

Santa Cruz County Housing Advisory Commission
Ad Hoc-Report on Housing Ideas
Final Report
November 1, 2017

Members:

Vice Chair J.M. Brown (Ad-Hoc Committee Chair)
Commissioner Nancy Abbey
Commissioner Linda Haines
Commissioner Kent Washburn

Goal:

In response to the housing crisis in Santa Cruz County, the Ad-Committee of the Santa Cruz County Housing Advisory Commission formed to identify new and innovative ideas for supporting affordable housing and generating new housing stock, and to identify barriers to building additional housing of a variety of types. The Ad-Hoc Committee undertook such an exploration of housing issues in accordance with Chapter 2.94 of the County Code, which created the Housing Advisory Commission.

According to the Code, under the Powers and Duties section, it states the Commission *“shall advise the Board of Supervisors on housing policy; advise the Board of Supervisors and the Planning Commission on matters relating to the Housing Element of the General Plan, developed pursuant to Government Code Section [65302\(c\)](#) and Health and Safety Code Section [50459](#), conduct a continuous study of housing in Santa Cruz County, and may conduct public hearings on housing problems and potential solutions. The Commission shall assess the housing needs in this County, and study, prepare, review and make recommendations on public programs designed to meet those needs. The Commission may also study, review and make recommendations on private housing programs.* [Ord. 3620 § 18, 1985; Ord. 2110, 1975; prior code § 3.17.020].

Process:

After the Ad-Hoc Committee was established by consensus of the Commission, Ad-Hoc Committee members were appointed by Commission Chair Reed Geisreiter. The Ad-Hoc Committee met first on February 22, 2017 to identify stakeholders, including public agencies and private organizations that are working on the housing crisis. The goal of taking testimony from stakeholders was to collect information about their work and their views on housing issues, and to make suggestions about potential action by Santa Cruz County to support affordable housing and the creation of additional housing stock.

At the May 3, 2017 meeting of the Commission, it was determined by consensus of the Commission that, rather than hold additional hearings of the HAC to obtain information from stakeholder groups, Ad-Hoc members would on their own volunteer time

individually interview representatives within those organizations to examine their ideas and discuss barriers relative to maintaining housing or adding housing supply to our market. Interviews have taken place throughout the summer and fall—culminating in numerous hours of conversation—and additional research was gathered from websites and other sources. Commissioners were encouraged to have wide-ranging conversations with stakeholder groups rather than adhere to a strict set of questions, thereby maximizing the free flow of ideas and opinions. Not all stakeholders responded to requests for interviews nor did all outreach result in reportable information.

The Ad-Hoc Committee met again on June 21 and August 18 to share progress, and gave a brief progress report to the full Commission at its September 6 meeting. Committee members have continued to work on the project, and have the following information to provide as of the Commission’s November 1 meeting, which was the deadline set by Chair Geisreiter to bring a set of recommendations to the Commission for discussion and potential action.

Recommendations for Consideration by the Commission:

The Ad-Hoc Committee acknowledges the process of exploring potential housing solutions could be better informed by directly comparing many of the activities of the four incorporated cities and private advocacy groups against what the County is already pursuing under its Housing Element or Sustainable Santa Cruz County Plan. The Chair of the Commission in concert with the County Housing Director will continue to ensure the Commission is informed on the County’s housing activities, and this report may be amended in the future.

However, based on stakeholder interviews, the Ad-Hoc Committee has identified the following potential recommendations to be considered by the Commission at this time:

- Support expedited implementation of the Sustainable Santa Cruz County Plan—to include zoning ordinance changes, density recalculations, fee adjustments, and other items recommended by several stakeholders—by increasing the budget and other resources of the Housing Division to hire additional staff or consultants to complete the work.
- Review underutilized commercial and industrial parcels throughout the County to determine whether they are suitable for housing, then allow for a process to rezone and establish by-right development standards. This is likely to require the allocation of additional resources for the Housing Division.
- Pro-actively work with private owners of large property to determine suitability for and encouragement of housing development. This is likely to require the allocation of additional resources for the Housing Division.
- Streamline planning processes to encourage housing development that better meets housing needs outlined in the Housing Element of the General Plan, and

provide more regular updates to the Housing Advisory Commission and Board of Supervisors on progress made toward achieving the goals outlined in the Housing Element.

- Seek a local funding source for affordable housing creation, including possible support of the countywide Housing Bond proposal being considered for the November 2018 ballot by private advocacy groups.

