C I T Y O F O A K L A N D
AGENDA REPORT

TO: Office of the City Manager
ATTN: Robert C. Bobb
FROM: Community and Economic Development Agency
DATE: June 18, 2002

RE: DISCUSSION REGARDING THE POLICY OF DISTRIBUTION OF AFFORDABLE HOUSING FUNDS BETWEEN RENTAL AND HOMEOWNERSHIP PROJECTS.

SUMMARY

This report discusses the distribution of funds for affordable rental and ownership housing development. The request for this analysis stems from discussions surrounding the allocation of housing development funds to projects that responded to the 2001 Notice of Funding Availability (NOFA).

In 1993, the City Council adopted the policy that affordable housing funds from the federal HOME program and the Redevelopment Agency Low and Moderate Income Housing Fund should be divided 50% for rental housing and 50% for ownership projects and homebuyer assistance. The tenure of units to be built was incorporated into the ranking scheme used to determine City funding to help ensure that this goal was met.

The City invests considerable funds and staff time to programs that support and stabilize Oakland's stock of owner-occupied housing. Active investments include the First-Time Homebuyer program, Owner-Occupied Rehabilitation programs, the Community Land Trust program, the Vacant Housing Acquisition and Rehabilitation program, participation in the Homeownership Alliance, and teacher and police officer downpayment assistance. Due to several issues discussed in the ***Key Issues and Impacts*** section, ownership projects tend to serve substantially higher-income households than those served by rental housing developments, and need more per-unit subsidy.

Affordable housing, whether rental or owner-occupied, contributes to the revitalization of Oakland's neighborhoods. With limited resources available for housing development and many critical needs for City housing subsidies, however, staff recommends that Housing Development funds be allocated to projects based on the need of the population to be served, the length of the affordability restrictions, and the project's ability to leverage funds, rather than the tenure of housing.

FISCAL IMPACT

This report is informational only. No fiscal impacts are included.

BACKGROUND

This report on the allocation of housing development funds to rental and homeownership projects was requested by the City Council during the discussion of projects funded under the Housing Development NOFA issued August 20, 2001. In the past few years, several informational reports have been presented to the council on issues surrounding affordable housing. In June 1998, the Council participated in a working session on affordable housing needs. Most recently, a report concerning the allocation of Affordable Housing Bond funds and issues surrounding affordable housing development was accepted by the Council on July 10, 2001.

In February 2002, the City Council accepted the report of the Homeless and Very Low Income Task Force, which recommended that additional attention be given to meeting the housing needs of individuals earning less than $15,000 per year and households earning less than $23,000 per year (30% of the Area Median Income). Meeting this goal will require high levels of City subsidy.

The current City policy, adopted in 1993, is that affordable housing funds be split 50%-50% between rental and ownership projects. While allocations may vary somewhat from this goal from year to year, over the last several years funding allocations have been approximately in these proportions. This funding goal does not include the substantial amounts of CDBG funding provided for repair and improvement of existing owner-occupied housing. This report discusses issues surrounding the continued distribution of funds in this manner.

KEY ISSUES AND IMPACTS

The 2000 Oakland Consolidated Plan for Housing and Community Development recognizes the critical need for development of affordable housing, and establishes the expansion of the supply of affordable housing and the preservation of existing affordable housing resources as high priority goals for the City. These goals are consistent with the housing policy statement adopted by the Council in 1993, and are in support of the Council's goal #2, to plan, develop, and revitalize neighborhoods and the downtown area, and goal #4, to encourage and attract more development and appropriate use of land within the city.

Affordable housing developments, whether rental or owner-occupied, contribute to the economic revitalization and stability sought by many of Oakland's neighborhoods. By providing safe and decent housing options for Oakland's working families, senior citizens, and disabled populations, these developments play an important role in the strengthening of communities and help neighborhoods retain affordable housing stock and economic diversity in the face of rapidly escalating housing costs. Most developments are located near public transit and neighborhood amenities and, as urban infill projects, also contribute to the City's sustainability.

According to the U.S. Department of Housing and Urban Development (HUD), which establishes income limits used by federal, state and local housing programs, the median income for a household of four in Alameda County is $74,500 per year. Households earning less than $58,000 (80% of the Area Median Income, adjusted for family size) are targeted for federal and local housing programs, although households earning up to $89,400 (120% of the Area Median Income) are eligible for some programs. However, families earning less than $37,250 per year (50% of the Area Median Income) have particularly severe problems finding housing and have the highest rates of overpayment, overcrowding and substandard housing.

