October 31, 2019

**Subject:** FY 2018-2019 Affordable Housing and Sustainable Communities Program Guidelines: Round 5 Final Adoption

**Reporting Period:** September-November 2019

**Staff Lead:** Ryan Silber, AHSC Program Manager

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**Recommended Action:**

Adopt the Fiscal Year 2018-19 Final Draft Affordable Housing and Sustainable Communities Program Guidelines. Following Strategic Growth Council adoption of the Guidelines, staff will release the Notice of Funding Availability and solicit projects eligible under these Guidelines using a competitive process for the fifth round of the Affordable Housing and Sustainable Communities Program.

**Summary:**

This report provides background on the Affordable Housing and Sustainable Communities Program (AHSC) and summarizes the proposed changes between the FY 2017-18 (Round 4) and the FY 2018-19 (Round 5) AHSC Program Guidelines (Attachment 1), as well as next steps for funding Round 5. Changes to the AHSC Program Guidelines detailed below include changes to eligible projects, eligible costs, assistance terms, scoring criteria, and the awards process.

The proposed Guidelines incorporate feedback collected through the past round of funding; debrief calls with unsuccessful applicants; a two-week post-award public comment period beginning on June 28, 2019; a 30-day public comment period following the release of the Initial Draft Round 5 Guidelines on August 30, 2019; and in Draft Round 5 Guidelines workshops held in September 2019 in Fresno, Los Angeles, and Oakland, and via webinar. Stakeholder groups submitted 57 public comment letters since the conclusion of last round. Staff also spoke with dozens of stakeholder groups and past applicants, and conducted statewide outreach to transit providers. This feedback, taken together, informed the preparation of the Final Draft Guidelines presented for adoption.

**Background:**

Public Resource Code Sec 75210 establishes the Affordable Housing and Sustainable Communities Program "to reduce greenhouse gas emissions through projects that implement land use, housing, transportation, and agricultural land preservation practices to support infill and compact development..." The AHSC Program is part of California Climate Investments (CCI), an initiative that puts State Cap-and-Trade dollars to work; CCI sets aside 50 percent of the available funds for projects benefitting Disadvantaged Communities. CCI and AHSC play a critical role in the State’s overall efforts to reduce greenhouse gas (GHG) emissions, strengthen the economy, and improve public health and the environment in communities across the state.
One of the implementing legislation’s primary goals is to support and implement sustainable community strategies and efficient land use policies statewide. To this end, the AHSC Program provides grants and loans for capital projects and programming, including affordable housing development and transportation improvements that encourage walking, bicycling, and transit use resulting in fewer passenger vehicle miles travelled (VMT). Reduction of VMT in these project areas will achieve GHG emissions reductions and benefit Disadvantaged Communities. The Sustainable Agricultural Land Conservation (SALC) Program, which draws funding from a portion of the AHSC Program appropriation, advances agricultural land preservation through conservation easements to complement AHSC’s focus on infill development.

The Budget Act of 2014 appropriated $130 million from the Greenhouse Gas Reduction Fund (GGRF) to develop and implement the first funding cycle of the AHSC Program (2014-2015). Since FY 2015-16, Health and Safety Code Section 39719 has allocated 20 percent of GGRF annual proceeds to the AHSC Program. To date, the AHSC Program has awarded over $1.1 billion in grant funds for projects across the state. Approximately $550 million in funding will be available in the Round 5 AHSC Program funding cycle.

Who is Eligible for AHSC Funds?
Eligible applicants for Round 5 of AHSC remain the same as Round 4. The following entities are eligible to apply for AHSC Program funds, as a sole or joint applicant:

<table>
<thead>
<tr>
<th>AHSC Eligible Applicants</th>
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<tr>
<td>Local Government (City, County, City/County)</td>
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<tr>
<td>Transit Agency or Operator</td>
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<tr>
<td>Joint Powers Authority</td>
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<tr>
<td>University or Community College District</td>
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<td>Redevelopment Successor Agency</td>
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What does AHSC Fund?
AHSC supports the following types of capital projects that reduce passenger VMT and support transportation mode shifts:

