

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



---

87725

**DATE:** August 15, 2017  
**TO:** Board of Supervisors  
**FROM:** Ky Le, Director, Office of Supportive Housing  
**SUBJECT:** Measure A Affordable Housing Bond Implementation Report #3

**RECOMMENDED ACTION**

Approve Guidelines (Version 3) for the County's Supportive Housing Development Program enabling the Administration to issue a Notice of Funding Availability for the development of multi-family rental affordable and supportive housing. (Office of Supportive Housing)

**FISCAL IMPLICATIONS**

There are no fiscal implications associated with the recommended action. However, the attached Supportive Housing Development Program guidelines (Guidelines) establish priorities for the County's housing development resources.<sup>1</sup> Most significant among those resources is the 2016 Measure A Affordable Housing Bond (Housing Bond). As part of the Board's agenda for August 15, 2017, the Finance Agency has prepared a resolution that would enable the County to issue up to \$250,000,000 in General Obligation Bonds in late October 2017.

Of the approximately \$250,000,000 from the first bond issuance the Administration proposes using \$25,000,000 for a First-Time Homebuyer Down Payment Assistance Loan Program. While all of the loans would originate from the County, the Office of Supportive Housing (OSH) plans to select an organization to assist County staff administer the program. The OSH will start the formal competitive process in early October 2017. The balance from the first issuance would be used to develop multi-family rental affordable and supportive housing. This includes using Housing Bond funds to repay the \$11,900,000 in County General Funds that were advanced to assist affordable housing developers acquire land.

---

<sup>1</sup> Supportive Housing Development Program is the current term for County activities to develop multi-family rental affordable and supportive housing. In previous reports and documents, the Administration used other terms, and the current term may eventually be replaced by another.

## **REASONS FOR RECOMMENDATION**

### ***Purpose & Applicability***

This is the Administration's third Housing Bond implementation report and is focused on finalizing the Supportive Housing Development Program's Guidelines, which establishes priorities and criteria for the development of multi-family rental affordable and supportive housing using County funds. Finalizing the Guidelines enables the Administration to issue a Notice of Funding Availability (NOFA) and establish a formal yet flexible process for accepting and assessing proposals from housing developers. The Guidelines support the County's housing priorities (December 16, 2014, Item #18) and enable the County and the cities to meet significant portions of our Regional Housing Needs Allocation (RHNA) goals as they relate to extremely low income (ELI) and very low income (VLI) households.

The Guidelines and the subsequent NOFA enable the County to begin using a significant portion of the Housing Bond. Through the Housing Bond, the County will issue a total of \$950,000,000 in general obligation bonds, of which at least \$700,000,000 will assist households ELI and \$100,000,000 will assist VLI households. The Guidelines and NOFA will also guide the use of the County's other housing development funds, including, but not limited to the County's allocation of No Place Like Home Program funds, the Community Development Block Grant (CDBG), and the Home Investment Partnerships Program (HOME).

The Guidelines advance most, but not all, of the goals associated with the Housing Bond. Based on the availability of and restrictions associated with other funding sources for housing development, it is unlikely that proposals in response to the NOFA will include rental units for households who are earning more than 60% of area median income (AMI). The Guidelines do not preclude the County from considering developments that also include these types of units; however, directly financing these units may not be feasible until the end of calendar year 2017. The OSH needs more time to consider the programmatic, underwriting, and compliance standards for financially supporting such units, especially those serving households earning between 81% and 120% of AMI.

Similarly, while the Guidelines do not preclude the County from considering developments that include for-sale below market rate (BMR) housing units, the Supportive Housing Development Program is not designed to finance the construction of BMR units. As indicated in previous reports, the OSH will be working to revise the Guidelines or develop separate program guidelines to support the production of BMR units.

### ***Notice of Funding Availability and Process***

If there are no significant changes to the Guidelines, the Administration will issue the NOFA in early September 2017. The NOFA should be considered a part of the County's ongoing process to identify and support affordable housing developments. Unlike procurement

processes that have narrow windows for submission, review, and selection, the NOFA will be a call for projects with rolling submission deadlines.

Two aspects of the NOFA will allow the County to strategically coordinate the affordable housing development pipeline with the cities, the Santa Clara County Housing Authority (Housing Authority), and other government agencies. First, unlike a Request for Proposals, the NOFA will allow affordable housing developers to submit proposals “over the counter” on a rolling basis. By not having a funding cycle with hard submission deadlines, County and its development partners will have the flexibility to respond to development opportunities as they arise or are created. While the NOFA will not have hard submission deadlines, the OSH will periodically notify potential developers of “preferred submission dates.” The intent is to gather, consider, and negotiate cohorts of development proposals so that the County and the cities can establish a pipeline of 120 – 140 developments over the next ten years.

