

# REPORT

To the Honorable Mayor and City Council  
From the City Manager

June 25, 2018

## **SUBJECT**

Affordable Housing Fund Allocation Guidelines

## **RECOMMENDATION**

Adopt a Resolution Approving Affordable Housing Fund Allocation Guidelines

## **BACKGROUND**

Housing is a high priority issue for the City of Redwood City and in 2015 the Redwood City Council set three primary goals for affordable housing:

1. **Support programs and new policies aimed to ensure housing stability for community members.** These efforts focus on renter protections including minimum lease terms and relocation assistance, preventing homelessness and other ways to support housing stability.
2. **Create new funding sources, regulations and incentives to produce new affordable housing.** These efforts include establishing new funding sources through developer fees to create new affordable housing, and charging fees on short term housing rentals to support affordable housing.
3. **Increase the overall supply of housing, particularly the production of affordable housing units.** These efforts include requiring affordable housing with new housing developments, buying land for new construction, preserving existing affordable housing in the community and encouraging the building of small units like accessory dwelling units/granny units.

## **Housing Impact Fee / Affordable Housing Fund**

In December 2015, the City Council adopted the Affordable Housing Impact Fee Ordinance as a mechanism to increase the supply of affordable housing and preserve existing affordable housing pursuant to the City's Housing Element. This ordinance is generally applicable to residential and nonresidential development projects deemed complete after September 21, 2015, and as noted below is scheduled to be incorporated into a new Zoning Ordinance Article.

The ordinance requires that all fees collected be deposited into the City's Affordable Housing Fund ("Fund") to be used to increase and preserve the supply of housing affordable for extremely low, very low, low and moderate income households. The ordinance also allows applicants to request an alternative to paying the fees, which could include the provision of a percentage of affordable units built on site, built offsite, donation of land for development of affordable housing and other options.

Annually, the City is required to report on the use of the fees that are deposited to the Affordable Housing Fund to demonstrate it has met the State requirement for investment in eligible activities within five years of receiving them. Establishing funding allocation guidelines that set priorities for the use of the Affordable Housing Fund will speed the process expending these funds on affordable housing production and preservation.

One of the City's goals is to maximize this new Fund by creating a permanent and sustainable source of funds for affordable housing development and preservation. Through the Affordable Housing Fund the City can leverage millions of dollars in public and private funding investments to increase and preserve affordable housing in Redwood City. There will be a substantial amount of funding available for affordable housing investment within the next year and a continual fund source for future years.

On May 21, 2018, City Council introduced an inclusionary housing ordinance that requires developers of market-rate housing at 20 units and greater to provide 20% of the units at various affordability levels. Projects between five and 19 units would continue to pay the Affordable Housing Impact Fee. As part of Council adoption of this ordinance (scheduled for the June 23, 2018 City Council meeting), the Affordable Housing Impact Fee requirements would be moved to new Zoning Ordinance Article 29 (Requirements for Affordable Housing).

### **Housing and Human Concerns (HHCC) Housing Policy Recommendations**

In 2016, after holding community meetings on the topic of affordable housing, the HHCC made several housing-related recommendations to the City Council that included the development of guidelines for the use of the Affordable Housing Fund. The City Council agreed with the recommendation as well as others that included Minimum Lease Terms and Relocation Assistance Ordinances. The activities described in this staff report and the staff recommendations respond to Council direction to study and adopt funding guidelines.

### **Other Recent Housing Actions**

The adoption of the Housing Impact Fee Ordinance and creation of the Affordable Housing Fund are a few of the many recent initiatives the City Council has approved to meet its housing goals to further the preservation and production of affordable housing. As described above, on May 21, 2018, the City Council introduced an inclusionary housing ordinance that requires 20% of units to be affordable in projects with 20 or more units. On March 26, 2018, the City Council introduced two ordinances that provide renter protections including Minimum Lease Terms and Relocation Assistance (with re-introduction set for the June 25 City Council meeting).

The City Council recently approved and the City released a Request for Proposals for City-owned land on Heller Street to be developed with two affordable units. Since the adoption of the Housing Element and housing goals in 2015 the City Council approved an amendment to the Downtown Precise Plan to require 15% (375 units) of the 2500 units allowed to be built in downtown to be affordable. The City also provided land on Bradford Street in downtown Redwood City for the construction of 117 units of affordable housing for seniors, to include a childcare center and a public park along Redwood Creek. The City also provided funds to Habitat for Humanity to acquire and build affordable ownership housing for very low and low-income households on Jefferson Avenue in downtown.

