REPORT OF AFFORDABLE HOUSING POLICY COMMITTEE

TO SANTA BARBARA COUNTY BOARD OF SUPERVISORS

June 5, 2007

Committee Members

Ted Sten	First District
Janet K. McGinnis	Second District
Jay D. Higgins, AICP	Third District
Susan Ehrlich	Fourth District
Daniel D. Blough	Fifth District

TABLE OF CONTENTS

Executive Summary

On January 23, 2007 the Auditor-Controller for the County of Santa Barbara issued a report of audit findings concerning the County's restricted sale price affordable housing inventory, which outlined internal management control failures, a prevalence of fraud among the owners, and inherent problems with underlying covenants. As a result and in recognition of this region's shortage of affordable housing, the Board of Supervisors formed the Affordable Housing Policy Committee ("Committee") to review the County's Inclusionary Housing Program and to make recommendations for its modification or replacement.

The Committee held twelve meetings from December 20, 2006 through May 15, 2007 and throughout this period studied and discussed County housing policies; it then deliberated, did some more reading, and reached consensus recommendations.

Committee members were appointed by their respective district supervisor; each is a long time County resident. Ted Sten, a Summerland resident, political science graduate, and retired manager for Pacific Bell Telephone Company, also worked in management and budget for the County of Los Angeles, and has held elected and appointed positions, including chair of the Arcadia Civil Service Commission, president of the largest Arcadia homeowner's association, and foreperson of the 2005-2006 Santa Barbara County Civil Grand Jury. Janet K. McGinnis, a Santa Barbara attorney and residential rental property manager, has been an attorney for the City of Santa Barbara, political science professor, land use planner, and state legislative aide. Jay D. Higgins, AICP oversees land acquisition and entitlements for Capital Pacific Homes Central Coast Division, has been actively involved since 2004 with the County's Process Improvement Team (PIT), and serves on the boards of Habitat for Humanity's Southern Santa Barbara County affiliate and the American Planning Association's Central Coast chapter. Sue Ehrlich has worked in affordable housing for seventeen years, since 1995 as executive director of the Lompoc Housing and Community Development Corporation, and belongs to the Southern California Association for Non-Profit Housing, the Urban Land Institute, and the American Planning Association. Daniel D. Blough has more than thirty years experience as a real estate broker, mortgage broker, and general contractor and currently serves as the fifth district representative on the County Planning Commission.

The twelve Committee meetings were open to the public. Interested members of the public offered comments and freely participated with discussions among County staff and the Committee. Housing experts offered presentations, including from County staff, the County Housing Authority, the City of Santa Barbara's Redevelopment Agency, the City of Santa Barbara Housing Authority, and regional nonprofit and for-profit housing developers. All presentations included informative discussions with the Committee. Appendix A to this report lists meeting speakers and staff assisting the Committee.

The Committee reviewed and frequently referred to written reports and materials on affordable housing, including materials from speakers, which are listed in Appendix B.
The Committee was well-served by attentive and informative HCDD staff, ably lead by Jennifer Christensen and John Torell and Long Term Planning's Dave Matson.

The Committee considered many topical issues, the more significant being the implications, benefits, and obstacles for ownership, opportunities for abuse, and administrative costs of "restricted price for-sale" units, the value of affordable rental opportunities if significant and persistent regional housing needs are to be met, the roles of zoning and market forces in housing construction and pricing, and the County's roles and responsibilities to promote, create, and manage affordable rental and ownership housing.

There are complex and interrelated challenges facing our region if we are to sustain a viable economy and diverse community. The Committee knows that many of its ideas need further development and study, but in reaching our consensus recommendations, we conclude that our consensus reflects the practical and apparent problems and dynamics working as disincentives to creating and maintaining affordable housing development in this particular coastal region.

We do not recommend dismantling the Inclusionary Housing Program, but we advise timely modifications and commitments, which are then properly financed, staffed, and implemented. We are convinced that regional housing challenges warrant immediate attention and corrective actions. RHNA credits alone should not direct County incentives and efforts to construct new affordable housing. We recommend practical and flexible approaches, which marry policy, best program practices, and financing. The core issues driving our recommended modifications should surprise no one: adequate funding, zoning and density changes, and demonstration of the political will to promote affordable decent housing for more people and families.

The state laws intend to promote affordability and local incentives with goals to increase inventory in every affordable category. In our limited study, we conceptualized the significant local barriers to achieving these goals and ways to improve construction prospects for affordable development. We consider our ideas to be consistent with state goals, because they promote the underlying purpose to meet affordable housing needs. State goals are not being accomplished because of unique local conditions. Effective incentives may vary from state bonus density law; however, variations deserve creativity, study, and advocacy. Locally tailored incentives, which promote more for-sale and rental housing, should adapt better to prevalent conditions in unaffordable housing market areas throughout the region. For that reason, we recommend more study of some of these recommendations. Our local inclusionary challenges require open and specific discussions of legal, political, geographic, and economic constraints on any good ideas for building affordable units.

We are encouraged that Ms. Jacobs (director of state Department of Housing and Community Development) says the state wants to increase the incentives for affordable housing development and to help counties do their part. Inclusionary policies adopted without recognition of how the housing market operates and without flexibility and incentives can actually reduce housing production. The County should explore any incentive it may want to pursue, even if an incentive may appear to be inconsistent with state bonus density law. Our focus should be whether an incentive has a potential to produce more affordable housing. In addition, the County should support all state efforts to increase options and incentives, such as the proposed DHCD regulations to allow RHNA credit for subsidized loans to moderate income households.