Second, the Administration will not be required to accept or reject proposals on a first come, first served basis. In the same vein, proposals that meet the Guidelines’ and NOFA’s minimum requirements may not be immediately funded. The Administration would have the ability to negotiate modifications to proposals in order to maximize benefits to Santa Clara County residents. In doing so, the Administration would consider various factors, including other development opportunities and the availability and types of funding sources for development, operations, and services.

Concurrently, the OSH would work to establish an acquisition and predevelopment fund that is structured similar to the State of California’s Housing and Community Development Golden State Acquisition Fund. One impediment to the development of affordable housing is the lack of access to capital by affordable housing developers for the acquisition of property. The County is not in the best position to approve acquisition and predevelopment proposals that have not gone through a formal public process. The Administration believes that presenting acquisition related proposals prematurely bifurcates the public process and would ultimately be detrimental to the project later. The fund will afford developers with a speedy process to acquire sites that are contemplated to align with the County’s NOFA and sets penalties for projects that do not ultimately meet the requirements under the NOFA.

The Board of Supervisors would approve all funding commitments for the construction and permanent loans. The OSH has primary responsibility for reviewing, negotiating and underwriting development proposals. Prior to the Board’s consideration, a committee of executives from various departments would review the developments that the OSH intends to recommend for funding. In previous reports, the OSH described this committee as a “loan committee.” That term mischaracterizes the committee’s role. While loan committees are typically a part of the underwriting process, the Supportive Housing Development Program’s review committee is tasked with:

- Ensuring that the rationale for the proposed funding commitments and the development pipeline are strategically sound and maximize opportunities to leverage other funding sources including County facilities and services;
- Helping the OSH plan, organize, and deliver effective and efficient supportive services that are appropriate for the residents of the proposed developments; and,
- Identifying and marshalling other County services or initiatives that could support or expedite the proposed developments.

In addition, on an ongoing basis, the OSH will meet with cities, the Housing Authority, and VTA, to identify, share, create and coordinate development opportunities.

### ***Project Types***

The Guidelines would direct the Administration to fund two types of developments.

Type 1: Projects that commit at least 50% of the units within the project as a combination of Permanent Supportive Housing (PSH) and/or Rapid Rehousing (RRH) units. The RRH units are sometimes referred to as Transition in Place units.

Type 2: Projects that have an affordability structure resulting in an average affordability of 45% of AMI and commit a minimum of 1/3 of the affordable units as a combination of PSH or RRH, 1/3 of the affordable units for ELI households and 1/3 of the affordable units for households earning up to 80% AMI.

The Guidelines are intended to address the severe shortage of rental housing that is affordable and accessible for our community’s poorest individuals and families, especially those with special needs and/or who are homeless. In a report to its Neighborhoods Commission on April 12, 2017, the City of San Jose noted that ELI “housing currently makes up less than 1% of the City’s housing stock. ELI deed restricted apartments typically support low-wage earners, seniors, and at-risk households with annual incomes of \$12,000 to \$26,000 per year.”<sup>2</sup> According to the Association of Bay Area Governments (ABAG), Santa Clara County’s 15 cities and the County must produce 8,083 new housing units that are affordable to ELI households between 2014 and 2022 just to keep up with projected population growth.

### ***Eligible Uses***

The County’s housing development resources may be used for acquisition, predevelopment, construction and development, and/or permanent financing. While not an allowable expense under the Housing Bond, some County housing funds may be used as a capitalized operating reserve.<sup>3</sup>

---

<sup>2</sup> <http://sanjoseca.gov/DocumentCenter/View/67507>

<sup>3</sup> In some instances a capitalized operating reserve is also known as a capitalized operating services reserve (COSR).

The County's priority is new construction. It is critical to increase the supply of affordable and supportive housing. However, the Guidelines also enable the County to support rehabilitation projects and the preservation of affordable housing which is at risk of converting to market-rate, especially ones that deepen affordability and/or also add housing inventory.

Most of the County's housing funds will be conveyed as soft loans to affordable housing developers. Generally, these loans have a simple interest rate of no more than 3% and repayments are based on properties' residual receipts. The loans are secured by deeds of trust and other recorded restrictions. The loans' primary purpose is to ensure the long-term availability of affordable and supportive housing. The County may also consider issuing loans with different terms in order to maximize other funding sources and development opportunities.

