

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: FRANK KASIMOV, PROGRAM SPECIALIST II
HOUSING AND COMMUNITY SERVICES
SUBJECT: AFFORDABLE HOUSING INCENTIVE FUND PILOT PROGRAM
FUNDING RECOMMENDATIONS

AGENDA ACTION: RESOLUTIONS AND MOTION

RECOMMENDATION

It is recommended by the Housing and Community Services Department and the Planning and Economic Development Department that the Council approve the following actions to implement the Affordable Housing Incentive Fund Pilot Program in the total aggregate amount of \$3 million: (1) by four separate resolutions, conditionally commit \$1,134,552 for Acacia Village, \$895,448 for Benton Veterans Village, \$220,000 for Harris Place (formerly Comstock Place), and \$500,000 for Stonehouse Family Housing to assist the production of affordable rental and ownership housing; and (2) by motion, reserve \$250,000 for affordable housing or homeless services to address emerging needs.

EXECUTIVE SUMMARY

Faced with a significant housing shortage and prolonged financial and market effects of the recent recession, the City Council approved a Housing Action Plan that sets forth strategies to increase housing production and achieve a goal of Housing for All. As an early step in implementing the Housing Action Plan, the Council initiated the Affordable Housing Incentive Fund Pilot Program ("AHIFPP") funded with \$3 million from General Fund Reserves. The AHIFPP objective is to incentivize the production or preservation of the most affordable housing in the shortest timeframe, utilizing the least amount of City funds, targeted to the lowest income level for the longest time period.

The City received eight applications seeking all or part of the \$3 million in response to a Notice of Funding Availability ("NOFA"). Funding recommendations were made by a review team consisting of Vice-Mayor Tibbetts, Councilmember Rogers and staff from the Housing and Community Services Department ("HCS"), Planning and Economic Development Department ("PED") and the City Attorney's Office ("CAO").

The reviewers recommend that four applications receive funding consistent with the AHIFPP and the Housing Action Plan for a total of \$2,750,000 to incentivize development of 27 rental units, mostly for extremely low-income households, four ownership homes for low-income families, and 6 ownership homes for moderate-income families together with 19 market rate

homes for a total of 56 new housing units. It is recommended that the remaining \$250,000 be reserved for affordable housing or homeless services to address emerging needs.

BACKGROUND

The Housing Action Plan envisions a proactive and intensive engagement by the City in housing production in five programs:

Program 1 – Increase inclusionary affordable housing. This program includes seeking inclusionary units in for-sale housing projects and offering regulatory and financial incentives.

Program 2 – Achieve “affordability by design” in market-rate projects.

Program 3 – Assemble and offer public land for housing development.

Program 4 – Improve development readiness.

Program 5 – Increase affordable housing investment and partnerships.

In addition, the Housing Action plan calls for regulatory and procedural reforms that improve certainty and reduce barriers to housing production of all types.

The Financing Plan section of the Housing Action Plan states that the \$3 million funding will be used on a criteria-based competitive basis to incentivize developers to expand or deepen inclusionary housing units in their for-sale housing projects and other high-priority implementation efforts.

PRIOR CITY COUNCIL REVIEW

The Council conducted two study sessions in fall of 2015 to understand housing needs, to review existing housing programs and funding opportunities, and to identify new approaches to increasing housing supply. Following the two study sessions, the Council embarked on a six-part housing series in 2016, parallel with the creation of a new Housing Action Plan, to address how Santa Rosa can increase production, achieving a goal of “Housing for All.” The Council unanimously accepted the Housing Action Plan on June 7, 2016.

- *Study Session 1:* The October 20, 2015 Study Session defined affordable housing needs, documented current housing inventory, documented existing housing programs and funding and estimated the cost of achieving affordable housing production as set forth in the General Plan Housing Element.
- *Study Session 2:* The November 10, 2015 Study Session considered opportunities and actions to increase affordable housing supply, conserve and rehabilitate existing affordable housing, and provide direction regarding increasing affordable housing production. As the result of Council Direction, staff began work on a new Housing Action Plan to be completed by June 2016.
- *Reports 1 and 2:* On February 23, 2016, the Council received the first Housing Action Plan report regarding funding approaches to develop more housing in the community. The second report outlined improvements previously made and underway in the

Planning and Economic Development Department to facilitate housing production through changes to the development review process.

