BOARD OF SUPERVISORS
AGENDA LETTER

Clerk of the Board of Supervisors
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

Agenda Number:

Department Name:	Community Services
Department No.:	
For Agenda Of:	October 5, 2021
Placement:	Departmental
Estimated Time:	1 HR
Continued Item:	No
If Yes, date from:	
Vote Required:	Majority

TO:	Board of Supervisors	
FROM:	Department Director(s)	George Chapjian, Director (805) 568-2485 Dinah Lockhart, Deputy Director HCD (805) 568-3523
	Contact Info:	Laurie Baker, Grants and Programs Manager (805) 568-3521
SUBJECT:	**Consideration of Further Study on Workforce Housing Needs in Santa Barbara County**	

County Counsel Concurrence

As to form: Yes

Auditor-Controller Concurrence

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

Recommended Actions:

That the Board of Supervisors:

A. Receive and file information and presentation on workforce housing;

B. Provide comments and/or direction to staff regarding securing the services of a consultant to research the housing gap and to identify model housing programs, funding opportunities, and financing strategies;

C. Direct staff to issue a Request for Proposals for an experienced consultant to provide further study on Workforce Housing as described in this Board Letter, funded by previously earmarked funding for such purpose, and

D. Determine that the recommended actions are not the acceptance and approval of a project that is subject to environmental review under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378(b)(4), finding that the project is a creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

Summary Text:

On June 1, 2021, the Board of Supervisors heard from County staff information on the eligibility requirements and possible uses of $43.3 million in American Rescue Plan Act (ARPA) funds included in the FY 2021-22 Budget. The types of funds presented were both "restricted" to COVID response and recovery activities, to be used in compliance with the U.S. Treasury Department rules; and "discretionary," which has greater flexibility and is equal to the amount of revenue losses incurred. Staff presented various potential uses of both restricted and discretionary uses of ARPA funding, where a potential use of restricted funding was in response to the public health emergency and related economic impacts, and asked your Board for direction on potential ways to allocate funds. During the June 1 meeting, the Board directed staff to return with more information regarding a few focus areas, one of the areas being workforce housing.

The County receives federal and state funds, as well as contributes local program funds, toward the development costs of affordable housing. Prior to the onset of federal and state COVID-19 economic stimulus funding, over the past 5 years, the County would receive approximately $1 million annually in federal HOME funding for affordable housing development. In August 2021 the Board received a staff report on the County's In Lieu fee program, which reported the County's fund balance for all four Housing Market Areas was $1.4 million. With an average 50-unit senior affordable housing development costing over $24.2 million, locally available affordable housing funds are insufficient. Yet, these funds also leverage other funding sources, including the state low-income tax credit program, which provides the greatest amount of capital toward the construction of multi-family rental housing for low, very-low, and homeless populations. It has long been recognized that all available funding is sorely insufficient to meet the housing needs of communities.

It should also be recognized that "middle income" or "workforce" households also may not have the necessary income to afford rental and homeownership housing in Santa Barbara County. While there are many programs to assist households needing housing (development subsidies, development loans, tenant-based rental assistance, down payment loans), both in the rental and homeownership markets, they barely scratch the surface in meeting the high demand for affordable housing. More data and research are needed to determine the true housing gap, identify model housing programs, identify funding opportunities, and identify how decision-makers can help make the development of affordable housing more feasible.

To better understand the components of a "workforce" housing development and preservation strategy and the types of housing available and needed (workforce housing), staff is recommending that up to $245,000 be approved for an intensive affordable workforce housing development and preservation study and strategic plan.

Staff will return to the Board with the resulting report and make recommendations on how funds received under the American Rescue Plan Act (ARPA) and other funds may help to increase workforce housing opportunities in Santa Barbara County.

Background:

The concept of "Workforce Housing" has many definitions but all have the general theme that there is a "missing middle", meaning segments of the population that cannot afford market rate housing but generally are not eligible for government or private subsidies. The workforce segment of the population often is described as having jobs that are critical to the basic infrastructure of a community – police officers, firefighters, school teachers, restaurant staff, retail clerks, healthcare workers, industry trades, such as plumbers, electricians, etc. and others - who very often cannot afford market-rate housing and are in need of both affordable rental and homeownership housing.

