

Agenda Report



MEETING DATE: Tuesday, May 28, 2024

TO: City Council

FROM: COMMUNITY DEVELOPMENT DIRECTOR MERRIAM
HOUSING MANAGER LANDAVERRY

SUBJECT: 2024 AFFORDABLE HOUSING PROGRAM LIMITS

RECOMMENDED ACTION:

It is recommended that the City Council of the City of Watsonville, and City Council acting as the Successor Housing Agency adopt a resolution establishing the 2024 Maximum Income, Rent, and Sales Price Limits for the Watsonville Affordable Housing Program.

BACKGROUND:

The original Affordable Housing Ordinance was adopted by the City Council in 1991 to provide affordable housing to Watsonville residents. That ordinance required developers of housing projects over eight (8) units to make at least twenty-five percent (25%) of the units affordable to median, low and very low-income households, based on the County's median household income. Although the goal of providing additional affordable housing was desirable, the first decade of the ordinance had shown that the ordinance had not been effective in providing additional affordable units. By the end of 2000, only five (5) affordable units had been supplied that met the intent of the ordinance.

In 1999, the Housing Safety Committee developed a series of recommendations that were forwarded to City Council in an effort to improve housing conditions and increase unit affordability. In early 2000, the Watsonville City Council directed staff to create a Housing Task Force, which would include a membership from a broad range of interests, to examine ways to improve the Affordable Housing Ordinance.

Based on recommendations from the Housing Task Force and the Planning Commission, in September 2001, the Watsonville City Council adopted the current Affordable Housing Ordinance ("Ordinance") to reflect the actual income of Watsonville residents, codified in Chapter 14-46 of the Watsonville Municipal Code. The current Ordinance requires that 15% to 20% of new residential development projects of seven (7) or more units built in the City be affordable to households with very low, low, median, moderate and above moderate incomes, based on Watsonville household median income (Watsonville Municipal Code Sections (WMC) 14-46.040, 14-46.030 and 14-46.130(a)(3)). The housing units regulated by this Ordinance are generally considered affordable, inclusionary and/or deed restricted units. The Ordinance also establishes standards for rental and home ownership and

includes formulas for determining maximum income, rent and sale price limits to be used by the City's Affordable Housing Program ("Program") (WMC 14-46.030, 14-46.140 and 14-46.150).

Under the provisions of WMC 14-46.030(cc), "Watsonville Median Household Income" means seventy (70%) percent of Santa Cruz County's median household income, as adjusted for family size. This figure is determined annually and is derived from the State Department of Housing and Community Development (HCD) publication of annual income data for counties by income categories pursuant to Section 6932 of Title 25 of the California Code of Regulations. This local adjustment means that the names of the Watsonville income categories do not match the state/federal income category names. The State limits are based on U.S. Census Bureau estimates for each county, which are adjusted by the U.S. Department of Housing and Urban Development (HUD) and HCD for the purpose of administering State and Federal programs.

DISCUSSION:

On May 9, 2024, HCD released the 2024 Official State Income Limits and given that HCD's limits and the economic and housing market have changed, a modification in the sales price limits for the City's Program is warranted at this time. Also included in the new 2024 Watsonville Affordable Housing Program Limits is a proposed prevailing interest rate and a "Watsonville Median Sales Price," which the City's Ordinance requires to be adopted periodically by resolution of the City Council (WMC 14-46.030).

Pursuant to WMC 14-46.150, the maximum allowable sales price for a new affordable unit is based on the following formula and the income limits established by resolution from time to time by the Council.

STEP ONE: Determine annual household unit income limit.

1. Determine income category for unit (Median, Moderate or Above Moderate).
2. Determine household size, assigning a family size one person more than the number of bedrooms in the affordable unit. For example, the household size for a three (3) bedroom unit would be four (4) persons and for a studio would be one person.
3. Determine the maximum annual household income limit for the unit based on income category and family size using the most recent City of Watsonville Affordable Housing Ordinance Qualifying Maximum Income, and Maximum Rents and Sales Prices adopted by resolution by the Council.

STEP TWO: Determine monthly household allowance permitted to be used for a mortgage payment as follows:

1. Multiply the annual household income limit derived in Step One by .30 to obtain an annual household allowance of thirty (30%) percent of income. Round up to the nearest Fifty and no/100ths (\$50.00) Dollars to obtain the annual household allowance.

