



REPORT TO THE LAND USE AND HOUSING COMMITTEE

DATE ISSUED: August 14, 2025

REPORT NO: LUH25-005

ATTENTION: Chair and Members of the Land Use and Housing Committee
For the Agenda of September 4, 2025

SUBJECT: Approval of Next Steps to Establish a San Diego Affordable Housing Preservation Fund

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

Recommend that the City Council of the City of San Diego approve staff's recommendations to establish an affordable housing preservation fund.

STAFF RECOMMENDATION

That the Land Use and Housing Committee recommend that the City Council of the City of San Diego (City Council) take the following actions:

- 1) Direct the San Diego Housing Commission (SDHC) to establish an affordable housing preservation fund to enable SDHC, its nonprofit affiliate, Housing Development Partners (HDP), or other entity created or sponsored by SDHC or HDP to acquire and preserve both deed-restricted and naturally occurring affordable housing (NOAH) properties to serve and be affordable to households with a mix of incomes from 30 percent of San Diego's area median income (AMI) to 150 percent of AMI and to place affordable housing covenants on the properties to maintain their affordability in perpetuity.
- 2) Direct SDHC staff to work with City of San Diego (City) staff to transfer approximately \$5,000,000 from the Neighborhood Enhancement Fee fund from the City to SDHC into the affordable housing preservation fund, as identified in the City Council's approval of the City's Fiscal Year 2026 Budget, as specified in City Council Resolution R-316263.
- 3) Direct SDHC staff to pursue additional funding resources, in parallel with the use of the Neighborhood Enhancement Fee fund, to acquire properties, including foundations and philanthropic organizations interested in affordable housing; pension funds, commercial banks and Community Reinvestment Act (CRA) motivated financial institutions; tax-exempt/non-taxable bond proceeds, including 501(c)(3) and governmental purpose bonds and other innovative financing tools that can be used to supplement the affordable housing preservation fund.
- 4) Direct SDHC staff to explore the possibility of combining and using several currently restricted fund account balances, if legally permissible, held by SDHC and the City, such as repayments of loans made by the former Southeastern Economic Development Corporation or by the former Centre City Development Corporation, to be recommended for deposit into the affordable housing preservation fund account.

- 5) Authorize SDHC's President and Chief Executive Officer (President and CEO), or designee, to execute any and all documents necessary to establish an affordable housing preservation fund in a form approved by the General Counsel, and to take such actions as are necessary, convenient, and/or appropriate to implement the fund consistent with the City Council's direction and upon advice of the General Counsel.

SUMMARY

On April 10, 2025, at the request of Council President Pro Tem Kent Lee, the Chair of the Land Use and Housing Committee (Committee), SDHC staff presented an informational report about the potential for the creation of an affordable housing preservation fund and options for its implementation. The Committee asked SDHC staff to return with an analysis of and recommendations for preservation fund models going forward.

In response to the Committee's direction, SDHC staff examined a range of preservation strategies that support timely action, long-term affordability, and adaptable implementation. By emphasizing mixed-income acquisitions, avoiding delays related to Low-Income Housing Tax Credits (LIHTC), and utilizing public ownership through SDHC and HDP, the proposed framework offers a practical and scalable path forward. The following five-part framework outlines potential implementation options:

1. Use of 501(c)(3) Bond or Governmental Purpose Bond Financing with Neighborhood Enhancement Funds (NEF)

SDHC proposes utilizing tax-exempt bonds [501(c)(3) bonds for HDP ownership or governmental purpose bonds for SDHC ownership], paired with the Neighborhood Enhancement Fee fund (NEF), to finance the acquisition of NOAH properties and close the funding gap between what tax-exempt bonds can support and the total acquisition cost of potential preservation projects.

While other jurisdictions have successfully pursued mixed-income acquisition strategies without tax credits, combining 501(c)(3) bonds or other municipal bonds and flexible local funds, such as NEF, establishes a locally tailored financing model designed to expedite acquisitions and preserve long-term affordability. This proposed innovative strategy would be a first for San Diego and the region.

