Santa Cruz County Business Council

Potential Housing Policy Options for Santa Cruz County

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Background

Santa Cruz County is in the process of amending both its housing element and affordable housing guidelines, in the midst of a dramatic housing deficiency. According to the National Association of Homebuilders, in 2014 the Santa Cruz-Watsonville metro area ranked as the least affordable small metro area (under 500,000) in the United States.[1] Concurrently, in developing the county wide Economic Vitality Strategy, housing affordability was consistently identified as one the major barriers to further economic growth, and a significant factor affecting economic under performance. In response to recent court rulings concerning rental inclusionary requirements and density bonuses the county has been compelled to update parts of its housing element to come into compliance with state law. Additionally, as a pre-emptive action against future rulings, and as a means of assessing additional financing options in the wake of losing redevelopment funding, the county commissioned a nexus analysis, which was performed by Kaiser Marston and Associates.

Included within the nexus analysis was an assessment of potential impact fees to be assessed on new ownership, rental and commercial properties, which would contribute toward funding affordable housing projects at the local level. It is in the opinion of the Santa Cruz County Business Council that this approach is flawed in its approach by relying almost exclusively on new fees, while not addressing the

[1] http://www.nahb.org/search_simple.aspx?narrow=1&txtKeyword=santa%20cruz%20watsonville&websiteID=1

fundamental problem of increasing the housing stock through market based solutions, and that burden of funding affordable housing should not rest solely with

the development community. Thus the purpose of this report is to outline various alternative strategies that could be applied locally as a means of addressing general housing affordability, and the limited funding options available for low income affordable housing.

Overview of Policy Options

Voluntary Inclusionary (Optimized Density Bonus)

Case Study: New York, New York[2]

Under New York's Voluntary Inclusionary Zoning Ordinance, a developer may set aside 20 percent of the total units to be built for those with low to extremely low incomes, in exchange for being able to construct 33 percent more units. This is in effect a density bonus award. As an alternative, more flexible approach, housing advocates in the city are arguing that the city could accept cash payments (in-lieu fees) to build more units than allowed under current zoning.

The primary benefit of a voluntary density bonus is that it creates a market-based incentive to develop new affordable housing. Additionally, the tradeoff of additional units per those required to be included is a flexible tradeoff that can be tiered and adjusted. Furthermore, how affordability is defined can greatly affect the margins associated with the development. For instance, if up to 110 percent Area Media Income (AMI) is counted as affordable for these inclusionary units than it may be much more economically feasible to provide the onsite units. If this voluntary program is adopted alongside the alternative approach of paying an impact fee to achieve higher than zoned density, it would provide developers with even greater flexibility.

Some of the potential drawbacks of this type of policy include the limited ability for higher density development given existing zoning and height restrictions, and political considerations. It is unlikely that this type of incentive conflicts with state law given that it would be a voluntary incentive.

[2] http://www.nytimes.com/2014/06/08/upshot/affordable-housing-thats-very-costly.html?_r=0&abt=0002&abg=0

Property Tax Breaks for Higher Density Core Development

Case Study: Columbus, Ohio[3]

Under Columbus's Property Tax Break Scheme, they have provided a financial incentive for property owners to renovate or improve existing properties located within a specific area downtown, as a means of encouraging lower impact density. This makes sense from a planning perspective because additional services, like police/fire and water/sewer, are more easily provided for in higher density areas. The implementation of this plan found widespread success and doubled the number of people living within that area in less than 10 years. This created a financial incentive for both developers and residents, meaning that the units were filled quickly and were more affordable to those with lower incomes.

The primary benefit of this program is that it encouraged both developers and residents simultaneously, and allowed for more efficient and sustainable planning by targeting a specific area. This sort of scheme could be readily applied in conjunction with the Sustainable Santa Cruz Plan to prioritize the areas with greater access to transportation and amenities. Furthermore, because it only applies to new development and renovations no existing revenue is lost.

Potential drawbacks to this sort of scheme include the fact that Santa Cruz does not have, and is not likely to have, the level of density that Columbus, Ohio does. However, it would require further analysis to understand how severe the impacts of greater density would be on public services and infrastructure. The other major drawback is that this sort of scheme requires significant political buy in, both to award such substantial breaks, and for greater density.

[3] http://www.dispatch.com/content/stories/local/2014/03/23/serious-savings.html

Housing Trust Fund

Case Study: San Francisco, California[4]

In 2012 San Francisco voters passed Prop C, which mandated that each year the city/county set aside a portion of General Fund revenues to create a Housing Trust Fund, to eventually total 50 million, to fill the gap left by the loss of Redevelopment funds. Initially intended to help subsidize the development of new affordable units, the fund has mostly been used to maintain existing housing stock. The fund was only really possible because of the tremendous surge in economic growth that has caused San Francisco city budget to grow by almost 700 million (2012/13). While Santa Cruz lacks the potential to spend as much, proportionate to its size, of general funds, other means of financing could be considered, such as a parcel tax or sales tax increase.

The primary benefit of such a fund is that it directly works to replace the funding shortfall caused by the loss of redevelopment. At the county level this would have to be roughly 8 million.