The Association of Bay Area Government's fair share housing allocations show that Oakland needs to develop approximately 7,700 units of housing between 1999 and 2006. The need for housing units affordable to households earning less than $37,000 per year and households earning between $58,000 and $89,400 is substantial: more than 2,200 units (29%) will need to be affordable to working families and individuals earning less than $37,000 per year. Twenty-five percent of the total projected housing need (approximately 2,000 units) will need to be affordable to moderate income households earning between $58,000 and $89,400 per year. Thirteen percent, approximately 1,000 units, will be necessary to meet the housing needs of working families earning between $37,000 and $58,000 per year. The remaining 2,600 units needed are market rate, many of which are currently in predevelopment or under construction.

In the current Oakland housing market, a modest home priced at $250,000 (well below the median price for Oakland) is out of financial reach for most families earning less than $65,000. Although homeownership is not generally an option for the lowest-income families, public subsidy can lower the sales price of a new home to the point that it is affordable for working families earning approximately $58,000 per year. Since there are few other funding sources of subsidy for owner-occupied housing, however, this subsidy is substantially higher on a per-unit basis than the subsidy needed for rental units that are affordable to families earning much less per year. This issue is discussed in detail later in this section of the report.

The City also provides assistance to first-time homebuyers to purchase existing homes, which are generally less expensive than newly constructed housing. The program provides a maximum subsidy of $50,000, which limits the number of homes which can be purchased under the program. While the program does not increase the supply of owner-occupied housing, it does provide homeownership opportunities to households that might otherwise not be able to purchase a home. Households earning up to $58,000, adjusted for family size, are eligible.

Issues included in the discussion below include:

- Critical demands are expected on affordable housing development funds in upcoming years.
- The demand for affordable housing development subsidies outstrips supply.

- Ownership housing needs larger per-unit subsidies than rental housing, yet generally serves higher-income people.
- The City has a historic commitment to supporting and enhancing the stock of affordable housing.

In the next few years, critical demands are expected on affordable housing funds.

Staff anticipates that the following major housing issues will need substantial City assistance in the coming years:

- Meeting the housing needs of working families earning less than $23,000 per year
- Preservation of existing affordable units in danger of conversion to market-rate
- Older senior developments in need of substantial rehabilitation
- Gap financing for HOPE VI projects

Meeting the housing needs of working families earning less than $23,000 per year, as identified by ABAG and the Homeless and recommended by the Very Low Income Housing Task Force, will require high subsidies.

Several sources have found that working families earning the minimum and/or living wage have particularly severe problems finding housing in Oakland. As discussed above, ABAG's fair share housing allocations project that Oakland needs to develop 7,700 new units of housing between 1999 and 2006. Approximately 29% of these units (2,200) must be affordable to households earning less than $35,000 per year. This income level is only slightly less than the combined household income of two adults working full-time at Oakland's living wage.

In addition, the City Council accepted the report of the Homeless and Very Low Income Housing Task Force, which recommended that the City increase housing affordable to households earning less than $23,000 per year. $23,000 is slightly more than the combined household income of two adults working full-time at the minimum wage.

Although applications for City funding receive extra points for providing units that serve working families earning less than the income levels cited above, the low rental income provided by such units makes it difficult for a project with a large number of units for these working families to be financially feasible. In order to ensure the development's long-term viability, the amount of outside – and usually, City – subsidy needed is higher than for projects serving higher-income renter households. To serve this population most effectively may also require investment in social services for residents and, in addition to development subsidy, an source of ongoing outside support for the project's operating expenses.

Funds will be needed to preserve currently affordable projects in danger of conversion to market-rate housing.

Preserving the existing stock of affordable rental housing has been a national and local concern for several years, due to the pending expiration of the original federal rent restrictions on the oldest Section 8 developments. The City has provided funds to help non-profits acquire these projects and continue the Section 8 assistance to the residents. Funds for two such projects were reserved in the last NOFA, preserving 185 units of deeply affordable senior housing.

