



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Rosalynn Hughey

SUBJECT: SEE BELOW

DATE: February 23, 2024

Approved

Date

2/28/24

SUBJECT: APPLICATION TO THE CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT FOR A FUNDING AWARD THROUGH THE PROHOUSING INCENTIVE PROGRAM

RECOMMENDATION

Adopt a resolution authorizing the City Manager or her designee to apply for and execute documents required for receipt of a funding award of up to \$2,000,000 through California's Prohousing Incentive Program.

SUMMARY AND OUTCOME

Approval of this request will authorize City staff to apply to the State of California Department of Housing and Community Development's (HCD) Prohousing Incentive Program (PIP). A copy of the PIP Prohousing Incentive Program application to HCD is included in the **Attachment - Draft San José Prohousing Incentive Program Application**.

A successful PIP application is dependent upon HCD's confirmation that San José received its Prohousing Designation, which in turn requires a certified Housing Element. The state certified the City's 2023-2031 Housing Element on January 29, 2024. The City applied for the Prohousing Designation on June 29, 2023 and received news on February 20, 2024 that it was successful. PIP is one way in which the Prohousing Designation could provide the City with a competitive advantage for hundreds of millions of dollars in state funding over time. The City is eligible for an award of up to \$2,000,000 in PIP funds in the current competitive round of funding.

This action would enable staff to apply for funding and would enable the City Manager or her designee to execute grant documents required by the state if the City's PIP application is successful. Funds then would be appropriated through a separate City Council action or as part of the City's budget development cycle.

BACKGROUND

In 2017, former Governor Jerry Brown signed the Building Homes and Jobs Act of 2017 (Senate Bill 2). This legislation established a source of ongoing revenues for local governments to increase the supply of affordable homes in California. The source of funds comes from a state \$75 recording fee on documents for certain types of real estate transactions. Because the number of real estate transactions recorded in each county varies from year to year, total revenues collected statewide fluctuate.

On June 20, 2023, City Council approved a resolution authorizing staff to apply for the state's Prohousing Designation Program.¹ Staff submitted the City's initial application on June 29, 2023 and have worked cooperatively with HCD staff to provide sufficient information to qualify for the Prohousing Designation.

On January 23, 2024, HCD released a Notice of Funding Availability for Round Two of PIP awards in the amount of \$4,800,000. PIP is designed to encourage jurisdictions to obtain a Prohousing Designation, which is required to apply for state funding.

Five percent of annual collections under Senate Bill 2 are deposited into a fund to be used for the state's incentive program. PIP awards funds based on an applicant's Prohousing Designation Program score as codified in that program's regulations.²

Round Two of PIP funding provides awards for applicants to use towards a range of planning and implementation activities related to housing and community development. The deadline to apply for PIP Round Two funding is March 15, 2024 and the deadline to obtain a Prohousing Designation to be eligible for this round of PIP funding is March 30, 2024.

On January 29, 2024, HCD certified San José's 2023-2031 Housing Element. A certified housing element and submission of timely annual progress reports on the Housing Element are required to receive a Prohousing Designation.

On February 20, 2024, HCD notified the City that it achieved the state's Prohousing Designation with a preliminary score of 52 points, pending HCD's final internal review, and that the City was eligible to apply for PIP Round Two funding.

Another requirement for PIP funding is compliance with state and federal housing laws as determined at the sole discretion of HCD. If the City were to be deemed out of compliance with

¹ File no. 23-934, June 20, 2023:

<https://sanjose.legistar.com/LegislationDetail.aspx?ID=6250664&GUID=A24D624A-4D5B-4A86-8FB2-3BC97ED8490A&Options=&Search=>

² California Code of Regulations Title 25 Housing and Community Development, Division 1, Chapter 6, Subchapter 6.6, Sections 6600 through 6608, Consecutive Prohousing Designation Program.

housing laws in the future, it would lose eligibility for the PIP funds and disbursed funds may need to be repaid.

