



City of Morgan Hill

Affordable Housing
& Below Market Rate Program (BMR)

HOUSING WORKSHOP I.

May 18, 2016

HOUSING WORKSHOP II. JUNE 15, 2016 (in-lieu fee)

HOUSING WORKSHOP I. OBJECTIVES

Objective	Purpose
Discuss Past, Present and Future Housing Goals	Informational (Two workshops, 5/18/2016 & 6/15/2016 BMR in-lieu fee discussion)
Adopt BMR Program Ordinance 6/1/2016	Formalize BMR Program, City Manager Authority, Program Purpose, Administrator Role, Power of Attorney in legal matters and Acquisition Authority (including “Cash-for-Keys” settlements) Program Administrator Duties, Enforcement of Occupancy and Sale Requirements, Rules Restricting Owner’s ability to sell and finance
Adopt BMR Resolution 5/18/2016	Formalize Fee Structure, City Manager Authority to sign off on Program Updates, Guidelines, Letters and Agreements, (E.g. Refinance Policy and Procedure) Approving Program Vendors (Lenders, Escrow)
Acknowledge & Recognize loss mitigation options via Resolution	Acknowledge & Recognize the loss mitigation options & process for at risk BMR Units in legal matters, and Acquisition Authority (including “Cash-for-Keys” settlements)
Excess Sale Proceeds (Equity)	Acknowledge & Recognize as a Program Asset that must be protected from abuses

Past Regional Housing Need Allocation (RHNA) Accomplishments (California Housing Element Law)

2007-2014 Housing Element Cycle

Income Level	RHNA unit Goal	Permits Issued	% of RHNA Met	Units + or -
Very Low (0-50% AMI) \$0 to \$53,150 *4 Person Household <small>includes 30% AMI for reporting purposes</small>	317	82	26%	-235 units
Low (50-80% AMI) \$54,213 to \$84,900, *4 person Household	249	139	56%	-110 units
Moderate (80-120% AMI) \$86,103 to \$127,550 *4 person Household	246	260	106%	+14 units
Above Moderate (120% +AMI) \$127,551+ *4 person Household	500	1,076	215%	+576 units
TOTAL RHNA	1,312	1,557	117%	+245

Today's RHNA Housing Goals

2015-2022 Housing Element Cycle

Income Level	RHNA unit Goal	Permits Issued To date	% of RHNA Met	# of units to go
Very Low (0-50% AMI) \$0 to \$53,150 *4 Person Household includes 30% AMI for reporting purposes	273	0	0%	273
Very Low (0-50% AMI) \$0 to \$53,150 *4 Person Household includes 30% AMI for reporting purposes	154	13	8%	141
Moderate (80-120% AMI) \$86,103 to \$127,550 *4 person Household	185	5	3%	180
Moderate (80-120% AMI) \$86,103 to \$127,550 *4 person Household	316	333	105%	+17
TOTAL RHNA	928	351	38%	577

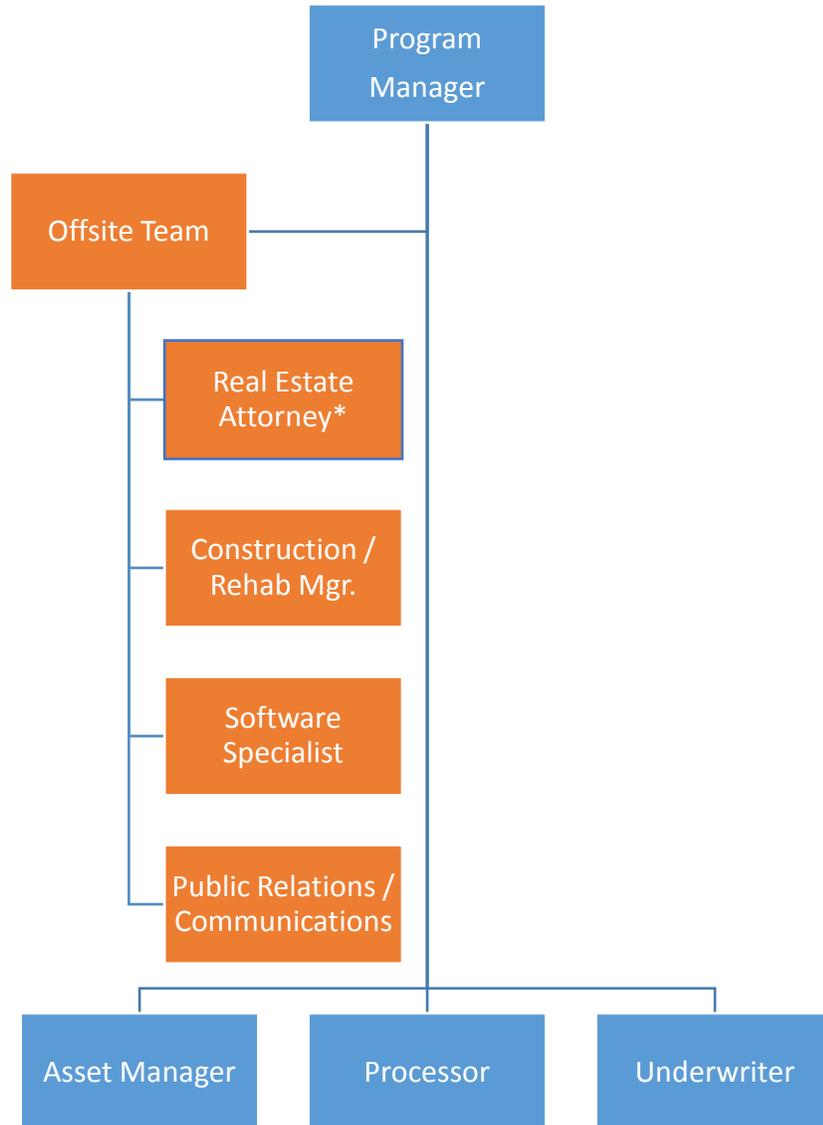
We have a great track record and a sizable BMR Program!

