

County of Santa Clara
Office of the County Executive
Office of Affordable Housing



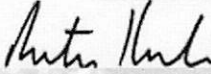
CE02 042903

Prepared by: Susan Phillips
Acting Director, Office
of Affordable Housing

Submitted by: Jane Decker
Deputy County Executive

DATE: April 29, 2003

TO: Board of Supervisors

FROM: 
Peter Kutras Jr.
Acting County Executive

SUBJECT: Approve Recommendations Regarding Affordable Housing Fund Allocation
Process

RECOMMENDED ACTION

Consider recommendations relating to Office of Affordable Housing and use of affordable housing funds.

Possible action:

- a. Approve recommendations on preliminary allocation of affordable housing funds and process for distribution. **Meeting Date** May 6, 2003
Processor name Helen Salyers

Item Number 27

- b. Authorize staff to proceed with preparation of two Requests for Proposals (RFPs) for distribution of \$5.5 million in affordable housing funds to implement Categories 1 and 2 of the affordable housing fund allocations.
- c. Approve Request for Appropriation Modification No. 156 increasing revenue and expenditures in the Office of the County Executive, Office of Affordable Housing budget to complete transfer of year one housing set-aside funds to the Affordable Housing Fund. (4/5 Roll Call Vote)

FISCAL IMPLICATIONS

There is no impact on the General Fund as a result of this action. On January 28, 2003, the Board approved the establishment of a new Affordable Housing Fund (Fund 0196) and the transfer of \$7 million in housing set-aside funds in order to support the provision of affordable housing. At that time, the Board also approved the appropriation of \$122,109 in affordable housing funds to cover current-year costs required to establish the new Office of Affordable Housing.

The attached Request for Appropriation Modification completes the budgetary actions necessary to account for the \$122,109 in funds approved previously by Board action and to transfer the balance of the \$7 million, in the amount of \$6,877,891, current-year housing set-aside fund receipts to the new Affordable Housing Fund. Similar actions will be requested of the Board when annual receipts for the housing set-aside are received in FY2004 and FY2005.

CONTRACT HISTORY

None.

REASONS FOR RECOMMENDATION

The preliminary recommendations to the Board's Housing, Land Use, Environment and Transportation (HLUET) Committee were presented at the April 17, 2003 HLUET meeting. During this discussion, the following issues were raised:

- The need to make funds available as quickly as possible to meet housing needs.
- The need to provide the Board flexibility to transfer funds between funding categories to meet critical needs.

Processor name Helen Salyers

Item Number 27

The fairness of the proposed two-tier allocation scheme for Category 1 projects, which distinguished between projects over and under 50 units in size.

- The advisability of establishing a separate funding allocation for emergency shelter projects.
- The need for clarification regarding whether one project could apply for funds in multiple rounds to address different project phases.
- The need to address the current Board policy requiring payment of fair market value for surplus land.

Staff's original report has been revised to respond to concerns and questions raised by Board members and the public. At the Committee's direction, a summary of public comments received at the meeting is included as Attachment 1. The staff report was accepted by the Committee and forwarded to the Board with a recommendation for positive action.

The issues identified above have been addressed throughout the text. This is summarized below:

- First-year funding has been reallocated to provide an additional \$1 million in category 2 funds available for immediate distribution through RFPs to be issued July 1, 2003.
- Additional language has been added to underscore the Board's flexibility to move funds from one funding category to another as needs dictate, assuming the County has received the housing set-aside revenues and the funds have not previously been subscribed through Board awards, contracts or other firm commitments.
- The proposed two-tier funding of projects based on project size has been revised to provide for a range of funding per unit or bed, based on the specific needs of an individual project. (See Attachment 3 for specific language implementing this change.)
- A separate, dedicated funding category for emergency shelters has not been recommended; however, specific reference to shelters has been added to Category 2 projects and the total available funding in this category has been increased by \$1 million. Staff believes that earmarking \$4 million specifically for shelters will limit the Board's flexibility in allocating limited funds between deserving projects.
- It is expected that individual projects will be able to submit one application for funding either in Category 1 or Category 2. This relates to the nature of these funding allocations (project-based, rather than phase-based). The County has available other sources of funding (CDBG and HOME) which are more suitable for phase-based

Item Number 27

funding. Funding under distinct categories following the first County awards in fall, 2003, may well fund the same project in different phases (e.g., land acquisition, pre-development, permanent financing), but this will be more clearly delineated as details of these categories are presented to the Board.