ANALYSIS

Prohousing Incentive Program Award Guidelines

PIP awards are based on a jurisdiction's size and Prohousing Designation score. San José is eligible for a base award amount of \$1,500,000, based on its population, and a bonus award of \$500,000 based on the City's Prohousing Designation score. In other words, the City is eligible to receive up to \$2,000,000 if its final Prohousing Designation score is competitive in PIP Round Two. San José's application must compete for funds against other eligible Bay Area cities applying in Round Two and then may also have to compete against other applicants in a residual set-aside funding pool.

Eligible Prohousing Incentive Program Activities

Eligible applicants can receive grant funding to be used towards any planning or implementation of eligible activities related to housing and community development as listed below:

- 1) Predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, rental housing that is affordable to extremely low-, very low-, low-, or moderate-income households, including necessary operating subsidies;
- 2) Affordable rental and ownership housing (including accessory dwelling units) that meets the needs of a growing workforce earning up to 120 percent of area median income, or 150 percent of area median income in high-cost areas;
- 3) Matching portions of funds placed into local or regional housing trust funds;
- 4) Matching portions of funds available through the Low- and Moderate-Income Housing Asset Fund;
- 5) Capitalized reserves for services connected to the preservation and creation of new permanent supportive housing;
- 6) Assisting persons who are experiencing or at-risk of homelessness, including, but not limited to, providing rapid rehousing, rental assistance, navigation centers, emergency shelters, and the new construction, rehabilitation, and preservation of permanent and transitional housing;
- 7) Accessibility modifications in lower-income owner-occupied housing;
- 8) Efforts to acquire and rehabilitate foreclosed or vacant homes and apartments;

- 9) Homeownership opportunities, including, but not limited to, down payment assistance; and,
- 10) Matching funds invested by a county in an affordable housing development project in a city within the county.

In addition, any staff time associated with using the funds can be charged as project delivery costs, while up to five percent of the award can be used for general administrative costs related to the delivery of eligible activities. If PIP funds are awarded, the final date that the City could request disbursement of funds from the state is March 30, 2026.

City of San José – Proposed Prohousing Incentive Program Application

Staff recommends applying for funds under eligibility category six in the list above, “Assisting persons who are experiencing or at-risk of homelessness.” The use would be partially funding operations costs for the City’s bridge housing and emergency interim housing communities. Currently, there are six bridge and interim housing communities (and a seventh under construction), and supporting their ongoing operations costs continues to be a challenge. While the City is also in need of additional funds for affordable housing development, developments have a longer timeframe that could make it difficult to meet the state’s disbursement request deadline. In addition, \$2,000,000 is a small portion of the total amount the City would need to amass to fund one additional affordable housing development. Using these funds for bridge housing and emergency interim housing operating costs would ensure their timely use.

Upon City Council approval of staff’s recommendation, staff will submit a PIP application. HCD will notify jurisdictions of awards in May 2024. Staff’s recommendation aligns with several policy priorities. It is consistent with the City Council’s Reducing Unsheltered Homelessness Focus Area. It also is consistent with the City’s *2023-2031 Housing Element* work item H-1 Interim Housing Construction which includes the need to seek ongoing state or federal funding for operations.³ This action is also consistent with General Plan Policy H-2.7, “Support strategies in collaboration with other jurisdictions and agencies to end homelessness...” as well as the *Community Plan to End Homelessness 2020-2025*.

Racial Equity Impact Analysis

Pursuing PIP funds for use in the City’s homelessness response will benefit San José residents experiencing homelessness. According to the City’s 2023 Point-in-Time Count, residents experiencing homelessness are disproportionately Black and Hispanic⁴ as compared to their presence in the City’s overall population. Therefore, the City should spend available resources to

³ See Housing Element Chapter 3, Item H-1: <https://www.sanjoseca.gov/your-government/departments-offices/planning-building-code-enforcement/planning-division/citywide-planning/housing-element/2023-2031-draft-housing-element>.

