0285



# County of Santa Cruz

#### REDEVELOPMENTAGENCY

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January 18,2002

Agenda: January 29,2002

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

## **Farmworker Housing Issues**

#### Dear Members of the Board:

On October 2,2001, your Board held an affordable housing workshop which focused on the impact of rising housing costs on the County's workforce and residents. Also on that date your Board was presented with the findings of the Farmworker Housing and Health Assessment Study. On November 6, 2001 your Board directed staff to explore various alternatives to create more affordable housing opportunities in the County. One alternative your Board directed staff to explore was the use of the State Employee Housing Act to construct more housing for farm workers. In addition, there are a number of other issues related to farmworker housing that require further Board action. The purpose of this letter, therefore, is to update the Board on the following farmworker housing issues:

- the status of efforts to finance a pilot farmworker housing rehabilitation program focused on existing farmworker housing units on the former Coast Land and Dairies Property;
- the recommended framework for a new program to assist in financing farmworker housing on agricultural lands, through the State's Employee Housing Act;
- the need to update the County's definition of farmworker contained in the Zoning Ordinance to bring it into conformance with various farmworker financing sources; and
- the opportunity to provide units specifically at rent levels affordable to farmworker families within the apartment phase of the Pajaro Lane affordable housing project.

0286

## Status & North Coast Farmworker Housing Rehabilitation Program

On August 28, 2001 Supervisor Wormhoudt presented to the Board a proposal to rehabilitate farmworker housing units in North Coast area on agricultural land formerly owned by Coast Dairies. In response, your Board conceptually approved the expenditure of \$125,000 to develop a pilot program and directed RDA staff to work with Supervisor Wormhoudt and the land owners to develop a rehabilitation agreement. Staff was directed to report back at this time with a report on the status of those discussions.

Since our last report staff has had continued dialogue with the current and future landowners, namely the Trust For Public Land and the State Parks Department, respectively, to develop a farmworker housing rehabilitation agreement with the Agency. However before any in-depth discussions can be completed, it will be necessary for a number of key issues to be resolved relative to the Long Term Management Plan for the property. Because these issues need to be resolved first, the Trust For Public Land is, at this time, unable to address specific issues related to the Agency agreement on farmworker housing rehabilitation and financing. As a result, it is necessary to defer further implementation of this pilot program until such time as the Long Term Management Plan for the property proceeds to a further stage. We will inform the Board when favorable developments occur which allow the Agency to continue discussions on this matter.

## **State Employee Housing Program for Farmworkers**

Attachment 1 provides a detailed discussion of the need for farmworker housing, the State's Employee Housing Act, potential financing sources, and an overview of a pilot program to implement a project under this program.

In brief, the State Employee Housing Act allows for the construction of units with 5-12 beds for individual farmworkers or 5-12 units for farmworker families without needing to meet local zoning regulations. While these units are exempt from local zoning restrictions, they are still subject to local building permit and Environmental Health regulations. It's important to note that, to the degree that the Redevelopment Agency provides financing for such housing units, they would be subject to a regulatory agreement with the Agency.

While these units can be traditionally constructed structures, the attached report suggests that the best approach for this program is to use specially designed manufactured housing units. Manufactured housing is particularly suited to this unique housing need, especially when accounting for the potential for these units to move from site to site as the identity or needs of farmers operating on a particular site changes over time.

Preliminary analysis of a potential project for barracks-style housing for 12 individual male farmworkers indicates that total project costs for installing two modular units, including kitchens, bathrooms and rudimentary furnishings, would be approximately \$230,000. It appears that half that cost could be covered through a State grant source — the Joe Serna

Board of Supervisors January 18,2002 Page 3

Farmworker Housing Grant Program. The balance of the funds would need to be provided by the farmer and the County or Redevelopment Agency's housing funds. It appears that, in order to finance adequate property management and retain affordability levels, the farmer most likely will need to provide the land lease and on-site utilities free of charge.

Staff believes that further program details cannot be resolved out of the context of a specific proposal for a particular site. Therefore, the next logical step would be to solicit proposals from individual farmers to operate a pilot program for farmworker housing under the State's Employee Housing Act. Ideally, we would package up to three sites to investigate actual development costs, rent levels and ongoing operating and maintenance costs. At that stage, we propose to bring a proposal to the Board for consideration on or before September 17, 2002.

