



To: City Council
From: Mayor Darrell Steinberg
Date: January 28, 2020
SUBJECT: SACRAMENTO AFFORDABLE HOUSING TRUST FUND FRAMEWORK

RECOMMENDATION

The purpose of this memorandum is to recommend the City Council direct the City Manager to create the Sacramento Affordable Housing Trust Fund from the proceeds of the Measure U Catalytic Housing Bond(s), future State of California affordable housing allocations, and contributions from public, private and nonprofit partners. The bond proceeds and equity funds will be used to accelerate the construction of permanent new or adaptive reuse rental and purchase affordable housing in the City of Sacramento, create a new market for efficiency housing, contribute to the City's long-term strategy for inclusive economic development, create new construction jobs, and fulfill the vision for housing as a right for every resident of Sacramento.

I. INTRODUCTION

Housing is both a challenge and an opportunity in Sacramento. In this "year of breakthroughs" for our great City, we recognize that in order to continue our renaissance, we must permit and build affordable rental and purchase housing at an accelerated rate. Demand for new housing and housing insecurity has increased tremendously among our residents and especially among our low-income population. We see new job growth but a higher percentage of income from stagnant wages going to housing, resulting in difficult budget choices between food, health care and other expenses that ensure a high quality of life. And, while we welcome new residents from other high cost housing areas, the demand for housing with limited new housing options has made Sacramento housing less affordable.

On June 4, 2019, the Sacramento City Council took a tremendous step toward significant investment in new housing under the leadership of Councilmember Hansen. The City Council approved a strategy for three Capital Investment Programs funded by bond proceeds supported by Measure U revenues: a Catalytic Housing Bond, a City Facilities Bond and an Economic Development Bond. The Catalytic Housing Bond as approved will provide needed resources for new affordable housing development in the City of Sacramento.

This proposal is to create a Sacramento Affordable Housing Trust Fund, administered by the City of Sacramento, with bond proceeds from the Catalytic Housing Bond and equity from other resources to provide loans and grants to build more affordable housing and keep people on the verge of homelessness in their homes. The proposal also includes the creation of a new market for efficiency homes with an allocation for the construction of low cost, streamlined, smaller units and a cap on the gap financing

provided for each unit. This innovative approach will allow the City of Sacramento to address the urgent need for financing to make projects pencil and make a difference in the total inventory of new and adaptive reuse rental and purchase housing.

II. AFFORDABLE HOUSING NEEDS

Sacramento has a critical shortage of housing available for extremely low, very low- and low-income households due to lack of new construction during and after the Great Recession, limited existing supply of housing affordable to low income tenants, and declining affordability due to high demand and stagnant wages. Housing is in fact in short supply for every income level as demonstrated by rising rents and purchase prices and increases in homelessness in the City.

Between October 31, 2013 and December 31, 2018, the City issued building permits for 208 very low income, 427 low-income and 7,984 moderate or above moderate units for a total of 8,619 housing units. Just two units of extremely low-income housing were constructed in this time period. This equates to only eight percent (8%) of the lower income and fifty-one percent (51%) of the moderate and above moderate units needed per the Regional Housing Needs Allocation for the 2013-2021 planning period. (Attachment A, Table 1)

As supply was constrained, rents continued to increase. Between 2012 and 2017, median sales prices in the Sacramento Metro Area increased fifty-nine percent (59%) and rental prices increased thirty-three percent (33%). More than half of renters in Sacramento are paying more than thirty percent (30%) of their income on housing. The cost burden is especially difficult for our City's lowest wage households with very few housing options. Additionally, we know that the 2019 Point in Time Count for Sacramento County indicated a nineteen percent (19%) increase in homelessness with rent increases and lack of supply contributing to the urgent need for more affordable housing to prevent homelessness in Sacramento.

Projections for future needs heighten the urgency to build more affordable housing in the near-term. The Sacramento Area Council of Government's Regional Affordable Housing Needs Allocation for 2021-2028 projects the City of Sacramento will need to build 45,580 total units with nearly thirty-seven percent (36.8%) of the total projected need to be very low and low-income units to house Sacramento's growing population. (Attachment A, Table 2)

III. SACRAMENTO AFFORDABLE HOUSING TRUST FUND

The Sacramento Affordable Housing Trust Fund will be created this calendar year and be administered by the City of Sacramento. The Fund will be used for the purpose of providing gap financing to accelerate the construction of permanent new or adaptive reuse rental and purchase affordable housing in the City of Sacramento.

Revenues

The Sacramento Affordable Housing Trust Fund will be created with two categories of funding: bond proceeds and equity funds.

1. **Bond Proceeds.** The Catalytic Housing Bond introduced as part of the FY 2019-20 budget adoption and approved by the City Council in concept will provide Affordable Housing Gap Financing in two separate \$50M tranches. The bond sales will follow an analysis of capacity by the City Treasurer, City Manager's Office and bond counsel and meet all applicable federal, state and local laws and mandates for appropriate use and repayment of the proceeds.

