



CITY OF EAST PALO ALTO AFFORDABLE HOUSING STRATEGY

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★ WORKPLAN – Attached

EAST PALO ALTO AFFORDABLE HOUSING STRATEGY

SUMMARY of GOALS + WORKPLAN

1 | Adopt the Strategy.

Establish a 5-Year commitment to developing affordable housing, 1/1/19 – 12/31/23, using a variety of methods and available resources.

2 | 500 New Units. During the life of the Strategy, the City will have completed, under construction, or approved 500 net new units of deed-restricted affordable housing.

2b | Local Preference Working Group. Work collaboratively to establish a reasonable local preference to facilitate anti-displacement efforts.

3 | 200 Preserved Units. During the life of the Strategy, the City will have preserved and extended deed-restrictions on 20 units of existing affordable housing.

5 | Re-establish the City's Inclusionary Housing Ordinance.

In consideration of recent legislative changes, the Housing Impact Fee and Inclusionary Housing Programs will be clarified and potentially modified to provide direction and transparency for future affordable housing development.

4 | 80 Housing Opportunities for the Homeless.

The City will increase housing opportunities for formerly homeless residents by a total of 80 during the five (5) years of the Strategy – 30 Safe Parking + 10 additional opportunities per year.

6 | 50 Additional 2nd Units. The City will increase the number of approved Accessory Dwelling Units (ADU) by 10 per year for each of the five (5) years of the Strategy.

9 | Transparency + Reporting. To demonstrate responsible stewardship and a commitment to developing the City's potential housing resources, staff recommends a series of reporting actions that will lead to transparency and regular coordination with decision-makers, partners, and the community.

7 | 50 Housing Rehabilitations or Solar/Electric Vehicle Installations for Single Family Owner-Occupied Homes.

The City will utilize Housing Rehabilitation Programs and partnerships to increase the number of single-family home rehabilitations and/or installations of solar energy systems & EV charging stations.

8 | Add Capacity for Stewardship + Monitoring of the City's Affordable Housing Assets.

Through an RFP Process, a contracted entity will ensure ongoing monitoring and overall stewardship of the City's existing portfolio of affordable housing.

10 | Increase City's Voice in Housing Advocacy Efforts.

Play a larger role in policy/advocacy to expand and preserve affordable housing in East Palo Alto, and to provide constructive solutions for the larger regional problem.

INTRODUCTION

Purpose of the Plan

The purpose of East Palo Alto's Affordable Housing Strategy (the Strategy) is to align resources, ensure a unified strategic direction, and facilitate community partnerships to achieve a shared vision of housing affordability. The Strategy recommends that the City of East Palo Alto (the City) focus its limited affordable housing funds into the development of new, deed-restricted affordable housing. Further, the Plan outlines potential regulatory changes and other creative approaches that the City and community partners could utilize to increase the production of affordable housing.



In addition to the specific goals and policies articulated in the Strategy, this document also describes the recommended actions that will make it possible for staff to implement the Plan.

Need

The City's substantial affordable housing needs result largely from two factors: 1) the low incomes of East Palo Alto renter households, and 2) the high cost of housing in the market area. Key data points that inform our Plan include:

- Renter households account for approximately 65% of all households in the City.
- More than one-third of renter households in the City have incomes at or below 30% of the Area Median Income (AMI), or \$39,500 for a four-person household (2018).
- Nearly two-thirds of renter households in the City have incomes at or below 50% of AMI, or \$65,800 for a four-person household (2018).
- Nearly three-quarters of the City's households earning less than 30% AMI (1,240 households) are severely cost burdened, meaning that they pay more than 50% of their gross income on housing costs (rent plus utilities).
- Nearly three-quarters of households earning between 30% and 50% of AMI are severely cost-burdened (445 households).

Average City rents are well above those affordable to most residents, even for those households that earn 100% AMI. The average monthly market rent for a one-bedroom unit (\$2,383) is approximately \$200 per month more than a household at 100% of AMI can afford, and the average two-bedroom rent of \$3,000 is nearly \$500 more than a household at 100% of AMI can afford. There are very few three-bedroom rental units.

The baseline data for affordable housing incomes is the Average Median Income data for the County. The County AMI is required to be used by all affordable housing financing sources. However, the incomes in East Palo Alto are lower than those in the County. According to the CENSUS, the median household income in San Mateo County is \$98,546, and \$55,170 in East Palo Alto. In response to this, the City has traditionally required units at the 30% AMI level to provide deeper levels of subsidy.

Guiding Principles

When drafting the Strategy, Staff identified the need to articulate the values that will guide the development of the City’s goals and implementation of the recommended actions. These guiding principles are details below:

<p>Empathy</p>	<p>Every resident of East Palo Alto deserves access to decent, safe, and sanitary housing. Although East Palo Alto does not have the financial resources or developable land to build housing for every resident, our efforts to explore all potential options must be driven by a belief that all residents have the same rights to housing and a compassionate concern for their needs.</p>
<p>Anti-displacement</p>	<p>Anti-displacement/gentrification is a major concern for East Palo Alto’s residents and the City Council. The Strategy outlines several strategies and objectives that can help provide housing opportunities to current residents of East Palo Alto, including local preference, thereby preventing displacement.</p>
<p>Opportunity + Investment</p>	<p>East Palo Alto has limited financial resources to invest in many of the community development and public infrastructure activities that other jurisdictions routinely fund. To help in this area, the Strategy outlines how the development of new affordable housing may serve as a catalyst for the City to secure both Federal and State funding to improve the public infrastructure surrounding an affordable development.</p>
<p>Equitable, Integrated, + Diverse Communities</p>	<p>The Strategy outlines several policy considerations for the City Council to consider that would lead to a more integrated and diverse community.</p>
<p>Transparency</p>	<p>As the Strategy is implemented, it is imperative that the public, affordable housing developers, local non-profit organizations, and other stakeholders are kept apprised of the City’s progress. The City is committed to:</p> <ul style="list-style-type: none"> ▪ Providing the City Council and community with periodic updates on the Strategy’s progress and will devote a page on the City’s website that will report results in real time. ▪ Being transparent with both revenues and expenditures spent and received so that development partners may evaluate potential risks of developing additional affordable housing communities in East Palo Alto.

