Planning Commission Memorandum

CITY OF RIVERSIDE

Community & Economic Development Department **Planning Division**
3900 Main Street, Riverside, CA 92522 | Phone: (951) 826-5371 | **RiversideCA.gov**

PLANNING COMMISSION HEARING DATE: OCTOBER 13, 2022
AGENDA ITEM NO.: 7

SUMMARY

Case Numbers	PR-2022-001391 (Zoning Text Amendment)
Request	Proposal by the City of Riverside to consider Zoning Text Amendments (Proposed Amendments) to Title 19 (Zoning) of the Riverside Municipal Code, including but not limited to Articles VII (Specific Land Use Provisions), VIII (Site Planning and General Development Provisions), IX (Land Use Development Permit Requirements and Procedures) and X (Definitions) of Title 19. The Proposed Amendments establish Chapter 19.535 (Inclusionary Housing) to implement General Plan 2025 Housing Element policies to facilitate the production of housing affordable to very low-, low- and moderate-income households in new residential development projects.
Applicant	City of Riverside, Community and Economic Development Department
Project Location	Citywide
Ward	Citywide
Staff Planner	Matthew Taylor, Acting Principal Planner 951-826-5944 mtaylor@riversideca.gov

RECOMMENDATIONS

That the Planning Commission:

1. **Recommend that the City Council Determine** that Planning Case PR-2022-001391 is exempt from further California Environmental Quality Act (CEQA) review pursuant to Section 15061(b)(3) (General Rule), as it can be seen with certainty that approval of the project will not have an effect on the environment;
2. **Recommend that the City Council Approve** Planning Case PR-2022-001391 (Zoning Text Amendment) as outlined in the staff report and summarized in the Findings section of this report.

BACKGROUND

In recent years, the State of California has identified the shortage of housing, particularly affordable housing, as a legislative priority. A housing shortage negatively impacts the

State's economic competitiveness, contributes to homelessness, and results in long commutes, increasing production of greenhouse gas emissions, air pollution, and poor public health.

A household is considered able to afford its housing if its total housing-related expenses do not exceed 30-35% of its gross income. Affordable housing frequently refers to housing that is priced so that it does not exceed this threshold for households who earn at or below 80% of the Area Median Income (AMI), which in Riverside is $87,400 (2022) for a family of four.

In light of this situation, on May 18, 2021, the City Council authorized hiring a consultant to explore the feasibility of implementing an inclusionary housing policy in the City of Riverside. Inclusionary housing policies typically require a portion of newly constructed residential units to be set aside to be sold or rented to lower- or moderate-income households to increase the availability of affordable housing for all income levels.

Over the past year, City staff and the consultant have studied the feasibility of implementing such a policy in Riverside, with input and direction from the City Council Housing & Homelessness Committee (HHC). On May 23, 2022, the HRC reviewed a draft policy and feasibility analysis (Exhibit 1) and directed staff to develop an ordinance to implement the policy for Planning Commission and City Council consideration.

On August 18, 2022, the Planning Commission held a public hearing on the Proposed Amendments (Exhibit 2) to Title 19 of the Riverside Municipal Code to implement an inclusionary housing program, update the Density Bonus Ordinance and consider clean-up items. Following discussion, the Planning Commission voted to bifurcate the item, continuing discussion of the proposed amendments related to inclusionary housing to a Workshop (Exhibit 3).

Consideration of an inclusionary housing program, including the Proposed Amendments will be presented to the City Council at a future date.

PROPOSAL

The Proposed Amendments include the establishment of Chapter 19.535 (Inclusionary Housing) to implement the proposed inclusionary housing policy as developed by the consultant and recommended by the Housing & Homelessness Committee.

The proposed inclusionary housing program would apply to any development that creates three or more residential units or lots and will include the following requirements:

1. For-sale single family developments (up to a density of 10.9 dwelling units per acre) will include **five percent** of total units at sale prices affordable to **Moderate-Income** households earning up to 110 percent of the AMI.
2. For-sale townhome and condominium developments (densities between 10.9 and 14.5 dwelling units per acre) will include **10 percent** of total units at sale prices affordable to **Low-Income** households earning up to 70 percent AMI.
3. Rental developments of all types will include **10 percent** of total units at rents affordable to **Low-Income** households earning up to 70 percent AMI.

As an alternative to building the required inclusionary units as part of the project, developers may instead elect to build or finance building affordable units off-site. However, this option would require a higher proportion of affordable units – **eight percent** of total units in for-sale single family developments, and **15 percent** of total units in for-sale townhome and condominium developments and rentals.

An additional alternative is the option to pay a fee in lieu of building the affordable units either on- or off-site. In-lieu fees would be assessed in an amount equal to the number of affordable units required if they were to be constructed off-site. Fees would be deposited in a dedicated affordable housing fund managed by the City's Housing Authority to facilitate the construction, acquisition and preservation of affordable housing.

The consultant developed recommended in-lieu fees based on a "full cost recovery" model, calculating the revenue a developer would realize by not setting aside the required proportion of inclusionary units and setting fees at an equivalent amount. **Final in-lieu fee amounts will be set at the discretion of the City Council and may differ significantly from the consultant's recommendations**. For informational purposes only, this analysis is provided in Technical Memorandum prepared by the consultant (Exhibit 4). The consultant's recommended in-lieu fee amounts are summarized as follows:

Project type	In-lieu % (total units)	Savings per inclusionary unit (market-affordable gap)	In-lieu fee per market-rate unit	In-lieu fee per square foot (typical)
For-Sale Single Family	8%	$104,860	**$8,389**	$3.36
For-Sale Townhome/Condo	15%	$156,862	**$23,534**	$15.69
Rental (all types)	15%	$81,784	**$12,268**	$14.43

The proposed Chapter 19.535 also includes requirements and regulations for:

1. Exemptions for destroyed units that are reconstructed and for projects that are in the Planning process at the time the ordinance becomes effective;
2. Minimum duration of affordability restrictions (45 to 55 years);
3. Provisions limiting the resale of for-sale affordable units to income-qualified households or, alternatively, requiring equity sharing arrangements to preserve affordability;
4. Requirements for equitable distribution, size and fixtures and finishes of affordable units compared to market-rate units;
5. Procedures for appealing for an adjustment or waiver of inclusionary requirements, including required inclusionary percentages and in-lieu fee amounts; and
6. Procedures for ensuring ongoing compliance and monitoring of affordability restrictions, administration and enforcement.

PUBLIC OUTREACH AND COMMENT

Details of stakeholder outreach and engagement for the Inclusionary Housing Program can be found in the report to the Housing & Homelessness Committee meeting of February 28, 2022 (Exhibit 5). In addition to monthly updates to the Committee during preparation of the feasibility study, the following stakeholder engagement efforts should be noted:

1. November 5, 2021 – Virtual stakeholder meeting with affordable housing developers and advocates.
2. November 16, 2021 – Virtual stakeholder meeting with market-rate housing developers and businesses.
3. January 12, 2022 – Virtual community webinar.
4. January 25, 2022 – Virtual webinar with the Greater Riverside Chambers of Commerce.
5. June 28, 2022 – Stakeholder meeting with the Greater Riverside Chambers of Commerce Economic Development Council.
6. August 18, 2022 – Planning Commission hearing.

On July 19, 2022, Planning staff also sent an email notification to applicants of record for all ongoing housing development applications with three or more proposed units. This included all applicants with Conceptual Development Review (preliminary) applications processed within the past year. The notice informed them of the proposed Inclusionary Housing Program and invited their participation in upcoming Planning Commission and City Council Hearings.

The program summary that was provided to developers in included as Exhibit 6. Subsequent to the August 18, 2022 Planning Commission hearing, developers were notified of the continuance to the October 13 workshop and encouraged to participate.

ENVIRONMENTAL REVIEW

The Proposed Amendments are exempt from additional California Environmental Quality Act (CEQA) review pursuant to Section 15061(b)(3) of the CEQA guidelines, as it can be seen with certainty that the Proposed Amendments will have no effect on the environment.

FINDINGS

Zoning Code Amendment Findings pursuant to Chapter 19.810.040:

1) The Proposed Amendments and Rezoning are generally consistent with the goals, policies, and objectives of the General Plan including the updated Housing Element;

2) The Proposed Amendments and Rezoning will not adversely affect surrounding properties; and

3) The Proposed Amendments and Rezoning will promote public health, safety, and general welfare and serves the goals and purposes of the Zoning Code.

ENVISION RIVERSIDE 2025 STRATEGIC PLAN ALIGNMENT

The Proposed Amendments align with Strategic Priority No. 2 – Community Well-Being, and more specifically with Goal 2.1 – Facilitate the development of a quality and diverse housing supply that is available and affordable to a wide range of income levels. In addition, the project aligns with the five Cross-Cutting Threads as follows:

1. **Community Trust** – The Proposed Amendment process has included an extensive community and stakeholder engagement process.

2. **Equity** – The Proposed Amendments will expand the availability of affordable housing options for all Riversiders.
3. **Fiscal Responsibility** – The Proposed Amendments create a new stream of revenue for affordable housing projects in the City.
4. **Innovation** – The Proposed Amendments incorporate latest best practices for streamlining and promoting housing development and promote equitable communities.
5. **Sustainability & Resiliency** – The Proposed Amendments promote infill development that will help reduce greenhouse gas emissions by reducing vehicle miles traveled, as well as providing an alternative to greenfield sprawl development.

APPEAL INFORMATION

Actions by the City Planning Commission, including any environmental finding, may be appealed to the City Council within ten calendar days after the decision. Appeal filing and processing information may be obtained from the Planning Department Public Information Section, 3rd Floor, City Hall.

EXHIBITS LIST

1. Council Housing & Homelessness Committee Report – May 23, 2022
2. Proposed Title 19 Amendments
3. City Planning Commission Minutes – August 18, 2022
4. Technical Memorandum – Inclusionary Housing In-Lieu Fee Analysis
5. Housing & Homelessness Committee meeting of February 28, 2022
6. Inclusionary Housing Program Summary - Developers

Prepared by: Matthew Taylor, Acting Principal Planner
Approved by: Mary Kopaskie-Brown, City Planner

Housing and Homelessness Committee Memorandum

City of Arts & Innovation

TO: HOUSING AND HOMELESSNESS COMMITTEE MEMBERS **DATE: MAY 23, 2022**

FROM: OFFICE OF HOMELESS SOLUTIONS **WARDS: ALL**

SUBJECT: UPDATE ON CITY OF RIVERSIDE INCLUSIONARY HOUSING PROGRAM FEASIBILITY STUDY

ISSUE:

Receive an update related to the City of Riverside Inclusionary Housing Program study and preliminary recommendations for elements of a potential inclusionary housing ordinance.

RECOMMENDATIONS:

That the Housing and Homelessness Committee:

1. Receive an update on the Inclusionary Housing Program Study for the City of Riverside, including preliminary recommendations on elements of a potential inclusionary housing ordinance; and

2. Provide direction on the recommendations listed in Attachment 4 to be included in an Inclusionary Housing Ordinance to be considered by the City Council.

BACKGROUND:

In recent years, the State of California has identified the shortage of housing, particularly affordable housing, as a legislative priority. A housing shortage impacts the State's economy, contributes to homelessness, and results in long commutes, increasing production of greenhouse gas emissions, air pollution, and poor public health. Affordable housing is defined as rent/utilities or mortgage/taxes/insurance/utilities that cost 30% or less of the gross household income and are available to persons who earn at or below 80% of the Area Median Income (or $63,200 for a family of four in 2021). The State further delineates affordability levels for “low-income” households, earning between 50% and 80% of the Area Median Income; and for “very-low income” households, earning between 30% and 50% of the Area Median Income. The State also defines households earning “moderate incomes,” between 80% and 120% of Area Median Income.

