



DATE: November 15, 2016
TO: Mayor and City Council
FROM: Director of Library and Community Services
SUBJECT

Review of Affordable Housing Resources and Strategies in Hayward

RECOMMENDATION

That Council reviews and comments on this report.

BACKGROUND

Council has held multiple 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. Recent discussions include: a work session to discuss affordable housing and strategies to prevent homelessness (3/22/2016)¹; two work sessions to discuss the formulation of the Alameda County General Obligation Bond for Affordable Housing Measure A1 (5/17/2016 and 10/18/2016)²; and a discussion within the context of a legislative item regarding the approval of an increase of the Affordable Housing Ordinance impact fees (10/18/2016).³

As explained in the [staff report for the March 22, 2016 work session](#), the issues of homelessness and housing security are complex, difficult, and intertwined. Addressing these issues is a multilayered and multi-faceted endeavor with no simple answers. For these reasons, multiple departments and programs of the City are involved with the promotion of quality housing opportunities in the City. The City of Hayward's affordable housing strategies and programs may be grouped in four broad areas:

1. Anti-displacement. Strategies and programs to prevent displacement of current residents from their homes, especially the most vulnerable sectors of the community.

¹ The report associated with this Work Session may be found at: [CITY OF HAYWARD - Meeting of City Council on 3/22/2016 at 7:00 PM](#) – see item # 7

² These reports may be found at: [CITY OF HAYWARD - Meeting of City Council on 5/17/2016 at 7:00 PM](#) – see item # WS 16-034 and at: [CITY OF HAYWARD - Meeting of City Council on 10/18/2016 at 7:00 PM](#) – see item # 11

³ This report may be found at: [CITY OF HAYWARD - Meeting of City Council on 10/18/2016 at 7:00 PM](#) – see item # 12

This includes fair housing activities such as tenant/landlord mediation and anti-discrimination programs, and local regulations such as the rent stabilization ordinance administered by the City Attorney's office;

2. Regulation and land use policies. Local regulatory or planning strategies aimed at expediting or incentivizing the construction and preservation of housing such as the density bonus, implemented by the Development Services Department;
3. Preservation and rehabilitation. Programs to help preserve and upgrade the existing stock of housing such as the Brace and Bolt Program, which helps lower income homeowners stay in their homes, and the Rental Inspection Program; and
4. Acquisition and construction. Programs aimed at creating new long-term deed-restricted affordable housing units, including the acquisition, new construction, preservation, and rehabilitation of both homeownership and rental housing (both permanent and transitional).

All of the above programs require investment of City resources. However, the acquisition and construction of new permanent affordable housing units is the undertaking that requires the largest amount of financial investment for reasons further explained later in this report.

Per the request of Council during recent discussions on affordable housing, this report focuses on the available resources for the *acquisition and construction* of new affordable housing units and promotion of new permanent affordable housing opportunities for local residents (#4, above).

This report does not focus on *anti-displacement* strategies (with the understanding that the availability of more affordable housing helps lower-income residents stay housed), nor does it address *land-use policies* to incentivize the production of housing, nor does it discuss the development of *transitional housing*, nor does it discuss the *preservation and rehabilitation* of the existing market-rate owner-occupied or rental housing stock in the City.

These strategies and programs, while important, are beyond the scope of this report, which is primarily focused on the current City of Hayward resources and strategies for development of permanent affordable housing units. Staff will bring back future reports to discuss the other areas above and how the City might begin to address them.

DISCUSSION

I. Current Resources:

The following are the current sources of funding available for the creation of new permanent affordable housing in Hayward:

- a) *Affordable Housing Ordinance Trust Fund*

On January 27, 2015, Council approved an Affordable Housing Ordinance (AHO)⁴ which, like the former Inclusionary Housing Ordinance (IHO), applies to both for-sale and rental residential developments consisting of twenty or more units.⁵ At the same time, Council also approved a resolution establishing the AHO Impact Fees which, unlike the IHO in-lieu fees, are to be based on the square footage of the proposed projects' livable spaces.

Pursuant to the AHO, developers of **for-sale** residential developments may comply with the AHO requirements in various ways, including: paying the AHO Impact Fees; including on-site for-sale affordable units; or proposing other alternatives that would mitigate the affordable housing impact of the proposed residential development project.

