



AGENDA REPORT


TO: Jestin D. Johnson
City Administrator

FROM: Emily Weinstein
Director, Housing and
Community Development

SUBJECT: 2024 PRO Housing Grant Application

DATE: August 28, 2024

City Administrator Approval


Jestin Johnson (Sep 13, 2024 08:40 PDT)

Date:

Sep 13, 2024

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 \$7 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 apply for the second round of the “Pathways to Removing Obstacles to Housing” (PRO Housing) grant program offered by the Federal Department of Housing and Urban Development (HUD). This application will seek up to \$7 million to support the cost of a predevelopment 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 that will have access to the predevelopment loan program, and will be allocated via the Rapid Response Homeless Housing (R2H2) program previously approved by Council¹.

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

¹ Via resolution [No. 89977 C.M.S.](#)

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 second time with this Notice of Funding Opportunity and staff anticipate stiff competition for this limited funding. The City submitted a substantially similar proposal to the PRO Housing grant program during the first round of the grant in 2023, but the 2023 grant round was oversubscribed 13-1 and the City's application was not funded. If the City's 2024 application is successful, staff will return to Council with a detailed set of proposed terms for the predevelopment loan fund.

BACKGROUND / LEGISLATIVE HISTORY

PRO Housing NOFO

The "Pathways to Removing Obstacles to Housing" (PRO Housing) grant program is a 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. The program had its initial \$85 million grant round in fall 2023, and the City submitted a \$10 million application similar to the one the City plans to submit for the second grant round. The first grant round received over \$1.1 billion in applications, and the City's application did not score highly enough to receive a funding award. In subsequent discussions with HUD staff, City staff learned that the City's proposal was fundamentally sound, but there were some places HUD needed additional detail on the impact of the scope. City staff will make corresponding adjustments to the City's round two NOFO application to make it more competitive for funding.

In a second Notice of Funding Opportunity (NOFO) posted on August 13, 2024, HUD announced a total of \$100 million available for applications of between \$1 million and \$7 million. HUD expects to make about 30 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 anticipate that the overwhelming interest in the first PRO Housing NOFO round will be replicated in the second NOFO round, and the competition for funding will remain fierce.

Rapid Response Permanent Supportive Housing

Through the State of California's Homekey program, the City has thus far been awarded funding for nine projects. 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 (HCD) Strategic Plan development process was for increased predevelopment resources. HCD currently operates a modest predevelopment loan program on an over-the-counter basis², but stakeholders identified a need for predevelopment resources beyond this legacy program. The current loan program offers loans of up to \$50,000 for a term of up to 24 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 may be a sustainable source of predevelopment funding because the City may 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, it is possible 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. City staff are currently examining the feasibility of using the grant funds as a revolving loan fund.

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 months 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 Program (R2H2) 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

² <https://www.oaklandca.gov/topics/predevelopment-loan-program>

successful delivery of PSH units. If the PRO Housing grant is awarded to Oakland, staff will return to Council with a plan to integrate the new funding resources into the existing R2H2 program and other affordable housing programs as appropriate.

FISCAL IMPACT

If awarded the grant of up to \$7 million, HCD will return to Council with proposed terms for the 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.

The \$5 million local match from the existing Rapid Response Homeless Housing Program (R2H2) would allocate funds already appropriated for the purpose of building and operating housing for the homeless. These funds are currently available 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. Using these funds as local match would have no impact on the R2H2 program's timeline for funding projects or in any way reduce the resources available for funding R2H2 projects.

As part of the grant application, HCD plans to seek a 10% administrative component for the predevelopment loan program, which would offset the cost of the staff time needed for updating HCD's predevelopment loan regulations.

PUBLIC OUTREACH / INTEREST

The need for a more robust source of predevelopment funding emerged during community engagement for HCD'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 1 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 1.

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 \$7 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 11, 2024 15:15 PDT)

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