



County of Santa Cruz

Planning Department

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Meeting Date: August 16, 2016
Date: August 3, 2016
To: The Board of Supervisors
From: Kathy Previsich, Planning Director
Subject: Affordable Housing Program Status Report and Recommendations

As your Board is aware, it has been five years since the Housing Program in the Planning Department was sent into overdrive through the sudden announcement in June 2011 that the affordable housing activities enabled by redevelopment would be eliminated by State action. The purpose of today's report is to provide your board with a summary of housing activities undertaken with the dissolution of the former Redevelopment Agency, to provide updates on current activities and to seek direction on three initiatives to be undertaken in the coming year.

Background

When redevelopment was dissolved in June 2011 the County was able to preserve the remaining \$35 Million in available affordable housing funds by committing them in third party contracts. This was possible for several reasons: the success of the County's Rezoning Program (completed in 2009), strong partnerships with local non-profit housing developers and community organizations, and highly qualified and committed county staff. These commitments enabled implementation of affordable housing projects and activities, even as the housing section staffing level was reduced by one-half over the ensuing 3 months and remains at that level today.

The June 2011 funding commitments began a tremendously productive period for the Housing Section and provided bridge funding for longstanding community programs that otherwise would have ended. The funding was directed to three primary directions, summarized below.

- A. New Construction and Substantial Rehab creating 232 permanent affordable housing units:
- 88 units - *Schapiro Knolls*: Low, Very-Low-income rental homes in South County
 - 40 units - *Aptos Blue*: Low, Very Low, Extremely low income rental homes in Aptos

- *19 units - Canterbury Townhomes*: moderate-income ownership homes in Aptos
- *12 units - Lotus Apartments*: substantial rehabilitation rental housing targeting Very Low/ Extremely Low Income special populations in Live Oak
- *7 units - Los Esteros*: Habitat for Humanity homeownership units in Live Oak
- *40 units - St. Stephens Senior Apartments*; Very Low, Extremely low income rental housing in Live Oak (under construction)
- *26 units - Pippin Apartments*: (46-unit project) Low, Very Low, Extremely low rental homes in South County starting construction in December

B. Continuation of Homeless Action Partnership (HAP) and homeless prevention activities

The County entered into multi- year contracts to continue the former RDA funding of homeless prevention activities through the Community Action Board, Families in Transition and the Housing Authority's Security Deposit program. Other multi-year contracts included housing subsidies with Mental Health, after-care for former foster youth and HAP activities. Redevelopment re-use legislation has allowed the County, as Housing Successor, to support homeless prevention activities on a limited basis and as a result some funding is on-going.

C. Housing Services Contract

In addition to the construction projects and homeless activities, the County entered into a multi-year contract with the Housing Authority of Santa Cruz County, to provide resources for a range of housing needs. Your Board authorizes a Work Plan each year and the contract has enabled the following activities:

Key Completed Activities

- Update of Affordable Housing Program Regulations and adoption of Impact Fee Program
- Preservation of 4 of Affordable Homeownership Units through purchase and resale (ongoing program)
- Senior / Disabled Property Tax Postponement Program
- Housing Counseling and Homebuyer Education Blueprint
- Installation of manufactured home replacing County owned unit
- Administrative support for the Tenant Based Rental Assistance program
- Swan Lake Measure J Program Preservation (acquisition and upgrade of 5 units)

Key Current Activities

- Accessory Dwelling Unit (ADU) Regulations, Utilities and Financing Study
- Farmworker Housing Study (in partnership with other regional agencies)
- Initiation of County Homeless Coordinator position
- All-In Landlord Partnership Landlord Incentive Program
- Measure J Homebuyer Education

Update on Current Housing Activities

ADU Program

When your Board considered the Housing Element, the County's Accessory Dwelling Unit (ADU) Program was discussed as a key strategy for achieving the Regional Housing Needs Allocation (RHNA) goals for 2015-2012. As such, a number of amendments were contemplated that would streamline, incentivize and publicize the creation of ADU's in the County. In February it was decided that an outside consultant would be hired utilizing the Housing Services Contract with the Housing Authority, and staff has been working with the Housing Authority to procure a contract.