⁴ 2023 Point-in-Time Count Homeless Census, <https://www.sanjoseca.gov/your-government/departments-offices/housing/resource-library/homeless-reports/homeless-reports-executive-summary>.

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stabilize its residents disproportionately disadvantaged by the systemic causes of local homelessness. According to the Point-in-Time Count, these causes include job loss, evictions, domestic violence, and high housing costs.

EVALUATION AND FOLLOW-UP

Updates on the use of these funds for bridge and interim housing operations will be provided in the Administration's quarterly updates on the City Council Focus Areas and updates on the Implementation Plan for the Community Plan to End Homelessness.

COST SUMMARY/IMPLICATIONS

If PIP funds are received, City Council would approve the appropriation of funds either under a separate appropriation request or as part of the City's budget development process for fiscal year 2024-2025.

COORDINATION

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.

PUBLIC OUTREACH

This memorandum will be posted on the Housing Department's website and City's Council Agenda website for the March 12, 2024 City Council meeting.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project, File No. PP17-004, Government Funding Mechanism, or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.

/s/

ROSALYNN HUGHEY
Deputy City Manager and
Acting Housing Director

For questions, please contact Kristen Clements, Division Manager, Housing Department, at (408) 535-8236.

Attachment – Draft San José Prohousing Incentive Program Application

**Attachment – Draft San José Prohousing
Incentive Program Application**

**Prohousing Incentive Pilot
(PIP) Program**

2024 Application for Local Governments



**State of California
Governor, Gavin Newsom**

**Melinda Grant, Undersecretary
Business, Consumer Services and Housing Agency**

**Gustavo Velasquez, Director
Department of Housing and Community Development**

**Megan Kirkeby, Deputy Director
Division of Housing Policy Development**

Final Filing Date: March 15, 2024

2020 West El Camino Avenue, Suite 500, Sacramento, CA 95833

Website: <https://www.hcd.ca.gov/grants-and-funding/programs-active/prohousing-incentive-program>

Email: ProhousingIncentive@hcd.ca.gov

Prohousing Incentive Pilot (PIP) Program Application Instructions

The applicant is applying to the Department of Housing and Community Development (Department) for a grant authorized under the provisions pursuant to Health and Safety Code Section 50470(2)(C)(i). PIP is designed to encourage cities and counties to achieve Prohousing Designation. Please refer to the PIP Guidelines and 2024 Notice of Funding Availability (NOFA) for detailed information on eligible uses and awards. If you have questions regarding this application or the PIP Program, email prohousingincentive@hcd.ca.gov.

If approved for funding, the PIP application is incorporated as part of your Standard Agreement with the Department. To be considered for funding, all sections of this application, including attachments if required, must be complete and accurate.

Threshold Requirements

In order to be considered for funding, all applicants must submit a complete, signed application to prohousingincentive@hcd.ca.gov by March 15, 2024. Pursuant to Section 202 of the PIP Guidelines, all applicants must meet the following threshold requirements to be eligible for funding:

X	An adopted housing element in substantial compliance, as determined by the Department, pursuant to Housing Element Law (Article 10.6 of Gov. Code) in accordance with Government Code section 65585, subdivision (h).
X	Housing Element Annual Progress Report submittal pursuant to Government Code Section 65400 for the current or prior year, as applicable.
X	Prohousing Designation: An awarded or completed Prohousing Designation Application with an authorizing resolution must be submitted prior to or in conjunction with the Applicant's PIP Application. PIP Awards cannot be made until a Prohousing Designation is awarded.
X	A complete application as determined by the Department.
X	An authorizing resolution authorizing submittal of the application to the Program that materially comports with the Program's requirements and is legally sufficient as determined in the Department's reasonable discretion, including an authorized representative. See Attachment B of the PIP Guidelines for required resolution format.
X	Compliance with state and federal housing laws as determined by the sole discretion of HCD.

