

CITY OF MOUNTAIN VIEW

MEMORANDUM

City Manager's Office

DATE: March 20, 2019

TO: Council Policy and Procedures Committee

FROM: Kaitlyn Cyr, Administrative Analyst II
Suzanne Niederhofer, Assistant Finance and Administrative Services Director
Sue C. Rush, Human Resources Manager
Rebecca K. Wolfe, Senior Human Resources Analyst
Tim Wong, Housing and Neighborhood Services Manager

VIA: Audrey Seymour Ramberg, Assistant City Manager/Chief Operating Officer

SUBJECT: **Review of Revisions to and Consolidation of Two Housing Policies: City Council Policy D-13—Mountain View Employee Homebuyer Program and Administrative Instruction 3-20—Housing and Relocation Assistance Program for Council Appointees and Department Heads**

INTRODUCTION

The Council Policy and Procedures Committee (CPPC) is requested to consider recommended changes to, and consolidation of, two existing employee housing assistance programs into one City Council Policy with authority for the City Manager to develop and administer program guidelines.

There are three attachments to this report, as follows:

1. City Council Policy D-13—Mountain View Employee Homebuyer Program
2. Administrative Instruction 3-20—Housing and Relocation Assistance Program for Council Appointees and Department Heads
3. Map—Radius from Mountain View

BACKGROUND

Public- and private-sector employers in the Bay Area continue to face challenges with attracting and retaining employees due, in part, to the high cost of housing. Cities, counties, and school districts in the immediate area have developed a variety of programs to address their employees' housing needs, such as providing low-interest loans; access to Below-Market-Rate housing units; building housing on employer-owned land; and implementing equity share programs. The following is a history of two loan programs the City of Mountain View developed to assist employees with the purchase of a home and to make it more possible for employees to live close to work.

City Council Policy D-13 – Mountain View Employee Homebuyer Program

During the 2008 goal-setting process, City Council adopted a goal to establish a homebuyer program for public safety employees with the intention of enabling them to purchase a home and live in Mountain View while enhancing the availability of first responders in the event of an earthquake or other disaster. Council adopted Council Policy D-13 – Mountain View Employee Homebuyer Program on December 2, 2008. The program provides a low-interest loan to be used for a down payment, interest reduction of the primary mortgage, and/or for closing costs. During the December 2, 2008 meeting, Council directed staff to consult with representatives of SEIU and EAGLES and return to the Council with options to possibly expand the program to other employees. On June 9, 2009, Council amended the policy to include all City employees with varying loan amounts and terms.

Administrative Instruction 3-20 – Housing and Relocation Assistance Program for Council Appointees and Department Heads

In 1995, the City created a Housing Assistance Program for Council Appointees and Department Heads (Administrative Instruction No. 3-20) to serve as a recruitment and retention tool for executive positions and to encourage and facilitate appointees and department heads to reside in Mountain View. When the policy was first adopted in 1995, the maximum loan amount was \$400,000 when the median home price in Mountain View was \$336,000. In 2001, Council increased the loan amount to \$600,000 to reflect the market of \$650,000 as the median home price. In 2008, Council increased the loan amount to \$1.0 million with the ability to increase the loan amount to the median home price for Mountain View if it was higher than \$1.0 million. At the time of the 2008 increase, median home prices in Mountain View had reached \$950,000. The policy was also amended to allow the employee to elect to defer principal payments or principal and interest payments for up to seven years. The policy has been categorized

as an Administrative Instruction, although the core program elements have been approved by Council.

Administrative Instruction 3-20 also addresses relocation expenses for Council appointees and department heads. The relocation reimbursement amounts have remained at the existing \$2,000 for professional relocation services, up to \$2,500 for moving expenses, and up to 30 days of temporary housing.

ANALYSIS

The intent of the two policies is to support recruitment and retention through assistance to employees for purchasing a home in Mountain View. Each policy provided a form of low-interest loans of various amounts for purchasing a home in Mountain View. For department heads and Council appointees, Administrative Instruction 3-20 provided a low-interest first loan, while Council Policy D-13 provided all other employees a second loan to assist with a down payment, interest reduction, or closing costs to purchase a home in Mountain View. When the Employee Homebuyer Program (D-13) was first established in 2008, Council approved providing employees with a maximum loan amount of \$100,000 to assist with purchasing a home. When this policy was adopted by Council, the median home price for a single-family home was \$1,055,094. In February 2019, Santa Clara County Association of Realtors reported \$2,350,000 as the median home price in Mountain View.

