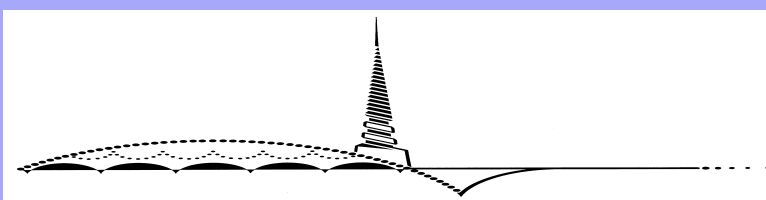
Marin County

Employee Housing Options Report

December 2002

Community Development Agency



Acknowledgements

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All Marin County employees who took the time to respond to the survey

The Marin County Board of Supervisors

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1.0 Executive Summary

In May of 2002, the Marin County Board of Supervisors authorized the Community Development Agency (CDA) to study the housing needs of Marin County employees, and to make policy recommendations that could improve retention and recruitment of employees. CDA surveyed all County employees, analyzed potential employee segments to target for housing assistance, researched available housing programs, and developed the recommendations that are outlined in this report.

The Housing Survey revealed that there is high demand for affordable housing among County employees. Thirty percent of County employee households are low-income; sixty percent have annual household incomes that qualify them for affordable housing programs. The high cost of housing is forcing nearly half of the County's employees out of Marin in order to obtain affordable housing. Long commutes are taking their toll on employee morale; one third of employees report that they are likely to look for another job in order to shorten their commute time.

Thirty percent of County employee household's are low-income; sixty percent have annual household incomes that qualify them for affordable housing programs.*

*As determined by U.S. Housing and Urban Development

One third of employees report that they are likely to look for another job in order to shorten their commute time.

The lack of affordable housing, however, is not presently translating into significantly adverse employee retention rates. The County of Marin has a relatively low employee turnover rate. In fiscal year 2001-2002, the County experienced a voluntary separation rate (including retired employees) of 4.5%; this rate compares favorably to the national quit rate estimated by the U.S. Bureau of Labor for state and local government employees of 7.5%. Turnover rates across most County departments and EEO categories are also relatively low, with the highest adjusted turnover rate (excluding retirees) of 6% occurring in the Service/Maintenance class.

Surprisingly, the Deputy Sheriff job class, which the Human Resource Department reports is the most difficult position to fill, has an adjusted turnover rate of just 3.9%. Although turnover rates are low, recruitment and retraining costs to fill vacancies are substantial. It is estimated that it currently costs the County $1.9 million a year in recruitment expenses and productivity losses to replace employees lost through voluntary separations. Housing programs designed to retain employees can potentially pay for themselves by reducing recruitment costs.

Moreover, the turnover rate is likely to rise. As the economy improves, employees will find greater opportunities for alternative employment. Demographic shifts in the population will also increase the turnover rate and make it more difficult to fill vacancies. It is estimated that the turnover rate will increase 2% a year as older County employees begin to retire, potentially raising the annual cost of recruitment and retraining to $2.75 million. As baby boomers retire, all organizations will be facing a potential shortage of available skilled workers, and competition for qualified employees will likely be strong. A viable housing program may be a useful tool in recruitment, especially in view of the fact that younger workers are essentially priced out of the Marin housing market.

- **Short-term programs are those initiatives that can be implemented immediately and, in consideration of current budget constraints, come at little cost to the County. They include educating employees to access existing affordable housing programs such as down payment assistance, affordable rental units, and below-market homeownership opportunities.**

- **Long-term programs include providing low or no-interest loans and building affordable housing on County property either exclusively for County employees or for the general public with a percentage of units set aside for employees. These programs would require substantial capital investment and could be subject to intense legal and public examination.**

This report identifies several employee segments to target for housing assistance, based upon employees' household income levels and current housing and commute situations. Programs are then outlined to meet the separate affordable housing needs of renters and homeowners. These programs are designed to improve employee retention and recruitment by providing affordable housing opportunities within Marin County.

In order to evaluate possible housing sites a preliminary analysis was conducted to evaluate County owned property located in close proximity to owned county facilities and those facilities planned in the next 5-10 years. A map was generated which illustrates sites that may need further analysis to be utilized as housing sites for county employees or the public.

In addition, the report notes that it is appropriate for the County to also promote, facilitate, and help fund affordable rental housing for the general public, thereby creating affordable housing opportunities for County employees as well.

2.0 Introduction

Marin County is one of the most unaffordable places to live. With a median home price of $700,000*, few people can afford to purchase or rent homes in the County. Many choose, instead, to live in neighboring counties, with far-reaching consequences for the quality of life in Marin. Traffic increases as more people are forced to commute longer distances to their jobs and homes; businesses have difficulty filling low-paying jobs. As younger and less affluent people are pushed out of the housing market, Marin becomes a "graying" community and, increasingly, loses its economic vitality and social diversity.

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The external factors affecting the supply and demand of housing in Marin County are varied and complex. A heritage of environmental activism has preserved 86% of Marin County as open space and agricultural land but has limited land for residential and commercial development.

- County of Marin Assessor's Office, August 2002.

A confluence of social factors has also put pressure on the housing supply: the decline of the extended family and the rise of the divorce rate has created a greater need for more housing units. Economic realities, however, have virtually ensured that the little housing that is developed is *not* affordable. Large, single-family homes are much more profitable for developers to build, while construction defect laws have brought the construction of multi-family housing to a virtual standstill. Taxing policies, which discourage housing by providing greater tax revenues from commercial development, have had their impact on the supply of affordable housing as well. All of these factors combine to limit the supply of housing and increase demand, thereby pushing prices beyond the reach of most people.

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Marin County is the second largest employer in the county. As such, the County of Marin workforce provides a microcosm for the housing crisis found in greater Marin County. A large number of County employees are forced to live outside of the County as they seek less expensive housing.

Fifty percent of County employees and 80% of public safety employees live outside of Marin. The majority of these employees live in Sonoma County; 30% of all employees and 60% of public safety employees live in Sonoma. Many employees find that they can purchase larger homes with more room and land in neighboring counties. For example, the median price of a house in Sonoma is $389,000 while the median house price in Marin is $700,000 – a difference of over $300,000.

Fifty percent of County employees and 80% of public safety employees live outside of Marin. The majority of these employees live in Sonoma County; 30% of all employees and 60% of public safety employees live in Sonoma.

As employees are forced to obtain housing outside Marin, many find that they face long daily commutes. One quarter of County employees report that they commute more than 45 minutes each way, and many employees stated that their commutes are getting longer and more difficult with each passing year. As a result, commuting is taking a toll on employee morale.

Nearly one-third of employees reported that they are very likely or somewhat likely to look for another job in order to shorten their commute. Many employees are having difficulty in meeting the high cost of housing.

A household is considered to be in an affordable living situation if one-third or less of gross annual income is spent on housing expenses. By this standard, half of all County employees are presently in unaffordable living situations. Thirty-percent of employees qualify as low-income under federal (HUD) guidelines. Sixty-percent of employees would qualify for some type of housing assistance if there were adequate affordable housing programs available.

County employees enjoy homeownership rates that are similar to those found in Marin County and across the United States. While approximately 70% of employees are homeowners, many of these people purchased their homes years ago and would not be able to purchase a comparable house in today's market given their present household income. This poses a particular problem to the County's younger employees, many of who are unable to purchase their first homes. The high cost of housing may be discouraging younger employees to seek employment with the County. Indeed, only 7% of employees are under age 30, and just 30% of employees are under age 40.

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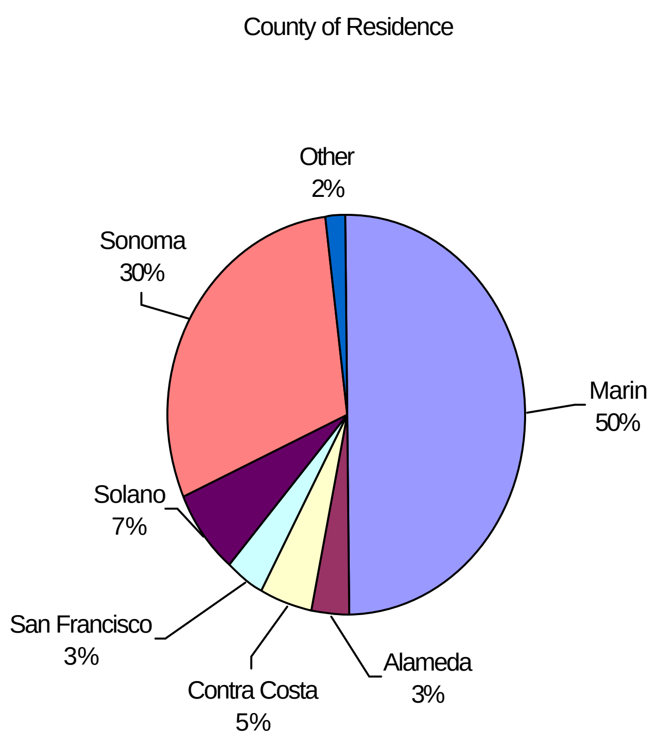
3.0 Employee Demographics

A Human Resource database of 1,960 regular full-time employees was analyzed to assess demographic trends and employee segments potentially in need of affordable housing. A summary of this analysis follows.

