STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of July 28, 2026

TO: Mayor and Members of the City Council

VIA: Patrick Tang, Interim City Manager

SUBMITTED BY: Timothy Rood AICP, Community Development Director

SUBJECT: Housing Asset Funding Award

RECOMMENDED ACTION:

By minute action, direct staff to enter into negotiations with one of the three proposers for the award of $5,000,000 in Housing Asset Funding to support affordable housing development.

BACKGROUND:

Housing Asset Fund
The City of Hercules ("City") serves as the Housing Successor Agency ("Housing Successor") to the former Hercules Redevelopment Agency ("Redevelopment Agency"). The Housing Successor's Low and Moderate Income Housing Asset Fund ("Housing Asset Fund") had a $6.2 million cash balance as of June 30, 2025. The balance is primarily from loan repayments related to homeowner and developer loans issued by the former Redevelopment Agency. Approximately $3 million of the Housing Asset Fund will be forfeited to the state if not timely committed or awarded to an eligible project ($2,685,377 must be expended or encumbered by June 30, 2027, and an additional $266,421 must be spent or encumbered by June 30, 2028).

Housing Asset Funds may be used on a variety of project development costs with the following restrictions:

- At least 30% must be spent assisting extremely low income rental households earning 30% or less of the AMI. No more than 20% may be spent on low income households earning 60% to 80% of the Area Median Income ("AMI").

- Moderate and above moderate-income households (above 80% AMI) may not be assisted with Housing Asset Funds.
- Housing Asset Funds may be used to assist senior units if no more than 50% of rental units assisted by any City funding source are restricted for seniors.

All affordable housing units developed with this funding source must be income restricted for at least 55 years. All deed-restricted affordable housing units within Hercules City limits are subject to the City's Affordable Housing Policy.

<u>Notice of Funding Availability</u>
The City issued a Notice of Funding Availability ("NOFA") in October 2025 inviting developers to submit proposals to develop affordable housing utilizing up to $5 million in Housing Asset Funds. Three proposals were received, as shown in Table 1.

<table>
<tr><td colspan="5">Table 1:
Developer Proposals</td></tr>
<tr><td>Developer</td><td>Community HousingWorks ("CHW")</td><td>Satellite Affordable Housing Associates ("SAHA")</td><td colspan="2">Eden Housing ("Eden")</td></tr>
<tr><td>Project Name</td><td>Bayline Apartments</td><td>Sycamore Crossing</td><td colspan="2">Victoria Green</td></tr>
<tr><td># of Units</td><td>83</td><td>100</td><td>66 new units</td><td>+132 rehab units</td></tr>
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City staff and RSG, Inc. ("RSG") initially evaluated each proposal based on the following criteria, as described in the NOFA:

- developer qualifications and experience,
- financial capacity,
- alignment with community and Housing Element goals,
- project readiness and economic viability, and
- project eligibility and affordability.

RSG scrutinized development pro formas for each proposal and found they all have reasonable cost assumptions that comply with California Tax Credit Allocation Committee rent limits, operating expense minimums, and reserve requirements.

At the May 12, 2026 City Council meeting, staff and RSG presented their evaluation of the three proposals received, for informational purposes.

At the May 26, 2025 City Council meeting, staff and RSG presented their evaluation of the three proposals and recommended the Bayline project for award. The City Council continued their consideration of the award until July 28, 2026 and requested that staff organize an open house at a City facility at which all three developers could present their projects and speak individually with interested parties. The Council also requested that all residents of Promenade, Bayside and Victoria by the Bay (approximately 1,500 households) be notified of the open house.

After coordinating the schedules of all three proposers and the availability of City facilities, staff identified June 20 for the open house, prepared a mailing list and postcard design, and used a commercial mail house in order to maintain the timeline desired by the Council. Over 60 people attended the open house in the Council Chambers on June 20, with several interested residents submitting their own comments to the Council afterwards.

Housing Policy Considerations

Policy 1.5 calls for the City to encourage development of new special needs housing for seniors, single partners, families, large families, the disabled, including those with developmental disabilities, and extremely low income households. Program H4-1 of the City's adopted 2023-31 Housing Element, Housing for Persons with Special Needs, commits the City to prioritize development projects that include a component for special-needs groups and to develop a program to prioritize City funding proposals to affordable housing developments that are committed to supporting special needs residents (e.g. farmworkers, elderly, homeless and persons with disabilities, including developmental disabilities).