Since the adoption of the original Homebuyer Program (D-13) in 2008, the maximum loan amount has not been increased and the City has not received a single application for a loan. City employees expressed an interest for the City to consider reviewing the policy to make the homebuyer program more accessible. Staff reviewed the program to determine what program elements needed to be modified to make it more accessible and beneficial for employees. The proposed modifications to the program seek to accomplish a number of objectives, including:

- Addressing recruitment and retention concerns.
- Providing homebuyer assistance to City employees that better reflects high local housing costs.
- Enabling better work-life balance by reducing commutes.
- Providing loan assistance as feasible within the City's fiscal ability.

- Providing more consistent loan terms and repayment requirements.
- Continuing to provide incentive for first responders to be able to respond efficiently for emergencies or natural disasters.

The three main factors that were reviewed to improve accessibility of the program include: (1) current housing prices in Mountain View compared to those in surrounding communities; (2) commute times if a home is purchased outside of Mountain View (Attachment 3); and (3) loan amounts.

In the 24 years it has been in place, the Housing and Relocation Assistance Program for Council Appointees and Department Heads (3-20) has provided six employees with a loan to purchase a home in Mountain View. All six employees have retired from the City, and all loans have been fully repaid. The City does not currently have active loans under this program.

RECOMMENDATION

In light of the benefits to the City of assisting employees own a home close to work and the low utilization of the current programs, staff recommends consolidating these policies into one City Council Policy – proposed new Employee Homebuyer and Relocation Assistance Program, with authority for the City Manager to develop administrative guidelines for the program that will be applied to all loan applicants and authorized participants. Council appointees are eligible for the loan and relocation expense levels contained in the policy, or a different amount, at the discretion of and approval by City Council. The proposed changes to the loan programs are summarized below. In addition, the original two policies are attached with comments indicating the changes (Attachments 1 and 2).

Loan Amount:

All Employees:

- Loan up to \$250,000 to assist with purchasing a home in Mountain View or within a 10-mile radius of Mountain View.

First Responders:

- Loan up to \$500,000 to assist with purchasing a home in Mountain View or within a five-mile radius, or a loan up to \$250,000 to assist with purchasing a home within a 10-mile radius of Mountain View.
- The definition of *first responders* will expand to include Police and Fire emergency responders (which include Firefighter/Paramedic, Fire Engineer, Fire Captain, Battalion Chief, Deputy Fire Chief, Police Officer, Police Sergeant, Police Lieutenant, Police Captain, Public Safety Dispatcher I, II, III, Lead Public Safety Dispatcher, and Communications Operations Supervisor), and Public Works/Public Services employees designated to respond as defined in the after-hours Duty Program.

Department Heads and Council Appointees:

- Loan to assist with purchasing a home in Mountain View up to the median home price or 75 percent of the sales price, whichever is lower, or a loan up to 25 percent of the sales price for a home within a five-mile radius from Mountain View.

Loan Terms and Repayment Schedule:

For All Eligible Participants:

- The loan term is not to exceed 30 years.
- Fixed interest rate will be determined based on the Applicable Federal Rate (AFR), at the time the loan is issued, for all loans (any interest rate lower than the AFR would be considered a taxable benefit to the employee).
- The employee can request to make interest-only payments for up to three years.
- In the case of interest-only payments, when principal payments commence, the principal amount will be amortized over the remaining life of the loan.
- The City will be repaid upon sale or transfer of the property.

