



AGENDA REPORT

TO: Jestin D. Johnson
City Administrator

FROM: Emily Weinstein
Interim Director, Housing
and Community
Development

SUBJECT: PRO Housing Grant Application

DATE: September 28, 2023

City Administrator Approval

Date: Sep 27, 2023

RECOMMENDATION

Staff Recommends That City Council Adopt A Resolution Authorizing The City Administrator To Apply For The Federal “Pathways To Removing Obstacles To Housing” Grant, And, If Awarded, Accept And Appropriate Up To \$10 Million In Grant Proceeds To Predevelopment And Process Streamlining For Affordable Housing And Allocating \$5 Million From The Resources Reserved For Rapid Response Homeless Housing Projects As Matching Funds For The Grant

EXECUTIVE SUMMARY

This proposed resolution will authorize the City of Oakland (City) to submit an application to the upcoming “Pathways to Removing Obstacles to Housing” (PRO Housing) grant program offered by the Federal Department of Housing and Urban Development. This application will seek up to \$10 million to support the cost of a predevelopment revolving loan program and process streamlining support. Both the predevelopment funding and the process streamlining support would aid “rapid response” Permanent Supportive Housing (PSH), as well as potentially other categories of affordable housing. Rapid response PSH employs strategies that create PSH in a more time-efficient and cost-efficient manner than conventional new construction, such as the conversion of motels to PSH or the use of modular construction. This item will also allocate \$5 million from the “Rapid Response Homeless Housing Fund” from the FY 23-25 adopted budget to serve as a local match for the grant. The local match would be used on capital or operating costs for homeless housing, and will be allocated via a process that staff will subsequently propose to Council at a future meeting.

If the grant is awarded, the predevelopment loan program would support a wide range of predevelopment expenses, such as but not limited to site condition assessments, appraisals, environmental testing, legal fees, and architectural fees. The funding for process streamlining could help accelerate reviews under the National Environmental Policy Act (NEPA) for affordable housing that is part-funded by the federal government, and potentially streamline other parts of the entitlement process.

The PRO Housing grant is being offered for the first time with this Notice of Funding Opportunity and staff anticipate stiff competition for this limited funding. If the City's application is successful, staff will return to Council with a detailed set of proposed terms for the predevelopment revolving loan fund and streamlining process improvements.

BACKGROUND / LEGISLATIVE HISTORY

PRO Housing NOFO

The "Pathways to Removing Obstacles to Housing" (PRO Housing) grant program is a new Department of Housing and Urban Development (HUD) funding program that seeks proposals to advance affordable housing in communities that have or will reduce regulatory barriers to housing. In a Notice of Funding Opportunity (NOFO) posted on September 7, 2023, HUD announced a total of \$85 million available for applications of between \$1 million and \$10 million. HUD announced their expectation to make about 20 grants through this NOFO.

The eligible uses of the grant are flexible and include the construction or rehabilitation of affordable housing, planning costs, capacity building, homebuyer education, or infrastructure to support affordable housing. A major focus of the grant is to encourage cities to adopt land use policies that streamline the approval of housing. The City's past initiatives to streamline housing approvals, such as the recently adopted Affordable Housing Overlay, make Oakland an excellent fit for this grant. However, staff have observed that dozens of other communities have expressed interest in this grant, which could create intense competition for the limited funds available.

Rapid Response Permanent Supportive Housing

Through the State of California's Homekey program, the City has thus far been awarded funding for six projects and submitted an additional five projects in the Round 3 Notice of Funding Availability. These projects, which are a mixture of modular construction and the conversion of non-residential buildings to housing uses, provide a template for future "rapid response" PSH projects. The key features of these projects include a commitment to faster development timelines and lower costs than conventional new construction. As part of the FY 2023-25 adopted budget, the City Council appropriated \$10.4 million to a new "Rapid Response Homeless Housing Fund" to help support these kinds of projects.

ANALYSIS AND POLICY ALTERNATIVES

Applying for the PRO Housing Grant will help to advance the City's objectives of housing, economic, and cultural security by supporting the development of affordable housing, including housing for homeless exits. If awarded, these funds could accelerate the development process for a wide variety of PSH projects and make such projects more competitive for future State funding opportunities.

One of the needs identified during the City's Department of Housing and Community Development (DHCD) Strategic Plan development process was for increased predevelopment

resources. DHCD currently operates a modest predevelopment loan program on an over-the-counter basis¹, but stakeholders identified a need for predevelopment resources beyond this legacy program. The current loan program offers loans of up to \$35,000 (\$75,000 for projects in the Central District) for up to 18 months. To qualify, projects must contain at least 40% of their units at or below 80% of Area Median Income (AMI).

