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August 23, 2017

Governor Jerry Brown
State Capitol, Suite 1173
Sacramento, CA 95814

SUBJECT: 2017 Affordable Housing Proposal: Association of California Cities – Orange County (ACC-OC) Suggestions and Comments

Dear Governor Brown,

The Association of California Cities – Orange County (ACC-OC) is a non-profit organization that proudly represents the interests of Orange County's 34 cities. ACC-OC serves as a resource for elected officials and municipal staff, focusing on three key initiatives: education that empowers, policy that is collaborative, and advocacy that is service-oriented. In pursuit of that mission, ACC-OC has collaborated with Orange County cities to provide feedback on what we would like to see addressed in an eventual affordable housing proposal. In the past, ACC-OC has provided comments to your office on housing legislation, including your 2016 Streamlined Affordable Housing Proposal. We look forward to continuing to work with your office, and the Legislature, to help craft a supportable proposal to address the serious issues surrounding housing affordability.

A significant priority of ACC-OC and our members is ensuring that any new proposal language strikes the right balance of meeting housing needs without diminishing local control. The overwhelming barrier to the development of affordable housing in municipalities is the financing. There have not been significant, dedicated funding sources to ensure the production of subsidized housing since the loss of Redevelopment in 2012, and the use of Proposition 46 and Measure 1C bonds from 2002 and 2006. This paper does not include the loss of federal funding over the last several years, specific to Community Block Grant Funding, McKinney-Vento Homeless Assistance Grants, and the HOME Investment Partnerships Program. Cities do not have the financial resources to work with developers in offering below market rate housing without assistance at the State and Federal levels. Without a mechanism to ensure funding, no amount of regulatory reform or streamlining will have an impact on increased affordable housing. Even when there is political will and agreement between the City Council and a developer, the gap in funding often times exceeds what a city is able to finance from their own general funds or housing set aside funds. This can result in missed affordable housing production opportunities, and that furthers the need to meet housing obligations.

Also perpetuating the attainable housing shortfall, is a lack of attention to the struggle of housing our workforce. According to demographic projections, Orange County is facing a workforce housing shortage of between 50,000 and 62,000 units. Development of those units will have to include a high percentage of affordable housing based on the disparities between home values and income levels in our region. Investing affordable housing funds on job-creating areas provides attainable housing for our teachers, firefighters, and other middle income earners. This type of housing focus has enormous benefits in the form of reduced commuter travel, lowered emissions, less highway maintenance, and increases economic vitality.

Ultimately, ACC-OC is supportive of the need to increase affordable housing opportunities, especially in Orange County where housing costs are at the highest unattainability for middle-income earners. If the legislature and the administration strike an affordable housing deal, we would like to make sure that the voices' of our cities are heard by bringing forward solutions that we would like to see reflected in final legislation. The following pages outline a series of suggested comments gathered from cities across Orange County, based on current and past housing policies that have culminated to form the housing climate felt by our ACC-OC city members, today.

The ACC-OC remains committed to legislation that maintains maximum local control for cities in all areas of its responsibility and operations, and applaud you and your staff for addressing the statewide housing shortfall. As negotiations for an affordable housing proposal continue to develop we would like for you to consider ACC-OC a resource for collaboration between Orange County cities and your office. Do not hesitate to call on us for issues related to local government and when soliciting feedback on legislative measures. Should you have any questions about our position or about the ACC-OC please contact ACC-OC Legislative Affairs Director, Diana Coronado at (714) 953-1300 or at dcoronado@accoc.org.

Sincerely,

Heather Stratman

Heather Stratman
Chief Executive Officer
Association of California Cities – Orange County

cc:

ACC-OC Board of Directors
Orange County State Legislative Delegation
Assembly Housing & Community Development, Committee Members
Senate Transpiration & Housing, Committee Members

2017 Affordable Housing Proposal:
Association of California Cities – Orange County Suggestions and Comments

The following is a detailed compilation of input and feedback from the Association of California Cities – Orange County (ACC-OC), and Orange County cities, on the items that municipalities would like to see included and omitted in an eventual affordable housing proposal. ACC-OC gathered the responses, below, due to the solicitation for feedback by the Legislature and the Office of the Governor. Together, with the Governor's staff and the California Legislature we hope to see some of our suggested changes and input reflected in a final affordable housing proposal.

Affordable Housing Barriers:

As expressed by our membership in our cover letter, and reiterated here, the biggest barrier to affordable housing for cities is financing. There have not been significant, dedicated funding sources to ensure the production of subsidized housing since the loss of Redevelopment in 2012, and the use of Proposition 46 and Measure 1C bonds (from 2002 and 2006). The following comments are primarily focused on State funding sources and do not widely address the issues in the loss of federal funding, specific to the Community Development Block Grant Program (CDBG), McKinney-Vento Homeless Assistance Grants, and the HOME Investment Partnerships Program. Our cities do not have the financial resources to work with developers in offering below market rate housing without assistance at the State and federal levels. Without a mechanism to ensure funding, no amount of regulatory reform or streamlining will have an impact on increased affordable housing.

