

RESOLUTION NO. NS-29,463

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SANTA CRUZ
ESTABLISHING INCOME AND MONTHLY HOUSING COST, ASSET LIMITS, AND
OTHER IMPLEMENTATION PRACTICE GUIDELINES FOR THE CITY OF SANTA CRUZ
AFFORDABLE HOUSING PROGRAM AND RESCINDING RESOLUTION NO. NS-27,885

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, the guidelines initially adopted under Resolution No. NS-13,957 have undergone a series of subsequent sequential amendments, the most recent being Resolution No. NS- 27,885 (July 8, 2008) which replaced the prior implementing resolution; and

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 inclusionary restrictions shall be those regulations in force at the time of first approval, as defined in 24.16 of the Santa Cruz Municipal Code.

BE IT FURTHER RESOLVED that Resolution NS-27,885 is hereby rescinded.

BE IT FURTHER RESOLVED that this ordinance shall be in effect immediately for the portions of the resolution associated with the ordinance changes that were adopted by the City Council on October 9, 2018 and which are currently in effect.

BE IT FURTHER RESOLVED that with respect to those inclusionary ordinance amendments being considered for final adoption by the Council on November 27, 2018, the effective date of the associated changes in this implementing resolution shall coincide with the effective date of the new ordinance amendments, and said changes in this resolution shall automatically revert back to reflect the October 9, 2018 ordinance amendments should Council not approve the inclusionary ordinance changes under consideration at the November 27, 2018 hearing.

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PASSED AND ADOPTED this 27th day of November, 2018 by the following vote:

AYES: Councilmembers Mathews, Noroyan; Vice Mayor Watkins; Mayor Terrazas.

NOES: Councilmembers Krohn, Brown.

ABSENT: Councilmember Chase.

DISQUALIFIED: None.

APPROVED:



David Terrazas, Mayor

ATTEST:



Bonnie Bush, City Clerk Administrator

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AFFORDABLE HOUSING PROGRAM GUIDELINES

Income and Monthly Housing Costs, Asset Limits, and Other Implementation Practices

I. INCOME, ASSET, AND HOUSING COSTS

A. APPLICABILITY

1. These guidelines establish regulations governing affordable housing units, including inclusionary units, replacement units, density bonus units, Affordable Housing Trust Fund projects and units assisted by various housing funding programs when specified in developer agreements.

B. PROGRAM ADMINISTRATIVE FEE

1. A fee shall be charged to cover City expenses associated with creation and recording of Inclusionary Housing Program documents.
- a. A base fee shall be charged for the following Inclusionary Housing Program agreements per the fee schedule shown in the Fee Schedule below:
- (1) New construction
 - (2) Unit resale
 - (3) Unit refinancing

INCLUSIONARY HOUSING PROGRAM ADMINISTRATION FEE SCHEDULE	
APPLICATION/FEE TYPE	FEE AMOUNT ⁽¹⁾
New Construction ²	\$1,560
Unit Resale	\$1,040
Unit Refinance	\$832
Hourly Billing Rate for Additional Staff Hours ¹	\$104 Per hour
¹ Fees shown in Schedule above represent fees as of December 1, 2018. Fee Schedule may be adjusted annually proportional to the consumer price index (CPI) increase for the prior year. Current amount will be provided to developer prior to Document preparation.	
² Document preparation may require the use of expert, outside analysis. Any such consultant costs and/or additional staff time may be recovered as a part of the Inclusionary Housing Program Fee.	
³ All fees are non-refundable.	

- b. If significant modifications to a standard agreement are needed, additional fees may be charged for actual staff hours above time allotted at the basic fee plus the cost of any consultant services. Prior to incurring additional fees and prior to entering into an

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Affordable Housing Agreement, the City will enter into a fee agreement with the Developer to establish a "not to exceed" cap on fees.

2. Fees shall be deposited in the Affordable Housing Trust Fund.
3. Inclusionary Agreement fees for new construction shall be due at the time the building permit is issued.
4. Inclusionary Agreement Fees for unit refinancing or resale shall be paid during escrow. Resale fees shall be paid by the buyer.

