

October 31, 2024

**Subject:** Affordable Housing and Sustainable Communities: Program Update

**Reporting Period:** August-October 2024

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## Summary

The August 2024 Council meeting approved and awarded Round 8 of the Affordable Housing and Sustainable Communities program. This award totaled \$789,799,519 for 24 projects to build more than 2,400 affordable homes and multiple green transportation improvement projects across the state. More than two-thirds of housing units were dedicated to lower-income communities.

The Council requested that SGC AHSC Staff bring back to the Council in October a discussion on the AHSC program, which would include an overview of AHSC, process improvement, and program improvements. Areas of interest included program management improvements to reduce errors, program improvements to increase access to Tribes, and an understanding of Disadvantaged Communities (DAC) defined by CalEnviroScreen 4.0, including communities not defined as DAC but who identify as disadvantaged or historically harmed/underinvested.

## Background

### About the AHSC Program

The AHSC Program, as part of California Climate Investments (CCI), provides competitive grants and loans to projects that will achieve Greenhouse Gas (GHG) emission reductions through the development of affordable housing and housing-related infrastructure, active transportation infrastructure, transit operations and capital improvements, and related social programming. Most of the funding provides direct and meaningful benefits within Disadvantaged and Low-income Communities. AHSC is structured to encourage partnerships between local municipalities, transit agencies, and affordable housing developers to achieve the integration of affordable housing and transportation projects.

Since the program's inception 10 years ago, there have been eight funding rounds with cumulative awards totaling over \$3.8 billion for 200+ projects across the state. Throughout all 8 rounds, the AHSC program has continually received high-quality applications, with usually 40-60% of applications receiving funding, making it a highly attractive program for the affordable housing development community. The program has funded some of the highest GHG-reducing projects and has received high praise as one of the most impactful programs in the California Climate Investment portfolio.

## AHSC Statutory Requirements and Goals

The AHSC Program includes project goals related to various criteria beyond project scores, described in the most recent guidelines and Notice of Funding Availability (NOFA). Section 108(h) of the Round 8 Guidelines lays out a transparent process to meet our program goals, where the highest-scoring projects would be awarded—only deviating from that process to achieve the statutorily required and Council-approved goals.

- **Statutory Requirement:** Housing Funds. A minimum of fifty percent of the total AHSC Program expenditures must be dedicated to affordable housing.
- **Statutory Requirement:** Disadvantaged Communities. A minimum of fifty percent of total AHSC Program expenditures must also be invested to benefit Disadvantaged Communities, as identified by CalEnviroScreen 4.0.
- **Council Goal:** Project Area Type. Ensure a minimum NOFA amount is awarded to each project area type (35% TOD; 35% ICP; 10% RIPA).
- **Council Goal:** Geographic. Ensure at least one project is awarded in each of the eight geographic regions identified by Council.
- **Council Goal:** Tribal. Ensure that at least one project is awarded to a tribal entity.

## Round 8 Award

The AHSC Round 8 NOFA made approximately \$675 million available to fund projects ranging from \$10 million to \$50 million that meet the program's goals. The program received 45 submissions, with 38 projects meeting threshold requirements after review. After the scoring was complete, one additional project withdrew from consideration. Of the 37 eligible projects, AHSC staff recommended 21 for the award. The list of 21 projects was updated during the week of August 19, 2024. An incorrect list of projects was previously uploaded due to an error in the post-appeal review scoring process.

After the error was identified, SGC re-reviewed all project scoring components. During that review, an additional eight projects were identified as having received an incorrect score related to the percent of funds dedicated to transportation (“Housing and Transportation Collaboration” AHSC Guidelines, Sec. 107 QPS(c)(1)). This error was found late 08/15. This error occurred because the AHSC team was working concurrently on financial verification, scoring, and ranking simultaneously to meet the publication deadline – and not all data was accurately tracked and verified. All three AHSC interagency teams with scoring responsibilities (SGC, CARB, and HCD) re-reviewed and reconciled their scoring components. This confirmed that all errors related to the outcomes of the appeal process were identified and rectified.

