

Report Prepared by: Mark Hamilton, Housing Program Supervisor, Development Services Department

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SUBJECT: Authorization to Apply for and Receive, State Senate Bill 2 Planning Grant Funding from the State of California Department of Housing and Community Development's (HCD) Planning Grants Program

REPORT IN BRIEF

Authorizes Housing Division Staff to apply for grant funding under State Bill 2 (SB 2) Planning Grants Program in association with a Notice of Funding Availability issued by the California State Department of Housing and Community Development (HCD) and authorizes the receipt of grant funds.

RECOMMENDATION

City Council – Adopt a motion:

- A. Adopting **Resolution 2019-27**, a Resolution of the City Council of the City of Merced, California, authorizing the submittal of an application to the California Department of Housing and Community Development for, and receipt of, SB 2 planning grant program funds; and,
- B. Authorizing the City Manager or the Assistant City Manager to execute the standard agreement and other necessary documents associated with the grant application and award process.

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ALTERNATIVES

- 1. Approve, as recommended by staff; or,
- 2. Approve, with modifications; or,
- 3. Deny the request completely; or,
- 4. Refer to staff for reconsideration of specific items as requested by Council; or,
- 5. Continue to a future City Council meeting (date and time to be specified in the motion).

AUTHORITY

Municipal Code Section 200; California Health and Safety Code – HSC, Sections 50470-50475 (Building Homes and Jobs Act)

CITY COUNCIL PRIORITIES

This grant program aligns with the City Council's FY 2019/20 priority to develop housing inventory under Future Planning and Homelessness.

DISCUSSION

The City of Merced Housing Division is requesting City Council permission to apply for Planning Grants Program funds under California State Bill 2, adopted as a part of the larger 2017 Housing Package signed by Governor Brown that year. The California State Department of Housing and

Community Development (HCD) has implemented the program and is now accepting applications for funding.

Background

The 2017 Housing Package adopted by the State Legislature included fourteen separate bills aimed to create and preserve affordable housing, streamline housing development, and address accountability and enforcement of local agencies with regards to housing.

SB 2 (Atkins), also known as the Building Jobs and Homes Act, is the first of five bills with the specific goal of creating and preserving affordable housing. Beginning January 1, 2018, it imposes a fee on the recording of real estate documents, excluding sales, for the purposes of funding affordable housing. In doing so, it establishes a permanent source of funding, with varying levels as transactions fluctuate from year-to-year.

The implementation program now in place for the first year of funding grants is being called the "Planning Grants Program (PGP)." The program makes 50% of the first-year collected revenue available to local governments for financial and technical assistance in updating planning and zoning documents and regulations, such as general plans or zoning ordinances, in order to streamline housing production.

For the Council's understanding, program objectives developed by HCD to help guide agencies in applying and using these funds include the following:

- a) The principal goal of this program is to make funding available to all governments in California for the preparation, adoption, and implementation of plans that streamline housing approvals and accelerate housing production.*
- b) This grant program is meant to facilitate planning activities that will foster an adequate supply of homes affordable to Californians at all income levels. It is designed to help local governments meet the challenges of preparing and adopting land use plans and integrating strategies to promote housing development.*
- c) Funded activities are intended to achieve the following objectives:*
 - Accelerate housing production*
 - Streamline the approval of housing development affordable to owner and renter households at all income levels*
 - Facilitate housing affordability for all income groups*
 - Promote development consistent with the State Planning Priorities (Government Code section 65041.1)*
 - Ensure geographic equity in the distribution and expenditure of allocated funds."*

A Notice of Funding Availability (NOFA) was issued by HCD on March 29, 2019, so the application process is now open for agencies to apply for this funding (Attachment 1). The City of Merced's maximum award amount is \$310,000, based on the City's population estimates. The grant funding process is non-competitive.

SB2 Planning Grant: Year One

Eligible activities do not necessarily have to be jurisdiction-wide and may be a more focused or defined area where funding would have a significant impact on housing production. For example, an eligible activity could be a planning study, zoning code update, and/or building permit streamlining project to encourage housing units in a focused geographical area, but with an ongoing community benefit beyond the geographical area. These funds are also not income specific. This is a significant difference from our Housing and Urban Development (HUD) funded HOME and Community Development Block Grant (CDBG) programs.

The following listed activities are options the City Council may consider. There are however other options that the Council or public may suggest which can also be considered;

- **Accessory Dwelling Unit Ordinance Update** –While this work has already been completed, the planning grant would allow staff to recover some of the staff time spent working on the ordinance. Costs can be recovered back to the date the notice of funding was issued, the end of March 2019.
- **Off-the-Shelf Plans for Cottage or ADU** – Staff would work with a vendor to draft plans allowing property owners to purchase the off-the shelf or over-the-counter plans for housing units at a reduced price. The plans would be fully plan checked. The homeowner – property owner would be issued a building permit when they purchased the plans for construction.
- **Off-the-Shelf Duplex / Triplex Plans** – Staff would work with a vendor to draft plans allowing property owners to purchase the off-the-shelf or over-the-counter plans for housing units at a reduced price. The plans would be fully plan checked. The property owner would be issued a building permit when they purchased the plans for construction.
- **In-Fill Overlay Study** – Staff would work with a consultant to review where ADU, Duplex, or Triplex units could be built within the City of Merced and publish a community map showing what properties would be eligible to construct a multi-unit building with ministerial approval.
- **Tiny Home Ordinance** – Staff would work to analyze our current zoning codes and other standards and recommend changes in an ordinance allowing for Tiny Homes within the community.
- **Downtown Housing Pre-Entitlement and Environmental Review** – This study would identify an area of Downtown Merced for High Density Housing opportunities. The study would pre-approve the entitlement and environmental process for developers. The developer would only be responsible for ensuring the buildings' elevations were aesthetically acceptable, met the goals of this study, and applied for a building permit consistent with current building and zoning codes.
- **Rental Housing Inspection Program** – The program would establish an ordinance creating a Rental Housing Inspection Program. Many communities are using this type of