### **Home for All - Community Engagement**

In August 2017, the City applied for a Community Engagement Pilot Program Grant through the San Mateo County Home for All Program (“Home for All”). In an effort to address the issue of housing in San Mateo County, Home for All focuses on promoting the preservation and production of all types of housing through sharing information, promoting innovation and convening the community. Through the grant application, the City sought community engagement support from Home for All for the development of allocation guidelines for the use of the City’s Affordable Housing Fund. Redwood City was one of four cities within San Mateo County that was selected by Home for All to receive the pilot program grant.

The City sought community input on guidelines to be used to evaluate requests for funds received from developers, nonprofits and other organizations to increase or preserve affordable housing within the Redwood City community. The community engagement support provided by Home for All helped staff to develop recommended funding guidelines, to learn about community members’ knowledge of existing City affordable housing programs and efforts, and to ascertain creative ideas to support affordable housing.

With the help of Home for All and other community partners including the Redwood City Library Foundation, Redwood City 2020, and Casa Circulo Cultural, the City conducted a wide range of community outreach and engagement activities including several community meetings, multiple “pop up” events and a survey with a focus on the Redwood City community and housing. These efforts directly engaged over 800 community members over the course of a few months and a broad range of community input was received. The meetings provided an opportunity for a diverse mix of residents including property owners, developers, nonprofits, community leaders and other members of the community to talk with each other at discussion tables and share perspectives. Redwood City’s grant assistance included a wide range of technical support, coaching and facilitation assistance provided by Home for All and consultant Common Knowledge Plus. A detailed summary of outcome of the meetings, conversations, pop ups and survey are included in Attachment 2 to this report, titled “Our Community: Housing and Our Future - Project Overview and Summary of Community Input”.

### **Affordable Housing Fund**

Housing Impact Fees are due at the time of building permit issuance, which can occur several months after the approval of a development application. Since the adoption of the Ordinance in 2015, the City has received approximately \$763,000 from two projects. There are approximately 11 projects currently approved that are pending issuance of building permits that have a combined estimated total of \$7.2 million in fees. Some of these approved projects are providing affordable units as an alternative to the fee, for an estimated total of 188 new affordable units. Several other development applications currently proposed could yield additional fees and affordable units if they are approved.

In 2017, the City received funding requests from two nonprofit, affordable housing mission-driven organizations. The City Council approved both funding requests and provided Affordable Housing Funds to both organizations to preserve existing affordable housing. The funds provided for these two projects were consistent with the City Council Finance and Audit Sub-Committee’s 2016 recommendations to identify existing apartment buildings for preservation.

The City has disbursed approximately \$2.2 million from the Affordable Housing Fund to the two affordable housing projects, one time investment opportunities to help preserve 62 affordable units and prevent the displacement of 62 extremely low, very low and low income households. Since the City did not receive a sufficient amount of fees before these two projects required funding, the City Council agreed to make short-term loans from the General Fund to the Affordable Housing Fund in order to assist them. As a result, the Affordable Housing Fund has a current deficit balance of approximately \$1.4

million that will be repaid to the General Fund as Housing Impact Fees are received in the near term from projects that have been approved.

The City has received several other funding requests from nonprofit and for profit developers and staff anticipates the number and frequency of these inquiries to increase, creating a pipeline of potential affordable housing production and preservation opportunities. Staff believes several million dollars could be received in 2018 and establishing allocation guidelines for the Affordable Housing Fund will help the City more efficiently fund requests that help meet the City's affordable housing priorities and goals.

## **ANALYSIS**

### **Defining Affordable Housing**

The definitions of the term "affordable housing" have various meanings and depend on the context. Generally, affordable housing refers to any housing type that is affordable to its occupants. Based on Federal and State definitions of rental housing, this is typically no more than 30% of the renter's income for housing and utility costs. For homeowners, it is no more than 35% of the household income to pay for principal and interest of a mortgage, property tax, homeowners insurance, property maintenance and utilities. When it becomes more than that, it affects a household's ability to buy food and support other essentials like healthcare. This is true for whether an individual rents or owns a home.