Stakeholders:

Affordable Housing Now
COPA

MidPen Housing

New Way Homes/Envision Housing

Campaign for Sensible Transportation

Owners of large vacant private parcels

City of Scotts Valley

City of Watsonville

Housing Advocacy Network

California Rural Legal Assistance

Eden Housing

Watsonville Law Center

Monterey Bay Economic Partnership

City of Santa Cruz

City of Capitola

Santa Cruz Chamber of Commerce

What We've Learned:

Affordable Housing Now

affordablehousing-now.org/en/

Affordable Housing Now is a network made up representatives from political, service and religious organizations and has taken the following positions:

- To advocate for the most efficient use of urban infill sites as limited community resource, including employee housing on institutional sites and maximizing the benefits of remaining housing sites within the urban areas, including evaluating appropriate densities.
- To encourage mixed-use housing developments, particularly along transit corridors and hubs in urban areas and rural village areas. Look at underutilized existing commercial properties and parking lots.
- Encourage the development of ADUs as the best way for single-family neighborhoods to contribute to addressing housing challenges. Disallow ADUs to be used for vacation rentals and revise rules to simplify ADU construction and permitting. Explore ways to encourage affordable rents through incentives.
- Protect existing rental housing as an important community resource. Convert vacation rentals.
- Explore ways to close the affordability gap for renters, through wage increases or rent stabilization. Consider changes in the minimum wage, rent stabilization, tenant protections and tenant transition assistance.
- Support expanded funding for affordable housing, including developing dedicated local funding sources and advocating for state and federal funding. Create a new local revenue source for affordable housing, lobby the state to define RDA

funding replacement, and ensure that Santa Cruz projects are competitive for state and federal funds.

- Advocate for expanded housing on the UCSC campus for students and employees, and for expanded options for seasonal and year-round farmworker housing.
- Require affordable units, rather than payment of in-lieu fees, in all new development subject to inclusionary requirements.

Housing Advocacy Network

scchousingadvocacynetwork.com

The Housing Advocacy Network is comprised of more than 40 member organizations, including housing, labor, and other activism and civic leadership groups. Former Santa Cruz Mayor Don Lane is a staff member for the organization and was interviewed for this report. The organization's purpose statement is:

1) To build and mobilize broad support for government policies and community solutions that will facilitate the creation and preservation of housing units that serve these populations; and 2) to build and mobilize broad support for specific housing development projects whose primary focus is providing housing for these populations.

Former Mayor Lane is working with former County Treasurer Fred Keeley to develop an affordable housing bond measure, possibly for the November 2018 ballot. There is a working group meeting regularly now, including affordable housing developers, to conduct polling to determine what county voters might support in terms of a tax on themselves to generate a new stream of funds for affordable housing funds—which could include using the funds to support all-affordable projects and potentially leveraging higher proportions of affordable housing in market-rate projects. Organizers of the potential ballot measure suggested the HAC could eventually consider sending a letter to the Board of Supervisors supporting placing a measure on the ballot.

New Way Homes and Envision Housing

www.newwayhomes.org

New Way Homes and Envision Housing are private entities supporting the investment in and development of affordable housing and workforce housing. The representative interviewed was President Sibley Simon.

The 501c3 impact investment fund supports housing that is more “affordable-by-design” but not deed-restricted affordable. Rather, affordable-by-design is housing that is smaller in size, requires less parking, and is additive to housing that is created through government subsidies. The organization supports a new local revenue source and believes price is sensitive to supply—that when new units are added to the market there will be an impact on affordability. Simon suggests the housing created in the community in large measure in recent years has not been the right mix of housing to meet growth.

Simon's model is to take the profit motive out of the equation by having investors take a limited profit and maximize social benefit. Investors put in money for 10 years, with a capped modest return on their money. New Way Homes puts that money into projects and puts it back in investors' hands so they do not have long-term ownership. Development plans are built around the idea of establishing minimum rental rates that would be required to make the project financeable.

The organization is looking to develop projects of 50 units or more, but are up against zoning restrictions that it suggests should be addressed by the County:

- In mixed used zones, a rule requiring 50% of the project be commercial hampers adding more residential units.
- FAR is the wrong density calculation. It should be counted by unit per acre and expanded to increase density.
- The Housing Element should reclassify some properties to allow for greater build-out and designate more by-right development opportunities.
- Streamline planning and building processes to actually encourage development projects rather than hamper the increase in housing supply.
- Development and building fees should be set by square foot rather than per unit to encourage density and efficiency.
- Encourage the reduction of hookup fees and rates by local water agencies.

