



# City of Morgan Hill

## Legislation Text

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## **CITY COUNCIL STAFF REPORT**

### **MEETING DATE: SEPTEMBER 2, 2015**

PREPARED BY: Leslie A. Little, Asst. City Manager/Community Development  
APPROVED BY: City Manager

## **PROFESSIONAL SERVICES CONTRACT WITH KEYSER MARSTON ASSOCIATES FOR AFFORDABLE HOUSING IN-LIEU FEE AND NEW CONSTRUCTION CONSTRAINT ASSESSMENT**

### **RECOMMENDATION(S)**

Adopt resolution approving a not-to-exceed \$32,000 contract with Keyser Marston Associates for the review of the affordable housing in-lieu fee and new construction constraint assessment and authorizing the City Manager to execute and administer the contract in accordance with its terms.

### **COUNCIL PRIORITIES, GOALS & STRATEGIES:**

#### **Ongoing Priorities**

Maintaining fiscal responsibility

### **REPORT NARRATIVE:**

The City of Morgan Hill has operated an affordable housing "ownership" program for nearly 25 years. As a result, the City has over 500 affordable units in private ownership, more per capita affordable ownership than any other city in Northern California. In a post redevelopment environment, maintaining the affordability of these units as well as funding the administration of program monitoring, home sales, home re-financing, foreclosure and bankruptcy is something that the City must understand completely. The sustainability and complexities of operating the City's ownership program, and the policies related to it require careful review and assessment if the City wants to continue to ensure that the affordable supply is well maintained and the owners of these units are set on a path of ownership success.

The proposed contract would assess several areas of the City's affordable housing program that are interrelated and most often impact:

- calculate cost of providing 8% on-site Affordable Units by Housing Type
- compare the cost of providing on-site units to the In-Lieu Fee Schedule, \$150,000 per unit
- evaluate Cost of providing on-site units affordable at Above Moderate Income, 150% of

AMI and 180% AMI “workforce housing”

- evaluate economic challenges to BMR homeowners (HOA dues, maintenance costs) and BMR best practices
- evaluate economics of shared appreciation to the economics of long term deed restrictions
- the ability to qualify buyers for new ownership opportunities,
- the changing financing landscape,
- issues related to BMR units being provided in housing tracts where units average sales prices are \$750,000 and the sensitivity about price and other fees/obligations,
- ownership without down payment assistance,
- restricted units ability to be properly maintained without access to equity for improvements,
- City long term monitoring and administrative role, and
- the high cost of enforcing restrictive covenants

### **COMMUNITY ENGAGEMENT:       Involve**

The intent of the contract is to evaluate the City's program and the many policies that drive decision-making related to production of affordable housing units. To evaluate the program areas of greatest concern, Keyser Marston will require the cooperation of members of the development community as well BMR resident/owners to create factual case studies from which to derive data for discussion. Several developers, as well as residents who have years of experience with the City's BMR program have expressed concerns about the method with which the City provides affordable units, specifically in neighborhoods where the HOA fees and other expenses rise beyond restricted incomes and owners are restricted from making major home improvements/repairs utilizing home equity loans. With this help, it will be important to identify the range of issues of this nature as part of the assessment. The outreach and engagement activity is to be done collaboratively with the HouseKeys BMR administrator to ensure homeowners are receiving a consistent message.

### **ALTERNATIVE ACTIONS:**

The alternative action would to continue to operate the program without a more comprehensive understanding of the items described above, potentially leaving the City in a “crisis-management” mode. Staff does not recommend this alternative because without redevelopment dollars, the City must carefully consider, and possibly reconsider, policies and practices related to its affordable housing supply. The proposed scope of work would begin to help the City re-assess and be confident that the program is well-guided and fiscally rooted. In the past, additional revenue resources provided additional flexibility with our programs. Unfortunately, housing resources are scarce and more troubling, non-private and private sector housing partner opportunities are shrinking.

### **PRIOR CITY COUNCIL AND COMMISSION ACTIONS:**

Recently, the City has taken several related actions as a result of the shrinking non-profit environment impacting Morgan Hill, specifically the demise of long-term partners, South County Housing and Neighborhood Housing Services Silicon Valley (NHSSV). This contract continues the path of self direction created with the approval of the recent Nyanda Associates "HouseKeys" BMR Program contract.

### **FISCAL AND RESOURCE IMPACT:**

The contract will be funded from Housing Fund 255, and would require a budget scorecard of

\$32,000. The FY 2015-16 budget contract services budget was completely absorbed with contract services required to administer the BMR program in-house when NHSSV closed their doors August 1, 2015. Therefore, even though this contract was anticipated in the budget process, funds are not available for this action.

**CEQA (California Environmental Quality Act):**

Not a Project

Implementation of this contract will result in no changes in the physical environment.

**LINKS/ATTACHMENTS:**

KMA Resolution

KMA Agreement

KMA Scope Exhibit A

KMA Fee Schedule Exhibit B

KMA Budget Scorecard