward from 2017-2019. Such increase is consistent with research that shows that communities with cost-burdened renters experience more rapid increases in homelessness.<sup>1</sup>
- The increase in homelessness has strained the local and regional care system, as 76% of homeless Hayward residents are unsheltered (i.e., sleeping outside).
- As with cost-burdened renters, Black residents are over-represented among the City’s homeless population. In 2019, almost 1 in 4 homeless individuals (24%) were Black, though at the time they made up only 10% of the total City population.
- Stakeholder feedback to the currently under development Let’s House Hayward! Strategic Plan for reducing homelessness indicates substantial support for City efforts to create more affordable housing, with particular emphasis on permanent supportive housing.

***Collectively, initial findings from the displacement study draw a picture of low-income households, particularly renters and Black and Hispanic households, who are experiencing intense economic pressure and housing need in Hayward.*** Study findings demonstrate that those pressures have intensified in the last decade and have already resulted in a loss of low-income Hayward residents. Those who are still living in Hayward are struggling with cost burden, especially Black and Hispanic households, as housing supply does not align with household income.

***Homeless Housing Task Force Recommendation***

<sup>1</sup> Glynn, C. & Casey, A. (2018). Homelessness rises faster where rent exceeds a third of income. *Zillow*. Retrieved from: <https://www.zillow.com/research/homelessness-rent-affordability-22247/>



On March 4, 2021<sup>2</sup> staff discussed with the HHTF funding options to allocate the Housing Funds. The HHTF indicated supported for allocating Housing Funds as follows:

1. Award existing funds to City supported projects with funding gaps to usher these projects into construction expeditiously, and
2. Issue an affordable housing NOFA to establish a pipeline of projects and to pre-commit Housing Funds to expedite the development of affordable housing. Monies would be awarded to projects in the pipeline from payment of the affordable housing in-lieu fees as funds become available.

The HHTF also recommended that staff issue a NOFA that would include all project types eligible to receive affordable housing trust funds including:

- Development of new affordable rental housing,
- Development of new affordable ownership housing,
- Rehabilitation/conversion of existing housing to affordable housing, and
- Emergency shelters and transitional housing with subject to special findings.

## DISCUSSION

Through adoption of the AHO, the Council has established dedicated funding to support the development of affordable housing to mitigate the impacts of market rate development on the need for affordable housing. By establishing a funding process that ensures proposed projects are constructed and encourages developers to propose new projects, the City will build an affordable housing pipeline that will help the City comply with its RHNA allocation goals, mitigate the impacts of market rate development on the need for affordable housing, and improve housing affordability and stability. Based on the need for funding from existing City supported projects and new projects, staff recommends prioritizing current City projects with existing funds and establish a process through the NOFA to prioritize proposed projects and allocate future funds.

### *Allocate Funds to Current City Supported Projects*

There are four existing City supported projects that need an additional \$4.2-\$5.2 million in gap financing to move the projects closer to construction. The projects collectively provide 242 units of affordable housing, including 10 affordable ownership units. **Table 3** provides a summary of the current City projects and an estimate of additional funding needed. Attachment III provides additional detail about the projects. These funding gaps are typically caused by increased construction costs, delays related to environmental issues, delays related to dissolution of the redevelopment agency, and unsuccessful applications for other funding due to competitiveness or changes to the guidelines. While the developers have been aggressively pursuing funding opportunities, state funding and Low-Income Housing Tax Credits (LIHTC) have been highly competitive. Developers have had to submit multiple

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<sup>2</sup> March 4, 2021, HHTF Staff Report and Materials:  
<https://hayward.legistar.com/LegislationDetail.aspx?ID=4811625&GUID=BF20ED5A-2823-4982-813A-6AC30BA6CE12&Options=&Search=>

applications to a single source to secure anticipated financing and continue to compete for funding.