	Land Mass (Sq. Miles)	Population	Housing Units	Persons Per Household	Households	Affordable Ownership Units
Morgan Hill	13	41,779	13,868	3.11	13,421	500
Campbell	6	40,585	17,616	2.48	16,891	70
San Jose	180	1,016,479	327,652	3.17	320,960	1,385
Santa Clara	18.41	120,973	45,828	2.69	44,905	142
Gilroy	16.16	52,194	15,774	3.47	15,291	387
Mountain View	6.799	77,914	34,807	2.36	32,972	25
Sunnyvale	22.69	148,028	57,561	2.67	55,462	330
Cupertino	11.26	59,756	21,054	2.94	20,332	118
Palo Alto	25.79	66,932	28,674	2.47	27,153	240
Milpitas	13.64	72,606	21,039	3.42	21,236	274
Los Gatos	11.16	30,505	13,228	2.41	12,673	43
*Monte Sereno	1.615	3,451	1,299	2.82	1,223	21
Los Altos	6.4	30,036	11,350	2.74	10,970	64
*Los Altos Hills	8.802	8,341	3,088	2.85	2,931	N/A
Saratoga		30,799	11,186	2.83		N/A

Affirmatively Furthering Fair Housing (AFFH) Requirement

- **1968: Fair Housing Act becomes law** HUD (Analyze barriers, implement “meaningful” actions, i.e., policies and programs designed to overcome those barriers)
- **2009 - 2015:** Increased HUD enforcement of AFFH
- **2015:** HUD finalizes new AFFH regulations, the duty to AFFH has been clarified and strengthened in recent years, AFFH duty FOLLOWS THE MONEY! (HUD’s \$)
- **October 2019:** Santa Clara County jurisdictions must submit their first Assessments of Fair Housing to HUD (analyze barriers to fair housing and implement “meaningful” actions, i.e., policies and programs designed to overcome those barriers”
- **ONE WAY THE CITY IS AFFH IS BY PROTECTING AND PRESERVING BMR RESTRICTIONS**

BMR Team 2016



Morgan Hill BMR Program Budget	
Asset Manager	\$55,681.60
Processor	\$62,150.40
Underwriter	\$60,673.60
Program Manager (1/2 Time)	\$78,000.00
Real Estate Attorney	\$83,200.00
Add 'l Personnel Costs (benefits)	\$148,526.40
Offsite Team	\$181,768.00
Overhead	\$180,000.00
Total Program Cost	\$850,000.00
New Construction (15 Units)	\$150,000.00
BMR Resales (10 Units)	\$150,000.00
Acquisition/Rehab (3 Units)	\$50,000.00
Total Revenue Offsets	\$350,000.00
Net Budget, Proposed City Contract	\$500,000.00

