

NOTICE OF SPECIAL MEETING

Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

Date/Time: **Tuesday, June 4, 2019, 5:00 p.m.**
(or as soon thereafter as possible)

Location: **Council Chambers, City Hall**
333 Civic Center Plaza, Tracy

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

1. Call to Order
2. Roll Call
3. Items from the Audience - *In accordance with Procedures for Preparation, Posting and Distribution of Agendas and the Conduct of Public Meetings, adopted by Resolution 2015-052 any item not on the agenda brought up by the public at a meeting, shall be automatically referred to staff. If staff is not able to resolve the matter satisfactorily, the member of the public may request a Council Member to sponsor the item for discussion at a future meeting.*
4. **CONDUCT WORKSHOP ON AFFORDABLE AND WORKFORCE HOUSING IN THE CITY OF TRACY**
5. Adjournment



Mayor

Friday, May 31, 2019

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6105), at least 24 hours prior to the meeting.

Any materials distributed to the majority of the Tracy City Council regarding any item on this agenda will be made available for public inspection in the City Clerk's office located at 333 Civic Center Plaza, Tracy, during normal business hours.

June 4, 2019

AGENDA ITEM 4

REQUEST

CONDUCT WORKSHOP ON AFFORDABLE AND WORKFORCE HOUSING IN THE CITY OF TRACY

EXECUTIVE SUMMARY

At the request of the City Council, a workforce and affordable housing workshop was scheduled to discuss housing affordability and potential solutions applicable to Tracy. Council will have an opportunity to explore a variety of policy questions, including, but not limited to: level of affordability, targeted stakeholders, and type of tools needed to achieve desired results. The workshop involves a presentation by PlaceWorks, who prepared the report on the recent Measure M ballot initiative in 2018 and who led the drafting of the City's General Plan in 2011.

DISCUSSION

Background

On April 3, 2018, the City Council discussed workforce/affordable housing and directed staff to explore potential taskforces that would return to Council with information on homelessness and zoning, fees, and the City's growth management ordinance as it relates to affordable/workforce housing. The Council subsequently established an Ad Hoc Committee on Homelessness at its March 19, 2019 meeting and directed staff to continue with its work on housing affordability to be presented as part of the Affordable/Workforce Housing Workshop.

Workshop Agenda

The agenda for this workshop will include the following topics presented by PlaceWorks:

- A) Workforce/Affordable Housing Overview
- B) Tracy's Current Affordable Housing Incentives
- C) What are we Solving for? Who are we Serving?
- D) Workforce/Affordable Housing Tools
 - 1) City Zoning/Other City Requirements
 - a) Inclusionary Housing
 - b) Mobile Home Parks or "Tiny Houses"
 - c) Missing Middle
 - d) Modification of Development Standards
 - e) Measure A
 - 2) City/Public Funding
 - a) Development Impact Fees
 - b) General Fund Subsidy
 - c) SB 2 State Grant Funding

- d) Successor Agency Funding
- e) Local Bond Measure

E) Next Steps

Upon conclusion of the workshop, Council may wish to direct staff to obtain additional community input and conduct a forum to solicit ideas and feedback from the development community. Staff could report back to Council as part of a second workshop to discuss input received to date, and provide guidance regarding next steps, including, but not limited to the development of a Workforce/Affordable Housing Action Plan.

STRATEGIC PLANS

This agenda item is responsive to the Council's adopted Strategic Priorities, namely Quality of Life, Goal #2, promote public health, safety and community welfare throughout the community.

FISCAL IMPACT

This is a routine operational item; staff and consultant work to prepare this report are included in the Development Services operational budget for FY 2018/19.

RECOMMENDATION

Staff recommends that the City Council conduct a workshop on affordable and workforce housing.

Prepared by: Bill Dean, Assistant Development Services Director
Alan Bell, Senior Planner

Reviewed by: Andrew Malik, Assistant City Manager

Approved by: Midori Lichtwardt, Interim City Manager

ATTACHMENTS

Attachment A – Excerpted list from the City's Housing Element

Attachment B – Table 26 of the City's Housing Element identifying State-defined income limits

Attachment C – 2009 Affordable and Workforce Housing Briefing Book

Attachment D – Funding Source for Housing and Infrastructure

Attachment E – An article entitled “Missing Middle Housing,” by Daniel Parolek

Attachment F – Staff Report from April 3, 2018 City Council Meeting – Presentation and Discussion on Affordable and Workforce Housing

Attachment A

Excerpted list from the City's Housing Element (adopted by City Council in 2015) that includes the 17 strategies comprising the City's "Housing Plan" to address the diverse needs of the community.

- 1) Housing Rehabilitation: This program ended with the dissolution of the Community Development Agency (Redevelopment) in 2012, however is listed provided additional funding sources can be identified.
- 2) Code Enforcement: the Code Enforcement Division handles the enforcement of the City's zoning regulations and building and housing codes.
- 3) Graffiti Removal Program: The City operates a graffiti removal program where any resident can report graffiti on public or private property to the City's Graffiti Hotline.
- 4) Affordable Housing Monitoring: The City has a large inventory of affordable housing units with different terms of affordability covenants. None of the affordable units are at risk of converting to market rate during the planning period (2015-2023). However the City will monitor the status with the objective of preserving the affordable housing stock.
- 5) The City of Tracy Down Payment Assistance (DAP) Loan Program provides deferred down payment assistance loans to low income, first-time homebuyers for the purchase of homes in the City of Tracy. The loans are intended to bridge the gap between the cost of a home and what a low income household can afford by providing 10 percent of the home sales price (up to \$15,000, whichever is the lesser) to qualified households. All first-time home buyers must be certified as first-time home buyers by a HUD approved agency (i.e., Visionary Home Builders). The DAP is administered by the San Joaquin County Neighborhood Preservation Division.
- 6) Homebuyer and Financial Literacy Training:
- 7) Local governments can support the production of affordable and workforce housing by contributing capital funds to local affordable housing developments. This financial assistance can come in a variety of ways. Many jurisdictions defer, waive, or reimburse local permitting fees for affordable units, either in 100 percent affordable developments or in mixed-income inclusionary projects. While jurisdictions cannot legally waive impact fees, which are meant to mitigate impacts generated by the project, they may offer financial assistance to cover these costs. Alternately, cities can pay for the necessary infrastructure improvements to prepare a site for residential development, in lieu of collecting impact fees. Below-market

rate loans for land acquisition and predevelopment can prove vital for affordable housing developers with limited capital.

- 8) Housing Choice Voucher Program (formerly known as Section 8): The City of Tracy contracts with the Housing Authority of the County of San Joaquin (HACSJ) to manage the Housing Choice Voucher (HCV) program, which provides rent subsidies in the form of housing assistance payments to private landlords on behalf of eligible families.
- 9) Sustainability Program: The City adopted a Sustainability Action Plan in 2011. The Sustainability Action Plan provides the City with a guide to reduce GHG emissions, reduce consumption of nonrenewable resources, improve public health, promote economic vitality, implement the General Plan, and engage residents. Implementation of the Sustainability Action Plan will also place Tracy at a competitive advantage in attracting new job industries. The Plan identifies opportunities for Tracy to be a destination of local employment centers and green jobs, an emerging field that diversifies Tracy's economic base and attracts complementary industries.
- 10) Affordability by Design: "Affordability by Design" refers to a series of zoning and site design standards that regulate building form to promote the construction of affordable housing. These standards facilitate more efficient use of land, thereby lowering a development's per unit costs without sacrificing construction or building design quality. Although Affordability by Design concepts do not guarantee the provision of affordable housing, they do establish a regulatory environment wherein affordable units may occur. The City recently adopted amendments to the Zoning Ordinance to incorporate Affordability by Design principles. For example, any use, including multi-family residential, may request a reduction in required parking based on a study or survey that illustrates that required parking is not warranted. Applicants may also receive up to a 20 percent reduction of the otherwise required number of parking spaces pursuant to T.M.C. Section 10.08.3470(e). The City of Tracy has also relaxed the required distance between structures in the HDR Zoning District from the average height of the two buildings to 10 feet. This has provided for greater flexibility for the allowance and maximum usage of residential sites.

- 11) Provision of Adequate Sites: The City is committed to ensuring that adequate sites at appropriate densities remain available during the planning period, as required by law. The City will maintain an inventory of vacant sites to accommodate the City's Regional Housing Needs Assessment (RHNA) of 4,976 units.
- 12) Property Acquisition and Improvement: The City will continue to identify and seek partnerships with organizations and the County in order to acquire, improve, and develop affordable housing.
- 13) Inclusionary Housing: Inclusionary programs are established through local ordinances that require market rate residential developers to set aside a certain portion of units in a development for income restricted affordable housing (both rental and homeownership). In order to make affordable housing more accessible to workforce-income households, the City could consider ways to incorporate voluntary inclusionary housing incentives into the GMO to increase the supply of low, moderate, and/or workforce income units.
- 14) Resale of Foreclosed Properties: HUD's Neighborhood Stabilization Program (NSP), passed as part of President Bush's September 2008 Economic Recovery Act, provided nearly \$4 billion of emergency grants to state and local governments to acquire, redevelop, and resell foreclosed properties. San Joaquin County received one-time stimulus funds for the Neighborhood Stabilization Program (NSP-3), which ended March 2014. The County expended these funds for the acquisition, rehabilitation and resale of foreclosed single-family homes and multi-family apartment complexes throughout the County. Twelve of these foreclosed properties were located in the City of Tracy and resold to income-qualified households.
- 15) Zoning Ordinance: In 2015, the City of Tracy adopted an amendment to the Zoning Ordinance that includes updated provisions for emergency shelters, transitional and supportive housing, SROs, manufactured housing, and second units. The amendment also updated the City's definition of "family" and established a formal reasonable accommodations procedure. Additional revisions related to density bonuses, residential care facilities, farmworker housing, and employee housing will be completed by 2016 (amendment not complete). The City will also continue to evaluate its Zoning Ordinance for any potential constraints to the development of housing on an ongoing basis and process amendments as necessary.

- 16) Growth Management Ordinance: The City of Tracy adopted the residential Growth Management Ordinance (GMO) and the Guidelines in 1987. The GMO was amended from time to time with significant amendments occurring in 1994, 2000, 2009, 2012, and most recently in April 2013. Under the GMO, builders must obtain a Residential Growth Allotment (RGA) in order to secure a residential building permit. The 2013 amendment ensured that the RHNA could be entirely accommodated, notwithstanding the numerical limits stated in Measure A or the GMO. Other exemptions in the GMO include the following: (1) rehabilitation, remodeling or additions to existing structures; (2) replacement of previously existing dwelling units that had been demolished; (3) construction of “model homes” until they are converted to residential units; (4) development of a project with four or fewer dwelling units; and (5) secondary residential units. Residential projects exempt from the GMO are not counted toward the 600 annual average or the 750 annual maximum. The City will continue to monitor the GMO for any potential constraints to the development of housing on an ongoing basis and process amendments as necessary.

- 17) Fair Housing: The City actively furthers fair housing in the community. Specifically, the City contracts the San Joaquin Fair Housing Association to promote fair housing and provide fair housing services for its residents. The City refers complaints regarding fair housing and housing discrimination to the agency, whose office is located in downtown Stockton, and maintains this service using CDBG funds.

Table 26 of the Housing Element identifying State-defined Income limits (2017)

Table 26: Housing Affordability Matrix – San Joaquin County (2015)

Household	Annual Income	Amount Available for		Utilities		Taxes and Insurance	Affordable Rent	Affordable Home Price
		Rental	Ownership	Renters	Owners			
Extremely Low Income (0-30% AMI)								
1-Person	\$13,950	\$349	\$349	\$103	\$123	\$122	\$246	\$24,132
2-Person	\$16,240	\$399	\$399	\$136	\$141	\$140	\$263	\$27,506
3-Person	\$20,420	\$502	\$502	\$150	\$163	\$176	\$352	\$38,043
4-Person	\$24,600	\$606	\$606	\$172	\$187	\$212	\$434	\$48,191
5-Person	\$28,780	\$710	\$710	\$203	\$221	\$249	\$507	\$56,011
Very Low Income (31-50% AMI)								
1-Person	\$23,250	\$581	\$581	\$103	\$123	\$203	\$478	\$59,304
2-Person	\$26,550	\$664	\$664	\$136	\$141	\$232	\$528	\$67,595
3-Person	\$29,850	\$746	\$746	\$150	\$163	\$261	\$596	\$74,955
4-Person	\$33,150	\$829	\$829	\$172	\$187	\$290	\$657	\$81,850
5-Person	\$35,850	\$896	\$896	\$203	\$221	\$314	\$693	\$84,148
Low Income (51-80% AMI)								
1-Person	\$37,150	\$696	\$812	\$103	\$123	\$284	\$593	\$94,237
2-Person	\$42,450	\$796	\$928	\$136	\$141	\$325	\$660	\$107,600
3-Person	\$47,750	\$895	\$1,044	\$150	\$163	\$365	\$745	\$120,032
4-Person	\$53,050	\$995	\$1,160	\$172	\$187	\$406	\$823	\$131,998
5-Person	\$57,300	\$1,074	\$1,253	\$203	\$221	\$439	\$871	\$138,127
Moderate Income (81-120% AMI)								
1-Person	\$55,700	\$1,276	\$1,489	\$103	\$123	\$521	\$1,173	\$196,624
2-Person	\$63,650	\$1,459	\$1,702	\$136	\$141	\$596	\$1,323	\$224,613
3-Person	\$71,600	\$1,641	\$1,914	\$150	\$163	\$670	\$1,491	\$251,672
4-Person	\$79,550	\$1,823	\$2,127	\$172	\$187	\$744	\$1,651	\$278,265
5-Person	\$85,900	\$1,969	\$2,297	\$203	\$221	\$804	\$1,766	\$296,095

Sources:

1. State Department of Housing and Community Development Income Limits, 2017.
2. San Joaquin County Housing Authority, Utility Allowances, 01/01/2017.
3. Health and Safety code definitions of affordable housing costs (between 30 and 35% of household income depending on tenure and income level)

Assumptions: 20% of monthly affordable cost for taxes and insurance; 10% down payment; 4% interest rate for a 30-year fixed-rate mortgage loan. Taxes and insurance apply to owner costs only; renters do not usually pay taxes or insurance.

bae

**Affordable and Workforce
Housing Briefing Book**

**Prepared for
The City of Tracy**

May 2009

Bay Area Economics

San Francisco Bay Area

Sacramento

New York

Washington, D.C.

Headquarters 1285 66th Street
Emeryville, CA 94608 510.547.9380
fax 510.547.9388
bae1@bae1.com
bayareaeconomics.com

Table of Contents

Executive Summary	i
Introduction	1
Purpose of Report.....	1
Organization of Report.....	2
Methodology	2
Overview of Workforce Housing	4
Affordable and Workforce Housing Needs Assessment	6
Demographic Trends	6
Residential Market Overview.....	10
Affordability.....	17
Key Findings	23
Affordable and Workforce Housing Strategies: Supply-Side Approaches.....	26
Strategy #1: Inclusionary Housing.....	26
Strategy #2: Assistance to Affordable Housing Developers	29
Strategy #3: Affordable Resale of Foreclosed Properties	30
Strategy #4: Utilizing Publicly-Owned Land for Affordable Housing	32
Strategy #5: Affordability by Design	34
Affordable and Workforce Housing Strategies: Demand-Side Approaches	36
Strategy #6: Buyer Assistance Programs	36
Strategy #7: Homebuyer and Financial Literacy Training.....	37
Strategy #8: Employer-Assisted Housing	38
Strategy #9: Lease-Purchase Programs	39
Summary	42
Short Term Actions	42
Long Term Actions	44
Appendix A: Participants in Affordable and Workforce Housing Advisory Panel..	45
Appendix B: Affordable Sales Price Calculator	46

Executive Summary

Purpose of Report

Over the first half of this decade, the City of Tracy experienced an unprecedented rise in home values, driven in part by Bay Area commuters in search of more affordable options and other buyers seeking an ownership stake in the market. As a result, many members of the local workforce found themselves unable to afford a home in Tracy.

In response to these issues, the City of Tracy contracted with Bay Area Economics (BAE) to examine the need for workforce housing in Tracy in more detail, and present programmatic options to address this need. This Affordable and Workforce Housing Briefing Book summarizes this analysis, and identifies potential housing strategies for Tracy, highlighting policy considerations for each approach, and providing examples of successful implementation in other jurisdictions. The Briefing Book will allow Council to weigh various tools to promote workforce housing. In addition, these strategies may contribute to the implementation programs within the City's Housing Element, currently being updated.

Since this study was commissioned, the regional, state, and national housing markets have all experienced historic declines due to a combination of factors. As discussed in this report, the Tracy housing market has suffered during this current economic recession, with sharply falling home values and a growing foreclosure rate. In light of these changes, the short-term need for a City program to support workforce housing in Tracy now appears somewhat less pressing.

In the long-run, however, Tracy's key location at the edge of the Bay Area will help the City's housing market stabilize and rebound. As such, the City may consider steps towards future affordable housing planning, and take this opportunity to prepare for the market recovery. This Briefing Book represents a vital step in that effort.

Definition of Affordable and Workforce Housing

The California Department of Housing and Community Development (HCD) establishes the following household income categories in setting affordable housing policy for the state:

- Very low-income: Up to 50 percent of Area Median Income (AMI)
- Low-income: 51 to 80 percent of AMI.
- Moderate-income: 81 to 120 percent of AMI.

Consistent with these definitions, most affordable housing programs supported by the State and local governments only serve households earning up to 120 percent of AMI.

In recent years, however, the term “workforce-income” has emerged among housing policy analysts as an addition to the three income groups named above. The term arose during the last housing boom as many jurisdictions in high cost areas found that even households earning up to 180 percent of AMI could not afford to own a home locally, and lived in distant, more affordable locations to satisfy their housing needs. Workforce-income households are not formally incorporated into most existing affordable housing laws, regulations, or policies, and the definition varies from locale to locale. Generally speaking, though, housing analysts consider workforce housing to encompass income classes anywhere from 120 to 180 percent of AMI.

Despite this growing concern surrounding workforce housing, it is important to note that even those households between 81 and 120 percent AMI are generally not provided with sufficient public support to meet their housing costs. While California’s Community Redevelopment Law (CRL) includes provisions for this income category, and California’s Housing Element requirements address and target this same group, it is nevertheless often not a strong focus of local governments facing overwhelming needs from lower-income households.

With these issues in mind, this study focuses primarily on workforce housing and programs that serve households at levels from approximately 120 to 150 percent of AMI. At the same time, the Briefing Book also addresses the needs of lower income groups, as these households also represent a component of the City’s workforce, and experience particular housing needs in today’s economy, characterized by high unemployment rates and joblessness.

Needs Assessment: Key Findings

This section outlines demographic trends in Tracy, provides an overview of the residential market, and assesses the degree to which market-rate for-sale and rental housing is affordable to households of different income levels. This analysis sets the stage for housing strategies that respond to local socio-economic and market conditions.

