

RESOLUTION NO. NS-22,856

RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF SANTA CRUZ ESTABLISHING INCOME
AND MONTHLY HOUSING COST GUIDELINES,
ASSET LIMITS, AND OTHER IMPLEMENTATION
PRACTICES FOR THE CITY OF SANTA CRUZ
AFFORDABLE HOUSING PROGRAM.

WHEREAS, there exists within the City of Santa Cruz a shortage of housing that is affordable by households with average-, low-, and very low- income; and

WHEREAS, the City finds that the shortage of housing for persons of average-, low- and very low- income is detrimental to the public health, safety, and general welfare; and

WHEREAS, the City has adopted an ordinance providing for inclusionary housing units, which requires further implementation by resolution; and

WHEREAS, on July 15, 1980, the City Council adopted Resolution No. NS-13,957, establishing income and monthly housing cost guidelines and asset limits for the affordable housing policy of the City of Santa Cruz; and

WHEREAS, on March 27, 1984, the City Council amended said guidelines with Resolution No. NS-15,751 in response to changing conditions, and said Resolution continues to apply to all units that received building permits prior to September 11, 1984; and

WHEREAS, on September 11, 1984, the City Council amended said guidelines with Resolution No. NS-15,994 to make the City's affordable housing policy responsive to differing income levels in the City from those in the County of Santa Cruz; and

WHEREAS, in the implementation of the guidelines established by Resolution No. NS-15,751 and Resolution No. NS-15,994, it became necessary to refine the definition of Housing Costs; and

WHEREAS, on July 9, 1985, the City Council amended said guidelines with Resolution No. NS-16,452 to adopt income and monthly housing cost guidelines and asset limits; and

WHEREAS, on December 10, 1991, the City Council amended said guidelines with Resolution No. NS-20,239 to establish maximum rent and sale prices for Single Room Occupancy (SRO) units; and

WHEREAS, on February 23, 1993, the City Council amended said guidelines with Resolution No. NS-20,912 to amend the formula for calculating rental and sales prices for inclusionary units to be consistent with Federal and State guidelines for affordability; and

WHEREAS, on July 27, 1993, the City Council amended said guidelines with Resolution No. NS-21,180, to adopt revisions to income, asset and housing cost guidelines.

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WHEREAS, on September 12, 1995, the City Council amended said guidelines with Resolution 22,400, to adopt revisions to income, asset and housing cost guidelines.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Santa Cruz does hereby adopt revisions to Income, Asset, and Housing Cost Guidelines, as presented in Exhibit "A", attached hereto and made a part hereof.

BE IT FURTHER RESOLVED that the affordable housing income and housing cost regulations that apply to any project subject to City restrictions, shall be those regulations in force at the time a project application is deemed complete by the Planning Department.

BE IT FURTHER RESOLVED that Resolution No. NS-22,400 is hereby rescinded.

PASSED AND ADOPTED this 9th day of July, 1996, by the following votes:

AYES: Councilmembers: Mathews, Beiers, Yokoyama, Scott,
Campbell, Kennedy; Mayor Rotkin.

NOES: Councilmembers: None.

ABSENT: Councilmembers: None.

DISQUALIFIED: Councilmembers: None.

APPROVED: M.E. [Signature]
Mayor

ATTEST: [Signature]
City Clerk

EXHIBIT "A"

INCOME, ASSET, AND HOUSING COST GUIDELINES

A. Applicability

These guidelines establish regulations governing inclusionary units, replacement units, density bonus units, and units assisted by various housing funding programs, such as the Community Development Block Grant (CDBG) Unified Housing Rehabilitation Program, Target Area Housing Fund, CDBG Revolving Loan Fund for Affordable Housing, In-Lieu Fund, and Home Investment Partnerships Program (HOME).

B. Income Eligibility

Rental Units

All rental affordable units shall be rented to very-low or low income households.

Income Eligibility - Income eligibility for rental affordable units participating in the Housing and Urban Development (HUD) Section 8 Rent Subsidy Program, or its successor, is established by HUD. Income eligibility for rental affordable units not participating in the Section 8 Program is based upon the Santa Cruz County Metropolitan Statistical Area Median Income (SCCMSAMI). Low income households shall earn no more than 60% of HUD area median income by household size. Very low income households shall earn no more than 50% of HUD area median income by household size.

Maximum Monthly Housing Costs for Rental Units - Maximum monthly housing costs, including utilities, for rental units participating in the Section 8 Program are established by HUD. Maximum monthly housing costs, including utilities, for rental units not participating in the Section 8 Program are derived by the formula contained in Section D of this Exhibit.

