RULES COMMITTEE AGENDA: 10/28/2020
FILE#: ROGC 20-488
ITEM: G.3

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO:	**RULES & OPEN GOVERNMENT COMMITTEE**	**FROM:**	Councilmember Johnny Khamis Councilmember Lan Diep
SUBJECT:	**SEE BELOW**	**DATE:**	October 22, 2020

APPROVED: Lan Diep **DATE** 10/22/2020

SUBJECT: AUTHORIZING MEMBERSHIP IN THE CALIFORNIA COMMUNITY HOUSING AGENCY (CalCHA) TO PREVENT DISPLACEMENT AND INCREASE HOUSING AFFORDABILITY

RECOMMENDATIONS:

Direct Staff to draft a Resolution authorizing the City's participation in an innovative financing model to fund the acquisition and/or development of regulated affordable housing for middle-income households that will require the City to:

1) Become an Additional Member of the California Community Housing Agency (CalCHA) for which the sample resolution is attached as Exhibit A;

2) Support CalCHA's issuance of tax-exempt bonds for the production, preservation, and protection of essential middle-income rental housing; and,

3) Authorize the City Manager or desginee to execute purchase option agreements – sample attached as Exhibit B - to accept all public benefit creation and financial upside through direct acquisition or assignment of CalCHA's middle-income housing.

BACKGROUND:

We are very excited to bring to the City Council an innovative new housing finance tool that we can use to produce, preserve and protect affordable workforce housing for the "Missing Middle" or "Essential Middle" in San José with ZERO cost to taxpayers and no property management burdens on our Housing Department. Discussions with the Silicon Valley Leadership Group brought an introduction to Catalyst Housing Group, which works in partnership with CalCHA to implement their middle-income housing program. The program they jointly developed fits perfectly with our objective to ensure the preservation of affordable housing – housing we can

ACQUIRE and BUILD – while preserving City Housing funds for homelessness and more traditional extremely-low-income and very-low-income affordable housing. Perhaps most important, it is a program that prevents displacement – a goal endorsed by the full City Council.

In January 2019, a new joint powers authority (JPA) and political subdivision of the State – the California Community Housing Agency (CalCHA) – was formed by King's County and the Housing Authority of King's County for the purpose of issuing non-recourse tax-exempt bonds (Essential Housing Revenue Bonds) for the financing and/or refinancing of "projects that provide, preserve, and support affordable local housing for low-income, moderate-income and middle-income families and individuals" - JPA Agreement attached as Exhibit C. Upon receiving necessary local approvals, CalCHA issues tax-exempt governmental purpose revenue bonds to finance the acquisition or development of rent-restricted rental communities for households earning up to 120% of Area Median Income (AMI). Through providing below-market rents and capping annual rent increases, CalCHA creates immediate benefits for California's middle-income workforce who may not qualify for traditional affordable rental housing programs yet are increasingly priced out of the communities where they work. CalCHA provides and creates additional public benefit through granting all surplus economics to its member partners. Under the program, no existing tenants are displaced. Rents on affordable units created through this program would be capped at a maximum of 35% of the applicable percentage of AMI, and, annually, rent increase percentages are also capped at a maximum of 4%, which is well below the limits allowed with AB1482. All new tenants would need to income-qualify.

The City of San José may now join CalCHA as an Additional Member to gain the benefits envisioned, which includes the purchase of existing market-rate rental housing for the purpose of converting it to deed-restricted housing made affordable to working people – especially low-, median-, and moderate-income workers - those in the "missing middle" – with incomes below 120% of AMI.

For CalCHA to acquire or develop properties within San José, the City would first need to become an Additional Member of CalCHA. Before any property is acquired, the City would need to sign a Purchase Option Agreement, specific to that property, allowing, but not obligating, the City, at its sole discretion, to purchase the property after Year 16 of the underlying bond financing.

The City's purchase price within such option will always amount to the remaining debt balance of the underlying bond financing – meaning that once a property's financing has been fully repaid, the City's purchase option would amount to $0. Regardless of the City's desires to directly take title to a CalCHA asset through such option agreement, all surplus cash flows and/or net sales proceeds generated from the operation and/or future sale of any CalCHA asset would be granted to the City. The City has the option of directing any revenues it may receive from the program to be used for affordable housing, or the City could opt to keep the revenue unrestricted. The City also maintains control over the future affordability of any CalCHA asset once the initial bond financing has been repaid.

The conversion of market-rate housing to affordable units doesn't remove units from the marketplace, nor does it create new units, however, it does lock in the guarantee of deed restriction on rental pricing for the 30-year financing period and beyond. In addition to the City receive all excess revenues beyond the cost of repaying the bonds, when any CalCHA investment is made, the seller will gain funding which is often reinvested into creating additional market-rate housing. With the City's Inclusionary Housing ordinance and the Residential Impact Fee in place, these future investments will generate City revenues to finance more traditional low-income affordable housing and housing for the unhoused.

Although it is unknown how many, if any, properties would be acquired or developed by CalCHA, joining the JPA will bring the possibility of increased affordable housing opportunities to the City that is not dependent on local subsidy, and would provide desperately-needed rental housing affordable to essential middle-income renters, who often do not have access to rent-restricted affordable rental housing within reasonable proximity to their employment.

Several municipalities have now joined the CalCHA as Additional Members, including the jurisdictions of Santa Rosa, Fairfield, Menlo Park, Marin County, Larkspur, Napa, Mountain View, Livermore, Glendale, Glendale Housing Authority, Hayward, Dublin, Walnut Creek, Rancho Cordova, and La Mesa. Included as Exhibit D is the Staff Report from the City of Hayward and Exhibit E is the Staff Report from Walnut Creek.

In addition, since its inception in January 2019, CalCHA has acquired four assets:

1) Annadel Apartments in Santa Rosa (390 units),
2) Verdant at Green Valley in Fairfield (286 units),
3) Serenity at Larkspur in Larkspur (342 units), and
4) The Arbors in Livermore (162 units).

These units total more than $550 million of acquisitions/conversions. CalCHA is scheduled to close on a fifth asset in Q1 2021, consisting of 300+ units in Dublin.

We should be able to move this program forward with minimal staff work, given that robust staff analysis has been completed by other cities, the CalCHA JPA is already established, and the model Resolution and Purchase Agreement have already been drafted. As a result, we recommend that we refer this item to Staff to bring back to the full City Council for approval before year-end.

CONCLUSION:

The City can only benefit from making this program available in San José not preclude from later forming its own, similar bond-issuing agency – it's a win-win-win for the City, for middle-income workers, and for investors. Here are some of the major benefits:

- Prevents displacement
- Preserves housing affordability
- Requires no new taxes or fees
- It is available to us immediately and does not preclude San José from later forming its own, similar bond-issuing agency
- Minimal staff time required, plus no property management responsibilities for the life of the bonds
- City gains assets once bonds are paid off
- Excess proceeds go back to the City for housing the unhoused or other priorities
- Creates opportunities for new housing investment