



# County of Santa Cruz 0311

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## REDEVELOPMENT AGENCY

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TOM BURNS, AGENCY ADMINISTRATOR

August 16, 2001

Agenda: August 28, 2001

Board of Supervisors  
County of Santa Cruz  
701 Ocean Street  
Santa Cruz, CA 95060

### **Partnership for Employee Housing**

Dear Members of the Board:

The issue of housing affordability is often raised as a critical concern affecting local employers' ability to recruit or retain employees. Most sectors of the local economy have been affected by increased housing costs, including employees providing the full range of local governmental services. In response, during the Redevelopment Agency's recent budget hearing Supervisor Almquist proposed that the Redevelopment Agency, as part of its mission to pursue affordable housing opportunities, explore the potential for partnering with other local public and quasi-public agencies to create low and moderate income rental housing for their employees (Attachment 1). That letter directed that initial contacts be made in the near future, with a status report to the Board on or before December 1, 2001.

As part of approving the proposed actions, the Board directed staff to return with an interim report summarizing the range of issues that would need to be addressed for such a program to be successful. A summary of those initial issues follows. As you will see from reviewing the following materials, there are many obstacles to overcome if such a program is to proceed.

#### **Income Qualifications/Eligibility**

Most people recognize that households qualifying for assisted "affordable housing" must have incomes below certain levels. They usually don't realize, however, that these limits are set at a level that can be met by a majority of families working in Santa Cruz County. With assisted projects typically serving households making \$50,000 (four person low income household) to \$75,000 (four person moderate income), workers qualify from a wide spectrum of local governmental and quasi-governmental positions — including nurses, police, teachers, and bus drivers. In fact, even with a two wage earner family, most

families supported by local wage earners could qualify for assisted housing opportunities. Clearly, if the other issues involved with providing such a program can be resolved, the demand for units within the affected agencies' staff will be extremely high.

### **Targeting Housing to Key Segments of the Workforce**

The issue of targeting affordable housing to a particular segment of the workforce is not a new one. Farmworkers have been recognized for some time as a unique group of employees needing special housing assistance. **As a** result, a number of state and federal programs are targeted to assist farmworker housing projects. Recently, the administrators of the federal and state tax credit program have been exploring the potential for targeting housing for teachers as a "special needs" population. Many universities provide rental and "owned" homes for faculty and staff,

Most would agree that maintaining a strong governmental work force is critical to providing key community services. Others would argue, however, that government workers are no different than other members of the local workforce and should not receive priority in placement in affordable housing projects. Clearly, if this program were to proceed on a large scale, this is an issue that participating agencies would need to address.

### **Housing Financing Issues**

One critical aspect of providing new affordable rental units is the availability of financing. **As** Board members are aware, financing affordable housing, particularly rental units, requires assembling significant resources from a variety of sources. **As** a result, Agency staff and our non-profit partners have worked hard over the years to leverage our limited housing funds to maximize housing opportunities. By way of example, the following financing sources are being assembled to finance the sixty-four unit apartment component of the recently-approved Pajaro Lane Project:

Conventional Loan	\$1,686,532
<b>RDA</b> Long term Loan	\$1,800,000
NRC Grant	\$ 200,000
HOME Grant	\$1,317,110
Fed/State Tax Credits	\$6,950,827
AHP Loan	\$ 400,000
Developer Contribution	\$ 379,108
<b>Total Project Financing</b>	<b>\$12,733,577</b>

One can see that the overall project cost of less than \$200,000 per unit, including land, construction and other costs, is quite favorable, given the level of amenities provided in the project. At the same time, because the restricted affordable rent levels can support a relatively low level of traditional debt service, substantial outside funding sources are required to finance these projects, Each of the funding sources comes with a package of

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limitations, in the form of affordability covenants, unit mix, unit size, standards for tenant selection, and income level. **As** a result, the project designs, in order to be competitive for the critical funding sources, are often driven by the funding source requirements.