- **Tracy has experienced rapid growth over the last decade, largely in the form of single-family homes to serve families looking for ownership opportunities.** Since 2000, the City’s population has increased by 43 percent to 81,500 residents in 2008. Tracy’s high level of population growth stems from large-scale residential development in the area, as well as population growth from the Bay Area spilling over into the Central Valley.

Tracy is a family oriented community with a relatively high homeownership rate compared to the rest of the County and State. Approximately 82 percent of Tracy households were families in 2008, compared to just 74 percent in the County and 69 percent in the State. In 2008, 76 percent of households in Tracy were homeowners, up from 60 percent in 1990.

- **Census data and reports from City staff suggest that much of Tracy's housing production has served Bay Area commuters looking for more affordable housing options.** In 2000, 71 percent of Tracy's employed residents commuted out of the City to work, including 52 percent who worked in Bay Area cities. Tracy's out-commuting pattern could be even more pronounced today as a result of the expansion of Bay Area jobs centers, rise in Bay Area home values, and increased residential production in Tracy.
- **Over the first half of this decade, demand from Bay Area commuters contributed to driving up home prices beyond the reach of many workforce households in Tracy.** Between 2000 and 2005, the median sales price for a single-family home in Tracy increased by 105 percent to \$540,000. At the peak of the housing boom in 2005, many workforce households were priced out of the local for-sale market. Less than four percent of three-bedroom single-family homes sold in the second and third quarters of 2005 were affordable to four-person households earning up to 150 percent of AMI.
- **More recently, declines in the housing market have significantly improved affordability in the City.** Between the peak of the housing market in 2005 and February 2009, the median sales price for a single-family home in Tracy declined by over 55 percent to \$240,000. Based on home sales in Tracy between November 2008 and February 2009, approximately 98 percent of three-bedroom single-family homes are affordable to moderate-income households. Due to the dramatic declines in sales prices, many vital occupation households, such as firefighters, police officers, teachers, and nurses, are able to afford a market-rate home in Tracy today. With the renewed attention by lenders to strict underwriting criteria, having access to a downpayment and a healthy credit score, rather than sales price, may be the primary limiting factor in affordability today.
- **Foreclosures and instability in the broader economy will continue to depress home values in the short-run.** Although specific projections about regional and national home values over the next 18 to 24 months are not available, economists generally expect a gradual recovery of the housing market and broader economy by the end of 2010. For example, at the end of 2008, the National Association of Home Builders (NAHB) projected new home starts nationally to bottom out at 740,000 units in the first quarter of 2009, and

gradually rise to 1.1 million by the end of 2010.¹ IHS Global Insight, a well-recognized macro-economic forecasting firm, expects national housing sales to reach a trough in the second half of 2009, and prices to begin to improve in late 2010.²

Despite these findings, it is unlikely that home values in Tracy will reach similar levels as the height of the housing boom in the near future. Even assuming a strong annual appreciation rate of five percent, within five years, the median sales price for a single-family home in Tracy would still be approximately \$306,000.³ This is well below the historic high of \$540,000 in 2005, and still affordable to households earning up to 120 percent of AMI, assuming access to sufficient downpayment funds. Moreover, Tracy is located at one of the outermost edges of the Bay Area “commute shed.” Therefore, recovery will likely remain more measured, and slower than in more job-rich areas of the State.

Dataquick reports that statewide, lenders filed a record number of mortgage default notices through the first quarter of 2009. The 135,431 default notices represents a 19 percent rise from the first quarter of last year. This trend points to continued activity in the foreclosure market, which will continue to depress sales prices in coming months, particularly in areas such as San Joaquin County, a center of foreclosure activity.

- **Tracy’s rental market appears stable for now, and slightly beyond the reach of lower-income households.** The relative strength of the rental market compared to the for-sale market parallels regional trends as potential homebuyers have continued to rent until the for-sale housing market recovers, the larger economy rebounds, and/or credit markets loosen. However, unemployment, which increased from 11.2 percent in March 2008 to 17.5 percent in March 2009 in San Joaquin County, may depress rents over 2009 as households are forced to double-up or move to more affordable areas due to job losses.⁴
- **Given these findings, the City could pursue a medium- to long-term approach to planning for workforce housing (i.e., up to 150 percent of AMI), while continuing to address shorter-term affordable housing needs for lower-income groups.** This Briefing Book outlines potential strategies to address this longer-term housing need.

¹ <http://www.builderonline.com/economic-conditions/hope-and-recession-mix-at-nahb-construction-forecast-conference.aspx>

² “Jobs, housing data undermine recovery hopes” San Francisco Chronicle, January 30, 2009.

³ Estimate assumes five percent appreciation over five years, starting from the median of \$240,000 in Tracy between November 13, 2008 and February 13, 2009. Five years represents the end of the current Housing Element planning period.

⁴ State of California, Employment Development Department, 2009.

Affordable and Workforce Housing Strategies

This section provides a brief description of the housing strategies discussed in the Briefing Book. The main body of this report contains more detail, including a summary of current activities in Tracy, implementation examples, and policy considerations for each strategy.

Strategy #1: Inclusionary Housing

Inclusionary programs are established through local ordinances that require market rate residential developers to set aside a certain portion of units in a development for income-restricted affordable housing (both rental and homeownership). Inclusionary housing is one of the only supply-side strategies subsidized by the private sector (i.e., residential developers) rather than the public sector.

Strategy #2: Assistance to Affordable Housing Developers

Local governments can support the production of affordable and workforce housing by contributing capital funds to local affordable housing developments. This assistance can come in a variety of ways, including fee assistance, loans, and grants, as well as non-financial support such as site selection and entitlement.

Strategy #3: Affordable Resale of Foreclosed Properties

Although thousands of households have lost their homes in the ongoing wave of foreclosures, this crisis also represents an opportunity to purchase foreclosed properties and resell them to moderate-income buyers at affordable prices.

The Department of Housing and Urban Development's new Neighborhood Stabilization Program (NSP), passed as part of President Bush's September 2008 Economic Recovery Act, provides \$3.92 billion of emergency grants to state and local governments to acquire, redevelop, and resell foreclosed properties. The NSP funds target households earning up to 120 percent of AMI, and not less than 25 percent of these funds must serve households up to 50 percent of AMI. San Joaquin County received \$9.0 million under the NSP, of which \$1.9 million is to be spent on activities in Tracy.

Strategy #4: Utilizing Publicly-Owned Land for Affordable Housing

Because land can represent as much as one-third of total development costs, a write-down of public land for affordable housing offers the opportunity to target deeper affordability levels. Use of public land may also be one of the few ways for built-out cities to find land for new housing development. Examples of this approach include Casa del Maestro, an affordable housing development for teachers built by the Santa Clara Unified School District (SCUSD) at a former middle school site in April 2002.

Strategy #5: Affordability by Design

“Affordability by Design” refers to a series of zoning and site design standards that regulate building form to promote the construction of affordable housing. These standards facilitate more efficient use of land, thereby lowering a development’s per unit costs by allowing higher densities without sacrificing construction or building design quality.

Although Affordability by Design concepts do not guarantee the provision of affordable housing, they do establish a regulatory environment wherein affordable units may occur. Examples of Affordability by Design concepts include:

- Reduced parking requirements, particularly in higher density, pedestrian-oriented urban areas and locales near major transit nodes;
- Permitting of accessory dwelling units (ADUs) in single-family zones;
- Regulation of residential building density through height, bulk, and setback requirements, rather than units per acre; and
- Increased flexibility in open space requirements.

Strategy #6: Buyer Assistance Programs

Direct support to homebuyers through mortgage or downpayment assistance represents one of the primary demand-side tools to address workforce and affordable housing needs. As a common example of this approach, many local governments in California offer qualified first-time homebuyers a “soft” or “silent” second loan as downpayment assistance, closing costs, or for purchase and rehabilitation.

Strategy #7: Homebuyer and Financial Literacy Training

Homebuyer and financial literacy education represents a key step to introducing households to the challenges, responsibilities, and benefits of homeownership. These programs also serve as critical components of asset-building, helping families build wealth – savings and equity – rather than living paycheck to paycheck. In particular, homebuyer education programs help first-time buyers evaluate their financial readiness, understand the home buying process, explore different financing options, access homebuyer assistance programs, resolve credit issues, and avoid predatory lending practices.

Strategy #8: Employer-Assisted Housing

Employer-assisted housing (EAH) refers to rental or homeownership programs that are financed or supported by an employer. These programs support employee recruitment and retention by helping workers rent or purchase a home in the area. Demand-side EAH benefits are often offered in “cafeteria-style” benefit plans, just like a 401k. EAH programs also include supply-side strategies, where employers help finance the construction of a new housing development for employees.

Strategy #9: Lease-Purchase Programs

Under a lease-purchase program, a sponsoring organization leases a home to a household, who is given the opportunity to assume the mortgage after a set period of time. During this time, the household can save for a downpayment and resolve credit issues. Monthly lease payments are somewhat higher than market rents, with the excess going into an escrow account and earning interest. At the end of the lease period, the lessee has the option to buy the home, with a portion of lease payments going towards downpayment and closing costs on the unit. The lease period depends on the time the buyer needs to save for a downpayment or address any credit problems. This period can range from six months to 15 years.⁵

Summary

Based on the current market conditions and needs assessment and review of possible affordable and workforce housing strategies, this section outlines short term (up to five years) and long term actions (six to ten years) that the City could assess as it prepares its Housing Element and evaluates ways to address local housing need.

Short Term Actions

Continue to explore the potential and set the stage for a voluntary inclusionary housing program. The current housing market and local affordability conditions do not merit creation of a mandatory inclusionary housing program in Tracy today. Moreover, a program would prove unproductive, as little to no new residential development is occurring. However, if the cost of housing increases to the extent that it becomes inaccessible to workforce-income households, the City could consider ways to incorporate additional voluntary inclusionary housing incentives into the GMO to increase the supply of low-, moderate-, and/or workforce-income units. Establishing a policy when fewer projects are in the pipeline allows developers time to incorporate the affordable units into their pro-formas and land costs, and facilitates a more gradual transition into the program. The following points outline key issues that the City should consider as it examines this initiative in more detail:

- **Target income groups.** Ultimately, identifying the target income groups for an inclusionary housing program is a policy matter that the City would need to consider with local stakeholders if an inclusionary housing program were developed. Generally speaking, an inclusionary housing program, voluntary or otherwise, must balance the need to serve lower income households (i.e., up to 80 percent of AMI), with the desire to

⁵ *Alternative Financing Models Hybrids of Homeownership: Lease/Purchase Housing.* Enterprise Community Partners, Inc. 2007.

support moderate- and workforce-income families. In today's market, the latter groups do not require much assistance to access market rate homes; an inclusionary program serving moderate- and workforce-income households would therefore offer limited public benefit. A program that targets households up to 80 percent of AMI may therefore be more appropriate.

- **Deed restrictions.** This report indicates that resale units in Tracy today are largely affordable to low-, moderate-, and workforce-income buyers. The Tracy housing market will likely remain relatively affordable in the short-term, as noted in the Needs Assessment. Therefore, any inclusionary housing program set in place now should not include deed restrictions, which would hinder the marketability of the inclusionary units. As the market recovers and values increase, deed restrictions can be reconsidered as a means to preserve the supply of inclusionary units.
- **Inclusionary units.** In this short term, developers may be able to satisfy a voluntary inclusionary housing program through modestly-priced market rate units. By incorporating Affordability by Design concepts such as higher densities, and/or using less expensive materials, developers may be able to build homes at prices affordable even to households at 80 percent of AMI. To meet program requirements, however, developers would have to evidence that the homes would be sold at prices affordable to the target income groups. Partnerships between market rate and affordable developers also offer the chance to target even lower income households through rental developments.
- **In-lieu fees.** As an alternative to on-site construction of the inclusionary units, an in-lieu fee would offer the City additional flexible dollars for affordable housing activities that serve lower-income households. These funds could also support demand-side strategies such as an expanded Downpayment Assistance Program.
- **Administration and marketing.** Many cities contract with local community organizations and non-profit agencies to assist with administration of the inclusionary units and identify buyers.

Regularly monitor the City's affordability conditions and identify an inclusionary housing trigger. The City can use the affordability measure discussed in the Needs Assessment as an annual benchmark of local housing need, calculating the percentage of units in the marketplace that are affordable to various income groups. This "Affordability Indicator" could be used as a policy trigger for a mandatory inclusionary housing program. For example, the City's updated Housing Element could state that when a four-person moderate-income household can only afford 50

percent of the homes in the market, the City will initiate a financial feasibility study for a mandatory inclusionary housing ordinance.

Support Affordability by Design concepts in the City's zoning code update and Downtown Specific Plan. Although these concepts alone will not lead to affordability, they are necessary to facilitate the types of residential development that allow for affordable unit production.

Support efforts by local affordable housing developers. The City should continue to direct HOME and redevelopment housing set-aside funds to local affordable housing projects, and provide technical assistance with site selection and entitlement. These developments provide valuable assistance to lower-income households who also contribute to the local workforce. At the same time, the City should maintain its support of Visionary Home Builders and their Neighborhood Stabilization Program (NSP) and homebuyer education initiatives.

Long Term Actions

Begin discussions with other San Joaquin County jurisdictions and employers to address long-term affordable and workforce housing need. The Santa Clara County Housing Trust Funds serves as model for a countywide approach to supporting affordable housing. San Joaquin County faces different concerns than the Silicon Valley, and lower income housing may prove a greater priority than households earning 120 percent of AMI or more. Nonetheless, agencies, employers, and housing advocates should continue to adopt a pro-active stance towards affordable housing to promote an optimal jobs/housing balance. Even in today's market, housing remains a concern, albeit due to foreclosures and joblessness, rather than skyrocketing prices.

Consider a mandatory inclusionary housing program as needed. If the City does opt for this approach, an analysis should be conducted to assure that it allows for financially feasible development. This study would help determine the required affordable percentage, target income groups, recommended in-lieu fee, and other elements of the program, based on a financial sensitivity analysis of different residential product types.

Introduction

Purpose of Report

Over the first half of this decade, the City of Tracy experienced an unprecedented rise in home values, driven in part by Bay Area commuters in search of more affordable options and other buyers seeking an ownership stake in the market. As a result, many members of the local workforce found themselves unable to afford a home in Tracy. In particular, housing advocates and City officials expressed concerns that police officers, fire fighters, teachers, medical staff, and other key members of the community might be priced out of the Tracy market. The lack of affordable housing threatened to affect recruitment and retention, and prevent Tracy's public safety personnel and educators from living where they work.

In response to these issues, the City of Tracy contracted with Bay Area Economics (BAE) to examine the need for workforce housing in Tracy in more detail, and present programmatic options to address this need. This Workforce Housing Briefing Book summarizes this analysis, and identifies potential workforce housing strategies for Tracy, highlighting policy considerations for each approach, and providing examples of successful implementation in other jurisdictions. The Briefing Book will allow Council to weigh various tools to promote workforce housing, and provide staff with direction to explore particular programs in more detail. In addition, these strategies may contribute to the implementation programs within the City's Housing Element, currently being updated.

Since this study was commissioned, the regional, state, and national housing markets have all suffered historic declines due to a combination of various factors, including over-leveraged buyers, an oversupply of new homes in many markets, high-risk subprime mortgages, and a corresponding contraction of the financial sector and broader economy.

As discussed in this report, the Tracy housing market has suffered during this national economic recession, with sharply falling home values and a growing foreclosure rate. In light of these changes, the short-term need for a City program to support workforce housing in Tracy now appears somewhat less pressing.

In the long-run, however, Tracy's key location at the edge of the Bay Area will help the City's housing market stabilize and rebound. As such, the City should take a pro-active approach towards affordable housing planning, take this opportunity to prepare for the market recovery, and map out a series of initiatives to address local housing need. This Briefing Book represents a vital step in that effort.

Organization of Report

The Briefing Book is organized into five sections, described below:

- **Overview of Workforce Housing.** Discusses the definition of workforce housing.
- **Affordable and Workforce Housing Needs Assessment.** Examines trends in the local housing market, and examines the ability of different income groups to purchase and rent a home in the City. In addition to current trends, data from the peak of the housing market is presented to offer a historical context. This section also examines the household incomes of workers in key occupations, including public safety staff, teachers, and retail workers, to evaluate these households' ability to afford to live in Tracy.
- **Affordable and Workforce Housing Strategies: Supply-Side Tools.** Identifies strategies that increase the supply of workforce housing, presenting an overview of each approach, any programs currently in place in Tracy, and policy considerations. Brief case studies from other jurisdictions are also included.
- **Affordable and Workforce Housing Strategies: Demand-Side Tools.** Presents strategies that directly assist workforce households in purchasing or renting a home.
- **Summary.** Outlines a series of actions for the City of Tracy to consider as it crafts its Housing Element and maps out a long-term workforce housing program.

Methodology

To analyze the local need for workforce housing, this Briefing Book draws on a number of published and unpublished data sources including:

- **Claritas, Inc.** A private demographic data subscription service.
- **Dataquick.** A private firm that tracks housing market data, including sales volume, price, and foreclosures, based on County Assessor records.
- **RealFacts.** A private firm that provides quarterly rent data from apartment complexes with 50 or more units.
- **US Census.** The 2000 Public Use Microdata Sample was used to evaluate household incomes for key occupations.

The discussion on workforce housing strategies is based on a literature review of best practices in the field, BAE's experience on this issue throughout the state and nation, and in-depth discussions with City staff.

In addition, the City convened an Advisory Panel of local affordable and market rate developers, housing advocates, business interests, and employers to discuss workforce housing in Tracy. Following a presentation about the local housing market and affordability conditions, the panelists offered their input on a preliminary series of strategies. As a follow-up, BAE conducted additional in-depth interviews with particular panelists. Appendix A contains a listing of Advisory Panel participants.

Overview of Workforce Housing

The California Department of Housing and Community Development (HCD) establishes the following household income categories in setting affordable housing policy for the state:

- Very low-income: Up to 50 percent of Area Median Income (AMI)
- Low-income: 51 to 80 percent of AMI.
- Moderate-income: 81 to 120 percent of AMI.

Consistent with these definitions, most affordable housing programs supported by the State and local governments only serve households earning up to 120 percent of AMI.

In recent years, however, the term “workforce-income” has also emerged among housing policy analysts as an addition to the three income groups named above. The term arose during the last housing boom as many jurisdictions in high cost areas found that even households earning up to 180 percent of AMI could not afford to own a home locally, and lived in distant, more affordable locations to satisfy their housing needs. As a result, these communities and regions suffered from increased traffic congestion and associated pollution, and experienced difficulty recruiting and retaining workers and employers.

