

BLUE FOLDER ITEM

Blue folder items are additional back up material to administrative reports and/or public comments received after the printing and distribution of the agenda packet for receive and file.

CITY COUNCIL MEETING

January 12, 2021

N.5. DISCUSSION AND POSSIBLE ACTION REGARDING INCLUSIONARY HOUSING ORDINANCE TO DETERMINE PARAMETERS

CONTACT: BRANDY FORBES, COMMUNITY DEVELOPMENT DIRECTOR

- PowerPoint Presentation

Inclusionary Housing Policy Issues City of Redondo Beach

PRESENTED BY: KEYSER MARSTON ASSOCIATES, INC.

JANUARY 12, 2021

Foundational Concepts

- Over 170 jurisdictions in California include an Inclusionary Housing program as one component of their affordable housing strategy. However, Inclusionary Housing can only be expected to fulfill a small part of the unmet need.
- RHNA targets are a good starting point for establishing the income and affordability requirements to be imposed.
- Adoption of an Inclusionary Housing program will help mitigate the State law no net loss requirements.
- The Mello Act provides an Inclusionary Housing option, but it does not define specific standards. Only replacement housing requirements are defined.

Inclusionary Housing Considerations

- The legal standards for implementing an inclusionary housing program are:
 - The requirements cannot be confiscatory; and
 - The requirements cannot deprive an owner of a fair and reasonable return on their investment.
- The strength of the residential real estate market should be assessed and considered in the formulation of goals and objectives.
- As a practical matter, the requirements should balance the interests of property owners and developers against the public benefit created by the production of affordable housing units.

Parameters for the City Council to Establish

- Target income and affordability standards.
- The minimum project size that will trigger the requirements.
- Alternative options to the requirement for on-site production of affordable housing units:
 - In-Lieu Fee Option
 - Off-Site Production Option
 - Rental units to fulfill ownership housing requirements
 - Land dedication
 - Acquisition and substantial rehabilitation of existing rental units.

Inclusionary Housing Program Survey: California Jurisdictions

- Most Inclusionary Housing programs include a threshold project size:
 - Common thresholds range from 3 to 10 units.
 - The average threshold project size in the 65 jurisdiction survey is 8 units.
- Income and affordability requirements vary widely. The majority of surveyed programs impose a 10% to 20% requirement:
 - The thresholds tend to reflect the depth of the affordability being required.
 - The requirements have a disproportionate impact on smaller projects, due to fewer market rate units available to spread the impacts. Sliding scale requirements are sometime used.
- Covenant periods: often 45 years for ownership projects and 55 years for rental projects. Shorter and longer periods are applied in some jurisdictions.

Inclusionary Housing Program Survey: Los Angeles and Orange County Jurisdictions

- Thresholds up to 20 units. Half the programs are 3 or fewer units.
- Inclusionary Housing requirements range from 4% to 30%. Nine out of the 11 have requirements between 10% and 20%.
- Income and affordability covenants fall within the following ranges:
 - Ownership projects: focused on moderate income.
 - Rental projects: focused on very low and low income.
- Common covenant periods: Ownership – 45 to 55 years and Rental – 55 years.
- The programs all include an in-lieu fee option. The fee is generally tied to the affordability gap associated with the requirement. Programs measure several different ways – per market rate unit, per affordable unit, per square foot.

Income and Affordability Categories

- Inclusionary Housing programs tend to set the affordability level for ownership units at the moderate income level. This reflects the fact that higher income households are likely to have more discretionary income to devote to housing costs than lower income households.
- AB 1505, and subsequent HCD guidance, strongly recommend limiting the affordability level on rental units to 80% of AMI:
 - Stricter affordability requirements should not be applied to projects that fulfill the Inclusionary Housing requirements on site within the market rate project.
 - Stricter standards can be applied to an off-site production option.
 - Developers who use the State density bonus will likely propose to fulfill the affordability requirements with very low income units.

In-Lieu Fee Payment Considerations

- Will in-lieu fees be allowed by right, or only under defined circumstances?
Considerations are:
 - Program goals
 - Ownership versus rental projects
 - Project size thresholds
 - Community's views on density
 - City responsibility to implement the affordable housing development.
- Establishing the in-lieu fee payment amounts:
 - Affordability gap methodology
 - A discounted amount to encourage payment of the in-lieu fee
 - A schedule that provides reduced in-lieu fees for small projects.

Other Fulfillment Options for Consideration

- Subdivision of the project site to create an affordable housing parcel.
- Off-site production of affordable units:
 - Tenure
 - Unit comparability
 - Proximity to the market rate project and avoidance of over concentration.
- Land dedication
 - Appropriate sites for fulfilling the market rate project's affordable housing obligations.
 - City responsibility for selecting a developer to provide the affordable housing units.
 - Proximity to the market rate project and avoidance of over concentration.
- Acquisition and substantial rehabilitation of existing rental units:
 - Difficulty in obtaining RHNA credits for the affordable units
 - Displacement of existing tenants

Selection of Parameters: Ownership Housing Projects

Option	Permitted (Yes / No) (By Right / Discretionary)	Income Standard (Very Low, Low or Mod)	Percentage Requirement	Covenant Period (Years)
On-Site Production				
On-Site: Parcel for Apartment Development				
Off-Site: Ownership or Apartment Development				
Acquisition / Rehabilitation				
	Permitted (By Right / Discretionary)	Maximum Project Size		
In-Lieu Fee Payment				
	Permitted (By Right / Discretionary)			
Land Dedication				

Selection of Parameters: Apartment Projects

Option	Permitted (Yes / No) (By Right / Discretionary)	Income Standard (Very Low, Low or Mod)	Percentage Requirement	Covenant Period (Years)
On-Site Production				
Off-Site Production				
Acquisition / Rehabilitation				
	Permitted (By Right / Discretionary)	Maximum Project Size		
In-Lieu Fee Payment				
	Permitted (By Right / Discretionary)			
Land Dedication				

Next Steps

- A financial evaluation will be undertaken to test the parameters established by the City Council and modify as necessary.
- The results of the financial evaluation will be presented to the City Council.
- A policy memorandum will be prepared that includes the guidance provided by the City Council.
- A draft Inclusionary Housing Ordinance will be prepared in conjunction with the City Attorney's office for City Council consideration.

Discussion?
