Attachment 2
Housing Office Overview

ORGANIZATION

The Housing Office is located within the County Administrative Office – Intergovernmental and Legislative Affairs. The Office is currently staffed by a Redevelopment & Housing Analyst II (budgeted as a R&HA III), a Redevelopment and Housing Analyst I, a part-time Management Analyst and a part-time Senior Secretary. The Management Analyst and Senior Secretary primarily provide fiscal and clerical support to the various programs managed by the Office. The County is currently recruiting for a Housing Program Manager.

The FY18-19 adopted County Budget significantly reduced and impacted the Housing Office resources by eliminating three General Fund funded positions. The Economic Development Director spent more than a third of his time on housing related issues, especially at the policy level. The second position eliminated was Redevelopment & Housing Analyst II who spent approximately 20% of their time on miscellaneous housing research efforts and web page support. The last position was a full-time Administrative Services Assistant who worked on income qualifications and supporting the sale of Inclusionary Units to new homeowners.

Once the Housing Program Manager position is filled, the new Program Manager will return to the Board with a reorganization plan for the Housing Office as requested in Board Referral #2018.21.

The Housing Office's core functions are:
- Inclusionary Housing Program;
- Community Development Block Grant (CDBG) Urban County;
- Housing Loan Programs; and,
- Small Business Revolving Loan Fund (RLF)

Through these programs the Office is responsible for managing and protecting the County's interest in:
- 19-County-owned affordable homes in Pajaro
- 212 owner-occupied Inclusionary Homes
- 200+ Inclusionary rental units
- Loan portfolios with the following characteristics:

Purpose of Loan	Number of Loans	Original Loan Amounts	Outstanding Principal
Down Payment Assistance	82	$2,150,860	$2,077,650
Down Payment Assistance – NSP	16	$651,411	$651,411
Down Payment Assistance - Self-Help	31	$2,206,510	$622,064
Multi-Family Affordable	9	$9,356,135	$9,062,594
Multi-Family Affordable - Community Facility	1	$140,000	$66,810
Multi-Family Affordable – Farm Worker Family	3	$1,041,174	$820,254
Multi-Family Affordable - Senior / Disabled	2	$1,262,500	$1,262,500
Rehabilitation Loan Agreement	24	$1,741,035	$1,536,428
Small Business Loan	11	$1,042,400	$694,395
Total Loans and Amounts	179	$19,592,025	$16,794,106

Project Spotlight
Sea Garden Apartments, Castroville

CHISPA & CHISPA Housing Management, Inc.
59-Total Units
6 units @ 30% AMI
34 units @ 50% AMI
18 units @ 55% AMI
1 manager unit
$15,817,570 Project Cost
$268,094 Cost Per Unit
County Participation:
$2,500,000 – HOME Loan
$2,300,000 – RDA Loan
Repayment for these loans is from residual receipts after all other expenses are paid and required deposits for maintenance and replacement reserves are made.

Monitoring by County staff for compliance with the County's two loans requires approximately 30 hours annually.

The County has used at least seven different sources of funding to provide down payment assistance (DPA) and housing rehabilitation loans over the years. The majority; including those funded using BEGIN, CalHOME, CDBG, and HOME; are loans with fixed terms and interest rates. DPA loans are 30-year, fixed interest rate loans with all payments deferred for the term of the loan. Deferring the loan payments improves the homebuyers' monthly debt-to-income ratios when qualifying for their first mortgage. The housing rehabilitation loans are usually 30-year terms with a fixed interest rate but the actual repayment amount is based on the homeowners' actual income when the loan was made. The Housing Office also manages a few rehabilitation loans that were deferred until the homeowner dies or sells the home. Because many of these loans are deferred or subject to repayment on refinance or sale, the income from loan repayment is uneven making it a challenge to operate the programs on an on-going basis. The NSP (Neighborhood Stabilization Program) and Self-Help portfolios are shown separately because they are significantly different from traditional DPA programs. The NSP was created by Congress to address the foreclosure crisis. The County qualified for a limited amount of federal funding to purchase, rehabilitate and sell bank-owned homes to income qualified purchasers. To help purchasers, qualify for mortgages and encourage long-term ownership, the County could use NSP funds as DPA loans that are forgiven if the original purchaser lives in the home for a fixed number of years, usually 15. Self-help DPA loans are used in developments where the home owner helps build the home. These loans are forgiven at the rate of 10% annually beginning in the eleventh year of the 20-year term.

