

Date: January 23, 2024

Honorable Mayor and Council Members

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Title: **Proposed New Housing Program – Long-Term Rental Preservation Program**

Jen Callaway, Town Manager

Recommended Action: That the Town Council: 1) Provide feedback on program direction; 2) Direct staff to develop program guidelines based on the draft Long-Term Rental Preservation Program framework.

Discussion:

INTRODUCTION

Increasing the inventory of long-term workforce housing available to community members living and working in Truckee is a Town Council priority. The Town continues to face a shortage of rental and for-sale housing that is affordable to people with jobs in and around Truckee. Increasing the number of rentable housing units through financial incentives to existing property owners and connecting people with these units has proven to be successful with the Lease to Locals program. Rental incentive programs are an effective tool to fulfill some of the missing community needs without the cost and time commitment of new construction. This effort furthers the Council's goal of creating more supply by preserving rental homes in the community.

The Long-Term Rental Preservation Program is a proposed new housing program that would expand upon the Town's already established and successful Lease to Locals program, which is administrated by Placemate, a local Truckee business. The new program would lock in workforce rental units and affordable rental prices for multiple years, to provide stability for the local workforce.

No one program or policy will resolve our region's housing challenges. However, by implementing a range of strategies that support various housing types and a wide spectrum of income levels, we will see progress toward increasing the inventory of homes that our local workforce can access. The Long-Term Rental Preservation offers another opportunity for the Town to provide access to existing housing for the workforce.

Continued Housing Need

Today, over 50% of Truckee's housing stock is comprised of vacation homes. According to the 2023 Mountain Housing Council Housing Needs Assessment Update, there are 3,719 inadequately housed households in Truckee between 0%-160% AMI and a total of 4,259 inadequately housed households. Households between 0%-160% AMI make up 87% of inadequately housed workforce households.

- 0%-80% AMI: 2,162 inadequately housed households (51% of all inadequately housed Truckee workforce members)
- 80%-120% AMI: 1,057 inadequately housed households (25%)
- 120%-160% AMI: 500 inadequately housed households (12%)

The goal of the new program is to preserve existing housing stock for workforce housing rentals by locking in rental units and affordable rental prices for a longer term, providing stability to the local workforce. This complements and expands upon the goal of Lease to Locals, which is to unlock existing, underutilized housing stock for the local workforce through incentive payments to property owners. Due to interest from homeowners in a longer program length and continued housing needs in Truckee, staff recommend developing the Long-Term Rental Preservation Program.

Long Term Rental Preservation Program Background and Development

On September 8, 2020, Council approved the Lease to Locals Program (**Attachment 1**) and expanded the program on August 2, 2021 (**Attachment 2**). Lease to Locals aims to unlock existing housing units for the local workforce by providing up to \$18,000 to homeowners who rent their underutilized homes to qualified tenants. Lease to Locals is a housing unit conversion program, meaning that to participate in Lease to Locals, homeowners must shift their homes from short-term renting or not renting at all to long-term renting. Renters must be members of the local workforce and their income cannot exceed 150% of the Area Median Income (AMI).

Since its start almost 3.5 years ago, Lease to Locals has:

- Unlocked 153 homes as long-term rentals;
- Housed a total of 347 people (293 adults and 54 children);
- Housed 272 members of the local workforce;
- Average income of participants for the full program history is \$55,329 (70% AMI);
- One property owner participating in Lease to Locals applied to sell their home through the Truckee Home Access Program when they completed Lease to Locals, and another has expressed interest in doing the same.

Rental Program Incentives Feedback

Staff has received feedback from Lease to Locals participants, as well as anecdotal feedback from existing landlords and other community members, about interest in an incentive program that is longer than the current 1-year Lease to Locals maximum and that is applicable to property owners that do not qualify for Lease to Locals. Common themes in the feedback were:

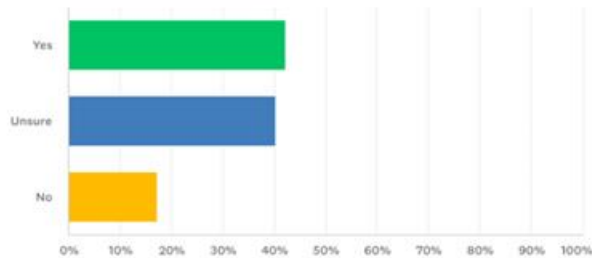
- Interest in incentives for property owners who have already been renting long-term and therefore are ineligible for Lease to Locals.
- Lease to Locals participants who are interested in doing a second year of that program.
- Property owners who are interested in a term longer than one year to incentivize a long-term commitment to maintaining homes as rentals.