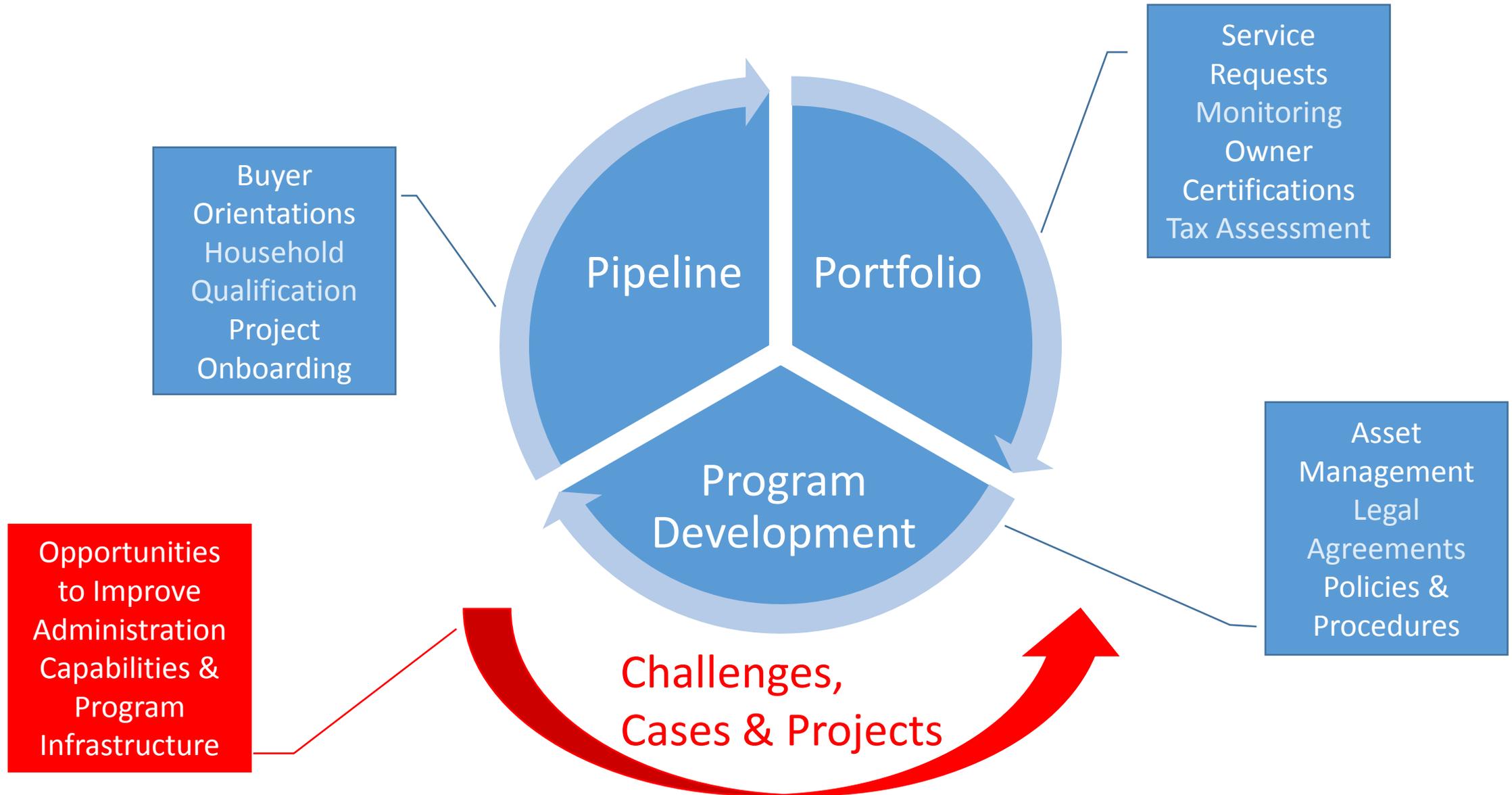
Successful 9 month transition:

- Requalified existing buyers
- Rebuilt New Buyer Pipeline (239 applications)
- Held 3 Lotteries for potential new homeowners
- New BMR Website - www.HouseKeys.org
- Assisted 5 Development Projects that needed onboarding to City process and sale of units (Stonebridge, Madrone Plaza, Loden Place, Paseo Seville, Tilton Park)
- Recorded Nine (9) BMR Properties with Notice Of Defaults (NOD)
- Held 18 BMR Educational Orientations at City Hall with 500 Registrants
- Assisted with 17 BMR Home Sale transactions
- Escrow/Closings: 19
- Conducted ongoing monitoring and compliance; worked alongside staff to cure defaults and foreclosures
- Identified and qualified New Lenders
- Responded to the County Tax Assessors request to ensure accurate property tax assessments
- Rehabbed and sold 2 defaulted units

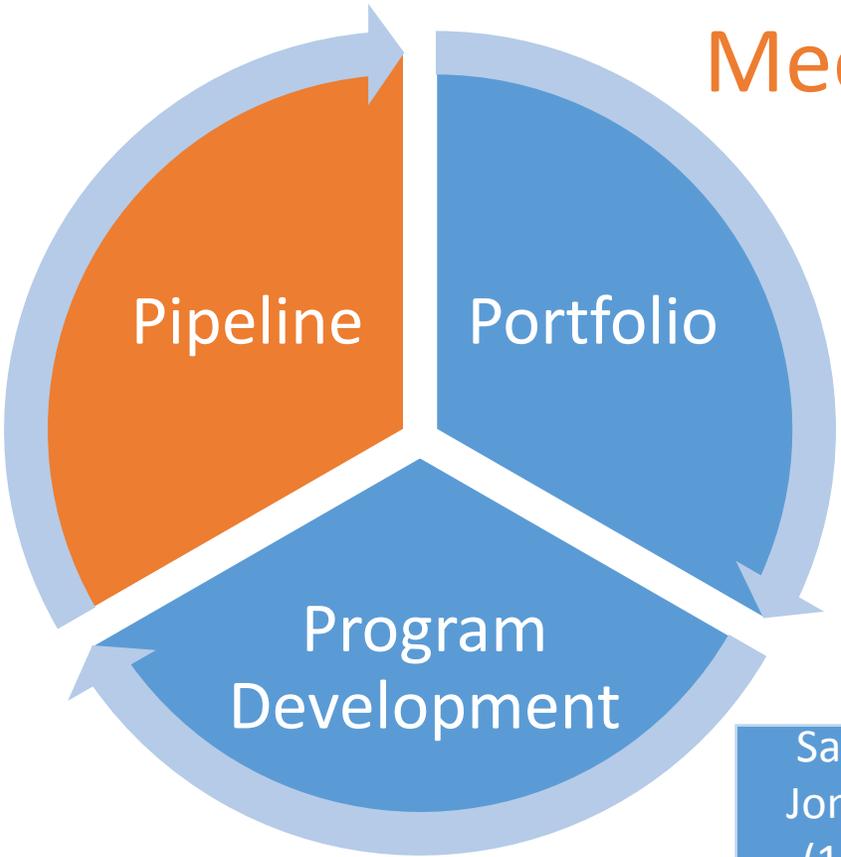
Lessons Learned from a 40 year old Program

