

ADMINISTRATIVE MANUAL

COUNTY OF MONTEREY INCLUSIONARY HOUSING PROGRAM

MAY 2003

APPENDIX MATERIALS UPDATED MARCH 2004



County of Monterey
Environmental Resource Policy
Office of Housing and Redevelopment

Administrative Manual Prepared by:

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EXECUTIVE SUMMARY

This Administrative Manual describes the day-to-day procedures for the implementation of the County of Monterey's Inclusionary Housing Ordinance (Chapter 18.40). In the event of a discrepancy between the Administrative Manual and the Inclusionary Housing Ordinance, the language of the Ordinance will take precedence.

As identified in the Ordinance, the goals and objectives for the Inclusionary Housing Program include:

- Achieving a balanced community with housing available for persons of all economic levels;
- Encouraging a housing supply that provides housing opportunities throughout the County for a mix of households, including very low, low and moderate income households;
- Providing a priority for occupancy of inclusionary units for households with a household member(s) who live or work in Monterey County;
- Ensuring long-term affordability of the inclusionary units by requiring affordability restrictions and resale controls; and,
- Encouraging the participation of the private and non-profit development communities to provide inclusionary units.

The Inclusionary Housing Program provides an opportunity for very low, low and moderate income households to purchase and/or rent affordable housing units throughout Monterey County. Policies and procedures in this Manual provide for the following:

- New residential developments in the County shall include at least 20% of the units to be affordable to very low, low and/or moderate-income households.
- The inclusionary units provided shall be sold or rented at affordable costs and the units, generally, shall remain permanently affordable.
- Inclusionary units are considered an important and valuable resource for all County residents and, as such, shall be monitored regularly to ensure that they remain decent, safe and affordable housing units.
- Creative implementation of the inclusionary requirements shall be encouraged, including the development of mixed-use housing and employee housing.

I. Options To Comply with Inclusionary Ordinance

The County of Monterey has adopted an Inclusionary Housing Ordinance (Monterey County Code, Chapter 18.40). This Ordinance requires that 20% of the units/lots in new residential developments be affordable to very low, low and moderate-income households. The Ordinance is applicable to developments of three or more residential units/lots (farm worker housing and mobile home parks are exempt from the inclusionary requirements). Requirements of the Ordinance can be met through one of three options:

1. On-site Option
2. Off-site Option
3. Payment of In-Lieu Fees

Developments of 3 or 4 units/lots are expected to meet their inclusionary obligations through the payment of In-Lieu Fees, although the developer/owner can choose to build an inclusionary housing unit instead of payment of In-Lieu Fees if they so desire. Developments of 5 or more units/lots are expected to meet their inclusionary obligation through the development of inclusionary housing units.

1. ON-SITE OPTION

A. INCLUSIONARY % REQUIREMENT

For developments of 5 or more residential units/lots, at least 20% of the units must be set aside for inclusionary housing. The inclusionary units must be developed on the same site as the market rate units.

Exceptions: In certain unusual and infrequent situations, an exception to the mandatory on-site requirement is available. These exceptions would result in provision of units off-site (see #2 “Off-Site Option”) or payment of In-Lieu Fees (see #3 “Payment of In-Lieu Fees.”)

B. LEVELS OF AFFORDABILITY

The intent of the Inclusionary Housing Ordinance is to provide a range of inclusionary units affordable to different household income levels. Inclusionary units shall be affordable to very low, low and moderate-income households. For developments of 5 or more units, at least 20% of the units must be set aside for inclusionary housing. The 20% requirement is broken down further by a requirement that 8% of all units be affordable to moderate income households, 6% to low income households, and 6% to very low income households

Exceptions: In certain situations a deviation from the percentage requirements for income levels may be approved by the Appropriate Authority. The approval of the deviation must be supported by specific findings that document why the exception should be granted and how the objectives of the Inclusionary Program can still be met. The approval shall require a noticed public hearing.

Inclusionary Household Affordability Requirements

SIZE OF DEVELOPMENT	INCLUSIONARY REQUIREMENT	20% REQUIREMENT DISTRIBUTED BY HOUSEHOLD INCOME LEVEL		
		<i>Moderate Income</i>	<i>Low Income</i>	<i>Very Low Income</i>
1-2 Units/Lots	<i>No Inclusionary Requirement</i>			
3 - 4 Units/Lots	Payment of In-Lieu Fee	N.A.	N.A.	N.A.
5 Units/Lots	Provide 20% inclusionary units	1 unit		
6 - 7 Units/Lots	Provide 20% inclusionary units	1 unit + payment of In-Lieu Fee for any fractional difference		
8 Units/Lots	Provide 20% inclusionary units	1 unit + payment of In-Lieu Fee for any fractional difference		
9 Units/Lots	Provide 20% inclusionary units		1 unit + payment of In-Lieu Fee for any fractional difference	
10 - 14 Units/Lots	Provide 20% inclusionary units	1 unit + payment of In-Lieu Fee for any fractional difference	1 unit	
15 – 16 Units/Lots	Provide 20% Inclusionary Units	2 units + payment of In-Lieu Fee for any fractional difference	1 unit	
17 or More Units/Lots	Provide 20% Inclusionary Units	8% of all units (1 unit minimum) + payment of In-Lieu Fee for any fractional difference	6% of all units (1 unit minimum)	6% of all units (1 unit minimum)

The table on the previous page outlines the inclusionary obligation according to the method of “rounding up” the fractional requirement. According to the size of the proposed development, the 8%/6%/6% inclusionary requirements are applied. The rounding up process for a five unit development would be as follows: the 8% moderate-income requirement is 0.40, the 6% low income requirement is 0.30 and the 6% very low income requirement is 0.30. Beginning with the very low-income figure and rounding up, the 0.30 very low-income figure is not a whole number and so the 0.30 amount would be added to the next highest income category, low income. The 0.30 would be added to the 0.30 low income and the resultant figure of 0.60 is still not a whole number. The 0.60 is added to the 0.40 moderate-income figure and a resultant whole number of 1 unit is generated. Therefore, the inclusionary requirement would be 1 moderate income unit. The same type of rounding up process would be applied to each proposed development. If a fractional amount still remains after rounding up, then the developer has the option of paying an-in lieu fee based on the fractional requirement or providing an additional inclusionary unit.

C. DESIGN, SIZE AND LOCATION OF UNITS

The exterior appearance of the inclusionary units must be compatible with the market rate units. Compatibility includes the architectural style and detailing, but not necessarily the quality of materials or size of structures. The inclusionary units should be similar in number of bedrooms as the market rate units (up to four bedrooms). To the extent feasible, the inclusionary units shall be scattered throughout any development that also includes market rate units. However, inclusionary units may be clustered if it is found that such an arrangement better meets the objectives of the program.

D. TIMING OF INCLUSIONARY UNITS

The inclusionary units must be developed either prior to or concurrent with the development of the market rate units. The phasing plan for the release of building permits for both the inclusionary and the market rate units shall be described in the Master Inclusionary Developer Agreement.

2. OFF-SITE OPTION

A. INCLUSIONARY % REQUIREMENT

For certain residential developments of 5 or more units/lots, the inclusionary units may be developed on a site different (off-site) than the market rate units. To qualify for this option, the developer must demonstrate to the satisfaction of the approving body that the off-site units will provide a “greater contribution” than units provided on-site.

“Greater contribution” means, at a minimum:

- More inclusionary units are created off-site than would normally be required by the 20% Inclusionary Housing mandate; and
- if homeowner units, all of the inclusionary units would be affordable to low income households, or
- if rental units, all of the inclusionary units would be affordable to very low-income households.

Units developed under the off-site option must be newly constructed units. Existing units cannot be substituted in the off-site option. Further, the off-site units must be located within the same Planning Area as the market rate units.

B. DESIGN, SIZE AND LOCATION OF UNITS

The exterior quality and appearance of the inclusionary units must be compatible with development in the vicinity of the off-site location and be found to result in a positive benefit to the area. The inclusionary units shall be similar in number of bedrooms as the market rate units (up to four bedrooms), but the square footage size of the inclusionary units may be less than the market rate units. To the extent feasible, the inclusionary units shall be scattered throughout any development that also includes market rate units. However, inclusionary units may be clustered if it is found that such an arrangement better meets the objectives of the program.

C. TIMING OF INCLUSIONARY UNITS

The inclusionary units must be developed either prior to or concurrent with the development of the market rate units. The phasing plan for the release of

building permits for both the inclusionary and the market rate units shall be described in the Master Inclusionary Developer Agreement.

D. APPROVAL PROCESS

The provision of inclusionary units off-site will only be approved in developments that can demonstrate that they meet the “greater contribution” test specified above. The intent of the Inclusionary Housing Ordinance is to create developments that include a mix of household income ranges and housing options, which is more possible with on-site development. Therefore, off-site inclusionary housing will only be approved for developments that provide more benefit to the community in terms of number of inclusionary units and affordability levels as specified above. The “greater contribution” test must meet be met to the satisfaction of the approving body.