When one contemplates financing similar projects with a focus to a limited segment of the local workforce, a number of issues arise which further complicate the financing structure. Currently, such a project, through directing the housing units to particular employee groups, would become ineligible for a number of the key financing sources, including HOME and Tax Credits. If the mix of income levels within the project are raised to allow for higher rents to support more traditional financing in an attempt to replace portions of these lost funds, additional financing sources would be jeopardized. These losses could only be partially off-set through the benefits of low interest municipal bond financing or outright land donations. While there may be a way to address these complex financing questions, Board members should be aware that targeting assisted rental units to particular employee groups will present some challenging financing questions.

In contrast, targeting assistance to ownership rather than rental housing may dramatically improve the overall financing strategy, because of the large infusion of conventional financing brought by home purchasers. Such a program would raise a number of additional management complications, however, regarding tying employment status to ongoing home ownership.

### **Location of Sites**

Site availability and geographic distribution would also be key issues to address. With limited suitable sites remaining in the county and city areas, there are a number of issues to address. It is possible that participating public agencies could provide sites within existing land holdings as part of their participation in a program. Ideally, it would be important to implement such a program with projects distributed throughout the community. Again, this is an issue that will need to be addressed if such a program proceeds.

### **Long Term Management Issues**

Management of such housing projects will present a number of unique challenges. Will a tenant's residency require long term employment with one of the sponsoring entities? Would the family be displaced if the employee changed **jobs** to a non-participating employer", What happens when the employee retires? Should the subsidized units only be available for a limited time period to allow the employee the opportunity to save for a down payment on a housing ownership situation? Would different sponsoring entities allow employees to transfer between projects? Needless to say, these and other issues would need to be addressed.

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**Union Issues**

Some who have worked with employee housing issues in other communities have reported that access to subsidized housing units has become an issue during union negotiations, both looking for a way to address pay inequities between those with and without access to subsidized units and methods used to determine which employees are given access to subsidized units.

**Conclusion/Recommendation**

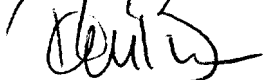
One can see from reviewing this letter that there are a number of complex issues which would challenge the development of an employee housing program focused to benefit local government employers. Nonetheless, the issue of employee attraction and retention has become critical enough to justify exploring the full range of options available, including those involving partnering with other interested local agencies. Through a dialogue with those parties additional ideas may be presented that merit serious consideration.

Because of the complexity of issues involved, it is suggested that any initial dialogue with other local employers be on a more general level — intended to better understand the range of concerns and potential options available. Depending on where those discussions go, it then may be necessary to address the range of concerns raised in this letter.

It is therefore RECOMMENDED that your Board take the following actions:

1. Direct staff to convene the parties described in Supervisor Almquist’s June 21, 2001 letter for the purpose of generally exploring employee housing issues and the range of possible opportunities for cooperation; and
2. Direct staff to report back to the Board with a status report on those discussions on or before December 11, 2001.

Very truly yours,



Tom Burns  
Redevelopment Agency Administrator

RECOMMENDED:



Susan A. Mauriello  
County Administrative Officer

Attachment

cc. RDA



# County of Santa Cruz

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## BOARD OF SUPERVISORS

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FIFTH DISTRICT

June 21, 2001

BOARD OF SUPERVISORS  
County of Santa Cruz  
701 Ocean Street  
Santa Cruz, CA 95060

RE: PARTNERSHIP FOR EMPLOYEE HOUSING

Dear Members of the Board:

Throughout the last year, culminating in these budget hearings, we have heard of the difficulty in recruiting workers to all County employment positions--Planners, Nurses, Sheriffs, Eligibility Workers, Lifeguards, Assistant County Counsels, Engineers...virtually all County employment positions have experienced difficulty in new hires. Over and over again, we have been told that a principal factor is the high housing cost in Santa Cruz County.

This is not a problem that is peculiar to low paying jobs. Several weeks ago, a candidate for an Assistant County Counsel position who had accepted the employment, after reviewing housing costs in the County declined the position. Representatives of Dominican Hospital indicated to me last week that this problem has also prevented them from recruiting physicians for the hospital staff.

Nor is the problem peculiar to our recruitment efforts. This is a problem shared by the cities and by other large public and quasi-public employers including hospitals, Cabrillo College, and school districts. In this latter regard, for instance, the Pajaro Valley Unified School District had in excess of 50 teaching vacancies the week before school started this year. Causal factors impeding relocation of young teachers to this area include high housing costs.