The County should lead collaborative efforts with state DHCD, other jurisdictions, and affordable housing builders to support and increase local flexibility in state bonus density law. We are convinced that for-profit and non-profit developers need a more varied menu of options if we expect construction of more affordable housing. We are convinced that increased and new incentives are needed. As a result, we recommend the Board adopt and fund policies promoting a greater menu for real affordable housing opportunities.

RECOMMENDATIONS

The Committee respectfully forwards these recommendations for Board consideration:

Recommendation 1. Rental Housing for Low and Very Low Income Levels

The County should direct its affordable housing efforts to increase rental housing for the low and very low income levels and not to develop "for sale" units for these levels. This recommendation does not intend to preclude a developer or non-profit agency from voluntarily providing "for sale" housing to the lower income levels, but supports a County emphasis or preference for affordable rental housing production to address the housing needs for these income levels.

Recommendation 2. Education for All Affordable Housing Income Levels

The County should develop and support an education and counseling program for all affordable housing income levels to encourage those interested in improving their housing opportunities and to provide them fundamental information about purchasing and maintaining housing. The cost of home ownership is more than the cost to purchase a house. Home ownership also includes ongoing expenses to pay a mortgage, HOA fees, insurance, taxes, and to properly maintain and sustain a house. HOAs fail to anticipate and expend for similar needs; their fees become unaffordable and housing stock deteriorates.

Anyone seeking County assistance for housing purchases should be required to attend a program to obtain necessary information, to learn how to develop credit and avoid foreclosures and violations, and to encourage appropriate purchasing and property management decisions and practices. HOAs for affordable housing projects need education and assistance for similar reasons. County HCDD should develop and coordinate a program providing necessary purchase, credit, and management education. Over time, this approach will expand housing opportunities and improve the quality of affordable housing stock.

Recommendation 3. Generating Voluntary In-Lieu Fees to Increase Affordable Housing

The County should adopt policies to promote more housing through totally voluntary and optional in-lieu fees. Under current state mandated density bonus rules, the County is required to provide a density bonus if the developer meets minimum state criteria. The County should adopt policies and in-lieu fees, which make it profitable for a developer to pay the in-lieu fee. Earmarking these fees for the relevant categories of housing the developer opted not to build, the County will fund construction of affordable rental housing and subsidized loans for housing purchases at market rates. Such policies will allow more opportunities for local development standards to prevail and will generate earmarked funds to develop more affordable housing.

Recommendation 4. Moderate and Workforce Secondary Mortgages

The County should study and develop policies to promote home ownership opportunities for the moderate and workforce housing income levels on the open market by funding a more robust subsidized, reduced rate, and deferred mortgage program. Secondary financing for market-rate units is strongly recommended to replace the construction of more on-site inclusionary housing units. This approach achieves inclusionary housing by transparently mixing income levels in existing neighborhoods. Providing home ownership opportunities to families at moderate and workforce income levels can induce them to live or continue to live in the County.

To increase home ownership opportunities for the moderate and workforce categories, the appropriate portion of fees collected would establish a "revolving loan fund" for down payment assistance with low or deferred interest loans to qualified buyers. Repayments would return to the loan fund and fund more loans for future eligible buyers. Further study should explore: qualifications, interest rates and terms, loan servicing, equity sharing, priorities for first responders and critical workforce, and related issues.

The Committee does not understand why a housing unit that is made affordable through a subsidized loan is not counted as an affordable unit under RHNA. Therefore, the Committee recommends full County support of pending state DHCD proposed regulations allowing units to get RHNA credit as moderate income units if financial assistance has been provided to make them affordable to moderate income households.

Recommendation 5. Develop New Revenue Sources and Partnerships

The County must do more, and it should do all that it may do within current legal constraints, to develop new revenue sources earmarked for subsidized affordable rental housing construction and a robust secondary mortgage financing program. Currently, the Inclusionary Housing Program applies only to developments of five or more residential units. Appropriate study and related findings are needed to allow the County to apply the IHP to all new residential development, which would more fairly spread the burden of affordable housing across the community and more effectively finance affordable housing in all Housing Market Areas.

It is strongly recommended that in-lieu fees be based on a matrix of sale price and square footage of the property and be paid at close of escrow, not at tract map recordation. These changes would reduce County cost to constantly recalculate the fees, but more importantly, they would reduce the developer's cost, because in lieu fees would not need funding or financing, and the fees would keep pace with future housing prices and inflation. County recovery of in lieu fees can be secured by a recorded second deed of trust protected by title insurance and subordinated only to the financing loan. If necessary, approved vendors for escrow and title insurance may be part of the optional incentive.

Further study should explore these incentives and include discussions with state DHCD: local variations in density bonuses or relaxed development standards in exchange for voluntary off-site rental unit production or in lieu fees; linkage fees for non-residential construction; fee structures encouraging affordability by design; partnerships with non-profits; and collaboration with other jurisdictions to marshal available funds to build or rehabilitate sites.