C. INCOME ELIGIBILITY, MAXIMUM RENTS, AND MAXIMUM SALES PRICES

1. Inclusionary Units: All affordable units shall be rented or sold to extremely-low, very-low, or low income households
2. Income Eligibility - Income eligibility for inclusionary rental units participating in the Department of Housing and Urban Development (HUD) Section 8 Housing Choice Voucher Program, or its successor, is established by HUD. Income eligibility for rental affordable units not participating in the Section 8 Program or for-sale affordable units is based upon the area median income for Santa Cruz County as published by the State of California pursuant to California Code of Regulations, Title 25, Section 6932, or successor provision.
 - a. "Household, median income" is a household whose income does not exceed area median income.
 - b. "Household income" is the combined adjusted gross household income for all adult persons living in a living unit as calculated for the purpose of determining eligibility for qualifying to rent a unit under an affordable housing program or in an affordable housing projects.
 - c. Households qualifying at moderate, low, very low, and extremely low incomes levels must not exceed the income limits for each income category applicable to Santa Cruz County, as published and periodically updated by the California Department of Housing and Community Development pursuant to Section 50093 of the California Health and Safety Code.
 - d. With the exception of for-sale affordable units, the qualifying income level shall not exceed the designated affordability category for the unit being rented or purchased. For low income for-sale units, a buyer may qualify with a household income that must next exceed the income limits for a moderate income household.
3. Maximum Rents - 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 and for Congregate Care and Assisted Living units are derived by the formulas contained in Section E and explained in Section G of this Exhibit.
4. Maximum Sales Prices for "For-Sale" Units -
 - a. The cost of the inclusionary for-sale units shall not exceed the amount a bank, savings and loan, or other institutional lender will finance for an eligible purchaser at the designated affordability level of the unit (low, very low, or extremely low), assuming current lending practices for a thirty-year fixed-rate, fully amortizing loan, plus a reasonable down payment.
 - b. The cost of Density Bonus for-sale units shall not exceed the cost amount permitted by the California Code of Regulations, Title 25, Section 6920.

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- c. Maximum for-sale prices for affordable units are derived by the formulas contained in Section E and explained in Section G of this Exhibit.
 - d. No charge or fee shall be imposed on the purchaser of an affordable unit which is in addition to, or more than, charges imposed upon purchasers of market rate units.
5. Qualifying for "For-Sale" or Rental Units - Households are certified as eligible for affordable for-sale or rental units in accordance with the income and asset limitations set forth in this resolution.

D. HOUSEHOLD INCOME AND ASSET DETERMINATION

1. 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 re-certifications for the Section 8 Housing Choice Voucher Program, or its successor.
 2. Asset Criteria
 - a. The maximum total of assets that may be allowed for a household desiring to rent or purchase an affordable unit must not exceed the maximum allowable annual income for that size household, with the following exceptions:
 - For households including at least one person 62 years of age and older, the first \$60,000 of assets shall be excluded from calculation of assets.
 - For home ownership units, up to 50% of the purchase price may be excluded from the calculation of assets when that asset is used as the down payment for the purchase of the affordable unit.
 - b. Assets are defined as follows:
 - Cash savings.
 - Marketable securities, stocks, bonds, and other forms of capital investment.
 - Equity in Real Estate.
 - Other personal property which is readily convertible into cash.
 - Inheritance already received.
 - Lump-sum insurance payments already received.
 - Settlements for personal property damage already received.
 - b. The following are not considered assets, in that they are not readily convertible into cash or are necessary for employment:
 - Ordinary household effects including furniture, fixtures, and personal property.
 - Automobiles.
 - Equipment or tools necessary for the performance of the applicant's occupation.
 - Private retirement plans and investments or assets held by qualified retirement plans.
 - Gift funds assisting with a down payment for purchase of a unit.
 - Silent second mortgage or other assistance to eligible households.
 - Assets of any co-signer on a loan to purchase a unit if the co-signer is not considered part of the household and will not live in the unit.
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E. FORMULAS FOR CALCULATING MAXIMUM RENTS AND SALES PRICES