Qualifying for Rental Units - Households are certified as eligible for affordable rental units in accordance with the income and asset limitations set forth in this resolution.

For-Sale Units

All "for-sale" affordable units shall be sold to very low, low or moderate income households, with the exception that any for-sale "density bonus" units shall be sold to very-low or low-income households.

Income Eligibility - Income eligibility for "for-sale" units is based on the (SCCMSAMI) as adjusted to reflect the percentage difference between the actual median income at the time of the last federal census in the City and the HUD determined income for that year. The HUD median income figures for each succeeding year shall be adjusted by that percentage difference until the next census occurs. Moderate-income households can earn no more than 120% of HUD median income by household size. Low-income households can earn no more than 60%

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of HUD median income by household size. Very low-income household can earn no more than 50% of HUD median income by household size.

Maximum Monthly Housing Costs for "For-Sale" Units - Maximum for-sale prices for affordable units are derived by the formula contained in Section E of this Exhibit.

Qualifying for "For-Sale" Units - Households are certified as eligible for affordable "for-sale" units in accordance with the income and asset limitations set forth in this resolution.

C. **Household Income and Asset Determination**

Income Criteria

For the purpose of establishing household eligibility for affordable units, income shall be determined in accordance with criteria and procedures used by the Housing Authority of the County of Santa Cruz for the acceptance of applications and recertifications for the Section 8 Rental Assistance Program, or its successor.

Asset Criteria

A household desiring to rent or purchase an affordable unit must meet one of the following maximum asset requirements:

- (1) The total assets of the household must be less than the maximum allowable income for that size household; or
- (2) If assets exceed the maximum allowable household income, eight and one-half percent of the total assets of a household (or the actual income from these assets if this is a higher figure) will be added to the household's annual income, and this combined figure must be less than the maximum allowable income for that size household; (or asset restrictions for rental units shall be determined according to the formula utilized for the HUD Section 8 Rental Assistance Program.)
- (3) For households consisting of at least one senior citizen (persons over 62), the first \$60,000 of assets shall be excluded from calculation under steps (a) and/or (b) above.

Assets are defined as follows:

- a) Cash savings.
- b) Marketable securities, stocks, bonds, and other forms of capital investment.
- c) Equity in Real Estate.
- d) Other personal property which is readily convertible into cash.

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- e) Inheritance already received.
- f) Lump-sum insurance payments already received.
- g) Settlements for personal property damage already received.

The following are not considered assets, in that they are not readily convertible into cash or are necessary for employment:

- a) Ordinary households effects including furniture, fixtures, and personal property.
- b) Automobiles.
- c) Equipment or tools necessary for the performance of the applicant's occupation.
- d) Other assistance to homebuyers. private retirement plans and investments.
- e) Assets which are held by qualified retirement plans.
- f) Gift funds for the purpose of assistance with a down payment for purchase of a unit.
- g) Co-signer on a loan: does not necessarily qualify as an eligible household but will co-sign a loan and does not live in the unit, or considered part of the household.
- h) Silent seconds mortgage or other assistance to eligible households.

D. Formula for Calculating Maximum Rental Prices for Affordable Units (Non-Section 8)

STEP ONE Determine applicable household median income figure by matching type of unit to the corresponding median income in the chart below:

<u>Type of Unit</u>	<u>Income Limit Used</u>
SRO*	1-Person Household
Studios	1-Person Household
1-Bedroom	2-Person Household
2-Bedroom	3-Person Household
3-Bedroom	4-Person Household
4-Bedroom	5-Person Household

STEP TWO Determine HUD Median Income by household size, from tables published by HUD which are in effect or as defined by the Zoning Ordinance Section 24.22.

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STEP THREE Multiply HUD Median Income by 60% to determine maximum annual income.

STEP FOUR Calculate maximum monthly income by dividing answer to Step Three by 12.

STEP FIVE Calculate maximum allowance for housing cost by multiplying maximum monthly income by 30%. Maximum allowance for housing cost includes utilities. Utilities are either paid directly by the property owner, or an appropriate utility allowance is deducted from maximum housing cost to establish maximum rent charged to the tenant. Utility allowances shall be determined from the schedule established by the Housing Authority of the County of Santa Cruz in conjunction with the Section 8 Rent Subsidy Program.

***STEP SIX** For Single Room Occupancy (SRO) units with shared kitchen and/or bathroom, maximum rent shall not exceed 75% of maximum studio rent. For SRO units with kitchens and bathrooms in each unit, maximum rent shall not exceed 85% of maximum studio rent.

