



Good Neighbors

San Diego  
Housing Commission

# REPORT

DATE: For the Agenda of April 20, 2001 **Item 106**

REPORT NO.: HCR01-051

SUBJECT: Housing Trust Fund FY02 Implementation Strategy (Citywide)

## SUMMARY

**Issue:** Should the Housing Commission review and approve submission of the proposed Housing Trust Fund Fiscal Year 02 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 FY02 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 FY02 Housing Trust Fund budget of \$5,323,384 is incorporated into the Housing Commission's budget, which is scheduled for review at today's meeting.

**Affordable Housing Impact:** Should all anticipated FY02 revenues be collected and allocated as planned, the estimated production would be: 1) development of 74 rental units affordable to families at or below 50 percent of area median income; 2) assistance to 67 homebuyers at or below 100 percent of area median income; 3) issuance of grants and loans to 78 home owners for rehabilitation and preservation of single family homes and



A state agency authorized by the City of San Diego

mobilehomes, primarily at or below 50 percent of area median income: 4) operating support for 320 beds for formerly homeless individuals and families in transitional housing programs; and 5) acquisition of 27 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 current Three-Year Program Plan covers FY01 through FY03; this Report describes the proposed one-year Implementation Strategy for FY02. The one-year Implementation Strategy describes the anticipated revenues and allocation of revenues among Housing Trust Fund activities for FY02. The specifics of the proposed Housing Trust Fund programs and activities are described in the Model Programs section of the FY02 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 Two.

To collect input for each year's Implementation Strategy, the Commission must hold public hearings in the north, south, and central areas of the City. In March of 2001, hearings were held in San Ysidro, City Heights and Southeastern San Diego; an invitation to provide comments was also made at the March meeting of the Linda Vista Community Planning Committee meeting. 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 FY02 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 proposed 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 FY02 Housing Trust Fund Program Plan supports the goals of the City's proposed Consolidated Plan.

#### The Commission Budget as Context for the HTF FY02 Strategy

The Housing Trust Fund is one of several non-restricted funding sources included in the Housing Commission FY02 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 will include \$71.2 million for rental assistance (out of a total \$124.2 million).

Non-restricted funding for FY02 is estimated to total approximately \$26.2 million. Sources include Rental Rehab loan payments, local funds, HTF, and HOME.

The allocation of non-restricted funds in the Commission's FY02 budget is as follows:

|   |                  |
|---|------------------|
| <u>Operations</u>                             | \$2,721,302      |
| <u>Programs that include HTF Funds</u>        |                  |
| Rental Development                            | 9,397,753        |
| Special Purpose Housing                       | 2,743,500        |
| Homeownership                                 | 2,307,328        |
| Rehabilitation-Owner                          | 1,250,738        |
| <u>Monitoring</u>                             | <u>1,023,040</u> |
| Subtotal                                      | \$16,722,359     |
| <u>Programs that do not include HTF Funds</u> |                  |
| Property Management                           | \$411,630        |
| Resident Services                             | 233,167          |
| Program & Contingency Reserves                | 4,556,481        |
| <u>Rehab-Rental</u>                           | <u>1,500,101</u> |
| Subtotal                                      | \$6,741,379      |
| Grand Total                                   | \$26,185,040     |

Current Three-Year Program Plan

The target ranges for Housing Trust Fund activities for the current three-year program plan are as follows:

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

HTF FY02 Revenue Forecast

The FY02 Housing Trust Fund budget for new activities (\$5,323,383) consists of anticipated revenues from Housing Impact Fees and Community Development Block Grant loan repayments (approximately \$4 million) plus estimated uncommitted carryover (\$1.3 million). Significant carryover is included in the budget because Housing Impact Fees collected in the latter months of FY01 will be received too late to be committed to projects in the current fiscal year.

The FY02 Strategy is based on an anticipated reduction in available funds from approximately \$9.1 million to \$5.3 million, due primarily to the successful investment of prior-year HTF funds and related reduction in carryover. Funds for all program activities are reduced, with the amount and percentage of reduction scaled to balance anticipated needs.

The percent (and actual dollars) of the HTF budget allocated to home ownership and rehabilitation activities is dropping somewhat because other funding sources (including the payback of prior HTF-funded loans) are now available to fund these activities.

Comparison of Current (FY01) and Proposed (FY02) One-Year Strategies

| Activity                | FY-01       | FY02        |
|-------------------------|-------------|-------------|
| Rental Housing Devel    | \$4,106,031 | \$2,220,206 |
| Homeownership           | 400,000     | 200,000     |
| Rehabilitation          | 631,862     | 313,177     |
| Transitional Hsg Opers  | 1,100,000   | 800,000     |
| Special Needs Hsg Devel | 1,270,664   | 800,000     |
| Nonprofit Capacity Bldg | 350,000     | 250,000     |
| Admin/Legal             | 718,507     | 440,000     |
| Reserves/Targets        | 500,000     | 300,000     |
|                         |             |             |
| Total                   | \$9,077,206 | \$5,323,383 |

Changes in the Model Programs

No substantial changes to the current Model Programs are proposed.

**ALTERNATIVE**

The Housing Commission can redirect the distribution of funds among housing development activities for the FY02 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 (See Attachment One.)

