COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager

Date: July 28, 2015
Board Meeting Date: August 4, 2015
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Peggy Jensen, Deputy County Manager
William Lowell, Director of Housing
Heather Forshay, Director of Environmental Health Services

Subject: Accept this report and provide direction on allocation of the remaining $1 million in Measure A funds for Affordable Housing programs and projects

RECOMMENDATION:
Accept this report and provide direction on allocation of the remaining $1 million in Measure A funds for Affordable Housing programs and projects.

BACKGROUND:
On March 17, 2015, your Board tentatively approved allocating $11.5 million in Measure A funds for affordable housing in FY 2015-17. The allocation included $9 million for the Affordable Housing Fund and $2.5 million for additional affordable housing programs. Also on March 17, 2015, the Board held a study session on affordable housing and requested follow-up on 29 items. On May 19, 2015, your Board approved proposed allocation of $10.5 million of the Measure A funds to specific projects and requested a follow-up report on 6 additional concepts along with recommendations for the allocation of the remaining $1 million in Affordable Housing Measure A funds.

DISCUSSION:
The six follow-up items from the May 19, 2015 Board report are described below along with recommended budget allocations and a time line for the project. The projects and funding recommendations are also summarized on the attached matrix.

1. Landlord/Tenant Mediation Program

The County has a contract with Peninsula Conflict Resolution Center (PCRC) to provide mediation services on a referral basis. Landlord/Tenant mediation is one of the types of mediation the agency provides and accounts for an estimated 25 to 33 percent of their mediations. PCRC's mission is to provide affordable, accessible, and timely mediation services. They offer a three hour structured conversation between parties, with a fee of $60/party, reduced to $30/party through the contract with the County. PCRC reports an estimated 80 percent success rate for their mediation program.

Mediation is one component of a continuum of tenant assistance that starts with information and referral, includes legal services, mediation and finally Court based Alternative Dispute Resolution (ADR). Contracts for information and referral and legal services are currently out to bid. The recommended funding will cover mediation and publicity for the service continuum. Staff will also work with the Court to coordinate with their ADR program.

- **Recommended Funding**: $50,000 for a combination of mediation fee subsidies and potential expansion of the County contract with PCRC for mediation services over two years. The suggested funding also includes outreach and education for community providers about the continuum of services.
- **Time Line**: Continuation and expansion of the existing program with enhanced outreach for services before the end of 2015.

2. Apartment Registry

The City of San Jose tracks and monitors health and safety conditions in apartments through an apartment registry program. Supervisor Slocum suggested that the County create a similar program for the unincorporated area. San Mateo County has a housing inspection program similar to that of the City of San Jose, with an inventory of over 3700 complexes, with an electronic inspection program in which inspection and violation data are captured.

The Environmental Health Division of the San Mateo Health System inspects all multi-family dwelling buildings with four or more units for health and safety violations, with a routine inspection frequency of once every four years. The four year inspection cycle is consistent with similar programs in other counties throughout the state. Additionally, approximately 50% of complexes receive additional inspections during the 4 year cycle. These non-routine inspections are triggered by staff follow-up on identified issues, and tenant complaints. Almost 40% of tenant complaints are about vermin, such as rodents, roaches and bed bugs. About 20% of the complaints are for plumbing/sewage issues followed by complaints about appliances, electrical issues and windows and screens.

In an effort to improve the living conditions of the housing inventory with the most health and safety issues, San Mateo County Environmental Health proposes to conduct enhanced and more frequent inspections over an 18 month period for about 300 complexes in the County that have historically required the most oversight from Environmental Health. If the more frequent routine inspections identify issues to be corrected, building management will receive outreach support from staff concurrently with an aggressive approach to compliance. Problem resolution will emphasize Integrated Pest Management to address vermin, the most frequently reported complaint.

When appropriate, a multi-disciplinary team including Environmental Health, Code Enforcement staff in Planning and Building, County Counsel, and the Department of Housing will coordinate resources to expedite a return to compliance of problem buildings. The strategy will include a combination of education, enforcement and possibly improvement loans.

- Recommended Funding: $450,000 for an 18 month pilot project which includes 1 additional inspector and a half-time outreach coordinator.
- Time Line: Pilot project to start in January 2016 with results and next steps considered during FY 2017/19 budget process.

3. Homebuyer Assistance

The Department of Housing has an idle fund that had previously been used for down payment assistance through the START Program which was targeted to low-income homebuyers. The program was shelved several years ago when the cost of housing made home purchase for low-income households impractical. If a household could afford payments for a first mortgage with START Program assistance, they likely made more than 80% of the area median income based on family size, which was the income limit for the program.