Chart 1

One half of employees live in Marin County. Thirty percent of employees live in Sonoma County. The remaining twenty percent of employees are distributed as follows: Solano County, 7%; Contra Costa County, 5%; Alameda County, 3%; San Francisco County, 3%; and, all other counties, 2%.



Source: HR Payroll Data Warehouse; 1,960 full-time employees as of May 20, 2002.

The average age of County employees is 46, and the age groupings are skewed to the older range of the population. Nearly one-quarter of employees are now past retirement age, and an additional 18% of the workforce will be eligible to retire in the next five years. These statistics are slightly more favorable than those reported for federal government workers.* The average age of current federal workers is 49, and roughly 28% of the workforce is eligible to retire. Just thirty percent of employees are under age 40, and only 140 employees (7%) of employees are under 30.

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Chart 2

Source: HR Payroll Data Warehouse; 1,960 full-time employees as of May 20, 2002.

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*Kris Mahler, "The Jungle: Focus on Recruitment, Pay and Getting Ahead," The Wall Street Journal, October 22, 2002, page B10.

The median length of service of County employees is 8 years. The data is heavily skewed to shorter lengths of service, and the trend reveals that there is an initial sharp drop-off of employees after two to four years, suggesting that the County may be having trouble retaining employees at this point. This can be especially costly to the County in terms of expenditures for recruitment and training of new hires.

Almost one-third of the County workforce has been employed for less than 4 years.

Chart 3

Almost one-third of the County workforce has been employed for less than 4 years.

Source: HR Payroll Data Warehouse; 1,960 full-time employees as of May 20, 2002.

4.0 Employee Housing Survey

In June of 2002, an employee housing survey was distributed to 2,238 Marin County employees as an attachment to their paycheck. 1,083 surveys were returned via inter-office mail within the two-week response period – a response rate of 48%. The age, length of service, and county of residence of respondents closely mirrored Marin County employees as a whole. We are therefore quite confident that the respondents represent an unbiased and representative sample of the general population and that the survey results are statistically valid and reliable.

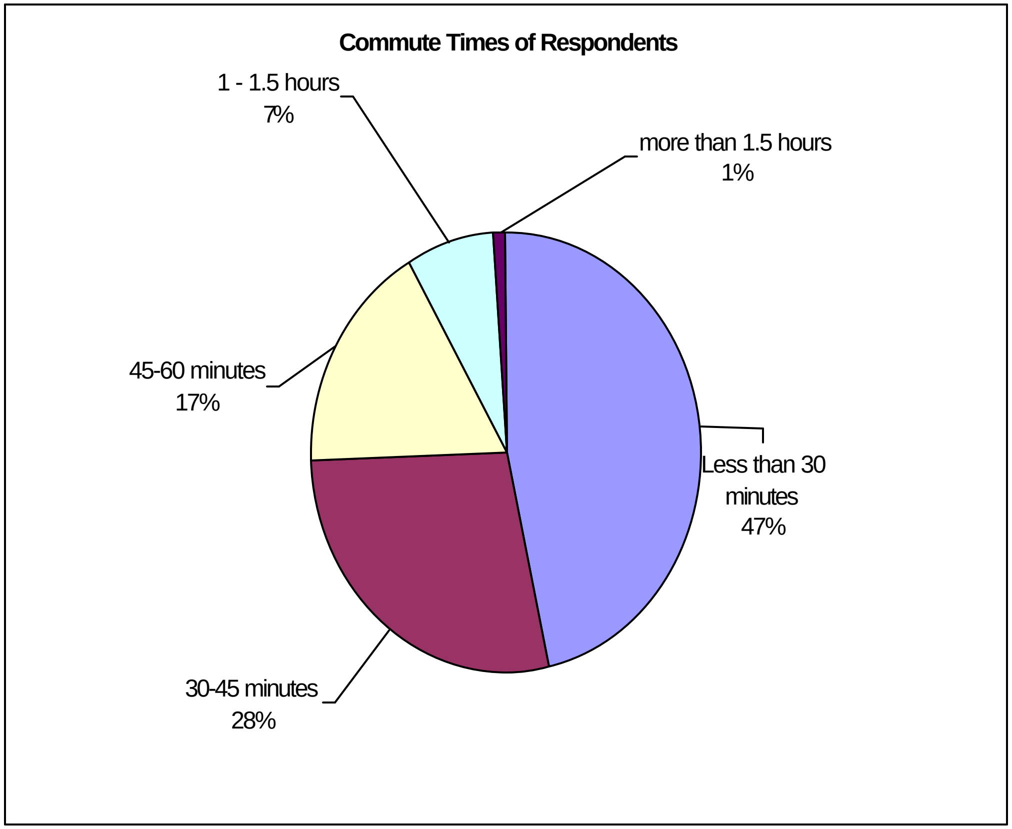
The seventeen survey questions were specifically designed to assess employee housing needs and preferences. The raw data is included as Appendix A. Charts displaying the results were also posted on the MINE, the County's intranet, so employees could review the results.

Highlights and interpretation of survey results are discussed in the following pages.

46% of respondents commute less than 30 minutes each way to their workplace. According to the 2000 U.S. Census, the average commute time of a Marin resident is 32.3 minutes. Approximately one third of employees have commutes that exceed this average. 25% of employees commute more than 45 minutes each way.

"I lived in Marin County for 22 years. I love the San Rafael area. It was very difficult for me when I realized I had to move north. The commute from Petaluma is terrible."

Chart 4

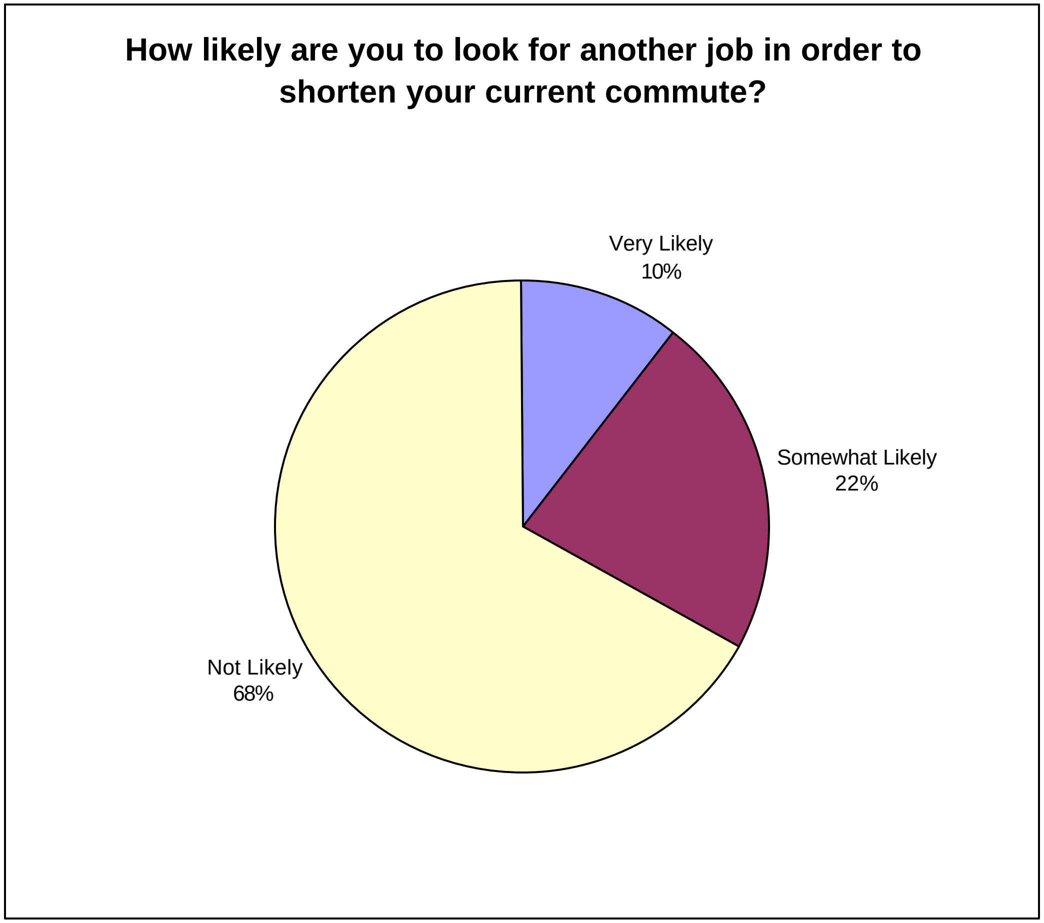


32% of respondents said they were either very likely or somewhat likely to look for another job in order to shorten their commute.

"Traffic gets worse every year…when I first started working for Marin, it would take me 45 minutes one way to get to work. Now, 5 years later, it takes 1 hr. 15 min. one way. I am currently seeking employment with other counties."

"I will eventually look for another job if not able to afford a house within 45 minutes of the Civic Center."