Several thousand rental units in Oakland receive project-based Section 8 assistance. In the next four years, 255 of these units will be at serious risk for conversion to market-rate rents. Staff does not expect any of these units to be at immediate risk of conversion until 2004, when the Hotel Oakland (314 units) will be eligible to terminate its contract with HUD. However, in a recent survey of Section 8 properties, the owners of this property indicated that they had no plans to convert the units. As a result, this project is not considered to be at serious risk of conversion. Although the immediate need for preservation funding seems to have abated for FY 02-03 and FY 03-04, staff anticipates that further, substantial funding will be requested for such projects in just a few years. Based on the owner survey, 155 units in other projects will be at serious risk for conversion to market-rate rents in 2005, and 100 more units will be at serious risk for conversion in 2006.

There is a growing need to rehabilitate older (20-25 years) affordable units that have experienced deterioration over time or risk losing these units as affordable housing.

More than 3,000 units of senior housing in Oakland are over 20 years old. These projects were constructed using federal programs and have continued to receive federal operating subsidies. However, the cost of rehabilitation has risen at a faster rate than the maintenance and replacement reserves. Despite sound management and good maintenance practices, the buildings now need a substantial infusion of funds to replace systems in order to adequately serve the senior population. At an estimated cost of $18,000 per unit, it would take $54 million to fully rehabilitate these units. The City has had a policy of financing a maximum of 40 percent of a project's cost and has not been willing to bear the entire cost of renovating these developments. However, major requests for these types of projects are expected.

Projects receiving assistance through the federal HOPE VI program need large amounts of gap financing from the City.

The Oakland Housing Authority is working on several projects to rejuvenate some of its older developments using federal HOPE VI funding. Funds have been requested from the City to add affordable rental and ownership units to the replacement public housing units funded by the OHA and the HOPE VI program to create mixed-income, multi-site projects that will deconcentrate the poverty emblematic of the original developments. The OHA has successfully received four HOPE VI grants for such projects. Thus far, the City has provided approximately $7,700,000 in gap financing for two of these projects, Westwood Gardens and Chestnut/Linden

Court, including $1,548,000 for the ownership component of Chestnut/Linden Court. The OHA has received a HOPE VI grant for the Coliseum Gardens project and expects this project to compete for City funding in the next NOFA round. Staff anticipates that this 400 unit project may itself request a larger subsidy than the total amount of funds available for housing development in FY 02-03, and that the OHA will apply for HOPE VI funding for Tassafaronga Village in the future.

The demand for City subsidy of affordable housing development is much greater than the available resources.

In response to the needs for funding discussed above and the general shortage of affordable housing in Oakland, demands on the City's assistance are mounting and outstrip the available resources. Over $30 million was requested in response to the 2001 Affordable Housing Development NOFA. The City Council approved staff recommendations to reserve $16.9 million for nine proposals, leaving several worthy projects without City funding. This level of funding was possible only by making advance commitments of funds that will not be able to be used until FY 02-03. Funds currently identified for the next NOFA total approximately $4.5 million: $1,729,300 from the federal HOME program and $2,823,647 from the Redevelopment Agency's 25% set-aside for the Low and Moderate Housing Fund. Staff projects that housing development funds for new construction and major rehabilitation for FY 03-04 will total roughly $6,750,000. These amounts are substantially less than the likely needs discussed in the previous section.

Although CDBG funds were not included in the original City Council goal for the distribution of housing funds, substantial amounts of CDBG money is used to strengthen Oakland's stock of ownership housing via the Owner-Occupied Rehabilitation Program. Since it is a source of funding for affordable housing, these amounts are included below in the budget projections.

Matrix A, below, shows the approved FY 02-03 budget amounts and sources for all of the City's affordable rental and homeownership housing programs. $9,790,000 (46%) is reserved for new ownership opportunities and the support of existing owner-occupied housing. $5,000,000 (23%) is reserved for rental housing via the Rental Housing Acquisition and Rehabilitation Program (R-HARP; details to be presented to Council in the future). $4,553,947 (31%) will be available for the development of affordable rental or ownership housing.

Matrix B, below, shows the estimated FY 03-04 budget amounts and sources for all of the City's affordable rental and homeownership housing programs. Approximately $5,000,000 (43%) is estimated to be reserved for ownership programs. Likewise, $6,750,000 (57%) is estimated to be reserved for the development of rental or ownership housing. No funds are budgeted in FY 03-04 for the Rental Acquisition and Rehabilitation Program or the Vacant Housing Acquisition and Rehabilitation Program.

