



Monterey County

Item No.

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Legistar File Number: RES 22-100

May 17, 2022

Introduced: 5/10/2022

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Matter Type: BoS Resolution

- a. Adopt a Resolution establishing and providing initial funding of the Monterey County Housing Trust Fund.
- b. Adopt a Resolution authorizing the Director of Housing and Community Development or designee to apply for, execute related agreements and accept grant funds from the State of California's Local Housing Trust Fund Program, after review and approval as to form by County Counsel. (4/5ths vote required)
- c. Approve an increase in Fiscal Year 2022/23 appropriations in Fund 001, Organizational Unit 8542, Appropriations Code HCD001 by \$600,000 from the Cannabis Tax assignment, BSA 001-3132, and authorize the County Administrative Office to reflect approved changes in the FY 2022-23 Adopted Budget. (4/5ths vote required)

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Adopt a Resolution establishing and providing initial funding of the Monterey County Housing Trust Fund.
- b. Adopt a Resolution authorizing the Director of Housing and Community Development or designee to apply for, execute related agreements and accept grant funds from the State of California's Local Housing Trust Fund Program, after review and approval as to form by County Counsel. (4/5ths vote required)
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SUMMARY

Increasingly, local communities are creating housing trust funds as means to find local solutions to California's affordable housing crisis. But what is a housing trust fund? They are dedicated funds that are held in trust to be used to provide affordable housing. The agencies that administer them can take many forms, such as a local housing department, a multi-city agency, or a private nonprofit organization. The Institute for Local Governments has created a guide for California Officials entitled *Establishing a Local Housing Trust Fund* dated February 2007 that is attached to this report that further explains the nature a housing trust fund.

On April 5, 2022, the California Department of Housing and Community Development announced the release of a Notice of Funding Availability (NOFA) for approximately \$57 million in funds for the Local Housing Trust Fund (LHTF) Program see Attachment D. This funding provides Matching

Grants to Local Housing Trust Funds established by cities and counties, Native American Tribes and incorporated 501(c)(3) nonprofit organizations.

Fifteen percent of the funds made available by the NOFA shall be reserved for Local or Regional Housing Trust Funds meeting the definition of a “New Local Housing Trust Fund.” Program Funds awarded under the NOFA shall be used to provide construction loans and/or permanent financing loans at simple interest rates of no higher than three percent per annum, for payment of predevelopment costs, acquisition, construction, or rehabilitation as well as to construct, convert, reconstruct, rehabilitate, and/or repair Accessory Dwelling Units (ADUs) or Junior Accessory Dwelling Units.

The Board of Supervisors has historically expressed an interest in supporting the formation of a local housing trust fund to finance construction of affordable housing within the County. The NOFA is an incentive to establish a LHTF and a great opportunity to receive state funding.

DISCUSSION:

Most tax credit affordable housing projects require approximately \$50,000 per unit in local funding. Historically, the County would have used redevelopment tax increment financing to fill the tax credit gap. Redevelopment tax increment provided local government with a stable source of funding to invest in affordable housing projects. This investment accomplished two things; first, it helped get projects financed by leveraging other state, federal, and local dollars; and, second, it allowed the local government to show its support for projects through the investment of tax increment funds. Establishing a housing trust fund is one mechanism that the County could use to capitalize a pool of locally controlled funds.

In 2017, the County partnered with the Monterey Bay Economic Partnership (MBEP) and provided \$500,000 of seed capital for the Monterey Bay Housing Trust (MBHT). The MBHT funded three loans before the affordable housing development community stopped actively using this resource leaving \$370,000 in residual funds. These funds have been returned to the County and are available to capitalize a housing trust fund. The biggest challenge with the MBHT was that other investors required loans to be short-term and at near market rates of interest when the development community needed long-term financing at low interest rates.

The State of California established a Local Housing Trust Fund Program (State LHTF) to provide matching funds to jurisdictions and regions that have established local housing trust funds. The State LHTF provides a dollar-for-dollar match for local funds up to \$5,000,000. The minimum for a new LHTF is \$750,000. To encourage the formation of local trust funds, the state now allows jurisdictions to use state grant funds awarded through the Permanent Local Housing Allocation (PLHA) as part of the local source to match the State LHTF applications. In 2017, Governor Brown signed a 15-bill housing package aimed at addressing the state’s housing shortage and high housing costs. Specifically, it included the Building Homes and Jobs Act (SB 2, 2017), which established a \$75 recording fee on real estate documents to increase the supply of affordable homes in California. Seventy percent of the funding comes through the PLHA.

In 2020, MBEP pivoted to support the County of Monterey's proposed Regional Housing Trust Fund Program (RHTF) as one of many significant local efforts to increase the availability of long-term permanent funding for affordable housing development. MBEP agreed to repurpose the County's investment in the MBHT to capitalize the RHTF and as a local match for the State Local Housing Trust Matching Grant application in August 2020. Unfortunately, the County's 2020 regional housing trust fund application did not meet the scoring threshold because it did not demonstrate project readiness (issued letters of intent to fund specific projects upon receipt of the grant) and because the state determined that the resolutions submitted did not constitute legally binding agreements within the requirements of the grant regulations.

