



Folsom City Council Staff Report

MEETING DATE:	8/26/2025
AGENDA SECTION:	New Business
SUBJECT:	Resolution No. 11427 - A Resolution of the City Council of the City of Folsom Approving the Affordable Housing Loan Program Guidelines to Establish a Clear Framework for Providing Financial Assistance to Affordable Housing Projects, Funded by Folsom Housing Fund (Fund 238) and Housing Trust Fund (Fund 221)
FROM:	Community Development Department

RECOMMENDATION / CITY COUNCIL ACTION

Staff recommends that the City Council move to adopt Resolution No. 11427 - A Resolution of the City Council of the City of Folsom Approving the Affordable Housing Loan Program Guidelines to Establish a Clear Framework for Providing Financial Assistance to Affordable Housing Projects, Funded by Folsom Housing Fund (Fund 238) and Housing Trust Fund (Fund 221).

BACKGROUND / ISSUE

Over the past 20 years, the City has utilized available housing funds to support the development of qualified affordable housing projects through the provision of loans. These funds have helped facilitate numerous affordable housing projects in the community as an important gap financing measure. A summary of funded projects and associated loan amounts is provided in Attachment 2.

Due to the technical nature of affordable housing finance and tax credit structures, City staff have relied on external consultants (primarily TDA, Inc.) to help evaluate affordable housing developer loan requests. Typically, these requests are submitted by developers as part of their project proposals, rather than being initiated by the City. As a result, the City reviews these requests reactively.

The evaluation process centers on two key factors: (1) the availability of affordable housing funds at the time of the request, and (2) the reasonableness of the amount being requested and the proposed loan terms, as analyzed by the City's affordable housing loan consultant. To assess a request, the City's consultant conducts a thorough review of the developer's updated financial pro forma and funding sources. This involves analyzing the project's assumptions, methodologies, and calculations for accuracy and soundness. The consultant also uses secondary sources to verify data and may request additional documentation or clarification from the developer to support the financial analysis. Because most projects are subject to tax credit agency regulations and compliance standards, City staff and consultants generally assume that developers are following industry best practices.

In recent years, staff has made a concerted effort to standardize loan terms across affordable housing projects to enhance continuity, reduce inconsistencies, and improve overall efficiency. This also helps the City better manage and track loans. Through our ongoing collaboration with TDA, Inc., staff has gained valuable insights into industry best practices related to the negotiation of term sheets and final loan documents.

Despite these improvements, the City's approach remains largely reactive, with loan term negotiations typically taking place only after a developer has submitted a project proposal. By this stage, developers are often far along in structuring their project financing and face tight timelines to meet tax credit application deadlines. As a result, the City is placed in a less advantageous position during deliberations, while developers—often working under tight timelines driven by tax credit application deadlines—have limited flexibility to revise proposed terms. This timing dynamic reduces the City's ability to proactively shape loan terms and/or conditions that reflect broader policy goals related to lasting affordability, community housing needs, and fiscal responsibility.

The purpose of creating and adopting Affordable Housing Loan (AHL) Program Guidelines is to bring more transparency and consistency to the City's approach to housing loan gap financing. By establishing clear and standardized funding criteria at the outset, the guidelines will provide developers and prospective applicants with a well-defined framework prior to submitting proposals. This proactive structure will shift the City's role from reacting to individual proposals to setting uniform expectations for loan terms. While the guidelines introduce structure, they will also incorporate flexibility to accommodate unique project circumstances. This balanced approach will help the City use limited housing funding more fairly, protect long-term housing goals, and improve how the program is managed.

At this time, staff is requesting City Council approval of the Affordable Housing Loan Program Guidelines. Later this year, staff will be presenting to the City Council policy considerations and priorities for future use of the City's Housing Funds, along with an analysis of the City's current Inclusionary Housing Ordinance as required by the Housing Element.

POLICY / RULE

All powers of the City shall be vested in the City Council pursuant to Section 2.02 of the City Charter.

ANALYSIS

The City of Folsom is committed to supporting both the rehabilitation and new construction of affordable housing for low-, very low-, and extremely low-income households. This effort is primarily funded through inclusionary in-lieu fees from new residential development (Folsom Housing Fund – Fund 238) and commercial development fees (Housing Trust Fund – Fund 221). These sources collectively finance the City’s Affordable Housing Loan (AHL) Program.

The AHL Program offers gap financing for affordable housing developments located within the City, serving households at or below established income thresholds. In exchange for this low-cost, long-term financing, property owners agree to implement and uphold income, rent, and affordability restrictions for a minimum of 55 years. Recognizing that most affordable housing developments are structured with multiple funding streams, the AHL Program is intentionally designed to align with state and federal resources such as Low-Income Housing Tax Credits (LIHTC).

The City’s involvement in affordable housing investments serves two primary and often interconnected purposes: protecting the financial viability of its loan portfolio and ensuring the long-term success of developments in delivering safe, high-quality housing throughout the full affordability period. To support these goals, the proposed AHL Program Guidelines establish consistent and transparent criteria to guide applicants and ensure that developments remain financially and physically sustainable over time.

Key components of the guidelines are described below.

