COUNTY OF SAN DIEGO

BOARD OF SUPERVISORS

1600 PACIFIC HIGHWAY, ROOM 335, SAN DIEGO, CALIFORNIA 92101-2470

AGENDA ITEM

DATE: **September 27, 2022**

TO: Board of Supervisors

SUBJECT: INCREASING THE REGION'S WORKFORCE HOUSING OPPORTUNITIES (DISTRICTS: ALL)

OVERVIEW

As the cost of living and housing prices continue to rapidly increase in the San Diego region, many middle-class individuals and families are unable to afford adequate housing. This spring, the median price for a single-family house in San Diego County reached $950,000, an increase of 28.5% over the previous year's price. According to recent calculations, an annual household income of at least $245,000 is needed to afford a median home price in our region. In addition to real estate speculation and investor purchases of residential homes, a major factor contributing to the sharp rise in local housing costs is the inability of the San Diego region to produce enough housing stock to keep pace with demand. Market forces make the cost of non-subsidized housing unattainable for many middle-class earners, and most housing subsidies are currently focused on supporting low-income affordable housing initiatives. This has resulted in a significant gap in housing for our workforce, including our teachers, healthcare workers, public safety officers, and those employed in construction and other trades. This lack of housing production has also prevented many of those living in affordable housing units from transitioning to the next level of home ownership, causing waitlists for affordable units to grow rapidly.

The lack of middle-class housing affordability in San Diego County has pushed some of our local workforce to live in areas distant from their jobs - even in other counties, or across the U.S.-Mexico border - resulting in dramatically increased commute times, vehicle miles traveled, and greenhouse gas emissions. San Diego recently surpassed San Francisco as having the most unaffordable housing market in the nation and with gas prices, transportation costs and inflation at historically high levels, our workforce continues to suffer. In addition to the high cost of purchasing a home, rental prices have surged in the County with the median price of rent at approximately $3,500 a month, a rise of almost 20% compared to the previous year. This marks the highest average jurisdictional rental increase in California. The average rent for a studio apartment in San Diego County is currently $2,789. According to the most recent U.S. Census data, although the average salary in San Diego County is approximately $68,195, to afford an average priced studio apartment in the region, an individual's annual salary must be $111,560 or higher to comfortably rent.

As compared to affordable housing which has significant incentives and funding opportunities, there are virtually no incentives and funding sources available to expand housing opportunities for vulnerable middle-class households in the 80% - 120% range of the Area Median Income (AMI). Currently, tax credits from the State are cut off at 80% AMI, so homebuilders have fewer incentives to develop units affordable to middle-class families. Many households at this income level do not qualify for affordable housing support from the government, despite being extremely rent-burdened by San Diego's high market-rate rents. The lack of funding incentives and high building costs has contributed to the region's inability to meet the Regional Housing Needs Assessment (RHNA) allocations for San Diego County.

San Diego County Regional Housing Needs Assessment (RHNA) Information

RHNA allocation, Incomes, and Production				
Income Category	**AMI**	****Income Limit**	**RHNA Allocation**	**2021 APR Production**
Very-Low	0-50%	$65,050	1,834	46
Low	50-80%	$104,100	992	318
Moderate	80-120%	$128,300	1,165	398
*Above-Moderate	120%+	$128,300+	2,709	663
*Middle-income (120-150% AMI) is included in the above-moderate income				
**Incomes reflect 2022 incomes for a family of four.				

The City of San Diego formed a Middle-Income Housing Workgroup that resulted in various recommendations to address the middle-income housing gap. These recommendations include: developer fee reductions, additional density bonuses, streamlining the historical review process, streamlining compliance with stormwater regulations, allowing for the use of less costly innovative construction materials and technology, and building housing on top of municipal facilities. The City has also been asked by this group to consider long-term actions such as construction loan guarantees, property tax reductions for middle-income housing, community land trusts and philanthropic funds to acquire homes.

State leaders have recognized a serious shortage of middle-income housing which they frequently identify as the "missing middle." According to a recent Pew Research Center analysis, about half of U.S. families (52%) are considered middle-class households. However, the focus of government intervention in meeting RHNA numbers has been to support affordable housing production for low to extremely low-income individuals.