Respectfully submitted,

Approved by,

Patricia Duplechan  
Director of Housing Programs

Elizabeth C. Morris  
Chief Executive Officer

**Signature on File  
With Original Document**

Attachments:

1. HTF Ordinance Compliance Tests
2. Draft Implementation Plan and Model Programs

## HTF ORDINANCE COMPLIANCE TESTS

The Housing Trust Fund Ordinance, at Municipal Code Section 98.0504, sets forth the allocation requirements of 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 funds that are allocated to direct investment in housing; administration, legal expenses, nonprofit capacity building and uncommitted reserves are excluded from the calculation.

For the draft FY02 Strategy, the calculation would be as follows:

|  |                   |                       |
|--|-------------------|-----------------------|
| Total Funds                                      |                   | \$5,323,383           |
| Less Administration, Legal                       |                   | (440,000)             |
| Less Capacity Building                           |                   | (250,000)             |
| Less Uncommitted Reserves/Targets                |                   | <u>(300,000)</u>      |
| Equals Housing Program Funds (HPF)               |                   | \$4,333,383           |
| <u>Program</u>                                   | <u>Allocation</u> | <u>Percent of HPF</u> |
| Transitional Housing                             | \$ 800,000        | 18%                   |
| Very Low-Income (Excluding Transitional Housing) |                   |                       |
| Housing Development                              | 2,220,206         |                       |
| Rehabilitation                                   | 313,177           |                       |
| Special Purpose                                  | <u>800,000</u>    |                       |
|  | \$3,333,383       | 77%                   |
| Low-Income (estimated)                           |                   |                       |
| Rehabilitation                                   | -0-               |                       |
| Homebuyers                                       | \$200,000         | 5%                    |
| Median-Income Homebuyers                         | -0-               | 0%                    |

[The draft FY02 Implementation Strategy is in compliance with the allocation requirements of the Housing Trust Fund Ordinance.]

## **SAN DIEGO HOUSING TRUST FUND**

### **FY02 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 \$45 million has been invested (or re-invested) in San Diego communities, leading to the production of over 4,300 affordable units and funding an average of approximately 346 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 FY02 Strategy includes a statement of housing needs; it also includes a suggested appropriation of funds for FY02, 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 to the lowest level in several years.

The Table on the next page is from the City's Consolidated FY02 Annual Plan. It quantifies housing assistance needs of low and moderate income households.

## SAN DIEGO HOUSING TRUST FUND

### FY02 IMPLEMENTATION STRATEGY

#### FUNDING ALLOCATION AMONG ELIGIBLE ACTIVITIES (DRAFT)

Approximately \$5.3 million is expected to be available for FY02, consisting of \$1.3 million in estimated carryover and \$4.0 million in revenue (Housing Impact Fees, CDBG 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 FY02 is as follows:

|  |               |           |
|--|---------------|-----------|
| Rental Housing Development             | \$2,220,206   | 42%       |
| New Rental Housing                     |               |           |
| Existing Rental Housing                |               |           |
| Mobilehome Parks (Nonprofit Ownership) |               |           |
| Homeownership                          | 200,000       | 4%        |
| Shared Equity Program                  |               |           |
| Downpayment Assistance Program         |               |           |
| Acquisition with Rehabilitation        |               |           |
| Limited Equity Cooperatives            |               |           |
| Mobile Home Parks                      |               |           |
| Assistance to Nonprofit Renters        |               |           |
| Rehabilitation                         | 313,177       | 6%        |
| Owner-occupied Rehabilitation          |               |           |
| Nonprofit Owner-Occupied               |               |           |
| Mobile Home Rehabilitation             |               |           |
| Rehabilitation Loan Leveraging         |               |           |
| Transitional Housing Operations        | 800,000       | 15%       |
| Special Purpose Housing Development    | 800,000       | 15%       |
| Nonprofit Capacity Building            | 250,000       | 5%        |
| Predevelopment Financial Assistance    |               |           |
| Emergency Loan Fund Program            |               |           |
| Nonprofit Technical Assistance         |               |           |
| Nonprofit Support                      |               |           |
| Reserves & Targets of Opportunity      | 300,000       | 5%        |
| Administration                         | 400,000       | 7%        |
| Legal                                  | <u>40,000</u> | <u>1%</u> |
| TOTAL                                  | \$5,323,383   | 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 draft FY02 Strategy, the calculation would be as follows:

|  |                   |                       |
|--|-------------------|-----------------------|
| Total Funds                                      |                   | \$5,323,383           |
| Less Administration, Legal                       |                   | (440,000)             |
| Less Capacity Building                           |                   | (250,000)             |
| Less Uncommitted Reserves/Targets                |                   | <u>(300,000)</u>      |
| Equals Housing Program Funds (HPF)               |                   | \$4,333,383           |
| <u>Program</u>                                   | <u>Allocation</u> | <u>Percent of HPF</u> |
| Transitional Housing                             | \$ 800,000        | <b>18%</b>            |
| Very Low-Income (Excluding Transitional Housing) |                   |                       |
| Housing Development                              | 2,220,206         |                       |
| Rehabilitation                                   | 313,177           |                       |
| Special Needs                                    | <u>800,000</u>    |                       |
|  | \$3,333,383       | 77%                   |
| Low-Income (estimated)                           |                   |                       |
| Rehabilitation                                   | -0-               |                       |
| Homebuyers                                       | \$200,000         | 5%                    |
| Median-Income Homebuyers                         | -0-               |                       |

[The draft FY02 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 2001 - 2003**

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 25% 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.

First-Time Homebuyers 5% to 15%

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).

Special Purpose Housing Development

10% 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.

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

5% to 8%

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%