ACTION

Agenda Item # 6

October 29, 2018

Subject: **Affordable Housing and Sustainable Communities (AHSC) Program**

Reporting Period: October 2018-December 2018

Staff Lead: AHSC Program Staff

Recommended Action:

Adopt the FY2017-18 Round 4 Final Draft Affordable Housing and Sustainable Communities Program Guidelines. Following Strategic Growth Council (SGC) adoption of the Guidelines, staff will release the Notice of Funding Availability (NOFA) and subsequent solicitation of projects eligible under these Guidelines using a competitive process.

Summary:

This report provides background on the Affordable Housing and Sustainable Communities (AHSC) program and summarizes the proposed changes between the FY2016-17 (Round Three) and the FY2017-18 (Round Four) AHSC Program Guidelines (**Attachment 1**) and next steps for the fourth round of funding. Changes to the Program Guidelines detailed below include organization and clarification of the document and requirements as well as changes to eligible projects and costs, eligibility requirements, scoring criteria, and requirements for awardees.

The FY2017-2018 Final Draft AHSC Program Guidelines incorporate feedback obtained through public workshops held in July 2018 and a public comment period in July-August 2018. These include comments and feedback on Round Three of AHSC funding and the public comments received following the release of the Initial Draft FY2017-18 Guidelines on August 24, 2018.

Workshops following the third round of AHSC awards were held in Fresno, Los Angeles, and Oakland. The workshops solicited feedback potential barriers to application, the effectiveness of the guidelines at achieving programmatic objectives, and to solicit feedback on potential changes for Round 4 of AHSC. Dozens of stakeholders attended workshops and approximately 60 organizations submitted public comment letters. This feedback informed the preparation of the Final Draft Guidelines presented for adoption. This report summarizes all changes since Round Three.

Background:

Senate Bill (SB) 862, Statutes of 2014, established 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 one of the California Climate Investments funded by Cap-and-Trade, and with 50 percent of the available funds set aside for projects benefitting Disadvantaged Communities, plays 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 primary goals of the program 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, 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 Budget Act of 2014 appropriated $130 million from the GGRF to develop and implement the first funding cycle of the AHSC Program (2014-2015). SB 862 allocated 20 percent of GGRF annual proceeds to the AHSC Program beginning in 2015-2016. To date, the AHSC Program has awarded over $690 million in grant funds for projects across the state. Approximately $400 million in funding will be available in the upcoming funding cycle.

Who is Eligible for AHSC Funds?

Eligible applicants for Round four of AHSC remain the same as Round three. The following entities are eligible to apply for AHSC Program funds, as a sole or joint applicant:

Local Governments (City, County, City/County)	Local Transportation Agencies	Public Housing Authority
Transit Agency or Operator	Regional Transportation Planning Agency	Congestion Management Agency
Joint Powers Authority	School District	Facilities District
University or Community College District	Developer: Public, Private, or Nonprofit	Program Operator: Public, Private, or Nonprofit
Redevelopment Successor Agency	Federally Recognized Indian Tribe	

What does AHSC Fund?

AHSC supports the following types of capital projects that reduce passenger vehicle miles travelled 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. This includes increased fleet (e.g. vanpool, car share, shuttles), expansion of 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.
- 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

Revisions to the FY2017-18 Program Guidelines:

AHSC Program staff from SGC and the Department of Housing and Community Development (HCD) released the FY2017-2018 Draft AHSC Program Guidelines on August 24, 2018. Following the release of the Draft Guidelines, California Air Resources Board staff released the Draft AHSC GHG Quantification Methodology on August 29, 2018. The Final Draft Guidelines and GHG Quantification Methodology incorporate feedback obtained through public comments and workshops between August and September 2018, as well as that solicited throughout the third round of funding.

AHSC Program Staff proposes the following changes in the FY2017-2018 Final Draft AHSC Guidelines:

Application Process

- Threshold Determination Appeals: An official appeals period will now last for five days following the receipt of threshold eligibility letters, during which applicants will be able to challenge their threshold determination decisions (i.e. challenge the disqualification of their application). This appeals process will follow the same procedures as the preexisting appeals procedure for initial scores.

Eligible Projects

- Qualifying Transit Operational by Time of Housing Occupancy: One of the core tenants of the AHSC Program is locating housing near quality, public transit. Previous guidelines required transit to be operational at the time of application. Staff proposes amending the guidelines to require that Qualifying Transit be operational at time of occupancy of the affordable housing development for ICP and RIPA project types. This change will allow projects to expand transit connectivity to certain communities while other eligibility and scoring criteria will indicate any awarded projects are still quality infill development.

- Home Ownership Average Affordability: Staff proposes adjusting the required average affordability of units in homeownership projects to be 80 percent, and increase from the previous requirement of 50 percent. This change in affordability will increase the ability of homeownership projects to meet Program requirements and be economically viable. Homeownership is a powerful tool for lifting families out of poverty, though the Program

received no such applications in Rounds 2 and 3. Further evaluation of AHSC homeownership criteria will occur ahead of the fifth funding round.