Staff is pleased to inform you that a Dyett & Bhatia, Urban and Regional Planners (D&B) has been retained and work is underway. D&B will be reviewing existing regulations and procedures, reviewing best practices and programs, conducting meetings with stakeholders and holding a series of public meetings. When this early work is complete, D&B will prepare an illustrated non-regulatory guidelines document recommending approaches for design of ADU's, an ADU Financing Guide and proposed amendments to Santa Cruz County Code.

The lack of financing for homeowners to construct ADU's has been identified as a barrier to unit construction and is part of the ADU Program review. In addition, staff is discussing potential ADU financing sources with the emerging Monterey Bay Housing Trust. Staff from Sustainability and Special Projects as well as Housing will work with D&B and the process will include involvement of the Housing Advisory Commission, the Planning Commission and your Board as the ADU Program review progresses. The Scope of Work for the ADU Study is included as Attachment 2.

Farmworker Housing

Housing for agricultural workers is a priority need in the Housing Element with a number of Programs identified to address the need. Your Board provided funding through the Housing Services Contract to enable the County to participate in a Farmworker Housing Study and Action Plan for Salinas Valley and Pajaro Valley. This effort is being spearheaded by the City of Salinas and has identified the following overall goals:

- Foster regional collaboration so that the supply of farmworker accommodations matches needs of specific types of farmworkers and improves farmworker family health through safe living conditions,
- Provide current data to support advocacy for resources and resource allocation, e.g. supporting project financing by affordable housing developers
- Develop a collective Action Plan to identify sites and potential policy/code changes and develop new funding models for stakeholders to address farmworker housing shortages to employers can rely on trained stable workforce.

Housing staff will be participating in this regional collaboration and will work closely with Sustainability and Special Projects staff to ensure that County land-use policy enables decent, safe and affordable housing for farmworkers and their families.

The Scope of Work for Farmworker Housing Study is included as Attachment 1.

Homeless Continuum of Care

In addition to the above-described key activities funded by the former RDA's housing funds, the Housing Section of the Planning Department carries out a variety of other activities and programs related to affordable housing, community development and homeless services. Attachment 3 identifies tasks related to these functions.

The Planning Department has been serving as the Lead Agency for the Homeless Continuum of Care, acting locally as the Homeless Action Partnership, since 2009. Due to the volume of work related to homeless activities, in the coming year the Planning Department will have assistance provided by a part-time retired annuitant who is experienced with homeless services and HUD funding. Besides HAP coordination, ongoing *All-In* implementation roles for Housing include participation in the *All-In* Landlord Partnership, as well as working on an effort that implements Housing Element Program 4.4, maintaining a central data-base on affordable rental units in the County. At some time in the future, staff believes that it will be most effective to have the homeless functions shifted into an Office of Homeless Action.

Affordable Housing and Community Development Resources

While the County's redevelopment funded projects and programs are concluding, there are ongoing resources available to work to address affordable housing needs. As has been recognized many times since 2009, achieving a certified Housing Element and the Site Rezoning Program in 2008/09 has established County eligibility for State of California affordable housing and community development grant programs. In the past 6 years alone a total of \$12,809,702 has been awarded to the County. It had been over 15 years since the County had a certified Housing Element, therefore this level of grant-related activity is an added component to the Housing Section's work over the past 5 years.

The redevelopment dissolution legislation provides for the retention and re-use of redevelopment housing assets placed into the Low and Moderate Income Housing Asset Fund (LMIHAF). A discussion and recommendation regarding initial project funding from the LMIHAF follows. In addition, one of the arguments in support of establishing an impact fee approach to the County's inclusionary housing program is to create a local source of affordable housing dollars. An interim report on the Measure J Program and the Affordable Housing Impact Fee (AHIF) is provided as Attachment 4. In accordance with Board direction, staff is scheduled to report back on the AHIF and "developer choice" option to pay AHIF or provide on-site unit in Fall 2017 after two years of experience with the new approach.