- 1. Project Funding Requirements.** The AHL Program Guidelines provide a structured and transparent framework for evaluating and supporting affordable housing developments in the City of Folsom. They establish detailed eligibility criteria for applicants, requiring participation from nonprofit or for-profit housing developers, partnerships, or joint ventures with demonstrated experience in affordable housing. The Guidelines prioritize projects located outside concentrations of existing regulated affordable housing and those consistent with the City’s Housing Element goals. Additionally, the Guidelines outline specific requirements related to cost eligibility, property standards, unit mix, income and rent restrictions, and permissible tenant fees. This consistent regulatory framework is intended to promote fairness across applicants, while enhancing efficiency in both the project review and long-term monitoring processes carried out by City staff.
- 2. Underwriting and Compliance Standards.** The AHL Program Guidelines set forth clear underwriting standards to ensure consistency, transparency, and administrative

efficiency for evaluating affordable housing projects. To align with best practices and reduce duplicative requirements, the City's underwriting criteria is consistent with those established by the California Tax Credit Allocation Committee (TCAC). In addition, the Guidelines will align most affordability compliance requirements—such as tenant income verification, rent setting, and utility allowance calculations—with the standards used in the Low-Income Housing Tax Credit (LIHTC) program. This alignment streamlines the funding process for project sponsors while supporting more effective and coordinated compliance monitoring across multiple funding sources.

3. **Residual Cash Flow.** To promote accountability and clarity in how City loans are repaid, which are generally structured to be repaid through annual payments equal to 50% of a project's residual cash flow, the AHL Program Guidelines include a clear definition of residual cash flow. These Guidelines identify allowable project expenses that may be deducted prior to calculating amounts owed to the City. To maintain fiscal oversight and ensure responsible use of public resources, the Guidelines require that any project expenses not specifically authorized must receive prior written approval from the City. This requirement reinforces the City's authority in monitoring project-level financial activity and helps ensure that loan repayments align with program objectives.
4. **Reserve Account Requirements to Ensure Long-Term Project Sustainability.** To maintain the long-term viability of affordable housing developments financed through the AHL Program, the Guidelines require each project to establish and maintain both an Operating Reserve Account and a Replacement Reserve Account. These Reserve Accounts must remain in place for the full duration of the affordability restriction period (at least 55 years) to ensure the ongoing physical and financial sustainability of the property. The Replacement Reserve requirement, in particular, limits early cash distributions and ensures adequate funding for major capital repairs—such as roof replacement or system upgrades—thereby safeguarding project integrity well beyond repayment of the City's loan. This requirement reflects the City's long-term commitment to ensuring the durability, habitability, and financial stability of its affordable housing investments.
5. **Safeguards for Ensuring Long-Term Affordability.** The AHL Program Guidelines include specific provisions designed to enhance the City's long-term regulatory oversight of affordable housing projects. These include requirements for financial guarantees and the execution of declarations of restrictive covenants. To ensure the enforceability of affordability restrictions over the full term of the project, the Guidelines stipulate that all AHL covenants must be recorded in a senior position to any foreclosable liens, including those that would otherwise be senior to the City's loan. These safeguards are intended to preserve the City's regulatory and affordability interests throughout the life of the project, regardless of changes in ownership or financing structure.

In addition to these components, the Guidelines include numerous other provisions that define essential program requirements and reflect the City’s broader objectives for the responsible use of affordable housing resources.

As outlined in the background section of this report, the City’s current approach to negotiating affordable housing loan terms remains largely reactive, despite recent process improvements. Typically, loan discussions begin only after a developer has submitted a full project proposal and assembled key financing components. By that stage, developers are often operating under compressed timelines (particularly those tied to competitive tax credit application cycles) which significantly limits flexibility in revising financial terms. This situation limits the City’s ability to shape loan terms that fully align with broader policy objectives, including long-term affordability, responsiveness to community housing needs, and prudent fiscal management.

The AHL Program Guidelines are designed to address these limitations by establishing a consistent, transparent, and proactive framework for evaluating and funding affordable housing developments. By articulating clear funding criteria and expectations up front, the Guidelines provide prospective applicants with a defined process well in advance of project submission. Additionally, the formalization of loan policies through the AHL Program Guidelines establishes a structured foundation for issuing Notices of Funding Availability (NOFAs) in a proactive and strategic manner. This approach enables the City to solicit a broad range of proposals when resources become available and to direct funding toward projects that best align with Housing Element priorities. These may include developments in preferred locations or those serving high-need populations (such as seniors, large families, and individuals with special needs) while maintaining a transparent, equitable, and accountable allocation process.

FINANCIAL IMPACT

There is no financial impact on the General Fund. The Affordable Housing Loan Program is supported by Folsom Housing Fund (Fund 238) and Housing Trust Fund (Fund 221). By establishing clear AHL Program Guidelines, the City is likely to reduce expenditures on consultant services currently required for evaluation of affordable housing project loan requests, resulting in more efficient use of housing funds.

ENVIRONMENTAL REVIEW

The proposed City Council action to approve Affordable Housing Loan Program Guidelines is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378 and Section 15061(b)(3). Under Section 15378, the action does not constitute a “project” under CEQA, as it pertains solely to administrative or procedural matters that do not result in direct physical environmental changes. Furthermore, Section 15061(b)(3) - the “common sense exemption” - applies because it can be determined with certainty that the adoption of this updated document will not lead to significant effects on the environment.

ATTACHMENTS

1. Resolution No. 11427 - A Resolution of the City Council of the City of Folsom Approving the Affordable Housing Loan Program Guidelines to Establish a Clear Framework for Providing Financial Assistance to Affordable Housing Projects, Funded by Folsom Housing Fund (Fund 238) and Housing Trust Fund (Fund 221).
2. List of City-funded Affordable Housing Projects
3. Summary of Affordable Housing Funds
4. Affordable Housing Loan Program Guidelines

Submitted,

A handwritten signature in blue ink, appearing to read "Pam Johns", followed by a long horizontal line.

Pam Johns, Community Development Director