When the START loan program ended, the HEART homebuyer assistance program replaced the County fund as a potential source of assistance for lower income homebuyers. The START program funds loans for families with incomes up to $150,000, which in 2015, is 127.8% of the area median income. Unfortunately, even with the higher income limits, participation in that program has also been very low. Staff estimates that the HEART program has provided less than one loan per month over the past couple of years.

Even though participation has been low, the HEART program is innovative and worthy of imitation. The program utilizes a partnership with Meriwest Mortgage. Meriwest provides the first mortgage. HEART provides 15% of the purchase price as down payment assistance and the buyer provides 5% of the purchase price as down payment (for a total down payment of 20%). Meriwest then refunds 85% of the HEART down payment assistance, with 15 percent placed in a loss reserve to cover potential loan defaults. Thus, the HEART fund is replenished with each loan issued, with a small amount dedicated to the loss reserve.

At the White Paper Study Session, the Supervisors suggested a down payment assistance program for County employees. With the high cost of housing in the county and the large down payment requirement associated with a high home price, down payment assistance would help employees purchase homes in the county. A quick search of other programs offering down payment assistance to public employees found nothing specific to public employees other than as executive benefits. With the exception of HEART, all down payment assistance programs across the country, which are mostly funded through the Community Development Block Grant Program, are limited to families earning less the 80 percent of the area median income.

The Department of Housing currently has a $1.5 million usable balance in the old START Program fund. Those funds could be available for a pilot program to offer assistance to County employees based on the HEART model. There would be no income limit and the amount of assistance could range up to 20% of the purchase price, as determined by policy set by the Board.

- **Recommended Funding:** Measure A funds not recommended for this program as $1.5 million is available from the old START program.
- **Time Line**: If the Board supports repurposing the START funds for a county employee homebuyer assistance program, staff will research and develop a program for consideration by the Board in early 2016.

4. Affordable Housing Bond

During the Board study session on Affordable Housing, members discussed affordable housing bonds. Since public funding cannot be used for ballot measures, this idea has not been developed by staff.

5. Develop rental units for government employees

Rental housing for public employees faces several critical obstacles. The simplest obstacle to overcome would be fair housing issues. Can a jurisdiction dedicate housing solely for public employees? The example of the College of San Mateo would suggest that fair housing would not be an issue. The College built faculty housing on what had been a parking lot on campus. Other employers have provided dedicated housing for their employees. Google has apartment complexes for their employees and recently pre-leased a new complex in Redwood City for the exclusive use of their employees. Also, Burlingame is considering a new housing site for partial use as city employee housing.

A more complex issue with county employee housing are financing issues. Affordable housing projects rely on Low Income Housing Tax Credits for a significant amount of their funding. This funding allows the project to keep rent payments low. Projects eligible for tax credits can only rent to tenants with incomes less than 60% of the area median income. Because most County employee income exceeds the tax credit limits, housing for County employees, sponsored by the County itself, would not quality for tax credit funding and would therefore require the County to pay 100% of the project cost. A further complication is that without tax credits, offering affordable rents to county employees would limit the amount of income the County could use to cover debt payments and operating expenses.

Location would be another issue. Land is at a premium on the peninsula. If the County currently owns property that could be used for housing development, the costs would be lower, but if a new acquisition were needed to supply a site the costs would be substantial. The County currently has two sites under consideration for housing development: 2700 Middlefield and the housing authority's Midway Village Apartments. The Midway Village Apartments site is being considered for redevelopment, but is not in a central location (Daly City). Planning for the Middlefield property is just beginning and there are multiple potential uses for the 2700 site and adjacent properties owned by Redwood City at 2600 and the County at 2500 Middlefield.   Due to their location on a transit route, the Middlefield sites may be eligible to apply for the cap and trade funding the state provides for development activities that have an impact on greenhouse gas emissions. Whether or not the project when fully planned would be a strong candidate for that funding source has yet to be determined.

Given high cost of building employee housing and the lack of sites ready for groundbreaking, it is recommended that funding not be allocated for this use at this time. As the planning proceeds and possibly state funding becomes available, the Middlefield Road site may be an option in the future. In the interim, it is recommended that the cost, both in time and dollars, of long staff commutes be addressed by a redesign commute alternative program. The redesign will focus on equitable subsidies for long distance commuters and promoting the suite of commute alternatives supported by the County including flex time and telework.

- Recommended Funding: No funding is recommended for building dedicated public employee housing at this time.
- Time Line: Report back to the Board as planning progresses on the Middlefield Road sites and also on the Commute Alternative Redesign effort.