Eligible Costs

- Air Pollution Exposure Mitigation Programs: Staff proposes making educational outreach and mitigating strategies for reducing air pollution exposure eligible for AHSC funding. Some possible routes to do so could include proposing a Supplemental Environmental Project or Community Air Protection Program to CARB. This change supports the Program's statutory objectives of reducing air pollution and improving public health.

- Transit Pass Contribution to Program Costs Cap: Staff proposes that costs associated with free or subsidized transit passes for residents of affordable housing units no longer count toward the maximum funding allowed for AHSC Programs. Proposals with large housing developments would sometimes see their entire Program budget consumed by transit passes, leaving no room for other programming to increase transit ridership, active transportation use, or now reduce air pollution exposure.

- Employment Outcomes Reporting: Staff proposes that applicants can budget up to two percent of their total funding request for reporting on employment statistics. CARB's 2018 CCI Funding Guidelines require employment outcome reporting for projects above a given threshold. AHSC Program staff are conducting research to determine the process for reporting employment statistics for AHSC awards and anticipate that some of the cost will be borne by awardees. Applicants will rely upon their own experience with similar reporting to determine their expected cost.

- Workforce Development Programs: Staff proposes making workforce development programs eligible for AHSC funding. Existing scoring criteria already incentivize projects to include workforce development programs and the 2018 CCI Funding Guidelines now make these programs an eligible cost for GGRF programs.

Program Threshold Requirements

- Air Pollution Exposure Education: All affordable housing developments funded by AHSC are now required to provide outreach and education on the potential health impacts of air pollution. While certain infrastructure can mitigate air pollution, air pollution is currently present in most infill sites. Behavioral changes can have a large impact at reducing individual exposure to air pollution. All developments are also required to consistent with applicable building codes, which includes higher efficiency filtration requirements in 2019.

- Definition of *infill site*: All AHSC Projects must preserve natural and working lands by utilizing *infill sites*. Staff proposes that the definition of *infill site* now require three sides of the property be surrounded by developed urban uses instead of the previous 75%. This change will allow some projects in rural communities with non-uniformly shaped parcels to be eligible for funding.
- CEQA and NEPA Appeals Period: AHSC projects now have an additional thirty days beyond the application due date for any CEQA and NEPA periods for filing an appeal or lawsuit to end. If an appeal or lawsuit is filed, the application will be disqualified. This

change opens the possibility for more projects to apply without interfering with the application review process.

Scoring Criteria

Overall, scoring criteria remain largely consistent with those used in Round 3. Three distinct sections constitute the competitive scoring process:

1. **Greenhouse Gas (GHG) Reduction Scoring - 30 points**: Projects will be assessed on both their overall GHG reduction and the cost efficiency of those reductions. Details on quantifying GHG reduction are included in the Draft Guidelines in the GHG Quantification Methodology (QM).

2. **Quantitative Policy Scoring – 55 points**: This section includes a variety of AHSC policy objectives, framing these goals in more precise, quantified measures and requiring applicants to submit concrete evidence to receive relevant points.

3. **Narrative-Based Policy Scoring – 15 points**: This section allows the applicant to demonstrate their unique approach to meeting critical AHSC program goals. Applicants will provide responses to four prompts related to collaboration & planning, community benefits & engagement, community climate resiliency, and community air pollution exposure mitigation.

Staff proposes the following changes to scoring criteria from the Round 3 Guidelines.

- Green Building Scoring: Proposals will only be awarded points for achieving CalGreen tier 2, LEED Gold, Green Point Gold rating, or ENERGY STAR Certified Home for residential housing construction. Previously, applicants were awarded for achieving lower tiers of ratings as well. Changes reflect the increased stringency to which all multifamily residential developments will be held in light of the recently updated California Building codes. Total points available in this category are now three, down from five.

- Urban Greening Scoring: Projects will now be rewarded one point for at least $100,000 in urban greening costs and a total of two points for costs that reach $200,000. Street trees, public parks, community gardens, urban landscaping, and low impact development all offer multiple benefits related to health, community perception, and in some cases transit and active transportation accessibility. This expands on the existing threshold requirement that all projects contain at least two urban greening components.

- Length of Walkway Measurement: Scoring of the length of safe and accessible walkway improvements differ in the following ways:

Round 3 Guidelines	Round 4 Guidelines
1 point for an entire block	1 point for 1,000 to 1,999 feet

2 points for more than an entire block but less than a half mile	2 points for 2,000 to 2,999 feet
3 points for greater than a half mile	3 points for >3,000 feet

Using feet as a metric is more accessible to measurement as block faces are not standard. The guidelines also now explicitly states that only repaired, improved, or new sidewalks are eligible for scoring.