Recommendation 6. Expand Menu of Options for In Lieu Fees Program

We recommend reasonable flexibility in an in lieu fee program; flexibility and voluntary options will simultaneously promote affordable housing development. Developers should be allowed to opt out of building units by paying in lieu fees. Alternatively, they should be allowed to partially or fully satisfy in lieu fees by donating suitable building sites to the County or constructing units at a comparable site within the appropriate Housing Market Area or constructing or acquiring a comparable number of units off-site. The current in-lieu fee schedule discourages developers from paying fees. The fees need to be restructured to make it more profitable for an applicant to pay the fee than to build price-restricted units.

Recommendation 7. Restricted Sale Price Units and Lottery

The County should not encourage construction of affordable housing units with sale price controls. Unless the property may be held for affordable housing in perpetuity, whatever time period and controls pertain to a sale price restriction, eventually a lucky lottery winner receives a windfall and an affordable unit is no longer available in the market for an eligible person or family. However carefully crafted, covenants for restricted units will generate many of the problems identified by the audit and other unforeseen problems may be predicted. Subsidized secondary financing will increase real housing opportunities for moderate and workplace income levels.

Recommendation 8. Existing Resale Restricted Housing

To every extent possible, the County should renegotiate covenants for existing restricted sale price units in order to excise those with unenforceable covenants from County oversight. A sale price restriction could be substituted for a second trust deed, which would allow the home owner an incentive to negotiate and flexibility. The owner could sell the unit at market value and pay the County an appropriate portion of the difference between the restricted sale price and the current fair market value. Where the home owner no longer needs any subsidy, the owner may be unwilling to sell until the sale price restriction expires. Offering such an owner the opportunity to sell early to retain a portion of the profit from the "lottery" will generate additional funds, which then should be earmarked for development of rental units and secondary mortgages, increasing affordable housing opportunities for those in need and eliminating related costs of County oversight.

Where covenants are enforceable, there are numerous obstacles to renegotiation of older covenants; this may be an option for some developments whereas others are limited by density bonus law or Housing Element policy restrictions. Generally, older covenants can be updated when the property is acquired by the County and the term of affordability is then increased; this happens when the County's buyback strategy is used to cure violations. Further staff work is recommended to identify each existing resale restricted unit's eligibility for renegotiation on a development-wide basis.

Recommendation 9. Proper Staffing of HCDD

Existing and future affordable housing efforts, both rental and ownership, require HCDD staff with skills and experience in affordable housing development, finance and administration; therefore, it is critical to recruit and hire staff with necessary expertise in housing development and finance and, particularly, experience administering HUD funds.

Monitoring and enforcement are ongoing requirements of both rental and ownership affordable housing, which should be expected to increase HCDD services by County counsel.

Recommendation 10. Proper Funding of HCDD

Significant expenses are associated with properly managed affordable housing. HCDD Property Management budget projections appeared too low to the Committee. Formulas or estimating protocols were not provided nor were legal fees associated with compliance, creation of developer agreements, and enforcement.

The Committee agrees that the County is challenged to monitor and oversee projects financed in part by in lieu fees, but lacks time to recommend a proper formula or estimate. Although administration costs associated with rental projects are typically less than for-sale price restricted projects, the same commitment is needed for adequate funding of affordable housing administration. Staff should investigate opportunities to charge monitoring fees for projects built under the state density bonus program; these laws allow monitoring fees.

Failure to adequately fund this critical mandate will only perpetuate abuses and continue to weaken the County's ability to provide real and affordable housing opportunities.

Recommendation 11. Zoning and Density Adjustments Needed

The County must address core issues of zoning and density if a meaningful number of new affordable housing units are to be constructed; this attention includes a basic supply and demand discussion comprising more than just developing affordable units. The County should identify sites for increased density to support affordable housing.

Staff should review and recommend whether the zoning ordinance needs modification to increase the discretion granted to affordable housing developments, particularly projects by non-profit developers.

Recommendation 12. Residential Second Units

The County's permitting and zoning for Residential Second Units (RSUs) should be modified to promote the RSU as a practical and effective tool for increasing affordable housing opportunities in all the Housing Market Areas for seniors, people with special needs, singles, and small families in all affordable housing income levels. Maximum lot areas and floor area thresholds should be lowered and RSUs should be permitted in nearly all residential zoning districts.

Recommendation 13. Timely Modification of Inclusionary Housing Program

If this Board should decide that any Committee recommendation is useful to implement now, then, as quickly as possible, the recommendation should be adopted and implemented or studied for its potential for adoption and adaptation for legal constraints. Timely adjustments to the Inclusionary Housing Program would promote affordable housing opportunities for all classifications. Further study may be warranted for particular ideas, including whether and how the county may expedite and minimize state approvals and necessary Housing Element or other changes in order for Inclusionary Housing Program changes to be adopted. If there are necessary and desirable changes, our residents, employers, potential residents, and economy cannot wait. The Board should resolve to reduce and overcome obstacles to housing development in our unique coastal setting.