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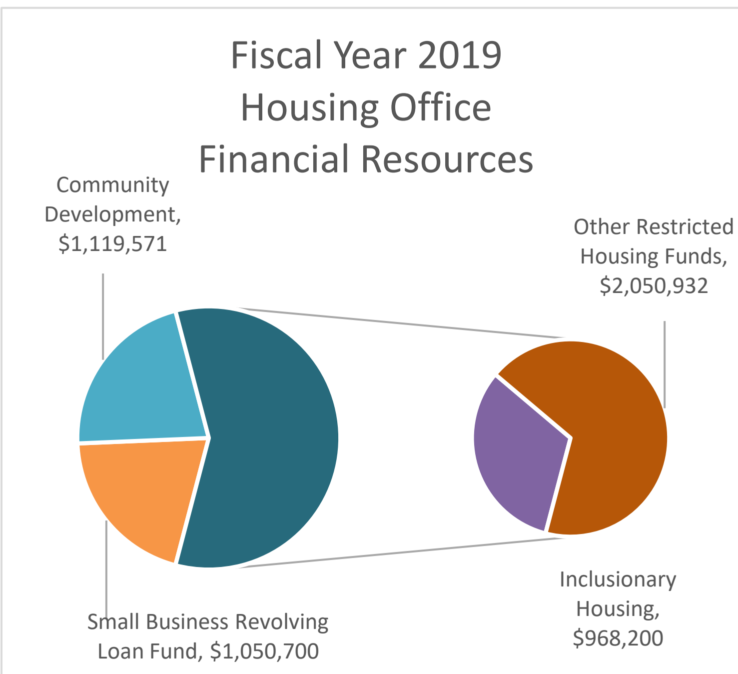
HOUSING OFFICE RESOURCE ALLOCATION

Managing the County's Inclusionary Housing and housing loan programs accounts for more than 75% of staff's time but accounts for less than 20% of the revenue overseen by the Housing Office. At the other end of the spectrum, the Urban County CDBG program accounts for less than 15% of staff time but more than 80% of the annual revenue received through the Housing Office. Housing Office staff also work on projects that may not have dedicated budget resources including:

- Participating in the development review process to ensure that the Inclusionary Housing Ordinance is correctly applied;
- Researching and developing housing policy and program recommendations for the Housing Advisory Committee, Planning Commission and Board of Supervisors.
- Assisting entrepreneurs by providing information on resources that are available, helping them connect with the correct city, county, state and federal offices for their licensing and permitting issues; and
- Assisting other County departments with economic modeling support.

FINANCIAL RESOURCES FOR AFFORDABLE HOUSING AND COMMUNITY DEVELOPMENT



The Housing Office manages four[1] separate funds with $5,189,403 in available funding for Fiscal Year 2019. How money in each of the funds managed by the Housing Office is used is restricted by federal or state law or County Ordinance. Chart 1 shows the recommended funding for each of the funds and major program areas. Nearly 60% of the funds managed by the Housing Office must be used to create or retain affordable housing. During the same period, 66% of the Office's expenditures were from federal programs, primarily CDBG, and 30% were from state programs or programs regulated by the state, primarily the Low-Income Housing Trust Fund.

Table 1 summarizes all revenues and expenditures managed the Housing Office between FY14 and FY18. There are two revenue items that deserve additional consideration because of the impact they have on the Housing Office's ability to prepare a multi-year housing program.

[1] Technically, the Housing Office manages five funds. However, Fund 175 Castroville/Pajaro Housing Set-Aside and Fund 176 Boronda Housing Set-Aside are for the same purpose and maybe used to support any qualified affordable housing project in the unincorporated areas of the County.