All new **rental** projects with twenty or more units are required to pay the AHO Impact Fees, calculated in the same manner as the fees for for-sale developments. No affordable units are required to be included in any rental residential project that does not receive City assistance as described in § 10-17.310 of the AHO. However, as an alternative to paying AHO Impact Fees or providing for-sale units for for-sale residential projects, an applicant may propose to provide 7.5% of attached dwelling units and 10% of detached dwelling units as affordable rental units.⁶

Since Council's adoption of the Interim Relief Ordinance at the end of 2010⁷ which allowed developers to pay the fees by right, all residential developers subject to the affordable requirements have chosen to pay in-lieu and affordable housing impact fees. To date, the balance of the fees is approximately \$3.3 million. These funds have been received for the most part during the last eighteen months and have been deposited in the City's AHO Trust Fund (Fund #285). The use of the fees for a specific project is subject to Council approval but must be used to create new long-term affordable permanent homes that benefit very low-, low-, and moderate-income workers subject to long-term restrictions.

b) Housing Authority Fund

As part of the elimination of Redevelopment Agency, in 2011 the City Council elected for the City not to retain the housing assets and functions previously performed by the former City of Hayward Redevelopment Agency (the "former RDA"). Instead, Council designated the Housing Authority (the "Authority") to serve as the successor housing agency pursuant to the Health and Safety Code Section 34176(b)(3) effective February 1, 2012. In doing so, the Authority accepted all rights, powers, duties, obligations, and housing assets, with specified exceptions, of the former RDA. This designation of the until-then-dormant

⁴ This report may be found at: [CITY OF HAYWARD - Meeting of City Council on 1/27/2015](#) – See item # 11

⁵ A copy of the Affordable Housing Ordinance is available online at: http://www.hayward-ca.gov/sites/default/files/documents/CHI0A17_eff033115.pdf

⁶ If this option is chosen, 50% of those units must be made available at affordable rents to low-income households and 50% at affordable rents to very low-income households for a minimum of 55 years.

⁷ [Inclusionary Housing Interim Relief Ordinance - Laserfiche WebLink](#) – See item #16

Authority as “Hayward’s Housing Successor Agency” to the former RDA permitted the City to retain the former RDA housing assets.

California State Assembly Bill (AB) AB 1484, an amendment to AB 1x 26 (together the “Dissolution Statutes”), which dictated and regulated the elimination of Redevelopment, did not provide a stream of income to sustain the activities of housing successor agencies. However, they allowed the Authority (as housing successor) to receive all repayments on loans made by the Former RDA to affordable housing projects throughout the City. The Dissolution Statutes also allowed the Authority to receive repayments of amounts borrowed from the former RDA’s Low and Moderate-Income (Low-Mod) Housing Fund.

In FY 09/10 and FY 10/11, the City’s former RDA borrowed moneys from the Low-Mod funding balances totaling approximately \$3.9 million to make the State-mandated SERAF⁸ payments. The State has now repaid all the SERAF loans and, in absence of the former RDA, they were remitted directly to the Authority.

Payments of outstanding loans from affordable housing projects and from participants of the original First-Time Homebuyers’ Down Payment Assistance Program (FTHB DAP) are also being repaid to the Authority.

As of the date of this report, the Authority has an uncommitted project-related fund balance of approximately \$4.5 million mostly from recent loan repayments, including FTHB DAP and the SERAF loans. Consistent with laws governing the use of Low-Mod funding, a 10% allowance has been set aside to pay for the operations of the Authority.

c) HOME Investment Partnerships Fund

Since 1991, the City of Hayward has been part of the Alameda County HOME Consortium (Consortium), which includes unincorporated Alameda County and the cities of Alameda, Fremont, Livermore, Pleasanton, San Leandro, and Union City. Hayward’s participation in the Consortium has assured the City an allocation of federal HOME Investment Partnership (HOME) funds since FY 1992.

The City’s participation in the Consortium not only ensures an annual allocation of HOME funds but also alleviates the administrative burden of the funds. As the representative of the Consortium, the County of Alameda Department of Housing and Community Development acts as the lead member for administrative and federal reporting purposes and coordinates the production of the Consolidated Annual Performance and Evaluation Report (CAPER) required by HUD. Several other reporting activities are also carried out in a joint effort by the participating jurisdictions.

HOME funds must be used for HOME-eligible housing-assistance activities, including acquiring, rehabilitating, and constructing high-quality, sustainable housing affordable to

⁸ *AB 26 x4-mandated Supplemental Educational Revenue Augmentation Fund (SERAF) payments required of redevelopment agencies to fund school districts and the county office of education.*

low-income households (those earning incomes at or below 80% of the area median income (AMI))⁹ adjusted for household size, as well as providing homebuyer and tenant-based rental assistance.