BACKGROUND DISCUSSION FOR RECOMMENDATIONS

The Problem

"The rising cost of housing in the County is making home ownership increasingly less attainable for a growing percentage of the population. As a result, middle class families (families with incomes from 80% to 120% of a region's median income) are leaving the County (conclusions of 2007 Economic Report of the UCSB Economic Forecast and the 2007 Report of the California Economic Forecast), which is problematic because experts generally agree that a thriving middle class is a key component to a vibrant regional economy and a civically involved public. Additionally, high home prices and rents are forcing businesses to relocate and low income families to live in extremely crowded and potentially unhealthy conditions."[1]

This growing need for more affordable housing – "Housing for all Segments of the Population" – is identified as the fourth critical issue for the County's Strategic Plan. Similarly, section V of the current Housing Element acknowledges "a widespread shortage of affordable housing that threatens to undermine the county's current economic structure. Continuing and worsening imbalance between jobs and housing in a number of communities threatens to change the character of the county."[2]

Lynn Jacobs, director of the state's Department of Housing and Community Development, finds "[I]t is critical that local governments conduct a thorough analysis of their existing and proposed inclusionary programs to ensure they will not act as an impediment to an increase in housing supply, if imposed as a requirement without any accompanying incentives. . . That is because inclusionary policies adopted without recognition of how the housing market operates, and without flexibility or incentives, can reduce housing production. . . [T]he most important tool we have to get more housing is to incentivize rather than mandate requirements without incentives."[3]

According to the California Association of Realtors, the least affordable area in the state in the first quarter of 2007 was Santa Barbara, where only twelve percent of households earned the annual income of $141,660 needed to qualify for an entry-level home priced at $702,580; moreover, only twenty-five percent of all households in the state could afford to finance an entry-level home. The trade group calculates affordability based on household income required to make a ten percent down payment and secure an adjustable interest loan at 6.3 percent; on this basis, $96,910 household income is needed to purchase a home priced at $480,670.[4]

---

1 Santa Barbara County Strategic Plan, Operating Plan Instruction Manual, Fiscal Year 2007-08, p. 5.

2 Santa Barbara County Housing Element, 2003-2008, p. 81.

3 "HCD Director Lynn Jacobs Outlines California's Housing Shortage – and How to Fix It – in 2007" (*California Builder Magazine,* March-April 2007)

4 *Associated Press*, May 18, 2007.

I. CURRENT ISSUES OF AFFORDABLE HOUSING

The County has historically favored the production of price-restricted affordable housing in new developments to address the region's affordable housing need. The production of price-restricted housing, whether mandated for new development or voluntarily constructed under the state's Bonus Density Program, has had effects and has revealed special problems, which the Committee finds have included:

- The County has incurred significant costs to administer the lottery, income certification, covenant enforcement, and resale of price-restricted units.

- It is shown in case studies of housing program administration in Northern California (California Housing Reader, Institute for Local Self Government, 2003) that realistic and necessary costs for *up front* marketing and income eligibility administration are \$2,000 - \$6,000 per unit. Ongoing maintenance *after* the sale of a unit, including program oversight, annual certification, investigation of potential fraud, and legal fees are difficult to assess and are not specifically differentiated in the cited case studies; however, these expenses should be budgeted, because they are necessary responsibilities of affordable housing oversight. Monitoring and enforcement expenses for rental projects are equally difficult to assess, but equally important and certain. Each funding source for affordable housing involving oversight by HCDD may require different auditing protocols for the County and other agencies. HCDD must have enough funding and expertise to perform necessary oversight and enforcement, including for related legal services. Expertise in real estate transactions and development cannot be underrated; practical housing development and real estate expertise is needed within HCDD if it is expected to fulfill responsibilities for affordable housing development and oversight. Other jurisdictions with affordable programs recognize the need for expertise, even involving local real estate brokers in every sales transaction. ("Homeownership Programs Prove Tricky," May 4, 2007, California Planning & Development Report).

- There are winners and losers in any system of price-restricted ownership units under County management; providing windfall profits to purchasers of price-restricted units is an inappropriate use of public resources. Even if covenants may be devised with perpetual terms, price-restricted ownership opportunities significantly constrain family mobility and impose perpetual and substantial County responsibilities and expenses to monitor, administer, allocate, and enforce the covenants.

- The market trend to build multi-family attached housing causes unique problems for affordable units. The total costs of home ownership surprise and overwhelm many new homeowners and inexperienced HOAs; these surprises are exacerbated for lower income home owners. Deferred and regular maintenance expenses are heavy burdens for lower income owners and sometimes produce neighborhood compatibility conflicts. Unexpected or underappreciated expenses of ownership promote foreclosures and deteriorated housing. A homeowner education campaign covering mortgage financing, credit, HOA management, risk management, and home maintenance is critical and should be mandatory. This campaign should be the County's responsibility.

- The County should pay close attention to income eligibility guidelines and the ever tightening sub-prime lending market. The Committee is sensitive to the real requirements for housing expenses in most Housing Market Areas in the region. Coastal California markets require close to forty percent of net income devoted to housing expenses, a reality that conflicts with HUD's thirty percent assumption. An increase of income eligibility requirements would be fairer and would help applicants meet credit requirements and participate in ownership.

  Appendix C offers three scenarios to illustrate the challenge that applicants will face to qualify under the County's current income limitations. Applicants often cannot earn enough to keep up with actual ownership expenses, which are benchmarked at HUD's thirty percent of net income. This results in a narrow income band of eligible applicants. Applicants earning too much will not be "income certified." Actual home expenses quickly grow more than allowed by the thirty percent benchmark. The scenarios show how more applicants could qualify if housing expenses were allowed to comprise forty percent of an applicant's net income. Interest rates, still at historically low levels, and HOA/utility costs can have significant impacts on an applicant's ability to qualify. The Committee is not formally recommending a change to pricing or the housing expense benchmark at this time, but uses the models in Appendix C to display the inherent difficulties HCDD faces in certifying applicants who will ultimately fail to qualify for mortgages under today's lending standards.