Matrix A: FY 2002-03 Budget Allocations for Housing

	CDBG	HOME	Redevelopment Agency	Affordable Housing Bond	***Total***
Community Land Trust	0	0	0	5,000,000***	**5,000,000**
First Time Homebuyer	0	0	1,250,000	1,250,000	**2,500,000**
Homeowner Rehab	2,290,000	0	0	0	**2,290,000**
Housing Development (New/Major Rehabilitation)	0	1,729,300*	2,823,647**	0	**4,552,947**
Rental Housing Acquisition and Rehabilitation Program	0	0	5,000,000***	0	**5,000,000**
Vacant Housing Acquisition and Rehabilitation Program	0	0	2,097,550	0	**2,097,550**
Total	**2,290,000**	**1,729,300**	**11,171,197**	**6,250,000**	**21,440,497**
Ownership	2,290,000	TBD	>1,250,000 (TBD)	6,250,000	>9,790,000
Rental	0	TBD	>5,000,000 (TBD)	0	>5,000,000

*Remainder after subtracting an allocation ($2,451,000) from the budgeted FY 02-03 HOME funds for made under the 2001 NOFA (Northgate Apartments).
** Remainder after subtracting an allocation ($979,000) from the budgeted FY 02-03 Redevelopment Agency funds made under the 2001 NOFA (Westwood Apartments).
***Funds approved in the current two year budget.

Matrix B: Projected FY 2003-04 Budget Allocations for Housing

	CDBG	HOME	Redevelopment Agency	Affordable Housing Bond	***Total***
Community Land Trust	0	0	0	0	**0**
First Time Homebuyer	0	0	2,500,000	0	**2,500,000**
Homeowner Rehab	2,290,000	0	0	0	**2,290,000**
Housing Development (New/Major Rehabilitation)	0	4,200,000	2,550,000	0	**6,750,000**
Rental Housing Acquisition and Rehabilitation Program	0	0	0	0	**0**
Vacant Housing Acquisition and Rehabilitation Program	0	0	0	0	**0**
Total	**2,290,000**	**4,200,000**	**5,050,000**	**0**	**11,540,000**
Ownership	2,290,000	TBD	>2,500,000 (TBD)	0	> 4,790,000
Rental	0	TBD	TBD	0	< 6,750,000

Due to the high demand for City assistance in the 2001 NOFA, $3,430,000 from the approved FY 02-03 budget has already been reserved for two projects. As the notes specify, these reservations have been deducted from the approved budgeted amounts to yield the figures above.

It is important to recognize that different regulations govern these different sources of funds. The funds available from HOME must be used for projects serving households earning no more than $58,000, adjusted for family size. The difficulty of developing ownership housing affordable to families at this income is discussed below. As a result, HOME funds are not likely to be able to be used for homeownership projects. Funds from the ORA Low and Moderate Income Housing Fund may be used for projects serving households earning up to $89,400. However, developers submitting applications for federal Low Income Housing Tax Credits report that it is more difficult to be competitive for tax credits with an allocation of HOME rather than ORA funds, since HOME funds limit the basis amount with which the amount of credits available to a project is calculated. If, in the future, the majority of the Low and Moderate Income Housing Fund is distributed to homeownership projects because they are not eligible for HOME funds, it may be difficult for family rental projects to receive tax credits and move forward.

Also, these different funding sources carry different restrictions on the length of time the affordability of the assisted unit is required. Housing Development programs, including the Vacant Housing Acquisition and Rehabilitation Program, require at least fifty-five years of affordability, regardless of prepayment of the loan. Community Land Trust funds will be used to ensure permanent affordability of the homes in the land trust. First-time homebuyer downpayment assistance and the owner-occupied rehabilitation programs do not carry continuing affordability restrictions. City funds are repaid when the house is sold or refinanced, but there is no guarantee that the assisted unit will remain an affordable housing resource.

Ownership housing needs larger per-unit subsidies than rental housing, yet generally serves higher-income people.

The following issues inform the discussion of the cost of assisting ownership developments:

- Ownership projects leverage less money from other sources, so the City contribution is a larger proportion of the total development cost.

- Comparing just the subsidy necessary to develop ownership and rental units does not account for the fact that other sources of funding for rental units impose deeper affordability limits than Redevelopment Agency funds carry, so these projects serve lower-income families than ownership housing.
- It is prohibitively expensive to develop a unit of affordable owner-occupied housing for a family that would be eligible to live in a typical rental project – and typical residents of City-assisted ownership projects are over-income for City-assisted rental projects.

Ownership projects leverage less money from other sources, so the City contribution is a larger proportion of the total development cost.

