



Date: August 13, 2024

Honorable Mayor and Council Members:

Author and title: Lynn Baumgartner, Program Analyst II

Title: **Deed Restriction for New Development Program Guidelines Approval, Approval of Agreement with Sierra Business Council for Program Operation, and Budget Amendment**

Jen Callaway, Town Manager

Recommended Action: That Council 1) Approve the Deed Restriction for New Development Program Guidelines, 2) Authorize the Town Manager to execute an agreement with Sierra Business Council for program operation not to exceed \$2,230,000, and 3) Approve a budget amendment for C2014 in the amount of \$1,885,000 for a total of \$4,102,000.

Discussion:

Introduction

Increasing the inventory of rental and ownership homes available to community members living and working in Truckee is a Town Council priority. Growing the inventory of housing that is legally deed restricted for full-time occupancy by income qualified local workers is an important strategy used in many jurisdictions to ensure the long-term availability of workforce housing. The Truckee Home Access Program (THAP) is the Town's deed restriction purchase program that offers an additional tool in the toolbox to help address our community's immediate housing needs and to preserve workforce housing.

On March 8, 2022, Town Council approved the Program Guidelines for the Truckee Home Access Program (THAP), and the program launched in November 2022. The existing program and adopted program guidelines allow developers to participate in the program. However, the adopted guidelines are primarily focused on the process for individual homebuyers. During program development and approval, the requirements for developers to participate in THAP were specifically left broad with the intent that an interested developer would first meet with Town staff, then each potential project would come before Town Council for discretionary approval. In the twenty-one months since program launch, staff has fielded interest in the developer THAP funding from six potential developers and received one application. Through this process, staff have determined that there are some challenges and capacity constraints operating THAP for developer applicants in its current form.

To address this, staff recommend adopting separate, specific program guidelines to be used for deed restricting new unit construction and contracting with a third-party program operator to independently operate the program. Additionally, to avoid confusion between the established THAP program for existing housing units and the developer-focused program, staff recommend adopted a new name, the Deed Restriction for New Development Program ("the Program"). The purpose of this staff report is to recommend the Program Guidelines, program operator scope of work, and budget amendment needed to facilitate this change.

Background

Launched in 2022, the Truckee Home Access Program preserves, produces, and protects homes to create places for people who work full-time in the Truckee region to live locally. Currently, THAP pays buyers, sellers, local businesses, and developers to reserve homes for income-qualified local workers using a fifty-five-year deed restriction.

The program goals are to:

- Increase the percentage of the total housing stock that is deed restricted to 10% of the Town's housing inventory in the next 10 years;
- Expand Truckee's deed restriction program to include higher income levels to preserve housing stock at a range of income levels and reflect current conditions in the for-sale market; and
- Expand the deed restriction program to include more for-sale product.
- Create a second for-sale housing market that only income qualified, locally employed buyers have access to.

THAP Process for Deed Restricting Existing Housing Units

Existing housing units can only be deed restricted through the THAP program at point of sale. An eligible individual homebuyer, an eligible local business purchasing the unit to rent as workforce housing, or a seller who will sell the unit to an eligible household may apply to the Town to participate. For each of these participant types, the process, requirements, and eligibility criteria are provided in detailed program guidelines. The application is then reviewed and approved administratively if all criteria are met (i.e. the review and approval is not discretionary). This administrative review and approval process significantly streamlines the process. Over the past 21 months THAP has successfully deed restricted 19 homes, comprised of 18 homes purchased by individual buyers and 1 home purchased by a local business. We anticipate that an additional two homes will be deed restricted by the end of August for a total of 21. Forty-seven THAP buyer applications have been approved. THAP has housed 48 individuals with an average household AMI of 163%. The average THAP payment is \$104,020.

Current process for developer applicants for THAP funding:

In contrast to the process for existing housing units, the current process for new housing units is not clearly defined and the approval is discretionary.

Current THAP new development requirements:

- Housing unit must be sold or rented to a household with:
 - At least one household member who works or is self-employed, full-time in the Tahoe Truckee Unified School District geographical boundary.
 - Annual gross household income, including the income of all household members 18 years of age and older, must not exceed 180% of Area Median Income (AMI)
- Must have a 55-year deed restriction that renews on sale or transfer

The current application process is as follows:

- Complete the Local Business and Developer Interest Form along with a proposal for how THAP funds can be used.
- THAP proposals will be reviewed by the THAP Administrator (HousingINC) to ensure the proposal meets the qualifications and goals of THAP.
- The Town and THAP Administrator will meet with the applicant to finalize the THAP proposal.
- Proposals that meet the qualifications and goals of the THAP Program will be presented to the Town Council with the applicant in attendance. Town Council makes the final determination on the allocation of funds.

