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via email

To: Darby Marshall, Redevelopment & Housing Analyst, marshall@co.monterey.ca.us
From: Jane Haines, (831) 375-5913, janehaines80@gmail.com
Subject: Comments pertaining to the County's updating of its Inclusionary Housing Ordinance based on findings and recommendations in the Keyser Marston Associates Financial Evaluation

Thank you for this opportunity to comment on the Keyser Marston Associates Financial Evaluation (KMAFE), for documents responding to my February 6 public records request for information regarding the cost of Keyser Marston's services, and for inviting me to the February 15 discussion session regarding the KMAFE.

KMAFE provides strong evidence that the current Inclusionary Housing Ordinance is a hindrance to providing affordable housing for County residents. It states that the difference between achievable market rate sales prices and allowable sales prices for inclusionary housing units ranges from \$864,600 to \$3.08 million per affordable unit in the Big Sur, Greater Carmel Valley and Greater Monterey Peninsula submarkets (Pg. 19). These exorbitant prices illustrate the futility of attempting to solve the County's housing crisis through Inclusionary Housing fees. Also, Keyser Marston states it was unable to identify any recently constructed market rate apartment projects. (Pg. 24.)

Testimony by two local home developers at the February 15 KMAFE discussion reinforced the points you (Darby) made when you reported the near stand-still of home production over the past eight years (an average of only 127 new, single family housing units yearly of all income levels). It is obvious that new direction is needed to restart housing production, and that the current requirement for onerously high inclusionary housing fees, plus the cumbersome "jumps and hoops" required of developers which arise from arbitrary demands by housing inspectors, exacerbates the County's chronic lack of new housing, both new market rate and affordable housing. Of course there are other factors too, such as water shortages in the Greater Monterey Peninsula area and the 2008 recession which affected all areas. Nonetheless, KMAFE description of million dollar inclusionary housing units and reports of multi-year approval processes depicts an absurd situation.

The County's existing Inclusionary Housing Ordinance (Chapter 18.40 of County Code) mistakenly assumes that developers will produce new homes despite onerous inclusionary housing requirements. Current in-lieu fees range from \$22,800 to \$183,000 per affordable unit (dependent on location) in 100% market rate projects at the County's rate of 20% being inclusionary (Pg. 22). There's a risk that inclusionary housing can lead to higher prices. KMAFE provides evidence that's what's happening in Monterey County. The result makes market rate homes too expensive for all but a few County households, and without new market rate homes, there can be no inclusionary housing.

To me, the KMAFE seems upside down. Instead of beginning with what subsidized units cost to produce, I think it should have begun with what non-subsidized home buyers can afford to pay. For the past eight years, the Monterey County housing market has been unaffordable to all

but a relatively few homebuyers, and inclusionary housing requirements contributed because most homebuyers cannot afford to pay the cost of their own new homes if they must also subsidize the cost of homes for others.

Comment #1: I suggest expanding Chapter 18.40 so it addresses the broad range of County affordable housing issues, not only inclusionary housing as it now exclusively addresses, but to address the County’s affordable housing crisis as a *whole*, including homelessness. Homelessness in Monterey County is far more urgent than inclusionary housing alone. A November 2018 study of homeless students in twelve north California counties found that Monterey County has **by far** the highest percentage of homeless students. The study states: “The percentage of homeless student enrollment ranges from 0.9% in Contra Costa County to 9.9% in Monterey County. The total number of homeless students ranges from 286 students in San Benito County to 7,686 in Monterey County. **The total number of homeless students in Monterey County is more than triple that of highly urban San Francisco.**”

FIGURE 2
Distribution of Bay Coastal Homeless and Foster Youth Student Populations

County	Homeless Youth in Schools ³		Foster Youth in Schools ⁴		Total Enrollment ⁵
	#	%	#	%	
Monterey	7,686	9.9%	375	0.5%	77,517
Santa Cruz	3,028	7.5%	297	0.7%	40,462
San Luis Obispo	2,556	7.3%	419	1.2%	34,792
San Francisco	2,075	3.4%	783	1.3%	60,748
Marin	918	2.7%	186	0.6%	33,633
San Benito	286	2.6%	91	0.8%	11,164
San Mateo	2,015	2.1%	362	0.4%	95,620
Napa	310	1.5%	161	0.8%	20,562
Alameda	3,155	1.4%	1,255	0.6%	226,904
Sonoma	839	1.2%	646	0.9%	70,940
Santa Clara	2,963	1.1%	1,193	0.4%	273,264
Contra Costa	1,618	0.9%	1,259	0.7%	177,370
Total	27,449	2.4%	7,027	0.6%	1,122,976