Per-unit development costs are similar for homeownership and similarly-sized family rental units. However, ownership units require a larger per-unit City subsidy because there are few other sources of financing. Matrix C, below, details the non-City financing sources available for affordable rental and ownership housing.

Matrix C: Sources of Non-City Financing for Affordable Rental and Ownership Housing

Funding Source	**Federal Tax Credits**	**HUD (Senior/ Disabled)**	**Private Loan**	**CHFA**	**State (MHP)**	**Federal Home Loan Bank (AHP)** Max: $7,500 per unit
Rental Projects						
Under 50% AMI	X	X	X	X	X	X
Under 60% AMI	X	X	X	X	X	X
60%-80% AMI			X	X	X	X
80%-120% AMI			X			
Ownership Projects						
Under 50% AMI			X			X
Under 60% AMI			X			X
60%-80% AMI			X			X
80%-120% AMI			X			

Attachment A, *Housing Development Costs and Leveraging Ratios*, compares the per-unit development costs and subsidies of family rental and ownership projects currently in predevelopment or construction. Showing the effects of the lack of non-City funding sources, each City dollar used for ownership projects leverages $2.53 in outside funding, substantially less than the average $4.29 leveraged by new family rental projects. And, although development costs are similar for similarly-sized family rental and ownership units, the difference between the per-unit City development subsidy for rental and ownership projects is approximately $21,000. While this difference might be an acceptable City investment in homeownership projects, it is important to remember that the homeownership projects also generally serve households earning $20,000 to $44,000 more per year than residents of family rental projects.

Comparing just the subsidy necessary to develop ownership and rental units does not account for the fact that other sources of funding for rental units impose deeper affordability limits than Redevelopment Agency funds carry, so these projects serve lower-income families than ownership housing.

Although City and Agency funds are available for higher-income families, most affordable family rental projects depend on an allocation of federal Low Income Housing Tax Credits, which restrict resident incomes to $45,350 (60% of the AMI). Ownership units tend to have much higher income limits. As discussed previously in this report, assistance from the Redevelopment Agency Low and Moderate Income Housing Fund is available for projects serving households earning up to $89,400 per year (120% of the AMI). Attachment B, *Affordability of City-Assisted Affordable Housing, January 2001-present,* shows the number of units at each income level for which the City has reserved funds in the last fifteen months. Almost all rental units are affordable to families earning more than $40,800 per year, while almost no ownership units are affordable to families at this income level. To fully understand the costs of owner-occupied housing, it is necessary to compare what it would cost to develop a unit of rental housing and a unit of ownership housing for a family that would qualify to live in a typical rental project.

It is prohibitively expensive to develop a unit of affordable owner-occupied housing for a family that would be eligible to live in a typical rental project – and typical residents of City-assisted ownership projects are over-income for City-assisted rental projects.

The cost of constructing new single-family homes has risen to the point that it is extremely difficult to build homes that are affordable to households earning less than $58,000 per year (80% of the Area Median Income) and that comply with the City's policy limiting assistance to 40% of total development costs. As a result, in one housing development project funded this year, families earning up to $89,400 (120% of the Area Median Income for four people) will be eligible to buy half of the project's homes – which have each received a City subsidy of approximately $118,000. Attachment C, *Comparison of City Subsidy Needed to Develop One Unit of Ownership Housing, by Household Income,* illustrates the gap between total development cost and an affordable sales price for families at different income levels.

Developing an affordable homeownership unit for a working family of four earning $45,350 per year (the maximum income permitted for rental units receiving federal Low-Income Tax Credits) would require outside subsidy of $189,309 per unit (62% of the development cost), as illustrated in Attachment C. Even if the City provided financing for 40% of the development cost as per City policy, a financing gap of almost $67,000 would remain. In contrast, developing a rental unit for this same family would require an average City subsidy of approximately $65,000 per unit, a difference of about $124,000. In other words, at this income level, the premium for making a unit available for ownership rather than rental is approximately $124,000.

If it were possible to provide homeownership opportunities to families that would otherwise qualify to live in a City-assisted rental development, Housing Development funds might be the most appropriate source for this homeownership premium. However, since City-assisted ownership units are typically affordable only to families earning between $58,000 and $89,400 per year, and there are critical needs for Housing Development funds for projects serving households earning between $22,350 and $45,350 per year, it may be appropriate that other funds be considered as sources for this premium.