1. Formula for Calculating Maximum Rents for Inclusionary Units (Non-Section 8) and Density Bonus Units:

STEP	DESCRIPTION OF ACTION														
STEP ONE: UNIT TYPE	Identify UNIT TYPE to be rented from the chart below :														
	<table border="1"> <thead> <tr> <th>TYPE OF UNIT</th> <th>NUMBER OF PERSONS IN HOUSEHOLD</th> </tr> </thead> <tbody> <tr> <td>SRO</td> <td>= 1</td> </tr> <tr> <td>Studio</td> <td>= 1</td> </tr> <tr> <td>1 Bedroom</td> <td>= 2</td> </tr> <tr> <td>2 Bedroom</td> <td>= 3</td> </tr> <tr> <td>3 Bedroom</td> <td>= 4</td> </tr> <tr> <td>4 Bedroom</td> <td>= 5</td> </tr> </tbody> </table>	TYPE OF UNIT	NUMBER OF PERSONS IN HOUSEHOLD	SRO	= 1	Studio	= 1	1 Bedroom	= 2	2 Bedroom	= 3	3 Bedroom	= 4	4 Bedroom	= 5
TYPE OF UNIT	NUMBER OF PERSONS IN HOUSEHOLD														
SRO	= 1														
Studio	= 1														
1 Bedroom	= 2														
2 Bedroom	= 3														
3 Bedroom	= 4														
4 Bedroom	= 5														
STEP TWO: MEDIAN HOUSEHOLD (HH) INCOME BY UNIT TYPE	Using the most recent income limits established for Santa Cruz County by the State of California, identify the Median Household Income for the Affordable Unit Type from the table in Step One above.														
STEP THREE: AFFORDABILITY LEVEL	Calculate the Annual Household Income Limit by income category assigned to the Affordable Unit. For example for low income units, which is the default category for Inclusionary Units, multiply Step Two by 80%; for very low income units multiply Step Two by 50%; and for extremely low income units, multiply Step Two by 30%. For Density Bonus lower income units, multiply Step Two by 60%.														
STEP FOUR: BASELINE MONTHLY RENT	Calculate the maximum monthly unit rent by dividing the results of Step Three by 12 and multiplying that result by 35% for low income units or SROs; and 30% for very low income units, extremely low income units, or Density Bonus lower income units.														
STEP FIVE: UTILITY ALLOWANCE	If the tenant will pay all or part of the utilities, identify a monthly utility allowance adjustment using the schedule of utility costs established by the Housing Authority of the County of Santa Cruz in conjunction with the Section 8 Rent Subsidy Program. If the landlord will pay all utilities, then the amount would be "0".														
STEP SIX: MAXIMUM MONTHLY RENT	Subtract Step Five, the Utility Allowance amount, from Step Four, the Baseline Maximum Monthly Rent for the maximum monthly rent.														
STEP SIX -A: ADJUSTED RENT FOR SRO UNITS WITH SHARED FACILITIES	Multiply the Maximum Rent from Step Six by .9 to determine the Adjusted Maximum Rent allowed for an SRO Inclusionary Unit with shared bath or kitchen facilities,														

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**STEP SIX -B:
ADJUSTED RENT
FOR SRO
DENSITY BONUS
UNITS** To determine the adjusted maximum rent for an SRO Density Bonus Unit, multiply the Maximum Rent from Step Six by .75 for SRO units with shared kitchen and/or bathroom facilities and by .85 for SRO units with kitchens and bathrooms in each unit.