In previous years, HOME funds were used to help finance the construction of the Glenn Berry and Sara Conner Court Apartments, the rehabilitation of Huntwood Commons and Tennyson Gardens Apartments, the acquisition and rehabilitation of Leidig Court Apartments, and the acquisition of Cypress Glen Apartments. Most recently, HOME funded-projects include Weinreb Place, aka Hayward Senior Housing II senior complex, and the South Hayward BART affordable housing project, now named Alta Mira Apartments. Long-term affordability covenants have been recorded on all these properties to ensure they benefit local income-eligible households for generations to come. Since 2009, funds have also been set aside to pay for rental subsidies for participants of Project Independence, a program that provides supportive services and rental subsidies to emancipated youth (youth from 18 to 24 who have aged out of the foster care system).

Despite its significant reduction by the federal government, HOME funding continues to be critical to further the City’s goal of providing quality affordable housing and preventing homelessness to the extent that it must be used to acquire, rehabilitate, and construct long-term deed-restricted affordable housing and to provide rental subsidies to at-risk households. Hayward’s available uncommitted balance from its federal FY 16/17 (October 1st, 2016 to September 30, 2017) HOME allocation is \$183,057.

In sum, the following are the current balances of the City of Hayward funding sources for permanent affordable housing development in Hayward:

Table A: Current Balances of City of Hayward (COH) Affordable Housing Funds

| | |
|--|---------------------|
| Housing Authority | \$ 4,493,973 |
| Inclusionary/Affordable Housing Ordinance Trust Fund | \$ 3,311,863 |
| HOME Investment Partnership Funds | \$ 183,058 |
| Total Available COH Funding for Affordable Projects | \$ 7,988,893 |

The above table summarizes only the City of Hayward funding sources; however, it should be noted that a significant new County funding source was approved by Alameda County voters last week: the Alameda County Housing Bond.

d) Alameda County Housing Bond (New)

On November 8, 2016, Alameda County voters approved a \$580 million County-Wide General Obligation (GO) Bond issuance to generate revenues for affordable housing-related programs and projects in jurisdictions throughout Alameda County. This is a

⁹ As of the date of this report, the 80% figure in Alameda County for a family of four is \$71,600.

major, significant new resource. The GO Bond will dramatically improve Hayward's ability to develop new affordable housing units, especially rental housing.

The GO Bond includes a base allocation of \$20.3 million to the City of Hayward for affordable rental housing development in Hayward. It also includes a \$49.8 million regional funding pool for affordable rental housing development in the mid-County region of which Hayward is a part. The GO Bond's primary focus is to create permanent affordable rental housing units; however, bond language allows the option for jurisdictions to set aside a portion of their allocations for the creation of crisis/transitional housing.

The GO Bond also includes \$120 million for new County-wide affordable home ownership programs such as a down payment assistance program, a home preservation program, and a homeowner housing development program. An additional \$35 million will be placed in a County-wide pool for innovation projects and opportunities including anti-displacement projects.

Council held a work session on October 18, 2016¹⁰ in which the details of the GO Bond were discussed in detail. The report can be accessed at [this link](#).

II. Average Cost Per Long-Term Deed-Restricted Affordable Unit:

As mentioned in the background section of this report, all the City-sponsored projects and programs aimed at addressing housing needs of the local residents require varying levels of investment of City resources. The creation of new permanent homes subject to long-term affordability restrictions is the activity that requires the largest amount of financial investment because of:

- a) high land values and high labor costs in the area;
- b) high construction and environmental standards required of affordable housing developments;
- c) long-term affordability restrictions;
- d) high transactional costs due to the layering of multiple sources of funding and related highly-complex funding applications; and
- e) other requirements such as the requirement to provide amenities and services to the residents.

The socio-economic benefits of new affordable housing are endless. The benefits of the housing developments supported by the City and affordable housing in general has been discussed at length in each affordable housing-related report, particularly in the economic and fiscal impact sections of those reports. To provide a recent example, the South Hayward BART project helped the City achieve the following benefits:

¹⁰ This report may be found at: [CITY OF HAYWARD - Meeting of City Council on 10/18/2016 – See item #11](#)

- Smart growth & sustainability: The South Hayward BART development provides market rate and affordable housing with a mix of uses that will encourage and enable residents from the development and the surrounding community to access mass transit and shop on foot – helping reduce auto dependency and greenhouse gas emissions.
- Leveraging existing infrastructure & efficient land use: By intensifying the housing and retail development at this BART station, the region will enjoy a greater return on its existing transportation infrastructure and can avoid the need for additional transportation investments.
- Economic development: The South Hayward BART project resulted in over \$120 million dollars of direct investment in Hayward that generated over 250 high quality construction, design and engineering services jobs, and over 65 ongoing, permanent jobs, all of which help drive the local economy.
- Affordable housing: The development included 151 units of critically needed affordable housing to working families and low-income seniors in a location with superior mobility and access to employment across the region.

