

Agenda Report

DATE: APRIL 9, 2007
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBJECT: AFFORDABLE HOUSING PLAN

RECOMMENDATION

It is recommended that City Council take the following actions:

1. Transfer \$5,000,000 from the Housing Opportunity Fund to the Housing Rehabilitation Fund to implement the immediate acquisition and rehabilitation of multi-family units for the purpose of providing additional affordable housing opportunities.
2. Transfer \$2,000,000 from the Housing Opportunity Fund to expand Affordable Housing Preservation efforts through the extension of existing and purchase of new affordability covenants (first-time homebuyers), the provision of assistance to housing projects that preserve at-risk properties including affordable/workforce units and/or properties requiring maintenance and rehabilitation.
3. Direct the City Attorney to prepare an ordinance, and return within 90 days, establishing a policy to waive a portion or all Inclusionary Housing In Lieu Fees for development projects that include at least 30% workforce housing constructed on or off-site;
4. Adopt a policy to utilize limited equity cooperatives as a tool to facilitate affordable homeownership opportunities among the City's low, moderate and workforce income residents.
5. Consistent with the 2007 Legislative Platform, support legislation to provide tax and other benefits to owners of properties who participate in the City's federal rental assistance programs.
6. Work with the San Gabriel Valley Council of Governments to initiate the establishment of a Trust Fund.

7. Reserve \$2,000,000 in existing appropriations within the Housing Opportunity Fund to establish a Land Banking Program for the purpose of purchasing land and partnering with other entities for the development of affordable rental housing.
8. Pursue the establishment of a Nonprofit Housing Development Corporation to allow for greater leveraging of funds, solicitation of land donations and management of future City/Commission housing projects.
9. Appropriate \$25,000 from the Housing Opportunity Fund to begin immediate implementation of the Ten Year Strategy to End Homelessness - Homeless Prevention Program.
10. Include in the recommended Fiscal Year 2008 operating budget funding in the amount of \$450,000 to implement the Ten Year Strategy to End Homelessness - Homeless Prevention Program, as well as \$100,000 to expand the Emergency Rental Assistance Deposits (ERAD) Program.

BACKGROUND

Housing continues to play a critically important role in the quality life of those who live and work in the city. It is against this backdrop that the City of Pasadena remains committed to addressing the housing needs of its residents as set forth in its Housing Vision:

All Pasadena residents have an equal right to live in decent and safe affordable housing in a suitable living environment for the long-term well-being and stability of themselves, their families, their neighborhoods, and their community. Our vision is to maintain a socially and economically diverse community of homeowners and renters afforded this right.

Rapid escalation of housing prices has made housing unaffordable and in some instances, an impossible dream, even for households earning more than \$100,000. This has led to displacement of some long-term residents. As early as 2000, the City began to fashion a series of events to address this issue. These efforts included Housing 2000, the Housing Affordability Task Force, Affordable Housing Luncheon and the Housing Summit.

These activities have directly led the City to initiate several cutting edge housing programs, including the Inclusionary Housing Ordinance, Local Hiring Ordinance, Tenant Protection Ordinance, Ten Year Strategy to End Homelessness, Local Preference and Priority System Guidelines, Workforce Housing Program and other initiatives which have been responsible for the preservation and development of numerous affordable housing units as well as job opportunities for low, moderate and workforce income households.

In this context, the Pasadena Housing Agenda for Action is a re-examination of these efforts with the intent to do three things: 1) to provide clarity on the key immediate housing needs and priorities facing Pasadena today and over the next ten years; 2) to provide an assessment and evaluation of existing housing programs and/or initiatives and their effectiveness in meeting Pasadena's needs;

and 3) to further provide a series of realistic housing actions to best address the City's immediate housing needs in balance with other City goals.

METHODOLOGY

On March 10, 2006, the Office of the City Manager – Housing and Community Development conducted the first “Pasadena Housing Summit.” As a follow-up to the Housing Summit and the prior housing forums (i.e., Affordable Housing Luncheons, Housing Affordability Task Force, Housing 2000, etc.), Housing and Community Development (HCD), selected The Planning Center, in conjunction with the Urban Land Institute (ULI), to devise a Housing Agenda For Action that would facilitate the allocation of resources for the preservation and provision of affordable and workforce housing opportunities citywide.

