Housing and Homelessness Committee Memorandum

City of Arts & Innovation

TO: HOUSING AND HOMELESSNESS COMMITTEE **DATE: JULY 27, 2020**

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

SUBJECT: OVERVIEW OF INCLUSIONARY HOUSING PROGRAMS

ISSUE:

Receive and file a report on Inclusionary Housing Programs and provide staff with direction on next steps.

RECOMMENDATION:

That the Housing and Homelessness Committee:

1. Receive and file a report on Inclusionary Housing Programs; and

2. Provide staff with direction on next steps.

BACKGROUND:

In recent years, the State of California has identified the shortage of housing as a legislative priority. A housing shortage impacts the State's economy, contributes to homelessness, and results in long commutes, which increases production of green-house gas emissions, air-pollution and contributes to poor health. Over the past few years, State housing legislation has focused on housing production and affordability.

To help identify opportunities for affordable housing in the City of Riverside, on June 22, 2020, the Housing and Homelessness Committee requested that staff provide a presentation on Inclusionary Housing Programs (Program) for consideration by the Committee.

DISCUSSION:

Defining the Need

The Regional Housing Needs Allocation (RHNA) is mandated by State Housing Law as part of updating a City's Housing Element within the General Plan. The 5th Cycle RHNA Allocation Plan covers the planning period from October 2013 to October 2021. Housing is separated into categories based on Area Median Income (AMI), which for Riverside includes:

Table 1 – 2020 State Income Limits – Riverside County

	Number of Persons in Household							
# of Persons	1	2	3	**4**	5	6	7	8
120% of Median	$ 63,250	$ 72,300	$ 81,300	$ 90,350	$ 97,600	$ 104,800	$ 112,050	$ 119,250
100% of Median	$ 52,700	$ 60,250	$ 67,750	**$ 75,300**	$ 81,300	$ 87,350	$ 93,350	$ 99,400
80% of Median	$ 42,200	$ 48,200	$ 54,250	$ 60,250	$ 65,100	$ 69,900	$ 74,750	$ 79,550
50% of Median	$ 26,400	$ 30,150	$ 33,900	$ 37,650	$ 40,700	$ 43,700	$ 46,700	$ 49,700
30% of Median	$ 15,850	$ 18,100	$ 21,720	$ 26,200	$ 30,680	$ 35,160	$ 39,640	$ 44,120

The City of Riverside's 5th Cycle RHNA obligation was 8,283 units as follows:

- Very Low and Low Income (0-80% of AMI): 3,338 units
- Moderate Income (80-120% AMI): 1,503 units
- Above Moderate Income (120+ AMI): 3,442 units

For the 6th Cycle RHNA, the obligation is estimated to be 18,419 units. The breakdown by income level includes:

Table 2 – Estimate of 6th RHNA Cycle (March 20, 2020)

Income Level	Units	Percent
Very-low income (under 50% AMI)	4,849	26.3%
Low income (50-80% AMI)	3,057	16.6%
Moderate income (80-120% AMI)	3,133	17.0%
Above moderate income (120% + AMI)	7,379	40.1%
6th CYCLE ESTIMATE TOTAL		18,419
5th CYCLE CARRYOVER		5,816
TOTAL REQUIRED (PRODUCTION)		24,235

Summary of Inclusionary Housing Programs

An Inclusionary Housing Program (Program) helps create affordable housing within private developments for lower income families by requiring that a certain percentage of new residential units are rented to lower-income residents. Affordable housing is defined as rent/utilities or mortgage/taxes/insurance/utilities that cost 30% or less of the gross household income. Programs can include both for-sale and rental units and are often implemented through a jurisdictions zoning code.

To offset the cost of providing affordable housing in all new projects, the Program can offer incentives to developers in the form of tax abatements or zoning concessions such as reduced parking, or density bonuses. Developers can also be provided an option to choose an alternative to providing the affordable units in the form of in-lieu fees or providing affordable units at a different project.

In 2009, the California Court of Appeals blocked local inclusionary housing ordinances for rental construction as it was determined that they violated the Costa-Hawkins Act, which bans rent control on new rental units. In 2015, a ruling by the California Supreme Court upheld the ability of local governments to adopt inclusionary housing ordinances. In 2017, Assembly Bill 1505 only focused on allowing local inclusionary policies for affordable rental housing. In doing so, jurisdictions must provide alternate means of compliance in developing the Program that can include in-lieu fees, land dedication, off-site construction, acquisition, or rehabilitation of existing units.

If jurisdictions do not submit their Annual Progress Report each year or do not meet at least 75% of their RHNA obligations, the California Department of Housing and Community Development (HCD) is required to review any ordinance if more than 15% of total units are targeted as affordable. HCD may also require the City to submit an economic feasibility study to ensure housing production is not unduly constrained by any Program. Staff has identified the following process if the City considers developing a Program.