If the City's grant application is successful, the City can expand upon its existing predevelopment loan program. This new funding will help advance projects through the critical predevelopment phase. Properly sized predevelopment funding is especially key to lowering the barriers to development for small and emerging developers.

The grant will be a sustainable source of predevelopment funding because the City plans structure the program as a revolving loan fund. While many of the specific terms would need to be worked out in consultation with partner funding agencies, the intent would be for the predevelopment loans to be refinanced through the permanent loan closing for these affordable housing projects. This would allow the funding to be reinvested in another batch of projects and continue to revolve indefinitely.

A portion of the grant would be used for project streamlining support, with the precise proportion pending the outcome of conversations with other funding agencies. This could take on a variety of forms, but one key focus will be streamlining reviews under the National Environmental Protection Act (NEPA). These reviews can take 6 month or more to complete and can require a pause for certain types of site-preparation work. The use of federal funding for affordable housing triggers NEPA review requirements, including funding from the Oakland Housing Authority (OHA). Operating subsidy from the OHA is incredibly valuable as PSH projects cannot properly operate over the long term without some form of operating subsidy due to the very low rental income available from tenants who were formerly homeless.

If streamlining support can reduce the timeframe or complexity of NEPA reviews, this would help OHA operating support be incorporated into pending projects on a more flexible basis. The \$5 million local match from the "Rapid Response Homeless Housing Fund" would be used for capital and/or operating costs for homeless housing projects. Such funding would complement the predevelopment resources targeted in this grant application and support the successful delivery of PSH units. Staff intend to return to Council with a comprehensive proposal for how to deploy the Rapid Response Homeless Housing Fund and maximize its impact on addressing homelessness in Oakland.

FISCAL IMPACT

If awarded the grant of up to \$10 million, DHCD will return to Council with proposed terms for the revolving predevelopment loan program and a spending plan for the process streamlining allocation. The grant funds would be accepted and appropriated to a grant fund to be determined, project to be determined.

¹ <https://www.oaklandca.gov/topics/predevelopment-loan-program>

The \$5 million local match from the “Rapid Response Homeless Housing Fund” would allocate funds already appropriated for the purpose of building and operating housing for the homeless. These funds are currently located under the Affordable Housing Trust Fund (1870), Create Rapid Response Homeless Project (1007110). The use of these funds as a local match would not change the intended use of the appropriated funds as capital and/or operating support for PSH. Staff intend to return to Council with a comprehensive proposal on how to deploy the Rapid Response Homeless Housing funds.

As DHCD already administers a predevelopment loan program, the proposed spending for this grant is not expected to cause a significant impact on staff capacity and therefore have no other budgetary impact.

PUBLIC OUTREACH / INTEREST

The need for a more robust source of predevelopment funding emerged during community engagement for DHCD’s Strategic Plan. This engagement included community meetings in each Council district with between 15-45 participants in each meeting.

Notice for the public hearing on October 17 was published in the East Bay Times, Oakland Post, Sing Tao, and El Mundo. A copy of the proposed grant application was posted on the DHCD website 15 days before the hearing on October 17.

COORDINATION

This report was reviewed by the Budget Bureau and Office of the City Attorney.

SUSTAINABLE OPPORTUNITIES

Economic: If awarded, the grant would expand the availability of low-cost predevelopment financing for affordable housing, which will enable affordable housing to be built faster and allow more potential projects to be explored. This will ultimately expand the availability of affordable housing for Oakland residents.

Environmental: If awarded, the predevelopment funding can pay for environmental assessments and other work that will ensure future affordable housing is built on safe and healthy locations.

Race and Equity: An expanded predevelopment loan program will be particularly useful to emerging developers who may have fewer in-house resources for predevelopment. This will support DHCD’s efforts to work with a diverse cohort of affordable housing developers because emerging developers are more diverse than the existing affordable housing industry.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That City Council Adopt A Resolution Authorizing The City Administrator To Apply For The Federal “Pathways To Removing Obstacles To Housing” Grant, And, If Awarded, Accept And Appropriate Up To \$10 Million In Grant Proceeds To Predevelopment And Process Streamlining For Affordable Housing And Allocating \$5 Million From The Resources Reserved For Rapid Response Homeless Housing Projects As Matching Funds For The Grant

For questions regarding this report, please contact Caleb Smith, Program Analyst III, at (510) 590-6275.

Respectfully submitted,

Emily Weinstein

Emily Weinstein (Sep 26, 2023 18:13 PDT)

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