Structure of the Strategy

CURRENT LANDSCAPE FOR AFFORDABLE HOUSING

The Strategy is based on an understanding of current opportunities in both developing affordable housing and maximizing those opportunities to meet the current need. The section considers: State funding opportunities; Affordable Housing and Sustainable Communities (“AHSC”) funding; existing funding sources for affordable housing; potential revenue sources for affordable housing; and a projection of the total funding potentially available for the development of affordable housing in East Palo Alto.

GOALS + ACTIONS

The Strategy describes an ambitious set of goals that may enable the City of East Palo Alto to increase the supply of housing that is affordable to residents and improve the critical systems that make more housing available. Each goal is explained and further defined through a number of specific recommended actions that will lead to achieving the intended outcome.

WORKPLAN

The recommended actions comprise an actionable workplan that will advance the City of East Palo Alto’s affordable housing goals over a projected 5-year period. The East Palo Alto Affordable Housing Strategy Workplan Schedule is attached to the Strategy, providing a snapshot of quarterly goals and target dates for completion.

CURRENT LANDSCAPE for AFFORDABLE HOUSING

To address the need for affordable housing, the City may leverage many opportunities, including existing local funding, potential new revenues, and legislative actions that could yield even greater support and resources.

State Funding Opportunities

The California State Legislature and Governor Brown responded to the State’s housing crisis by passing/signing fifteen bills in a landmark housing package (September 15, 2017) and adopting a state budget that increases funding for affordable housing (2018-19). In addition, the California Legislature is considering dozens of proposed bills related to affordable housing during its current legislative session.

The most relevant bills and budget actions are described below:

Legislation	Description
SB 2	Senate Bill (SB) 2, the Building Homes and Jobs Act, provides a “permanent source” of funding for affordable housing by imposing a \$75 fee on each recorded document up to a maximum of \$225 per transaction per parcel, estimated to generate \$200 to \$300 million annually, statewide.
SB 3	Senate Bill (SB) 3 places a bond measure on the November 6, 2018, ballot to raise \$3 billion for existing state affordable housing programs and \$1 billion for the veterans’ home purchase program.
SB 35	Senate Bill (SB) 35 creates a streamlined approval process for housing in cities that are not meeting their state-mandated housing goals. The goal of SB 35 is to expedite the construction of critically needed housing, including affordable housing.
AB 1505	Assembly Bill (AB) 1505: (1) explicitly authorizes cities and counties to adopt ordinances that require, as a condition of the development of residential rental units, that the development include up to 15% of residential rental units to affordable- to moderate-income, lower-income, very low-income, or extremely low-income households; (2) clarifies the Legislature’s intent to supersede the court decision in <i>Palmer v. City of Los Angeles</i> , thereby making inclusionary housing requirements apply to rental developments; and (3) requires any such ordinance to provide alternative means of compliance, such as in-lieu fees, land dedication, off-site construction, or acquisition/rehab of existing units.
CA Budget Package 2018-19	One-time funding in the amount of \$500 M for Emergency Homeless Aid Block Grants. The breakdown is as follows: <ul style="list-style-type: none"> • \$350 M to Continuums of Care using the HUD formula • \$150 M to jurisdictions with populations over 330,000

Affordable Housing and Sustainable Communities (“AHSC”) Funding

The Affordable Housing and Sustainable Communities (AHSC) or “Cap and Trade” program was established with the passage of Senate Bill 182 to implement Assembly Bill 32; the California Global Warming Solutions Act 2006. The purpose of the AHSC Program is to reduce Greenhouse Gas (GHG) emissions through coordinated projects that implement land-use, housing, transportation, and urban greening or land preservation practices supporting infill and compact development near transit. Projects awarded funding through this highly competitive grant program, are only the most viable and impactful statewide and must support a broad array of coordinated public policy objectives.

The City is well-positioned to meet the requirements of the AHSC program, which would lead to an increase in revenue to fund the development of affordable housing, as well as other public infrastructure. Developers seeking City funding will be expected to pursue AHSC funding in an effort to minimize the City’s investment in each project.

Existing Funding Sources for Affordable Housing

The City manages various sources of funding that are dedicated to the development of affordable housing. These funding sources have different funding requirements and restrictions that the City must adhere to and enforce. Generally speaking, most funds earmarked for affordable housing must be used on capital expenses or the administrative costs associated with delivering affordable housing.

Source	Amount
Housing In-Lieu Fees	\$6,242,000
Transient Occupancy Tax (TOT) Set aside	\$1,547,700
Low Mod Successor Agency Funds	\$606,500
Catalyst Housing Fund (Facebook Settlement)	\$10,000,000
Housing Assistance Funds	\$291,800
Total	\$18,688,000

At this time, the City controls approximately **\$18,600,000** that may be utilized to produce and preserve deed-restricted affordable housing in the City. This amount does not include the value for the City-owned 965 Weeks Street parcel.