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Housing Office Overview

Table 1

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
BEGINNING BALANCE:	$1,435,959	$1,573,814	$1,507,314	$1,550,005	$1,945,565
INCREASES TO FUND BALANCE:					
Federal Assistance	$1,698,853	$972,279	$858,820	$1,088,566	$1,365,208
State Assistance	$127,625		$589,600		
Fees for Services	$15,321	$12,410	$71,566	$14,505	$15,069
In-Lieu Fees	$2,641	$50,033	$101,584	$104,100	$52,991
Interest on Idle Funds	$9,363	$5,752	$11,436	$19,364	$30,716
Loan Repayments (Scheduled):	$574,492	$321,354	$554,633	$204,117	$592,693
Loan Repayments (Unscheduled):	$57,567	$29,887	$34,346	$244,517	$482,037
Lease/Rent Income	$136,591		$164,096	$193,142	$223,958
DECREASES TO FUND BALANCE:					
Public Facilities & Improvements (Gen).				$50,650	
Homeless Facilities	$42,938	$57,062			
Neighborhood Facilities		$130,698	$180,785	$330,068	$244,431
Parks & Recreational Facilities	$127,636	$21,000	$831,722	$349,214	$436,817
Water & Sewer Improvements	$32,287	$275,562	$229		
Sidewalks		$43,886	$249,294	$148,397	
Child Care Centers		$50,506			
Health Facilities		$9,890			$500,000
Cleanup of Contaminated Sites		$36,272	$51,266		
Handicapped Services					$3,145
Youth Services	$14,240	$38,353	$50,736	$38,241	$65,017
Employment Training			$11,250	$15,000	$3,750
Fair Housing	$4,000	$27,686	$24,298	$16,641	$23,962
Mental Health Services	$4,178	$18,833	$17,391	$180	
Subsistence Payments		$9,227			
Housing Counseling	$11,752	$9,845		$65	
Food Banks		$11,250	$22,500	$28,750	$37,500
Construction of Housing	$363,327	$54,643		$372	
Direct Homeowner Assistance	$88,548	$2,896	$2,562	$1,734	$1,190
Rehab, Multi-Unit Residential	$783,971	$141,171	$405,415	$522	
Energy Efficiency Improvements		$6,000	$24,969	$49,392	$66,416
Acquisition for Rehabilitation	$461,083	$2,443	$39,928		
Property Management			$72,574	$114,010	$94,170
Planning	$1,607	$12,944	$19,016		
General Program Administration	$247,184	$304,139	$175,359	$136,373	$108,462
Return of Federal/State Funds[2]	$165,256	$193,909			
ENDING BALANCE - June 30th:	$1,573,814	$1,507,314	$1,550,005	$1,945,565	$2,899,419

[2] These were Neighborhood Stabilization Program 1 program income dollars generated when units were sold prior to their term of affordability ending. HCD required these funds to be returned to them as part of their grant close-out process.

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Housing Office Overview

Aside from the Federal CDBG funds, the two greatest sources of program funding come from in-lieu fees collected through the Inclusionary Housing program and loan repayments. Over the last five fiscal years in-lieu fees have generated more than $300,000 but have ranged from a low of $2,641 in FY14 to a high of $104,100 in FY17. During the same period the County has received principal and interest payments of $3,106,642 from outstanding loans but more than one-third of these repayments were unscheduled balloon payments and most scheduled payments are from small business loans. Not knowing when borrowers will make revenue makes it difficult to allocate these funds to specific project or even estimate when a critical amount of funding maybe available.

An overview of the funds managed by the Housing Office and how they may be used is provided on the following pages.