In a survey of program participants done by Placemate in the Spring of 2023, about a potential rental preservation program, over 40% of respondents said they would be interested in a 3-5 year program while less than 20% said they would not be interested (see Figure 1).

Figure 1: Homeowner interest in a longer preservation program

Lease to Locals is a rental housing creation program (homes not recently used as rentals). Would you be interested in participating in a long-term rental housing preservation program, that would offer a cash incentive to homeowners who commit to locking in current below-market rents for multiple years to tenants with similar employment and AMI qualifications as Lease to Locals? The term of the program would likely be 3-5 years.

Answered: 156 Skipped: 27



There is also continued interest from past participants of Lease to Locals in long-term renting as there were 80 lease renewals from homeowners after the program ended. There have been 118 completed leases in the time since the program started, meaning 68% of Lease to Locals participants renewed their leases. Additionally, Placemate has 100 recorded property owners who have expressed interest in Lease to Locals but are ineligible because they already rent long term. Thus, there could be more than 200 property owners who are interested in or qualified for the new program.

Background Research

Staff conducted background research in over 50 mountain and resort towns across California, Oregon, Washington, Idaho, Montana, Colorado, Utah, New Mexico, Arizona, and Wyoming to explore whether any towns had a program similar to the proposed Long-Term Rental Preservation Program. Staff also met with program directors from Bend, Ketchum, Big Sky, Breckenridge, and Teton County to learn more about their housing preservation programs.

Some jurisdictions have created programs based on the Lease to Locals model or used deed restrictions to preserve workforce housing. The Rent Local program in Big Sky, MT was the only program staff found that expanded beyond the one-time incentive Lease to Locals housing conversion model used in Truckee. Similar to Lease to Locals, Rent Local offers an incentive for homeowners to lease their homes to the local workforce. However, Rent Local gives the option for homeowners to choose a 1 or 2-year commitment and allows homeowners to enter a lottery to participate in the program again. The program director noted that most Rent Local participants chose a 2-year commitment and entered the lottery after their term was completed.

Other than Rent Local, staff are not aware of any existing programs similar to the Long-Term Rental Preservation Program. The new program would be an innovative way to address affordable housing shortages in Truckee and push the envelope of housing solutions beyond what other jurisdictions have done.

PROPOSED PROGRAM REQUIREMENTS

Tenant Requirements

The tenant requirements for the new Program will be the same as Lease to Locals and mirror the Town's other rental programs. Tenants (single people) and at least 50% of the people over 18 who are not full-time students in the household must work at least 20 hours per week for an employer based in the Tahoe

Truckee Unified School District (or equivalent amount over a period of a year). The average annual income of all adult residents of a household (related or unrelated) can be no more than 150% AMI as set by the California Department of Housing and Community Development.

Eligible Housing Unit

The home must be within the Town of Truckee limits and must have a certificate of occupancy. Consistent with the Lease to Locals program, units in a multi-family housing development with more than four units (unless individually owned condominiums), mobile homes, and units that are deed restricted or have a similar use restriction based on income or local workforce requirements are not eligible, because these units are typically already intended to be more affordable to the local workforce.

Any housing unit in Truckee that meets the above criteria is eligible. This includes units that are currently long-term rented. In order to give preference to homeowners who have not already been able to benefit from Lease to Locals incentive payments, staff recommends that for the first six (6) months of the program, homeowners who have already participated in Lease to Locals cannot apply. After six (6) months, staff recommend that previous Lease to Locals participants would be eligible to apply. Staff further recommends that current Lease to Locals homeowners who are in the middle of a lease with a renter would not be eligible to apply for the program until their lease is ended and the first six (6) months of the program have passed.