- Create and Formalize BMR Processes through Resolution and Ordinance
- Create Data Profiles, work closely with County Tax Assessor for property values
- Proactive Options VS Litigation
- Residential Development Control System (RDACS) and Affordable Housing

Day-to-Day Administration



Meet the Jones' - The Household

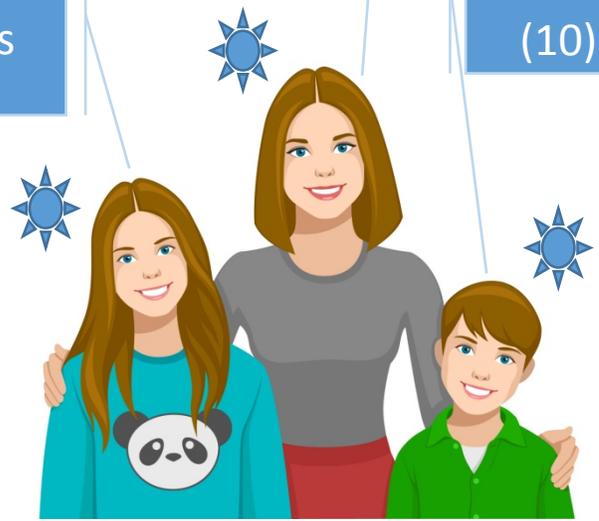


Household Size: 3
 Household Income: \$71,000 (\$65,000 Income + \$6,000 Child Support)
 Household AMI Level: 75% of Area Median Income (AMI)
“Low Income”: 51% to 80% AMI

Gloria Jones
 \$65,000/yr. salary
 \$500/mo. child support

Sally Jones (15)

Mark Jones (10)



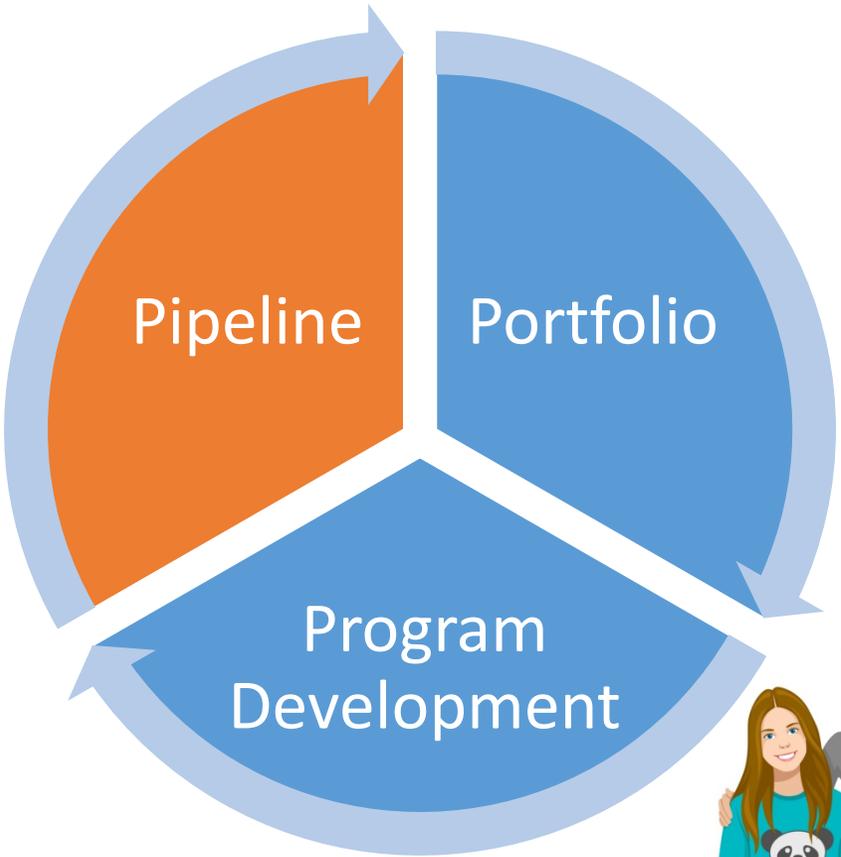
Household Size/ Income Level	1	2	3
120% AMI	89,300	102,050	114,800
110% AMI	81,840	93,555	105,215
100% AMI	74,400	85,050	95,650
90% AMI	66,960	76,545	86,085
80% AMI	59,400	67,900	76,400
76% AMI	56,544	64,638	72,694
75% AMI	55,800	63,788	71,738
73% AMI	54,312	62,087	69,825
70% AMI	52,080	59,535	66,955
65% AMI	48,360	55,283	62,173

Source: Rentometer.com	Two Bedroom	Three Bedroom
Morgan Hill Average Rental Rates (2015)	\$1,440 to \$2,431	\$1,827 to \$3,039 \$2,500/month

\$2,500/month \$30,000/year ÷ \$71,000/year = 42% of Income



HouseKeys
Affordability Matters



ABC Homes

10-Unit Project with 1 75% AMI BMR Unit



Jones Household with 75% AMI



The Property



Prime Rose Development

\$750,000 Fair Market Value

Estimated Monthly Housing Payment: \$5,093 per month



\$250,000 Below Market Rate Price

Estimated Monthly Housing Payment: \$1,931 per month



\$500,000

The \$500,000 "Discount" helps the Jones Household avoid \$3,162 per month in Housing Payments. The Discount is called "Excess Sale Proceeds" and secured by an Agreement and Deed of Trust.

