NAPA COUNTY BOARD OF SUPERVISORS
Board Agenda Letter

TO: Board of Supervisors
FROM: Tracy Schulze - Auditor-Controller
      Auditor - Controller
REPORT BY: Alison Mannwieler, Senior Grant Comp Auditor - 707 259-8164
SUBJECT: Proximity Workforce Housing Assistance Program Compliance Review

RECOMMENDATION
Auditor-Controller and Director of Housing and Homeless Services (formally Director of Housing and Intergovernmental Affairs) request the following:

1. The Board accept, and instruct the Clerk of the Board to file, the Compliance Audit Division's Compliance Review Report of the Napa County Proximity Workforce Housing Assistance Program administered by the Department of Housing and Intergovernmental Affairs for the period from January 1, 2014 through December 31, 2018.
2. Discussion and direction on proposed revisions to the Proximity Workforce Housing Assistance Program Guidelines; staff will bring back revised guidelines for approval.

EXECUTIVE SUMMARY
The Compliance Audit Division of the Napa County Auditor-Controller's Office has performed a compliance review of the Proximity Workforce Housing Assistance Program administered by the Department of Housing and Intergovernmental Affairs for the period from January 1, 2014 through December 31, 2018. Acceptance of said compliance review report is requested.

In addition, staff in the County Executive Office is requesting direction on the following recommended changes to the Guidelines:

1. Add to Section 102. Definitions "Proximity Household Size" means the total number of members in the proximity household. Proximity household size shall be verified against the total number of people, including dependents, documented on the IRS Form 1040.
2. Prohibit proximity loans from being given to applicants who already own, and plan to retain, a residential
property for rental income.
3. Limit the applicant's portion of the down payment, including gifts to a maximum of 10% of the purchase price.

PROCEDURAL REQUIREMENTS:

1. Staff Report
2. Public Comment
3. Motion, second, discussion, vote on item

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

In an effort to assist low and moderate income households to purchase a home close to their place of work the Napa County Proximity Workforce Housing Assistance Program ("Program") was established on December 7, 2010. The Program provides down payment assistance in the form of a loan for up to 10% of the purchase price of an eligible home in Napa County within a fifteen mile radius of the applicant's place of work for qualified applicants. Recipients must be employed at least 30 hours per week or a minimum of 1,200 hours per year and have a gross household income which does not exceed one hundred twenty percent (120%) of the area median income. Upon transfer of ownership or a term of 55 years (whichever is sooner), the loan recipient is required to repay to the County the original loan amount plus the "Proximity Housing Share of Appreciation". The recipient may also choose to repay the loan through a refinance of the first mortgage. The Program requirements are detailed in the Napa County Proximity Housing Assistance Guidelines.

The Compliance Audit Division of the Napa County Auditor-Controller’s Office has completed a compliance review of the Proximity Workforce Housing Assistance Program. The time period covered by the review is January 1, 2014 through December 31, 2018. The objectives of the engagement were to determine if recipients of financial assistance from the Program were eligible to receive the loans and whether the documentation requirements of the Program were being met in accordance with the Napa County Proximity Housing Assistance Guidelines.

The Compliance Audit Division reviewed all 95 applicant files maintained by the Department of Housing and Intergovernmental Affairs for this period. As a result of the engagement the following documents were issued:

- Auditor-Controller letter to the Board of Supervisors;
- Attachment A - Compliance Review Report; and
As a result of this audit, program staff concur with the concerns and recommendations of the Napa County Auditor-Controller’s Office. Staff is seeking direction on the recommendations made by the Auditor-Controller, as follows:

1. **Source for Verifying Gross Household Income** - As discussed in the audit report, the maximum Gross Household Income is based on the number of persons in the applicant's household. Currently, there is no guidance specifying how to verify the household number claimed. We noted multiple instances in our review of the loan application files where the number of household members stated on the Program application exceeded the number of dependents shown on the tax return Form 1040 which has the effect of increasing the maximum allowable income. We recommend adding to Section 102 Definitions "'Proximity Household Size' means the total number of members in the proximity household as verified against the total number of people, including dependents, documented on the IRS Form 1040."

2. **Ownership of Other Residential Properties** - The Guidelines only allow for the purchase of a single unit residence. However, they do not address whether a Proximity loan may be given to an applicant who owns another residential property as a source of rental income. We recommend the Guidelines be revised to prohibit Proximity loans from being given to applicants who already own, and plan to retain, other residential property for rental income.

3. **Large Down Payments** - While the Guidelines address the maximum gross household income, they do not address other potential sources of down payments like large gifts. For example, if an applicant meets the income requirements but also receives $100,000 as a gift from a parent, under the current guidelines they are still eligible for the program. For them, the additional down payment assistance from the County would help them purchase a more expensive home. This does not appear consistent with the spirit of the Program which is to help proximity workers who would not otherwise be able to purchase a home in Napa County. The target population for these loans are applicants who do not have access to the financial resources required to purchase a home. We recommend that the Guidelines be revised to limit the applicant's portion of the down payment, including gifts, to a maximum of 10% of the purchase price.

**SUPPORTING DOCUMENTS**

A . Auditor-Controller letter to the Board of Supervisors  
B . Attachment A - Compliance Review Report  
C . Attachment B - Guidelines with Recommendations

CEO Recommendation: Approve  
Reviewed By: Helene Franchi