



REPORT

DATE ISSUED: April 7, 2003

ITEM 100

REPORT NO.: HCR03-028
For the Agenda of April 11, 2003

SUBJECT: Housing Trust Fund FY04-06 Three-Year Program Plan and FY04
Implementation Strategy (Citywide)

SUMMARY

Issue: Should the Housing Commission review and approve submission of the proposed Housing Trust Fund Three-Year Program Plan for FY04-06 and Fiscal Year 04 Implementation Strategy to the City Council as described in this Report?

Recommendation: That the Housing Commission: 1) hear public testimony on the Housing Trust Fund draft Three-Year Program Plan for FY04-06 and FY04 Implementation Strategy; 2) make modifications to the draft as it deems appropriate; and, 3) forward the draft to City Council with a recommendation for approval.

Fiscal Impact: None with this action. The FY04 Housing Trust Fund budget of \$2,040,594 is incorporated into the Housing Commission's budget, which is the subject of another report on today's agenda.

Affordable Housing Impact: Should all anticipated FY04 revenues be collected and allocated as planned, the estimated production would be: 1) operating support for 200 beds for formerly homeless individuals and families in transitional housing programs; 2) issuance of grants and loans to 78 home owners for rehabilitation and preservation of single family homes and mobilehomes, primarily at or below 50 percent of area median income; 3) assistance to 13 homebuyers at or below 100 percent of area median income; 4) development of seven rental units affordable to families at or below 50 percent of area median income; and 5) acquisition of five units to provide permanent or transitional housing for persons with special needs.

Future Related Action: As required by the Housing Trust Fund Ordinance (Municipal Code Section 98.0508), the recommendations of the Housing Commission will be forwarded to the City Council for final action.



BACKGROUND

The Three-Year Program Plan provides the broad framework for the annual Implementation Strategy. The new Three-Year Program Plan covers FY04 through FY06; this Report describes the proposed Three-Year Program Plan for FY04-06 and the one-year Implementation Strategy for FY04. The one-year Implementation Strategy (Attachment 1) describes the anticipated revenues and allocation of those revenues among Housing Trust Fund activities for FY04. The specifics of the proposed Housing Trust Fund programs and activities are described in the Model Programs section of the FY04 Implementation Strategy.

DISCUSSION

Municipal Code Requirements

Municipal Code Section 98.0508 requires the development of sequential Three-Year Program Plans and annual implementation strategies for those Plans. Each one-year implementation strategy allocates anticipated funds among Housing Trust Fund activities and updates or introduces model programs for future Housing Trust Fund activities. The Ordinance mandates maximum and minimum funding levels for specific activities, as described on page five of Attachment 1.

To collect input for each year's Implementation Strategy, the Housing Commission holds public hearings in the north, south, and central areas of the City. In March of 2003, hearings were held in San Ysidro, City Heights, Southeastern San Diego and Linda Vista. Public comments were also taken at the Community Planners Committee meeting on March 25. Suggestions, requests, and testimony submitted throughout the year were also incorporated into the draft Implementation Strategy as appropriate. Today's discussion of this Housing Commission Report will serve as an additional public hearing.

The Housing Commission is required by Ordinance to hold a public hearing on the draft FY04 Strategy, make modifications it deems appropriate and submit the draft to the City Council for approval. The City Council must consider the draft submitted by the Housing Commission, modify as desired, and approve the final plan for the coming fiscal year.

Relation to Consolidated Plan

The City's FY01–FY05 Consolidated Plan describes how the City is meeting statutory requirements of specified federal programs. One of the City's resources for meeting these goals is investment made with Housing Trust Fund dollars. At present, the Housing Trust Fund is the primary source of funds for the local match required by several Federally funded programs.

The first goal of the Consolidated Plan is to provide decent housing, including

- Retaining affordable housing stock;
- Increasing the availability of permanent housing that is affordable to low-income households without discrimination;
- Assisting homeless persons to obtain affordable housing; and
- Increasing supportive housing that includes structural features and services to enable persons with special needs to live independently.

The FY04-06 Housing Trust Fund Three-Year Program Plan and FY04 Implementation Strategy supports the goals of the City’s proposed Consolidated Plan.

The Housing Commission Budget as Context for the HTF FY04 Strategy

The Housing Trust Fund is one of several non-restricted funding sources included in the Housing Commission FY04 Budget. As such, the HTF budget should be considered in the context of those funds as well as in the context of the full Housing Commission budget, which includes \$103.2 million for rental assistance (out of a total \$162.5 million).

Non-restricted funding for FY04 is estimated to total approximately \$25.9 million. Sources include Rental Rehabilitation loan payments, local funds, HTF, and HOME funds.