**Table 3 Summary of City Project Requiring Additionally Funding**

Developer	Project	No. of Units	Total Development Costs	Total City Commitment	Estimated City Funds needed
Resources for Community Development (RCD)	Parcel Group 8 Affordable Housing	96	\$56.7	TBD	\$1-2
Habitat for Humanity East Bay/Silicon Valley	Sequoia Grove	10	\$7.5	Land + \$.63	\$0.2
EAH Inc.	Pimentel Place (fka Matsya Villa)	57	\$59.9	\$2.2	\$2.0
EAH Inc.	Mission Paradise	76	\$58.9	\$2.5	\$1.0
<b>Subtotals</b>		242	\$183.0	\$5.3+	\$5.2

Consistent with the HHTF recommendation, staff recommends filling funding gaps of current City affordable housing projects through direct allocation outside of a competitive funding process to ensure successful completion. Applying additional funds to these projects would decrease further delays and usher the projects to the construction phase. If supported by the Council, staff would work with the developers to identify the minimum amount needed to fill the funding gaps using existing Housing Funds not-to-exceed \$4.9 million.

***Issue an Affordable Housing Notice of Funding Availability (NOFA) to Establish a Project Pipeline***

The affordable housing NOFA is a tool that allows the City to fund projects that are aligned with the City’s housing priorities and discloses to developers the City’s funding requirements. The NOFA sets eligibility criteria, evaluates projects based on City priorities, and discloses loan and funding source requirements. Staff proposes maintaining most of the criteria and prioritization from the previous NOFA as it currently prioritizes populations experiencing intense economic pressure and housing insecurity. Attachment VI provides more details about the threshold and scoring criteria. Staff will modify the previous NOFA as follows:

- Expand to allow the following project types:
  - Development of new affordable rental housing,
  - Development of new affordable ownership housing,
  - Rehabilitation/conversion of existing housing to affordable housing, and

- Emergency shelters and transitional housing with subject to special findings.
- Identify any requirements that may make projects less competitive for LIHTC and evaluate if they can be modified to make the projects more competitive.
- Make community engagement more robust.
- Prioritize projects from organizations with racial equity plans.

There are six new affordable housing projects in the development pipeline that will require over \$36.9 million in local funding. Construction of these projects will provide an additional 374 units of affordable housing.

Staff recommends issuing a NOFA to determine which projects most align with the City funding priorities and create an affordable housing development pipeline. As affordable housing in-lieu fees get paid, the City would allocate funds to the next entitled project on the list. The intent is to accelerate development based on future anticipated Housing Funds.

Staff anticipates issuing the NOFA consistent with the threshold and scoring criteria contained in Attachment VI next fiscal year to pace and phase the anticipated workload associated with implementing housing programs that may be developed using federal stimulus money. The specific timing of the NOFA will be dependent on the number and complexity of the programs supported. The potential programs to be funded by federal stimulus funds will be discussed with the HHTF at the June 3, 2021 meeting.

### *Recommendation*

Consistent with the HHTF recommendation, staff recommends that the Council establish a process to allocate Housing Trust Funds that will expedite the development of affordable housing by:

1. Prioritizing existing projects that need additional funding; and
2. Creating a pipeline of new projects to which future affordable housing trust funds can be awarded.

Should the Council recommend funding existing City projects, staff will review funding requests from developers to minimize the amount needed from the City. The City Manager will enter into funding commitments with developers not-to-exceed an aggregate amount of \$4.9 million.

### **ECONOMIC IMPACT**

Developers will leverage the City's investment in their project to secure funding from the County, the State, and private sources. Current projects referenced in this report will leverage \$170 million dollars compared to a \$12.6 million contribution from the City.

Additionally, 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 rent for affordable housing is relative to income levels versus market prices which reduces rent burden. This increases available income to pay for other basic needs or save for other financial goals such as furthering education or homeownership. Stabilizing housing costs can be the first step to creating opportunities for personal economic advancement.

The projects described in this report may 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 final funding agreements for any project must be reviewed and approved by Council.

