



SAN RAFAEL CITY COUNCIL AGENDA REPORT

Department: Community Development

Prepared by: Alicia Giudice, Director
Chris Hess, Assistant Director
Alexis Captanian, Housing Analyst

City Manager Approval:  _____

TOPIC: 2023 AFFORDABLE HOUSING NOTICE OF FUNDING AVAILABILITY FUNDING RECOMMENDATION

SUBJECT: RESOLUTION AUTHORIZING THE EXPENDITURE OF \$1,450,000 IN FUNDS IN FULFILLMENT OF THE AFFORDABLE HOUSING TRUST FUND 2023 NOTICE OF FUNDING AVAILABILITY.

EXECUTIVE SUMMARY: On April 10, 2023, the City issued a [Notice of Funding Availability](#) for the preservation or development of affordable housing. The application period ended at 5:00 PM on May 15, 2023, with three responses received. Staff reviewed the responses and confirmed all three projects meet the requirements to be considered for funding. A City staff panel evaluated the three responses and presented them to the City Council subcommittee, comprised of Mayor Kate Colin and Councilmember Rachel Kertz. The staff recommendation provided in this report incorporates feedback received from the City Council subcommittee.

RECOMMENDATION:

Adopt the resolution authorizing:

- 1) The expenditure of \$1,450,000 plus administrative costs from the Affordable Housing In-Lieu Fee Fund for three 100% affordable housing projects in fulfillment of the Affordable Housing Trust Fund 2023 NOFA, and
- 2) The City Manager to execute all documents required to disburse the funds.

BACKGROUND:

The City of San Rafael is committed to creating and maintaining housing that is affordable to the San Rafael community, including lower and moderate-income individuals, as well as families and older adults, and individuals currently or formerly experiencing homelessness. The City maintains an Affordable Housing Trust Fund and periodically issues a Notice of Funding Availability to receive responses and evaluate the needs of organizations seeking funding from the City for the preservation or development of affordable housing.

FOR CITY CLERK ONLY

Council Meeting:

Disposition:

Affordable Housing Trust Fund

Developers who are creating market-rate housing can pay an in-lieu fee for a portion of the affordable housing obligation rather than providing the below market rate units within the residential project. Additionally, developers of certain commercial projects are required to pay a [commercial linkage fee](#) to offset the new need for affordable housing that the new commercial use is anticipated to create. These fees are deposited into the City's affordable housing trust fund. The current amount in the affordable housing trust fund is \$2,034,226. The City issued a Notice of Funding Availability for \$1.4 million, reserving some funds to pay for administration of the Below Market Rate Rental and Ownership Programs. These programs monitor rental and ownership units with affordability restrictions to ensure that tenants and homeowners are income-qualified, and that rents and home prices match the affordability restriction in place. Additionally, the City has reserved funds for emerging projects where City dollars could be used to leverage additional funding sources.

2023 Notice of Funding Availability – Affordable Housing

On April 10, 2023, the Community Development Department issued a [Notice of Funding Availability](#) for the acquisition/rehabilitation or new development of 100% affordable rental or ownership housing projects in the amount of one million four hundred thousand dollars (\$1,400,000) and invited qualified affordable housing sponsors to submit requests for funding for the preservation or development of affordable rental housing for seniors, families, and individuals and families with special needs including individuals and families who formerly experienced homelessness. The application deadline for this Notice of Funding Availability was May 15, 2023.

Considerations for Funding. The following considerations for awarding funding were included in the notice.

The project:

- Meets all requirements provided in the [Guidelines for the Administration of the Affordable Housing Trust Fund](#).
- Demonstrates site control or ability to achieve site control, including but not limited to a purchase and sale agreement, executed deed, or letter from a public agency or other entity agreeing to convey property and including the terms and conditions of such a transfer.
- Demonstrates fiscal capacity to provide the greatest return on the City's investment by maximizing number of affordable units created through the creative use of design, materials, construction techniques, and financing.

Financing plan includes reasonable per unit City subsidy, based on the applicant's funding request, coupled with other funding sources based on target population, project type and cost effectiveness (cost per person, externalities, reserves, leveraging).

