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Provide grants or low-interest loans for ADU/JADU construction affordable to Lower- and Moderate-Income Households.

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MEMORANDUM OF UNDERSTANDING

Affordable ADU Program of San Mateo County

Between the ADU Resource Center of San Mateo County and the [City]

1. Parties and Effective Date

This Memorandum of Understanding (this "MOU") is entered into as of *[Effective Date]* (the "Effective Date") by and between the ADU Resource Center of San Mateo County and the *[City]*, acting through its *[Community Development Department]* (the "Jurisdiction").

Administrator and Jurisdiction are each referred to as a "Party" and collectively as the "Parties."

2. Recitals

WHEREAS, San Mateo County faces a significant shortage of affordable housing, and Accessory Dwelling Units ("ADUs") represent an important contributor to local housing supply, including affordable infill housing;

WHEREAS, the Jurisdiction has adopted a Housing Element identifying goals and policies to support the production of housing affordable to low- and moderate-income households, and ADUs are recognized as a strategy to advance those goals (see *[citation to Jurisdiction's Housing Element]*);

WHEREAS, many homeowners, particularly low- and moderate-income homeowners, face financial and technical barriers to ADU construction ADU production and constrain opportunities for affordable rental housing;

WHEREAS, the Jurisdiction's Housing Element identifies a policy *[citation to policy number]* of *[insert language from Housing Element related to development of an affordable ADU program]*;

WHEREAS, the Administrator has designed the Affordable ADU Program of San Mateo County (the "Program"), as more fully described in the Program Concept Paper attached as Exhibit B, to provide financial incentives, one-stop technical assistance, and access to trusted design-build partners to participating homeowners, all with the goal of addressing the primary barriers that homeowners encounter along the ADU process;

WHEREAS, the Jurisdiction wishes to express its intent to support and participate in the Program, subject to the terms of this MOU and to subsequent appropriation of funds by *[governing body]*; and

WHEREAS, the Parties wish to set forth their mutual understanding regarding the Program and the Jurisdiction's anticipated contributions, recognizing that this MOU is non-binding as to financial contributions and is intended to guide the development of a future definitive funding agreement.

NOW, THEREFORE, the Parties agree as follows:

3. Purpose and Non-Binding Nature

3.1 Purpose

The purpose of this MOU is to (a) describe the Program, (b) express the Jurisdiction's intent to participate in the Program and to seek appropriation of funds to support the Program, (c) outline the

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anticipated roles and responsibilities of the Parties, and (d) establish a framework for the Parties to negotiate a definitive funding agreement.

3.2 Non-Binding Nature; Subject to Appropriation

Notwithstanding any other provision of this MOU, all financial contributions described in this MOU and its exhibits are expressions of intent only and are subject to annual appropriation by the Jurisdiction's *[governing body]*. No provision of this MOU shall be construed to obligate the Jurisdiction to expend funds not duly appropriated, and no contractual or legal liability shall arise from this MOU with respect to financial contributions until and unless a separate, binding funding agreement is executed by the Parties.

4. Program Description

The Program is an initiative open to any jurisdictions in San Mateo County and is designed to support homeowners in building or legalizing an ADU on their property by lowering financial and technical barriers to ADU construction. The Program consists of three core offerings, as summarized below and described in greater detail in Exhibit B.

4.1 Program Eligibility

- *[If choosing Affordability Track]* Homeowners who agree to rent their ADU at below-market rates (targeting 60% AMI) for a defined period (currently proposed as eight (8) years), or to a Section 8 voucher recipient.
- *[If choosing Equity Track]* Low- to moderate-income homeowners (household income at or below 120% AMI) seeking to build, convert, or legalize an ADU.

4.2 Program Offerings

- **Financial Incentives:** Low-interest incentive loan and *[if elected by Jurisdiction]* permitting fee waivers.
- **One-Stop Technical Assistance:** End-to-end support, including feasibility assessment, pre-construction support, insurance advisory, and lease-up and tenant selection support.
- **Trusted Design-Build Partners:** Access to registry of vetted design-build teams to accelerate permitting and reduce costs.

5. Administrator's Anticipated Role and Responsibilities

Administrator anticipates serving as the program administrator and intends to:

- Manage program intake, marketing, outreach, application review, and homeowner selection in accordance with eligibility criteria approved by participating jurisdictions;
- Provide or coordinate technical assistance services described in Section 4.2;
- Vet design-build partners and other professionals who may be included in a vendor registry;
- Coordinate with a third-party loan servicer that will originate and service any loans issued through the Program;
- Provide reporting to the Jurisdiction as set forth in Section 8;

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- *[For Affordability Track]* Monitor compliance with rental requirements for the duration of the affordability period;
- *[For Equity Track]* Verify homeowners' income eligibility at program intake; and
- Convene a Program Advisory Committee comprised of representatives of participating jurisdictions as described in Section 9.

6. Jurisdiction's Anticipated Role and Contributions

Subject to Section 3.2, the Jurisdiction expresses its intent to support the Program through the following contributions, as outlined in Exhibit A:

6.1 Seed Funding

The Jurisdiction intends to seek appropriation of funding in support of the Program in the following three categories, with the anticipated amounts and funding triggers set forth below and detailed in Exhibit A:

(a) **Loan Capital.** Up to *$[amount]* in loan capital to fund incentive loans for up to *[#]* ADUs, to be drawn on a per-unit basis only upon the selection of an eligible homeowner who has completed the Program's intake and eligibility process and is proceeding to loan closing.

(b) **Technical Assistance Grant Funds.** Up to *$[amount]* in grant funds to support the delivery of technical assistance services to participating homeowners for up to *[#]* ADUs, to be drawn on a per-unit basis only upon the selection of an eligible homeowner who is proceeding with an ADU project.