- Construction of rental units is preferred to construction of restricted sales price units. By nature, rental units are more affordable, because market rents are closer to lower income limits than the market price for ownership. Rental units have more easily enforced restrictive covenants; their annual eligibility and income certification present less incentive for fraud, because there is no opportunity for windfall profits; overcrowding is easier to manage; community and unit maintenance (both deferred and regular) is less susceptible to neglect or abuse, because property management is institutional or professional; tenant mobility is neither restricted nor encouraged by windfall profits; and the subsidized units remain committed to affordable housing.

- Current in lieu fees of the County's Inclusionary Housing Program promote in lieu payments to satisfy very low and low income level affordable unit requirements and encourage construction of price-restricted ownership units for lower-moderate and upper-moderate income levels.

- The County's apparent current policy is to provide ownership opportunities for all income segments; this policy is stated in its Strategic Plan: "Housing for all Segments of the Population" and in goals and objectives of section V of the Housing Element. This policy may need modification and clarification in all related policy documents if rent-restricted affordable units are preferred for lower income levels.

II. EXPANDING THE MENU OF AFFORDABLE HOUSING TOOLS

The Committee considered the County's role and accomplishments providing affordable housing under the current and past Housing Elements and as revealed for currently existing sales price-restricted ownership units by the recent HCDD audit. Other resources were evaluated. After a broad review of all tools, the Committee focused on tools that realistically increase construction, rehabilitation, and opportunities for affordable housing in this County. The following review of these tools provides a context for Committee recommendations.

A. <u>State Density Bonus Program</u>

The state of California requires the County to include a Density Bonus Program in its Housing Element, with certain requirements for that program. As a result, the program gives projects with five or more units a guaranteed twenty percent density bonus above the site's land use designation and zoning if five percent of the units are for very low income housing, ten percent are for low income, or all of the units are for qualifying seniors. A five percent bonus is available of ten percent of for-sale units are for moderate income housing. A sliding scale allows bonuses up to thirty-five percent for projects with eleven percent very low income housing. Projects participating in the program are also eligible for at least one to three development incentives and unlimited numbers of waivers of development standards, with certain evidence. Popular incentives requested including the additional density bonus, fast track permit processing, and modifications of development standards, such as reduced open space and parking requirements to accommodate increased density on-site.

The County must manage and enforce covenants for all units produced under this program for the duration of the eligibility, sale-price restriction, and other covenants. Some public entities are enacting covenants in perpetuity. These efforts should be studied and adopted to the extent possible. Adopting one or more of the Committee's recommended incentives would enhance the developer's menu of incentives and should increase construction of affordable rental housing and funding subsidized mortgages. Any decrease in construction of restricted-sale price units under the Density Bonus Program should have corresponding positive affects on a County budget with fewer price-restricted housing responsibilities.

B. <u>In Lieu Fees</u>

Under the Housing Element, in lieu fees under the Inclusionary Housing Program are deposited in the County's Housing Trust Fund and used for development or rehabilitation of affordable and special needs housing within the Housing Market Areas (HMAs) from which they are collected.

In practice, the County has typically used in lieu fees primarily to construct very low and low-income rental units. The County offers some of these fees through the annual "Notice of Funds Available" (NOFA) process. NOFA is a competitive process which allows local non-profit housing organizations and builders to combine County funds with other resources to build and manage affordable housing.

Some in lieu fees are expected to be allocated to buy back some affordable housing units from owners who have violated the affordable housing covenants attached to the properties when they were built. These County purchases will return these units to the County's affordable housing stock.

Much more study and collaboration are needed to know to what extent the County may rely on in lieu fees to increase affordable ownership and rental opportunities. The first commitment of a County policy to provide rental housing for very low, low, and moderate income levels and market rate ownership opportunities for moderate and work force income levels must be to study how to set optimal fees.

The Committee or County staff should collaborate with representatives from the non-profit and for-profit development communities to create a regularly and efficiently updated method for calculating production costs in all Housing Market Areas. With such an approach, the County could set, adjust at appropriate intervals, and justify optimal in lieu fees. This model or method would calculate the realistic production costs in all Housing Market Areas of high and moderate density rental housing, high, moderate, and low density condominiums, and middle and low density single family homes.

C. Affordable Housing Trust Funds

Housing trust funds are powerful tools to provide locally targeted and managed affordable housing. There are nearly 300 housing trust funds in the United States. Thirty-seven states have trust funds and others are run primarily by counties and cities. The funds have a variety of revenue sources, but among the most common are some portion of the local real estate transfer tax, penalties on late payments of real estate taxes, and fees on other real estate–related transactions. Housing trust funds are often used to increase the supply of affordable housing by providing low-interest loans for a variety of purposes, including site acquisition, predevelopment expenses, project construction, and bridge financing for affordable new construction and rehabilitation. The Housing Trust Fund of Santa Barbara established its Revolving Loan Fund in 2005.

D. Residential Second Units (RSUs)

Known as "granny flats," "garage-over" units, and the like, accessory dwelling units or residential second units (RSUs) can provide affordable rental housing options, especially for singles, seniors, persons with special needs, family members, and smaller low income families. RSUs are suitable for individuals of all workforce levels. Infrastructure demands have been addressed already during the property's development and any net increase in demand created by a proposal may be addressed during the approval process.