- Loan repayment terms upon separating from the City:
 - Pay full loan amount within six months of separation, no rate change.
 - Pay full loan amount between six months and 12 months of separation with a rate adjustment of an additional 1 percent.
 - Full loan must be paid within 12 months of separation. Currently, the policy allows for the former employee to request an exception to the payment timeline in hardship situations. The new policy will modify the hardship section to add more definition that would include following the IRS guidelines for hardship and consideration of the City's current fiscal condition.
- The purchased property must be the primary residence of the employee.
- The purchased property may be a single-family home, townhouse, rowhouse, or condominium.
- City employees who have passed the initial probationary period are eligible for the Employee Homebuyer Program. Department heads and Council appointees who are not subject to a probationary period are eligible at the time of hire.

Relocation Expenses:

- Relocation expenses may be reimbursed for a move conducted within one year of appointment for the following positions: department heads, Council appointees, Assistant Director, and Division Manager, or a position designated by the City Manager, or designee, as a hard-to-fill position.
- For employees moving less than 25 miles (but greater than 10 miles), reimbursement will be up to \$4,500 for documented moving expenses.
- For employees moving from distances greater than 25 miles, reimbursement will be up to \$6,500 for documented moving expenses and up to 60 days of temporary housing, within five miles of Mountain View, not to exceed \$100 per day.

Other provisions of the program that will be addressed in the program administration guidelines in more detail include: selection process for applicants and mechanics of the

loan program such as first lien, principal residence, sale or transfer of property, hardship, etc.

Source of Loan Funds:

Staff recommends ultimately allocating a maximum of up to \$6.0 million for all loans using the Earned Lease Revenue Reserve as the funding source. The Earned Lease Revenue Reserve is used to accumulate the rent from the ground lease of a portion of the City's Charleston East property. Google LLC prepaid \$30.0 million as rent for the initial approximately 52-year lease term. The intent is for this reserve to accumulate rent, as it is earned, so that the \$30.0 million principal balance will be available at the end of the initial lease term as of January 31, 2063. Given the more than 40 years remaining on the lease term, loans made over the next 10 years would be fully paid prior to the lease term end, and the \$30.0 million principal balance would still be available. It is estimated there will be a balance of \$5.8 million in this fund at the end of the current fiscal year. Staff recommends allocating \$3.0 million from this reserve in Fiscal Year 2019-20, with an additional earmark of up to \$3.0 million in Fiscal Year 2020-21, depending on program usage.

Other potential funding sources are the General Operating Fund carryover and the General Fund Reserve.

The City has established reserves for various purposes. Reserves are essential elements in maintaining financial stability, meeting long-term objectives, and providing the ability to respond to unanticipated situations. They also serve as a source of income that is used for operating needs or offsets other funding requirements. A factor considered by Standard & Poor's in reconfirming the City's AAA underlying credit rating is the structure and funding status of reserves. Most reserves are established pursuant to City Council Policy A-11, Section 4, Reserve Policies, and others have been approved as needed by the City Council.

There is currently an unallocated General Fund carryover of \$5.8 million from prior fiscal years. Carryover is generally used to supplement reserves where needed and provide a source of funds for limited-term expenditures.

The General Fund Reserve has a policy balance requirement of between 20.0 percent and 25.0 percent of the GOF adopted net expenditures. This reserve is the source of funding for necessary, but unanticipated, expenditures during the fiscal year, unanticipated revenue shortfalls, source of interfund loans, emergencies, and to generate ongoing interest earnings. In Fiscal Year 2009-10, up to \$1.0 million in the

General Fund Reserve was earmarked for the employee homebuyer program. Loans from this source would be considered as an investment alternative and would be included as funds toward the policy balance.

FISCAL IMPACT

Loans will be considered an investment alternative and will generate interest income. However, depending on market conditions, the AFR used for the loan may be lower (as it has been in the past) than what can be generated in the City's investment portfolio. If a default occurs, there is the potential of the City owning property outside of Mountain View as well as some risk of loss should there be a significant decline in the value of the housing, especially for loans in second position. Depending on the loan size, the initial \$3.0 million recommended allocation could fund from a few to a maximum of three loans, and it would take a considerable amount of time before enough principal payments are accumulated to fund further loans or to use for other City purposes.

CONCLUSION

If the Committee approves the recommended new policy to address the elements of both housing programs, staff would take the recommendations directly to City Council for approval. Staff would then develop administrative procedures and would monitor utilization.