- Ability to contribute toward meeting the City's goals for new housing development and the Regional Housing Needs Allocation (RHNA).
- Readiness in the form of approved entitlements and building permits and awarded state and federal funding.
- Located within a quarter mile of transit, or that provides units for larger families, or serves very-low- and/or extremely-low-income households or include 20% or more permanent supportive housing.

Additionally, staff evaluated funding requests based on their alignment with the four goals established in the City’s recently adopted [2023-2031 Housing Element](#):

1. End and prevent homelessness in San Rafael.
2. Combat housing discrimination, eliminate racial bias, and undo historic patterns of segregation.
3. Ensure housing habitability and maintenance.
4. Meet housing needs through a variety of housing choices and affordability levels throughout the city.

Analysis

The City received three responses to the Notice of Funding Availability totaling two million six hundred thousand dollars (\$2,600,000). Altogether, the three projects would result in the completion or rehabilitation and preservation of 169 deed-restricted affordable housing units. The three funding requests are summarized below.

2023 Affordable Housing Notice of Funding Availability (NOFA) – Responses Received

Address	Project Type	Units	Applicant	Estimated Project Cost	Prior Award	2023 NOFA Request
161 and 165 Novato St	Rehabilitation	4	Canal Alliance	\$400,000	--	\$400,000
101, 119 Nova Albion; 845, 865 Las Gallinas	Rehabilitation	125	BRIDGE Housing	\$12,200,000	--	\$1,400,000
3301 Kerner Blvd	Adaptive Reuse	40	Eden Housing	\$34,700,000	\$2,101,663	\$800,000
Totals		169				\$2,600,000

The project at 3301 Kerner Blvd has previously received funding from the City of San Rafael. In 2020, the City awarded a grant to the County of Marin, which leveraged the City’s funding to obtain Project Homekey funds for acquisition of the site. The City awarded \$850,000 in gap funding to the project in March 2022.

In May 2023, the Community Development Department assembled a panel of City staff to evaluate the responses using the criteria listed in Section 5 of City Council [Resolution No. 14760](#), *Guidelines for the Administration of the Affordable Housing Trust Fund*. The panel included the City’s Community Development Director, Assistant Director, Chief Building Official, Finance Senior Management Analyst, and Economic Development Director. The panel met on May 24 to evaluate each response, form a preliminary recommendation, and identify needs for additional information. Community Development staff then held follow-up meetings with the respondents in late May and early June to gather the additional information. A final preliminary evaluation and recommendation was presented to the City Manager. The City Council ad hoc subcommittee on Homelessness, which consists of the Mayor and Councilmember Kertz, received the preliminary recommendation on July 7, 2023, and provided comments to staff.

Funding Recommendation

The funding recommendation for the 2023 Affordable Housing Notice of Funding Availability is provided in the following chart. Funding is recommended from the Affordable Housing In-Lieu Fee Fund as follows:

Recommended Funding - Affordable Housing In-Lieu Fee Fund

Address (Project Type)	Request	Sponsor	Total Cost	2023 Request	Prior Award	Recommendation	Total City Funding (Per Unit)
Novato St (Rehab)	Rehab Funding	Canal Alliance	\$400,000	\$400,000	--	\$200,000	\$200,000 (\$50,000)
Nova Albion/Las Gallinas (Acquis/Rehab)	Rehab Funding	BRIDGE Housing	\$12,200,000	1,400,000	--	\$1,000,000	\$1,000,000 (\$8,000)
3301 Kerner Blvd (Adaptive Reuse)	Gap Funding	Eden Housing	\$34,700,000	\$800,000	\$2,101,663	\$250,000	\$2,351,663 (\$58,792)
Total						1,450,000	

Summaries for each project and justification for each funding award is provided below.

3301 Kerner Boulevard – Eden Housing

Staff recommends a grant award of \$250,000 to the 3301 Kerner Boulevard project, which will create 40 studio and 1-bedroom units of permanent supportive housing in a location near services. The project team closed on its construction financing in April 2023 and started construction in early May, however the building structure requires modifications because of its location in a floodplain. The recommended funding would be used to address this issue through a redesign, including raising the finished floor of the first-floor residential units. Staff recommends an additional award of \$250,000 to the project based on the deep affordability level, permanent supportive services, and overall addition of units to the City’s housing supply.