Chart 5

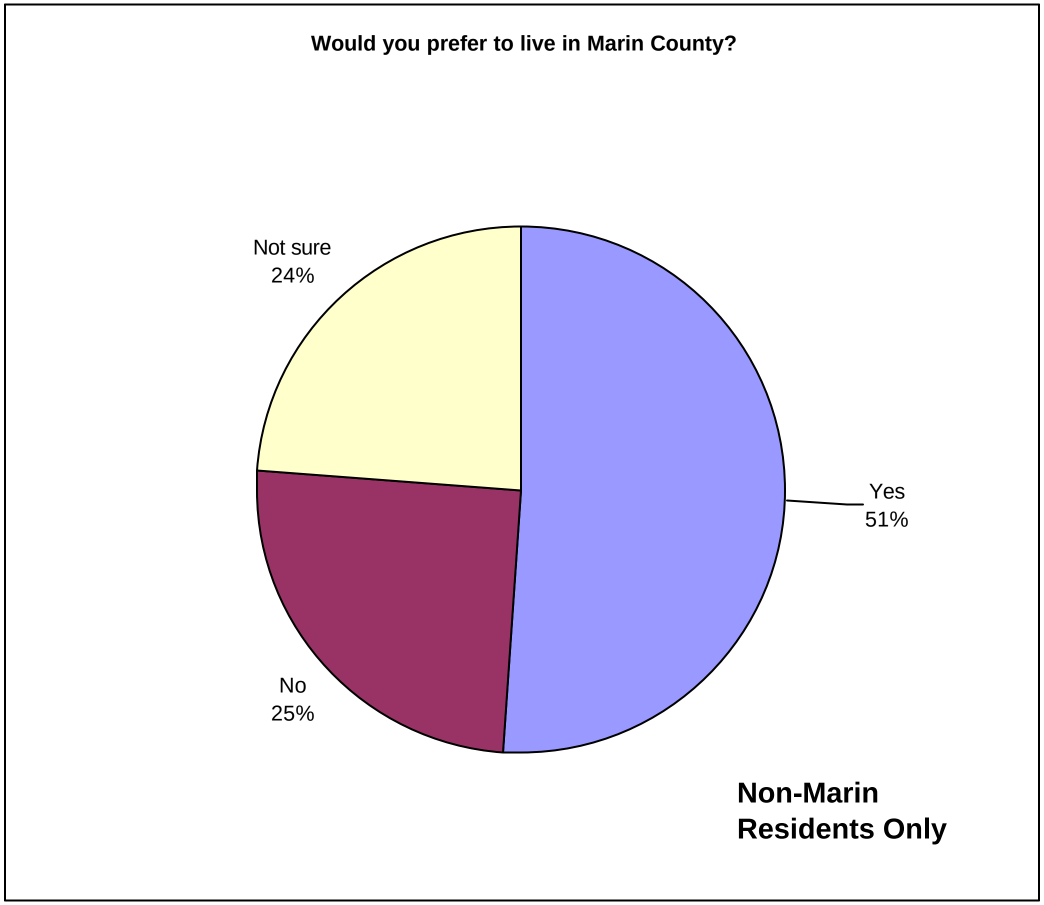


51% of respondents who live outside of the county would prefer to live in Marin. More employees cited the high cost and unaffordability of housing in Marin as the reasons for not living in the county.

“The commute is the worst thing ever and housing would take over half of my income if I move to Marin.”

“I have recently purchased a home in Petaluma…I tried very hard to purchase a home in Marin but was twice ‘outbid’… If the commute gets worse I will change jobs.”

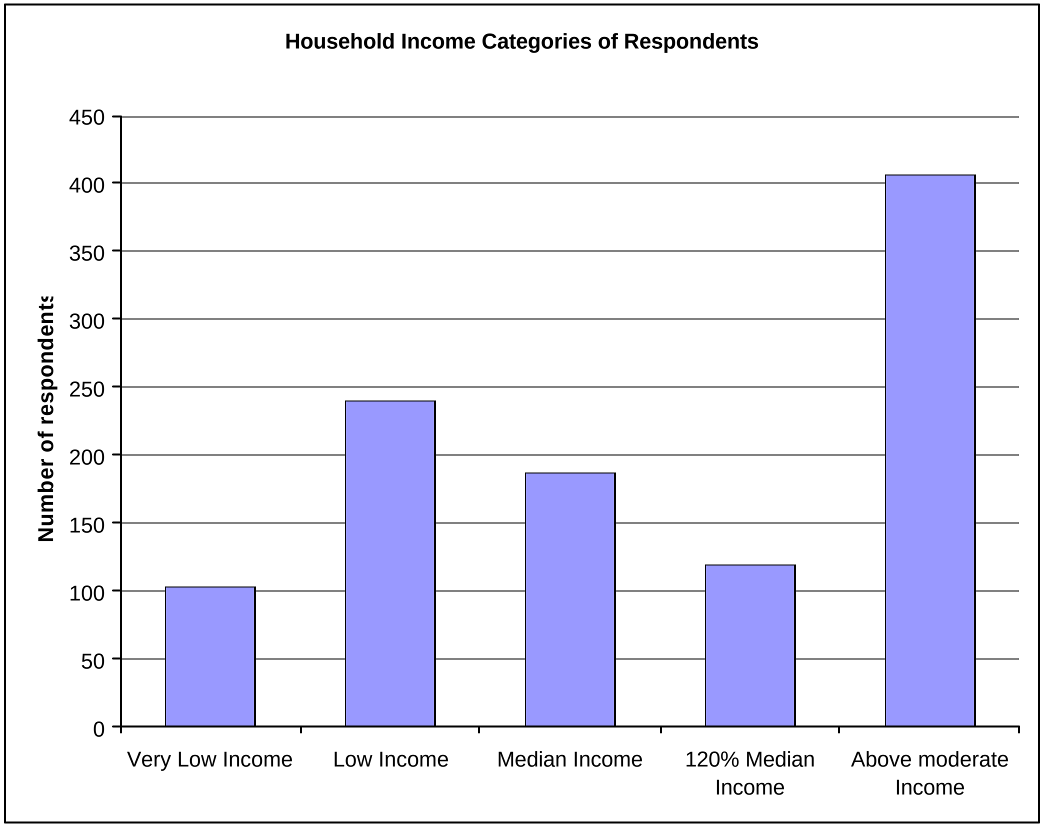
Chart 6



Nearly half of all respondents reported spending more than one-third of their gross annual household income on housing expenses. Approximately 60% of employees would qualify for affordable housing programs, based upon their annual income and household size. However, many employees who earn above moderate-income levels expressed frustration with their inability to afford suitable housing in Marin.

"I pay $800 to rent a room in an older apartment building in San Rafael. I am an attorney for the County and I work very long hours. I need to live close to work. It is impossible for me to afford to buy a home in Marin. My salary does not compensate for the housing costs, but I also make too much to qualify for any of the assistance programs."

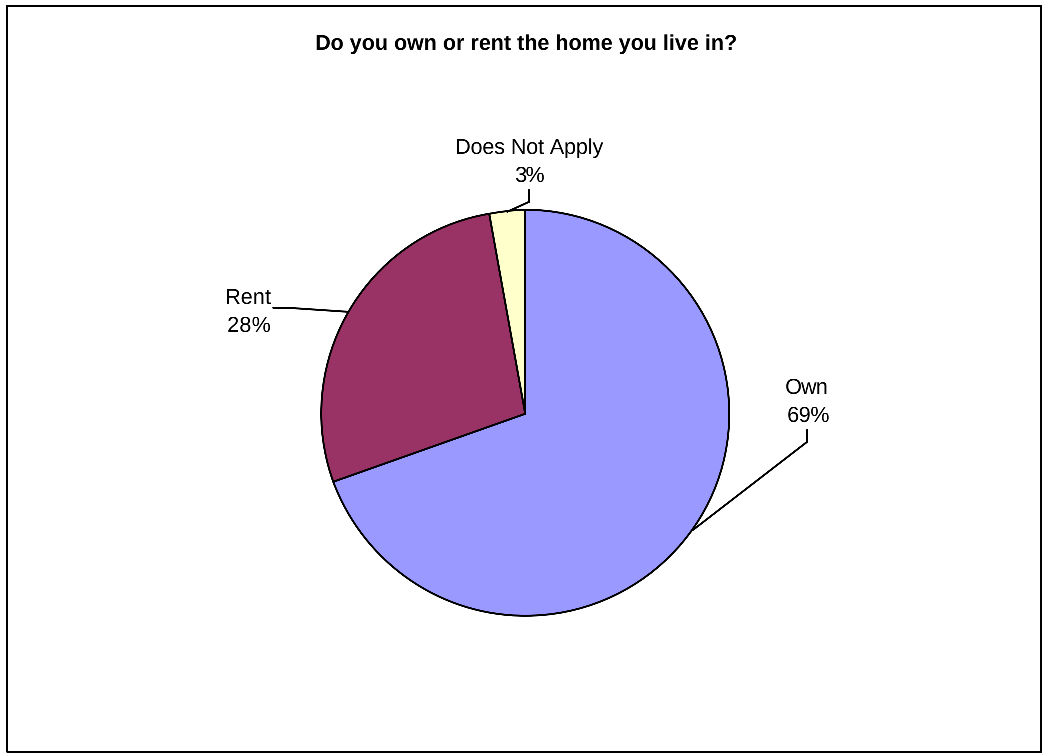
Chart 7



69% of respondents are homeowners. This is slightly higher than the Marin County average of 64% (as reported in the 2000 U.S. census). Nationwide, the homeownership rate is 66%. The homeownership rate in Marin County is much higher for those over 40 years old than for those under age 40. Seventy-five percent of Marin residents over age 40 own homes, while only 55% of those under age 40 are homeowners. 86% of employees who are currently renting would prefer to own their home.