Potential Revenue Sources for Affordable Housing

The City manages two primary revenue sources, which are anticipated to increase the City’s available funding for affordable housing over time: 1) the Commercial Linkage Fee; and 2) the Housing Impact/In-Lieu Fee. The impacts of the recently expired water moratorium, having limited development throughout the City for several years, present a challenge in predicting the amount of new revenue and the timeframe in which it will be generated.

Projecting impact fee revenue is challenging because of the uncertainty of development due to market conditions, and the impact fees are adjusted over time. Due to the potential variances between the projected and actual revenues, staff will update these revenue projections on a regular

basis. A 10-year projection is used for impact fee collection because the timing of development is uncertain.

Staff are processing environmental review documents for approximately 1.62 million square feet of new office development. There are reasons to be cautious about projecting the timing of new office development in East Palo Alto. In the past 14 years, East Palo Alto has developed approximately 200,000 square feet of new office space; the current economic expansion has lasted longer than any on record, and there currently is 6 million square feet of office under construction in San Mateo County and Santa Clara County. Based on past and current economic factors, staff recommends a conservative assumption that approximately 40% (650,000 square feet) of the proposed new office developments will be built in the next 10 years. Assuming an affordable housing commercial linkage fee of \$10.72 per square foot, the new office development could generate approximately \$7 million. It is also estimated that the existing affordable housing impact fee on residential projects could generate conservatively \$4 million in 10 years.

The TOT Set Aside is an ongoing source based on the level of TOT collection. Also, Measure HH, if approved by the voters on the November 6, 2018 ballot, will generate ongoing potential resources for affordable housing. The impartial ballot analysis indicates that if approved by the voters, Measure HH could generate approximately \$1.6 million per year for job training programs and affordable housing. These sources will be included in future revenue projections, as specific information becomes available.

Total Funding for Development of Affordable Housing

By combining both the existing funding sources (\$18,688,000) and future revenue sources from new development (\$11,000,000), the City may anticipate up to **\$29,688,000** on the development of new affordable housing units during the next 10 years.

The goal of 500 units will require significant other local, philanthropic, regional, State, and Federal affordable housing resources.

GOALS + ACTIONS

GOAL 1 | Adopt the Strategy.

The Affordable Housing Strategy will be defined as a 5-Year commitment to developing affordable housing, during the period of January 1, 2019 to December 31, 2023, utilizing available funding sources and anticipated revenue.

As described above, the City has the unique opportunity to leverage funds for affordable housing – existing funds, anticipated revenue, County resources, and potential funding resulting from State legislative actions. To effectively utilize these funding opportunities and ensure that the City is well positioned to receive outside funding for projects, it is imperative that the City develop a pipeline of affordable housing developments.



By establishing a 5-year Strategy, staff will have the direction necessary to engage with affordable housing developers, funders, financial institutions, neighborhoods, and other stakeholders to identify potential sites that could be developed for affordable housing. Development of a pipeline will streamline processes and expedite the production of new affordable units that meet the need of the East Palo Alto community.

GOAL 2 | 500 New Units.

During the life of the Strategy, the City will have completed, under construction, or approved 500 net new units of deed-restricted affordable housing.

Based on the total anticipated revenue and funding available for affordable housing over the next five (5) years, staff recommends that the City establish an ambitious goal of completing, having under construction, or approving 500 new units of deed-restricted affordable housing.

Projects

965 Weeks | potential development of 135 units

This City has already initiated the process of identifying a partner to develop the 2.5-acre, City owned property located at 965 Weeks Street. The current estimate of 135 units is based on an understanding of the potential production that is possible on this site. Staff continues to manage the process of identifying a partner for this project, and an exact number of new units will be identified when a full proposal and funding commitment is considered.



ACTION 2.1: Identify affordable developer for 965 Weeks Street.

ACTION 2.2: Consider construction/permanent funding commitment to the 965 Weeks Project.

ACTION 2.3: Negotiate and close funding for 965 Weeks (if applicable).

Light Tree | potential increase of 91 units

Eden Housing and EPA CAN DO own the Light Tree Apartments, a 94-unit affordable housing community located at 1805 East Bayshore Road. The Light Tree Apartments was originally developed in the 1960's, and EPA CAN DO and another development partner purchased the property in 2001. In 2011, Eden Housing replaced the previous developer. Currently, the property is in desperate need of rehabilitation and, through this process, Eden Housing is seeking to intensify the development by adding up to 91 net units on the property.

Eden has approached the City regarding the possibility of obtaining appropriate funding for predevelopment to further analyze this project. It is expected that staff will return to the City Council in October/November 2018 with a recommendation to fund a predevelopment loan to Eden Housing from available funds.

ACTION 2.4: Consider predevelopment loan to Eden Housing for the Light Tree Project.

ACTION 2.5: Consider construction/permanent funding commitment to the Light Tree Project.

ACTION 2.6: Negotiate and close funding for the Light Tree Project (if applicable).

If the above opportunities to increase the supply of new affordable housing units are managed successfully, staff will need to identify opportunities to build approximately 275 additional affordable apartments to meet the City's goal of 500.

Strategies

The City may meet the 500 unit goal by pursuing creative solutions that involve partnering and developing underutilized land. Assuming an average of 50 units an acre and 70 units per project, an additional 4 projects on a total of 5.5 acres of land would be necessary, recognizing that actual densities and acreage will vary. Staff has identified the following areas of opportunities to accomplish this goal:

School District Sites

At this time, it is estimated that the Ravenswood School District controls 15-20 acres of land that could potentially be used to develop affordable housing. In addition, recent legislation has paved the way for school districts to develop housing specifically for teachers and other members of their workforce on district-controlled land.