Santa Barbara County's Inclusionary Housing Ordinance (IHO) defines Workforce Housing at Chapter 46A of the County Housing Code by income as "persons or families whose income is between one hundred twenty percent (120%) and two hundred percent (200%) of area median income, adjusted for family size. This category is acknowledged in Santa Barbara County as households who need affordable housing due to high area home sales prices." This definition is also cited in the 2015-2023 Housing Element.

According to the U.S. Department of Housing and Urban Development (HUD), housing is 'affordable' when no more than 30% of a household's gross income is spent on rent and utilities (gas, electric, and water). For homeownership, lenders underwriting criteria requires that, depending on total debt, credit history, and other factors, not more than 35% - 45% is spent on homeownership costs, including mortgage principal and interest, taxes, insurance, and any Homeowners' Association (HOA) fees (PITI/HOA) and, if required, private mortgage insurance.

The tables below show the annual area median income, affordable monthly rent, and affordable monthly housing payment by household size. Using the housing payment information, the final table estimates the maximum affordable housing price.

Area Median Income by Household Size

Household size	1	2	3	4	5	6
80% AMI	$50,450	$57,650	$64,850	$72,100	$77,850	$83,600
120% AMI	$75,700	$86,500	$97,300	$108,100	$116,750	$125,400
150% AMI	$94,600	$108,100	$121,650	$135,150	$145,950	$156,750
200% AMI	$126,150	$144,150	$162,200	$180,200	$194,600	$209,050

Source: State HCD

Affordable Rent by Unit Size

Unit Size	1 bdrm	2 bdrm	3 bdrm	4 bdrm
80% AMI	$1,352	$1,622	$1,915	$2,162
120% AMI	$2,027	$2,433	$2,871	$3,244
150% AMI	$2,534	$3,041	$3,590	$4,055
200% AMI	$3,379	$4,055	$4,787	$5,406

Assumes1.5 persons per bedroom and 30% of income for rent and utilities. Source: State HCD

Affordable Monthly Mortgage Payment by Income and Household Size

Household Size	1	2	3	4
80% AMI	$1,471	$1,681	$1,891	$2,103
120% AMI	$2,208	$2,523	$2,838	$3,153
150% AMI	$2,757	$3,153	$3,548	$3,942
200% AMI	$3,679	$4,204	$4,731	$5,256

Mortgage payment includes principal, interest, taxes, property insurance (PITI) and HOA fees which combined, should not be more than 35% - 45% of a household's monthly income.

Affordable Home Purchase Price for a Four Person Household

Household Size of 4	Max. Price
80% AMI	$229,500
120% AMI	$385,600
150% AMI	$500,100
200% AMI	$682,700

Assumptions used are based on County's affordable housing program underwriting: 30-year amortized mortgage loan with 4% interest rate; down payment of 5% of the property value. Housing payments include mortgage PITI, and any Homeowners' Association (HOA) fees. Lenders also may require private mortgage insurance if a homebuyer's equity is less than 20% of the home's value.

Workforce Housing – Established Goal for County of Santa Barbara

The County's adopted 2015-2023 Housing Element includes as one of its six goals:

> "To promote home ownership, owner occupancy, and/or the continued availability of affordable housing units through programs and implementing ordinances for all economic segments of the population including very-low, low, moderate, and/or workforce income households to assure that existing and projected needs for affordable housing are accommodated in residential development." (page 14)

Availability of Housing Units to Workforce Households

Availability of housing affordable to Workforce households is affected in several ways. The County's Housing Element noted a disturbing trend of the increasing number, between the 2000 and 2010 Census, of homes in the unincorporated County being used for seasonal, recreational, or occasional use. In 2000 1,223 housing units were used for seasonal, recreational, or occasional use, compared to 1,779 units in 2010. The median single-family home price in each of the four County housing markets, South Coast, Santa Ynez, Santa Maria, Lompoc, Cuyama, varies from $930,000 (South Coast) to $30,000 (Cuyama), according to 2014 Assessor data. This precludes households earning less than above moderate income from accessing housing near South Coast job centers, forcing longer commutes to work. Housing development needs have fallen short of goals established by Regional Housing Needs Assessment. This has contributed to households paying in excess of 30% of income towards housing, leading to overcrowding, and housing instability.

