October 31, 2014

Ken Alex, Chair
Mike McCoy, Executive Director
Strategic Growth Council
1400 Tenth Street
Sacramento, CA 95814

Re: Draft Guidelines for the Affordable Housing and Sustainable Communities Program

Dear Chairman Alex and Director McCoy:

We thank you, the Council, Council staff, HCD and other members of the working group for the tremendous amount of effort that has been invested in the development of this landmark program. On behalf of the Rural Smart Growth Task Force, we submit these comments.

While we are pleased with the Council's effort to expand flexibility of the program and promote equitable access to program funds across the many geographies of this diverse state, the AHSC program, even with the ICP program as currently drafted, falls short with respect to extending the benefits and opportunities of this program to California's small cities and rural communities. Given the Council's commitment to ensuring geographic distribution and fair access to funds, we submit these critiques and recommendations. We look forward to future conversation and collaboration to develop a program that truly leverages the strengths of all of California's communities.

<u>Need for a set-aside to ensure robust participation from all regions of the state:</u>
After reviewing the draft AHSC guidelines, we see the potential of the ICP program to address concerns raised in previous correspondence. **However, we maintain that fair geographic distribution will not occur without a set-aside for rural communities and small cities.** Though the ICP program allows for funding opportunities beyond traditional TOD projects, the overall standards continue to make it difficult for rural areas to compete. While we offer further comments below in an effort to remedy some of the most salient barriers, we are unconvinced

that any changes short of a set-aside will ensure all California geographies can equitably compete and be represented in project selection. We therefore recommend a 15% set aside for rural areas.

Greater flexibility with respect to GHG and VMT reductions in the ICP Program:
While we understand the emphasis on VMT reduction given the SGC's commitment to further GHG reduction through land use investments, greater flexibility should be granted to ICP housing projects to demonstrate GHG reduction as required by statute. For example, affordable energy efficient homes should be eligible and flexibility should be provided to incentivize catalytic rural demonstration projects that address GHG reductions through multiple mechanisms.

If, however, the Council does choose to require VMT reduction as an eligibility criterion for all projects, it must remove requirements to include transit. Many communities throughout the state are transit poor, but significant VMT reduction can be achieved through increased proximity to services, employment and educational institutions. Accordingly, requiring ICP housing developments include a transit stop is unnecessary, will present an undue burden in transit poor areas, and may undermine best efforts to achieve VMT and GHG reductions. The ICP program should be designed in a manner that facilitates transformative projects, sensitive to their rural context. The program has the potential to fundamentally change how rural areas grow and to lay the groundwork for more equitable and sustainable communities. However, those changes cannot happen if the AHSC program fails to provide rural areas access to the resources needed to implement such changes.

Similarly, scoring criteria place too much emphasis on proximity to transit and connectivity gained through transit. All scoring criteria should be amended to ensure that VMT reduction in ICP proposals can be met through access by proximity to services, employment and educational institutions rather than requiring access through transit. Good quality projects have the potential to create immense reductions in VMT through various means beyond mode shift to transit. We want to be sure those projects can receive funding.

Bias toward more urban areas in scoring criteria:
In addition to the bias created by linking point awards to areas rich in transit, scoring criteria that grant points for increased access to up to 10 amenities creates yet another obstacle for more rural regions by building in a bias for more urban, amenity rich areas. Scoring should be based on the extent to which projects improve access to key amenities, such as employment, education and other priority goods and services, as identified by the communities to be served.

We are concerned that after set-asides are allocated to each program area (TOD and ICP), ICP projects will still not be able to fairly compete with TOD projects. The guidelines must build in mechanisms to ensure that ICP projects get a fair share of the remaining 30% of funds.

<u>No assurance the ICP Program will address the critical housing needs of small cities and rural communities:</u>

<u>Lack of assurance the ICP Program will include affordable housing projects:</u>
Unlike the TOD program, ICP does not have a housing requirement and, conceivably, 50% of the AHSC funds could be spent exclusively on TOD affordable housing. Given the affordable housing mandate of this program and the importance of housing as a key component of sustainable development, the ICP program should include a mandate or set-aside for affordable housing development and / or rehabilitation to ensure that affordable housing development occurs in areas not eligible for TOD projects.

<u>Minimum density threshold and project sizes threaten to make housing development in small cities and rural communities infeasible:</u>

We understand, and also desire, to have this program change the paradigm of development in less-urban areas of California. However, the 50-unit minimum and 20 units/acre requirements in the ICP Program will render many important projects ineligible for funding. Particularly in infill projects, which otherwise would score well based on the other criteria needed to receive funding from this program, the 50 unit minimum would be an impossible threshold to reach. We therefore recommend that there be no minimum unit threshold for project size since there are sufficient minimum thresholds established by other criteria (i.e. minimum award amount and per unit grant / loan caps) a minimum number of units seems unnecessary. However, if the Council is committed to establishing a minimum unit threshold for housing projects, we recommend that the threshold be set at no greater than 20 units.

With respect to density thresholds, we have found that mandating a minimum net density of 20 units/acre, as required, for example, by the Infill Infrastructure Grant program, simply does not work in rural areas. Accordingly, we recommend that net density requirements be set at 15 dwelling units per acre for non-urban areas and that the Council consider alternative density metrics such as the number of bedrooms, rather than the number of units, per acre. Establishing a 15 unit per acre standard would be appropriate for the rural context and would serve to incentivize increased densities and result in more compact development patterns and increased overall densities in rural areas.