ACTION 2.7: In conjunction with the City Council, pursue a partnership with the School District to consider the development of affordable housing on a district property; meetings with the district would occur during the first quarter of 2019.

Church Sites

Faith-based organizations also have significant land holdings in East Palo Alto. Potential partnerships with these organizations could be explored to maximize resources and develop additional affordable housing units.

ACTION 2.8: Coordinate a "Meet and Greet" between faith leaders and affordable housing developers to discuss potential partnerships and opportunities for expanding housing options using these lands during the last quarter of 2018.

Vacant Parcel at Bay and University

The City owns a small parcel at the corner of Bay and University, and Barry Swenson Builders owns the remainder.

ACTION 2.9: Coordinate with property owner and affordable housing developers and funders to maximize potential for affordable housing at this location.

Intensification of Underutilized Properties

The City controls roughly 550 acres of land that is dedicated to single family property, made up of an estimated 32 parcels that are between .5 and 2 acres and each have one single family property on them.

Although this solution would not be appropriate for every parcel in all areas of the City, the City could establish mindful policies to encourage the development of underutilized properties as multi-family affordable properties. A City commitment to flexible Zoning and General Plan considerations would empower developers to assemble two or more single family properties and a footprint large enough to achieve density in affordable housing.

ACTION 2.10: City Council will host a study session during the first quarter of 2020 to discuss intensification of underutilized properties and the Overlay Zone.

Conversion of Rent Stabilization Program Units to Deed-Restricted Units

There are approximately 2500 units in the City's Rent Stabilization Program (RSP). While, the vast majority of them are owned by Woodland Park Communities, there are individual owners who own apartment complexes that also fall under the Rent Stabilization Program. These apartment complexes are occasionally offered on the market for sale. Traditionally, Staff has strongly discouraged non-profit affordable housing developers from acquiring these apartment complexes due to concerns that there could be displacement based to income standards, occupancy standards, or immigration status.

If the City were to consider the acquisition of RSP units by affordable nonprofit developers to facilitate the conversion of these units to deed-restricted affordable units to prevent displacement, the many potential advantages and challenges to this conversion would need to be analyzed. The Rent Stabilization Board discussed this matter at its May 9, 2018, and July 11, 2018, regular meetings and decided not to support having City staff study the question and directed Staff to report back to the City Council.

ACTION 2.11: Do not pursue conversion of RSP Units to deed-restricted units at this time.

Multi-Family Underwriting Guidelines

To ensure developers who receive City-controlled funding for affordable housing projects in accordance with City goals and objectives, staff is recommending the creation of basic multi-family underwriting guidelines. The underwriting guidelines will provide developers of affordable housing with enough information to determine the feasibility of building projects in the City. The guidelines would include information such as: interest rates, payment terms, subordination, developer fee considerations, operating expense thresholds, ground lease considerations, etc.

ACTION 2.12: Establish underwriting guidelines for City sponsored affordable projects.

Processing Fees

The City incurs many costs when advancing an affordable housing project, including the investment of staff and consultant time to negotiate and close these transactions. To assist the City with recapturing some of these costs, the City could establish a per project processing fee that would be charged to the project administrative costs. This fee revenue would ensure that the City's limited housing resources remain earmarked for new developments. These fees are common in most jurisdictions and would be due and payable at the time when construction financing for the project is closed.

ACTION 2.13: Bring a processing fee recommendation to City Council prior to closing its next construction/permanent loan.

ACTION 2.14: Issue a Notice of Funding Availability or call for projects to identify new opportunities.

Financial Consultant Services

To assist staff with conducting financial analysis of potential affordable housing projects, the City will engage Financial Consultants (1-2) on an on-call basis for \$100,000 in professional services.

ACTION 2.15: Issue RFQ to identify potential financial consultants.

ACTION 2.16: Review and evaluate proposals.

ACTION 2.17: Return to City Council with a recommendation to award.

ACTION 2.18: Enter into contract with consultant(s) to provide financial analysis related to potential affordable housing development.

GOAL 2B | Local Preference Working Group.

City Council and City residents are interested in establishing a Local Preference Working Group to facilitate anti-displacement efforts through policy and specific projects. The Local Preference Working Group would work collaboratively to establish a reasonable local preference in East Palo Alto, thus creating an expectation for any developer who obtains City funding to develop affordable housing.

Staff expects that it will take up to 9 months for the working group to develop a series of recommendations and/or options for the City Council to consider. Staff would return to City Council with these recommendations before September 30, 2019.

Staff would like the City Council to provide direction regarding which organizations and/or individuals should participate in the Local Preference Working Group.

ACTION 2B.1: Establish Local Preference Working Group to establish a sound local preference policy.

ACTION 2B.2: Host periodic meetings to analyze/discuss local preference options.

ACTION 2B.3: Return to City Council with a recommended local preference for consideration.

GOAL 3 | 200 Preserved Units.

During the life of the Strategy, the City will have preserved and extended deed-restrictions on 20 units of existing affordable housing.

The City is home to an estimated 500 multifamily rental housing units that were developed using Low Income Housing Tax Credits (LIHTC). Ensuring that these properties remain as deed-restricted affordable housing requires the City to address the challenges of preserving units that reach the 15-year compliance period limit.

- After this period, limited partners are free to exit the project and, if general partners wish to continue owning and operating these properties, new investors need to be identified and committed.
- The fact that many 15-year developments require considerable repairs presents an additional challenge. Some owners may be reluctant to or unable to cover the high cost of rehabilitation in relation to the value of properties. If properties do not meet local health, safety, and building codes, they face citation and potential recapture of tax credits by the Internal Revenue Service (IRS).