Morgan Hill RDCS BMR Pricing Table 2015-16 FY	Three Bedroom
80% to 90% AMI Levels BMR Sales Price Range	\$2,232 - \$2,511/month \$282,400 - \$317,700
70% to 76% AMI Levels BMR Sales Price Range	\$1,953 - \$2,120/month <u>\$247,100 - \$268,280</u>
65% AMI Level BMR Sales Price	\$1,730/month \$229,450

\$250,000





Excess Proceeds due to City of Morgan Hill = \$429,500



Fair Market Value = \$900,000



Excess Proceeds due to City of Morgan Hill = \$500,000



Fair Market Value = \$750,000

Choice 1:
Resell BMR Property to 120% AMI Household

Choice 2:
Sell at Market; Use Cash to Build Lower AMI BMRs

New Construction Property 75% AMI for "Low Income"



75% AMI

\$250,000 BMR Price

1996 Consumer Price Index = 158.7

88.2%



120% AMI

\$470,500 BMR Price

2016 Consumer Price Index = 298.672



- ✓ No longer has to pay \$2,500/month in rent
- ✓ Total Housing Payment of \$1,931/month
- ✓ \$3,162/month in "Payment Avoidance"
- ✓ Accumulated \$220,500 in Housing Wealth

Resale to 120% AMI "Moderate Income"

Year 1

Year 20

Year 45

Debra Jenkins
 \$20,000/year
 Part Time
 Substitute Teacher

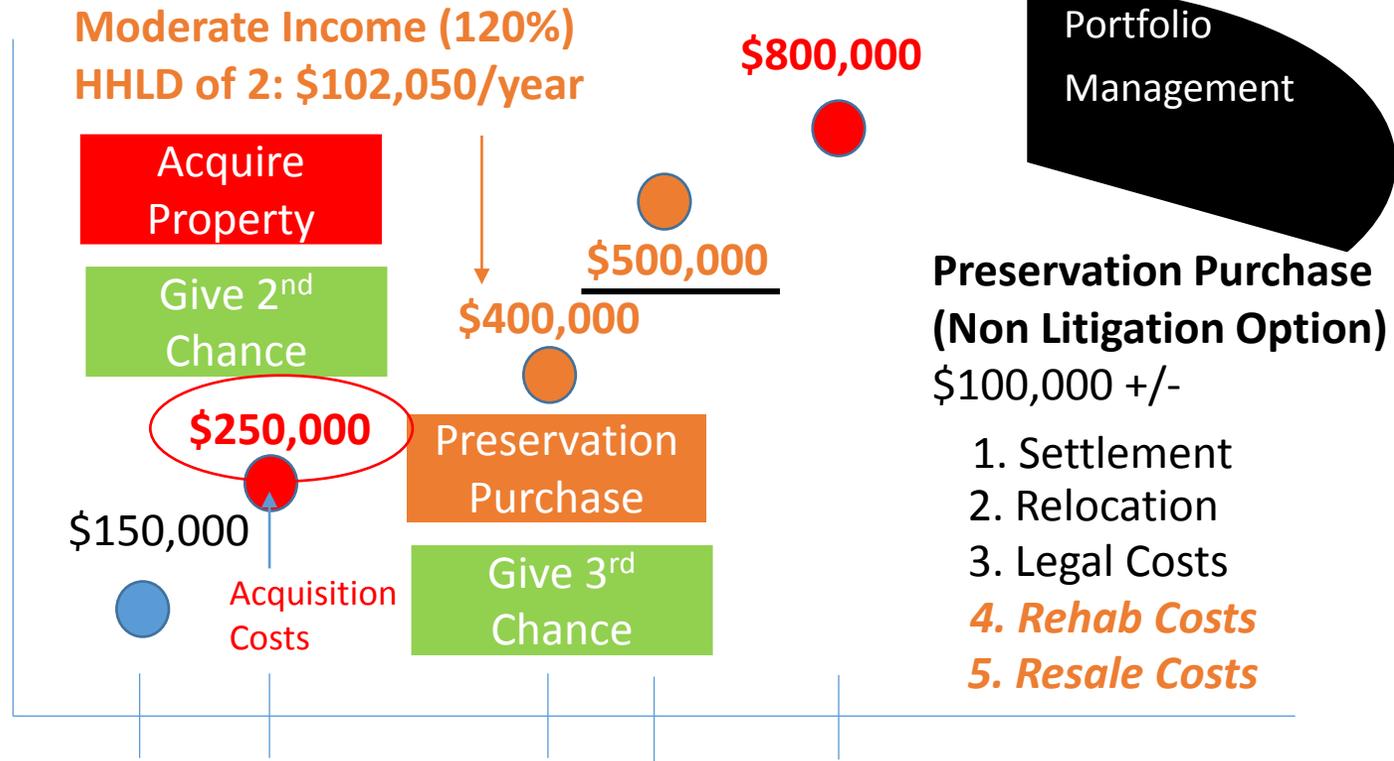
Todd Jenkins
 \$45,000/year
 Full Time
 Marketing Mgr.