3. PAYMENT OF IN-LIEU FEES

A. PROJECTS ELIGIBLE FOR PAYMENT OF IN-LIEU FEES

Projects of 3-4 Units/Lots

All projects of 3-4 units/lots are eligible to pay In-Lieu Fees to meet their Inclusionary Housing requirement. However, developers also have the option of building an inclusionary unit instead of paying the In-Lieu Fees.

a. Owner-Occupied Exemptions and Applicability of Inclusionary Requirement:

For developments of 3-4 units/lots, one unit may be owner-occupied and exempt from the Inclusionary Housing Requirements. Therefore, a 3 unit development with one of the units being owner-occupied would be completely exempt from the requirements of the Inclusionary Housing Ordinance because the net effect would be a 2 unit development. For a 4-unit development with one owner-occupied unit, the Inclusionary Requirement would only apply as if it were a 3-unit development.

To qualify as an owner-occupied unit as specified in the paragraph above, the owner must agree to occupy the unit for at least one year following completion. One owner-occupied exemption is allowed per development and further; each developer/owner is allowed only one owner-occupied exemption every 10 years.

For owner-occupied units that trigger an exemption, the owner must record a Promissory Note (for the amount of the In-Lieu Fee) secured by a Deed of Trust on the lot/unit being exempted requiring that the owner reside in the new unit for a minimum of one year from the date of the Notice of Completion. “Owner” must be an owner of record at the time the final map

is recorded or use permit approved. All owners of record must sign the agreement. After the one-year period, the owner may submit a request to the Housing and Redevelopment Office to remove the deed restriction. Proof of residency for the one-year period must be provided at that time.

Projects of 5 or More Units/Lots

a. Payment of In-Lieu Fee for Fractional Obligations:

For inclusionary obligations that result in a fractional inclusionary requirement (e.g., a 6 unit development would have an inclusionary obligation of 1.2), the developer/owner can either pay an In-Lieu Fee for the fractional difference of the inclusionary obligation or they may provide an inclusionary unit instead of paying the fee.

b. Payment of In-Lieu Fee for Total Inclusionary Obligation:

Projects of 5 or more units are expected to produce inclusionary units on-site. However, in very rare and limited circumstances, a project of 5 or more units may meet its inclusionary obligation by only paying In-Lieu Fees. To qualify, the developer must conclusively demonstrate that provision of inclusionary units is infeasible because of specific characteristics of the development site, such as excessive property maintenance costs and/or limited access to services (e.g. transit, stores, etc.).

B. IN-LIEU FEE CALCULATION

The In-Lieu Fee is the difference between the cost of developing a market-rate home and the cost of providing a single-family unit affordable to a 4-person household with an income at 100% of median income. The Fees shall be based on current estimates of land and construction costs for an average single-family dwelling unit in the appropriate Planning Areas. To take into account the wide variation in land costs, two in-lieu fees are used, one for the Greater Monterey Peninsula and Coast Planning Areas and one for the remaining Planning Areas. Development costs are calculated assuming a per square foot construction cost for a 1500 square foot unit with an assumed land cost equaling 50% of total development cost for those projects located in the Greater Monterey Peninsula and Coast Planning Areas and an assumed land cost equaling 30% of total development cost for the remaining Planning Areas. **The In-Lieu Fees are based on a 5-unit development.** The In-Lieu Fee example provided in the table below is only an example. For current In-Lieu Fee calculations, please see Appendix G of this Manual.

Example of In-Lieu Calculation:

AVERAGE TOTAL DEVELOPMENT COST FOR A SINGLE-FAMILY UNIT	\$390,000
AFFORDABLE SALES PRICE (4 PERSON HOUSEHOLD AT 100% OF MEDIAN INCOME)	\$206,364
IN-LIEU FEE FOR A 5-UNIT DEVELOPMENT	\$183,636 or \$36,727 per unit

Developments Requiring a Fractional Amount of In-Lieu Fee:

Developments of 3-4 units will pay a fractional amount of an In-Lieu Fee. Using the example above, a 3-unit development would pay an \$110,181 In-Lieu Fee (3/5 of the \$183,636 base fee). For developments with more than 5 units, the developer/owner will be required to build the required number of inclusionary units plus pay an In-Lieu Fee for any fractional amount of the inclusionary obligation. Using the In-Lieu Fee example above, a developer with an inclusionary obligation of 1.6 would be required to construct one inclusionary unit and to pay 60% of the In-Lieu Fee, or similar to the example above, 60% of \$183,636 or \$110,181.

In-Lieu Fee Calculation:

The Assistant County Administrative Officer for Environmental Resource Policy or his or her designee shall calculate the In-Lieu Fees on an annual basis. The Board of Supervisors shall then adopt the fees annually.

C. CALCULATION AND PAYMENT OF IN-LIEU FEE (TIMING)

Payment of In-Lieu Fees shall be made in full prior to the recordation of parcel or final maps, or where the development is not subject to subdivision approval, prior to issuance of the first building permit for the development. The In-Lieu Fee shall be calculated based on the In-Lieu Fee in effect at the time the application is deemed complete for a subdivision, land division or land use permit. or at the time of the first building permit issuance, if there is no subdivision. A description of the process is included in Appendix G.

II. Marketing and Selection Procedures

The Housing and Redevelopment Office shall have overall responsibility for the marketing of inclusionary units and the selection of households to occupy those units. However, there may be instances where it is appropriate to delegate some of those responsibilities to the development and/or real estate community. This section of the Manual discusses the overall marketing and selection procedures.

1. MARKETING RESPONSIBILITIES

A. HOUSING AND REDEVELOPMENT OFFICE

Staff at the Housing and Redevelopment Office shall be responsible for the general marketing of the Inclusionary Housing Program. This would include providing the following types of information:

- Developer fact sheets
- Homeowner fact sheets
- Tenant fact sheets
- Public Notices in newspaper, social service agencies, libraries, etc. regarding eligibility for occupancy and waiting list procedures
- Presentations at community events or organizations
- Other marketing materials as appropriate

All written materials should be available in both English and Spanish, as well as in formats accessible to the visually handicapped (e.g. large print format, disc or Braille). In addition to marketing materials, important documents such as homeowner agreements and inclusionary purchase documents shall also be available in English and Spanish as well as in formats accessible to the visually handicapped.

B. PROPERTY OWNER/DEVELOPER

As part of the Master Inclusionary Developer Agreement, the owner/developer may be required to submit a Management and Marketing

plan for the County's approval. The Management and Marketing Plan shall contain at least the following elements:

For rental developments

- Marketing and Tenant Selection Plan, including marketing procedures, efforts to market to special needs groups, selection process and bi-lingual procedures.
- Description of property management team
- Copies of rental agreements/leases
- Procedures for complying with fair housing laws
- Selection Procedures for Tenants (including priority for households who live/work within Monterey County)
- Initial rents and utility allowances (provided by staff)
- Agreement to maintain adequate property insurance
- *Preferences may be given to employees in employer sponsored developments*

For homeowner developments

Description of how the developer will co-ordinate occupancy of units with inclusionary homeowner selection procedures. (See next section for description of these procedures.)

2. SELECTION OF INCLUSIONARY OCCUPANTS

A. RENTAL UNITS

The owner/developer shall be responsible for selecting tenants upon initial occupancy and on-going vacancies. The selection procedure shall follow the marketing and selection plan submitted by the developer and approved by the County if determined to be required for the project (including any revisions required by the County as a condition of approval), and updated as needed.

B. HOMEOWNER UNITS

The owner/developer shall follow the procedures as listed below.

a. Countywide Eligibility List (Inclusionary Homeowners)

The Housing and Redevelopment Office shall be responsible for establishing and maintaining a countywide waiting list for occupancy of homeowner inclusionary units. To create the list, the Housing and Redevelopment Office

shall publish notices in newspapers circulated in the Monterey County area (in both English and Spanish), provide public notices at community gathering areas (e.g. social service agencies, libraries, etc.), and distribute information to the real estate community. Information should include:

1. Homeowner Fact Sheet (See Example in Appendix)
2. Priorities for Eligible Applicants,
3. Income Requirements,
4. When the Application Period Opens/Closes (if applicable),
 - Application Packet, and
 - Telephone/Contact for Questions

From the applications submitted, the Housing and Redevelopment Office shall create a list of potential applicants. The applicants shall then be ranked by priority on the waiting list. Priority shall be given to households with members who are either:

- Residents of the County of Monterey for a period of at least one year prior to application submittal and/or
- Include persons who have worked within the County of Monterey for at least 6 months prior to application submittal.

b. Initial Establishment of List

In order to initially establish an Eligibility Waiting List, the County shall first identify all those applicants who meet the live/work priority noted above. Through a random selection or lottery procedure, those applicants will be ranked on the waiting list. After all of the priority applicants have been ranked, the non-priority applicants shall then be ranked on the waiting list, again through a lottery procedure. The Eligibility List will thereafter contain two sets of applicants: those who meet the priority qualification and those who do not.