The allocation of non-restricted funds in the Commission’s FY04 budget is as follows:

Programs that include HTF Funds

Rental Housing Development	\$8,837,833
Special Purpose Rental Housing	1,830,539
Homeownership	1,599,116
<u>Rehabilitation-Owner</u>	<u>2,141,715</u>
Subtotal	\$14,409,203

Programs that do not include HTF Funds

Property Management	\$1,743,319
Resident Services	61,300
Portfolio Servicing	1,115,754
Operations	2,124,981
Rehabilitation-Rental	134,400
<u>Program & Contingency Reserves</u>	<u>6,377,702</u>
Subtotal	\$11,557,456

Grand Total	\$25,966,659
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Three-Year Program Plans

The target ranges for Housing Trust Fund activities for the proposed three-year program plan and the two previous three-year program plans are as follows:

Activity	FY98-00 Target (% of Total)	FY01-03 Target (% of Total)	FY04-06 Target (% of Total)
Rental Housing Development	20%-40%	25%-40%	20%-40%
Special Purpose Rental Housing	5%-10%	10%-20%	5%-20%
Homeownership	5%-15%	5%-15%	5%-10%
Rehabilitation	5%-20%	5%-15%	5%-15%
Transitional Housing Operations	10%-25%	10%-25%	10%-25%
Nonprofit Capacity Bldg	5%-15%	5%-10%	5%-10%
Administration/Legal	6%-9%	6%-9%	7%-10%
Reserves/Targets	5%-15%	5%-10%	5%-10%
Total	100%	100%	100%

HTF FY04 Revenue Forecast

The FY04 Housing Trust Fund budget for new activities (\$2,040,594) consists of anticipated revenues from Housing Impact Fees, Community Development Block Grant loan repayments, and Housing Rehabilitation Trust Fund loan repayments (approximately \$1.8 million) plus estimated uncommitted carryover (\$230,556).

The FY04 Strategy is based on an anticipated reduction in available funds from approximately \$2.8 million to \$2 million, due primarily to the reduction in linkage fees collected as well as the successful investment of prior-year HTF funds and related reduction in carryover.

As a result of reduced funding, funds for most program activities are reduced. Allocations for Rental Housing Development and Homeownership activities have been reduced because they receive funding from other sources. In contrast, the Transitional Housing activity does not have alternate funding sources, so this activity is maintained at last year's funding level.

The California Department of Housing and Community Development (CA HCD) is currently designing a Local Housing Trust Fund Matching Grant program implementing Assembly Bill No. 1891 and utilizing funds from Proposition 46. Preliminary information from CA HCD is that one-for-one matching grants funds will be available for rental housing development (\$2,000,000 maximum). It is anticipated that CA HCD will issue a Request for Proposals (RFP) before July 1, 2003. Grant funds from CA HCD have not been included in the FY04 Implementation Strategy; however, staff does expect to apply for grant funds based on available local matching funds.

Comparison of FY01, FY02, FY03, and FY04 (Proposed) One-Year Strategies

Activity	FY01	FY02	FY03	FY04
Rental Housing Development	\$4,106,031	\$2,220,206	\$1,140,000	\$200,000
Special Purpose Rental Housing	1,270,664	800,000	600,000	150,000
Homeownership	400,000	200,000	200,000	100,000
Rehabilitation	631,862	313,177	330,000	477,015
Transitional Housing Operations	1,100,000	800,000	700,000	700,000
Nonprofit Capacity Building	350,000	250,000	200,000	80,000
Administration/Legal	718,507	440,000	280,000	287,013
Reserves/Targets	500,000	300,000	200,000	46,566
Total	\$9,077,206	\$5,323,383	\$3,650,000	\$2,040,594

Changes in the Model Programs

The San Diego median home price was \$383,000 in October 2002. This compares to \$246,000 in November 2000. This rise in housing prices, without a commensurate rise in incomes, necessitated revising the Shared Equity and Downpayment Assistance Programs to ensure their continued use and effectiveness. The maximum Shared Equity second trust deed loan was increased from \$40,000 to \$70,184. The Downpayment Assistance grant was increased from \$5,000 to \$7,500. These changes enable more applicants to qualify for the programs while fewer buyers can be assisted. HTF homeownership funds are used primarily to fund the Downpayment Assistance program.

ALTERNATIVE

The Housing Commission can redirect the distribution of funds among housing development activities for the FY04 Strategy, or modify specific model programs. However, any redistribution of funds would be subject to the Housing Trust Fund Ordinance requirements and limitations regarding the percentage of funds that can be allocated to benefit recipients with very low, low, and median incomes.