ALTERNATIVES

- In the event the Committee requests more information, staff will return with additional analysis at a future meeting.
- The Committee could recommended changes to the program, such as loan terms, purchase radius, maximum allocation for loans, etc.
- The Committee could modify the funding source from Earned Lease Revenue Reserve to the General Fund Reserve or General Operating Fund carryover.

KC-SN-SCR-RKW-TW/TS/3/MGR
613-03-20-19M

- Attachments:
1. City Council Policy D-13 – Mountain View Employee Homebuyer Program
 2. Administrative Instruction 3-20 – Housing and Relocation Assistance Program for Council Appointees and Department Heads
 3. Map – Radius Map from Mountain View

CITY COUNCIL POLICY

SUBJECT: MOUNTAIN VIEW EMPLOYEE HOMEBUYER PROGRAM NO.: D-13

PURPOSE:

To establish the City's policy for a homebuyer program for City employees.

Comment [SR1]: Recommending consolidating both programs (Employee Homebuyer and Department Head and Council Appointee policies) into one City Council policy.

POLICY:

1. Eligibility for Employee Homebuyer Program

- a. City employees who have passed probation are eligible for the Employee Homebuyer Program.
- b. For the purposes of this policy, all City employees shall qualify for the program with the exception of department heads who are eligible for the City's housing and relocation assistance program.

Comment [SR2]: Initial probationary period

Comment [SR3]: Department heads and Council Appointees housing and relocation will be included as one policy

2. Homebuyer Program

The Employee Homebuyer Program shall consist of the following elements:

- a. \$100,000 maximum loan amount per employee provided at a fixed interest rate set at the Applicable Federal Rate (AFR). The interest rate will be fixed within two weeks of the date of the loan.
- b. Loan could be used for the following: down payment; interest rate reduction of the primary mortgage; and/or closing costs. Loan proceeds shall be deposited into escrow by the City after City has approved the escrow instructions.
- c. The General Fund unrestricted reserve account will be used to fund loans for sworn Police/Fire officers and Dispatchers whose household income exceeds 120 percent of the median household income for Santa Clara County as published by the State Department of Housing and Community Development. Below-Market Rate (BMR) housing funds will be used for all other eligible City employees (and eligible Police/Fire officers and Dispatchers) earning 120 percent or less of the Santa Clara County median household income.

Comment [SR4]: Recommending increasing the loan amounts as follows: First responders up to \$500,000 in Mountain View or within a five mile radius, or up to \$250,000 to purchase a home within a ten mile radius All other employees up to \$250,000 to purchase a home within a ten mile radius

Comment [SR5]: Recommending using Earned Lease Revenue Reserve account for all eligible loans

CITY COUNCIL POLICY

SUBJECT: MOUNTAIN VIEW EMPLOYEE HOMEBUYER PROGRAM NO.: D-13

d. Loan term shall be 30 years.

Comment [SR6]: Loan term: Up to 30 years

e. Loan Repayment terms shall consist of the following:

- Five-year deferment period during which time payments consist of interest only; and
- Twenty-five-year loan amortization period during which time interest and principal payments are made until loan is fully repaid.

Comment [SR7]: Changing to allow for three years interest only

f. The maximum mortgage amount that the City's loan will be subordinate to shall not exceed \$850,000. This figure shall be adjusted annually in January based on the mortgage needed to purchase a single-family home at 120 percent of the median home purchase price in Mountain View. This assumes a 10 percent down payment by the employee, plus the City's \$100,000 loan would be applied toward the purchase price.

Comment [SR8]: Deleting this requirement

g. Upon termination of employment with the City, the interest rate on the City loan shall increase to the interest rate on the first mortgage plus 1.5 percent (or other rate acceptable to the mortgage lender and the City's Finance and Administrative Services Director). The employee shall be allowed to make payments on the loan at the higher interest rate for up to five years, at which time the loan shall be due in full to the City. In hardship situations and subject to the approval of the City Attorney and Finance and Administrative Services Director, an extension of the payback period may be granted.

Comment [SR9]: Changing to: If employee pays the loan within the first six months from separation, no change in the interest rate. From 6 months to 12 months, the interest rate increases additional 1%. Loan must be paid by 12 months from separation.