Chart 8

I won't ever be able to afford a house in Marin...period."

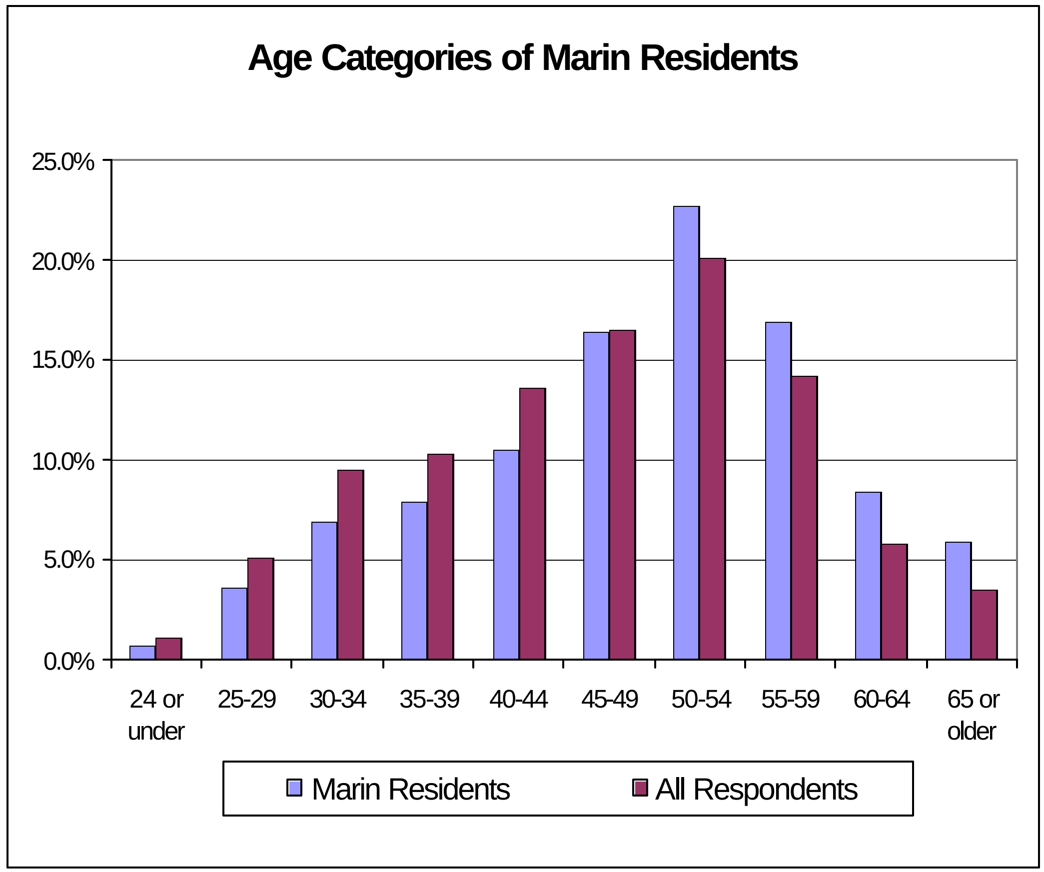


81% of employees who reside in Marin have been living in the county for more than 7 years. Marin residents are also more likely to be older than the general employee population. Many respondents noted that they were only able to afford a home in the county because they had purchased their home many years before.

"I bought my house 30 years ago – I would not be able to buy now or afford to live in Marin now."

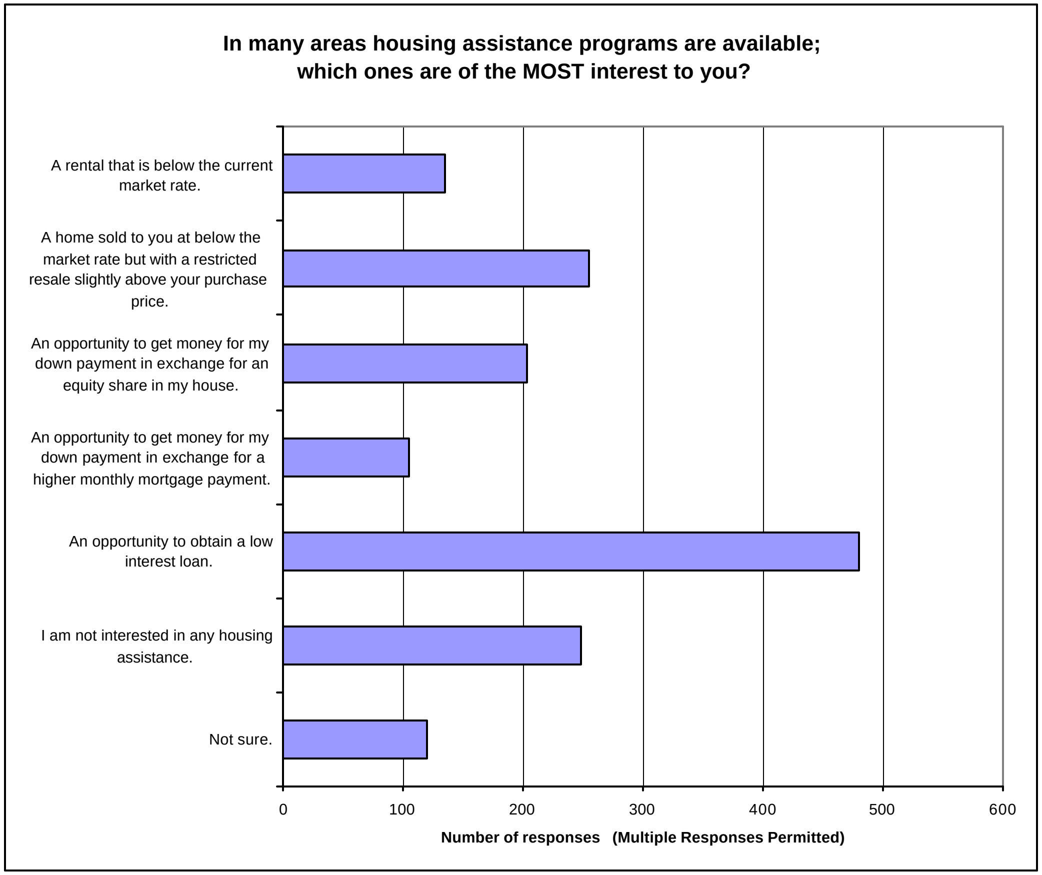
"Although I was fortunate enough to purchase my home in 1975, my children are not so fortunate…we are losing our young people in Marin, to our detriment."

Chart 9



The most popular housing option is a low interest loan. 58% of respondents selected this option. 23% of respondents noted that they were not interested in any housing assistance.

Chart 10



5.0 Targeting Employee Segments for Assistance

Given that half of Marin County employees are in unaffordable housing situations and would potentially meet housing assistance eligibility requirements, the need for affordable housing programs is great. The County's resources are limited, however, and so we recognize the need to prioritize employee needs and the most cost-effective programs for housing assistance.

In order to design programs that improve employee retention and recruitment, we selected target groups for study from the respondent sample. The first group met the following criteria:

#1. Regular full-time employment status.

#2. Selected "Very Likely" or "Somewhat Likely" to leave current job in order to shorten commute.

#3. Had a commute of more than 30 minutes.

#4. Lived outside of Marin County.

#5. Indicated an interest in living in Marin County.

#6. Indicated interest in housing assistance of any kind.

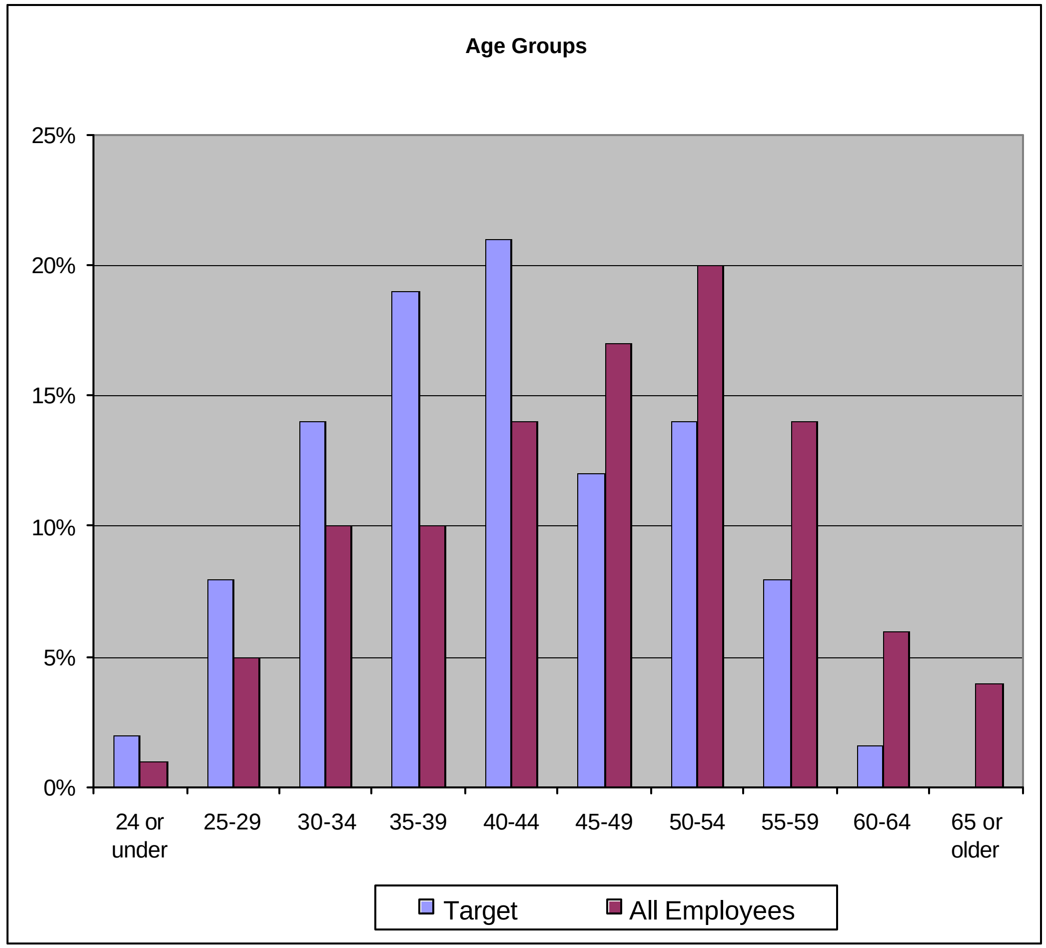
169 respondents met this criteria. Of these, 51 people (30%) reported that they were very likely to leave their current position and 118 (70%) reported that they were somewhat likely to leave. When generalized to the entire employee base, we can infer that 18% of full-time County employees, or approximately 350 people, would be included in this target group.

