

Virginia Smith Trust Property

Community Benefits Proposal

The Virginia Smith Trust property, once developed, will result in significant community benefits in the form of a significant increase in the Smith Trust Scholarship fund(s). Those benefits are certainly enough to capture the imagination and support of the public and regulators. However, there are additional layers of community benefits that should be considered for the project at this time. These relate to affordable housing, providing incentives to workers on the UC Campus to cement the economic relationship between the VST and UC properties, providing features that reduce environmental impacts, and providing ongoing funding for services and programs that further MCOE's mission.

Affordable Housing/UC Incentives

In the larger scheme, the housing stock in Merced is adequate and affordable. Prices are still somewhat depressed from over-supply and the effects to the Great Recession. Apartments provide an affordable alternative to home ownership. However, it is still believed that programs should be provided to create workforce housing, increase the supply of housing available to UC employees and students, and provide preferences and incentives for individuals who work on campus at UC Merced. There should also be owner-occupancy restrictions in the single-family detached units to eliminate or substantially reduce the potential for converting single family neighborhoods to tracts of investor-owned rental for students (Isla Vista), and a special Workforce Housing Incentive Program should be established (basically a first time homebuyers program) which will provide deed-restricted units for workforce housing eligible households (households earning 121-160% of the Area Median income). This workforce housing program seeks to target the Project to all UC employees, reduce the influence of investors in the limitation of housing choice and availability, provide a down payment assistance program for Workforce Income families, and provide a certain number of units that will be deed-restricted. Finally, VST and its builders will team up with affordable housing providers to provide lots for "sweat equity" self-help housing. The elements of the program are as follows:

1. **Local Preference ("UC Workers First")**. The UC and University Community Plan areas have been planned as an integrated unit for the last 25 years. The hope has always been that the UCP properties, including VST, would provide the residential and commercial support for UC's students and staff. It is known that many of the UC's staff live outside of the community and students are being accommodated inside the City at other locations. These commute trips result in an estimated 17.7 million vehicle miles (VMT) traveled each year by students and staff using passenger cars to and from the university. If VST can capture 35 percent of the current students, and 50% of the current staff, all vehicle trips will be shortened, and there will be a significant shift to non-vehicle modes of transportation resulting in a VMT reduction of approximately 9 million miles per year.

There are obvious benefits to in making sure that UC students and staff are significant elements of the VST project. Realizing the VMT reduction benefits will require incentives to lure existing staff

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and students to the site. Incentives will be established to provide priority for existing UC staff and students as follows:

- a. Each development phase of VST is to maintain the interest list and shall separate and prioritize names of local employees based on interest in product type.
 - b. When product becomes available, usually 270-360 days prior to certificate of occupancy (assuming a 180-day construction period), the builder shall notify those UC staff of the opportunity to purchase a residence starting with the “top of the list.” Those individuals shall have approximately 60 days to get pre-qualified to purchase the residence and to provide the builder with proof that the individual is a UC employee (i.e. paycheck or bonafide offer of employment from a local employer.)
 - c. If an individual fails to get pre-qualified or fails to provide the builder with proof of UC employment within the time periods above, then the builder may remove or put that name at the end of the interest list.
 - d. UC staff and employees shall be provided with an incentive package worth \$5,000, including reductions off base price, option allowances, free bikes for transportation, allowance for closing costs, allowance for upgrades, or similar incentives at the discretion of the builder. This incentive would apply to all UC staff regardless of income.
2. **Owner-Occupancy Restrictions.** Establishing a stable and desirable neighborhood for UC staff will require some segmentation and separation of the student rentals and the ownership units. Builders will agree, with exceptions that are stipulated in the Development Agreement, to include restrictions in the purchase agreement and Covenants Conditions and Restrictions (CC&Rs) for the single family detached units (R-1 and R-2) to restrict these units for owner-occupancy only for the first five years after sale. In the case of units with Accessory Dwelling Units (ADUs), the Principal Dwelling or the ADU will need to be occupied by the property owner. The final form of these agreements will be determined at the time of development of the first final map, and will provide for appropriate monitoring and enforcement.
3. **Workforce Housing Incentive Program (WHIP).** The project will provide ____ deed restricted units, to families in the Workforce Housing category, defined as household incomes of 121% to 160% of Area Median Income (AMI). This program would require that eligible households have incomes no greater than 160% of the then-current Area Median Income (AMI) (Currently estimated at \$____per year) and are income-certified by the local Housing Authority. Prices would be limited to no more than that required to achieve an Index of Affordability (“Index”) of 31 percent (cost of housing including mortgage principal, mortgage interest, taxes and insurance divided by 140% of AMI). The maximum purchase price would be equal to 5.65 times (140% of 4.05 multiplier) the median income for each household size. These units would have to be occupied by an income qualifying Workforce Housing household for a minimum of ten (10) years, with preference to UC staff if legally permitted.