2. Formula for Calculating Maximum Rents for Inclusionary Assisted Living and Congregate Care Units for single or shared income double units:

STEP	DESCRIPTION OF ACTION								
STEP ONE: UNIT TYPE	Identify UNIT TYPE to be rented from the chart below :								
	<table border="1"> <thead> <tr> <th>TYPE OF UNIT</th> <th>NUMBER OF PERSONS IN HOUSEHOLD</th> </tr> </thead> <tbody> <tr> <td>SRO</td> <td>= 1</td> </tr> <tr> <td>Studio</td> <td>= 1</td> </tr> <tr> <td>1 Bedroom</td> <td>= 2</td> </tr> </tbody> </table>	TYPE OF UNIT	NUMBER OF PERSONS IN HOUSEHOLD	SRO	= 1	Studio	= 1	1 Bedroom	= 2
TYPE OF UNIT	NUMBER OF PERSONS IN HOUSEHOLD								
SRO	= 1								
Studio	= 1								
1 Bedroom	= 2								
STEP TWO: MEDIAN HOUSEHOLD (HH) INCOME BY UNIT TYPE	Using the most recent income limits established for Santa Cruz County by the State of California, identify the Median Household Income for the Affordable Unit Type from the table in Step One above.								
STEP THREE: AFFORDABILITY LEVEL	Calculate the Annual Household Income Limit by income category by multiplying Step Two by 50%, which is defined as the very low income category limit.								
STEP FOUR- A: BASELINE MONTHLY RENT- ONE PERSON	Calculate the maximum monthly unit rent by dividing the results of Step Three by 12 and multiplying the result by 35%.								
STEP FOUR- B: BASELINE MONTHLY RENT- 2 PERSONS	For a two person household with a common/shared income who are also sharing an apartment, calculate the maximum monthly unit rent by dividing the results of Step Three by 12 and multiplying the result by 45%.								
STEP FIVE: UTILITY ALLOWANCE	If the tenant will pay all or part of the utilities, identify a monthly utility allowance adjustment using the schedule of utility costs established by the Housing Authority of the County of Santa Cruz in conjunction with the Section 8 Rent Subsidy Program. If the landlord will pay all utilities, then the amount would be "0".								
STEP FIVE: MAXIMUM MONTHLY RENT	Subtract Step Five, Utility Allowance, from the Baseline Maximum Monthly Rent from Step Four for the maximum rent. For one person, use Step Four-A. For a two person household with a common/shared income who are also sharing an apartment, use Step Four-B.								

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STEP FIVE-A: ADJUSTED MAXIMUM RENT FOR SRO FOR INCLUSIONARY UNITS To determine the adjusted maximum rent allowed for an SRO Inclusionary Unit with shared bath or kitchen facilities, multiply the Maximum Rent from Step Five by .9 to determine the Adjusted Maximum Rent.

STEP SIX: MAXIMUM CHARGES FOR RENT AND BASIC SERVICES Calculate the total maximum that can be charged for both rent and additional congregate living or assisted living services for one person by adding the results from Step Four A to Step Five. For a two person household with a common/shared income who are also sharing an apartment, multiply the results from Step Four A by two and add the results to Step Five. The per person amount for one person in the two person household would be one half of the calculated total for two persons.

F. FORMULA FOR CALCULATING FOR-SALE

1. Formula for Calculating For-Sale Prices for Lower Income Inclusionary Units and Density Bonus Units.

STEP	DESCRIPTION OF ACTION												
STEP ONE: UNIT TYPE	Identify UNIT TYPE to be rented from the chart below : <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>TYPE OF UNIT</th> <th>NUMBER OF PERSONS IN HOUSEHOLD</th> </tr> </thead> <tbody> <tr> <td>Studio</td> <td>= 1</td> </tr> <tr> <td>1 Bedroom</td> <td>= 2</td> </tr> <tr> <td>2 Bedroom</td> <td>= 3</td> </tr> <tr> <td>3 Bedroom</td> <td>= 4</td> </tr> <tr> <td>4 Bedroom</td> <td>= 5</td> </tr> </tbody> </table>	TYPE OF UNIT	NUMBER OF PERSONS IN HOUSEHOLD	Studio	= 1	1 Bedroom	= 2	2 Bedroom	= 3	3 Bedroom	= 4	4 Bedroom	= 5
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Studio	= 1												
1 Bedroom	= 2												
2 Bedroom	= 3												
3 Bedroom	= 4												
4 Bedroom	= 5												
STEP TWO: MEDIAN HOUSEHOLD (HH) INCOME BY UNIT TYPE	Using the most recent income limits established for Santa Cruz County by the State of California, identify the Median Household Income for the Affordable Unit Type from the table in Step One above.												
STEP THREE- A: AFFORDABILITY LEVEL FOR INCLUSIONARY UNITS	Calculate the Annual Household Income Limit by income category by multiplying Step Two by 80%, which is defined as the low income category limit.												
STEP THREE- B: ANNUAL HH INCOME AFFORDABILITY LEVEL FOR DENSITY BONUS (DB) UNITS	Calculate the Annual Household Income Limit by income category assigned to the Affordable Unit. For example for moderate income units, multiply Step Two by 110%; for lower income units which multiply Step Two by 70%; and for very low income units, multiply Step Two by 50%.												