6. Forgivable Rehabilitation Loans for Smaller Multi-family Buildings
An improvement loan program for owners of smaller multi-family buildings was proposed by Supervisor Horsley. His concept was that the loans would be forgivable in return for a period of rent control on the improved units.

The Department of Housing operates rehabilitation programs that could be modified to address rental housing rehabilitation. Inclusion of a forgiveness clause would be possible. The Department's rehabilitation revolving loan fund has typically been used to provide rehabilitation for owner-occupied housing units. These projects address major repair needs of single-family homes. The program has not been used much in recent years due to the high costs of rehabilitation work. When the program last assisted a homeowner, rehab costs approached $250,000 for a single home.

Recently (Spring 2015), the Department of Housing included acquisition and rehabilitation of multifamily housing as a funding category through the Affordable Housing Fund. One application was received as part of a demonstration project. MidPen Housing has several offers out for the purchase of apartment complexes with 12 or more units. If a purchase price is agreed upon, MidPen would provide some minor rehabilitation work, continue to rent units at rents affordable to households with incomes up to 100 percent of the area median income, and at some point in the future secure tax credits to provide substantial rehabilitation work on the units and thereafter rent to households earning 60 percent of the area median income or less.

Forgiveness of rehabilitation loans would be possible, with Board approval. Loans could be secured with a Deed of Trust stipulating that if the properties are used for affordable housing for a term of 30 years (or whatever timeframe the Board prefers), the loan would be forgiven. Sale of the property prior to the 30 year maturity would prompt repayment demand, as would ending the affordability provision of the loan agreement. Specifics for a program targeted to smaller multi-family buildings would be worked out to meet Board expectations. The loan program would be one of the tools used to improve smaller multi-family buildings with health and safety issues.

- **Recommended Funding:** A pilot program with $300,000 of Measure A funds is recommended.
- **Time Line:** The program would be developed by the Department of Housing and presented to the Board for consideration by January 2016.

7. Additional Funding for the Affordable Housing Fund

In the AHF 3.0 funding recommendations adopted by the Board on June 16, 2015, it was necessary to award partial amounts to Rotary Plaza (senior units in South San Francisco), the St. Francis Center (family units in North Fair Oaks) and Mercy Veterans Housing (Colma). Rotary Plaza and Mercy each requested $1,500,000 and were awarded $750,000 and the St. Francis Center requested $1,000,000 and was awarded $600,000. In the meantime, the Gateway Senior Housing project has been working with the department and, by winning the tax credit allocation competition this month, will no longer require the $2,500,000 allocated to it in AHF 3.0.

We recommend combining the returned $2.5 million and the $200,000 of the remaining Measure A funds to fully fund the Rotary Plaza, Mercy Veterans and St. Francis Center

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projects and to create an addition AHF competition towards the end of 2015. This will enable the three projects to proceed towards construction at a significantly faster pace.

- **Recommended Funding:** It is recommended that the remaining $200,000 in unallocated Measure A funds and the $2,500,000 in repurposed Measure A funds be allocated to the Affordable Housing Fund to fully fund the construction of new affordable housing units for seniors in South San Francisco, residents of North Fair Oaks and veterans in Colma.
- **Time Line:** The repurposed Gateway funds would be available immediately. The remaining funds would be distributed via a NOFA in December of this year.

FISCAL IMPACT:
As noted in the background statement, the Board of Supervisors tentatively approved an $11.5 million Measure A allocation for Affordable Housing programs on March 17, 2017 and specifically allocated $10.5 million when the preliminary budget was adopted in June. The recommended allocation of the remaining $1 million is outlined below.

	Use of Funds	Measure A funding recommendation	Description
1.	Landlord Tenant Mediation Program	$50,000	PCRC contract increase and fee subsidies
2.	Apartment Registry	$450,000	Enhanced inspections for the buildings with the highest number of complaints
3.	Homebuyer Assistance Program	0	Use available $1.5 million in START funds for a pilot program
4.	Affordable Housing Bond	0	Public funds cannot be spent on ballot items
5.	Forgivable Rehab loan program for smaller multi-family buildings	$300,000	A pilot loan program to support maintenance and repairs to affordable buildings.
6.	Dedicated housing for public employees	0	No money recommended at this time, report back on site options and commute alternative assistance
7.	Supplement Affordable Housing Fund 3.0	$200,000	Combine with DOH funds to fully fund two projects and increase 12/15 NOFA
	TOTAL	$1,000,000	

If the Board approves the requested funds noted above, the allocations will be included in the September final budget revisions for FY 2015/17.

Attachment A: Affordable Housing Project List