When the City refers to the term affordable housing, it means housing that is in some way designed for long-term affordability to ensure households are not over-paying housing related expenses. Affordable housing also typically refers to a specific property type: housing that is subsidized by the City in return for affordability restrictions requiring the units to house people at different income levels at housing costs affordable to them. This can either be rental housing or ownership housing.

### **Community Engagement - Major Themes**

Over the course of the community conversations, pop ups and survey several themes emerged:

1. Increase housing security; need for more short-term support while pursuing mid- and long-term solutions
2. Provide more housing options for families, seniors, singles, homeless and those serving the community (such as teachers, police, fire fighters, nurses)
3. Enhance social and economic diversity; community connections and interaction in our neighborhoods

4. Engage large employers and preserve small businesses; increase possibility of wage increases for low income earners
5. Collaborate regionally to integrate housing and transportation

Community members expressed significant interest in these broad solution areas:

- Renter protections, safety of housing, renter/landlord relations and other immediate assistance
- Increased diversity of supply, infill, second units
- Purchasing currently affordable housing and converting to deed restricted affordable housing
- Building new housing if fees can be well leveraged
- Working with large employers with campuses

Through the community engagement process several other housing ideas were shared including:

- Short-term emergency housing assistance
- Build housing on City or school district property
- Use taxes from Airbnb to help fund housing efforts
- Group purchases/communal housing; “co-living”
- “Creative solutions – creative use of space”

There was some discussion about using the new Airbnb transient occupancy tax revenue for developing pilot programs to fund some of the creative housing ideas heard from community. Consistent with housing goals in their work plan the Housing and Human Concerns Committee could study and make recommendations for specific pilot programs for City Council to consider.

### **Affordable Housing Fund Allocation Guidelines**

Based on community input on short term, mid-term and long-term approaches to produce more affordable housing or preserve existing affordable housing, staff considered the following uses for the Affordable Housing Fund:

1. Acquisition of existing multifamily housing for conversion to affordable housing
2. Buy land for development of new affordable housing, especially near transit
3. Provide funds for construction of new affordable housing
4. Provide funds to nonprofits to purchase, refinance or rehabilitate affordable housing

Acquisition of existing multifamily housing typically is done by partnering with non-profit housing providers who acquire, rehabilitate and make units available for qualified low-

income residents, many of whom have lived in the apartment complex for years. This strategy has two key positive aspects: 1) it preserves existing “naturally affordable” apartment complexes, many of which in the region have been recently bought, rehabilitated and been subject to substantial rent increases that existing residents cannot afford, and 2) it typically creates deed restricted affordable units at a much lower cost than the production of new units. This type of activity preserves “naturally affordable” rental housing and converts it to permanent affordable housing and prevents displacement. This is both a short and midterm housing solution. A tradeoff with this approach is that, compared to new construction, older units may not be accessible for persons with disabilities, may have few or no amenities and may have higher repair and maintenance costs.

Land acquisition for the construction of affordable housing is usually completed by the City providing funds to nonprofit mission-driven housing organizations. The nonprofit developer uses the City funds along with other financing to purchase and build the units, which are deed restricted by the City for up to 55 years. This is a longer term housing solution as these types of activities take several years to complete, however the new units are fully accessible, come with modern amenities, are energy efficient and in close proximity to public transit and other community amenities.

### **Funding Guideline Recommendations for Use of Affordable Housing Funds**

After considering community input and the tradeoffs involved in various approaches, staff recommends allocating Affordable Housing Fund proceeds for five primary affordable housing activities:

- 1. Acquisition of existing multifamily housing for conversion to deed restricted affordable housing**
- 2. New construction of affordable housing including site acquisition for development of affordable housing**
- 3. Acquisition and rehabilitation of existing multifamily housing for conversion to deed restricted affordable housing**
- 4. Rehabilitation of existing deed-restricted affordable housing**
- 5. Refinance of existing deed-restricted affordable housing to preserve affordability.**

The City receives multiple inquiries and requests for funds to support affordable housing acquisition, acquisition and rehabilitation, refinance of affordable housing, new construction and site acquisition. Generally the requests for funds exceed the amount the City has available and the allocation guidelines provide the City with criteria for recommending funds to projects based on how closely they meet the City funding priorities. Exceptions to the guidelines may be considered by the City on a case by case basis to ensure the City has the flexibility to invest funds in affordable housing when

exceptional opportunities arise or when there is an extraordinary circumstance to produce or preserve affordable housing. There are also exceptions to the prioritization to allow the City to allocate funds to projects that provide an exceptional opportunity or greater benefit to the City.