With these and many other benefits in mind, the efforts to contain the costs of affordable housing has been central in the discussion of affordable housing-related issues for a few years now. However, no definitive solution has been found as of yet. A recent survey of Eden Housing’s most recent developments indicates that the cost of building a new affordable housing in the area can be as high as \$479,000. A recent survey of the Alameda County Department of Housing and Community Development suggests that the per-unit costs can be much higher (some at over \$600,000). In Hayward, the approximate per-unit cost of the two most recent developments, Weinreb Place (at B & Grand) and the South Hayward BART project was \$436,000 and \$347,000, respectively.

Within the last ten years, Hayward has funded and facilitated seven (7) new affordable housing developments (some as new construction and some as acquisition-rehab) containing approximately 383 homes for an equal number of families and 82 homes for seniors. Although a local financial contribution between 10% and 20% of the project’s total development costs (TDC) to fund the projects’ funding gap is customary, that final contribution is a reflection of the project’s characteristics and the City’s recognition of the goals furthered by those projects, as illustrated above. For example, the City’s financial contribution to those projects has ranged between \$325,000 for the 16-unit Leidig Court to approximately \$7 million for the 151-unit South Hayward BART project. The *per-unit contribution* has ranged between \$8,450 for the 60-unit C & Grand Senior Housing development to almost \$115,000 for the 57-unit Sara Conner Court project.

As a percentage of the total development costs (TDC), the City’s financial contribution has been 10%, on average, with the exception of Sara Conner Court, where the City’s financial contribution was close to 32% of the project’s TDC. However, in addition to or instead of

direct financial contribution, the City, in some cases, has facilitated the projects by allowing market-rate developers to comply with the former IHO obligations by providing financing and/or the land to the developer (in most cases Eden Housing, Inc. (Eden)). To further enhance their feasibility, the City has also issued Tax-Exempt Multifamily Housing Revenue Bonds (the “Bonds”) for those projects.

In sum, the City’s financial contribution to each new affordable housing development built in the City during the last ten years has varied because: a) the costs to build an affordable home varies depending on factors unique to each project; b) the investment of other City resources have also been factored in the project’s financing; and c) more importantly, the City has recognized the importance of furthering its goals and priorities through its financial investment in those projects.

III. One Time and Contingent Sources Funding

Prior to describing the projects and programs that staff may bring forward for Council review and potential approval, it is important to clarify the following features of the available local sources of funding:

- a) the Authority funding balance is by no means a permanent source; the moneys available are mostly from one-time repayments of loans to the former RDA;
- b) the AHO Trust Fund’s growth is contingent upon residential construction; and
- c) currently, there is no indication that the federal government will increase or continue the appropriation of funding for the HOME program; in fact, according to budget analysts, the federal government intends to eliminate the program.

Therefore, with its existing funding balances (see table A), assuming that no new permanent source of affordable housing is available and that the City’s contribution to upcoming affordable housing proposals is 10% of TDCs for rental units with a \$350,000 per-unit average development cost, the City could potentially facilitate the development of a *maximum* of about 225 new affordable homes.

IV. Proposed Uses: Recommended and Potential Developments

The following are potential projects or programs that staff may bring forward within the next year for Council review and approval of funding:

a) Additional Funding for the 10-unit Sequoia Grove (aka A & Walnut) Affordable Homeownership Development by Habitat for Humanity East/Bay Silicon Valley.

In June of 2009, the Former RDA used 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 East/Bay Silicon Valley (Habitat) for the

development of the Site and to submit an application to the State Department of Housing and Community Development (“HCD”) for funding under the Building Equity and Growth in Neighborhoods (“BEGIN”). However, at the end of June 2011, the Governor of California approved the State Budget for FY 2011/12, and signed a number of implementing trailer bills including the ABx1 26 and ABx1 27 (the “Voluntary Program Act”). Pursuant to the dissolution process initiated by this legislation, the State’s Department of Finance (DOF) initiated the review of all the RDAs assets throughout the State.

