Attachment C

Federal, State and Local Housing Programs

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FEDERAL FUNDING SOURCES
There are three ways that the federal Department of Housing and Urban Development (HUD) provides assistance in the development of affordable housing: capital investment, rental assistance, and mortgage insurance.

In addition, the Internal Revenue Service and the Treasury Department provide Low-Income Housing Tax Credits to investors as an incentive to development.

Capital Investment: Grants and Loans
There are two federal grants through the Department of Housing and Urban Development: the Supportive Housing Program and the Section 811 Supportive Housing for the Disabled Program.

The Supportive Housing Program provides funding for transitional housing (up to 24 months) and for permanent housing for people with disabilities. These funds may be used for acquisition, rehabilitation, or new construction. The grants are competitive on a national basis and the grant cycle is once a year. Matching funds are required.

The Section 811 Program provides aid in the form of non-repayable capital advances which may be used to finance the acquisition, construction or rehabilitation of housing to be used as supportive housing for very low (less than 50% of area median income) persons with disabilities (long term and limits his/her ability to function independently). Section 811 programs do not pay for supportive services.

The HOME Investment Partnership Program (HOME): is a grant made to states. In California it is administered as a revolving loan fund for the development of low income housing including transitional housing. Funds may be used for acquisition and rehabilitation of housing for families with low or very low incomes. HOME is available to public jurisdictions who can then utilize the repayment funds for their own loan fund; or nonprofit Community Housing Development Organizations whose repayments return to the State of California. Matching funds are required.

Community Development Block Grants (CDBG): are also federal funds that are administered through the states. Funds may be used for housing rehabilitation loans and grants, nonprofit housing construction, rehabilitation or construction of shelters, including transitional shelters, infrastructure and code enforcement. Grants are competitive within the state and both cities, counties and nonprofits may apply for a maximum of $500,000. Match advisable.

Farmers Home Administration (FmHA), Section 515 Rural Rental Housing Loans: provides loans to fund the purchase, construction, an/or rehabilitation of apartment style housing for very-low, low-, and moderate income housing. Funds also can be used to purchase land and pay for necessary infrastructure. Housing must remain available for low income tenancy for up to 20 years. Section 515 projects are eligible for interest subsidies to bring the effective interest rate down to 1 percent (Interest Credit Plan II).

Section 8 Moderate Rehabilitation Assistance for Single Room Occupancy Dwellings (SRO): provides funds on an annual (for 10 years) contributions contract with public housing authorities (PHA) to make rental assistance payments to owners of rental property who rent rehabilitated SRO units to homeless people. The incentive to landlords is that the cost of rehabilitation can be reflected in the contract rents which are calculated to include the costs of owning, managing, and maintaining the property. Funds are awarded to local PHA's through a nationwide competition.

Rental Assistance:
Another way of providing affordable housing is to enhance the ability of the low income renter to pay for rent that would be otherwise unaffordable. The following are programs currently available through the Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA):

Section 8 Certificates and Vouchers: pay that portion of the rent that exceeds 30 percent of their household income. Section 8 certificates can only be used if rents are at or below Fair Market Rent. Households with vouchers can supplement their vouchers with their own income and rent housing higher than Fair Market Rent.

Currently, Section 8 certificates and vouchers are granted to households and transfer with the householder if they move to another area, thus diminishing the local stock.

Shelter Plus Care Program: provides either Tenant-, Sponsor- or Project-based Rental Assistance for five years. The program is designed to link federally provided rental assistance with locally supplied supportive services for the families of hard-to-serve persons: with disabilities, chronic problems with alcohol/drugs, or AIDS. Funding is competitive nationwide, once a year.

Rural Rental Assistance Payments - Section 521: assists low-income families whose rents at FmHA-financed (Section 515) rural rental or rural cooperative housing projects amount to more than 30 percent of their adjusted annual income. Normally, no more than 40 percent of the units in a Section 515 project may receive rental assistance payments. It does, however, offer the developer additional assistance in providing affordable units.

Mortgage Insurance:
Mortgage Insurance for Single-Room Occupancy (SRO) Projects:
This program insures loans made by private HUD-approved lenders by guaranteeing up to 100 percent of the banks replacement costs if the borrower is a nonprofit organization or public entity; and up to 90 percent if the borrower is profit-motivated. The insurance may cover the cost of acquisition and rehabilitation of the SRO housing.

Low Income Housing Tax Credit
The Tax Reform Act of 1986 authorized a tax credit for residential rental property that qualifies as low-income housing. The credit is offered to investors on the cost of acquisition, rehabilitation or construction and they may obtain the credit each year over a ten year period. Investors use these tax credits to reduce taxes due on income from other sources.