4. **Down Payment Assistance Program.** The project would provide a matching down payment assistance (DPA) of five percent of the purchase price up to \$5,000 as a “silent second” on the initial sale of the five percent of the R-1 and R-2 homes. These units would have to be occupied by a UC staff earning less than Countywide “Moderate Income Limit” for Merced County (currently at \$77,750 or less per year per family), as determined by State HCD. These units would be occupied by a household for a minimum of ten (10) years; if resold within this ten-year period, the units would need to be sold to another income qualifying Workforce Housing buyer and the 10-year deed restriction would reset to 10 more years with the new buyer of the home. The DPA loan would be repaid upon sale of the unit or refinancing, and the proceeds would be placed in a revolving loan fund to assist future workforce, moderate, or lower income home buyers in the VST project. Unlike a reduction in price that would be captured by a future seller at the end of the affordability term, this assistance would continue throughout the life of the funds to assist buyers in the development.
5. **Self Help Housing.** Self-help housing projects are very common in the Central Valley. In contrast to other affordable housing programs, the homes are built under the mutual self-help method of construction where each family is required to contribute a minimum of 40 hours a week working on all the homes for a period of 9 to 12 months. Family hours can be provided by the owners-to-be, any household member 16 years of age or older and approved helpers. Together, families pour foundations, frame homes, install electrical wiring, hang doors and windows and even lay tile and paint. These labor hours, or “sweat equity”, are used as the down payment on their new home, reducing costs for a new home they could otherwise not afford. The project sponsor assists each applicant/builder with securing the loans needed to build their home. Special financing from the U.S. Department of Agriculture and the State of California makes these homes affordable.

Participants choose from standard floor plans. As it could be applied to the VST project, these floor plans would be established by a master builder with the same basic specifications and finish qualities of market rate homes that are constructed by a builder for the balance of the development. The participating families not only work on their own home, but everyone works on every house in the building group and no one moves in until all houses are completed, creating a community bond. Self Help Enterprises, a local non-profit housing provider is currently developing a self-help project in Planada.

There are two product types that would adapt well to this model: the R-2 cluster and the R-1-5 cluster units. Both have “shared” front yards and share driveways that would be compatible with the way the self help housing is constructed. It is possible that a project could focus on and give priority to staff at UC. Qualifying families and participants must have good credit status, stable income from employment and other sources of income, income that does not exceed eligibility guidelines, ability and willingness to meet the labor requirement, and be a permanent resident and a U.S. citizen. These programs are normally focused on the “Lower Income” category, meaning they would focus on families with incomes between \$32,500 and \$42,500 per year.

Community Foundation Contribution

The proceeds from the sale of the property will establish a significant financial scholarship fund to assist college students from Merced. Professional educators know that success in high school, and subsequently in college, is determined by many factors that occur well before a child enters high school, including the availability of cultural enrichment programs, offerings for science, technology, engineering and math, exposure to the “outside world”, field trips to broaden students’ experience and expectations, and other factors. These activities, however, do not qualify for funding under the provisions of the Smith Trust. However, ongoing funding for improvements, services and programs that address this can be funded from a “Community Foundation” that has funding from a contribution from the sale and re-sale of properties in the project.

One example of this approach is the [Clovis Community Foundation](#) that was established by Wathen Castanos Homes. Wathen Castanos established a “Community Benefit Fee” in each of its subdivisions equal to 1/10th of 1% of the sales prices of every home sold or resold. The funds generated by the Community Benefit Fee are intended to create a perpetual source of income to benefit the community. The proceeds are distributed by the Foundation’s Board of Directors to the most deserving quality of life projects to enhance recreation, arts, and culture in the community. In almost every instance the money provided by the Foundation must be matched by the grantee. This ensures that the impact of the Community Benefit Fee is twice as impactful. In short, this program is a way for the builders and subsequent home buyers to reinvest in Clovis by "giving something back by paying it forward." It has created a program that “keeps on giving” well after the completion of the project. [Mark Keppler](#), Chairperson and Executive Director of the Clovis Community Foundation, was consulted in the development of this proposal, and is available to inform VST and the Foundation about organizational, legal and administrative features to set up the Community Benefit Fee.

In the spirit of the original intent of the trust to support educational success, VST could set up a Community Educational Enhancement Fee that would levy a percentage or fixed fee on property sales and resales (including residential and commercial property) equal to 0.25% of the sales price. Since the Merced County Office of Education Foundations programs and objectives align with this kind of activity, the MCOE Foundation could be used and a Foundation a sub-account setup to receive and expend the funds in a manner consistent with the intent of the program. A 0.25% contribution fee would generate approximately \$150,000-\$200,000 per year in the early years of the buildout of the project (2025-2030), with that increasing to over \$500,000 per year after year 10 (2035).