Five percent of all full-time employees would be considered as "high risk" and very likely to leave their employment, and 13% would be considered at "moderate risk" and somewhat likely to leave their current employment.

Five percent of all full-time employees would be considered as "high risk" and very likely to leave their employment, and 13% would be considered at "moderate risk" and somewhat likely to leave their current employment. As economic conditions improve, we would expect more employees to be able to find suitable alternate employment. Thus, the division between the high-risk and moderate risk groups should be seen as dependent upon the economic cycle.

Demographic analysis reveals that the target group is much younger than the respondent sample.

Chart 11

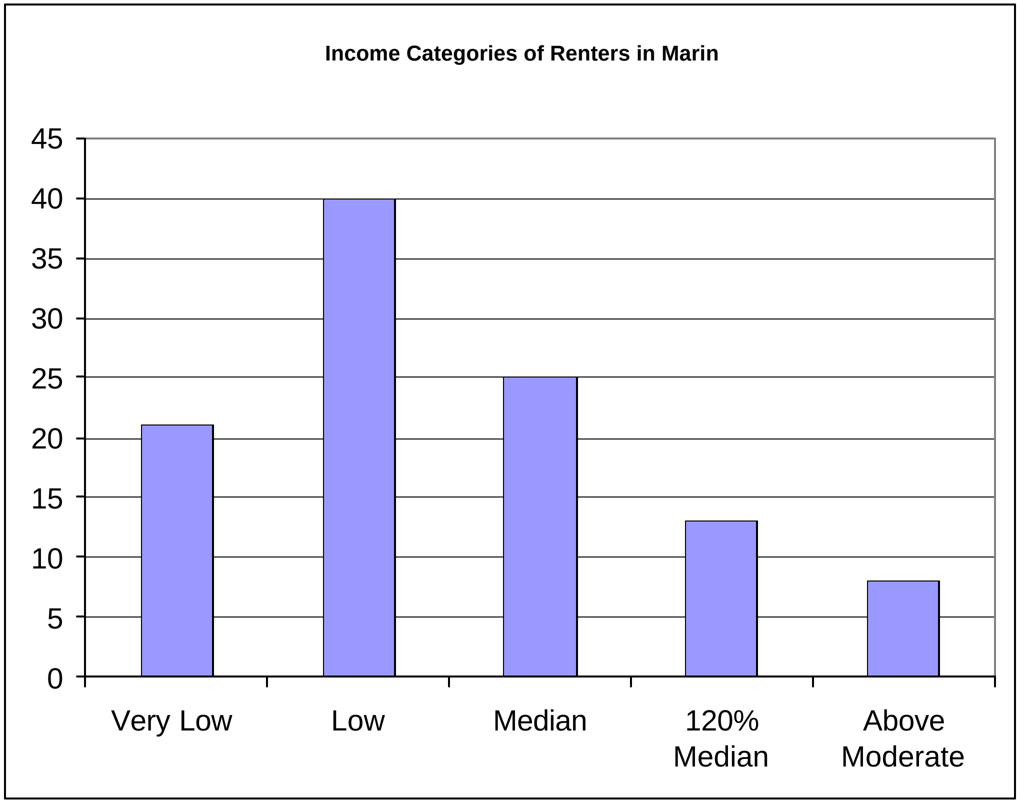


One-third of the target group earns above moderate-income and would not traditionally qualify for any housing assistance. One-third of the target group, or those earning 100-120% of median income, would typically be targeted for affordable home ownership programs, while the remaining third in the very low to low-income categories would generally be considered for affordable rental programs. About 30% of the target group is currently renting, and 94% of these people would prefer to own a home.

Marin Renters in Unaffordable Housing Situations. A second target group acknowledges that Marin renters in unaffordable housing situations are more likely to be at risk for turnover. Employees who met the following criteria were selected for inclusion in this target group:

1. Regular full-time employment status.
2. Marin resident.
3. Renter.
4. Reported spending more than one-third of gross household Income on housing.
5. Indicated interest in housing assistance.

Chart 13



111 employees were included in this group, nearly 6% of all full-time employees. Approximately 10% of the target group could potentially be moved into affordable homeownership with the assistance of CRA programs; 35% would be eligible for below market rate ownership; 55% would require below-market rate rental housing or Section 8 assistance.

One-third of this target group indicated interest in below-market rate rentals and one-half indicated interest in below-market rate homeownership.

Public Safety Employees. There are 199 deputy sheriffs and 54 firefighters employed by the County of Marin.

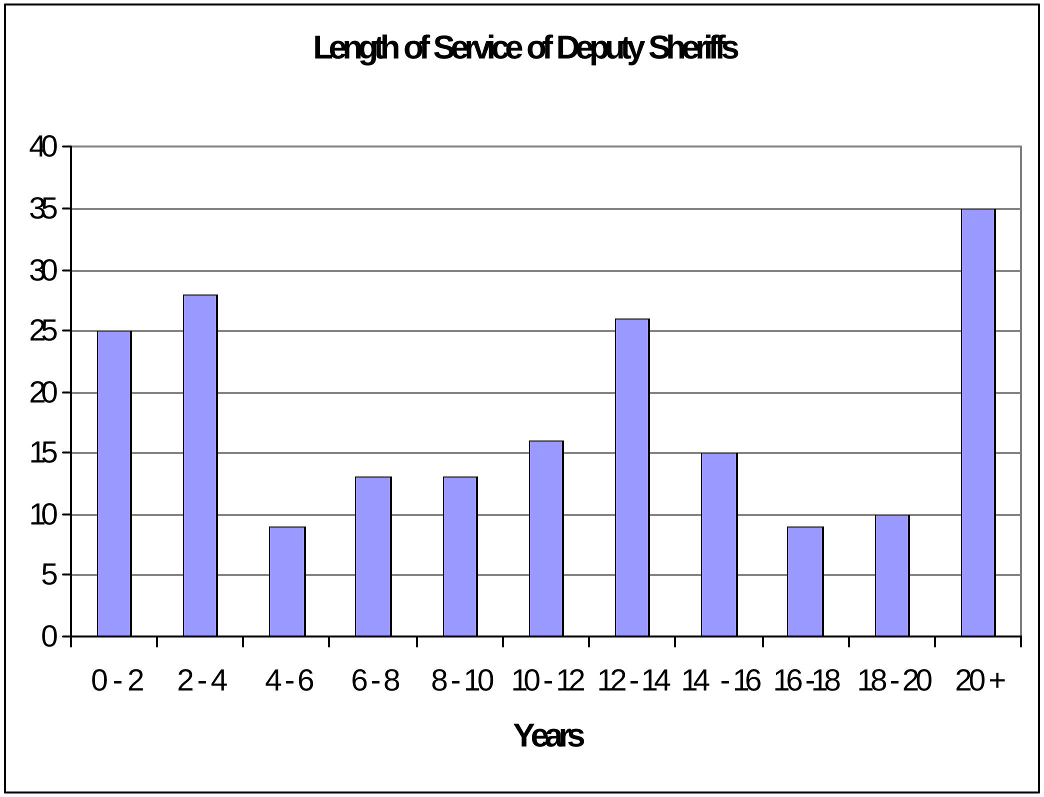
The survey response rate for public safety employees (deputy sheriffs and firefighters) was 24% -- half of the overall response rate 48%. Nineteen public safety employees fell into the target group identified above. Unlike the general survey statistics, the public safety employee statistics are based on a relatively small sample and should be reviewed with this in mind.

32% of public safety employees fell into the target group. This is significantly higher than the 17% observed in the general population. Of these, 10% reported that they were very likely to leave their current job in order to shorten their commute, and 22% said they were somewhat likely to leave. These higher rates can be attributed to the fact that safety officers have greater job mobility than other positions in the current economic climate.

