



Santa Cruz County CA

Adopted
Aug 7, 2018 9:00 AM

Agenda Item DOC-2018-696

Consider report and resolution to provide for the submission of a proposition incurring bonded debt of a maximum of \$140 million for the purpose of financing affordable housing projects and programs to the qualified voters of the County of Santa Cruz at the General Election to be held on November 6, 2018, and take related actions, as outlined in the memorandum of Supervisors Friend and Coonerty

Information

Department:	Board of Supervisors: Administration	Sponsors:	Second District Supervisor Zach Friend, Third District Supervisor Ryan Coonerty
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Attachments

[Board Memo](#)
[Resolution 180-2018 Calling Election, Affordable Housing \(eSign\)](#)
[04 revised Memo, packet page 14 \(clean & strikeout-underline\)](#)
[04_Web comments, Citizens_UserDiscussion](#)
[\(Upload New Attachment\)](#)

Financial Impact

Expenses related to issuance of the bonds, program/project delivery and bond-funded programs would be paid out of the bond proceeds. Housing Bond debt service would be paid through a property tax on assessed value. Bond proceeds are restricted to capital investments for a public purpose. The capital project cost can also include all the soft costs associated with the improvement such as construction-design, architecture, land use actions, and construction management. Costs for administering specific programs or overseeing specific projects could have an impact on the General Fund by requiring additional staff time or contracted services to carry out these responsibilities.

Board Letter

Recommended Action(s):

- 1) Accept and file report on an affordable housing bond measure;
- 2) Adopt resolution calling and providing for bond election to be consolidated with the November 6, 2018 General Election for the purpose of submitting to the qualified electors of Santa Cruz County the proposition of whether or not to authorize the issuance of general obligation bonds in an amount not to exceed \$140 million for affordable housing and reduction of homelessness. Bonds will be repaid through a property tax assessment of an estimated maximum levy of \$16.77 per \$100,000 of assessed valuation through maturity;
- 3) Advise the Auditor-Controller-Treasurer-Tax-Collector and County Counsel of the requirements for independent analysis contained in the resolution and to transmit it to the Santa Cruz County Clerk no later than 5:00 pm on August 17, 2018;

- 4) Direct the Clerk of the Board to file a certified copy of the resolution and order with the Santa Cruz County Clerk no later than 5:00 pm on August 10, 2018;
- 5) Direct the Clerk of the Board to publish in one or more newspapers the order calling and providing for the bond election once a week for at least four weeks, per California Government Code Section 29906; and
- 6) Direct the County Administrative Office and County Counsel to return after the November 6, 2018 General Election with an ordinance to guide use of the proceeds of the \$140 million general obligation bond for affordable housing and reduction of homelessness should the measure be authorized by voters.

Executive Summary

In November 2018, Santa Cruz County voters will have an opportunity to direct more resources towards addressing a range of critical affordable housing needs and reducing the homeless population by passing a general obligation bond measure. The measure, a \$140 million general obligation bond, will create new affordable rental and homeowner housing units and assist existing low-income and vulnerable residents in need.