(c) **Program Administration Funds.** *$[amount]* in funds to support Program administration, to be funded upon execution of a definitive funding agreement between the Parties, irrespective of homeowner intake volume.

The Jurisdiction acknowledges that the amounts in subsections (a) and (b) are usage-contingent and that unused amounts may be reallocated or returned as set forth in the definitive funding agreement.

6.2 Permitting Fee Waivers *[If applicable]*

The Jurisdiction may elect to waive or reduce permitting fees for ADU projects participating in the Program. Waivers or reductions are anticipated to total up to *$[amount]* per ADU, subject to further refinement.

6.3 In-Kind Contributions *[Revise or remove as necessary]*

The Jurisdiction may elect to provide in-kind contributions to the Program, including but not limited to:

- Expedited permitting review for participating Program applicants;
- Staff time for application review coordination, code interpretation, or other technical liaison functions;
- Promotion and marketing of the Program through Jurisdiction communication channels.

6.4 Conditions Precedent to Funding *[Add conditions as necessary]*

The Jurisdiction's release of funds is contingent on the Administrator's achievement of the following conditions, in addition to the appropriation of funds by *[governing body]* as described in Section 3.2:

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- Securing a qualified third-party partner to originate and service incentive loans issued through the Program;
- Developing, in consultation with participating jurisdictions, a written plan describing how appropriated capital will be transferred from each jurisdiction to the entity responsible for deploying incentive loans, including timing, custody, and documentation requirements;
- Developing an application intake, review, and selection process, including eligibility verification procedures;
- Securing agreements with one or more qualified organizations to deliver technical assistance services to Program participants or documenting a concrete implementation plan for how those services will be provided directly by Administrator; and
- Establishing a compliance monitoring framework, including procedures for verifying initial income eligibility (if required), monitoring ongoing rental requirements for the duration of the affordability period, and reporting compliance status to participating jurisdictions.

7. Funding Mechanism and Definitive Agreement

The Parties acknowledge that any appropriated funds will be transferred to Administrator (or to the Program's third-party loan originator or designated escrow agent) pursuant to a separate, definitive funding agreement to be negotiated in good faith. The definitive funding agreement will address, at minimum: (a) the payment schedule; (b) permitted uses of funds; (c) reporting and audit rights; (d) recapture or return of unused funds; (e) insurance and indemnification; and (f) compliance with applicable federal, state, and local laws.

8. Reporting and Performance Metrics

Administrator anticipates providing the Jurisdiction with *[quarterly / semi-annual]* reports covering Program activity within or attributable to the Jurisdiction, including:

- Number of applications received, screened, and approved;
- Number of ADUs in pre-construction, under construction, and completed;
- Affordability levels (AMI) served and rental terms for Affordability Track units;
- Aggregate demographic data, to the extent permitted by applicable law and Program privacy policies;
- Budget utilization, including financial incentive disbursements and technical assistance expenditures; and
- Any additional data necessary to support the Jurisdiction's Housing Element Annual Progress Report (APR).

9. Governance

Administrator will convene a Program Advisory Committee (the "Advisory Committee") composed of one designated representative from each participating jurisdiction. The Advisory Committee will meet at least quarterly and will provide non-binding input on Program policies, eligibility criteria, performance metrics, and material program changes. The Advisory Committee does not have decision-making authority over Administrator's day-to-day operations.

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10. Amendments

This MOU may be amended only by a written instrument signed by authorized representatives of both Parties.

11. No Obligation; No Third-Party Beneficiaries; No Partnership

Except as expressly stated to be binding in Section 3.2, this MOU does not create any legally binding obligations on either Party. This MOU does not create any rights in favor of any third party. Nothing in this MOU shall be construed to create a partnership, joint venture, agency, or employment relationship between the Parties.

12. Confidentiality and Public Records

The Parties acknowledge that the Jurisdiction is subject to the California Public Records Act (Government Code section 7920.000 et seq.) and that this MOU and most related communications will be subject to public disclosure. Administrator will provide reasonable cooperation in responding to public records requests. Personally identifiable information of Program applicants and participants will be handled in accordance with Administrator's privacy policy and applicable law.

13. Governing Law and Venue

This MOU shall be governed by and construed in accordance with the laws of the State of California, without regard to its conflict of laws principles. The exclusive venue for any action arising out of or relating to this MOU shall be the state or federal courts located in San Mateo County, California.

14. Term and Termination

This MOU shall commence on the Effective Date and shall remain in effect for an initial term of *[three (3) years]*, unless earlier terminated as set forth herein. The MOU may be renewed for additional terms upon written agreement of the Parties. Either Party may withdraw from this MOU at any time, with or without cause, by providing *[sixty (60)]* days' prior written notice to the other Party. Withdrawal from this MOU does not affect funds already appropriated and committed under a separate definitive funding agreement, which shall be governed by the terms of that agreement.

15. Miscellaneous

15.1 Entire Agreement

This MOU, together with its exhibits, constitutes the entire understanding of the Parties with respect to the subject matter hereof and supersedes all prior discussions, negotiations, and writings on the subject.

15.2 Severability

If any provision of this MOU is held to be invalid or unenforceable, the remaining provisions shall continue in full force and effect.

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IN WITNESS WHEREOF, the Parties have executed this MOU as of the Effective Date.