<u>FUND 009 – INCLUSIONARY HOUSING</u>

This fund was originally established by the Board of Supervisors in October 1980, when the first County Inclusionary Housing Ordinance was adopted. Revenue for this fund comes from developer payment of Inclusionary In-Lieu Fees, repayment of principal and interest on loans, fees for services rendered, and interest. Over the last five-years, revenue from In-Lieu Fees and loan repayments have accounted for 90% of the revenue received. During the same period, payroll has accounted for 70% of the expenditures out of this fund. The remaining 15% was "left in" as the difference been the County's cost to purchase, rehabilitate and the amount recovered by selling an Inclusionary home that was in foreclosure to an income qualified household. The remaining expenditures were for other professional services, primarily County Counsel and outside counsel. Table 1 summarizes the financial position of Fund 009 over the last five-years.

Fund 009 is a local source of funds and the use of funds is dictated by the Inclusionary Housing Ordinance, it is the most flexible money managed by the Housing Office. Historic uses of these funds or land donations in-lieu of fees have included:

- Land for a 200+ unit senior affordable housing project in Carmel Valley;
- Long term lease of public housing in Salinas;
- Grants and loans to Interim, Inc. for permanent and transitional housing for the psychiatrically disabled;
- Loans to support the Green-Gold Inn emergency shelter in Salinas;
- Loans to non-profit and for profit housing developers to produce affordable housing; and,
- Feasibility and planning money for non-profit housing developers to evaluate specific projects.

During the first three-months of Fiscal Year 2018-19, the Housing Office is averaging 45 new applications for inclusionary, owner occupied homes. Over the last five-years an average of three Inclusionary Homes have sold annually. During the same period, the Housing Office staff has processed an average of 35 requests annually to determine the value of their Inclusionary Home, subordinate to new financing, or, sell their Inclusionary Home. The Office has also income qualified an average of 7 new tenants annually for Inclusionary rental units.

FUND 011 – REVOLVING LOAN PROGRAM

This fund was originally established by the Board of Supervisors during the 1980's to separately account for federal economic development grants. In 1989, the County established the first Small Business Revolving Loan Fund with $200,000 from the U.S. Department of Commerce, Economic Development Administration (EDA), $66,000 split between the cities of Greenfield and King City, and $34,000 from the County General Fund. Since then the SBRLF has grown to a $1,839,846 fund for supporting small business development in Monterey County.

Since 1989, the SBRLF has:

- Made 141 loans totaling $9,677,915.
- Leveraged $18,562,832 in other private and public sector investment.
- Supported the creation or retention of almost 1,100 full-time equivalent jobs for Monterey County residents.

The portfolio currently has 12 active loans with $682,039 in outstanding principal. The SBRLF has $880,979 available to lend. A new, $30,000 loan was approved on September 6, 2018, and a proposed $250,000 loan for a food manufacturing start-up in Castroville is being evaluated. If both loans close by October 31, 2018, the SBRLF will have approximately $601,000 available for lending.

Managing the SBRLF requires approximately 2% of the Housing Office's staff time. The County's ongoing work with the SBRLF is primarily in contract and financial monitoring of the County's assets. The County also reviews all loan applications for consistency with the SBRLF objectives and participates in Loan Committee deliberations and approval of loans proposed for SBRLF funding.

The County contracts with California Coastal Rural Development Corporation (CCRDC) for the day-to-day management of the SBRLF. The contract is paid for using interest and fees paid by borrowers. CCRDC has a regular Loan Committee that considers all loans. This Loan Committee is expanded to include a County representative when loans are proposed for funding with the SBRLF.

FUND 013 – COMMUNITY DEVELOPMENT

This fund was established in the mid-1980's specifically for the federal Community Development Block Grant (CDBG) and HOME Investment Partnership grants and subsequent program income earned. Over the years, the County has also used this fund for a variety of state community development and housing programs including BEGIN, CalHOME, and the Housing Related Parks Program (HRPP). The BEGIN, CDBG, and HOME programs all generate program income from loan repayments. The County is required to maintain subledgers to track and report program income back to the original grant source.

Building Equity and Growth in Neighborhoods Program (**BEGIN**) program is an old program that the State of California used to reduce regulatory barriers to affordable housing ownership and provide down-payment assistance to qualifying first-time low- and moderate-income homebuyers. Down-payment assistance loans were second mortgage loans with deferred 30-year terms that accrued simple interest. The County may continue to use income from repaid BEGIN loans for the same purposes as originally allowed by the state legislation.