Following the initial establishment of the list, new applicants shall be added to the bottom of each portion of the list (either priority or non-priority) as their applications are received and according to whether they meet the priority qualifications. All applicants must ultimately be income-qualified to be eligible for an inclusionary unit.

c. Selection from Eligibility Waiting List

Each time inclusionary homeowner units become available for occupancy, the owner/developer and the Housing and Redevelopment staff shall follow these procedures:

1. At least 60 days prior to issuance of a Certificate of Occupancy for newly developed units, the owner/developer shall notify the County of the number and type of units available (i.e. bedroom size).
2. Within 10 business days of notice by the owner/developer, the Housing and Redevelopment Office shall cause to be pre-qualified the top five applicants on the list. Pre-qualify means that the information submitted by the applicant regarding income, residency, place of employment and any other relevant information has been verified. Verification shall be conducted by either the Housing and Redevelopment Office staff or a designee agency (i.e. Housing Authority of Monterey County).
3. The Housing and Redevelopment Office shall provide the developer/owner with a Referral List of at least five pre-qualified applicants.
4. Owner/developer shall directly contact the persons on the Referral List provided in the order provided. Owners who are not able to fill vacant units from the Referral List may request additional names.
5. Owner/developer shall conduct all additional screening and selection of applicants. All applicable Fair Housing Laws must be observed.
6. Selected applicants will be responsible for securing their own financing for the proposed inclusionary unit. Within 6 weeks of being selected, applicants will be required to submit documentation that they have qualified for their permanent mortgage financing. If they have not obtained financing commitments within that time frame, the developer/owner has the option of rejecting them and requesting additional applicants from the referral list.
7. If candidates on the Referral List do not become occupants of the inclusionary units, they will be returned to the Eligibility Waiting List in the order that they originally were placed. (Except if the applicants meet any of the conditions listed under “D” below.)

d. Procedures for Resale of Existing Homeowner Inclusionary Units

In the event that an existing inclusionary homeowner decides to sell a home during the affordability period, the owner will give the County written notice of such intent pursuant to the procedures as described in the owner’s original Buyer’s Occupancy and Resale Restriction Agreement. Should the County not exercise its option to purchase the property, the homeowner can then request from the Housing and Redevelopment Office at least five referrals

from the Eligibility Waiting List. Additional referrals can be requested as needed to sell the unit in a timely manner.

For existing homeowner inclusionary units, the Housing and Redevelopment Office shall give preference in referring applicants to those applicants who qualify for the County's First Time Homebuyer Program.

At the time the existing inclusionary homeowner first notifies the County of intent to sell, the Housing and Redevelopment Office shall provide the homeowner with the maximum sales price figure for the unit. Please see Section III of this Manual for a further description of the calculation process for maximum sales prices.

e. Removal from Eligibility Waiting List

Applicants will be removed from the Eligibility Waiting List for:

1. Fraudulent statements on Application or verification documents; or
2. More than two refusals of offered units, unless the unit offered is located a significant distance (approximately 20 miles or more) from the place of employment of the applicant; or
3. Purchase of an inclusionary housing unit; or
4. Inability to qualify for financing to purchase a unit after two referrals to an Owner/Developer.

f. Appeal Process

The decisions by the Housing and Redevelopment Office in establishing the Eligibility List and or maintaining the list may be appealed. All appeals must be in writing and must be received within 10 days after the Housing and Redevelopment Office has notified applicants of their standing on the List. An informal hearing on the appeal shall be conducted by the Housing Advisory Committee (HAC) with the Housing and Redevelopment Manager (or his/her designee) responsible for the final decision, based on the HAC's recommendation. The results of the appeal decision shall be communicated to the appellant in writing within 10 days of the hearing.

g. Purging of Eligibility List

The Eligibility List shall be purged every two years. A new list shall be developed based on the procedures described above.

h. Options to Marketing/Selection Plan Submitted by Owner/Developer

There may be situations where a developer has a specific target population for occupancy of the inclusionary housing units. For example, a developer of employee housing may request that potential occupants be employees of the employer/developer. The Housing and Redevelopment Office will review

such alternate marketing/selection plans and, if appropriate, will approve such plans in lieu of some or all of the procedures described above.

III. Homeowner Inclusionary Unit Requirements

1. ELIGIBILITY CRITERIA

A. INCOME

Households eligible for purchase of inclusionary units shall be of very low, low and moderate income. Household income limits are determined annually by HCD/HUD and are based on household size. See Appendix E of this document for the current income limits for very low, low and moderate-income households. The definition of income is listed in Appendix D of this document.

B. ASSETS

There is a maximum asset test for purchasers of inclusionary units. See Appendix D of this document for a description of maximum assets and definitions of assets.

C. LIVE/WORK IN MONTEREY COUNTY

Household members who live or work in Monterey County shall have priority in the purchase of inclusionary units. See Section II (Selection of inclusionary Occupants) of this document for further information about the priority process.

2. ESTABLISHMENT OF INITIAL SALES AND RESALE PRICES

A. INITIAL SALES PRICE

Housing and Redevelopment staff shall provide the developer/owner with the initial sales price for an inclusionary unit. The sales price shall be developed using the following criteria:

For Inclusionary units to be Occupied by a Very Low Income Household:

1. Determine appropriate household size
(number of bedrooms in unit + one person = appropriate household size)
2. Identify very low median income (usually 50% of median) for the appropriate household size (use current income limits as specified in Appendix E)
3. Determine monthly household allowance for housing payment:
 - i. Multiply 30% of very low median income for appropriate household size

- ii. Divide amount by 12 for monthly allowance
4. Determine the maximum sales price that the monthly household allowance for housing payment can support using the following parameters:
 - i. 7.5% fixed interest rate mortgage
 - ii. 30 year mortgage term
 - iii. 10% downpayment
 - iv. estimates of property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

For Inclusionary units to be Occupied by a Low Income Household:

1. Determine appropriate household size
(number of bedrooms in unit + one person = appropriate household size)
2. Identify 70% of median income for the appropriate household size
(use current income limits as specified in Appendix E)
3. Determine monthly household allowance for housing payment:
 - i. Multiply 30% of 70% of median income for appropriate household size
 - ii. Divide amount by 12 for monthly allowance
1. Determine the maximum sales price that the monthly household allowance for housing payment can support using the following parameters:
 - i. 7.5% fixed interest rate mortgage
 - ii. 30 year mortgage term
 - iii. 10% down payment
 - iv. estimates of property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

For Inclusionary units to be Occupied by a Moderate Income Household:

1. Determine appropriate household size

(number of bedrooms in unit + one person = appropriate household size)

2. Identify 110% of median income for the appropriate household size (use current income limits as specified in Appendix E)
3. Determine monthly household allowance for housing payment:
 - i. Multiply 35% of 110% of median income for appropriate household size
 - ii. Divide amount by 12 for monthly allowance
4. Determine the maximum sales price that the monthly household allowance for housing payment can support using the following parameters:
 - i. 7.5% fixed interest rate mortgage
 - ii. 30 year mortgage term
 - iii. 10% down payment
 - iv. estimates of property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land)

B. MAXIMUM RESTRICTED RESALE VALUE/ PRICE FOR INCLUSIONARY UNITS (FOR UNITS WITH AGREEMENTS DATED ON OR AFTER MAY 23, 2003)

Inclusionary owners may refinance, obtain a second mortgage or decide to sell their unit. In those instances, the Housing and Redevelopment Office staff shall determine the appropriate resale value/price by using the following formula:

Resale Value/Price Without a Bedroom Addition:

Staff calculates new resale value/price allowed by:

1. Use original sales price as base figure,
2. Calculate percentage change in median income from original sales date to current date or most recent household income figures,
3. Apply the percentage change figure for median income to original sales price, which is the maximum resale value/price with the following modifications,
4. If unit is in decent condition based upon acceptable documentation, apply home improvement credit in the amount of 10% to original sales price,

5. If unit is not in decent condition based upon acceptable documentation, the 10% credit shall be reduced in an amount sufficient to correct deficiencies,
6. Add the additional home improvement credit amount (from steps 4 and 5) to the maximum resale value derived in step 3.

Check new resale value/price to ensure that loan to value (LTV) does not exceed 100% of new resale value/price. Also check if new resale value/price derived from steps 4-6 exceeds maximum affordability standard. If so, reduce the resale value/price to a value/price that does not exceed the maximum affordability standard. Maximum affordability standards are only used when the home improvement credit or bedroom additions are added to the maximum resale value/price.