ADMINISTRATOR *ADU Resource Center of San Mateo County* By: _____ Name: *[printed name]* Title: *[title]* Date: _____	**JURISDICTION** *[City]* By: _____ Name: *[printed name]* Title: *[City Manager / CDD Director]* Date: _____ *Approved as to form:* _____ *[City Attorney]*

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EXHIBIT A

Anticipated *[Jurisdiction]* Contribution

Note: *All amounts and terms set forth below are anticipated contributions only and are subject to appropriation pursuant to Section 3.2 of the MOU. Final contributions will be set forth in a definitive funding agreement.*

Contribution Category	Anticipated Amount	Notes
Incentive loan pool	*$_____*	Earmarked for loans; assume 0% interest return
Technical assistance for program participants	*$_____*	Supports may include: feasibility consultation; pre-construction support; property insurance advisory services; project management support during construction; lease up support
Program administration	*$_____ annually*	Pro rata share across participating jurisdictions based on number of ADUs targeted per jurisdiction
Permitting fee waivers	*Cap or estimate per unit:* *$_____*	
Expedited permit review or additional permit support	☐ Yes ☐ No	*[describe scope]*

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EXHIBIT B

Program Concept Paper

Full Program Concept Paper can be found here: SMC AADU Concept Draft - June 26.docx

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CITY OF SAN MATEO

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Agenda Report

Agenda Number: 17 Section Name: OLD BUSINESS Account Number: 10-3133 File ID: 26-11333

TO: City Council

FROM: Alex Khojikian, City Manager

PREPARED BY: Community Development Department

MEETING DATE: September 8, 2026

SUBJECT:
Housing Fund — Informational Update

RECOMMENDATION:
Receive an update on the status of the City's housing funds and provide direction on funding strategy and prioritization for the next five years.

BACKGROUND:
As the City continues implementation of its 2023-2031 Housing Element and pursues major grant programs to support its efforts, there is a need to develop a housing funding strategy for the next five years. The purpose of this study session is to seek City Council direction on upcoming funding-related opportunities, including compliance with the Metropolitan Transportation Commission's Transit-Oriented Communities (MTC TOC) Policy, pursuing a Prohousing Designation from the State, and use of Permanent Local Housing Allocation (PLHA) funding, and how to prioritize expenditure of City Housing funds.

Housing Funding Policy Framework
There are specific Housing Element policies, grant program requirements, and community feedback received over the past year that should guide how the framework for a Housing funding strategy is developed.

2023-2031 Housing Element
The City of San Mateo's 2023-2031 Housing Element (Housing Element) established goals, policies, and programs to facilitate the production of 7,015 housing units and address key housing challenges identified through the housing needs assessment and community input process. The following policies and programs in the Housing Element workplan directly address the allocation or prioritization of City housing funds:

- **Policy H1.2: Utilize Public Funding and Properties for New Affordable Housing**
  - **Action:** Identify ways to create a stand-alone Housing Trust Fund and utilize that fund to leverage new funding sources.
  - **Action:** Prioritize available local housing funds to assist in the production of at least 543 below market rate units by 2031; emphasis on ELI units.
  - **Action:** Support affordable housing development, including ELI units, on the City owned property at 4142 S. El Camino Real.

- **Policy H2.2: Support Retention of Existing Lower Income Units**
  - **Action:** Coordinate with the owners of Bridgepointe Condominiums and identify a funding source to preserve the 24 very low-income units as affordable upon expiration of the City's regulatory agreement in 2027.
  - **Action:** Coordinate with the owners of Belmont Building (6 units) and identify funding source to preserve the

units prior to expiration of the City's regulatory agreement in 2036.

- **Policy H3.1: Prevent Homelessness**
  - **Action:** Allocate PLHA, CDBG, and other local funds to support homeless prevention.

- **Policy H2.3 Increase Energy and Water Efficiency in Existing Units**
  - **Action:** Weatherization upgrades through grants for lower-income residents; serve 7 annually.

- **Policy H5.1.3 Explore the potential to implement a loan program for ADU construction.**
  - **Action:** Work with 21 Elements collaborative to design a regional loan forgiveness program.

**This is a summary of relevant Housing Element items. For the full text of Housing Element Goals, Policies, and Programs, please refer to the Housing Element.*

Regional and State Housing and Funding Programs
Three upcoming opportunities at the regional and state level will require prioritization of housing funds to align with program requirements and position the City to be more competitive for housing and transportation grant funding.

MTC TOC Policy - The City is currently pursuing full compliance for the Transit-Oriented Communities (TOC) Policy Incentive Program, a program of the Metropolitan Transportation Commission (MTC). Last May, MTC changed the TOC Policy program so that compliance is no longer mandatory to compete for One Bay Area Grant (OBAG) funding, but instead makes the City eligible for additional funding. The TOC Policy includes standards for density near transit, parking and transportation; a commercial stabilization policy; and housing policies in the areas of production, preservation, and protection. The City received a $610,000 TOC grant for the Comprehensive Zoning Code Update in 2025 with a commitment to pursue partial TOC Policy compliance as part of the Zoning Code Update effort.

Permanent Local Housing Allocation - The City is a recipient of the Permanent Local Housing Allocation (PLHA), a formula-based (noncompetitive), state-funded grant program administered by the Department of Housing and Community Development (HCD) for housing-related projects and programs to address housing needs. The program runs on a five-year cycle, the first of which ended on June 30, 2026. PLHA requires jurisdictions to create a Five-Year Plan for the uses of PLHA funds. The process to develop the City's next five-year plan will begin in fall 2026.

Prohousing Designation Program - City staff is also researching the State's Prohousing Designation Program (PDP), an HCD program that rewards local governments that go beyond minimum state laws to remove barriers to housing production, streamline approvals, and adopt inclusive zoning. Prohousing Designated cities gain scoring preferences for state grants and exclusive access to the Prohousing Incentive Program (PIP), a grant program also administered by HCD.

Community Feedback on Anti-Displacement and Housing Stability
Common themes have emerged from community outreach conducted for the City's Housing Element and housing policy discussions that may also inform the City's housing funding strategy. Many funding-related comments have centered around the importance of emergency rental assistance, free legal aid, and tenant-landlord education in preventing eviction of lower-income tenants.