Comment [SR10]: Changing the full loan payment to 1 year after separation from the City

h. The loan balance may be carried over to a new home purchased by the employee in Mountain View which meets the guidelines of the program.

Comment [SR11]: Recommending using the IRS guidelines for definition of hardship

i. The home must be located in Mountain View and be the employee's primary and only residence. The home cannot be rented, except in limited basis emergency situations (to be defined in the program guidelines).

Comment [SR12]: Changing the residency requirements to the following:
First responders up to \$500,000 for a home in Mountain View or within a 5 mile radius
First responders and all other employees, a loan up to \$250,000 for a home in Mountain View or within a 10 mile radius.

CITY COUNCIL POLICY

SUBJECT: MOUNTAIN VIEW EMPLOYEE HOMEBUYER PROGRAM **NO.:** D-13

PROCEDURE:

The Mountain View Employee Homebuyer Program shall be implemented according to the policies and procedures in the "Program Guidelines" which shall be developed and adopted by the Council.

Comment [SR13]: Recommending City Council delegate implementing the program guidelines to the City Manager

Revised: January 19, 2010

Revised: June 9, 2009

Effective Date: December 2, 2008, Resolution No. 17348

CNLPOL
D13-850CP

SUBJECT: HOUSING AND RELOCATION ASSISTANCE PROGRAM NO.: 3-20
FOR COUNCIL APPOINTEES AND DEPARTMENT
HEADS

PURPOSE:

The purpose of this Administrative Instruction is to establish a Housing and Relocation Assistance Program for Council appointees and department heads.*

Comment [SR1]: Recommending consolidating both programs (Employee Homebuyer and Department Head and Council Appointee policies) into one City Council policy.

DEFINITION:

For the purposes of this Administrative Instruction, the term "Council appointee" shall be defined as, and limited to, the staff positions of City Attorney, City Auditor, City Clerk and City Manager.

POLICIES:

1. Any loan made available through the City's Housing Assistance Program shall only be for residential property located within the City of Mountain View. The property must be the principal residence of the employee.
2. Any loan made available through the City's Housing Assistance Program shall be due and payable in full upon sale or transfer of the property by the employee, or within 12 months of the termination, for any reason (which includes retirement from the City), of the employee's employment with the City or termination of the use of the property as the principal residence of the employee, whichever occurs first.
3. Any loan made available through the City's Housing Assistance Program must constitute a first lien on the property and must be secured by a promissory note secured by a deed of trust.
4. Loans made available through the City's Housing Assistance Program may provide for either a variable interest rate or fixed interest rate.

Comment [SR2]: Recommending alternative loan amount (up to 25% of purchase price) for a home within a 5 mile radius from Mountain View.

Comment [SR3]: Loan repayment upon separation will be consistent with all loans. If employee pays the loan within the first six months from separation, no change in the interest rate. From 6 months to 12 months, additional 1%. Loan must be paid by 12 months from separation.

The interest rate on variable interest rate loans shall be equal to the rate of return of the Five-Year Federal Government Treasury Bill or Note. During the term of the loan, the interest rate may not increase or decrease more than two percentage points from what it was when the loan was first secured. The interest rate on

*As approved by the City Council on July 25, 1995.

SUBJECT: HOUSING AND RELOCATION ASSISTANCE PROGRAM NO.: 3-20
FOR COUNCIL APPOINTEES AND DEPARTMENT
HEADS

variable interest rate loans shall be adjusted annually based on the current rate of the Five-Year Treasury rate of return on the anniversary date of the loan.

The interest rate on fixed interest rate loans shall be equal to the interest rate of the Five-Year Treasury Note Index at the time the loan is extended to the employee.