Respectfully submitted,

Approved by,

Signature on File with Original Document

Jack D. Farris
 Manager, Housing Finance & Development

Elizabeth C. Morris
 Chief Executive Officer

Attachments:

1. Draft Implementation Plan, Three-Year Program Plan and Model Programs

KERN:PPLAN04.HC

Information: A. KERN 578-7582

SAN DIEGO HOUSING TRUST FUND

FY04 Implementation Strategy (DRAFT)

INTRODUCTION

San Diego's Housing Trust Fund is a permanent, annually renewable source of funds to help meet the housing assistance needs of its very low-, low-, and median-income households. The City Council expressed this intent in the Housing Trust Fund Ordinance (O-17454), which became Municipal Code Sections 98.0500-98.0618. In general, the Housing Trust Fund's purposes are to:

- 1) Meet a portion of the need for housing affordable to households with lower incomes;
- 2) Support the Balanced Communities Policy;
- 3) Preserve affordable housing; and
- 4) Encourage private sector activities that advance these goals.

The Program Plan implements the Council's intent by adopting an overall strategy for use of Housing Trust Fund moneys.

To assure that the City serves its residents in the best possible manner, the Housing Commission continues to solicit ideas for improving Housing Trust Fund programs to better respond to community needs for affordable housing and quality neighborhoods. Since the inception of the Housing Trust Fund in 1991, over \$57 million has been invested (or re-invested) in San Diego communities, leading to the production of over 6,200 affordable units and funding an average of approximately 452 transitional housing beds per year.

The development of the annual Housing Trust Fund Implementation Strategy is guided by the City's annual Consolidated Plan, which is required by the federal Department of Housing and Urban Development. The Consolidated Plan identifies priority needs, describes a process to produce coordinated neighborhood and community objectives to revitalize those communities, establishes the City's housing and community development strategies, and describes specific programs that satisfy federal statutory goals. Recommendations regarding allocation of Housing Trust Fund resources take into consideration the requirements of the federal funding sources, the priorities of the City's Consolidated Plan, and the policy parameters set by the Housing Trust Fund Ordinance.

As background information, the draft FY04 Strategy includes a statement of housing needs; it also includes a suggested appropriation of funds for FY04, an Ordinance Compliance Analysis, and a description of model programs and beneficiaries.

STATEMENT OF HOUSING NEEDS

The need for affordable housing in San Diego is verified by census data:

- Nearly 107,000 very low- and low-income households would require assistance for their housing to be considered affordable (i.e., payment of no more than 30 percent of income for rent and utilities). Of these, more than 57,000 low-income households dedicate more than half their monthly income to meeting housing costs.
- More than 40 percent of households fit HUD definitions of very low- and low-income.
- There are approximately 5,000 homeless adults in the central city area. Significant numbers of additional homeless congregate in the communities of Bay Park, Clairemont, Corridor, La Jolla Colony, Loma Portal, Logan Heights, Golden Hill, Normal Heights, North Park, Old Town, Hillcrest and the beach communities.
- The current economic recovery includes rising real estate values (and housing costs) but has not yet resulted in a significant increase in the construction of affordable housing stock. As a result, vacancy rates have dropped and are expected to remain low.

The Table on the next page is from the City's Consolidated FY04 Annual Plan. It quantifies housing assistance needs of low and moderate income households.

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SAN DIEGO HOUSING TRUST FUND

FY04 IMPLEMENTATION STRATEGY

FUNDING ALLOCATION AMONG ELIGIBLE ACTIVITIES (DRAFT)

Approximately \$2 million is expected to be available in FY04, consisting of \$230,556 million in estimated carryover and \$1.8 million in revenue (Housing Impact Fees, CDBG loan repayments, and Housing Rehabilitation Trust Fund loan repayments). The Housing Commission Loan Committee and Proposal Review Committees make funding recommendations to the Housing Commission for approval of specific projects and activities. Some discretionary transfer of funds between eligible activities is permitted, but all funding recommendations must be consistent with the Three-Year Program Plan.

The proposed distribution of funds for FY04 is as follows:

Rental Housing Development	\$200,000	10%
New Rental Housing		
Existing Rental Housing		
Special Purpose Rental Housing	\$150,000	8%
Homeownership	100,000	5%
Shared Equity Program		
Downpayment Assistance Program		
Moving On		
Acquisition with Rehabilitation		
Limited Equity Cooperatives		
Mobile Home Parks		
Rehabilitation	477,015	23%
Owner-occupied Rehabilitation		
Nonprofit Owner-Occupied		
Mobile Home Rehabilitation		
Accessibility Grants for Tenants with Disabilities		
Transitional Housing Operations	700,000	34%
Nonprofit Capacity Building	80,000	4%
Predevelopment Financial Assistance		
Emergency Loan Fund Program		
Nonprofit Technical Assistance		
Nonprofit Support		
Reserves & Targets of Opportunity	46,566	2%
Administration	257,013	13%
Legal	<u>30,000</u>	<u>1%</u>
TOTAL	\$2,040,594	100%

HTF ORDINANCE COMPLIANCE TESTS

The Housing Trust Fund Ordinance, at Municipal Code Section 98.0504, sets forth the allocation boundaries for the Fund. To comply with the Ordinance, Housing Program Funds must be allocated:

- At least 10 percent to Transitional Housing;
- At least 60 percent to very low-income households (defined as households with incomes at or below 50 percent of area median income);
- No more than 20 percent to housing for low-income households (defined as households with incomes between 50 percent and 80 percent of area median income) and
- No more than 10 percent to median income first-time homebuyers.