- *Reports 3 and 4:* On April 19, 2016, the Council received a report regarding developers' assessment of housing production in Santa Rosa and a report that outlined potential housing program initiatives. The Council directed refinement of the housing initiatives into the Housing Action Plan, including an organizational plan, an outreach plan, and a financial plan.
- *Report 5:* On June 7, 2016, the Council accepted the Housing Action Plan and authorized staff to prioritize an implementation work plan. The Housing Action Plan provides framework for a wide range of policy, operational, and funding reforms broken down into five program areas. Broadly, the Housing Action Plan seeks to maximize housing production within realistic fiscal commitments, and expand and incentivize housing related investments.
- *Report 6:* On November 1, 2016, the Council received the final report in the housing series, which focused on how new housing is a key component of the City's economic stability and prosperity; Housing Action Plan-related progress; Housing Action Plan implementation work plan; distribution plan for the \$3 million allotted to the Affordable Housing Incentive Fund Pilot Program; Housing Action Plan financing options; and an update on the Community Outreach Program.

On November 1, 2016, the City Council adopted Resolution No. 28878 approving initiation of an Affordable Housing Incentive Fund Pilot Program.

ANALYSIS

Santa Rosa faces a significant housing shortage, particularly housing available for moderate- and lower income families. This is attributable to a variety of conditions, including lingering effects of the recent recession and its impacts to the local building industry; a lag in the local housing market recovery; continued challenges in the credit markets affecting availability and cost of construction lending and more rigorous buyer mortgage qualification requirements; limited supply of land ready for development (due, in large measure, to federal and State endangered species habitat regulation and related mitigation requirements); and staff capacity constraints and related difficulties involved in obtaining development entitlements.

To increase housing production under these conditions, City Council unanimously accepted a Housing Action Plan with a goal of Housing for All. The Council also initiated the AHIFPP as an early step in implementing the Housing Action Plan funded with \$3 million from General Fund Reserves.

The AHIFPP objective is to incentivize the production or preservation of the most affordable housing in the shortest timeframe, utilizing the least amount of City funds, targeted to the lowest income level for the longest time period.

The City received eight applications (see attached locational graphic) in response to a NOFA (see attached) that was issued November 17, 2016. Funding recommendations were made by a review team consisting of Vice-Mayor Tibbetts, Councilmember Rogers and staff from HCS, PED and the CAO.

In summary, the eight applications represent:

- Over \$16 million in total in requests;
- 306 affordable units:
 - 176 new rental units (including manager units);
 - 9 new ownership units;
 - 1 rehabilitated ownership unit converted from market rate to affordable;
 - 120 rehabilitated existing affordable rental units; and
- 19 market rate ownership units
- Requests of 6 loans and 2 grants.

The reviewers recommend that four applications receive funding consistent with the AHIFPP and the Housing Action Plan for a total of \$2,750,000 to incentivize development of 27 rental units and 29 ownership units for a total of 56 new units. The affordability spans a range from extremely low-income households to above moderate-income households. The maximum income levels for restricted units are shown in Table 1 below.

The rental units will, in two separate projects, house homeless veterans and graduates of the Athena House treatment/recovery program. The ownership units will house households of varying incomes. The four selected applications earned a funding recommendation by meeting one or more objectives of the Housing Action Plan or the AHIFPP. In addition, each application is consistent with the Housing Element of Santa Rosa General Plan 2035. Table 2 below shows details of the four applications that are recommended for funding. All the projects are further described following Table 2.

The remaining \$250,000 may be reserved by the Council for emerging needs related to affordable housing and homeless services.

As Table 2 shows, all the rental units will be restricted for extremely low-income households, except one manager unit. That unit will be restricted for a low-income household. Four of the ownership units will be restricted for low-income households, and six ownership units will be available for moderate-income households. The six moderate-income ownership homes will be part of a larger development that includes 19 market rate homes. Some applicants will begin the pre-development and financing process with the AHIFPP funds, which will leverage other funding. For other applicants, the AHIFPP funds provide the gap funding necessary to begin construction in fall 2017

Table 1: Maximum Housing Income / Rent for Restricted Units

Type	Maximum Household Income / Rent
Extremely Low-Income Households	30% of Area Median Income ("AMI")
Very Low-Income Households	50% AMI
Low-Income Households	80% AMI / Rent at 60% AMI
Moderate-Income Households	120% AMI

Note that actual amounts vary with household size and number of bedrooms.