Workforce-income households are not formally incorporated into most existing affordable housing laws, regulations, or policies, and the definition varies from locale to locale. Generally speaking, though, housing analysts consider workforce housing to encompass income classes anywhere from 120 to 180 percent of AMI. Some communities have implemented workforce housing strategies to serve these higher income groups. For example, the City of Santa Barbara allows units produced through its inclusionary housing ordinance to serve households up to 160 percent of AMI.

Despite this growing concern surrounding workforce housing, it is important to note that even those households between 81 and 120 percent AMI are generally not provided with sufficient public support to meet their housing costs. While California’s Community Redevelopment Law (CRL) includes provisions for this income category, and California’s Housing Element requirements address and target this same group, it is nevertheless often not a strong focus of local governments facing overwhelming needs from lower-income households. For example, Bay Area jurisdictions only produced 37 percent of their Regional Housing Needs Allocation (RHNA) units for moderate income households between 1999 and 2006, compared to 44 percent of the very low-income units, 75 percent of the low-income units, and 153 percent of the above-moderate income units.⁶

⁶ “A Place to Call Home.” Association of Bay Area Governments. August 2007.

With these issues in mind, this study focuses primarily on workforce housing and programs that serve households at levels from approximately 120 to 150 percent of AMI. At the same time, the Briefing Book also addresses the needs of lower income groups, as these households also represent a component of the City's workforce, and experience particular housing needs in today's economy, characterized by high unemployment rates and joblessness.

Affordable and Workforce Housing Needs Assessment

This section outlines the demographic trends in Tracy, provides an overview of the residential market, and assesses the degree to which market-rate for-sale and rental housing is affordable to households of different income levels. This analysis sets the stage to develop housing strategies that respond to local socio-economic and market conditions.

To facilitate an understanding of how the characteristics of Tracy are similar to, or different from, other nearby communities, this section presents data for Tracy alongside comparable data for all of San Joaquin County and, where appropriate, the State of California.

Demographic Trends

Population and Household Trends

The City of Tracy had an estimated population of 81,500 residents in 2008. As shown in Table 1, the City has experienced substantially higher growth rates compared to San Joaquin County and the State of California as a whole. Between 2000 and 2008, Tracy's population increased by 43 percent, compared to just 22 percent in the County and 12 percent in the State.

Similarly, the number of households in Tracy increased at a substantially higher rate compared to the County and State. In 2008, there were 24,800 households in the City of Tracy, an increase of 41 percent since 2000. By comparison, the number of households in San Joaquin County and the State grew by 20 percent and 10 percent, respectively, during the same time.

Tracy's high level of population and household growth is a result of large-scale residential construction in the area. Population growth from Alameda and Contra Costa Counties and other areas of the San Francisco Bay Area spilled over into Tracy and other Central Valley cities as households moved eastward in search of more affordable housing opportunities.

The rate of household growth in Tracy was slightly slower than the population growth rate, resulting in a slight rise in the average number of persons per household. In 2008, the average household size in Tracy was 3.27 persons. Although average household sizes in San Joaquin County and the State grew slightly between 2000 and 2008, they remained lower than the average household size in Tracy.

Consistent with the City's larger average household size, Tracy has a larger percentage of family households than the County and State.⁷ Approximately 82 percent of Tracy households were families in 2008, compared to just 74 percent in the County and 69 percent in the State.

Tracy is also characterized by a significantly higher homeownership rate than the rest of the County and State. As Table 1 indicates, 76 percent of Tracy households owned their own home in 2008, compared to 63 percent of County households and 58 percent of households in California. The City's homeownership rate has increased substantially since 1990 when it stood at 60 percent. The increase in Tracy's homeownership rate parallels the new residential development in the City, which has been largely dominated by single-family homes.

⁷ The U.S. Census Bureau defines a family household as a householder living with one or more individuals related by birth, marriage, or adoption.

Table 1: Population and Household Trends, 1990-2008 (a)

<u>City of Tracy</u>	<u>1990</u>	<u>2000</u>	<u>2008 (est)</u>	<u>% Change 1990-2000</u>	<u>% Change 2000-2008</u>
Population	33,558	56,929	81,548	69.6%	43.2%
Households	11,208	17,620	24,818	57.2%	40.8%
Average Household Size	2.98	3.21	3.27		
Household Type (b)					
Families	76.9%	81.2%	82.1%		
Non-Families	23.1%	18.8%	17.9%		
Tenure (b)					
Owner	60.0%	72.2%	76.3%		
Renter	40.0%	27.8%	23.7%		
San Joaquin County					
Population	480,628	563,598	685,660.0	17.3%	21.7%
Households	158,156	181,629	218,390.0	14.8%	20.2%
Average Household Size	2.94	3.00	3.06		
Household Type (b)					
Families	73.9%	74.2%	74.2%		
Non-Families	26.1%	25.8%	25.8%		
Tenure (b)					
Owner	57.6%	60.4%	63.1%		
Renter	42.4%	39.6%	36.9%		
California					
Population	29,760,021	33,871,648	38,049,462.0	13.8%	12.3%
Households	10,381,206	11,502,870	12,653,045.0	10.8%	10.0%
Average Household Size	2.79	2.87	2.94		
Household Type (b)					
Families	68.8%	68.9%	69.0%		
Non-Families	31.2%	31.1%	31.0%		
Tenure (b)					
Owner	55.6%	56.9%	57.6%		
Renter	44.4%	43.1%	42.4%		

Notes:

(a) 1990 and 2000 data provided by the U.S. Census. 2008 data provided by California Dept. of Finance.

(b) 2008 household type and tenure data provided by Claritas.

Sources: 1990 U.S. Census, 2000 U.S. Census; Claritas, 2008; CA Department of Finance, 2008; BAE 2009.

Tracy serves as a bedroom community for the Bay Area, with a majority of employed residents commuting out of the City for work. As Table 2 indicates, 71 percent of Tracy's employed residents did not work within the City in 2000. This includes over 52 percent of employed

residents who commuted to cities in the Bay Area. Among residents who commuted out of Tracy, the most common employment destinations were the Bay Area cities of Livermore, Pleasanton, and San Jose. Although geographically closer than many Bay Area cities, only four percent of Tracy residents commuted to the City of Stockton for work. It is also important to note that only 44 percent of Tracy workers actually live in the City. This imbalance between in- and out-commuting contributes to local traffic congestion, air pollution from increased auto trips, and is yet another indicator of the need for housing to serve the local workforce.

Table 2: Commute Patterns, City of Tracy, 2000

Residents to Place of Work	Number	Percent	Workers from Place of Residence	Number	Percent
Tracy	7,170	28.7%	Tracy	7,170	43.9%
Livermore	1,920	7.7%	Stockton	1,800	11.0%
Pleasanton	1,695	6.8%	Manteca	1,220	7.5%
San Jose	1,195	4.8%	Modesto	735	4.5%
Stockton	1,095	4.4%	Other Cities in Bay Area (a)	950	5.8%
Fremont	1,030	4.1%	Other Cities in San Joaquin County	1,190	7.3%
Other Cities in Bay Area (a)	7,211	28.9%	Remainder of California (b)	3,166	19.4%
Other Cities in San Joaquin County	645	2.6%	Outside CA	107	0.7%
Remainder of CA (b)	2,916	11.7%	Total	16,338	100.0%
Outside CA	84	0.3%			
Total	24,961	100.0%			
Tracy Residents Out-Commuting	17,791	71.3%	Tracy Workers In-Commuting	9,168	56.1%

Notes:

(a) Bay Area includes Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano, and Sonoma Counties.

(b) Includes unincorporated areas of Bay Area and San Joaquin Counties and other California cities and unincorporated areas outside the Bay Area and San Joaquin County.

Sources: U.S. Census, 2000, Census Transportation Planning Package (CTPP); BAE, 2009.

More up-to-date data regarding commute patterns is unavailable. However, since 2000, the out-commuting pattern discussed here could be even more pronounced, thanks to the expansion of the Bay Area economy, the corresponding rise in home values, and the increased production of new homes in Tracy to serve Bay Area workers. At the same time, given the sharp gains in the Tracy housing market through 2005, local workers may have been priced-out of local homes, lowering the share of Tracy workers that live in the city.

Household Income Trends

In 2008, the median household income in Tracy was approximately \$84,200. As Table 3 shows, this figure is substantially higher than the estimated median household of \$51,600 for San Joaquin County and \$58,400 for California as a whole.

Table 3: Household Income, 2008

Household Income	City of Tracy		San Joaquin County		California	
	Number	Percent	Number	Percent	Number	Percent
Less than \$15,000	1,348	5.6%	28,614	11.4%	1,373,535	10.9%
\$15,000 to \$24,999	1,199	5.0%	23,903	9.6%	1,158,840	9.2%
\$25,000 to \$34,999	1,397	5.8%	23,338	9.3%	1,189,209	9.4%
\$35,000 to \$49,999	2,174	9.0%	31,878	12.7%	1,720,765	13.7%
\$50,000 to \$74,999	4,353	18.0%	42,953	17.2%	2,324,817	18.5%
\$75,000 to \$99,999	4,375	18.1%	56,898	22.7%	1,624,327	12.9%
\$100,000 to \$149,999	6,216	25.7%	28,521	11.4%	1,821,105	14.5%
\$150,000 to \$249,999	2,558	10.6%	10,826	4.3%	958,329	7.6%
\$250,000 to \$499,999	424	1.8%	2,491	1.0%	280,285	2.2%
\$500,000 and over	102	0.4%	763	0.3%	137,650	1.1%
Total	24,146	100.0%	250,185	100.0%	12,588,862	100.0%
Median Household Income	\$84,155		\$51,648		\$58,414	
Per Capita Income	\$27,924		\$21,428		\$27,345	

Sources: Claritas, 2008; BAE, 2009

Residential Market Overview

Residential Building Permit Trends

Residential building permit data indicates that a tremendous amount of housing development occurred in Tracy between 2000 and 2004. As Table 4 shows, the City issued over 6,600 residential building permits during that five year time period. Residential development declined sharply in 2005 due to decreased housing demand and the voter-approved Measure A initiative, which amended the City's Growth Management Ordinance (GMO) by reducing the number of new residential building permits allowed each year from 1,500 to 750.⁸ New housing construction declined further in 2007 and 2008 as a result of the economic downturn and tightening of the credit market.

⁸ Although Measure A was approved by voters in 2000, there were approximately 6,000 units in the pipeline that were allowed to be built out under the pre-2000 regulations. In addition to reducing the number of building permits allowed each year to 750, Measure A limited the average annual number of building permits issued to 600, calculated from 2000. Because more than 600 building permits were issued each year during the first half of the decade as pipeline projects were allowed to be completed, the average annual building permits issued exceeds 600. As a result, the number of building permits issued declined in 2005 as the previously approved pipeline projects were completed.

Consistent with the suburban nature of Tracy, a large majority of building permits issued were for single-family homes. Nearly 93 percent of residential building permits issued between 2000 and 2008 were for single-family homes. Another six percent of permits were for units in multifamily residential developments with five or more units.

Table 4: New Residential Building Permits Issued by Building Type in Tracy, 2000-2008

Building Type	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total Permits	% of Total
Single Family	1,433	914	1,343	1,492	1,012	384	173	27	18	6,796	92.5%
2 Units	0	2	2	2	2	0	2	2	0	12	0.2%
3 & 4 Units	0	0	0	0	12	24	32	0	0	68	0.9%
5 or More Units	0	216	34	0	162	12	50	0	0	474	6.4%
Total	1,433	1,132	1,379	1,494	1,188	420	257	29	18	7,350	100.0%

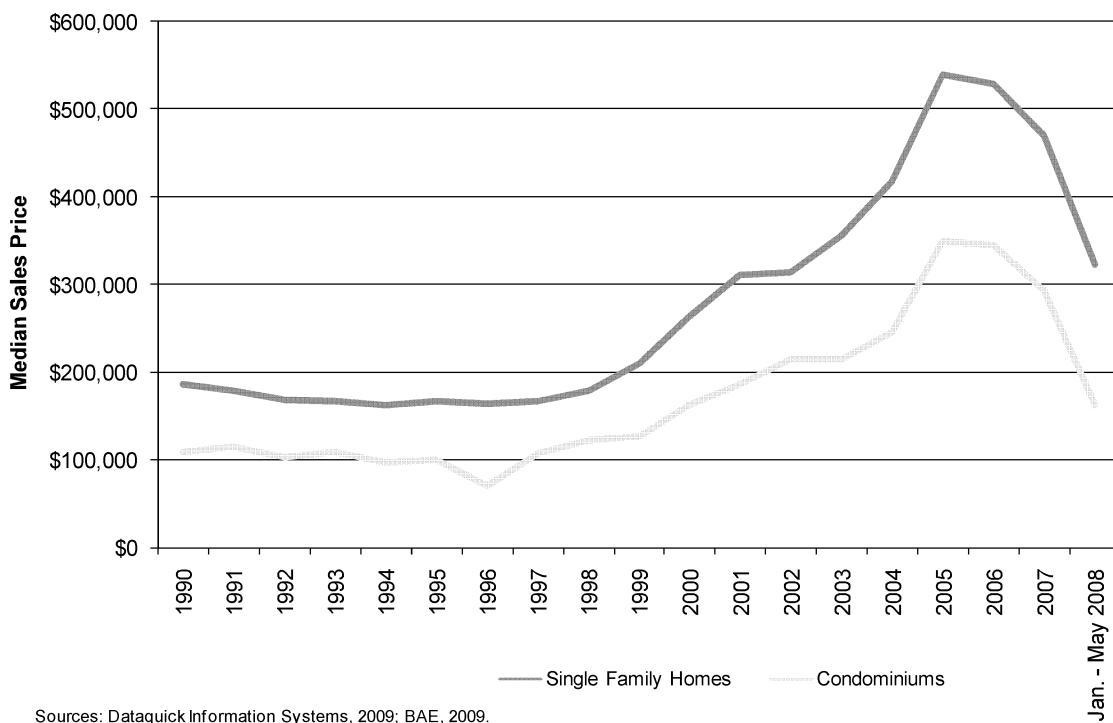
Sources: U.S. Census Building Permit Data, 2008; BAE, 2009.

For-Sale Market Overview

Tracy's for-sale residential market has largely followed the boom and bust cycle experienced throughout California and across the country. Like many other cities, Tracy's home values increased in the first half of the decade before falling substantially during the current economic downturn.

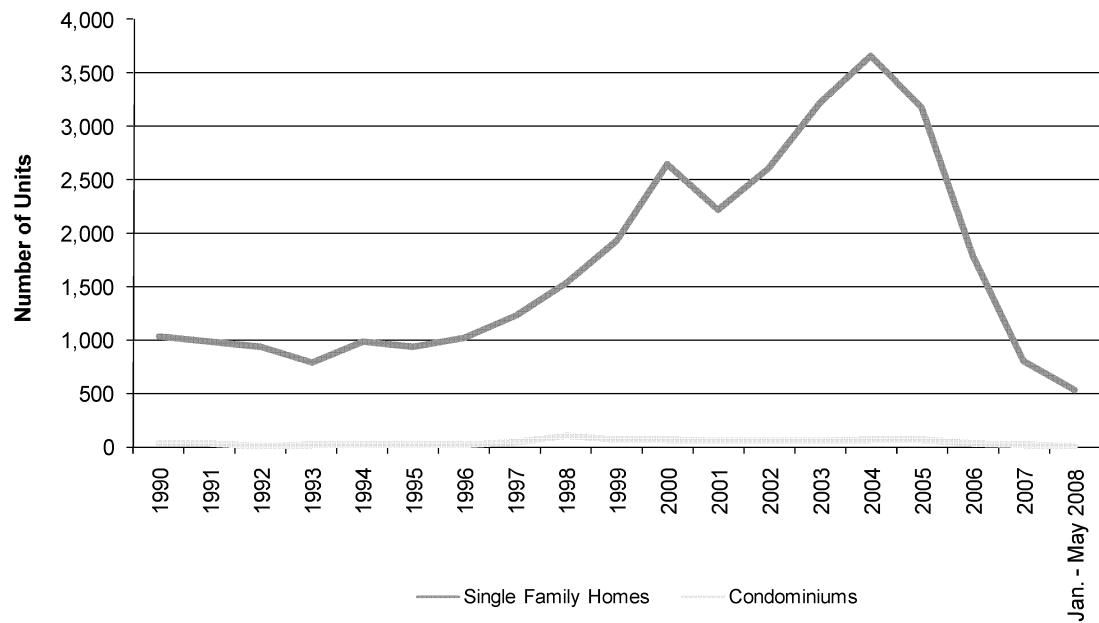
As Figure 1 indicates, the median sales price for single-family homes rose dramatically between 2000 and 2005, increasing by 105 percent during that period to \$540,000. However, as the housing market and larger economy began to decline, median sales prices in Tracy fell. Between the peak of the housing market in 2005 and February 2009, the median sales price for a single-family home in Tracy declined by over 55 percent to \$240,000.

Figure 1: Annual Median Home Sales Price, City of Tracy, 1990-2008



Tracy's for-sale market has largely been dominated by single-family homes. As Figure 2 shows, the number of condominiums sold annually has remained low since 1990, with no more than 100 units selling in any given year. The sales volume for single-family homes has been substantially higher. Sales volume increased during the housing boom, peaking in 2004 when 3,700 homes were sold in Tracy. Since 2005, the number of single-family home sales dropped, with less than 800 units selling during 2007. The decrease in home sales coincides with the economic downturn and the associated tightening of the credit market.

Figure 2: Annual Home Sales Volume, City of Tracy, 1990-2008



Sources: Dataquick Information Systems, 2009; BAE, 2009.

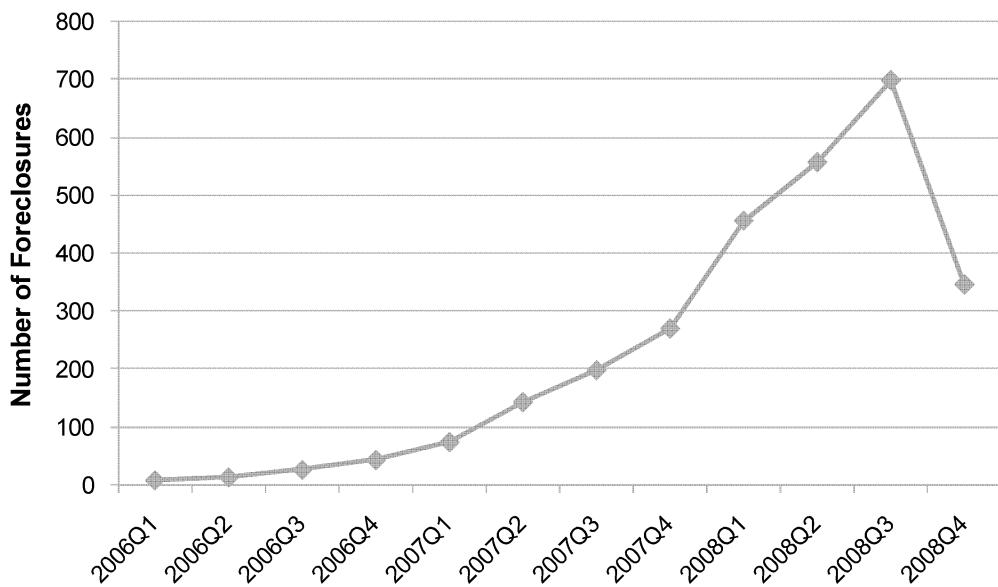
Like many cities in San Joaquin County, Tracy has experienced a rise in home foreclosures since 2007. As Figure 3 shows, there were only eight foreclosures in the City of Tracy during the first quarter of 2006. By the first quarter of 2008, that number had risen to 456 foreclosures. Foreclosures continued to rise through 2008, peaking at 698 foreclosures during the third quarter of 2008.