An example of this is illustrated in the often suggested, but unsuccessful "By-Right" zoning and approval process. By-Right zoning allows for the streamlined development for projects, that comply with the zoning standards, to receive local approval without a discretionary review process. In addition to the fact that this process eliminates public comment, usurps local control, and can circumvent environmental reviews, a project that qualifies for By-Right production does not automatically make the project financially feasible for developers to construct. There are multiple examples of this occurrence in Orange County, including in the City of Mission Viejo. The City has three By-Right sites (through two housing element certifications by the State), and over the last eight years only one has actually been developed, mainly due to the result of a density bonus approval, not because of By-Right zoning. The other two sites are languishing because of funding gaps between what the developer can offer and what the city can financially assist with.

A proposal that would mandate unfunded, By-Right zoning would not be a supportable "solution" to affordable housing, especially not one that would include punitive measures for cities showing a good faith effort to fulfill their housing shortfall obligations. In the current legislative session, ACC-OC has taken an oppose position to Senate Bill 35 (Weiner). The bill looks to adopt a By-Right process, create new reporting requirements for cities – opening them up to sanctions and litigation, and removes municipal discretion and the ability to negotiate for maintenance and long-term city benefits. What SB 35 would perceive as a development hurdle in the negotiation process is what led to the benefits associated with the development of 403 affordable housing units built in the City of Irvine in 2016. By-Right zoning would have excluded the City to negotiate for: Expanded site amenities allowing resident use of larger community space and recreation facilities – improving quality of life, and the procurement of increased affordability to 'very low-income' earners – which provides housing for residents at significantly more affordable cost than low-income rental rates. Negotiations with developers also allowed for approved entitlements extending the term of affordability from 30 years to 99 years.

Even if SB 35 was cushioned with financing measures, the focus of affordable housing legislation should be on helping and incentivizing cities to meet their Regional Housing Needs Assessment (RHNA), not using legislation to make the process more challenging. Each jurisdiction has its own identity and responsibilities to its residents as it relates to design, and ability to accommodate high density residential development. The process of approving such development should be left up to each jurisdiction and not mandated by the State. Additionally, staffing of development departments varies significantly from agency to agency and a one-size fits all approach is not feasible for timing of processing development requests.

One of Orange County's cities top priorities for funding relief would come in the form of closing the gaps in subsidies for affordable housing creation. In Orange County alone, there are several affordable housing projects that have stalled in the development process because of outstanding financing, many of these gaps in subsidies range from $1 million to $6 million. These projects would benefit from a dedicated financing or grant resource that would streamline funding from the State to cities who are working to develop projects that meet their State RHNA obligations. Addressing this funding disparity would be immediately beneficial to municipalities and best utilize housing dollars towards development ready projects, including (but certainly not limited to) the cities in the examples listed, below:

- **Anaheim:** The City is in a position where they are almost entirely dependent on the federal 9% Low-Income Housing Tax Credit Program (LIHTC), allocated by the State, in order to develop affordable housing projects (the 4% tax credit program leaves their gap financing too high). Innovative Housing Opportunities (IHO), a non-profit affordable housing developer, recently submitted an application for the repositioning of the Sandman Hotel in Anaheim, and the City would like to convert it to a 50-unit senior housing development. The City reviewed the 4% tax credit scenario as a possibility, to ensure that they could finance the project, but the gap remained too great. As a result, there is a potential for a significant delay in actually moving forward with the development, and while the City experiences this delay, other federal funds that are needed for the project could expire or deadlines could be missed. This scenario happens to the City, routinely, and a lack of gap funding prevents them from considering affordable housing deals, forces prolonged development of affordable housing production, and poorly positions them for federal funding opportunities.

- **La Habra:** The City was approached by Jamboree, a non-profit developer providing housing to low-income residents, to build a 71-unit affordable housing project. The project would require the units be occupied by tenants that were between 50%-30% AMI, very low-income and extremely low-income households. Unfortunately, even with the use of tax credits, there was still a $6.5 million funding gap. La Habra currently has less than $600,000 left in its LMIHAF (Low and Moderate Income Housing Asset Fund) and only receives approximately $750,000 a year in CDBG funding. The City worked closely with the developer, but due to such limited funding resources they were unable to fill the gap and lost the opportunity to bring the much-needed affordable housing to their City.

  Additionally, related to California's density bonus law, instead of requiring 45 year covenants for homeownership projects for low to median income households, the bonus law only requires equity sharing at the time of resale. This is to incentivize funding for cities, which can be included in future affordable housing programs. However, practically applied, the gap in the example above and given the limited financial resources of cities, it would take a significant number of years before the City would generate enough funds to contribute to an affordable housing project.

