



Board Report

File #: 19-0007, **Version:** 1

- a. Receive a report on the update process for the Affordable Housing Ordinance, the Inclusionary Housing Ordinance Financial Evaluation and provide direction on options for modifying the Ordinance;
- b. Receive a report on funding restricted for affordable housing to support the development and retention of affordable housing;
- c. Direct staff to analyze establishing a replacement reserve for the Kents Court in Pajaro to be funded from monthly lease income received from tenants of this affordable housing development;
- d. Authorize staff to issue a Request for Proposals for the preparation of a Housing Sustainability Plan for Monterey County and set aside \$210,000 from the Inclusionary Housing Fund for this purpose;
- e. Authorize staff to issue a Request for Proposals for affordable housing development and rehabilitation projects and planning activities to be funded from various restricted funding sources including the BEGIN program, HOME program, Inclusionary Housing In-Lieu Fees, and redevelopment low-moderate-income housing set-asides; and,
- f. Authorize staff to work with the Board of Supervisor's Legislative Committee, lobbyists, and other interested parties to advocate for changes to AB11 - Community Redevelopment Law of 2019.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive a report on the update process for the Affordable Housing Ordinance, the Inclusionary Housing Ordinance Financial Evaluation and provide direction on options for modifying the Ordinance;
- b. Receive a report on funding restricted for affordable housing to support the development and retention of affordable housing;
- c. Direct staff to analyze establishing a replacement reserve for the Kents Court in Pajaro to be funded from monthly lease income received from tenants of this affordable housing development;
- d. Authorize staff to issue a Request for Proposals for the preparation of a Housing Sustainability Plan for Monterey County and set aside \$210,000 from the Inclusionary Housing Fund for this purpose;
- e. Authorize staff to issue a Request for Proposals for affordable housing development and rehabilitation projects and planning activities to be funded from various restricted funding sources including the BEGIN program, HOME program, Inclusionary Housing In-Lieu Fees, and redevelopment low-moderate-income housing set-asides; and,
- f. Authorize staff to work with the Board of Supervisor's Legislative Committee, lobbyists, and other interested parties to advocate for changes to AB11 - Community Redevelopment Law of 2019.

SUMMARY:

On October 23, 2018, the Board of Supervisors conducted a housing study session. At the conclusion of that study session the Board requested that staff identify specific projects that could be undertaken with existing resources to promote affordable housing development. The information being presented to the Board is an update on the process and initial recommendations for updating the Inclusionary Housing Ordinance. Staff is requesting the Board to provide policy direction on how the Inclusionary Housing Ordinance fits into the County's overall housing strategy. Staff is also requesting the Board to take specific actions outlined in the recommendation to facilitate the development of affordable housing throughout Monterey County.

DISCUSSION:

Background

The state mandated Regional Housing Needs Allocation (RHNA) identified the need for 1551 units in the unincorporated County, and the Farmworker Housing Study and Action Plan for the Salinas Valley and Pajaro Valley identified the need for more than 32,000 new housing units in Monterey County (inclusive of the cities) to address population growth through 2023 and alleviate housing overcrowding experienced by many residents. These units are broken down as follows:

7,250 RHNA obligation for Monterey County and its cities
1,551 RHNA obligation for unincorporated Monterey County
33,159 units of farmworker housing need to alleviate overcrowding,
of which an estimated 25,000 are needed in Monterey County, inclusive
of the cities.

The County Housing Element for 2015-2023 identifies the RHNA requirement of 374 very low, 244 low income, 282 moderate, and 651 above-moderate units in the unincorporated County during the Housing Element period (Housing Element, at p. 100). So far, in this period, County has reported to HCD that 37 very low, 6 low, and 9 moderate units have been permitted through the end of 2017; the Tanimura and Antle project, which resulted in 100 units, and the Boronda Villas project and 2018 projects will result in greater numbers: 212 very low, 11 low, 9 moderate, as well as above-moderate units.

The 2,900 RHNA units (County plus cities) and most of the units identified in the Farmworker Housing Study need to be affordable to households earning less than 80% of AMI (Area Median Income). The cities and County are also responsible for permitting 1,340 units that are affordable to households earning less than 120% of AMI.