Discretionary approval of THAP for Developers was initially contemplated because it provides more flexibility for Council to consider the characteristics of a specific project and how they may meet other Council goals and priorities, for example, projects with access to transit, lower rent caps, or in a specific neighborhood. Since THAP launch, staff has fielded interest in THAP funding for new development from six potential developers and received one application. Staff and HousingINC have determined that there are some challenges operating the THAP for developer program in its current form. First, processing, negotiating, evaluating, and performing the preliminary underwriting for a developer application is much more time intensive than processing an application for an individual buyer or local business. Additionally, a discretionary approval process creates uncertainty for developers, who cannot rely on funding in their financing plan. The proposed changes to the Program are intended to address these challenges.

Proposed New Program to Replace THAP for Developers

Program Guidelines

Staff recommends addressing this issue by creating a new Deed Restriction for New Development Program and specific Program Guidelines that will lay out explicit project criteria for funding and provide for administrative approval of projects that meet these criteria, rather than the current discretionary approval process.

Staff recommends that the new Program, despite spinning off of THAP, not include THAP in the name in order to reduce confusion, as this Program will not be operated by the Town and will have separate Program Guidelines. As it exists now, THAP is beginning to have a great deal of brand recognition as a home buying assistance program that deed restricts existing homes. There have not been any new development units deed restricted through THAP so far, and the association of the name THAP with new development is not strong. Currently, the Town monitors properties that have been deed restricted through several programs with varying restrictions, and we anticipate that number to grow as we accomplish Council's goal of having 10% of Truckee's housing units deed restricted by 2030.

Highlighted Program Requirements

For full Program requirements, please view the proposed Program Guidelines (Attachment 1).

- Payment for Deed Restrictions:
 - Payment amount will be calculated as 16% of the appraised fair market value, provided that such amount will not exceed \$110,000 per unit. This is lower than THAP's \$150,000 cap, as this Program has a lower participant AMI at 180% and therefore, the participating units need to be affordable at a lower household income level.
 - Funding will be distributed at Certificate of Occupancy after deed restrictions have been signed.
- Sales Price: When selling a Unit to a qualified owner, maximum initial sales price may not exceed \$687,500.
- Eligible Program Area:
 - Funds may only be used on properties within the Downtown and Gateway neighborhoods as defined in the Program Guidelines (Attachment 1). Policies were included in the Truckee 2040 General Plan that highlighted these as priority neighborhoods for infill housing development.
- Program Layering: Program funds cannot be combined with any housing assistance funding that requires equivalent deed restrictions (e.g. 55-year term or renewal upon sale).
- Unit Size: Program funds may only be used for studio, one bedroom, and two-bedroom housing units.
- Parking: Each unit must have at least one dedicated parking space.

- Rent Cap: Rent rates may not exceed 30 percent of 120% area median income adjusted for bedroom size (Table 2).

Studio (household size of 1)	1-BR (household size of 2)	2-BR (household size of 3)
\$2,363	\$2,700	\$3,038

Table 1: 2024 maximum monthly rent for affordability at 120% AMI

- Occupancy:
 - Unit(s) must either be rented to and occupied by a qualified tenant or sold and occupied by a qualified owner.
 - Qualified owner: The owner of the unit where at least one member of the owner's household is currently employed 30 or more hours per week at an employment site within the Tahoe Truckee Unified School District geographical boundary and whose total household income does not exceed 180% AMI. Annual gross household income, including the income of all household members 18 years of age and older, must not exceed 180% AMI.
 - Qualified tenant: In a household of one, the tenant must work at least 30 or more hours per week, meet full-time employment equivalency with employer verification, or have a written offer for full-time employment at an employment site within the Tahoe Truckee Unified School District geographical boundary. If the household has more than one tenant, at least 50% of the people over 18 who are not full-time students in the household must work at least 30 or more hours per week and must meet full-time employment equivalency with employer verification. Annual gross household income, including the income of all household members 18 years of age and older, must not exceed 180% AMI.
 - The unit must be the occupant's principal residence – a minimum of 10 months per year.
 - Short-term renting is prohibited

Third Party Program Operator

To address staff capacity, staff recommend engaging a third-party Program Operator to take over and operate the Program with technical assistance from the current Program Administrator, HousingINC. The Program Operator would receive a lump sum budget from the Town to use for new development deed restriction purchases.

The Program Operator would be responsible for identifying and working with potential developers interested in the Program, applying the adopted Program Guidelines to determine program eligibility, serving as the decision maker for funding approval based on the criteria specified in the guidelines, and executing the participation agreement with the applicant. The Program Operator will coordinate with technical Program Administrator, HousingINC. who retain responsibility for project underwriting and presenting the underwriting package for funding approval, and oversee project closing, including deed restriction recordation.

Staff recommend contracting with Sierra Business Council to serve as the Program Operator due to their combination of specialized experience in grant program administration and their understanding of the local housing landscape. The draft scope of work for Sierra Business Council as the Program Operator is included as Attachment 2. Staff recommend that the two-year contract will include a budget for \$2,200,000 for deed restriction purchases, which is sufficient to fund approximately 18-20 units, depending on unit size, as well as a not-to-exceed amount of \$30,000 that will be billed on a time and materials basis. If all funds are expended during the contract term, the Program Operator can return to Council to request additional funds.