Facing a rise in local rents and housing costs, a steady rise in homelessness, and a decrease in homeownership associated with the high cost of housing, on May 18, 2021, the City Council and Housing Authority Board authorized the award of an Agreement with Economic & Planning

Systems, Inc., (EPS) to explore the possibility of implementing an inclusionary housing policy in the City of Riverside.

By definition, inclusionary housing policies are local policies that could require developers to sell or rent a percentage of new residential units to lower-income residents or pay an in-lieu fee to support the development of such units. To offset the cost of providing affordable housing in all new projects, an Inclusionary Housing Program can offer incentives to developers in the form of zoning concessions such as reduced parking, density bonuses, or tax abatements. Developers can also be given an option to choose an alternative to providing the affordable units in the form of in-lieu fees or providing affordable units at an alternate location. Inclusionary Housing Programs can include both for-sale and rental units and are often implemented through the jurisdiction' s zoning code.

On September 28, 2021, City staff and EPS presented to the Housing and Homelessness Committee the initial analysis of the development feasibility impacts of a range of inclusionary policy alternatives on new market-rate residential development. At that meeting, the Committee directed Housing Authority staff and EPS to proceed with the next steps of the study, including stakeholder and community outreach.

On February 28, 2022, City staff and EPS presented to the Housing and Homelessness Committee on refined analysis of development feasibility impacts of a range of inclusionary policy alternatives on new market-rate residential development, as well as stakeholder outreach undertaken as part of the study effort. City staff and EPS provided the Housing and Homelessness Committee with recommendations for a potential inclusionary housing requirement for the City. At the meeting, the Committee provided guidance on several elements of a potential inclusionary housing program and directed City staff and EPS to develop a draft inclusionary housing policy for Committee consideration and discussion.

DISCUSSION:

Nexus Study

At the City's request, EPS has prepared a nexus study that illustrates the impact that new market-rate housing can have on the need for affordable housing. The relationship is based on the idea that the occupants of new housing units in Riverside will require goods and services, and the number of employees needed to provide those goods and services can be expected to grow accordingly. Based on the typical incomes of workers in the retail and service industries, many workers will qualify for housing at moderate- or lower-income pricing. The scale of this increased demand will be affected by the incomes of the occupants of the new market-rate housing units, because higher-income households tend to spend more, creating more service industry jobs than available workers.

Using prevailing market-rate pricing for apartments, single-family attached homes (or townhomes), and single-family detached homes in Riverside, EPS estimated the incomes required to rent or purchase such units, and then applied consumer expenditure survey data to those income levels to estimate the new household spending and therefore revenues that would be expected in different types of businesses. EPS then used established industry-specific ratios of revenues to wages to estimate the number of employees that would be added in the local economy.

Not every employee will form a unique household, as many will live with another working adult and others at younger ages may be expected to still live with their parents, so the number of new households attributed to this new spending is well below the number of new employees. The estimated incomes of those new employee-based households determine the proportion of affordable housing demand that can be attributed to new market-rate housing growth.

For example, a household buying a typical new single-family detached home in Riverside is likely to earn about $129,000 based on the average home price of $625,000. That same household can be expected to spend about $6,600 annually eating at restaurants ("food away from home"), so 1,000 such households (scaled up to make the math more understandable) would spend about $6.6 million in that category. That spending would support roughly 95.4 workers in "food services and drinking places," and those workers can be expected to form roughly 41.7 households that would qualify as "low income." Similar relationships in other spending categories determine the aggregate impact that the typical new homebuying households are likely to have on demand for affordable housing in Riverside.

The inclusionary housing nexus study supports the following inclusionary requirements:

- *Multifamily*: 12.6% total, including 8.0% of units affordable to low-income households and 4.6% of units affordable to moderate-income households

- *High-Density/Attached Single Family (e.g., Townhomes)*: 10.6% total (rounded), including 6.4% of units affordable to low-income households and 4.3% of units affordable to moderate-income households

- *Low-Density/Detached Single Family*: – 14.4% total, including 9.1% of units affordable to low-income households and 5.3% of units affordable to moderate-income households

The nexus study further details and informs discussions regarding the appropriate proportions and income levels for the inclusionary housing ordinance.

If the City moves forward with an Inclusionary Housing Ordinance, these inclusionary requirements would be codified in Title 19 – Zoning. However, there is no legal obligation for the City to constrain itself to the results of the nexus study, as inclusionary housing ordinances have not been subject to the requirements of the Mitigation Fee Act and are authorized and recognized by State and case law as an allowable expression of the City's "police powers" to regulate development in the public interest.

Inclusionary Housing Ordinance Elements
EPS and City staff have been collaborating on a draft inclusionary housing ordinance for consideration by the Planning Commission and City Council. There are several elements of the ordinance that require additional decisions by the Committee, as detailed below:

1. Inclusionary Requirements

Decision Point: What will be the inclusionary requirements (percentage of unit, affordability level) be for different residential development types?

Options: EPS's feasibility analysis looked at four types of residential products: low-density single-family, high-density single-family (aka townhomes), mid-density multifamily, and high-density multifamily. The feasibility analysis was conducted at a variety of inclusionary percentage and affordability levels (see Attachment 1, Figures 1-3), which indicated that multifamily rental and higher-density single-family attached projects (e.g., townhomes) are more likely to be able to support inclusionary units than are lower-density single-family detached projects

EPS also looked at the inclusionary requirements of other cities in and around the Inland Empire, as illustrated in Attachment 2, Figures 4 and 5.

The City can adopt any mix of percentages and levels desired, including those not analyzed by EPS, but the ordinance may be subject to review by the California Department of Housing and Community Development (HCD) if the inclusionary standards exceed 15% of units at low income.

Recommendation: Based on EPS's market and development feasibility analysis, the following recommended inclusionary requirements were provided at the February 28, 2022 Housing and Homelessness Committee Meeting:

Development Type	% of Units	Affordability Level
Multifamily	10%	Low-income 70% of Area Median Income (AMI)
High-Density Single Family (e.g., Townhome)	10%	Low-income 70% of AMI
Low-Density Single-Family	5%	Moderate-income 110% of AMI

**These requirements would automatically qualify projects for use of State density bonus*

These suggested levels are also within the demand-based parameters established through the nexus study. At these levels, Riverside's inclusionary standards would generally fall within the range of other Southern California jurisdictions surveyed but would be on the lower/less aggressive end of that range.

2. Exemptions to Inclusionary Housing Requirement

Decision Point: Should there be projects that are exempt from the inclusionary housing requirement?

Options: Many cities exempt new residential projects under a certain unit size from inclusionary housing requirements. For example, in the City of Pomona, projects with fewer than three (3) dwelling units are exempt from inclusionary housing requirements. Other cities exempt projects with fewer than six units, or fewer than ten units. Depending on the adopted inclusionary housing percentage, smaller projects may only be required to provide a fraction of a unit; in this case, many cities allow the project to pay an in-lieu fee on the fractional unit required.

It is also common to exempt projects that are at a certain stage in the development process at the time of adoption of the inclusionary housing ordinance, in recognition that the developer was not able to factor the requirement into their financial considerations before submittal. For example, the City may exempt any project that has submitted a complete application by the time of adoption or other effective date, and only any new application after that time would be subject to the requirement.

Recommendations:

1. Exempt residential projects with fewer than three units from the inclusionary housing requirement.
2. Exempt residential projects that have submitted a complete application (i.e., the project is ready to be considered by the approval authority) by the effective date of the inclusionary housing ordinance.

3. Affordability Term

Decision Point: What is the minimum term (in years) of affordability for affordable units?

Options: Most inclusionary programs set a minimum amount of time that affordable units must stay affordable. Some options for these terms include:

- For rental units, a typical affordability term is 55 years including in State density bonus law, although some cities have longer terms.
- For for-sale units, there are several options:
  - The City can set an affordability term – for example, 45 years, which is the standard in State density bonus law – and limit the re-sale of the unit to income-qualified households for the duration of that term
  - The City can set the affordability term to renew each time the unit is sold.
  - The City can decline to set an affordability term, but rather require an "equity sharing agreement" on the unit. This would allow the income-qualified buyer to sell the unit at market rate. However, the City would recoup some portion of the sale price, which could be reinvested into new affordable housing. The benefit of this approach is that it allows lower-income households to benefit from building equity in the unit. The drawback is that once the unit is sold, it is no longer part of the City's affordable housing stock and the City's share of the equity from the unit's resale may be inadequate to subsidize that unit's replacement.

Recommendation: Set an affordability term of 55 years for rental units and 45 years for for-sale units. This approach aligns with State density bonus law.

4. Size of Affordable Housing Units

Decision Point: Can required affordable housing units be smaller than market-rate units?

Options: The Housing and Homelessness Committee provided direction that inclusionary housing affordable units should be similar to market-rate units in terms of finishes, features, and access to amenities. Many cities have similar requirements but do allow for developers to build affordable units that are slightly smaller (e.g., 10 percent smaller) than the average market-rate unit. For example, this flexibility is allowed in the inclusionary housing ordinances in the cities of Pomona and South Pasadena.

Recommendation: For multifamily rental projects, require on-site or off-site affordable units to reflect the mix of market-rate units (e.g., same proportion of one-bedrooms, two-bedrooms, etc.) and have net leasable areas of at least 90 percent of the average size of the market-rate units of similar bedroom counts.

5. For-Sale Projects Meeting Requirement with Affordable Housing Rental Units

Decision Point: Can for-sale projects meet their inclusionary housing requirement by developing affordable housing rental units?

Options: Under the premise that rental multifamily units may be the most cost-effective format for providing affordable housing, some cities allow developers of for-sale single-family residential projects to meet their inclusionary requirement by building affordable rental units, either on the same site as the market-rate project or elsewhere in the City. Both the cities of South Pasadena and Pomona provide this option.

If this option is used, the City can require that the number of affordable rental units is equal to the number of affordable for-sale units that the developer would have been required to build; or they can require that the number of affordable rental bedrooms is equal to the numbers of affordable for-sale bedrooms that the developer would have been required to build if they had built units similar to the market-rate units. For example, if a for-sale project includes 100 four-bedroom homes, and the inclusionary requirement is 10%, the project would be required to provide 10 affordable units. If they are built as four-bedroom homes, that would equal 40 affordable bedrooms. If the developer built affordable rental units instead, they could be required to build 40 affordable bedrooms in any configuration (e.g., 20 two-bedroom rental units or 40 one-bedroom units), rather than 10 affordable four-bedroom rental units.

Recommendation: Allow for-sale projects to meet their inclusionary requirement by building affordable rental units on the same site as the market-rate project or elsewhere in the City within reasonable proximity of the primary project (see below). Allow the requirement to be met by providing the required number of affordable bedrooms in any configuration, rather than the required number of units similar in size to the market-rate units.

6. Off-Site Affordable Housing Units

Decision Point: Can residential projects meet their inclusionary housing requirement by providing affordable housing units off-site?

Options: Some cities allow developers to meet their inclusionary requirement by building affordable units elsewhere in the City, rather than as part of the market-rate project. In some cases, the inclusionary requirement is higher if the units are built off-site. For instance, the City of Pomona requires that 13 percent of units are affordable to moderate-income households if built as part of the market-rate project, but if the affordable units are built off-site, the number of affordable units must be equivalent to 15 percent of the market-rate units and must be affordable to low-income households.

Some cities also require that the off-site affordable units be within a maximum distance from the market-rate project (e.g., within two miles), and that the off-site affordable units cannot be built in an area with an “overconcentration” of existing affordable units. For example, the City of Pomona’s inclusionary housing ordinance specifies that “The inclusionary units shall not create an overconcentration of deed restricted affordable housing units in any specific neighborhood. For purposes of this section, “overconcentration” is defined as more than 50 deed restricted very low or low-income dwelling units within ¼ mile of the site of the proposed inclusionary units, or more than 200 of such units within ½ mile of the site of the proposed inclusionary units.