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- STEP FOUR:
BASELINE
HOUSING COST
ALLOWANCE** Calculate the maximum monthly unit rent by dividing the results of Step Three by 12 and multiplying that result by 30% for Inclusionary Units, DB lower income units and DB very low income units. For DB moderate income units, multiply the results of dividing the maximum monthly unit rent in Step Three by 12 and multiplying the results by 35%.
- STEP FIVE:
MONTHLY
HOUSING
PAYMENT** From the Housing Cost Allowance amount from Step 4 subtract 15% of the Housing Cost Allowance for property taxes and insurance and from that amount then subtract 100% of homeowner's association fees to establish the Monthly Housing Payment amount
- STEP SIX:
AVERAGE
INTEREST RATE** Determine the regional Average Interest Rate for a thirty year, fixed rate, fully amortized loan using the Freddie Mac Primary Mortgage Market Survey for the West Region for that week.
- STEP SEVEN:
LOAN AMOUNT** Use the Monthly Housing Payment amount from Step Five and the Average Interest Rate from Step Six to determine the estimated Loan Amount.
- STEP EIGHT:
MAXIMUM SALES
PRICE** Divide the estimated Loan Amount from Step Seven by 80% to determine the adjusted Maximum Sales Price. (Note: This step reflects the inclusion of a 20% down payment for calculation purposes only. The actual down payment amount may vary.)

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G. EXPLANATION OF RENTAL AND OWNERSHIP FORMULAS

STEP ONE: UNIT TYPE	There are no restrictions on the minimum number of persons in a household purchasing an affordable unit. Each unit type has an assumed household size that relates to the number of bedrooms in the unit and is used to determine the affordable rent or sales price. The size of the household applying to rent or own an affordable unit is one of the factors considered in determining income eligibility. But it is not used in these formulas.
STEP TWO: MEDIAN HOUSEHOLD (HH) INCOME BY UNIT TYPE	Annual incomes used in these formulas are based upon the area median income for Santa Cruz County as published by the State of California pursuant to California Code of Regulations, Title 25, Section 6932, or successor provision. The State publishes these numbers annually based on the median income level identified for Santa Cruz County by HUD. The median income is adjusted for household/unit size based on the chart provided in Step One.
STEP THREE: AFFORDABILITY LEVEL	Each affordable unit is defined by an affordability level. The Inclusionary Program generally provides low income units, which are set at 80% area median income (AMI). Very low income units are set at 50% AMI and extremely low income units are at 30% AMI. By multiplying the median income established in Step Two by these percentages the income basis for determining affordability for that unit is established. Percentages required for Density Bonus (DB) units are established by state law and are included in the City's DB Ordinance.
STEP FOUR: BASELINE HOUSING COST ALLOWANCE OR MONTHLY RENT	A multiplier is used to determine what percentage of household income should be available for housing. For ownership inclusionary housing, the multiplier is 30%, and for rental inclusionary housing, the multiplier is 35%. Very low and extremely low income rental units the multiplier is 30%. Different multipliers may be used for DB Units per state law or other regulations.
STEP FIVE: MONTHLY HOUSING PAYMENT & MAXIMUM RENT	Adjustments for other expenses are made in Step Five to determine the Maximum Rent for rental units or Monthly Housing Payment for ownership units. Consistent with HUD procedures for rental units, estimated costs of tenant paid utilities are subtracted from the amount available for rent. For ownership housing, insurance, taxes, homeowner dues (when applicable), are subtracted. In addition, for DB ownership housing, utilities and maintenance costs are also subtracted. However, typically for new units maintenance costs are assumed to be \$0.
RENTAL- STEP SIX ADJUSTMENTS	For rental units, this step allows for additional adjustments for SRO units and Assisted Living/Congregate Care units.
OWNERSHIP - STEP SIX: AVERAGE INTEREST RATE	The Freddie Mac Primary Mortgage Market Survey for a thirty year, fixed rate, fully amortized loan provides average interest rates for the Western Region of the United States. The Survey is updated weekly.