The Planning Center performed an assessment of the various city housing policy documents, housing programs and Housing Summit comments, etc. to determine their responsiveness to the needs, issues, goals, objectives, and strategies for making housing within Pasadena readily accessible to low, moderate and middle income residents. The assessment relied on City housing and planning documents, interviews, primary research, and the review of best practices to analyze the City's housing needs, evaluate the success and appropriateness of current initiative, and develop realistic strategies for consideration and implementation. This review included an analysis off State and Federal housing plans, primary data sources (including the U.S. Census Bureau, American Community Survey, Southern California Association of Governments regional growth forecast), community input, city ordinances/staff reports and best practices research.

Upon completion of the Planning Center's assessment, a draft Housing Agenda for Action was prepared detailing new housing initiatives and/or modification of existing housing programs. The Urban Land Institute Los Angeles (ULI LA) performed a peer review of the draft Housing Agenda for Action in January, 2007. ULI LA conducted a two-day Technical Assistance Panel on January 25 and 26, 2007 to review the draft report as well as other relevant documents, tour the city, interview stakeholders and provide their preliminary findings and recommendations during a public presentation. The results of the Technical Assistance Panel were received by the City and distributed to members of the Council and made available to the public.

SUMMARY DEMOGRAPHIC AND HOUSING FINDINGS

The Housing Agenda for Action critically examined recent changes to Pasadena's residents, their socio-demographic makeup, characteristics of the housing stock, and other factors to understand the changes undergoing in the city as well as provide a basis for addressing them. The body of the report presents 25 different findings, each providing supporting data for each finding. These conclusions can be synthesized into five overarching issues.

As Pasadena looks forward to the next housing planning period and attempts to address its challenges, the City will need to address the following five overarching issues:

- Accommodating Growth.
- Maintaining Social and Economic Diversity.
- Providing Diverse Housing Types and Prices.
- Providing Quality Housing and Neighborhoods.
- Assisting Residents with Special Housing Needs.

HOUSING AGENDA FOR ACTION – RECOMMENDED INITIATIVES

Despite aggressive policy and programmatic efforts, the City of Pasadena continues to face a housing crisis exemplified by increasing housing prices, limited choice of housing types, and increasing limits on housing affordability. The housing market forces underpinning the present crisis have roots in the underproduction of housing throughout the region and the high quality of life afforded residents. Consequently, these market forces are causing the increased displacement of residents and loss of social and cultural diversity. The Housing Agenda for Action proposes several housing initiatives and a recommended list of actions. The recommended initiatives have been devised to augment the City's existing programs, address unmet needs, and help create new housing models that will respond to the City's increasing housing needs. These initiatives are divided into immediate, mid and long term initiatives. The recommended initiatives are described below.

IMMEDIATE TERM INITIATIVES

Workforce Housing Inclusionary In Lieu Fee Waiver. Workforce housing is of critical concern to both those who are seeking housing and their employers. Moreover, it is imperative that teachers, grocery workers, nurses and governmental employees have the opportunity to live within the community that they serve. They are an important part of any community and yet because of extremely high housing costs are being priced out of the market, much like low income residents. This initiative would take two forms:

- a. Implement a policy to waive the Inclusionary Housing in lieu fee for those projects that include at least 30% workforce housing.
- b. Continue a dialog with local lending institutions to provide flexible and/or below market rate financing for developers who are providing workforce housing.

Extension and expansion of housing covenants. One of the most effective means to preserve the current stock of affordable housing is through the use of affordability covenants. Currently, there are approximately 2,794 units under covenant. It is essential that we maintain and make every attempt to extend these covenants well into the future. Accordingly, staff recommends that Council reserve an additional \$2,000,000 for the retention and extension of current affordability covenants and for the expansion of this program by 10% over the next 5 years. This would give an increase of almost 300 additional units of affordable housing during the targeted period. Likewise, funds appropriated to this program will be utilized to preserve at risk properties including affordable/workforce units and provide assistance to currently affordable units that require maintenance and rehabilitation. An appropriation of \$500,000 of these reserved funds will be requested in the FY 2008 Operating Budget.