- **Mission Viejo:** The City was also approached by Jamboree housing, for a 40-unit affordable housing project comprised of 2-Bedroom and 3-Bedroom units in partnership with housing developer, City Ventures, who would develop 48 units of for-sale market rate condos. The City's financing structure assumed that all proceeds of the land sale to City Ventures would be utilized to subsidize the affordable housing development. Should those funds not be available to fund the development of the 40 affordable units, their financing gap would increase by $6,000,000. After their preliminary pro forma, the City still is dealing with a financing gap of $1,700,000. Outside of design and construction budget cuts, the City is looking to identify other potential funding sources to fill the financing gap.

Permanent Funding Sources:

To address the need for a permanent funding source for housing, the ACC-OC is reviewing Senate Bill 2 (Atkins) and Senate Bill 3 (Beall). Both bills establish sources of funding to address our state-wide housing shortfall. SB 2 would create nearly $250 million a year in new funding for low income housing development through real estate document transaction fees. The bill would require that 20% of the moneys in the fund be expended for affordable owner-occupied workforce housing and 10% of the moneys for housing purposes related to agricultural workers and their families, and would authorize the remainder of the moneys in the fund to be expended to support affordable housing, home ownership opportunities, and other housing-related programs at the local and State levels.

If SB 2 were to pass, the cities in Orange County are particularly interested in seeing moneys allocated to prioritize funding for housing our workforce. Focusing funding for regions who are creating jobs is necessary in order to support an appropriate level of housing. It is estimated that Orange County will add an additional 372,458 jobs to the economy by 2040. By that time projections show that for every one housing unit there will be 2.5 jobs. Our current supply of housing is not sustainable in meeting the needs of our workforce population. Retaining a strong workforce and fostering the growth of a thriving economy, centered around a healthy job climate, should be a priority when addressing our State housing goals. Further, this targeted investment would create a multitude of positive benefits, including cutting down daily commutes, resulting in reduced greenhouse house gas emissions, decreased road repair and highway maintenance, lower pollution levels, and overall economic development.

Additionally, SB 2 relies on the dispersal of funds collected form real estate document transactions through a yet to be determined formula. ACC-OC would advocate that a majority percentage of funds generated through real estate document transactions be kept within the county where the transaction occurred. This would directly benefit those communities experiencing the highest housing shortfalls and prioritize local control. Also related to funding distribution, the bill creates a “Building Homes and Jobs Trust Fund” Governing Board, overseeing the monetary dispersal process created in SB 2. The counties identified with the most demanding housing challenges should have a priority appointment or definite representation on this regulatory body. Specifically, according to the California Association of Realtors, (reporting just over two weeks ago), the County of Orange is now the most unaffordable housing market in Southern California. Only 21 percent of households can afford a typical house payment on the median price of a single-family home. Neglecting to include burdened counties, such as Orange, on this Board would be an oversight and detrimental to conveying the needs and communicating the issues facing these communities.

In addition to SB 2, Senate Bill 3 would create a $3 billion bond to spend on low income housing for voters to consider on the 2018 statewide ballot. This bill would increase state funding for building, and preserve low income multifamily developments, farmworker housing and low income projects near transit. In reviewing this effort, the ACC-OC would emphasize the need for the continued awareness of housing options for diverse income level populations. Currently, Orange County’s Average Median Income (AMI) is at $88,000. According to the U.S. Department of Housing and Urban Development (HUD), this puts Orange County as the fifth-highest income threshold in the nation. Our County’s need to house middle income earners, like our teachers, firefighters and civil servants, while balancing the growing deficit of apartment owners that are no longer accepting Section 8 Housing vouchers for very low income earners is critical. One of our only funding sources for affordable housing is our Low and Moderate Income Housing Funds

(LMIHF). These Housing Successor funds are strictly restricted since many these moneys (80%) must be expended for households under 60% of the area median income, further straining the subsidized funding gap, to make a project financially viable.

Another need for diversification in housing eligibilities comes in the form of housing dollars for Transit Oriented Development (TOD) standards. TOD requirements routinely put suburban areas, like many of those in Southern California, at a disadvantage when applying for competitive funding opportunities. This is based on the fact that we are a region that does not have majority urban environments, yet have met numerus zoning, and regulatory criterion. If TOD eligibility included efforts like, park-and-rides, “green” lane production, HOV lanes, or highway improvements, that would still be achieving the goals incentivized by TOD moneys, but not put our region at such a stark disadvantage, that would be a more supportable eligibility threshold.

Conclusion:

Our intent with this document is not only to reinforce and communicate our comments and concerns on a 2017 Affordable Housing Proposal, but to also offer suggestions to alleviate our state-wide affordable housing crisis. ACC-OC believes that providing clear examples of affordable housing challenges, and outlining the deficits to housing policies when practically applied by our cities, helps lawmakers and policy leaders in understanding the local struggles directly experienced by the cities in our county. We believe that our recommendations strike a healthy balance between remedying the concerns of local government while maintaining the integrity of a comprehensive housing solution.

Thank you for your consideration of this document, and your commitment to work towards finding a supportable solution to our State’s affordable housing shortfall. Should you have any questions regarding this document or would like to view the accompanying letter, please contact ACC-OC Legislative Affairs Director, Diana Coronado at (714) 953-1300 or dcoronado@accoc.org.