This approach avoids time-consuming funding applications, additional layers of financing and costs associated with highly competitive LIHTC, allowing faster execution and greater flexibility in structuring deals. The selection of NEF instead of Redevelopment Property Tax Trust Funds (RPTTF) reflects the Independent Budget Analyst's (IBA) recommendation to preserve RPTTF due to broader City budget constraints. This approach also utilizes new resources and will not reduce or compete with the present affordable housing resources that affordable housing developers use.

2. Ownership and Oversight through Housing Development Partners (HDP)

Under this approach, NOAH properties at risk of conversion to market rate would be acquired and owned by HDP, a separate nonprofit affiliate that SDHC established in 1990 to facilitate affordable housing acquisition and development, or by an entity created or sponsored by HDP. HDP's status as a 501(c)(3) organization allows it to benefit from tax-exempt bond financing, creating a cost-effective pathway to preserve affordability through direct acquisition. SDHC would continue to support these efforts through oversight, strategic alignment, and programmatic accountability. This structure preserves public stewardship while leveraging HDP's operational capacity. HDP's Board of Directors consists of a City Councilmember/Housing Authority member; SDHC's President and CEO, who also serves as the Housing Authority's Executive Director; two members of the SDHC Board of Commissioners; and one at-large community member.

3. Ownership and Oversight through SDHC

SDHC, or an entity created or sponsored by SDHC, could also be the entity to purchase, own and operate the preservation units where its status as a public agency is beneficial, such as purchases from another governmental entity, or where tenants need resources or programs that presently exist at SDHC, such as homelessness prevention. Having this flexibility helps cover a wide range of potential property purchases.

4. Targeting High-Opportunity NOAH Properties

Initial acquisition efforts would focus on stable, revenue-generating, multifamily properties in high-opportunity areas—such as those near transit, schools, and employment centers—that do not yet require major rehabilitation. By acquiring well-maintained properties in strong locations, SDHC and HDP can act quickly to preserve affordability, generate income to reinvest in future acquisitions, and build a track record of success. Similar strategies have been implemented in other jurisdictions to preserve moderate-income housing outside of the LIHTC framework, using mixed-income models to support long-term financial sustainability.

5. Leveraging Additional Capital from Strategic Partners

The proposed model is designed to deliver measurable outcomes in the near term: preserve affordability, generate rental income, and build confidence in an innovative preservation strategy. Early acquisitions financed through 501(c)(3) bonds, combined with NEF to fill funding gaps or otherwise effectuate project acquisition and financial feasibility, aim to demonstrate tangible results that can be leveraged to attract long-term investment. As the program establishes a successful track record, it can position SDHC to explore partnerships with philanthropic foundations, Community Reinvestment Act-motivated financial institutions, major employers, and health care systems—ultimately expanding the scope and sustainability of future preservation efforts.

6. Identifying and Combining Restricted Fund Balances to use in the Preservation Fund

SDHC and the City have identified funding sources, listed below, that are required to be spent in defined regions of the City. Each fund, by itself, is insufficient to fully fund the construction of new affordable units. SDHC will work with the City to further explore the potential to reallocate these funds, if legally permissible, to the affordable housing preservation fund.

- Community Development Block Grant Affordable Housing Revolving Loan Fund
- Housing Trust Fund (former Redevelopment Agency, Transient Occupancy Tax and Rehab funds)
- Southeastern Economic Development Corporation funds
- Centre City Development Corporation funds
- Shea Homes funds (homeownership)
- North City Future Urbanizing Area In-Lieu Fees
- Single-Room Occupancy fund

7. Maintaining Flexibility for Expansion of Preservation Activities to Fulfill City Council-Approved Preservation Strategy

The initial phase of implementation of the preservation fund will focus on acquisition and development through HDP, SDHC or another entity created or sponsored by SDHC or HDP. A simpler, more direct financing structure will establish the preservation fund quickly and provide more immediate results

without the use of competitive affordable housing financing resources. Using the preservation fund to finance predevelopment expenses and for acquisitions will allow the funds to be repaid sooner, upon permanent financing for the project. The funds will then be available for new projects, allowing the preservation fund to become a revolving loan fund sooner. A successful track record makes it easier to attract additional investment. As the fund balance grows, new programs can be established, such as the Small Sites Rehabilitation program for NOAH, which is Action Item No. 3 of the City's preservation strategy. Fund activities could be further expanded through partnership with a selected Community Development Financial Institution (CDFI). CDFIs are U.S. Treasury-certified organizations that specialize in community-based investment and can attract philanthropic, private, and institutional capital.

