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Subject: Affordable Housing & Sustainable Communities (ASHC): Policy Direction

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Summary:

The Affordable Housing & Sustainable Communities (AHSC) program is embarking on a process to significantly update its program guidelines and scoring mechanisms before the 7th Notice of Funding Availability (NOFA) is announced in October 2022. As AHSC staff finalize scoring and awards announcements for Round 6, the staff is planning the process to identify and address key priorities for the program's future work.

To date, the AHSC Program has awarded \$1.6 billion to build more than 11,000 affordable units and building or improving 189 miles of bike lanes, while avoiding 3 million metric tons of greenhouse gases (GHG). For many years, the AHSC Program was one of California's primary construction funding sources for affordable housing development. With Governor Newsom's focus on addressing housing production and affordability, the State has significantly stepped up its investment in affordable housing. Diversity in funding sources provides an opportunity to rethink and reflect on how the AHSC Program can better achieve its goals. In Round 7, the staff will focus on addressing eleven policy areas listed on the next page. Since AHSC focuses on achieving multiple benefits, which requires balancing multiple priorities, the staff would like to get high-level direction from the Council on the approach and strategy for the next Guidelines update.

The two primary areas of focus that AHSC staff is seeking feedback from the Council are:

- 1. Geographic Distribution:** The current scoring mechanisms for the AHSC Program prioritize funding for projects that are likely to be constructed without AHSC support. **Should AHSC guidelines be modified to instead focus on catalyzing projects in locations that may not produce projects without AHSC support?**
- 2. Climate Energy Nexus:** The current guidelines provide additional points for multiple green building investments including additional points for projects that are all-electric. While all-electric buildings meet the goals of lowering emissions, they are not currently a common industry practice. **Should the AHSC program pioneer decarbonization efforts or should it align with current standards and solutions?**

AHSC staff are beginning an examination of a total of 11 policy areas, including those mentioned above, for changes to the AHSC scoring criteria. The following document lists the 11 areas and provides some context on the strategies AHSC staff are considering.

Geographic Distribution: AHSC guidelines are designed to prioritize projects that implement land-use, housing, transportation, and agricultural preservation practices to support infill and compact development, and that support related and coordinated public policy objectives. SGC

has been scoring all applications from across the State using the same method to identify feasible projects with the highest immediate GHG reducing potentials which results in prioritizing projects that are likely to be constructed without AHSC funds. However, since California is such a large and diverse State, some regions may find it difficult to be competitive due to their historical land use and transportation development patterns.

Climate Energy Nexus: AHSC Program is participating in a workgroup with the California Energy Commission (CEC), Public Utilities Commission (PUC), Department of Housing and Community Development, California Housing Finance Agency, and CARB to identify feasible options for building decarbonization through incentivizing measures that goes beyond current and near-future building codes. Measures could potentially include encouraging or requiring using California Utility Allowance Calculator Tool, electric heating and water, Cross-Laminated Timber or carbon absorbing material. SGC will continue to collaborate with the CEC and PUC to create best practices and provide technical assistance to support developers in pursuing cost effective decarbonization measures.

Fair Housing: Affirmatively Furthering Fair Housing (AFFH) seeks to combat housing discrimination, eliminate racial bias, undo historic patterns of segregation, and lift barriers that restrict access in order to foster inclusive communities and achieve racial equity, fair housing choice, and opportunity for all Californians. Assembly Bill 686 furthers the federal requirement of AFFH by requiring that all State and local public agencies facilitate deliberate action to explicitly address, combat, and relieve disparities resulting from past patterns of segregation to foster more inclusive communities. In addition, AB 686 creates new requirements for all housing elements due to be revised on or after January 1, 2021. These requirements ensure that the obligation to affirmatively further fair housing is a part of a jurisdiction's planning process and guiding documents for community development.

AFFH strategies often look to locate affordable housing in "high-opportunity areas." However, per AHSC Program enacting legislation, 50 percent of AHSC expenditures shall be for projects providing benefits to Disadvantaged Communities. Although this requirement is not directly in conflict with AFFH, this target could potentially result in further concentrating poverty in areas that are already struggling with access to resources.