Household Size: 2
 Income: \$65,000
 AMI: 80%
Low Income

?
 Buy
 Or
 Rent

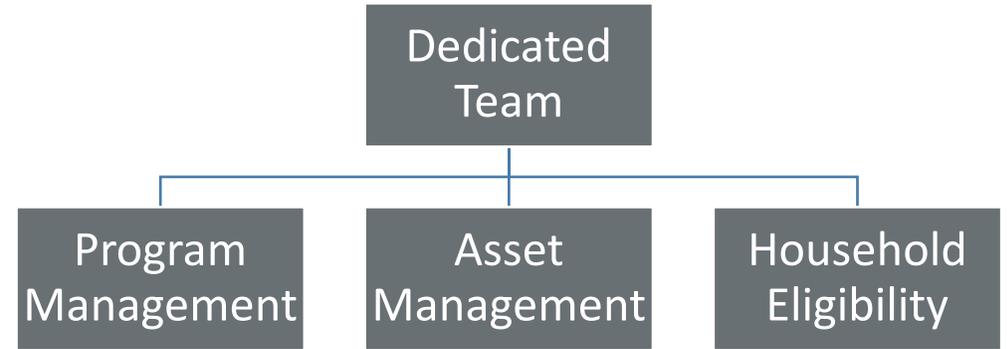
Household Size/ Income Level	1	2	3
100% AMI	74,400	85,050	95,650
90% AMI	66,960	76,545	86,085
80% AMI	59,400	67,900	76,400
76% AMI	56,544	64,638	72,694
75% AMI	55,800	63,788	71,738
73% AMI	54,312	62,087	69,825



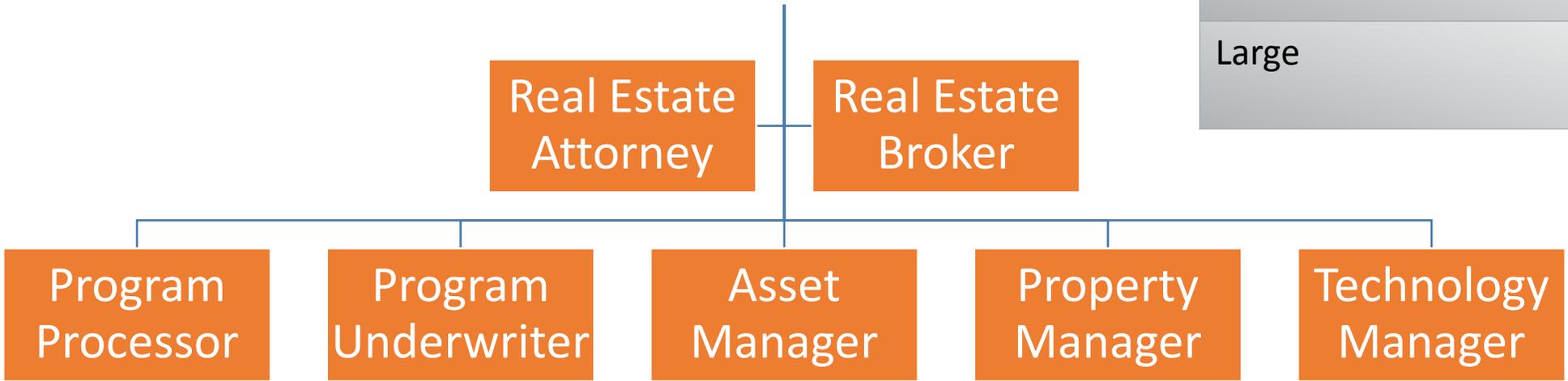
2001 **2002** 2006 2007 **2013**

2001 – Purchase of Below Market Rate (BMR) home for \$150,000
2002 – Debra loses her teaching job; fall behind on Mortgage; NOD
 2003 – Borrow Money from family; Reinstate Mortgage
2006 – Refinance; Cash Out \$150,000; New Mortgage \$300,000
2007 – Refinance; Cash Out \$200,000; New Mortgage \$500,000
2013 – Notice of Default \$300,000 (6 Years of Missed Payments)

- ✓ Manage existing Affordable Housing Programming
- ✓ Deal with immediate Program Concerns and Challenges
- ✓ Scale to Achieve Housing Goals