In Tracy and across California, the number of foreclosures fell during the fourth quarter of 2008, in part due to a new state law that required lenders to take added steps to keep troubled homeowners in their homes. At the time, economists predicted that the fourth quarter decline in foreclosures was a temporary one due to the state law that went into effect in September.⁹ Statewide, the number of foreclosures reached a record high during the first quarter of 2009, increasing by 80

⁹“Temporary Drop in California Foreclosure Activity.” *Dataquick News*. January 27, 2009. <http://www.dqnews.com/News/California/CA-Foreclosures/RRFor090127.aspx>

percent over the previous quarter.¹⁰ Although data for Tracy is not available, these statewide trends suggest that the number of foreclosures in the City likely increased during the first quarter of 2009.

Figure 3: Foreclosures in Tracy, 2006-2008

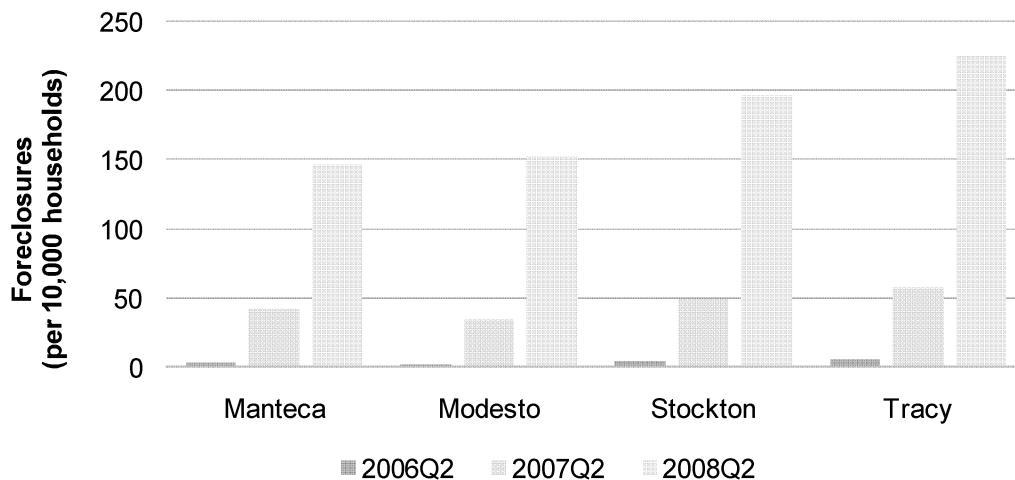


Sources: DataQuick Information Systems, 2009; BAE, 2009.

Neighboring cities such as Manteca, Modesto, and Stockton have seen similar increases in foreclosures between 2006 and 2008. During the second quarter of 2008, there were 1,815 foreclosures in Stockton and 1,100 in Modesto, compared to 557 in Tracy. Although Tracy had fewer foreclosures than Stockton and Modesto, the rate of foreclosure in Tracy was actually higher on a per household basis. As Figure 4 illustrates, during the second quarter of 2008, there were 359 foreclosures for every 10,000 households in Tracy, compared to 274 in Stockton and 218 in Modesto.

¹⁰ “Golden State Mortgage Defaults Jump to Record High.” *DataQuick News*. April 22, 2009. <http://www.dqnews.com/Articles/2009/News/California/CA-Foreclosures/RRFor090422.aspx>

Figure 4: Foreclosures in Tracy and Neighboring Cities, 2006-2008



Sources: DataQuick Information Systems, 2008; CA Dept. of Finance, 2008; BAE, 2009.

Rental Market Overview

Evaluating the cost and affordability of market rate rental units is challenging due to limited data regarding the totality of current rents for units in Tracy. RealFacts, a private data vendor, provides market information for rental units in complexes with 50 or more units. While their database of apartment units contains over 500 units, the vast majority of rental units in Tracy are located in developments with fewer than 50 units. Nevertheless, the following data provides a useful perspective on Tracy's rental market. Table 5 provides an overview of the rental market in Tracy.

During the fourth quarter of 2008, the average rent stood at \$1,244. On average, rents have increased by 11 percent between 2006 and 2008, an indicator of a strong rental market. This trend parallels regional strength in the residential rental market, as potential homebuyers have continued to rent until the for-sale housing market recovers, the larger economy rebounds, and/or credit markets loosen.

As of 2008, occupancy rates stood at 96.3 percent. Housing economists generally consider a 95 percent occupancy rate as an indicator of a balanced market that allows for tenant mobility and adequate rents for landlords. As such, Tracy's occupancy rate points to a tight rental market, consistent with rising rents over the last two years.

Table 5: Overview of Tracy Rental Market, Q4 2008

CURRENT MARKET DATA - Q4 2008

Unit Type	Number	Percent of Mix	Avg. Sq. Ft.	Avg. Rent	Avg. Rent/Sq. Ft.
1 BR/1 BA	126	25.0%	761	\$1,123	\$1.48
2 BR/1 BA	20	4.0%	840	\$1,115	\$1.33
2 BR/2 BA	238	47.2%	1,003	\$1,341	\$1.34
2 BR TH	96	19.0%	1,060	\$1,158	\$1.09
3 BR TH	24	4.8%	1,230	\$1,375	\$1.12
Totals	504	100.0%	957	\$1,244	\$1.30

AVERAGE RENT HISTORY (b)

Unit Type	2006	2007	2006-2007 % Change	2008	2006-2008 % Change
1BR/1 BA	\$961	\$1,149	19.6%	\$1,116	16.1%
2 BR/1 BA	\$1,050	\$1,097	4.5%	\$1,097	4.5%
2 BR/2 BA	\$1,145	\$1,364	19.1%	\$1,336	16.7%
2 BR TH	\$1,151	\$1,158	0.6%	\$1,158	0.6%
3 BR TH	\$1,361	\$1,361	0.0%	\$1,375	1.0%
All Units	\$1,114	\$1,260	13.1%	\$1,239	11.2%

OCCUPANCY RATE

Year	Average Occupancy
2004	92.8%
2005	96.8%
2006	96.3%
2007	84.6%
2008	96.3%

AGE OF HOUSING INVENTORY (by Project)

Year	Percent of Projects
Pre 1960's	0.0%
1960's	0.0%
1970's	0.0%
1980's	33.3%
1990's	0.0%
2000's	66.7%

Note:

(a) Represents units in housing complexes with 50 units or more. Data taken from fourth quarter, 2008.
 (b) Represents 12 month average for 2008. Differs from Current Market Data average rent, which is reported for 4th Quarter 2008 only.

Sources: RealFacts, Inc., 2009; BAE, 2009.

Affordability

Housing Affordability for Various Income Groups

Generally, housing analysts and Department of Housing and Urban Development (HUD) consider 30 percent of household income as the maximum amount that should be spent on housing costs. If a higher percent of income is spent on housing, the result is considered unaffordable. Housing costs generally include mortgage payments, property taxes, and insurance for owner-occupied housing, and rent plus utilities for rental housing. While many lenders will lend a higher percentage of household income for some mortgage loans, depending on the loan program and the creditworthiness of the borrower, the 30 percent guide is nonetheless considered the commonly-accepted threshold for affordability.

As mentioned previously, housing affordability is typically discussed in the context of households with different income levels. HCD publishes maximum income limits by household size for extremely low-income, very low-income, low-income, moderate-income, and above moderate-income households based on percentages of AMI. Table 6 provides the maximum income limits for a four-person household in San Joaquin County in 2008.

Table 6: Household Income Limits, San Joaquin County, 2008

Household Income Category	Definition as Percent of AMI	Maximum Income (a)
Extremely Low-Income	0% to 30%	\$18,400
Very Low-Income	31% to 50%	\$30,650
Lower-Income	51% to 80%	\$49,050
Median-Income	81% to 100%	\$61,300
Moderate-Income	101% to 120%	\$73,600

Notes:

(a) Based on HCD 2008 Household Income Limits for a four-person household in San Joaquin County.

Sources: California HCD, 2008; BAE, 2009.

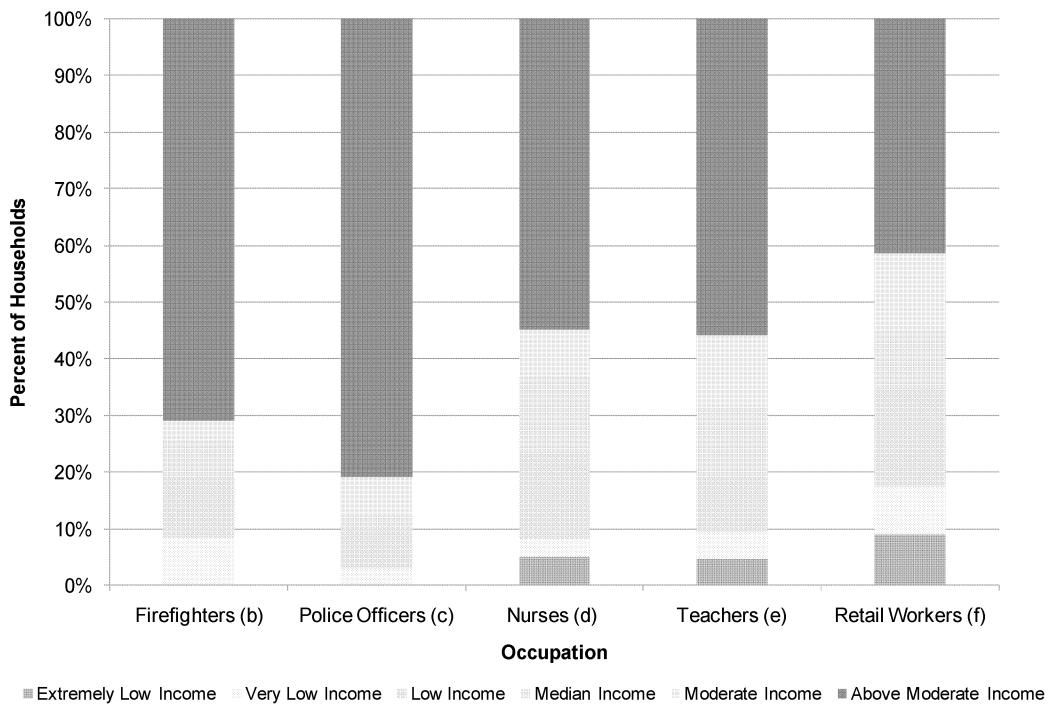
Figure 5 summarizes the range of household incomes across income categories for select occupations in San Joaquin County. Teachers, fire fighters, police officers, and nurses were selected because these occupations are often considered vital to communities. Retail workers were also included because they comprise the second largest share of local employees; 12 percent of San Joaquin County employees work in the retail industry in 2007, second only to those who work for the local, federal, or state government.¹¹ This analysis is intended to provide a better understanding

¹¹ California Employment Development Department, Quarterly Census of Employment and Wages (QCEW), 2007.

of how the household incomes of key “workforce” occupations compare with these income categories.

As Figure 5 illustrates, the majority of households with firefighters, police officers, nurses, and teachers were above moderate-income households. Approximately 71 percent of firefighter households and 81 percent of police officer households were above-moderate income while 55 percent and 56 percent of nurse households and teacher households, respectively, earned more than 120 percent of AMI. These households would not be eligible for most affordable housing programs which generally target households earning up to 120 percent of AMI. However, at the peak of the housing market, many above moderate-income households may not have been able to purchase a market-rate home in Tracy. The following section addresses housing affordability for each income group in more detail.

Figure 5: Household Income of Various Occupations, San Joaquin County, 2000 (a)



■ Extremely Low Income ■ Very Low Income ■ Low Income ■ Median Income ■ Moderate Income ■ Above Moderate Income

Notes:

(a) Based on an analysis of 2000 Public Use Microdata Samples (PUMS) from the US Census. To build an income distribution, households were selected by the presence of a worker in a given occupation, who live in San Joaquin County. Incomes were inflated to 2008 dollars and compared to 2008 income limits.

This analysis accounts for household size when grouping households into income categories.

(b) Bureau of Labor SOC Code 33-2011, firefighters.

(c) Bureau of Labor SOC Code 33-3050, police officers.

(d) Bureau of Labor SOC Codes 29-1111 and 29-2061, registered nurses and licensed and practical vocational nurses.

(e) Bureau of Labor SOC Codes 25-1000, 25-2010, 25-2020, 25-2030, 25-2040, and 25-3000, post-secondary, preschool, primary, secondary, special education, school teachers, and other teachers and instructors.

(f) Bureau of Labor SOC Codes 41-1011, 41-2031, and 41-2011, first line supervisors of retail sales, retail sales clerks, and cashiers.

Sources: Public Use Microdata Sample (PUMS), US Census, 2000; California Department of Housing and Community Development, 2008; Bureau of Labor Statistics, 2008; BAE, 2009.

Ability to Purchase Housing in Tracy

Due to falling home prices in Tracy, the percentage of homes sold that are affordable to moderate-income households has increased dramatically since 2005. A large majority of homes on the market are affordable to moderate-income households under current economic conditions. Table 7 compares the maximum affordable sales price for a four-person household at different income levels with the market rate prices for three-bedroom units sold in Tracy between November 13, 2008 and February 13, 2009 (“current market”). The analysis is also repeated for homes sold between April 1, 2005 and September 30, 2005 (“peak of the market”) to illustrate how affordability of market-rate housing has changed since that time. The maximum affordable sales price was calculated using household income limits published by HCD, conventional financing

terms for the appropriate period, and assuming that households spend 30 percent of gross income on mortgage payments, taxes, and insurance. Appendix B shows the detailed calculations used to derive the maximum affordable sales price. Home sale data for Tracy was obtained from Dataquick Information Systems.

As Table 7 shows, the median sales price for a three-bedroom single-family home in Tracy was \$190,000 between November 13, 2008 and February 13, 2009. By comparison, the highest cost residence that a moderate-income household could afford was \$334,500. Approximately 98 percent of three-bedroom single-family homes sold up to this price point. This analysis indicates that for-sale market rate housing is currently largely affordable to moderate-income households in Tracy.

However, this was not the case at the peak of the housing boom in 2005. The median sales price for a three-bedroom single-family home sold between April 1, 2005 and September 30, 2005 was \$481,000. In comparison, the maximum affordable sales price for a moderate-income, four-person household was \$289,900. Less than two percent of three-bedroom single-family homes sold on the market fell within this price range.

Housing affordability challenges were not limited to lower- and moderate-income households in Tracy at the peak of the housing market in 2005. Many above-moderate income households, which included the majority of firefighter, police officer, teacher, and nurse households in San Joaquin County in 2000, were also priced out of the market. “Workforce households,” defined for the purposes of this analysis as those earning 150 percent of AMI, could afford a home priced up to \$362,400. However, less than four percent of three-bedroom single-family homes sold up to this price point between April 1, 2005 and September 30, 2005. This analysis demonstrates that market rate housing was unaffordable for even those earning up to 150 percent of AMI. While most workforce households were unable to purchase a market rate home in Tracy at the peak of the market, their incomes were too high to qualify for most affordable housing programs.

Table 7: Affordability of Market Rate For-Sale Housing in Tracy

CURRENT MARKET (November 2008-February 2009)

Income Level	Income Limit (a)	Max. Affordable Sale Price (b)	% of 3-BR SFRs on Market within Price Range (c)
Very Low-Income (Up to 50% AMI)	\$30,650	\$139,300	15%
Low-Income (Up to 80% AMI)	\$49,050	\$222,900	71%
Moderate-Income (Up to 120% AMI)	\$73,600	\$334,500	98%
Workforce (Up to 150% AMI)	\$91,950	\$417,800	98%
			3-BR Single-Family Residence (c)
Total Units Sold			181
Median Sale Price			\$190,000

PEAK OF MARKET (April 2005-September 2005)

Income Level	Income Limit (d)	Max. Affordable Sale Price (b)	% of 3-BR SFRs on Market within Price Range (e)
Very Low-Income (Up to 50% AMI)	\$27,650	\$120,800	0.5%
Low-Income (Up to 80% AMI)	\$44,250	\$193,300	1.4%
Moderate-Income (Up to 120% AMI)	\$66,350	\$289,900	1.4%
Workforce (Up to 150% AMI)	\$82,950	\$362,400	3.7%
			3-BR Single-Family Residence (e)
Total Units Sold			215
Median Sale Price			\$481,000

Notes:

(a) Published by Department of Housing and Community Development. Income limits for four-person household in San Joaquin County, 2008. Workforce household income limit calculated by BAE as 150% of median published by HCD.

	Current Market	Peak of Market
Annual Interest Rate (Fixed)	5.2%	5.9%
Term of mortgage (Years)	30	30
Percent of sale price as down payment	20.0%	20.0%
Initial Property Tax (Annual)	1.1%	1.1%
Mortgage Insurance as Percent of Loan Amount	0.0%	0.0%
Annual Homeowner's Insurance as Percent of Sales Price	0.2%	0.1%

PITI= Principal, Interest, Taxes, and Insurance.
Percent of household income available for PITI

30.0% 30.0%

(c) Based on full and verified sales between 11/13/08 and 2/13/09 within Tracy zipcodes 95304, 95376, and 95377.

(d) Published by Department of Housing and Community Development. Income limits for four-person household in San Joaquin County, 2005.

(e) Based on full and verified sales between 4/1/05 and 9/30/05 within Tracy zipcodes 95304, 95376, and 95377.

Sources: CA HCD, 2008; Freddie Mac, 2009; CA Department of Insurance, 2009; BAE, 2009.

Ability to Rent Housing in Tracy

Table 8 compares the maximum affordable monthly rent for a four-person household with the market rate rent for three-bedroom townhouses. Maximum affordable monthly rents assumed that households pay 30 percent of their gross income on rent and utilities.

According to RealFacts, the average monthly rent for a three-bedroom townhouse in Tracy in the fourth quarter of 2008 was \$1,375. This analysis suggests that very low- and low-income renters must pay in excess of 30 percent of their incomes to compete in the current market without some form of rental subsidy. The gap is especially large for very low-income households who have to pay nearly 60 percent of their income to afford the average market rent. This analysis suggests that only moderate- and above-moderate income households can afford the average monthly rent in Tracy. It should be noted, however, that market rate rental data is limited to averages, meaning that a portion of the rental inventory would be priced below these levels and likely affordable to households earning less than 120 percent of AMI.