During DOF’s review of the former RDA assets, the agency was not able to grant Habitat control of the Site. In addition to this, DOF questioned the legitimacy of the Site as a housing asset although its acquisition by the former RDA with Low-Mod Funds for affordable housing purposes was clearly documented. Finally, the Low-Mod funding balances of the former RDA not committed by the effective date of the dissolution were clawed back. This meant that the City was not able to commit any Low-Mod funding to fill the project’s financial gap. As a result, the Project experienced a delay of over two years.

The City and Habitat continued working towards securing funding for the Project and negotiating the DDA because legal counsel and staff were confident that the Property would be recognized as a legitimate housing asset because it was originally acquired with Low-Mod funds. Thus, early in 2012, Habitat obtained a \$600,000 allocation of CalHome funds and later in 2012, the City obtained a \$460,000 allocation of BEGIN funds, both from State HCD to assist the homebuyers with down-payment assistance in the form of deferred loans. Habitat’s Board of Directors also adopted a resolution with a pledge to fundraise funds and materials for the project.

The final housing asset determination by DOF acknowledging the legitimacy of the Site as housing asset did not provide the project the green light because zero funding was available to fund this or any other affordable housing as Low-Mod funding balances of the former RDA not committed by the effective date of the dissolution were clawed back.

It was not until the Authority received the first SERAF repayment that Council took the actions necessary to reinstate the development of the Site. Thus, on June 24, 2014, Council approved a \$600,000 loan of Authority funds for the project and, consequently, authorized staff to initiate the negotiation of a Disposition, Development, and Development Loan Agreement (“DDLA” as opposed to a DDA).

City staff and Habitat have been diligent in pursuing the development of this critically needed project since. 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) have represented new and complex financing challenges to the projects as follows:

- 1) An increase in constructions costs. Construction costs since Council approval of the \$600,000 loan in the summer of 2014, have gone up. The increase in the project's overall budget attributable to construction costs increases is estimated at over \$1,600,000.
- 2) The imminent loss of CalHOME funds. As Council is aware, due to the project delays, the project was at risk of losing its \$460,000 State HCD BEGIN allocation but thanks to introduction of a special budget bill by the State legislature (facilitated by the office Assembly Member Bill Quirk), the City was able to obtain an extension until June 2018 to utilize the funds. However, the contract deadline for the State HCD \$600,000 CalHOME allocation (to Habitat, not the City) will expire on January 2017. The State has firmly and clearly expressed its unwillingness to extend the contract deadline. Thus, these monies will no longer be available for the project.
- 3) The additional project costs due to the Site's contamination. As part of the City's development review, Habitat was required to conduct additional tests to determine the Site's environmental condition. Unfortunately, results from the analysis of the soil samples indicated contamination of the Site. Currently, Habitat is working with the U.S. Department of Toxic Substances Control ("DTSC") which has provided Habitat a \$60,000 grant to conduct the characterization of the Site's contamination. Habitat could then request a grant for the actual cleanup whose costs are estimated to be over \$500,000. However, DTSC's slow timeline for the application, contract execution, and cleanup work would add a year or more to the project completion which would, once again, jeopardize the BEGIN funds.

In order to meet the BEGIN funding and other deadlines and make the project happen, the City or Authority would have to provide additional funding for the project. Habitat has proposed to modify the affordability mix of the properties so five of the ten homes are sold moderate-income households¹¹ and the other five to low-income households. This would significantly reduce the new funding gap. Staff believes that this is a reasonable solution but, for this to be possible, the funding would have to be substituted because Authority funds cannot be used for moderate-income households anymore. Naturally, the only other source of funding that would allow this would be the AHO Trust fund. The scenario supported and recommended by staff would only require an additional (to the already \$600,000 committed funds) City contribution of approximately \$1,070,900. Therefore, the total local contribution for the project, not including the land donation, would total \$ 1,670,900 or \$167,090 per unit. This represents a 25% contribution towards the project's TDC.

Staff is planning to bring forward an item before the end of 2016 for approval of the substitution of the funding for the project (from Authority to AHO Trust funds), the approval of additional funding, and the authorization to amend the DDLA in order to modify the project's unit affordability mix.

¹¹ Households earnings up to 120% of AMI. As of the date of this report, the 120 % figure in Alameda County for a family of four is \$112,300.

b) The Rehabilitation of Tennyson Gardens and the Acquisition and Rehabilitation of Faith Manor.

