

Capitola City Council

Agenda Report



Meeting: October 27, 2022

From: Community Development

Subject: Permanent Local Housing Allocation Grant

Recommended Action: Accept staff presentation on the 5-year plan for Permanent Local Housing Allocation Funds (PLHA) and provide direction on the proposed allocation of funds.

Background: In 2017, Governor Brown signed a 15-bill housing package aimed at addressing California's housing shortage and high housing costs. Specifically, it included the Building Homes and Jobs Act, known as Senate Bill 2 (SB 2) to increase the supply of affordable homes in California. The Bill established a \$75 recording fee on real estate documents and created the Permanent Local Housing Allocation Fund (PLHA). Beginning in 2019, the Bill authorized the California Department of Housing and Community Development (HCD) to allocate 70 percent of PLHA fund moneys to local governments for eligible housing and homelessness activities. The intent of the bill is to provide a permanent, on-going source of funding to local governments for housing-related projects and programs that address the unmet housing needs of their local communities.

The California Department of Housing and Community Development (HCD) issued the first Notice of Funding Availability ("NOFA") under the PLHA program making affordable housing funding available statewide. HCD calculates and publishes the PLHA allocation annually. Over the last three years, the City of Capitola has been allocated the following amounts:

Year	PLHA NOFA Allocation
2020	\$105,092
2021	\$180,868
2022	\$195,772
Total	\$481,732

The state estimates a total of \$630,557 in funding for Capitola over the five-year funding cycle. To apply for the funding, the City must submit a signed resolution with a 5-year plan explaining which eligible activities the funding will be applied toward.

Analysis: The PLHA funding must be used for the following eligible activities:

1. The predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, rental housing that is affordable to extremely low-, very low-, low-, or moderate-income households, including necessary operating subsidies
2. The predevelopment, development, acquisition, rehabilitation, and preservation of Affordable rental and ownership housing, including Accessory Dwelling Units (ADUs), that meets the needs of a growing workforce earning up to 120-percent of AMI, or 150-percent of AMI in high-cost areas. ADUs shall be available for occupancy for a term of no less than 30 days
3. Matching portions of funds placed into Local or Regional Housing Trust Funds
4. Matching portions of funds available through the Low- and Moderate-Income Housing Asset Fund pursuant to subdivision (d) of HSC Section 34176

5. Capitalized Reserves for Services connected to the preservation and creation of new permanent supportive housing
6. Assisting persons who are experiencing or at risk of homelessness
7. Accessibility modifications in lower-income owner-occupied housing
8. Efforts to acquire and rehabilitate foreclosed or vacant homes and apartments
9. Homeownership opportunities, including, but not limited to, down payment assistance
10. Fiscal incentives made by a county to a city to incentivize approval of one or more affordable housing projects, or matching funds invested by a county in an affordable housing development project in a city within the county

Of the ten eligible activities listed above, staff recommends the City allocated funding to the following three items:

Activity 1: The predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, rental housing that is affordable to extremely low-, very low-, low-, or moderate-income households, including necessary operating subsidies.

The City is in the initial phase of updating its housing element to accommodate the 1,363 new units allocated to the City through the Regional Housing Needs Assessment (RHNA). Thus, the City could utilize funding to partner with local non-profits and developers to assist with future affordable housing projects. Designating PLHA funds for predevelopment, development, acquisition, rehabilitation, and preservation of affordable housing rental units would provide an opportunity for future collaboration on an affordable housing project. Staff recommends most of the funds be dedicated toward this first item to ensure the City can contribute to affordable housing production.

Activity 3. Matching portions of funds placed into Local or Regional Housing Trust Funds

In 2004, City Council adopted an Inclusionary Housing Ordinance (IHO) and in 2021 Council adopted an Affordable Housing Impact Fee Ordinance as part of the City's ongoing efforts to provide affordable housing. The IHO created the Affordable Housing Trust Fund to use as a flexible local funding source for the creation of new affordable housing, the rehabilitation of existing affordable housing, funding of local programs to assist lower and moderate-income buyers purchase affordable housing, or as leverage of local funds for larger State and Federal grants. The Trust Fund also allows for up to \$75,000 per year to be spent on affordable housing program administration. This includes working with developers on fee collection, administration of the Housing Trust Fund, and implementation of the Inclusionary Ordinance.

The IHO requires that fifteen percent (15%) of units in a new for-sale residential construction project be made available to very-low, low, or moderate-income buyers. Condominium conversion projects are also regulated by this ordinance. As outlined in the IHO, project developers must set-aside affordable units or, under certain conditions, pay an in-lieu fee. The Affordable Housing Impact Fees apply to developments with six or less units which meet specific criteria.

Annual Housing Trust Fund revenue for the past 5 years has fluctuated from \$5,000 to \$87,000. In December of 2021, the in-lieu fee and impact fee increased from \$10 to \$25 per square foot. Staff recommends \$15,000 in annual Housing Trust matching funds be included in the 5-year plan for years 2023 and 2024.

Activity 6. Assisting persons who are experiencing homelessness

Annually, the City of Capitola contributes approximately \$31,000 toward the Housing for Health Partnership (H4HP) program administered by the County of Santa Cruz. The H4HP utilizes jurisdictional contributions to support year-round emergency shelter operations, including the Salvation Army in Watsonville and Housing Matters in the City of Santa Cruz. Staff proposes funding the H4HP in 2023 and 2024 in the amount of \$35,000 per year with PLHA funds.

In summary, staff recommends the following 5-year plan for PLHA funds:

Year	PLHA NOFA Allocation	Allocation
2020	\$105,092	Activity 1: Affordable Rental Project
2021	\$180,868	
2022	\$195,772	
2023	\$74,713	Activity 1: \$24,713 Affordable Rental Project Item
2024	\$74,712	Activity 3: \$15,000 to Housing Trust Fund match Activity 6: \$35,000 to Homelessness

Fiscal Impact: Submitting a resolution for PLHA funding will provide \$630,557 of additional affordable housing funds for the City of Capitola in the next 5-years.

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