Unlike sales prices, rents for three-bedroom townhouses have not changed much since 2005. The average market rent for units of this size was \$1,373 in 2005. As shown in Table 8, the average market-rate rent exceeded the maximum affordable monthly rent for very low-income and low-income households in 2005.

Table 8: Affordability of Market Rate Rental Housing in Tracy

CURRENT MARKET (2008)			
Income Level	Income Limit (a)	Max. Affordable Monthly Rent (b)	Average Market Rent 3 BR (c)
Very Low-Income (Up to 50% AMI)	\$30,650	\$580	\$1,375
Low-Income (Up to 80% AMI)	\$49,050	\$1,040	\$1,375
Moderate-Income (Up to 120% AMI)	\$73,600	\$1,650	\$1,375
Workforce (Up to 150% AMI)	\$91,950	\$2,110	\$1,375

PEAK OF MARKET (2005)			
Income Level	Income Limit (e)	Max. Affordable Monthly Rent (b)	Average Market Rent 3 BR (e)
Very Low-Income (Up to 50% AMI)	\$27,650	\$500	\$1,373
Low-Income (Up to 80% AMI)	\$44,250	\$1,040	\$1,373
Moderate-Income (Up to 120% AMI)	\$66,350	\$1,650	\$1,373
Workforce (Up to 150% AMI)	\$82,950	\$2,070	\$1,373

Notes:

- (a) Published by Department of Housing and Community Development. Income limits for four-person household in San Joaquin County, 2008. Workforce household income limit calculated by BAE as 150% of median published by HCD.
- (b) Assumes 30 percent of household income spent on rent and utilities, based on San Joaquin Housing Authority utility allowance.
- (c) For three-bedroom townhouse units in Tracy, per RealFacts. Based on average annual rent for 2008.
- (d) Published by Department of Housing and Community Development. Income limits for four-person household in San Joaquin County, 2005.
- (e) For three-bedroom townhouse units in Tracy, per RealFacts. Based on average annual rent for 2005.

Sources: CA HCD, 2008; San Joaquin Housing Authority, 2005; BAE, 2009.

Key Findings

- **Tracy has experienced rapid growth over the last decade, largely in the form of single-family homes to serve families looking for ownership opportunities.** Since 2000, the City's population has increased by 43 percent to 81,500 residents in 2008. Tracy's high level of population growth stems from large-scale residential development in the area, as well as population growth from the Bay Area spilling over into the Central Valley.

Tracy is a family oriented community with a relatively high homeownership rate compared to the rest of the County and State. Approximately 82 percent of Tracy households were families in 2008, compared to just 74 percent in the County and 69 percent in the State. In 2008, 76 percent of households in Tracy were homeowners, up from 60 percent in 1990.

- **Census data and reports from City staff suggest that much of Tracy's housing production has served Bay Area commuters looking for more affordable housing options.** In 2000, 71 percent of Tracy's employed residents commuted out of the City to work, including 52 percent who worked in Bay Area cities. Tracy's out-commuting pattern could be even more pronounced today as a result of the expansion of Bay Area jobs centers, rise in Bay Area home values, and increased residential production in Tracy.
- **Over the first half of this decade, demand from Bay Area commuters contributed to driving up home prices beyond the reach of many workforce households in Tracy.** Between 2000 and 2005, the median sales price for a single-family home in Tracy increased by 105 percent to \$540,000. At the peak of the housing boom in 2005, many workforce households were priced out of the for-sale market. Less than four percent of three-bedroom single-family homes sold in the second and third quarters of 2005 were affordable to four-person households earning up to 150 percent of AMI.
- **More recently, declines in the housing market have significantly improved affordability in the City.** Between the peak of the housing market in 2005 and May 2008, the median sales price for a single-family home in Tracy declined by 40 percent. Since then, home prices in Tracy have declined further. The median sales price for a single-family home sold in Tracy between November 2008 and February 2009 was \$240,000. Approximately 98 percent of three-bedroom single-family homes sold during this time period would be affordable to moderate-income households. Due to the dramatic declines in sales prices, many vital occupation households, such as firefighters, police officers, teachers, and nurses, are able to afford a market-rate home in Tracy today. With the renewed attention by lenders to strict underwriting criteria, having access to a

downpayment and healthy credit score, rather than sales price, may be the primary limiting factor in affordability today.

- **Foreclosures and instability in the broader economy will continue to depress home values in the short-run.** Although specific projections about regional and national home values over the next 18 to 24 months are not available, economists generally expect a gradual recovery of the housing market and broader economy by the end of 2010. For example, at the end of 2008, the National Association of Home Builders (NAHB) projected new home starts nationally to bottom out at 740,000 units in the first quarter of 2009, and gradually rise to 1.1 million by the end of 2010.¹² IHS Global Insight, a well-recognized macro-economic forecasting firm, expects national housing sales to reach a trough in the second half of 2009, and prices to begin to improve in late 2010.¹³

Despite these findings, it is unlikely that home values in Tracy will reach similar levels as the height of the housing boom in the near future. Even assuming a strong annual appreciation rate of five percent, within five years, the median sales price for a single-family home in Tracy would still be approximately \$306,000.¹⁴ This is well below the historic high of \$540,000 in 2005, and still affordable to households earning up to 120 percent of AMI, assuming access to sufficient downpayment funds. Moreover, Tracy is located at one of the outermost edges of the Bay Area “commute shed.” Therefore, recovery will likely remain more measured, and slower than in more job-rich areas of the State.

Dataquick reports that statewide, lenders filed a record number of mortgage default notices through the first quarter of 2009. The 135,431 default notices represents a 19 percent rise from the first quarter of last year. This trend points to continued activity in the foreclosure market, which will continue to depress sales prices in coming months, particularly in areas such as San Joaquin County, a center of foreclosure activity.

- **Tracy's rental market appears stable for now, and slightly beyond the reach of lower-income households.** The relative strength of the rental market compared to the for-sale market parallels regional trends as potential homebuyers have continued to rent until the for-sale housing market recovers, the larger economy rebounds, and/or credit markets

¹² <http://www.builderonline.com/economic-conditions/hope-and-recession-mix-at-nahb-construction-forecast-conference.aspx>

¹³ “Jobs, housing data undermine recovery hopes” San Francisco Chronicle, January 30, 2009.

¹⁴ Estimate assumes five percent appreciation over five years, starting from the median of \$240,000 in Tracy between November 13, 2008 and February 13, 2009. Five years represents the end of the current Housing Element planning period.

loosen. However, unemployment, which increased from 11.2 percent in March 2008 to 17.5 percent in March 2009 in San Joaquin County, may depress rents over 2009 as households are forced to double-up or move to more affordable areas due to job losses.¹⁵

- **Given these findings, the City could pursue a medium- to long-term approach to planning for workforce housing (i.e., up to 150 percent of AMI), while continuing to address shorter-term affordable housing needs for lower-income groups.** The following section of this Briefing Book outlines potential strategies to address this longer-term housing need.

¹⁵ State of California, Employment Development Department, 2009.

Affordable and Workforce Housing Strategies: Supply-Side Approaches

This section describes workforce housing strategies that add to the local supply of housing. In addition to an overview of each strategy, policy considerations are also discussed.

Strategy #1: Inclusionary Housing

Overview

Inclusionary programs are established through local ordinances that require market rate residential developers to set aside a certain portion of units in a development for income-restricted affordable housing (both rental and homeownership). Inclusionary housing is one of the only supply-side strategies subsidized by the private sector (i.e., residential developers) rather than the public sector.

Inclusionary Housing in CA. According to a 2007 study by the Non-Profit Housing Association of Northern California (NPH), 170 California counties and cities have inclusionary programs, approximately one-third of all California jurisdictions. NPH reports that these 91 programs created 29,280 affordable units statewide between 1999 and 2006 – an average of approximately 4,500 annually. As a benchmark, the Low-Income Housing Tax Credit (LIHTC) Program, the most widely-applied affordable housing financing program in the State, resulted in 17,000 units a year, between 1999 and 2006.¹⁶ As such, inclusionary housing programs generated roughly one quarter of the LIHTC production during the same period. This finding supports the fact that inclusionary housing has made a significant contribution to the State’s affordable housing supply.¹⁷

The statutory and programmatic requirements of inclusionary housing programs vary from jurisdiction to jurisdiction. Programs differ on a number of characteristics, including the mandated percentage of affordable units; target income population; the length of time the affordability restrictions apply to the inclusionary housing units; the minimum development size that triggers an inclusionary requirement; and the option of an in-lieu of development fee payment. For affordable homeownership units, different models of appreciation and equity sharing exist. Inclusionary housing programs typically place deed restrictions on the affordable units, with resale terms and/or equity sharing policies to assure that the unit remains in the local affordable housing stock for an extended period of time. These restrictions essentially help “preserve” the initial subsidy for future resident households.

¹⁶ *Affordable Housing by Choice: Trends in California Inclusionary Housing Programs*. Non-Profit Housing Association of Northern California. 2007.

¹⁷ No data is currently available regarding the number of homeownership vs. rental units produced through inclusionary housing programs.

In-Lieu Fees. In-lieu fees serve as an alternative compliance method within inclusionary housing programs, allowing the developer to pay a fee instead of constructing the affordable units. Some locales only allow payment of the fee if the developer can prove that it would be economically infeasible to build the inclusionary units on-site, while others offer developers the in-lieu fee option by right. Jurisdictions subsequently redirect these in-lieu fees to other affordable housing activities.

Locating and qualifying buyers for inclusionary units presents a post-development operational challenge for many inclusionary housing programs. Some programs, like those found in high cost areas like San Francisco, are over-subscribed with long wait-lists, while other programs have difficulty marketing affordable units. Oftentimes, neither the local government nor the market rate developer has the capacity or budget to administer the program or monitor the resale of affordable units.

Organizations such as Tri-Valley Housing Opportunity Center address these concerns by pre-screening buyers, offering homebuyer training classes, and monitoring unit resales to eligible households. The Tri-Valley Housing Opportunity Center essentially acts as a clearinghouse for inclusionary units in Danville, Dublin, Livermore, Pleasanton, and San Ramon, and the Counties of Alameda and Contra Costa. This service assures developers and jurisdictions of a steady pipeline of buyers for the inclusionary units, and serves as a regional model for the administration of inclusionary housing programs.

In-lieu fee calculations and amounts vary widely across programs, ranging anywhere from \$5,000 to over \$300,000 per affordable unit. Some jurisdictions set fees at relatively high levels specifically to encourage market rate developers to build the inclusionary units. In contrast, other local governments prefer to collect in-lieu fees because these revenues can be used for such a wide variety of affordable housing programs.

Mandatory vs. Voluntary. Among California jurisdictions with inclusionary housing programs, approximately 94 percent have a mandatory requirement, and the remaining six percent take a voluntary approach.¹⁸ In the latter case, incentives can encourage developers to contribute to the program. For example, the City of Morgan Hill incorporates a voluntary inclusionary housing program into its Residential Development Control System (RDCS), a growth control policy that determines the number of residential permits that can be issued annually. Permits for residential development are typically reviewed once a

year through a competitive process. The allocation is based on an objective point system that addresses 14 criteria, including design, diversity of housing types, affordable housing, and the

¹⁸ “Inclusionary Housing in California: 30 Years of Innovation” Non-Profit Housing Association of Northern California. 2003.

potential impact on public facilities, traffic, infrastructure, and public services. Developers receive additional points to projects that commit five to ten percent of the total number of units for low- and moderate-income households.

Current Activities in Tracy

The City of Tracy could consider incorporation of additional voluntary inclusionary housing incentives into its Growth Management Ordinance (GMO). In Morgan Hill, for example, project applications with an affordable housing dedication receive additional points in the review process, and a greater likelihood of receiving a building permit allocation.

Policy Considerations

- **Inclusionary housing leverages private resources.** The City of Tracy has limited financial resources to dedicate to affordable housing initiatives. As it relies primarily on contributions from private developers, inclusionary housing may be an attractive option to generate in-lieu fees or produce new affordable units. However, this option would entail significant staff and consultant time to establish a program and may require one or more full-time staff to implement and monitor activities.
- **Inclusionary housing represents one of the few supply-side tools that addresses moderate and workforce housing needs.** As noted earlier, most State and local affordable housing programs target households up to 80 percent of AMI. Recognizing this, many jurisdictions extend their inclusionary housing programs to include households up to 120 percent of AMI. In fact, 21 percent of inclusionary units produced in California between 1999 and 2006 serve moderate income households, and another three percent target households above 120 percent of AMI.¹⁹ Inclusionary housing programs can also contribute to affordable ownership housing, while most other affordable housing programs support renters. Statewide, approximately 29 percent of the inclusionary units built are ownership homes.²⁰
- **Deed restrictions remain a challenge.** Many cities continue to struggle with the best way to preserve the stock of affordable units produced through their inclusionary housing program, while still allowing households the benefit of some appreciation, and the flexibility to sell their unit should the need arise. Deed restrictions and equity sharing arrangements can be difficult to track and administer, hard for the buyer to understand, and can restrict the buyer's ability to sell their homes. In weaker housing markets, deed restrictions can also present a marketing challenge for the inclusionary units.

¹⁹ "Affordable by Choice: Trends in California Inclusionary Housing Programs." Non-Profit Housing Association of Northern California. 2007.

²⁰ Ibid.

- **In-lieu fees can provide a valuable source of flexible funds to support a variety of affordable housing activities throughout the City.** Many jurisdictions appreciate the ability to leverage other dollars through their in-lieu fees, particularly to support developments serving lower-income groups. However, the program must be carefully designed to assure that the fee schedule effectively generates sufficient funds to “replace” the inclusionary housing unit that is not provided by the developer.
- **An inclusionary housing program would not generate any new units or in-lieu fees under today’s market conditions.** As noted in the previous section of this report, the Tracy housing market has softened significantly in recent months, and little to no new production has occurred. Therefore, an inclusionary housing program, which relies on market-rate development activity, would not be a productive strategy in the short-term.
- **In the long-run, inclusionary housing can provide valuable contributions to the local workforce and affordable housing supply.** The Summary section of this Briefing Book suggests how the City might explore the viability of an inclusionary housing program in more detail.

Strategy #2: Assistance to Affordable Housing Developers

Overview

Local governments can support the production of affordable and workforce housing by contributing capital funds to local affordable housing developments. This financial assistance can come in a variety of ways, including:

Fee Assistance. Many jurisdictions defer, waive, or reimburse local permitting fees for affordable units, either in 100 percent affordable developments or in mixed-income inclusionary projects. While jurisdictions cannot legally waive impact fees, which are meant to mitigate impacts generated by the project, they may use redevelopment agency funds to cover these costs. Alternately, cities can pay for the necessary infrastructure improvements to prepare a site for residential development, in lieu of collecting impact fees.

Loans. Below-market rate loans for land acquisition and predevelopment can prove vital for affordable housing developers with limited capital. Local redevelopment agencies often provide these resources using housing set-aside funds. The State also offers a number of funding sources for acquisition and predevelopment costs. For example, the California Housing and Finance Agency (CalHFA) Residential Development Loan Program (RDLP) is project-specific funding that provides a three percent interest rate loan with a maximum term of five years to local government agencies. Agencies award these funds to nonprofit housing developers for site development, predevelopment and construction costs attributed to affordable infill, owner-occupied housing developments.

Current Activities in Tracy

The City of Tracy has a history of supporting affordable housing development projects, in the form of contributions from the Redevelopment Agency Housing Set-Aside Fund and HOME dollars. In total, Tracy has 464 affordable income-restricted rental units which serve households up to 50 and 60 percent of AMI. Altogether, the City has provided a total of \$9.6 million in capital to these developments. Most recently, in 2008, the City Redevelopment Agency provided \$4.4 million to the Tracy Place affordable senior housing development. The County Housing Authority operates another 195 units of affordable housing in Tracy.

In addition to capital contributions, the City's Community Development and Planning staff also provides ongoing assistance to developers in site identification, planning, and other pre-development activities.

Policy Considerations

- **Consistent with the requirements of public subsidies, affordable housing developers generally target households up to 60 percent of AMI, and mainly produce rental units.** As such, these developments do not address the needs of moderate- and workforce-income families, who are not income-eligible for the units. Nonetheless, these lower-income households still represent a segment of the City's employment base. For example, as shown earlier in Figure 5, approximately 10 percent of teacher households and 18 percent of retail worker households in the County earn up to 60 percent of AMI. These groups have unique needs that are best addressed through affordable rental housing, rather than ownership units.

Strategy #3: Affordable Resale of Foreclosed Properties

Overview

Although thousands of households have lost their homes in the ongoing wave of foreclosures, this crisis also represents an opportunity to purchase foreclosed properties and resell them to moderate-

income buyers at affordable prices. In addition to helping families access affordable homes, reselling foreclosed properties can help stabilize local property values and mitigate blight caused by unmaintained homes.

The Department of Housing and Urban Development's (HUD) new Neighborhood Stabilization Program (NSP), passed as part of President Bush's September 2008 Economic Recovery Act, provides \$3.92 billion of emergency grants to state and local governments to acquire, redevelop, and resell foreclosed properties. The NSP funds target households earning up to 120 percent of AMI, and not less than 25 percent of these funds must serve households up to 50 percent of AMI.

Current Activities in Tracy

San Joaquin County received \$9.0 million under the NSP, of which \$1.9 million is to be spent on activities in Tracy. Specifically, only homes in five Census Block Groups that cover the northwestern corner of the City may be acquired and resold under the NSP. These areas were identified by the County in its NSP grant application as having the "greatest need" due to the concentration of foreclosure activity. The County's NSP funding has to be obligated within 18 months from the date of the grant agreement with HUD.

In early 2009, the County contracted with Visionary Home Builders of California (VHB), a non-profit community development organization based in Stockton, to implement the NSP programs. Representatives at VHB report that while the program remains in its preliminary stages, they plan on acquiring and rehabilitating foreclosed properties, and subsequently reselling them or renting them to households earning up to 120 percent of AMI. Staff report strong interest in the program, with 86 pre-qualified families in Tracy alone. The NSP homes enjoy a market advantage over other similarly-priced resales and foreclosed properties thanks to the rehabilitation work conducted by VHB. Staff report that many households don't have the funds to conduct these improvements which result in a comparable set of amenities as a newly-constructed home.

The City of Tracy is working closely with VHB in conducting outreach and publicizing the program. The City may also participate in the initiative through its Downpayment Assistance Program (discussed in Strategy #6), helping eligible buyers secure the equity to purchase the home.



