



DATE: May 14, 2019

CATEGORY: Consent

DEPT.: City Manager's Office

TITLE: **Adopt a Resolution Modifying Council Policy D-13 – Mountain View Employee Homebuyer Program**

RECOMMENDATION

Adopt a Resolution Modifying City Council Policy D-13 – Mountain View Employee Homebuyer Program, to be read in title only, further reading waived (Attachment 1 to the Council report).

BACKGROUND

In 1995 and 2008, the City established two loan programs to assist with the purchase of a home. These programs are governed by Administrative Instruction 3-20 – Housing and Relocation Assistance Program for Council Appointees and Department Heads; and City Council Policy D-13 – Mountain View Employee Homebuyer Program. The purpose was to support employee home ownership and make it more possible for employees to live close to work. Each policy provided a form of low-interest loan for purchasing a home in Mountain View. For department heads and Council appointees, Administrative Instruction 3-20 provided a low-interest first loan of up to \$1 million, while Council Policy D-13 provided all other employees a second loan of up to \$100,000 to assist with a down payment, interest reduction, or closing costs.

When the Employee Homebuyer Program (D-13) was first established, the median home price for a single-family home in Mountain View 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.

The maximum loan amount available under the City's program has not been increased, and the City has not received a single application for a loan since the program's inception. City employees have 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.

An interdepartmental team has been exploring this issue over the past year and developed recommendations. The Council Policy and Procedures Committee (CPPC) is a standing Council committee that meets on an as-needed basis to discuss issues relating to City Council policies and/or procedures. The CPPC met on March 25, 2019 to discuss staff's recommended changes to, and consolidation of, the two existing housing assistance programs into one City Council Policy. The CPPC discussed the proposed modifications and provided the direction recommended in this report. In particular, the CPPC suggested that the loan amounts for All Employees and First Responders be adjusted over time by CPI and asked staff to seek employee feedback on the revised employee homebuyer program and what housing challenges they are currently facing.

ANALYSIS

Staff and the CPPC recommend modifying and consolidating the two existing policy documents into one City Council Policy—the 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. 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.

A summary of items addressed in the revised policy as proposed to the CPPC are below. Copies of Policy D-13 in final form and showing revisions are included as Exhibit A to Attachment 1 and Attachment 2, respectively. A table summarizing and comparing current and proposed loan program terms is included as Attachment 3.

It should be noted that, outside of this process and policy update, the City is working on a deal with the Mountain View Whisman School District that would provide up to 20 units of low- and moderate-income housing at 777 Middlefield Road for City employees.

Loan Amount:

All Employees:

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

First Responders:

- First responders are eligible for either the All Employee loan listed above, or a loan of up to \$500,000 to assist with purchasing a home in, or within a five-mile radius of, Mountain View.
- First responders include Police and Fire emergency responders (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 to calls for service as defined in the City's after-hours Duty Program set forth in the Memorandum of Understanding between the Service Employees International Union (SEIU) and the City of Mountain View. New or reclassified positions may be designated by the City Manager as first responders as appropriate.
- For All Employee and First Responder loans, the maximum loan amount will be adjusted annually, beginning in December 2019, based on the annual change (December to December) in the Consumer Price Index for All Urban Consumers (CPI-U) in the San Francisco-Oakland-Hayward Core-Based Statistical Area.

Department Heads and Council Appointees:

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

should be noted that the draft loan program outline shared with the CPPC inadvertently left out a cap on the loan amount for homes within a five-mile radius. A cap is now being recommended.)

- If the department head or Council appointee 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 for unusual circumstances.

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 eligible participant can request to make interest-only payments for up to three years at the start of the loan.
- For the interest-only payment option, when principal payments commence, the principal will be amortized over the remaining life of the loan.
- The City will be repaid in full upon sale or transfer of the property.
- The purchased property must be the primary residence of the employee.
- The purchased property may be a single-family home, townhouse, rowhouse, or condominium.
- The home cannot be rented.
- 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.

Loan repayment terms upon separating from the City:

- Upon a participant's separation from the City, the full loan must be repaid within 12 months. If the loan is repaid within six months, the interest rate will not change. For repayment after six months, the interest rate will increase by 1 percent.
- Additional time for repayment may be allowed in hardship situations, as approved by the City Manager, or designee.