The project sponsor (Eden Housing) applied for PLHA1 funding through Marin County’s 2023 Notice of Funding Availability to help close this funding gap. PLHA funding awards are made on the same timeline and following the same process as CDBG and HOME funds, with the San Rafael City Council forwarding its recommendation to the Marin County Board of Supervisors for consideration. In May 2023, San Rafael City Council recommended \$250,000 in PLHA funding with a \$250,000 match from Marin County’s Housing Trust Fund, contingent on a matching \$250,000 award from the City of San Rafael. The recommendation is to fulfill the \$250,000 match from the Affordable Housing In-Lieu Fund for the project to receive equivalent Permanent Local Housing Allocation (PLHA) and County Housing Trust Fund awards. Together, the awards will total \$750,000. Awarding funding to help close this remaining gap assures the project is completed and placed in service on schedule, and fully leverages federal and County dollars. This project aligns with the City’s recently adopted Housing Element goals to end and prevent homelessness and to foster a range of housing choices throughout the City.

¹ Senate Bill 2 (SB2), adopted in 2017, established a permanent source of funding intended to increase the affordable housing stock in California, a permanent local housing allocation (PLHA). Marin County is eligible for non-competitive, entitlement funds. The five-year plan for these funds allocates funds to match local housing trust funds for acquisition, predevelopment, development, and preservation of multi-family projects, with an emphasis on projects for households that are at or under 60 percent of the Area Median Income (AMI).

3301 Kerner Blvd Permanent Supportive Housing – Sources of Funding (including operating subsidies)	Status	Amount
San Rafael/Marin County Land & Building Donation	Committed	\$7,250,000
No Place Like Home (NPLH) Funds	Committed	\$7,658,000
PLHA and Local Housing Trust Fund	Awarded	899,000
City of San Rafael Gap Loan (2021 NOFA)	Awarded	\$858,000
HPN and Marin Community Foundation Loan	Awarded	\$1,235,000
California Housing Accelerator	Awarded	\$25,800,000
County of Marin 20-year operating subsidy	Committed	\$19,600,000
City of San Rafael Gap Grant (2023 NOFA)	Recommended	\$250,000
County of Marin Affordable Housing Trust with Permanent Local Housing Allocation Match	Contingent on City match	\$500,000
Total Sources		\$64,050,000

Project funding history

- On January 21, 2020, the City Council adopted Resolution No. 14760 approving a grant of up to \$1,540,000 from the Affordable Housing Trust Fund to support the acquisition of the property in combination with Project Homekey funds. The City ultimately contributed \$1,251,663, which the County used to leverage \$5,940,000 in Project Homekey funds to purchase the property.
- In March 2022, the City Council adopted Resolution No. 15041 approving an \$850,000 loan for this project from the City’s Low- and Moderate- Income Housing Fund to help close a gap in project funding due to unanticipated cost increases. While projects are often funded through the Affordable Housing Trust Fund, the 3301 Kerner project met the specific criteria provided in Health and Safety Code Section 34176 for use of funds from the Low- and Moderate-Income Housing Fund.² The Low- and Moderate-Income Housing Fund does not have sufficient funds remaining to award to additional projects through the 2023 Notice of Funding Availability.

161 and 165 Novato Street – Canal Alliance

Staff recommends a grant award of \$200,000 for the renovation of four units, including funding for temporary relocation of tenant households. Canal Alliance, the applicant, has owned 12 units at Marin Villa Estates for over 20 years and the units have not been updated during this time. These units are deed-restricted for households earning very low (<50% of Area Median Income (AMI)) or low (<60% of AMI) incomes and are currently occupied by families with school-aged children and a senior. This project aligns with the City’s recently adopted [Housing Element](#) goals to ensure housing habitability and maintenance and foster a range of housing choices throughout the City. At \$50,000 per unit, this recommendation aligns with the stated Notice of Funding Availability criterion for a reasonable per unit City subsidy.

Canal Alliance was awarded Community Development Block Grant (CDBG) funding through Marin County’s 2023 Notice of Funding Availability to renovate two of the units at 153 Novato St in Marin Villa

² The Low- and Moderate- Income Housing Fund was created when the State Legislature enacted Assembly Bill 26 in 2012, dissolving all California Redevelopment Agencies and providing for Successor Agencies to assume the rights, powers, and duties of the former redevelopment agencies. The City of San Rafael is the Successor Agency to the former San Rafael Redevelopment Agency, and the City Council acts as the governing board of the Successor Agency. Pursuant to AB 26, the San Rafael Oversight Board is responsible for overseeing the operation of the San Rafael Successor Agency as it administers the former Redevelopment Agency’s closing operations and obligations.

