

Proposed Housing Trust Funds Initial Plan

Public Comment Draft: February 13, 2018

INTRODUCTION

City Council adoption of revisions to the Housing Trust Fund Guidelines in July 2017 included a provision that staff prepare an “*initial proposed plan*” (Plan) regarding the use of Housing Trust Funds (HTF), to cover the remaining period of the Housing Element (through 2021). The proposed Plan should be made available for a 45-day public comment period, during which a public meeting is also held. Subsequently, the Housing Commission will review the proposed Plan and public comments received, and make a recommendation to the City Council, for final consideration and approval. The following discussion considers opportunities to target City-funded housing based on income levels, as well as population to be served by proposed housing.

BACKGROUND

In the last 25 years, the City has provided more than \$350 million in housing trust funds to preserve and produce approximately 2,700 affordable apartments. City housing trust funds were established in the 1980’s, dedicating funds from various sources for the purpose of preserving and producing affordable housing. Administrative guidelines for the use of the funds were concurrently established, and approved by Council, to streamline the process for funding affordable housing. The affordable housing created with the trust funds has allowed residents with low-and moderate incomes to remain in Santa Monica, and provided opportunities for Santa Monica workers to live close to their jobs.

In August 2015, Council established *maintaining an inclusive and diverse community* as one of five strategic goals. The strategic goal includes a focus on supporting economic diversity by helping low- and moderate-income households to afford to live and thrive in Santa Monica. The City’s Housing Trust Funds provide a mechanism to preserve and produce affordable housing opportunities, by subsidizing the acquisition/rehabilitation of existing housing, and newly constructed affordable housing. Affordable housing acts as a safety net for low- and moderate-income residents priced-out of, or displaced from, their current housing. Census data indicates that Santa Monica has 17,135 low- and moderate-income renter households, and that 7,700 of those households pay more than

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one-half of their income toward rent. The 2017 Santa Monica homeless count found 921 individuals living on the street, in vehicles, and shelters.

Affordable Housing Stock

Existing affordable housing in Santa Monica comprises approximately 4,500 apartments created through a combination of City housing trust funds, inclusionary zoning, and direct federal assistance. Tables 1 – 3 present information regarding income targeting, housing types, and target populations. The variety of housing types serve individuals, families, seniors, persons living with disabilities, and persons experiencing homelessness. Affordable rents range from \$340 (studio) to \$2,444 (3-bdrm), and eligible household incomes range from *extremely low-income* (\$18,950 for a 1-person household) to *moderate-income* (\$81,100 for a 3-person household). The following tables depict the housing types, populations served, and income levels (*# of Homes* includes completed, in-construction, and approved).

Table 1

Affordable Housing Stock - Income Level Served		
Income Level	# of Homes	Percent
Extremely Low	188	4%
Very Low	2,064	45%
Low-60	885	19%
Low-80	648	14%
Moderate-100	675	15%
Moderate-120	118	3%
	4,578	100%

Table 2

Affordable Housing Stock - Type		
Type	# of Homes	% of Total
0-Bedroom	1,203	26%
1-Bedroom	1,716	37%
2-Bedroom	1,069	23%
3-Bedroom	466	10%
4-Bedroom	19	0.4%
Mobilehome	105	2.3%
	4,578	100%

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Table 3

Affordable Housing Stock - Population Served		
Type	# of Homes	% of Total
Seniors	1,077	24%
Singles	1,650	36%
Special Needs	263	6%
Small Family	1,005	22%
Large Family	478	10.4%
Mobilehome	105	2.3%
	4,578	100%

Note: “Extremely Low-Income” = 30% or less of Area Median Income (AMI); “Very Low-Income” = 50% of AMI or less; “Low-60” = 60% of AMI or less; “Low-80” = 80% of AMI or less; “Mod-100” = 100% of AMI or less; and “Mod-120” = 120% of AMI or less.

DISCUSSION

New Affordable Housing Revenue

Voter approval of Propositions GS and GSH in November 2016 established an ongoing revenue source for the preservation and production of affordable housing, initially estimated at eight million dollars annually. Additionally, Council allocated other funds toward affordable housing, including the repayment of City loans to the former redevelopment agency. Other revenue sources dedicated to affordable housing include developer fees and affordable housing loan repayments. However, these other sources do not represent a significant source of revenue and can fluctuate widely from year to year.

Update on Quantified Objectives and Proposition R

State law (Government Code Section 65580 to 65589) requires that the City adopt a Housing Element (part of the General Plan) which includes housing production goals, known as *quantified objectives*, for a wide spectrum of income levels based on growth projections and need. The income levels are grouped into five categories: 1) Extremely Low-Income, 2) Very Low-Income, 3) Low-Income, 4) Moderate-Income, and 5) Above Moderate-Income. The following table indicates the 2017 income levels for various household sizes (*Above Moderate-Income* means incomes greater than listed for the

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Moderate-Income category). The figures listed in the income categories are derived as a percentage of the area median income (AMI) and adjusted for household size, as published by the State of California. The 2017 AMI for Los Angeles County is \$64,800.