In an effort to help revitalize a community in decline due to crime and other blighting conditions in the Tennyson corridor, in 1999, Glad Tidings Community Development Corporation (“GT CDC”) ¹² purchased some properties in the area, including Faith Manor Apartments, a residential complex built in 1966, consisting of sixty-two (62) apartments (the “Property”). Faith Manor is located at 971-1001 Forselles Way and 27601 Tyrell Avenue in Hayward. There are twenty-five (25) two-bedroom and thirty-seven (37) three-bedroom apartments in the Property.

Since its acquisition, GT CDC offered the apartments in the Property at relatively affordable rents. In the meantime, the Property’s systems have reached the end of their useful life and the Property in general is in need of a substantial rehabilitation. However, offering the apartments at affordable levels without any financing (other than the income from the rents) did not allow GT CDC to perform the required improvements. For this reason, GT CDC decided to pursue substantial rehabilitation of the Property utilizing Low-Income Housing Tax Credits (LIHTC) and Bonds and, to this end, requested that Council hold a public hearing for the issuance of the Bonds, which Council conducted early in 2014.¹³

GT CDC was successful in both its application for LIHTC’s and Bonds. However, due to its inability to demonstrate previous capacity, GT CDC was not able to attract a LIHTC equity investor in the project. Not being able to proceed with the major rehabilitation of the Property while experiencing cost overruns, GT CDC approached Eden to inquire about its interest in acquiring the Property to turn it into permanent, deed-restricted housing affordable to low- and very low-income families.

Eden recently purchased the Property from GT CDC and is planning to address the much-needed rehabilitation needs of the Property to ensure its viability and to turn it into a long-term affordable housing asset. To this end, assuming the rehabilitation is financed with LIHTC’s and Bonds, Eden approached staff and made an initial request to fill a funding gap of approximately \$4.5 million. However, due to the staff’s hesitation to recommend to Council a project proposal that would require such large amount of funding – given the City’s finite affordable housing balances, Eden has proposed to finance the rehabilitation of Faith Manor along with the resyndication and substantial rehabilitation of the next-door, 96-unit Tennyson Gardens affordable rental complex (located at 981 W. Tennyson Road -west of Tyrrell Avenue).

Eden estimates that the rehabilitation of both properties (the “Project”) would allow economies of scale and raise enough LIHTC equity and other funds to reduce the City’s

¹² GT CDC is a community development corporation founded by Glad Tidings Church of God in Christ in 1992 under the leadership of Bishop JW Macklin.

¹³ This report may be found at: [CITY OF HAYWARD - Meeting of City Council on 4/15/2014](#) – See item # 7

investment to \$2.5 million. To a lesser extent, the estimated reduction of the City's funding contribution is due to the fact, that although Tennyson Gardens is also in need a major overhaul, in 2009, Eden, in partnership with the City, acquired the property from Preservation Partners (the previous owner, who was experiencing cost overruns), addressed some immediate improvements, and enhanced the property management. Therefore, the relatively better condition of Tennyson Gardens will financially benefit Faith Manor and will reduce the required City contribution for the Project that would otherwise be required if Faith Manor's rehabilitation were to be undertaken separately.

Staff will provide more detailed information about the Project, including the proposed financing, when Eden is ready to undertake the rehabilitation of the Project. Eden staff estimates that this will take place during the first quarter of 2018.

c) New Construction of Twenty Ownership Homes by Habitat on City-Owned Property at Harder and I-92

Habitat recently submitted a preliminary proposal to partner with the City to develop a new affordable homeownership development of approximately twenty (20) 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's proposal calls for the development of ten (50%) homes affordable to moderate-income households and ten homes (50%) affordable to low-income households, including three-bedroom and four-bedroom homes ranging from approximately 1,200 to 1,400 square feet. This development will allow Habitat to take a vacant parcel of land in the City and convert it into a vibrant affordable for-sale housing project that will enhance the surrounding community. The proposed two-story buildings will act as a buffer between the commercial plaza and the neighboring, existing single-family homes. Like the Sequoia Grove project (at A & Walnut), the proposed development will feature a common area with open space, a central trash area, and surface parking spaces.

Habitat is currently conducting several studies to determine the feasibility of developing the Potential Site, as current site conditions may render the development cost prohibitive. These issues include its proximity to the freeway and to a established single-family detached residential neighborhood. The Potential Site is also used by trucks to access the next-door commercial plaza. Habitat's proposal assumes that the Potential Site is suitable for residential use and that environmental contamination does not exist at the site. However, given that the Potential Site has been vacant for several years, it is likely to have contamination issues. However, the most challenging aspect of the Potential Site is the intricate web of wet and dry underground and overhead utilities running through the Property; these utilities must be relocated in

order to allow for new buildings to be developed on the site, which can be a complicated and expensive undertaking.