5. The term of a loan made available through the City's Housing Assistance Program shall not exceed 30 years.
6. The maximum amount of any single loan made to one employee available through the City's Housing Assistance Program shall be \$1 million, with the ability of the City Council or City Manager, for Council appointees and department heads, respectively, to increase the loan amount to the median house price for Mountain View if higher than \$1 million. If the employee chooses to defer principal and/ or principal and interest payments as provided in No. 8 below, the loan amount shall not exceed 70 percent of the appraised value of the home, not to exceed \$1 million or the median house price, whichever is higher.
7. If the employee requires a second loan on the property, any additional loan will be subordinate to the City's loan. Also, the employee must establish a minimum equity in the property equal to at least 10 percent of the total purchase price of the residence. At the City Manager's discretion, equity in property may be reduced to 5 percent.
8. By City Council discretion for Council appointees and City Manager discretion for department heads, a housing loan may be authorized with the provision of no principal, or no principal and interest payments, for up to seven years. At the beginning of Year 8 or sooner (if the employee elects an earlier time frame), principal and interest payments will begin (or principal payments if an interest-only loan was elected). Interest payments will be compounded monthly from the beginning of the loan until the start of payments. At the beginning of Year 8, or sooner if so elected, payment amounts will be based on the outstanding principal and accrued interest (for interest and principal deferrals) being reamortized over the remaining life of the loan (total not to exceed 30 years). If the employee sells or transfers the house prior to Year 8, the City will be reimbursed for the total loan amount and all compounded interest from the date of the loan until the sale or transfer. If the employee terminates from employment with the City prior to

Comment [SR4]: Recommending a fixed rate loan based on the Applicable Federal Rate (AFR). The employee can pay interest and principal or interest only up to the first three years.

Comment [SR5]: Recommending the loan will be up to the median home price or 75% of the sales price, whichever is lower for a home in Mountain View. The loan for a home within 5 miles of Mountain View will be 25% of the sales price.

Comment [SR6]: Recommending allowing interest only payments up to the first three years.

SUBJECT: HOUSING AND RELOCATION ASSISTANCE PROGRAM NO.: 3-20
 FOR COUNCIL APPOINTEES AND DEPARTMENT
 HEADS

Year 8, except in the case of retirement, the employee will begin payments of principal and interest to the City immediately upon termination. The requirements of No. 2 above shall still apply.

- 9. Housing Assistance Program agreements entered into under the program will be separate from any other employment agreement an employee enters into with the City at the time of his/ her employment.
- 10. Provide for the reimbursement of relocation expenses for Council appointees and department heads, including up to \$2,000 for professional relocation services, up to \$2,500 for expenses associated with moving personal belongings and up to 30 days of temporary housing.

Comment [SR7]: Recommending increasing the maximum reimbursement and to expand this to include Assistant Director, Division managers or a position designated by the City Manager as hard to fill. The new amounts are as follows:
 For employees moving less than 25 miles but greater than 10 miles, up to \$4,500 reimbursement for documented moving expenses.
 For employees moving from distances greater than 25 miles, provide up to \$6,500 for documented moving expenses and up to 60 days of temporary housing in Mountain View not to exceed \$100 per day.

PROCEDURE:

<u>Responsibility</u>	<u>Action</u>
City Manager	<p>Determines whether housing assistance and/ or relocation assistance will be offered as an element of compensation for a department head position and, if so, the terms upon which the assistance will be offered.</p> <p>Any loan authorized by the City Manager shall be consistent with the program policies listed above; however, the City Manager may impose conditions which are more restrictive than, or in addition to, those policies listed above if he/ she judges them to be necessary and in the interest of the City.</p>