Rent Maximums

While the Lease to Locals program requires a rent cap of \$3,500 for all units, not dependent on bedroom count, staff recommends requiring a stricter rent cap by bedroom count in the Long-term Rental Preservation Program to ensure that smaller units are affordable. To accomplish this, staff recommend calculating the rental cap based on affordability at the 120% AMI level, which is lower than the program participant limit of 150% AMI. This will ensure that units are affordable for a wider range of participants.

Rent Cap Calculation Methodology:

Generally, rent caps in housing programs in California are based on the housing payment affordability calculation used by the US Department of Housing and Urban Development (HUD), which uses number of bedrooms and AMI level. This standard housing program calculation assumes occupancy of more than one person per bedroom, assumes households with two or fewer working adults, and does not increase linearly with household size/ bedroom count, as demonstrated below in Table 1.

Table 1. Monthly amount available for affordable housing using standard HUD calculation method, Nevada County June 2023

Unit Type	Studio	1-bedroom	2-bedroom	3-bedroom	4-bedroom
Number of Persons in Household	1	2	3	4	5
75% AMI (Low Income)	\$1,459	\$1,668	\$1,876	\$2,084	\$2,251
120% AMI (Moderate Income)	\$2,363	\$2,700	\$3,038	\$3,375	\$3,645

Using this method results in rent caps that are either above market rate rent for smaller units, or well below market rate rents for larger units, depending on the AMI level. Therefore, staff recommend utilizing an alternative method to establish maximum rents.

As an alternative method, staff recommend calibrating rental caps based on an assumption that each bedroom is occupied by one person, which is the average rental unit occupancy in the Lease to Locals program. Specifically, staff recommend calibrating rent caps based on the standard affordability per bedroom of \$1,013. This is derived from the affordability for a three-bedroom unit (Truckee’s most common rental unit size) occupied by a three-person household at 120% AMI. These proposed rents have also been vetted with Placemate (the administrator of the Lease to Locals program) and compared to local market rate rental listings to ensure that they are reasonably aligned with the low end of local market rental rates.

The recommended rent rates are provided below in Table 2:

Table 2. Proposed Maximum Rent by Unit Type

	Maximum Rent	Calculation
Single Room	\$810	\$1,013 x 0.8
Studio	\$1,013	\$1,013 x 1
1-Bedroom	\$1,520	\$1,013 x 1.5 (multiplied by 1.5 since it is more likely a 1-bedroom will be shared by a couple, and to differentiate between studio and 1-bedroom rent)
2-Bedroom	\$2,026	\$1,013 x 2
3-Bedroom	\$3,039	\$1,013 x 3
4-Bedroom	\$4,052	\$1,013 x 4

HCD updates AMI limits annually in the spring, and staff recommend updating the rent caps annually according to the above calculations.

Length of Term

Staff propose a term of three (3) years for program participation. In a survey conducted by Placemate in Spring 2023, Lease to Locals homeowners were asked which timeframe they would consider accepting to maintain their current rent and the average timeframe was about 3.5 years. The length of the program must balance the concerns of homeowners as well as meaningfully increase long-term access to affordable housing for the workforce. Staff believe three (3) years will encourage more permanent long-term renting in Truckee without discouraging homeowners from participating in the Program due to long commitment times.

Staff recommend that the Property owner may have the same tenant household for the entire program, or up to three tenant households during the three-year term. Leases must be a minimum of one year but if a tenant household does not renew after the lease is over, the property owner will need to find a new qualified tenant household. If a vacancy occurs, the property owner has 60 days to fill the unit with a qualified tenant household in order to remain eligible for the program incentive. Time between tenants would not count toward the three-year program participation term.

Length of Program

Staff are proposing a pilot program that accepts participant applications for two years. Due to the 3-year participant term, the pilot program would continue to be run administratively and payments would be made over the course of four years. After two years, staff will begin analyzing the program results and

report back to Town Council to consider program expansion beyond the four-year pilot program to additional cohorts of properties.

Incentive Amount

The recommended incentive amount is based on three factors: unmet housing demand, current market rental prices, and feedback from previous Lease to Locals homeowners.

