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San Diego Housing Commission (SDHC) Fiscal Year (FY) 2026 Budget Amendment for Affordable Housing Preservation Fund Presentation to the SDHC Board of Commissioners November 7, 2025

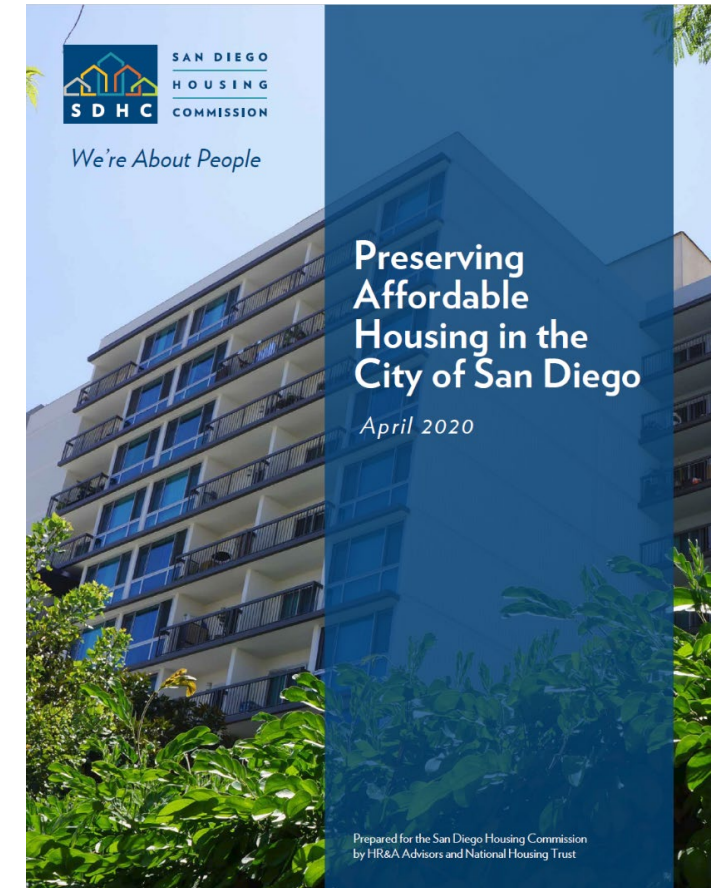
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SDHC – Budget Amendment for Affordable Housing Preservation Fund Introduction

- **April 10, 2025:** At the request of Council President Pro Tem Kent Lee, Chair of the City Council's Land Use and Housing Committee (Committee), SDHC staff presented an informational report on the potential to create an Affordable Housing Preservation Fund and options for implementation
- The Committee asked staff to return with analysis and recommendations for preservation fund models going forward.
- **September 4, 2025:** SDHC staff returned to the Committee with a range of preservation strategies to create and implement an affordable housing preservation fund.
- The Committee unanimously approved recommending that the City Council take the staff-recommended actions detailed in the staff report to establish an affordable housing preservation fund.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Budget

- An amendment to SDHC's FY 2026 budget is needed to authorize SDHC to accept and expend \$5,913,554 in City Neighborhood Enhancement Fee (NEF) funds to establish the affordable housing preservation fund.
 - City Council allocated approximately \$5,000,000 from NEF funds to the affordable housing fund in its approval of the City's FY 2026 budget.
 - The NEF funds have grown since that Council action as additional new developments paid into the fund.
- SDHC staff is working with City of San Diego staff to determine the process for transferring the NEF funds to SDHC.
- The proposed SDHC budget amendment would be presented to the Housing Authority of the City of San Diego (Housing Authority) at the same meeting at which City Council considers the Committee-approved recommendations to approve the preservation fund strategies.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Proposed Framework for Implementation

- In response to the Committee’s direction, SDHC staff examined a range of preservation strategies that support timely action, long-term affordability, and adaptable implementation.
- By emphasizing mixed-income acquisitions, avoiding delays related to Low-Income Housing Tax Credits (LIHTC), and utilizing public ownership through SDHC and SDHC’s nonprofit affiliate, Housing Development Partners (HDP), the proposed framework offers a practical and scalable path forward.
- The following framework outlines potential implementation options:
 - 1. Use of 501(c)(3) Bond or Governmental Purpose Bond Financing with Neighborhood Enhancement Funds (NEF)**
 - HDP, as a [501(c)(3)] can utilize these bonds for HDP ownership; governmental purpose bonds would be used for SDHC ownership; paired with the Neighborhood Enhancement Fund (NEF), to finance the acquisition of naturally occurring affordable housing (NOAH) properties and close the funding gap between what tax-exempt bonds can support and the total acquisition cost of potential preservation projects.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Proposed Framework for Implementation (Continued)

2. Ownership and Oversight through Housing Development Partners (HDP)

- NOAH properties at risk of conversion to market rate would be acquired and owned by HDP, a separate nonprofit affiliate that SDHC established in 1990 to facilitate affordable housing acquisition and development, or by an entity created or sponsored by HDP. HDP's status as a 501(c)(3) organization allows it to benefit from tax-exempt bond financing, creating a cost-effective pathway to preserve affordability through direct acquisition. This structure preserves public stewardship while leveraging HDP's operational capacity.