Housing Program Funds are defined as those funds allocated to direct investment in housing. Administration, legal expenses, nonprofit capacity building and uncommitted reserves are excluded from the calculation.

For the FY04 Strategy, the calculation would be as follows:

Total Funds		\$2,040,594
Less Administration, Legal		(287,013)
Less Capacity Building		(80,000)
Less Uncommitted Reserves/Targets		(46,566)
Equals Housing Program Funds (HPF)		\$1,627,015
<u>Program</u>	<u>Allocation</u>	<u>Percent of HPF</u>
Transitional Housing	\$ 700,000	43%
Very Low-Income (Excluding Transitional Housing)		
Rental Housing Development	200,000	
Special Purpose Rental	150,000	
Rehabilitation	477,015	
	\$827,015	51%
Low-Income (estimated)		
Rehabilitation	-0-	
Homebuyers	\$100,000	6%
Median-Income Homebuyers	-0-	

[The FY04 Implementation Strategy is in compliance with the allocation boundaries of the Housing Trust Fund Ordinance.]

**SAN DIEGO HOUSING TRUST FUND:
THREE-YEAR PROGRAM PLAN**

**ALLOCATION OF RESOURCES AMONG ELIGIBLE ACTIVITIES
Fiscal Years 2004 - 2006**

Funding is allocated for a three-year period among the various activities authorized by the Housing Trust Fund Ordinance (Municipal Code Section 98.0501). Actual funding of activities will be achieved through the types of programs outlined in **Attachment 1**, "Model Programs." Model Programs are intended to provide broad descriptions of possible Housing Trust Fund activities. As such, Model Programs may change from time to time; they are not intended to preclude Housing Trust Fund investment in an opportunity that is not specifically described in the Model Programs Section.

Rental Housing Development 20% to 40%

Advantageous financing to developers of units with below-market rents. Program includes deferred loans, interest write-downs, and matching funds for State, Federal, and private financing. Activities within this program are classified as projects subject to community planning group review.

Special Purpose Rental Housing 5% to 20%

Advantageous financing to developers of transitional housing or affordable units with related services that serve persons qualifying under federally or locally determined Special Needs or Special Purpose categories. Program includes deferred loans, revocable grants, land banking, matching funds for State, Federal and private financing. Activities within this program are classified as projects subject to community planning group review.

First-Time Homebuyers 5% to 10%

Junior loan/grant and new construction programs targeted toward homes in communities seeking homeownership as a means of neighborhood revitalization or stabilization. Funding for resident organizations establishing limited equity cooperative housing organizations. Funding for mobilehome park resident organizations seeking to buy their mobilehome parks.

Housing Rehabilitation 5% to 15%

Rehabilitation programs that provide below-market interest rate amortizing loans for the rehabilitation of deteriorated or functionally obsolete units. Units must be owner-occupied, single family to four-plex or mobilehome. Activities within this category that finance the rehabilitation of more than 25 units are classified as projects and are subject to community planning group review.

Transitional Housing Operations

10% to 25%

Grants and loans to nonprofit agencies for operation of transitional housing, acquisition or leasing of facilities, or improvements to facilities. No more than 25 percent of Transitional Housing Program funds may be used for administration and supportive services. At least 10 percent of Housing Trust Fund program funds must be dedicated to Transitional Housing activities (operations and development).

Nonprofit Capacity Building

5% to 10%

Programs for nonprofit developers include project-based financial assistance and technical assistance.

Rental Assistance

0% to 5%

A program designed to assist low-income residents achieve self-sufficiency by providing limited amounts of rental assistance.

Reserves and Targets of Opportunity

5% to 10%

A reserve fund that gives the Board the flexibility to transfer resources among eligible activities and to take advantage of low-income housing opportunities that present themselves during the course of the year. The reserve fund also provides for a contingency reserve and allows for reimbursement of housing impact fees when building permits expire without the commencement of work.

Administration

6% to 9%

A fund established to provide reasonable compensation to the City of San Diego and the Housing Commission for services related to the administration of the Housing Trust Fund.

Legal

0% to 1%