Home Ownership (AB 1095): This bill emphasizes the importance of housing in wealth-building and addressing racial inequities by requiring AHSC to look for the ways in which program can be more competitive for home ownership projects. Although the language of this bill is very broad, program changes will be needed to meet issues homeownership projects have in competitive funding.

- 1) The AHSC Program is designed to be "the last dollars in" financing for an affordable housing development. This structure is generally incompatible with homeownership projects. Changing enforceable funds requirements will require AHSC to change this model for Home Ownership projects with less certainty around committed funds.
- 2) Home Ownership projects are usually less dense compared to rental projects due to long term maintenance needs. AHSC will need to adapt its scoring to make these types of projects more competitive.

SGC Racial Equity Plan: In SGC's Racial Equity Plan, the AHSC Program committed to identify and remove barriers for diverse applicants: specifically disadvantaged communities (DAC), low-income communities, Tribal communities, and communities of color. AHSC Program will put this as a priority to ensure that developers owned by people of color, developers with high employment

standards with targeted hiring, and developments that would bring multiple benefits to communities will be prioritized in the award decisions.

Workforce & Labor Requirements (AB 680): AHSC is one of the pioneer programs to incentivize labor and workforce requirements. Considering new legislative activities and the importance of providing high-quality jobs, AHSC will work with the Department of Labor, Department of Industrial Relations, and HCD to strengthen the program requirements and assessment.

Conservation and Affordable Housing Nexus: Infill development and higher density development in previously developed and under-utilized land has direct impact on other measures that are important for achieving climate goals. Achieving Governor Newsom's 30 by 30 goal requires identifying strategies to conserve lands that are in imminent threat of development. Although affordable housing projects are a small portion of urban land development, SGC will try to pilot a few examples through AHSC and SALC coordinated work to showcase potential pathways for local governments.

Tribal Access: To align with Chapter 660 (Statutes of 2019, Eduardo Garcia), which makes the governing body of Indian Reservations and Rancherias eligible to receive funding from various State affordable housing programs, the AHSC Program will continue to work with HCD to enhance tribal access to AHSC funds. Although the program is currently available to tribal applicants, SGC will continue to meet with tribal representatives to identify and reduce barriers to the program.

Master Plan for Aging: California's over-60 population is projected to diversify and grow faster than any other age group. By 2030, 10.8 million Californians will be an older adult, making up one-quarter of the State's population. In June 2019, Governor Gavin Newsom issued an executive order calling for the creation of a Master Plan for Aging. The Master Plan for Aging calls for diversity of affordable housing in different regions to accommodate aging Californians. AHSC Program will continue to pursue goals of this Master Plan by:

- 1) Encouraging Mixed-Income projects and different types of housing in AHSC funded projects
- 2) Identifying how to change program scoring to encourage applications from Senior Housing developers

Joint Liability: The AHSC Program requires the applicant to make sure that both housing and transportation projects are moving together to achieve the program goals. To enforce this goal, applicants sign joint liability clauses in their funding award that apply to the entire project. SGC, in partnership with HCD, will continue to explore how to achieve the program goals without discouraging some regions from participating in the program due to inter-agency liability issues.

Prohousing Requirements: The 2019-2020 Budget Act provided a spectrum of support, incentives, and accountability measures to meet California's housing goals, and provided for the establishment of the Prohousing Designation Program. The Prohousing Designation Program provides incentives to cities and counties in the form of additional points or other preference in the scoring of competitive housing, community development, and infrastructure programs. HCD established the Prohousing Designation Program to administer these incentives. In Round 7 Guidelines, AHSC is required to provide application incentives to cities and counties that meet criteria established in the program.

Conclusion:

In addition to these 11 focus areas, the AHSC team will also continue to work to improve the ease of the application process and continue to clarify policies and guidelines for program applicants. Between each cycle, the application, guidelines, and instructions have been modified in minor ways; however, there has not been sufficient time to truly re-think and re-vision the application process to streamline the process for applicants and scoring process for agency staff. As the team continues to revise guidelines, we are committed to creating clearer guidelines with fewer redundancies and errors in the application process.