



City of Santa Ana
20 Civic Center Plaza, Santa Ana, CA 92701
Staff Report
February 20, 2024

TOPIC: Addendum to the Fiscal Year 2023-24 Request for Proposals for Affordable Homeownership Opportunities

AGENDA TITLE

Approve an Addendum to the Fiscal Year 2023-24 Request for Proposals for Affordable Homeownership Opportunities

RECOMMENDED ACTION

Authorize the City Manager to issue an Addendum to the Fiscal Year 2023-24 Request for Proposals for Affordable Homeownership Opportunities to expand the types of eligible proposals for affordable rental projects with a development site preference for specific areas in the City and revise the name to Request for Proposals for Affordable Housing Development.

GOVERNMENT CODE §84308 APPLIES: No

DISCUSSION

On October 17, 2023, the City Council authorized the City Manager to issue a Fiscal Year 2023-24 Request for Proposals (RFP) for Affordable Homeownership Opportunities to solicit proposals for affordable ownership projects in the City of Santa Ana with funding from the HOME Investment Partnerships (HOME) Program (Exhibit 1). Following this approval, RFP # 23-156 was issued on October 19, 2023. The first deadline for the RFP was on December 15, 2023, and the City received one proposal before the deadline requesting a total of \$2.4 million out of the \$7.8 million made available. Staff is still reviewing the proposal.

In general, there was a low response to the RFP. Multiple developers worked to create a proposal to develop new affordable homeownership opportunities. However, the feedback that staff received was that developers were unable to formulate a feasible proposal due to various complexities with financing affordable homeownership opportunities using the City's HOME Program funds. Developers had the following issues:

- **Maximum per-unit subsidy limit:** The HOME Program establishes maximum per-unit subsidy limits for the use of HOME funds. The 2023 maximum per-unit subsidy limits published by the Department of Housing and Urban Development (HUD) and applicable to Santa Ana are as follows:

Bedrooms	HOME Maximum Subsidy
0 Bedrooms	\$173,011
1 Bedroom	\$198,331
2 Bedrooms	\$241,176
3 Bedrooms	\$312,005
4+ Bedrooms	\$342,482

The difference between the total development cost of a home and the maximum purchase price affordable to households earning 80% Area Median Income (AMI) exceeds at least \$500,000 per unit for a newly constructed home in Santa Ana. However, the funds provided through the RFP have maximum per-unit subsidy limits as shown above, which leaves a financial gap of more than \$200,000 to \$300,000 per home. No other identifiable public or private funds are available to fill this gap.

- Buyer qualification/equity considerations/etc.: There are numerous challenges related to selecting and qualifying buyers for affordable homeownership opportunities. Buyers need to be able to qualify to purchase the home based on AMI, and at the same time, they need to qualify for a first mortgage necessary to close escrow.
- Interest rate environment: The current high interest rate environment creates a situation in which the maximum affordable sales prices are very low, since a large portion of the maximum payment goes toward interest. It is likely that this situation will continue for the foreseeable future.

Developers worked diligently to formulate proposals to respond to the RFP, but the complexities of affordable homeownership finance were too difficult to overcome. Meanwhile, staff assisted potential respondents and answered all questions in a complete and timely manner. In addition, a comprehensive marketing strategy ensured widespread awareness of the RFP. This included publication on the City's official website, a public notice in the OC Register, and targeted emails to affordable housing membership associations such as the Kennedy Commission, 2-1-1 Orange County, and the Southern California Association of Nonprofit Housing. Additionally, a letter was emailed to developers and nonprofit organizations who had previously expressed interest and were part of the Community Development Agency's RFP Database.

Addendum to the RFP

Pursuant to Section III of the City's Affordable Housing Funds Policies and Procedures, the Community Development Agency, upon City Council approval, may issue a Request for Proposals (RFP) from available funds. The RFP must be open and provide sufficient time for applicants to identify an eligible site and complete and submit a proposal. This Addendum follows this prescribed process and although the initial response to the RFP fell below expectations, staff remains committed to the objective of providing affordable

homeownership opportunities through this RFP. Specifically, four (4) separate City-owned sites (see Attachments 1 through 3 of Exhibit 2) are being included in the Addendum. These four (4) sites would be solely for the development of affordable home ownership.

This Addendum not only provides development opportunities for affordable homeownership, but recognizes the need for flexibility and adaptability to address Santa Ana's diverse housing needs. Staff recommends issuing the attached addendum to RFP # 23-156 (Exhibit 2). The proposed addendum includes the following major changes:

- Expands the eligibility criteria to allow rental affordable housing opportunities while maintaining the City's interest in affordable homeownership opportunities (Attachments 1 through 3 of Exhibit 2).
- Adds five (5) target areas for potential developers to focus their efforts where the City has invested significant public resources in the past, and where the City would like to see additional resources targeted in the future. The five (5) areas are as follows: 1st Street Hotel Conversion (Attachment 4 of Exhibit 2), Cornerstone Village (Attachment 5 of Exhibit 2), Townsend-Raitt (Attachment 6 of Exhibit 2), Cedar-Evergreen (Attachment 7 of Exhibit 2), and 1900-2000 West Myrtle Street (Attachment 8 of Exhibit 2).
- Revises the text throughout the RFP to allow for rental affordable housing opportunities.
- Increases the amount of funding available from \$7.8 million to \$8.35 million.

This Addendum aims to encourage a broader range of proposals to address the diverse housing requirements within the City of Santa Ana. If approved by City Council, the addendum will enhance the RFP's effectiveness in soliciting proposals that align with the City's overarching goal of providing affordable and diverse housing options.

FISCAL IMPACT

There is no fiscal impact associated with this action.

EXHIBIT(S)

1. [Staff Report from October 17, 2023](#)
2. Addendum to RFP # 23-156

Submitted By: Michael L. Garcia, Executive Director of Community Development

Approved By: Tom Hatch, Interim City Manager