



OFFICE OF THE CITY MANAGER

July 11, 2005

TO: City Council

THROUGH: Finance Committee

FROM: City Manager

SUBJECT: DISCUSSION OF RESIDENTIAL IMPACT FEE AMENDMENTS TO ORDINANCE 6252 – NEW RESIDENTIAL IMPACT FEE (FOR PARKS) AND REVISED RECOMMENDATION RELATING TO WORKFORCE HOUSING

RECOMMENDATIONS

It is recommended that the City Council direct the City Attorney to further amend Ordinance 6252 – *the New Residential Impact Fee* and replace recommendations #4 and #8 on the attached agenda report to the following:

1. Provide an incentive for developers to construct for sale or rent workforce housing units onsite to eligible households by offering a rebate of either 50 percent or 35 percent of the applicable residential impact fee for all workforce units if at least 15 percent of the development is designated as workforce housing units. The rebate will be based on the sales/rental price of the unit as follows:
 - For a sales/rental price within the range of 121 percent to 170 percent of average median income a 50 percent reduction in the applicable residential impact fee;
 - For a sales price within the range of 171 percent to 220 percent of average median income a 35 percent reduction in the applicable residential impact fee; and
2. Provide a covenant for workforce housing units in accordance with the following key terms:

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- Eligible Households – residents who earn between 121 to 220 percent of average median income (AMI) for Los Angeles County which is currently \$66,120 to \$110,220;
 - Terms – workforce units are covenant for a term of 15 years, and within that period, the unit must be sold or rented to eligible households; and
3. Assess student housing on property owned by and developed in conjunction with **accredited** post-secondary educational institutions a fee of \$756 per unit, which is the same fee paid by affordable housing units.

On June 20, 2005, the Finance Committee directed staff to address the issues below before forwarding the attached agenda report to the City Council. Staff prepared the following responses and convened the Residential Impact Fee Committee and incorporated their input into the responses.

1. WORKFORCE HOUSING

The workforce housing model presented in the June 20, 2005 agenda report was modeled after the City's inclusionary housing program. The intention behind the workforce housing program was that it would bridge the gap between inclusionary housing and market rate housing prices in Pasadena. In the City's model, the Los Angeles County average median income is based on a household of four people occupying a two to three bedroom unit.

- **What would be the workforce housing rental rates?**

The rental affordability for a household with earnings of 121 percent to 220 percent of the Los Angeles County average median income (AMI) ranges from \$1,653 to \$3,030 per month in 2005 dollars and would be adjusted annually.

- **Can the workforce housing developments receiving the benefit of a reduced Residential Impact Fee be limited to those which only offer workforce units to Pasadena residents and/or City of Pasadena employees?**

The City can limit developments receiving this benefit to those which only offer the units to people who either work and/or live in Pasadena. However, the period of residency cannot be restrictive. This means that a resident who has been in the City one week would qualify. This arises from a Constitutional prohibition on restricting rights to travel.

The proposed definition of workforce housing would include many City of Pasadena employees. According to the City Attorney's Office, making a further distinction could be seen as discriminatory and without reasonable basis.

- **Can the occupants be limited to families?**

Yes, but the definition of family cannot discriminate against any particular types of families, so the definition would include two cohabitating persons in a shared housekeeping unit.

- **Can seniors move into workforce units?**

The City cannot discriminate by age if the individual otherwise qualifies for workforce housing.

- **How was the average median income (AMI) translated to the price of the housing?**

This is the same formula used to calculate the inclusionary housing prices. Workforce housing is the tier of housing between affordable housing and market rate housing. To translate AMI into the price of housing, the following formula is used: AMI multiplied by percentage of household income divided by twelve months multiplied by housing cost percentage multiplied by 80 percent to determine the mortgage payment. The home price was determined by using the mortgage payment amount at a 6 percent interest rate for a 30 year mortgage term with a 5 percent down payment.

- **What is the rationale for the 220 percent upper limit of AMI?**

In determining the 220 percent of AMI as an upper limit for participation in workforce housing, the Residential Impact Fee Committee looked at the average cost of condominiums by zip code in Pasadena and the area of the City where development is occurring. The range of 121 percent to 220 percent was selected because it bridges the gap between inclusionary housing cost and the median housing prices. Households with an AMI that exceeds than 220 percent can afford to purchase a home at market rate.

