



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Leslye Corsiglia

SUBJECT: SEE BELOW

DATE: February 4, 2004

Approved

Date

COUNCIL DISTRICT: Citywide
SNI AREA: All

**SUBJECT: HOUSING PROGRAM FUNDING STRATEGY AND PROJECT
SELECTION SYSTEM FOR THE CITY'S AFFORDABLE HOUSING
DEVELOPMENT PROGRAM**

RECOMMENDATION

It is recommended that the City Council adopt a resolution:

1. Approving a strategy to provide for the ongoing funding of the City's affordable housing programs, including rental housing development, first-time homebuyer programs, and housing rehabilitation activities.
2. Approving project threshold criteria and a weighting system for scoring proposed developments upon which to base future funding-commitment recommendations for affordable housing development projects.

BACKGROUND

On March 25, 2003, the City Council approved a resolution authorizing the Director of Housing to proceed with funding certain affordable housing projects and, due to the uncertainties associated with anticipated tax increment receipts to be received by the 20% Low- and Moderate-Income Housing Fund, placing projects on hold and establishing a priority order for funding when monies were made available.

As of December 15, 2003, the Housing Department had placed 24 proposed projects, totaling approximately 3,400 units, "on hold" pending the identification of a source of revenue to make new funding commitments. The 24 projects include five where formal applications were filed in early 2003; these projects propose the development of a total of 692 affordable units.

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In the Mayor's June Budget Message, dated June 4, 2003, the Housing Department was directed to evaluate ways to expand the bonding capacity of the Low- and Moderate-Income Housing Fund in order to accelerate financial commitments for new affordable housing projects.

On December 9, 2003, the Redevelopment Agency successfully marketed \$120,000,000 in tax allocation bonds on very favorable terms.

ANALYSIS

1. Housing Department Funding Strategy

The City's program for funding the development of affordable housing is primarily financed by the sale of tax-allocation bonds (TABs) secured by the 20% Low- and Moderate-Income Housing Fund. As part of the Housing Department's program, the existing \$50 million Line of Credit with Bank of New York finances the day-to-day disbursement of funds to developers, which in turn is repaid from the proceeds of the sale of TABs. To date, the City has sold \$270,250,000 of TABs secured by the 20% Fund. An additional \$75 million of TABs will need to be issued early in FY 2004 - 2005 to pay back the line of credit draws and meet funding commitments already made for housing projects in the predevelopment or construction phases of development. Given the current level of tax increment funding for affordable housing, this additional \$75 million represents the balance of the capacity for future tax allocation obligations under the historic budgetary practices of the Housing Department.

In response to the direction from the Mayor and City Council in June to expand the bonding capacity of the 20% Fund, the Housing Department has evaluated its current funding sources and programs and recommends that the Mayor and Council adopt the following key funding strategies:

- Ensure that a variety of housing programs and activities are available to San Jose residents, but with funding caps.
- Reallocate funds to free up 20% Set-aside tax increment to increase the Housing Department's capacity to borrow to finance new housing production.
- Stress leveraging in order to reduce City subsidy.
- Direct available funds and programs to those with the greatest housing needs.
- Increase grantsmanship activity and seek other outside funding sources, including new permanent revenue sources for affordable housing production.
- Consider changes to loan portfolio administration to reduce administrative costs and potentially increase funding for new projects. Changes under consideration include

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selling components of the Housing Department's portfolio of loans, revising collection practices, and refinancing older loans.

- Stress non-monetary ways to increase housing production.
- Continue to defund positions and seek other ways to reduce Department administrative costs.
- Examine ways to more efficiently leverage 20% Set-Aside Funds.

The Department has identified certain budget modifications for FY 2004-2005 that will make available tax increment now used to fund the Housing Rehabilitation Program and the Teacher Housing Program (THP) to increase bonding capacity for new development projects. Specifically, the Housing Department intends to recommend that the FY 2004-05 Annual Consolidated Plan, prepared to meet the requirements of the U.S. Department of Housing and Urban Development, be amended to utilize a total of \$4,000,000 of the City's annual HOME Investment Partnership (HOME) Funds to fund these two programs. The Department intends to amend the Consolidated Plan to permit the use of HOME funds as follows:

Housing Rehabilitation Program:	\$3,000,000
Teacher Home Buyer Program:	\$1,000,000

In addition, the Department intends to seek additional outside funding for the Housing Rehabilitation Program, further reducing the amount of tax increment required to fund the program. It is anticipated that these modifications will increase the Department's bonding capacity by an estimated \$60,000,000. Housing Department staff, in coordination with Finance Department and City Attorney's Office, will explore options for issuing more tax-exempt tax allocations bonds through use of private activity volume cap allocation from CDLAC for the City's contribution to multifamily housing projects.

This increased bonding capacity will represent the final, major resources available from the 20% Low- and Moderate-Income Housing Fund for new development activity until such time as tax increment revenues grow, other revenues to the 20% Fund are received, or large loan repayments commence. Thus, new projects can be financed only as new funds become available.

Attachment A summarizes the total amount of funds that are expected to be available to each program and the expected number of households served or units assisted.

2. Proposed Project Selection Criteria

Before the downturn in tax-increment revenue, the Housing Department had sufficient resources to make funding commitments to a wide variety of development proposals. With the limited resources now available for funding new development, it is imperative that the City find ways to

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maximize the effectiveness of the estimated additional \$60 million of bonding capacity to provide housing assistance to the most households with the greatest needs and to meet other City policy goals. For this purpose, objective criteria for evaluating proposals are needed to ensure that the limited amount of funding will be committed to those projects which best meet the City's objectives for the affordable housing development program.