California Housing Rehabilitation Program (**CHRP**) **–** The CHRP program is an old state sponsored program that the County accessed to provide housing rehabilitation loans to qualified homeowners. It appears that this program was managed by the Department of Social Services during the 1980's before being transferred to the County Planning Department for management by the Planner managing the Inclusionary Housing Program. These loans typically had indefinite terms with a requirement to assess the borrower's ability to pay every five-years or are due and payable on death of the borrower or sale of the property. The County still has a handful of these loans outstanding.

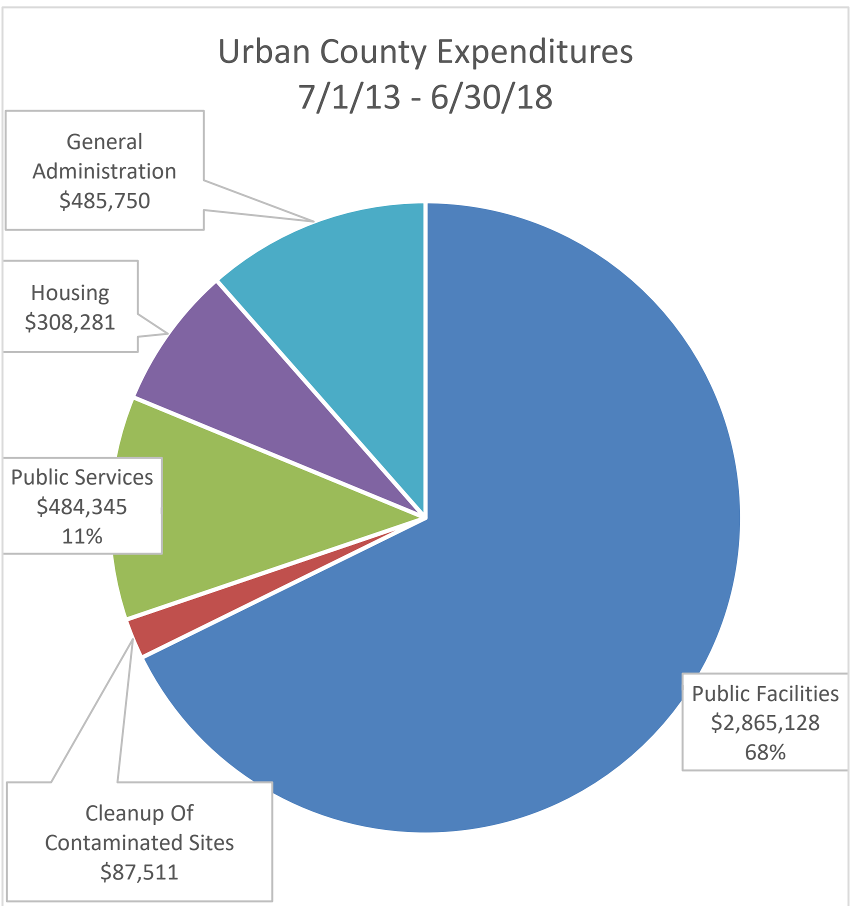
California Housing Related Parks Program (HRPP) – The HRPP was a bond funded program that allowed communities to receive grant funds to develop parks in park deficient communities. The grant amount was based on income restricted building permits issued during specific application periods. The County received two grants through this program and used the funds to develop the A.R. Wilson Community Park in Aromas and the Chualar Community Athletic Field. There were no administrative funds associated with this grant and staff time to implement the grants was funded through General Fund contributions to the parent organization of the Housing Office. This program no longer exists.

Community Development Block Grant (**CDBG**) Program – Beginning with Fiscal Year 2014, Monterey County qualified as an Urban County and now receives an annual allocation of CDBG funding directly from the U.S. Department of Housing and Urban Development (HUD). Prior to becoming an Urban County, Monterey County would apply for funding through the competitive state CDBG program managed by the California Department of Housing and Community Development. Prior to 2014, the County applied for competitive CDBG funds through HCD to make housing rehabilitation loans to multi-family projects and owner-occupied homes.