### ***Development of the Guidelines***

Since January 2017, the OSH, individually or in groups, met with cities, the Housing Authority, VTA, developers, housing organizations such as HTSV, the Santa Clara County Cities Association, the Santa Clara County Association of Planning Officers (SCCAPO), the Santa Clara County City Manager's Association, service providers, the Silicon Valley Council of Nonprofits, and housing advocates to share the County's plans and to solicit feedback.

The OSH prepared and circulated two drafts of the Guidelines. Attachment C includes the first version of the Guidelines, comments and questions from stakeholders, and responses from the OSH. The OSH prepared and issued the second version of the Guidelines on July 5, 2017. Attachment B includes the second version of the Guidelines and written comments from various stakeholders.

The Administration requests that the Board consider and approve the third version of the Guidelines, which is included as Attachment A. This version incorporates some of the verbal feedback from cities and some of the written feedback from developers, service providers and advocacy organizations. Service providers were mainly focused on ensuring that the Guidelines were specific or broad enough to serve as many vulnerable populations as possible.

Cities were principally focused on: 1) being included in the development process; 2) ensuring that their residents benefitted from the developments to the greatest extent possible; 3) ensuring that the County's underwriting standards did not conflict with their own; and, 4) ensuring that development teams (i.e., developer, property manager, resident services, and supportive services provider) had sufficient resources and expertise to effectively operate housing developments with significant set asides for permanent supportive housing and rapid rehousing. Developers were focused on: 1) the County's eligible project types; 2) understanding how the supportive services will be committed, how they will be deployed to

each development, and how the service provider will be selected; 3) understanding the different between PSH and RRH units; and 4) the review and approval process.

### **CHILD IMPACT**

The recommended action will have no/neutral impact on children and youth.

### **SENIOR IMPACT**

The recommended action will have no/neutral impact on seniors.

### **SUSTAINABILITY IMPLICATIONS**

The recommended action will have no/neutral sustainability implications.

### **BACKGROUND**

In the Administration's first Housing Bond implementation report (February 7, 2017, Item #21) the OSH outlined an approach to addressing a part of the housing crisis affecting Santa Clara County residents, especially extremely low income (ELI) families and individuals with disabling conditions who are disproportionately impacted by the lack of affordable housing. The second report (May 9, 2017, Item #13) refined the communitywide goals and proposed programs, outlined a spending plan for the proceeds from the first issuance of bonds, provided better estimates of the resources that the County would need to implement the Housing Bond, and included draft guidelines for the Supportive Housing Development Program.

On June 21, 2016, the Board of Supervisors unanimously approved placing a \$950,000,000 affordable housing bond on the November 2016 ballot. The Board considered the work of the Housing Task Force and other data before voting on a resolution to place the housing bond measure on the November 2016 ballot. The housing bond was placed on the November 2016 ballot as Measure A. California law allows the County to issue general obligation bonds with the approval of two-thirds of the votes cast by County voters.

Santa Clara County voters approved Measure A on November 8, 2016. The Housing Bond provides the County with an unprecedented opportunity to partner with cities, residents and the affordable and supportive housing community to significantly address the housing needs of the community's poorest and most vulnerable residents. Housing special needs populations is a County priority; therefore, the County takes an active role in developing, financing and supporting various types of affordable housing for the populations served. The County's goals are to:

- Increase the scope and breadth of supportive housing for special needs populations, including homeless and chronically homeless persons;
- Increase the supply of housing that is affordable to extremely low income (ELI) households; and,

- Improve coordination and collaboration among the County, cities, other governmental agencies, and the affordable housing community.

### **CONSEQUENCES OF NEGATIVE ACTION**

In order for the Administration to issue a notice of funding availability (NOFA) and receive development proposals for multi-family rental affordable and supportive housing, the Board must approve either the Administration's recommended program guidelines or a modified version thereof. If the program guidelines are approved without substantial changes, the Administration can issue the NOFA in early September 2017.

### **LINKS:**

- References: 86175 : 86175
- References: 84790 : 84790

### **ATTACHMENTS:**

- Attachment A - Supportive Housing Loan Program Guidelines V 3 (PDF)
- Attachment B - Supportive Housing Loan Program Guidelines V2 (PDF)
- Attachment C - Supportive Housing Loan Program Guidelines V1 (PDF)