Recommendation: Allow developers to meet their inclusionary housing requirement by providing affordable housing units off-site. Require that the number of off-site affordable housing units be equivalent to a higher proportion of the market-rate units than if the inclusionary requirement is met on-site. Define a maximum distance from the market-rate project site for the off-site affordable units. Develop a definition of overconcentration and restrict the development of off-site affordable units to prevent overconcentration of these units.

7. In-Lieu Fee

Decision Point: Are there any limitations on when a project can pay an in-lieu fee instead of providing on-site or off-site affordable housing units?

Options: The City is required to provide alternative means of compliance with the inclusionary housing requirement. An in-lieu fee is a common alternative means, and EPS has calculated the in-lieu fees that would be aligned with the recommended inclusionary requirements (and can re-calculate depending on the requirements adopted). While some cities allow for any residential market-rate project to pay an in-lieu fee instead of providing affordable units, others place limitations on when an in-lieu fee can be paid. Some common limitations include:

- In-lieu fee can only be paid on fractional required affordable units (e.g., a 12-unit project with a 10% requirement would build one affordable unit and pay the in-lieu fee on the additional 0.2 required units).
- In-lieu fee can only be paid by projects of a particular size (e.g., smaller than certain number of units) or particular type (e.g., only for-sale projects or only rental projects)

The City also has the discretion to set the in-lieu fee at a level that would incentivize the development of affordable units rather than payment of the fee. For example, the on-site inclusionary requirement could be 10% of units at low income, but the off-site requirement and in-lieu fee could be calculated to reflect 12% of units at low income.

During the stakeholder outreach with market-rate and affordable housing developers alike, there was significant interest in allowing in-lieu fees liberally. The market-rate developers believed that fee payments would be less financially onerous, and affordable housing developers indicated that such fees could provide much-needed local matching funds to support their overall financing efforts. However, the City would need to weigh this interest in fee generation with the trade-offs of not having affordable units built at the same time and in the same locations as the market-rate units paying the fees.

Recommendation: Allow payment of an in-lieu fee only for fractional units required for multifamily and townhome projects but allow in-lieu fees for all inclusionary housing units required for single-family detached projects of any size.

8. Other Alternative Means of Compliance

Decision Point: What other alternative means of compliance will the City allow?

Options: In addition to the in-lieu fee, other common alternative means of compliance include:

- Land dedication, often within a certain distance of the market-rate project;
- Acquisition and rehabilitation of existing units to be rented or sold at affordable levels; and/or
- Extension of affordability covenants on existing affordable units.

These alternative means are often allowed on a discretionary basis, to be determined by the City Council or other body. The deliberation to accept or reject such alternative means frequently involves both qualitative and quantitative considerations, ultimately resulting in a determination that the alternative means equals or exceeds the “value” of the standard inclusionary requirement. In this case, the perceived “value” can be based on the number of affordable units, their income levels, the ability to provide affordable units for underserved populations or neighborhoods, the challenges of replacing existing lower-priced units, etc. However, as a discretionary action rather than a prescribed formula, it can be difficult for developers to predict what alternatives will and will not be accepted, introducing risk and uncertainty as well as the potential perception of arbitrary decision-making.

Recommendation
Allow developers to propose an alternative means of compliance, subject to Council findings that the alternative provides equal or greater value relative to the standard inclusionary requirements.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 2: Community Well-Being** and **Goal No. 2.1** - Facilitate the development of a quality and diverse housing supply that is available and affordable to a wide range of income levels.

This item aligns with each of the five Cross -Cutting Threads as follows:

1. **Community Trust** — The initiative to explore an inclusionary policy merges best practices in policy development with intensive outreach and communication with both the development community and public to be transparent and make decisions based on sound policy, and inclusive community engagement based on timely and reliable information.

2. **Equity** — Inclusionary Housing promotes the integration of affordable housing into the City's market rate stock which allows people of different races, backgrounds, and economic circumstances to live throughout Riverside, lessening the concentration of poverty and broadening the experiences of those who live in affordable/ market mixed units.

3. **Fiscal Responsibility** — By tapping local development resources to ensure a balanced housing market, Riverside is a prudent steward of public funds and ensures responsible management of the City' s financial resources while providing quality of life to all residents.

4. **Innovation** — Exploring inclusionary housing potentially creates a development tool to address changing needs and prepares for the future through collaborative partnerships and adaptive processes in consultation with the public and development community.

5. **Sustainability & Resiliency** — By creating a balanced housing market, Riverside is ensuring a balanced economy that serves all income levels of city residents but does not sacrifice growth.

FISCAL IMPACT:

There is no fiscal impact associated with the report.

Prepared by:	Michelle Davis, Housing Authority Manager
Certified as to Availability of funds:	Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/Treasurer
Approved by:	Lea Deesing, Assistant City Manager
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:
1. Feasibility Analysis

2. Sample of Inclusionary Housing Standards
3. Nexus Study
4. Committee Recommendation
5. Presentation

Chapter 19.535. INCLUSIONARY HOUSING

19.535.010 Purpose and intent.

The purpose of this Chapter include:

A. To ensure the development and availability of decent housing to a broad range of households of varying income levels throughout the City.

B. To add affordable housing units to the City's housing stock.

C. To ensure the long-term affordability of units and availability for income-eligible households.

D. To ensure that the public and private sector partner in providing affordable housing for current and future residents of the City.

E. To integrate housing units for all income levels in new multi-family housing development and disperse units throughout the City so as not to segregate affordable housing.

19.535.020 Exemptions.

The requirements of this Chapter do not apply to:

A. Residential development projects resulting in the construction of one (1) or two (2) housing units and residential subdivisions resulting in two (2) lots.

B. The reconstruction of any structures that have been destroyed by fire, flood, earthquake or other act of nature provided that the reconstruction of the site does not increase the number of residential units by three or more.

C. Residential building additions, repairs or remodels provided that such work does not increase the number of existing units by three or more.

D. Residential development projects that have submitted all required application materials for land use entitlement(s), provided that those applications have been accepted for review by the City as of the effective date of this article or December 31, 2022, whichever is earlier.

19.535.030 Inclusionary requirements.

Any residential development project or parcel map that includes three (3) or more dwelling units shall provide affordable units as defined in this Section.

A. For the purposes of determining inclusionary housing requirements pursuant to this Chapter, the following income limits, as published and periodically updated for Riverside County by the State Department of Housing and Community Development, shall apply:

1. Very Low-Income – household income shall not exceed fifty percent (50%) of the area median income (AMI).

2. Low-Income – household income shall not exceed seventy percent (70%) of the AMI.

3. Moderate-Income – household income shall not exceed one hundred ten percent (110%) of the AMI.

B. **For-sale dwelling units**. Residential development projects that include for-sale dwelling units shall provide affordable units as follows:

1. Within the boundaries of residential development project.

a. In all low-density residential development projects, five (5) percent of the total number of dwelling units shall be sold at an affordable sale price for moderate-income households.

b. In all moderate-density or high-density dwelling unit developments:

   i. Ten (10) percent of the total number of dwelling units shall be sold at an affordable sale price for low-income households.

   ii. If any development was developed with the intent to rent the dwelling units and is converted to for-sale, inclusionary requirements for rental dwelling units shall apply.

c. The aforementioned affordability requirements shall apply to vacant development parcels resulting from the subdivision of land by a parcel or tentative and final map.

2. Outside the boundaries of residential development project.

   a. For all low-density residential development projects outside the market-rate development boundaries, eight (8) percent of the total number of dwelling units shall be sold at an affordable sale price for moderate-income households.

   b. For all moderate-density or high-density residential development projects, fifteen (15) percent of the total number of dwelling units shall be sold at an affordable sale price for low-income households.

C. **Rental dwelling units**. Residential development projects that include rental dwelling units shall provide inclusionary units as follows:

   1. Within the boundaries of residential development project, regardless of density, ten (10) percent of the total number of dwelling units shall be rented at an affordable rent for low-income households

   2. Outside the boundaries of residential development project, regardless of density, fifteen (15) percent of the total number of dwelling units shall be rented at an affordable rent for low-income households.

   3. The developer may, at its discretion, provide the required inclusionary units at an affordable rent for very low-income and low-income households.

D. Additional Requirements.

   1. Any additional market-rate units that are allowed per Chapter 19.545 – Density Bonus will not be included in the unit count used to calculate a project’s Inclusionary Housing requirements.

   2. Fractional housing units or parcels shall pay an in-lieu fee in the amount determined pursuant to 19.535.080.

   3. When a residential development project includes a combination of differing densities and/or tenure types (for-sale or rental) the required number of units by income level shall first be calculated for each category of dwelling units individually and then combined to determine the total inclusionary housing requirement.

19.535.040 Duration of affordability.

A. For-Sale Inclusionary Units.

   1. Units must be legally restricted as for-sale and occupied by households of the income levels for which the units were designated for a term of not less than 55 years.

   2. During that legally restricted term:

      a. The units may be sold and resold to households of the income levels for which the units were designated at an affordable sales price for those households; or

      b. The sale shall be subject to an equity reimbursement requirement pursuant to this Chapter.

B. Rental Inclusionary Units.

1. Units must be legally restricted as rental and occupied by households in the income level for which the units are developed for a term of not less than 55 years.
2. Units developed on property owned by the City, and leased to a residential developer, must be legally restricted as rental and occupied by households in the income level for which the units were developed for the duration of the land lease term.

C. To ensure compliance with the duration requirement, an Affordable Housing Agreement and, if applicable, a Resale Restriction Agreement shall be recorded for every inclusionary unit as prescribed by the City.

19.535.050 Development standards.

A. All Inclusionary units – On-site – Unless otherwise specified by the City Council, inclusionary units shall be developed and incorporated in the residential development project in a manner consistent with the following requirements:

1. Location.
    a. Inclusionary units shall be integrated throughout a residential development project and not clustered in a specific portion of the development.
    b. The location of the inclusionary units within a residential development project shall be designated before issuance of building permits for the development.
2. The bedroom mix for the inclusionary units must be proportional to the bedroom mix of the market rate units.
3. The floor area of inclusionary units may be up to 10 percent smaller than the market-rate units in the project.
4. The interior finishes, features, and appliance packages must be comparable to the base level interior finishes for the market-rate units.
5. For-sale inclusionary units shall provide comparable infrastructure services (including sewer, water and other utilities), construction quality and exterior design to the market-rate units.
6. Residents and tenants of affordable units shall be provided the same rights and access to common amenities as residents and tenants occupying market-rate units.
7. Construction Timing.
    a. The inclusionary units shall be built concurrently with the market rate units in the residential development project.
    b. The inclusionary units may be constructed in phases if the market rate units are constructed in phases, provided that the percentage of inclusionary units is equivalent to or greater than the percentage of market rate units during each phase.

B. Inclusionary units outside the boundary of residential development projects – Unless otherwise specified by the City Council, inclusionary units constructed outside the boundaries of the market-rate residential development project shall comply with the following requirements:

1. The developer of the market-rate residential development project may enter into an agreement with an affordable housing developer to construct, own and operate the inclusionary units, subject to the following requirements:
    a. The affordable housing developer:
        i. Must provide support information for similar projects/experience within the last 3-5 years developing affordable housing.
        ii. Shall be responsible for all financing all inclusionary units.

b. A market-rate residential development project that satisfies its inclusionary requirement with off-site inclusionary units shall not be eligible for a density bonus, concessions, incentives or waivers pursuant to Chapter 19.545 – Density Bonus.

c. The inclusionary units constructed outside the boundary of the market-rate residential development project to satisfy the inclusionary requirement shall be eligible for a density bonus pursuant to 19.545.

d. All discretionary approvals and financing for the inclusionary units must be secured prior to the market-rate, for-sale component commencing construction.