- A report back on the issue of fair market value will be provided for Board discussion of this policy issue, and it tentatively scheduled for early fall, 2003.

A. Preliminary Allocation of Affordable Housing Funds

On January 28, 2003, the Board directed staff to report back with an allocation of housing set-aside funds which have been approved by the Board and are estimated to be available to the County over the next three years. A preliminary allocation is presented in Attachment 2. The proposed allocation consists of eight categories for distribution of funds. A brief description of each is provided below; a more detailed description and the rationale for each is discussed in Attachment 3.

A total of \$18.6 million is estimated to be available to the affordable housing fund over the next three fiscal years (FY2003 – FY2005). The precise level of available funding will depend on actual receipt of housing set-aside funds. For purposes of the allocation strategy, funding is identified as being available in the year in which funds are expected to be received by the County:

- Year 1 — \$7 million is already available and is proposed to be transferred into the Affordable Housing Fund (Fund 0196) in this transmittal. Only \$122,109 (previously approved by the Board for OAH support during FY2003) has been appropriated; the remainder is available for allocation beginning in FY2003.
- Year 2 — \$5.6 million is currently estimated to be available at the end of FY2003 and is assumed to be available for allocation beginning in FY2004.
- Year 3 — \$6 million is currently estimated to be available at the end of FY2004 and is assumed to be available for allocation beginning in FY2005.

To provide the maximum flexibility in the use of these funds, staff is proposing that unreserved funds in each allocation can be moved as necessary by Board action between categories in any given funding year. That is, if funds in one category are undersubscribed, the Board has the flexibility to allocate these funds in another category during the same funding

Item Number 27

year, or to roll the funds over in the same category for appropriation in a future allocation year. If no specific action is taken, uncommitted funds are assumed to roll forward into the same category for the following funding year.

The proposed allocation strategy is based on the following guidelines:

- County funds should be allocated only as funding is received through the housing set-aside (i.e., allocation of funds should not be made contingent upon receipt of future funding).
- County funds should make the difference in creating affordable housing (i.e., these are not merely gap financing funds).
- County funds should be leveraged against other funds, including City funds or other support, where applicable.
- County funds should be made available to leverage State funds through Proposition 46 (the Housing and Emergency Shelter Trust Fund Act of 2002).
- County funds should be used to add new affordable housing units or client placements (beds) to the existing affordable housing supply.
- County funds should not compete with or duplicate existing funding sources (e.g., if the County provides pre-development funding, it should address project needs which are not currently covered by other, existing pre-development funds).
- Projects should focus on addressing the housing requirements of County special needs populations.
- Housing should complement the provision of County services to enhance the effectiveness of service provision and create cost efficiencies in service provision as housing-related issues for these clients are addressed.
- Funds should be made available to support all five priority areas as established by the Board; although it is not necessary to earmark funds directly to support each of the five areas as a discrete funding category.
- Projects funded should be distributed geographically throughout Santa Clara County.

B. Preparation of Requests for Proposals (RFPs) for Distribution of Category 1 and 2 Affordable Housing Funds

Meeting Date May 6, 2003

In order to move quickly on funding housing projects in FY2004, it will be necessary for staff to release on July 1, 2003 two RFPs to generate applications for project allocations which are

Item Number 27

expected to be funded in fall, 2003. The draft schedule for Category 1 (MHP-eligible projects) funding distribution is provided as Attachment 4. The schedule for distributing funds in Category 2 (non-MHP eligible projects) is still under development; however, it is planned that both RFPs will be released concurrently on July 1, 2003, making a total of \$5.5 million in affordable housing funds available at that time. Staff plans to present the RFPs for both Category 1 and 2 to the Board on June 24, 2003, prior to release on July 1.

C. Request for Appropriation Modification

Approval of the Request for Appropriation Modification is required to move the remaining housing set-aside funds (totaling \$7 million in the current fiscal year) from General Fund balance into the newly-established Affordable Housing Fund (Fund 0196). A similar action will be requested of the Board during FY2004, once the second year revenue is received (currently estimated at \$5.6 million) and again the following fiscal year (for the estimated \$6 million to be received at that time).

No additional expenditure authority for these funds is requested. The Board previously approved expenditure of \$122,109 during the current fiscal year to support the newly-created Office of Affordable Housing.