Substantial City investment has been made to programs that create new affordable housing opportunities and strengthen the stock of affordable housing.

City investment in affordable housing is made as part of wider efforts to stabilize and revitalize communities. One hundred fifty-nine units of new ownership housing, 476 affordable family rental units, and 333 rental units of affordable housing for seniors and people with special needs are currently in predevelopment or under construction. Each of these well-designed and well-sited developments will contribute to the revitalization and stability of the neighborhoods where they are located by providing quality, dependable and affordable housing where little is currently available.

Attachment D, *Allocation of Funds for Housing Development and Homebuyer Assistance,* shows the allocation of housing funds for rental and ownership projects since 1997. In the past six years, approximately 60% of affordable housing funds have been allocated to rental housing and 40% have been allocated to home ownership. These figures include the First-Time Homebuyer Program and the Community Land Trust (CLT) Program. Five million dollars from the Affordable Housing Bond was approved for the Community Land Trust Program in the current two year budget. The CLT program (description of which will be presented to the City Council later this month) is dedicated to increasing homeownership opportunities and ensuring the permanent affordability of units developed under the programs. In addition, the total City investment in affordable housing includes the CDBG commitments for rehabilitation programs for owner-occupied housing. Approximately $15,570,000 in CDBG funds has been used for these programs since FY 96-97. If these funds are included in the totals, the City has distributed 51% of its funding to rental projects and 49% to ownership over the last six years. This funding history illustrates the strength of the City and Agency's commitment to creating and sustaining ownership opportunities for working families in Oakland.

The importance of increasing the stock of ownership housing in Oakland that is affordable to working families is not under question. However, the City must make priorities for its limited housing development resources, and is facing critical demands to create housing for families headed by workers earning minimum and living wage and to preserve existing affordable units. In light of these needs, it may be prudent to target City housing development funding towards projects that serve the highest-need populations, are able to leverage the largest amount of outside funding, and provide the longest term of affordability. As outlined in the discussion above, homeownership projects often do not meet these objectives.

SUSTAINABLE OPPORTUNITIES

In order to incorporate sustainable development principles pursuant to City Council Resolution No. 74678, C.M.S. adopted on December 1, 1998, sustainable development guidelines are included in Housing Development NOFAs. Developers are required to submit a *Sustainability Statement* outlining the economic, environmental, and social equity benefits of their projects as part of their NOFA application.

Affordable housing projects tend to be highly sustainable developments which showcase the environmental, economic, and social equity hallmarks of sustainability. Developments tend to exceed California's Title 24 energy standards, providing long-term energy efficiency for their residents. As urban infill projects typically located near mass transit and neighborhood amenities, these developments provide housing that is not dependent on constant use of the automobile and is an alternative to urban sprawl, contributing to Oakland's sustainability as a city.

Descriptions of the sustainability of specific projects will be included with future reports seeking approval of City assistance for those projects.

DISABILITY AND SENIOR CITIZEN ACCESS

All housing development projects receiving federal funds are required to construct and set aside units to be occupied by person with disabilities as required by Federal Section 504 regulation. This means that at least 5 percent of newly constructed units will be available to persons with disabilities. An additional 2 percent of newly constructed units will be available to persons with visual or hearing disabilities. The State's Title 24 requirements and the Americans with Disabilities Act require consideration of persons with disabilities in design and construction of housing. In all rental units and some ownership housing types those requirements include accessible units and facilities. Furthermore, developers will be required to devise a strategy to effectively market housing units to the disabled community and present this strategy as part of their Affirmative Fair Marketing Plan.

The City strongly supports affordable senior developments, reserving more than $9.2 million for the development and preservation of 317 units of low-income senior housing in the last two funding rounds. Two projects are currently in construction, and three are in predevelopment.
CEDA staff will work with developers to insure that the maximum numbers of available units are actually occupied by persons with disabilities and seniors.

RECOMMENDATIONS AND RATIONALE

To meet the need for low-income housing identified by ABAG and the attention on providing housing for very low income households recommended by the Homeless and Very Low Income Housing Task Force, staff recommends that Housing Development funds be focused on providing assistance to projects serving households with the greatest levels of need, particularly those earning under $58,000 (80% of the Area Median Income) per year. To meet this goal, staff recommends that the Housing Development NOFA process give greater weight to the need of the population to be served, the length of the affordability restrictions and the project's ability to leverage outside funding, rather than the tenure of housing.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept this report.

