

South Bay Cities Council of Governments

March 9, 2022

TO: SBCCOG Legislative Committee

FROM: Jacki Bacharach, Executive Director

SUBJECT: Housing Trust Fund Models Overview

Adherence to Strategic Plan:

Goal B: Regional Advocacy. Advocate for the interests of the South Bay.

BACKGROUND

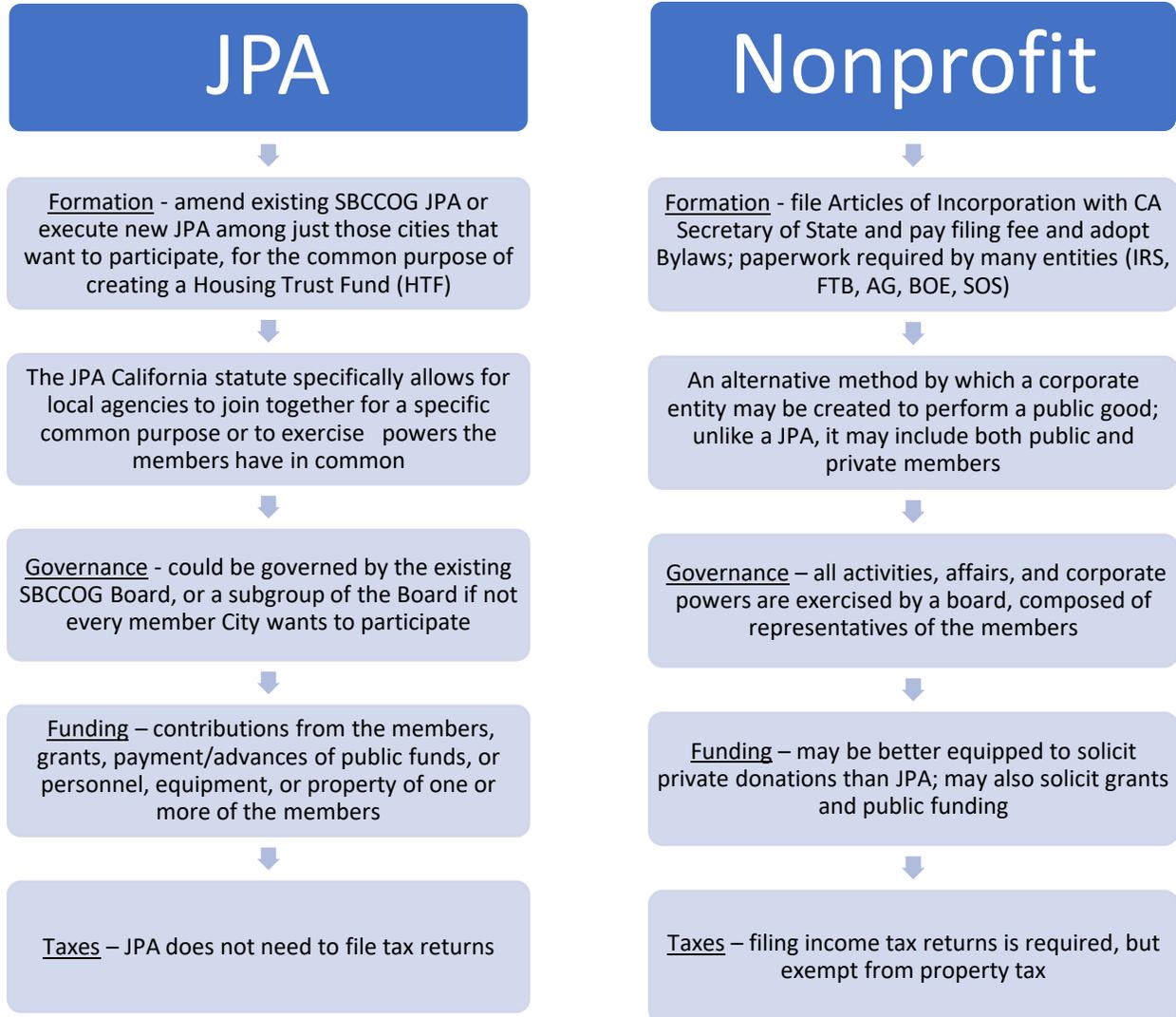
In January 2022, a sub-committee of the SBCCOG's Legislative Committee was formed to evaluate various Housing Trust Fund (HTF) models and to determine if the SBCCOG should consider moving forward with a subregional/multi-jurisdictional HTF. The sub-committee met on February 7th to begin discussing HTF models and information that had been presented at previous Legislative Committee meetings. The sub-committee meeting was well attended including SBCCOG Board Members, City Managers, Community Development Directors, and other city staff representing 11 different member cities throughout the SBCCOG service area. After a lengthy discussion, the sub-committee felt they required additional information and requested SBCCOG Legal Counsel prepare an overview and pros/cons document reviewing the multiple HTF governance and funding models. This memo includes the information assembled by both SBCCOG Legal Counsel and SBCCOG staff to assist the HTF sub-committee and/or Legislative Committee in evaluating whether or not to move forward with creating a subregional/multi-jurisdictional HTF.