Housing developers of all types (those building employer-sponsored housing, affordable housing and market rate) are all looking for the same basic resources to meet this demand. In general, most projects with 50 or more units: need at least 4 acres of level land with zoning that supports the proposed densities; are located within 1 mile of existing water and sewer systems; and, be financially viable. In general, the more variables that local governments can remove, the more predictable the development process can be, which in turn, speeds up development.

AB1505 - Inclusionary Housing Ordinance

In September 2017, the Governor signed AB1505 - Inclusionary Housing Ordinances into law. There are three notable components to this legislation. First, it provides HCD with greater oversight of jurisdictions with inclusionary housing ordinances that require more than 15% of inclusionary units restricted to households earning no more than 80% or less of AMI. HCD can now require these jurisdictions to prepare economic feasibility studies demonstrating that the jurisdiction's ordinance does not hinder housing production if the jurisdiction has either failed to: a) meet at least 75% of its share of the RHNA; or. b) the jurisdiction has not submitted the Housing Element Annual Progress Report as required for two consecutive years. The County is not required to prepare the economic feasibility study because the existing Inclusionary Housing Ordinance and General Plan Land Use Policy LU-2.13 only require 12% of new units or lots to be affordable to households earning less than 80% of AMI. Second, AB1505 specifically exempts inclusionary housing from the Costa-Hawkins Act which otherwise prohibited the imposition of rent limits on rental housing in most cases. Third, the legislation requires jurisdictions to provide alternative means other than building on-site units to comply with inclusionary housing ordinances; alternative means of compliance may include, but are not limited to, in-lieu fees, land donation, off-site construction, or acquisition and rehabilitation of existing units.

Inclusionary Housing /Affordable Housing Ordinance

The County's Inclusionary Housing Ordinance is one part of the County's strategy to provide affordable housing. The Ordinance, codified at Chapter 18.40 of the Monterey County Code, requires that all subdivisions and new construction that create five or more new lots/units set aside: 6% of the units for very low-income households, 6% of the units for low-income households, and 8% of the units for moderate income households. General Plan Land Use Policy LU-2.13 added a requirement that 5% of the units be set-aside for Workforce I-income households under the rubric of an "Affordable Housing" Ordinance. The current Ordinance has not undergone a full-scale review since 2003 or been amended to incorporate the Workforce I provisions. Over the last 15 years there have been several changes to state and local laws and regulations governing inclusionary housing.

In August 2018, the Board of Supervisors approved an agreement with LeSar Development Consultants to coordinate the updating of the Inclusionary Housing/Affordable Housing Ordinance. The first steps in updating the ordinance have been: a) consultant review of the current ordinance to identify specific areas that need to be updated to comply with current state law and the 2010 General Plan; and, b) preparation of an Inclusionary Housing Ordinance Financial Evaluation. Keyser Marston Associates will present the Financial Evaluation at the Board meeting.

Options for Preliminary Direction for Revision of Inclusionary Housing Ordinance:

The Financial Evaluation contains recommendations and policy alternatives for the Board's consideration. Staff is seeking policy guidance from the Board on these recommendations and policy alternatives to draft the revised ordinance. The current Inclusionary Housing Ordinance generally requires all units to be on-site and allows applicants to pay an in-lieu fee for any fractional units, unless the Board makes exception based on various findings that allows alternative methods of compliance. The Ordinance also allows the Board to accept off-site units or land dedication to comply with the Ordinance. The recommendations and policy alternatives listed below highlight different approaches to compliance than are found in the current

Ordinance.

- Require off-site units to be comprised solely of rental apartments.
- Allow projects with between 3 and 20 lots or units to pay an in-lieu fee by right.
- Allow projects to pay in-lieu fees for all very low- and low-income units.
- Require projects with more than 20 lots or units should be required to produce the required moderate and Workforce I affordable units on-site.

Staff is seeking guidance from the Board for purposes of a preliminary draft revision of the Inclusionary Housing Ordinance. Next steps would then include meeting with stakeholders, drafting a revised ordinance, appropriate environmental review, and public hearings.