Background

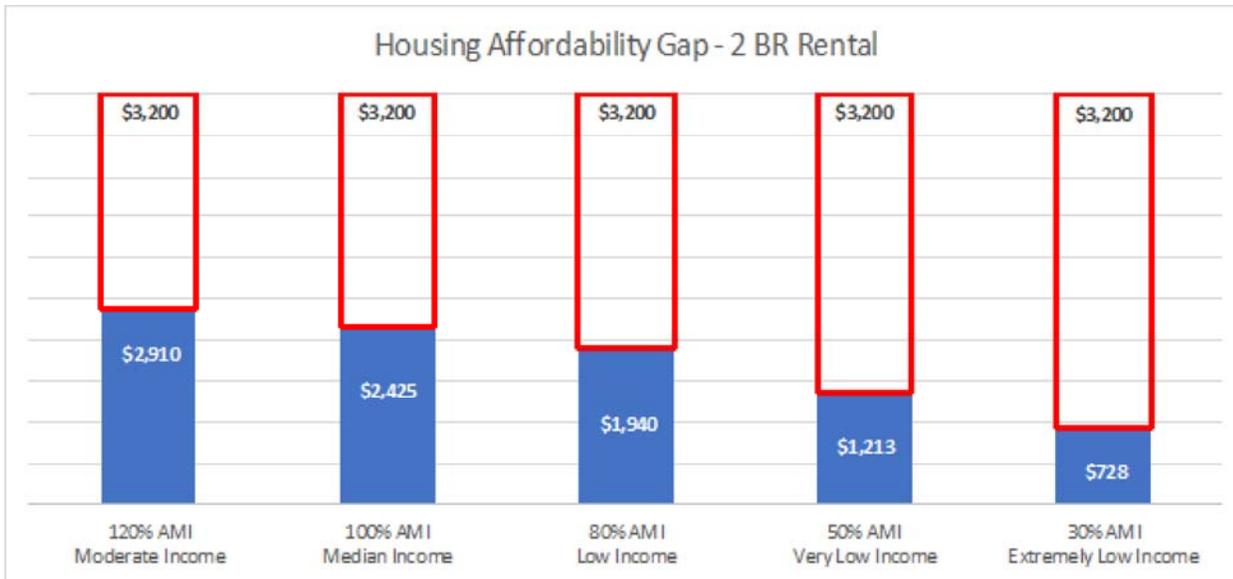
The Need for Affordable Housing

Santa Cruz County is one of the least affordable places in the world according to a recent international affordable housing study. With a median home price of over \$900,000 for a single-family residence and \$570,000 for a condominium or townhouse, homeownership is out of reach for the vast majority of Santa Cruz County residents. According to the California Association of Realtors Traditional Housing Affordability Index, only about 15% of households can afford to purchase the median priced home. The rental housing market fares no better, with the rent for a two-bedroom apartment registering at around \$3,200 according to data on Zillow for May 2018 and Rent Jungle for June 2018.

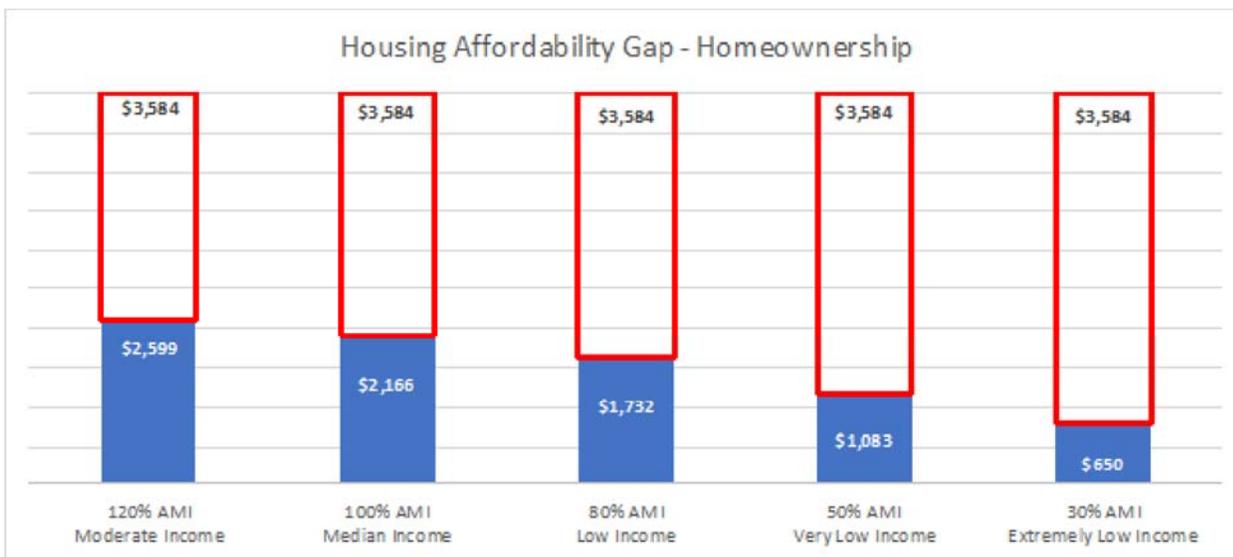
High housing costs inhibit the sustainability of our community and of our workforce. Individuals and families are increasingly locked out of the local housing market and forced to take on increasingly long commutes to reach employment. High housing costs also exacerbate other challenges our community is confronting, including economic opportunity and vitality, traffic congestion, greenhouse gas generation and homelessness. In addition, when households spend more than half their incomes on housing costs, they have significantly less money to pay for other necessary expenses such as childcare, medical expenses, and food, as well as less discretionary income to spend at local businesses.