Policy Considerations

- **As a new program, the NSP will encounter challenges, particularly given the need to obligate the NSP funds within 18 months.** Some of these challenges will emerge within the early stages of implementation. For example, VHB staff report that they have encountered difficulty acquiring homes from lenders, who remain hesitant to sell the properties at a sufficient discount to make the program financially feasible. For now, demand appears to outstrip the supply of available NSP homes.
- **The NSP represents a valuable tool to help stabilize the housing market.** By absorbing the inventory of foreclosed units and placing residents in the properties, the program help sales prices recover and protect neighborhoods from the blight associated with unoccupied and unmaintained homes.

Strategy #4: Utilizing Publicly-Owned Land for Affordable Housing

New York City has adopted an aggressive stance on dedicating publicly-owned sites to affordable housing uses. The City's Department of Housing Preservation (HPD), states a goal of producing 165,000 affordable units over 10 years, with many of these units to be built on properties controlled by housing-related agencies. However, HPD has also partnered with the Department of Transportation, the Health and Hospitals Corporation, and the Human Resources Administration for housing on surface lots, school sites, and aging hospital sites.

Because land can represent as much as one-third of total development costs, a write-down of public land for affordable housing offers the opportunity to target deeper affordability levels. Use of public land may also be one of the few ways for built-out cities to find land for new housing development.

As an example of a public agency supporting workforce housing through its land resources, the Santa Clara Unified School District (SCUSD) became the first California public school district to offer a housing community for educators when it opened Casa del Maestro at a former middle school site in April 2002. Faced with difficulty in retaining teachers due to the high cost of housing, the District issued an RFP and selected Thompson/Dorfman Partners to develop the \$6 million project.

Casa del Maestro consists of 40 one and two bedroom apartments, all of which include private garages, central heating and air conditioning, washers and dryers, patios or balconies, and internet access. Rents range from \$800 to \$1,300 a month, approximately half of market rate rents in the area. Teachers, counselors, and nurses who have

worked for the District for less than three years and have a combined household income of less than \$150,000 are eligible to apply for units in Casa del Maestro. In 2008, the Area Median Income in Santa Clara County for a four-person household was \$97,800.

Casa del Maestro has been well received by SCUSD teachers and employees. According to Roger Barnes, district business administrator and the project's manager, Casa del Maestro succeeded in keeping teachers in the District. A survey conducted three years after the development opened found a turnover rate of eight percent among teachers who had lived in Casa del Maestro. The turnover rate for teachers in the same cohort who had not lived in SCUSD sponsored housing was 47 percent.

Based on the success of this program, SCUSD is currently constructing another 30 apartment units. Phase II of Casa del Maestro will be completed in June 2009. Eighty households entered the lottery for the 30 new apartment units in Phase II.

The District issued certificates of participation to finance the \$6 million development cost for Phase I of Casa del Maestro. Rental income from the apartment units go to investors who purchased certificates of participation. Casa del Maestro Phase II is being financed through \$4.8 million in certificates of participation and \$2 million from the City of Santa Clara Redevelopment Agency. According to Roger Barnes, District ownership of the land provides a key ingredient to the project's feasibility and success. Casa del Maestro also benefitted from strong support from the SCUSD superintendent and board.

Current Activities in Tracy

The Tracy Unified School District reports that in the wake of the housing market decline and foreclosures, the District has experienced a loss of enrollment in recent years. Nonetheless, as a result of the District's enrollment gains during the first half of this decade, it currently does not have any surplus school sites that could conceivably be used for affordable housing. In addition, the Human Resources Department does not have any current information regarding teachers' need for housing in Tracy. Should the need and opportunity for teacher housing arise in the future, the District remains open to further discussions and partnerships with the City.

In terms of City-owned surplus property, the City currently does not have any readily-developable surplus sites that could be developed as affordable housing.

Policy Considerations

- **Although publicly-owned surplus sites are limited, the City could continue to look for opportunities to leverage public land into workforce housing.** Such a project would increase supply, and more importantly signal the community's commitment to addressing

its affordable housing needs, particularly as the housing market begins to stabilize and recover.

Strategy #5: Affordability by Design

Overview

“Affordability by Design” refers to a series of zoning and site design standards that regulate building form to promote the construction of affordable housing. These standards facilitate more efficient use of land, thereby lowering a development’s per unit costs without sacrificing construction or building design quality.

Although Affordability by Design concepts do not guarantee the provision of affordable housing, they do establish a regulatory environment wherein affordable units may occur. Examples of Affordability by Design concepts include:

- Reduced parking requirements, particularly in higher density, pedestrian-oriented urban areas and locales near major transit nodes;
- Permitting of accessory dwelling units (ADUs) in single-family zones;
- Regulation of residential building density through height, bulk, and setback requirements, rather than units per acre; and
- Increased flexibility in open space requirements.

Current Activities in Tracy

The City’s 2006 General Plan includes multiple Goals, Objectives, and Policies that support the concept of Affordability by Design. For example, Goal CC-8 of the Community Character Element calls for a “Downtown that is the heart of the city,” and includes policies that speak to higher-density development and shared parking facilities. Similarly, the Land Use Element calls for Residential High (RH) areas to occur in the Downtown and Village Centers.

The City is now in the process of updating its zoning code for consistency with the General Plan. The Downtown Specific Plan, currently in draft form, will further elaborate on the potential for higher-density, transit-oriented development in central Tracy.

Policy Considerations

- **Affordability by Design alone does not guarantee affordability.** Many higher-density developments remain unaffordable to moderate-, and even workforce-income households. However, it does help facilitate affordability, particularly if combined with other strategies such as inclusionary housing and/or assistance to affordable housing developers.

- **Affordability by Design also has other urban benefits.** If implemented as part of an overall commitment to more compact development, Affordability by Design concepts can facilitate a more pedestrian-oriented community, vital streetscape, and even increased local economic development.

Redwood City, in San Mateo County, exemplifies the use of Affordability by Design concepts to promote housing development in its downtown. For example, in early 2006, the City Council approved a resolution that substantially reduced minimum parking requirements. Lower parking ratios support affordable housing production by limiting construction costs. Structured parking, commonly used in high-density environments, can cost up to \$35,000 per space, a significant share of total unit construction costs.

Parking minimums in Redwood City were reduced from 2.25 spaces per unit to between 0.25 and 1.5 spaces per unit. Redwood City staff report that developers now generally provide 10 to 20 percent more parking spaces than required, a positive indicator that the minimum parking requirements are set at levels that allow for financially feasible and marketable development.

Affordable and Workforce Housing Strategies: Demand-Side Approaches

Strategy #6: Buyer Assistance Programs

Overview

Direct support to homebuyers through mortgage or downpayment assistance represents one of the primary demand-side tools to address workforce and affordable housing needs. While the current credit and foreclosure crisis makes it clear that many affordable mortgage products were poorly conceived or underwritten, private loan products will continue to be the primary vehicle for most first time homebuyers to enter home ownership.

As a common example of this approach, many local governments in California offer qualified first-time homebuyers a “soft” or “silent” second loan as downpayment assistance, closing costs, or for purchase and rehabilitation. These loans can draw on state programs or local funds, such as redevelopment set-aside dollars. For example, the City of Los Angeles uses funds from CalHFA’s Affordable Housing Partnership Program (AHHP) and HUD’s American Dream Downpayment Initiative (ADDI) to assist low-income households in purchasing and/or rehabilitating a home. The loan is deferred, and is due at transfer, first mortgage repayment, or in 30 years. Most programs offer low- or zero interest loans.

Current Activities in Tracy

The City of Tracy currently operates a Downpayment Assistance Program (DAP), started in 2004. The program offers first-time moderate-income households a silent second loan equal to the lesser of 30 percent of the purchase price or \$75,000. The loan, set at 3.0 percent simple interest rate, is deferred for 30 years and due at the end of 30 years, or upon resale or refinancing. As the program is designed to encourage investment in particular areas of Tracy, buyers may only use the DAP to purchase properties within Downtown and the Holly Drive and Palm Circle areas. Buyers must also obtain a First Time Home Buyer Education Certificate from a HUD-approved agency. Since its inception, the City has made a total of 18 DAP loans.

Policy Considerations

- **Buyer assistance programs like silent second loans represent a key tool to promote homeownership among moderate- and workforce-income households.** These programs are flexible, well-established, relatively easy to administer, and allow buyers the freedom to select a desirable home. Moreover, these programs can also provide valuable assistance given today’s tighter mortgage underwriting standards, and the renewed focus by lenders on a larger downpayment.

- **The geographic boundaries of the Tracy DAP ultimately limit its broad application.** However, if the City is successful in spurring new residential development in Downtown through the new Specific Plan, the DAP will potentially help stimulate demand for these homes.

Strategy #7: Homebuyer and Financial Literacy Training

Overview

Homebuyer and financial literacy education represents a key step to introducing households to the challenges, responsibilities, and benefits of homeownership. These programs also serve as critical components of asset-building, helping families build wealth – savings and equity – rather than living paycheck to paycheck. In particular, homebuyer education programs help first-time buyers evaluate their financial readiness, understand the home buying process, explore different financing options, access homebuyer assistance programs, resolve credit issues, and avoid predatory lending practices. Other asset-building education programs address financial literacy more broadly.

In addition to helping homebuyers become stronger candidates for homeownership, these programs market other affordable homeownership tools and subsidies, all benefiting the educated homebuyer. Some help buyers screen mortgages and avoid taking out loans that could be predatory or unaffordable over time. Homebuyer and financial literacy programs are best offered in tandem with demand-side initiatives such as a downpayment assistance program.

Current Activities in Tracy

Visionary Home Builders (VHB) offers homebuyer education classes twice a month in Spanish and English. After completing the class, participants meet with a VHB housing counselor to review their finances and formulate a plan of action, whether it be a home purchase or continuing to rent while saving for a downpayment or building a credit history. VHB also provides buyers access to a network of lenders that work with the counselor and buyer throughout the qualification and purchasing process. Additionally, VHB offers one-on-one counseling to homeowners at risk of foreclosure. Through this program, VHB works with the owner and lender to review options, work out a loss mitigation plan, and help secure cash from the lender to cover moving costs in the event of foreclosure (e.g., through a “cash for keys” arrangement).

The City of Tracy now requires all participants in the Downpayment Assistance Program (DAP) to obtain a First Time Homebuyer Certificate from a HUD-approved trainer.

Policy Considerations

- **Funds for these programs can be a cost-effective, long-term investment to support**

homeownership among low-, moderate-, and workforce-income families. Financial literacy education is particularly effective if included as part of a larger homebuyer assistance program.

Strategy #8: Employer-Assisted Housing

Overview

Employer-assisted housing (EAH) refers to rental or homeownership programs that are financed or supported by an employer. These programs support employee recruitment and retention by helping workers rent or purchase a home in the area. Demand-side EAH benefits are often offered in “cafeteria-style” benefit plans, just like a 401k. EAH programs also include supply-side strategies, where employers help finance the construction of a new housing development for employees.

Typically, employers who sponsor EAH programs are relatively larger, with larger budgets and greater needs to recruit and retain employees. Target income groups are varied. Examples of demand-side EAH programs include:

- Loans or grants for downpayment or closing cost assistance;
- Mortgage guarantees;
- Silent second loans;
- Mortgage insurance assistance;
- Individual development accounts (IDAs);
- Interest rate buy-downs;
- Group mortgage origination; and
- Homebuyer counseling and education.

Alternatively, EAH dollars can be invested in third-party housing sources that would indirectly benefit employees and the community. For example, local employers have invested \$27 million in the Housing Trust of Santa Clara County, leveraging another \$1.2 billion. In turn, the Housing Trust funded homeless/special needs housing, multifamily rental developments, and first-time homebuyer assistance for very-low income families. These efforts benefit a broad population, from extremely low to moderate-income households.

EAH dollars can leverage other funds, a particularly useful strategy in high-priced markets. For example, municipal and state governments can match employer contributions to EAH programs. In 2007, the Nevada legislature allocated \$1.0 million to the Department of Business and Industry to provide grants for employers offering housing benefits. The Cities of Baltimore and Philadelphia also offer matching EAH funds.

Other standard sources of affordable housing funds have also been used to support EAH programs,

including HOME funds, housing trust fund dollars, Community Development Block Grants, redevelopment agency set asides, affordable housing bonds, and private foundation support.

Current Activities in Tracy

There are currently no active and widely-applied EAH programs among Tracy employers.

Policy Considerations

- **A countywide approach to EAH would likely prove more effective, given the limited number of large-scale employers in Tracy.** Following the Santa Clara County Housing Trust Fund model, the City could begin to explore the possibility of a similar organization spanning San Joaquin County communities. This would engage employers throughout the County, thereby leveraging additional resources.

Strategy #9: Lease-Purchase Programs

Overview

Lease-purchase programs help buyers overcome the barriers of downpayment, closing costs, and/or any credit problems by allowing them to lease a home from a sponsoring organization. These households would otherwise be unable to secure a mortgage from a conventional lender.

Under a lease-purchase program, a sponsoring organization leases a home to a household, who is given the opportunity to assume the mortgage after a set period of time. During this time, the household can save for a downpayment and resolve credit issues. Monthly lease payments are somewhat higher rate than market rents, with the excess going into an escrow account and earning interest. At the end of the lease period, the lessee has the option to buy the home, with a portion of lease payments going towards downpayment and closing costs on the unit. The lease period depends on the time the buyer needs to save for a downpayment or address any credit problems.²¹ This period can range from six months to 15 years.

In the past, many banks have offered mortgages to community organizations to buy existing homes to be included in a lease-purchase program, underwriting the loan in conformance with secondary market requirements (Fannie Mae offers a lease-purchase product). This model effectively transfers the risk of default from the mortgage lender to the sponsoring organization during the lease period. Therefore, as part of the underwriting process, banks assess an organization's ability to develop/rehabilitate, market, and maintain properties. This approach may be coupled with the affordable resale of foreclosed properties, as outlined in Strategy #3.

²¹ *Alternative Financing Models Hybrids of Homeownership: Lease/Purchase Housing*. Enterprise Community Partners, Inc. 2007.

Lease-purchase programs are also applied to new housing. Affordable housing developers can build new units with typical affordable housing construction sources (e.g., LIHTCs, funds from local and state governments, other sources outlined in this report), and subsequently enter into a lease-purchase agreement with tenant/buyers.

A pilot lease-purchase program is currently underway in Charlotte, North Carolina. The City of Charlotte is teaming with Self-Help CDC in an effort to stabilize a new subdivision – Peachtree Hills – that has been racked with foreclosures. Peachtree Hills began construction in 2003, and contains 147 units. As of January 2008 the subdivision had 40 vacancies, and 42 of the homes had undergone foreclosure.

In the pilot, Self-Help CDC will purchase up to 25 vacant units using Self-Help's lease-purchase product. The CDC will perform minor rehabilitation on the units, and use a network of counseling agencies and realtors across the city to attract lease-purchasers and buyers. During the lease period, the CDC will hire a property management firm to oversee the units. In turn, the City will make infrastructure improvements to enhance the subdivision's curb appeal and to provide support to the emerging homeowners association.

Current Activities in Tracy

VHB is in the process of developing a lease-purchase program as an option under its NSP initiative. While the details have not been established, VHB expects the lease-purchase program to attract households who need up to five years to either save for a downpayment or repair their credit prior to purchasing the unit.

Policy Considerations

- **A lease-purchase program could provide valuable assistance to many households whose credit rating has been damaged as a result of foreclosure.** Many of these households still have dependable incomes and the ability to make regular mortgage payments. However, with a damaged credit rating and renewed attention to underwriting by lenders, these households will have difficulty securing a loan today. A lease-purchase program would allow these households to repair their credit during the lease portion of the program, and transition into more traditional homeownership over time.
- **A lease-purchase program relies on the capacity of affordable housing developers, homeownership organizations, and other community groups to monitor and administer the program.** Lease-purchase programs demand a unique set of skills associated with acquisition, rehabilitation, sale, maintenance, and management of homes.

Few organizations have the experience to effectively handle each of these areas. To address these needs, VHB is partnering with area homebuilders (Affordable Luxury Homes, FCB Homes, and The Grupe Company), real estate agents (Grupe Real Estate), and property management firms (PMZ Real Estate) in the implementation of the NSP initiative and lease-purchase program.

- **Organizations must carefully evaluate the number of potential program participants in a given market.** This program works best for those few buyers who cannot obtain a traditional mortgage but have the resources to qualify for a lease-purchase program. Again, many of the families who have lost homes to foreclosure may be ideal participants in this program, thanks to their experience in the homeownership market, and the need to repair their credit.

S u m m a r y

Based on the fact that workforce-income households can afford virtually all the homes sold in Tracy today, there is no immediate need to develop a workforce housing program at this time. This section outlines short term (up to five years) and long term actions (six to ten years) that the City could assess as it evaluates ways to address local housing needs in the future.

Short Term Actions

Explore the potential and set the stage for additional voluntary inclusionary housing incentives. The current housing market and local affordability conditions do not merit creation of a mandatory inclusionary housing program in Tracy today. Moreover, a program would prove unproductive, as little to no new residential development is occurring. However, if the cost of housing increases to the extent that it becomes inaccessible to workforce-income households, the City could consider ways to incorporate additional voluntary inclusionary housing incentives into the GMO to increase the supply of low-, moderate-, and/or workforce-income units. Establishing this policy when few projects are in the pipeline allows developers time to incorporate the affordable units into their pro-formas and land costs, and facilitates a more gradual transition into the program. The following points outline key issues that the City should consider as it examines this initiative in more detail:

- **Target income groups.** Ultimately, identifying the target income groups for an inclusionary housing program is a policy matter that the City would need to consider with local stakeholders if an inclusionary housing program were developed. Generally speaking, an inclusionary housing program, voluntary or otherwise, must balance the need to serve lower income households (i.e., up to 80 percent of AMI), with the desire to support moderate- and workforce-income families. In today's market, the latter groups do not require much assistance to access market rate homes; an inclusionary program serving moderate- and workforce-income households would therefore offer limited public benefit. A program that targets households up to 80 percent of AMI may therefore be more appropriate.
- **Deed restrictions.** This report indicates that resale units in Tracy today are largely affordable to low-, moderate-, and workforce-income buyers. The Tracy housing market will likely remain relatively affordable in the short-term, as noted in the Needs Assessment. Therefore, any inclusionary housing program set in place now should not include deed restrictions, which would hinder the marketability of the inclusionary units. As the market recovers and values increase, deed restrictions can be reconsidered as a means to preserve the supply of inclusionary units.

- **Inclusionary units.** In this short term, developers may be able to satisfy a voluntary inclusionary housing program through modestly-priced market rate units. By incorporating Affordability by Design concepts such as higher densities, and/or using less expensive materials, developers may be able to build homes at prices affordable even to households at 80 percent of AMI. To meet program requirements, however, developers would have to evidence that the homes would be sold at prices affordable to the target income groups. Partnerships between market rate and affordable developers also offer the chance to target even lower income households through rental developments.
- **In-lieu fees.** As an alternative to on-site construction of the inclusionary units, an in-lieu fee would offer the City additional flexible dollars for affordable housing activities that serve lower-income households. These funds could also support demand-side strategies such as an expanded Downpayment Assistance Program.
- **Administration and marketing.** Many cities contract with local community organizations and non-profit agencies to assist with administration of the inclusionary units and identify buyers. .