As a remedy to these challenges, developers may seek new LIHTCs to rehabilitate and stabilize properties after year 15 with new investments. Otherwise, these units may be at risk of being removed from the price-restricted portfolio of affordable housing.

It is worth noting that with most 15-year transactions, the City may not be required to provide a subsidy to the developer, but the City will process all entitlements for the rehabilitation work of each property. If the City has an existing loan on a property, the City will be required to take specific legal actions to help facilitate the transaction. In some unique instances, the City may partner with a developer on a preservation deal.

Projects

Light Tree

Eden Housing has proposed to increase the density on the site by adding 91 deed-restricted units, while seeking to preserve the existing 94 units. Eden has expressed interest in securing available funding from the City to help offset the cost of developing the new 91 units on-site. Staff is working with Eden and expects to return to City Council in Fall 2018 to discuss the possibility of the City approving a predevelopment loan to assist Eden with the necessary predevelopment activities.

ACTION 3.1: Preserve 94 Units at Light Tree.

Nugent Square

Eden Housing and EPA Can Do partnered to develop the Nugent Square affordable development in 2004. The 15-year compliance period for the property concludes in January 2020 and Eden Housing has stated that it is their intent to preserve/rehabilitate the property around that time.

ACTION 3.2: Preserve 32 Units at Nugent Square.

The Courtyard at Bay Road

Community Housing Developers built the 74-unit, Courtyard Apartments at Bay Road in 2006. The 15-year compliance period for this property expires in 2021, and it is assumed that Community Housing Developers will seek to preserve/rehabilitate the property at that time.

ACTION 3.3: Preserve 75 Units at the Courtyard at Bay Road.

GOAL 4 | 80 Housing Opportunities for the Homeless.

The City will increase housing opportunities for formerly homeless residents by a total of 80 during the five (5) years of the Strategy – 30 Safe Parking + 10 additional opportunities per year.

The County of San Mateo (County) takes an active role in providing services and housing opportunities to homeless individuals and residents in East Palo Alto. Some of the services that the County funds are:



- Outreach and Engagement - the County has partnered with cities and non-profit providers to implement multi-disciplinary Homeless Outreach Teams (HOT). These teams cover the whole country geography, focus on areas with a large number of unsheltered, chronically homeless adults. The HOT program includes outreach specialists employed by LifeMoves – who conduct outreach, engage with unsheltered homeless people, work to identify their individual service needs, then develop and execute a person-centered housing plans. Many are then connected to permanent supportive housing offered by the Housing Authority.
- Emergency Shelters - Shelters offer very short lengths of stay, connections to a range of services and, in some cases, assistance developing a plan to secure permanent housing. Most County emergency shelters are congregate facilities (particularly those for single adults) or other shared living arrangements. This category of program also includes the County’s motel voucher program which pays for short term motel stays for homeless families who are waiting to access shelter or transitional housing. Providers include: LifeMoves, Samaritan Housing, Project WeHOPE, CORA, Hope and Home, the Mental Health Association, and StarVista.
- Transitional Housing - These programs are designed to offer longer stays and intensive case management to help residents make the transition to permanent housing upon exit. United States Department of Housing and Urban Development (HUD)-funded transitional housing programs are allowed to host stays of up to two years, but the majority of programs in the County are designed to be much shorter. Many of the emergency shelter programs are designed as “feeder” programs into transitional housing, with residents moving directly from emergency to transitional, sometimes within the same building. Transitional housing providers include: LifeMoves, Samaritan Housing, CORA, the Mental Health association, and StarVista.
- Rapid Re-Housing - Rapid re-housing programs provide homeless individuals and families with short term rental subsidies (up to six months) after which they take over responsibility for paying their own rent. Participants receive assistance with locating housing and time-limited case management focused on maintaining stability in housing. Currently, LifeMoves manages most of the County’s rapid re-housing programs.

- Permanent Supportive Housing - Permanent Supportive Housing (PSH) is housing that is not time-limited, provides deeply affordable rent, and offers intensive ongoing support services. PSH is designed for those homeless individuals with the most acute needs, particularly those who are chronically homeless and/or have significant behavioral disabilities. Much of the County inventory consists of Shelter Plus Care vouchers operated by the Housing Authority in which tenants rent units in the private market and receive a rental subsidy. There are also dedicated units in site-based PSH projects, including units owned and operated by LifeMoves, the Mental Health Association, and others. Staff expects the number of PSH units to increase across the County due to the recent influx of funding at the Federal and State level earmarked for housing the most vulnerable populations.
- Bi-Annual Homeless Count - The County conducts the count every two years and the results provide one source of data, among many others, to help the County and its partners assess how to best serve homeless individuals and assist them with returning to housing as quickly as possible. The results are also submitted to HUD, which then compiles information about homeless counts nationwide.

Within this context, the City must identify specific needs and solutions in relation to housing of formerly homeless individuals. In May 2017, when coordinating the most recent Homeless Count and Survey, the County identified 98 homeless individuals in East Palo Alto, which was a 3% increase compared to the 2015 count, yet represents a lower count than in previous years.

YEAR	COUNT	% CHANGE
2009	204	-
2011	385	+89%
2013	119	-69%
2015	95	-20%
2017	98	+3%

In addition, City staff conducted a survey in May 2018 to determine the number of locally parked oversized and recreational vehicles (RV). The results of that survey showed that 85 vehicles, RV's, and oversized vehicles were located in longterm residence within the City limits, indicating another urgent need for stable affordable housing.

Therefore, an achievable goal of adding 10 housing opportunities for formerly homeless residents per year will provide needed affordable housing for Extremely Low Income (ELI) individuals and households in the City.