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OWNERSHIP STEP SEVEN: LOAN AMOUNT	A mortgage calculator can be used to provide the loan amount based on interest rates for the type of loan described above and the amount available for monthly payments.
OWNERSHIP STEP EIGHT: MAXIMUM SALES PRICE	To determine the Sales Price, this Step includes the application of a standard 20% down payment.

II. PROCEDURES

A. APPLICABILITY

These procedures apply to any affordable rental or for-sale units where rents or sales prices are controlled by an Affordable Housing Development Agreement, an Affordable Housing Declaration of Restrictions or other document acceptable to the City Attorney.

B. AFFORDABLE HOUSING DEVELOPMENT AGREEMENTS

1. Affordable Housing Development Agreement Requirements

- a. Developer shall enter into an Affordable Housing Development Agreement (Agreement) with the City per Section Chapter 24.16 Affordable Housing Provisions Part 1: Inclusionary Housing Requirements or Part 3: Density Bonus Provisions for Residential Units.
- b. The Agreement shall:
 - Be recorded as a restriction on any residential development in which rent or sale price-restricted units will be constructed.
 - Be recorded prior to or concurrently with final or parcel map approval, or prior to issuance of a building permit for any structure in the residential development, whichever occurs first.
 - Run with the land and bind all future owners and successors in interest.

2. The Agreement shall designate affordable units or determine the methodology to be used to identify the affordable units within the residential development.

3. Active or Inactive Inclusionary Rental Units.

- a. The Agreement shall define conditions under which an inclusionary rental unit shall be considered inactive or active under Chapter 24.16, Affordable Housing Provisions Part 1 of the Municipal Code.
- b. Owners or agents of residential developments that have units that are classified as inactive under the Agreement shall submit annual reports to the City providing average rent levels for all unit types in the residential development.
- c. Until the City notifies the owner or agent that a unit no longer qualifies as being inactive, the remainder of this section will not apply.

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C. RENTAL PROCEDURES

1. Notification of the Availability of Active Inclusionary or Density Bonus Rental Units.
 - a. When an active inclusionary or density bonus rental unit is available for rent the owner or agent shall send a "Notice of Measure O Unit Available for Rent" to the City.
 - b. The City, upon receipt of a "Notice of Measure O Unit Available for Rent" shall:
 - Send the owner/agent an "Authorization to Rent Measure O Unit" with the following information:
 - (a) Table of Maximum Allowable Income by Household Size
 - (b) Table of Maximum Rents by Unit Size.
 - (c) Housing Authority Utility Allowance Schedule
 - Send the Housing Authority notice of the unit's availability with the following information:
 - (a) Table of Maximum Allowable Income by Household Size.
 - Post a notice of the unit's availability on the City's Website.
2. Tenant Selection.
 - a. Owners retain discretion in the selection of eligible renters, within the following parameters:
 - When multiple rental applications exist, preference shall be given in the following order:
 - (a) Residents of the City of Santa Cruz for at least one year.
 - (b) Those employed in the City of Santa Cruz.
 - (c) Residents of the County of Santa Cruz for at least one year.
 - (d) Those employed in the County of Santa Cruz.
 - b. An immediate family member or employee of any person having any equity interest in the residential development, including but not limited to a developer, partner, investor, or applicant, and their immediate family members or employees, is ineligible to rent an income restricted unit.
3. Tenant Qualifying Process.
 - a. Prospective tenants shall complete a Measure O Eligibility Application and the owner shall submit the application, together with a processing fee to the Housing Authority of Santa Cruz County. The processing fee shall be the sole responsibility of the owner and shall not in any instance be passed on to the tenant.
 - b. The Housing Authority will send the tenant, owner and City a Measure O Eligibility Certification when a prospective tenant qualifies to rent a unit.