INCOME LIMITS (ANNUAL)				
Household Size	Extremely Low (30%)	Very Low (50%)	Low (80%)	Moderate (120%)
1	\$18,950	\$31,550	\$50,500	\$54,450
2	\$21,650	\$36,050	\$57,700	\$62,200
3	\$24,350	\$40,550	\$64,900	\$70,000
4	\$27,050	\$45,050	\$72,100	\$77,750

The current Housing Elements covers the period of 2013 – 2021. The following table lists Santa Monica’s *Quantified Objectives* and the current status of housing production.

Table 4
Housing Element 2013-2021

QUANTIFIED OBJECTIVES TRACKING						
Income Category	Quantified Objective	Units Built	Units in Construction	Units with Planning Approval	Total	Quantified Objective Surplus/Deficit ()
Extremely Low-Income (30% AMI)	83	80	10	60	150	67
Very Low-Income (50% AMI)	214	130	97	65	292	78
Low-Income (80% AMI)	263	104	24	13	141	(122)
Moderate-Income (120% AMI)	111	19	8	60	87	(24)
Above Moderate (Market Rate)	700	555	548	1020	2,123	1,423
Totals:	1,371	888	687	1,218	2,793	1,422
Affordable Housing Subset	671	333	139	198	670	(146) *

* counts only negative #'s from above

The quantified objectives tracking table (Table 4) indicates the housing production goals for the *Low-Income* and *Moderate-Income* categories have not yet been met, with a current deficit of 122 and 24 units, respectively.

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Proposition R, adopted by Santa Monica voters in 1990, requires that thirty percent (30%) of all multifamily housing built annually be affordable to low- and moderate-income households, and that at least one-half of the affordable housing be affordable to low-income households. The following table represents years included in the current Housing Element cycle and lists the annual affordable housing surplus/deficit. FY13/14 indicates a surplus of 118 low- and moderate income homes, while the subsequent three years list annual deficits of 17, 16, and 18, respectively. Alternatively, the data can be viewed as indicating no deficit of low- and moderate-income homes, due to the cumulative surplus (of 67 homes) produced during the four- year period.

Table 5

Proposition R Tracking		
Multifamily Housing Production		
Year	% Affordable	Low/Mod-Income Housing Surplus/Deficit ()
FY 2013/2014	56%	118
FY 2014/2015	19%	(17)
FY 2015/2016	21%	(16)
FY 2016/2017	13%	(18)
Total:		67

Reviewing the affordable housing production data in *Tables 4 & 5* together, the *quantified objectives* deficit of 146 *low- and moderate-income* homes (*Table 4*) exceeds the surplus of 67 *low- and moderate-income* homes in the Proposition R tracking table (*Table 5*).

It should be noted that affordable housing created using City housing trust funds has historically helped satisfy the Proposition R goals. Additionally, the housing production represented in the annual Proposition R report reflects a snapshot of particular development cycles, and is problematic for viewing as strategic guidance. Therefore, when considering housing trust fund priorities, the unmet *quantified objectives* (i.e., deficits) indicated in *Table 4* can be considered a key data source for strategic guidance.

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Recent HTF Funding Approvals

Since the most recent update to the Housing Trust Fund Guidelines in July 2017, the City has issued three funding commitments for affordable housing. Two of the funding commitments involve future new construction of 47 apartments and the other involves the rehabilitation of 26 existing apartments. One of the future new construction developments is targeted to seniors and the other is targeted to young adults who are at-risk of becoming homeless. The affordable housing property pending rehabilitation is comprised almost entirely of studio and one-bedroom apartments.

Proposed Housing Trust Fund Priorities

Assuming HTF average annual revenue of approximately \$15 million for the years 2018-2021 (i.e., \$60 million), plus the existing HTF balance of approximately \$45 million, and an average HTF subsidy of \$350,000 approximately 300 affordable homes could be created through new construction. However, creating affordable housing through acquiring, rehabilitating, and dedicating existing apartments typically requires a significantly higher City HTF subsidy - recently more than \$500,000 per home. Opportunities for obtaining non-City funds to preserve existing housing is minimal, resulting in the necessity for 100% HTF financing for acquisition/rehabilitation properties. Newly constructed affordable housing developments obtain tax credit financing, which typically covers 40%-60% of the total development cost. Under the two HTF subsidy scenarios mentioned above, \$110 million in HTF monies can produce approximately 315 newly constructed affordable homes, but only approximately 220 affordable homes created through acquisition and rehabilitation. For the sake of developing funding plan goals, a maximum projected production of 300 affordable homes is used.

Although the Quantified Objectives and Proposition R requirements set goals for the affordability levels of housing, current HTF policies do not specify goals for target populations, such as persons living with disabilities, persons experiencing homelessness, seniors, large families, etc. Approaches to prioritizing the use of Housing Trust Funds (HTF) during the term of this Plan could include goal-setting for affordability levels, target populations, or both.