Thus, it is URGENT that Monterey County bring its homeless rate into line with the average rate of the other eleven counties, 2.9%. Inclusionary housing is *not* the solution and it appears to be a significant cause of the problem. Currently, Monterey County has only \$974,403 in inclusionary housing funds. That is not enough to provide more than two housing units, which is further evidence the inclusionary housing program does not accomplish its objective, and to the extent it prevents new housing from being developed, inclusionary housing fees are a factor causing the County’s exceptionally high rate of homelessness.

Perhaps someday inclusionary housing will be appropriate, but as discussed above, inclusionary housing fees currently exacerbate the shortage of new market rate homes and new affordable apartments. I suggest Chapter 18.40 be amended to include a *trigger formula* that measures when market rate housing is produced in adequate amounts and under

conditions which allow for production of profitable apartment units. The *trigger* should be a formula that establishes the existence of healthy, growing market rate home production, possibly by using standards linked to external indices. The formula should define the right time to resume requiring inclusionary housing fees. Until that trigger is activated, serious attention should be given to temporarily terminating, or greatly reducing, inclusionary housing fees.

Comment #2. KMAFE illustrates successful creation of affordable units. It states *“that leveraged rental apartment projects represent an excellent option for providing very low and low income units.”* (Pg. 25.) Appendix D, Exhibit 1, presents data from eight recent Monterey County leveraged rental apartment projects showing that five have placed in service a total of 308 units since 2013, and the remaining three have 201 units in the application stage. CHISPA built one, Mid-Peninsula built two, South County/Eden built two in conjunction with large Salinas Valley families, Greenfield Senior Associates II built one, and apparently large Salinas Valley farming families are building the remaining two.

KMAFE does not explain whether these units are solely for farmworkers, but if they are special laws apply, inapplicable to non-farmworker housing. Possibly they utilize the same funding model Tanimura and Antle used to provide 99 apartments in Spreckles and Salinas which can house up to eight persons per apartment and cost each worker roughly \$125 a month, or perhaps it's the same model used by the Nunes, Hibino and Rodriguez families to build the Boronda farm worker housing complex for up to 600 employees, or the Ocean Mist Farms housing in Castroville. Unfortunately, KMAFE does not explain.

Nonetheless, it's obvious the locations of those leveraged apartments — Spreckels, Salinas, Castroville — is where land costs are far lower than in Big Sur, greater Monterey Peninsula and/or greater Carmel Valley. Yet Section 18.40.080 of Chapter 18.40 requires off-site inclusionary units to be located in the same Planning Area as the market rate unit. That requirement adds to the cost of inclusionary units that must be located in expensive Planning Areas. Additionally, it can subvert the important factor of community, such as the Pasadera-located inclusionary homes did. (Think of the effect on kids from low-income households growing up in Pasadera.) By contrast, Community First! Village is a 27-acre master planned community just outside Austin, Texas, where more than 200 people who were once chronically homeless live in tiny homes and RVs and now have a strong sense of community. However, leveraged development depends of course on something to leverage. Community First began with a gift of 27 acres. Could the County provide such leverage, perhaps by rededicating intended parkland at Fort Ord for homes for the homeless? Regardless, if the County continues its inclusionary housing program, it should at least delete the location requirement in Section 18.40.080.

KMAFE stresses that Inclusionary Housing should not place onerous burdens on developers of market rate housing. It concludes that Monterey County's inclusionary housing's potential contribution is for only “a small portion of the unmet need.” Page 19 states:

A fundamental premise is that the Inclusionary Housing program should not place an onerous financial burden on the developers of market rate housing. Within that context, it is clear that Inclusionary Housing can only be expected to fulfill a small portion of the unmet need for affordable housing in Monterey County.

Comment #3: I appreciate receiving the financial documents related to KMAFE. They show the County requested proposals for a “comprehensive assessment [which] will establish the context necessary for building a pragmatic yet flexible inclusionary housing policy that is responsive to demographic and economic needs as well as changing market

conditions.” (RFP Pg. 9.) In a way, that’s what the County received, because KMAFE clearly shows current inclusionary housing fees are *not* responsive to current market conditions.

