From: Matt Huerta <mhuerta@mbep.biz>
Sent: Thursday, February 21, 2019 12:24 PM
To: Marshall, Darby 755-5391
Cc: Kate Roberts; Rafael Hernandez; Ashley Gauer; Alexia Garcia; Wyatt, Anastacia
Subject: County of Monterey Inclusionary Housing Policy, KM Financial Evaluation 2/1/19; MBEP Comments

Hi Darby, thank you for the opportunity to review and provide comments on the Financial Evaluation completed by Keyser Marston Associates completed on 2/1/19.

Overall, we recommend that any changes to the County's Inclusionary Housing Ordinance take into consideration other housing policy changes MBEP has previously recommended to the County that should make it more financially feasible to build market rate housing and related inclusionary components. You can see the email correspondence sent on 9/9/18 which references our White Paper and other examples of what other jurisdictions have done in our region.

Inclusionary housing is just one of several tools our local governments have to help meet our regional housing goals. We agree that more financial tools are needed to create housing affordable to very low, low, and moderate income households. As stated in the Financial Evaluation, the County's market rate housing goals have been achieved and exceeded for this planning period through 2023. It is also important to meet the primary goal of the inclusionary housing policy which is to assist in economically integrating our neighborhoods thereby creating more balanced development and equal opportunities for residents. Wherever possible, onsite production of inclusionary units must continue to be the goal and obstacles to achieving this should be removed.

Here are a few specific comments on the Financial Evaluation:

1) page 6 and 7, confirm that the key advantages of off-site and in-lieu options outlined are specific primarily to affordable rental housing production, not for sale/ single family production (the distinction is not made here.)

2) page 14, “It is important to note, however, that on a project specific basis, the County has allowed developers to fulfill the very low and low income requirements with income restricted rental units.”
-The County should establish a standard methodology for achieving the required income targeting percentages by project type and size. The City of Salinas was able to achieve this through careful negotiation and analysis of

feasibility. The County should work toward a similar policy and chart which outlines clearly for developers what they need to produce.

3) page 17, provide some more background on low income (70%) and moderate levels (110%); these thresholds are typically 80% and 120% respectively. The County should consider increasing to the more typical standards to increase feasibility of more onsite housing.

4) page 18, should consider lowering the down payment assumption to 5% which will still require "skin in the game" from buyers but lower the barrier to entry--many buyers could potentially get mortgages only requiring 3% down. Seek input from mortgage loan officers who specialize in serving first time home buyers in our region.

5) page 19, "The Affordability Gaps in the Big Sur, Greater Carmel Valley and Greater Monterey Peninsula submarkets range from $864,600 to $3.08 million per affordable unit. It is clear that it is not financially efficient to attempt to bridge gaps of this magnitude with on-site construction of comparable Inclusionary Housing Units." -Yes, the affordability gaps are significant but this also means that there is stronger financial capacity to support some level of onsite development of inclusionary units. Are there other examples of other high cost areas in the Bay Area for example, who continue to require onsite inclusionary units? Further evaluation is needed to determine a range of options for compliance and abandoning completely the idea of economic integration.

6) page 22

1. Should developers of premium priced homes be permitted to pay the in-lieu fee by right?

Maybe, but it defeats one of the key purposes behind "inclusionary" housing which is to integrate our neighborhoods. *Consider allowing 50% of required inclusionary onsite and the balance of units can be met by paying in-lieu fees.*

3. Should the in-lieu fee be applied per affordable unit, per unit in a market rate project, or per square foot in a market rate project? This issue is only pertinent if the County decides to set a fixed fee amount in each submarket rather than on a case-by-case basis.

If applicable the fee should be on a per square foot basis to encourage smaller and potentially more affordable unit sizes.

7) page 25

"It is KMA's opinion that the project economics do not currently support the development of market rate apartment projects in the submarkets. This conclusion could change in the future and should be periodically monitored by the County."

-In the event that market rate development is feasible the County should offer the opportunity to pay in-lieu fees but require that the developer allow 12% of their units for Housing Choice (Section 8) Voucher Holders. Salinas implemented this policy in its inclusionary ordinance.

8) page 27-28

"Off-site Inclusionary Housing units should be subject to the following requirements:

a. The off-site location should be within proximity to transportation, shopping and services.

OK, and if the tenure is family housing then it must be in the same school district as the inclusionary site.

"Inclusionary Housing requirements have a disproportionate impact on smaller projects, because there are fewer market rate units available to spread the impact created by the income and affordability standards. KMA recommends that an in-lieu fee payment be allowed by right for projects with between three and 20 units."

Where is the financial analysis to back up the threshold for 20 units? This is higher than the threshold of 10 units in Salinas and as low as 7 units in Santa Cruz County. As stated previously, the economics vary widely across the submarkets in Monterey County, why would the "by right" threshold be the same?

Please let us know if you have any questions regarding these comments.

Regards,

MBEP Housing Team

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