



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Shola Olatoye
Director, HCD

SUBJECT: HMIP Loan Limit Increase

DATE: July 13, 2020

City Administrator Approval

Date: July 22, 2020

RECOMMENDATION

Staff Recommends That The City Council Adopt A Resolution Authorizing The City Administrator Or His Designee To Modify The Home Maintenance And Improvement Program Guidelines To Increase The Loan Limit From \$75,000 To \$150,000 Per Project.

EXECUTIVE SUMMARY

Staff recommends the City Council adopt a resolution authorizing the City Administrator or his designee to modify the Home Maintenance and Improvement Program (HMIP) guidelines to increase the loan limit from \$75,000 to \$150,000 per project. The proposed modifications are necessary because the current \$75,000 limit was approved on April 5, 2005 and is not sufficient to rehabilitate one-to-four unit residential properties in the current construction market. Construction costs have increased by an annual average of five percent (5%) in the Bay Area, a cumulative 75 percent increase between 2005 and 2020 according to the research firm Turner & Townsend and CBRE Research, resulting in the increase in project costs.

The proposed change would increase the amount of funding the City may loan to each approved project, which would allow the HMIP to better address health and safety issues of housing occupied by low-income owners and remain true to the intent of the program.

BACKGROUND / LEGISLATIVE HISTORY

On November 11, 1975, the Oakland City Council passed Ordinance No. 9233 C.M.S. adopting the initial version of the Home Maintenance and Improvement Program. The loan limit was last increased from \$40,000 to \$75,000 on March 22, 2005. Ordinance No. 9479 C.M.S. provided for City Council to make periodic adjustments for certain guidelines for the implementation of the HMIP. The primary source of revenue for the HMIP program is Community Development Block Grant (CDBG) funds and CDBG Revolving Loan Program Income (loan repayments). The goal of the Home Maintenance and Improvement Program is to rehabilitate the City's housing stock and to prevent neighborhood deterioration and/or displacement by:

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- Restoring the Community Development (CD) Districts of the City by providing low-income residents with the necessary financial and technical assistance to improve their individual properties and the overall environment of their Districts.
- Providing dedicated housing assistance to meet the housing rehabilitation needs of low-income families, elderly and disabled residents, and to correct emergency housing deficiencies that are detrimental to the health and safety of residents and the overall welfare and stability of the Districts.
- Conserving CD Districts by providing special assistance for self-help efforts among residents.
- Enlisting the active involvement of local businesses, suppliers and contractors in housing conservation activities.

The Housing and Community Development Department's Residential Lending Services (RLS) Division implements a variety of programs to assist homeowners with the rehabilitation of one-to-four-unit properties. These programs provide access to financing, project design and project management to advance housing rehabilitation opportunities for low-income homeowners.

The RLS programs currently operating are as follows:

- **Home Maintenance and Improvement Program (HMIP):** Provides loans to owner-occupied low-income households to correct health and safety related repairs, including building code deficiencies. Loans are not made for payment or reimbursement of completed or in-process repair costs.
- **The Emergency Home Repair Program (EHRP):** Provides loan funds for home repairs that require immediate attention, such as emergency violations (issued by a Fire Marshall, Health Officer or Code Enforcement Officer), leaking roof or sewer break.
- **The Access Improvement Program (AIP):** Provides grants for accessibility modifications to both owner-occupied and rental properties.
- **The Lead-Safe Homes Program (LSHP):** Provides grants to very low-income, disabled and/or senior homeowners. Funds must be used for exterior house painting and other related lead-based paint hazards reduction services. Grants are also available to income qualified families with children under age 6 and expectant mothers.

The interest rate is zero percent (0%) for eligible applicants with incomes at or below fifty percent (50%) of the Area Median Income. The interest rate is three percent (3%) simple interest for applicants with incomes between fifty-one percent (51%) and eighty percent (80%) of the Area Median Income level as per U.S. Department of Housing and Urban Development (HUD) Guidelines.

ANALYSIS & POLICY ALTERNATIVES

For 45 years, the City's Residential Lending Services programs have been available to low- to moderate-income homeowners. The programs have been an important contribution to the overall improvement of the City's housing stock. The rehabilitation of low-income owner-occupied properties stabilizes neighborhoods and slows the displacement of current owners by

providing direct financial and technical assistance that may otherwise not be available, which helps to ensure the preservation of long-term housing affordability.

The current loan limit of the existing program has been in place for fifteen (15) years and is insufficient to meet current costs associated with the rehabilitation of one-to-four-unit owner occupied dwellings and existing condition of these properties.

Housing Rehabilitation Project Cost Analysis

There are currently seventy-three (73) applications in varying stages of review for eligibility for rehabilitation assistance. There are sixteen (16) projects currently under construction, and the average cost estimate per project is \$155,000. **Table 1** below provides current information on the bid results received for several prospective HMIP projects.