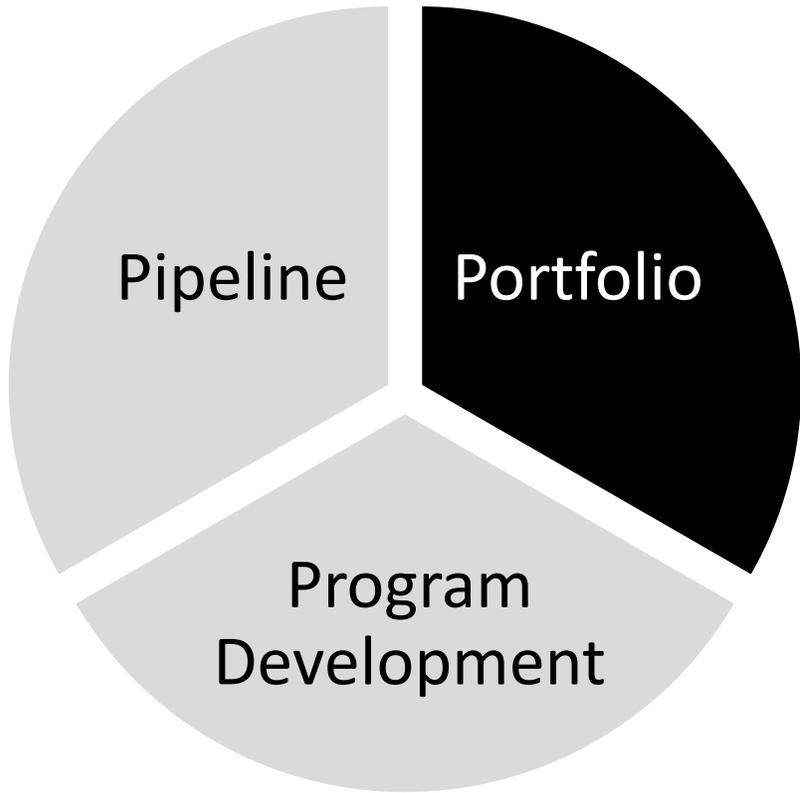


Program Size Based on Unit Count and Unit Mix	Team Size Full-Time Equivalents (FTEs)
Small	.25 to 1 Full-Time Equivalent
Medium	1.25 to 2 Full-Time Equivalents
Large	2.25 to 3 Full-Time Equivalents



Preservation Purchase vs. Litigation

Financial Impact	Preservation Purchase (Non Litigation Option)	Litigation
Budget Source	Excess Sale Proceeds	Housing Funds
Cost/Rate	Staff Rate (\$75 Per Hour)	Attorney Rate (\$150 to \$300 Per Hour)
Coordination (External Costs)	Administrator with Owner, Lender and Courts	Attorney with Deposition Appearances and Discovery Responses
Long Term Benefit	Build relationship with housing practitioners, lenders and servicers	Build an enforcement reputation



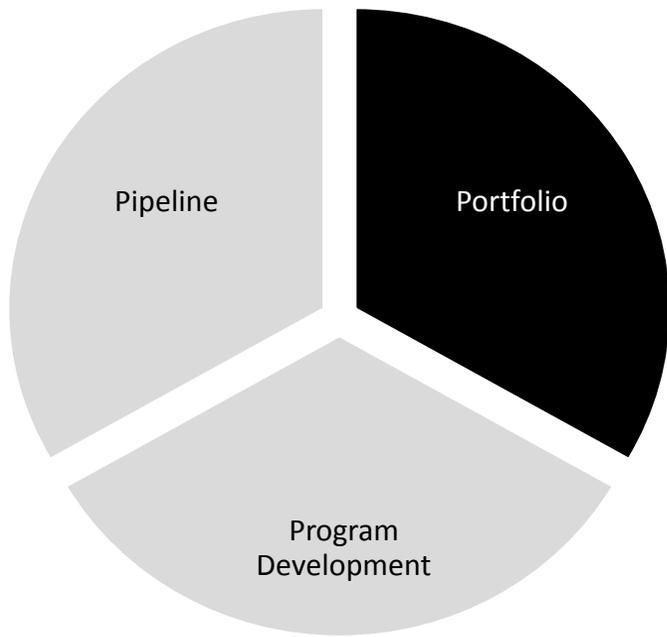
Monitoring Activities

Monitoring Subject

1. Below Market Rate Homeowner
2. Below Market Rate Property Scan 1
3. Below Market Rate Property Scan 2
4. Real Estate Multiple Listing Service

Monitoring Activity

- Public Record Scan for Personal Liens and Judgments (including Federal Tax, State Tax, Bankruptcy)
- Property Profile and Property Valuation
- Public Record Search for Notice of Default, Unauthorized Refinances, and other Encumbrances
- Multiple Listing Service Scan for Unauthorized Sales