## Impact Fees for Farmworker Housing Projects

Your Board has previously gone on record waiving County-imposed developer impact fees on projects for replacement of housing units. The attached report on the Employee Housing Act further discusses this issue. Based on the same principal used by the Board in waiving other impact fees for replacement housing projects -- namely that they do not result in an increased burden on local services -- it would be appropriate to extend this reasoning to school impact fees. As well, we do not believe that it is appropriate to change school impact fees to housing projects that are deed-restricted to adult farmworkers based on the same reasoning.

It would be appropriate and consistent with your Board's efforts to protect, improve and expand farmworker housing opportunities in the community, to take a position that school impact fees should only be charged where there is a demonstrable impact from such projects. We are therefore recommending that your Board adopt **a** policy to clarify the County's policy in this regard.

# Farmworker Definition in County's Zoning Ordinance

The County's Zoning Ordinance contains a definition of "farmworker" which is applied to specific farmworker housing projects that are approved through the County's permit process. Projects most recently approved and constructed under that definition include the Jardines del Valle (formerly Murphy's Crossings) and the San Andreas Farm Labor Camp.

Such projects require a variety of funding sources to be viable and typically those funding

Board of Supervisors January, 18,2002 Page 4

sources have their own way of defining eligible farmworkers, sometimes at odds with the County's Zoning Ordinance definition. In particular, our Ordinance requires farmworkers to be employed in farm activities ten months of the year. In many instances, farmworkers may not be working ten months due to a variety of circumstances — the most common is extended wet weather periods. Other minor changes have been suggested to clarify ambiguous language.

We have therefore developed draft language to amend the current Zoning Ordinance language to address these two issues (Attachment 2). We have reviewed the proposed language with the Planning Department staff, who see no policy problems with the language. It is therefore suggested that your Board approve the proposed ordinance revisions in concept and refer the amendment to the Planning Department for formal processing.

## Farmworker Housing Opportunity at Pajaro Lane Project

In June of 2001 your Board approved a development permit for a 99 unit affordable housing project, including 64 units of low and very low income apartments and 35 for-sale townhomes affordable to moderate income families. At the time that the project was considered and approved by the Board, questions were raised about whether it would be possible to set aside a percentage of the apartment units at a rent level affordable for farmworker families. Over the past few months Redevelopment Agency and South County Housing staffs have explored the range of options available and have concluded that, depending on receipt of outside funding, it would be possible to earmark 25-50% of the apartment units (16-32 units) for farmworker families. The additional subsidy to reduce the rent levels of those units would require an additional local subsidy to the project of approximately \$100,000.

Staff believes that providing identified farmworker units as part of the apartment complex would be warranted and is asking your Board to approve a this direction at this time to focus the pursuit of financing sources for the project.

#### Conclusion/Recommendation

The lack of affordable housing has become a significant issue in our community. The resulting problems are most extreme, in terms of overcrowding and dilapidated housing conditions, with farmworker households. **As** a result, this report recommends a number of specific actions to address the unique housing needs of individuals farmworkers and farmworker families.

Board of Supervisors January; 18,2002 Page *5* 

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

- Accept and file the report on the status of the North Coast Farmworker Rehabilitation Program and direct staff to report back to the Board once the Long Term Management Plan for the former Coast Land and Dairies Property has evolved to a point where issues related to farmworker housing can be addressed;
- Approve with proceeding with pilot projects under the State's Employee Housing Act as described in this report and direct the RDA Administrator to return with specific proposals for Board consideration on or before September 17, 2002;
- 3. Clarify that it **is** a policy of the County to not support the imposition of school impact fees on replacement housing projects or for new housing projects which are restricted for single adult farmworkers and direct the Planning Department to release building permits without the payment of such fees to the local school districts;
- **4.** Approve the attached revision to the definition of "farmworker" contained in the County's Zoning Ordinance and refer it to the Planning Department for formal consideration; and
- 5. Approve the inclusion of 16-32 units of farmworker housing within the Pajaro Lane Housing Project and direct Redevelopment Agency staff to work with South County Housing to pursue outside financing sources to implement that goal.