Regional Housing Needs Assessment (RHNA)

Since 1969, California has required that all local governments (cities and counties) adequately plan to meet the housing needs of everyone in the community. California's local governments meet this requirement by adopting housing plans as part of their "general plan" (also required by the state). General plans serve as the local government's "blueprint" for how the city and/or county will grow and develop and include at least seven elements: land use, transportation, conservation, noise, open space, safety, and housing. In order to create a housing plan (aka housing element) showing it could meet the local housing needs, a jurisdiction must first know how much housing it must plan for (and estimate how much will be needed at a variety of affordability levels in order to match the needs of the people who will live there). This is determined by a process called the regional housing needs assessment.

The sixth cycle of the Regional Housing Needs Assessment (RHNA) was released in July, 2021. Derived from a statewide planning process, it provides an overview of the number of housing units Santa Barbara

County and its jurisdictions must plan for to accommodate predicted growth. For the planning period between 2023 to 2031, the countywide region should zone and plan for a minimum of 24,856 housing units, of which 5,664 or 23% must be sited in the unincorporated County. For the RHNA, Very Low Income is <50% Area Median Income (AMI).

The report further recommends that 4,600 of those units (80%) be built in South County. The RHNA breaks out these goals by household income level.

RHNA Allocation by Income Level					
		Allocation by Income Level			
Jurisdiction	RHNA Allocation	Very Low (<50% AMI)	Low (50% - 80% AMI)	Moderate (80% - 120% AMI)	Above Moderate (120+% AMI)
Total Unincorporated	5,664	1,373	1,200	1,280	1,811

In 2019, the median household income for the County region was $74,624 for a household size of four and was used in the State's modeling. The following define the income categories, based on area median income (AMI):

- Above Moderate Income (120+%)
- Moderate Income (80-120%)
- Low Income (50-80%)
- Very Low Income (<50%)

The County's Planning and Development Department (P&D) is currently updating the County's Housing Element in order to accommodate the County's sixth cycle RHNA allocation (Housing Element Update). As part of the Housing Element Update, P&D will present to the Board policy options that are intended to meet the projected housing demand for each income category. These strategies could include (among others): creating more ministerial approval processes for certain types of housing development; increasing the maximum allowable densities of residentially-designated properties; and/or changing the zoning designations of property from non-residential to residential zoning designations. The Board must adopt the Housing Element Update by February 2023.

In addition to the RHNA/housing element update requirements, the State has passed a number of laws that are intended to facilitate new housing development by streamlining the permitting and approval process—that is, two of the biggest barriers to the development of housing. Specifically, SB 330 (Housing Accountability Act) prohibits local jurisdictions from enacting new laws that would have the effect of reducing the legal limit on new housing within their jurisdictions, or delay new housing via administrative or other regulatory barriers. Furthermore, with the very recent adoption of Senate Bills 8, 9, and 10, the State has continued the trend of adopting legislation that allows or mandates increased residential densities and/or streamlined approval processes for certain residential subdivision and/or development projects. P&D is currently working on ordinance amendments for adoption in spring 2022 which would implement certain Housing Accountability Act requirements. In addition, certain requirements set forth in the County's Comprehensive Plan could be amended in order to incentivize housing development, such as: reducing parking requirements; increasing maximum density or height regulations for housing development in multi-family zones; reducing minimum open space requirements; and/or reducing development impact fees where an alternate financing mechanism exists to avoid lost revenue.