On August 19, 2026, the Community Relations Commission (CRC) held a discussion on housing funding priorities at its regular meeting. At the meeting, members of the public expressed strong support for increasing funding for legal aid, tenant education and outreach, and emergency rental assistance. Comments emphasized the need for deeply affordable housing; case management, especially for lower-income seniors; and programs for home repairs or weatherization/energy efficiency upgrades for lower-income seniors. Commissioner feedback reinforced these comments and emphasized a need for investments in homelessness prevention and new affordable housing for the lower-income senior population.

<u>Housing Division Restricted Funds and Fund Balances</u>
The Housing Division administers several restricted housing funds. These funds draw revenue from various sources,

including new commercial development, new affordable housing development, loan repayments and revenues from the former Redevelopment Agency, and state and federal grants. In recent years, the City has seen significant revenue in some of these restricted funds, though annual revenue varies significantly, and projections can be challenging. Each housing fund, its estimated balance as of July 1, 2026, and its primary uses are listed below. Summaries of each fund from the City's adopted FY26-27 Budget are included in Attachment 2.

Housing Successor/LMIHAF/RDA (Fund 255) - $5,381,000
The Low- and Moderate-Income Housing Asset Fund (also called "Housing Successor" Fund or "RDA" Fund) consists of loan payments, lease payments, sale of property, and any other revenue generated from loans or assets held by the City as Housing Successor to the former Redevelopment Agency (RDA). State law regulates the usage of these funds to support housing projects that assist households whose income ranges up to 80% of the Area Median Income (AMI).

This fund has a statutory limit of spending up to $500,000 annually for services to prevent homelessness or serve households experiencing homelessness. Administrative expenses of up to $518,000 can also be covered through this source for overseeing RDA assets. The City's Emergency Rental Assistance Program and the Police Department Homeless Outreach Team (HOT) are both currently funded with RDA money. The fund has also been used for loans to the Kiku Crossing and Bespoke affordable housing developments. The annual revenue for this fund is unpredictable; however, staff estimates a conservative annual revenue of approximately $200,000.

Commercial Linkage Fee (Fund 270) - $3,795,000
The Commercial Linkage Fee (CLF) is assessed on new commercial developments to address the impacts of new job creation on housing availability and affordability for workers. Developers pay a fee based on square footage of new commercial space depending on type of use: office, retail, or hotel. The funds are to be used for housing programs to assist workers who make up to 120% of AMI and for rehabilitation of housing units. The state requires jurisdictions to program CLF funds every five years and report on the updated CLF budget.

In Fiscal Year (FY) 25-26, $1,000,000 of CLF money was set aside to support the Bespoke affordable housing development. Previously, CLF has been used to fund the construction of the Kiku Crossing affordable housing development. Revenue is dependent on projects receiving a building permit. This is challenging to predict; however, staff estimates that a cumulative amount of up to $7,000,000 could be collected over the next five years based on the current project pipeline.

City Housing Fund (Fund 250) - $1,563,000
The City Housing Fund captures a variety of housing-related revenues, including loan repayments from prior federal rehabilitation and City first-time homebuyer loans, fees collected for housing loan subordination requests, and Below Market Rate (BMR) program in-lieu fees. This fund is less restrictive, but annual revenues are highly unpredictable. Staff estimates an annual revenue of approximately $260,000.

The fund currently supports Housing Division staff salaries and the First-Time Home Buyer Program's Administrator. Below market rate (BMR) loans to low-income home buyers are also supported through this funding source; one to two loans of $50,000 are issued each year.

General Fund Housing Set Aside (Fund 130) - $6,470,000
Since the dissolution of Redevelopment Agencies, the City has voluntarily set aside 20% of General Fund property tax revenues from its former Redevelopment Areas to be used for affordable housing development and other housing-related programs. This flexible source of funding has been used in recent years for staff salaries, loans to affordable housing projects, and grants for housing case management. As part of the recently amended Housing Element approved by HCD, if the City is forecasting and experiencing a budget deficit the City may forgo its annual General Fund contribution to the Housing Set Aside Fund.

PLHA (Fund 280) - $48,000 (remaining of $293,103 total allocation for FY25-26)
The Permanent Local Housing Allocation (PLHA) is a state grant program administered by HCD that began in 2020. Funding

is continuous through state receipts of document recording fees each year. These funds may be used for housing-related projects and programs that assist in addressing unmet housing needs. Funds are awarded in five-year cycles and are distributed to local grant recipients following a City Council-adopted Five-Year Plan. Prior PLHA grantees included affordable housing developments with supportive services, a homeless shelter, a rapid rehousing program, and a homeless shelter, all serving San Mateo residents.

The City has just completed the initial five-year cycle and will begin the planning process for the next Five-Year Plan in the coming months, followed by the application for Year 1 funds. The formula allocation for Year 1 is $239,986, with annual funding of approximately $240,000 anticipated in the upcoming years.

CDBG (Fund 215) - $638,000 (remaining of $753,586 entitlement for FY25-26)
The Community Development Block Grant (CDBG) Program is a federal grant from the U.S. Department of Housing and Urban Development (HUD) that provides flexible funding for community development projects and programs to assist lower- income neighborhoods and households. San Mateo has participated in this program since 1977. The fund consists primarily of an annual entitlement grant, though CDBG also generates program income from loan repayments. The City draws down its annual entitlement plus any prior-year unexpended funds on a reimbursement basis from HUD.

The current balance shown above reflects the remaining funds from the 25-26 program year, plus a small amount of prior-year funds. The balance is relatively large due to the City receiving its 25-26 entitlement funds at the end of the program year, as the City was delayed in executing its grant agreement with HUD for the funds until June 2026. The entitlement amount for the 26-27 program year is $802,758.