The size of payments is based on feedback from Lease to Locals homeowners. In a survey done by Placemate, homeowners said they would consider an incentive of around \$6,000 per year to maintain the rent rate they offered while participating in Lease to Locals. There are two recommended levels of incentive payments – new participants and those who have previously participated in Lease to Locals. Incentives for homeowners who have not already participated in Lease to Locals are \$1,500 higher to recognize that they have not already received a rental housing incentive. Table 3 shows the incentives for new participants and Table 4 shows the incentives for previous Lease to Locals participants.

Table 3. Recommended incentives for new participants

	Room	Studio	1-Bedroom	2-Bedroom	3-Bedroom	4+ Bedroom
Avg. Per Year	\$3,000	\$5,000	\$6,500	\$7,500	\$8,000	\$8,500
Total	\$9,000	\$15,000	\$19,500	\$22,500	\$24,000	\$25,500

Table 4. Recommended incentives for previous Lease to Locals Participants

	Room	Studio	1 Bedroom	2 Bedroom	3 Bedroom	4+ Bedroom
Avg Per Year	\$1,500	\$3,500	\$5,000	\$6,000	\$6,500	\$7,000
Total	\$4,500	\$10,500	\$15,000	\$18,000	\$19,500	\$21,000

Incentive amounts were calculated based on the survey result of \$6,000 per year incentive payment and the data showing that most homes in the Lease to Locals program are three-bedroom. The amount for a three-bedroom, previous participant home was increased to \$6,500, as the new rent cap for three-bedroom units is lower than the previous cap of \$3,500. Incentive amounts for other bedroom counts and new participants were scaled up and down from \$6,500.

Data from the Mountain Housing Council 2023 Housing Needs Assessment showed the most unmet demand among the local workforce in Truckee is for one-bedroom and two-bedroom units. Overall, one- and two-bedroom homes make up 72% of unmet demand by household size for all members of the Truckee workforce (including resident, in-commuting, seasonal, and homeless workforce). The Program aims to target housing where unmet demand is largest, so proportionally, the incentives for a one-bedroom and two-bedroom are larger than the other payments since there is the highest need to unlock underutilized homes of this size in Truckee.

Table 5. Unmet Demand by Household Size from MHC

	Studio	1-Bedroom	2-Bedroom	3+ Bedroom
Unmet Demand	1,027	1,772	1,280	1,79
% of Unmet Demand	24%	42%	30%	4%

Staff anticipates the greatest amount of homeowner interest in the Program from previous Lease to Locals participants, given they have already worked with Placemate. To ensure that previous Lease to Locals homeowners do not use all of the funding from the initial pilot program allocation and opportunities remain to unlock homes that have never been long-term rentals or are being rented at higher rental rates, staff recommend restricting the program to property owners who have not previously participated in Lease to Locals for the first six months. After the first six months of the pilot program, the Program would open to all interested homeowners who have already participated in Lease to Locals.

Payment Structure

Staff recommend that homeowner participants receive payments at the end of each program year calculated by a weighted distribution of the total payment that will reserve 50% of the total incentive for the end of the three-year term. Staff believe it is important to distribute the payments in this way to incentivize homeowner participants to stay in the Program for all three years. Since there is no deed restriction, there needs to be another way to encourage participation throughout the entire three-year program.

Payment will be issued to the homeowner at the end of year one and year two with proof of a signed eligible lease for the next year. The final payment will be issued following verification of successful completion of the third lease term. For the first two years, the incentive amount will be a quarter of the total incentive amount each year and the remaining 50% will be the final incentive payment. For example, someone renting a one-bedroom who has never participated in Lease to Locals will receive \$5,625 after the first and second year and \$11,250 after they have finished the three-year program. If a participant drops out of the program after two years, they will only receive the first payment since proof of a lease is required for the following year to get the second payment. Table 6 shows a detailed breakdown of the distribution structure for all participants and household sizes with the total incentive amount in bold.