**FISCAL IMPACT**

The FY 2021 operating budget does not include sufficient funds to cover the costs associated with funding affordable housing development loans. The total fiscal impact exceeds the amount budgeted and requires an additional appropriation in the amount of \$4.9 million to the Inclusionary Housing Trust Fund. There is currently over \$4.9 available in fund balance in the Inclusionary Housing Trust Fund. **Table 4** provides a summary of the in-lieu fees collected, funding commitments, and available funds. There is no fiscal impact to the General Fund associated with this item.

**Table 4. Available Inclusionary Housing Trust Funds**

In-lieu Fees Collected since 2011	\$10,363,171
Interest and Fees	487,699
Funds Committed (Mission Senior/76 units)	-\$1,284,720
Funds Committed (Pimentel Place/57 units)	-\$2,000,000
Funds Committed (2595 Depot Rd/126 units)	-\$1,610,000
Administrative Funds	-\$1,004,122
<b>Funds Available</b>	<b>\$4,952,028</b>

**STRATEGIC ROADMAP**

This agenda item supports the Strategic Priority of Preserve, Protect, & Produce Housing. Specifically, this item relates to the implementation of the following project:

- Project 6, Part 6.a: Hold a work session on establishing funding priorities for Affordable Housing Trust including the potential for affordable rental housing, homeownership, co-ops, and shelter opportunities.

**PUBLIC CONTACT**

Staff engaged different community stakeholders through both the displacement study and the Let’s House Hayward! Strategic Plan process. Through the displacement study, HR&A Advisors

interviewed local developers and service providers to gain a more qualitative understanding of displacement trends and housing needs. Through the Let’s House Hayward! planning process, staff and the consultant, Homebase, held virtual forums and interviews with individuals with lived experience of homelessness, homeless services providers, members of the business community, City staff, and other Hayward residents. Feedback ranged widely and is still being integrated, but initial findings demonstrate that community members broadly favored efforts to prevent displacement and to increase affordable housing development for the City’s most vulnerable residents.

Additionally, staff received extensive feedback from current tenants and property owners during the 2018 Residential Rent Stabilization and Tenant Protection Ordinance outreach process. Tenant feedback focused on housing affordability and safety, while landlords and realtors discussed the needs to increase supply of affordable and market rate housing in Hayward.

Lastly, staff has conducted extensive community outreach and stakeholder work on the Parcel Group 8 Affordable Housing project. There have been numerous community meetings and stakeholder engagement opportunities with current tenants, the Grove Way Neighborhood Association, and Eden Community Land Trust. Additionally, staff shared information and received feedback at various County Municipal Advisory Council meetings. Based on initial comments from stakeholders, staff explored partnering with Eden Community Land Trust to convert the existing housing to ownership housing; however, because the cost is prohibitive and not all tenants are interested in owning their units, it was determined that the project should remain rental with the goal of zero displacement of existing residents.

**NEXT STEPS**

Should the Council recommend funding existing City projects, staff will review funding requests from developers to minimize the amount needed from the City. The City Manager will enter into funding commitments with developers in a not-to-exceed aggregate amount of \$4.9 million.

Additionally, should the Council approve issuing a NOFA to establish an affordable housing development pipeline., staff would issue the NOFA next fiscal year at a time that allows for the pacing and phasing of the anticipated workload associated with implementing new housing programs from federal stimulus money. The specific timing of the NOFA will be dependent on the number and complexity of the stimulus programs approved for implementation. **Table 5** provides a timeline for the NOFA. The potential programs to be funded by federal stimulus funds will be discussed with the HHTF at the June 3, 2021 meeting.

**Table 5. Tentative NOFA Timeline**

Release NOFA	FY 2021/22
Deadline for submissions	60 days after issuance

Complete project review & ranking	90 days after submission deadline
Return to City Council for pipeline approvals	30 days after completion of ranking

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*Recommended by:* Jennifer Ott, Assistant City Manager

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