Both HR and the Sheriff's Department have reported that deputy sheriff positions, in particular, are difficult to fill, that competition for new recruits is very competitive, and that deputy sheriffs are in high demand in many areas of California. In order to attract new recruits, the department sponsors trainees at the Police Academy and offers a competitive starting salary of over $51,000. However, the Department finds that once new recruits are trained for patrol duty, it is very easy to find another position in an area with a lower cost of living.

Approximately 80% of public safety employees live outside of Marin County. Nearly 60% live in Sonoma County.

Chart 14



Public safety employees also reported higher household incomes than the employee population. 53% reported above moderate income, compared to 33% of the target group. 26% fell in the low-income category and 21% placed in the moderate-income range.

89% of the public safety employees surveyed owned their own home; this is significantly higher than the 69% homeownership rate of the employee population.

6.0 Existing Affordable Housing Programs

A variety of affordable housing programs are already in existence and could potentially be accessed by County employees. Mortgage assistance programs, in which first-time homebuyers can purchase a home for little or no down payment, are available through many financial institutions. Below-market rate home ownership opportunities also exist for these moderate-income employees. Affordable rentals are available for low-income employees, as well as Section 8 rental assistance. Although a variety of affordable housing opportunities exist, demand far exceeds the supply of affordable housing. A description of these programs follows.

Mortgage Assistance Programs

In recent years, banks have been aggressively courting low- to moderate-income homebuyers because of the Community Reinvestment Act (CRA). The CRA, enacted by Congress in 1977 and revised in May 1995, encourages depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods. Financial institutions are periodically evaluated to ensure that they are meeting the CRA requirements, and the institution's record is taken into account when applying for deposit facilities. Thus, it is in the bank's best interest to extend credit to low- to moderate-income buyers and to encourage investment in designated neighborhoods. In Marin, these neighborhoods include Marin City, The Canal District of San Rafael, and Hamilton Field; a buyer in one of these neighborhoods does not have to meet income requirements in order to benefit from special CRA program financing.

Low- to moderate-income buyers are eligible for home purchases in any neighborhood, provided they have acceptable credit ratings and the home is within an acceptable price range.

Most major banks, such as Wells Fargo and Bank of America, have developed specific financing programs in order to meet CRA goals. Typically, these may require little or no down payment, and sometimes there are options to finance closing costs or allow funds for closing costs to come from a gift or other sources.

The programs also allow more flexible credit guidelines than conventional mortgages by accepting lower FICO scores and allowing buyers to use a rent and utility bill history in lieu of an established credit history. The programs also allow higher debt ratios of up to 45%; typically debt ratios are set at 36-39%.

A sample of CRA programs follows:

Wells Fargo

- *No Money Down Plus: 100% financing available for buyers with good credit. Extends option to finance mortgage insurance and up to 3% of closing costs.*
- *Easy-to-Own: Targeted to low- to moderate-income homebuyers. Low or no down payment requirement expanded qualifying guidelines (e.g., increased obligations-to-income ratio from 36% to 45%), flexible credit considerations, closing options.*

Bank of America

- *Neighborhood Advantage Zero Down: 100% financing available for homebuyers with good credit. Closing costs do not have to come from personal funds. Maximum loan amount is $400,000.*
- *Neighborhood Advantage Credit Flex: Targeted to homebuyers with little or no established credit. Need a favorable 12-month payment history for rent and two other monthly bills. 3% down payment required. Buyer only has to put up $500 from personal funds; the rest can come from gifts or other sources. Maximum loan amount is $400,000.*

Bank of America, in particular, is anxious to meet its CRA goals in Marin County, where it is very difficult to find properties in the price range that moderate-income buyers can afford. The representative from Bank of America is willing to set up on-site workshops to educate employees on CRA programs, the home buying process, and credit rating issues.

Two possible home purchases are described in the following scenarios. In both, a 5-year fixed rate (adjustable thereafter) of 5.875% is presumed. In the first, a family of four with an income of $86,100, no debt, good credit, and no down payment qualifies for a condominium purchase price of $390,000. In the second, a family of four with $103,300 in income, no debt, good credit, and a 5% down payment of $25,000 qualifies for a single family home purchase of $500,000.

Table 1: Purchasing Power of Median Income and Purchasing Power of 120% Median Income

Income (**100% of median income**): $86,100 for a family of four	Income (**120% of median income**): $103,300 for a family of four
Loan to Value: 100%	Loan to Value: 95%
$390,000 Loan	$475,000 Loan
Debt Ratio: 45%	Debt Ratio: 45%
Credit History: Very Good	Credit History: Very Good
Monthly Costs	Monthly Costs
Principal and Interest $2,307	Principal and Interest $2,810
Taxes $406	Taxes $521
Mortgage Insurance $250	Mortgage Insurance $300
Condominium Fees $250	Condominium Fees $142
Total Monthly Cost $3,213	Total Monthly Cost $3,773
Purchase Price: $390,000	Purchase Price: $500,000

Examples of the types of housing that these mortgages enable the employee to purchase follow on the next pages. A condominium in Novato that sold in June for $381,000 is typical of what an employee with a family income of $86,000 could afford. This two-story unit has three bedrooms and 1 ½ baths.

Employees with $103,000 of income could afford a home similar to a small 3 bedroom, 2 bath home in San Rafael that sold for $509,000 in June. This house was built in 1958 and required substantial renovation at the time of sale. In contrast, these same buyers can afford a newer and much larger home outside of Marin County. In Petaluma, a two-story home that sold in June for $515,000 is just two years old and has 4 bedrooms and 3 baths. It is 75% larger than the San Rafael home and in much better condition. Given the realities of the housing market, it is understandable that half of County employees choose to rent and buy homes outside of Marin. A long commute is the price many choose to pay in order to own a larger home.

Table 2: Bay Area Median Home Prices

Marin County	*$702,500*
Bay Area	*$417,000*
Sonoma	*$389,000*
Alameda	*$402,000*
Contra Costa	*$345,000*

Below Market Rate Housing Development

Marin County has a variety of affordable housing developments, including multi-family and single-family developments, rental and home ownership opportunities, mixed income and mixed-use developments, and housing that is specifically designed to meet the needs of seniors and the disabled. Most below market rate developments are owned and managed by many different non-profit organizations, such as EAH, BRIDGE, and others. A 2001 study conducted by the office of the Marin County Affordable Housing Strategist identified 3,226 deed-restricted below market rate units in the County's current affordable housing inventory. A little over one-third of these are set-aside for seniors and the disabled. Approximately one-third of the family housing units are available for homeownership; the rest are rental units.

Affordable Homeownership Opportunities. Homeownership programs are typically targeted to moderate-income individuals who have annual family incomes that are 100-120% of the median income according to family size. The Marin Housing Authority (MHA) administers a substantial number of the below-market rate units that are for sale.

The Marin Housing Authority administers the BMR Home Ownership Program for the jurisdictions of Corte Madera, Larkspur, Mill Valley, San Anselmo, San Rafael, Tiburon, and the unincorporated areas of the County of Marin.

This program is designed to provide moderate-income (up to 120% of median income) first-time homebuyers with the opportunity to purchase deed-restricted homes (primarily condominiums) for below market rates. In 2001, unit prices ranged from $112,100 for an existing 580 square foot, 1-bedroom unit to $213,000 for a newly constructed 1,497 square foot, 3-bedroom unit.

Currently, there are 297 BMR units in the Authority's inventory. Over the past four years, an average of 8-9 units have become available for resale each year. New units created have ranged from 4 to 19 per year. Very few sites zoned for subdivision of 10 or more units are available. Jurisdictions throughout Marin County have inclusionary zoning regulations that have thresholds of 10 or more units. Existing sites are not large enough and have many constraints to develop subdivisions that will create new BMR units. As a result, the number of new BMR units is expected to dramatically decrease.

Table 3 Turnover of BMR Units Administered by Marin Housing Authority

Year	Total Units in Inventory	New Unit Sales	% Of Total	Existing Unit Resales	% Of Total
2001	297	12	4%	7	2%
2000	285	4	1%	8	3%
1999	281	5	2%	9	3%
1998	276	19	7%	10	4%

On average, 3% of the units in the MHA program turn over each year. Applying this rate to the total number of existing BMR ownership rates, allows us to estimate that approximately 21 units become available for resale each year. However, due to preferences that have been adopted by local jurisdictions and govern the selection process, many of these units may not be available to County employees. Units that are located within the jurisdictions of Corte Madera, Larkspur, Mill Valley, San Anselmo, and San Rafael, all give preference to their respective city and town employees.

Affordable Rental Opportunities. Affordable rental programs are typically targeted to those whose family incomes are below 80% of the area's median income. The Marin Housing Authority administers some of these programs, such as the federal Section 8 Program. This program provides assistance for very-low-income households by making direct payments to a private property owner for a portion of the voucher holder's rent. Once a household has a voucher it must first find a unit renting for specified "fair market rent" (established annually by HUD), successful unit inspection, and an owner willing to enter into a lease agreement and an annual contract with the Marin Housing Authority (MHA).

The MHA has issued 1,859 contracts with landlords and voucher holders. Currently there are 2,610 people on the waiting list. Recently the MHA has changed their wait list policy to open it annually with a lottery process that determines who will be awarded a voucher.

MHA also owns and operates rental housing developments for low-income families, seniors, and the disabled. The largest development in Marin City contains 292 total units. There are currently 1,170 people on the waiting list. In 1999 the turnover rate was 5%.