A summary of housing resources and their limitations is summarized below:

TABLE 1 Housing and Community Development Resources and Uses	
County Low and Moderate Income Housing Asset Fund (LMIHAF)	<ul style="list-style-type: none"> • Affordable Rental Housing • Rapid Re-housing Activities (\$250,000 max/year) • Program Administration of County Affordable Housing Activities
County Affordable Housing Impact Fees (AHIF)	<ul style="list-style-type: none"> • Workforce Rental Housing • Program Administration related to Program Activities
State Community Development Block Grant Program (CDBG)	<ul style="list-style-type: none"> • Affordable Housing (usually Off-site improvements or Rehab) • Public Improvements, Facilities & Services for Low-Income Targeted Income Group • Economic Development Projects / Activities for Low-income (jobs) • Program Administration for CDBG-funded activities
State HOME Program	<ul style="list-style-type: none"> • First Time Homebuyer Loans • Tenant-Based Rental Assistance
State CalHome Program	<ul style="list-style-type: none"> • First Time Homebuyer Loans • Manufactured Home Replacement • Program Administration for funded activities

It is worth noting that in addition the Density Bonus also provides an opportunity to encourage property owners to consider adding additional affordable units to affordable home inventory.

Discussion for Use of Affordable Housing Resources

As your Board will recall, after the update of the Affordable Housing Regulations was completed, the Planning Department undertook preparation of the new 2015 Housing Element. That adopted Element has established a number of key priorities for use of available affordable housing resources and assets including Workforce Rental Housing Projects (small units for singles, students, seniors, small households), Farmworker Housing, Accessory Dwelling Units (assistance to deed-restricted units)

As noted earlier, staff is currently involved with a Farmworker Housing Study and an ADU Study. Both of these efforts are expected to lead to regulatory and/or programmatic changes that will better support creation of farmworker housing units and ADUs. Therefore, a top priority for use of available affordable housing resources and assets is to support creation of workforce rental housing. The next section of this report will include discussion and recommendations for how to use available resources and assets for new construction projects.

The affordable housing resources and assets discussed in this section of this report for which staff is requesting Board direction include:

1. Low and Moderate Income Housing Asset Fund
2. Harper Street Real Property Asset

3. Seascape “Lot A” Real Property Asset

1. **Low and Moderate Income Housing Asset Fund (LMIHAF)**

On May 24, 2016, your Board, as the Housing Successor for the former Redevelopment Agency, received a report on the LMIHAF. This report, required by SB 341, accounts for funds resulting from activities from the former redevelopment agency and their use for three permitted activities: (1) development of affordable housing units; (2) Housing Successor administration; and (3) certain homeless prevention activities. At the current time there are funds available from the sale of former Redevelopment Agency assets, loan repayments and construction savings that must be spent in a timely manner to avoid being considered “excess surplus”. The excess surplus requirements are intended to ensure that Housing Successors are encumbering housing funds at a rate not less than the rate housing funds are accumulating. Failure to timely encumber funds would result in the “excess surplus” portion of the funds being transferred to the State for use in specified State-sponsored affordable housing programs. The requirements for use of the funds are consistent with the needs acknowledged by your Board for rental housing affordable to the work-force (defined as households earning between 30% and 60% of the Area Median Income (AMI), up to 20% of funds can target 80% AMI Households and at least (30%) of the funds must be directed to Extremely Low Income Households, or those earning 30% or less of the AMI. (See Attachment 5) If an excess surplus exists, the excess surplus funds must be encumbered within three fiscal years after the funds became excess surplus. An excess surplus is the unencumbered amount in the LMIHAF account that exceeds the aggregate amount deposited into the LMIHAF account during the housing successor’s preceding four fiscal years. For example, if deposits in each of the preceding four fiscal years equal \$1,000,000 (e.g., total aggregate deposits equal \$4,000,000), and the current unencumbered balance in the LMIHAF is \$4,500,000, the excess surplus amount is \$500,000. It is projected that as of June 30, 2017, sufficient funds will have accumulated in the LMIHAF to require a commitment to a housing project within the next three fiscal years or risk losing the funds to the State.

Your Board is aware of both the need to continue to initiate housing projects and the lengthy time frames required for projects to come together. Because of this, staff recommends that a process be initiated in the coming year to make up to \$5 Million available for a qualifying project. Recommended selection criteria for LMIHAF funding is identified in the chart below.

