



Department: Community Development
Cost Center: 4008
For Agenda of: 4/2/2024
Placement: Consent
Estimated Time: NA

FROM: Timmi Tway, Community Development Director
Prepared By: Teresa McClish, Housing Policy and Programs Manager

SUBJECT: AUTHORIZE APPLICATION FOR PROHOUSING INCENTIVE PROGRAM FUNDS

RECOMMENDATION

Adopt a Draft Resolution entitled, "A Resolution of the City Council of the City of San Luis Obispo, California, authorizing application to and participation in the state Prohousing Incentive Program," authorizing the City Manager, or Community Development Director as designee, to:

1. Submit a Prohousing Incentive Program Application to the California Department of Housing and Community Development; and
2. If the application is approved by HCD, execute all documents necessary or appropriate to participate in the Prohousing Incentive Program.

POLICY CONTEXT

The [2023-2025 Financial Plan](#) Major City Goal for Housing and Homelessness is to:

Support the expansion of housing options for all, and continue to facilitate the production of housing, including the necessary supporting infrastructure, with an emphasis on affordable and workforce housing as well as accessibly connected development. Collaborate with local non-profit partners, non-governmental agencies, the county, the state, and federal governments to advocate for increased funding and implementation of comprehensive and effective strategies to prevent and reduce homelessness.

The Prohousing Incentive Program (PIP) provides funding to facilitate below-market-rate housing in advancement of this goal. The PIP is also consistent with the City's policies established in the City's General Plan Housing Element, including:

Program 6.17. *Financially assist in the development of 20 housing units per year that are affordable to extremely low, very-low, low- and moderate income households during the planning period using State, Federal, and local funding sources, with funding priority given to projects that result in the maximum housing benefits for the lowest household income levels.*

***Program 8.20.** Actively seek and collaborate with non-profit housing providers to (jointly) apply for two revenue sources each year during the planning period for State, Federal, and local funding sources to financially assist with the development of housing for persons with developmental disabilities.*

DISCUSSION

Background

The California Prohousing Designation Program (PDP) was established in accordance with [Assembly Bill 101](#) and is administered by the California Department of Housing and Community Development (HCD). The PDP creates incentives for jurisdictions that are compliant with housing laws, housing element requirements, and have enacted Prohousing local policies that go beyond existing law.

On February 1, 2024, the City was designated a Prohousing Jurisdiction under the Prohousing Designation Program by HCD. This designation allows a competitive advantage for critical affordable housing and infrastructure grant programs. It also provides eligibility for California's Prohousing Incentive Program (PIP) for use towards planning and implementation activities related to housing and community development. The Program is funded through Chapter 364, Statutes of 2017, Senate Bill 2 which established the Building Homes and Jobs Trust Fund. The Fund utilizes real estate transaction fees collected at a county level in all counties, at the time of recording documents for every real estate instrument, to establish a permanent source of funding. Five percent of annual collections are deposited in a fund to be used for an incentive program. The PIP awards funding based on the Eligible Applicant's Prohousing Designation Program Score¹ and according to geographic area. Based on the funding formula, the City is eligible to apply for up to \$750,000 and the final award amount will be decided as part of the competitive application.

A Notice of Funding Availability (NOFA) Round 2 – Prohousing Incentive Program was issued by HCD on January 23, 2024. Staff is seeking City Council authorization at this time, though the application was submitted prior to the NOFA Round 2 deadline of March 15, 2024. HCD has issued an extension to April 15, 2024, to submit an authorizing resolution. Staff has determined that the application requires a new City Council authorizing resolution in addition to the Prohousing Designation, and the PIP application will be rescinded if not authorized by City Council². Eligible uses for PIP funds include a variety of activities, such as the predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, and rental housing that is affordable to extremely low-, very low-, low-, and moderate-income households³.

¹ As codified in the California Code of Regulations Title 25 Housing and Community Development, Division 1, Chapter 6, Subchapter 6.6, Sections 6600 through 6608, Consecutive Prohousing Designation Program).

² HCD staff has indicated application submittal may be made with a City Council authorizing Resolution placed on an upcoming agenda.

³ Eligible Applicants must use award funds towards planning or implementation activities related to housing and community development limited to activities that conform with eligible uses pursuant to Health and Safety Code section 50470(b)(2)(D).

Item 6n

The City is applying to place funds into the City's Affordable Housing Fund to use for eligible below market rate housing projects as determined by City Council, and as previously prioritized by [Resolution No. 11468 \(2024 Series\)](#), including Transitions Mental Health Association's (TMHA) Palm Street Studios that would involve the acquisition and rehabilitation of a structure to convert to offices and up to twelve (12) supportive housing apartments. The project is utilizing funding from the No Place Like Home grant and the San Luis Obispo's Housing NOW program that THMA launched in 2014 with the Housing Authority of San Luis Obispo (HASLO) to identify the 50 most vulnerable homeless individuals in the County and place them in permanent housing and provide them with behavioral health treatment and services. The property will be deed-restricted affordable for a minimum of 55 years, and available to TMHA clients who are within the extremely low, very-low, or low income categories. Other identified eligible projects that could be funded with PIP grant funding placed in the City's Affordable housing Fund may include Smartshare Housing's Waterman project on Dana Street that proposes twenty (20) small home structures for very low income eligible individuals or families and preserves the Rosa Butron Adobe; or HASLO's Monterey Crossing project that includes fifty-six (56) affordable senior housing units.

Previous Council or Advisory Body Action

On June 20, 2023, the City Council approved [Resolution No. 11432 \(2023 Series\)](#) authorizing submittal of an application for a California Prohousing Designation.

Public Engagement

This item is on the agenda for the April 2, 2024, City Council meeting and will follow all the required posting and notification. Public comment on the item can be provided to the City Council through written correspondence prior to the meeting and through public testimony at the meeting.

ENVIRONMENTAL REVIEW

The proposed report contemplates the receipt of state incentive funds, which is not a project under CEQA, and is therefore exempt from CEQA review (CEQA Guidelines Section 15378(b)(4)). Future projects that utilize PIP funding will undergo CEQA review and clearance.

FISCAL IMPACT

Budgeted: Yes/No

Budget Year: 2024-2025

Funding Identified: Yes/No

Fiscal Analysis:

Funding Sources	Total Budget Available	Current Funding Request	Remaining Balance	Annual Ongoing Cost
General Fund	\$N/A	\$	\$	\$
State				
Federal				
Fees				
Other:				
Total	\$	\$	\$	\$

There will be no negative fiscal impact to the City. Local governments with Prohousing Designation are eligible to apply for new Prohousing Incentive Program grant funding, a \$26 million state investment from the Building Homes and Jobs Trust Fund. Applying for these funds could increase funding availability for the identified housing projects by up to \$750,000. These funds, if awarded will go directly to the City’s Affordable Housing Fund.

ALTERNATIVES

1. **Council could choose not to apply for PIP funds at this time and apply for future rounds dependent upon future Notices of Funding Availability for the program.** Staff recommends applying for the current round of PIP to make funds available for critically needed below market rate housing projects.
2. **Council could choose to apply for PIP funds for a different eligible activity.** Staff could identify other potential eligible uses that align with the City housing work program, however, the most urgent need for the funds is to leverage critically needed below market rate housing units. Staff does not recommend this alternative due to the time sensitive nature of the grant program application. Staff will investigate opportunities and apply where eligible for additional PIP funds in future rounds.

ATTACHMENTS

- A - Draft Resolution authorizing application to and participation in the State Prohousing Incentive Program
- B - Prohousing Incentive Program Application