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With respect to affordability levels, because the City has not yet reached its Quantified Objectives for the current Housing Element period, the Initial Plan could include minimum goals for the unsatisfied objectives for low-income and moderate-income housing. However, because the City traditionally has not used its Housing Trust Funds to support moderate-income housing, and has generally targeted housing for extremely low-income and very low-income households, the focus on moderate- and low-income households would represent a shift in strategy.

Given the tension between satisfying the Quantified Objectives and serving those with the greatest need, three options are presented for consideration.

Option 1 (below) presents an approach to addressing the Quantified Objectives' deficit in low- and moderate-income housing. While the approach would help ensure that the City meets its Quantified Objectives, it could create some unintended consequences. First, it could limit the City's ability to invest in housing for people with disabilities and people experiencing homelessness, which typically targets extremely low-income households. Secondly, it could reduce opportunities to leverage the City's investments with other funding, as tax credits, particularly the more competitive, high-yield tax credits, which are allocated toward housing with deeper affordability targets.

OPTION 1

Quantified Objectives	# of Residences		
	Current Deficit	Funding Commitments¹	Minimum Goal
New Construction Low Income (51%-80% of AMI)	122	19	103
New Construction Moderate Income (81%-120% of AMI)	24	0	24
Acquisition/Rehabilitation Very Low-Income (0% - 50% of AMI)	40	5	35
Acquisition/Rehabilitation Low-Income (51% - 80% of AMI)	40	21	19

1. Number of homes for which funding commitments made since updates to HTF Guidelines adopted on July 25, 2017.

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Option 2 [below] presents an approach to addressing the Quantified Objectives’ deficit (in the Low- and Moderate-Income categories), while working to ensure that housing is created for special needs populations (people with disabilities and people experiencing homelessness) who would not benefit from housing affordable to households at 80 percent or 120 percent of area median income.

OPTION 2

Quantified Objectives / Target Population	# of Residences		
	Current Deficit	Funding Commitments ¹	Minimum Goal
New Construction Low Income (51%-80% of AMI)	122	19	103
New Construction Moderate Income (81%-120% of AMI)	24	0	24
Acquisition/Rehabilitation Very Low-Income (0% - 50% of AMI)	40	5	35
Acquisition/Rehabilitation Low-Income (51% - 80% of AMI)	40	21	19
People Living with Disabilities and/or Experiencing Homelessness	N/A	8	50

1. Number of homes for which funding commitments made since updates to HTF Guidelines adopted on July 25, 2017.

Option 3 (see next page) maintains the City’s historical practice of investing Housing Trust Funds in affordable housing that serves those with the greatest need and the fewest options, i.e. those households that typically make less than 60% of the area median income or less. Support for Option 3 comes with an assumption that inclusionary housing requirements associated with market-rate residential development will satisfy the Quantified Objectives for (new construction of) low- and moderate-income housing. Additionally, Housing Element regulations focus on creating housing for all income levels but do not establish priorities among target populations. Therefore, Table 3 reflects equal allocations among target populations of the Santa Monica community. Furthermore, the equal allocation recognizes that: 1) seniors are a growing share of our population; 2)

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homelessness is at crisis levels in the region and Santa Monica is limited in its ability to provide supportive housing for persons living with disabilities, including mental health disabilities; 3) affordable family housing provides opportunities for growing families who are priced out of the housing market to live in Santa Monica and helps ensure low-income families are included in the community; and 4) preservation of existing housing is a core community value. Option 3 imposes maximums on each housing typology in an attempt to ensure that the needs of all target populations are addressed and to avoid spending all or the majority of funds on housing that serves one target population.

OPTION 3

Target Population	# of Residences		
	Maximum	Funding Commitments ¹	Remaining Maximum
People Living with Disabilities and/or Experiencing Homelessness	100	8	92
Seniors	100	39	61
Large Families	100	0	100
Small Families / Individuals ²	100	26	74

1. Number of homes for which funding commitments made since updates to HTF Guidelines adopted on July 25, 2017.

2. Acquisition, rehabilitation, and deed restriction of existing housing would generally fall into the “Small Families / Individuals” category.

SUMMARY

The three options presented in this draft plan represent various strategies for achieving affordable housing goals using housing trust funds. Option 1 focuses solely on income targeting goals but does not specify target populations. Option 2 comprises a mix of income targeting and special needs housing, and assumes some of the low-income housing will be produced through inclusionary housing requirements. Option 3 aims to serve a broad spectrum of target populations (which are extremely low-, very low-, and low-income households).

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It is critical to note that the proposed Plan does not address the use of housing trust funds for rental subsidies or similar household subsidy programs such as the Preserving Our Diversity (POD) pilot program. Rental/household subsidies are not currently an eligible use under the HTF Guidelines, and the proposed Plan is intended to complement the existing Guidelines. In the event the Housing Commission recommends using a portion of Housing Trust Funds for rental/household subsidies, Council consideration and approval of revisions to the HTF Guidelines would be necessary and the Plan would be revised accordingly.

PROPOSED