

# Attachment A

## CEO's Office Response to Committee Recommendations:

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 develop "for sale" units for these levels (although such a policy should not preclude a developer from voluntarily providing for sale housing to lower income levels).

**Response:** We agree with this recommendation. The County has leveraged HUD-allocated Federal funds for Fiscal Year 2007/08 (as well as prior year allocations) almost exclusively to nonprofit agencies, for the purpose of providing rental units for very low and low- income category applicants. 'In-lieu' fees have also consistently been directed to various non-profit agencies to be leveraged by them to provide additional rental units.

2. Education for All Affordable Housing Income Levels: The County should develop an education and counseling program for all affordable housing income levels to provide fundamental information about purchasing and maintaining housing. County HCD should develop and coordinate a program providing necessary purchase, credit and management education.

**Response:** We agree with this recommendation. HCD will develop an orientation program concerning the benefits, responsibilities, and potential pitfalls of home ownership. Together with the Auditor's office, HCD will develop and conduct training concerning housing finance issues. The first informational community meetings will precede the next major affordable housing development which is expected to be near completion sometime in the Spring of 2008. Meetings will be held in both the northern and southern parts of the County approximately 30-45 days prior to the beginning of the next affordable housing application process.

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. The County should adopt policies and in-lieu fees, which make it profitable for a developer to pay the in-lieu fee. These funds should be earmarked for funding construction of affordable rental housing and subsidized loans for housing purchases at market rates.

**Response:** We believe further study is required prior to making a recommendation on this issue.

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 via a 'revolving-fund' mechanism is strongly recommended to replace the construction of more on-site inclusionary housing units.

**Response:** We partially agree with this finding insofar as it pertains to the provision of secondary financing for home ownership for families qualifying at workforce income levels (up to \$134,200 for a family of four). We believe, however, that the equivalent 'moderate' income maximum of \$80,500 would, require an excessive subsidy to that income group due to the prevailing prices of market-rate units. Therefore, we recommend rental housing for Moderate Income Levels.

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 (IHP) 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 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 the close of escrow, not at tract map recordation. Further study should explore these incentives.

**Response:** We believe further study is required prior to making a recommendation on this issue.

6. **Expand Menu of Options for In Lieu Fees Programs:** We recommend reasonable flexibility in an in lieu fee program. 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 and should be restructured to make it more profitable for an applicant to pay the fee rather than produce price-restricted units.

**Response:** We agree with this recommendation. Collection of a substantial amount of in lieu fees would provide the County with the ability to combine a portion of fees collected with funds received from the Federal government's various grant programs (HOME and CDBG funds) for the purpose of building much needed very low and low income rental units. The remainder of in lieu fees collected could be used for secondary mortgage financing options recommended by the Committee.

This expanded menu of options for in lieu fee programs would also be made available to those developments currently in the County's approval process.

7. Restricted Sale Price Units and Lottery: The County should not encourage construction of affordable housing units with sale price controls. If a sale price restriction is for a specific time period, the unit will not be sold because the homeowner will receive an eventual windfall. 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.

**Response:** We agree with this recommendation. Difficulties in enforcing an affordable housing program with various covenant restrictions including sale-price restrictions has proven to be problematic and costly in the best of circumstances in various local jurisdictions. In addition, the incentive for owners of affordable units to 'hang-on' until the expiration of the sale restriction has effectively served to remove those units from the affordable housing inventory. Many of the individuals who qualified originally because of limited incomes have since transcended the income limits under which they had qualified. They remain in their units, however, shackled by 'golden handcuffs' in anticipation of the windfall that awaits them upon the expiration of the sale restriction.

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. Because of potential obstacles to renegotiation (e.g. State Density Bonus law or existing Housing Element restrictions), the Committee recommends further staff work be done in this area.

**Response:** We agree with this recommendation.

9. Proper Staffing of HCD: Existing and future affordable housing efforts, both rental and ownership, require HCD 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 in administering HUD funds.

**Response:** We agree with this recommendation. HCD has recently reorganized its organizational structure, implemented internal administrative controls, and filled existing vacancies with a high level financial staff person, and with qualified program managers with extensive experience in obtaining and administering HUD funds. HCD executive staff includes two attorneys, one of which is a California Real Estate Broker with extensive commercial real estate development experience. HCD staff expertise is supplemented with high level real estate financing advisory support from the County Auditor's office.

10. Proper Funding of HCD: Significant expenses are associated with properly managed affordable housing. HCD Property Management budget projections appeared too low to the Committee. Staff should investigate opportunities to charge monitoring fees for projects built under the State density bonus program; these laws allow monitoring fees.

**Response:** We believe further study is needed to determine the adequacy of HCD resources allocated to properly manage the affordable housing program. Prior to the County Auditor's report on the HCD property management program, the department had one individual performing the property management function. HCD's recent re-organization, as of July 1, 2007, provide for 2.5 full-time equivalents to perform these duties. The feasibility of assessing monitoring fees to State density program units will be investigated.

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. 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.

**Response:** We believe further study is required prior to making a specific recommendation on this issue.

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 at all affordable housing income levels.

**Response:** We believe further study is required prior to making a specific recommendation on this issue.

13. **Timely Modification of Inclusionary Housing Program:** If the Board should decide that any Committee recommendation is useful to implement now, then as quickly as possible, the recommendation should be adopted or implemented or studied for its potential for adoption and adaptation for legal constraints.

**Response:** We agree with this recommendation.