2. DEVELOP A VARIABLE DISCOUNT FOR WORKFORCE HOUSING UNITS WITH THE LOWER COST UNITS RECEIVING THE HIGHER DISCOUNT IN THE RESIDENTIAL IMPACT FEE.

The Residential Impact Fee Committee recommends that a variable discount for workforce housing units not be implemented. After discussing several options, the committee came to the conclusion that varying the fee would not create enough of an incentive for a developer to build workforce housing; therefore, defeating the purpose of this program.

However, a reduction in the fee along with other factors may be an incentive for developers to build workforce units. As such, staff recommends a tiered reduction in the fee based on the sales prices. Due to the uncertainty of the sales price of a unit at the time the developer secures the building permit and pays the residential impact fee, staff recommends that the full applicable residential impact fee be paid and that after the sale or rental of the unit to an eligible household, based on the price, a scaled rebate be issued for workforce housing units as follows:

- For a sales price or rental rate within the range of 121 percent to 170 percent of AMI a 50 percent reduction in the applicable residential impact fee;
- For a sales price or rental rate within the range of 171 percent to 220 percent of AMI a 35 percent reduction in the applicable residential impact fee.

3. PROVIDE A MORE SPECIFIC DEFINITION OF SENIOR LIFE/CARE FACILITIES.

Staff recommends the term used for these types of developments be changed to “assisted living residential units.” The term “assisted living residential unit” would be defined as a unit reserved and equipped for residents requiring daily, continual medical care and assistance with two or more basic living functions (such as bathing, dressing, feeding, and grooming) in order to help provide for and maintain physical and psychological comfort, and which are covered by the appropriate state licenses for an assisted living facility.

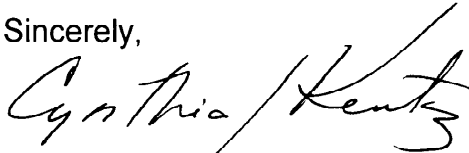
4. STUDENT HOUSING

Per the Finance Committee’s request, staff is changing the recommendation for student housing to: “Student housing owned and developed by an **accredited** post-secondary educational institution shall pay a reduced RIF of \$756 per unit.”

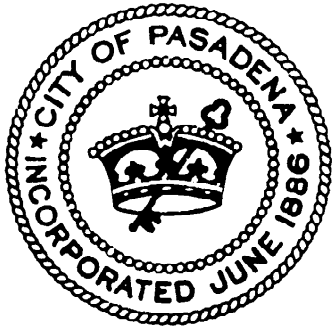
5. PROVIDE A FISCAL IMPACT OF IMPLEMENTING THE PROPOSED RESIDENTIAL IMPACT FEE METHODOLOGY BASED ON THE NUMBER OF BEDROOMS WITHIN A RESIDENTIAL UNIT, VERSUS A FLAT FEE OF \$19,743 PER UNIT.

During the period from December 22, 2004 to June 22, 2005, eleven developments pulled building permits for 529 units and a total of 805 bedrooms and 62 studio units. Under the approved fee structure in which the RIF increases to \$19,743 per unit as of December 7, 2005, the City would have collected \$6,583,497 in Residential Impact Fees. If the City Council adopts the proposed fee structure based on the number of bedrooms, the City would have collected \$5,603,243. This is a net decrease of \$980,254. See attachment for details.

Sincerely,

A handwritten signature in black ink, appearing to read "Cynthia J. Kurtz". The signature is written in a cursive, flowing style with a large initial "C".