As a result of this complete re-review and re-scoring effort, some of the project scores changed. Therefore, the recommended awards list and total amount were revised and updated. Unfortunately, this meant that two initially recommended for the award were removed, and two other projects were added.

The Council heard an extensive discussion on the AHSC recommendation of awards and made two motions. The first motion was to approve the list of 21 projects; this motion was approved. The second motion was to approve the two projects impacted by the revised list and a third DAC project; this motion was approved. Additional funds to cover three projects utilized disencumbered funds and funds from action proceeds not identified in the initial NOFA.

The AHSC Round 8 will provide \$789,799,519 in grant funding to build more than 2,400 affordable homes and multiple green transportation improvement projects across the state. More than two-thirds of the housing units will be dedicated to lower-income communities.

### **Post Round 8 Updates**

#### **Process Improvements**

In September, SGC provided individual debriefs with all unawarded applicants and partners and is updating Technical Assistance strategies for future rounds of AHSC and other funding sources via our Connecting Communities strategy.

Immediate action is being taken to implement measures to minimize and prevent errors in future rounds. SGC/HCD/CARB teams identified various areas to reduce the program's error risk. In the review of the Round 8 scoring, it was identified that all scoring errors related to tracking and incorporating appeal results. The AHSC interagency teams have developed appeal review process protocols to ensure proper treatment of all future appeals. This ranges from increased manager verification to scoring streamlining to re-structuring application review process/timing, including building additional verification processes by sending Final Score Letters before starting the ranking process to ensure applicants have an additional opportunity to address any concerns on scoring for further accountability measures. Other process improvements include:

- Revising Memorandum of Understanding, Service Contracts, and Interagency Agreements with HCD and CARB to bolster interagency coordination.
  - Revised Agency Leadership meetings to review program data
- Debrief with the AHSC Advisory Committee and developing meeting cadence for program improvements and Round 9 Planning.
- Revise the program schedule to ensure appropriate time for a more detailed multi-level review of Guidelines and Applications.

### **Program Updates**

#### **Round 8 Survey**

Following the Round 8 application deadline, the SGC AHSC Staff requested all interested parties respond to a survey focused on program priorities and processes. The survey was held open for over two months and received 78 responses. These responses included at least one response from each of the 8 AHSC Regions and all sectors of the eligible applicant pool, except for tribal

members. The vast majority (71%) had been involved in preparing at least one application during the life of the program, and (61%) participated in the recent rounds (rounds 6-8).

The overarching sentiment from respondents is that the program priorities and materials are clear, and the program has the correct set of priorities, albeit 'too many' priorities. The respondents also shared that most projects begin planning applications more than a year in advance of the NOFA and, therefore, would prefer that the program guidelines remain consistent between rounds and operate on a predictable annual cycle. In discussing barriers to the program, the top concern was competitiveness in GHG reductions and capacity to complete the application – and the least reported barrier was the Quantitative Policy Scoring sections.

### AHSC Round 9 Preparation

The statutory requirement for Draft Guideline outreach mandates that the Council hold at least two public workshops before adopting the guidelines and the selection criteria, one in Northern California and one in Southern California. Additionally, the Council is obligated to publish the draft guidelines and selection criteria on its website at least 30 days before the public meetings.

In June 2024, the AHSC team began updating the AHSC Guidelines for Round 9 to align with the projected annual cycle before finalizing the Round 8 awards. However, on August 22, 2024, the SGC Council directed the staff to reconvene in October 2024 to conduct a comprehensive review of the program and program management and potentially reassess priorities.

The AHSC staff, including CARB, HCD, and SGC, coordinated across the agencies to address challenging areas for applicants and reviewers in preparation for the updated program guidelines.

### *In Process Programmatic Updates*

The progressive program updates are critical steps aimed at ensuring the staff's readiness to implement the identified areas of improvement and make necessary changes. Some of the proposed changes include:

- Increasing the timeframe for the applicant review and appeals process to allow for each project to receive a Final Score Letter before posting final scores to minimize scoring errors
  - An additional two months will be allocated for staff to thoroughly verify the scoring before the awards adoption process in case there are concerns about how a project was scored.
- Eliminate the Transportation Related Amenities (TRA) category and scoring section
  - Reduces complexity for both applicants and reviewers by combining TRA and STI components into one cost category
- Eliminate the Program (PGM) scoring section
  - Reduces application burden by focusing on core housing and transportation components upfront. PGM would remain an active eligible cost, and components similar to PGM such as Anti-Displacement activities are still eligible for points.