Another area where the County can improve the supply of affordable workforce housing is to update the County's Inclusionary Housing Ordinance, which was adopted by the Board in 2013. The Ordinance is based on a 2004 In-Lieu Fee Update report, which established a baseline amount charged to developers in lieu of constructing a moderate and workforce income category affordable housing unit. The fee was calculated to be the estimated cost to build a housing unit, which is based on the median sale price of condominiums in a Housing Market Area over a twelve-month period, less 15% to reflect developer profit. Given how significantly residential development has increased, there is a need to revisit some of the basic assumptions from the 2004 In-Lieu Update report.

Housing Subsidies

The chart below shows the available subsidies for various housing programs. Rental subsidies may provide direct monthly rent subsidies while others are developer subsidies, which enable housing developers to charge less rent on all or a portion of the units for a specified affordability period, ranging from 15 years to 55 years.

Homeownership subsidies may provide development subsidies or a down payment assistance grants or loans. Development subsidies generally require a resale restriction from 20 to 99 years, while a down payment loan may require repayment of the loan without any resale price restrictions. The County's Inclusionary Housing Ordinance requires resale price and homebuyer income restrictions, while the State Density Bonus Law requires an equity-sharing model on the first resale of the unit created with no further affordability restrictions. Although the County shares in the equity upon resale, the affordable unit is lost and the dollars collected will be minimal compared to the subsidies needed to create an additional unit. The County could consider extending the affordability restrictions beyond the initial homebuyer, to create affordability for purchasers of that housing unit.

Homeless 0 – 30% AMI	30% - 60% AMI	80% AMI	Workforce >80% - 120% AMI	Workforce 120% - 200% AMI	Market Rate Housing
Shelters Rental Housing	*Rental Housing*	*Homeownership*	*Homeownership*	*Homeownership*	
▪ CoC ▪ ESG ▪ HEAP ▪ HHAP ▪ Homekey ▪ HCV ▪ VASH	▪ HOME rental development ▪ HOME TBRA ▪ In-Lieu funds ▪ LIHTC/Bonds ▪ State programs ▪ HCV ▪ VASH	▪ HOME HO development* ▪ HOME DPA* ▪ HFH*	▪ IHO ▪ SDBL ▪ HTF DPA ▪ CalHFA MCC ▪ PLHA ADU	▪ IHO ▪ SDBL ▪ PLHA ADU ▪ HTF DPA ▪ CalHFA ▪ CalHome ▪ GSFA DPA	

See Attachment B for the definitions of the Acronyms used here.

**Habitat for Humanity is the only program providing homeownership opportunities for households in this income range. See description of HFH programs under Homeownership Housing Subsidy programs. The HOME program is primarily used for rental programs, including development subsidies to reduce rents and tenant-based rental assistance for security deposit assistance.*

Rental Housing Subsidies

Government subsidies for the provision of permanent rental housing are provided via two primary mechanisms as identified in the first two columns in the chart above.

1. Monthly rent subsidies, such as the Housing Choice Voucher (HCV), the Veteran's Affairs Supportive Housing (VASH), or Project-Based Voucher (PBV) programs, which are primarily administered by Public Housing Authorities but also some non-profit organizations that receive allocations from HUD; and
2. Development subsidies provided to developers of affordable housing through a variety of federal programs, including direct housing finance programs for family and senior housing by HUD, the low-income housing tax credit program promulgated through the Internal Revenue Service (IRS) and implemented by States, State private activity bond programs, based on a per capital bond cap allocated by the federal government, and locally-administered federal and state funds, such as the HOME Investment Partnerships (HOME) and Community Development Block Group (CDBG) programs, State Permanent Local Housing Allocation (PLHA), and other funds allocated for permanent housing for homeless individuals and families. These funds are provided as grants, low-interest loans, payment-deferred loans, or loans for which payments are based on the availability of residual income after covering private debt, fees, and operating expenses.

The qualifying household incomes for the subsidies listed above range from zero-percent to sixty-percent (0% - 60%) of the area median income (AMI) established and published annually by the U.S. Department of Housing and Urban Development (HUD).