BACKGROUND

On January 28, 2003, the Board of Supervisors approved the creation of the Affordable Housing Fund and approved the use of an estimated \$18.6 million in housing set-aside funds to support this new fund over the next three years with the potential of future funding dependent on the level of housing set-aside funds received by the County. Staff recommended three areas toward which the County's affordable housing funds could be directed:

- Emergency and Transitional Housing
- Permanent Affordable Rental Housing
- Procurement of Land/Use of Surplus Land for Affordable Housing

The Board directed that two additional areas be included (home ownership and agricultural worker housing) as the Administration convened an Affordable Housing Fund Allocation Process Working Group ("Working Group") to develop recommendations for allocating funds and a process for fund distribution.

Processor name Helen Salyers

Item Number 27

The twenty-member Working Group, chaired by Deputy County Executive Jane Decker, was comprised of representatives of each Board office, the County's Office of Affordable Housing, the County Executive's Economic Development Office, Office of the County Counsel, Social Services Agency, Health and Hospital System and Santa Clara County Housing Authority. Staff and technical support was provided by the Office of Affordable Housing, the Enterprise Foundation and the OAH's financial consultant. The Working Group met five times between February 18 and April 4, 2003 to develop the framework for allocating County affordable housing funds that is presented here.

The Working Group spent considerable time evaluating the five areas of housing need identified by the Board. Members concluded that home ownership programs could generally be administered by the Housing Trust of Santa Clara County, rather than creating a new administrative framework within the County for this purpose. At the same time, it will likely be possible to work with the Trust to develop a specific program which can meet County priority needs for home ownership (directed toward low income populations who may also represent special needs clients).

Similarly, the issue of agricultural worker housing was also investigated. Experience within the county has demonstrated that, even when housing is specifically set aside for this group of residents, it is difficult to fill this housing due to other factors (fears relating to issues of status and the mobile nature of this population). Consequently, housing has been opened to other low income residents. By focusing housing efforts on the needs of the very low income residents of Santa Clara County, the Working Group believes that housing needs associated with agricultural workers can also be addressed. The presence of specific annual Proposition 46 allocations targeted to farmworker housing will increase the opportunity for housing sponsors to target this population where the need is demonstrated, and to apply for both State and County funds.

As the County moves forward with distribution of the Affordable Housing Funds, it will be necessary to evaluate how the funds have been spent, to ensure that there is a reasonable balance of housing created throughout Santa Clara County. This will allow for appropriate monitoring of housing production as well as for course correction in dispensing future funds, should imbalances be identified.

Processor name Helen Salyers

Item Number 27

Allocation Categories for Affordable Housing Funds

Eight categories are included in the proposed allocation framework. A detailed description of each is provided in Attachment 3. Because this represents a broad framework for allocating funds, additional work will be required for implementation and the most effort has been applied to the first two categories, which represent immediate project funding opportunities.

Category 1 — Capital Funding for Affordable Housing (MHP Eligible Projects)

\$3.5 million allocated in year 1

In order to make funds available immediately, funds are proposed in year 1 to assist projects which are applying for Prop. 46 funding through the Multifamily Housing Program (MHP). This will leverage County funds and improve the competitive advantage of local projects which provide affordable housing through new construction, rehabilitation and preservation of permanent and transitional rental housing for lower income households.

Category 2 — Capital Funding for Affordable Housing (non-MHP Eligible Projects)

\$2 million allocated in year 1

In order to make funds available immediately to projects throughout the county which are not eligible for MHP funding, an additional \$2 million is proposed in year 1. (This allocation was increased by \$1 million following HLUT discussion, in order to address issues relating to funding needs of emergency shelters.)

Because Category 1 and 2 funds will be used to address projects that are already well-developed, the County will be in a more traditional, reactive mode in making fund allocations. In order to better meet the needs of the County's special needs clients, it will be necessary for the County to participate earlier in the project development process to ensure that projects can be targeted more effectively to the needs of these populations. Categories 3 and 4 address these issues.

Category 3 — Capital Funding for Affordable Housing (Pre-Development to Long-Term)

\$300,000 allocated in year 1; additional \$4 million annually in years 2 and 3

Category 3 proposes a two-phase process to leverage County funds. First, the County will provide an initial \$300,000 to support pre-development activities. As projects are defined, an additional \$4 million in funding is allocated annually in years 2 and 3 to provide permanent

Item Number 27

financing.