In total, there are 1,349 deed-restricted rental units in the affordable housing inventory. Assuming a 5% turnover rate allows us to estimate that 68 units become available for rent each year.

Future Development. Approximately 1,620 affordable housing units are in the pipeline; 635 of these are set-aside for seniors and the disabled and as transitional housing, leaving 985 affordable units that are restricted solely on the basis of income eligibility. Sixty-five-percent of the income-restricted units are to be located in Hamilton Field and are projected to become available over the next five years. One third of these units, however, are subject to an application policy that gives first preference to City of Novato employees and those who work in the City of Novato. The other projects are in various stages of predevelopment and are more likely to be built in years 4-7. Many of these units will ultimately be placed under the control of the Housing Authority and will be subject to the preferences outlined previously. Thus, we estimate that, countywide, an average of 85 newly constructed affordable units will be made available to the general public on an annual basis.

Aggregate Availability. On an annual basis, we project that 50 below-market rate units will become available for sale and 100 affordable units will become available for rent over the next five years.

7.0 Affordable Housing Development

Considering that projected affordable housing falls far short of the supply needed to meet employee demand, the Board should evaluate the long-term option of creating employee housing. Such a strategy, however, is constrained by the following issues:

1. The primary source of financing for affordable housing comes from state and federal agencies that administer programs such as Low-Income Tax Credits, CDBG, HOME, and Section 8 funds. These programs strictly adhere to Fair Housing and Unruh Act laws which potentially conflict with employee preferences. Therefore, a housing development specifically for County employees could be ineligible for such funds.

2. Without federal and state funding, it would be necessary for the County to raise development funds. The County could designate funds from the General Fund for such a purpose or raise capital through a bond issue. However, it is arguable whether public funds should be made available for this purpose considering that the County currently enjoys a low turnover rate of 4.5%, and poor general economic conditions have made it easier to recruit employees. However, the County assumes shared responsibility for disaster and emergency assistance which may be difficult to fulfill if the majority of emergency response employees reside outside Marin County.

Legal Issues Concerning Employee Housing Development. A housing development with preferences or set-asides for county employees may be challenged legally on the basis of the Fair Housing and Unruh Act. The federal Fair Housing Act protects against discrimination in the leasing or sale of housing on the basis of national origin, race or color, sex, age, disability, religion, or family composition. Discrimination against protected classes is illegal not only when the preference itself discriminates, but when the preference has a disparate impact on any of the protected classes.

A housing preference is legally permissible under the Fair Housing Act if it can pass each of the following tests:

1. The preference, on its face, does not discriminate against other applicants based on race, national origin, disability, gender, age, familial status, religion or sexual orientation;
2. The preference does not have a disparate impact on members of any protected class (race, national origin, disability, gender, age, family status, religion or sexual orientation): and
3. There is a special need in the particular community for housing the class of people who would receive the preference, as documented by studies or other reliable official documents.

The Unruh Civil Rights Act, California Civil Code sections 51 through 51.3, provides protection from discrimination by all business establishments in California, including housing and public accommodations. California Civil Code section 51(b) describes the protections found under the Unruh Civil Rights Act as : All persons within the jurisdiction of this state are free and equal, and no matter what their sex, race, color, religion, ancestry, national origin, disability, or medical condition are entitled to the full and equal accommodations, advantages, facilities, privileges, or services in all business establishments of every kind whatsoever . The language of the Unruh Civil Rights Act specifically outlaws discrimination in housing and public accommodations based on sex, race, color, religion, ancestry, national origin, disability, or medical condition. While the Unruh Civil Rights Act specifically lists "sex, race, color, religion, ancestry, national origin, disability, or medical condition" as protected classes, the California Supreme Court has held that protections under the Unruh Act are not necessarily restricted to these characteristics. The Act is meant to cover all arbitrary and intentional discrimination by a business establishment on the basis of personal characteristics similar to those listed above.

As a first step to passing these tests, the County would need to demonstrate that the diversity of the employee base is representative of the area as a whole. The table below shows the ethnic and gender composition of the full-time employee population and the larger geographic area in which those employees reside.

Table 4: Comparative Concentrations of Members in Protected Classes

Protected Class	Employee Base*	Surrounding Area**
Female	53.67%	50.47%
African American	5.41%	4.28%
Hispanic	9.60%	14.47%
Asian/Pacific Islander	6.89%	6.84%
Native American	.77%	.69%
Total Minorities	22.67%	26.28%

*Employee population is based on the 1,960 full-time employees as of 5/15/02.

** Surrounding area population based on the 2000 U.S. Census data, weighted by employees' counties of residence: Marin 50%; Sonoma 30%; Solano 7%; Contra Costa 5%; Alameda 3%, San Francisco 3%; and Other 2%.

The table shows that the employee population appears to be fairly representative of the surrounding area, exceeding representative demographics in all cases except in the Hispanic population. However, the employee base does not include those who, due to age or disability, are unable to work.

Thus, a housing development may discriminate against the members of these protected classes. One possible way to address this issue would be to provide set-asides for a number of units in the development proportional to the population of disabled and senior people in Marin County. The table below illustrates the targeted representations.

Table 5: Set-Aside Targets for Seniors and the Disabled

Protected Class	Marin County Representation	Employee Population	Set-Aside Target
Disabled	5.24%	0%	5.24%
Seniors, Age 65+	13.60%	2.55%	11.05%

In any event, a separate disparate impact analysis would have to be done to (1) determine the composition of the population that would be financially eligible for the project, (2) determine the composition of the households that would be eligible for the preference, and (3) compare the composition of the general eligible population to that of the preference/set aside population. If the percentage of persons who are members of a protected class is significantly greater in the general group than in the preference/set aside group, the preference could have a disparate impact on members of a protected class.

At the present time, there is insufficient evidence that the County is having a problem retaining or recruiting employees, although there is a special need to provide housing for public safety employees since approximately 80% of these employees live outside of Marin County. Consequently, public safety may be jeopardized in the event of an emergency. Such a program, however, would also need to prove that it does not have a disparate impact on any protected class.

All County owned parcels over one acre were considered for housing opportunity sites. Wetlands, parcels in the water and parcels designated for open space were eliminated from consideration. A map with over 100 parcels has been created and overlaid with currently owned county facilities and facilities planned for the future. Links to public transportation will also be identified on the map. If the County determines it prudent to move forward with development of employee housing additional evaluation of the sites should be considered.

8.0 Cost Verses Benefit Analysis

The cost of employee housing programs can be offset by the expected improvement in employee turnover, possibly resulting in net savings for the County in recruitment costs.

Employee turnover rates. Employee turnover at the County was 4.5% in fiscal year 2001-2002 (see table 6), creating 80 vacancies. Thirty-four employees retired, leaving an adjusted turnover rate of 2.6%. The highest adjusted turnover rate occurs in the Service/Maintenance job category with a 6% turnover rate. The turnover rate in the Sheriff's Department was slightly higher than the average countywide rate, but, at 3.5% is much lower than the anecdotal evidence had suggested.

Table 6: Turnover Rates for Job Categories

County of Marin Fiscal Year 2001-2002 County-Wide Workforce						
	EEO Code	**FTE**	**Voluntary Separa-tions**	**Turnover Rate**	**Retired**	**Adjusted Turn-over Rate**
Official/Administrator	01	90	8	8.9%	6	2.2%
Professional	02	588	27	4.6%	9	3.1%
Technician	03	255	13	5.1%	8	2.0%
Protective Services	04	216	5	2.3%	3	0.9%
Para-Professional	05	99	4	4.0%	1	3.0%
Office/Clerical	06	382	15	3.9%	5	2.6%
Skilled Crafts	07	75	1	1.3%	0	1.3%
Service/Maintenance	08	84	7	8.3%	2	6.0%
Total		1789	80	4.5%	34	2.6%

Sworn Staff, Sheriff Department						
	EEO Code	**FTE**	**Voluntary Separa-tions**	**Turnover Rate**	**Retired**	**Adjusted Turn-over Rate**
Sheriff's Captain	01	4	1	25.0%	0	25.0%
Sheriff's Lieutenant	02	13	0	0.0%	0	0.0%
Sheriff's Sergeant	03	27	1	3.7%	1	0.0%
Deputy Sheriff	04	154	8	5.8%	3	3.9%
Deputy Sheriff Trainee			1		0	
Total		198	11	5.6%	4	3.5%

These turnover rates are relatively low. In the private sector, turnover rates of 10-14% are considered normal. Across all industries, the national quit rate is estimated at 22.1%. In comparison to these benchmark rates, the County's turnover is quite favorable. The lowest turnover rates are typically found in state and local government; in this sector, the U.S. Department of Labor estimates that the turnover rate for government employees for the comparable time period was 7.5% (see table 7).

Table 7: Department of Labor Comparative Quit Rates

U.S. Department of Labor, Bureau of Labor Statistics

Job Openings and Labor Turnover Survey

Estimated Quit Rates*

County Fiscal Year 2001 - 2002

Month	State and Local Gov't. Rate	National Rate
July 2001	0.8	2.5
Aug	1.2	2.7
Sept	0.7	2.2
Oct	0.4	1.9
Nov	0.5	1.5
Dec	0.4	1.4
Jan 2002	0.5	1.6
Feb	0.5	1.4
Mar	0.5	1.5
Apr	0.5	1.7
May	0.6	1.8
June	0.9	1.9
Total	7.5%	22.1%

*The quit rate is the number of quits during the entire month as a percent of total employment.