Increase the amount of the funds appropriated to the Emergency Rental Assistance Program for renters. In conjunction with the policy change recommended above, it is recommended that Council appropriate an additional \$100,000 dollars this year and an equal or greater amount in subsequent years to expand the Emergency Rental Assistance Program (ERAD). This program will assist those who are seeking to live in rental properties but do not have sufficient funds available for their rental deposits. In many instances, persons who are seeking rental housing are unable to afford the initial deposit for the rental property. This program will be augmented from the funds from the sale of a Commission owned property, Casa Maria.

Establish a Homeless Prevention Program. This program, which would be funded from the sale of the Casa Maria property, would provide immediate assistance to households who are on the cusp of losing their shelter. In many instances the amount of funds needed to pay months rent can be as low as \$30.00. Every effort possible should be made to assist those who are on the cusp of homelessness to remain in their housing. Staff is requesting that \$25,000 be appropriated this fiscal year to begin the program. As part of the Fiscal Year 2008 Recommended Operating Budget, an additional \$450,000 would be allocated to fully establish this program which would include a provision for providing housing related-assistance.

Support legislation to provide incentives for owners of rental housing to participate in the City rental programs. Providing incentives to those apartment building owners who agree to participate in the rental housing programs would assist in the preservation of housing affordability. Likewise, efforts must be renewed to retain those building owners who are currently participating in the rental housing program. Accordingly, staff recommends that City should support state and federal legislation which would provide tax benefits and other incentives for those owners of rental properties who participate in the federal, state or local affordable rental housing programs.

MID TERM INITIATIVES

In almost every report written about Pasadena's affordable housing programs, the need for the preservation of affordable housing was paramount. To address the clearly defined need, the following mid term initiatives are recommended.

Multifamily Acquisition and Rehabilitation. It is recommended that Council appropriate \$5,000,000 for the initiation of an aggressive multifamily acquisition/rehabilitation effort. This program will fill a critical gap in the City's current program offerings. Such an effort would serve to upgrade distressed properties, enhance the efforts to improve living conditions within certain distressed neighborhoods, and provide affordable/workforce housing. This acquisition would take two forms:

- a. Staff would identify existing multifamily properties in disparate parts of the city and make every reasonable effort to purchase these properties and utilize them as affordable/workforce housing assets. City staff is currently cataloging several distressed properties throughout the City which would be prime candidates for such a program and will determine the efficacy of purchasing and rehabilitating these units.
- b. By acquiring and rehabilitating deteriorated units, which are typically occupied by lower and moderate income households, the City would also prevent the displacement of residents and further its diversity goals.

This year, as a goal, at least one multifamily apartment building will be purchased and utilized as affordable housing.

Limited Equity Cooperative. As the City acquires multifamily housing units, creative financing tools must be explored for those wishing to purchase units. Such a tool would be the use of limited equity cooperatives, or co-ops. Pasadena has witnessed tremendous escalation in for-sale housing prices over the past five years, with the average-priced single-family home now commanding nearly \$900,000 and the average-priced condominium selling for \$600,000, homeownership has become out of reach for many low, moderate, and even workforce income households. Such steep housing prices preclude the majority of the community residents from ever attaining homeownership, including the City's moderate and workforce income households, which encompasses professions such as teachers, police officers, civic employees, engineers, and attorneys. The City's Homeownership Opportunities Program now requires a subsidy of \$150,000 – \$200,000 for moderate income households, limiting the number of households that can be assisted. The provision of limited equity housing cooperatives, which can be accomplished through the city's purchase of an apartment complex and conversion of the existing units to cooperative ownership, presents a viable option to expand home ownership.