<u>Infrastructure investments facilitating infill development should be eligible for AHSC funding:</u>
There is tremendous opportunity to encourage infill development in many small towns and rural communities throughout California by investing in infrastructure in existing communities. For example, in Round 2 of the Sustainable Community Grants Program, supported by Proposition 84, the SGC granted Tulare County an award to invest in wastewater infrastructure in an existing community to promote health, sustainability and infill development. Not only does this type of development promote compact and sustainable communities, but it also helps preserve agricultural lands and open space. Accordingly, we recommend this program support infrastructure projects that will allow for and facilitate infill development in existing communities

The definition of net density requires revision:
The current definition of net density would arbitrarily disadvantage rural areas.
We recommend changing the definition to match the Infill Infrastructure guidelines:

> *Total number of dwelling units per acre "excluding permanent streets, required drainage facilities, sidewalks, parks, public rights of way, easements, encroachments and dedicated open space."*

Inadequate resources targeting affordable housing units, especially for very low and extremely low income households:

Minimum affordability requirements too low:
In light of the AHSC program's goals both to reduce vehicle miles traveled and promote equity, we believe the 20% affordability minimum is entirely too low. Increasing the minimum affordability requirement is necessary both for policy reasons and to ensure that 50% of the funds can be spent on affordable housing as required. We recommend that at least 50% of units are affordable, with significant points granted for higher affordability percentages and percentages of units targeting very low and extremely low-income households.

Affordable housing funds must be used exclusively to support affordable housing units:
The guidelines should make clear the 50% Affordable Housing Set-Aside will be used exclusively to support affordable units. For example, if an applicant guarantees that 50% of units in a development will be affordable, only funding in support of those units should be attributed to the affordable housing set-aside. Similarly, only those infrastructure funds that support affordable units should be attributable to the affordable housing set-aside. The Council should ensure mechanisms are in place to allocate funds and track expenditures to ensure the affordable housing set-aside is in fact supporting affordable housing.

Infrastructure grants may subsidize market rate development to the detriment of affordable housing:
We anticipate major problems with authorizing $35,000 per unrestricted unit and $50,000 per restricted unit. With only a 20% affordability requirement, this could result in projects receiving greater infrastructure subsidy for market rate portion than affordable projects. In addition, as the economy has improved, the need for deep subsidies to encourage market rate development has significantly diminished. We therefore recommend lowering the market-rate infrastructure subsidy to $15,000.

Further barriers to participation for under-resourced areas:

Complexity of the program may hinder Involvement of the most disadvantaged areas:
As noted during the SGC Hearing on October 6, this program is very complex and sets an unusually high threshold for coordination, application and implementation. We understand there are many overlapping layers to this program. However, we recommend streamlining these requirements to ensure that areas with limited capacity have a fair chance to participate.

Requiring a public agency co-applicant is an obstacle to under-resourced regions:
Requiring projects to have a public agency co-applicant could further disadvantage already capacity-poor and understaffed jurisdictions in California. In our conversations with the cities and counties we work with, many have not had the staff time or capacity to follow the creation of this program and understand its complicated structure. We understand the need to ensure alignment with the work of public entities and comply with existing plans. However, to require a public agency as co-applicant will render many rural areas ineligible and excluded. We therefore recommend that a letter confirming consistency of the project with the applicable SCS or similar plan in jurisdictions that don't have SCSs suffices to demonstrate consistency and coordination with local planning efforts.

Concept proposal stage should be simpler:
The idea of having a simpler initial application process initially that will allow for feedback and assessment is worthwhile and beneficial both to applicants and to the State. However, the current requirements to submit a concept proposal are comparable to what would be needed for a full application. We recommend that the concept proposal requirements be simplified.

Scoring criteria disadvantages under-resourced areas:
Various scoring criteria that grant points to past investments in an area, expertise and years of experience of staff involved in the project and consistency with up to 11 local plans will undermine efforts of areas who have fewer resources and limited staff capacity. The ICP program should have different leveraging standards reflecting significant differences in resources and capacity and ensuring that the communities most in need of investment and encouragement to improve planning practices are not further disadvantaged by limited access to the AHSC Program.

There should be more points awarded to "Community Orientation:"
The weighting of Scoring Elements, "Feasibility and Readiness" (currently 35-40%) and "Community Orientation" (currently 15-20%) should be switched to give much greater weight to Community Orientation. Projects that proceed past the initial concept proposal phase will have already demonstrated project readiness so allocating such a high percentage of points to "feasibility and readiness" in the scoring phase will not only disadvantage less resourced communities, but is also duplicative. Additionally, in keeping with the goals of this program, the anti-displacement strategies and the extent to which a project serves low-income households should receive more significant weight in the overall score of a project.

Investment in Disadvantaged Communities:
There is no commitment in the guidelines to invest *in* identified disadvantaged communities as defined by CalEPA. Given the catalytic impact housing, infrastructure and transportation investments can have in disadvantaged communities, and statutory mandates to invest in disadvantaged communities, we recommend that 20% of AHSC funds be invested *in* disadvantaged communities.

Evaluation of program:
While separate from the program guidelines that are the subject of this correspondence, the SGC must commit to completing a robust assessment of the program with respect to its impact on Disadvantaged Communities and with respect to geographic distribution of funds. We look forward to collaborating with the Council in that effort.

We believe adoption of these recommendations will ensure the AHSC program can have the transformative effect we hope to see across all of California. We are enthusiastic about the launch of this new program and would be pleased to discuss any of these recommendations further.

Sincerely,

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