Table 1. Rehabilitation Project Bid Results

District	Building Area (s/f)	Bid Results FY 2019/20
North Oakland	2,456 s/f	\$210,000 to \$215,600
North Oakland	1,320 s/f	\$151,582 to \$180,622
Fruitvale/San Antonio	1,587 s/f	\$150,810 to \$250,760
West Oakland	1,770 s/f	\$179,900 to \$315,679
Central East	744 s/f	\$178,570 to \$242,455
Central East	1,218 s/f	\$131,130 to \$164,800
Elmhurst	1,042 s/f	\$126,600 to \$130,400
Elmhurst	794 s/f	\$111,800 to \$130,934

The bid results reflect the range of costs typically seen in the comprehensive rehabilitation of properties in the Community Development Districts. These bids reflect a differential with the current \$75,000 loan limit from fifty percent (50%) higher to one that is four times higher. Costs vary and are based on square footage as well as amount of deferred maintenance and repairs required to comply with current building, plumbing, electrical and mechanical codes.

These bid results reflect construction cost increases identified by the research firm Turner & Townsend and CBRE Research. They indicate that costs have increased by an annual average of five percent (5%) in the Bay Area, resulting in a cumulative seventy-five percent (75%) increase between 2005 and 2020.

Deferred maintenance, inadequate structural conditions, the proliferation of lead-based paint in pre-1978 one-to-four-unit homes and the lack of energy efficient and sustainable building components also contribute to the increased costs in materials and labor. These conditions subsequently increase the costs of rehabilitating homes that do not comply with current building, lead paint and sustainable housing standards.

Some homeowners may require far less than the maximum to address their home's rehabilitation needs or they may qualify for less, due to underwriting requirements or program income/funding limits.

Local Jurisdiction Program Limits

In 2018, staff participated in a working group, consisting of representatives from the cities of Alameda, Berkeley, Fremont, Hayward, Livermore, Pleasanton, San Leandro, Union City, Albany, Dublin, Emeryville, Newark, Piedmont, and unincorporated areas. Based on the group's review of existing programs and surveys of low-to-moderate income homeowner needs, particularly those in Oakland, which has some of the oldest housing stock in Alameda County, a program limit of \$150,000 was recommended. This is presently the limit of Renew AC-Alameda County Home Improvement Loan Assistance Program for comprehensive rehabilitation of properties.

Increasing the loan limits to \$150,000 per project will provide the necessary mechanism for the preservation of Oakland's affordable housing stock and avoid the displacement of long term, low- and moderate-income owners and their families. The proposed change would increase the amount of funding the City may loan to each approved project, which would allow RLS to better address health and safety issues of housing occupied by low income owners and remain true to the intent of the program.

FISCAL IMPACT

No change is being proposed to the annual allocation of funding for RLS programs which is a combination of CDBG and Program Income (loan repayments). The change requested would increase the amount the City may loan to any RLS rehabilitation project.

Over the past several years the RLS programs have carried forward balances due to Program Income. As such, the HMIP program is expected to have adequate funding to cover the increased loan limits. Should this increased cost necessitate additional funding, CDBG funding from other underutilized programs may be available for reprogramming.

PUBLIC OUTREACH

No outreach was deemed necessary for the proposed policy action beyond the standard City Council agenda noticing procedures. There have been 494 requests for applications from January 2017- May 2020, and City staff continues to receive regular calls from homeowners requesting housing rehabilitation assistance.

COORDINATION

Staff produced this report in coordination with the City Attorney's Office and the Budget Bureau.

SUSTAINABLE OPPORTUNITIES

Economic: Expanding housing rehabilitation opportunities for low-income families, seniors, Oakland's disabled community and the unsheltered increases economic opportunity and family stability.

Environmental: Expanding home improvement opportunities close to employment centers provides a reduction in greenhouse gas generation by avoiding long automobile commutes from less expensive, geographically distant communities. Less Bay Area commuting means healthier air for the community. The proposed changes will further implement the goal of reducing neighborhood blight and housing stock deterioration.

Race & Equity: The use of Community Development Block Grant (CDBG) funds as proposed in this report and resolution promotes social equity by providing financial and technical assistance to low-income families to rehabilitate their homes. Low-income individuals make up seventy-one percent (71%) of Oakland's population, and only thirty-nine percent (39%) are property owners. Livable homes have a positive impact on the quality of life for families, residents, and their neighborhoods through stabilized community bonds and pride of ownership.

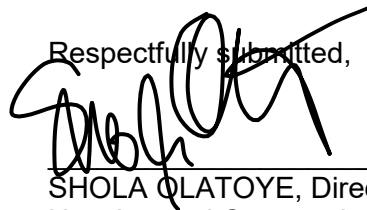
The City's provision of financial assistance helps to mitigate the imbalance in home improvement lending to disadvantaged communities. Federal data indicates that communities of color and low-income communities receive less home improvement financing than those in affluent communities. Housing rehabilitation assistance expands opportunities for low-income borrowers to secure housing in resource-rich neighborhoods.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council adopt a resolution authorizing the City Administrator or his designee to modify the Home Maintenance and Improvement Program Guidelines to increase the loan limit from \$75,000 to \$150,000 per project.

For questions regarding this report, please contact Loyd Ware, Residential Lending Services Manager at 510-238-6197.

Respectfully submitted,



SHOLA OLATOYE, Director
Housing and Community Development

Reviewed by:
Maryann Leshin, Deputy Director
Housing and Community Development

Prepared by:
Loyd Ware, Residential Lending Services Manager
Housing and Community Development