2. All units developed outside the boundaries of the residential development project must be constructed within the same Ward of the City as the market-rate residential development project.

3. The inclusionary units shall not create an over-concentration as follows:

a. No more than 100 deed restricted very low- or low-income dwelling units within 500 feet of the proposed inclusionary units; or

b. No more than 400 deed restricted very low- or low-income dwelling units within 1500 feet of the proposed inclusionary units.

4. The bedroom mix for the inclusionary units must be proportional to the bedroom mix of the market rate project.

5. The floor area of inclusionary units may be up to 10 percent smaller than the units in the market-rate project.

6. The interior finishes, features, appliance packages, and infrastructure services for inclusionary units shall comply with the standards established or approved by the California Tax Credit Allocation Committee for residential units developed pursuant to the federal low-income housing tax credit program.

19.535.070 Marketing inclusionary units.

A. The developer must market the inclusionary units to eligible residents of the City of Riverside.

B. Marketing includes, at a minimum, the following:

1. Notifying local government and nonprofit agencies serving income-qualified households in the City of Riverside, as identified by the City, of the availability of affordable units no later than 90 days after the issuance of building permits.

2. Placing a sign on the property advertising the availability of the affordable units including contact information.

3. Advertising the availability of the affordable units on social media outlets and local newspapers in multiple languages.

19.535.080 In-Lieu Fee Alternative.

A. As an alternative to constructing inclusionary units as required by this Chapter, all or a portion of the inclusionary housing requirement may be fulfilled through the payment of in-lieu fees, pursuant to the fee schedule adopted by the City Council.

B. The in-lieu fees shall be based on the percentage of affordable units required if the inclusionary units were provided outside the boundaries of the market-rate residential development project, pursuant to 19.535.030.

C. Calculation of Fees.

1. In-lieu fees shall be paid for any fractional inclusionary unit based on the calculation of the required number of inclusionary units.

2. The developer may voluntarily commit to round the fractional inclusionary unit up to the next whole unit for the in-lieu fee.

D. Payment of Fees.

1. The required in-lieu fees shall be paid at the issuance of the first building permit for the residential development project.

2. For phased projects, the developer may pay a pro rata share of the in-lieu fee, based on both the number of phases and units in each phase, at the issuance of the first building permit for each phase of the residential development project.

E. All collected in-lieu fees for inclusionary housing units shall be deposited in the Inclusionary Housing Fund pursuant to 19.535.130.

19.535.090 Requirements For Selling For-Sale Inclusionary Units.

A. The initial sales price, and any resale price, will be at an affordable sales price for the income level for which the units are designated for the duration of affordability per 19.535.040.

B. At the time of sale, the City will determine the Initial Equity for the unit, which will equal the difference between the Fair Market Value of the unit as determined by an FHA-style appraisal and the affordable sales price.

C. A Resale Restriction Agreement must be entered into for any change of ownership maintaining the household income restriction for the duration of affordability per 19.535.040.

D. All for-sale inclusionary units are subject to the following:

1. The person that purchases the inclusionary unit, owner, shall use and occupy it as their principal/primary dwelling.

2. The owner is expressly prohibited from leasing or renting the inclusionary unit unless the City has given prior written consent to such lease or rental on the basis of a demonstrated hardship by the owner.

3. Certificate of Continued Occupancy.

a. A Certificate of Continued Occupancy shall be submitted annually to the City on a City-provided form.

b. Default.

i. If the owner fails to submit the annual report in as required, notice will be given by the City of Riverside.

ii. If within 30-days after receiving the notice from the City, a Certificate of Continued Occupancy is not submitted, the owner will receive a second notice.

iii. If within 30-days after receiving the second notice from the City, a Certificate of Continued Occupancy is not submitted, the matter will be referred to the City Attorney's Office.

E. Initial Equity Reimbursements.

1. If the owner plans to sell the inclusionary unit during the duration of affordability, and the potential owner's household income exceeds the income level, and/or at a price that exceeds the affordable housing cost for which the units are designated, the owner shall pay to the City a percentage of the Initial Equity as calculated per this Chapter.

2. The percentage of the Initial Equity to be paid to the City shall be determined as follows:

a. Between years 0 and 10, 100%;

b. Between years 11 and 20, 80%;

c. Between years 21 and 30, 60%;

d. Between years 31 and 40, 40%;

e. Between years 41 and 50, 20%; and

f. Between years 51 and 55, 10%.

3. No percentage of the Initial Equity shall be required for any sale occurring after the duration of affordability.

19.535.100 Requirements for Occupancy of Inclusionary Rental Units.

A. All rental inclusionary units shall be rented to households in the appropriate income category for the inclusionary units.

B. The developer shall designate and offer rental inclusionary units for-rent to households in the appropriate income category, based on the approved Inclusionary Housing Plan.

C. The maximum allowable rent of inclusionary units will be based on the applicable income levels for the inclusionary units.

D. Annual report.

1. The owner of the rental property shall submit an annual report to the City on a City-provided form.

2. The annual report shall include the following:

a. A summary of documents reviewed by the owner for each inclusionary unit that demonstrate the prospective renter's total income (such as income tax returns or W-2s for the previous calendar year).

b. The occupancy of each rental inclusionary unit for the year.

3. Default

a. If the owner of the rental property fails to submit the annual report in as required, notice will be given by the City of Riverside.

b. If within 30-days after receiving the notice from the City, an annual report is not submitted, the owner will receive a second notice.

c. If within 30-days after receiving the second notice from the City, an annual report is not submitted, the matter will be referred to the City Attorney's Office.

19.535.110 Adjustments or Waivers to Inclusionary Requirements.

A. Any developer must apply for an adjustment or waiver of these requirements with their application for any discretionary or ministerial permit for the residential development project.

B. Reasons for Adjustments or Waivers.

1. The requirements of the Chapter may be adjusted or waived if the applicant demonstrates that applying the requirement would take property in violation of the United States or California Constitutions.

a. If the City Manager, or his/her designee, determines that applying the requirements of this Chapter, including any variances or regulatory concessions/incentives would take property in violation of the United States or California Constitutions, the requirements of this program may be modified, adjusted or waived to reduce the obligations to the extent necessary to avoid an unconstitutional result.

b. If the City Manager, or his/her designee, determines no violation of the United States or California Constitutions would occur through application of this Chapter, the requirements remain applicable.

2. The City Manager, or his/her designee, shall review any requests for an adjustment or waiver application and issue a written decision.

C. In making the (adjustment or waiver) determination, the City Manager or City Council, as applicable shall assume each of the following:

a. Application of the inclusionary housing requirement to the residential development project;

b. Application of any applicable inclusionary or density bonus concessions, incentives or waivers;

c. Utilization of the most cost-efficient product type for the inclusionary units; and

d. The potential for the external funding, including but not limited to, governmental grants, loans, or subsidies of any nature where reasonably likely to occur.

19.535.120 Appeals of City Manager Decisions on Inclusionary Requirements.

A. The decision of the City Manager, or his/her designee, may be appealed by submitting, in writing, the basis for the appeal.

B. The appeal shall be submitted to the City Clerk within ten (10) days of receipt of the decision.

C. The City Council shall hear the appeal at a time agreed by the appellant and the City.

D. The decision of City Council's decision shall be final.

19.535.120 Compliance Requirements and Procedures.

E. Inclusionary Housing Plan.

1. As part of any application for residential development projects, an Inclusionary Housing Plan shall be required for all residential development projects subject to this Chapter as prescribed by the City.

2. The Inclusionary Housing Plan shall be approved concurrently with the residential development project application and shall include the following:

a. Project specifics.

i. Description of the residential development project including the number of for-sale or rental units.

ii. Methods to meet the inclusionary housing requirements.

iii. The number, unit type, tenure, number of bedrooms, approximate location, size and design, construction and completion schedule of all inclusionary units.

iv. Compliance with all outside the boundary requirements for the residential development project.

v. If applicable, phasing plans including the relationship of construction timing for inclusionary units and market rate units.

vi. If applicable, the in-lieu fees to be paid by applicant.

vii. Any other information requested by the City Manager, or his/her designee, that will assist with evaluation of the plan under the requirements of this Chapter.

b. Recording requirements include:

i. A legal instrument, as specified by the City, shall be recorded against every inclusionary unit to ensure its affordability.

ii. A recordable Affordable Housing Agreement, as defined in this Chapter, entered into by the applicant and any other necessary party.

c. All required in-lieu fees shall be paid at the time per 19.535.080.

3. Discretionary Decisions.

a. If the residential development project requires discretionary approval, the Inclusionary Housing Plan shall be considered with the project application.

b. Discretionary decisions related to residential development projects that include inclusionary units may be appealed in accordance with the appeals procedures in this Title.

4. Ministerial Approval.

If the residential development project does not require discretionary approvals, the Inclusionary Housing Plan shall be approved by the Community & Economic Development Director, or his/her designee, prior to issuing the ministerial permit.

F. Affordable Housing Agreement.

1. An approved Affordable Housing Agreement shall be required for residential development projects subject to this Chapter.

2. Form of Agreement.

a. The Affordable Housing Agreement, and any related declarations, resale restrictions, deeds of trust, and other documents, shall be in a form as prescribed by the City;

b. The Affordable Housing Agreement shall be approved by the City Manager, or his/her designee, and approved as to form by the City Attorney prior to final execution.

3. Recording Requirements.

a. The Affordable Housing Agreement must be recorded against every individual inclusionary unit or the residential development project in its entirety.

b. Building permits shall not be issued for any residential development project until:

i. The Affordable Housing Agreement is executed by the owner, the applicant (if not the owner) and the City;

ii. The Agreement is recorded against the property; and

iii. The payment of in-lieu fee is paid, if applicable.

c. The Affordable Housing Agreement shall specify that the applicant must develop the required inclusionary housing units and comply with all terms of the approved Inclusionary Housing Plan as defined in this Chapter.

d. Resale restrictions, deeds of trust, and/or other documents as deemed necessary by the City Manager, or his/her designee, shall be recorded against all for-sale inclusionary units.

19.535.130 Administration.

A. The City Manager, or his/her designee, is authorized to initiate any administrative procedures necessary to implement the purpose and intent of this Chapter.

B. The City Manager, or his/her designee, may prepare necessary forms related to the implementation of this Chapter.

   1. Forms needed for implementation may be introduced as deemed necessary.

   2. All forms or administrative procedures shall be carried out in a manner consistent with the purposes and intent of this Chapter and the City's General Plan.

C. In-Lieu Fees – Inclusionary Housing Fund

   1. Unless otherwise required by law, all in-lieu fees and funds collected pursuant to this Chapter shall be deposited into a separate account designated as the City of Riverside Inclusionary Housing Fund, to be established by resolution of the City Council.

   2. The moneys in the Inclusionary Housing Fund, and all earnings from investment of the moneys, shall be expended exclusively to provide housing affordable to extremely low-income, very low-income, low-income, and moderate-income households in the City of Riverside inclusive of administration and compliance monitoring.

19.535.140 Enforcement.

A. The City Attorney shall be authorized to enforce the provisions of this Chapter and all requirements placed on inclusionary units by civil action and any other proceeding or method permitted by law.

B. The City may, at its discretion, take such enforcement action as is authorized by the Riverside Municipal Code and/or any other action authorized by law or any regulatory document, restriction, or agreement executed under this Chapter.

C. Failure of any official or agency to fulfill the requirements of this Chapter shall not excuse any applicant or owner from the requirements.

D. No permit, license, map, or other approval or discretionary approval for a residential development project shall be issued, including without limitation a final inspection or certificate of occupancy, until all applicable requirements are satisfied.

E. Any remedies provided shall be cumulative and not exclusive and shall not preclude the City from any other remedy or relief to which it otherwise would be entitled under law or equity.