Monterey Bay Economic Partnership

mbep.biz

Monterey Bay Economic Partnership (MBEP) is a membership-based organization that works "to create a thriving region with quality jobs, excellent education and health care, and a high quality of life for all residents while preserving the natural beauty and healthy lifestyle we all share." It's focus areas are housing, the workforce, and technology. Housing Director Matt Huerta was interviewed.

MBEP has built a Housing Trust Fund of \$10 million, which it uses to leverage housing projects across a tri-county area. The group also encourages employer-sponsored housing. The Trust Fund has participation from local cities as well as the Silicon Valley Housing Trust. MBEP believes the driving issue in the housing crisis is the need for more affordable housing, but also supports the idea that market rate housing is necessary and part of solution as well. The goal is to increase regional supply and build a strong network of housing advocates to support concepts like corridor rezoning; replacing redevelopment money with local revenue sources; providing lower-interest rate capital loans to seed housing projects; and encouraging large employers to identify or build housing for employees, as well as provide down-payment assistance.

MBEP is looking into the effectiveness of inclusionary rules in creating affordable housing and would like to know more about what the County is doing to leverage its own funds to acquire land and create projects. MBEP will be playing close attention to the development of a housing bond for November 2018 election.

The mission of MidPen Housing Corp. is to develop affordable and low-income housing. The organization does not bank land for future development. The average length of time to develop a project is usually at least five years.

MidPen representatives reported that the delay in approving new projects is lack of support by the community where they are proposed. The community often views affordable housing projects as blight on a neighborhood, and often the same oppositional forces show up to government meetings to express disapproval of a project.

MidPen believes there is a lack of housing overall for the community, and that creating additional housing is good provided it is developed correctly. MidPen believes increasing housing stock would lower rents. MidPen also supports higher-density developments and therefore supports an increase in the County's current rule limiting units to 20 units per acre. MidPen would support density upwards of 30 to 40 units per acre, which could increase developments to three to four stories. However, in MidPen's experience, the community historically rejects developments that are higher than two stories. MidPen envisions buildings that have four stories and are within a 10-minute walk to grocery stores and other amenities, which would also ease parking congestion.

Chamber CEO Casey Beyer was interviewed about the Chamber's housing goals. Beyer relayed that housing is the Chamber's biggest issue among three other main focus areas: economic development, transportation/water, and education.

The Chamber advocates building more housing at a multitude of market levels and more affordable units for the middle- to low-income population countywide. The Chamber believes it will take a concentrated effort by the business community, housing advocates and public sector leaders to produce a sustainable future.

The Chamber recently organized a Community Leadership Visit for local leaders, which included visits to Morgan Hill, San Jose, Redwood City, Napa, Berkeley, Santa Rosa and Union City to learn about how those communities are tackling the issue of housing and other development concerns. There was no "magic bullet" in common to all those communities about how to address housing needs, but hearing from the experiences of leaders in those communities could help Santa Cruz County develop a "tool box" for best practices, zoning regulations, and future housing element updates.

The Chamber believes the County has housing demand all across the markets. There is a big push for affordable housing, but what many people consider affordable is housing at 120 to 160 percent of AMI. Developers are not incentivized to build subsidized housing. Density and commercial restrictions, as well as open space and greenbelts, limit the ability to create new housing.

The County needs to locate new housing in such a way as to get people out of their vehicles and be more public-transit oriented, which requires zoning changes. Densification can be supported in areas other than in downtown areas, and the Chamber will work to support projects when they come on line.

The Chamber believes the County needs to do its share of supporting denser, mixed- uses on traffic corridors, thus not adding to congestion, as well as workforce housing. The Chamber believes the County should look at all industrial or mixed use land—what is the right configuration and potentially rezone for mixed use. The County also must examine the compliance with its own Housing Element. The Chamber asks, “How is the County performing to the goals set in terms of housing creation? Will the units be built?”

Saints Peter and Paul Orthodox Church, Ben Lomond

This information was prepared by Ad-Hoc Committee member Kent Washburn, who is involved in Saints Peter and Paul Orthodox Church, Ben Lomond. The church has a campus of almost six acres, most of which is taken up by the worship, social, office and educational buildings with adjacent landscape and parking. There are two homes.

