



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of May 26, 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 Recommendation to Community HousingWorks for Bayline

RECOMMENDED ACTION:

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

BACKGROUND:

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.

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.

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 1: Developer Proposals				
Developer	Community HousingWorks (“CHW”)	Satellite Affordable Housing Associates (“SAHA”)	Eden Housing (“EDEN”)	
Project Name	Bayline Apartments	Sycamore Crossing	Victoria Green	
# of Units	83	100	66 new units	+132 rehab units

City staff and RSG, Inc. (“RSG”) 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.

Bayline Project

CHW’s proposal is for a modified version of its Bayline project on Bayfront Boulevard (Waterfront Blocks F & G). In May 2025, CHW submitted a preliminary application for a five-story 100% affordable housing development that included 107 units. Following a required community meeting held in June 2025 and conclusion of the required tribal consultation, Community HousingWorks revised their design to reduce the building height from five stories to four stories and reduce the number of units to 83. In February 2026, CHW submitted a full application for ministerial approval of the revised project under

California Senate Bill 35 (SB 35). This bill, enacted in 2017, streamlines affordable housing approvals in cities and counties failing to meet state housing targets. The law aims to accelerate housing construction. It requires "ministerial" (non-discretionary) approval for qualified multi-family developments with at least 10%–50% affordable units, bypassing lengthy CEQA reviews. Ministerial approvals are required by state law to be made at the staff level for qualifying projects and are made without a public hearing.

The City denied the SB 35 application in March 2026 because the site does not meet the urban surroundings requirement of Government Code Section 65913.4(a)(2)(B) to qualify for streamlined ministerial approval. Less than 75% of the perimeter of the site abuts land developed or previously developed with urban uses. Government Code Section 65913.4(m)(13) defines "urban uses" as: "any current or former residential, commercial, public institutional, public park that is surrounded by other urban uses, parking lot or structure, transit or transportation passenger facility, or retail use, or any combination of those uses." The prior use of the vacant parcels surrounding the site was industrial. Industrial use is not included within this statutory definition of urban uses.

CHW may resubmit the project under the standard discretionary review process, and such a project may qualify for other streamlining provisions under state law, such as State Density Bonus Law and SB 330, the Housing Crisis Act of 2019, as amended by SB 8 and AB 1218. Among other provisions, SB 330 limits the number of hearings for housing projects to five and mandates shorter timeframes for permit approvals. Staff provided CHW with a detailed comment letter to inform future submittals.

ANALYSIS:

While all of the projects and developers are worthy of support, City staff and RSG recommend funding one project, versus 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.

City staff and RSG recommend entering into an Exclusive Negotiating Agreement with CHW for the award of \$5 million in available Housing Asset Funds to the Bayline Apartments project, based on the following key factors:

- Proposes the deepest level of affordability
- Serves the highest number of new residents based on bedroom count
- Produces 82 new units that count toward the City's Regional Housing Needs Allocation ("RHNA")
- Meets income and age limit restrictions for Housing Asset Fund expenditures
- Meets Housing Element goal to facilitate development serving a special needs population
- Estimates positive cash flows sufficient to cover expenses and debt service
- CHW owns the proposed site

- CHW brings strong experience and financial capacity
- CHW is furthest along in development application efforts

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

Should Council direct staff to enter into an Exclusive Negotiating Agreement (ENA) with CHW, staff will return to Council with a draft ENA 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.

ATTACHMENTS

Attachment 1 – RSG evaluation memo
Attachment 2 – RSG presentation