The difference between an affordable housing cost and market-rate housing cost is commonly called the housing “affordability gap.” In recent years, the impact of this affordability gap has expanded beyond low-income households, which traditionally have been the focus of governmental assistance programs, to include moderate income households, such as those of teachers and public safety first responders. The charts below indicate the affordability gap at various levels of area median income for both a two-bedroom rental and homeownership in Santa Cruz County. The information is based on monthly prices and a median household income of \$77,613. Home ownership pricing assumes a \$900,000 home with 20% down (\$180,000) and a 30-year fixed rate mortgage at 4.35%.

A monthly rental cost of \$3,200 is almost 55% of monthly median income, while the standard advocated is to spend no more than 30% of your income on housing. With monthly market rate costs for housing at \$3,200 for a two-bedroom rental, even at 120% of Area Median Income (AMI), or \$93,316 annually, a household would only be able to afford monthly rent costs of \$2,910, which is more than 37% of income.



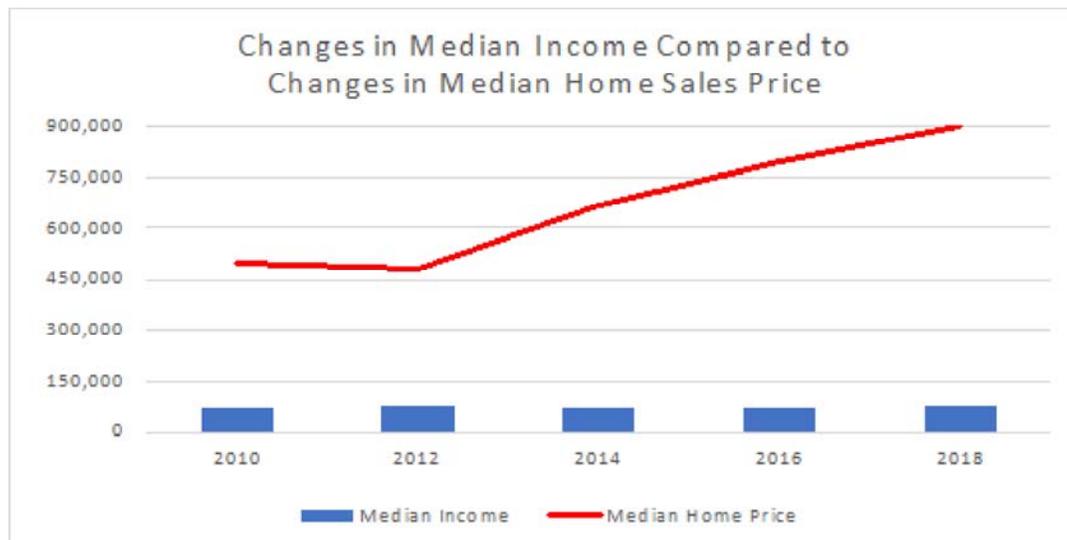
A monthly mortgage cost of \$3,584 is over 51% of monthly median income. Thus, a median income earner could only afford \$2,166 for a mortgage (not even considering the amount needed to save for a down payment).



Santa Cruz County has a poverty rate of 15.08% according to American Community Survey 5-Year Estimates from the U.S. Census bureau. The Federal government defines the poverty line as income of \$25,100 a year for a family of four and \$12,140 for an individual based 2018 guidelines. At the 30% of income threshold, housing costs could not exceed \$628 per month for a family of four.

But even for those with higher wages, increases in incomes are not keeping pace with rapidly

increasing housing costs. Therefore, housing production and the availability of housing affordable to a wider range of households has become more important than ever.