At least two acres of the property toward the rear is underutilized, however. Commissioner Washburn’s idea is to pursue a privately funded, privately administered, San Lorenzo Valley-appropriate low/moderate income project on that property. The chief features would be: Separate “tiny house” rental units with common, engineered septic and common well; rents permanently restricted by recorded covenant to low/moderate levels as set by the County; administered by property owner (probably a quasi-independent non-profit) at no government cost; books always open to County inspection.

Preference could be given to present/past church members or employees and immediate family. The balance of units could be made available to members of the general public who pass criminal background and tenancy check. The project could be integrated with on-site, organic garden open to public participation.

Supply daily falls farther behind demand. Responsible partnership with private sector stakeholders like the County’s project with St. Stephen Lutheran is an example of at least one way of not losing even more ground. Subdividers have long been required by law to provide amenities and/or pay impact fees reasonably related to the need for services population growth causes: schools, sidewalks, etc. Is it now time to explore whether judicious partnering with community stakeholders and landholders could enlist private resources from employers, faith communities and civic organizations to, in effect, do all they are capable of to “take care of their own,” hopefully with units left over to help with the overall low-income housing deficit.

We are aware how many people with deep roots in the community have to give up and move away when ill health, economic downturns or retirement dictate. This proposal has the potential of slightly reducing the brain and social connection drain of such departures.

The representative for the City of Scotts Valley was Planner Michelle Fodge. She indicated there is an immediate focus on meeting state mandates regarding general plans and their housing elements. She stated that the City had just revised its Housing Element to the satisfaction of state.

She recited the city's reliance on its inclusionary requirements for developers and the other policy provisions by which they operate. She mentioned topography makes outlying areas of the City unsuitable for substantial affordable housing construction.

The additional information about the City's Housing Program is from the Planning Department's website:

The City offers programs to help eligible residents obtain or maintain safe and decent housing located within the City limits. The programs are First Time Homebuyer/Silent Second Mortgage, Security Deposit, Mortgage Credit Certificates, and Density Bonus.

For Sale Units (Inclusionary Units): When the City approves private developments of seven or more housing units, the developer must build 15% of affordable housing units on or off the project site. This type of required housing is called inclusionary units, which have restricted equity accrual, resale price, and other limitations. There are four income categories of affordable housing: extremely low, very low, low, and moderate. These four categories correspond to a percentage of the mid-point income in Santa Cruz County. The City has adopted a system to make sure that affordable housing is given to residents living and working in the City limits, as a priority.

To promote other types of housing, secondary dwelling units ("granny units") and guesthouses can be built on lots that are zoned for single-family residential. Secondary Dwelling Units are limited to 800 square feet and have a kitchen, while guesthouses can be 600 square feet and do not have a kitchen.

The Capitola Community Development Department promotes development that provides economic vitality while preserving Capitola's unique cultural and historic character. According to its website, current programs include:

- Owner Occupied Housing Rehabilitation Assistance
- First Time Homebuyer Assistance for low/moderate income
- Security Deposit Assistance
- Emergency Housing Assistance to help prevent homelessness.
- One-time financial support to meet rent/mortgage for up to four months

- Green Energy: Expedited free permits for water efficiency and green energy home projects.

For its Inclusionary Affordable Housing Program, Capitola requires:

- Projects with seven or more for-sale housing units or residential parcels to reserve and restrict 15 percent of the housing units for sale to moderate, low or very-low income households.
- Resale restrictions be placed on these units to protect their long-term affordability for future buyers.
- The sale and purchase of Inclusionary Housing units be subject to affordability restrictions. To purchase an Inclusionary Housing unit, a household must earn less than 120% of median income.

Capitola Mayor Stephanie Harlan was also interviewed for this report. Capitola's big challenge is there is little vacant land for development. Possible sites for development (with no current plans) include land near the Capitola post office and some development at Capitola Mall. Other strategies for developing affordable housing include assistance to mobile home park residents to buy out the owners and encouraging new apartment house owners to offer low-rent units.

The City is studying its Accessory Dwelling Unit policy, but in the past there has not been too much interest in building ADUs because lots are generally small. The City allows short-term rentals in an overlay district that includes the village and some adjacent areas.

City of Watsonville

cityofwatsonville.org

The Watsonville Community Development Department handles housing issues for the city. Staff members Laurie Blackwood and Suzie Aratin were interviewed.

The Department prefers to receive 15% to 20% inclusionary affordability in all housing developments. The Department is working with property owners to develop ADUs. The City did away with its "silent second" home loan program but has maintained its down-payment assistance program, though few buyers can afford the monthly payments.