Estates. In May 2023, San Rafael City Council recommended \$180,000 in CDBG funding for the two units. In June 2023, the Marin County Board of Supervisors authorized staff to submit this funding recommendation to the U.S. Department of Housing and Urban Development.

The Community Development and Economic Development Departments jointly met with the applicant to discuss the potential to leverage the organization’s existing workforce program in completing the renovations. Using the workforce program would facilitate additional funding through workforce development grants, which could allow Canal Alliance to renovate more of its units sooner and increase the sustainability of its portfolio. Canal Alliance expressed interest, and while staff is not recommending this as a condition of City funding, we are prepared to offer technical assistance if the organization decides to pursue this model.

Marin Villa Estates – Sources of Funding	Status	Amount
City of San Rafael (2023 NOFA) – 161 and 165 Novato St	Pending	\$200,000
Community Development Block Grant (CDBG) – 153 Novato St	Awarded	\$180,000
Total Sources		\$380,000

Project funding history

The City supported Canal Alliance’s acquisition of 161 and 165 Novato Street more than 20 years ago.

- In 2000, the San Rafael Redevelopment Agency (RDA) provided an \$85,000 grant to Canal Community Alliance from the Low- and Moderate-Income Housing Fund for acquisition of the four-unit building at **161 Novato St**. The RDA restricted occupancy and affordability at 50% of AMI for two of the units and 60% of AMI for the other two units.
- In 2001, the RDA provided a \$120,000 grant to Canal Community Alliance from the Low- and Moderate-Income Housing Fund for acquisition of the four-unit building at **165 Novato St**. The RDA restricted occupancy and affordability at 50% of AMI for two of the units and 60% of AMI for the other two units.

Nova Albion/Las Gallinas “Terra Linda Manor” - BRIDGE Housing

Staff recommends awarding \$1,000,000 via a residual receipts loan to support the rehabilitation of two adjacent properties built in the early 1960s in the Terra Linda neighborhood. In late 2022, the project sponsor (BRIDGE Housing) acquired Terra Linda Manor and Northview (now collectively, “Terra Linda Manor”), preserving 125 units of naturally occurring (unregulated) affordable housing that otherwise would have been purchased by one of 11 for-profit bidders. Marin County awarded a \$6.25 million loan through its Housing Trust Fund to support the acquisition of the property and Marin Community Foundation provided a \$2.5 million grant.

The units are now restricted through a regulatory agreement with Marin County to at or below 80% of Marin County Area Median Income³. At the time of acquisition, many but not all tenant households had

³ Marin County Area Median Income (AMI) is set by the United States Department of Housing and Urban Development (HUD AMI) and published by the Marin Housing Authority.

incomes at or below 80% of AMI. To prevent displacement of the current tenants, the agreement allows the affordability level to be achieved over time as current tenant households move and are replaced by households earning at or below 80% of AMI. At the time of the construction loan closing, the project will qualify for City funding if the average in-place tenant household income is at or below 80% of AMI. Located in a high-resource area of San Rafael and close to a grocery store, pharmacy, schools, and medical facilities, this project aligns with the City’s recently adopted Housing Element goals to foster a range of housing choices throughout the City and to ensure housing habitability and maintenance.

The applicant anticipates that all rehabilitation work can be completed with tenants remaining in place. Should temporary relocation be necessary, the applicant has set aside ten vacant units as a contingency.

Terra Linda Manor – Sources of Funding (Including acquisition sources)	Status	Amount
NEF/Morgan Stanley Loan	Awarded	\$33,000,000
County of Marin	Awarded	\$6,250,000
BRIDGE Housing Equity/Mezzanine Loan	Awarded	\$12,900,000
Marin Community Foundation	Awarded	\$2,500,000
City of San Rafael Funding - Loan	Pending	\$1,000,000
Total Sources		\$55,650,000

Affordable Housing In-Lieu Fee Fund Balance

The following chart provides a history of revenues and expenditures from the Affordable Housing In-Lieu Fee fund in fiscal years 2021-22 and 2022-23. During this time, the fund received one significant commercial linkage fee payment in the amount of \$600,000.