Respectfully submitted,

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Executive Director

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APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC
DEVELOPMENT COMMITTEE:

____
OFFICE OF THE CITY MANAGER

Attachments

Attachment A:
Housing Development Costs and Leveraging Ratios

(New Family Ownership and Rental Units in Predevelopment or Construction, June 2002)

Project	Units	Total Development Cost	TDC per unit	% City	City $ per unit	Private $ per City Dollar	Other public $ per City Dollar	Total $ Leveraged per City Dollar
New Family Ownership Projects								
AACWA*	9	$ 1,541,000	$ 171,222	32%	$ 54,556	$ 2.14	$ -	$ 2.14
Chestnut Court Ownership	15	$ 4,488,000	$ 299,200	38%	$ 115,133	$ 0.21	$ 1.39	$ 1.60
Fruitvale Avenue Homes**	4	$ 795,000	$ 198,750	14%	$ 28,000	$ 6.10	$ -	$ 6.10
Horizon Townhomes	18	$ 5,492,849	$ 305,158	39%	$ 120,278	$ 1.54	$ -	$ 1.54
Leola Terrace II - New Constr.	4	$ 995,651	$ 248,913	40%	$ 98,500	$ 1.53	$ -	$ 1.53
MLK Plaza	11	$ 3,258,720	$ 296,247	39%	$ 117,016	$ 1.53	$ -	$ 1.53
Palm Villa***	78	$ 18,243,888	$ 233,896	23%	$ 54,526	$ 3.29	$ -	$ 3.29
Average			**$ 250,484**	**32%**	**$ 84,001**	**$ 2.33**	**$ 0.20**	**$ 2.53**
New Family Rental Projects								
Chestnut Ct. and Linden Ct.	151	$ 39,807,683	$ 263,627	17%	$ 40,697	$ 3.37	$ 2.11	$ 5.48
Fruitvale Transit Village	10	$ 2,708,260	$ 270,826	28%	$ 75,000	$ 2.61	$ -	$ 2.61
International Boulevard II	24	$ 5,886,535	$ 245,272	35%	$ 84,715	$ 0.81	$ 1.09	$ 1.90
Northgate Apartments	42	$ 11,287,240	$ 268,744	35%	$ 93,901	$ 1.86	$ -	$ 1.86
Westwood Gardens Rental	167	$ 37,146,527	$ 222,434	9%	$ 20,958	$ 6.96	$ 2.66	$ 9.61
Average			**$ 254,181**	**25%**	**$ 63,054**	**$ 3.12**	**$ 1.17**	**$ 4.29**

* Projected development cost - modular homes. Other projects are stick-built.

** Land provided to the developer at no cost to enable affordable housing development. Substantial reduction in total development cost due to use of sweat equity in construction.

*** $700,000 of the City/Agency subsidy will be repaid through buyer resale.

Attachment B:
Affordability of City-Assisted Affordable Housing, January 2001-June 2002

Income Limits for Household of Four	**Total Units**	Homeownership		Rental	
		Number of Units	**% of Units**	**Number of Units**	**% of Units**
At or below $26,075 (35% AMI)	213	4	5%	209	24%
At or below $37,250 (50% AMI)	565	0	0%	565	64%
At or below $45,350 (60% AMI)	116	7	9%	109	12%
At or below $58,000 (80% AMI)	61	55	68%	6	1%
At or below $89,400 (120% AMI)	15	15	19%	0	0%
Total	970	81	100%	889	100%

Homeownership units affordable to households earning less than $26,075 are possible using the Habitat for Humanity model, which uses sweat equity and volunteer labor for a substantial portion of construction.

Homeownership units affordable to households earning less than $45,350 are part of a larger development that includes units for higher-income households to offset the financing gaps for the lower-income households.

Attachment C:
Comparison of City Subsidy Needed to Develop One Unit of Ownership Housing, by Household Income

Income for Household of 4	**$ 45,350**	**$ 58,000**	**$ 74,500**	**$ 89,400**
% Area Median Income	60%	80%	100%	120%
Maximum Affordable Sales Price of Unit*	109,031	130,416	239,752	267,086
Total Development Costs**	**305,840**	**305,840**	**305,840**	**305,840**
Non-City Permanent Sources				
Sales Proceeds	109,031	130,416	239,752	267,086
Affordable Housing Program (Grant)***	7,500	7,500	0	0
	116,531	137,916	239,752	267,086
GAP (Subsidy Needed)	**189,309**	**167,924**	**66,088**	**38,754**
City subsidy - 40% or less of TDC	122,336	122,336	66,088	38,754
Additional subsidy needed	66,973	45,588	0	0
Gap as % of Total Development Costs	62%	55%	22%	13%

* Affordable Housing Cost as determined using City formula. Rather than issuing silent second mortgages to ensure affordability, the City now limits the actual sales price of the unit for perpetuity and provides the necessary grant to the developer. A 5% downpayment is assumed.