HUD Income Limits by Household Size

Household size	1	2	3	4	5	6	7	8
30% AMI	$26,250	$30,000	$33,750	$37,450	$40,450	$43,450	$46,450	$49,450
50% AMI	$43,750	$50,00	$56,250	$62,450	$67,450	$72,450	$77,450	$82,450
60% AMI	$52,500	$60,000	$67,500	$74,940	$80,940	$86,940	$92,940	$98,940

https://www.huduser.gov/portal/datasets/home-datasets/files/HOME_IncomeLmts_State_CA_2021.pdf

Acquisition/Development Investment Groups

One avenue for the development of workforce rental housing includes the acquisition and development of existing parcels for redevelopment. These groups have worked successfully throughout the State, and include California Statewide Communities Development Authority (CSCDA), through the issuance of low-cost, tax-exempt bonds to finance or refinance the development of workforce housing. Additional exploration of project thresholds would need to be considered on whether there is a developable site in the County that would meet underwriting thresholds.

Homeownership Housing Subsidies

Home equity often is a primary tool that families use to build wealth and plan for retirement, yet obtaining the homeownership dream is elusive in Santa Barbara County for many. .

According to a local mortgage lender, the primary obstacle to homeownership is the lack of inventory for middle income earners. Lending criteria have become less stringent and many barriers can be overcome, such as lack of or poor credit history.

The County has a number of programs that assist households with becoming homeowners. Attachment C includes a list of available programs.

Farmworker Housing

Farmworker housing in Santa Barbara County is more feasible in certain areas, such as cities and unincorporated areas with significant agricultural operations. Farmworkers generally prefer to live in urban areas near amenities and where they work; therefore, urban areas near farm sites are more desirable locations for farmworker housing. Federal residency requirements have made lease up challenging. A new 38-unit farmworker rental housing development in Guadalupe was slow to lease up because farmworker applicants were unable to meet documentation requirements. The non-profit housing group who built them had to offer financial incentives to attract enough applicants. Another limitation with federal funding for farmworker housing, such as USDA, is that it does not allow for workers in Cannabis operations to qualify as farmworkers. As operations may move from cut flowers and other related products to cannabis, federal funding options for farmworker housing may be constrained. The State Joe Serna farmworker housing grant program provides loans and grants for the development of multifamily rental and single family housing, such as Los Adobes de Maria project in Santa Maria, developed by People's Self Housing Corporation.

Local entitlement costs and development review processes also are identified barriers and result in higher project costs and lengthy project schedules. In some jurisdictions where affordable housing is "by-right," in accordance with land use, zoning and housing element plans, these projects are more predictable in terms of design, costs and schedule, thus shortening project timelines, with reduced costs. This also makes lining up project financing sources more reliable as it is often the case that strict timelines are associated with these commitments, and if not met, may be subject to losing them as a potential project financial resource. Development Impact fees are often on the order of $1 million plus depending on the project. And if fees are reduced or waived by jurisdictions, the costs of review, inspections, and approval of projects are still incurred and need alternate funding to cover.

Workforce Housing Gaps

While there are many programs to assist households needing housing, both in the rental and homeownership markets, they barely scratch the surface in meeting the high demand for affordable housing. Available data from SBCAG assembled as part of the sixth RHNA cycle, and other sources document the housing gap, the number of households that are paying more than 30% of their gross income on housing costs, number of households that are commuting more than 30 minutes each way to access employment, the number of households in overcrowded conditions, and the number of households that may have moved from the area because they could not afford available housing. In a recent article published on Realtor.com, the author states that the housing affordability situation may be worsening as a result of the COVID-19 pandemic, as Santa Barbara County ranks as the #1 county in the country where home prices have outpaced salaries since fourth quarter 2019. Rental vacancy rates historically have hovered around 0.5% yet recently have risen to roughly 4.4% according to a Noozhawk article dated April 9, 2021. The article reported increases in single-family home sales, as some renters chose to purchase a home for more space to live and work. The additional new inventory tends toward market-rate units with 'newer' finishes and more amenities. If demand stays constant, the additional inventory may increase rental vacancy. However, the availability of rental housing is expected to drop again as students return to the area.