Regularly monitor the City's affordability conditions and identify an inclusionary housing trigger. The City can use the affordability measure discussed in Table 7 as an annual benchmark of local housing need, calculating the percentage of units in the marketplace that are affordable to various income groups. This “Affordability Indicator” could be used as a policy trigger for a mandatory inclusionary housing program. For example, the City’s updated Housing Element could state that when a four-person moderate-income household can only afford 50 percent of the homes in the market, the City will initiate a financial feasibility study for a mandatory inclusionary housing ordinance.

Support Affordability by Design concepts in the City’s zoning code update and Downtown Specific Plan. Although these concepts alone will not lead to affordability, they are necessary to facilitate the types of residential development that allow for affordable unit production.

Support efforts by local affordable housing developers. The City should continue to direct HOME and redevelopment housing set-aside funds to local affordable housing projects, and provide technical assistance with site selection and entitlement. These developments provide valuable assistance to lower-income households who also contribute to the local workforce. At the same time, the City should maintain its support of Visionary Home Builders and their Neighborhood Stabilization Program (NSP) and homebuyer education initiatives.

Long Term Actions

Begin discussions with other San Joaquin County jurisdictions and employers to address long-term affordable and workforce housing need. The Santa Clara County Housing Trust Funds serves as model for a countywide approach to supporting affordable housing. San Joaquin County faces different concerns than the Silicon Valley, and lower income housing may prove a greater priority than households earning 120 percent of AMI or more. Nonetheless, agencies, employers, and housing advocates should continue to adopt a pro-active stance towards affordable housing to promote an optimal jobs/housing balance. Even in today's market, housing remains a concern, albeit due to foreclosures and joblessness, rather than skyrocketing prices.

Consider a mandatory inclusionary housing program as needed. If the City does develop a mandatory inclusionary housing program, an analysis should be conducted to assure that it allows for financially feasible development. This study would help determine the required affordable percentage, target income groups, recommended in-lieu fee, and other elements of the program, based on a financial sensitivity analysis of different residential product types.

Appendix A: Participants in Affordable and Workforce Housing Advisory Panel

<u>Name</u>	<u>Affiliation</u>
Dale Cose	Tracy housing developer
Britt Evans	EF Communities, Inc.
Linda Mandolini	Eden Housing
José Nuno	Visionary Home Builders
Carol J. Ornelas	Visionary Home Builders
Monique Willner	Tracy Unified School District

Appendix B: Affordable Sales Price Calculator

Appendix B: Affordable Housing Mortgage Calculator for SFR, Tracy, 2009

	Household Income (a)	Sale Price	Down Payment (b)	Total Mortgage (b)	Monthly Payment	Monthly Property Tax (c)	Mortgage (d)	Homeowner's Insurance (e)	Total Monthly PITI (f)
Extremely Low Income (30% AMI)									
4 Person HH	\$18,400	\$83,614	\$16,723	\$66,892	\$367.31	\$76.65	\$0.00	\$16.04	\$460.00
Very Low Income (50% AMI)									
4 Person HH	\$30,650	\$139,282	\$27,856	\$111,425	\$611.85	\$127.67	\$0.00	\$26.73	\$766.25
Low Income (80% AMI)									
4 Person HH	\$49,050	\$222,896	\$44,579	\$178,317	\$979.16	\$204.32	\$0.00	\$42.77	\$1,226.25
Median Income (100% AMI)									
4 Person HH	\$61,300	\$278,563	\$55,713	\$222,851	\$1,223.70	\$255.35	\$0.00	\$53.45	\$1,532.50
Moderate Income (120% AMI)									
4 Person HH	\$73,600	\$334,458	\$66,892	\$267,566	\$1,469.23	\$306.59	\$0.00	\$64.18	\$1,840.00
Workforce (150% AMI)									
4 Person HH	\$91,950	\$417,845	\$83,569	\$334,276	\$1,835.54	\$383.02	\$0.00	\$80.18	\$2,298.75

Notes:

(a) Published by Department of Housing and Community Development. Income limits for San Joaquin County.

(b) Mortgage terms:

Annual Interest Rate (Fixed)

Term of mortgage (Years)

Percent of sale price as down payment

(c) Initial property tax (annual)

(d) Mortgage Insurance as percent of loan amount

(e) Annual homeowner's insurance rate as percent of sale price

(f) PITI = Principal, Interest, Taxes, and Insurance

Percent of household income available for PITI

Sources: CA HCD, 2008; Freddie Mac, 2009; CA Department of Insurance, 2009; BAE, 2009.

5.20%	Freddie Mac Weekly Primary Mortgage Market Survey, Feb 12, 2009. 30 Yr-FRM.
30	
20.0%	
1.10%	City of Tracy
0.00%	
0.23%	CA Dept. of Insurance website, based on average of all quotes assuming new home and Homeowner's Insurance covering 75% value of median 3 BR Single Family Residence in Tracy (\$190,000).
30.0%	

City of Tracy - Economic Development Division

FUNDING SOURCE FOR HOUSING AND INFRASTRUCTURE
AS OF 03/12/2018

Fund	Agency	Program	Amount	Allocation/ Fund Status	Restricted Uses
282	City of Tracy	Former CDA LMI Housing Fund	\$ 1,284,000	Fund Balance / Undesignated	Former RDA Funds - LMI up to 120% AMI / Expend by 6/30/2020
282	City of Tracy	Former CDA SERAF Payment Supplemental Education Revenue Augmentation Fund	\$ 1,054,915	SERA Proceeds / By End FY 2018/2019	Former RDA Funds - LMI up to 120% AMI / 3 Year Window to Expend After Hit \$1 mil. mark. *
282	City of Tracy	Former CDA SERAF Payment	\$ 1,054,915	SERA Proceeds / By End FY 2019/2020	Former RDA Funds - LMI up to 120% AMI / 3 Year Window to Expend After Hit \$1 mil. mark. *
282	City of Tracy	Former CDA SERAF Payment	\$ 693,690	SERA Proceeds / By End FY 2020/2021	Former RDA Funds - LMI up to 120% AMI / 3 Year Window to Expend After Hit \$1 mil. mark. *
SUBTOTAL AVAILABLE FUND 282			\$ 4,087,520		
317	City of Tracy	Former CDA Bond Proceeds	\$ 2,126,000	Staff Recommends 2 Projects **	Former RDA Funds - Infrastructure Only ***
SUBTOTAL AVAILABLE FUND 317			\$ 2,126,000		

* SERAF Proceeds must be expended within 3 years after the City has hit the \$1,000,000 mark. On 3/6/2018, as part of the Workforce/Affordable Housing staff report, staff will highlight a conceptual proposal from the Housing Authority of San Joaquin County to rehabilitate and add affordable housing units on 4th Street. With Council direction, staff will continue to work with the Housing Authority on the project with the remaining SERAF funds.

** Based on previous Council discussion regarding the importance of these two projects, staff is recommending the following allocations for CDA funds: \$1,000,000 for Mt. Oso and Mt. Diablo Utility improvements and \$1,126,000 to be requested for various Airport improvements.

*** According to the 2017 Bond Proceeds Expenditure Agreement between the City and Successor Agency: "Former Agency's project areas including infrastructure and/or other capital improvements within the former redevelopment area including but not limited to: street, curb, gutter and sidewalk, Americans with Disabilities Act (ADA), wet utilities, pedestrian and bicycle paths, public parks or other public facilities is consistent with the purposes for which the bonds were issued and the bond covenants and in the best interest of the Successor Agency."



MISSING MIDDLE Housing

By
Daniel Parolek

Responding to the Demand for
Walkable Urban Living

The mismatch between current US housing stock and shifting demographics, combined with the growing demand for walkable urban living, has been poignantly defined by recent research and publications by the likes of Christopher Nelson and Chris Leinberger, and most recently by the Urban Land Institute's publication, *What's Next: Real Estate in the New Economy*. Now it is time to stop talking about the problem and start generating immediate solutions! Are you ready to be part of the solution?

Unfortunately, the solution is not as simple as adding more multifamily housing stock using the dated models/types of housing that we have been building. Rather, we need a complete paradigm shift in the way that we design, locate, regulate, and develop homes. As *What's Next* states, "It's a time to rethink and evolve, reinvent and renew." Missing Middle housing types, such as duplexes, fourplexes, bungalow courts, mansion apartments,

Above: Missing Middle Housing types like these stacked duplexes in Habersham, SC, achieve medium-density yields and are easily integrated into existing single-family neighborhoods (Photo: Bob Taylor).

MissingMiddleHousing.com is a new online resource for planners and developers seeking to implement Missing Middle projects. Discover examples and analysis, as well as information on how to integrate these types into existing neighborhoods, how to regulate them, and the market demographic that demands them.



and live-work units, are a critical part of the solution and should be a part of every architect's, planner's, real estate agent's, and developer's arsenal.

Well-designed, simple Missing Middle housing types achieve medium-density yields and provide high-quality, marketable options between the scales of single-family homes and mid-rise flats for walkable urban living. They are designed to meet the specific needs of shifting demographics and the new market demand, and are a key component to a diverse neighborhood. They are classified as "missing" because very few of these housing types have been built since the early 1940s due to regulatory constraints, the shift to auto-dependent patterns of development, and the incentivization of single-family home ownership.

Characteristics of Missing Middle Housing

A walkable context

Probably the most important characteristic of these types of housing is that they need to be built within an existing or newly created walkable urban context. Buyers or renters of these housing types are choosing to trade larger suburban housing for less space, no yard to maintain, and proximity to services and amenities such as restaurants, bars, markets, and often work. Linda Pruitt of the Cottage Company, who is building creative bungalow courts in the Seattle area, says the first thing her potential customers ask is, "What can I walk to?" So this criteria becomes very important in her selection of lots and project areas, as is it for all Missing Middle Housing.

Medium density but lower perceived densities

As a starting point, these building types typically range in density from 16 dwelling units per acre (du/acre) to up to 35 du/acre, depending on the building type and lot size. It is important not to get too caught up in the density numbers when thinking about these types. Due to the small footprint of the building types and the fact that they are usually mixed with a variety of building types, even on an individual block, the perceived density is usually quite lower—they do not look like dense buildings.

A combination of these types gets a neighborhood to a minimum average of 16 du/acre. This is important because this is generally used as a threshold at which an environment becomes transit-supportive and main streets with neighborhood-serving, walkable retail and services become viable.

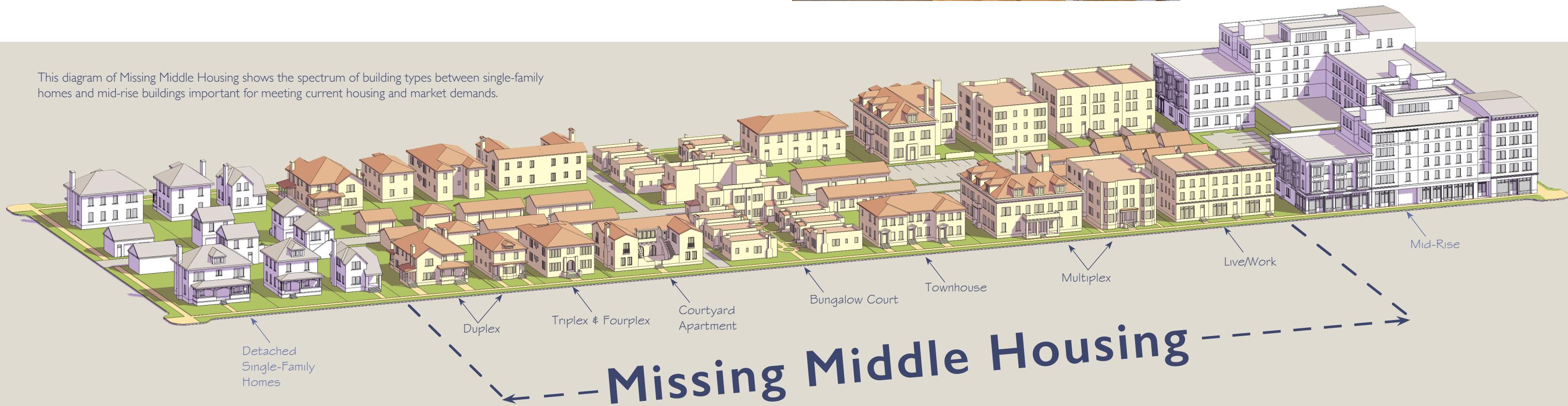
Small footprint and blended densities

As mentioned above, a common characteristic of these housing types are small- to medium-sized building footprints. The largest of these types, the mansion apartment or side-by-side duplex, may have a typical main body width of about 40 to 50 feet, which is very comparable to a large estate home. This makes them ideal for urban infill, even in older neighborhoods that were originally developed as single-family but have been designated to evolve with slightly higher intensities. As a good example, a courtyard housing project in the Westside Guadalupe Historic District of Santa Fe, NM, sensitively incorporates six units and a shared community-room building onto a quarter-acre lot. In this project, the buildings are designed to be one room deep to maximize cross ventilation/pассивное охлаждение and to enable the multiple smaller structures to relate well to the existing single-family context.



Clockwise from top left: A live/work unit designed by Opticos in Buena Vista, CO; a bungalow court opposite single-family homes in Alameda, CA; a key characteristic of Missing Middle Housing is smaller, well-designed units (Photo: Courtesy of Allison Ramsey Architects).

This diagram of Missing Middle Housing shows the spectrum of building types between single-family homes and mid-rise buildings important for meeting current housing and market demands.





Right: Missing Middle housing types have historically been integrated into neighborhoods side-by-side with single-family homes.

Smaller, well-designed units

One of the most common mistakes by architects or builders new to the urban housing market is trying to force suburban unit types and sizes into urban contexts and housing types. The starting point for Missing Middle Housing needs to be smaller-unit sizes; the challenge is to create small spaces that are well designed, comfortable, and usable. As an added benefit, smaller-unit sizes can help developers keep their costs down, improving the pro-forma performance of a project, while keeping the housing available to a larger group of buyers or renters at a lower price point.

Off-street parking does not drive the site plan

The other non-starter for Missing Middle Housing is trying to provide too much parking on site. This ties back directly to the fact that these units are being built in a walkable urban context. The buildings become very inefficient from a development potential or yield standpoint and shifts neighborhoods below the 16 du/acre density threshold, as discussed above, if large parking areas are provided or required. As a starting point, these units should provide no more than one off-street parking space per unit. A good example of this is newly constructed mansion apartments in the new East Beach neighborhood in Norfolk, VA. To enable these lower off-street parking requirements to work, on-street parking must be available adjacent to the units. Housing design that forces too much parking on a site also compromises the occupant's experience of entering the building or "coming home" and the relationship with its context, especially in an infill condition, which can greatly impact marketability.

Simple construction

The days of easily financing and building complicated, expensive Type I or II buildings with podium parking are behind us, and an alternative for providing walkable urban housing with more of a simple, cost-effective construction type is necessary in many locations. *What's Next* states, "Affordability—always a key element in housing markets—is taking on a whole new meaning as developers reach for ways to make attractive homes within the means of financially constrained buyers." Because of their simple forms, smaller size, and Type V construction, Missing Middle building types can help developers maximize affordability and returns without compromising quality by providing housing types that are simple and affordable to build.

Creating community

Missing Middle Housing creates community through the integration of shared community spaces within the types, as is the case for courtyard housing or bungalow courts, or simply from the proximity they provide to the community within a building and/or the neighborhood. This is an important aspect, in particular within the growing market of single-person households (which is at nearly 30% of all households) that want to be part of a community. This has been especially true for single women who have proven to be a strong market for these Missing Middle housing types, in particular bungalow courts and courtyard housing.

Marketability

The final and maybe the most important characteristic in terms of market viability is that these housing types are very close in scale and provide a similar user experience (such as entering from a front porch facing the street versus walking down a long, dark corridor to get to your unit) to single-family homes, thus making the mental shift for potential buyers and renters much less drastic than them making a shift to live in a large mid-rise or high-rise project. This combined with the fact that many baby boomers likely grew up in similar housing types in urban areas or had relatives that did, enables them to easily relate to these housing types.

This is a call for architects, planners, and developers to think outside the box and to begin to create immediate, viable solutions to address the mismatch between the housing stock and what the market is demanding—vibrant, diverse, sustainable, walkable urban places. Missing Middle housing types are an important part of this solution and should be integrated into comprehensive and regional planning, zoning code updates, TOD strategies, and the business models for developers and builders who want to be at the forefront of this paradigm shift.

The market is waiting. Will you respond?

Dan Parolek is principal of Opticos Design, an architecture and urban design firm with a passion for vibrant, sustainable, walkable urban places. This article originally appeared on Logos Opticos: Composing Vibrant Urban Places.

Dan can be reached at
daniel.parolek@opticosdesign.com.



April 3, 2018

AGENDA ITEM 9

REQUEST

RECEIVE PRESENTATION AND DISCUSS AFFORDABLE AND WORKFORCE HOUSING, INCLUDING NEW STATE LAWS, AFFORDABILITY BY DESIGN, CITY TASKFORCE, HOUSING THE HOMELESS, THE GROWTH MANAGEMENT ORDINANCE, ALLOCATING FORMER COMMUNITY DEVELOPMENT AGENCY FUNDS, AND DEVELOPMENT IMPACT FEES, AND PROVIDE DIRECTION TO STAFF REGARDING PRIORITIES AND FORMULATING A STRATEGY

EXECUTIVE SUMMARY

This agenda item is at City Council's request to discuss workforce and affordable housing. This agenda item is a wide-ranging discussion about housing affordability and ideas to address affordability in Tracy in order to prioritize areas of concern and develop a strategy. The agenda item involves a presentation by Veronica Tam and Associates, who helped prepare the City's Housing Element of the General Plan. The presentation will provide an overview of recent legislation and highlight various affordable housing strategies for City Council discussion. This agenda item also provides an opportunity to discuss what constitutes "workforce housing" in Tracy. This agenda item will also review the Low-Mod Housing funds available to fund affordable housing projects. There will also be a discussion of housing items related to homelessness.

DISCUSSION

Background

The City Council periodically discusses and sets policy related to affordable housing, and did so most recently on March 15, 2016 with the adoption of the City's Housing Element of the General Plan. The Housing Element, a required element (or chapter) of the City's General Plan, is concerned with identifying ways in which the housing needs of existing and future residents can be met. The current Housing Element covers the State-defined planning period of January 1, 2015 to December 31, 2023, identifies strategies and programs related to affordable housing, and represents the City's comprehensive policy document related to planning for affordable housing. Attachment A to the staff report is an excerpt from the Housing Element related to affordable housing policy.