San Gabriel Valley Housing Trust Fund. The present Pasadena housing crisis is in part the result of regional underproduction of housing. During the 1990s alone, San Gabriel Valley Council of Government (SGVOG) cities saw only one new home built for every eleven new residents to the valley. Growth projections show that the Valley would need to triple or quadruple housing production over the next 30 years to accommodate expected population growth. Although Pasadena has facilitated a significant level of housing production commensurate with population growth, the City's efforts cannot compensate for the regional underproduction of housing. Greater inter-city cooperation is needed. The San Gabriel Valley Council of Governments currently has a task force which is working on this issue. The Assistant City Manager and or the Housing Administrator will be assigned to join this effort and to work with the regional organizations to bring a trust fund to fruition.

LONG TERM INITIATIVES

Working in concert with the immediate and mid term initiatives, the long terms initiatives described below will not likely bring immediate results, but will, over time, prove to be extremely effective tools to for the City to utilize to affect more affordable housing.

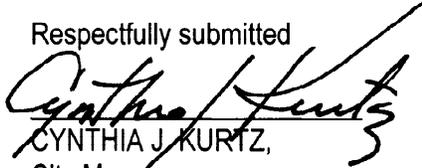
Land Banking. One of the primary issues of affordable housing production in Pasadena is the difficulty in locating and securing sites suitable for development. Land costs represent a substantial part of the total cost of building new housing. In 2000, the City surveyed land and found that the total acquisition cost per square foot of land ranged from \$26 to \$70 per square foot, translating into roughly \$35,000 per permitted unit. Land prices have escalated significantly since then. Land banking represents a technique whereby the city or a city-sponsored nonprofit organization, in anticipation of increased land costs and future development opportunities, acquires vacant land, underutilized sites, or properties with the potential for reuse or rehabilitation. The city may also be able to buy land from other public agencies at a lower cost or before it comes on the market because state law gives local governments, as well as nonprofits, priority in purchasing surplus land. A Land Banking Program offers a proactive solution to addressing the escalating cost of land. It is recommended that Council reserve \$2,000,000 for the purpose of acquiring properties for future affordable housing developments.

Pasadena Nonprofit Development Corporation. The amount of residential development in Pasadena combined with recent increases to the inclusionary housing in-lieu fee have resulted in an unprecedented level of funding available for affordable housing preservation and production activities. It is projected that the Housing Opportunity Fund balance will grow to \$15 million by fiscal year 2007/08, with additional funds available through redevelopment set-aside, HOME, State and other funding sources. One model that can be used to provide enhanced capacity for housing activities is the formation of a Pasadena nonprofit housing development corporation. This option provides the City with access to additional sources of private, state, and federal funds, and would allow Pasadena to take a greater leadership role and equity position in creating the type of housing best suited to meeting the community's needs. The nonprofit housing development corporation could also provide benefits to several recommended program initiatives, including the Land Banking, Multi-Family Acquisition and Rehabilitation, and Affordable Housing Preservation. Moreover, as the City begins to acquire multifamily and other properties, there will be a need to manage these properties. It is recommended that this non-profit development corporation manage these properties.

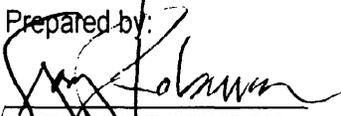
FISCAL IMPACT

The recommended Housing Agenda for Action Initiatives requires initial funding in the amount of \$9.5 million for these efforts. Presently, approximately \$15 million is projected to be available in the Housing Opportunity Fund to commence these initiatives. While it remains difficult at this time to estimate, it is anticipated that the proposed initiatives shall generate a positive fiscal impact in three areas, namely, program savings based on cost effectiveness, leveraging of additional private sector resources and increased residential property tax revenues.

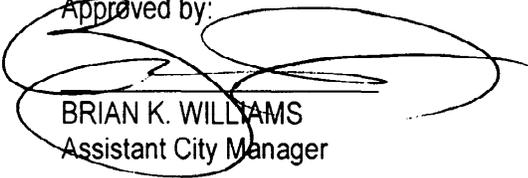
Respectfully submitted


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