Table H-4.7 of the Housing Element notes that in 2020, Hercules had 2,241 residents, or 9% of residents, with disabilities, according to the California Department of Developmental Services (DDS). The majority of Hercules residents with a disability are 75 years or older (46.8%), followed by those 65 to 74 years (21.2%). The most commonly occurring disability amongst seniors 65 and older was an ambulatory disability, experienced by 17.7% of Hercules' seniors. An ambulatory disability is any disability that prevents or impedes walking.

DDS currently provides community-based services to persons with developmental disabilities and their families through a statewide system of 21 regional centers. The Regional Center of the East Bay serves residents in Hercules. The center is a private, nonprofit community agency that contracts with local service providers to offer a wide range of services to individuals with developmental disabilities and their families. In Hercules, 220 residents are reported as consumers of the services provided at the local Regional Center. Of those receiving services from the center, 122 are 18 years old and above and 98 are below the age of 18. The majority of residents receiving care from the center live in the home of a parent or guardian (181), followed by individuals in a community care facility (29), followed next by those living independently or in supported living (11). The Bayline project proposes 21 independent living units for people with intellectual and developmental disabilities in partnership with the Regional Center of the East Bay.

ANALYSIS:

In response to the City's call for any final clarifications of the proposals, all three developers provided supplemental documentation and/or revised pro formas clarifying their funding proposals and/or assumptions on June 29, 2026. Both Eden and SAHA modified their financial proposals and unit mixes. RSG also identified a way that Eden could allocate funding in order to make the rehabbed units eligible for RHNA credit. CHW added a small ground-floor retail space to their proposed design.

RSG found that the revised proposals all have reasonable cost assumptions that comply with California Tax Credit Allocation Committee rent limits, operating expense minimums, and reserve requirements, and all proposals now assume prevailing wage.

The table below summarizes the key differentiating factors among the three final proposals:

	CHW	**SAHA**	**Eden**	
	Bayline	Sycamore Crossing	Victoria Green	
			New	*new + rehab*
Number of new affordable units	82	**99**	65	*196*
Number of new 30% AMI units	**29**	25	20	*34*
Weighted Avg Affordability	49.9% AMI	49.9% AMI	**48.0% AMI**	*52.3% AMI*
Estimated resident count	223	**261**	92	*508*
Special needs units	**21 IDD* units**	TBD	**33 senior**	
Potential RHNA Credit	82	**99**	65	***110****
City funding per unit	$60,241	**$50,000**	$75,758	*$25,253*

**CHW proposes to reserve 21 units for individuals with intellectual and developmental disabilities (IDD) and their families.*

***The EDEN/Victoria Green proposal includes both new construction and the rehabilitation of an existing 132-unit project, with extension of its affordability covenants. The combined project is not directly comparable to the other proposals. However, if a certain portion of City funds are allocated towards rehabilitated units serving households under 45% AMI, the City may be able to receive RHNA credit for the rehab as well as the new units.*

RSG's evaluation memo (Attachment 1) presents key components of each development proposal for City Council's consideration. Mark Sawicki, Director at RSG, will present their findings, and staff and RSG will be available for questions.

While all of the projects and developers are worthy of support, City staff and RSG continue to recommend funding one project instead of splitting the $5 million award between multiple projects. This approach better ensures that the funded project will be more competitive for other key funding sources and, thus, have a higher chance of successful and timely development.

Should Council direct staff to enter into negotiations with one or more developers, staff will return to Council with a draft agreement for approval. When negotiations are complete, staff will return again for authorization to award the funds.

FISCAL IMPACT:

There is sufficient funding for the NOFA award and the City's anticipated legal and consultant expenses in the Housing Successor's Low- and Moderate-Income Housing Asset Fund ("Housing Asset Fund"). The Housing Asset Fund houses all former redevelopment agency housing assets and is subject to expenditure requirements detailed in Health and Safety Code ("HSC") Section 34176.1. The City oversees expenditure of the Housing Asset Fund.

Per HSC 34176.1 (d), a Housing Asset Fund may not accumulate an "excess surplus" of cash, which is an unencumbered amount that exceeds the greater of $1 million or the sum of deposits in the prior four fiscal years. An excess surplus must be spent within three (3) fiscal years. If the Housing Successor fails to comply, it must transfer the excess surplus to the California Department of Housing and Community Development (HCD).

According to the City's FY 2024-25 Housing Successor Annual Report, there was a remaining excess surplus from FY 2023-24 of $2,685,377 that must be expended or encumbered by June 30, 2027. There is an excess surplus amount for FY 2024-25 of an additional $266,421 that must be spent or encumbered by June 30, 2028. This NOFA was intended to facilitate the encumbrance of the Housing Asset Funds to ensure compliance with this requirement.

ATTACHMENTS

Attachment 1 – RSG evaluation memo
Attachment 2 – RSG presentation