Table 2: AHIFPP Funding Recommendations

Project Name	Funding Amount / Type	Applicant	Location / Quadrant	Type & Affordability	Development Stage	Anticipated Construction Start / End
Acacia Village	\$1,134,552 / Grant*	Campus Properties, LLC	746 Acacia Lane / Northeast	Ownership 6 @ 120% AMI 19 @ market	Pre-development	Fall 2018 / Fall 2019
Benton Veterans Village	\$895,448 / Loan	Community Housing Sonoma County	1055 Benton St. / Northeast	Rental 6 @ 30% AMI 1 @ 60% AMI (mgr. unit)	Construction	Fall 2017 / Summer 2018
Harris Place (formerly Comstock Place)	\$220,000 / Loan	Habitat for Humanity of Sonoma County	2863 W. Steele Ln. / Northwest	Ownership 4 @ 80% AMI	Construction	Fall 2017 / Summer 2018
Stonehouse Family Housing	\$500,000 / Loan	Athena Housing Associates, LP	3331 Sonoma Hwy / Northeast	Rental 20 @ 30% AMI	Pre-development	Summer 2018 / Summer 2019
Sub-total	\$2,750,000	29 ownership (10 affordable) & 27 affordable rental units				
Affordable Housing and Homeless Services Emerging Needs	\$250,000					
Total	\$3,000,000					

*Funds go toward City constructing off-site public infrastructure

Project descriptions and summaries. Each project is described in more detail below, first the four projects recommended for AHIFPP funding during this pilot program, followed by the four that are not recommended for funding at this time.

Projects recommended for funding.

Acacia Village meets the Housing Action Plan Program 1 objective that encourages on-site inclusionary development of affordable for-sale homes and which suggests that the City offer financial incentives to market rate developers for including affordable housing in their housing projects. In addition, Acacia Village's sale price for the moderate-income homes is \$344,000 for a 2-bedroom and \$382,500 for a 3-bedroom home. These prices are consistent with the maximum sales prices for moderate-income households in the Housing Action Plan.

The applicant requests a grant of AHIFPP funds toward the cost of off-site public infrastructure that would be managed by the City's CIP team. The applicant would provide the portion of the needed funds that exceed the grant amount. Development of the off-site public infrastructure will improve the development readiness of the neighborhood. With the AHIFPP financial incentive (and a density bonus), Acacia Village provides six inclusionary homes (24% of the total) that will be affordable to moderate-income households and 19 market rate homes with

construction slated to start in September 2018 and be completed by September 2019. The applicant states that without the AHIFPP incentive, the project would not be feasible with the inclusionary units. Moreover, the applicant states that they will not construct Acacia Village if the AHIFPP funds are not awarded.

The applicant is developing a partnership with the Land Trust of Sonoma County to manage the affordability and resales of the six moderate income homes for at least 55 years. The Land Trust's resale formula is designed to give homeowners a fair return for their investment, while keeping the price affordable for future homeowners.

Benton Veterans Village will provide important housing and services for a special needs clientele – homeless veterans, who will be referred by the Veterans' Administration. Six units are targeted to extremely low-income homeless veterans, the lowest income level. The manager's unit is restricted to a low-income household.

All other funding has been committed, including approximately \$1.5 million from the Santa Rosa Housing Authority, as well as Veterans Administration Supportive Housing ("VASH") housing vouchers, which provide a dependable income stream for 10 years. The AHIFPP loan funds fill the remaining financial gap and set the stage for construction in a short timeframe with construction starting in fall 2017 and being completed by summer 2018. Without the AHIFPP funding, Community Housing Sonoma County faces a challenging task of filling the financial gap with competitive tax credit equity or other sources, which will take time during which materials and/or labor costs may rise.

The units will be affordable for 55 years, secured by a regulatory agreement recorded against the property. The project preserves the historical significance of Fire Station #5 that formerly occupied the site. The interior of the fire house will be rehabilitated to include a common area, laundry facilities, a shared kitchen and a resident manager's unit.

Harris Place (formerly Comstock Place). Habitat for Humanity's successful home ownership model will provide four homes for low-income families, the lowest feasible income level for homeownership. Three of the homes will be newly constructed, and the existing home will be rehabilitated for new homeowners. With these AHIFPP loan funds, construction will start in fall 2017 and be completed in summer 2018. Habitat for Humanity has already raised over \$200,000 of the additional funds needed for the project with one generous donation. The Housing Authority has committed \$180,000 for the project.

As an incentive to construct Harris Place, Habitat for Humanity requests a loan of AHIFPP funding for pre-development and development costs and/or for direct loans to homebuyers. The AHIFPP funds together with other funding will help make the homes affordable to low-income homebuyers at fair market value, pursuant to Habitat's financial model. Other funding sources include donations of cash, materials and labor, sweat-equity labor by the homebuyers, a silent loan from Habitat for Humanity, Federal Home Loan Bank WISH Program, prior Housing Authority funding, and a PG&E Solar Grant.

