Attachment P

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MONTEREY COUNTY
ECONOMIC DEVELOPMENT DEPARTMENT

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MEMORANDUM

Date: 11/20/15

To: Planning

From: Jane Royer Barr, Housing Program Manager

Re: Alternatives to the Requirement of Replacement of Affordable Housing for Moro Cojo

In response to your request, the Housing Office has considered how the one to one replacement requirement per the North Monterey County Land Use Plan Policy might be met for Moro Cojo by alternative means.

As background, the loss of 161 units of affordable housing at Moro Cojo is significant in light of the lack of affordable housing opportunities in the market place today. Further, consideration must be given to the amount of subsidy given to individual families. In providing a small subsidy grant, the County may consider this as a reasonable cost to assist families to become homeowners. However, when the cost of assistance rises to the level of tens of thousands to one hundred thousand plus dollars, it can seem too much to give to any one family considering how many other families are in need of the same assistance.

In regard to Moro Cojo, fifty of the single family homes developed by South County Housing received County assistance with the financing of their homes through two types of loans: HOME Self Help and First Time Homebuyer loans. The HOME Self Help loans ranged from $37,190 to $106,470 ranging anywhere from 22- 44% of the purchase price. The terms of the loans are 3% interest with a 20 year term. However, starting at the end of the 10th year of the loan, 10% of the principal is forgiven every year with the last 10% forgiven at the end of the 20 year loan term. If the house is sold prior to 20 years, the note is assumable as long as the new Buyer's income does not exceed 80% of the Area Median Income (AMI). As the houses were originally sold between 1999 and 2001, each house has already had between 40% - 60% of their loans forgiven. First Time Homebuyer (FTHB) loans were made to 37 of the 50 homeowners ranging from $3,500 to $17,000. The term is for 30 years with 3% simple interest, all due upon sale. However, the loan can be assumed if the house is sold to a Buyer whose income does not exceed 80% of the AMI. To the County's knowledge, only one house has sold to date, and it was sold to a qualified household. There have been two refinances to date and two more are currently in process.

One hundred twenty five single family homes were developed by CHISPA which also assisted with the financing of the homes. Loans ranged from $12,000 to $55,000 at 3% interest with a 20 year term. Mirroring the County loans, starting at the end of the 10th year of the loan, 10% of the principal is forgiven every year with the last 10% forgiven at the end of the 20 year loan term. If the house is sold prior to 20 years, the note is assumable as long as the Buyer's income does not exceed 80% of the median income. As the houses were originally sold between 1999 and 2001, they have already had 40% - 60% of their loans forgiven. Based upon information provided by CHISPA, to date 20% (25) of the loans have been repaid or written off: two were sold, four were foreclosed on, and 19 were refinanced.

In addressing the question of how to preserve homeownership opportunities for as many families as possible, many jurisdictions look to preserve the value of public subsidies through permanent restrictions and other means such as shared equity models. These may include sharing in appreciation or in a portion of the resale price.

It should be noted that Moro Cojo is not a part of the County's Inclusionary Housing program. Nevertheless, that program may be used as a model for alternative programs. Additionally, it should also be noted that, if it were not for the request to remove the permanent affordability currently required by Condition 99, there would not be a need to consider alternatives. The County's General Plan, Chapter 1 Land Use Element, Section LU2.12, includes the following:

> "Monterey County shall establish a program for retaining affordable housing units. For-sale housing units with affordability restrictions developed within redevelopment project areas (Boronda, Castroville, Fort Ord, and Pajaro), Community Areas and Rural Centers prior to the adoption of their Plans, as well as any project developed under the Affordable Housing Overlay Program shall be consistent with term of affordability provisions in State Redevelopment law. Rental units shall be deed restricted in perpetuity countywide. For-sale units with affordability restrictions in all other areas shall have the option of conforming to State Redevelopment law term of affordability criteria or conforming to the following guidelines:
>
> a) Affordable housing units shall be offered to the County of Monterey who shall have a First Right of Refusal.
>
> b) Units developed under this option shall be subject to a 30-year Program.
>
> c) Within the first 15 years of this Program:
>   1. Units must be resold to a qualified buyer at the same income level at which the unit was first sold.
>   2. The 30-year restriction shall restart from the date of sale if the unit is sold.
>
> d) Between year 16 and 30 of this Program, sale of units may be sold at market value but shall be subject to an Equity Sharing Program that increases based on the length of ownership.
>
> e) Units retained by the same owner for more than 30 years shall not be

subject to this Program."

The County's goal is the creation affordable housing and retention for use by as many residents as possible. This offers households an alternative to renting that enables them to build equity, enjoy tax deductions, and other benefits of homeownership. Buyers who meet the eligibility requirements can purchase homes at affordable prices and/or with favorable financing. In return, participants must sell to eligible households at affordable prices and, in some cases, share equity.

They are several methods that are employed to preserve affordable housing. They range from:

- Subsidy Forgiveness: forgivable loans;
- Subsidy Recapture: silent second loans which are deferred until sale or 30 years;
- Shared Appreciation: loans such as second mortgages that are deferred until sale and require repayment of the loan plus a share of the appreciation; and
- Subsidy Retention: one time investments of public funds that bring the sale price down to a level that is affordable to buyers at the target income levels but require the home to be resold at affordable levels to eligible households.

Moro Cojo is unique in that the original affordability combined subsidy forgiveness (medium to large HOME Self Help loan), subsidy recapture (small HOME First Time Homebuyer loan), and subsidy retention with resale at restricted affordable prices to income eligible households. In doing so, it was a very generous program. To approve eliminating the permanent affordability restriction would reduce future opportunities for other income eligible households. In order to balance the interests of the public should permanent affordability be removed, an alternative methodology needs to be substituted. In exchange for removal of permanent affordability, staff recommends consideration of the LU2.12 program shown above with a modified equity share program. In consideration of the very favorable financing provided to date, it is suggested that an equity share model be approved as follows:

> Beginning in year 16, the County would participate in 50% of the appreciation of the house more fully described as 50% of the difference between the original purchase price and the resale price. Thereafter, the proportion of the county participation would reduce by 2% per year until year 30 when it would then remain at 20% until the house was resold. While this methodology diverges from that under LU2.12, it is felt that some share of appreciation should remain in recognition of the favorable financing provided to date.