OVERVIEW

HTFs are dedicated funds that are held in trust to be used to provide affordable housing, and a helpful tool communities can use to make affordable housing a reality for their residents. The three common features that HTFs all share are (1) that they receive ongoing revenues (usually from dedicated sources and are not dependent exclusively on annual appropriations), (2) the funds are designated to support affordable housing rather than other community needs, and (3) they include sources of funding in addition to those that are otherwise restricted or available to support housing. Having a dedicated source of revenue that comes in to the trust fund automatically means that funds for housing need not compete with other priorities when it comes time to approve the annual budget.

HTFs largely fall into two types of governance structures, Joint Powers Authority (JPA) and Nonprofit. SBCCOG Legal Counsel prepared the following flow-chart which summarizes the key differences between the two structures including formation process, governance, funding mechanisms, and taxes.

Alternative governance structures to create a Housing Trust Fund



Unlike most state and federal housing programs, HTFs have fewer predetermined conditions restricting their use. Some typical uses that HTFs support are: providing direct financing and leveraging other funds by filling the shortfall (or “gap”) in financing needs to make projects work; providing a local match to secure other sources of funding, such as state bonds or housing tax credits; reducing the cost of borrowing by making low-interest loans to both developers and first-time homebuyers; providing assistance to local nonprofit developers to help put projects together and add staff, hire consultants, or offset other administrative and program costs for organizations; partner with social service programs to help address needs – including transportation, counseling, substance abuse treatment, in-home medical assistance, or security – thereby addressing underlying needs that contribute to the need for housing.

Some areas, including Ventura County, have also elected to form a Community Land Trust (CLT) which is typically a nonprofit that holds real estate or related assets. The following flow chart was prepared by SBCCOG Legal Counsel and provides an overview of a CLT.



HTFS AND THE REGIONAL HOUSING NEEDS ALLOCATION (RHNA)

The RHNA is a process required by state law where jurisdictions are required to develop a local plan known as a Housing Element for certain amounts of housing, including affordable housing, to be planned for over an 8-year cycle. It does not require a set number of units to be built, only that a city's zoning scheme allows for the assigned amount of growth.

- The State through HCD develops the Regional Housing Need Determination (RHND) which identifies the total number of housing units for which each region in California must plan in order to meet the housing needs of people across the full spectrum of income levels (from very low-income to market rate housing).
- Each region allocates a share of the RHND to each local government in the region. SCAG is responsible for developing the methodology for sharing the RHND among all cities in the South Bay.
- Local governments participate in the development of the allocation methodology and update their Housing Elements and local zoning to show how they will accommodate their share of the region's RHND.

What qualifies for RHNA:

- The primary role of the RHNA methodology is to encourage a pattern of housing growth. The final result of the RHNA process is the allocation of housing units by income category to each jurisdiction: very low-, low-, moderate-, and above moderate-income.
- At present, the creation of affordable housing units by an HTF or a CLT will only satisfy the RHNA requirement for the City in which the housing is located.