Asset Management Workbook

Basic Program Information

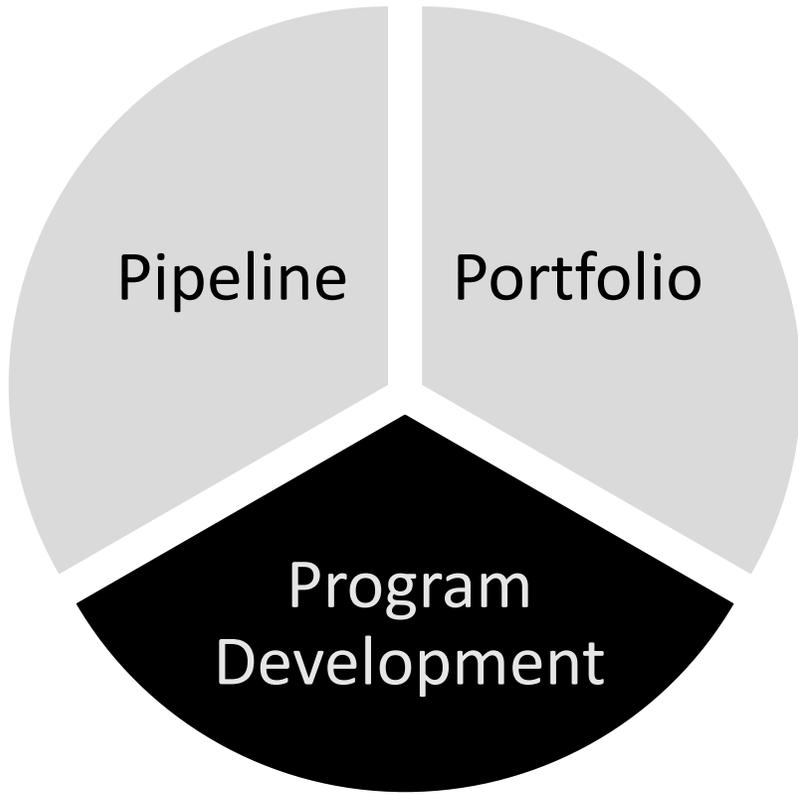
Assessor Parcel Number and Address	Census Tract
Subdivision and Developer	Date of Entry into and Exit from Program
Status of the Property	Owner Information
Agreement Information	Pricing Information

Property Information

Year Built	Property and Project Type
Bedroom and Bathroom Count	Square Footage and Lot Size

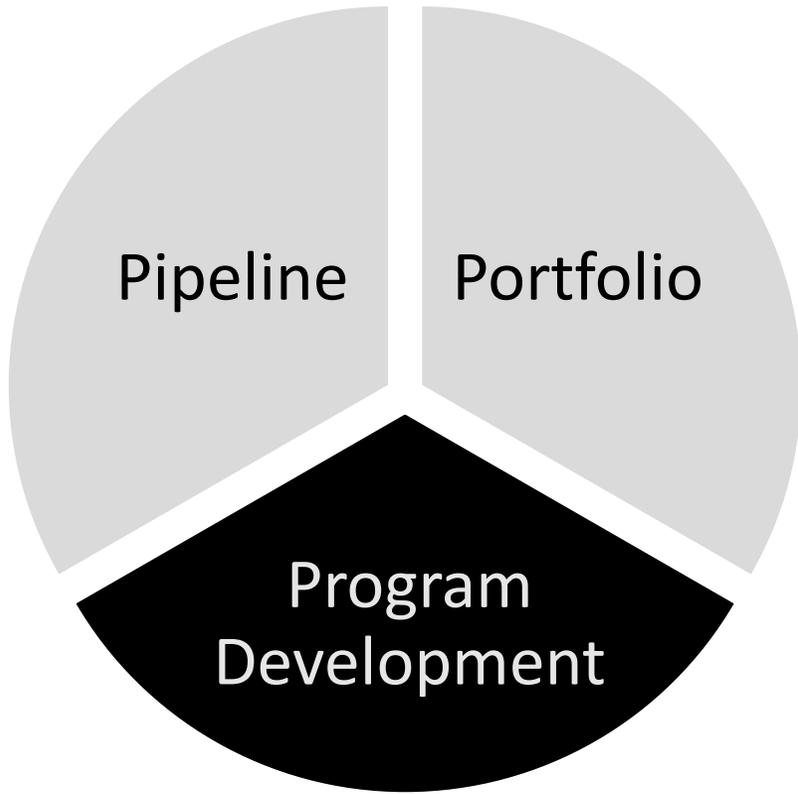
Restrictive Covenant Information

Restriction Type and Document Used	Income Level
Restriction Term and Time Remaining	Maximum Sale Price Calculation Method
Calculation Index and Index Value	Estimated Maximum Price (Quarterly)
Financial Information from Purchase	Total Liens Against Home (Quarterly)
Property Value (Quarterly)	Excess Sale Proceeds (Quarterly)



Lessons Learned

Lesson Learned	Action
1. We need a formalized set of rules and authority so that we can defend the program in Court	BMR Ordinance – BMR Program Policies and Program Letters
2. We need to respond quickly as need arises to update agreements and policies	BMR Ordinance – City Manager Authority
3. We need to have a full-time Administration team that manages the pipeline, portfolio and program development activity	BMR Resolution – Administrator Contract
4. We need to empower the Administration team to engage in monitoring activities, enforcement actions and limited authority to enter into settlements when appropriate	BMR Resolution – Power of Attorney and approval of Assumption, Assignment and Settlement Approach
5. We need a fee schedule to help capture Program Revenue and offset Administration Costs	BMR Resolution – Fee Schedule



Action Items

Tonight's Actions

1. Adopt Below Market Rate Program Resolution
 2. Authorize City Manager to Amend Nyanda & Associates, LLC dba HouseKeys Below Market Rate Agreement
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Upcoming Housing Items

1. Adopt BMR Ordinance June 1, 2016
 2. Housing Workshop Part 2, BMR In-Lieu Fee Discussion June 15, 2016
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