RSUs are often limited or prohibited by local codes, apparently because homeowners fear renters or higher densities in their neighborhoods. Some communities are rethinking their approach and have developed models for different neighborhoods based on a variety of design templates, each minimizing neighborhood impact.

RSUs are an adjunct to the County's Inclusionary Housing Program. Promoting their construction will give the County an eighty percent credit towards RHNA Housing Goals and more affordable housing. Existing RSUs cannot be counted toward RHNA allocations, but will contribute housing opportunities with potentially low or no increase in infrastructure demands and without contributing to urban sprawl. Under state law, RSUs are generally counted for the low and moderate income RHNA allocations, may be counted in the very low income category if rented to agricultural employees, and can be affordable by design.

RSUs may be added to an existing home or they can be included in a newly constructed home. An RSU can provide rental income to help pay a mortgage, while offering future flexibility to use the space as a home office, lodging for service workers, family members, renters, or guest quarters. RSUs in Santa Barbara County may contain 600-1000 square feet, except in Montecito (400-1000 square feet) and the zoning ordinance imposes numerous limits on their construction and use in different zoning categories. Any necessary changes to the ordinances to promote RSUs may also require environmental and infrastructure impacts to be evaluated as other housing proposals.

E. Reduced Impact Fees or Fee Waivers

The development community has long argued that the imposition of impact fees increases the cost of housing. According to some, these added impact fees have an inordinate impact on developers, especially non-profits, trying to construct new affordable housing. In response, many communities have adopted impact fee waivers, exceptions, and rebates to reduce their dampening effects on affordable housing.[5]

F. Leveraging Other Forms of Development Subsidies

Affordable housing development requires several sources of funds, both public and private, as subsidies to arrive at below-market rents or sales prices. This process is called "layered financing" and involves complex underwriting to ensure that the project is not overly subsidized and will support as much repayment of debt financing as possible.

Most affordable housing projects begin by securing subsidy at the local level, which in Santa Barbara County typically involves allocations of federal HOME funds or local in-lieu funds. Then these allocations of local subsidies are leveraged to obtain other state and federal subsidies, of which many are competitive and difficult to secure. An allocation of local funds is either required or very beneficial in these competitive programs, particularly because their allocation and presence in the financing structure demonstrate important local community acceptance of the project.

In California, the primary subsidy programs are (1) the Low Income Tax Credit Program (LIHTC), which has a higher yield competitive side (nine percent credits) and a lower yield non-competitive side (four percent credits), and (2) the state Multifamily Housing Program (MHP), which provides soft permanent financing for a variety of housing, including special needs housing. Importantly, state MHP programs were infused with new funding of about $3 billion last year after voter approval of Proposition 1C.

G. Partnering with For-profit and Non-profit Developers

The County should encourage partnerships between for-profit and non-profit developers. Often the non-profit can secure subsidies and other development advantages, such as purchasing land at below market cost in exchange for a tax benefit to the seller. On the other hand, for-profit developers usually have greater command of subcontractors and better access to lower cost materials. Partnerships between these two sectors may result in the best cost efficiency and should be fully explored whenever an applicant considers construction of off-site inclusionary units.

H. Streamlined Permitting

The Housing Element allows Fast Track Permit Processing to help projects with a large number of units at affordable prices, for persons with disabilities, or for other designated beneficial projects. The effectiveness of this policy has not been tested and should be studied by the Process Improvement Team/Oversight Committee which routinely studies permit policy improvements.

I. Donation of Land (Off-Site Mitigation)

The County and other jurisdictions allow developers to donate land in lieu of building affordable housing on a project site. The development community prefers maximum flexibility and this optional tool makes sense for the Inclusionary Housing Program; it is expressly allowed in the Housing Element, Policy 1.2. Off-site mitigation of onsite building requirements may be limited largely to areas outside the coastal zone; development in the coastal zone must be built on-site, unless on-site development is infeasible.

[5] "Solutions That Support Affordable Housing, Breakthroughs," Vol. 3, Issue 3 (*Regulatory Barriers Clearinghouse,* October 6, 2004).

APPENDIX A: COMMITTEE MEETING SPEAKERS

Jerry Bunin
Lisa Knox Burns
Jeanette Duncan
Steven Faulstich
Mickey Flacks
Robert W. Geis
Dave Gustafson
Chris Henson
Fred Lamont
Jennifer Bigelow McGovern
Gavin Moores
Jeffrey C. Nelson
Deirdre Randolph
Robert G. Pearson
John Polansky
Betsy Schaffer
Kim Seefeld
Frank Thompson

HCDD
- John Torell
- Jennifer Christensen

Long Range Planning
- David Matson

County Counsel
- Mary McMaster

APPENDIX B: COMMITTEE RESOURCES AND REFERENCES

The California Inclusionary Housing Reader (2003, Institute for Local Self Government, League of California Cities)

Inclusionary Housing in California: 30 Years of Innovation (excerpts and tables) (2003, California Coalition for Rural Housing and Non-Profit Housing Association of Northern California)

Inclusionary Zoning: The California Experience (2004, National Housing Conference), Vol. 3, Issue 1) Origins and Evolution of Inclusionary Housing in California (Calavita) Inclusionary Housing in California: 30 Years of Innovation (article from publication of same name); Avoiding Constitutional Challenges to Inclusionary Zoning (Collins and Rawson); Inclusionary Housing and its Impact on Housing and Land Markets (Rosen)

On Common Ground: Joint Principles on Inclusionary Housing Policies (2005, National Builders Association and Non-Profit Housing Association of Northern California)