Resale Value/Price With a Bedroom Addition:

Staff calculates new resale value/price allowed by:

1. Use original sales price as base figure,
2. Calculate percentage change in median income from original sales date to current date or most recent household income figures,
3. Apply the percentage change figure for median income to original sales price, which is the maximum resale value/price with the following modifications,
4. If unit is in decent condition based upon acceptable documentation, apply home improvement credit in the amount of 10% to original sales price,
5. If unit is not in decent condition based upon acceptable documentation, the 10% credit shall be reduced in an amount sufficient to correct deficiencies,
6. Calculate value of bedroom addition by calculating the change in household size estimate. For example, a bedroom addition to an existing 3-bedroom structure (4 person household size estimate) would result in a 4-bedroom unit and a 5-person household size estimate. The value of the bedroom addition depends on the dollar difference between the median income for a 5-person household as compared to the median income for a 4-person household. Using this dollar amount, estimate the amount of new loan that can be financed with this dollar amount using a 30% for low/very low income and 35% for moderate income housing cost to income ratio.

7. Add the additional home improvement credit amount (from steps 4 and 5) and the bedroom credit (step 6) to the adjusted resale value derived in step 3.
8. Check new resale value/price to ensure that loan to value (LTV) does not exceed 100% of new resale value/price. Also check if new resale value/price derived from steps 4-7 exceeds maximum affordability standard. If so, reduce the resale value/price to a price that does not exceed the maximum affordability standard. Maximum affordability standards are only used when the home improvement credit or bedroom additions are added to the maximum resale value/price.

C. DETERMINATION OF MAXIMUM AFFORDABILITY STANDARDS

(Applicable to resale of existing units with agreements dated on or after May 23, 2003)

For Inclusionary units to be Occupied by a Very Low Income Household:

1. Determine appropriate household size
(number of bedrooms in unit + one person = appropriate household size)
2. Identify very low-income limit (usually 50% of median income) for the appropriate household size (use current income limits as specified in Appendix E).
3. Determine monthly household allowance for housing payment:
 - A. Multiply 30% of 50% of median income for appropriate household size
 - B. Divide amount by 12 for monthly allowance
4. Determine the maximum sales price that the monthly household allowance for housing payment can support using the following parameters:
 - i. 7.5% fixed interest rate mortgage
 - ii. 30 year mortgage term
 - iii. 10% down payment
 - iv. Estimates of property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

For Inclusionary units to be Occupied by a Low Income Household:

1. Determine appropriate household size
(number of bedrooms in unit + one person = appropriate household size)
2. Identify lower income limit (usually 80% of median income) for the appropriate household size (use current income limits as specified in Appendix E)
3. Determine monthly household allowance for housing payment:
4. Multiply 30% of 80% of median income for appropriate household size
5. Divide amount by 12 for monthly allowance
6. Determine the maximum sales price that the monthly household allowance for housing payment can support using the following parameters:
 - i. 7.5% fixed interest rate mortgage
 - ii. 30 year mortgage term
 - iii. 10% downpayment
 - iv. estimates of property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

For Inclusionary units to be Occupied by a Moderate Income Household:

1. Determine appropriate household size
(number of bedrooms in unit + one person = appropriate household size)
2. Identify moderate income limit (usually 120% of median income) for the appropriate household size (use current income limits as specified in Appendix E)
3. Determine monthly household allowance for housing payment:
 - Multiply 35% of 120% of median income for appropriate household size.
 - Divide amount by 12 for monthly allowance

4. Determine the maximum sales price that the monthly household allowance for housing payment can support using the following parameters:
 - i. 7.5% fixed interest rate mortgage
 - ii. 30 year mortgage term
 - iii. 10% downpayment
 - iv. estimates of property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

3. HOMEOWNER INCLUSIONARY UNIT REQUIREMENTS

A. OCCUPANCY REQUIREMENTS

The inclusionary unit shall be the owner's principal place of residence. To be considered as a principal place of residency, the owner shall live in the unit for at least 10 months out of each calendar year. In emergency or hardship situations, the County may approve that the inclusionary owner can rent or lease the inclusionary unit for a short period of time (generally a maximum of one year). All rentals or leases must be pre-approved by the County. The owner must submit a letter to the Housing and Redevelopment Office requesting permission to rent their unit, the reason for the request with appropriate documentation and length of time requested. The unit shall be rented to a qualified tenant household at the same affordability level as specified in the owner agreement. The inclusionary owner may select an income-qualified tenant. An affordable rental cost is defined as rent plus a utility allowance. Affordable rental costs shall not exceed not exceed 30% of 50% of median income (adjusted by bedroom size) for very low-income households, 30% of 60% of median income (adjusted by bedroom size) for low-income households and 30% of 110% of median income for moderate-income households (adjusted by bedroom size). The tenant shall also be income qualified as either a very low, low-income, or moderate-income household.

B. AFFORDABILITY PERIODS

According to the agreement with the County, the inclusionary owner agrees that the resale value of the home is restricted for a period of time. For agreements signed prior to May 23, 2003, the period is typically 30 years from the original purchase date. For agreements signed on or after May 23,

2003_ the period is in perpetuity or the life of the structure if the structure is demolished or abandoned after 55 years.

C. MAINTENANCE AND INSURANCE

The inclusionary unit owner must maintain the home, including landscaping, in decent condition. At the time of resale/refinancing, the owner can receive up to a 10% addition to the original sales price if the unit has been maintained in decent condition. The owner shall maintain a standard all risk property insurance policy equal to the replacement value of the home, naming the County as additional insured.

D. REFINANCING OF FIRST MORTGAGE/SECURING A NEW SECOND MORTGAGE

The inclusionary owner may refinance a first mortgage or secure a second mortgage on the property. The County's lien position shall never be less than 3rd position on the property. The owner must contact the Housing and Redevelopment Office staff prior to refinancing or securing new debt in order to determine a current property value (resale value). The staff procedures for responding to refinancing/resale request are specified in Appendix F of this document.

E. TITLE CHANGES AND PROPERTY INHERITANCE

In certain instances, the inclusionary owner may modify the title on the property. One example is adding or deleting a spouse from title due to marriage, divorce or death. However, in all cases, the owner must contact the Housing and Redevelopment Office prior to the transfer. If the owner dies and there is no surviving owner and a child or stepchild of the owner inherits the property, the child/step-child shall provide the Housing and Redevelopment Office with information regarding income. If verified as income and asset eligible, he or she shall succeed to the Owner's interest and obligations under the original agreement. If the child or stepchild inheriting the property is not income eligible or has assets that exceed the maximum allowed or decides to sell the property, it must be sold to another eligible inclusionary applicant for the appropriate restricted resale price. However, the inheriting owner may own and occupy the unit until 12 months after the owner's death before offering the unit for sale and providing an Owner's Notice of Intent to Sell.

F. DEFAULT AND FORECLOSURE

If an owner violates the terms of the original "Buyers Occupancy and Resale Restriction" agreement, the owner can be found to be in default of the agreement. Further, if the inclusionary property goes into foreclosure, the County (pursuant to a subordination agreement with the first mortgage

lender) shall have the same rights as the owner to cure the defaults and prevent foreclosure of the home.

IV. Rental Inclusionary Unit Requirements

1. ELIGIBILITY CRITERIA

A. INCOME

Households eligible for rental of inclusionary units shall be of very low, low or moderate income. Household income limits are determined annually by HCD/HUD and are based on household size. See Appendix E of this document for the current income limits for very low, low and moderate-income households. The definition of income is listed in Appendix D of this document. The County or its designee will initially verify the household income of tenants of inclusionary rental units. Subsequent annual certifications of income shall be the responsibility of the owner/manager of the rental units.

B. ASSETS

There is a maximum asset test for initial renter eligibility of inclusionary units. The County or its designee will verify the assets. See Appendix D of this document for a description of maximum assets and definitions of assets.

C. LIVE/WORK IN MONTEREY COUNTY

Households who live or work in Monterey County shall have priority in the rental of inclusionary units. In selection of tenants, property owners and/or managers shall give preference to households who live or work in Monterey County.

2. RENT SCHEDULES

A. INITIAL RENTS

The Housing and Redevelopment Office staff shall determine initial rents. The inclusionary units shall be rented at affordable housing costs. An affordable rental housing cost is defined as rent plus a utility allowance as developed by the Housing Authority of the County of Monterey. Affordable housing costs shall not exceed 30% of very low-income limits (usually 50% of median income, adjusted by bedroom size) for very low-income households, 30% of 60% of median income (adjusted by bedroom size) for low-income households and 30% of 110% of median income for moderate-income households (adjusted by bedroom size).

B. ANNUAL RENT CHANGES

The Housing and Redevelopment Office shall notify property owners and/or property management companies of changes in the affordable rental housing cost annually upon receipt of revised income limits from HUD. At no time shall the new affordable rental housing cost be adjusted to less than the initial rent at the time the Master Inclusionary Developer Agreement was executed.

3. RENTAL INCLUSIONARY UNIT REQUIREMENTS

A. HOUSEHOLD SIZE AND OCCUPANCY

Upon initial occupancy, eligible households must have a household size appropriate for the rental unit. An appropriate household size is defined as two persons per bedroom plus two persons.