One substantial factor is the lack of available rental housing in the County. This results both from the failure of the private market to develop such housing in recent years and the

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extraordinary impact of that part of the population that is associated with UCSC. The University Regents have, statewide, failed to provide adequate housing to mitigate the impact of the population that is attracted to each of the communities in which the University campuses are located. A recent article in the Sentinel suggests that while the University has built some housing for faculty and staff, this housing has generally not been made available to lower income employees. Of course, the University only provides housing for some sophomores and almost no upper class members. And the University is growing.

This is a problem that we must address. It is not a problem that we can overcome simply by improvements in wage packages. Ironically, it could be argued that wage enhancements actually exacerbate the problem by increasing people's ability to pay higher rents, thereby driving up all rents.

I believe opportunities exist to work cooperatively with the four cities and the city redevelopment agencies, as well as other large public and quasi-public employers, by working in partnership to find new and creative ways to finance, construct and operate rental units that would be made available on a priority basis to employees of those agencies partnering to bring this about. Each of the redevelopment agencies has housing funds available to them. Each of the jurisdictions has the ability to commit General Fund dollars to this problem. Most importantly, each of the jurisdictions has the ability to raise financing through lower than market rate financing which could be used to support the acquisition of sites and the design and construction of this housing. Such housing could be made affordable simply by the fact that it would need to be priced only to recover the costs of financing, acquisition, construction and operation rather than having to recover the extra profits that are now being realized in our zero vacancy housing market where housing is priced to maximize what the marketplace will bear and the prices have no rational relation to the underlying costs of constructing and financing rental property.

There are a number of issues that such a partnership would have to confront and overcome. There are restrictions on the expenditure of redevelopment funds in another political jurisdiction. There are issues related to the means of allocating units among participants. There are issues around appropriate siting of such projects, controls on usage and eligibility, and many others.

I have discussed this concept with the County Administrator and the Administrator of the Redevelopment Agency. Funds presently exist in the housing budget which could be used to support the

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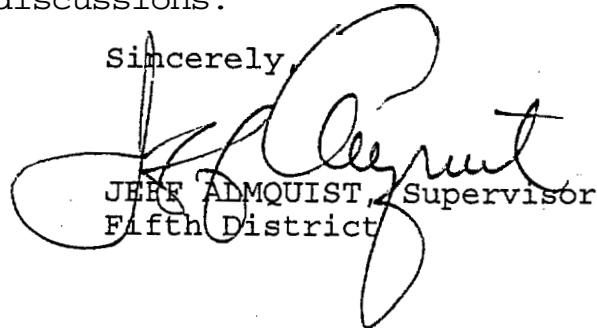
efforts necessary to convene potential partners, provide legal analysis of the issues that such a proposal present, and carry out other analyses of the various impediments that might exist to moving forward with this concept.

Such a partnership would have multiple benefits to the participants and to the community. It would certainly enhance our ability to attract and retain new employees. Just as importantly, addition of these new units throughout the County would have a beneficial effect on general rental rates and housing costs.

Accordingly, I would recommend that the Board take the following actions:

1. Direct the County Administrator and the Administrator of the Redevelopment Agency to convene representatives of the cities, city redevelopment agencies and other large public and quasi-public agencies in the County in order to ascertain and discuss their interest in working cooperatively to locate, design and build rental housing which would be made available to low and moderate income employees of the partner agencies on a cost recovery basis, and provide staffing and consultation services necessary to address legal, financial, and other issues that might be raised during the course of such discussions.
2. Direct the County Administrator and the Administrator of the Redevelopment Agency to report back to the Board of Supervisors, the Councils of the cities participating, and the management of any other participant on or before December 1, 2001, on the status of these discussions.

Sincerely,



JEFF ALMQUIST, Supervisor  
 Fifth District

JA:ted

cc: County Administrator  
 Administrator, Redevelopment Agency  
 Planning Director  
 Dominican Hospital  
 Cabrillo College  
 School Districts

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