Funding Available to Support the Development & Retention of Affordable Housing RFP

The Housing Office is requesting authorization to issue an RFP for proposals for expenditure of certain restricted housing funds held by the County for activities that support affordable housing development. The Housing Office manages seven sources of funding provided by outside sources or collected pursuant to the County's Inclusionary Housing Ordinance. Five of these sources are specifically targeted to support affordable housing; one may be used to address specific housing and homeless issues among a larger list of allowable activities, and one is specifically for small business lending. Each of these funding sources come with different

limitations on where they can be used, the types of activities they can support, and the amount that may be used to support the administration of programs. The fund, names, and cash balances less encumbrances that were available as of the July 1, 2018 were:

Fund 009 - Inclusionary Housing Fund	\$523,103
Fund 013 - Community Development/BEGIN	\$51,254
Fund 013 - Community Development/HOME	\$977,456
Fund 175 - Castroville/Pajaro Housing Asset	\$1,376,825
Fund 176 - Boronda Housing Asset	<u>\$11,780</u>
Total Available Funding	\$3,391,717

In addition to the \$3.39 million described above, the County will receive an allocation from the State's Permanent Local Housing Allocation (PLHA), the SB2 authorized Building Homes & Jobs Act recording fee. In January 2019, the California Department of Housing and Community Development (HCD) published draft allocations for these funds. The County's share of the PLHA is estimated at \$512,333, which includes \$25,617 for the County's administrative costs to manage the project. HCD plans to issue a Notice of Funding Availability (NOFA) in August 2019 and issuing award letters during the winter of 2019-20. While program requirements have not been fully drafted, it is likely that jurisdictions will be required to submit an annual plan, following public outreach, that explains how the funds will be used and the anticipated benefits.

Potential Sources of Future Funding

In addition to the PLHA, SB2 includes a set-aside for farmworker housing. HCD does not anticipate issuing draft program guidelines for the farmworker set-aside until July 2019 with awards to be made approximately 12 -months later.

While not explicitly under the Board's control, two housing related bonds were passed by the electorate in November 2018. These initiatives authorized \$6 billion to fund a variety of housing programs. These bonds did not directly allocate money to cities or counties but recapitalized or established new programs. Summaries of the programs funded by these initiatives are found in Attachment 1. The money authorized by these initiatives will be made available over several years. HCD's current NOFA Schedule is included as Attachment 2. These are one-time capital infusions that may or may not be renewed in subsequent elections.

Housing Sustainability Plan for Monterey County of Monterey

One recommendation presented to the Board of Supervisors during the October 23, 2018 study session was the authorization for staff to begin working on a Housing Sustainability Plan for Monterey County. The genesis for this plan was a meeting held with the city managers and community development officials from Gonzales, Greenfield, King, and Soledad to discuss farmworker housing. During this meeting, the city managers commented on the facilitation process that was used to develop the Salinas Valley Groundwater Sustainability Plan (GSP). The consensus was that the GSP process was fair and resulted in a plan that has a chance of achieving its goals. The city managers suggested that following the GSP format and including all 12 cities might be a viable way to develop countywide consensus on how to address housing issues throughout the County.

The purpose of this plan is to:

- Address the entire spectrum of housing needs, from sheltering the homeless through providing homeownership opportunities for home buyers across the income spectrum and reducing overcrowding.
- Share the cost of providing housing for households earning less than 180% (or perhaps a higher

threshold) of the area median income among all jurisdictions.

- Maximize the amount of funding subject to local control to support housing development.

Some approaches to addressing the countywide housing situation that may be considered through the sustainability planning process are:

- Working with the State legislature so that AB11 - the Community Redevelopment Law of 2019 supports a countywide approach to delivering housing.
- Prioritizing projects that will provide the greatest contribution first to the total 13-jurisdiction RHNA obligation and then meeting individual jurisdictional goals.
- Developing a RHNA Transfer Agreement that facilitates pooling of financial resources and ensuring that all jurisdictions meet their RHNA obligations.
- Exploring options to maximize the amount of locally controlled funds for housing that may include pooling inclusionary in-lieu fees, forming a HOME consortium or a consortium to pool PLHA funds.
- Establishing a single point of entry for all affordable housing programs and units in Monterey County so that residents do not have to contact each city and developer individually to get on lists for income-restricted housing.

The purposes and approaches described above are preliminary and the community, through the facilitated meeting process, will be invited to share their ideas for consideration by planning commissions, city councils and the Board of Supervisors.