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PLANNING COMMISSION
DRAFT MINUTES

THURSDAY, AUGUST 18, 2022, 9:00 A.M.
PUBLIC COMMENT IN PERSON /TELEPHONE
ART PICK COUNCIL CHAMBER
3900 MAIN STREET

City of Arts & Innovation

COMMISSIONERS
PRESENT: R. Kirby, L. Mooney, J. Parker, T. Ridgway, J. Rush, R. Singh, J. Wilder

ABSENT: C. Roberts (partial meeting)

STAFF: M. Kopaskie-Brown, M. Taylor, M. Davis, A. Beaumon, P. Nitollama, C. Scully, F. Andrade

Chair Kirby called the meeting to order at 9:00 a.m.

ORAL COMMUNICATIONS FROM THE AUDIENCE

There were no comments from the audience.

CONSENT CALENDAR
The Consent Calendar was unanimously approved as presented below affirming the actions appropriate to each item.

MINUTES
The minutes of the June 23, 2022 and July 14, 2022, were approved as presented.

PLANNING COMMISSION ATTENDANCE
The Commission excused the absence of Commissioner Parker (vacation) and Commissioner Ridgway (business) from the meeting of July 14, 2022.

Motion made by Commissioner Rush and Seconded by Commissioner Ridgway, to approve the Consent Calendar as presented.

Motion Carried: 7 Ayes, 0 Noes, 1 Absent, 0 Abstention
AYES: Kirby, Mooney, Parker, Ridgway, Rush, Singh, Wilder
NOES: None
ABSENT: Roberts
ABSTENTION: None

PUBLIC HEARINGS

PLANNING CASE PR-2022-001391 – AMENDMENTS TO TITLE 19 (ZONING) – WARDS ALL
Proposal by City of Riverside to consider amendments to Title 19 (Zoning) of the Riverside Municipal Code, including but not limited to Articles VII (Specific Land Use Provisions), VII (Specific Land Use Provisions). VIII (Site Planning and General Development Provisions), IX (Land Use Development Permit Requirements and Procedures) and X (Definitions of Title 19. The proposed amendments are intended to:

1) Establish Chapter 19.535 (Inclusionary Housing) to implement General Plan policies to facilitate the production of housing affordable to very low-, low- and moderate-income households in new residential development projects;
2) Repeal and replace Chapter 19.545 (Density Bonus) to clarify and streamline existing provisions and align the City's Density Bonus program with recently adopted State law; and
3) Complete clean-up items for Title 19 to: a) Clarify setback requirements and permit exemptions for on-sale of alcoholic beverages associated with bona fide full-service public eating places; b) Adjust allowances for the provision of off-site, off-street vehicle parking for certain land uses; and c) Revise the required findings of fact for the granting of Fair Housing Requests for Reasonable Accommodation to comply with State law and affirmatively further fair housing.

Matthew Taylor, Senior Planner, presented the staff report. He indicated that comment letters were received after publication of the report and were distributed to the Commission this morning. Public Comment: Commissioner Roberts announced she was on-line and listening to the discussion. Ms. Kopaskie-Brown stated that a link would be sent to her to join the meeting directly. Rose Mayes, Executive Director Fair Housing Council; Maribel Nunez, Inland Equity Partnership; Juanita Cadera, Fair Housing Council; Corinne Parker; Elizabeth Ayala; Damien O'Farrel, CEO Parkview Legacy Foundation; Beverly Arias; Gabriella Mendez; and Kayla Booker spoke in support of Inclusionary Housing. Andre Sururti; Andrew Sall, Greater Riverside Chambers of Commerce; Jason Hunter; Lou Monville, Building Industry Association; Andrew Walcker expressed their concerns regarding the Inclusionary Housing policy and ordinance. The public hearing was closed.

Commissioner Roberts joined the meeting virtually.

Following discussion it was moved by Chair Kirby to recommend that the City Council: 1) Determine that Planning Case PR-2022-001391 is exempt from further California Environmental Quality Act (CEQA) review pursuant to Section 15061(b)(3) (General Rule), as it can be seen with certainty that approval of the project will not have an effect on the environment; and 2) Approve PR-2022-001391 (Zoning Text Amendment), with the omission of the Inclusionary Housing portion (Chapter 19.535) based on the findings outlined in the staff report. He asked that Chapter 19.535 be returned to the Committee for further definition.

Motion failed due to lack of second.

Commissioner Roberts disconnected from the meeting.

Motion by Commissioner Ridgway to recommend that the City Council: 1) Determine that Planning Case PR-2022-001391 is exempt from further California Environmental Quality Act (CEQA) review pursuant to Section 15061(b)(3) (General Rule), as it can be seen with certainty that approval of the project will not have an effect on the environment; and 2) Approve PR-2022-001391 (Zoning Text Amendment), with the omission of the Inclusionary Housing portion (Chapter19.535) based on the findings outlined in the staff report. He asked that Chapter 19.535 go back to staff for publication of fee schedule, reevaluate Section 8 for insertion and promotion of that opportunity, and suggested a shareholder meeting or workshop prior to adoption of the final ordinance.

Anthony Beaumon, Deputy City Attorney, asked for clarification of the "publication" of in lieu fees.

Commissioner Ridgway stated that instead of publication, a recommendation of the actual fee.

Ms. Kopaskie-Brown clarified that the motion was to move on with items 2 and 3 and to continue item 1. She suggested a Planning Commission workshop at the next available meeting to go over the policy direction from the City Council Housing and Homeless Committee.

Commissioner Ridgway reiterated that the motion was to approve items 2 and 3; continue item 1 and request a Planning Commission workshop to further understand and explore that policy/ordinance.

The motion was Seconded by Chair Kirby.

Motion Carried: 7 Ayes, 0 Noes, 1 Absent, 1 Abstention

AYES:	Kirby, Mooney, Parker, Ridgway, Rush, Singh, Wilder
NOES:	None
ABSENT:	Roberts
ABSTENTION:	None

Chair Kirby advised of the 10-day appeal period.

A City Council public hearing is required for final approval.

COMMUNICATIONS

ITEMS FOR FUTURE AGENDAS AND UPDATE FROM CITY PLANNER

Ms. Kopaskie-Brown updated the Commission on upcoming items for the September 1, 2022 meeting. She indicated that the inclusionary housing workshop could be held on September 29. A few of the commissioners indicated they would be unable to attend the September 29th meeting and agreed to moving this to the October 13, 2022 meeting.

ADJOURNMENT

The meeting was adjourned at 10:54 a.m. to the meeting of September 1, 2022 at 9:00 a.m.

The above actions were taken by the City Planning Commission on September 1, 2022. There is now a 10-day appeal period that ends on August 29, 2022. During this time, any interested person may appeal this action to the City Council by submitting a letter of appeal and paying the appeal fee. In the absence of an appeal or referral, the Commission's decisions and conditions become final after 5:00 p.m. on August 29, 2022.

Draft Memorandum

To: City of Riverside

From: Economic & Planning Systems

Subject: Riverside Inclusionary Housing In-Lieu Fee Analysis; EPS #204046

Date: August 28, 2022

Introduction

The City of Riverside is currently considering the adoption of an inclusionary housing ordinance. If adopted, the ordinance would require that residential developments consisting of more than two units include five or 10 percent of dwelling units at below-market-rate rents or sale prices affordable to Low or Moderate-income households, depending on the development's density. The affordable rates are based on income standards established by the State of California's Department of Housing and Community Development (HCD).

The ordinance would also allow, as an alternative to providing required units, for development projects to pay an in-lieu fee to support the development of affordable units elsewhere in the City. In-lieu fees are typically calculated to reflect the financial subsidy needed to support the development of affordable units that are not being provided on-site. The fee revenues are collected into a dedicated fund that can be utilized to support the production and preservation of affordable units in the City. Under the City's proposed ordinance, the fee would be based on the subsidy needed to provide a higher proportion of affordable units—either eight or 15 percent, depending on the development type—than would be required if the units were built on-site as part of the market-rate development. The fee can also be paid for any fractional affordable units required on-site, as an alternative to "rounding up" and building an additional unit.

Economic & Planning Systems, Inc. (EPS) has been working with the City to develop its inclusionary housing ordinance, which includes calculating an appropriate inclusionary housing in-lieu. This memorandum describes EPS's estimates of the subsidy, or "financing gap" associated with the development of affordable units, and the resulting fee calculation based on this subsidy.

The Economics of Land Use

Economic & Planning Systems, Inc.
800 Wilshire Boulevard
Suite 410
Los Angeles, CA 90017
213 489 3838 tel

Oakland
Sacramento
Denver
Los Angeles

www.epsys.com

A summary of the calculated fees is included in **Table 1** below.

Table 1 Proposed Inclusionary Housing In-Lieu Fees for City of Riverside

Item	*Formula*	Unit Type: Multifamily Rental	Unit Type: Townhome For-Sale	Unit Type: Single-Family For-Sale
Affordability Level		Low-Income	Low-Income	Moderate-Income
Value Per Unit	*a*	$246,937	$218,213	$510,701
Cost Per Unit	*b*	$328,720	$375,105	$615,561
Subsidy Per Unit	*c = a-b*	($81,784)	($156,892)	($104,860)
Fee Per Affordable Unit	*c*	$81,784	$156,892	$104,860
Inclusionary Percentage for In-Lieu Fees	*d*	15%	15%	8%
Fee Per Market Rate Unit	***e = c*d***	**$12,268**	**$23,534**	**$8,389**
Average Unit Size	*f*	850	1500	2500
Fee Per Affordable Sq. Ft.	*g = c/f*	$96.22	$104.59	$41.94
Fee Per Market Rate Sq. Ft.	***h = g*d***	**$14.43**	**$15.69**	**$3.36**

Financing Gap Analysis

Product Prototypes

The analysis assumes that the collected in-lieu fees would be used to subsidize the production of lower-income units similar to the type of future residential development anticipated in the City. The prototype residential products used in this analysis are the same as those utilized in EPS's analysis of the inclusionary housing policy[1] and were informed by research on trends in the local and regional housing markets, as well as interviews with local developers, and were approved by City staff to utilize in this analysis.

The assumptions for the prototype products are summarized in **Table 2**. As shown, the rental product prototype is a two-bedroom, 850 net square-foot apartment unit, developed at a density of 32 units per acre with one surface parking space per bedroom. The for-sale product prototypes include a three-bedroom, 1,500 square foot attached townhome developed at a density of 15 units per acre, and a four-bedroom, 2,500 square foot detached single-family home developed at a density of 10 units per acre. Both for-sale products are assumed to include attached parking.

[1] See staff report from February 28, 2022 Housing and Homelessness Committee Meeting, https://aquarius.riversideca.gov/clerkdb/0/doc/341286/Page1.aspx

Table 2 Prototype Unit Characteristics

Unit Category	Unit Type	Tenure	Density
Multifamily	2BR, 850 sq. ft.	Rental	32 units/acre
Townhomes	3BR, 1,500 sq. ft.	For Sale	15 units/acre
Single-Family	4BR, 2,500 sq. ft.	For Sale	10 units/acre

Maximum Affordable Housing Rents

Income levels for affordable housing units are set for the County of Riverside by the California Department of Housing and Community Development (HCD) on an annual basis. **Table 3** shows the income limits for 2022 for three, four-, and five-person households, as this analysis assumes the household size for each prototype would equal the number of bedrooms plus one.[2] The income limits correspond to the City's proposed ordinance, which sets the maximum income for Low-Income households at 70 percent of Area Median Income (AMI) and for Moderate-Income households at 110 percent of AMI.