elly truly yours,

Tom Burns

Redevelopment Agency Administrator

**RECOMMENDED:** 

Susan A. Mauriello

County Administrative Officer

Board of Supervisors January 18,2002 Page 6

0290

#### Attachments:

- I. Employee Housing Act Report
- 2. Proposed revisions to farmworker definition

cc. RDA

Housing Advisory Commission Planning Department Mid Peninsula Housing South County Housing

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# STATUS REPORT ON INCREASING AFFORDABLE HOUSING OPPORTUNITIES THROUGH THE EMPLOYEE HOUSING ACT

This report explores the feasibility of a pilot program which would, under State law, permit farmworker housing to be built as an allowed use on agricultural land. It is divided into two main sections. The first section of this report describes the prerequisite supportive elements which need to be present in order to evaluate project feasibility. The first section addresses concerns relative to the need for such housing, the stipulations and allowances of the Employee Housing Act, the type of housing units considered, and the potential funding sources available. The second section details how a pilot program may be implemented in Santa Cruz County. The second section discusses the anticipated role of implementing agents, outlines the requirements of the application and approval process and includes a discussion of the proposed pilot program's underlying assumptions and associated cost estimates. This report concludes with those issues and uncertainties which will require additional inquiry and refinement and which will likely comprise the contents of the next status report on this matter. However, with the understanding that additional research is needed to arrive at any final recommendations, staffs preliminary finding is

### Section 1: Description of Supportive Elements

that, at first glance, a pilot program to build farmworker housing as an allowed use on

## **Need for Farmworker Housing in Santa Cruz County**

agricultural land, may be financially feasible.

As of 1997 there were 722 farms in Santa Cruz County comprising a total of 71,115 acres, representing about 25% of the County land area. According to the California Department of Finance the value of agricultural products produced in the County totaled \$248.2 million. The Central Coast area, (Santa Barbara County through Santa Cruz County) employs 14% of the State's farm workers. Santa Cruz County alone employed about 8,800 agricultural workers in 2000 according to the State Department of Finance.

The need for farmworker housing, both seasonal and permanent, as well as unaccompanied (single) workers and workers with families, has been well documented in the Santa Cruz County Farmworker Housing Needs Assessment Study Phase II, 1995, and the Counties of Monterey and Santa Cruz Farmworker Housing and Health Assessment Study, 2001. Each study has identified farmworker housing as a high priority need in the County.

According to the Survey of Farmer/Rancher-Operation of Farm Labor Housing in California, October 2000, two-thirds of 1,100 farmers surveyed in 20 California counties do not provide housing for their workers. **Of** those providing housing, 78% owned larger farms of 100 or more acres. In two-thirds of the farms providing housing, rents were not charged. The Survey also stated: "The main reasons why farmers provide housing are because they require skilled year-round workers on-site, full time, and want to attract dependable seasonal and migrant workers back each year. Nearly two-thirds (62%), however, cited the

0291

cost of development as a major factor discouraging farmers from housing workers followed by government regulations (49%)."

0292

# The Employee Housing Act

The Employee Housing Act minimizes government regulations by stipulating that the construction of farmworker housing is an allowed agricultural use and does not require any conditional use permit, zoning variance or other zoning clearance that would not be required of any other agricultural activity in the same zone. The Act allows the construction of temporary, seasonal or permanent employee housing for 12 or fewer agricultural workers employed by an agricultural employer on agriculturally zoned property. In addition, employee housing constructed under this section is exempt from certain local taxes and fees. Under the Act, construction for employee housing requires a construction permit from the local building department. However, construction standards of manufactured units may be approved by State Department of Housing and Community Development (HCD).

The State Law regulating employee housing is entitled the "Employee Housing Act" (the Act) and is found in Division 13, Part 1, of the California Health and Safety Code commencing with Section 17000. The Department of Housing and Community Development is responsible for promulgating the rules and regulations known as the California Code of Regulations, Title 25, Division 1, Chapter, 1 Subchapter 3 (Employee In addition, other regulations governing the construction and physical maintenance of housing accommodations are found in the California Building Standards Code (Title 24); State Housing Law, Part 1.5, Section 17910; the Mobilehome-Manufactured Homes Act, Part 2, Section 18000 et seq.; and the Mobilehome Parks Act, Section 18200 et sea.