- Move the Green Building scoring section to Narrative and reduce scoring
  - Will allow projects to provide narrative context on how they are exceeding current green building standards in a narrative format
- Reformat Program Guidelines with existing HCD Multifamily Housing Program (MHP) for clarity and ease of review
- Streamline and combine Quantitative Policy Scoring (QPS) components into more cohesive groups for clarity
- Added points for projects with an AHD located in Priority Populations as defined by CCI Program Guidelines
- Codify and clarify requirements for developer experience
- Consolidate “Flexible Transit Service” with “On-Demand Transit Service” to better align AHSC funded transit with the goals of the program.
- Revised High Quality Transit definition to align with legislation passed in 2024
- Remove the requirement for tribes to submit a Limited Waiver of Sovereign Immunity for program eligibility
- Reduce the minimum award amount for tribal projects to \$1 million instead of \$10 million to increase access for tribal projects. Maximum award will remain at \$50M.
- Exempt projects on Tribal Land or on land owned by tribes from infill requirements
- Add First-Time Homebuyer Mortgage Assistance as eligible cost and point category for Homeownership projects to increase access for Homeownership projects
- CARB will update the AHSC Benefits Calculator Tool and the AHSC User Guide to update emission factors, improve its user interface, and clarify applicant questions.

These updates listed above and others will be included in the next draft guidelines. The items below are thus more identifiable as Council-desired, but not readily implementable changes for a near term draft guidelines.

### ***Other Areas Requested for Programmatic Modification/Policy Change***

#### *Increasing Access to Tribal and Priority Populations*

At the August Council meeting, staff heard the Council's interest in exploring ways to enhance and/or increase Tribal and Priority Population participation in the program.

Round 8 debrief with Technical Assistance providers noted some Tribal concerns, including:

- Difficulty solidifying partnerships with local transportation agencies before the application deadline
- Local agency required Limited Waiver of Sovereign Immunity
- Tribal Council did not want to commit to a loan (preferred grant only)
- Since the project was not seeking LIHTC, a loan is not necessary
- Limited capacity to complete applications and authorize decisions during the application period due to tribal staffing changes

AHSC staff received a detailed list of updates to consider from the California Coalition for Rural Housing (Tribal and rural technical assistance providers) on updates for Tribal applicants. AHSC team has incorporated some areas into the updated guidelines (*mentioned above*) while others are still being processed for feasibility.

Tribal Housing legislation was signed in September 2024, creating, among other things, a Tribal Housing Program. AHSC is exploring options to align the program for the Tribal Set-Aside (\$50M). This alignment would likely occur in the latter half of 2025 as the Tribal Housing Program comes online. The program alignment could occur within the AHSC program with a late 2026 award but not a 2025 award.

#### *Disadvantaged Community Designation in the Application Process*

As codified in PRC 75214, the AHSC program must allocate at least 50 percent of awards for projects benefitting DACs. The statute specifically defines DACs based on census tracts in the top 25% for pollution and socioeconomic issues using CalEnviroScreen 4.0; tracts that lack overall scores but in top 5% of cumulative pollution; tracts that were DAC in 3.0 (regardless of their scores in 4.0); Lands under control of federal recognized tribes (at their request).

Round 8 had fewer applications from areas designated as a Disadvantaged Community (DAC), requiring staff to utilize the DAC set-aside and prioritize the awards to lower-scoring projects located in a DAC. Despite a statutory requirement that fifty percent of funds go to projects located in and benefiting a DAC, only 39 percent of requested funds were for projects located in a DAC. Therefore, staff was required to recommend awarding 11 of the 14 eligible projects located in a DAC to meet this statutory requirement.

Additional research and time are needed to determine programmatic updates that thoroughly capture and evaluate disadvantage community tools and criteria for information and use.