Consistent with State guidance, the analysis assumes that Low-Income households spend no more than 30 percent of their gross annual income, and Moderate-Income households no more than 35 percent of their gross annual income, on total housing costs. For rental units, this includes rent and utilities.[3] For for-sale units, housing costs include mortgage principal and interest, property taxes, and homeowner's insurance payments (collectively, "PITI"), plus annual Homeowners Association (HOA) fees. After subtracting taxes, insurance, and HOA fees from a household's maximum affordable housing costs budget, the remaining budget was used to calculate a maximum affordable house purchase price, based on common mortgage term assumptions.[4]

As summarized in **Table 3**, a three-person Low-Income household earning 70 percent of AMI (adjusted) can pay up to $1,404 per month for a two-bedroom rental unit (including utilities). For comparison, based on data provided by CoStar, EPS estimates that the market-rate rent for a newly constructed unit of the same size in Riverside is approximately $2,570 per month.

For for-sale units, a four-person Low-Income household earning 70 percent of AMI can pay up to $995 on monthly mortgage payments (principal and interest), which translates

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[2] Based on California Health and Safety Code Section 50052.5.

[3] The utility allowance for a rental unit is based on a schedule published by the Riverside County Housing Authority, updated annually (https://www.harivco.org/Portals/0/UtilityAllowanceChart/2022/Utility%20Allowance%20Chart--%207-1-2022--Standard--APARTMENT.pdf?ver=2022-07-07-114411-617)

[4] Estimates of sale prices assume a 30-year fixed mortgage with a 4.5 percent effective interest rate, plus a 10 percent down payment from the homebuyer.

into a maximum purchase price of $218,213 for a three-bedroom townhome unit. Based on recent home sales data, EPS estimates that a newly constructed market-rate unit of the same size could achieve a sale price of $400,000 in Riverside. A five-person Moderate-Income household earning 110 percent of AMI can pay up to $2,329 on monthly mortgage payments (principal and interest), which translates into a maximum purchase price of $510,701 for a four-bedroom single-family home unit. EPS estimates that a newly constructed market-rate unit of the same size could achieve a sale price of $625,000 in Riverside.

Table 3 Maximum Affordable Rents and Sale Prices for Prototype Units

Unit Types	Low-Income (70% AMI)	Moderate-Income (110% AMI)
Multifamily Rental Units		
2022 Maximum Income (3-person household) [1]	$56,156	Not Applicable
Maximum Housing Cost Allowance (30%) [2]	$16,847	
Maximum Monthly Rent (2-bedroom unit, incl. utilities)	***$1,404***	
Typical Market Rate [3]	*$2,571*	
For-Sale Townhome Units		
2022 Maximum Income (4-person household) [1]	$62,404	Not Applicable
Maximum Housing Cost Allowance (30%) [2]	$18,721	
Annual Other Housing Costs [4]	$6,780	
Maximum Sale Price (3-bedroom unit) [5]	***$218,213***	
Typical Market Rate [3]	*$400,000*	
For-Sale Single-Family Units		
2022 Maximum Income (5-person household) [1]	Not Applicable	$103,840
Maximum Housing Cost Allowance (35%) [2]		$36,344
Annual Other Housing Costs [4]		$8,397
Maximum Sale Price (4-bedroom unit) [5]		***$510,701***
Typical Market Rate [3]		*$625,000*

[1] Income levels are based off the 2022 median household income for Riverside County, as reported by CA HCD.

[2] Maximum housing cost allowance is based on 30% of maximum income for low-income households and 35% of maximum income for moderate-income households.

[3] Based on EPS market research.

[4] Other housing costs for for-sale units include taxes, insurance, and HOA fees, as estimated by EPS.

[5] Maximum sale price for each income level assumes mortgage payment equal to 30% of maximum monthly income for low-income households, and 35% of maximum monthly income for moderate-income households, minus other housing costs, on a 30-year mortgage with a 4.5% annual interest rate and 10% down payment.

Sources: State of CA HCD; City of Riverside; County of Riverside Housing Authority; Zillow; CoStar; EPS

Development Cost Assumptions

Residential development costs include land costs, direct or "hard" costs (e.g., labor and materials), and indirect or "soft" costs (e.g., architecture, entitlement, fees, marketing, etc.). Land cost estimates used in the analysis are based on data from recent land transactions in Riverside. Since the prototypes modeled in this analysis are lower-density than those typically found in Downtown Riverside and surrounding areas, this analysis uses a land cost reflective of areas outside of the Downtown, which are typically lower. Other development cost estimates are derived from housing market research and EPS interviews with housing developers both within Riverside and the larger Inland Empire region. These assumptions are shown in **Table 4 through 6** and indicate that the total cost per unit is approximately $329,000 for rental apartments, $375,000 for townhome units, and $616,000 for single-family units. These figures represent "prototypical" projects; the actual costs for a given project will vary by location and project design characteristics.

Revenue Assumptions

To calculate the value of the affordable units, several revenue-related assumptions were made regarding applicable income levels and the percentage of household income that can be put towards housing costs, including rent. In addition, translating a revenue estimate into a total value per rental unit estimate required assumptions for operating expenses and capitalization rates. The following assumptions were used:

- *Income Levels*—The analysis estimates the subsidy required to produce rental units for three-person households earning 70 percent of AMI; for-sale townhome units for four-person households earning 70 percent of AMI; and for-sale single-family units for five-person households earning 110 percent of AMI, as shown above in **Table 3**.

- *Percentage of Gross Household Income Available for Housing Costs*—State guidelines indicate that Low-Income households should pay no more than 30 percent of their gross income on housing costs, and Moderate-Income households should pay no more than 35 percent of their gross income on housing costs. EPS calculated the rents and sale prices that each income category would be able to pay net of other housing-related costs (e.g. utilities, insurance and taxes, HOA fees).

- *Operating Costs for Rental Units*—The analysis assumes that affordable apartment operators incur annual operating costs of $4,500 per unit on units affordable to Low-Income households, which include the cost of management, maintenance, and common utilities (those not paid by tenants). These operating costs assume that all affordable apartments constructed for Low-Income households would be exempt from property taxes, as allowed by State law.

- *Capitalization Rate*—A capitalization rate is used for the rental prototype, and represents the rate of return that an investor in a real estate project expects to receive. The rate generally indicates the project's relative risk (e.g. a lower capitalization rate suggests that a project is less risky, and therefore an investor is willing to accept a lower rate of return because the return is more guaranteed). The value of a project is calculated by dividing the net operating income (NOI) by the capitalization rate. For the rental prototypes, EPS utilized a capitalization rate of 5.0 percent.[5]

- *Profit Margin*—A profit margin is used for the for-sale prototypes, and represents the rate of return that an investor in a real estate project expects to receive. The profit margin is added as an additional cost on the developed units. EPS utilized a profit margin of 14 percent, based on the firm's work in similar markets throughout California.

Financing Gap Results

Table 4 shows the subsidies required for construction of rental apartments for three-person households at Low-Income levels (70 percent of AMI). As shown, such units are estimated to cost approximately $329,000 to develop, while the estimated operating income from those units at affordable rents would translate to values of $247,000 per unit. Based on this analysis, a rental unit affordable to a Low-Income household would require a subsidy of approximately $82,000.

Table 5 shows the subsidies required for construction of for-sale townhome units affordable to four-person households earning Low-Income levels (70 percent of AMI). As shown, these households could afford to pay up to roughly $218,000 for a home, while such homes are estimated to cost approximately $375,000 to build, requiring a subsidy of approximately $157,000. **Table 6** shows the subsidies required for construction of for-sale single-family units affordable to five-person households earning Moderate-Income levels (110 percent of AMI). As shown, these households could afford to pay up to roughly $511,000 for a home, while such homes are estimated to cost approximately $616,000 to build, requiring a subsidy of approximately $105,000.

[5] Based on H1 2021 cap rate surveys for suburban multifamily development in the Inland Empire region, published by CBRE, a real estate services firm (https://www.cbre.com/insights/reports/us-cap-rate-survey-h1-2021)

Table 4 Financing Gap Pro Forma Analysis for Prototype Rental Unit Affordable Low-Income (70% AMI) Households

Description	Factor	Unit	Multifamily Rental
DEVELOPMENT PROGRAM			
Bedrooms			2
Dwelling Units/Acre			32
Unit Square Feet (Net)			850
Common Area			15%
Unit Square Feet (Gross)			978
Parking Spaces Per Unit			1
COST ESTIMATE			
Land Acquisition	$435,600	/acre	**$13,613**
Direct			
Site Improvement	$5.00	/land sf	$6,806
Construction Costs	$205	/bldg. sq. ft	$200,388
Parking (Surface)	$5,000	/space	$5,000
Contractor Contingency	10%	of other direct costs	$21,219
Subtotal Direct			**$233,413**
Indirect	35%	direct costs	**$81,695**
Cost Per Unit			**$328,720**
VALUE ESTIMATE			
Maximum HH Income (3-person)	70%	AMI	$56,156
Maximum Annual Rent Per Unit	30%	annual income	**$16,847**
Annual Operating Expenses	$4,500	/unit	($4,500)
Net Operating Income Per Unit			**$12,347**
Value Per Unit	5.00%	capitalization rate	**$246,937**
Subsidy Per Unit			**$81,784**

Table 5 Financing Gap Pro Forma Analysis for Prototype For-Sale Townhome Unit Affordable to Low-Income (70% AMI) Households

Description	Factor	Unit	Amount Per Unit
DEVELOPMENT PROGRAM			
Bedrooms			3
Dwelling Units/Acre			15
Unit Square Feet			1,500
COST ESTIMATE			
Land Acquisition	$435,600	/acre	**$29,040**
Direct			
Site Improvement	$5.00	/land sf	$14,520
Construction Costs	$125	/bldg. sq. ft.	$187,500
Contractor Contingency	10%	of other direct costs	$20,202
Subtotal			**$222,222**
Indirect	35%	of direct costs	**$77,778**
Developer Profit	14%	of all costs	**$46,066**
Cost Per Unit			**$375,105**
VALUE ESTIMATE			
Maximum HH Income (4-person)	70%	AMI	$62,404
Annual Housing Costs Allowance	30%	annual income	$18,721
Annual Other Housing Costs [1]			$6,780
Maximum Sale Price [2]			**$218,213**
Subsidy Per Unit			**$156,892**

[1] Includes estimates for taxes, insurance, and HOA fee

[2] Assumes mortgage payment equal to 30% of maximum monthly income (minus taxes and insurance) on a 30-year mortgage with a 4.5% annual interest rate and 10% down payment.

Table 6 Financing Gap Pro Forma Analysis for Prototype For-Sale Single-Family Unit Affordable to Moderate-Income (110% AMI) Households

Description	Factor	Description	Amount Per Unit
DEVELOPMENT PROGRAM			
Bedrooms			4
Dwelling Units/Acre			10
Unit Square Feet			2,500
COST ESTIMATE			
Land Acquisition	$435,600	/acre	**$43,560**
Direct			
Site Improvement	$5.00	/land sf	$21,780
Construction Costs	$125	/bldg. sq. ft.	$312,500
Contractor Contingency	10%	of other direct costs	$33,428
Subtotal			**$367,708**
Indirect	35%	of direct costs	**$128,698**
Developer Profit	14%	of all costs	**$75,595**
Cost Per Unit			**$615,561**
VALUE ESTIMATE			
Maximum HH Income (5-person)	110%	AMI	$103,840
Annual Housing Costs Allowance	30%	annual income	$31,152
Annual Other Housing Costs [1]			$8,397
Maximum Sale Price [2]			**$510,701**
Subsidy Per Unit			**$104,860**

[1] Includes estimates for taxes, insurance, and HOA fee

[2] Assumes mortgage payment equal to 35% of maximum monthly income (minus taxes and insurance) on a 30-year mortgage with a 4.5% annual interest rate and 10% down payment.