# **Potential Funding Sources**

As noted above, one of the challenges in providing housing for farm workers is the cost. In order to reduce costs we will rely, to a large extent, on public State and local funding sources to carry the major cost burden. These are described below. However, these sources alone cannot cover all the costs, particulary for the continued operation and maintenance of the housing units. For that reason, potential financial participation by the farmers themselves is also discussed below.

# Joe Serna Farmworker Housing Grant Program

A strong potential funding source to assist with the financing of developing farmworker housing units under the Employee Housing Act is the Employee Housing Act component of the Joe Serna Farmworker Housing Grant Program. This Program component seems to have been created specifically to assist projects targeting farmworker housing development under the Employee Housing Act. The grant provides a 100% match (up to 50% of project cost) not to exceed \$1.0 million per project for development of eligible farmworker housing.

Program funds may be used for rental units for agricultural workers, with a priority for lower income households and financing can be for any construction related costs in the

#### Page 3

development of rental housing for agricultural workers, including land acquisition and site development. Eligible applicants for funds may be local government agencies and/or nonprofit corporations. The housing must be made available at affordable rents no more than 30% of gross monthly income. A grower or agricultural association may donate the land or lease the land for at least 10 years as long as the site permits year-round or seasonal occupancy by 12 or fewer agricultural employees. The housing may be managed by a nonprofit housing corporation or a local housing authority which has demonstrated capacity to operate farmworker housing. If housing units are factory constructed, then they must be designed to meet all State and federal housing standards.

## County Redevelopment Agency Funds

These funds could be used as the source for any local matching fund requirements for the funding sources listed above and below. The funds could also be used as gap financing when other funds do not cover the total project costs.

#### **Private Sector Contributions**

Farmers can and have been the source of direct or indirect financing of farmworker housing. A prime example is in the Napa Valley where the Napa Valley Grape Growers Association together with Napa County Farm Bureau initiated a voluntary assessment of \$10 per vineyard acre to raise \$120,000 which was then used to build a temporary camp housing 30 migrant workers. The Napa Valley Vintners Association is also working with Napa County to make it possible to build permanent farmworker housing. Another example is found in the City of Arbuckle, located in Colusa County, where the farmer's own land and funds were coupled with Joe Serna Jr. Farmworker Housing Grant funds to develop farmworker housing for 24 single farm workers.

A brief description of other potential funding sources, some of which may be acquired through application by a nonprofit housing developer, is provided below.

# State Multifamily Housina Proaram

A land lease must be in excess of 10 years over the number of years required by the program (55 years); maximum loan amount is \$4.5 million; the maximum income and affordability level is 60% of median income.

# Federal Home Loan Bank Affordable Housina Proaram (AHP)

A lease agreement must be at least five years and 20% of rental units must be occupied by, and affordable to, very low-income households. The maximum subsidy is \$1.0 million.

# USDA Rural Development Loan and Grant Proaram

There is a waiting list for farmworker funds (FLH 514/516 grant and loan). There are no population restrictions as long as project serves farm labor; site may be leased.

#### State Predevelopment Loan Proaram

The maximum loan amount is \$75,000 at 7% interest for two years; long term lease is allowed; Santa Cruz County is an "urban area" as defined in this program; 51% of persons assisted must be low income and housing must be affordable.

## **Housing Unit Type**

A prototype housing unit for single agricultural workers has been designed as a manufactured unit by Patricia Harrison, a professor at UC Davis. While her design focuses on meeting Employee Housing Act design specifications, it also meets federal and State building requirements for farmworker housing as well as the State Department of Housing and Community Development (HCD) building codes. For these reasons, the unit's design has already been approved by HCD. Although the manufactured unit has been preapproved, the development still requires approval by the local Planning Department and a building permit from the local Building Department. Unit size is 14x58 feet or about 800 square feet. The unit has been designed to be energy efficient (R-19 exterior, R-30 floor and ceiling), durable (institutional quality finish materials), and easy to maintain. The unit includes internal fire sprinklers, a toilet, a shower, and a dining room. The kitchen comes with a stove and refrigerator. At this time the basic unit "off the shelf" costs \$43,000 to manufacture, and each unit can house 6 single farm workers. The unit also has some limited portability should it becomes necessary to move the unit for storage or to another site.