program to prevent housing stock from deteriorating and becoming substandard. Local examples include the cities of Madera and Fresno. The programs basically require that a registry be established for all rentals, full units and single rooms, and that there be some inspection program. Fees are also charged to provide the administration and inspection services. The program would also include public outreach and education.

- **SB2 20-Year Plan** – The purpose of the Plan would be to consider future funding uses – commitments of an annual allocation of approximately \$450,000 (see discussion below regarding “Year Two and Beyond” eligible activities). However, the Council could decide to pledge future SB 2 funding in support of the County’s Collaborate Applicant (Merced County) in support of the Continuum of Care (COC) and therefore no plan for future allocations would be necessary. An alternative could be that only a portion of future funding would be allocated to the COC. If Council decides to retain a portion or all of the anticipated SB2 funding allocation from the State, the proposed plan would create and establish policies, procedures, outreach plan, project direction, and activities guiding future expenditures.

Staff is requesting that the Council consider and prioritize the above programs for funding with the \$310,000 from the Year One allocation. Program activities must be completed and funds must be expended by June 20, 2022. Because there may not be sufficient funding to complete all the activities listed above, staff would apply for and implement the higher priority activities first and provide a future update as costs for activities becomes clear.

Once Council prioritizes the activities, staff will draft the application based upon Council’s recommendation and submit the application for consideration and authorization to the California Department of Housing and Community Development (HCD). The application deadline is November 30, 2019. Staff will provide the completed grant application once it is submitted.

SB2 Permanent Local Housing Allocation: Year Two and Beyond

Council has the ability to decide whether to accept the funding the City would receive each year from HCD moving forward from “Year Two and Beyond” entitlement grant allocation. Council may elect to pass some of the funds to the County’s Collaborative Applicant (County of Merced) to support efforts to address Homelessness. Alternatively, if Council wishes to retain all of the City’s anticipated entitlement funds. The funding would be administered through the Housing Division and could be used on the following eligible activities within the City of Merced:

- The predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, rental housing that is affordable to extremely low-, very low-, low-, or moderate-income households, including necessary Operating subsidies.
- Affordable rental and ownership housing that meets the needs of a growing workforce earning up to 120 percent of AMI, or 150 percent of AMI in high-cost areas.
- Matching portions of funds placed into local or regional housing trust funds.

- Matching portions of funds available through the Low- and Moderate-Income Housing Asset Fund pursuant to subdivision (d) of HSC Section 34176.
- Capitalized Reserves for Services connected to the preservation and creation of new Permanent supportive housing including, but not limited to, developments funded through the Veterans Housing and Homelessness Prevention Bond Act of 2014.
- Assisting persons who are currently experiencing or at risk of homelessness including, but not limited to, providing rapid rehousing, rental assistance, navigation centers, emergency shelters, and the new construction, rehabilitation, and preservation of permanent and transitional housing.

(A) This activity may include sub-awards to Administrative Entities as defined in HSC Section 50490(a) (1-3) that were awarded CESH program funds for rental assistance to continue assistance to these households.

(B) Applicants must provide rapid rehousing, rental assistance, navigation centers, emergency shelter, and transitional housing activities in a manner consistent with the Housing First practices described in 25 CCR, Section 8409, subdivision (b)(1)-(6). An Applicant allocating funds for the new construction, rehabilitation, and preservation of permanent supportive housing shall incorporate the core components of Housing First, as provided in WIC Section 8255, subdivision (b).

- Accessibility modifications.
- Efforts to acquire and rehabilitate foreclosed or vacant homes and apartments.
- Homeownership opportunities including, but not limited to, down payment assistance.
- Matching Funds invested by a county in an affordable housing development project in a city within the county, provided that the city has made an equal or greater investment in the project. The county and the city investments must be in the form of grants or low-interest deferred loans to the project.

Many of the eligible activities identified under the SB2 Permanent Local Housing Allocation: Year Two and Beyond are similar to the current activities being implemented and funded by the Housing Division. One significant difference is SB2 is allowed to be expended on market-rate housing projects. The advantage of retaining Year Two and Beyond SB2 funds would allow the City to participate and allocate funding to projects supporting Economic Development efforts or other significant projects that have community benefits as determined by the City Council.

IMPACT ON CITY RESOURCES

Potential SB2 Planning Grant receipt of up to \$310,000 for Year One of SB2 funding. Year Two and Beyond yearly allocations estimated at approximately \$450,000 each year until the program sunsets. A local funding match is not required. Future year allocation recommendations will be made annually as part of the regular Budget process.

ATTACHMENTS

1. HCD's Notice of Funding Availability Issued March 29, 2019
2. Draft Resolution 2019-27