HOME (Fund 210) - $601,000
The HOME Investment Partnership (HOME) Program is a federal grant used to support rental and homeownership housing opportunities for households up to 60-80% of the AMI. The City received an annual HOME grant from 1994 to 2016. The fund now includes program income from repayments on loans funded with HOME funds in the past. The City has been part of the San Mateo County HOME Consortium since 2016 and therefore does not receive a direct allocation from HUD; however, it does receive a small annual allocation for administration from San Mateo County ($11,000-12,000) to offset staffing costs associating with monitoring HOME-regulated projects.

Housing Funding Strategy Recommendations
Over the last five years, housing-related services have accounted for roughly one quarter of all Housing Division annual expenditures. The majority of City-restricted housing funds are intended for affordable housing *production* and *preservation* — expenditures that are driven by the affordable housing development pipeline rather than a fixed schedule. To see how the City distributed its funds in FY 25-26 organized by funding category, refer to the chart in Attachment 1.

Housing Division expenditures in the coming years will be shaped by the City's Housing Element commitments, major grant opportunities, and community feedback. To guide how this strategy takes shape and how funds are expended, staff is seeking City Council direction on next steps related to MTC TOC Policy compliance, applying for a Prohousing Designation, and PLHA priorities, as any other specific activities will require City investment beyond those in the Housing Element.

MTC TOC Policy
As noted above, staff is currently reviewing City housing programs and policies against the requirements of the MTC TOC Policy to identify any "gaps" in the program requirements to achieve full compliance. As outlined in the MTC Administrative Guidelines for TOC Communities Policy, jurisdictions are required to have, or adopt affordable housing policies in the *Production, Preservation, and Protection* categories and meet a minimum funding threshold for each category to gain sufficient points in the scoring system to be eligible for the TOC Policy Incentive Program. Currently, the City does not meet the threshold for all housing categories. Staff is seeking direction from City Council to adjust funding in the *Preservation* and *Protection* categories to achieve compliance with the affordable housing component of MTC TOC Policy. This is discussed in greater detail below.

Prohousing Designation Program

The Prohousing Designation Program is a competitive program for jurisdictions that go "above and beyond" to promote the production of housing. The application consists of a rigorous review of City policies and programs to demonstrate compliance with a menu of policies across four broad categories. The designation is valid for three years and benefits jurisdictions by prioritizing them for various types of state funding, including the Prohousing Incentive Program (PIP). To achieve this designation, the City would have to augment existing policies and create a new program, which is discussed in more detail below.

Staff is seeking City Council direction to apply for the Prohousing Designation by the end of 2026 so that the City can compete for PIP funds in the next cycle (Q1 of 2027). Prior to submitting the application, staff would return to City Council with other items required to achieve the designation.

PLHA Five-Year Plan

As noted above, HCD has released a Notice of Funding Availability (NOFA) for the second five-year cycle. An award amount of $239,986 is estimated for the first year of the new five-year cycle. HCD requires applicant jurisdictions to submit a Five-Year Plan for PLHA expenditures before applying for funds annually. Eligible uses for this fund are divided into three main activity areas: rental, affordable owner-occupied workforce housing, and homelessness assistance.

Staff is seeking initial direction on how to allocate these funds and to commence the Five-Year Plan process this fall. In the previous cycle, the City mainly funded services under the homelessness assistance activity (shelter operations, rental assistance, and case management). PLHA funds may again be utilized for homelessness assistance. A portion of the funds may also be used to support an ADU Loan Program through the ADU Resource Center. This would further Housing Element policies H 3.1 (Prevent Homelessness) and H 5.1.3 (ADU Loan Program).

<u>Recommendations for Housing Division Funding Strategy</u>

The following funding recommendations fall broadly under the "3Ps" - Production, Preservation, and Protection. The funding recommendations and potential sources below are meant to serve as guideposts for the City Council in providing direction to staff. Some of these recommendations incorporate the requirements of MTC TOC Policy, Prohousing Designation, and PLHA, and are subject to change based on City Council direction. Funding amounts are approximate.

PRODUCTION - $10.68M total

1. ***Housing Fund to Support Production, Preservation, and Rehab***

   There are a combined $17.69M across Housing Set-Aside, RDA, City Housing, and CLF funds, which is sufficient to support far more than the targeted 260 affordable housing units at $100,000 per unit (average) cited in the Housing Element.

   However, to meet the requirements of a Housing Trust Fund for a Prohousing Designation, per the Prohousing Designation Guidelines, a jurisdiction must go beyond having funds "on deposit" in their respective funds by creating a local "housing trust fund" and demonstrate that it will "regularly and significantly" contribute to that fund for affordable housing. The City could meet this by setting aside a combination of Housing Set-Aside, RDA, City Housing, or CLF funds for the purpose of funding projects. Projects could be awarded via a Notice of Funding Availability (NOFA), whereby developers are invited to submit applications by a set deadline and all applications are considered on a competitive basis, or an ongoing "over-the counter" program in which funds are awarded to eligible projects on a first-come, first-serve basis. In either case, the City must commit to replenishing this account at "regular intervals,"i.e., annually.

   If the City Council directs staff to pursue the Prohousing Designation, staff recommends establishing a dedicated fund with an initial amount of $5M to align with the Prohousing Designation. This will also serve to encourage developers to move projects forward in San Mateo and meet Housing Element Policy H 2.1 (Utilize Public Funding and Properties for New Affordable Housing). Taking this action creates more transparency and signals the City's capacity and intent to fund projects of various types. Production, preservation, and rehab activities are all eligible uses under the funds named above.

As a first step, City Council may appropriate funds into a new account via resolution at a future City Council meeting. Staff can then develop key program parameters for developers to apply for funds on a rolling basis. The recommended amount ($5M) is based on potential requests for funding that staff anticipates in the coming years and could support two to three projects, depending on the size. For each project that receives Housing restricted funds, staff would work to leverage the City's contribution with the state grant sources noted in this report and potentially with federal sources, thus multiplying the impact of the City's investment.