The Department's recommended selection criteria are designed to implement four overall principles:

- Competitiveness for Outside Funding Programs. The threshold and scoring criteria are based on those used by other major funding sources in order to maximize the likelihood that projects funded by the City will obtain their proposed outside sources of funds. The most substantial of these funding sources are the California Tax Credit Allocation Committee (TCAC), the California Debt Limit Allocation Committee (CDLAC) and the Multifamily Housing Program (MHP) administered by the California Department of Housing and Community Development.
- Highest Leverage/Least City Subsidy. The threshold and scoring criteria are designed to reward projects that minimize the per-unit subsidy amount required from the City, thereby maximizing the number of units that can be funded by the limited amount of available funding.
- Deepest Affordability. The threshold and scoring criteria are intended to ensure that the units that the City funds will be marketable with rents that are lower than unsubsidized apartments and that meet the City's adopted income-targeting goals.
- Timeliness. The threshold and scoring criteria are intended to ensure that projects can be developed on the shortest possible timeline, thereby contributing invaluable economic and employment activity to the community and helping meet the 6,000-unit goal in the Five-Year Housing Investment Plan for FY 2002-07.

The three elements of the proposed project selection criteria are set forth below.

Eligible Projects

The Department is recommending that three categories of rental housing development be eligible for the \$60 million of funding: family apartment projects; projects serving special needs populations (defined below); and SRO/studio apartment projects. These are the types of affordable housing development for which demand remains strong.

The Department is not recommending that rental housing for seniors or large, ownership housing developments be eligible for this funding. Senior apartment projects have recently been

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experiencing difficulties renting up. Until the senior-housing market has stabilized, it is premature to consider funding additional projects. For ownership housing, the Department is shifting its emphasis from funding large projects in which only a portion of the units are made affordable to one which targets small, infill sites appropriate for nonprofit, self-help and similar developers. The Department is also investigating an employer-assisted, ownership housing initiative.

Threshold Criteria

The Department is recommending that proposed housing developments meet minimum standards in order to be considered for a funding commitment. The proposed threshold criteria for projects are:

- Minimum of 55 years of affordability.
- Sponsor must have site control.
- Project must incorporate a high quality of design and amenities.
- Sponsor, or any related entity, must have never been in monetary default on a loan from the City and is current on all financial and compliance documentation.
- Must be competitive for other funding sources being proposed.
- Approval of a PD Rezoning (or an equivalent land use entitlement) and CEQA before funding will be recommended to the Council.

Scoring System

The Department is recommending a 100-point system for scoring project proposals. In order to be recommended for a funding commitment by the City Council, a project must score at least 70 points. Because many of the proposed criteria are inversely related (i.e. deeper affordability may result in increased per-unit subsidy, or larger units may increase cost, etc.), it is expected that successful projects will generally score at or near the 70-point threshold.

The maximum number of points is shown for each scoring category. The scoring categories are:

	<u>Points</u>
1. Per-Unit Subsidy	30
2. Affordability	20
3. Leverage with Outside Funding Sources	10
4. Points by Population Type (separate scoring for: large families; special needs housing; and SRO/studio apartments)	10
5. Excellence in Project Management (i.e., developer experience)	10
6. Meets Smart Growth Objectives	10
7. Sustainable Development/Green Building	5

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8. Project Involves Other Public Benefit	<u>5</u>
MAXIMUM POSSIBLE POINTS	100
Negative Points (i.e., point deductions) for sponsors with poor histories in affordable-housing project management	Up to 20

Project Selection Process

The Housing Department will make funds available under the proposed scoring system periodically through the publication of a Notice of Funding Availability (NOFA). The NOFA will include the selection criteria and weights, as well as the expected amount of funds to be made available. To the extent practicable, the Housing Department will publish NOFA announcements and establish submission deadlines on a schedule that provides developers with adequate opportunity to meet deadlines established by outside funders. The Department expects to publish the first NOFA announcing the availability of up to \$25 million as soon as possible following Council adoption of the proposed selection system.

Generally, the City's committed funding will not be disbursed for any purpose until all other sources of financing have been secured, thereby finalizing the financial structure of the deal. Should the developer be unable to secure its other financing commitments, the Housing Department will withdraw its commitment and make available any funds for other qualifying projects. For projects for which applications were previously filed and placed on hold, and for which land-purchase options are expiring in the near future, however, the Department will follow its past practice of financing land acquisition prior to the project securing all other sources of financing.

PUBLIC OUTREACH

The budget strategy and principles of the proposed project selection criteria have been reviewed with the Housing Advisory Commission and with members of the affordable housing development and advocacy communities.

COORDINATION

Preparation of this memorandum was coordinated with the Redevelopment Agency, the Finance Department, the Department of Planning, Building and Code Enforcement, and the Office of the City Attorney.

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COST IMPLICATIONS

The projects receiving funding commitments pursuant to the project selection criteria outlined in this report will be financed by a combination of the Housing Department's existing line of credit and the future sale of tax-allocation bonds secured by the 20% Low- and Moderate-Income Housing Fund.

CEQA

Not a project.

LESLYE CORSIGLIA

Director of Housing

Attachments

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