B. LEASE REQUIREMENTS

All tenants must be provided with a lease that has a minimum period of 12 months. The lease must comply with all applicable federal and state laws. The lease shall include provisions that specify the maximum household size allowed in the unit and requirements that the unit be maintained in a decent and safe condition. Further, the lease must include requirements that prohibit subleasing, require the tenant to report any changes in household size or income during their tenancy, and further specify that the tenant must comply with all monitoring requests of the Housing and Redevelopment Office or their designee.

C. CHANGES IN HOUSEHOLD SIZE OR INCOME DURING TENANCY

If the tenant's household income increases above the maximum allowed for very low, low or moderate-income households, the tenant may choose to remain in the inclusionary unit. However, the tenant would have a revised affordable rental housing cost based on their new income category. For example, a very low-income tenant whose income increases and is now a low-income tenant would have a new affordable rental cost based on affordable rents for a low-income unit. A low-income tenant whose income increases such that the household is now a moderate-income tenant would have a new rental cost based on a moderate-income unit. A previous very low, low or moderate income tenant whose income increases above the maximum moderate income limit would have a rental cost that would be the lesser of: a) thirty percent (30%) of the actual household income of the tenant; or b) market rate rent.

V. Monitoring and Compliance Procedures

1. PROJECT MONITORING AND COMPLIANCE

A. MONITORING PROCEDURES: RENTAL PROPERTIES

General Policies:

Rental projects developed under the Inclusionary Program are monitored every two years to determine compliance with the terms of the Regulatory Agreement recorded against the property. The areas to be included in the monitoring process include tenant incomes and rents, payment of property taxes and hazard insurance and review of the terms of the leases.

An annual certification of ownership is required. The rent schedule for the Inclusionary Program will be provided to the owner with the certification request.

Procedures:

1. A Monitoring Review Form is initiated for each project. The terms of the Inclusionary Agreement are verified and the rent and occupancy limits are noted on the form.
2. Initial letters are mailed to property owners requesting completion of certifications regarding non-discrimination policies, names and incomes of tenants and the household size, rents charged, and ownership status. Copies of Income Guidelines and Rent Schedules appropriate for the development will be included in the mailing. The owner is instructed to give the tenants a form entitled Tenant Income Verification for completion. These forms are to be returned along with documentation of hazard insurance and copies of current leases.
3. Second Notices are sent by certified mail if the property owner does not respond within fourteen business days.
4. Correspondence will be sent by the sheriffs office, process server, delivery service or hand delivered to the address by a staff member if the property owner fails to respond to the second notice or if mail has been refused or returned as undeliverable. Owners who fail to respond within seven business days will be referred to County Counsel for further action.
5. Assessors Office records will be reviewed to verify current ownership and mailing addresses where appropriate.
6. Failure to cooperate with the monitoring review process will be considered a breach of the Inclusionary Agreement and the

Regulatory Agreement. County Counsel will be notified of any such breach in order that legal remedies may be initiated.

7. The income guidelines of the Section 8 Program are utilized by Housing and Redevelopment staff for the monitoring review.
8. Staff will review information provided by the owner and tenants to determine compliance with the Inclusionary Agreement and Regulatory Agreement as it pertains to allowable rents, number of restricted units, current income of tenants and any further restrictions on occupancy specified in the Agreement.
9. The review of rent affordability will include the standards set forth in the Inclusionary Agreement for each individual project.
10. Leases are reviewed to determine if non-discrimination policies and prohibitions against subletting are included.
11. If there are discrepancies between the statements of the owner and tenant, additional documentation will be requested.
12. Payment of hazard insurance in an amount sufficient to replace the structures shall be verified.
13. A letter will be issued to the property owner addressing any compliance issues. The letter will specify a corrective action deadline. In general, a 30-day period will be adequate.
14. When a property has changed ownership without notice to the County and this information becomes known at the time of the monitoring review, staff will schedule an appointment with the new owner to discuss the provisions of the Inclusionary Agreement. Current Rent Schedules and Income Guidelines will be provided.
15. The Monitoring Review Form will be completed. The Inclusionary Housing database will be updated to reflect compliance or non-compliance.
16. Other County offices may be alerted when the monitoring review reveals code violation or dangerous situations.
17. Every effort will be made to provide owners and tenants with the appropriate information to ensure a successful monitoring resulting in full compliance with the Inclusionary Housing Program. However, referrals will be made to County Counsel because of failure to cooperate or non-compliance.

B. MONITORING PROCEDURES: FOR SALE UNITS**General Policies:**

It is the policy of the County of Monterey to monitor compliance with the terms and conditions of the Inclusionary Housing Agreement recorded against for-sale units developed under the Inclusionary Housing Program.

Annual Monitoring will include the owner occupancy requirement and prohibitions against rental of the dwelling. The review will provide owners with an opportunity to become familiar with the guidelines of the Inclusionary Housing Program and any changes in adopted policies and procedures.

Monitoring Procedures:

1. Initial letters are mailed to property owners requesting completion of a certification of owner-occupancy and documentation in the form of a utility bill with the name and address shown.
2. Second notices are sent by certified mail if the property owner does not respond within fourteen business days.
3. Correspondence will be sent by the sheriff's office, process server, delivery service or hand delivered by staff when the owner fails to respond to the second notice.
4. Assessors Office records will be reviewed to verify current homeowner's exemption, possible change in ownership and mailing addresses where appropriate.
5. If a property has changed ownership without notice to the County and this information becomes known at the time of the monitoring review, staff will schedule an appointment with the new owner to discuss the provisions of the Inclusionary Housing Agreement. Areas of concern will include review of the buyers' ability to meet standard program eligibility requirements, purchase price and continued participation in the program. County Counsel will be notified of any non-compliance issues in order that appropriate legal remedies can be implemented.
6. Where the review raises compliance concerns, the owner will receive written notice of the compliance issue. In general, a 30-day corrective action period will be given.
7. Other County offices may be alerted when the monitoring review reveals code violations or dangerous situations.
8. Every effort will be made to provide owners with the information needed to complete the monitoring review and maintain

compliance with the Inclusionary Housing Agreement. However, referrals will be made to County Counsel when appropriate because of non-compliance. Legal remedies specified in the Agreement or otherwise allowed under County Code or State and Federal law will be implemented

2. PROGRAM MONITORING

A. ANNUAL REPORT

As part of the Annual Report prepared each year by the Housing and Redevelopment Office, there will be a brief summary of the accomplishments and challenges of the Inclusionary Housing Program for the previous year.

B. FIVE YEAR REPORT

At least every five years beginning in 2007, the Housing and Redevelopment Office will prepare a complete evaluation of the Inclusionary Housing Program. This evaluation will include a summary of housing units produced, households assisted, In-Lieu Fees collected and the use of those fees, recommendations for policy or Ordinance revisions, etc. The public will be asked to comment on the report either prior to or during its preparation and the final report will be presented to all appropriate review bodies.

VI. Other

1. EXEMPTIONS TO ORDINANCE

There are exemptions from the Ordinance for developments such as farmworker housing, mobile home park developments and other specific development situations (Section 18.40.050).

In addition, in situations where the party subject to a fully executed inclusionary housing agreement, or other document regulating or limiting the operation, price or rent of an inclusionary unit, believes that the document requires modification as a result of unusual circumstances which could not have been foreseen at the time the document was entered into, the affected party may apply to the County Board of Supervisors for modification of the document. (Section 18.40.100 D).

2. POLICIES FOR AMENDMENTS TO AGREEMENTS

(For Agreements executed prior to the Adoption of the 2003 Inclusionary Housing Ordinance)

An Inclusionary Buyers Agreement executed prior to the adoption of the 2003 Ordinance may be amended to include new provisions of the 2003 Ordinance. Amendments may include allowing the existing inclusionary homeowner to refinance their unit with cash out and provide for bedroom additions with the total amount of encumbrances not to exceed 100% of value. However, the terms of their original agreement will prevail in all other areas including resale value calculations and affordability periods (except as noted below).

3. AFFORDABILITY PERIOD REQUIREMENTS FOR EXISTING INCLUSIONARY UNITS

Inheritance of inclusionary unit by Income Eligible Heir

When an income eligible heir inherits an inclusionary unit, the new Buyers Agreement shall include an affordability period that shall be based on the affordability period in effect at the time the original owner died.

Sale of an Existing inclusionary unit During Affordability Period

If an inclusionary homeowner decides to sell their unit during the affordability period in effect according to the terms of their Buyers Agreement, the unit shall be sold to another qualified inclusionary buyer according to the procedures outlined in this manual. However, the new Buyers Agreement shall specify a new affordability period as defined in the Inclusionary Housing Ordinance in effect at the time the unit is sold.

VII. APPENDICES

APPENDIX A. HOMEOWNER FACT SHEET

On the following page is a sample fact sheet that explains the Inclusionary Housing Program for a prospective homeowner. This fact sheet should be provided to potential applicants when they inquire about the program. This fact sheet should be available in both English and Spanish.