As the preservation fund matures and expands, it can have a broader impact, leveraging additional resources beyond the City's initial investment, with partners who are investors or affordable housing developers.

FISCAL CONSIDERATIONS

In its approval of the City of San Diego's Fiscal Year (FY) 2026 budget, the City Council allocated \$5,000,000 from Neighborhood Enhancement Fee fund to the affordable housing preservation fund. The FY 2026 sources and uses of funds proposed for approval in this staff report were not included in SDHC's Housing Authority-approved FY 2026 budget. If the Committee recommends that the City Council take the staff-recommended actions in this report, SDHC will request approval from the SDHC Board of Commissioners and the Housing Authority to amend SDHC's FY 2026 budget to authorize SDHC to accept and expend \$5,000,000 from Neighborhood Enhancement Fee fund for affordable housing preservation fund activities to acquire and preserve both deed-restricted and naturally occurring affordable housing (NOAH) properties.

- Funding Sources
 - Neighborhood Enhancement Fee fund: \$5,000,000
- Funding Uses
 - Affordable Housing Preservation Fund: \$5,000,000

PREVIOUS COUNCIL AND COMMITTEE ACTIONS

On June 2, 2020, the City Council accepted SDHC's report, "Preserving Affordable Housing in the City of San Diego" and referred it to the Land Use and Housing Committee for further action (Resolution No. R-313066);

On June 24, 2020, the Land Use and Housing Committee provided input and directed SDHC staff to return to the Committee in September with a recommended implementation strategy that included detailed policy options and best practices for recommendations 2, 4, and 5 of SDHC's preservation report (Report No. LUH20-001).

On September 17, 2020, the Land Use and Housing Committee approved SDHC's recommendation for five actions to implement an affordable housing strategy, with an amendment to the first action related to directing former redevelopment funds to affordable housing preservation (Report No. LUH20-004).

On October 27, 2020, the City Council approved the seven actions proposed to implement a strategy for affordable housing preservation in the City of San Diego (Resolution No. R-313276).

SDHC convened the Interagency Working Group, which held its first meeting on April 8, 2021, and met quarterly throughout 2021. On February 4, 2022, the SDHC Board of Commissioners approved the nomination categories and representative organizations to serve on the first Preservation Collaborative Stakeholder Group. This group is ongoing and meets quarterly.

On March 2, 2023, SDHC staff presented an informational update about the City Council-Approved Preservation Strategy Action items to the Land Use and Housing Committee. The Committee directed SDHC staff to return to the Committee by the end of the year to present parameters for a deed-restricted preservation ordinance that provides a right of first offer and right of first refusal to qualified entities, including nonprofit and for-profit organizations and individuals, for consideration.

On February 25, 2025, the City Council unanimously approved the Affordable Housing Preservation Ordinance (O-21917). This ordinance applies when an assisted housing development is listed for sale, requiring owners to notify qualified entities and providing those entities with a right of first offer and a right of first refusal to acquire the property.

On April 10, 2025, SDHC staff presented an informational report to the Land Use and Housing Committee about the potential for the creation of an affordable housing preservation fund and options for its implementation. The Committee requested SDHC staff to:

- Explore the necessary steps to start an affordable housing preservation fund, subject to approvals from the SDHC Board of Commissioners, the Housing Authority of the City of San Diego and/or the San Diego City Council, as needed.
- Identify what other funds may be available to be leveraged for a proposed affordable housing preservation fund.
- Determine if there are other financing options, in addition to an affordable housing preservation fund, that would result in the preservation of affordable housing.
- Return with an analysis of and recommendations for preservation fund models going forward.

On June 23, 2025, the City Council approved the City of San Diego's FY 2026 Budget (Resolution R-316263), including \$5,000,000 from Neighborhood Enhancement Fee fund for the affordable housing preservation fund.