Projects

RV Safe Parking Pilot Program

On July 17, 2018, the City Council authorized the City Manager to enter into a License and Grant Agreement with Project WeHOPE to operate an RV Safe Parking Pilot Program for a one-year term at 1798 Bay Road. The expectation of the pilot program is that Project WeHOPE will provide wraparound services and work with participants to identify long-term housing solutions.

It is expected that the RV Safe Parking Pilot Program were serve up to 20 individuals at any given time. However, with Project WeHOPE providing on-site services, the City's goal is to house at least 30 individuals/families in 2019.

ACTION 4.1: Finalize agreements with Project We Hope for the Safe Parking Program.

ACTION 4.2: Complete site improvements for the Safe Parking Program.

ACTION 4.3: Implement safe parking program with Project We Hope.

Strategies

County Coordination

As described above, the County oversees the majority of resources and programs that respond to homelessness in the region. However, to ensure that homeless residents in the City receive as many available services as possible, staff recommends additional, intentional coordination between the City and County. As a result, City staff will increase engagement and knowledge of current local activities, including quarterly County results that may be shared with City Council and potential gaps that may benefit from City involvement.

ACTION 4.4: Coordinate with the County to monitor homeless activity.

GOAL 5 | Re-establish the City's Inclusionary Housing Ordinance.

In consideration of recent legislative changes, the City's Housing Impact Fee and Inclusionary Housing Programs will be clarified and potentially modified to provide direction and transparency for future affordable housing development.

The City currently has two affordable housing programs that may apply to new planning applications for residential developments: the Inclusionary Housing Ordinance and Housing Impact Fee. However, the fact that both programs may be applied to any new development creates confusion and uncertainty for both developers and the City.

Inclusionary Housing Ordinance

The City has a long history of administering an Inclusionary Housing Ordinance. The City's inclusionary program generally requires that, in market-rate developments of 5 or more units, 15% of the units be made affordable to income eligible buyers/renters. Further, the Inclusionary Housing Ordinance provides alternative ways that the developer may meet this requirement, including payment of an in-lieu fee and construction of affordable units off-site.



Housing Impact Fee

In response to *Palmer v. City of Los Angeles*, which prohibited the assessment of inclusionary requirements on new rental developments, the City Council adopted Resolution 4539, which adopted a Housing Impact Fee to be assessed on new, market-rate housing (July 2014). The Housing Impact Fees for FY 2018-19 are assessed as follows:

- Rental Units - \$25.35 sq/ft
- Single-Family Infill (Ownership) - \$36.22 sq/ft
- Townhome (Ownership) - \$34.78 sq/ft
- Stacked/Flat Condos (Ownership) - \$50.98 sq/ft (outside RBD); \$67.62 sq/ft (inside RBD)

The Housing Impact Fee is codified in the East Palo Alto Municipal Code, Chapter 18.38- Affordable Housing Impact Fee- Residential Development.

It is worth noting that the City's current Housing Impact Fee Program does allow developers of for-sale housing to build 20% of the project's number of units as moderate-income on-site rather than pay the Housing Impact Fee. However, due to the structure of the Housing Impact Fee program, the value of the collected Impact Fee per square foot is insufficient to replace the value and cost of additional on-site units.

The total of Impact Fees collected will not be enough to produce a sufficient number of units; not close to achieving the 20% that is offered as an alternate in the Housing Impact Fee Program. Therefore, it is highly likely that developers will elect to pay the Impact Fee rather than building any

on-site units. In addition, this option does not ensure that any units would be restricted as affordable for low-, very-low, or extremely-low income residents.

Staff recommends that City Council re-establish an Inclusionary Housing Ordinance, which could include an in-lieu fee option, in place of the current Housing Impact Fee Program. City Council direction and input is critical for staff to develop a new inclusionary program that produces both on-site units and resources that are sufficient to build additional affordable housing.

California Assembly Bill (AB) 1505

AB 1505 was introduced on February 17, 2017. The legislation:

1. Explicitly authorizes cities and counties to adopt ordinances that require, as a condition of the development of residential rental units, that the development include up to 15% of residential rental units to affordable to moderate-income, lower-income, very low-income, or extremely low-income households;
2. Clarifies the Legislature’s intent to supersede the court decision in *Palmer v. City of Los Angeles*, thereby making inclusionary housing requirements apply to rental developments; &
3. Requires any such ordinance to provide alternative means of compliance, such as in-lieu fees, land dedication, off-site construction, or acquisition/rehab of existing units.

On September 29, 2017, the Governor signed AB 1505, which went into effect on January 1, 2018. As a result, the City may now impose an Inclusionary Housing obligation on all new residential developments.

City Council has expressed interest in establishing a new Inclusionary Housing Ordinance that would govern for both rental and for-sale development, and staff recommends a process below to establish this new/updated Ordinance. In the meantime, for the sake of clarity, staff recommends that the current Housing Impact Fee schedule govern for any developments that pull building permits before the new/updated Ordinance is established.

Strategies

Study Session on Inclusionary Housing and Housing Impact Fee Programs

City Council may schedule a Study Session to review options and provide clarification and direction regarding the City’s Inclusionary Housing and Housing Impact Fee Programs. Following this discussion, staff would return to Council with a comprehensive set of recommendations.

ACTION 5.1: City Council to host a Study Session first or second quarter 2019.

ACTION 5.2: Return to City Council with options regarding how the new Inclusionary Housing Ordinance could be structured.

ACTION 5.3: Finalize changes to the Inclusionary Housing Ordinance.