CYNTHIA J. KURTZ
City Manager



Agenda Report

TO: CITY COUNCIL

DATE: June 20, 2005

THROUGH: FINANCE COMMITTEE

FROM: CITY MANAGER

SUBJECT: RECOMMENDED AMENDMENTS TO ORDINANCE 6252 - NEW RESIDENTIAL IMPACT FEE (FOR PARKS) TO CHANGE THE FEE CALCULATION METHODOLOGY; ADD INCENTIVES FOR ENCOURAGING AFFORDABLE HOUSING AND WORKFORCE HOUSING TO BE BUILT ON-SITE; ASSESS SENIOR LIFE/CARE FACILITIES AND STUDENT HOUSING THE SAME FEE AS AFFORDABLE UNITS; AND EXPAND THE DEFINITION OF NEW RESIDENTIAL DEVELOPMENT TO INCLUDE WORK/LIVE UNITS

RECOMMENDATIONS

It is recommended that the City Council direct the City Attorney to amend Ordinance 6252 – *the New Residential Impact Fee* to the following:

1. Change the methodology used to calculate the Residential Impact Fee from a flat fee per dwelling unit to one based on the number of bedrooms within a residential unit as outlined in Table 1 which ranges from \$14,588 to \$27,003;
2. Define bedroom within the amended text of Ordinance No. 6252, Chapter 4.17 of the Pasadena Municipal Code;
3. Provide an incentive for developers to construct affordable housing units onsite by continuing to collect \$756 for each affordable unit, and reducing the Residential Impact Fee for all other units in the development by 30 percent;
4. Provide an incentive for developers to construct workforce housing units onsite by reducing the Residential Impact Fee by 50 percent for all workforce units if at least 15 percent of the development is designated as workforce housing;

5. Define workforce housing within the amended text of Ordinance No. 6252, Chapter 4.17 of the Pasadena Municipal Code;
6. Assess residential units within senior life/care facilities a fee of \$756 per unit, which is the same fee paid by affordable housing units;
7. Define senior life/care facilities within the amended text of Ordinance No. 6252, Chapter 4.17 of the Pasadena Municipal Code;
8. Assess student housing on property owned by and developed in conjunction with post-secondary educational institutions a fee of \$756 per unit, which is the same fee paid by affordable housing units; and
9. Expand the definition of “New Residential Development” and the housing types subject to the Residential Impact Fee, to include work/live units as defined in the Zoning Code - Article 8.

Residential Impact Fee Committee Recommendations

1. Variable fee based on size of development - Change the methodology used to calculate the RIF from the existing flat fee per unit to one based on number of bedrooms within a residential unit as outlined in Table 1;
2. Incentives to increase on-site affordable housing units – Continue collecting an RIF of \$756 for each affordable unit, and reduce the RIF for all other units in the development by 30 percent. In addition, the committee recommends researching discounting all discretionary permit, tax and impact fees so as to spread the burden of the discount. Staff does not recommend this study take place for at least six months. If the new proposals are adopted by the City Council, staff would like the opportunity to evaluate their effectiveness before recommending additional changes; and
3. Incentives to increase workforce housing units - Reduce the RIF by 50 percent on units classified as workforce if at least 15 percent of the development is dedicated workforce housing.

SUMMARY

The City Council directed staff and a citizen’s committee to formulate recommendations to address various issues relating to the increased Residential Impact Fee. Specifically, the committee recommends changing the methodology used to calculate the Residential Impact Fee from the existing flat fee per unit to one based on the number of bedrooms within a residential unit. Using this methodology, the fee would range from \$14,588 for a studio apartment to \$27,003 for a five or more bedroom unit. In addition, the committee recommends that as an incentive to increase the number of affordable housing units built on-site, the Residential Impact Fee for all other units in the development be reduced by 30

percent. Finally, the committee recommends that as an incentive to increase the number of workforce housing units built on-site, the Residential Impact Fee for all workforce units be reduced by 50 percent. Staff recommends senior life/care facilities and student housing be assessed a fee of \$756 per unit. Staff also recommends the City Attorney define “bedrooms” and “workforce housing”, and expand the definition of “New Residential Development” and housing types subject to the Residential Impact Fee be expanded to include work/live units. All of the above recommendations, require amendments to Ordinance 6252 – *the New Residential Impact Fee*.

BACKGROUND

On December 6, 2004, the City Council approved a phase in period for the Residential Impact Fee (RIF) increase. The fee was set at \$10,977 per new residential unit until December 6, 2005, at which time it is scheduled to increase to \$19,743 per unit. Affordable housing will continue to pay a fee of \$756 per unit. In addition, the City Council directed staff to return with recommendations for a reduced fee for student housing and senior housing, as well as a program that provides credit for on-site, dedicated park land or substantial improvements to parks. Finally, the City Council directed the City Manager to form a committee comprised of members from the development community and members from the Recreation and Parks Commission and return with recommendations on the following:

1. Variable Residential Impact Fee rates based on the size of the development project and the size of the unit;
2. Incentives within the Residential Impact Fee to increase on-site affordable housing unit development; and
3. Incentives within the Residential Impact Fee for increased workforce housing development.