Habitat intends to partially fund development costs 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 Authority, Habitat's proposal assumes a financial contribution of \$1.25 million to relocate the existing utilities and an additional \$1.3 million (an average of \$65,000 per unit) to fund a portion of the development costs. Thus, the total City contribution is estimated at \$2.55 million (an average of \$127,500 per unit) net of land.

If this development proposal is pursued, the City would have to donate the Potential Site as Habitat's proposal assumes such donation. Alternatively, the Authority would have to purchase the Potential Site from the City utilizing any of the sources of funding described in this report to later transfer it to Habitat for \$1. This represents an additional contribution from the City which cannot be quantified at the time as currently there is not an appraisal of the land. This would render the City's total investment at over \$3.55 million - assuming that the value of the land is at least \$1 million.

Habitat is aware of the finite nature of the City resources of the City and Authority at the moment. For this reason, Habitat will also look into the possibility of applying for funding from Proposition A1 funding which was approved by voters on November 8.

Staff anticipates that, if this development proposal is presented for Council review and approval, it would not be until the fall of 2017.

d) First-Time Homebuyer Down Payment Assistance Program (FTHB DAP or the "Program")

In the March 22, 2016 staff report cited above (see footnote No. 1), staff asked Council for authorization to reinstate the FTHB DAP on a pilot basis and to authorize the appropriation of \$1.5 million for a provisional two-year period. Council decided to table the discussion regarding the reinstatement of the FTHB DAP until a broader discussion regarding the available sources of funding for affordable housing was held. This report is intended to address Council's request. Accordingly, staff is also asking Council to weigh on staff's proposal and to direct staff, if Council chooses to, to bring the program funding for consideration in light its benefits and the success of the local program during its last iteration.

One may wonder why Hayward would reinstate its own FTHB DAP program if the County Measure A1 includes funds for a similar county-wide Down Payment Assistance Program. While eligible Hayward home buyers can and should apply for down payment assistance in the County Measure A1 program, with the increasing cost of homeownership in Hayward, it is likely that Hayward residents will need more down payment assistance than Measure A1 funds alone can provide or guarantee.

Furthermore, Measure A1 does not allocate Down Payment Assistance funds by jurisdiction – the County intends to place all these funds in a single, county-wide, first-come-first-served pool, operated by a third party administrator which the County would select through a Request for Proposals (RFP) process. This arrangement raises a concern that unless the City of Hayward actively encourages Hayward homebuyers to apply for down payment assistance and assists them (for example by providing local matching funds), there is a possibility that Hayward residents may receive an ultimately smaller share of the overall County-wide pool.

By reinstating Hayward’s FTHB DAP program, the City can achieve three important goals: 1) Ensure that Hayward home buyers have a locally-controlled pool of funds earmarked specifically for Hayward home buyers; 2) Provide matching funds and direct technical assistance to Hayward homebuyers who seek and compete for county Measure A1 down payment assistance, thus increasing their chances of receiving Measure A1 assistance; and, 3) Increase the likelihood that Hayward homebuyers will be competitive to receive an equitable share of the County-wide Measure A1 pool overall.

The FTHB DAP provides several benefits to Hayward residents:

- 1) The Program is a primary implementation strategy for achieving the City’s policy and the Housing Element’s goal of increasing the homeownership rate in Hayward (one of the lowest in Alameda County).
- 2) The Program fosters the City’s economic diversity and social integration as it allows low and moderate-income households to stay in Hayward and work here, or to afford living in different areas of Hayward where they would not be able to afford otherwise.
- 3) The Program will help increase home sales in Hayward which contributes to the local economic recovery through attracting consumers of goods and services to own homes in Hayward and increasing the local transfer and property tax base.

The last iteration of the local Program (the \$30,000 to \$40,000, 30-Year Loan with an initial five-year deferral period) was very successful. Over the almost four years the Program was active (until Redevelopment was eliminated), the City provided forty-four loans. Some of the loan recipients were low-income households and some were Caltrans tenants that used their stipend to purchase their 238-corridor rental homes. A high percentage of loan recipients (almost 48% or a total of twenty-one) have repaid their loans mostly through proceeds of refinances due in part to the relatively fast equity buildup allowed by the five-year deferral period of the Program loan. The loan deferral period has ended for most homeowners and the majority are making monthly loan payments on time. Additionally, although most of the loans were provided during the downturn of the economy, with one exception (in which the City recovered 99% of its investment), no other recipient of a “deferred” loan defaulted on his or her loan or lost his or her home to a foreclosure or short sale.