2. Divide the annual household allowance by twelve (12). Round up to the nearest Fifty and no/100ths (\$50.00) Dollars to determine the household allowance which is the maximum mortgage payment allowed.

STEP THREE: Determine the maximum mortgage that can be financed for a thirty (30) year fully amortized fixed-rate mortgage:

1. Determine the prevailing interest rate.
2. Determine the amount of the monthly mortgage payment (principal pay-down and interest).

STEP FOUR: Determine maximum allowable unit sales price: Assuming a mortgage of ninety-five (95%) percent of the sales price, divide the principal amount of the mortgage by 0.95 and round to the nearest Fifty and no/100ths (\$50.00) Dollars. The result is the maximum allowable price of the affordable unit.

In times of rising interest rates and because the prevailing interest rate plays such a critical role in establishing the sales price, this could result in an income-eligible buyer being unable to purchase an affordable unit. To illustrate the impact that interest rates have on sales prices, the following chart demonstrates how interest rate increases result in reducing the maximum sales prices for a three-bedroom affordable home at 7.0%, 7.5% and 8.0% interest rates respectively.

Maximum Price 3-Bedroom Unit	7.0% Interest Rate	7.5% Interest Rate	8.0% Interest Rate
Median	\$367,700	\$349,866	\$333,392
Moderate	\$441,240	\$419,840	\$400,071
Above Moderate	\$551,550	\$524,799	\$500,089

Seen another way, at the current maximum resale price, a typical Watsonville family with a household median income of \$111,600 per year could not afford to buy a moderate or above moderate affordable home.

3-Bedroom Unit	Median	Moderate	Above Moderate
Price	\$430,849	\$517,019	\$646,274
Loan Amount	417,923	\$501,508	\$626,885
Principal & Interest	\$2,924	\$3,507	\$4,383
Prop. Taxes	\$449	\$538	\$673
Insurance	\$140	\$180	\$220
HOA Dues	\$180	\$180	\$180
Total Monthly Housing Cost	\$3,693	\$4,405	\$5,456

Housing Costs as a % of Income	39.71%	47.37%	58.67%
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Chapter 14-46.030 (x) defines the “Prevailing Interest Rate” as “the interest rate adopted by the City of Watsonville City Council from time to time.” The proposed prevailing interest rate of 7.50% was derived from interest rate data obtained from local lenders, the national housing finance systems (Bankrate, Fannie Mae, Freddie Mack), and the City’s First Time Home Buyer Program Guidelines. The proposed prevailing interest rate represents the midpoint between the current interest rates of 6.90% and 8.10% for 30-year fixed mortgages (assuming 5% down and a credit score of 700-719).

Existing owners of affordable units affected by fluctuations in the maximum allowable resale price are provided alternatives means to establish the maximum sales price wherein owners are guaranteed a reasonable return on their investment. Pursuant to WMC 14-46.150(h)(2), the maximum allowable resale price for existing affordable units is derived using one of the two following methods, whichever yields the highest price for the owner:

1. The maximum allowable sales price formula; or
2. The original sales price plus fifty (50%) percent of the increase in the House Price Index since the date of purchase.

The median home sales price for Watsonville was determined to be \$770,076 and it was based on home sale data obtained from the Multiple Listing Service and submitted by the Santa Cruz County Association of Realtors for the past twelve months from January 2023 through January 2024.

The proposed 2024 limits will take effect upon adoption by the Council and will remain in effect until new limits are adopted.

STRATEGIC PLAN:

The proposed resolution is consistent with the Housing goal in the City’s Strategic Plan by providing sufficient, quality housing opportunities and expanding housing programs for all City residents.

CEQA

The preparation of the Affordable Housing Program Limits is not a project under the California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15378(b)(2), as the action does not have the potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, and therefore no further review is required.

FINANCIAL IMPACT:

The recommended action will not impact the General Fund. The preparation of the Affordable Housing Program Limits is part of the Community Development Department’s budgeted work program using existing staff resources.

ALTERNATIVE ACTION:

The Council could choose to modify the Prevailing Interest Rate and/or the Watsonville Median Sales Price, or not to adopt the proposed resolution, in which case the existing Affordable Housing Program limits would remain in effect.

ATTACHMENTS AND/OR REFERENCES (If any):

None.