**INCLUSIONARY HOUSING PROGRAM
INFORMATION FOR POTENTIAL INCLUSIONARY HOMEOWNERS**

1. What is the Inclusionary Housing Program?

The County of Monterey requires that 20% of all newly constructed units must be affordable to very low, low and moderate-income households. Developers must agree to sell 20% of their units at an affordable price to a very low, low or moderate-income household.

2. What is an Affordable Price?

The County of Monterey calculates affordable sales prices annually. The calculation is based on median household incomes for Monterey County and the assumption that no more than 30-35% of an average household's income should be spent for housing costs.

3. How Can I Buy an Inclusionary Housing Unit?

The County maintains an eligibility list for prospective inclusionary homeowners. Generally, a household can qualify if it has a household income that is below the maximum limits for low or moderate-income. Priorities are given to households who have members that live or work in Monterey County. Contact the phone number listed on the bottom of this sheet for more information about household income limits or being placed on the eligibility list.

4. What are my Responsibilities if I Buy an Inclusionary Housing Unit?

In return for the opportunity to purchase a home at an affordable price, the County requires the following while you own the home:

- Maintain property insurance on the home,
- Keep your home (including landscaping) in decent condition,
- Live in the home as your primary residence (in an emergency situation, you can rent your home to another low/moderate income household BUT you must obtain the County's permission prior to renting it),
- When you sell your home, you must sell it for the price determined by the County. You also must sell it to another eligible inclusionary homeowner. The RESALE PRICE is restricted and determined by the County – **it is likely that the resale price will be less than other similar properties that are not inclusionary housing units**, and
- You must co-operate with any monitoring requests during the time you live in the home (such as verification that you are using the home as your primary residence or verification that you are maintaining your property insurance).

**FOR FURTHER INFORMATION:
County of Monterey
Office of Housing and Redevelopment
(831) 786-1350**

APPENDIX B. DEVELOPER FACT SHEET

On the following page is a sample fact sheet that explains the Inclusionary Housing Program for a prospective developer of inclusionary housing units.

**INCLUSIONARY HOUSING PROGRAM
INFORMATION FOR POTENTIAL DEVELOPERS OF INCLUSIONARY UNITS**

1. What is the Inclusionary Housing Program?

The County of Monterey requires that 20% of all developments of 3 or more units must be affordable to very low, low and moderate-income households. Developments of 3-4 units can pay an In-Lieu Fee instead of constructing a unit. Developments of 5 or more units are expected to construct Inclusionary housing units.

2. How Many inclusionary Units Will I Have to Provide?

The 20% Inclusionary Requirement includes the following:

*6% affordable to very low-income households,
6% affordable to low-income households, and
8% affordable to moderate-income-households.*

Depending on the size of the development you are proposing, you will be required to provide inclusionary units that are affordable to different household income levels.

3. Who Determines the Sales Price (or Rent) for the Inclusionary units?

Staff at the County of Monterey, Office of Housing and Redevelopment, will be able to provide you with affordable sales prices or rents for the inclusionary units. The sales prices/rents are based on a formula using median household incomes for Monterey County.

4. Who Can Buy or Rent an Inclusionary Unit from Me?

Homeowner Units: The County maintains a list of prospective inclusionary homebuyers. When your inclusionary unit is ready to be sold, the County will provide you with the names of several prospective homebuyers. You must sell the unit to an eligible inclusionary household at the affordable sales price provided by the County.

Rental Units: You must rent the inclusionary rental unit to a household that is qualified by the County (or its designee) as being very low, lower or moderate income. You can select the tenant assuming you follow all fair housing laws and marketing/selection requirements specified by the County.

5. What Are My Responsibilities Once I Sell/Rent the Inclusionary Unit?

Homeowner Units: Once your unit is sold to an eligible inclusionary homeowner, you have no further responsibilities.

Rental Units: Rental units must continue to remain affordable and occupied by eligible households in perpetuity. Property owners must agree to these restrictions and must agree to cooperate with all monitoring requests by the County.

**FOR FURTHER INFORMATION:
County of Monterey
Office of Housing and Redevelopment
(831) 786-1350**

APPENDIX C. DEVELOPER PROCEDURES**INCLUSIONARY HOUSING PROGRAM DEVELOPMENT REVIEW PROCESS**

1. Planning and Building Inspection (PBI) receives an application for development of a residential project (i.e., subdivision or use permit).
2. If the project will result in three or more new units PBI sends a referral package to the Housing office.
3. The Housing office reviews the application to determine the Inclusionary Housing requirements.
4. The Housing office notifies the assigned planner of the requirements and requests additional information as necessary. If the project involves on-site compliance the applicant will likely be asked to submit additional information about the proposed inclusionary units (design and location) to ensure that the CEQA review includes enough detail.
5. The Housing office prepares a draft memo to the approving body that provides a recommendation pertaining to the inclusionary Housing requirements, draft Inclusionary Housing Agreement, and condition of approval for inclusion in the project approval packet.
6. The draft staff report prepared by the project planner for the project is reviewed by the Housing office prior to hearing to ensure that the conditions and draft findings of approval pertaining to Inclusionary Housing are acceptable.
7. The approving body is not required to approve but may consider the Inclusionary Housing Agreement as part of its approval of the project and can require that the approved Inclusionary Housing Agreement be recorded prior to the recordation of the Final Map or issuance of building permits.
8. The Inclusionary Housing Agreement and supporting documents are executed by the applicant and the Housing Office and recorded.
9. The Housing office “clears” the Inclusionary Housing conditions of approval by sending a memo to the project planner along with supporting documents.

APPENDIX D. INCOME AND ASSET DEFINITIONS

The following definitions shall be used in determining applicant eligibility for the County's Inclusionary Housing Program. To be eligible for the program, applicants must meet both the income and the asset limitations.

1. INCOME

Maximum Income Limitation

Households occupying inclusionary units shall have incomes that are very low, low and moderate-income, as specified by the contractual agreement for the residential development in which they are located. The definition of very low, low (lower) and moderate-income shall be the same as provided by HCD/HUD and the State of California annually for the Monterey County area. See Appendix E of this document for the current income limits.

2. DEFINITION OF INCOME

The definition of income shall be the same as the federal definition found in 24 CFR Part 5 (commonly known as the "Section 8" definition). As specified in 24 CFR Part 5, the income derived from any assets shall be included in the income calculation. *The only exception to this is when a homeowner applicant is using any of their assets to pay for down payment or closing costs to purchase the inclusionary unit. In that case, the potential "income" from those assets shall not be calculated.* The value of the asset itself, however, is still counted under the asset limitation test below.

3. ASSETS

Maximum Asset Limitation

Homeowners:

The maximum asset limitation is the total of the following for homeowner households:

1. 30% of the purchase price
2. 25% of current median income
3. 6 months of living expenses based on household size

Renters:

Upon initial occupancy, households who are applying for a rental inclusionary unit cannot have assets that exceed \$30,000 for non-elderly households and \$75,000 for elderly households.

Definition of Assets

Assets used to determine the maximum asset limitation allowed are defined in the following table. Any assets disposed of within 12 months prior to applying for an inclusionary unit shall also be included in the calculation of maximum assets. However, exceptions to this may be made in circumstances where assets were disposed of in order to pay medical, legal or other necessary expenses. The Housing and Redevelopment Manager shall approve all such exceptions.

Assets to be Included in Maximum Asset Limitation	Assets to be Excluded in Maximum Asset Limitation
<ol style="list-style-type: none"> 1. Cash held in savings accounts, checking accounts, safe deposit boxes, homes, etc. For savings accounts, use the current balance. For checking accounts, use the average 12 month balance 2. Cash value of trusts available to the applicant. 3. Equity in real estate or other capital investments. Equity is the estimated current market value of the asset less the unpaid balance on all loans secured by the asset and all reasonable costs that would be incurred in selling the unit. 4. Cash value of stocks, bonds, Treasury bills, certificates of deposit and money market accounts. 5. Lump sum or one-time receipts, such as inheritances, lottery winnings, insurance settlements, etc. 6. Personal property held as an investment such as gems, jewelry, coin collections, etc. 7. Mortgages or deeds of trusts held by the applicant. 	<ol style="list-style-type: none"> 1. Necessary personal property except as noted in #6 of the "included" assets. Necessary personal property includes household goods and reasonable transportation. 2. The current value of individual retirement and Keogh accounts. (Any income currently being received from such accounts however shall be considered as "income" in the income calculations.) 3. Cash value of life insurance policies available to the individual before death. 4. Assets that are part of an active business. "Business" does not include rental property that is held as an investment and not a main occupation. 5. In the case of an inheritance of an inclusionary property, the equity in the inclusionary property shall not be counted as an asset in determining whether the party who inherits the property is income/asset eligible.

APPENDIX E. INCOME LIMITS (UPDATE ANNUALLY)

The following income limits shall be updated annually, based on information provided by the U.S. Department of Housing and Urban Development (HUD) or the State of California, Department of Housing and Community (HCD) Development.