Typically, the sponsor is a for-profit partnership, structured so the tax benefits flow through to the limited partners (corporations or individuals) who put up the money. However, nonprofit Housing Development Corporations may act as the general partner, while the limited partner puts up the money. The non-profit can take the money received from the investors and add it to other sources of funding to make up the financing package needed to develop a project.

If a public/private housing partnership develops and functions successfully, they will be eligible for:

Fannie Mae Foundation's Partnership Enrichment Program:
This program provides operating support of $50,000 to $100,000 to selected partnerships for up to three years.

STATE OF CALIFORNIA FUNDING SOURCES
California Housing Rehabilitation Program - Rental Component (CHRP-R): This program provides low-interest (3%) deferred loans for rehabilitation, purchase and rehabilitation, conversion (to residential), or reconstruction of an existing structure. Projects for very-low income persons are prioritized. Sponsors may be for-profit or non-profit organization, and any individual or public private entity capable of entering into a legally enforceable contract.

Rental Housing Construction Program: This program provides loans through local housing agencies for the development of rental units by private, non-profit or public agency sponsors. The loan period is 40 years with repayment beginning after 30 years. At least 2/3 of all units must be for very low income households. There is a 20% set aside for rural areas.

Low-Income Housing Tax Credit: This program is designed to complement the federal low-income housing tax credit. Currently funds are available for new construction tax bond projects.

PRIVATE CORPORATION AND FOUNDATION FUNDING SOURCES
Community Development Loan Funds: These are non-profit corporations that receive loans from a variety of individual and institutional investors, on terms set by the investors, and in turn lend these funds to community based housing, business and service projects - with priority given to projects that address the needs of very low-income people.

They combine traditional financial skills with knowledge of low-income communities and so can provide the technical assistance required to help their borrowers (community based programs) make effective use of the loan funds.

Some lend exclusively to housing projects, some to cooperatives; but most loan to a broad range of development projects. There is one such fund in California: the Low Income Housing Fund. Others, such as the Institute for Community Economics (ICE) of Springfield, Massachusetts and the McAuley Institute, of Silver Springs, Maryland (projects involved in housing for women and children), will work with sponsors in California.

Private Foundations:
There are three private foundations, providing funds to this area, which fund acquisition, building and renovation of low-income housing. With the high cost of housing development, any private foundation funds would be a match or a piece of a financial package.

S.H. Cowell Foundation, San Francisco: averages $20,000-$100,000 grants and $550,000 for loans. Applications accepted on and ongoing basis. Grantees must wait 5 years to re-apply.

Hedco Foundation, Oakland: give only 23 grants with high of $470,000 in grants. The board meets in November. Gives predominantly to qualified educational and health services; but, does also give to social services.

Springhouse Foundation, Sausalito: only has $55,500 for grants. Support for farm and wilderness camps, housing and homelessness. Board meets October 15.

There are also private foundations that will fund various aspects of service programs, including the local Humboldt Area Foundation. References for these foundations can be accessed through The Foundation Directory, published by The Foundation Center.

In order to identify specific sites appropriate for the models proposed in this Element, it is necessary to address the social and zoning issues that impact these decisions. First one must Identify permitted zones where sites might be found, and then gain community involvement and support in choosing specific parcels or properties.

Article 34 Referendum

Article 34 of the California constitution requires that state and local agencies obtain voter approval before they develop, construct, or acquire a low rent housing project. An article 34 referendum is required only if three narrowly defined factors are found to exist: (1) a public body which (2) develops, constructs, or acquires (3) a low rent housing project. If all three factors are not present, Article 34 is not applicable. Court opinions and legal interpretations have restricted the applicability of the Article 34 requirement.

Some of numerous opinions and interpretations which help clarify and narrow the scope of the Article 34 requirement follow:

1. Article 34 does not require countywide elections. Referenda may be limited to affected cities or unincorporated areas.

2. Lease-purchase agreements by low-income persons in a project owned or developed by private developers, with Section 23 subsidies from a Housing Authority, do not require Article 34 approval.

3. Razing and reconstruction substantially the same number of public housing units on the same site is not subject to Article 34.

4. Referendum approval is not necessary for cooperative ownership developments of low income families.

5. The use of Marks-Foran long term low interest loans to owners of property for rehabilitation loans does not require an Article 34 approval.

While for most programs Article 34 should not be an obstacle, a referendum would be required for any development financed by the California Housing Finance Agency in which more than 49% of the occupants are low income, or for any development built by or for a housing authority.