Based on conversations with bond and tax counsel as well as the City's Treasurer, Finance Department and City Attorney's Office, the recommendation is to seek a flexible bond issuance that includes a program of both taxable and tax-exempt bonds. This will allow the projects proposed to be by both private developers and non-profit low and moderate-income housing developers. The most recent bond issuances show a difference of one-quarter percent in the payment interest. The repayment terms may be structured so that taxable bonds are repaid first with the tax-exempt bonds paid back over a longer term to reduce debt service.

The bond and tax counsel also advise the City to offer both loans and grants from the bond proceeds to provide the highest flexibility for taxable and tax-exempt bond requirements. The proceeds of the proposed tax-exempt bonds can only be used for grants and not for loans. Other cities have structured their housing bonds to allow a diverse range of projects needing gap financing to allow maximum number of housing units to be built with available funds.

Another constraint on tax-exempt bonds per the IRS requirements is that there must be a reasonable expectation that at least eighty-five percent (85%) of the proceeds must be spent within three years. The City will need to have a robust project pipeline with shovel-ready projects in the queue that have been entitled with CEQA compliance and have readily available infrastructure to reduce delays and streamline the permitting and construction process.

2. **Equity Funds.** Recognizing the significant need above and beyond the potential amount from bond proceeds, the City will seek equity from other resources to provide gap financing. A best practice from many other cities in California and across the country that have established housing trust funds is to secure resources from other entities interested in investments in affordable housing. Ideally, these resources will more than double the available Catalytic Housing Bonds and provide at least \$100M in gap financing each of the next two fiscal years.

The City of Sacramento will seek funds from public entities including the State of California, private companies, nonprofit organizations and foundations. This pool of equity will allow the City to not only provide more gap financing but leverage other opportunities including grants and matching programs to provide even more housing investment and services for residents.

Equity funds may also be made available for investment in affordable housing specific to the City of Sacramento criteria, but not deposited directly into the Sacramento Affordable Housing Trust Fund depending upon the specific requirements of the investor.

Initial conversations with potential equity investors in the private and nonprofit sectors have been very promising. And, the recent State of California Legislative Analyst's Office indicate revenues for FY 2019-20 will be robust and given the Governor's priority for housing investment, there will be funds from the state in the coming year for affordable housing production.

Affordable Housing Investments – Targeted Income Limits

Affordable housing investments will be made based on a predetermined set of criteria, most importantly targeted income limits.

Project gap financing will be focused on affordable housing production for low-income residents. For year 1, the recommendation is to allocate funds to extremely low, very low- and low-income projects with flexibility in a small percentage of funds for workforce housing as follows:

- 40% of allocated funds will be used to develop homes affordable to incomes at or below 30% of Area Media Income (AMI) [*Extremely Low Income*]
- 40% of allocated funds will be affordable at or below 50% of AMI [*Very Low Income*]
- 20% of allocated funds will be used to develop housing affordable to incomes at or below 51%-100% of AMI [*Low Income and Workforce Housing*]

Without gap financing specifically targeted to these income levels, the probability of construction of these types of units, based upon the historical data is minimal. Current income limits for the County of Sacramento including City of Sacramento households may be found in Attachment A, Table 3.

Gap Financing for Loans and Grants

Gap financing shall be in the form of either a loan or a grant from the City of Sacramento to the project developer.

1. **Loans**. All loans shall be provided as 55-year junior positions loans carrying zero to three percent (0% - 3%) simple interest. The loan terms may vary slightly if equity providers have different requirements for their contribution to the Sacramento Affordable Housing Trust Fund. A regulatory agreement that limits occupancy to targeted income groups and corresponding limits on rents and/or prices will be recorded against all properties at loan closing and will remain with the property for 55 years, even if the loan itself is paid back in full prior to the 55-year term.
2. **Grants**. Grants may also be available to projects demonstrating a limited need for resources to make a project pencil. The tax-exempt bond proceeds would be available for grants to projects with conditions that require restrictions to maintain the housing as affordable. If the project owner does not comply, the grant would be repaid to the City. A regulatory agreement that limits occupancy to targeted income groups and corresponding limits on rents and/or prices will be recorded against all properties when the project receives a certificate of occupancy and will remain with the property for 55 years.

Project Selection Process

The selection of projects for gap financing from the Sacramento Affordable Housing Trust Fund will be led by the City of Sacramento with advisement for the Catalytic Housing Bond proceeds from the Measure U Advisory and Investment Committees in a process to be determined following Council direction to the City Manager for creation of the Sacramento Affordable Housing Trust Fund.

The criteria for project selection will include factors such as the target incomes for residents, shovel-ready projects, lowest per unit costs and subsidies needed, collaboration among providers, leveraging of resources and funds, investment in catalyst sites on major corridors and focused neighborhoods, and use of local construction labor force. Projects that further community equity and overall community health as well as innovation and replicable self-sustaining models will also be considered in the project selection for funding investment.