Residential Impact Fee Committee

The Residential Impact Fee Committee was made up of the following individuals:

- Laura Olhasso, Government Affairs Director, Pasadena-Foothills Association of REALTORS
- Ed Eyerman, Director, Sares Regis Group
- Joel Bryant, President, CBG
- Tim Alderson, Recreation and Park Commissioner
- Mark Persico, Recreation and Park Commissioner
- Mildred Hawkins, Recreation and Park Commissioner (unable to attend meetings due to illness)

The Committee met four times, (February 22, March 1, March 8 and March 15) and formulated the three recommendations listed on page two.

VARIABLE RIF RATE BASED ON SIZE OF THE DEVELOPMENT

The committee discussed several potential new methodologies including varying the RIF fee based on density or units per acre, and varying the fee based on the number of bedrooms per unit. The discussion focused on which methodology would be the best indicator of potential park impact. Ultimately, number of bedrooms was determined to be the most accurate and equitable basis on which to vary the fee as this often is an accurate measure of the number of occupants per unit. The committee recommends implementing the fee schedule listed below in Table 1.

The bedroom fee is based on applying the per person park and open space cost factor of \$7,137 (as calculated in the original nexus study) to Pasadena's overall average population per household by bedroom type. Using this methodology, the average per unit fee is \$17,658 although the average rate would not be charged. If a development consists of a mix of studios, one bedroom and two bedroom units, the development would pay a fee based on the mix of unit sizes in the project.

**Table 1 Proposed Residential Impact Fee Amounts
Based on the Number of Bedrooms per Unit**

Number of Bedrooms	Persons per Household	Cost per Unit by Number of Bedrooms
Studio	2.04	\$14,588
1	2.16	\$15,395
2	2.40	\$17,098
3	2.75	\$19,662
4	3.35	\$23,890
5 or more	3.78	\$27,003
<i>Average</i>	<i>2.47</i>	<i>\$17,658</i>

Using the current methodology (at a fee of \$19,743 per unit), a six unit development with two bedrooms per unit would pay a RIF of \$118,458. Under the proposed rate based on the number of bedrooms, this same development would pay a fee of \$102,588.

AFFORDABLE HOUSING

The current Residential Impact Fee for affordable units is \$756 per unit. If these units are built on site, the committee recommends providing a further incentive by reducing the RIF by 30 percent for all other units in the development. Table 2 illustrates the proposed Residential Impact Fee amount based on the committee's recommendations. The second column shows the fee amount resulting from the \$756 fee for all affordable units onsite. The third column shows fee amount with

the \$756 impact fee for affordable units in tandem with the 30 percent discount on all other units.

Table 2 Proposed Affordable Housing Fee Modifications

Scenario: 60 unit development with 2 bedrooms per unit and 9 affordable units
Reduction in Residential Impact Fees for Onsite Affordable Housing

	Fee Amt w/ 15% Inclusionary Housing 9 units at \$756 & 51 units at \$17,098	Fee Amt w/ 30% Incentive on Remaining Units 9 units at \$756 & 51 units at \$11,969
Residential Impact Fee	\$878,802	\$617,203
Net Savings		\$261,599

WORKFORCE HOUSING

This was a challenging topic for the committee since there is no legal definition of workforce housing and the category is not recognized by the state or federal government. Throughout the housing industry, definitions for the term “workforce housing” are inconsistent. In some cases, it is used as a blanket term encompassing all forms of affordable housing including low and very low income housing. More often however, it is intended to define a segment of the community, working professionals, with income levels just above the threshold for typical housing assistance programs (i.e. low and very low income) but still unable to afford a home in the community where they work.

Although many of the committee members felt this subject could be better analyzed by a different group with a longer timeframe, the committee was given this task and the committee proposed the following definition:

In Pasadena, workforce housing consists of residents who earn between 120-220 percent of average median income (AMI) for Los Angeles County which is currently \$66,120 to \$110,220. The purchaser is above the moderate income level but still at the low end of the local market availability. Workforce housing under this definition would be priced between \$250,000 and \$425,000.