Proposed Application Process

Applications will be approved by the Program Operator based on complying with the terms set forth in these Program Guidelines and the availability of funds. The Program Operator will consult with each applicant on the application and deed restriction process.

The application process is as follows:

1. Program Operator will receive contact information for potentially eligible new housing development application at the initial consultation phase.
2. Program Operator sends an introductory packet of information about the Program with a request to set up an initial consultation.
3. Applicant completes Deed Restriction for New Development Application. The Application is available on the Program Operator's website.
4. Program Operator will meet with Applicant to discuss the application, Program Guidelines, and deed restrictions terms and determine preliminary eligibility.
5. If Applicant elects to proceed with the Application process, Program Operator and Applicant will continue discussions to confirm proposed Unit(s) meet all Program Guideline requirements and to determine project details including number of units and unit size for final Application.
6. Program Operator will coordinate with the Program Administrator to provide technical assistance to eligible applicants to ensure all of the supporting documents are ready for review.
7. Applicants submits documentation as requested in Attachment 3 for review and underwriting by Program Administrator.
8. Program Administrator prepares underwriting package for Program Operator to determine final Program eligibility.
9. Program Operator will make the final decision on funding allocation.
10. Applicant will sign a participation agreement that outlines the terms of the Deed Restriction and number of Units to be deed restricted. After the participation agreement has been signed, the Applicant can include the Units that will be deed restricted in Town of Truckee project applications
11. Program Operators will distribute funds upon certification of occupancy and recordation of deed restriction.

Council Feedback on Program Guidelines

Staff is requesting Council direction on the proposed Program Guidelines. Staff is specifically looking for concurrence or direction on the questions provided below. The intent of staff's recommendation that Council adopt specific Program Guidelines, is that the requirements specified in the guidelines would replace the current Council discretionary approval program structure. Recognizing this, Council may also choose to discuss additional requirements for eligible housing units that councilmembers may propose to add to the Program Guidelines.

Should there be a cap on unit size in the Program?

According to the Mountain Housing Council Housing Needs Assessment, 96% of unmet demand for housing units are in the studio, one bedroom, and two-bedroom categories. Staff recommends that there is a unit size cap of two-bedroom units for this program to encourage development of unit sizes that are most needed in Truckee.

What AMI should be used to set the rent cap?

Staff recommends that the rent cap is set at as affordable to households making 120% AMI. Households making up to 180% AMI would be eligible to rent these units, but by setting the rent cap lower than 180% AMI, the pricing will be affordable to a wider range of households. For comparison see Tables 3, 4, and 5 to see what the rent caps would be at 100% AMI and 180% AMI. Staff recommend 120% AMI because it establishes sideboards around maximum rent while still providing sufficient flexibility that the Program

could be used for a variety of unit types (e.g.two-bedroom single family units and town homes, as well as apartments).

Studio (HH 1)	1-BR (HH 2)	2-BR (HH 3)
\$1,969	\$2,250	\$2,531

Table 3: 2024 maximum monthly rent for affordability at 100% AMI

Studio (HH 1)	1-BR (HH 2)	2-BR (HH 3)
\$2,363	\$2,700	\$3,038

Table 4: 2024 maximum monthly rent for affordability at 120% AMI

Studio (HH 1)	1-BR (HH 2)	2-BR (HH 3)
\$3,544	\$4,050	\$4,556

Table 5: 2024 maximum monthly rent for affordability at 180% AMI

Recommendations

Staff recommends that Council approve the Deed Restriction for New Development Program Guidelines, authorize the Town Manager to execute an agreement with Sierra Business Council for program operation not to exceed \$2,230,000, and approve a budget amendment for C2014 in the amount of \$1,885,000 for a total of \$4,102,000.

Next Steps

If Council adopts the above recommendations, staff anticipate that Sierra Business Council will launch the Deed Restriction for New Development Program in September. Staff will revise THAP program guidelines and outreach materials to remove the developer category from THAP and to direct potential housing developers to this new third-party-operated program.

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 proposed changes to THAP and the Deed Restriction for New Development Program include an increase up to \$2,200,000 for Deed restriction purchase – developers and \$30,000 for program operation. There is currently \$345,000 in the Deed restriction purchase – developers line item for the Truckee Home Access Program C2014 in FY24/25. The proposed budget amendment would add a line item – Deed Restriction for New Development program operation for \$30,000 and an increase in the Deed restriction purchase developers line item by \$1,855,000. This is a total budget increase of \$1,885,000 for C2014 which would come from the General Fund fund balance.

Public Communication: This staff report.

Attachments:

- (1) DRAFT Deed Restriction for New Development Program Guidelines
- (2) Sierra Business Council- Program Operator Scope of Work