The units will be affordable for 59 years, secured by a deed restriction recorded against the property by Habitat for Humanity. The deed restriction will establish maximum resale prices that are tied to changes in Area Median Income to ensure future affordability to low-income households. Habitat for Humanity will also have an option to purchase in case of resale. The

City will secure the affordability of the homes for 30 years, corresponding to the loan term, with resale restrictions recorded against the properties and a corresponding option agreement.

Sale prices are estimated to be \$325,000 for 2-bedroom (1 unit), \$350,000 for 3-bedroom (2 units), and \$500,000 for 4-bedroom (1 unit). It is possible that one of the 3-bedroom units will be converted to a 4-bedroom unit.

Stonehouse Family Housing will provide important housing and services for a special needs clientele –women who have graduated from Athena treatment/recovery program next door, and who will benefit in their recovery from a stable after-care living environment. The units are targeted to the extremely low-income tenants to provide housing for the households earning the lowest income level. At \$25,000 AHIFPP per unit, Stonehouse Family Housing requests very little City funding per new affordable unit. The units will remain affordable for 55 years. The City's AHIFPP loan funds for Stonehouse Family Housing are anticipated to provide an incentive for other funding sources to support this affordable housing development.

Projects not recommended for funding.

Four applicants did not receive a funding recommendation for various reasons although all four have affordable housing benefits, and the applicants are encouraged to work with us and apply for future funding opportunities.

Chelsea Gardens, a BRIDGE Housing Corporation development, sought funds for rehabilitation of existing units. The project is not recommended to receive funding at this time for the following reasons:

- ❖ Chelsea Gardens does not meet the AHIFPP Use of Funds provision to incentivize the construction or preservation of affordable housing units. Preservation in this context means keeping existing affordable housing from conversion to a market rate in the near future. Chelsea Gardens has existing regulatory agreements that protect affordability to 2030.
- ❖ There is room in the pro-forma to reduce and perhaps eliminate the funding gap through value engineering and/or deferring some of the developer fee.

Chelsea Gardens is an important affordable housing asset in Santa Rosa. The 120 apartments provide homes for 118 very low-income households and two resident managers.

Fir Ridge Workforce Housing, a development of the Santa Rosa City School District, represented by BRIDGE Housing Corporation and Burbank Housing Development Corporation, is not recommended to receive funding at this time for the following reasons:

- ❖ Fir Ridge Workforce Housing does not meet an AHIFPP objective. In particular, the application proposes 3 low-income housing units for \$1,980,00 or \$660,00 per unit, which is not close to the objective of providing the most affordable housing with the least amount of City funds.
- ❖ The proposal is not consistent with the Memorandum of Understanding that the School Board and City Council approved last year to provide for-sale and/or rental affordable housing for District employees of low- or moderate-income because most of the 36

homes in the development are projected to rent at or near market rate, well above rents affordable to moderate-income families.

Staff continues to work with the developer on project feasibility. A strategy may involve creating partnerships with other public agencies in the future.

Railroad Square Senior Apartment, a proposal by ROEM Development Corporation, is not recommended to receive funding at this time for the following reasons:

- ❖ A Disposition and Development Agreement between the applicant, ROEM Development Corporation, and the property owner, Sonoma-Marín Area Rail Transit (SMART) Board, has not been executed.
- ❖ The funding need/request is for \$6,988,000 including \$488,000 of long term fee deferrals, which far exceeds the available funds.

Except for cost and timing, Railroad Square Senior Apartments is closely aligned with the AHIFPP program and the Housing Action Plan. It will be a mixed-income, mixed-use development located in the Downtown Station Area Priority Development Area served by both the SMART train and CityBus. The development will provide 268 total housing units, of which 61 units (or 22%) be on-site inclusionary units of which four units will be for very low-income and 56 units will be for low-income seniors. In addition, the development proposes roughly 3,000 square feet of ground floor commercial space.

Roseland Village Neighborhood Center, a development of MidPen Housing, is not recommended to receive funding at this time for the following reasons:

- ❖ A Disposition and Development Agreement between MidPen Housing Corporation and the County of Sonoma is not anticipated to be executed until September 2017.
- ❖ The stated completion date is May 2020 (approximately 3 years), which does not achieve the AHIFPP objective to incentivize affordable housing production in the shortest timeframe. Further, this date anticipates that the parties will be successful in securing \$8 million of competitive funding from the State Housing and Community Development Affordable Housing and Sustainable Communities Program.

