



# County of Santa Cruz 345

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## REDEVELOPMENT AGENCY

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TOM BURNS, AGENCY ADMINISTRATOR

December 30, 1998

Agenda: January 12, 1999

Board of Directors  
County of Santa Cruz Redevelopment Agency  
701 Ocean Street  
Santa Cruz, CA 95060

### **SECURITY DEPOSIT/LAST MONTH'S RENT GUARANTEE PROGRAM**

Dear Members of the Board:

During budget hearings in June 1998, Agency staff recommended a new Security Deposit/Last Month's Rent Guarantee Program for low-income renters in the unincorporated County area. Your Board directed Agency staff to report back at the first meeting in January 1999, with recommended program guidelines and administrative costs.

#### **PURPOSE OF PROGRAM**

As your Board may recall, this type of program is designed to assist those low-income households in our community which can afford to pay monthly rent but are currently living in transitional, substandard or overcrowded housing -- such as hotel rooms, trailer parks or rooms within a house -- because they are unable to save enough money to pay the initial rent and security deposit. Typically, such programs provide a security deposit loan and last month's rent guarantee to landlords on behalf of eligible tenants during the first year of tenancy.

According to many recent surveys, Santa Cruz County is one of the least affordable areas in the United States with very low rental vacancy rates and high rents as compared to median incomes. There are many households in our community which can just afford the monthly rent, but have no savings for the substantial deposits commonly required by most property owners prior to occupancy. The need for this type of assistance within the unincorporated County is unmet by any other government program.

## DISCUSSION OF PROGRAM OPTIONS

The County's Housing Authority is currently administering two Security Deposit/Last Month's Rent Guarantee programs -- for the cities of Santa Cruz and Capitola. Since June 1998, thirteen local families who could not otherwise pay for the deposits have found safe and decent rental housing.

Although both cities' programs have very similar guidelines, including a declining letter of credit for the last month's rent (reduced 1/12 each month for the first year of occupancy) and a housing inspection of the unit prior to occupancy, each program differs markedly in the type of security deposit assistance offered.

The City of Capitola offers an outright grant for security deposits, while the City of Santa Cruz offers a loan that must be paid back upon vacancy. Each approach presents both benefits and drawbacks. The prospect of the tenant receiving the amount of the security deposit (minus any landlord retention) as a grant upon vacancy may encourage tenants to better maintain their units and give full 30-day notices. These grants can then be used for the tenant's next rental deposit. In addition, establishing the security deposit assistance as a grant may encourage more landlords to participate in the program through reducing the level of government involvement. There is, however, more potential for misuse of grants by both tenants and landlords under a grant program, particularly when the grant can be received after short term tenancy.

Providing security deposit assistance as loans, in contrast, may not encourage the same degree of tenant responsibility for maintenance of the unit, as there would be no financial incentive to a tenant to clean up the unit upon vacancy. Additionally, to insure whole or partial payback of the loan, a much more intensive administrative effort would be required to monitor tenancy and to negotiate the repayment amount based on the landlord's estimate of damage. On the other hand, returned funds may be recycled through the program to assist other qualified tenants.

After much discussion between Agency and Housing Authority staff concerning the potential benefits and drawbacks of each approach for tenants and landlords, and after weighing the public benefit of a revolving loan fund against the potentially high administrative costs for monitoring and collection activities with landlords, we are recommending a different approach than was used in either city. While providing the assistance in the form of a grant has a number of benefits, we are suggesting that the security deposit be established initially as a loan, but that it would become a grant at the rate of 1/12 of the deposit per month over the first year of occupancy. This would maximize the benefits of a grant, but greatly reduce the opportunity for misuse of the program.

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## RECOMMENDED PROGRAM GUIDELINES

In addition to the issue discussed above, there are a number of other key aspects of the proposed County program, including:

- Household income must be less than 80% of median
- Security deposit cannot exceed one month's rent
- Last month's rent is guaranteed by the Agency on a declining basis
- Tenant pays an additional 1/12 of the last month's rent per month to owner
- Unit inspection is required
- Priority is given to applicants who:
  - ▶ Live and/or work in Santa Cruz County
  - ▶ Are involuntarily displaced
  - ▶ Live in substandard housing
  - ▶ Live in temporary housing

## PROGRAM MANAGEMENT

As stated earlier, the County's Housing Authority is currently administering two Security Deposit/Last Month's Rent Guarantee Programs for the cities of Santa Cruz and Capitola. In recognition of the cost efficiency and public benefit of a central agency administering similar housing programs, we are prepared to negotiate a contract with the County's Housing Authority that will include the following services:

- Prepare administrative guidelines and brochures for the public
- Announce program to local housing and social services agencies
- Provide initial unit inspection
- Do tenant income and asset certifications
- Monitor and collect security deposit loan funds during first years of tenancy

Adequate funds were included within the approved Agency budget to cover anticipated program costs.

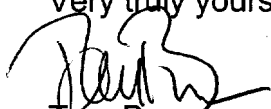
## CONCLUSION AND RECOMMENDATION

Approval of this program will provide another key service within a diverse group of Agency-assisted housing programs for lower income families.

It is therefore RECOMMENDED that your Board, as the Board of Directors for the Redevelopment Agency, authorize the Agency Administrator to enter into a contract with the Housing Authority of the County of Santa Cruz in the amount of \$15,000 to administer and fund the County's Security Deposit/Last Month's Rent Guarantee Program for the balance of fiscal year 98/99.

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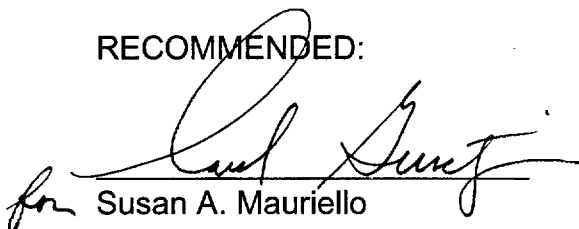
Very truly yours,



Tom Burns  
Redevelopment Agency Administrator

TB:RMcB

RECOMMENDED:



for Susan A. Mauriello  
Redevelopment Agency Director

cc. RDA

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