The City also has a Housing Rehabilitation Program that offers low-interest loans to eligible low-income homeowners for rehabilitation of their homes or to homeowners who rent to low-income households and need help paying for repairs. The program helps borrowers to determine the work that needs to be performed and cost; prepare plans and construction contracts; obtain permits; locate a contractor; provide temporary relocation services for tenants, if necessary; and oversee the construction process.

This additional information was taken from the City's Community Development website:

Watsonville's Affordable Housing Ordinance requires most new housing developments to include units that are affordable to very low to above moderate-income households. These units may also be referred to as inclusionary or deed restricted units. The units are restricted to specific income categories based on the requirements of the ordinance. Prospective buyers may purchase units at or above their projected annual household income based on household size. Prospective buyers must be approved by the City and agree to abide by various requirements designed to ensure that the unit remain affordable. These requirements include, but may not be limited to the following:

- Unit must be owned and occupied as the buyer's principal place of residence
- Unit cannot be sold for more than the maximum resale limit
- Unit must be sold to an income eligible buyer

The City of Watsonville offers a First Time Homebuyer Program to help low-income households purchase their first home. Anyone who has not owned or held ownership interest in a home or other real estate within the last three years; and households whose annual projected gross income does not exceed the income limits based on size is eligible. The program is funded from various sources. Homebuyers must be able to provide at least 3% of the sales price toward the purchase of the home and successfully complete a City-approved homebuyer education class.

City of Santa Cruz

cityofsantacruz.com

A primary source of information for this report was the City of Santa Cruz's new Housing Conversation Kit. The City is embarking on a community wide dialogue about housing led by Mayor Cynthia Chase, who has been hosting listening sessions with stakeholders and convening other meetings.

The City outlined a new Housing Engagement Plan in June 2017, and by early November 2017, the City Council will have hosted four study sessions on housing. A survey conducted by the City in July 2017 found that the high cost of living and the lack of housing for people who work here were identified as the top two serious problems in the community.

Eight percent of all housing units in the City are affordable based on income brackets, though there remains a particular need to build units for very low and extremely low income. Homeownership declined dramatically from 2000 to 2015 among people younger than 54. The majority of people living in the City are renters at 57%, and the city regulates rental units under its Rental Inspection Ordinance. About 22-24% of rental units could be eligible for rent control under current state law, and there is an advocacy group working to place a rent control measure on the November 2018 ballot. Meanwhile, the City is working on a Downtown Rezoning Plan to allow for greater density but has slowed its Corridor Rezoning process to allow for the Community Engagement Plan currently underway.

Additional information was taken from the City's website:

The Housing and Community Development Division and partner agencies administer a number of programs designed to make housing more affordable for City of Santa Cruz residents.

There is an Accessory Dwelling Unit Fee Waiver Program offered in exchange for a property owner's agreement to restrict a new ADU for rent to a low- or very-low income household. More fees are waived in exchange for an agreement to rent to very-low income households as opposed to low-income households.

Measure O is a voter-approved initiative that requires developers of residential projects to provide a certain percentage of the total number of units as affordable to moderate, low or very-low income households. This requirement may be met by various options, one of which is for the developer to build the units and designate them as either for-sale units or as rental units.

All Measure O units remain affordable through a long-term or permanent deed restriction recorded against the property. The sales price of a Measure O for-sale unit and maximum incomes of potential buyers are determined through a formula designated in a City resolution governing the unit's affordability. Sellers of newly constructed Measure O units must give preference to those who live and work in the City of Santa Cruz, followed by those who live and work in the County of Santa Cruz. A family member or employee of any person having an interest in the development is ineligible to purchase an inclusionary unit.

Measure O units are restricted for rent to households of very-low and low-income, or those households having a Section 8 Housing Choice Voucher. The maximum allowable rent, as well as the maximum income that a Measure O tenant may have, are determined through a formula designated in a City resolution governing the unit's affordability. Tenants must report their income on an annual basis.

The City also maintains an Affordable Housing Trust Fund to assist in the creation and preservation of affordable housing for the benefit of low- and moderate-income households. The types of projects eligible for consideration under the Fund are:

- Creation of new affordable units.
- Preservation of existing affordable housing.
- Assistance with multifamily rehabilitation programs.
- Conversion of market rate units to affordable housing.
- Construction of accessory dwelling units.
- Acquisition and rehabilitation of potential limited equity cooperatives.
- First time homebuyer loans.
- Predevelopment loans/grants to assist nonprofit and for profit developers with project feasibility studies, site acquisition and design studies for potential affordable housing projects.