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- c. For federally subsidized units, federal program procedures will apply.
4. Changes in Designation of Inclusionary Rental Units.
 - a. For rental developments where the Agreement provides flexibility for re-designating inclusionary units to allow for changing household incomes, if the household income of a tenant in an affordable unit exceeds income limits established for that unit, the following applies:
 - The owner has three months to identify another similarly sized unit occupied by or being rented to a qualified tenant household.
 - If circumstances prevent the identification of a substitute unit within three months, an extension of up to nine months may be granted at the discretion of the Director of the Economic Development Department if it is determined by the Director that an extension is in the best interest of tenants in the residential development.
 - If a substitute unit cannot be secured within 12 months, than the over-income tenant will be required to move, and the unit must be rented to a qualified household.
 5. Rental Terms
 - a. Except for the amount of rent to be charged, and provisions allowing a rent increase in the event the tenant becomes over-income, the same rental terms and conditions are applied to tenants of income restricted units as to all other tenants, and no other or additional fees are charged.
 - b. The rental agreement or lease shall require tenants to submit a Measure O Eligibility Application to the Housing Authority if requested to do so by the owner.
 6. Monitoring Provisions
 - a. The owner shall retain all records related to compliance with these guidelines for a period of not less than three years and make them available to the City for inspection and copying. The owner shall also permit the City to inspect the property to monitor compliance with these guidelines following two business days' written notice.

D. OWNERSHIP UNIT PROCEDURES

1. Notification of the Availability of Affordable For-Sale Units.
 - a. When an affordable unit is available for sale, the owner or agent shall send a "Notice of Measure O Unit Available For Sale" to the City.
 - b. Upon receipt of a "Notice of Measure O Unit Available For Sale", the City shall send the owner/agent an "Authorization to Sell Measure O Unit" with the following information:
 - (a) The maximum allowable sales price.
 - (b) Current maximum allowable incomes for buyers.
 - (c) Procedure for sale (per Resolution No. NS-15,753)
 - (d) Applicable resolution setting forth income and asset guidelines.

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(e) All documents that must be signed by the buyer or recorded to ensure affordability, such as deeds of trust, notes, recorded restrictions, etc.

(f) City's disclosure statement to buyer.

2. Buyer Selection.

a. Developers or owners retain discretion in the selection of eligible buyers, within the following parameters:

- When multiple applications exist, preference shall be given in the following order:

(a) Those who live or work in the City of Santa Cruz.

(b) Those who live or work in the County of Santa Cruz.

- An immediate family member or employee of any person having any equity interest in the residential development, including but not limited to a developer, partner, investor, or applicant, and their immediate family members or employees, is ineligible to buy an income restricted unit.

b. Prospective buyers shall complete a Measure O Eligibility Application and the owner/seller shall submit the application, together with a processing fee to the Housing Authority of Santa Cruz County. The processing fee shall be the sole responsibility of the owner/seller and shall not in any instance be passed on to the buyer.

c. The Housing Authority will send the buyer, owner and City a Measure O Eligibility Certification when a prospective purchaser qualifies to buy a unit.

3. Renting Ownership Units

a. After residing in the unit as a primary residence for a minimum of one year, under circumstances that require the owner to temporarily vacate the unit, the owner may rent the unit with the prior written approval of the Director of the Economic Development Department for a period of up to three years.