Recruitment and retraining costs. Although turnover rates are low, recruitment and retraining costs are significant. There are direct and indirect costs associated with employee turnover. Direct costs include the time involved in recruitment, selection, and training of new personnel as well as the costs associated with advertising and administrative expenses. Indirect costs include the decrease in productivity while a new employee learns the function of the job and the culture of the organization.

The U.S. Department of Labor estimates that it costs business one third of a new hire's annual salary to replace an employee. The median salary at the County of Marin is $56, 180; including benefits, the full-cost median salary is approximately $71,800. At a 4.5% turnover rate, recruitment costs for the County can be estimated at $19 million on an annual basis. It costs the County approximately $1.2 million annually to fill positions vacated by those voluntarily leaving for reasons other than retirement. To the extent that the retention rate can be improved, housing programs may have a positive net fiscal effect.

$71,800 x 33% x (2.6% adjusted turnover rate x 1,960 employees) = $1.2 million in recruitment costs

As the baby boomers begin to retire, the turnover rate is expected to increase by 2% per year to 6.5%, pushing annual recruitment and retaining costs up to $2.75 million.* The Marin County Strategic Plan speaks to the desire of the County to be the "employer of choice". Creating affordable housing opportunities within the county could propel the image.

* Assuming current levels of employees in the post-55 age groups, the annual count of retirees is projected to increase by 56 in 2003, 40 in 2004, 38 in 2005, 37 in 2006, and 30 in 2007 above the retiree count of 34 in 2000.

Program costs. The long-range plan has identified programs for developing affordable housing and establishing a no-interest loan program in order to encourage homeownership in Marin. Both of these programs, if developed to satisfy the full demonstrated need of employees, would require extensive capital investment. The following discussion of program costs is for illustrative purposes only; a comprehensive study should be undertaken in order to fully evaluate alternative programs.

Affordable rental housing development. A recent Marin County Nexus Study estimated development costs for a variety of rental housing options. As an example, a townhouse development consisted of two-story buildings containing four two-bedrooms, 1,050 square feet units in each, with a density of 16 units per acre. In this prototype, the development costs $277.700 per unit. The affordability gap, which is the amount that closes the gap between what a household can afford to pay and what the unit actually costs, is $222,500 for a very low-income family and $167,000 for a low income family. Another option consists of a loft-style apartment complex containing 111 one-bedroom units on 1.62 acres. The per-unit cost is $170,800, and the affordability gap is $127,700 for very low-income families and $82,600 for low-income households.

The long-range plan provides for development of 120 one-bedroom apartments and 60 two-bedroom townhomes. One third of these would be for very-low income households and two-thirds for low-income households. Thus, total development costs were financed with a 15-year, 6 bond, annual costs to the County would be $2.3 million, or $12,900 per employee.

No-interest loan program. As a second program option, the County could fund a non-interest loan program for employees to purchase a home within a prescribed radius of County offices. To be effective, the amount of the loan would have to bridge the price gap between a home in Marin and a home in surrounding counties.

The difference between the median price of a home in Marin and a home in Sonoma currently stands at $389,000; it is assumed that a loan of at least $200,000 would be required to encourage homeownership in Marin.

If the County utilized a 15-year, 6% bond issue to underwrite the cost of a no-interest loan program, a $200,000 loan would cost $20,300 per employee per year to fund. If all 275 employees who have been identified by the survey took advantage of the program, the program would cost $3.3 million a year.

Evaluation. Program costs for these long-term strategies are far in excess of the estimated recruitment and retention costs of $1.2 million. In addition, it is difficult to assess the true net impact that housing programs would have on retention. Presumably, workers leave employment for many reasons other than the cost of housing, so a significant component of the 2.5% adjusted rate may not be impacted by a housing program.

9.0 Recommendations and Conclusions

The high cost of housing in Marin is forcing many employees into unaffordable housing situations and into long commutes as they seek housing in surrounding counties. Although nearly one-third of employees report that they are likely to look for another job in order to shorten their present commute, the reality is that few employees are actually leaving their employment. With a very low employee turnover rate of 4.5%, the County does not have a retention problem that warrants a large capital investment in affordable housing development. Moreover, the relatively high rate of local unemployment has provided the County with a more qualified pool of workers from which to fill vacancies, reducing the need for the County to offer housing assistance in order to recruit qualified applicants.

Short Range Housing Plan

Nonetheless, affordable housing issues are significant enough to warrant investment in housing programs that are designed to help employee's access existing affordable housing options. Several programs can be immediately implemented: (See page 66)

1. In partnership with a major financial institution, plan and conduct on-site workshops that counsel employees on improving credit ratings and provide information on no down payment loans and other Community Reinvestment Agency (CRA) Programs designed to promote first-time home ownership.

2. Provide a clearinghouse of information on existing affordable housing programs and assist employees with access to the application process.
3. Develop and maintain an electronic bulletin board on the County's intranet that provides information on available rentals, foreclosure properties, properties for sale through probate, and shared living opportunities.
4. Internally, advocate and encourage telecommuting programs to reduce employee dissatisfaction with long commutes.
5. Invest In-Lieu Housing Trust Funds in affordable housing that Marin County employees could access.
6. Adopt the Jobs/Housing Linkage ordinance to create new housing opportunities close to jobs.
7. Adopt revised Inclusionary Housing ordinance to increase affordable housing development.

Long Range Housing Plan

At the same time, it is strongly encouraged that the Board further study options to develop more affordable housing countywide. Economic conditions will eventually improve, providing employees with alternative employment options. Concurrently, the County's older employees will begin to retire, forcing the County to compete for a smaller pool of younger less skilled workers, many of whom are less likely to be able to afford homes in the area. A long-term affordable housing plan that includes deed-restricted affordable housing development as well as no– or low-interest loan programs for moderate-income homeowners would provide an attractive incentive in recruitment and retention of quality employees. (See page 67)

A more comprehensive study also needs to be conducted to resolve the legal issues regarding Fair Housing and the Unruh Acts as it relates to preferences for Marin County employees. It is recommended that the Board draft a policy regarding employee preferences. In the short term, the County should closely monitor any legal challenges that arise from other jurisdictions' practices and policies.

The critical lack of affordable housing affects all workers and residents of Marin County. Automobile congestion, quality of life and the diversity and sustainability of our community rests on the ability of families from all different incomes having housing options that include Marin County.

The County should continue to promote and assist affordable housing through well-conceived policy and should fund affordable housing development consistent with the goals and strategies defined in the Housing Element. By expanding affordable housing opportunities for all, the County's employees will benefit as well.

Short Range Housing Plan

Target Group	Description	# of Employees	Program Goals	Implementation
Marin Renters	Currently in unaffordable housing situations in Marin County. Full-time status	200	Place 20 employees in existing public housing, Section 8, CDBG, and Below Market Rate ownership programs each year. Assist 20 employees in qualifying for CRA programs offered by local financial institutions.	Conduct workshops on financing alternatives and credit enhancement. Establish a central clearinghouse to educate employees on available programs, assist with applications, and pre-qualify loan applicants. Conduct outreach for Section 8, public housing, and the rehab loan programs. Develop an electronic bulletin board for housing opportunities. Prepare written materials for education of employees.
"At Risk" Renters	Live outside of Marin County. Likely to leave job due to commute. Commute 30+ minutes	100	Place 10 employees in existing public housing, Section 8, CDBG, and Below Market Rate ownership programs each year. Assist 10 employees in qualifying fro CRA programs offered by local financial institutions.	
"At Risk" Homeowners	Live outside of Marin County Likely to leave due to commute. Commute 30+ minutes	210	Improve employee retention.	Advocate telecommuting, alternative work hours, and satellite offices for "at-risk" employees. Evaluate no-interest loan or equity sharing program to offset cost of housing in Marin verses other counties.
Deputy Sheriffs	80% live outside of Marin. 90% own homes.	65	Improve employee retention.	Evaluate no-interest loan or equity sharing program to offset cost of housing in Marin verses other counties.

Long Range Housing Plan

<table>
<tr><th>Target Group</th><th>Description</th><th># of Employees</th><th>Program Goals</th></tr>
<tr><td>Marin Renters</td><td>Currently in unaffordable housing situations in Marin County.

Full-time status</td><td>200</td><td rowspan="2">Identify and secure funding sources for capital development and loan programs to implement long-range plan.

Resolve legal questions surrounding using In-Lieu Housing Trust Fund for development with preferences or set-asides for County employees.

Develop multi-family housing for 150 employees with projected completion and occupancy in five to seven years.

Housing will require 65% 1 bedroom units, 25% 2 bedroom units, and 10% 3 bedroom units.</td></tr>
<tr><td>“At Risk” Renters</td><td>Live outside of Marin County.

Likely to leave job due to commute.

Commute 30+ minutes</td><td>100</td></tr>
<tr><td>“At Risk” Homeowners</td><td>Live outside of Marin County

Likely to leave due to commute.

Commute 30+ minutes</td><td>210</td><td>No- interest loan or equity sharing program of up to $200,000 for each employee.</td></tr>
<tr><td>Deputy Sheriffs</td><td>80% live outside of Marin.

90% own homes.</td><td>65</td><td>No- interest loan or equity sharing program of up to $200,000 for each employee.</td></tr>
</table>

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