While the County and MBEP have attempted to develop a coalition of jurisdictions interested in forming a regional housing trust this year the attempts have failed. To form a regional trust, the LHTF application must include a minimum of four jurisdictions that account for at least 66% of the County's total population. The City of Gonzales is the one jurisdiction currently interested in forming regional housing trust fund with the County. Pacific Grove was also interested provided that the application was submitted by the County. The City of Salinas was also interested but felt that additional work was needed to address concerns related to how the City would control the funds it contributed. As such, a regional trust fund is not an option now so the County desires to establish the Monterey County Local Housing Trust Fund (MCHTF).

The County has three sources of financing dedicated to supporting the development of affordable housing. These funding sources are the Inclusionary Housing Fund (\$100,000), the Castroville-Pajaro Housing Successor Agency (\$125,000), and the Boronda Housing Successor Agency (\$13,230). The County also has the recaptured \$370,000 from the MBHT and \$200,000 allocated to HCD as part of the 2021-2022 final budget that can be used to capitalize the MCHTF. Individually these funds are insufficient to effectively support the construction of additional affordable housing and aggregately the funds do meet the matching requirements for the Local Housing Trust Fund Program. Without additional dollars, these funds are not useful.

During discussions to adopt the FY2020-2021 Final Budget the Board of Supervisors endorsed the idea of providing \$1,000,000 to capitalize a housing trust fund over five-years. The rationale for funding over five-years was to maximize the amount of capital leveraging the MCHTF and demonstrate to the State LHTF Program that the funds would have sufficient new resources to continue operations for at least five-years. It is staff's belief that the additional funding will be more competitive.

As indicated, the first \$200,000 installment was funded in FY2021-2022 using funds from the American Rescue Plan Act of 2021 funds. The second installment is included in the FY 2022-2023 Requested Budget as part of the general fund augmentation for the Housing and Community Development Department. To make the funding application more competitive, County staff is now requesting that the remaining \$600,000 be allocated as part of the FY2022-2023 Final Budget through cannabis assignment. Collectively these funds can leverage additional State LHTF funding and create a locally controlled financing pool initially of approximately \$3.2 million for affordable housing projects since the State will match the County's investment.

Staff believes that establishing the MCHTF is an important step towards providing a local source of financing. Establishing the MCHTF now will allow the County to invest in housing for homeless veterans in Marina and farm worker families in Greenfield while the County works to develop affordable housing opportunities in unincorporated areas of the County. Even if the State does not fund the MCHTF application this year, establishing the trust fund now demonstrates the Board's commitment to supporting affordable housing within the unincorporated Monterey County.

OTHER AGENCY INVOLVEMENT:

The Board's Health, Housing and Human Services Committee received a report on the Monterey Bay Housing Trust and 2022 Local Housing Trust program at its April 4, 2022, meeting. The Chair of the Budget Committee has authorized bypassing the Budget Committee.

FINANCING:

The FY2022-2023 Recommended Budget includes \$1,608,230 to capitalize the MCLHTF in four different funds, including the General Fund. The detail of those funds include; \$100,000 from Inclusionary Housing Fund, \$125,000 from the Castroville-Pajaro Housing Successor Agency, \$13,230 from the Boronda Housing Successor Agency, \$370,000 returned from MBEP, \$200,000 of ARPA funding within the FY21/22 Budget, \$200,000 from the FY22/23 Requested Budget, General Fund Augmentation and \$600,000 in Cannabis Assignment Balance. The Board is being asked to authorize these funds be consolidated in Fund 013, Balance Sheet Account 2690. The recommended action would have a budgetary impact on the Cannabis Tax Assignment, BSA 001-3132 as a result of increasing the County's commitment by a one-time allocation of \$600,000. As of May 5, 2022 the projected available Cannabis assignment balance is \$10,252,954.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

The MCLHTF supports the Board's Economic Development, Health & Human Services, Infrastructure, and Public Safety initiatives by providing a local source of financing for affordable housing projects that reduce overcrowding, leading to improved public health and safety outcomes and supporting local employer efforts to retain qualified workers by supporting construction of affordable housing.

Mark a check to the related Board of Supervisors Strategic Initiatives

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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Approved by: Erik Lundquist, Director of Housing and Community Development, x5154

EVL

The following attachments are on file with the Clerk of the Board:

Attachment A - Draft Resolution establishing and providing initial funding of the Monterey County Housing Trust Fund

Attachment B - Draft Resolution authorizing the Director of Housing and Community Development or

designee to apply for, execute related agreements and accept grant funds from the State of California's Local Housing Trust Fund Program.

Attachment C - Establishing a Local Housing Trust Fund, A Guide for California Officials

Attachment D - 2022 Local Housing Trust Fund Program Notice of Funding Availability