Table 6. Distribution of Incentives for Years 1, 2, and 3

	Incentive	Room	Studio	1-Bedroom	2-Bedroom	3-Bedroom	4+ Bedroom
New Participant	Year 1	\$2,250	\$3,750	\$5,625	\$6,375	\$6,750	\$7,125
	Year 2	\$2,250	\$3,750	\$5,625	\$6,375	\$6,750	\$7,125
	Year 3	\$4,500	\$7,500	\$11,250	\$12,750	\$13,500	\$14,250
	TOTAL	\$9,000	\$15,000	\$22,500	\$25,500	\$27,000	\$28,500
Previous Lease to Locals Participant	Year 1	\$1,875	\$3,375	\$4,875	\$5,625	\$6,000	\$6,375
	Year 2	\$1,875	\$3,375	\$4,875	\$5,625	\$6,000	\$6,375
	Year 3	\$3,750	\$6,750	\$9,750	\$11,250	\$12,000	\$12,750
	TOTAL	\$7,500	\$13,500	\$19,500	\$22,500	\$24,000	\$25,500

Program Administration

Staff recommend that the new program be administrated through the Town’s Lease to Locals contracted program administrator, Placemate. The new program has many similarities to Lease to Locals and staff recommend that program outreach and operations will be most cost effective and efficient with one administrator operating both programs. Placemate already has the tools, marketing channels, and the familiarity with the local market to successfully administer the new program.

CONCLUSIONS AND NEXT STEPS

Staff is requesting council feedback and guidance on the proposed program direction. Staff are specifically looking for initial feedback on the program’s parameters:

1. Maximum rent based on number of bedrooms
2. Rent cap amount
3. Incentive amount and structure of payments
4. Three-year term length
5. Inclusion of previous Lease to Locals homeowners in the program

Anticipated Timeline

If Council provides direction to proceed with program development, the anticipated timeline for development and launch of the Long-Term Rental Preservation Program is:

1. February 2024 - Bring Placemate contract amendment for program development and administration to Council.
2. Winter 2024 – Work with Placemate to develop program guidelines.
3. Spring 2024 - Bring program guidelines and contract with Placemate for program administration to Council for approval.
4. End of FY 23/24 – Program Launch.
5. FY 24/25 and 25/26- Pilot program (Property owners may apply for the program in FY 24/25 and FY 25/26. Each property will then remain in the program for three years)
6. Evaluation of Pilot Program and consideration of program revision or continuation

Alternatives

Staff also considered a longer-term rental housing program lasting 10-20 years governed by deed restrictions. Staff think there is merit in eventually considering this type of program, however, staff recommend first developing the shorter term (three-year) rental preservation program described above. This shorter-term program may help to garner interest from participants who may eventually commit to a longer-term restriction, and allows an opportunity to test incentive amounts. Additionally, based on the survey feedback from Lease to Locals participants indicating the highest level of interest in a three-year program. However, Council may choose to direct staff to develop a longer-term deed restriction rental housing preservation program instead of the program described above.

Priority:

<input type="checkbox"/> Enhanced Communication	<input checked="" type="checkbox"/> Climate and Greenhouse Gas Reduction	<input checked="" type="checkbox"/> Housing
<input type="checkbox"/> Infrastructure Investment	<input type="checkbox"/> Emergency and Wildfire Preparedness	<input type="checkbox"/> Core Service

Fiscal Impact:

The approved FY23/24 Capital Improvement Project budget includes \$250,000 for a Rental Housing Preservation Program Pilot (C2311). Staff anticipate only program administration costs in FY 23/24 which will be significantly under the approved budget. If given direction to move forward with the new program, staff anticipate proposing an updated project budget of approximately \$1,250,000, spread across the current and next four fiscal years, through the FY24/25 budget process. Staff anticipate that this budget would provide for program development, administration, and program participation for approximately forty housing units.

Public Communication: Agenda posting. If Council provides direction to move forward with program, staff will work with Placemate to develop a robust outreach strategy as a component of program administration.

Attachments:

1. September 8, 2020, Staff Report on Proposed Housing Program-- Long-Term Rental Grant Program available at:
<https://portal.laserfiche.com/Portal/DocView.aspx?id=59497150&repo=r-6a91ddbc>.
2. August 2, 2021 Staff Report on Expansion and Update of Existing Housing Program: Workforce Rental Grant (Long- Term Rental Grant) Pilot Program available at:
<https://portal.laserfiche.com/Portal/DocView.aspx?id=59539077&repo=r-6a91ddbc>.