



DATE: March 20, 2018

TO: Mayor and City Council

FROM: Assistant City Manager

SUBJECT Adoption of a Resolution Authorizing the City Manager to Issue a Notice of Funding Availability (NOFA) for New Construction of Affordable Rental Housing

RECOMMENDATION

That Council adopts a resolution (Attachment II) that authorizes the City Manager to issue a Notice of Funding Availability (NOFA) for new construction of affordable rental housing to identify affordable housing projects eligible for Alameda County Measure A1 funds and projects that advance the City's affordable housing priorities.

SUMMARY

The staff report identifies the criteria to be set-forth in the NOFA that will identify affordable rental housing projects eligible for Alameda County Measure A1 funds and projects that advance the City's affordable housing priorities. The purpose of the NOFA is to ensure that the award of local housing funds are: (1) based on the City's priorities; (2) made to affordable housing developers in an amount necessary to make the projects feasible; and (3) eligible for Alameda County Measure A1 bond funds, including Hayward's base allocation and the Mid County Regional Pool. Eligible activities under the NOFA will include new construction of rental, supportive, or transitional affordable housing. Projects must meet basic standards regarding developer experience, income targeting (20% of the units at 20% Area Median Income (AMI) per Measure A1 program requirements), site control, and other requirements. The NOFA also sets forth criteria by which projects will be scored and ranked, including project readiness, percentage of leveraged funds, location attributes, income targeting, targeting to households with special needs or who are homeless, developer experience, and project energy efficiency measures. Lastly, the NOFA discloses the City's financing guidelines, loan terms, applicable state and federal requirements, and other City requirements. After review and ranking of projects submitted under the NOFA, staff will return with funding recommendations for Council approval.

BACKGROUND

On January 31, 2017, the City Council convened a work session to review housing affordability strategies and resources in Hayward and Alameda County. Council explored four major areas in depth and directed staff to pursue five specific strategies for further Council review and potential implementation. One of these strategies included the issuance of a NOFA for affordable rental housing development projects.

On December 12, 2017, after the Alameda County Board of Supervisors approved the rental housing development policies, Council held a work session to provide preliminary direction on the NOFA for affordable housing projects. The following criteria were discussed and recommended by Council:

- Project readiness;
- Leverage A1 and the City's funding with other sources of funding;
- Location attributes, which include proximity to major transit stops or other area amenities that will benefit the population served by the development;
- Serve the City's Housing Element-identified target populations (including households with special needs, 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;
- Income targeting to meet or exceed the A1-required units affordable to extremely low-income households 20% at 20% Area Median Income (AMI); and
- Additional Council priorities
 - Sustainability
 - Cost control
 - Innovative or unique projects

DISCUSSION

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 identifies eligible activities, threshold criteria, scoring criteria, financing guidelines, loan terms, funding source requirements, and other City requirements.

Eligible Activities

Eligible activities under this NOFA would include new construction of rental, supportive, or transitional affordable housing. Homeownership projects have been excluded as an eligible activity because homeownership projects will not require matching funds from the local jurisdictions to be eligible for Alameda County Measure A1 funds. Homeownership projects can apply directly to Alameda County for Measure A1 funding.

Threshold Criteria

Threshold criteria establish required project and developer attributes. Threshold criteria will include:

- Meeting developer experience as described in Attachment III;
- Conformance with Alameda County's Measure A1 policies for rental housing development per Attachment IV;
- Serving extremely low-income households to the extent that ensures the City's compliance with Measure A1 funding requirements (*at least 20% of the affordable units must have rents plus utility allowance of no more than 30% of 20% AMI*);
- Restricting a minimum of 30% of the units as affordable units to exceed affordable housing ordinance requirements;
- Projects with 10 units or more;
- Maximum City loan amount equal to the greater of the cost of planning and permit fees or 10% of total development costs of the affordable units;
- Maximum A1 funding loan amount per Attachment III including compliance with per unit subsidy limits;
- Site control;
- Holding a minimum of one community meeting to provide the community an opportunity to provide feedback on the proposed project; and
- Inclusion of documents necessary to determine project feasibility, for example, preliminary title report, environmental site assessment(s), project budgets and proforma, appraisal, evidence of demand or market study, development schedule, and preliminary sketches.