The recommendation is to issue an RFP for the preparation of the Housing Sustainability Plan, which would include a facilitation process among the jurisdictions and drafting of the plan. Staff requests that the Board set aside \$210,000 from the Inclusionary Housing Fund for the facilitator's services and more detailed housing needs assessments at the city level.

Kents Court

Kents Court is an affordable housing development owned by the County in Pajaro. The Redevelopment Agency provided a loan to South County Housing to purchase 19 manufactured homes to temporarily house tenants displaced by South County Housing's Nuevo Amanecer project in 2005. At the time, the Redevelopment Agency anticipated that the units would revert to Agency ownership once Nuevo Amanecer was constructed. The units were then to be used to provide temporary housing for households displaced when code enforcement "red tagged" structures in North County. The manufactured units would then be relocated to another area of the County and the code enforcement program would be repeated. This program never took root, and the units became part of the affordable housing stock managed by the County. Because the transition from temporary to permanent housing was unplanned, the Redevelopment Agency and County has not planned for the long-term management of the units.

The recommended action is to direct staff to analyze allocating a portion of the annual income received from tenant lease payments to a replacement reserve. The purpose of the replacement reserve would be to set aside sufficient financial resources to replace the units when they reach the end of their useful life. Lease income not needed for the replacement reserve would be used to provide a local funding source to support other affordable housing projects. Staff intends to return to the Board with a proposal following staff's analysis.

AB11 - the Community Redevelopment Law of 2019

AB11 was introduced in December 2018 and, if enacted, will bring back a form of redevelopment. This legislation will specifically authorize the formation of Affordable Housing and Infrastructure Agencies (AHIA) by cities and counties. These agencies may form districts where they will collect the future growth of property

taxes for specific projects or purposes. The draft legislation requires that 30% of the tax increment collected be used to fund for the housing very low-, low- and moderate-income households.

The adoption of new redevelopment law may create new opportunities to finance workforce housing. The draft legislation requires that 30% of the tax increment be used for housing very low, low-, and moderate-income households is greatly needed. However, many occupations in Monterey County have annual pay rates that exceed these limits and are still insufficient for the wage earner to afford housing. Tax increment may be a mechanism to finance housing for employees in education, public safety, and other lower-middle income occupations if a portion of the funds were allocated to higher income households.

Staff is recommending that it be authorized to work with the County's lobbyists, cities, and school districts to compile information that would support:

- Establishing affordable housing and infrastructure districts based on housing need more than blight findings.
- Setting aside an additional 10% of tax increment to finance housing programs for households that don't qualify for existing affordable and/or conventional financing.
- Allowing tax increment to finance mixed-income housing development in conjunction with school districts on surplus district property.

OTHER AGENCY INVOLVEMENT:

The Board of Supervisors Agriculture Employer-Sponsored Housing Ad Hoc Committee met with representatives from the agriculture industry and city managers from Gonzales, Greenfield, Soledad and King City to discuss employer-sponsored housing issues. The Housing Advisory Committee has received two briefings on the proposed Housing Sustainability Plan and is supportive of moving forward with it.

FINANCING:

There is no financial impact on the General Fund associated with receiving this report.

The Housing Office manages Fund 009 (Inclusionary Housing), Fund 011 (Economic Development Program), Fund 013 (Community Development Fund), Fund 175 (Castroville Pajaro Housing Successor), and Fund 176 (Boronda Housing Successor). Collectively, these funds have recommended appropriations of \$5,189,403 in FY2018/19. The \$3.39 million referenced in the discussion is the amount of the \$5,189,403 specifically restricted to providing affordable housing.

BOARD OF SUPERVISORS STRATEGIC INITIATIVES:

An adequate supply of affordable and safe housing at all levels of income touches almost all the Board of Supervisors' Strategic Initiatives. Access to affordable housing supports the local economy by providing a place to live for the front-line employee. Housing that meets health and safety standards reduces the occupants' exposure to unsanitary conditions that may lead to health conditions leading to increase use of County health services.

Mark a check to the related Board of Supervisors Strategic Initiatives

X Economic Development

__ Administration

X Health & Human Services

__ Infrastructure

X Public Safety

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Attachments:

Board Report

Attachment 1 - 2018 California Housing Initiatives

Attachment 2 - HCD NOFA Schedule