In-Lieu Fee Calculation

Table 7 translate the subsidies calculated above into in-lieu fees. As described in the introduction to this memo, the City is proposing to base the in-lieu fee on a higher inclusionary requirement than what is required for building affordable units on-site. For rental units, the requirement associated with paying the in-lieu fee would be subsidizing a number of units affordable to Low-Income families equivalent to 15 percent of market-rate units built, higher than the 10 percent affordable units that would be required if built on-site. For townhome units, the proposed requirement associated with paying the in-lieu fee would be to subsidize a number of units affordable to Low-Income families equivalent to 15 percent of market-rate units built, again higher than the 10 percent affordable units that would be required if built on-site. For single-family units, the requirement would be to subsidize a number of units affordable to Moderate-Income families equivalent to eight percent of market-rate units built, higher than the 5 percent affordable units that would be required if built on-site.

As shown in **Table 7**, the inclusionary percentage is applied to the per unit subsidy for each prototype, in order to calculate a fee per market-rate unit. The analysis further converts the fee per market-rate unit to a fee per market-rate square foot, based on the prototype unit sizes. As shown, the fee for rental units would be **$12,268 per market-rate unit and $14.43 per market-rate square foot**; the fee for townhome units would be **$23,534 per market-rate unit and $15.69 per market-rate square foot**; and the fee for single-family units would be **$8,389 per market-rate unit and $3.36 per market-rate square foot.**

Table 7 In-Lieu Fee Calculation

		Unit Type		
Item	***Formula***	**Multifamily Rental**	**Townhome For-Sale**	**Single-Family For-Sale**
Affordability Level		Low-Income	Low-Income	Moderate-Income
Value Per Unit	*a*	$246,937	$218,213	$510,701
Cost Per Unit	*b*	$328,720	$375,105	$615,561
Subsidy Per Unit	*c = a-b*	($81,784)	($156,892)	($104,860)
Fee Per Affordable Unit	*c*	$81,784	$156,892	$104,860
Inclusionary Percentage for In-Lieu Fees	*d*	15%	15%	8%
Fee Per Market Rate Unit	***e = c*d***	**$12,268**	**$23,534**	**$8,389**
Average Unit Size	*f*	850	1500	2500
Fee Per Affordable Sq. Ft.	*g = c/f*	$96.22	$104.59	$41.94
Fee Per Market Rate Sq. Ft.	***h = g*d***	**$14.43**	**$15.69**	**$3.36**

While it is useful to think of the total in-lieu fee as it may apply to each market-rate unit, it is also useful to know the fee per affordable unit, as some projects will be required to provide a certain number of units but may meet any fractional obligation through payment of a fee. The fee per affordable unit is equivalent to the subsidy needed to develop that unit. For example, under the proposed inclusionary requirement, an 85-unit rental project would be required to provide 12.75 affordable units. If 12 units are provided on site, the additional 0.75-unit requirement could be met by charging a fee of 0.75 times the $81,784 per affordable unit subsidy, or a total payment of $61,338. An 85-unit townhome project would also be required to provide 12.75 affordable units, and if 12 units are provided on site, the additional 0.75-unit requirement could be met by charging a fee of 0.75 times the $156,892 per affordable unit subsidy, or a total payment of $117,669. Finally, an 85-unit single-family project would be required to provide 6.8 affordable units. If six units are provided on site, the additional 0.8-unit requirement could be met by charging a fee of 0.8 times the $104,860 per affordable unit subsidy, or a total payment of $83,888.

Housing and Homelessness Committee Memorandum

City of Arts & Innovation

TO:	**HOUSING AND HOMELESSNESS COMMITTEE MEMBERS**	**DATE: FEBRUARY 28, 2022**
FROM:	**OFFICE OF HOMELESS SOLUTIONS**	**WARD: ALL**
SUBJECT:	**UPDATE ON INCLUSIONARY HOUSING PROGRAM STUDY FOR THE CITY OF RIVERSIDE**	

ISSUE:

Receive a presentation on updates related to the City of Riverside Inclusionary Housing Program study and preliminary recommendations for inclusionary requirements.

RECOMMENDATION:

That the Housing and Homelessness Committee:

1. Receive an update on the Inclusionary Housing Program Study for the City of Riverside, including preliminary recommendations on inclusionary housing program requirements; and

2. Provide staff with direction on how to proceed with the Inclusionary Housing Program Study.

BACKGROUND:

In recent years, the State of California has identified the shortage of housing, particularly affordable housing, as a legislative priority. A housing shortage impacts the State' s economy, contributes to homelessness, and results in long commutes, increasing production of greenhouse gas emissions, air pollution, and poor public health. Affordable housing is defined as rent/utilities or mortgage/taxes/insurance/utilities that cost 30% or less of the gross household income and are available to persons who earn at or below 80% of the Area Median Income (or $63,200 for a family of four in 2021). The State further delineates affordability levels for "low-income" households, earning between 50% and 80% of the Area Median Income; and for "very-low income" households, earning between 30% and 50% of the Area Median Income. The State also defines households earning "moderate incomes," between 80% and 120% of Area Median Income.

Facing a rise in local rents and housing costs, a steady rise in homelessness, and a decrease in homeownership associated with the high cost of housing, on May 18, 2021, the City Council and Housing Authority Board authorized the award of an Agreement with Economic & Planning Systems, Inc., (EPS) to explore the possibility of implementing an inclusionary housing policy in the City of Riverside. By definition, inclusionary housing policies are local policies that could require developers to sell or rent a percentage of new residential units to lower-income residents or pay an in-lieu fee to support the development of such units. To offset the cost of providing affordable housing in all new projects, an Inclusionary Housing Program can offer incentives to developers in the form of zoning concessions such as reduced parking, density bonuses, or tax abatements. Developers can also be given an option to choose an alternative to providing the affordable units in the form of in-lieu fees or providing affordable units at an alternate location. Inclusionary Housing Programs can include both for-sale and rental units and are often implemented through the jurisdiction's zoning code.

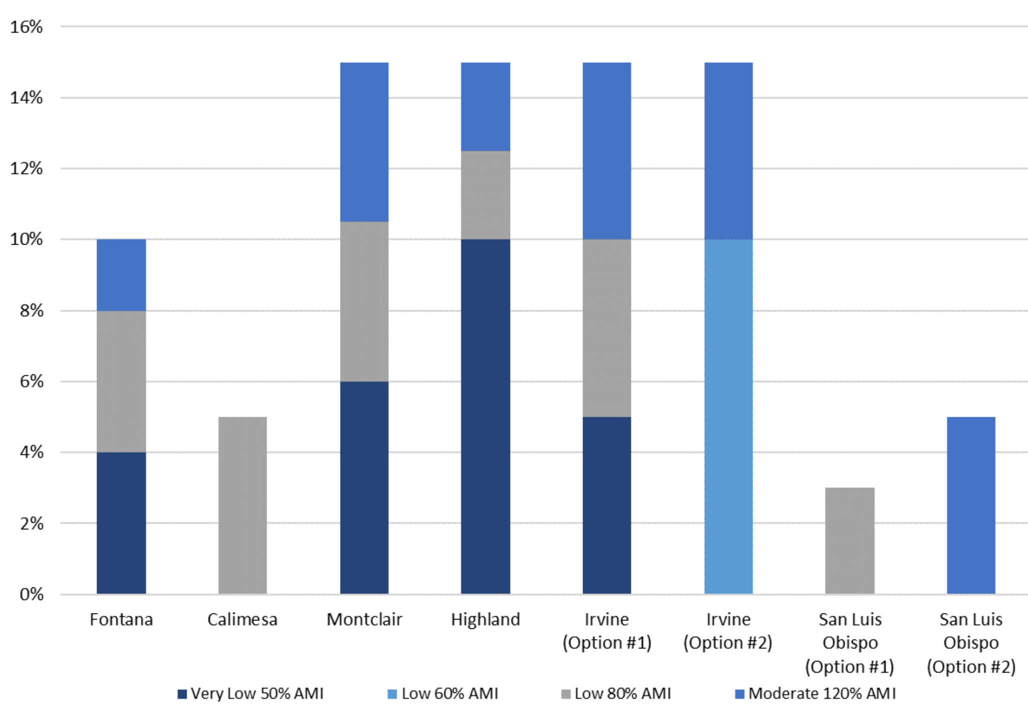
On September 28, 2021, City staff and EPS presented to the Housing and Homelessness Committee on the initial analysis of the development feasibility impacts of a range of inclusionary policy alternatives on new market-rate residential development. At that meeting, the Committee directed Housing Authority staff and EPS to proceed with the next steps of the Study, including stakeholder and community outreach.

DISCUSSION:

Survey of Comparable Jurisdictions

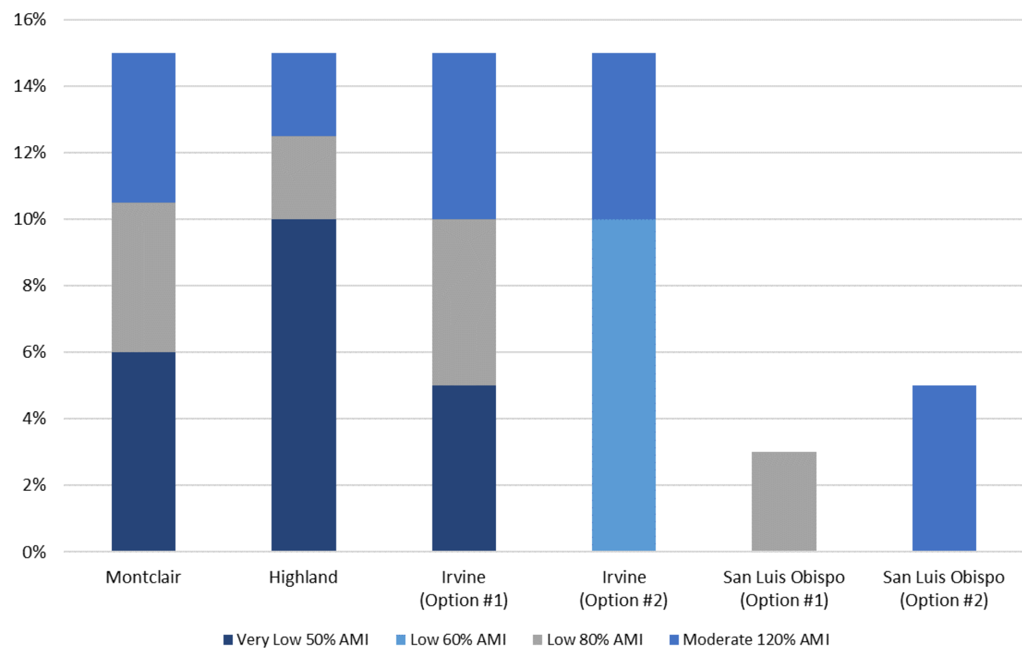
Inclusionary housing requirements are common throughout California, with over 170 jurisdictions imposing such requirements on new residential construction. Communities have considerable flexibility regarding the components of their inclusionary programs, in terms of what percentages of units must be affordable, the income levels required, whether they apply to both rental and for-sale housing, what sizes and types of projects may be exempt, whether they allow fees in lieu of providing units, and other components. A small sample of selected jurisdictions with geographic or economic similarities to Riverside indicates that communities have adopted a wide range of inclusionary programs, as shown below:

Figure 1: Selected Sample of Inclusionary Standards for For-Sale Housing



Note: Fontana and Calimesa do not have inclusionary requirements for rental residential projects.

Figure 2: Selected Sample of Inclusionary Standards for Rental Housing



As shown in Figures 1 and 2, it is common for communities to require as much as 15 percent inclusionary units and with a mix of income levels. However, some communities require lower percentages of units and at a single income level. These findings inform the preliminary recommendations for Riverside's inclusionary program, discussed below.