2. ***Housing Fund to Support Affordable Housing Development on City-Owned Land***

Housing Element Policy H 1.2 requires the City to assess feasibility of developing the City-owned parcel at 4142 S. El Camino Real with affordable housing, with an emphasis on extremely- and very low-income units. This site has limited potential alone, but with assemblage of the adjacent two parcels, there could be enhanced potential for a larger, mixed-use, mixed-income development with development partners. Realizing a project at this scale would likely require a sizeable City contribution, thus feasibility assessment is necessary before more specifics can be established.

Additionally, jurisdictions can claim credit under both MTC TOC Policy and the Prohousing Designation for demonstrating a commitment to utilizing publicly owned land for affordable housing beyond what is required by the Surplus Land Act (25% of units affordable to lower-income households). For these reasons, staff recommends setting aside $5M in a combination of RDA, CLF, and Housing Set-Aside funds for acquisition and development on City-owned parcels. Staff is also researching ways to leverage City funds for a project of this size, such as through the Prohousing Incentive Program or possibly through federal funding sources.

3. ***ADU Loan Program***

Housing Element Policy H 5.1.3 – Explore Potential to Create an ADU Loan Program commits the City to explore the potential for a city ADU loan program, or, if not feasible, to work with the 21 Elements Planning Collaborative to design a regional loan forgiveness program. Staff has been participating in the ADU Implementation Group led by the ADU Resource Center of San Mateo County, which has developed an ADU loan program concept. The program aims to support homeowners in building an ADU on their property by lowering the financial and technical barriers to ADU construction.

The program would provide low-interest loans to low- to moderate-income homeowners (<120% AMI) seeking to build an ADU. To be effective, it is anticipated that a loan of $100,000 would be provided to each approved homeowner seeking to construct an ADU, plus $10,000 in technical assistance. If one loan per year is provided to a San Mateo homeowner, this would be a commitment of up to $550,000 over five years. The ADU Resource Center would manage the administration, with HEART of San Mateo County overseeing loan origination and monitoring and participating jurisdictions sharing the administrative cost of about $80,000 annually. Assuming that at least three jurisdictions participate, San Mateo's share would cost approximately $26,000 annually (approximately $130,000 over five years). Thus, the total cost of this program would be up to $680,000 over five years. It is anticipated that interested jurisdictions will execute an MOU with HEART in the fall, with program launch targeted for summer 2027. A potential partial source of funding for this program is Housing Set-Aside or RDA. Staff are researching whether PLHA may be used for this purpose.

PRESERVATION - $2M total

1. ***Preservation of Affordable Housing with Expiring Restrictions***

Housing Element Policy H 2.2 requires the City to try to preserve units with an expiring affordability restriction. At Bridgepointe Condominiums, the affordability restrictions for 59 affordable units (24 of which are very low-income units) are set to expire in December 2027. The Belmont Building includes six very low-income units, for which the restriction expires in 2032.

This summer, City staff met with the Bridgepointe ownership team to discuss future plans for the complex and to begin preliminary negotiations to extend the units' affordability restrictions. As of the date of this report, the

ownership is undecided about plans for the building but did inquire about potential City funding to support interior renovations on the units in exchange for extending the affordability restrictions.

Staff recommends setting aside Housing funds from the City Housing Fund or RDA for the Bridgepointe Condominiums and the Belmont Building, the two developments with expiring affordability restrictions during and immediately following this Housing Element cycle. If the City and the ownership of these two developments can reach an agreement to extend the affordability terms in exchange for a City loan, staff would return to City Council with loan terms and an appropriation recommendation. A preliminary estimate for Bridgepointe is $1.5M. Since the Belmont Building restrictions do not expire until 2032, staff does not yet have an estimate for this preservation effort, and will return to Council for direction at a future date when more information is available.

2. ***Preservation Support for Below Market-Rate Homeowners***

The City's primary form of homeowner assistance is through repair and rehab programs that allow lower-income homeowners to remain in their homes. The City partners with Rebuilding Together Peninsula for two CDBG-funded home repair programs, Safe and Home and National Rebuilding Day, and the CalHome Home Rehab Loan program. Many grant and loan recipients are single-family homeowners, though condominium homeowners have also received assistance for interior improvements like accessibility and safety upgrades to kitchens and bathrooms.

There is not currently a source of funding to assist lower-income condominium homeowners in communities in need of common area or exterior maintenance and repair. With Senate Bill 326 (SB 326, sometimes referred to as the "balcony bill") taking effect and HOAs being held responsible for inspecting and repairing exterior elevated structures such as balconies, along with increased scrutiny from lenders, HOAs have struggled to build sufficient reserves for repairs. High HOA dues that exceed a BMR homeowner's ability to pay is a common occurrence, as the City has seen with one of its First-Time Homebuyer complexes, Gateway Commons (211 and 221 S. Fremont St).

To address this issue, the City could develop a loan or grant program for BMR homeowners to assist with HOA dues or assessments. Staff is seeking City Council direction on whether to research and propose a program targeting BMR homeowners. If the City Council wishes to pursue this program, staff recommends setting aside $500,000 for five years using the most flexible Housing funding sources, such as City Housing Fund or Housing Set-Aside.