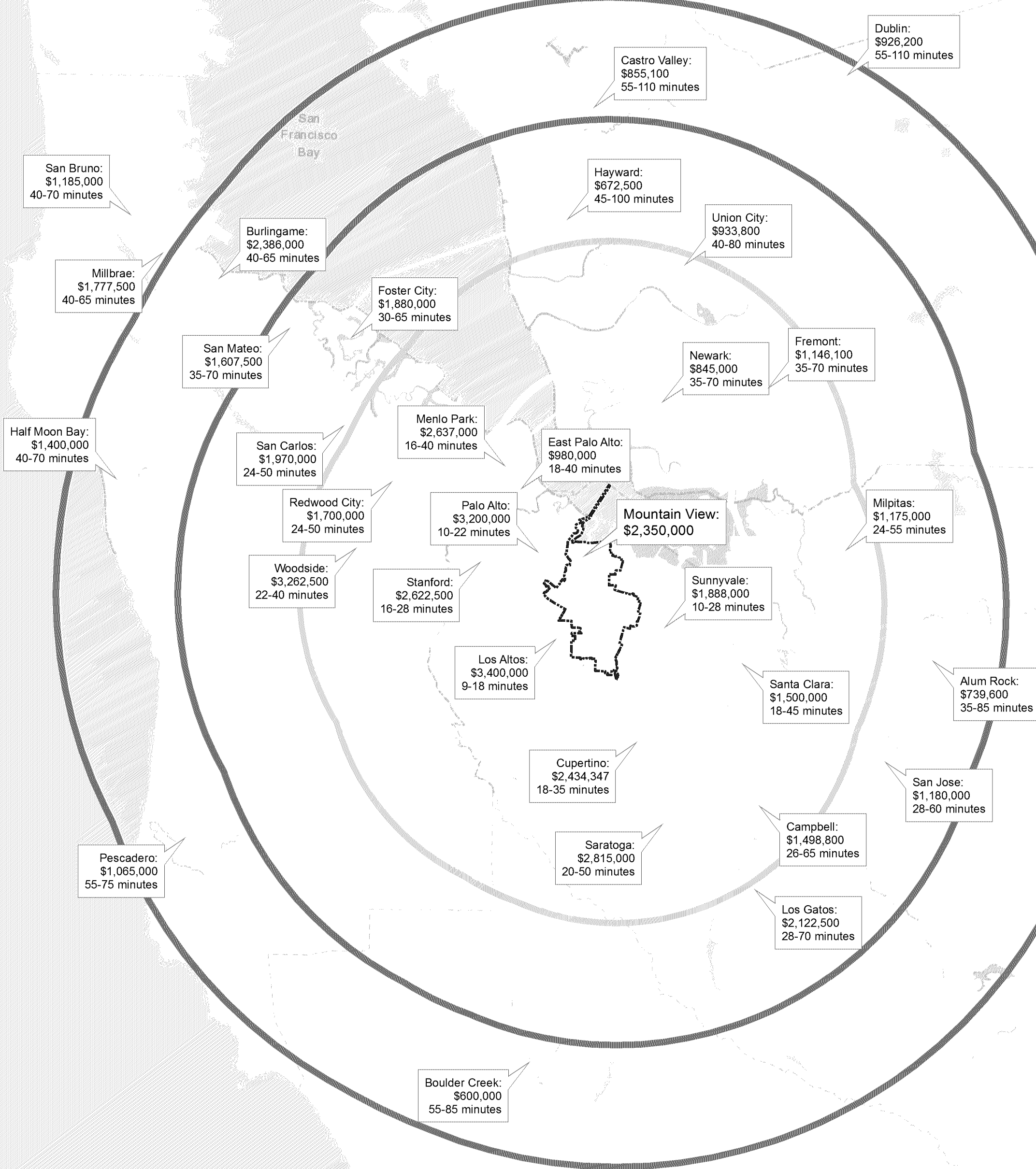
SUBJECT: HOUSING AND RELOCATION ASSISTANCE PROGRAM NO.: 3-20
FOR COUNCIL APPOINTEES AND DEPARTMENT
HEADS

<u>Responsibility</u>	<u>Action</u>
City Council	Determines whether housing and/ or relocation assistance will be offered as an element of compensation for Council appointee positions and, if so, the terms upon which the assistance will be offered.

Kevin C. Duggan, City Manager

Effective Date: December 18, 1995
Revision Date: December 9, 2008

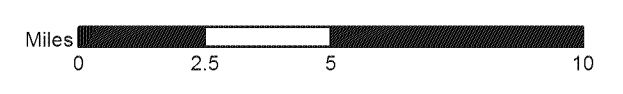
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Legend

- 5 mile buffer
- 10 mile buffer
- 15 mile buffer
- 20 mile buffer
- Mountain View border

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Median Housing Cost and Average Commute Time by City

For information only. The City of Mountain View does not warrant the accuracy of the information contained herein.

Sources: Santa Clara County Association of Realtors; San Mateo County Association of Realtors; Zillow