Scoring Criteria

Scoring criteria evaluate to which degree the project meets the City's established housing priorities. Higher scoring projects which incorporate more of the City's priorities, will be advanced in the development process. Scoring also allows the City to establish a list of the types of project attributes that will serve the needs of the community and allows the City to include priorities that are mutually exclusive, such as targeting housing for emancipated youth, and targeting housing for large families. Based on the criteria discussed at the December 12, 2017 work session, the following scoring criteria are recommended:

- **Readiness:** Readiness evaluates the degree to which the project has advanced through the discretionary public land use approval process, the degree to which it has obtained financing commitments from outside sources, and the degree to which it has secured partnerships with service providers.
- **Leveraging:** Leveraging evaluates the degree to which outside funding will be pursued. Projects that have identified sufficient funding to reduce the City's contribution to the project to the minimum required match under Measure A1 policies for rental housing will receive additional points.

- **Location:** Location evaluates the project's proximity to and availability of service amenities to future residents of the projects. These service amenities include proximity to public transportation and grocery stores.
- **Target Population and Project Attributes:** Target population and project attributes will evaluate the degree to which the project exceeds the minimum required number of extremely low-income units. These units are necessary to serve vulnerable target populations identified in the Housing Element. Additionally, projects will be evaluated on the degree to which the developer designates units and provides services for people with special needs and for permanent supportive housing units for the homeless. Lastly, projects will be evaluated on the degree to which they provide housing with two or more bedrooms to encourage the development of housing for large families.
- **Developer Experience and Capacity:** Developer experience and capacity will evaluate the degree to which a developer exceeds established threshold criteria and will evaluate the financial strength of the organization.
- **Sustainability:** The sustainability criteria will encourage projects to exceed the current green building and energy codes.
- **Innovation:** The innovation criteria will encourage projects to incorporate project attributes or services that are not typical in affordable housing developments. Developers will have to identify elements that make their project unique and innovative.

Attachment V provides a sample score sheet. The high number of points under the readiness category prioritizes projects that score well under the readiness category which means the City will advance projects that are closer to start of construction.

Project Costs and Comparative Analysis

In 2014, the California Department of Housing and Community Development (HCD) released the California Affordable Housing Cost Study. The report concluded that there were multiple factors on the state, local, and developer level that could influence cost yet cautioned that implementing some cost saving measures can have trade-offs. For example, on the development level, building to lower quality and building standards on the front end will increase maintenance and repair costs on the back end, making affordable housing more expensive to maintain in the long run.

Most affordable housing projects receive funding from a variety of sources, including local government, state government, private financing, and private investors. Each entity that contributes to the project will have its associated fees and costs that it recovers from the project. Additionally, local development requirements such as state or federal wage

requirements, project labor agreements, local hire requirements, and apprenticeship requirements increase construction costs. Per the Measure A1 Rental Housing Development Fund Policies, projects will be subject to federal or state prevailing wage laws, local employment requirements, contracting with local businesses requirements, and if the project has 80 units or more, project labor agreements. These requirements will provide additional community benefit but also increase project costs. Additionally, private lenders may require capitalized reserves for projects that target vulnerable populations to mitigate risk of default.

Because of the factors unique to affordable housing development, comparative analysis amongst NOFA applicants of both the project's development budget and operating budget, will be conducted to identify unusually high costs. Projects with costs above 15 percent of the median development cost per unit, per bedroom, or per square foot for similar projects, must provide additional justification for the cost.

Loan Terms

Loans will be provided at a simple interest rate of three percent per annum, for a term of 55 years. Payments of interest and principal will be due from excess cash flow from operations after payment of operating costs, senior debt, reserves, and deferred developer fees. To the extent payments cannot be made, they will be deferred for the term of the loan. All loans are due on sale, refinancing, transfer (except to a related entity, such as a limited partnership, subject to City approval) or at the end of the 55-year term.