- Affordable housing development in close proximity to transit
- Capital infrastructure projects, including:
  - Active transportation capital projects, including pedestrian, bicycle infrastructure, crosswalks, and other capital projects which increase connectivity to and from key destinations (housing, jobs, school, retail, services, etc.) or to transit
- Infrastructure (water, sewer, roads, etc.) that directly serves affordable housing development in proximity to transit
- Infrastructure associated with affordable housing, active transportation, or transit capital projects that meet or exceed current requirements for energy efficiency, green building, water efficient uses, low impact development, or renewable energy
- Infrastructure associated with affordable housing, active transportation, or transit capital projects that include urban greening components (e.g. tree canopy along walkable and bikeable corridors, parks and open space adjacent to housing, etc.)
- Capital costs associated with increasing the capacity of a transit system, including increased fleet (e.g. vanpool, car share, shuttles) or expanded service (e.g. extension of service to underserved areas)
- Capital costs supporting improvement or addition of infrastructure to expand public transit access and increase connectivity between the transit stop or station and active transportation infrastructure
  - Transit operations costs associated with capital expansion projects (an addition proposed in the Round 5 Guidelines)
  - Programs supporting shifts in transportation mode, including:
    - Active transportation outreach (e.g., safety, awareness)
    - Transit ridership programs (e.g., transit passes, outreach programs)
    - Criteria air pollutant and air pollution exposure reduction programs
    - Workforce development programs
    - Zero-emission vehicle car share programs for low-income individuals

**How are AHSC Awards Determined?**

SGC conducts a competitive process to award AHSC funds. AHSC awards funds to three project area types designed to reflect the diversity of community and transit characteristics across California. Applications are scored out of 100 points on the following criteria: GHG emission reductions (30 points), quantitative policy elements (55 points), and a narrative policy section (15 points).

**Recommended Revisions to the Round 5 Program Guidelines:**

AHSC Program staff from SGC and the Department of Housing and Community Development (HCD) released the Round 5 Draft AHSC Program Guidelines on August 30, 2019. Following the release of the Draft Guidelines, California Air Resources Board staff released the Draft AHSC GHG Quantification Methodology. The Final Draft Guidelines and GHG Quantification Methodology incorporate feedback obtained through public comments, workshops, and stakeholder meetings between July and October 2019, as well as that solicited throughout the fourth round of funding.

AHSC Program Staff proposes the following changes in the Round 5 Final Draft AHSC Guidelines:
1) Eligible Projects and Award Size
   The Guidelines include the following changes for eligible projects that maintain consistency with other HCD programs and support statutory requirements:
   a. Maximum award size is increased to $30,000,000 and maximum affordable housing loan to $20,000,000, matching updated maximum loan amounts for other HCD assistance programs. Loans are calculated on a per-unit basis, with the assistance per-unit increased.
   b. AHSC projects must contain affordable housing funding requests that represent at least 50 percent of all funds requested. This matches AHSC’s statutory requirement to allocate at least 50 percent of funds to housing across all funds awarded, including through the SALC Program.
   c. Transportation funding requests cannot exceed $10,000,000 per project, not including programs that may have a transportation focus such as walking school buses or car sharing for low-income individuals.

2) Award Targets
   a. Regardless of Project Area type, SGC will seek to fund one tribal AHSC project. If SGC receives multiple tribal applications, those projects not funded through this tribal set-aside will be subject to the regular competitive process. AHSC is statutorily tasked with improving conditions in disadvantaged communities. Recognizing that tribal communities face a long history of discrimination and disinvestment in California, are often located in highly disadvantaged communities, and face barriers to application within the AHSC program, adopting a tribal funding target will ensure funds are allocated to these communities and take a small, but meaningful step towards equity.
   b. Staff recommend increasing the funding target for Integrated Connectivity Projects (ICP) from 35 percent of total available funds to 45 percent and reducing the amount of discretionary funds from 20 percent of total available funds to 10 percent. Consistently a top concern for stakeholders over the last three rounds of AHSC, the high rate of application to the ICP category deters localities that experience staffing constraints from applying to the program. AHSC aims to catalyze a paradigm shift in how communities holistically plan and sustainably develop to meet both climate and housing goals. If localities perceive AHSC as inaccessible and decide not to apply, opportunities are lost to mobilize communities to access these funds, and to tackle historic patterns of unsustainable development and siloed planning processes. Increasing the ICP funding target improves the perceived accessibility of funds. Decreasing discretionary funds maintains significant Council discretion but provides greater transparency of funding allocations.