### **Process for Allocation of Affordable Housing Funds**

The City currently issues a Notice of Funding Availability (“NOFA”) and Request for Proposals (“RFP”) each December for its federal Community Development Block Grant (“CDBG”), Home Investment Partnership Funds (“HOME”) and its local Human Services Financial Assistance (“HSFA”). The Housing and Human Concerns Committee (“HHCC”) has an established and efficient process for reviewing funding proposals. It includes a series of public meetings, presentations from funding applicants, public hearings and several opportunities for public comments on the use of funds. After this process is carried out, the HHCC’s funding recommendations for capital housing project funding are reviewed by the Planning Commission to confirm the proposed activities conform to the General Plan before they make their final recommendations to Council each April. Combining the NOFA/RFP for the CDBG, HOME and HSFA funds has proven to be very effective for the review of the proposals for staff, the HHCC and for funding applicants that are interested applying for multiple fund sources and streamlines the entire process.

Based on the effectiveness of the NOFA/RFP process outlined above staff recommends including the Affordable Housing Fund in the existing NOFA/RFP process. If this process were approved, a NOFA/RFP would be issued in December and would be published in a local newspaper, the City website and through other City social media and electronic news emails as well as a press release. The notification of the Affordable Housing Fund would be expanded beyond the standard outreach for the grant funds to ensure all types of development entities have the opportunity to submit a proposal.

City staff will review the proposals to ensure they include comprehensive project information to support the funding request and that they meet the City’s and mandatory submittal requirements including the following:

- Describes how the project meets one or more City affordable housing goals
- Affordability proposal
- Site Information
  - Site Description
  - Development Standards
  - Site Control/Property Disposition
  - Site Condition/Environmental Conditions

- Entitlements
- Development Team/Entity
- Development Project Experience & Qualifications
- Developer/Owner's Mission or Purpose
- Project Concept
- Financial Capacity (ProForma)
  - Fund leveraging
- Property Management Experience
- Estimated Project Schedule (Milestones)
- References

The Housing and Human Concerns Committee would conduct the initial public review of the proposals received through the NOFA / RFP process. They would determine which proposals most closely meet the City funding priorities, goals and objectives. They would prioritize their recommendations of funds and order of priority for City Council. However, before the recommendations are brought to City Council, the HHCC's funding recommendations would go to the Planning Commission to ensure the projects conceptually conform to the applicable policies of the City's General Plan.

City staff will prepare guidance documents and NOFA/RFP application materials to assist Housing Fund applicants. The priorities and process may need to change over time and should be reviewed and amended when necessary. The HHCC conducts a review of the NOFA/RFP and funding guidelines for CDBG, HOME and HSFA each year and could include the Affordable Housing Fund Allocation Guidelines in the review process, and bring recommendations for substantial modifications to City Council. The proposed resolution delegates authority to the HHCC to approve minor revisions to the guidelines with concurrence of the Community Development Director.

#### **ALTERNATIVES**

Some alternatives to the recommendations outlined in the staff report could include the issuance of a NOFA/RFP more frequently than once a year, issuance of a stand-alone NOFA/RFP process for the Affordable Housing Fund (do not combine it with the CDBG, HOME and HSFA process), or using an alternative method for reviewing the applications for funding.

#### **FISCAL IMPACT**

The adoption of the Affordable Housing Fund Allocation Guidelines is an administrative action and has no fiscal impact.

**ENVIRONMENTAL REVIEW**

Adoption of the Affordable Housing Fund Allocation Guidelines is not a project within the meaning of the California Environmental Quality Act (CEQA) because the guidelines are a government mechanism that does not involve any commitment to any specific project (CEQA Guidelines Section 15378(b)(4)). Even if adoption of the guidelines were a project, it would be exempt from CEQA because it can be seen with certainty that there is no possibility that the guidelines will have a significant effect on the environment (CEQA Guidelines Section 15061(b)(3)).



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MELISSA STEVENSON DIAZ  
CITY MANAGER

**Attachment 1.** Resolution for the Affordable Housing Fund Allocation Guidelines

**Attachment 2.** “Our Community: Housing and Our Future - Project Overview and Summary of Community Input”.