PROTECTION - $1.625M total

1. ***Homelessness Prevention/Housing Stability - Emergency Rental Assistance Program***

The City began strategically using RDA funds for homelessness prevention and response in FY25-26 by budgeting for the Police Department Homeless Outreach Team (HOT) and creating the Emergency Rental Assistance Program (ERAP). The ERAP was established as an anti-displacement policy in response to the fact that most evictions in San Mateo County are due to nonpayment of rent. This program, administered by Samaritan House, expended all funds for FY 24-25 ($168,000), and City Council directed staff to increase the budget to $220,000 for FY 26-27. Staff is seeking direction to maintain this funding level in future years. Staff will continue to work closely with Samaritan House to monitor program effectiveness and provide annual report-backs on utilization of the fund and any patterns that emerge from the data collected. The first-year annual report on the Program will be published this fall. Staff is seeking confirmation from Council to plan for this program being funded over the coming five-year period.

2. ***Homelessness Prevention/Housing Stability - Legal Services***

As noted above, the City has received significant feedback on the need for legal services from its community outreach on anti-displacement, including during the August 19th Community Relations Commission meeting. Staff has found that apparent underfunding of "upstream," or preventative housing services such as tenant legal education and access to legal services is a countywide issue and that neighboring jurisdictions are similarly considering how to address the apparent gap in these services.

In preparation for this meeting, staff met with City-funded organizations Project Sentinel and Legal Aid for input on

how funding trends in recent years have affected their ability to provide these services, and how additional funding from San Mateo and other jurisdictions throughout the County could be used to serve more lower-income tenants in San Mateo. Overall, both providers indicated that staff capacity has decreased in recent years, and that an additional staff member, such as one additional full-time attorney or one full-time case manager, would improve service levels.

For TOC Policy compliance, MTC allows for policies to be combined into one to meet the funding threshold ($300,000 over four years). Within the *Protection* category, the City meets the programmatic and dollar threshold for the *Rental Assistance Program* policy. By combining two existing programs that qualify as *Legal Assistance* and *Fair Housing Enforcement* at their current funding levels, the City still falls short of the minimum funding threshold by approximately $65,000 annually.

Given these findings and the parameters of the MTC TOC Policy, staff recommends increasing legal services funding by $75,000 annually for the next four years ($300,000 total). Legal services are not an eligible use of funds under PLHA or other available state programs, so staff recommends using the Housing Set-Aside Fund, which is flexible funding source and would allow for spending on this type of activity for the first year. Staff will assess if other funding sources could be used for this activity in coming years and will continue to seek outside sources to leverage this funding.

Staff also recommends working with other jurisdictions in San Mateo County, including the County itself, to explore a multijurisdictional, combined fund for legal services. This model is in use in other counties in California and could be a more efficient means of increasing legal services access in the County than funding separate programs in individual cities.

3. ***Homelessness Response- SMPD Homeless Outreach Team***
   The Housing Division has utilized RDA funds to support the Police Department's Homeless Outreach Team (HOT) since FY 25-26. Identifying this new source has allowed the City to reduce its reliance on the General Fund while sustaining funding for two permanent members of the HOT. HOT is a highly successful model for homelessness response, and incorporating the team into the Housing Division budget has strengthened collaboration between the Police Department and Housing staff in serving the community. Staff recommends continuing to use the annual $500,000 RDA set-aside for homelessness prevention and response to support HOT and is seeking City Council direction on whether to maintain or increase HOT funding levels in subsequent fiscal years. HOT is currently funded at $250,000 annually, and the estimated total expenditures under Protection assume that funding level remains constant over the five-year planning period.

<u>City Council Questions</u>

Given the above recommendations, staff is seeking direction from the City Council on the following questions:

1. Does the City Council support applying for the Prohousing Designation Program?
2. Does the City Council support pursuing full compliance with the MTC TOC Policy?
3. Does the City Council support setting aside approximately $10.68M for Production, $2M for Preservation, and $1.625M for Protection to support the activities described in this report?

<u>Next Steps</u>

Staff will implement City Council direction on each of the above areas, many of which will take the form of future City Council items. Specifically, if directed, staff would take the following steps:

- Continue to pursue full compliance with the MTC TOC Policy affordable housing policies, with the target to take all necessary actions and submit documentation to MTC by July 2027.
- Apply for the Prohousing Designation, which requires an extensive public input process, including a 30-day public comment period for review of the full application prior to submittal to HCD. Staff has developed a preliminary schedule for this application that includes initial consultation with HCD, review by the Planning Commission and Community Relations Commission of the draft application during the public comment period and bringing the application back to City Council for adoption later this fall.

- Launch Five-Year Plan process for PLHA. Staff anticipates holding a study session with the Community Relations Commission to kick off the Five-Year Plan process and then returning to City Council for further action this fall.
- Return with appropriation resolution for an over-the-counter Housing Fund program. Staff anticipates returning to City Council at the next meeting with the outline of this program and an appropriation resolution in time to submit for the Prohousing Designation, should City Council direct staff to apply.
- Return in the fall with the draft Memorandum of Understanding (MOU) with the ADU Resource Center for the creation of the Affordable ADU Loan Program, which will include the parameters of the program, responsibilities of the City and other parties, and funding amounts, for City Council approval. Please note that this MOU is non-binding—there is no requirement for the City to make any financial contribution-- and would be followed by a formal funding agreement.
- Return with an appropriation resolution for an acquisition/development fund and a preservation fund .
- Return with an appropriation resolution and, if applicable, program parameters for any other new programs cited above (e.g., BMR Homeowner Preservation Support, Legal Services Fund), if the City Council directs staff accordingly.

BUDGET IMPACT:
This is a study session and no formal actions are being taken by the City Council, so there is no impact to the General Fund.

ENVIRONMENTAL DETERMINATION:
This study session is not a project subject to CEQA, because it can be seen with certainty that it will not cause a physical change in the environment. (Public Resources Code Section 21065.)