Affordable Housing In-Lieu Fee Fund

Date	Address	Transaction	Entity	Amount	Fund Balance
					\$3,603,996
04-06-2022	999 Third St	NOFA Loan	Eden Housing	(\$1,825,000)	
06-15-2022	190 Mill St	NOFA Grant	Homeward Bound	(\$350,000)	
01-25-2023	800 Mission	Linkage Fee Payment	Aegis	\$600,000	
		Attorney fees	CH&W	(\$24,338)	
		BMR rental admin	Marin Housing	(\$32,209)	
		Revenue	Misc. Payments	\$61,777	
					\$2,034,226
7-17-2023 (NOFA)	Novato St	Grant	Canal Alliance	(\$200,000)	} (\$1,450,000)
	TL Manor	Loan	BRIDGE Housing	(\$1,000,000)	
	3301 Kerner	Grant	Eden Housing	(\$250,000)	
<i>Remaining Balance After Awarding the Funding Recommendation</i>					\$584,226

COMMUNITY OUTREACH:

The Notice of Funding Availability was announced on the City’s website and notices were provided to local and regional affordable housing owners and developers. The announcement was also distributed

to over 4,000 contacts via Marin County's listserv for federal grants and housing updates. The release of the Notice of Funding Availability was covered in a [Marin Independent Journal article](#) published on April 11. The City held a virtual applicant workshop on April 26th to educate potential applicants, and staff engaged in follow-up conversations with applicants as needed.

FISCAL IMPACT:

Approval of the recommendation would result in a fiscal impact to the Affordable Housing In-Lieu Fee Fund, Fund #243, of \$1,450,000 plus administrative costs. Presently there is \$2,034,226 available in the Affordable Housing In-Lieu Fee Fund. If the recommendation is funded in full, this will leave approximately \$584,226 unencumbered in the fund.

Staff's recommendation is to issue the \$200,000 and \$250,000 awards as grants and to issue the \$1,000,000 award as a residual receipts loan. This proposed loan is consistent with prior award-making, while grants are proposed for the smaller amounts in consideration of the administrative and legal costs associated with processing these forms of loans as well as the staff time required to maintain it, relative to the size of the award.

The funding for the Terra Linda Manor project would be structured as a residual receipts loan and have a minimum affordability term of 55 years. Repayment of the loan and accrued interest will depend on the amount of net proceeds remaining each year after allowable projects costs. The total life of the loan will be up to 57 years, including up to a two-year rehabilitation period followed by a 55-year affordability term. The loan will be due in full along with any interest accrued at the end of the affordability term. While the City's loan documents will include a clause that if excess funds remain once the project is completed that those funds be used to pay down the City's loan, the City may waive its right upon request from the sponsor to use the funds to pay down other debt in the project.

OPTIONS:

The City Council has the following options to consider on this matter:

1. Adopt the resolution.
2. Adopt a modified resolution.
3. Direct staff to provide additional information.
4. Take no action.

RECOMMENDED ACTION:

Adopt the resolution authorizing:

- 3) The expenditure of \$1,450,000 plus administrative costs from the Affordable Housing In-Lieu Fee Fund for three 100% affordable housing projects in fulfillment of the Affordable Housing Trust Fund 2023 NOFA, and
- 4) The City Manager to execute all documents required to disburse the funds.

ATTACHMENTS:

1. Resolution

RESOLUTION NO.

RESOLUTION AUTHORIZING THE EXPENDITURE OF \$1,450,000 PLUS ADMINISTRATIVE COSTS FROM THE AFFORDABLE HOUSING IN-LIEU FEE FUND (FUND #243) FOR THREE 100% AFFORDABLE HOUSING PROJECTS IN FULFILLMENT OF THE AFFORDABLE HOUSING TRUST FUND 2023 NOFA, AND AUTHORIZING THE CITY MANAGER TO EXECUTE ALL DOCUMENTS INCIDENT TO THE FUNDING

WHEREAS, on January 21, 2020, the City Council adopted Resolution No. 14760, establishing Guidelines for the Administration of the Affordable Housing Trust Fund; and