Identifying Program Goals

In developing a Program, the City would first define the Program goals. This could include providing affordable housing to help meet the City's RHNA obligation, ensuring social integration in new housing projects, promoting workforce retention/attraction, supporting transit-oriented developments, mitigating displacement of residents, and meeting neighborhood needs. Programs are usually tailored to address local housing needs and market conditions. Therefore, when creating a Program, the City would need to consider the following:

1. Making the program mandatory or voluntary.
    a. Mandatory Programs: Require some percentage of new units built be affordable for low- or moderate-income households. Developers can be offered incentives to offset the cost of providing affordable units; or
    b. Voluntary Programs: Provide incentives to developers to include affordable units, such as density bonuses or tax incentives.

2. Geographic coverage
    a. Citywide
    b. Targeted at specific neighborhoods

3. Type of Developments
    a. Rental housing
    b. For-sale housing
    c. Commercial developments

4. Size of Development (i.e. 10 units or more)

5. Share of units to be made affordable (typically between 5-30%)

6. Income levels of affordable housing units
    a. 50% of AMI
    b. 60% of AMI
    c. 80% of AMI
    d. 120% of AMI

7. Affordability duration (i.e. State requires 45 years for homeownership and 55 years for rental projects.)

8. Alternative compliance options
    a. Build affordable housing units offsite
    b. Pay an in-lieu fee
    c. Dedicate land

Assessing Program Feasibility

The Framework decisions would be assessed as part of an economic feasibility study (Study) to evaluate the soundness of the Program and ensure development is not deterred, while also ensuring that affordable housing is developed in the City. The Study would determine how the Program could potentially impact, in both the short and long term, market-rate housing Citywide and within neighborhoods. The Study would include an analysis of trends and market conditions and short/long-term economic and community impacts to ensure the private investment market is able to prosper in the City while providing affordable housing. Impacts evaluated could include individual property values, ability to meet community service needs, effects on infrastructure and quality of life that will, in the long-run, result in stronger, more resilient neighborhoods. Recommendations on the Program would also be developed.

Stakeholder input would be an important component of the economic feasibility study to ensure that the analysis is realistic and pragmatic. As such, a stakeholder outreach program would be developed and implemented as part of the Study development.

The cost of the Study, including the stakeholder outreach program, is estimated at $150,000 and the timeframe to complete it is 12 months.

Creating the Policy for the Program

If the economic feasibility study shows that the Program is viable, the next step would be to develop a Policy Document (Policy) for the Program. The Policy would set the framework for how the Program would work in Riverside. Development of a Policy would link the City's affordable housing development needs with the ability of the local development market to build the necessary units while retaining the financial viability of residential projects. Any Policy should balance incentives to developers with the cost of the inclusionary requirements that will be imposed on projects.

Implementing the Program

Identifying incentives for developers is an important component of the Program as they can be used to offset the cost of integrating affordable units into a project. Incentives typically focus on potential modifications to zoning standards such as density bonuses, parking reductions, setback variations, streamlined processing, and fee waivers. Direct subsidies and tax abatements can also be offered as incentives in an inclusionary zoning Program.

The City could also consider alternatives to providing the affordable housing within the new development. This could include in-lieu fees that would be placed in a trust fund specifically for the City to target affordable housing production. Off-site improvements can also be proposed where the developer could partner with other non-profits or dedicate land in another location for affordable housing.

The incentives and alternatives would be codified as part of Title 19 – Zoning Code to implement the Inclusionary Housing Program. A Chapter of Title 19 would exclusively define the requirement for inclusionary housing. The update would include a summary of exempt projects, unit/percentage requirements whether for sale or rent, possible alternatives/concessions to be used, alternatives to providing the affordable housing, any necessary agreements, project standards, approval process, fees, enforcement and appeals. A process for taking determinations (i.e. the property value was taken without just compensation) will be prepared identifying responsibilities for both developers and the City. A trust fund would be also be established, separate from the General Fund, where all in-lieu fees collected would be deposited to ensure they are used for affordable housing only.

Initial Outreach

In order to gauge how the Program would be received, staff reached out to some members of the developer community who have constructed, or are currently constructing, single-family and multi-family housing in the City and the region. The consensus response was that, without heavy financial subsidies, it would be economically difficult for developers to produce affordable units in future projects as required by the Program.

The Community & Economic Development Director concurs with this staff report.

FISCAL IMPACT:

There is a fiscal impact if the Committee directs staff to pursue an Inclusionary Housing Program. Although there are no current proposals, costs are estimated at $150,000 for developing the Economic Feasibility Study which will include conducting workshops with developers and other stakeholders, which would be allocated from the following accounts: 9901400-440443 ($136,199.34); and 9895800-440440 ($13,800.66). Staff would return to the City Council with a contract bid recommendation.

The Policy development and Title 19 changes would be completed by staff with no additional cost.

Prepared by:	Michelle Davis, Housing Authority Manager
Certified as to availability of funds:	Edward Enriquez, Chief Financial Officer/City Treasurer
Approved by:	Moises Lopez, Deputy City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachment: Presentation