The County can help address the need to produce additional housing by investigating the potential use of innovative actions to spur new development. For example, through the creation of a housing loan fund and program, and partnerships with private and social investors and homebuilders, the County could assist in the development of deed-restricted housing for San Diego County's middle-class families. This initiative could contribute to our County's RHNA goals, Climate Action Plan and job creation. Board action brought forward on August 31, 2021(7) suggested the potential use of loan funds for developers as an incentive to increase affordable housing production. The County of San Diego should also play a leadership role in identifying solutions to address housing inventory specific to middle-class families that are getting outpriced in the housing market for the San Diego region.

This board letter recommends several actions to help increase the production of middle-class housing in our region through the creation of a pilot workforce housing program for the 80%-120% AMI range. This program could employ mechanisms such as a revolving loan fund, partnerships with private investors, and the pooling of funding and coordination of existing resources such as the San Diego Middlemarch Fund, that supports workforce and moderate-income housing production in the County.

The proposed workforce housing program should include considerations to address both opportunities for home ownership and rentals. It could prioritize preservation and rehabilitation of existing commercial and residential units, as well as acquisition of units or buildings in danger of foreclosure, for the purpose of providing housing with regulatory covenants for families that earn between 80% and 120% AMI. Action would also include legislative advocacy, expanding first-time home buyers' opportunities, creating working groups focused on workforce housing production and affordability, and any additional proposals and recommendations to support workforce housing.

RECOMMENDATION(S)
SUPERVISOR JOEL ANDERSON AND VICE CHAIR NORA VARGAS

1. Direct the Chief Administrative Officer to report back in 180 days with options and recommendations on the creation of and resources needed to develop a pilot workforce housing program for the production of housing for rental and home ownership opportunities in the 80-120%AMI range through mechanisms such as:
   a) a revolving loan or equity fund with the County providing low interest loans in exchange for deed restriction of moderate-income housing in the 80-120% AMI range
   b) the County serving as the financial conduit for leveraging and incentivizing private, social, and philanthropic investments to financially contribute to the workforce housing program
   c) the coordination of efforts and pooling of funding from existing resources and entities for workforce housing production

2. Direct the Chief Administrative Officer to return to the Board in 180 days with a recommended amount and a funding source to serve as initial seed money for a County or contract-administered fund for the workforce housing program.

3. Direct the Chief Administrative Officer to investigate the potential of expanding the County's first-time home buyer program, the Down Payment and Closing Cost Assistance (DCCA) Program, to individuals in the 80-120%AMI range and evaluate opportunities to reduce the cost of borrowing for all program participants and return to the Board in 180 days with recommendations.

4. Direct the Chief Administrative Officer to add to the County's Legislative Program, support for funding, legislation, or administrative action that facilitates and incentivizes the production of moderate to middle-income housing in the 80-120% AMI range.

5. Direct the Chief Administrative Officer to create a Middle-Income Housing Workgroup to review and build on the City of San Diego's workgroup recommendations and provide input on current production barriers, ways to increase workforce housing production, and other ideas to increase workforce housing opportunities.

6. Direct the Chief Administrative Officer to create a working group of financial experts and stakeholders to identify potential County government and private financial tools and incentives to increase housing affordability and reduce the cost of financing housing purchases for our essential workers and those with occupations with a substandard supply of housing. These categories include professions such as teachers, emergency personnel, healthcare professionals, caregivers, childcare providers, and government workforce.

EQUITY IMPACT STATEMENT

Affordable housing has been a crisis in California, particularly for people that have become known as the "missing middle." Working families, particularly individuals who identify as Black, Indigenous, and people of color (BIPOC), are struggling to afford elevated market-rate housing and are earning just enough to make them unable to disqualify them for housing subsidies. A recent report released by the San Diego Housing Commission reflects that goals and policy proposals related to workforce housing and addressing the housing shortage for middle-class families, are expected to address factors impacting housing supply and homeownership, particularly for our working communities of color. The San Diego Housing Commission and San Diego City-County Reinvestment Task Force considered several recent policy reforms discussed and approved in the past two years on workforce and middle-income housing to have the greatest impact and hold the most promise for increasing BIPOC homeownership by encouraging density, promoting construction, and streamlining processes. Today's actions seek to advance these opportunities by addressing gaps in housing stock and affordability for our vulnerable populations and workforce.

SUSTAINABILITY STATEMENT

This item seeks to engage the community in a meaningful way and elicit stakeholder input to foster inclusive and sustainable communities with sufficient housing. Action encourages diverse stakeholders to partner and participate in decisions to increase workforce and housing affordability which is necessary for sustainable regional infrastructure and a vibrant regional economy.