**2004 Household Maximum Income Limits,
County of Monterey (Update Annually)**

INCOME CATEGORY	1 PERSON	2 PERSONS	3 PERSONS	4 PERSONS	5 PERSONS	6 PERSONS
Very Low (0-50% of median income)	\$21,300	\$24,300	\$27,350	\$30,400	\$32,850	\$35,250
Low/Lower (51-80% of median income)	\$34,050	\$38,900	\$43,800	\$48,650	\$52,550	\$56,400
Moderate (81-120% of median income)	\$51,050	\$58,350	\$65,650	\$72,950	\$78,800	\$84,650

**APPENDIX F. INITIAL SALES PRICE, REFINANCING AND RESALE STAFF
PROCEDURES**

1. CRITERIA FOR DETERMINING INITIAL SALES PRICE

Very Low Income Units:

- *Housing Cost to Income Ratio:* 30% of 50% of area wide median income or the maximum income for a very low income household, adjusted for bedroom and household size
- *Interest Rate and Term:* 7.5% Interest, 30 Year Term
- *Down Payment:* 10% of Sales Price
- *Estimates of:* property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land)

Low/Lower Income Units

- *Housing Cost to Income Ratio:* 30% of 70% of area wide median income, adjusted for bedroom and household size
- *Interest Rate and Term:* 7.5% Interest, 30 Year Term
- *Down Payment:* 10% of Sales Price
- *Estimates of:* property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

Moderate income Units:

- *Housing Cost to Income Ratio:* 35% of 110% of areawide median income, adjusted for bedroom and household size
- *Interest Rate and Term:* 7.5% Interest, 30 Year Term
- *Down Payment:* 10% of Sales Price
- *Estimates of:* property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

INITIAL SALES PRICES FOR INCLUSIONARY UNITS CHART (Update Annually)**2004 Initial Sales Prices for Inclusionary Units, County of Monterey**

HOUSEHOLD INCOME LEVEL	SALES PRICE OF A 1 BEDROOM UNIT	SALES PRICE OF A 2 BEDROOM UNIT	SALES PRICE OF A 3 BEDROOM UNIT	SALES PRICE OF A 4 BEDROOM UNIT	SALES PRICE OF A 5 BEDROOM UNIT
Very Low Income (50%)	\$83,300	\$93,754	\$104,211	\$112,609	\$120,836
Low/Lower Income (70%)	\$116,723	\$131,292	\$145,861	\$157,515	\$169,169
Moderate Income (110%)	\$213,964	\$240,759	\$267,554	\$288,895	\$310,347

2. CRITERIA FOR DETERMINING RESALE/REFINANCING VALUES

These procedures are used when an inclusionary housing owner decides to sell their property, refinance an existing mortgage or add a second deed of trust, during the period of affordability.

A. Calculating Resale/Refinancing Value Without a Bedroom Addition

1. Property Owner notifies County that they wish to sell, refinance or add a second deed of trust to their property.
2. Staff calculates new resale/refinancing value by:
 - a. Use original sales price as base figure,
 - b. Calculate percentage change in median income from original sales date to current date or most recent household income figures,
 - c. Apply the percentage change figure for median income to original sales price, which is the maximum resale value/price with the following modifications,
 - d. If unit is in decent condition based upon acceptable documentation, apply home improvement credit in the amount of 10% to original sales price,
 - e. If unit is not in decent condition based upon acceptable documentation, the 10% credit shall be reduced in an amount sufficient to correct deficiencies,
 - f. Add the additional home improvement credit amount (from steps “d” or “e”) to the maximum resale value derived in step c. This is the new resale value/price as modified by home improvement credits.
3. Check new resale value/price to ensure that loan to value (including existing and proposed new loans) does not exceed 100% of resale value/price. Also check if new resale value/price derived from steps a-f above exceeds maximum affordability standard. If so, reduce the resale value/price to a value/price that does not exceed the maximum affordability standard.
4. Staff notifies property owner and lender (if appropriate) of new resale/refinancing value and, if applicable, amount of new encumbrance allowed (for refinancing/second deeds of trust).
5. If needed, Housing and Redevelopment Program Manager or designee shall execute agreement to subordinate County’s interest

to the first or second loan holder. The agreement shall include provisions for notice of default and cure rights for the County.

6. If owner takes cash out from the refinancing, staff prepares amendment to existing Resale Restriction Agreement, which will allow property owner to refinance or add additional second deed of trust. Staff sends amendment to property owner for their signature. Staff will verify whether cash is taken out from Estimated Closing Statement from Lender/Title Company. If no cash is taken out, no amendment is required.
7. Upon receiving signed amendment from property owner, staff arranges to have appropriate County representative sign amendment and then records amendment.
8. Staff files recorded agreement in property owner's file and ensures that the file reflects new refinancing/second deed of trust information. Staff obtains final closing statement at close of escrow. Staff also records request for notice of default.

B. Calculating Refinancing Value With a Bedroom Addition

1. Property Owner notifies County that they wish to refinance or add a second deed of trust to their property and are planning on a bedroom addition.
2. Staff calculates new resale value and amount of new encumbrance allowed by:
 - a. Use original sales price as base figure,
 - b. Calculate percentage change in median income from original sales date to current date or most recent household income figures,
 - c. Apply the percentage change figure for median income to original sales price, which is the maximum resale value/price with the following modifications,
 - d. If unit is in decent condition based upon acceptable documentation, apply home improvement credit in the amount of 10% to original sales price,
 - e. If unit is not in decent condition based upon acceptable documentation, the 10% credit shall be reduced in an amount sufficient to correct deficiencies,
 - f. Add the additional home improvement credit amount (from steps "d" or "e") to the maximum resale value derived in step c. This is the new resale value/price as modified by home improvement credits.

3. Calculate value of bedroom addition by calculating the change in household size estimate. For example, a bedroom addition to an existing 3-bedroom structure (4 person household size estimate) would result in a 4-bedroom unit and a 5-person household size estimate. The value of the bedroom addition depends on the dollar difference between the median income for a 5-person household as compared to the median income for a 4-person household. Using this dollar amount, estimate the amount of new loan that can be financed with this dollar amount using a 30% for low/very low income and 35% for moderate income housing cost to income ratio and the inclusionary underwriting standards.
4. Add the value of the bedroom credit (step 3) to the maximum resale value derived in step 2 (f).
5. Check new resale value/price from step 4 to ensure that loan to value (including existing and proposed new loans) does not exceed 100% of new resale value/price as derived in step 4. Also check if new resale value/price derived from step 4 exceeds maximum affordability standard. If so, reduce the resale value/price to a price that does not exceed the maximum affordability standard.
6. Staff notifies property owner and lender (if appropriate) of new resale value and amount of new encumbrance allowed (including bedroom addition allowance as calculated in step 2 (e) above).
7. If needed, Housing and Redevelopment Program Manager or designee shall execute agreement to subordinate County's interest to the first or second loan holder. The agreement shall include provisions for notice of default and cure rights for the County.
8. If owner wants to take cash out from the refinancing, staff prepares amendment to existing Resale Restriction Agreement, which will allow property owner to refinance existing debt or add additional second deed of trust. Staff sends amendment to property owner for their signature. Staff will verify whether cash is taken out from Estimated Closing Statement from Lender/Title Company. If no cash out, no amendment is required.
9. Upon receiving signed amendment from property owner, staff arranges to have appropriate County representative sign amendment and then records amendment.
10. Staff files recorded agreement in property owner's file and ensures that the file reflects new refinancing/second deed of trust information.
11. Staff verifies that property owner has the appropriate building permit for the new bedroom addition.

12. Staff instructs lender or other appropriate body to open escrow account for bedroom addition amount with joint signatures for releasing funds required of both property owner and County. If bedroom addition is not completed within a reasonable time frame, staff will instruct that the funds in escrow be paid back to the lender.
13. Upon notice from property owner, staff inspects property and approves release of funds for bedroom addition as appropriate during the construction process. Staff obtains final closing statement at close of escrow. Staff records request for notice of default.

Bedroom Addition Calculation

Calculate the value of bedroom addition by calculating the change in household size estimate. For example, a bedroom addition to an original 3-bedroom structure (4 person household size estimate) would result in a 4-bedroom unit and a 5-person household size estimate. The value of the bedroom addition depends on the dollar difference between the median income for a 5-person household as compared to the median income for a 4-person household. Using this dollar amount, estimate the amount of new loan that can be financed with this dollar amount using a 30% for low/very low income and 35% for moderate income housing cost to income ratio and the County’s typical underwriting standards.