Black and Hispanic/Latino households face unique barriers to homeownership that prevent access to the beneficial outcomes associated with homeownership, such as wealth building, improved health and higher educational attainment. According to the California Housing Finance Agency (CalHFA), Black and Latino homeownership rates are the lowest among California ethnic groups. Historically, structural and institutional obstacles faced by racial and ethnic minorities compounded over time produced these inequities. According to CalHFA, Black households in particular was targeted for sub-prime loans, which resulted in Black homeownership dropping from a high of 51% in 2004, to 10% now. Locally, however, 19 out of 22 families (86%) who have purchased homes from Habitat Santa Barbara since its inception in 2000 are Hispanic / Latino. Many institutional lenders, new construction lenders, mortgage guarantors, as well as the secondary market, e.g. Freddie Mac and Fannie Mae are revising underwriting criteria to ensure racial equity in the mortgage lending industry.

In connection with preparing the County's 2020-24 Consolidated Plan as required for the CDBG and HOME programs, one of the primary needs identified through stakeholder input was addressing the jobs-housing imbalance in the County. The 2015-2023 Housing Element documents the jobs-housing imbalance in Santa Barbara County in detail. The South County region has a disproportionately high share of jobs in the County but has fewer housing opportunities, particularly for lower- and moderate-income residents. As a result, many South County workers live in North County (or Ventura County) and accept long daily commutes to job opportunities. Approximately 68.4% of all residents who commute over 50 minutes commute east, southeast, or northeast. This shows a significant disconnect between work and home.

Barriers

The nonpartisan Milken Institute's "Accelerating Workforce Housing Development Across California" cites several barriers and solutions for workforce housing, which are summarized in Attachment F. The full report may be access at the following link: https://milkeninstitute.org/report/accelerating-workforce-housing-development-across-california

State Legislative Action

The 2017 Legislative Housing Package provided a renewed focus on housing. New laws and programs created new regulatory and financial resources, with the goal of facilitating the production of housing. A summary of these incentives include:

- New funding for affordable homes
- Imposition of a $75 fee on recording of real estate documents (excluding sales) for investment in affordable-home development.
- Approval by voters of a $4 billion general obligation bond in 2018 which providers millions in funding for housing for veterans and other affordable housing programs.
- Approval of measures to accelerate development to increase housing supply

  - Created a streamlined approval process for certain developments in cities/counties that have not yet met their legally mandated housing targets.
  - Authorized HCD to provide one-time planning funds and technical assistance to cities/counties to help them streamline housing production.
  - Authorized financial incentives for cities/counties that streamline development of housing in specific areas of their jurisdiction.

Holds cities/counties accountable for addressing housing needs in their communities
  - Authorized increased enforcement of state housing-planning ("housing element") law and enables HCD to refer violations to the Attorney General.
  - Strengthened housing-planning law to ensure appropriate land is available for new development and increases transparency on local government progress in meeting legally mandated housing targets.
  - Created a $10,000 per unit penalty on cities/counties that deny (for unjustified reasons) approval of new homes affordable to low- or moderate-income Californians.

- Creates opportunities for new affordable homes and preserves existing affordable homes
- Makes California's "farmworker housing tax credit" more attractive to developers.
- Created additional tracking and enforcement responsibilities to ensure compliance with state housing-preservation laws.
- Allowed the legislative body of a city/county the option to require a certain amount of low-income housing in any new residential rental developments.

As stated above, the State recently passed SB 8, SB 9, and SB 10, which are intended to change the regulatory and funding landscape for at least certain types of housing development. Additionally, a State Housing Accelerator program of $1.75 billion for shovel-ready affordable multi-family units which remained unbuilt because of lack of tax-exempt bonds and low-income housing tax credits, may now begin construction in the near term. A summary of the State's Housing Bills may be viewed here: https://www.senate.ca.gov/ and https://www.hcd.ca.gov/policy-research/lhp.shtml

The State's elimination of Redevelopment Authorities in February 2012 had a significant negative impact across the State. There is a need to seek ways to rebuild the type of ready subsidies to increase workforce housing. Investment portfolios, such as retirement plans, insurance, banks, and others should invest in housing opportunities. Another option to explore is to issue a large pool of bonds and use the proceeds for lending programs for affordable housing development, as the Bay Area counties of Alameda, San Francisco, San Mateo, and City of San Diego have implemented, for example. Rent income, or home sales to qualified families, or other funding mechanism could be used to repay the loans. Finally, the Board could consider increasing in-lieu fees to better align more closely with the costs of providing housing units.