Category 4 — Project Initiation Program

\$100,000 allocated in year 1, additional \$300,000 annually in years 2 and 3

Category 4 provides an annual allocation of funds to be used by the Office of Affordable Housing to work with project sponsors on very specific kinds of affordable housing projects targeting specific special needs clients which may not be readily addressed through other, established programs.

Category 5 — Surplus Land/Land Acquisition Program

\$1 Million allocated annually in years 2 and 3

Category 5 addresses the need to have funds available to make available County-owned surplus land for affordable housing development or to secure options on property that may be suitable for land banking or affordable housing use.

Category 6 — Housing Trust of Santa Clara County Home Ownership Program

\$500,000 allocated in year 1

Category 6 provides funds to support home ownership activities through the Housing Trust of Santa Clara County. Funds will enable the Trust to provide a match for Prop. 46 funds.

Category 7 — Office of Affordable Housing Support

\$122,109 in FY2003, \$297,000 in FY2004; \$300,000 allocated thereafter for two years

The Board has previously approved use of \$122,109 in affordable housing funds for the current fiscal year to cover office start-up costs (rent, phones, furniture, computers, financial services contract support and salary for the new Director in the current year). As reported to the Board in January, an appropriation of \$297,000 is assumed to cover the cost of a Director, financial expertise contract and overhead (e.g., rent, County support) in FY2004. Subsequent years' budgets may be developed differently as the needs and resources are better defined but an approximate number has been provided for purposes of completing the matrix.

Category 8 — Contingency Fund

\$580,891 total over 3 years

Meeting Date May 6, 2003

Processor name Helen Salyers

Item Number 27

Category 8 reserves funds for contingency use, should critical opportunities arise for which funding is unavailable and to address potential situations in which additional funds are needed in one of the seven other allocation categories.

Implementation of Category 1 and 2 Allocations

Staff proposes to issue RFPs for funding in both the MHP Eligible and non-MHP Eligible project categories on July 1, 2003. This timing is necessary to coincide with the State Proposition 46 funding schedule for Round 2 MHP applications. The working group believed strongly that it was important to release the RFP for non-MHP eligible project funds at the same time, in order to minimize confusion among applicants and provide a source of funding for the widest possible variety of housing projects.

Category 1 Applications: The Category 1 RFP will outline a 2 part application. This approach will allow the County to identify the total demand for funds as well as the distribution of project types early, while synchronizing the County and State Proposition 46 processes, thus minimizing additional paperwork and analysis for applicants. Housing sponsors who wish to apply for loan funds under this program will submit a letter of interest and response to the County's supplemental questions (designed to address specific County priorities and concerns) by August 26, 2003. A preliminary draft of supplemental questions is presented as Attachment 4.

Part 2 of the application consists of the Proposition 46 MHP application, with the self-scoring sheet required by the State prepared using two scenarios — without County funds and with County funds. In this way, the County expects to see the extent to which the use of County funds will increase the scoring potential of the project in Round 2 of the Prop. 46 MHP program, and thus the potential for State funding. Projects which receive County funding will have until December, 2004, to secure State MHP funding; this allows projects which are not successful in Round 2 of the Prop. 46 process to compete again for funding.

Category 2 Applications: The Category 2 RFP will outline an application process that differs from Category 1 applications by a slight revision in the questions posed to applicants and incorporation of more detailed project cost and financing information (since the MHP application will not be part of the County process).

Meeting Date: May 6, 2003
Processor Name: Helen Saliers

Item Number 27

CONSEQUENCES OF NEGATIVE ACTION

Should the Board not act on the approval of the Request for Appropriation Modification, the Affordable Housing funds will not be properly reflected in the County's financial statements for FY2003. Failure to accept the reports will not provide the Administration direction required to continue implementation of the affordable housing program and the required RFPs for distributing funds to housing sponsors will not be prepared.

STEPS FOLLOWING APPROVAL

No action by the Clerk of the Board of Supervisors is required.

ATTACHMENTS

- Attachment 4: Draft Schedule (Miscellaneous)
- Attachment 1: HLUET Public Comments (Miscellaneous)
- Attachment 3: Category Descriptions (Miscellaneous)
- Attachment 5: Draft Supplemental Questions 2 (Miscellaneous)
- Appropriation Modification No. 156 (Appropriation Modification (F-85))
- Attachment 2: Proposed Affordable Housing Fund Allocation (Miscellaneous)

Meeting Date May 6, 2003

Processor name Helen Salyers

Item Number 27