PROS AND CONS OF CREATING AN HTF

Pros:

- Work Force Housing! Work Force Housing! Work Force Housing!
 - Here's a partial list of essential workers that could benefit from more affordable housing in our region:
 - Teachers
 - Police/Fire
 - Nurses/Medical Assistants/Hospice care
 - Hospitality industry employees
 - Grocery/Retail workers
 - Administrative assistants
 - City managers and staff
 - These workers are priced out of many areas of our region. With the economic development going on in the Inglewood/Hawthorne area, housing affordability is only going to get worse.
 - Counterintuitive – not building enough affordable housing will make traffic worse. Workers will need to commute into our area. This is bad for quality of life of the workers and bad for the environment. Adding more cars on the road runs counter to SBCCOG's sustainability objectives.
- Fund can also be used to build affordable supportive housing for the region's most vulnerable populations
- Cities gain control of development in their area. HTFs can compete directly with private market rate developers. Building workforce housing may be an easier sell to constituents than having private developers build more market rate housing.
 - For example, if a strip mall is for sale, the only option now is for a private developer to purchase the property and build whatever they want on the land. Cities can try to persuade or incentivize developers to build workforce housing, but in the end, it is the developer's call. A HTF could compete and bid for that property and build workforce housing.
 - HTF projects can increase community engagement
 - For example, affordable housing projects could seek community artists to commission a mural or a sculpture garden.
 - Cities could have a say in the aesthetics of the project, architecture, and inclusion of locally-serving amenities such as green space and community gardens.
 - Cities could dedicate the naming of the project to honor a local dignitary, or hold visioning sessions that empower the community to choose the project's name.
 - Cities could ensure community members take the lead in guiding the direction and development of this locally-serving workforce housing.
- HTFs can take advantage of billions of dollars of Federal/State and private funding.
 - Federal and State Housing Trust Fund Grants
 - Several HTFs in near-by areas have received multi-million-dollar earmarks from Federal and State budgets.
 - California HCD's Local Housing Trust Fund Program provides dollar for dollar matching grants.
 - Billions of dollars of ESG funding raised by banks – Citigroup, Bank of America, JP Morgan, etc.
- HTF can structure payments as loans as opposed to grants. Once the loans are paid back, those funds could be lent to other projects, eventually having projects in all participating cities.

- Administrative costs could be paid out of grants or loans; potentially making city contributions minimal.
- Other sources of funding could include: affordable housing development fees for market rate developers and local bond initiatives.
- Projects can be mixed use if zoning permits – returning sales taxes to the city.

Cons:

- NIMBY opposition to new affordable housing could be directed at the new HTF, its associated member agencies, and SBCCOG – we’ll need to be ready for potential negative reaction.
- If a nonprofit, the HTF likely will rely heavily on funding through grants, private donors, and fundraising. All of this would require staff capacity to administer. Fundraising can be a year-round endeavor for nonprofits.
- Not every city may see an immediate dividend from participating. Development of projects may take 1-2+ years.
- Increased administration and oversight needed for a new organization. Depending on structure and funding mechanisms, cities may need to contribute administrative funding. Requires administrative oversight to set policies, issue RFPs, underwrite loans and grants, and monitor awarded funds.
- At present, the creation of affordable housing units by an HTF or a CLT will only satisfy the RHNA requirement for the City in which the housing is located and the legislature is not inclined to change that.

NEXT STEPS

With the understanding that there is no ability to exchange RHNA numbers between cities, we need to resolve how many cities are still interested in moving forward. At the subcommittee meeting, the RHNA exchange appeared to be a critical consideration for several cities.

Once that has been determined, with the remaining cities, we need to confirm that they are interested in moving forward. There is a possibility of getting seed money from the State if we can determine which cities we are working with.

RECOMMENDATION

Review, discuss, and recommend action.

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