



# Administrative Report

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N.1., File # 21-2912

Meeting Date: 9/21/2021

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**To:** MAYOR AND CITY COUNCIL

**From:** BRANDY FORBES, COMMUNITY DEVELOPMENT DIRECTOR

## **TITLE**

DISCUSSION AND POSSIBLE ACTION REGARDING INCLUSIONARY HOUSING ORDINANCE TO FINALIZE PARAMETERS BASED ON FINANCIAL ANALYSIS

## **EXECUTIVE SUMMARY**

The City Council has expressed interest in having an Inclusionary Housing Ordinance prepared. City Council approved the contract with Veronica Tam and Associates, Inc. for the preparation of the Housing Element Update and Inclusionary Housing Ordinance at the October 20, 2020 meeting and the contract has since been executed. The contract scope includes subconsultant services by Keyser Marston Associates (KMA) to conduct a financial feasibility analysis for inclusionary housing parameters.

The housing consultant Veronica Tam attended the November 10, 2020 City Council meeting to provide an introduction on the inclusionary housing concept, where she described inclusionary housing program basics, including process and parameters for consideration, and the relationship with the Housing Element and RHNA. As explained at that November 10th meeting, the next step in the process was to set the parameters to be considered in the ordinance. The consultant and subconsultant provided a presentation on the parameter setting to guide the discussion with the City Council and received initial direction on the parameters from City Council on January 12, 2021.

The financial analysis has been completed regarding the initial parameters. This agenda item is to discuss the results and refine the parameters to provide direction on completing the Inclusionary Housing Ordinance.

## **BACKGROUND**

The City of Redondo Beach is preparing to update its current Housing Element for the 2021-2029 planning period, as mandated by State law. Additionally, the City Council has expressed interest in having an Inclusionary Housing Ordinance prepared. Although this type of ordinance is expected to be eligible for a CEQA exemption, there is typically a financial feasibility analysis that accompanies an Inclusionary Housing Ordinance to ensure that the requirements established in the ordinance are justifiable and in accordance with State housing laws. City Council approved the contract with Veronica Tam and Associates, Inc. for the preparation of the Housing Element Update and Inclusionary Housing Ordinance at the October 20, 2020 meeting and the contract has since been executed.

The first step with the consultant was the introductory meeting, which was done at the November 10, 2020 City Council meeting. At that meeting, the housing consultant described inclusionary housing program basics, including process and parameters for consideration, and the relationship with the Housing Element and RHNA. A copy of the presentation from that discussion item is included in the agenda packet.

An additional meeting was held on January 12, 2021 to establish the basic parameters for the subconsultant to evaluate for feasibility. Kathe Head from the subconsultant KMA presented the parameters to be set, such as percentage affordable, level of affordability, in lieu fee amounts, etc. and describe the various ranges and implications for those parameters. A survey of other municipalities that have inclusionary ordinances was included in the January 12<sup>th</sup> agenda packet to demonstrate what the different parameters and ranges are currently being implemented throughout the State, and this information was discussed during the presentation. The goal of that discussion was for City Council to provide the preferred parameters for KMA to evaluate in order to test the feasibility of those levels.

The financial analysis has been completed regarding the initial parameters. The report begins by explaining key legislation and the legal standards for program considerations. It then presents the various parameters to be considered and explains the methodology to determine feasible levels of those parameters. The subconsultant Keyser Marston Associates then did analyses on both ownership and rentals, developing prototypes similar to the types of developments in Redondo Beach to determine recommended parameter levels.

Issues for consideration in finalizing parameters are as follows:

- Inclusionary Housing requirements provide the City with flexibility to establish development standards that the density bonus regulations alone do not provide.
- The Financial Evaluation supports as much as 21% very-low income requirement for apartment projects. However, HCD recommends 15% low income as the most stringent requirement.
- In-lieu fees could be used for a wide array of affordable housing activities, including contributions to homeless shelters, home buyer programs, and rehabilitation loans. The Financial Evaluation indicates that a full affordable unit cannot be supported at 8 and 9 unit project sizes, where in-lieu might be a consideration.

Based on the Financial Evaluation, considering the City Council's initial parameter direction and the evaluation of those parameters in prototype scenarios, the recommendations inclusionary housing requirements are as follows:

- Ownership Housing Development
  - Affordable Housing Percentage Requirement Recommendation
    - 9% moderate income requirement for projects 19 or fewer units
    - 15% moderate income requirements for projects 20 or more units
  - Fulfillment Options
    - The provision of on-site affordable units allocated to the smallest units in the project.
    - Creation of a separate on-site parcel that can be developed with a different

- product type than the market rate project.
  - Off-site development apartments in close proximity to the market rate project.
  - In-lieu fee payment in demonstrated cases of extreme hardship.
- Covenant of one cumulative 45-year period.
- Rental Housing Development
  - Affordable Housing Percentage Requirement
    - 10% moderate income requirement for projects 19 or fewer units
    - 15% low income requirement for projects 20 or more units
  - Fulfillment Options
    - The provision of on-site affordable units allocated on a pro rata basis to the market rate units.
    - Off-site development in close proximity to the market rate project.
    - In-lieu fee payment in demonstrated cases of extreme hardship.
  - Covenant for as long as the property is put to a residential use, with a minimum 55-year term.

This agenda item is to discuss the results/recommendations and refine the parameters to provide direction on completing the Inclusionary Housing Ordinance. Keyser Marston Associates will present the results and advise the City Council through the discussion.

### **COORDINATION**

The Community Development Department collaborated with Veronica Tam and Associates, Inc and Keyser Marston Associates to prepare for this agenda item.

### **FISCAL IMPACT**

The cost associated with the preparation of the Inclusionary Housing Ordinance is included in the current contract for this service with Veronica Tam and Associates, Inc. that was approved by the City Council on October 20, 2020. The funding sources for the preparation of the Inclusionary Housing Ordinance is \$55,250 funded through the General Plan Maintenance Fund.

### **APPROVED BY:**

*Joe Hoefgen, City Manager*

### **ATTACHMENTS**

- Executed Contract with Veronica Tam and Associates, Inc. Approved by City Council October 20, 2020
- Inclusionary Housing Presentation from November 10, 2020 City Council Meeting
- Inclusionary Housing Survey prepared by KMA
- Inclusionary Housing Presentation from January 12, 2021 City Council Meeting
- Inclusionary Housing Financial Evaluation Prepared by Keyser Marston Associates
- Presentation Slides for September 21, 2021 City Council Discussion