## **Next Steps**

Technical Assistance Providers and staff have conducted public webinars and panel discussions about the AHSC program throughout the summer and early fall. Five of these sessions covered various topics, including the fundamentals of the AHSC program, understanding greenhouse gas reductions, best practices for community engagement, and effective active transportation infrastructure planning. Additionally, one webinar specifically addressed the needs of rural and tribal communities. Overall, the series attracted more than 400 participants.

SGC staff have also received public inquiries on when the guidelines and subsequent NOFA will be live and are eagerly awaiting updates on the program. During unawarded applicant debriefs, applicants and partners communicated they would start regrouping to apply for the next round of AHSC program. and apply the following year.

Staff determined that the earliest presentation of the Council's Final Round 9 Guidelines for adoption could occur in February 2025, resulting in a two-month shift in the publicly established

program timeline. This accounts for the statutory requirement for Draft Guidelines and selection criteria are posted on the Council website at least 30 days before required public meetings. Subsequently, the Council is mandated to hold at least two public workshops before adopting the guidelines and the selection criteria, one in Northern California and one in Southern California.

Additionally, to ensure ample time for the program review process to verify all scores, the team proposed allocating an additional two months to the review and appeals process. The *earliest* presentation of a Round 9 Guidelines is February 2025 and the presentation of Round 9 recommendation of award to the Council is December 2025, allowing awardees to plan for and seek funding in the early 2026 TCAC/CDLAC tax credit application process.

### **Program Timeline Scenarios**

There are two approaches that the AHSC program team are navigating. One approach incorporates numerous changes, some identified above, for a program award in late 2025. The AHSC team will work on prepping for Round 10 with a potentially longer development timeframe to capture bigger changes that provide alignment with Tribal Housing Program and a deeper dive into DAC criteria, among other things.

The second approach could also incorporate the proposed updates listed above and with a longer development time frame to address DAC considerations, Tribal Housing Program Alignment, updated policy areas for simplification, and potentially updates to how the program scores estimated GHG reduction, etc. but would not have an award until late 2026.

The following information details two potential timelines for the program:

#### AHSC Round 9 2025 Award:

- Draft guidelines released on November 8, 2024 (8 calendar days post-Council meeting)
- Statutorily required to host at least two in-person public meetings *after* a 30-day public posting. Program staff would recommend a third, additional virtual statewide meeting.
- Public Comments due on December 11, 2024
- Round 9 Guidelines adopted at February 2025 Council meeting
- NOFA and application released in March 2025
- Applications due in May 2025
- Awards in December 2025
- Misses an entire year of TCAC but sets up projects to apply for TCAC at the start of 2026
- *This is a 14-month timeline*
- Staff and Technical Assistance Providers simultaneously work on the next round and continue to update and iterate the program during an active cycle.
- For an award in 2025, there is not sufficient time and/or information to incorporate major updates regarding DAC and priority populations, Tribal Housing Program alignment, and other considerable policy updates. This could happen in a later funding cycle.

#### AHSC Round 9 2026 Award:

- Draft guidelines for Fall 2025





- Significant Engagement through late Fall 2025
- Multiple public workshops and public comment period
- Public Comments due 30 days post-Draft Guideline release
- Round 9 Guidelines adopted February 2026
- Dependent on how the re-envisioned program will operate, awards could be December 2026.
- Potential for largest ever AHSC Award
- Misses two years of TCAC, and when projects are ready, TCAC/CDLAC will have to wait multiple cycles – risk of projects being rescinded.
- This longer development time presents opportunities to extend our efforts significantly, particularly by aligning Tribal Housing programs and fundamentally reimagining the program.

## Discussion Questions

2 -3 Questions for the Council. Questions should be targeted but general enough so all Council Members can contribute (think of their agencies and what their priorities are).

1. Rolling out Round 9 in the near and longer term has potential benefits and challenges. How do we want to proceed with Round 9?
2. Considering the recent scoring and funding adjustments, are there areas of proposed components we should strengthen or focus on to improve transparency and communication throughout the evaluation process and ensure project proponents feel supported and informed?