E. Formula for Calculating For-Sale Prices for Affordable Units

STEP ONE Determine applicable household income figure by matching type of unit to the corresponding income in the chart below:

<u>Type of Unit</u>	<u>Income Limit Used</u>
SRO	1-Person Household
Studios	1-Person Household
1-Bedroom	2-Person Household
2-Bedroom	3-Person Household
3-Bedroom	4-Person Household
4-Bedroom	5-Person Household

STEP TWO Determine HUD Income by household size from tables published by HUD.

STEP THREE Reduce the HUD income by 16.5%. Determined by the percentage difference between the actual median income at the time of the last federal census in the City and the HUD determined income for that year.

STEP FOUR Calculate maximum monthly income by dividing answer to Step Two by 12.

STEP FIVE Calculate maximum allowance for housing cost by multiplying maximum gross monthly income by 30%.

STEP SIX Determine maximum amount allowed for principal and interest (P&I) payments:

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Subtract 15% of maximum housing allowance for taxes, insurance, and subtract 70% of homeowner's association fees.

STEP **SEVEN Determine the interest rate for a 30-year, fixed-rate, fully amortizing loan. The pricing is as quoted for a first lien, owner-occupied primary residence on loan amounts of \$207,000 or less.

Rates are based on the FHLMC or FNMA required net yield for 30-day mandatory delivery rounded to the nearest .125%.

STEP EIGHT Determine maximum loan amount:

Maximum loan amount is determined by using the maximum amount allowed for principal and interest (STEP SIX) and the local prevailing interest rate (STEP SEVEN) to identify what loan amount the principal and interest will support at the prevailing interest rate for 30-year term.

STEP NINE Calculate Down payment:

With the maximum loan amount representing 80% of the purchase price, determine the value of 20%.

STEP TEN Calculate selling price:

Add 20% for down payment to maximum loan amount.

STEP ELEVEN For Single Room Occupancy (SRO) with kitchens and bathrooms in each unit, the maximum for-sale price shall not exceed 85% of the maximum studio sales price.

** Step-Seven can be calculated on a project by project basis if a developer/seller can provide more favorable interest rates than those established by the City, and prove they have been secured for the project. The developer/seller shall provide proof of loans to eligible purchasers at the lower rate within the higher sales price or the lower sales price with the City's interest rate used. The down payment will be based upon the formula containing the interest rate established by the City.

EXHIBIT "A" EXPLANATION

Step One: There are no restrictions of the minimum number in a household purchasing an inclusionary unit. The Uniform Housing Code restricts minimum square footage per person per bedroom. Household size is one of the factors considered in determining income eligibility.

Assuming that a single person is seeking to purchase an inclusionary unit, the income requirements to determine eligibility will be those for one person as set forth in the HUD Median Income tables.

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- Step Two:** For the purposes of setting the maximum sales price, the HUD Income Limit for the number of bedrooms equated with the household size shall be used.
- Step Three:** The percentage reduction is determined by the percentage difference between the actual median income at the time of the last federal census in the City and the HUD median income for that year. Reduce the HUD median income numbers for each succeeding year by that percentage difference until the next census occurs.
- Step Four:** Divide the reduced maximum allowable income (Step Three) by 12.
- Step Five:** Multiply Step Four by 30%.
- Step Six:** Subtract 15% of Step Five (for taxes and insurance) and 70% of homeowner's association dues from Step Five.
- Step Seven:** Determine the interest rate for a 30-year, fixed-rate, fully amortizing home purchase loan. Rates are based on FHLMC or FNMA required net yield for 30 mandatory delivery rounded to the nearest .125%. The yields are posted daily. A 30-year fixed-rate, fully amortizing loan is the pricing as quoted for a first lien, owner-occupied primary residence on loan amount of \$207,000 or less. If the developer/seller provides proof of a lower interest rate at the time of setting the sales price, then the developer/seller shall provide proof of loans at the lower rate with a higher sales price or the lower sales price or the lower sales price with the City's interest rate shall be used.
- Step Eight:** The maximum loan amount is determined by using Step Six and Step Seven to identify what loan amount the principal and interest will support at Step Seven.
- The loan amount is for the purpose of the formula only. The buyer may obtain financing in various private options, not regulated by the City.
- Step Nine:** The 20% downpayment is for the purpose of the formula only. The buyer is not required to have a 20% downpayment. Options to increasing a buyer's downpayment are not regulated by the City.
- Step Ten:** This is the maximum allowable sales price. The seller may sell the unit for less, but not above the maximum set price.
- Sales prices are revised annually as new HUD Median Income Limits are revised.