<u>Stakeholder Meetings</u>

In preparing this staff report and recommendations, CSD/HCD staff held stakeholder meetings with the Housing Authorities of the City of Santa Barbara and County of Santa Barbara, CEO of the Housing Trust Fund for Ventura County, executive director of the Santa Barbara County Housing Trust Fund, housing consultants, and County Planning and Development (P&D) staff. Comments were largely centered and focused on four principal issue areas: Public Policy, Financial, Regulatory, and Market Demand. These issues permeate issues across local, state and federal government.

In terms of public policy, overarching comments indicated that decision-makers should consider development at higher densities than those that are approved pursuant to public review process and issuance of entitlements. Companion to this is a reduction of development standards to allow for more affordable housing units to be built. Two other key areas of concern, one involving demand for existing, available residentially-zoned development and in addition that resources and policies for addressing the 80%-120% do not currently exist. Investors, including lending institutions, seek reasonable returns on their investments in the current market. In the context of this income level and associated rents at the 80%-120% income and rent levels, it is a challenge to meet these investor requirements in the absence of additional incentives and financial subsidies.

These policy considerations also mirror financial and regulatory challenges. For example, the federal low-income housing tax credit program (LIHTC) generally comprises the final financing element of an affordable housing development proposal, often up to 60%-70% of a project budget. However, for the most part, the tax credits only allow for income and rent levels at up to 60% area median income. While some allow for a percentage of units up to 80%, this is limited. Private activity tax-exempt bond financing also follows this pattern in order for tax benefits to be claimed. In addition, welfare tax exemptions for affordable housing are also limited at 80% area median income properties. Therefore, in current financial and regulatory framework, there is little in terms of finance and associated regulations to incentivize and render feasible affordable housing development in the 80%-120% range. Market-rate new construction rents are high, but within reach of 150% -200% range of income, generally speaking.

Demand for land and available inventory were also cited as concerns, particularly so in south county, but also affecting north county projects as well. High land prices are making it increasingly difficult to acquire parcels for affordable housing development. In southern Santa Barbara County some reference was made to institutional investors and Real Estate Investment Trusts purchasing multi- and single- family housing assets as part of their investment portfolios. Fannie Mae and Freddie Mac have currently adopted policies intended to limit institutional investment in secondary-real estate market transactions and encourage single household purchasers of this inventory, as this has come to their attention in recent years. In terms of existing inventory, student housing-related management firms are increasingly purchasing existing multi-family apartments and converting use to student housing. This has the effect of increasing rents for these units, limiting their availability to local workforce as well as potentially driving up rents for other multi-family uses.

Specific housing demand, for example, farmworker housing, may best be addressed in those housing areas with more significant agricultural operations and larger populations of farmworkers, for example, Santa Maria, Guadalupe and Carpinteria.

While these issues are not comprehensive based on stakeholder outreach, they frame the general issues confronting development of affordable ownership and rental opportunities and constrain the ability and wherewithal to provide these resources to populations earning greater than 80% of area median income.

State and local ordinances and laws provide some incentives to help mitigate the cost of housing. Depending on the project and its amenities, the County may offer parking reductions, reduced recreational fees, increased density, and adjusted open space requirements. However, developers we’ve spoken with state that development costs are greatly increased due to discretionary approvals . Local developers indicate that they could be incentivized to pursue more affordable housing development within the County of Santa Barbara by receiving additional building rights and zoning incentives.