# Section 2: Project Feasibility in Santa Cruz County

Given the fact that a manufactured housing unit has been specifically designed for farmworker housing, that the Employee Housing Act prescribes minimal local approval requirements, that funding sources are identified and available, and that, in some parts of the State, farmers have readily demonstrated an interest in the financial support of farmworker housing, the question which emerges is: "Can such a project be successfully implemented in Santa Cruz County?" This section begins to address that question.

In the course of staff investigation into identifying the components of employee housing development on agricultural land, we wanted to answer whether or not actual development was economically and procedurally feasible. To this end, staff analyzed potential areas of focus, listed the necessary key players, identified the procedural elements and finally, evaluated the financial feasibility of unit purchase, site placement and management and operation.

In proposing assumptions for a pilot project, staff conceived of a non-site specific farmworker housing project enumerating rough cost estimates for a housing development for 12 unaccompanied (single) adult farm workers. Then, we also assumed that financing for unit purchase, transportation, site placement and set-up costs would come from State's Joe Serna Jr. Farmworker Housing Grant Program with a 100% match of Redevelopment

Agency Funds. Thus, absent any debt service, the costs for on-going management, operation and maintenancewould be paid by rents with further assistance required from the farmer in the form of payment for the cost of utilities and in the form of a land lease provided at no cost and encompassing a time period consistent with the conditions of financing. The section below discusses in more detail how these assumptions ultimately relate to feasibility considerations.

# Potential Areas for Location of Farmworker Housing

The areas in Santa Cruz County for potential development are in the "CA" or other agricultural zoning districts; the housing itself should be developed on the non-productive or least productive portion of the agricultural land parcel.

## **Implementing Agents And Organizational Framework**

## **Project Developer**

The role of the project developer would be to secure the financing resources by making applications for grants and other sources of financing. The project developer will also apply for all necessary permits, prepare the site and arrange for the related utility connections, purchase the unit from the factory, ensure that the unit has been produced to specifications, arrange for the transport of the unit to the site, and prepare the unit for occupancy.

#### Farmer or Grower

He or she would be required to donate or lease land for a certain number of years at no cost to a nonprofit or public agency for the housing, and could contribute funds to offset operation cost shortfalls, probably in the form payment for utilities. Depending on regulatory or financing requirements, the farmer may also need to be a project co-applicant in combination with a non-profit housing project developer in applying for a local building permit.

#### **Manaaina Oraanization**

A managing organization could consist of a non-profit housing development organization or a private management company with proven experience in management of farm labor housing. The management organization would ensure that prospective tenants meet the requirements for being housed under the Employee Housing Act, the Joe Serna Jr. Farmworker Housing Grant Program, and the Redevelopment Agency requirements. In addition, the managing organization would collect rents, manage tenant issues and provide for the maintenance, repair and upkeep of the units.

## Redevelopment Agency

Besides partially financing the project, the Redevelopment Agency's role is to ensure that the project's purpose is maintained through its Regulatory Agreement. The Agreement would, in this instance, need to be connected to the unit rather than recorded on the land. The conditions of the Agreement may specify such issues as required rent levels, occupancy by adult farm workers, operation and maintenance standards, and may

authorize the replacement of the management organization in the event of lack of performance.

## **Local Development Approval Process**

Based on discussions with Planning Department staff it appears that this type of project would be subject to a simplified Planning review process, but must also comply with the Mobilehome Parks Act, local Fire Code requirements, and the Coastal Act, if applicable. In addition, a County Building Permit is required and all applicable fees must be paid. While HCD would approve the lots on which the units are placed, a building permit would be issued for the placement of the manufactured home on the lot. The Santa Cruz County Health Services Agency, Environmental Health Department would have to approve the septic system and approve assurances relative to water quality and quantity. The Environmental Health Department would also issue a required annual "Permit to Operate" employee housing for five or more employees. If all initial conditions are met, then a project would not require discretionary land use approval.