2004 Bedroom Addition Values, County of Monterey (Update Annually)

HOUSEHOLD INCOME LEVEL	ORIGINAL 1 BEDROOM UNIT	ORIGINAL 2 BEDROOM UNIT	ORIGINAL 3 BEDROOM UNIT	ORIGINAL 4 BEDROOM UNIT
Very Low Income	\$10,900	\$10,900	\$8,760	\$8,760
Low Income (70%)	\$15,190	\$15,190	\$12,150	\$12,150
Moderate Income (110%)	\$27,950	\$27,950	\$22,320	\$22,320

Example of Calculating Resale/Refinancing Value of Bedroom Addition

1. CALCULATE RESALE/REFINANCING VALUE

Assumptions:

- Originally, unit was a 3 bedroom, 2 bath single family unit (moderate income)
- Initial Sales Price was \$150,000 in 1995
- In 2003, the owners wanted to add a 4th bedroom

Calculation:

\$150,000	Initial Sales Price
+ 34,110	22.74% change in median _income, 1995-2003
<u>184,110</u>	Maximum resale/refinancing value with following modifications:
+ 15,000	10% of initial sales price “credit” for improvements and/or maintenance
+ 18,768	bedroom addition value (from chart)
\$217,878	Modified Resale/Refinancing Value

**2. CHECK MODIFIED MAXIMUM RESALE/REFINANCING VALUE
AGAINST MAXIMUM AFFORDABILITY STANDARD**

*2003 Maximum Affordability Standard (see next section for more information
on Maximum Affordability Standards)*

4 Bedroom, Moderate Income	\$295,107
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<i>2003 Resale/Refinancing Value of Unit</i>	\$217,878
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Resale/Refinancing Value is less than Maximum Affordability Standard and
can therefore be used as the inclusionary unit’s Resale/Refinancing Value.

3. CRITERIA FOR DETERMINING MAXIMUM AFFORDABILITY STANDARD

When inclusionary units are sold, refinanced or request a bedroom addition, staff needs to ensure that the resale price/value of the unit does not exceed the maximum affordability standard. This standard is the maximum allowable price or value for the inclusionary unit. The critical difference between the maximum affordability standard and the criteria used for sales price and bedroom addition determination is that: low/lower income limits are set at 80% of median instead of 70% and moderate income limits are set at 120% instead of 110%. Very Low Income limits remain the same at approximately 50% of median income. The higher income limits for low/lower and moderate-income allow for some flexibility for inclusionary units that may have been priced incorrectly in the beginning years of the program and would experience substantial negative equity if 70%/110% income standards were imposed. Therefore, the 80%/120% limits provide slightly more flexibility in maximum sales prices while still retaining the affordability of the units to the next purchaser.

CRITERIA TO BE USED IN DETERMINING MAXIMUM AFFORDABILITY STANDARDS:

Very Low Income Units:

- *Housing Cost to Income Ratio:* 30% of very low income limit (usually 50% of area wide median income), adjusted for bedroom and household size
- *Interest Rate and Term:* 7.5% Interest, 30 Year Term
- *Down Payment:* 10% of Sales Price
- *Estimates of:* property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

Low/Lower Income Units:

- *Housing Cost to Income Ratio:* 30% of lower income limit (usually 80% of area wide median income), adjusted for bedroom and household size
- *Interest Rate and Term:* 7.5% Interest, 30 Year Term
- *Down Payment:* 10% of Sales Price
- *Estimates of:* property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs,

homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

Moderate Income Units:

- *Housing Cost to Income Ratio:* 35% of moderate income limit (usually 120% of areawide median income), adjusted for bedroom and household size
- *Interest Rate and Term:* 7.5% Interest, 30 Year Term
- *Down Payment:* 10% of Sales Price
- *Estimates of:* property taxes, assessments, loan insurance and financing fees, allowance for property maintenance and repairs, homeowners insurance, homeowner association dues, allowance for utilities and land rent (if home is on rented land).

2004 Maximum Affordability Standard for Inclusionary Units, County of Monterey (Update Annually)

HOUSEHOLD INCOME LEVEL	MAXIMUM AFFORDABILITY STANDARD OF A 1 BEDROOM UNIT	MAXIMUM AFFORDABILITY STANDARD OF A 2 BEDROOM UNIT	MAXIMUM AFFORDABILITY STANDARD OF A 3 BEDROOM UNIT	MAXIMUM AFFORDABILITY STANDARD OF A 4 BEDROOM UNIT
Very Low Income (50%)	\$83,300	\$93,754	\$104,211	\$112,609
Low Income (80%)	\$133,348	\$150,145	\$166,771	\$180,142
Moderate Income (120%)	\$233,336	\$262,545	\$291,750	\$315,146

APPENDIX G. IN LIEU FEE AND IN-LIEU FEE PAYMENT PROCESS

1. 2003 In-Lieu Fee Calculation (Update Annually)

The calculation below is based on the following assumptions:

- Average construction and amenities for a single-family, 3 bedroom unit,
- Construction and development costs of \$182/square foot, including \$125/square foot for hard costs and \$57/square foot for soft costs,
- Average housing unit size of 1500 square feet,
- Average land costs represent 50% of total development cost for Greater Monterey and Coast Planning Areas and 30% of total development cost for all other areas of Monterey County, and
- Affordable sales price is calculated for a 4-person household at 100% of median income.

Greater Monterey and Coast Planning Areas:

Construction and Development Costs (1500 sq.ft. @ \$182/sq.ft.)	= \$ 273,000
Land Costs (50% of Total Development Cost)	= \$ 273,000
TOTAL DEVELOPMENT COST	= \$ 546,000

All Other Areas of the County:

Construction and Development Costs (1500 sq.ft. @ \$182/sq.ft.)	= \$ 273,000
Land Costs (30% of Total Development Cost)	= \$ 117,000
TOTAL DEVELOPMENT COST	= \$ 390,000

2003 IN-LIEU FEE (UPDATE ANNUALLY) *

	GREATER MONTEREY AND COAST PLANNING AREAS	ALL OTHER AREAS OF THE COUNTY
AVERAGE TOTAL DEVELOPMENT COST	\$546,000	\$390,000
AFFORDABLE SALES PRICE (4 PERSON HOUSEHOLD AT 100% OF MEDIAN INCOME)	\$206,364	\$206,364
IN-LIEU FEE*	\$339,636 <i>or \$67,927 per unit</i>	\$183,636 <i>or \$36,727 per unit</i>

**Total In-Lieu Fee for a 5-unit development.*

2. Process for Payment of In-Lieu Fee

A. For developments that pay only an In-Lieu Fee (i.e. development does not include the provision of inclusionary units):

Conditions of Approval for the development will include the In-Lieu Fee amount. The In-Lieu Fee would then be paid in full to the County prior to recordation of parcel or final maps of the development that created the In-Lieu Fee requirement, or where the residential development is not subject to subdivision approval, prior to issuance of the first building permit for the development.

B. For developments that include both inclusionary units and payment of In-Lieu Fees:

See flow chart on next page.

IN-LIEU FEE PAYMENT PROCESS

(For Developments that include both inclusionary units and Payment of In-Lieu Fees)

FIRST APPROVAL OF A RESIDENTIAL DEVELOPMENT



1. Conditions of approval specify the In-Lieu Fee obligation and states that the fee shall be calculated based on the In-Lieu Fee in effect at the time the application is deemed complete for a subdivision/use permit or at the time of the first building permit issuance, if there is no subdivision.

FINAL MAP STAGE/BUILDING PERMITS



1. Prior to recordation of parcel map or final map, Developer and County sign Master Inclusionary Developer Agreement.
2. In-Lieu Fee is paid prior to recordation of Final Map, or if no map, prior to issuance of first Building Permit, as specified in the Master Inclusionary Developer Agreement.

APPENDIX H. MAXIMUM RENTS AND UTILITY ALLOWANCE TABLES**2004 Maximum Rents (Includes Utility Allowances)**

	STUDIO	1 BEDROOM	2 BEDROOM	3 BEDROOM	4 BEDROOM	5 BEDROOM
Very Low (50%)	\$533	\$608	\$684	\$760	\$821	\$881
Low/Lower (60%)	\$639	\$730	\$821	\$912	\$985	\$1,058
Low/Lower (70%)*	\$745	\$851	\$957	\$1,064	\$1,149	\$1,234
Low/Lower (80%)*	\$851	\$972	\$1,095	\$1,216	\$1,314	\$1,410
Moderate (110%)	\$1,170	\$1,337	\$1,505	\$1,673	\$1,806	\$1,940

** 70% and 80% rents are only to be used for units with agreements approved prior to April 22, 2003.*

Instructions for Calculating Rents:

1. Use household size of 1 person per bedroom plus 1 person (e.g. the rent for a 2 bedroom unit would be based on the median income for a 3 person household).
2. Use 30% of household income as the maximum rent allowed.
3. The maximum rent includes a utility allowance. Therefore, the rent that the tenant pays to the landlord is the maximum rent less the utility allowance.
4. Rents are based on 50%, 60% and 110% of median income. However, eligibility for the units is based on 50%, 80% and 120% of median income, adjusted for household size.

Utility Allowances

The Housing Authority updates utility allowances annually. On the following pages are the current utility allowances to be used in calculating affordable housing costs for inclusionary rental units.

(Staff: Update these utility allowances annually. Go the Housing Authority web site and download the utility allowances. The web site is www.hamonterey.org. Under the "Where do you want to go?" bar, select Section 8 program. At the Section 8 page, scroll down to Utility Allowances.)