City loans will be evidenced by a promissory note secured by a deed of trust on the project. A loan agreement will specify all development obligations. Post-occupancy use restrictions will be enforced through a regulatory agreement recorded against the project, including both the land and the improvements. The minimum term for affordability restrictions is 55 years.

ECONOMIC IMPACT

Developers will leverage the City's investment in their project to secure funding from the County, the State, and private sources. Based on the proposed NOFA criteria, developers will have to secure 90% of their total development costs from outside sources, securing a \$9 investment for every dollar invested by 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 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

There is no fiscal impact associated with this item. At this time, staff is only requesting authority to issue the NOFA.

This NOFA will identify projects that are both eligible for the City's affordable housing funds and Alameda County A1 funds. Staff will return to Council with recommendations to award City affordable housing funds to top ranking projects identified through the NOFA, making them eligible for Alameda County A1 funds. Concurrently, staff will return to Council for approval of projects to receive Alameda County A1 funds from the City's base allocation. Once the City has committed local matching funds and identified projects for the City's base allocation, each project will have to apply to the County to receive funding from the base allocation. However, this process is non-competitive, and projects will only be reviewed for compliance with the County's policies.

Through the NOFA, projects will be encouraged to leverage other affordable housing funds reducing the need for City affordable housing funds and enabling the City to fund more projects that can compete for the Alameda County Measure A1 regional pool. Projects that request only the minimum required matching funds from the City will be awarded additional points; however, because project feasibility is also a concern, each project can request up to 10 percent of the total development costs from City affordable housing funds. Depending on the other financing involved in the project, the developer can request between 30 percent and 40 percent of the total development costs from the County subject to a per unit subsidy limit. Between the City and the County, projects can request up to 40 to 50 percent of the total development costs.

Based on the projects identified in the December 12, 2017 work session, projects in the pipeline will need subsidies from the City's affordable housing funds and Alameda County Measure A1 funds ranging from 28% to 47% of the total development costs. The total gap exceeds \$60 million. Staff is also aware of at least one other project that would attempt to apply for funds under the City's NOFA but the required subsidy is unknown at this time. To bridge this gap, the City will have to utilize its affordable housing money to leverage not only the City's base allocation but also the regional pool funds. Based on project readiness and application deadlines for other funding sources, staff will also provide Council with funding option scenarios that consider either approving projects for funding from the City's base allocation or propose that the projects compete for regional pool funds.

STRATEGIC INITIATIVES

The identification of potential projects for Measure A1 funding 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

Projects that exceed the current green building and energy codes will receive points under the NOFA scoring system which will promote exceeding local codes. To qualify for points, projects must analyze the ways the project exceeds current standards.

PUBLIC CONTACT

Under the NOFA, developers will be required to provide a community outreach plan and hold at least one community meeting to provide the community an opportunity to provide feedback on the proposed project. Housing proposals often encounter concerns and opposition. Under the NOFA, applicants need to host a forum for community engagement, draft a plan for addressing concerns that may be identified, and document community support.

NEXT STEPS

Staff is compiling a distribution list of affordable housing developers, affordable housing advocates and market rate developers to notify regarding the release of the NOFA. Any interested party is encouraged to contact the Housing Division to be added to the distribution lists. Organizations will be notified by mail and by email with instructions on how to obtain a copy of the NOFA, application forms, and information regarding the bidder's conference. The NOFA and applications forms will be made available online.

The timeline for the NOFA is dependent on the deadline for submission of applications for Alameda County Measure A1 Mid County Regional Pool Request for Proposal (RFP). It is anticipated that the County's RFP will be issued in the summer of 2018.

The following is a tentative timeline for the NOFA:

Release NOFA	April 15, 2018
Deadline for submission	May 31, 2018
Complete project review and ranking	June 30, 2018
Return to Council for funding approvals	July 24, 2018

The proposed timeline is subject to change based on the submission deadline for Alameda County Measure A1 Mid County Regional Pool Request for Proposals. If the submission deadline is later in the summer, then additional time will be provided to project proponents for application preparation and for application review.

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