



# CITY COUNCIL AGENDA STATEMENT



February 2, 2021

File ID: 20-0529

## TITLE

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AUTHORIZING THE CITY TO BECOME A MEMBER OF THE CALIFORNIA COMMUNITY HOUSING AGENCY (“CALCHA”); SUPPORTING CALCHA’S ISSUANCE OF TAX-EXEMPT BONDS FOR THE PRODUCTION, PRESERVATION AND PROTECTION OF ESSENTIAL MIDDLE-INCOME RENTAL HOUSING; AND AUTHORIZING THE CITY MANAGER TO ENTER INTO PURCHASE OPTION AGREEMENTS WITH CALCHA FOR ESSENTIAL MIDDLE-INCOME RENTAL HOUSING CREATED WITHIN CITY LIMITS

## RECOMMENDED ACTION

Council adopt the resolution.

## SUMMARY

The California Community Housing Agency (CalCHA) is political subdivision of the State specifically created to provide, preserve, and support housing production for moderate-income, also known as middle-income, households throughout the state. CalCHA partners with local jurisdictions to issue governmental purpose revenue bonds to finance the acquisition or development of rent-restricted rental communities for moderate-income households earning 80-120% of Area Median Income (AMI). By providing below-market rents and capping annual increases, CalCHA benefits the middle-income work force who are not eligible for traditional affordable housing programs for lower-income households yet are often priced out of the communities where they work.

## ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

## BOARD/COMMISSION/COMMITTEE RECOMMENDATION

The Housing Advisory Commission recommended participation in the CALCHA program at its meeting on January 13, 2021.

## DISCUSSION

Housing affordability is an increasing issue in California and has been a high priority of the City Council throughout the housing crisis. There are currently affordable housing programs funded by the City that create rental opportunities for low-and moderate-income households, such as the City’s Balanced Communities Policy of the Housing Element (also known as “Inclusionary Housing”). However, because of

the structure of State and federal funding sources, as well as the State Density Bonus Law, affordable rental housing targets almost exclusively lower-income households, particularly those with incomes below 60% of AMI. While the Chula Vista Housing Authority was established for the purpose of facilitating the development of affordable housing, its role is limited by California law governing Housing Authorities (California Health and Safety Code (HSC) 34312) to providing financing for those housing projects serving households at or below 80 percent of AMI or lower income households. This leaves little resources available to the City to assist middle- to moderate-income households in Chula Vista and these households constantly priced out by the housing market.

The California Community Housing Agency (CalCHA) is a fairly new joint powers authority, created in January 2019 to address the needs of those moderate- to middle-income households. CalCHA began acquiring property in Northern California and has since expanded throughout the State and recently into Southern California with the cities of La Mesa, Carson and Glendale. CalCHA would specifically create rental housing opportunities in Chula Vista for households earning between 80% and 120% of AMI. In San Diego County, this equates to an annual income between \$92,400 to \$138,600 for a household of four, per the California Tax Credit Allocation Committee’s 2020 maximum income levels. Through its Essential Middle-Income Rental Housing Program (Program), CalCHA acquires existing market- rate apartment communities through the issuance and sale of its own governmental purpose bonds. These complexes are then converted to rent-restricted units for moderate- to middle-income households earning no more than 120% of AMI; therefore, assisting the ‘missing middle’ that the Chula Vista Housing Authority cannot. Existing tenants are not displaced, but all new tenants would need to income-qualify. It is expected that all housing units will become compliant with the affordability requirements within one to two years, as leases expire, and new incoming tenants are able to participate in the Program.

The City’s participation in the Program would bring the possibility of increased affordable housing opportunities to the City that is not dependent on local subsidy and would provide rental housing affordable to middle income renters, who often do not have access to rent regulated affordable rental housing at their income level. Rents on affordable units created through this Program would be capped at a maximum of 35% of the applicable percentage of AMI, and annual rent increase percentages are also capped at a maximum of 4%, well below the limits allowed with Assembly Bill (AB)1482, known as State Rent Control. Effective January 1, 2020 AB1482 brought changes to tenant protections in California. These include limits to rent increases to no more than two per year and capping rent increases to 5% plus inflation, but no more than 10% per year.

To date, the following jurisdictions are members of CalCHA:

Carson	Larkspur	Napa
Dublin	Livermore	Rancho Cordova
Fairfield	Marin County	Santa Rosa and
Glendale	Menlo Park	Walnut Creek
Hayward	Morgan Hill	
La Mesa	Mountain View	

Since its inception in January 2019, CalCHA has acquired four assets within four differing communities, totaling more than \$550 million of acquisitions/conversions.

- 1) Annadel Apartments in Santa Rosa (390 units),
- 2) Verdant at Green Valley in Fairfield (286 units),
- 3) Serenity at Larkspur in Larkspur (342 units), and
- 4) The Arbors in Livermore (162 units).

For the Program to acquire properties in Chula Vista, the City would first need to become a member of CalCHA. Becoming a member requires approval by the City of the Joint Powers Authority Agreement (Attachment 1). Once that process is completed, any properties identified are brought forward to City staff for preliminary approval to allow CalCHA to move forward with acquisition of the property. Upon mutual agreement of the City and CalCHA, the City would need to sign a Purchase Option Agreement for the property.

Between years 1 and 15, there is no obligation or City involvement with the acquired property. The Purchase Option Agreement allows, but does not obligate, the City to purchase the property between years 15 and 30 of the bonds. To maintain affordability beyond 30 years, the City could acquire the property or assign its purchase option to a non-profit housing corporation. If the City elects not to exercise its purchase option, CalCHA maintains the right to sell the property after Year 30, at which time all net sale proceeds would be granted to the City. The City would receive any surplus cash flow from the property during the life of the bonds. The City has the option of directing any revenues it may receive from the Program to be used for affordable housing. The City would not be a direct party to the real estate transaction or financial transaction. The bonds issued by CalCHA for a project are payable solely out of the revenues and receipts derived from the project being financed and are not obligations of the City.

Any fiscal impact would occur in the future if, and when, the City exercised its right under a Purchase Option Agreement to purchase a property from CalCHA. Staff would analyze any such purchase and report to the City Council for their consideration. The Purchase Option Agreement does not create an obligation on the part of the City to purchase or acquire the property. Should any property acquired through the Program generate income through surplus cash flow or a one-time sale, the City would receive the generated income. Becoming a member of CalCHA does not diminish or remove the City's authority to continue issuing bonds for housing affordable to lower income households.

#### **DECISION-MAKER CONFLICT**

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

#### **CURRENT-YEAR FISCAL IMPACT**

There are no financial expenditures, liabilities, or obligations created by joining CalCHA.

#### **ONGOING FISCAL IMPACT**

There are no ongoing impacts to the General Fund. CalCHA's Program is implemented at no cost to the City.

## **ATTACHMENTS**

1. CalCHA's Joint Exercise of Powers Agreement and First Amendment
2. Purchas Option Agreement Template

*Staff Contact: Dania Gonzalez, Management Analyst*