Except for timing, Roseland Village Neighborhood Center is closely aligned with the AHIFPP program and the Housing Action Plan. It is located in the Roseland Annexation Area and has been proceeding as a City-County cooperative project. It is also located in the Sebastopol Road Corridor Priority Development Area and is served by CityBus and is walking distance to commercial services in the corridor. The development will provide 175 total housing units, of which 75 (or 42%) will be affordable on-site inclusionary units. The development provides deep affordability with 23 extremely low-income units, 12 very low-income units, and 39 low-income units (plus one manager unit). In addition to a mix of incomes, Roseland Village will include a mix of commercial and civic uses including ground floor retail, food market hall, library, educational and recreational services, and a public plaza. At \$40,000 of AHIFPP funds per unit, Roseland Village requests a small amount of City funds.

FISCAL IMPACT

The Council appropriated \$3 million from operating reserves in the Fiscal Year 2016-17 budget for the Affordable Housing Incentive Fund Pilot Program (Housing Action Plan) in Key 42122.

ENVIRONMENTAL IMPACT

Environmental review of the four projects recommended for AHIFPP funding are discussed in this section.

Acacia Village:

NEPA. Environmental Review pursuant to the National Environmental Policy Act (“NEPA”) is not applicable at this time as no federal funds are anticipated to be utilized.

CEQA review is not completed. Among other conditions, the funding for this project is conditional upon the project completing environmental review pursuant to the California Environmental Quality Act (“CEQA”) and NEPA, if applicable, demonstrating, to the satisfaction of the City, that the project will not result in any significant environmental effects.

Benton Veterans Village:

NEPA review completed. An Environmental Assessment was prepared in April 2015, resulting in a Finding of No Significant Impact. On June 5, 2015, the City of Santa Rosa submitted a Request for Release of Funds to the U.S. Department of Housing and Urban Development (“HUD”) for the release of \$163,519 in Home Investment Partnerships Program-Community Housing Development Organization (HOME-CHDO Program) for Benton Veterans Village affordable housing. On June 26, 2015, HUD issued the Authority to Use Grant Funds.

CEQA review completed. The project has been reviewed in compliance CEQA and qualifies for a Class 32 exemption under Section 15332, In-fill Development Projects, in that the development is consistent with the General Plan land use designation and applicable zoning regulation; will occur within the City limits on a parcel that is smaller than five acres; is already developed without habitat for endangered, rare or threatened species; is served by City utilities and services; and as supported by an Environmental Assessment prepared in April, 2015, approval of the project will not result in significant effects related to traffic, noise, air quality, or water quality.

Harris Place (formerly Comstock Place):

NEPA review is not applicable because no federal funding has been or is intended to be committed to this project at this time.

CEQA review completed. The project is exempt from the California Environmental Quality Act (CEQA), qualifying for a class 32 categorical exemption under CEQA Guidelines Section 15332 in that it is consistent with the General Plan land use designation and applicable zoning regulations; the project occurs within the City limits and on a parcel smaller than five acres; the project site has no value in terms of habitat that hasn’t already been mitigated, for endangered, rare, or threatened species; the proposed changes would not result in any significant

environmental impacts; and each parcel can be adequately served by utilities and public services

Stonehouse:

NEPA review is not applicable because no federal funding has been or is intended to be committed to this project at this time.

CEQA review has not been completed. Among other conditions, the funding for this project is conditional upon the project completing environmental review pursuant to CEQA and, if applicable, pursuant to NEPA, demonstrating, to the satisfaction of the City, that the project will not result in any significant environmental effects.

ARTICLE 34

Consistent with Article 34 of the California Constitution requiring voter approval for a local jurisdiction's participation in the development of affordable rental housing, Santa Rosa voters approved Measure K in 2002 authorizing the City's participation in such development, provided, among other requirements, that the number of units approved in each calendar year not exceed one percent (1%) of the housing units existing in Santa Rosa in that calendar year.

Article 34 is not applicable to Acacia Village nor Harris Place (formerly Comstock Place) because Article 34 applies to rental units, and these developments are developing ownership housing. Benton Village received an allocation of seven Article 34 units by Housing Authority Resolution No. 1581, adopted June 17, 2014. Stonehouse Family Housing has not yet received an allocation of Article 34 units.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The applications were reviewed by Vice-Mayor Tibbets and Councilmember Rogers along with HCS, PED and CAO staff. The recommendations herein are consistent with the findings of this review group.

NOTIFICATION

The applicants were notified in writing of the funding recommendation of the review committee and the date of this City Council meeting.

ATTACHMENTS

- Attachment 1 – Locational graphic
- Attachment 2 - Notice of Funding Availability
- Four Resolutions

CONTACT

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