TABLE 2 County of Santa Cruz Low and Moderate Income Housing Asset Fund Project Selection Criteria	
Threshold Criteria <i>In order to be considered for funding, proposed housing projects must meet all threshold criteria</i>	Evaluation Factors
1. Consistency with SB 341, 2. Consistency with Housing Element priorities, and 3. Consistency with current land use regulations (projects that don't require a General Plan or zoning map amendment.)	a. Project feasibility, b. Site control, c. Project competitiveness (likelihood of successfully leveraging additional funding), d. Project readiness: units can reasonably be expected to be placed in service within three years, e. Quality design, f. Developer capacity, defined as history of successfully developing and managing affordable housing projects, preferably in Santa Cruz County, g. A strong record of responsive property management, Ability to coordinate services with residents including working with outside service providers, h. Number of units assisted, i. Term of affordability for targeted households, j. Inclusion of units affordable to Extremely Low Income Households (30% AMI), k. Located near transit and other essential services

Funds will be committed only in the amount needed to compete for funding through State and federal sources. It is anticipated that there will be sufficient resources in the LMIHAF for additional projects in 3 to 4 years.

There is limited land available for multi-family housing under the current land use regulations. Implementation of the Sustainability and Code Modernization Amendments currently underway will take at least another 18 months. Therefore, in order to use limited land most efficiently, projects proposed for “R”-Combining sites allowing 20 development units per acre will be favored.

Evaluation of the Need for Local Funds

As your Board is aware, most multi-family rental projects require a layering of private and public funds in order to be built. Each project has a primary strategy of either a State program such as those funded by housing bonds (e.g. the Multi-Family Housing Program) or the Affordable Housing and Sustainable Community program funded through cap and trade, or federal Low Income Housing Tax Credits (LIHTC). The predominant funding source for County projects has been the highly competitive federal LIHTC. In 2014 as the Housing Program update was being evaluated it was acknowledged that it is difficult to identify the level of local funding that will be required to successfully compete for State and federal financing because the funding levels of projects have been skewed by the concentrated investment of former redevelopment agencies. The final redevelopment funded projects are moving through the queue in our Central Coast tax credit allocation region, and requirements for local dollars are evolving.

As project funding is being contemplated, it may be useful for your Board to consider (1) the local funding for County sponsored projects over the last fifteen years and (2) a

review of similar projects in our region that have successfully competed for LIHTC. Below is a chart illustrating the County's rental project investments since 2001, starting before the recession and going through the most recent tax credit allocation round.

TABLE 3 Local Funding for Affordable Rental Projects with Outside Funding Since 2001					
Project Name (placed in service date)	Number of Units	County Contribution	County Per Unit Subsidy	Total Development Cost (TDC) of Project	% of County Contribution to TDC
Vista Verde Apartments (2001)	76	\$1,271,500	\$29,342	\$14,130,609	9%
Corralitos Creek Apartments (2004)	64	\$1,325,000	\$20,703	\$14,223,337	9%
Seacliff Highlands (2006)	39	\$2,559,700	\$65,633	\$20,495,631	12%
Schapiro Knolls * (2013)	88	\$10,191,743	\$115,815	\$32,281,743	32%
Aptos Blue* (2014)	40	\$8,628,022	\$215,700	\$21,641,857	40%
St. Stephens Senior Apartments* (projected 2017)	40	\$5,393,830	\$134,846	\$18,077,656	30%
Pippin Apartments* (projected 2018)	26 (of 46 total units)	\$4,642,640	\$100,927	\$27,361,536	17%

* Projects receiving "concentrated funding" as RDA was being dissolved in June 2011

The following chart demonstrates the "local tie-breaker" for comparable projects funded throughout our central coast region in the last five years. This analysis focuses on projects between 33 and 46 units, the range of most Santa Cruz County projects. As shown in the chart, the local contribution is between \$73,183 and \$217,072. The median local subsidy per unit is \$128,756, with the two highest local contributions in 2011 and 2012 which may be attributed to the "concentrated" redevelopment funding. Factors contributing to the variation in project cost include land cost, whether the project requires prevailing wage, off-site requirements, complexity of project design (e.g. St Stephens is one building while Pippin includes three buildings and a retaining wall).