Note 2018 median income is 2016 data adjusted for inflation

Projected Future Housing Needs

The Association of Monterey Bay Area Governments (AMBAG) provides estimates of housing need through its Regional Housing Need Assessment (RHNA), conducted every seven years. Limited funding resources and the high cost of housing development mean that the County’s supply of affordable housing will be challenged to keep pace with future demand. The table below summarizes the RHNA allocations for each jurisdiction within Santa Cruz County for the period of 2014 through 2023.

Santa Cruz County Regional Housing Needs Allocation

Jurisdiction	Very Low 0-50% of AMI	Low 51-80% of AMI	Moderate 81-120% of AMI	Above Moderate >120% of AMI	TOTAL
Capitola	34	23	26	60	143
Santa Cruz City	180	118	136	313	747
Scotts Valley	34	22	26	58	140
Watsonville	169	110	127	294	700
Unincorporated	317	207	239	551	1,314
TOTAL	734	480	554	1,276	3,044
Housing Allocation Need	2,515	1,640	1,900	4,375	10,430

State Housing Bond

In 2017, the State Legislature passed a series of bills that made changes to Accessory Dwelling Unit regulations and provided new pathways for the creation of housing if it met certain affordability requirements. Part of the package of bills included the placement of a \$4.1 billion bond on the November 2018 statewide ballot for the specific purpose of creating affordable housing.

State housing funding programs typically favor local projects that demonstrate a local fund match. If the current state housing bond is approved by voters as expected, Santa Cruz County jurisdictions will be significantly disadvantaged in seeking state funds if a local funding source is not available. A

local housing bond proposal would eliminate that disadvantage, allowing County jurisdictions to compete effectively for state funds.

Local Housing Bond

Community stakeholders and leaders concerned about the severe shortage of affordable housing for local working families and other vulnerable community members began meeting approximately 16 months ago to discuss the potential of placing a bond measure before local voters to assist in funding affordable housing within Santa Cruz County. The team, known as Affordable Housing Santa Cruz County, conducted community meetings, stakeholder meetings and public opinion surveys to develop several priorities and criteria for such an action. Their work was based in part on that of several Bay Area counties who have successfully passed housing bonds or otherwise developed voter supported funding for the creation of affordable housing and reduction of homelessness within their communities.

Affordable Housing Santa Cruz County identified the following as priority housing needs and stakeholders have expressed a desire for any affordable housing bond to address the following:

1. Housing that addresses the RHNA of Santa Cruz County and its incorporated cities, which provides a roadmap to address the needs of local workers, including farmworker and tourism industry employees and their families, as well as essential public servants like teachers, first responders, and health workers, via a mix of affordable rental and ownership opportunities.
2. Interim shelter and permanent supportive housing for families and individuals experiencing homelessness.
3. Accessible, well-located housing for seniors on fixed or limited incomes, veterans, families, and people living with disabilities.
4. Housing near transit and job and service centers that incorporates green-building and alternative-building technologies and focuses housing development in the county's urban service area and areas that each city has already zoned for housing.

Acknowledging the well-documented affordability gap for both rental and ownership housing across a range of income levels, in May 2018 the Board of Supervisors directed the County Administrative Officer and County Counsel to work with County staff and other jurisdictions to research funding opportunities and develop affordable housing options that can be created using these funding opportunities, and to develop a list of affordable housing priorities to be recommended to the Board.

To that end the interjurisdictional Housing Task Force (HTF) was created. The HTF consisted of representation from each city and the County and was tasked with the following:

1. Review the work done to date by Affordable Housing Santa Cruz County regarding the affordable housing bond measure at a local level.
2. Determine a recommended distribution of the proceeds of potential local housing bonds among different types of housing initiatives and jurisdictions.
3. Recommend a governance structure for the distribution of the proceeds.
4. Review a list and timing of potential affordable housing projects in each of the jurisdictions that will be key for the development of the Tax Rate Statement for such bonds.

The HTF identified the following as the goals for their work and any funds received through the successful passage of a local bond measure for affordable housing:

- Build new housing that benefits very low, low and moderate income economic sector of our community.
- Have a preponderance of rental housing for new construction.
- Build in flexibility for programs and cross-jurisdictional collaboration.
- Create funding to encourage capital investments.