IV. CREATING A NEW MARKET – EFFICIENCY HOUSING

To solve the City's affordable housing needs, an innovative approach is needed. Traditional affordable housing projects in the City of Sacramento require hundreds of thousands of dollars of layered financing to make a project feasible.

The Sacramento Affordable Housing Trust Fund includes a proposal for the creation of a new market for efficiency housing. Efficiency housing includes options that provide a safe, modest living space and reduce the cost per unit, construction timeline and required gap financing. Efficiency housing types include attached microunits, tiny homes, Accessory Dwelling Units, premanufactured homes, modular construction housing units, container unit housing, 3-D printed housing units, and shared facilities such as rooming houses.

In Year 1, the proposal is for an allocation of no less than thirty percent (30%) for the construction of these low cost, streamlined, smaller units and a cap on the gap financing provided of \$100,000 total public subsidy per unit. This target percentage will apply to bond and equity funds deposited into the Sacramento Affordable Housing Trust Fund and equity funds made available by investors but not deposited directly into the Fund. This innovative approach will allow the City of Sacramento to address the urgent need for financing and make a difference in the total inventory of new and adaptive reuse rental and purchase housing. This differentiator will be a new model and make Sacramento a leader in maximizing limited resources for the benefit of as many residents as possible. The City Council will have the discretion to be nimble in considering all projects submitted to increase the pipeline of affordable housing and flexibility when allocating funds to meet this target.

V. CONCLUSION

The City of Sacramento voters, with their approval of Measure U, and the City of Sacramento, with the approval to create the Sacramento Affordable Housing Task Force have an extraordinary opportunity to build affordable housing in the City of Sacramento. The projected \$200M in funds with limited gap financing per unit and the creation of a new market for efficiency housing could create a projected 2,000 new low-income affordable housing units in Sacramento in the next two years. This would more than triple the number of very low and low-income units built in Sacramento between 2013 and 2018 and be a true breakthrough in the continuing renaissance of our City. Most importantly, this will provide housing to thousands of Sacramentans while preventing homelessness and creating a new market and hope for a day when every Sacramento has a roof over their head and the quality of life they deserve.

Sincerely,



Darrell Steinberg
Mayor, City of Sacramento

Attachment A

Table 1: Regional Housing Needs Allocation Permitted Units Issued by Affordability 2013-2021

Income Level		RHNA Allocati on by Income Level	2013	2014	2015	2016	2017	2018	Total Units to Date (all years)	Total Remaining RHNA by Income Level
Very Low	Deed Restricted	4944	62	78				1	208	4736
	Non-Deed Restricted		33	24				10		
Low	Deed Restricted	3467	24	95		27		59	427	3040
	Non-Deed Restricted		113	28	68		3	10		
Moderate	Deed Restricted	4482							3887	595
	Non-Deed Restricted		34	21	851	820	1757	404		
Above Moderate		11208	153	95	104	730	1121	1894	4097	7111
Total RHNA		24101								
Total Units			419	341	1023	1577	2881	2378	8619	15482

Source: City of Sacramento Annual Housing Element Progress Report, May 28, 2019

RHNA Draft Allocation 2021-2028. The Sacramento Area Council of Governments released the draft RHNA numbers in September 2019. The City's estimated percentage of very low- and low-income units is 36.8% of the total housing allocation. Estimates for extremely low units needed. are not provided as part of the RHNA process.

Table 2: DRAFT Regional Housing Needs Allocation Units 2021-2028

RHNA Allocation by Income Level	2021-28
Very Low	10,463
Low	6,306
Moderate	8,545
Above Moderate	20,266
Total Units	45,580

Source: Sacramento Area Council of Governments, September 15, 2019

Table 3: 2019 Income Limits - Sacramento County, California*Effective May 6, 2019*

Sacramento County	Income Category	Persons in Household					
		1	2	3	4	5	6
Area Median Income: \$83,600	Extremely Low (30% AMI)	\$17,600	\$20,100	\$22,600	\$25,750	\$30,170	\$34,590
	Very Low (50% AMI)	\$29,300	\$33,450	\$37,650	\$41,800	\$45,150	\$48,500
	Low (80% AMI)	\$46,850	\$53,550	\$60,250	\$66,900	\$72,300	\$58,200
	Median (100% AMI)	\$58,500	\$66,900	\$75,250	\$83,600	\$90,300	\$97,000
	Moderate (120% AMI)	\$70,200	\$80,250	\$90,250	\$100,300	\$108,300	\$116,350

Source: CA Housing and Community Development Department<http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/Income-Limits-2019.pdf>

Note: The minimum wage in California is \$12/hr. (\$24,960/yr.) for employers with 25 employees or less and \$13/hr. (\$27,040/yr.) for employers with 26 employees or more.