ACTION 5.4: Draft comprehensive program guidelines for the Ordinance.

GOAL 6 | 50 Additional 2nd Units.

The City will increase the number of approved Accessory Dwelling Units (ADU) by 10 per year for each of the five (5) years of the Strategy.

Since 2014, zoning amendments allowed the City to facilitate greater 2nd Unit development, and the City has approved approximately 80 ADUs. Currently, Rebuilding Together Peninsula is utilizing funds from Facebook to convert several garages to create safe living environments for some of the City's most vulnerable families. Staff feels that ADUs and, more specifically, garage conversions provide opportunities to create additional housing options in the City. However, their small scale and individual nature do not create the economies of scale provided by developing affordable apartments. When compared with other types of affordable development, garage conversions are more cost effective, on average, at approximately \$25,000 per unit.

Projects

2nd Unit Task Force

The City Council created the 2nd Unit Task Force in 2016 to seek ways to minimize displacement, encourage legal 2nd Units, and facilitate the transition of 2nd units without permits into compliance. The Taskforce has met several times since May 2017, and several project applications are currently under consideration.



Accomplishments to date include:

- ✓ Updated the City Ordinance to allow maximum 30 days before vacating a red tagged unit
- ✓ Organized and did outreach for two community informational meetings to describe the planning and building requirements for second units
- ✓ Presentation on Anti Displacement Services from El Concilio
- ✓ Presentation on Code Enforcement Best Practices from San Mateo County Health Department
- ✓ Presentation on Code Enforcement from Christopher Gale, former East Palo Alto Chief Building Official
- ✓ Prepared a Draft Scope of Work (RFP) for Anti Displacement Assistance
- ✓ Presentation on Report from Displaced Tenants Workgroup
- ✓ Presentation from Josh Abrams, from 21 Elements on encouraging ADUs
- ✓ Discussion of Draft Priorities and recommendations

ACTION 6.1: Convene 2nd Unit Task Force to finalize recommendations to the City Council.

ACTION 6.2: Continue to convene the monthly ADU Check-In meetings in which City Staff, Rebuilding Together, and community stakeholders meet to discuss specific ADU projects.

Strategies

Work with the Housing Trust of Silicon Valley

The Housing Trust of Silicon Valley's (Housing Trust) newest pilot program - Small Homes, Big Impact - will bring to life the affordable homes made possible by California SB 229 and AB 494. ADUs present an innovative opportunity to add affordable rental homes in the City, as their small size allows them to be built on existing sites that are otherwise unsuitable for larger multifamily developments, and their construction costs are lower than most housing types.

Small Homes, Big Impact guides homeowners through the many steps it takes to actually complete an ADU. Through workshops, homeowners are taught everything they need to know from site analysis, to construction, to renting their ADU, including becoming a landlord – potentially one that must follow affordability restrictions. After completing workshops, eligible homeowners will be able to apply for financial support in the form of a grant to cover site assessments and loans for construction.

City staff has been in contact with the Housing Trust and is in preliminary discussions for the Housing Trust to host an ADU workshop this year.

ACTION 6.3: Hold an ADU workshop/meeting by the end of 2018; conduct extensive outreach to all potential communities and interested parties.

Identify potential funder to support ADU and garage conversions

Although there is significant activity in the area of developing ADUs, a dedicated funding source to fund ADUs and garage conversions would be beneficial. Staff recommends that the City seek funding to create a local resource for City-specific garage conversions and a qualified partner to manage the fund.

ACTION 6.4: Identify potential funding sources for ADUs and garage conversions.

Goal 7 | 50 Housing Rehabilitations or Solar/Electric Vehicle Installations for Single Family Owner-Occupied Homes.

The City will utilize Housing Rehabilitation Programs and partnerships to increase the number of single-family home rehabilitations and/or installations of solar energy systems and electric vehicle (EV) charging stations.

At this time, non-profit organizations are actively working to provide housing rehabilitation services to long standing City residents who own their home but are not able to afford to correct critical, life-threatening issues within their home.

Housing Rehabilitation programs were commonly offered by local governments when Redevelopment funding was available. The programs are labor-intensive but serve a critical need. Ideally, the City would not administer a program moving forward, but would work with non-profit partners to increase funding for these activities in East Palo Alto.



Habitat for Humanity of Greater San Francisco established a program in the City that targets residents who have owned their home for longer than 10 years. With a significant increase in activity over the past two years, Habitat for Humanity has assisted 50 income-eligible owners in East Palo Alto with

critical home repairs of items such as aging or damaged roofs, siding, plumbing, and appliances. In addition, Habitat for Humanity has completed repairs on 10 community facilities in East Palo Alto.



Grid Alternatives (GRID) has utilized funding from Facebook, and the Chan Zuckerberg Initiative (CZI) has installed solar systems for 32 income eligible households in East Palo Alto. In addition, GRID has secured additional funding to install up to 15 EV charging stations for eligible families in East Palo Alto and Menlo Park.

Strategies

Philanthropic Support for Owner-Occupied Home Rehabilitation Activities and Installation of Solar Energy/EV Charging Systems

Staff has identified a number of potential philanthropic options that could lead to additional funding for increasing the number of housing rehabilitation projects and installation of solar energy/EV charging systems in owner-occupied homes in the City.

ACTION 7.1: Identify potential philanthropic funders for increasing owner-occupied rehabilitation and solar/EV projects.

GOAL 8 | Add Capacity for Stewardship + Monitoring of the City's Affordable Housing Assets.

Through an RFP Process, a contracted entity will ensure ongoing monitoring and overall stewardship of the City's existing portfolio of affordable housing.