In addition, the HTF had as guiding principles that:

- All parts of the County should share in the benefits of serving their residents through a range of programs.
- Jurisdictions should maintain maximum control over their project funding, while creating the most affordable housing possible by leveraging funding dollars for the greatest impact.
- Build on successful program models already in place such as Manufactured home change-outs and project-based first-time home-buyer programs.
- Keep project costs reasonable by leveraging funds wherever possible.

Analysis

Program Description

Following on the work done by Affordable Housing Santa Cruz County, the HTF determined that a maximum \$140 million bond issuance, with a recommended \$100 million to be issued in 2020 and \$40 million to be issued in 2027, will help to address the affordability gap, as well as the destabilization that occurs when market pressures in communities result in residents being forced out of the County entirely to find housing they can afford.

The HTF recommends the following for the categorical allocation of funds based on the assumption of a \$140 million bond issuance.

Housing Production & Preservation	Homeownership	Homelessness
A minimum of 75% \$105 million	A maximum of 10% \$14 million	15% \$21 million
Eligibility: 0-80% Area Median Income	Eligibility: up to 120% Area Median Income	Eligibility - N/A
<p><u>Primary Areas of Focus</u></p> <ul style="list-style-type: none"> ▪ New homes and rental housing construction for vulnerable populations including low income workforce, veterans, seniors, people with disabilities, farmworkers, youth transitioning from foster care, permanent supportive and transitional housing. ▪ Acquisition rehabilitation projects. ▪ Repair funding to preserve housing, especially rental housing. ▪ Deed restricted Accessory Dwelling Unit (ADU) development including Senior ADU development (My House, MyHome) to create additional housing units. 	<p><u>Primary Areas of Focus</u></p> <ul style="list-style-type: none"> ▪ Project based First-time homeowner loans to assist homebuyers to stay in Santa Cruz County. ▪ Manufactured Home replacement to improve this critical housing stock. ▪ Rehabilitation funding to preserve housing, especially seniors and people with disabilities. ▪ Deed restricted Accessory Dwelling Unit (ADU) development to create additional housing units. 	<p><u>Primary Areas of Focus</u></p> <ul style="list-style-type: none"> ▪ Navigational center in both North and South county areas. ▪ Year-round emergency shelter. ▪ Transitional and supportive housing.

Funding Allocations

The HTF determined that for the most effective use of funding, the homelessness allocation of \$21 million would not be allocated by jurisdiction but would be one regional pool used to develop specific projects that would serve all regions of the County. However, the other two categories of Housing Preservation and Production and Homeownership, totaling \$119 million, would be allocated across the five jurisdictions.

The HTF examined a variety of methods for equitable distribution of the \$119 million of housing bond proceeds, including population, proportion of assessed value, RHNA allocation for low and very low income, and percentage of population in poverty. Each method individually and in a mixture of blends had an impact on jurisdictional allocation - either advantaging or disadvantaging some jurisdictions over others. The HTF concluded that a blended allocation which includes all the elements of population, assessed value, RHNA allocation and poverty (weighted equally) resulted in the most equitable allocation of the funding. The base values for each category would be updated prior to each issuance of the two bond issuances.

Blended Allocation, All 4 Elements					
Jurisdiction	Allocation Per Population	Allocation Per Total Poverty	Allocation Per TTL AV	Allocation Per RHNA Very Low & Low	Blended Allocation
City of Capitola	4,410,408	3,511,336	6,561,215	5,587,315	5,017,568
City of Santa Cruz	27,928,974	39,586,749	25,379,133	29,210,873	30,526,432
City of Scotts Valley	5,167,716	1,587,233	7,311,295	5,489,292	4,888,884
City of Watsonville	23,306,710	28,023,922	11,047,400	27,348,435	22,431,617
Unincorporated County	58,186,192	46,290,760	68,700,958	51,364,086	56,135,499
	119,000,000	119,000,000	119,000,000	119,000,000	119,000,000

Housing Production

The HTF examined the potential in each jurisdiction for housing development based on land availability, potential tax credits, community need, and type of units (rental housing, ADUs, etc.). Some jurisdictions have identified opportunity sites, while others considered housing production more in terms of types of housing needed, such as specific estimates for farmworker or workforce housing. Based on all of these factors and the total allocation amount by jurisdiction, a total of 1,041 projected units were estimated for all jurisdictions.