NOTICE PROVIDED:
All meeting noticing requirements were met. Information about this meeting was provided via multiple City communications channels. A public notice announcing this meeting was published on the San Mateo Daily Journal on August 14, 2026. The meeting was also announced on City of San Mateo's eNews and the City's News and Announcements page located on the homepage of the City's website. Social media (Facebook and Instagram) were utilized to invite residents to the September 8 City Council Study Session. Notices were sent out through the City's Housing Policies & Programs email list and the Community Relations Commission email list.

STRATEGIC PLAN ALIGNMENT:
This housing fund study session supports implementation of the City's Housing initiative.

ATTACHMENTS
Att 1 – Housing Division (Non-Personnel) Expenditures in FY 25-26
Att 2 – Housing Fund Summaries

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ADU Resource Center
SAN MATEO COUNTY

Affordable ADU Program of San Mateo County

The Affordable ADU Program of San Mateo County is designed to unlock the potential of ADUs as a source of affordable rental housing and as a tool to promote preservation and prevent displacement of low- to moderate-income homeowners. The program will support homeowners in building an ADU on their property by lowering the financial and technical barriers to ADU construction. With a special focus on affordability and equity, the program is designed to support jurisdictions in meeting the affordability goals outlined in their Housing Elements.

Proposed Program Structure

Two Program Tracks

Homeowners can participate in the program by meeting either of the following eligibility criteria[1]:

- ***Affordability Track*:** Homeowners willing to rent their ADU at below-market rates (60% AMI) for a defined period (8 years), helping to create affordable infill housing for income-qualifying community members
- ***Equity Track*:** Low- to moderate-income homeowners (<120% AMI) seeking to build an ADU, helping them generate income, increase property value, and achieve long-term stability

Program Offerings

Homeowners participating in the program will receive:

- ***Financial Incentives*:** Low-interest loan and permitting fee waivers, contingent on jurisdiction preferences
- ***One-Stop Technical Assistance*:** End-to-end support, from feasibility and permitting to construction oversight and lease-up
- ***Trusted Design-Build Partners*:** Vetted teams and pre-approved plans to offer homeowners a faster, lower-cost path to high-quality ADU construction

Roles

The Program will be launched with seed funding from participating jurisdictions. We are also actively exploring partnership opportunities with for-profit and non-profit lenders, philanthropy and trusted ADU design-build professionals.

The ADU Resource Center of San Mateo County will manage program administration, creating a shared infrastructure to create economies of scale and lighten the staffing burden on jurisdiction staff. Any loans originated through the program will be fully managed by a third party.

[1] Jurisdictions can opt into one or both track(s)

Budget (Draft)

Financial incentive		
Low interest incentive loan	**$100,000**	**per unit**
Technical assistance		
Feasibility & preconstruction	$10,000	per unit
Project management & construction oversight	$2,000	per unit
Lease up & landlord supports	$500	per unit
Technical assistance total	**$12,500**	**per unit**
Program administration		
Program management & loan management	$60,000	annually
Monitoring & compliance	$20,000	annually
Total program administration[2]	**$80,000**	**annually, split across participating jurisdictions**

[2] Total program administration cost is partially sensitive to ADU volume. If total program volume exceeds projections, program administration costs may be higher. Budget will be refined once list of participating jurisdictions is finalized.

https://www.smdailyjournal.com/news/local/san-mateo-moves-ahead-with-five-year-housing-fund-plan-to-fund-low-interest-loan/article_ef2b4ad0-cb45-448b-bc6b-31af19ac0003.html

FEATURED

San Mateo moves ahead with five-year housing fund plan to fund low-interest loan program, preserve affordability requirements

By Alyse DiNapoli, Daily Journal staff
Sep 14, 2026



MORE INFORMATION



San Mateo is moving forward with a five-year plan on how to spend its roughly $14 million housing fund, with plans to launch a low-interest loan program, preserve existing affordable units at Bridgepointe Condominiums and expa financing options for developers, among others.

Apartment building acquired for educator workforce housing: Housing Endowment and Regional Trust of San Mateo County, County Office of Education purchase existing apartment building in 1st-of-its-kind workforce housing program

Housing construction throughout the region, for market rate and affordable units, has dramatically slowed in the last couple years, as inflationary pressures continue raising costs and lending conditions tighten. But cities still face ambitious housing requirements from the state. In San Mateo, the city must plan for more than 7,000 units between 2023-31, with about 3,975 units of those set aside as affordable housing.

While the city has seen a spike in the number of development applications, not as many have been fully completed. There have been about 392 affordable units completed between 2023-25 in San Mateo, according to annual housing progress report data.

One of the more significant parts of the proposal is a $5 million allocation for an ongoing loan program aimed at affordable housing developers — which would loosen up a currently rigid structure where funding is disbursed at fixed periods throughout the year.

The plan would also include an $75,000 annual increase in its allocation of legal assistance.

“We have heard through the tenant protections and anti-displacement outreach, through communications with legal services providers and feedback from the community, that there is a need for more legal services to prevent evictions and ultimately to prevent homelessness,” Housing Manager Rachel Horst said during the meeting.

Another $5 million from the existing fund would go to a city-owned property at 4142 S. El Camino Real and roughly $680,000 over five years for an accessory dwelling unit loan program. The latter program would offer five $100,000 loans annually — on top of $10,000 in technical assistance — to moderate-income homeowners who build ADUs and rent them at below-market-rates. The city would partner with HEART, The Housing Endowment and Regional Trust, on the program, which has also launched another low-interest program last year for mobile homeowners.

According to the proposal, $1.5 million would go toward preserving affordability requirements at Bridgepointe Condominiums, where restrictions on 59 units expire at the end of next year.

The city's recent emergency rental assistance level would be funded at its current $220,000 level. To address increasing costs of homeowner association dues, the city also recommended a $500,000 fund to assist below-market-rate condo owners.

"We've got to do everything we possibly can to help BMR homeowners stay and grow," Councilmember Lisa Diaz Nash said during the meeting.

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