



Council Agenda Report

Item 6e

Department: Community Development
Cost Center: 4008
For Agenda of: 2/18/2025
Placement: Consent
Estimated Time: N/A

FROM: Timmi Tway, Community Development Director
Prepared By: David Amini, Housing Coordinator

SUBJECT: AUTHORIZE APPLICATION FOR PROHOUSING INCENTIVE 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, nongovernmental 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 California Department of Housing and Community Development 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.

On August 1, 2024, the City was awarded \$750,000 in funds from Round 2 of the PIP, which will go towards supporting the development and construction of several affordable housing communities in the City. These include developments by People's Self-Help Housing, Housing Authority of San Luis Obispo, Transitions Mental Health Association, and Smart Share Housing Solutions. The PIP funds are awarded on a reimbursement basis.

On December 20, 2024, the City and HCD executed the Standard Agreement for the Round 2 PIP funds. Staff are working with the above developers to collect eligible costs for reimbursement by HCD.

The PIP awards funding based on the Eligible Applicant's Prohousing Designation Program Score¹ and according to geographic area. Cities that have already received PIP funds are eligible to apply in subsequent funding rounds for additional funds. Cities are not required to have spent their initial funding awards in order to be eligible to apply for and receive subsequent awards of funding.

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).

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A Notice of Funding Availability (NOFA) Round 3 – Prohousing Incentive Program was issued by HCD on August 15, 2024. Staff is seeking City Council authorization at this time, though the application was submitted prior to the NOFA Round 3 deadline of December 31, 2024. HCD has issued an extension to February 28, 2025, 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 withdrawn 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. The City is eligible to receive the base award of \$250,000 plus the bonus award of \$500,000 for cities with a Prohousing Designation Application Score of over 50, bringing the total potential award amount to \$750,000.

Should funding be awarded, it is recommended that the funds be deposited into the City's Affordable Housing Fund to use for 1) financial assistance towards 100 percent affordable housing projects that are "shovel ready" as determined by staff, and 2) down payment assistance to eligible prospective homeowners of deed-restricted affordable housing units. Proposed use #1 (financial assistance towards 100 percent affordable housing projects) is the same use as what the City was awarded PIP funds for previously. This allows the City to directly assist affordable housing projects in the City that are in need of gap financing or encounter unexpected financial challenges during planning and development, as identified in Housing Element Program 6.17. Down Payment Assistance is another important incentive identified in Housing Element program 2.11 that can bolster BMR homeownership opportunities.

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.

On April 2, 2023, the City Council approved [Resolution No. 11489 \(2024 Series\)](#) authorizing application to and participation in the Prohousing Incentive Program.

Public Engagement

This item is on the agenda for the February 18, 2025 City Council meeting and will follow the proper posting and notification requirements. 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.

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 awarded 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).

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: N/A

Budget Year: 2024-2025

Funding Identified: N/A

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 PIP 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

- 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.
- 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. Additionally, there is flexibility in changing the uses of program funds after application submission. Staff will investigate opportunities and apply where eligible for additional PIP funds in future rounds.

ATTACHMENTS

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