Jurisdiction	Affordable Units	ADU/ MH Rehab %	Homebuyer Assistance
Capitola	40	N/A	N/A
Santa Cruz City	277	10.8%	24
Scotts Valley	39	N/A	N/A
Watsonville	133	22.6%	30
Unincorporated	498	18.9%	N/A
TOTAL	987	15.6%	54

Total Units = 1,041

Governance

The HTF is recommending that each jurisdiction's elected body govern the use of their allocation, including project selection. In the case of the regional funding allocation for Homelessness, the HTF recommends that for efficacy, it is best to use a structure already in place. Therefore, the Housing Advisory Partnership (HAP) Executive Committee, which includes representation from all jurisdictions, should serve as the governing body for the use of the homelessness allocated funds.

Accountability Safeguards

In addition, the following accountability safeguards are recommended:

Creation of an **Oversight Committee** that would include one elected member (or their appointed subject matter expert) from each jurisdiction and one citizen appointed member for each city and two citizen appointed members for the County. This Oversight Committee would be established to review each year a comprehensive annual report to ensure that bond proceeds are being spent in compliance with the bond measure. In addition, the Committee would ensure that units are being produced and that other programs are functioning which meet community needs such that the goals of the program are being attained. It is recommended that the County provide staff to assist the Oversight Committee in its duties.

Creation of a **Special Bonds Proceeds Account** by the County into which all of the bonds proceeds shall be deposited.

Development of **Annual Reports** by each jurisdiction for reporting to their elected bodies and the public and one comprehensive report for the Oversight Committee. These annual reports should roughly parallel the timing of the General Plan Annual Reports and Redevelopment Successor Agency Annual Housing Reports that each jurisdiction is already required to prepare.

Requirement that each jurisdiction must make a **Commitment of Jurisdictional Funds** to projects or programs within a maximum of 10 years from receipt of their allocation. Should funds not be committed within ten years of distribution, jurisdictions must distribute uncommitted funds to other jurisdictions in a manner of their choosing within the following year. A commitment will be defined as funds encumbered in an enforceable third-party contract.

Requirement that jurisdictional allocations to projects reflect **Maximum Funding** of \$170,000 per unit for new housing built and \$80,000 per unit for Accessory Dwelling Units or Manufactured Home change-outs to ensure that each jurisdiction retain individual control over their own allocation while also safeguarding significant production of affordable housing units with the funding provided by the bond proceeds. Proposed funding above these limits would be subject to the approval of the Oversight Committee.

Project Selection Criteria

Each jurisdiction will provide detailed program policies and selection criteria and processes for the bond program to their elected bodies for approval. For the Unincorporated County, specific affordable housing developments to be financed with bond proceeds will be identified and presented to the County Board of Supervisors for approval after successful passage of the bond measure.

Body

Strategic Plan Elements:

The Affordable Housing Bond Program address the County's goals in the area of Attainable Housing, including Affordable Housing, Local Inventory and Homelessness by developing funding to create more affordable housing countywide.

Meeting History

[Aug 7, 2018 9:00 AM Video](#)

Board of Supervisors

Regular Meeting

 **Draft**

- 1) ACCEPTED AND FILED report on affordable housing bond measure;
- 2) ADOPTED Resolution No. 180-2018 calling and providing for bond election to be consolidated with the November 6, 2018 General Election for the purpose of submitting to the qualified electors of Santa Cruz County the proposition of whether or not to authorize the issuance of general obligation bonds in an amount not to exceed \$140 million for affordable housing and reduction of homelessness. Bonds will be repaid through a property tax assessment of an estimated maximum levy of \$16.77 per \$100,000 of assessed valuation through maturity;
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RESULT: **ADOPTED [UNANIMOUS]**

MOVER: Ryan Coonerty, Vice Chair, Third District Supervisor

SECONDER: Bruce McPherson, Fifth District Supervisor

AYES: John Leopold, Zach Friend, Ryan Coonerty, Greg Caput, Bruce McPherson