- *Key Destination* Scoring: Proposals receive points for linking transportation and affordable housing developments to certain *key destinations*. This definition previously included medical centers, schools, grocery stores, and child care centers, but now also includes pharmacies, public parks, and public libraries. There is an additional point available in this section, up from two to three, with each destination earning one-half point.

- Resident Anti-Displacement Strategy Implementation: The guidelines now state that certain resident anti-displacement strategies are only able to be implemented by a local jurisdiction in order to earn points rather than implemented by either a local jurisdiction or developer. This change reflects the fact that housing developers are not able to effectively implement certain strategies such as inclusionary zoning ordinances or foreclosure assistance.

- Business Anti-Displacement Strategies: In order to incentivize progressive action and not rely solely on existing policies, proposals will now only receive full points if at least one business anti-displacement strategy is newly implemented through the AHSC project. Example strategies include establishing a small business advocacy office, local goods procurement program, and prioritizing contracting to Minority and Women Business Enterprises.

- Prior Program Operator Experience Scoring: The guidelines no longer award one-half point for demonstrating operator experience of proposed program funding. Previous awarding of this point incentivizes applicants not to try new programming, which could lack other funding sources and be more effective than alternative programs. The half point is now awarded to proposals that display how the program operator will sustain the program beyond the terms of AHSC funding, which is three years.

- Collaboration and Planning Narrative: Proposals are no longer awarded two points for demonstrated alignment with their region's Sustainable Community Strategy as this is already a threshold requirement of the AHSC Program. Program staff will engage with MPOs during the upcoming year to explore how to expand on this consistency requirement.

- Community Engagement Narrative: In explaining efforts to engage local residents in project planning, applicants must now describe efforts to specifically engage Disadvantaged and/or Low-Income Community residents and how meetings were made

accessible. Additionally, applicants will fill out a community engagement tracker which asks for information about the impact and accessibility of outreach events.

- Climate Adaptation Narrative: In describing the potential impacts of climate change to their project area, applicants must detail projections for temperature and extreme heat, precipitation, sea level rise and inundation, and wildfires. The COSMOS tool from USGS is listed as an additional reference for gathering information on sea level rise. Requiring applicants to include information on projected climate change impacts enables consideration of associated risks in the proposed project and future developments.

- Community Air Pollution Exposure Mitigation Narrative: In this new section, applicants must identify PM2.5, diesel PM, toxic releases to air, and traffic density percentiles in the project area as described in CalEnviroScreen. Three points are now available to proposals that identify strategies that will be used in the project to mitigate air pollution exposure to project area residents. The guidelines list resources with exposure mitigation strategies. Every AHSC project reduces air pollution by decreasing dependence on fossil fuels, but proposals are now rewarded for taking further steps to protect the health of project area residents.

Reporting Requirements

- Employment Outcome Reporting: CARB's *Funding Guidelines for Agencies that Administer California Climate Investments*, requires reporting on employment statistics for CCI projects over $1 million. This requirement would apply to all AHSC projects but, due to the overlap between AHSC Guidelines revisions and *Funding Guidelines* adoption, only projects already collecting employment outcome information and select others will be required to report. Information collected from awardees will include the number of jobs provided, total work hours, average wages, job training credentials, employment term (e.g. Full time, seasonal), and job quality metrics (e.g. insurance, annual leave) across job classifications and priority population groups. All AHSC awardees in future rounds will be required to report employment statistics.

Performance Requirements

- Housing Development Construction Timing: AHSC guidelines now state that extensions of up to two years may be provided for the approximately two and five years provided to begin and complete construction, respectively, of the affordable housing development. Extensions will be granted at the discretion of SGC's Executive Director and failure to comply with mandated timelines will result in negative points assessed to the developer's future AHSC applications. This change reflects multiple requests received in previous rounds for extension of these timelines resulting from a mixture of external and likely preventable circumstances. While completion of these projects in a timely manner is paramount, the Council should not continue to award funds to developers that cannot meet proposed timelines.

Clarification and Standardization

- The Round 3 Guidelines underwent major rewriting and organizational changes from the previous year. The Round 4 Final Draft Guidelines clarify many definitions and requirements and are formatted more consistently. This is an effort to make the AHSC

Program Guidelines easier to read and understand, avoid redundancy, and clearly articulate criteria and expectations.

AHSC Round Four Estimated Timeline:

✓	**Round 3 Feedback Workshops**	**July 17th-19th, 2018**
✓	**Draft AHSC Round 4 Guidelines Posted**	**August 24th, 2018**
	Final AHSC Round 4 Guidelines Adopted	**October 29th, 2018**
	NOFA Released	**October 31st, 2018**
	Application Workshops and Consultations	**November 7th-15th, 2018**
	Applications Due	**February 11th, 2019**
	Awards Announced	**June 2019**

Recommended Action:

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