A Public Agency Guide to California Density Bonus Law (2005, Barbara Kautz)

Keeping For-Sale Units Affordable Over Time: One Important Step in Administering a Successful Inclusionary Zoning Program (2003, Business and Professional People for the Public Interest, Chicago, IL)

Santa Barbara County In Lieu Fee Update Report (2004, Bay Area Economics)

Supplemental Analysis for In Lieu Fee Update (2004, Bay Area Economics)

A Good Neighbor Policy: Santa Barbara County's Inclusionary/Affordable Housing Monitoring Program (2004-2005 Final Report, Santa Barbara County Grand Jury)

Affordable Housing in Santa Barbara County, Myth or Reality? (2006-2007 Final Report, Santa Barbara County Grand Jury)

Housing Needs Fact Sheet (2006, Housing Trust Fund of Santa Barbara County)

Framework for an Inclusionary Policy and Program (2007, Goleta Housing Leadership Council)

Employee Housing Survey Results 2006 (Coastal Housing Coalition)

Santa Barbara County Permits 2004, 2005, 2006 (Construction Industry Research Board)

"HCD Director Lynn Jacobs Outlines California's Housing Shortage – and How to Fix It – in 2007," (*California Builder Magazine*, March-April 2007)

"Homeownership Programs Prove Tricky" (May 3, 2007, California Planning & Development Report)

"Santa Barbara Least Affordable for First-time Buyers" (May 18, 2007, *Associated Press*)

"Condo Tsunami, The Unintended Consequences of Inclusionary Zoning," John Blankenship (*Santa Barbara Independent*, May 31, 2007)

Annual Certification and Compliance Monitoring and Enforcement presentation materials (2007, City of Santa Barbara Affordable Housing Program)

Five Year Action Plan (2004-2009) and 2006 Annual Report (Housing Authority of the City of Santa Barbara)

Concepts/issues, January 5, 2007 e-m to Committee from Home Builders Association Central Coast

A Path Forward for Santa Barbara County's Affordable Housing Program January 18, 2007 letter to Committee from South Coast Housing Council Steering Committee

Statement of Joint Housing Principals (San Luis Obispo County Housing Trust Fund and Home Builders Association of the Central Coast)

Discussion Draft: Inclusionary Housing Principles for San Luis Obispo County (HBACC and SLOCHTF)

Fair Housing Lending News: Predatory Lending Practices; Study Finds Regional Disparities in Subprime Lending (2006, Consumer Affairs)

Input on Inclusionary Housing Requirement, April 13, 2007 letter from Jeffrey C. Nelson, Attorney, Mullen & Henzell LLP

Comments on Inclusionary Issues, February 15, 2007 memo to Committee from Dan Blough

Use of Housing In-Lieu Fees for Loans to Purchase Existing Properties/RHNA Credit, March 20, 2007 memo to Committee from M.L. McMaster, Asst. County Counsel

In-Lieu Fee Revisions, Maximum Sales Prices and Rents, Market Incentives, and Policy Changes April 16, 2007 letter to Committee from Jerry Bunin for Homebuilders Association of the Central Coast

Reviewing Recommendations for the Inclusionary Housing Program May 8, 2007 letter from Lisa Knox Burns, AICP to Committee

Comments on Torell draft Report to County Executive Office, etc. with "Executive Summary – 2006 Program Highlights re Tax Credit Units in California" and "List of All Santa Barbara County Projects Awarded Credit 1987-2006" (May 8, 2007, Frank Thompson)

Santa Barbara County Housing and Community Development Department (HCDD):

1993	Santa Barbara County Housing Element Policies
2003-2008	Santa Barbara County Housing Element (Revised 2006)
2003-2008	Santa Barbara County Housing Element Policies
2003-2008	Santa Barbara County Housing Element Implementation Guidelines (Revised 2005)

Additional Information [ ] re consideration of the Inclusionary Housing Program and In Lieu Fee Update, November 10, 2004 memo to Board from Josh McDonnell

Inclusionary Tools List

HCDD Audit, February 6, 2007 Agenda Letter to Board from Robert W. Geis, CPA

Report on Internal Controls Over Activities of the Inclusionary Housing and State Bonus Density Programs and on Participant Compliance with Restrictive Covenants (October 9, 2006 HCDD Affordable Housing Program)

HCDD Management Review Initial Report, November 14, 2006

HCDD Housing Finance Audit: Report on Internal Controls and Activities of Housing Finance, November 22, 2006

HCDD Management Responses to Audit Findings (Appendix A)

Affordable Housing Program – The Non-Profit Sector

HCDD Organization Chart, March 8, 2007

HCDD Budget Information, 2005-2006 and 2006-2007

HCDD 2006-2007 Property Management Budget

HCDD 2007-2008 Proposed Property Management Budget

Annual In-Lieu Housing Fee Update, December 6, 2006 memo to Board from Ron Cortez

Complete multi-unit projects (Allcompletetrms)

Pending multi-unit projects (Activeandcompletetrms)

ADUs information

Zoning Ordinance “Community Benefit” Findings information

APPENDIX C: INCLUSIONARY HOUSING PRICING SCENARIOS

INCLUSIONARY HOUSING- PRICING SCENARIO A
5% DOWN/30% MAX "HOUSING EXPENSE"