The drawbacks are plainly financial. Where would this money come from? Santa Cruz is not experiencing the level of growth that San Francisco is, nor does it have general fund revenue to fully fund a trust fund of this nature. Alternative sources would need to be identified, and if any new taxes would require voter approval.

[4] http://www.sfhac.org/policy-advocacy/affordable-housing-trust-fund/

Housing Revolving Loan Fund

Case Study: Santa Barbara, California

Santa Barbara is in the process of developing a revolving loan fund to help first time homebuyers with initial down payments. The fund is expected to draw from mainly private sources, but could include public funds to help get started. The whole idea is that the up front costs of having to make a down payment discourage many first time home buyers, who then continue to take up rental stock. The revolving loan fund would serve as a bridge to help cover a part of the up front costs for lower income home buyers, who would in theory have an easier time repaying the loan as their property appreciates. The fund is expected to draw mainly from local banks, but could also be funded by in-lieu fees administered through a public jurisdiction.

The main advantage of creating this sort of fund is that the money is eventually repaid back, meaning that the fund is inherently consistent from year to year. It is also structured to meet the needs of lower income residents, and relieve stress on the rental market, which is badly needed in Santa Cruz.

The main drawback of this fund is that it is very limited in its scope, and while beneficial does nothing to directly encourage the development of new housing stock. Santa Cruz has no shortage of potential homebuyers; it has a shortage of homes. Fundamentally this sort of fund begs the question of community priorities; how severe are the problems of insufficient rental housing? And would this fund relieve enough stress on that market, while not simultaneously putting more stress on the ownership market, to be worth its initial investment? However, a similar, much smaller fund could also be used to help move renters up the ladder in housing stock by providing them short-term loans for security deposits.

In general the private funding does provide greater latitude and flexibility than a publicly instituted fund of a similar type.

Affordable Housing Strategic Plan

Case Study: Orange County, California[5]

The Los Angeles-Orange County Metro Area is considered the least affordable (large) metro area in the state. As a result, Orange County is currently developing an Affordable Housing Strategic Plan, which takes a different approach than conducting a nexus analysis on the potential for new fee revenue. The Affordable Housing Strategic Plan under development will resemble a collaborative effort by the County and all incorporated cities to develop specific production goals and identify funding sources, on a city by city/town by town basis. Part of this plan will be to catalogue an inventory of under utilized land, which could be used for affordable housing; identify potential areas for re-zone from industrial/commercial to residential; identify potential areas for rezoning of density/height restrictions; assess the potential for some areas to become 100 percent affordable zones; and explore the creation of an Affordable Housing Land Trust to prioritize the use of publicly owned lands for development.

The primary benefit to pursuing the development of an Affordable Housing Strategic Plan is the focus on regional collaboration with all of the other governmental entities. This is a fundamentally different approach to what most would consider a regional problem. Under this form of collaboration, it may be possible to utilize the greater taxing authority of chartered cities to generate additional revenue to meet specific county area goals and production quotas. Additionally, this approach creates substantially more flexibility by leveraging greater access to public lands, and a wider scope for potential development through rezoning. A strategic planning process would also put forth greater effort into exploring more options with greater resources and more perspective.

The primary drawback to embarking on a strategic planning process is the additional time, funds, and energy that would it would take. However, the board

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[5] http://chpc.net/dnld/HousingNeedOrangeCountyFINAL.pdf

could move forward with the Housing Element updates to come into compliance with State law, and then allocate more time toward a strategic plan.

Changes to State Law

Assembly Bill 2289 – Alejo (D-Salinas)

Enrolled August 29th, 2014

Taken from the Bill Text:[6]

This bill would authorize certain local agencies to form a community revitalization authority (authority) within a community revitalization and investment area, as defined, to carry out provisions of the Community Redevelopment Law in that area for purposes related to, among other things, infrastructure, affordable housing, and economic revitalization. The bill would provide for the financing of these activities by, among other things, the issuance of bonds serviced by tax increment revenues, and would require the authority to adopt a community revitalization plan for the community revitalization and investment area that includes elements describing and governing revitalization activities. The bill would also provide for periodic audits of the authority with respect to affordable housing, conducted as provided by the Controller, and for annual public reports by the authority as well as periodic proceedings for the consideration of public protests.

An authority may carry out a community revitalization plan within a community revitalization and investment area. This area is defined by the following criteria

- Median Household Income within the area is less than 80 percent the state average

Or three of the four following conditions:

- Non-seasonal unemployment that is at least 3 percent higher than statewide median unemployment, as defined by the report on labor market information

[6] http://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml

published by the Employment Development Department in January of the year in which the community revitalization plan is prepared

- Crime rates are 5 percent higher than the statewide median crime rate
- The area has substantial deteriorated infrastructure such as streets, sidewalks, water supply, sewer treatment or processing, and parks.
- The area has substantial deteriorated commercial or residential structures

Given the recent passage of this bill, Santa Cruz County should immediately look into the creation of a joint powers authority to create a community revitalization and investment area, and begin developing a community revitalization plan in conjunction with a regional affordable housing strategic plan.