Demonstration of meeting threshold criteria shall be determined by the Department in its sole and absolute discretion. No documentation of meeting threshold requirements is required in the application unless requested by the Department.

Applicant Information

Applicant	City of San Jose		
Applicant Agency Type	City government		
Mailing Address	200 E. Santa Clara St., 12th Floor		
City	San Jose	Zip Code	95113
County	Santa Clara		
Website	https://www.sanjoseca.gov/your-city		
DUNS Number	063541874		
TIN	94-6000419		
Authorized Representative Name	Rosalynn Hughey		
Authorized Representative Title	Deputy City Manager and Acting		
Phone	408-535-3500	Fax	
Email	rosalynn.hughey@sanjoseca.gov		
Contact Person Name	Kristen Clements		
Contact Person Title	Division Manager		
Phone	408-535-8236	Fax	
Email	kristen.clements@sanjoseca.gov		

As the official designated by the governing body (authorized representative above and in resolution), I hereby certify that, if approved by HCD for funding through PIP, the applicant assumes the responsibilities specified in the NOFA and certifies that the information, statements, and other contents contained in this application are true and correct.

Signature		Date	
Name	Rosalynn Hughey	Title	Deputy City Manager

Eligible Uses

Eligible Applicants must use award funds towards any planning or implementation activities related to housing and community development including, but not limited to, any eligible uses pursuant to Health and Safety Code section 50470(b)(2)(D), as described below. Please indicate which of the following the applicant will use award funds toward:

	(i) The predevelopment, development, acquisition, rehabilitation, and preservation of multifamily, residential live-work, rental housing that is affordable to extremely low, very low, low-, and moderate-income households, including necessary operating subsidies.
	(ii) Affordable rental and ownership housing that meets the needs of a growing workforce earning up to 120 percent of area median income, or 150 percent of area median income in high-cost areas.
	(iii) Matching portions of funds placed into local or regional housing trust funds.
	(iv) Matching portions of funds available through the Low and Moderate Income Housing Asset Fund pursuant to subdivision (d) of Section 34176 of the Health and Safety Code.
	(v) Capitalized reserves for services connected to the creation of new permanent supportive housing, including, but not limited to, developments funded through the Veterans Housing and Homelessness Prevention Bond Act of 2014.
X	(vi) Assisting persons who are experiencing or at risk of homelessness, including providing rapid rehousing, rental assistance, navigation centers, emergency shelters, and the new construction, rehabilitation, and preservation of permanent and transitional housing.
	(vii) Accessibility modifications.
	(viii) Efforts to acquire and rehabilitate foreclosed or vacant homes.
	(ix) Homeownership opportunities, including, but not limited to, downpayment assistance.
	(x) Fiscal incentives or matching funds to local agencies that approve new housing for extremely low, very low, low-, and moderate-income households.

Summary of Proposed Activities

Objective	Responsible Party	Est. Cost	Begin	End	Eligible Use Category	Statement of Work Plan	Notes
<i>Operations of bridge and interim housing</i>	City of San Jose	2,000,000	7/1/2024	3/30/2026	vi	Fund a portion of operating costs for the City's existing and new interim housing communities for the homeless.	

Award Amount

Click the dropdown menu to choose a jurisdiction. The geographic category and base award will auto-populate. If the jurisdiction has obtained Prohousing Designation at the time of PIP application submittal, enter in the Prohousing Designation applicant score. Population projections are based on the Department of Finance E-1 Jan 1, 2023 estimates.
<https://dof.ca.gov/Forecasting/Demographics/estimates-e1/>

Jurisdiction Name	San Jose	Eligible Base Award	\$	1,500,000
Geographic Category	Bay Area	Bonus Award Amount:	\$	500,000
Prohousing Designation Application Score	52	Total Award	\$	2,000,000