More data regarding other communities' inclusionary standards can be found at the following website: [California Inclusionary Housing Programs Searchable Database (arcgis.com)]

Stakeholder and Community Outreach:

Following the September 28, 2021, Housing and Homelessness Committee meeting, EPS engaged in several stakeholder and community outreach meetings to present the initial feasibility study findings and solicit feedback on the potential inclusionary program. These meetings are summarized below:

EPS hosted two virtual stakeholder meetings in November 2021. The first stakeholder meeting took place on November 5, 2021, and included seven participants involved in housing advocacy work and/or development of affordable residential properties. Primary feedback from this workshop included:

- Importance of including affordable units in market-rate developments, to avoid clustering of affordable units in existing low-income areas of City.
- Some but not unanimous support for consideration of in-lieu fee option, as it can result in more affordable units in the long-run through funding leverage.
- Program should include option for land donation and/or collaboration with nonprofit builders for separate buildings to meet inclusionary requirement – would be relevant for larger projects.
- Encouraging City to explore other tools for developing permanent/long-term affordable housing, including co-ops and community land trusts, and other funding sources such as transient occupancy tax (TOT).

The second stakeholder meeting took place on November 16, 2021, and included 16 participants involved in developing and operating market-rate residential projects. Representatives from the Riverside Chamber of Commerce and Building Industry Association attended this workshop. Primary feedback from this workshop included:

- Desire for flexibility from City in negotiating on a project-by-project basis, to reflect that every project has unique cost factors.
- Concern that feasibility models may underestimate development costs, in which case financial returns are overestimated and projects may be less able to absorb the costs of inclusionary requirements.
- Interest in having incentives that will reduce costs elsewhere in a project, although higher density allowances do not always improve project feasibility because construction costs can increase.
- Combined with other City policies that are adding costs to development, such as VMT reduction and electrification policies, the addition of inclusionary requirements can push many projects into infeasibility.
- Better option to get affordable units is to support the building of 100% affordable projects on City-owned land; alternately, City should share in cost of inclusionary requirements somehow.

On January 12, 2022, EPS and City staff hosted a virtual community webinar on the Inclusionary Housing Program Study. Approximately 50 individuals signed on to the meeting. EPS provided a presentation on the Study, and EPS and City staff took written and oral questions and comments from attendees. Primary feedback from this meeting included:

- Overall support for an inclusionary housing policy.
- Preference to require units on-site rather than allow in-lieu fee; fee should be higher than cost of providing on-site units to discourage the fee option.
- Questions about other means of encouraging development of affordable units, such as density bonuses (which the City and State do have).
- Stated need for provision of affordable housing that serves special needs population.

On January 25, 2022, EPS staff provided a consolidated version of the community webinar at a meeting of the Riverside Chamber of Commerce's Economic Development Council.

<u>Review of Feasibility Findings</u>

Since presenting to the Housing and Homelessness Committee on September 28, 2021, EPS made some refinements and additions to its feasibility analysis. One refinement includes an adjustment in maximum rents and sale prices affordable to very-low, low-, and moderate-income households. While the State defines the upper limit of these affordability levels at 50%, 80%, and 120% of Area Median Income, respectively, EPS has found that it is a best practice to set the upper limit for low- and moderate-income households at 70% and 110% of Area Median Income, respectively. This approach, which is used by many California jurisdictions, allows more households to qualify for and afford the inclusionary units, but does lower the revenue from those units and thus affects feasibility. Table 1 shown in Attachment 1 summarizes the maximum incomes and associated maximum rents and sale prices used in the feasibility analysis.

One addition to the analysis is the preliminary calculation of affordable housing in-lieu fee levels for various inclusionary requirements. The fee levels reflect the financial subsidy needed to build the affordable units that the development is not providing on-site. Payment of such a fee can be offered as an alternative option to providing on-site units, although some cities do limit the option to specific conditions (e.g., to cover fractional units required, or only for projects below a certain size). The City would collect fee revenues in a dedicated fund to utilize in support of producing and preserving affordable housing units in Riverside. Examples of potential uses include providing local matching funds to support 100% affordable projects, purchasing land for affordable housing development, or purchasing existing units and requiring/extending affordability.

EPS applied a range of inclusionary scenarios, including payment of the in-lieu fee, to the five housing prototypes identified in the preliminary feasibility analysis. These prototypes include for-sale single-family detached homes (10 units per acre) and attached townhomes (15 units per acre), as well as rental apartments at different densities reflecting their locations in the Downtown (100 units per acre), Downtown- and transit-adjacent areas (60 units per acre), or other neighborhoods of the City (30 units per acre). EPS updated its feasibility analysis to compare development costs and revenues under the inclusionary requirements to determine whether they met common investment thresholds for feasibility. For the <u>for-sale housing</u>, the feasibility threshold is a 15% profit margin (values exceed costs by at least 15 percent). For <u>rental properties</u>, the feasibility threshold is a " return on cost" of 5.25%, meaning that the expected net operating income of the project (total rents received less operating expenses) would equal at least 5.25% of the project's total development costs.

For <u>rental housing</u>, EPS tested the following inclusionary requirement scenarios: 1) 15% of units affordable to low-income households; 2) 10% of units affordable to low-income households; and 3) 10% of units affordable to very-low income households. EPS also estimated that if the inclusionary requirement were for 10% of units to be affordable to low-income households, the associated in-lieu fee needed to support the development of the required units elsewhere would be approximately $13,000 per market-rate unit built. EPS found that rental projects developed at 30 units per acre outside of the Downtown and nearby areas could feasibly include affordable units in all of the scenarios. However, rental projects developed at 60 or 100 units per acre in and around Downtown would have higher development costs per unit and could not feasibly include affordable units in any of the scenarios. Therefore, it would be feasible for these higher-density projects to pay the estimated in-lieu fee.

For <u>for-sale attached townhomes</u>, EPS tested the following inclusionary scenarios: 1) 10% of units affordable to low-income households; and 2) 5% of units affordable to very-low income households. EPS also estimated that if the inclusionary requirement were for 10% of units to be affordable to low-income households, the associated in-lieu fee needed to support the development of the required units elsewhere would be approximately $17,000 per market-rate unit built. EPS found that for-sale attached townhome projects are forecast to have strong profit margins and could feasibly provide affordable units under both inclusionary scenarios, and that paying the estimated in-lieu fee rather than providing on-site units would be feasible for such projects as well.

For <u>for-sale detached single-family homes</u>, EPS tested the following inclusionary requirements: 1) 5% of units affordable to moderate income households; and 2) 2% of units affordable to low-income households. EPS also estimated that if the inclusionary requirement were for 5% of units to be affordable to moderate-income households, the associated in-lieu fee needed to support the development of the required units elsewhere would be approximately $7,000 per market-rate unit built. EPS found that under current cost and value expectations, for-sale detached single-family developments are forecast to have marginally feasible profit margins even if they are all market-rate units and that such projects would face feasibility challenges whether they provide affordable units on-site under either inclusionary scenario or pay the estimated in-lieu fee.

Preliminary Recommendations

Given the findings of the feasibility analysis and the feedback received from stakeholders and community members, EPS has compiled a preliminary set of recommendations for an Inclusionary Housing Program in Riverside for the Committee's consideration:

1) Inclusionary requirements
   - Multifamily – 10% of units affordable to low-income households (70% AMI)*
   - Townhome - 10% of units affordable to low-income households (70% AMI)*
   - Single-family – 5% of units affordable to moderate-income households (110% AMI)
     *These requirements would automatically qualify projects for the use of State density bonus

2) Develop an in-lieu fee to align with the above requirements. Allowance for payment of fee should be based on City priorities (e.g., encouraging on-site units/mixed-income properties vs. maximize local support for affordable projects).

3) Consider a phased-in approach for requirements to allow markets to adjust and a set timeline for revisiting requirements in light of evolving market conditions.

STRATEGIC PLAN ALIGNMENT:

This item contributes to **Strategic Priority 2: Community Well -Being** and **Goal No. 2. 1** Facilitate the development of a quality and diverse housing supply that is available and affordable to a wide range of income levels. It also supports **Action 2. 1. 4**, Prepare creative land use regulations that include Adaptive Reuse Ordinance, Inclusionary Zoning, Density Bonus Ordinance, and Infill Ordinance to create incentives for housing development.

This item aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** — The initiative to explore an inclusionary policy merges best practices in policy development with intensive outreach and communication with both the development community and public to be transparent and make decisions based on sound policy, and inclusive community engagement based on timely and reliable information.

2. **Equity** — Inclusionary Housing promotes the integration of affordable housing into the City's market rate stock which allows people of different races, backgrounds, and economic circumstances to live throughout Riverside, lessening the concentration of poverty and broadening the experiences of those who live in affordable/market mixed units.

3. **Fiscal Responsibility** — By using local development resources to ensure a balanced housing market, Riverside is a prudent steward of public funds and ensures responsible management of the City' s financial resources while providing quality of life to all residents.

4. **Innovation** — Exploring inclusionary housing potentially creates a development tool to address changing needs and prepares for the future through collaborative partnerships and adaptive processes in consultation with the public and development community.

5. **Sustainability & Resiliency** — By creating a balanced housing market, Riverside is ensuring a balanced economy that serves all income levels of city residents but does not sacrifice growth.

FISCAL IMPACT:

There is no fiscal impact associated with the report.

Prepared by:	Michelle Davis, Housing Authority Manager
Certified as to Availability of funds:	Edward Enriquez, Chief Financial Officer/Treasurer
Approved by:	Lea Deesing, Assistant City Manager
Approved as to form:	Phaedra A. Norton, City Attorney

Attachments:

1. Table 1: Affordability Standards for the City of Riverside
2. Presentation

CITY OF RIVERSIDE

INCLUSIONARY HOUSING RECOMMENDATIONS

MAY 23, 2022 HOUSING & HOMELESSNESS COMMITTEE

1. Inclusionary Requirement – initiate program at a place where our market can bear and then make changes over time

Development Type	% of Units	Affordability Level
Multifamily	**10%**	Low-income - 70% of Area Median Income (AMI)
High-Density Single Family (e.g., Townhome)	**10%**	Low-income - 70% of AMI
Low-Density Single-Family	**5%**	Moderate-income - 110% of AMI

2. Exemptions to Inclusionary Housing Requirement
   a. Residential projects with fewer than three units
   b. Residential projects that have submitted a **complete** application - Staff is developing definition for complete application that will require City Council approval

3. Affordability Term
   a. Rental units: 55 years
   b. For-sale units: 45 years, equity share provision if properties are sold to a non-income eligible homebuyer
   c. 99-year lease on Housing Authority-owned properties

4. Size of Affordable Housing Units
   a. Multifamily rental projects: Require on-site or off-site affordable units to reflect the mix of market-rate units (e.g., same proportion of one- bedrooms, two-bedrooms, etc.)
   b. Net leasable areas of at least 90 percent of the average size of the market-rate units of similar bedroom counts (up to 10% smaller in size than market rate units)

5. Off-Site Affordable Housing Units
   a. Allow developers to meet their inclusionary housing requirement by providing affordable housing units off-site.
   b. Require that the number of off- site affordable housing units be equivalent to a higher proportion of the market-rate units than if the inclusionary requirement is met on-site.
      i. Must be built within the Ward - 15% of the units
      ii. Overconcentration and development of off-site affordable units - Staff is developing definition for overconcentration that will require City Council approval

6. In-Lieu Fee
   a. Any fee requires direction and approval by City Council
   b. Allow payment of an in-lieu fee for all or a portion of the inclusionary housing requirement
   c. In-lieu fees based on the percentage of affordable units required if the inclusionary units were provided outside the boundaries
   d. Also required for any fractional units required for multifamily and townhome projects

7. Next Steps:
   a. Planning Commission: August 2022
   b. City Council: September 2022