Hope lies in the fact that the Board of Supervisors has allocated several hundred thousand dollars to hire a facilitator to develop a countywide Housing Sustainability Plan. A sustainable plan will require permanent funding, and you (Darby) surmised this might come from SB-2, the “Building Jobs and Housing Act of 2017.”

I suggest another source of permanent funding could be a ***vacant property tax*** such as Oakland voters recently approved and which a majority of voters in Richmond California supported, albeit not the requisite 2/3rds in Richmond. Pacific Grove, where I live, has a plethora of second homes occupied only sporadically. Although real estate agents would push back hard on a proposed tax on vacant homes, a skillfully handled campaign featuring Monterey County’s 9.9 percent homeless student rate might result in passage provided the tax revenue can “only be used for homeless services, affordable housing, programs to fight blight and illegal dumping, administer the tax and defend any possible lawsuits,” as is the case in Oakland, and perhaps the tax proposal could have a built-in termination date of when the County’s homeless students comprise less than 3% of total student population. As vacant lots, homes and buildings are put to use, the tax would end itself, but that of course would be its purpose. A countywide Housing Sustainability Plan, involving all thirteen jurisdictions, would be an excellent vehicle for administering vacant property tax revenue.

Comment #4: Monterey County would not top the list of counties with homeless students *if* its affordable housing program worked as it should. Based on my past experience with the Moro Cojo project and my current experience with KMAFE, I believe that ill-informed decision-making is a major cause of Monterey County’s housing crisis. Examples:

- the Board of Supervisors voted 4-1 in January 2016 to terminate affordability of 161 affordable single-family homes ***without*** ever being told by staff the replacement cost for those homes, using the estimated per unit cost of \$325,000 in the certified Housing Element, would exceed fifty-two million dollars;
- Moro Cojo homeowners mistakenly believe their children cannot inherit their homes, they appear not to understand the rules applicable to “forgivable” loans, they appear not to realize their homes were generously subsidized by public funds, and very importantly, they seem unaware that most of them will receive a substantial profit when they sell *with the affordability deed restriction* in place. Also, some of them mistakenly equate a deed restriction with racism;
- regarding Moro Cojo homeowners’ potential profit when they sell, neither they nor the Board of Supervisors seemed aware of the calculations in an email from a County official analyzing the profit a Moro Cojo homeowner received from selling his home *in compliance with the affordability deed restriction*; he pocketed a profit exceeding \$100,000 more than his original investment, including his considerable sweat equity included as part of his original investment. Supervisors’ comments, as well as comments by the homeowners, demonstrate unawareness of *actual* financial aspects of Moro Cojo home ownership;
- at least one of the inclusionary housing units at Pasadera is frequently vacant;
- the County’s inclusionary housing fund contains less than a million dollars;
- a CSUMB class I spoke at showed no understanding the County might provide struggling students with housing assistance.

Despite recent misinformation to the Board of Supervisors from certain staff, I’m encouraged by your (Darby’s) articulation of potential housing solutions. Although I believe the Keyser Marston consultant should have been told about the recent Moro Cojo decisions, I found your

explanation reasonable regarding why she was not, even though I disagree. I watched a video of the January 2019 HAC meeting and observed committee members' depth of understanding and commitment to factual accuracy, and I witnessed their unmistakable respect for you (Darby) and for your expertise. Nonetheless, I heard home developers at the February 15 discussion describe a housing approval process that resembled being Alice in Wonderland, and after the meeting when I got to know them better, I left with strong respect for those developers' integrity and values, and I conclude Alice in Wonderland is a fitting metaphor descriptive of the County's current requirements for market rate home builders.

Despite the encouraging signs I recently witnessed, I'm nonetheless convinced the County's housing program will never function well until staff provides decision-makers with *accurate and complete* information. I hope that begins soon

Conclusion: I believe the impending countywide Housing Sustainability Plan could effectively address the County's current housing problems. I suggest that if possible, its coordinator be Spanish-speaking so s/he can hear directly from County residents who might otherwise not be understood, and so s/he can communicate accurate information directly to them. I believe KMAFE illustrates the need for radical reform of the County's inclusionary housing ordinance, and that market rate home developers should be liberated from Alice's Wonderland. Last, but far from least, I think the County should make it a top priority to reduce the percentage of homeless students to under 3 percent.

Thank you for this opportunity to comment.