Non-profit Housing Development

A non-profit housing development (corporation) (HDC) is a corporation created specifically to promote, assist or sponsor housing for low and moderate income people. A non-profit HDC does not build public housing. Rather, it builds or rehabilitates privately-owned housing for people who cannot afford market rate housing but whose incomes are generally above the poverty level. Non-profit Housing Development Corporations (HDC) can build housing for families, the elderly and the handicapped. HDC's may build rental housing, or they may sponsor limited equity cooperative housing. (Eligibility Code 4 identifies major funding sources from State and Federal grants and loans to non-profit entities which undertake qualified housing programs.)

Land banking

Land banking is the purchase of developable land by a jurisdiction for future use. Sources of funds for land banking have usually come from a jurisdiction's community development block grant (CDBG), although money from a community's general fund can and has been used. Many jurisdictions have used land banked sites to provide affordable housing for low and moderate income people. There are two variations of the land banking process. A developer may go to the locality with a parcel in mind and the locality will buy it for the developer. Alternatively, the community may choose a parcel and keep it until a developer comes along to build on it. In this case, the jurisdiction has several options regarding control of the site. The most obvious is outright purchase, but this may not be the best way for the locality to use the funds set aside for land banking.

Other options include: the option to purchase, at a stated price under stated conditions; the option of first refusal, under which the property owner agrees to notify the community in case an offer is made by a second party to purchase the land; and a lease, which is useful if the property owner is unwilling to sell but is willing to develop the land. Sources of funds for land banking have usually come from a jurisdiction's community development block grant (CDBG) monies, although money from a community's general fund can and has been used.

Limited Equity Cooperatives

A limited equity cooperative provides low and moderate income residents with the opportunity for affordable home ownership. In a limited equity co-op, like a market rate co-op, the residents form a non-profit corporation which has as many shares as there are units in the building. The units may be converted from an existing rental building, or a new building may be constructed as a limited equity cooperative.

To live in a co-op, the residents purchase a share by making a down payment. The residents' monthly payment is their share of the mortgage payment plus the costs of utilities and maintenance. A share entitles co-op members to the use of common areas and their dwelling unit. While they do not own their dwelling unit, co-op members may deduct their share of interest and tax payments when filing tax returns because they are part owners of the building.

Limited equity co-ops differ from market rate co-ops primarily in that the cost of buying a share in a limited equity co-op is generally measured in the hundreds rather than thousands of dollars and can rise only a certain amount each year. The point of limiting the equity build-up is to remove the units from market forces (unlike market rate co-ops, as well as from the rent increases of a profit owner (unlike most rentals). Thus, the dwelling is kept permanently affordable to low and moderate income people.

Mortgage Revenue Bonds

Tax exempt mortgage revenue bonds are a source of funds which may be used to raise money for mortgage insurance and mortgage loans. The money that is generated by the bonds can then is issued at below market rates, for both single family owner-occupied homes and multi-unit rental housing. The loans may be used for rehabilitation or new construction. Outstanding mortgage loans are collateral for the bonds; housing finance agencies are created to issue such bonds, but other agencies, such as housing authorities, local governments, redevelopment agencies, and the state may also do so. The interest rate on the mortgage loans issued by these agencies is usually around 1-1/4% above the interest rate paid to bondholders. Private lenders originate the loans, sell them to the city or agency, and service the loans. Private lenders collect a portion of the 1- 1/4% for their services.

State law gives cities and counties authority to issue tax exempt mortgage revenue bonds under a number of programs including AB 1355 (owner- occupied), AB 665 (multi-family rental), Marks-Foran (rehabilitation), SB 1149 (employee housing) and AB 604 (seismic safety rehabilitation). Redevelopment agencies can issue both Marks-Foran bonds and SB 99 bonds (residential construction and rehabilitation). Housing authorities may also issue Marks-Foran bonds as well as tax exempt bonds for purchase of homes by low income households and rehabilitation and new construction of multi- family rental housing.

Limited Density Owner-Built Rural Dwellings

The state housing law authorizes cities and counties to adopt special standards for owner-built housing in rural areas. (Title 25, Chapter 1, subchapter 1, Article 10 of the California Administrative Code). The standards, also known as Class K, allow for innovative construction techniques that do not necessarily meet current, state adopted code standards applicable to most housing. The structures need not be connected to electrical service or include traditional sewage disposal systems. In approving owner built housing, the local building officials must insure the protection of the public's and the occupants' health and safety while exercising broad discretion.