FISCAL IMPACT

Funds for this request are not included in the Fiscal Year (FY) 2022-23 Operational Plan. This request will result in an estimated cost of $125,000 for consulting services. Funding for the cost will need to be identified, and staff will monitor and return to the Board with mid-year action to adjust the budget if necessary or incorporate in future budgets as funding becomes available. At this time, there is no impact to net General Fund cost and no additional staff years. Staff will return to the Board for consideration and approval of any other future fiscal impacts that may result from the recommendations, including the potential use of the American Rescue Plan Act (ARPA) resources reprioritized by the Board for housing and behavioral health activities, and as an "evergreen" investment fund, and unallocated approved funds for research and pilot programs budgeted in the Housing & Community Development Services Department.

BUSINESS IMPACT STATEMENT

A Workforce Housing Program would support the building and construction trades industry through increased job opportunities related to an increase in the construction of housing, and positively impact the workforce and local businesses through the purchase of materials and by creating and enhancing access to more homes, incentivizing the working-class to stay in the region.

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

In many cities across the country, it has become increasingly difficult for the workforce to buy or rent housing in the communities in which they work. Recent studies demonstrate that San Diego has one of the most unaffordable housing markets in the country. In response to limited affordable housing options in the areas where they work, many middle-class households are moving to the outer fringes of San Diego County, to Riverside County, Imperial County, and Baja California, Mexico. This leads to longer commute times for workers, higher traffic levels and increased greenhouse gas emissions.

According to the Urban Land Institute (ULI), workforce housing is defined as housing affordable to households earning between 60% and 120% of the area median income (AMI). However, financial incentives and tax credits from the State of California are cut off at 80% AMI so home builders have little to no incentive to develop units affordable to moderate-income, middle-class families in the 80 to 120% AMI range. Middle-class households at this income level do not qualify for affordable housing support from the government, despite being rent-burdened by San Diego's high market-rate rents. Moderate-income housing includes units that are affordable to workers in professions such as police officers, firefighters, teachers, healthcare workers, and retail clerks. Households who need workforce or moderate-income housing do not usually qualify for housing subsidized by programs such as the Low-Income Housing Tax Credit (LIHTC) program or the Housing Choice Vouchers program, two programs that help address low-income affordable housing needs. As a result, there is a significant deficit in housing opportunities for the middle-class, negatively impacting our workforce and affecting the quality of services and care in our region.

Against the backdrop of a statewide housing crisis, and the recessive economic impacts world-wide, affordable to market rate home builders have faced ever increasing building costs. This makes fewer projects viable to be built overall, leading to fewer new homes and driving up prices. The rising cost of housing construction is fueled by multiple factors, including land and capital costs, mandates and regulations, materials, and labor. These are costs that have seen some of the largest escalations in recent years. The per-square-foot hard costs for constructing housing in California climbed more than 25% during the last decade alone.

The exorbitant costs of development are often cited as a fundamental obstacle to building more housing in California, especially housing that is affordable to moderate-income households in the 80-120% AMI range. Many different factors layer together to affect the bottom-line costs of building new housing and whether or not a project will ultimately "pencil." This includes the costs of acquisition of land and closing costs, hard construction costs, soft costs such as legal and professional fees, insurance, and development fees, as well as the costs of conversion once a project is completed. Although hard construction costs comprise more than 60% of total development costs, permitting, fees and soft costs comprise the other 40%.

While the County has successfully housed many homeless, low-income families, seniors, disabled individuals and veterans through the Innovative Housing Trust Fund, Housing Choice Vouchers, and other housing programs funded through the U.S. Department of Housing Urban Development, there is still a gap in assistance for working families, classified as moderate-income, who can't afford to rent or purchase a home in San Diego. The implementation of a revolving loan fund could provide capital to home builders with below market returns in exchange for restricting housing units to families earning between 80% and 120% AMI. By offering a less expensive funding source, developers could afford to charge lower rents which they could deed-restrict for moderate-income families in exchange for this lower cost of capital. In exchange for up-front investment, investors and home builders could get a higher return post-development of workforce housing projects.