In light of its benefits and the extremely high rate success of the local Program (as measured by the proportion of repayments out of the total loans provided), staff will bring the reinstatement of the FTHB DAP during the first quarter of 2017, if directed by Council to do so, and recommend a funding allocation of \$1.5 million over two years to temporarily restore the Program for low-income households.

In March, staff recommended \$40,000 loans to low-income homeowners based on an analysis of the market conditions at the time by the organization that helps the City administer its homeownership programs. This assumed the layering of the mortgage financing and the City loan with other available funding or programs available for first-time homebuyers such as the \$15,000 forgivable WISH loan and the Mortgage Credit Certificates. If Council directs staff to bring the Program proposal forward, however, the loan amount recommended might change because: a) the update of the analysis of the market conditions might indicate that a different loan amount is necessary and b) the availability of Proposition A1 funding (again, if the measure is approved by the voters) might prompt staff to consider an alternative loan structure so the City loans could be provided to complement the Alameda County loans to Hayward buyers. Alternatively, the City and the Alameda County loans may be targeted at households at different income levels.

Table B contains a summary of the amount of funding requested by the developers and/or proposed to be funded by staff with the available funding balances as of the date of this report. The table also contains the estimated timeline for Council consideration if the projects or programs are brought forward.

Table B: Summary of Proposed and Potential Uses of Available Housing Funds

| | | |
|--|--------------|--------------------|
| Sequoia Grove Homeownership Project - Habitat | \$ 1,070,900 | 4th Quarter - 2016 |
| First-Time Homebuyer Down Payment Assistance Program | \$ 1,500,000 | 1st Quarter - 2016 |
| New Construction of Twenty Ownership Homes by Habitat on City-Owned property at Harder and I-92* | \$ 2,500,000 | 4th Quarter - 2017 |
| Resyndication and Rehabilitation of Tennyson Gardens and Rehabilitation of Faith Manor - Eden | \$ 2,500,000 | 1st Quarter - 2018 |
| Total: | \$ 7,570,900 | |
| <i>*Proposed amount does not factor in the donation of the Potential Site</i> | | |

Staff is requesting direction from Council on the desirability of funding these projects with the remaining affordable housing fund balances, which would only construct about 30 new affordable units total. However, the rehabilitation of Tennyson Gardens and Faith Manor would preserve 158 affordable units and make these units more livable and a better asset in the neighborhood. There are several new housing developments in the pipeline that will likely generate new AHO fees if they are ultimately constructed, replenishing a portion of the existing fund balance. In addition, the City will receive a baseline allocation of \$20.9 million and access to a \$49.8 million mid-County regional funding pool for affordable rental housing

construction as a result of the recently approved County Measure A1, further enhancing the City's ability to create new affordable units in the future.

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 the 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 that may potentially be funded with the sources of funding described in this report will help the City achieve these and other socio-economic benefits. The latter 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 sources of funds described in this report are special funds and, except for the HOME funds, which require a 25% match with non-federal funds, they do not do not require a local match. The 25% match contribution requirement of the HOME funding is met through the investment of other State funds or private equity from the LIHTC program in those projects as they usually require the layering of several sources of funding. Therefore, the use of Authority, HOME, or AHO Trust funds or the implementation of the projects subsidized with these funds does not have an impact on the City's General Fund. However, to the extent that affordable projects are not likely to compete for funding from other funding sources unless they include a local funding commitment, 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.

SUSTAINABILITY FEATURES

As mentioned in previous affordable housing-related reports, to the extent that bond proceeds will help Hayward affordable housing development proposals compete for and/or leverage other sources of funding, the bond proceeds would: a) help reduce area traffic impacts, and b) help the City to achieve other local sustainability goals. This is due to the fact that to be competitive for other sources of funding, affordable housing development proposals must be located near transit and include energy-efficient and sustainable features that exceed the applicable standards. Specific environmental benefits and sustainability features of proposed projects will be described upon review and approval 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 and approval.

NEXT STEPS

Table B in the discussion section of this report lists a proposed estimated timeline for Council consideration of the projects or programs described in this report if they are brought forward.

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