3) Eligible Costs for Transit Operations
   a. Transit operations expenditures that directly expand transit service by supporting new or expanded routes are eligible for up to two years of
funding. Requirements for operations to support expanded service match requirements for capital improvements funded by AHSC.

4) **Assistance Terms and Limits**
   a. AHSC loan funds are not allowed for use on units already receiving assistance from HCD loan assistance programs. This “anti-stacking” provision is consistent with other HCD loan assistance programs. This change will stretch AHSC funding to more projects while the increased maximum loan amount is intended to reduce the number of HCD funding programs needed to support a project.

5) **Quantitative Policy Scoring Criteria**
   In response to program feedback, the Round 5 Guidelines include the following adjustments to the quantitative policy scoring process. These changes aim to increase clarity around intended outcomes and current policy priorities, and to improve overall clarity for applicants. The Guidelines include the following recommended changes:
   a. **Leverage:** AHSC awards recognize and award points for leverage funds in two ways. The first recognizes leverage from CCI programs and the second from other leverage sources. The Guidelines include the following recommended changes:
      i. **CCI Leverage:** Provide 1 point for leverage from funding from other CCI programs or for projects located within an environmentally cleared California High Speed Rail (HSR) station planning area. HSR is receives CCI funds and this combination enables more applicants to earn this point. Previously, one point was available for each type of CCI-funded leverage.
      ii. **Other Leverage:** Leveraged funding is now scored out of four points instead of five. The updates provide the same incentive for the highest level of leveraged funds (200 percent), and eliminate the lowest tier of leveraged funds (25-49 percent).
   b. **Pro-housing:** Reflective of recent policy changes, AHSC is integrating points for projects in jurisdictions with pro-housing policies. These strategies are consistent with those included in the Transformative Climate Communities and Infill Infrastructure Grant programs. Scoring for these strategies signals a more comprehensive rating system HCD is developing over the next 18 months. Two (2) points are allocated to this category.
   c. **Anti-displacement:** The Guidelines have been updated to ensure that points awarded are allocated to the strategies that have demonstrated having the largest benefit for anti-displacement.
   d. **Active Transportation:** The Guidelines include two adjustments to scoring for bikeways and walkways that are intended to better reflect the quality of improvements:
      i. Bikeway scoring now places less emphasis on the linear distance of improvements and more emphasis on addressing barriers to safe access and connecting to other bicycle networks. Total points available remain the same.
ii. Walkway scoring now places less emphasis on the linear distance of improvements and more emphasis on addressing barriers to safe access and connecting to other pedestrian networks. Total points available remain the same.

e. Location Efficiency: Evaluation of location efficiency by the amount of ‘key destinations’ within a project area now includes more locations defined as ‘key destinations.’ The value of each destination is decreased to accommodate an expanded list. Key destinations now align with definitions in the AHSC Benefits Calculator Tool.

6) Developer Maximum
   a. The maximum amount of funds available to a single developer is increased to $60,000,000 from $40,000,000. The scale of this increase matches that of the increase to maximum award size. Developers are not subject to a maximum number of projects awarded.

AHSC Round 5 Timeline:

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<td>Two Week Public Comment Period</td>
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<tr>
<td>Draft AHSC Round 5 Guidelines Posted</td>
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<td>30 Draft Guidelines Public Comment Period</td>
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<td>Final AHSC Round 5 Guidelines Adopted</td>
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<td>NOFA Released</td>
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<tr>
<td>Application Workshops and Consultations</td>
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<td>Awards Announced</td>
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Council Recommendation:
Adopt the Fiscal Year 2018-19 Final Draft Affordable Housing and Sustainable Communities Program Guidelines. Following Strategic Growth Council adoption of the Guidelines, staff will release the Notice of Funding Availability and solicit projects eligible under these Guidelines using a competitive process for the fifth round of the Affordable Housing and Sustainable Communities Program.

Attachments:
Attachment 1 – FY 2018-2019 Final Draft Affordable Housing and Sustainable Communities Program Guidelines