The program could be capitalized by the County and other partners in exchange for financing housing creation which provides long-term affordability for our region's workforce – people who earn too much to qualify for government-subsidized housing, but not enough to pay for the current market rate rents. An example of this model is the Middlemarch Fund, an equity fund that provides funding for moderate-income projects through a revolving loan fund. The fund started with $400,000 and with financial partnerships and willing home builders, it has leveraged $25 million for ten large-scale projects which will deliver hundreds of rental homes restricted to middle-class earners. The San Diego Middlemarch Fund serves as a business liaison for investors and workforce home builders, with investor incentive being interest on their investments, generated through permanent phase financing of developments and sale proceeds. Similarly, the County could also serve as a conduit for leveraging financial partnerships with the private sector in order to produce more workforce housing, for renting and for home ownership opportunities.

There are several philanthropic and social organizations that have demonstrated commitment to spurring and financially supporting workforce housing production that could serve as partners.

With the creation of a pilot workforce housing program, it is pertinent that the County continues to advocate at the state level for perennial sources for funding and incentives specific to workforce housing production. For affordable housing, there are state funding sources that match grants to jurisdictions who designate resources to their trust funds and housing programs annually, such as the California Housing and Community Development's Local Housing Trust Fund. California Housing and Community Development should be innovative in order to address middle-class housing gaps and similarly provide tax breaks and incentives to our private sector partners. The County should advocate for similar financial tools for workforce housing.

Last year, the City of San Diego formed a Middle-Income Housing Working Group which included affordable housing advocates, developers, finance professionals, and representatives from building trades and think tanks to develop and evaluate ideas to produce more housing for residents who earn too much to qualify for affordable housing and too little to afford rising market-rate home costs. The group met frequently from September through November 2021 to prepare policy and financing recommendations that can be acted upon by the Mayor and City Council. Subsequently, the City of San Diego released a report this summer that detailed the working group's ideas and recommendations. These include: developer fee reductions, streamlining the historical review process, streamlining compliance with stormwater regulations, allowing less costly innovative construction materials and technology, and building housing on top of municipal facilities. Similarly, the County could maximize our property by evaluating production on surplus land after property is vacated as well as building on or adjacent to our own facilities as we replace structures or build new facilities such as our County Santee Animal Shelter or Lakeside and El Cajon libraries.

The City has also been asked to consider long-term actions such as construction loan guarantees, property tax reductions for middle-income housing, community land trusts and philanthropic funds to acquire homes. It would be opportune for the County to leverage the work of the City of San Diego's middle-income workgroup by forming a similar workgroup to review and considering the recommendations laid out in the City workgroup report and potentially develop additional initiatives feasible for a County of San Diego workforce housing program.

In addition to this workgroup, the County could simultaneously bring together financial experts and stakeholders to discuss initiatives to lower financing costs for home purchases by our essential workforce and professions with substandard housing supply. This working group would consider potential ways to improve affordability for individuals in occupations with workforce shortages, including our teachers, healthcare workers and emergency personnel. Possibilities include interest rate reductions for home loans, establishing programs that eliminate and reduce down payment requirements, and increasing repayment periods for mortgages.

The Down Payment and Closing Cost Assistance (DCCA) Program, also known as the first-time home buyer program, provides low-income, first-time homebuyers low-interest, deferred payment loans up to 17% of the purchase price for down payment assistance, and up to $10,000 in closing costs assistance. However, qualified buyers' family income must not exceed 80% of the San Diego County Area Median Income. The County should be considering expanding this program for our workforce up to the 120% AMI threshold, in addition to lowering costs associated with borrowing. Further, staff should also analyze development-related laws and policies for workforce housing production to identify any changes the County could make in addition to state and federal opportunities, to spur, streamline, and expedite production.

Millions of workers in California are facing a crisis of not being able to live where they work. The lack of housing for the "missing middle" is causing essential and hourly wage workers to leave their communities and the state in search of more affordable housing. This exodus is contributing to a shortage in many vital fields such as our healthcare workers, safety officers, and educators. It is crucial that the County take action now to address the housing shortage to rescue our diminishing workforce.

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN
Action today seeks to respond to our immediate housing needs for working individuals and their families through state advocacy, local changes, policies, and financing mechanisms that will help facilitate the production of workforce housing that will unlock additional housing and workforce opportunities that meet the needs of the region.

Respectfully submitted,

JOEL ANDERSON
Supervisor, Second District

VICE CHAIR, NORA VARGAS
Supervisor, First District

ATTACHMENT(S)
N/A