## Financial Feasibility of Prototype Project

Financial feasibility **is** generally described in terms of financing, revenue and costs. The anticipated sources of financing and revenue are Joe Serna Farmworker Housing Grant Program, RDA financing, tenant—rents and supplemental revenue from participating farmers in the form of utility cost payment. The main components of costs include unit purchase, site development and overhead, fees, and unit management, operation and maintenance. The Joe Serna Farmworker Housing Grant Program and RDA financing are anticipated to pay for unit purchase and upgrades, site development and related overhead costs and fees. Revenue from tenant rents and supplemental utility cost coverage with revenue from participating farmers are anticipated to pay for the ongoing management, operation and maintenance of the units.

# **Project Cost Assumptions**

As currently proposed, constituents of the pilot project model include the purchase or 2 manufactured units housing a total of 12 single men located on a site that will have ready access and connection to roads, water and electricity. It is assumed that a septic system and propane gas tank will need to be installed and these costs are therefore included as a part of the site development costs. In this model, we assume reasonable, but conventional, management costs, a rent revenue stream equaling no more than 30% of an employee's income and a supplemental revenue from utility cost coverage by participating farmers.

# **Project Development and Construction**

Cost estimates for site development and construction of two units housing a total of 12 single men amount to about \$180,000. These costs include purchase of the units, transportation to the site, foundations, on site upgrades, septic and propane tank installation, parking lot preparation, utility preparation and connection, processing, inspection and application fees, and furniture and lighting. An estimate of pre-development

costs is about \$50,000. These costs include a project developer fee, and engineering and architectural drawings for site improvements. The pre-development, development and construction costs combined, amount to \$230,000 - for which half **(\$1**15,000) is anticipated to be financed through Joe Serna Farmworker Housing Grant Program and the other half through RDA low and moderate income housing funds.

Costs for operating expenses total about \$3,000 per month. These include the cost for insurance, utilities, management, maintenance and repairs. At full occupancy, revenue is expected to yield about \$2,500 per month, which currently results in a \$500 per month negative cash flow. These rough estimates are based on an assumption of full year-round occupancy. However, assuming an absence of any debt service, an optimistic assumption on housing demand and occupancy, and an assumption of strong financial support for payment of utilities by the farmer, a model pilot project may be financially feasible from strictly an operational perspective.

#### **Next Steps**

This report is considered only a first step in the process of exploring an Employee Housing Act pilot farmworker project. There are still a number of specific issues which require further investigation and current assumptions which need verification. For example, we may have difficulty identifying a willing local project developer with experience in manufactured housing units. Farmers may balk at leasing land, paying for utilities or participating in the program under any circumstances. A new development concept carries with it uncertainties in the way reviewing agencies, such as the Planning Department, will respond in terms of regulatory requirements, review levels and applicable fees.

More analysis is needed in the construction costs component to see if additional economies can be attained. A major cost element in construction costs is fees. There needs to be a logical nexus between the fees and the legitimately perceived impacts of the proposed pilot project. Indeed, it is evident that there is no relationship between the proposed project and school impact fees because occupancy will be restricted only to adults. For this reason these fees should be eliminated as an anticipated cost. Finally, we may encounter other instances where Agencies require fees and where the costs involved similarly undermine the financial feasibility of the project prompting additional request to the Board for fee waivers.

Overall, the next steps will involve setting these component parts into motion, to find out if predicted feasibility will result the actual development of the pilot project as governed by the realities of finding and involving interested partners, securing substantive funding, refining costs and further detailing the approval processes. We are encouraged by the real possibility that successful implementation of this housing alternative will play a part in addressing the current and critical housing shortage.

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Attachment 2

#### PROPOSED AMENDMENT TO SANTA CRUZ COUNTY CODE SECTION 13.10.63 1(e)1

"The occupancy of each dwelling, with the exception of a required, on-site managers units, shall be limited to farm workers employed, **in whole or** in part, within the County of Santa Cruz and their families ("farm worker households"). Each The qualifying adult farm worker household, during tenancy in the farm worker housing, must earn at least 50% of the household's his/her income from an agricultural operation defined as employment by production agriculture (the art or science of cultivating the ground, including harvesting of crops, packing and loading the crops at the field where grown and driving them from the field to next point of handling, rearing and management of livestock, tillage, husbandry, farming, horticulture, fishing, and timber harvesting). There shall be a 30 day grace period for tenants to find other housing if employment ceases. A temporary layoff of less than 90 150 days for lack of work shall not be considered a cessation of employment."