Relocation Expenses:

- The following positions may request Relocation Assistance: department heads, Council appointees, assistant directors, and division managers, or a position designated by the City Manager, or designee, as a hard-to-fill position.
- Relocation assistance may be requested for a move occurring within one year of the date of appointment.
- For a move of more than 10 miles but less than 25 miles, up to \$4,500 in reimbursement will be provided upon receipt and approval of documentation of reasonable and necessary moving expenses.
- For a move greater than 25 miles, reimbursement up to \$6,500 will be provided upon receipt and approval of documentation of reasonable and necessary moving expenses. In addition, reimbursement for temporary housing within five miles of Mountain View, at a rate of up to \$100 per day for no more than 60 days, upon receipt and approval of documentation of such temporary housing.
- Reimbursements will be administered in accordance with procedures set forth by the Finance and Administrative Services Department and IRS regulations. Reimbursements may be a taxable benefit and subject to tax withholdings.
- The maximum reimbursement amount will be adjusted annually, beginning in December 2019, based on the annual change (December to December) in the Consumer Price Index for All Urban Consumers (CPI-U) in the San Francisco-Oakland-Hayward Core Based Statistical Area. (Staff added this provision to adjust relocation expense reimbursement based on CPI after the CPPC meeting in order to be consistent with the suggested adjustment to the home loan amounts.)

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.

The City Council will authorize housing and/or relocation assistance for Council appointees under this policy. The City Manager will authorize housing and/or relocation assistance for all other employees under this policy.

Source of Loan Funds:

Staff recommends ultimately allocating up to \$6 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 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 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 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 million from this reserve in Fiscal Year 2019-20, with an additional earmark of up to \$3 million in Fiscal Year 2020-21, depending on program usage.

Employee Feedback:

Staff asked City employees to provide their feedback on the proposed revisions to the employee homebuyer program and what housing challenges they are currently facing. Two meetings were held and e-mails were received, providing feedback from a total of about 20 people. The following is an overview of the main topics that were raised:

- Employees appreciate that staff and the City Council are reviewing the Employee Housing Loan program. They also appreciated the opportunity to provide feedback on their housing challenges.
- Employees appreciate the proposed increases to the loan amounts, but expressed that the amounts in the revised program may not be enough to assist employees with purchasing a nearby home in the current market. Possible remedies to this could include higher loan amounts, which would reduce the amount of loans that could be given, or an expanded radius for eligible home purchases, which could

negatively impact the program's effectiveness in addressing commute reduction and the subsequent advantages for staff retention and work/life balance.

- Employees asked for consideration of other possible program modifications, including an exception for employees who are interested in purchasing a home near a train station outside of the 10-mile radius (e.g., Diridon) or including mobile homes as eligible.
- Employees are interested in affordable housing options outside of the BMR program because they most likely would not qualify for the BMR rental program.
- An interest was expressed for consideration of temporary housing during the week for super-commuters.
- Employees were hopeful that the City would continue to review future housing projects in the City for the inclusion of employee housing units.

Staff will monitor use of the modified employee housing program and consider the ideas proposed by employees for possible future modifications to this program or the development of new programs.

FISCAL IMPACT

Loans will be considered an investment alternative and will generate interest income. However, depending on market conditions, the income to the City from the AFR charged on the loans may be lower than what could 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 million recommended allocation could fund from one or two executive-level loans to 12 All Employee loans. 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.

ALTERNATIVES

1. Do not modify the current employee housing program.
2. Change the loan terms or other elements of the proposed policy.
3. Approve the proposed policy and request staff to return to Council in one year with an update on program usage.

PUBLIC NOTICING – Agenda posting.

Prepared by:

Sue C. Rush
Human Resources Manager

Approved by:

Audrey Seymour Ramberg
Assistant City Manager/
Chief Operating Officer

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- Attachments:
1. Resolution Modifying City Council Policy D-13 – Mountain View Employee Homebuyer Program to Mountain View Employee Homebuyer and Relocation Assistance Program and Exhibit A
 2. Council Policy D-13 – Mountain View Employee Homebuyer and Relocation Assistance Program (strikeout copy as proposed)
 3. Table summarizing and comparing current and proposed loan program terms.
 4. CPPC Staff Report, March 25, 2019