The City currently offers incentives for the construction of affordable housing to very low, low and moderate incomes. Incentives are not currently available for workforce housing defined as 120 percent to 220 percent of AMI. A reduction in the Residential Impact Fee for workforce housing would create a new incentive for housing offered at prices above the State-defined affordable categories, but below current market rates. For workforce housing, the committee recommends a 50 percent reduction in the RIF for onsite units designated as workforce. However, at

least 15 percent of the development must be designated as workforce housing in order to be eligible for the reduction in the RIF. Table 3 exhibits resulting savings.

Table 3 Proposed Workforce Housing Fee Modifications

Scenario: 60 unit development with 2 bedrooms per unit and 9 workforce units
 Reduction in Residential Impact Fees for Onsite Workforce Housing
 Based on fee of \$17,098 per two bedroom units, and \$8,549 per workforce unit

	Base Fees	With 50% Reduction on Workforce Units 9 units at \$8,549 & 51 units at \$17,098
Residential Impact Fee	\$1,025,880	\$948,939
Net Savings		\$76,941

SENIOR LIFE/CARE FACILITIES

The Council directed staff to return with a recommendation for a reduced fee for senior housing. Staff recommends that senior life/care developments be assessed the affordable housing rate of \$756 per unit. Per this recommendation, a “life/care facility” is defined as *an integrated facility that provides accommodations for, and varying level of care to, senior residents depending on need. The use shall contain the following components: residential care facilities, and continuing care, Alzheimer and related facilities.* Due to the nature of these facilities and their residents, a senior life/care development will have minimal impacts on the park infrastructure.

According to the National Center on Assisted Living, the average age of residents in assisted living facilities is 80 years of age. And while a majority of the residents are mobile, their physical activity level is minimal.

As with other affordable developments, senior developments with units designated as “affordable” will pay the lower fee of \$756 per unit.

STUDENT HOUSING

The Council also directed staff to return with recommendations for a reduced fee for student housing. Student housing is unique for several reasons. First a majority of student housing is not occupied year round. The typical scholastic year spans nine months with most students vacating the units during breaks and holidays. In addition, college campuses offer a multitude of diverse recreational facilities from gymnasiums to tennis courts to running tracks to playing fields, etc. Lastly, most campuses offer recreational activities such as running clubs, sport teams, various physical fitness classes, etc. As a result, students are able to obtain a majority of their recreational needs on campus and the impacts on city parks are minimal.

The recommendation is for student housing on property owned by and developed in conjunction with a post-secondary educational institution to pay the reduced RIF of \$756 per unit.

WORK/LIVE UNITS

Staff recommends expanding the definition of “New Residential Development” and housing types subject to the Residential Impact Fee to include work/live units. Currently, work/live units are not defined in section 4.17.030 of *Ordinance 6252 – the New Residential Impact Fee* as either new residential construction or a commercial space converted for residential use. Work/live units are a hybrid living space and work area.

Work/Live units is defined by the Zoning Code – Article 8 as *an integrated housing unit and working space, in which the work component is the primary use and the residential component is secondary, occupied by a single housekeeping unit in a structure, that has been designed or structure, that has been designed or structurally modified to accommodate joint residential occupancy and work activity, and which includes:*

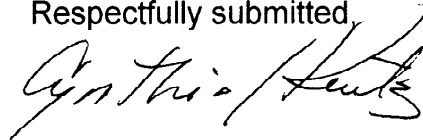
1. *Complete kitchen space and sanitary facilities in compliance with the Building Code; and*
2. *Working space reserved for and regularly used by one or more occupants of the unit.*

Although the work/live unit is primarily used for work, it is still a residence with occupant who will likely be consumer of park services and impact the park infrastructure. For this reason these units should be subject to the Residential Impact Fee when they are created.

FISCAL IMPACT

The exact fiscal impact of implementing the recommendations is unknown at this time. While there is a potential loss of Residential Impact Fees, two competing public policy interests, park funding and affordable housing needs, are addressed.

Respectfully submitted,



CYNTHIA J. KURTZ
City Manager

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