The City's affordable housing stock is comprised of two types of units: home ownership units subject to resale restrictions; and rental units subject to a regulatory agreement.

Home-Ownership Units

The current stock of affordable homeownership units may have been provided as a result of former Redevelopment Agency assistance or market rate developer obligations to create a certain number of inclusionary units. These homeownership units typically have a resale restriction agreement between the City (as the successor to the former Redevelopment Agency) and the homeowner. The resale restriction agreement regulates the price at which the homeowner may resell the property and gives the City an option to purchase the home if the homebuyer is selling the home. The homeownership units would typically also have a promissory note in favor of the City and a deed of trust securing the note. In some instances, the City has multiple promissory notes and deeds of trust because the City provided down payment assistance loans, closing cost loans, and purchase price assistance loans. The homeowner's specific obligations will depend upon the form of Resale Agreement that the former Redevelopment Agency used with each project.

Since 2011, when the City eliminated several positions tied to the City's affordable housing program, the affordable units referenced above have not been monitored in a comprehensive fashion. Therefore, when owners of the inclusionary homes need assistance with a refinance, loan subordination, or to sell their unit to an income eligible purchaser, the City's ability to facilitate the transaction is limited.

Rental Units

Most of the rental units were assisted by the former Redevelopment Agency, and, as a condition of that assistance, the project owners are required to maintain a certain number of the rental units affordable to very low-, low- or moderate-income households. The exact number of required affordable units and the affordability levels are set out in the regulatory agreement.

The City currently has four rental projects with affordable housing units that are restricted by regulatory agreements. All of the developments were assisted with Redevelopment Agency funds. Under the Redevelopment Law, which remains in effect and applies to the City as the housing successor to the former Redevelopment Agency, the City is required to monitor Redevelopment Agency assisted affordable housing. For rental housing, the regulatory agreements for the developments require that the property owners submit an annual monitoring report to the City. The annual report must include a statistical report, detailing household size, income, and rent. Each of the existing Regulatory Agreements includes the date by which the annual report must be submitted.

Peninsula Park

The Peninsula Park project was funded in part by mortgage revenue bonds issued by the City, authorized by the California Debt Limitation Allocation Committee (“CDLAC”). Under the terms of the CDLAC allocation, the City is required to submit information to CDLAC regarding the continued affordability of the units at Peninsula Park annually. The owner of Peninsula Park, BRIDGE Housing Corporation, is required to submit quarterly reports to the City regarding compliance with the bond covenants (January 1, April 1, July 1, and October 1), in a form that is attached to the Bond Regulatory Agreement. Based on these reports, the City is required to complete a compliance certification required by CDLAC, using CDLAC’s online system (2016).

Strategies

To build capacity for affordable housing stewardship and monitoring, the City could issue a Request for Proposals (RFP) to identify an organization to assist with monitoring and overall stewardship of the City’s affordable housing portfolio. The selected entity would be responsible for:

- Conducting the necessary research to ensure the City has all relevant legal documents for each transaction;
- Annual monitoring; and
- Coordination of each transaction, including refinances, sales, etc.

For rental developments, the selected entity would:

- Submit their report within 45 days of the end of each fiscal year. For Bay Oaks, the annual report is due on June 30th of each year; for Peninsula Park, the annual report is due on March 30th of each year; for Nugent Square Apartments the annual report is due no later than March 30th of each year.

Upon receipt of the annual report, the City should review to ensure that the project is in compliance with the requirements of the regulatory agreement. The City is not required to verify the information provided by the project owner, but some cities do occasionally review the property owners’ records to ensure that the reports are accurate. The review may consist of reviewing a sampling of tenant files rather than a complete review.

ACTION 8.1: Issue RFQ to identify potential partners.

ACTION 8.2: Review and evaluate proposals.

ACTION 8.3: Return to City Council with a recommendation to award.

ACTION 8.4: Enter into contract with consultant to administer the existing BMR Program.

Goal 9 | Transparency + Reporting

To demonstrate responsible stewardship and a commitment to developing the City’s potential housing resources, staff recommends a series of reporting actions that will lead to transparency and regular coordination with decision-makers, partners, and the community.

ACTION 9.1: Create a dashboard that will track all the goals and objectives of the Strategy; update and post to the City’s website on a quarterly basis.

ACTION 9.2: Provide semi-annual formal updates to the City Council.

ACTION 9.3: Report updated status of revenues and expenditures related to affordable housing developments.

GOAL 10 | Increase City's Voice in Housing Advocacy Efforts

The housing crisis is created by other cities and the region developing more jobs than housing units. Controlled for size, East Palo Alto is a leader in the provision of affordable housing. East Palo Alto also experiences the housing crisis acutely through displacement, homelessness, overcrowding, and overpayment for housing. East Palo Alto needs to play a larger role in housing policy and advocacy to expand and preserve the affordable housing in East Palo Alto, and to provide constructive solutions for the larger regional problem.



ACTION 10.1: Support local, county, regional, state, and federal legislation that will expand affordable housing. Explore options to address the root of the housing crisis such as making balanced job growth a CEQA finding.

ACTION 10.2: Pursue local, philanthropic, county, regional, state, and federal affordable housing funds to support East Palo Alto's goal of 500 net new affordable rental units.

ACTION 10.3: Comment on relevant local General Plans and other development plans that exacerbate the housing crisis.

ACTION 10.4: Explore opportunities to increase capacity of tenants in East Palo Alto to be constructively engaged in affordable housing efforts.

ACTION 10.5: Increase East Palo Alto's efforts to be active participants in the public dialogue regarding the housing crisis through speaking engagements, op-eds, and other methods.