** Average per-unit development cost calculated from applications for new family ownership housing under the most recent NOFA. Includes land, hard construction costs, soft costs (architect, engineer, legal, environmental, etc.), developer fee, and seller's closing costs.

*** Grants (up to $7,500 per unit) from the Federal Home Loan Bank are available for projects serving households earning less than 80% AMI.

Attachment D: Allocation of Funds for Housing Development and Homebuyer Assistance

FY 1996-97 through FY 2001-2002

(Exclusive of administration and program delivery costs for staff and overhead)

	FY 96-97	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	Total
HOMEOWNERSHIP							
First Time Homebuyers Assistance	2,500,000	2,750,000	2,500,000	3,500,000	1,189,787	2,500,000	**14,939,787**
Homeowner Rehab (from HOME)					1,710,213	0	**1,710,213**
Homeownership Development	4,965,000	2,505,560	772,175		4,000,000	2,165,000	**14,407,735**
SUBTOTAL - Owner	7,465,000	5,255,560	3,272,175	3,500,000	6,900,000	4,665,000	**31,057,735**
RENTAL DEVELOPMENT							
Family Rental Development	7,269,965	(2,119,387)	2,016,854	5,295,273	8,410,000	9,210,900	**30,083,605**
Senior Rental Development	1,853,000	1,619,847	526,000	3,860,596	1,654,000	5,391,100	**14,904,543**
Special Needs Rental Development	0	0		135,350	1,066,000	0	**1,201,350**
SUBTOTAL -- Rental	9,122,965	(499,540)	2,542,854	9,291,219	11,130,000	14,602,000	46,189,498
GRAND TOTAL	16,587,965	4,756,020	5,815,029	12,791,219	18,030,000	19,267,000	**77,247,233**
Percent Ownership	45%	111%	56%	27%	38%	24%	**40%**
Percent Rental	55%	-11%	44%	73%	62%	76%	**60%**

Figures include funding of all housing development projects funded from 2001 NOFA Awards in February 2002.
Figures include reallocation of funds from First-Time Homebuyer to Owner-Occupied Rehab (no impact on owner/rental ratio)
Negative allocations reflect recapture of funds from canceled projects.

Percentages if CDBG and Section 108-funded Rehab Programs are included	
Homeownership (from above)	**31,057,735**
CDBG Programs for Owner Occupied Housing	**15,570,000**
SUBTOTAL OWNER PROGRAMS	**46,627,735**
Rental Housing Development (from Above)	**46,189,498**
CDBG Programs for Rental Housing	**2,000,000**
SUBTOTAL RENTAL PROGRAMS	**48,189,498**
GRAND TOTAL	**94,817,233**
Percent Ownership	**49%**
Percent Rental	**51%**

NOTES:

1. Figures include all funding allocations based on date of Council approval, not budget year; if projects were later cancelled, that amount is subtracted in the year the project was cancelled.

2. Cancelled projects include:

FY 97-98	Buell Street Cooperatives (rental)	1,099,725
FY 97-98	Evelyn Rose Family Housing (rental)	1,019,662
FY 98-99	Downtown Gateway (rental)	4,000,000
FY 99-00	San Antonio (rental)	1,800,000
FY 99-00	Oaks Hotel reductions (rental)	36,000

CDBG/108 estimates as follows:

	FY 96-97- FY 98-99 per year	TOTAL (3 yrs)	FY 99-00 to FY 01-02 TOTAL (3 yrs)	**GRAND TOTAL**
HMIP from RRP			1,200,000	1,200,000
HMIP	1,500,000	4,500,000	4,200,000	8,700,000
Paint	235,000	705,000	1,245,000	1,950,000
Access	200,000	600,000	420,000	1,020,000
Minor Home	250,000	750,000	750,000	1,500,000
Emergency Home			1,200,000	1,200,000
OWNER				**15,570,000**
Rental Rehab	500,000	2,000,000		2,000,000
RENTAL				**2,000,000**