WHEREAS, on April 10, 2023, the City issued a Notice of Funding Availability (NOFA) for one million four-hundred thousand dollars (\$1,400,000) of funding from the Housing In-Lieu Fee Fund to support affordable housing, with an application deadline of May 15, 2023 by 5:00pm; and

WHEREAS, the NOFA allows the City Council to issue loans in excess of the published available funding amount; and

WHEREAS, the City received three responses to the NOFA totaling \$2.6 million in funding requests; and

WHEREAS, applications were reviewed using the evaluation criteria listed in Section 5 of the Guidelines for the Administration of the Affordable Housing Trust Fund; and

WHEREAS, based upon this evaluation criteria and the needs for local support for the development of affordable housing, a funding recommendation has been developed that exceeds the amount of funds published in the NOFA; and

WHEREAS, the City has sufficient funds in the Housing In-Lieu Fee Fund #243 to issue the loans included in the recommendation and the funding recommendation meets the criteria for use of the funds.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of San Rafael does as follows:

Section 1. The City Council authorizes the following affordable housing expenditures from the Housing In-Lieu Fee Fund, subject to City requirements for issuing loans for affordable housing:

- i. \$200,000 grant from the Housing In-Lieu Fee Fund (#243) for the Canal Alliance for renovation of four existing units at 161 and 165 Novato St. The project will continue to be restricted at 50% and 60% of Marin County Area Median Income set by the United States Department of Housing and Urban Development (HUD AMI) as published by the Marin Housing Authority.
- ii. \$1,000,000 loan from the Housing In-Lieu Fee Fund (#243) for BRIDGE Housing for rehabilitation of 125 units of low-income housing at 101 and 119 Nova Albion Way and 845 and 865 Las Gallinas Ave. The project will be restricted at 80% of Area Median Income, however affordability in the project will be achieved over time through attrition as current tenant households move and are replaced by households earning at or below 80% of AMI. At the time of construction loan closing, the project shall qualify for the loan if the average in-place tenant

household income is at or below 80% AMI. Upon vacancy, units shall be income restricted to individuals and households earning at or below 80% AMI.

- iii. \$250,000 grant from the Housing In-Lieu Fee Fund (#243) for the redesign of the Eden Housing adaptive reuse project at 3301 Kerner Boulevard to address its location in a floodplain, including raising the finished floor of the first-floor residential units. The project will provide 40 units of permanent supportive housing for homeless or formerly homeless households with mental illness, at rents affordable to very low-income households.

Section 2. For the BRIDGE Housing project, the City Council authorizes the funding to be issued in the form of a residual receipts loan at a simple interest rate of three percent (3%, simple) during pre-development, and construction or rehabilitation for new construction, adaptive reuse or acquisition/rehabilitation projects. The loan principal shall be used to cover the City’s legal costs associated with processing all documents incident to the agreement, which are estimated to be approximately \$5,000. The predevelopment and construction phases may last up to 24 months and can be extended with prior authorization in writing from the City. When construction or rehabilitation is completed the interest rate for loans shall convert to between simple one-and-one-half percent (1.5%, simple) and simple three percent (3.0%, simple) depending on the needs of the financing structure in the project for the duration of the affordability term. Interest accrued during the pre-development and construction phases shall be rolled into the principal loan balance at conversion to permanent financing. The conversion date for acquisition/rehabilitation projects is the date when all completed rehabilitation work has been approved by the City. The affordability term shall last for 55 years following the date of conversion. If excess funds remain at project completion those funds shall be used to pay down the City loan. The City may waive its right upon request from the sponsor to use the funds to pay down other debt in the project.

Section 3. The City Council authorizes the City Manager to execute all documents and agreements incident to the affordable housing fund expenditures authorized in this Resolution, in a form to be approved by the City Attorney.

I, LINDSAY LARA, Clerk of the City of San Rafael, hereby certify that the foregoing resolution was duly and regularly introduced and adopted at a regular meeting of the City Council of said City held on Monday the 17th day of July 2023, by the following vote, to wit:

AYES: COUNCILMEMBERS:

NOES: COUNCILMEMBERS:

ABSENT: COUNCILMEMBERS:

LINDSAY LARA, City Clerk