Rate		7.25%		
AMI		$ 67,100		
Tax Rate		1.125%		
cost/income		30%		
Down payment		5%		
Remaining		3	1	2
Max Income		Very Low	Low	Mod
(Household Size)		50%	80%	120%
	1	$ 23,500	$ 37,600	$ 56,350
	2	$ 26,850	$ 42,950	$ 64,440
	3	$ 30,200	$ 48,300	$ 72,450
	4	$ 33,550	$ 53,700	$ 80,500
	5	$ 36,250	$ 57,950	$ 86,950
	6	$ 38,900	$ 62,250	$ 93,400
Max annual pmt				
(Household Size)		$ 7,050	$ 10,575	$ 16,920
	2	$ 8,055	$ 12,083	$ 19,332
	3	$ 9,060	$ 13,590	$ 21,744
	4	$ 10,065	*$ 15,098*	*$ 24,156*
	5	$ 10,875	*$ 16,313*	*$ 26,100*
	6	*$ 11,670*	*$ 17,505*	*$ 28,008*
Sales Price (2 Bdrm)		**$ 102,500**	**$ 156,500**	**$ 232,000**
Down payment		$ (5,125)	$ (7,825)	$(12,700)
Mortgage		$ 97,375	$ 148,675	$241,300
Monthly Payment		$ (664)	$ (1,014)	$ (1,646)
Monthly Prop taxes		$ (96)	$ (147)	$ (238)
HOA Dues		$ (250)	$ (250)	$ (250)
Total Monthly payment		$ (914)	$ (1,161)	$ (1,884)
Annual cost		**$ (10,971)**	**$ (13,931)**	**$(22,611)**

APPENDIX C: INCLUSIONARY HOUSING PRICING SCENARIOS

INCLUSIONARY HOUSING – PRICING SCENARIO B (Higher Interest Rate; 500-600 FICO)
5% DOWN/30% MAX "HOUSING EXPENSE"

Rate		8.50%		
AMI		$ 67,100		
Tax Rate		1.125%		
cost/income		30%		
Down payment		5%		
Remaining		3	1	2
Max Income		Very Low	Low	Mod
(Household Size)		*50%*	*80%*	*120%*
	1	$ 23,500	$ 37,600	$ 56,350
	2	$ 26,850	$ 42,950	$ 64,440
	3	$ 30,200	$ 48,300	$ 72,450
	4	$ 33,550	$ 53,700	$ 80,500
	5	$ 36,250	$ 57,950	$ 86,950
	6	$ 38,900	$ 62,250	$ 93,400
Max annual pmt				
(Household Size)		$ 7,050	$ 10,575	$ 16,920
	2	$ 8,055	$ 12,083	$ 19,332
	3	$ 9,060	$ 13,590	$ 21,744
	4	$ 10,065	$ 15,098	$ 24,156
	5	$ 10,875	*$ 16,313*	*$ 26,100*
	6	$ 11,670	*$ 17,505*	*$ 28,008*
Sales Price (2 Bdrm)		**$ 102,500**	**$ 156,500**	**$232,400**
Down payment		$ 5,125)	$ (7,825)	$(12,700)
Mortgage		$ 97,375	$ 148,675	$241,300
Monthly Payment		$ (749)	$ (1,143)	$ (1,855)
Monthly Prop taxes		$ (96)	$ (147)	$ (238)
HOA Dues		$ (250)	$ (250)	$ (250)
Total Monthly payment		$ (999)	$ (1,290)	$ (2,094)
Annual cost		**$ (11,985)**	**$ (15,479)**	**$(25,122)**

APPENDIX C: INCLUSIONARY HOUSING PRICING SCENARIOS

INCLUSIONARY HOUSING - PRICING SCENARIO C
5% DOWN/40% MAX "HOUSING EXPENSE"

Rate		7.50%		
AMI		$ 67,100		
Tax Rate		1.125%		
cost/income		40%		
Down payment		5%		
Remaining		3	1	2
Max Income		Very Low	Low	Mod
(Household Size)		50%	80%	120%
	1	$ 23,500	$ 37,600	$ 56,350
	2	$ 26,850	$ 42,950	$ 64,440
	3	$ 30,200	$ 48,300	$ 72,450
	4	$ 33,550	$ 53,700	$ 80,500
	5	$ 36,250	$ 57,950	$ 86,950
	6	$ 38,900	$ 62,250	$ 93,400
Max annual pmt				
(Household Size)		$ 9,400	$ 14,100	*$ 22,560*
	2	$ 10,740	*$ 16,110*	*$ 25,776*
	3	*$ 12,080*	*$ 18,120*	*$ 28,992*
	4	*$ 13,420*	*$ 20,130*	*$ 32,208*
	5	*$ 14,500*	*$ 21,750*	*$ 34,800*
	6	*$ 15,560*	*$ 23,340*	*$ 37,344*
Sales Price (2 Bdrm)		**$ 102,500**	**$ 156,500**	**$ 232,400**
Down payment		$ (5,125)	$ (7,825)	$ (11,620)
Mortgage		$ 97,375	$ 148,675	$ 220,780
Monthly Payment		$ (681)	$ (1,040)	$ (1,544)
Monthly Prop taxes		$ (96)	$ (147)	$ (218)
HOA Dues		$ (250)	$ (250)	$ (250)
Total Monthly payment		$ (931)	$ (1,186)	$ (1,762)
Annual cost		**$ (11,170)**	**$ 14,235)**	**$ (21,139)**