3. Ownership and Oversight through SDHC

- SDHC, or an entity created or sponsored by SDHC, could also be the entity to purchase, own and operate the preservation units where its status as a public agency is beneficial, such as purchases from another governmental entity, or where tenants need resources or programs that presently exist at SDHC, such as homelessness prevention. Having this flexibility helps cover a wide range of potential property purchases.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Proposed Framework for Implementation (Continued)

4. Target High-Opportunity NOAH Properties

- Initial acquisition efforts would focus on stable, revenue-generating, multifamily properties in high-opportunity areas—such as those near transit, schools, and employment centers—that do not yet require major rehabilitation. By acquiring well-maintained properties in strong locations, SDHC and HDP can act quickly to preserve affordability, generate income to reinvest in future acquisitions, and build a track record of success.

5. Leverage Additional Capital from Strategic Partners

- The proposed model is designed to deliver measurable outcomes in the near term: preserve affordability, generate rental income, and build confidence in an innovative preservation strategy. As the program establishes a successful track record, it can position SDHC to explore partnerships with philanthropic foundations, Community Reinvestment Act–motivated financial institutions, major employers, and health care systems—ultimately expanding the scope and sustainability of future preservation efforts.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Proposed Framework for Implementation (Continued)

6. Identify and Combine Restricted Fund Balances to use in the Preservation Fund

- SDHC and the City have identified funding sources that are required to be spent in defined regions of the City. Each fund, by itself, is insufficient to fully fund the construction of new affordable units. SDHC will work with the City to further explore the potential to reallocate these funds, if legally permissible, to the affordable housing preservation fund.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Proposed Framework for Implementation (Continued)

7. Maintain Flexibility for Expansion of Preservation Activities to Fulfill City Council-Approved Preservation Strategy

- The initial phase of implementation of the preservation fund will focus on acquisition and development through HDP, SDHC or another entity created or sponsored by SDHC or HDP.
- A simpler, more direct financing structure will establish the preservation fund quickly and provide more immediate results without the use of competitive affordable housing financing resources.
- Using the preservation fund to finance predevelopment expenses and for acquisitions will allow the funds to be repaid sooner, upon permanent financing for the project. The funds will then be available for new projects, allowing the preservation fund to become a revolving loan fund sooner.
- A successful track record makes it easier to attract additional investment.
- As the fund balance grows, new programs can be established, such as the Small Sites Rehabilitation program for NOAH, which is Action Item No. 3 of the City's preservation strategy.
- Fund activities could be further expanded through partnership with a selected Community Development Financial Institution (CDFI). CDFIs are U.S. Treasury-certified organizations that specialize in community-based investment and can attract philanthropic, private, and institutional capital.



SDHC – Budget Amendment for Affordable Housing Preservation Fund Staff Recommendations

That the San Diego Housing Commission (SDHC) Board of Commissioners (Board) recommend that the Housing Authority of the City of San Diego (Housing Authority) take the following actions:

- 1) Amend SDHC's Fiscal Year (FY) 2026 Budget to authorize SDHC to accept and expend City of San Diego Neighborhood Enhancement Fee (NEF) funds in the amount of \$5,913,554 from the City's NEF fund #400877 – Affordable Housing Preservation, for affordable housing preservation activities to acquire and preserve both deed-restricted and naturally occurring affordable housing (NOAH) properties, including future annual transfers from the fund, subject to City budget approval.
- 2) Authorize SDHC's President and Chief Executive Officer (President and CEO), or designee, to execute all documents and instruments that are necessary and/or appropriate to implement these approvals, in a form approved by General Counsel, and to take such actions as are necessary and/or appropriate to implement these approvals upon the advice of General Counsel. SDHC staff will notify the Housing Authority and the City Attorney's Office about any subsequent amendments or modifications to the documents, and other required documents, including amendments to any documents.



SDHC – Budget Amendment for Affordable Housing Preservation Fund

Questions & Comments