The State has passed a wide range of housing bills to streamline permitting, including in the State Density Bonus Law and the Housing Affordability Act. The Department of Planning and Development will be bringing ordinance amendments to the Board to align with new State requirements. Such amendments include amendments for Accessory Dwelling Units ADUs), which was approved by the Board in May 2021.

In summary, Santa Barbara County has limited buildable land, with builders facing recent increases in the cost of steel, concrete, and lumber, and labor and water resources.

It was noted by stakeholders that to begin to address the housing shortage, at minimum, local jurisdictions must accept:

- Higher density
- Reduce discretionary development standards
- The need to identify underutilized public or institutionally owned land for rezoning for residential use
- Provide subsidies, or at a minimum promote applying for available state and federal funding, necessary to offset the costs to develop affordable housing

More Analysis Needed

There is a wealth of information from recent studies, and additional research that will become available in the next few months, such as from SBCAG and the Santa Barbara Association of Realtors (study expected later in 2021/early 2022), and data being assembled as part of the update to the 2024-2032 Housing Element Update. Proposals are due October 2021 and a final analysis is expected by March 2022. Staff recommends additional analysis on recommendations gleaned from stakeholder interviews, and successful Workforce housing programs implemented in other communities:

1. Is there an opportunity to leverage public/private partnerships, such as having cities and County contribute to a housing trust fund, which can then leverage state funding, and encourage foundations and local lenders to contribute? Could such contributions extend to the creation of a regional land trust, of underutilized city, county, faith-based or institutional holdings?
2. What is the potential for rezoning to create the much needed 'starter' homes for newly formed households? Can certain reductions in parking and open space requirements, or other incentives be strategically used to achieve the County's housing needs?
3. What income is needed to afford an "entry" level home? To purchase a home in the $750k range (i.e. 2bd condo in South Coast), a household should earn close to $140k/year with a 3% down payment. Is that realistic?
4. What opportunities are there for the County to partner with an affordable housing developer and participate in the purchase of multifamily housing to create permanent affordability?
5. Where is available land? Does land owned by the County and cities offer affordable development opportunities?
6. What housing models have been tried? What has worked well and why are they not being replicated?
7. How will State-mandated housing policy affect the County, e.g. housing element, by-right zone districts, eliminating single-family zoning, and others?
8. Can the County's Inclusionary Housing Ordinance be revised to extend affordability provisions beyond the initial tenant or owner, and expand the affordability period to 50, even 90 years, as the City of Santa Barbara has done.

Conclusion

While there are many programs to assist households needing housing, both in the rental and homeownership markets, they barely scratch the surface in meeting the high demand for affordable housing. More data is needed to determine the true housing gap, identify model housing programs, identify funding opportunities and how the County can build strong housing development financing resources.

Staff recommends that the Board approve up to $245,000 to engage the services of a qualified consultant or firm to provide the Board with an affordable housing development strategic plan.

Performance Measure:

N/A

Contract Renewals and Performance Outcomes:
N/A

Fiscal and Facilities Impacts:

Budgeted: Yes

During a Special Meeting on the American Rescue Plan Act, $245,000 was earmarked towards studying affordable and workforce housing.

Fiscal Analysis:

Funding Sources	Current FY Cost:	Annualized On-going Cost:	Total One-Time Project Cost
General Fund			
State			
Federal			$ 245,000.00
Fees			
Other:			
Total	$ -	$ -	$ 245,000.00

Narrative:
The Board tentatively earmarked $245,000 in cannabis funding for this purpose.

Key Contract Risks:
N/A

Staffing Impacts:

Legal Positions: **FTEs:**

Current HCD staff will draft the RFP, solicit qualifying proposals, enter into agreements, and monitor the work of the Consultant. Staff will return to the Board on a later date with the Consultant's full report.

Special Instructions:

Please provide a copy of the Minute Order to Laurie Baker via email to: lbaker@co.santa-barbara.ca.us

Attachments:

A. Mortgage Loan Examples
B. Acronyms
C. Homeowner Programs Descriptions, with Exhibits A and B
D. Milken Report Summary

Authored by:

Division of Housing and Community Development Affordable Housing Team

cc:

Mona Miyasato, CEO