4. Lease Purchase Unit Requirements.

Affordable units may be marketed on a lease-purchase basis, subject to the following requirements:

a. Affordable lease-purchase units shall be subject to all provisions of these Guidelines and the Municipal Code governing rental units, while being leased, and governing ownership units, at the time the purchase option is exercised, except as otherwise provided in this section.

b. No lease-purchaser shall be eligible to participate in occupying or owning a lease-purchase unit unless such a participant, prior to either occupation or ownership, is determined by the Housing Authority of the County of Santa Cruz to meet the requirements of the income, asset and housing cost guidelines for ownership units.

c. Rental payments for lease of a lease-purchase unit may exceed the amount set forth in the income, asset and housing cost guidelines; provided, however, that the amount by which such rent exceeds said rent schedule amount shall be credited to the purchaser's payment of the purchase price. If the purchase option is not exercised, said amount shall be refunded

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immediately by the lessor-seller to the lease-purchaser, upon the lease-purchaser's failure to exercise the purchase option.

- d. The entire amount of any advance payment to the lessor-seller as prepayment of rent, cleaning or security deposit, or other substantially equivalent payment, shall be credited to the purchaser's payment of the purchase price. If the purchase option is not exercised, said amount shall be subject to state law and City ordinance governing same.
 - e. If a lease-purchaser does not exercise the purchase option on a lease-purchase unit and does not voluntarily vacate the premises, the lessor-seller shall, without cost to the City, immediately proceed to require the lease-purchaser to vacate said unit, including appropriate legal action, if necessary. If, in the sole discretion of the City, the City determines that the lessor-seller is not reasonably performing said obligation, the City may commence appropriate legal action to require the lessor-seller to perform said obligation and the lease-purchaser to vacate said unit. The lessor-seller shall execute all documents necessary or convenient for this purpose and shall be liable for the costs (including staff and court costs), and attorneys' fees so incurred by the City.
 - f. The maximum sales price at the time the purchase option is exercised shall be the amount in effect at the time the lease-purchase agreement is entered into.
5. Resale Prices and Adjustments to Resale Prices.
- a. The sales price will be one mutually agreed upon by the buyer and seller, provided that this price is no larger than the allowable resale price. The owner shall retain discretion in the selection of eligible buyers in accordance with Section D-2 above.
 - b. The final sales price shall be adjusted according to the criteria listed in Section I above, provided that in no case shall the maximum allowable sales price be lower than the purchase price of the unit at the time of its last sale plus the seller's closing costs and title insurance.
 - c. The purchase price of any affordable unit may be increased by the value of any substantial structural or permanent fixed improvements which cannot be removed without substantial damage to the premises or substantial or total loss of value of said improvements, up to ten percent of the resale price under the following conditions:
 - Improvements made or installed by the seller, and
 - No improvements shall be deemed substantial unless the aggregate, actual, initial costs of the improvements to the owner exceed one percent of the purchase price paid by the selling owner for the premises.

III. DEFAULT, FORECLOSURE, AND LOSS OF THE UNIT.

1. The City's policy is to ensure that all affordable housing units remain affordable in perpetuity. To ensure that the City can enforce this restriction, the City's agreement with buyers of affordable homes will grant the City an option to purchase the home if there is any default by the buyer. The City's agreement with the owners of rental affordable units will also allow the City to enforce the rent restrictions if the owner fails to do so.
2. Defaults by the owner of an affordable home include but are not limited to:

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- a. Failure to occupy the property as the principal residence of the owner, or renting the property without the City's permission.
 - b. Non-permitted transfer of the property to another owner.
 - c. Foreclosure on another deed of trust or mortgage.
 - d. Bankruptcy.
 - e. Misrepresentation when acquiring the home.
3. If the homeowner is in default, the City will normally give the homeowner the opportunity to cure the default, unless there is a need to act immediately, such as in the case of foreclosure. The City may exercise its option to buy the home at an affordable price, or may choose to cure the default or utilize other legal remedies. These include foreclosure, injunction, or any other available legal action to enforce the affordability agreements.