NONDISCRIMINATION ASSURANCE

At SDHC, we're about people. We are committed to ensuring a compassionate, person-centered approach to SDHC's programs, policies, projects and activities and to serving our community impartially, fairly and without bias. We are also committed to ensuring compliance with all applicable federal, state and local laws and protections to the extent that they affect this action relative to nondiscrimination.

SDHC STRATEGIC PLAN

This item relates to Strategic Priority Area No. 1 in SDHC's Strategic Plan for Fiscal Year (FY) 2022-2024: Increasing and Preserving Housing Solutions. SDHC is in the process of developing a new Strategic Plan.

ENVIRONMENTAL REVIEW

California Environmental Quality Act

Establishing an affordable housing preservation fund, transferring Neighborhood Enhancement Fees into the affordable housing preservation fund, and directing associated fundraising is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and State CEQA Guidelines Sections 15378(b)(4) and (5) as it is a government fiscal activity that does not involve any commitment of funds to any specific project which may result in a potentially significant physical impact on the

environment, and it is also an administrative activity of government that will not result in direct or indirect physical changes in the environment. Thus, this activity is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

National Environmental Policy Act

National Environmental Policy Act (NEPA) review is not required as no federal funds are involved in this action.

CONFLICT DISCLOSURE STATEMENT:

Two San Diego Housing Commissioners (Commissioners), Eugene "Mitch" Mitchell and Ryan Clumpner, and the San Diego Housing Commission's (SDHC) President and Chief Executive Officer (President and CEO), Lisa Jones, are each directors of Housing Development Partners (HDP), a California nonprofit public benefit corporation qualified as an Internal Revenue Code Section 501(c)(3) corporation for federal purposes. Any Commissioner who is also a director of HDP as of the date of this staff report and President and CEO Jones have no conflict of interest as discussed below.

The Commissioners and President and CEO Jones receive no compensation for their service on HDP's Board of Directors and/or as officers of HDP. Pursuant to the provisions of Government Code Sections 1091.5(a)(7) and 1091.5(a)(8), the Commissioners and President and CEO Jones each have a "non-interest" as described in Government Code Section 1091.5 for purposes of their action on SDHC matters associated with this matter, if any. This disclosure shall be incorporated into the record of SDHC.

San Diego City Councilmember and Housing Authority member, Councilmember Sean Elo-Rivera, is also a Director of HDP. Councilmember Elo-Rivera is not compensated for his service on the HDP Board or as an officer of HDP. As it relates to this matter, as a Housing Authority member, Councilmember Elo-Rivera has a noninterest under California Government Code section 1091.5(a)(9). This disclosure shall be incorporated into the record of the Housing Authority, if and when this matter is heard by the Housing Authority.

Further, because of their non-interests, the Commissioners, as members of the SDHC Board of Commissioners, and Councilmember Elo-Rivera, as a member of the Housing Authority, are entitled to vote on this matter and may be counted for quorum.

Further, no HDP Director or officer has a financial interest in this matter that would legally preclude their participation under the provisions of California Government Code section 87100 et. seq.

The Commissioners are not compensated for their services on the board of SDHC, a public agency. Councilmember Elo-Rivera's compensation as a member of the Housing Authority, a public agency, is a non-interest under Government Code section 1091.5(a)(9). Further, Ms. Jones' compensation from a public agency, SDHC, is a noninterest under the provisions of Government Code Section 1091.5(a)(9) as well as for the purposes of Government Code Section 87100 et. seq.

Finally, to the extent that HDP is a public agency for local Ethics Ordinance purposes, neither the Commissioners, Ms. Jones, nor Councilmember Elo-Rivera have any conflicts of interest under the local ethics ordinance that would preclude their actions in this matter or from being counted for quorum purposes.

These disclosures shall be and are hereby documented in the official records of SDHC and Housing Authority.

Respectfully submitted,

Wendy DeWitt

Wendy DeWitt
Vice President, Preservation
San Diego Housing Commission

Approved by,

Lisa Jones

Lisa Jones
President and Chief Executive Officer
San Diego Housing Commission