TABLE 4 Comparison of Local Funding Contribution of Successful Regional Projects 2011-2016				
Year of TCAC Commitment	Project Name	Number of Units	Local Contribution	Total Development Cost of Project
2011	Santa Rita Village (Santa Barbara/ Lompoc)	36	\$183,810	\$15,153,895
2012	Aptos Blue (Santa Cruz/Aptos)	40	\$215,700	\$21,641,857
2012	Haciendas Apartments II (Monterey/Salinas)	46	\$94,013	\$15,962,469
2013	Casa de las Flores (Santa Barbara/Carpenteria)	43	\$73,183	\$17,278,109
2013	Pescadero Lofts (Santa Barbara/Isla Vista)	33	\$137,643	\$10,251,724
2014	South Street Apartments (San Luis Obsipo/San Luis Obispo)	43	\$100,430	\$13,214,002
2015	St Stephens Senior Apartments (Santa Cruz/Live Oak)	40	\$134,846	\$18,077,656
2016	Pippin Apartments (Santa Cruz/Watsonville)	46	\$100,927	\$27,361,536

The local funds required to be competitive continues to be difficult to predict, but as the final projects with redevelopment dollars are funded, the tie-breaker amount will be more clear. Staff anticipates providing updated information when a funding recommendation for the next affordable rental project is presented to your Board in the coming year.

2. Harper Street

The County owns 2340 Harper Street and it is identified as an affordable housing site for the purposes of the Recognized Obligation Payment Schedule (ROPS) for the State Department of Finance. Your Board may recall from the Housing Successor report that the deadline for disposition of this site is January 8, 2019. Considering the time required to move a project forward, staff recommends starting the process now.

There are three alternative options for disposition of the property:

1. Utilize the site for an affordable housing project, through release of an RFP for either:
 - a. A non-profit partner for a rental project (which may require a rezoning to be feasible), or
 - b. A builders of single family homes for affordable homeownership in exchange for a land donation (a Habitat for Humanity project could be suitable);
 2. Release a Request for Proposals (RFP) and negotiate a managed sale to a market rate developer with an open space preservation component, an approach that may result in a lower sales price but would include environmental and community benefit;
- or

3. Sell the property for the maximum market price with proceeds deposited into the Affordable Housing Fund for future investment in an affordable rental project;

Staff proposes to initiate a process to dispose of the property to fulfill an affordable housing purpose and recommends pursuing option 1 for the 1.57acre site.

3. Disposition of Seascape “Lot A”

As your Board may be aware, the County owns a 7.2 acre parcel on San Andreas Road that it received to meet the affordable housing requirement for the Seascape Uplands development in 1994. There have been several proposals to develop the property in the intervening years and, in the course of those efforts, challenging development constraints have been identified. These include the costs associated with installing a lift station and the presence of an endangered species (Santa Cruz Long Toed Salamander) in the area.

Staff proposes to initiate a process to dispose of the property to fulfill an affordable housing purpose. Staff recommends that a process identifying the site’s potential value be initiated with a report back to your Board by December 2017.

RECOMMENDATIONS

The Housing Program has been significantly impacted by the elimination of redevelopment and over the past five years has focused on completing projects, implementing contracts, building a grant-funded program and carrying out the duties associated with serving as the homeless continuum of care. At this time direction from your Board is required to further housing efforts.

It is therefore RECOMMENDED that your Board:

1. Accept and file this report on the affordable housing program;
2. Designate up to Five Million Dollars available for an affordable rental project and direct staff to report back by February 2017 with identification of a potential project or projects a recommendation for funding;
3. Approve disposition of the Harper Street affordable housing site and direct staff to take next steps consistent with Option No. 1 discussed in this report; and
4. Authorize the Planning Department to explore options to fulfill an affordable housing purpose on Lot “A” with a report back to your Board by December of 2017.

Submitted by:


Kathy Previsich, Planning Director 8/3/2016

Recommended:

Susan A. Mauriello, County Administrative Officer

Attachments:

- a Attach 1_FW Housing Scope
- b Attachment 2 ADU Scope
- c Attachment 3 HOUSING and HOMELESS Functions
- d Attachment 4 Interim Update Housing Program and the AHIF
- e Attach 5 Aff Hsg Cost
- f Attachment 6 Affordable Housing Preservation Program