The development of the City's Housing Element is typically the venue for the bulk of the City's policy discussions related to affordable housing, but it is not the sole opportunity to do so. In 2008, the City commissioned a study to look at affordable and "workforce" housing. This was largely done in response to a rapid rise in housing costs in the preceding years. During this process, the City's consultant Bay Area Economics (BAE) conducted a financial and market analysis to identify the needs of workforce housing. At the conclusion of the study in 2009, real estate prices had fallen to the point where 98% of work-force income households in Tracy could afford a three-bedroom house in Tracy at the then current market prices. At the time, City Council determined that the need for assistance to enable workforce families to afford housing in Tracy had declined.

Other venues where affordable housing is periodically discussed are within the context of the City's Growth Management Ordinance (GMO) and Guidelines updates and the use of former Community Development (or Redevelopment) Agency funds.

The housing market has significantly changed since that 2008/2009 study, as has State legislation related to affordable housing. In addition, since that time, Redevelopment (Community Development) Agencies have been dissolved statewide. Below are several key factors related to the discussion about affordable housing and workforce housing.

Affordable Housing – State Defined

The State Department of Housing and Community Development (HCD) establishes the following household income categories in setting affordable housing policy for the State:

Very Low Income: Up to 50 percent of Area Median Household Income (AMI)

Low Income: 51 to 80 percent of AMI

Moderate Income: 81-120 percent of AMI

Above Moderate Income: above 120 percent of the AMI

The AMI for San Joaquin County is \$66,300 (2017). The State Health and Safety code definitions of "affordable housing" costs use between 30% and 35% of household income for rent/mortgage assumptions. Attachment B to the staff report is a table that shows the Housing Affordability Matrix (2017), identifying rent/mortgage obligations as a share of income limits established by the State.

The City of Tracy has seven publicly assisted housing developments for a combined total of 659 units that are set aside as affordable for lower income households.

Additionally, there are 109 households in Tracy who receive public assistance through the Housing Choice Voucher (Federal) program (commonly known as Section 8), administered by the County.

While the State has identified the above income categories, the discussion about affordable housing could be amplified to address Tracy-specific needs, which may lead the City to identify, or re-calibrate, income limits for the purposes of locally defining affordability and creating strategies to meet that need.

Workforce Housing – Locally Defined

The terms "workforce housing" and "workforce income" have been used by housing policy analysts in recent years. The term arose during the last housing boom as many jurisdictions found that households earning up to 180 percent of AMI could not afford to own a home locally, and lived in distant, more affordable locations to satisfy their housing needs. Generally speaking, workforce housing includes housing for income classes between 120 to 180 percent of AMI. As mentioned earlier, the City commissioned a study in 2008 to examine the need for workforce housing in Tracy in detail and present programmatic options to address this need. Although compiled during a dramatically different housing market, attached to the staff report is the June 2, 2009 staff report and Affordable and Workforce Housing Briefing Book (Attachment C).

Tracy's median income is higher than the County AMI, and in 2016 was \$84,330, as shown in the table below.

Tracy Median Household Income			
	Tracy	San Joaquin	California
2009	78,681	54,540	54,540
2010	78,466	54,341	60,883
2011	77,111	53,764	61,632
2012	77,663	53,895	61,400
2013	77,931	53,380	61,094
2014	77,637	53,253	61,489
2015	79,905	53,274	61,818
2016	84,330	55,045	63,783

Source:
American
Community
Survey

Solely for discussion purposes, based on the Tracy median household income level of \$84,330, a workforce income of 120% to 150% of that figure indicates a household income range of \$101,196 to \$126,495. Additionally, in a recent effort to define a Head-of-Household wage for Tracy (as part of the City's High Wage Incentive Program), Tracy City Council set the wage (for an individual) at \$72,000 to target business attraction efforts to companies offering that wage. Recent outreach by City staff to ascertain wage levels for various "local jobs" resulted in a range (entry level to management) of \$32,594 to \$100,000. Using those figures provides another example of wage earnings relevant to Tracy's workforce for the purposes of understanding workforce housing for this community.

The following table indicates an affordability matrix for various income levels based on the same rent/mortgage obligations mentioned above.

Affordability of Market Rate Housing in Tracy					
Income Level	Household Income (a)	Maximum Affordable Sale Price (b)	% of 3-bdrm. homes within price range (c)	Maximum Affordable Monthly Rent (d)	Average Market Rent 2-bdrm. Apt. (e)
50% of Tracy Median Income	\$42,165	\$175,300	0%	\$804	\$1,825
80% of Tracy Median Income	\$67,464	\$280,000	2%	\$1,437	\$1,825
Tracy "Head of Household Wage" (f)	\$72,000	\$299,293	2%	\$1,550	\$1,825
120% of Tracy Median Income	\$101,196	\$420,656	57%	\$2,280	\$1,825
150% of Tracy Median Income	\$126,495	\$528,820	95%	\$2,912	\$1,825
180% of Tracy Median Income	\$151,794	\$630,894	98%	\$3,545	\$1,825
Tracy Wages – Assumes Single-Wage Household					
Light Industrial Worker Entry Level	\$32,594	\$135,488	0%	\$565	\$1,825
Light Industrial Worker Top Level Pay	\$46,592	\$193,676	1%	\$915	\$1,825
Maintenance/Skilled Entry Level	\$67,600	\$281,003	2%	\$1,440	\$1,825
Maintenance/Skilled Top Level Pay	\$93,600	\$389,080	33%	\$2,090	\$1,825
Supervisor	\$64,000	\$266,038	2%	\$1,350	\$1,825
Management Entry Level	\$76,625	\$318,518	5%	\$1,666	\$1,825
Management Top Pay Level	\$100,000	\$415,685	53%	\$2,250	\$1,825

- (a) Tracy Median Income, \$84,330, based on 2016 American Community Survey Data.
- (b) Housing Payment Assumptions: 80-10-10 financing (4.75% for 1st, 6.5% for 2nd, 30-year fixed); property tax at 1.25% of sales price; homeowner's insurance at 0.2% of sales price; maximum 30% of income spent on principal, interest, insurance, and taxes.
- (c) Based on three-bedroom homes sale price from September 2017 through February 2018, MetroList Services.
- (d) Assumes 30% of household income spent on rent and utilities (assumes \$250 per month for utilities).
- (e) Based on informal survey of Tracy apartments.
- (f) "Head of Household Wage" is a locally derived estimate (March 21, 2017 City Council Meeting) intended to represent typical income to afford to live in Tracy.

New Legislation Related to Housing:

Veronica Tam and Associates will present information to the City Council on new legislation enacted since the adoption of the Housing Element.

Several of the topics of discussion in the presentation include the following:

- Highlights from the 15 housing bills signed into law in 2017;
- Regional Housing Needs Allocation (RHNA) shift from “planning” goal to “production” goal;
- Accountability measures related to available sites inventories, production goals and annual reporting on housing activity;
- Housing project approval streamlining, and possible penalties;
- Funding for affordable housing, including information on SB 2 revenues.

Growth Management Ordinance Limitations

The City's Growth Management Ordinance (GMO) (as amended by Measure A in November 2000) establishes limits on the numbers of Residential Growth Allotments (RGAs) and building permits that the City can issue in a year. There are limited exceptions for affordable housing and additional exemptions to those limits in order for the City to meet the Regional Housing Needs Allocation (RHNA).

Priorities for where residential growth occurs are contained in General Plan policy, and the GMO Guidelines, which were most recently updated in 2012 and 2014. As a result, there are many projects moving forward through development stages at present (Tracy Hills, Ellis, Primrose, and several infill developments such as Brookview and Barcelona). In accordance with these policies and the GMO, other developments such as Aspire Apartments, Gateway Apartments near Costco, and Harvest are also in the construction phases, or completing the building permit review stages.

The Ponderosa Homes 600 single-family home Active Adult project (called Tracy Village) obtained certain approvals directly from the Tracy voters in November 2015 via a ballot initiative (Measure K) as a means to be able to move forward outside the constraints of the GMO.

Changes to the GMO could be evaluated to achieve City housing goals, as determined by City Council. Any proposed GMO changes are dependent on the specific housing needs that Council identifies as deficient. Some changes to the GMO may require voter approval.

Housing for Homeless

City staff participates in addressing homelessness in a variety of ways, mainly through the Code Enforcement and Community Policing programs. Housing strategies for the homeless in Tracy are focused through Operation Helping Hands, in cooperation with local service agencies to transition homeless individuals into emergency shelters. According to the Police Department, a typical census, or count, of homeless persons in Tracy is roughly 18-25 persons at any given time.

Housing the homeless is obviously multi-dimensional, and includes zoning provisions, financial assistance programs, and mental health services, among others. Housing for homeless individuals may include transitional and/or permanent housing.

Tracy's Zoning Code has been updated to address SB 2 (2008 Housing Accountability Act) requirements to make emergency shelters, transitional housing, and supportive housing defined in the zoning code in addition to identifying zone districts where such shelters can operate (Ordinance No. 1202, November 17, 2015). For example, 26 West Emmerson is an example of transitional housing in Tracy, as is the McHenry House.

Veronica Tam and Associates, as part of her presentation, will provide an overview of various funding and housing strategies related to housing the homeless used in other jurisdictions.

Additionally, views on housing the homeless change over time, including a relatively recent concept called "Housing First." As excerpted from a HUD info exchange website, Housing First is an approach to quickly and successfully connect individuals and families experiencing homelessness to permanent housing without preconditions and barriers to entry, such as sobriety, treatment or service participation requirements. Supportive services are offered to maximize housing stability and prevent returns to homelessness as opposed to addressing predetermined treatment goals prior to permanent housing entry. Housing First emerged as an alternative to the linear approach in which people experiencing homelessness were required to first participate in and graduate from short-term residential and treatment programs before obtaining permanent housing. In the linear approach, permanent housing was offered only after a person experiencing homelessness could demonstrate that they were "ready" for housing. By contrast, Housing First is premised on the following principles:

- Homelessness is first and foremost a housing crisis and can be addressed through the provision of safe and affordable housing.
- All people experiencing homelessness, regardless of their housing history and duration of homelessness, can achieve housing stability in permanent housing. Some may need very little support for a brief period of time, while others may need more intensive and long-term supports.
- Everyone is "housing ready." Sobriety, compliance in treatment, or even criminal histories are not necessary to succeed in housing. Rather, homelessness programs and housing providers must be "consumer ready."
- Many people experience improvements in quality of life, in the areas of health, mental health, substance use, and employment, as a result of achieving housing.
- People experiencing homelessness have the right to self-determination and should be treated with dignity and respect.
- The exact configuration of housing and services depends upon the needs and preferences of the population.

The federal policy priority of the Continuum of Care funding – the largest funding source for homeless programs and services – is focusing on the Housing First model. HUD

funding guidelines were changed in 2012 in line with this Housing First approach. The Homeless Emergency Assistance and Rapid Transition to Housing Act of 2009 (HEARTH Act) amended the McKinney-Vento Homeless Assistance Act, revising the Emergency Shelter Grants Program in significant ways and renaming it the Emergency Solutions Grants (ESG) program. Specifically, the new ESG program added Rapid Re-housing as a component.

The HEARTH Act broadened the emergency shelter and homelessness prevention activities of the Emergency Solutions Grants program beyond those of its predecessor program, the Emergency Shelter Grants program, and added short- and medium-term rental assistance and services to rapidly re-house persons experiencing homelessness. The change in the program's name reflects the change in the program's focus from addressing the needs of homeless people in emergency or transitional shelters to assisting people to quickly regain stability in permanent housing after experiencing a housing crisis or becoming homeless.

This report is in recognition of Council's desire to address homelessness in Tracy and direction is needed to understand housing solutions appropriate for the community.

Recent Discussions with Affordable Housing Developers

City staff has been approached by the Housing Authority of the County of San Joaquin (HACSJ) and Habitat for Humanity of San Joaquin County on two separate affordable housing projects designed to serve low-moderate income households in the City of Tracy.

While no applications have been filed, the HACSJ has indicated a desire to redevelop an existing 60 multi-family unit housing on a 6.7-acre parcel between 4th Street and Mount Diablo Avenue. According to HACSJ, this project includes creating 80 modern, energy efficient 2, 3, and 4 bedroom apartment homes with a resident community center, community gardens, recreational open space, playground, basketball/soccer practice field, a swimming pool or splash park feature, and on-site laundry services. HACSJ and its development partners would need to attract roughly \$24 million dollars (of an estimated total \$31 million) of competitively awarded private equity to leverage other resources, including possibly City resources. The HACSJ applied for \$4,000,000 in HOME funds on January 18, 2018 during the 2018/19 Notice of Funding Availability (NOFA) process. The amount of HOME funding to be received for FY 2018/19 by the City of Tracy is estimated at \$112,000. The Tracy City Council approved a recommendation on February 20, 2018 to award \$58,000 to the HACSJ for their project.

Current Balance of former Community Development Agency Low/Mod Housing Fund

Currently, the City has \$4,087,520 in the former Community Development Agency (CDA) Low/Mod Housing Fund and reimbursement payments due the City over the next three years from former CDA loans to the Supplemental Educational Revenue Augmentation Fund (SERAF). These loans were a component of State fiscal crisis and dissolution of the CDA in 2008-2009 timeframe. SERAF funds must be spent within three years of the City reaching the \$1,000,000 mark. Attachment D to the staff report shows the fund balance for Low/Mod housing and status of the timelines for receiving/spending the funds.

City Council direction is requested on the use of the Low/Mod Housing Fund and SERAF repayment funds. One option for the use of these funds would be to work with HACSJ on the project mentioned above. There may be other options for the use of the CDA funds.

Habitat for Humanity has also approached the City, looking for sites and possible funding assistance to develop single-family homes.

Affordability by Design

“Affordability by Design” is a general term used to describe moderating the cost of building (thereby reducing overall costs) without using deed restrictions in order to achieve housing that is more affordable. There are several ways that “affordable by design” could be examined in Tracy, including the following ideas:

Maximum average dwelling unit size: Under this concept, a new subdivision of a certain City Council-determined size would be allowed to develop large homes, but based on how the zoning provisions are written, would be required to also develop smaller homes in order to meet the average size. Such zoning provisions would require an ordinance or changes to the City’s Design Standards in order to become effective, and may not apply to projects that have vesting rights, such as portions of Tracy Hills and the Ellis project.

“Missing Middle” Housing: Missing Middle Housing consists of multi-unit housing types such as duplexes, fourplexes, bungalow courts, that are not bigger than a large house that are integrated throughout most walkable pre-1940s neighborhoods, often integrated into blocks with primarily single-family homes. Although many of these are a common feature in pre-war building stocks, these housing types have become much less common (hence the “missing”). The term was coined by architect and urban planner Daniel Parolek, Principal and Founder of Opticos Design, Inc. Attached to the staff report is an article by Opticos Design explaining Missing Middle Housing (Attachment E). City Council could direct staff to further explore how incentives or requirements for mixes of housing types could be integrated into Tracy’s zoning regulations or growth management processes.

Development Impact Fees

Staff has investigated other communities and to date has found limited examples of entire development impact fee systems based on house size. This is in part due to requirement that there be a “nexus” between the fee and the development’s impact. Under the Mitigation Fee Act (AB 1600) impact fees must meet specific requirements and correlate the impact created by new development to the fee amount. Most residential impact fees are calculated based on population since there is a direct relationship between the facilities needed and the population they will serve. There is not a strong case supporting the notion that the larger the house, the more people that will reside there and hence the greater the impact they will have. Staff’s research found that the City of Sacramento has adopted a parks fee based on housing square footage, and the City of San Diego is evaluating scaling fees but has not concluded its analysis. In addition, staff found that the City of Palo Alto lowered fees for homes less than 3000

sf as a policy decision; however, no nexus was identified that justified this fee structure at the time of adoption.

When looking at the impacts that new development will have on facility needs and developing impact fee programs, assumptions must be made to ensure that the infrastructure is sized appropriately to serve new development and that the fees collected support the building of the necessary infrastructure to mitigate the impacts of development. Some facilities, such as Parks and Public Buildings, are examples of infrastructure systems that are more easily scaled or able to be modified after the fact based on the numbers of bedrooms or size of home submitted during late-stage development activities (meaning building permit issuance). Other infrastructure systems such as roadways, storm drainage, and water and wastewater systems have to be pre-planned and cannot be modified easily to meet rapid changes in market conditions which lead builders to modify house floor plans, resulting in under/oversized infrastructure and/or shortages in the fee programs.

Staff found that for certain fee categories there are alternative ways to structure fee programs that could be scalable. For instance, the water and sewer connection fees could be based on water meter size, potentially reducing the costs for homes requiring smaller meters. An approach that may be able to meet AB 1600 nexus requirements would be to examine significantly smaller homes, to determine if there were square foot thresholds where small single family home fees could be lowered to the townhouse/duplex fee, which assumes 2.7 people per unit, or the condo/apartment fee, which assumes 2.2 people per unit, rather than the 3.3 people assumed per single family home. As an example, the Gateway Crossing Apartment Project which has a total of 441 rental units, has mostly 2 bedrooms per unit, versus the typical 3-4 bedrooms for new single family homes. Some communities have adopted fees based on the number of bedrooms, which could be another consideration in calculating lower fees for homes with fewer bedrooms. City Council could also evaluate subsidizing development impact fees to meet affordable housing goals or establishing affordable housing fees for industrial and commercial development.

The City's consultant, Harris and Associates, will present their research regarding the concept of basing impact fees on home square footage.

Task Force on Affordable Housing

At the February 20, 2018 City Council meeting, Council member Dement suggested a task force on homeless and affordable housing for Tracy, and Mayor Rickman supported the request. This agenda item allows for further discussion and direction pertaining to the formation of a task force.

STRATEGIC PLANS:

This agenda item is responsive to the Council's adopted Strategic Priorities, namely Quality of Life, Goal #2, promote public health, safety and community welfare throughout the community; Objective: to address community concerns regarding homelessness.

FISCAL IMPACT

This is a routine operational item; staff and consultant work to prepare this report are included in the Development Services operational budget for FY 2017/18. Any future use of CDA funds would require a separate appropriation by City Council. Once a viable project has been identified for the use of CDA funds, an appropriation will be prepared for City Council action.

RECOMMENDATION

Staff recommends that the City Council receive the presentation and discuss affordable and workforce housing and provide direction to staff by prioritizing Tracy's needs in order to develop a strategy.

Prepared by: Bill Dean, Assistant Development Services Director

Reviewed by: Andrew Malik, Development Services Director
Karin Schnaider, Finance Director
Kul Sharma, Interim Assistant City Manager

Approved by: Randall Bradley, City Manager

ATTACHMENTS

Attachment A – Excerpted list from the City's Housing Element
Attachment B – Table that shows the Housing Affordability Matrix (2017), identifying State-defined income limits
Attachment C – 2009 Affordable and Workforce Housing Briefing Book
Attachment D – Funding Source for Housing and Infrastructure
Attachment E – An article entitled “Missing Middle Housing,” by Daniel Parolek