Since the County qualified as an Urban County entitlement jurisdiction in 2013, CDBG has become the largest and most consistent source of funding managed by the Housing Office. funds can be used for a wide variety of projects provided the project meets one of three national objectives:

- Benefit to low- and moderate- income persons;
- Aid in the prevention of slums or blight; and,
- Meet a need having a particular urgency.

Since FY14, the County has expended more than $4,231,000 through the Urban County as shown in the following chart.



The County can use up to 15% of the annual grant amount to provide public services. Over the last five years the County has funded public services to provide mental health assessments to the homeless, subsistence payments for households at risk of eviction, employment training, and food security. The County is not required to use the 15% allocation but the remaining funds can only be used for projects.

The County can use up to 20% of the annual grant amount plus 20% of loan repayments to pay for administering the grants or to prepare studies that may lead to future projects. If the County does not use the full 20% allowed, the balance must be used for programs or projects in the following year.

Home Investment Partnerships (**HOME**) **Program –** The HOME Program was created under Title II (the HOME Investment Partnerships Act) of the National Affordable Housing Act of 1990, and has been amended several times by subsequent legislation. The HOME program is a federal assistance program provided by HUD to States (and non-profit housing providers) for decent and affordable housing, particularly housing for low- and very low-income persons. It is the largest federal block grant funding to States and local governments designed exclusively to create and retain affordable housing for low-income families.

The objectives and intent of the HOME program are:

- To provide decent affordable housing to lower-income households;
- To strengthen the ability of state and local governments to provide housing;
- To expand the capacity of non-profit housing providers; and
- To leverage private sector participation.

In addition, Congress intended the HOME program to operate in a way that will help the participating jurisdiction undertake its own affordable housing strategy.

Monterey County has applied for funding for this competitive state HOME program managed by the California Department of Housing and Community Development since the early 1990s. Since then, the County has obtained about nine (9) grants to make down payment assistance and housing rehabilitation loans to both single-family, owner-occupied homes and multi-family projects.

Funds awarded under the HOME Program are specific to the activity for which the County applies for (down payment assistance or rehabilitation) and any changes to the activity, must be approved by HCD.

The County is allowed to use up to 10% of the amount received from loan repayments (program income) to pay for general administrative costs of the grant funds. If the County does not use the full 10% allowed, the balance rolls over to the next fiscal years.

The HOME Program has restrictive sales price or after-rehabilitation values (maximum purchase price & value limits) for HOME-assisted units. This, plus limited stock of affordable housing, is a main reason why the County has not been able to extend HOME Program loans to its residents.

As the following table shows, there is a significant amount of funding available for HOME eligible activities. The biggest challenge to using HOME for down payment assistance and owner occupied housing rehabilitation. HUD establishes maximum purchase prices for homes using HOME funded DPA loans. The maximum purchase price for all houses in Monterey County effective April 1, 2018, is $396,000.

FUND 175 CASTROVILLE/PAJARO HOUSING SET-ASIDE & FUND 176 BORONDA HOUSING SET-ASIDE

These funds were established at the same time the corresponding Redevelopment Project Area were established by the Board of Supervisors in the mid-1980's. Capital for the funds originally came from the 20% of redevelopment tax increment that was mandated by state law for affordable housing. The approximately $1 million available in FY2019 represents the funds remaining at the dissolution of redevelopment and payments on outstanding loans and the operation of the Kent Court affordable housing development in Pajaro.

Money in this fund must support the development new or retention of affordable housing. Funds may also be used pay reasonable administrative costs. Over the last five years, approximately 4% of income has been used for administrative costs. Property management costs associated with Kents Court account for the balance of non-grant/loan expenditures.

There are currently three outstanding loans with outstanding principal balances of $4,000,000 for multi-family rental projects. These loans have 55-year terms and repayment is from residual receipts.