

Agenda Report

DATE: JANUARY 30, 2006

TO: CITY COUNCIL/PASADENA COMMUNITY DEVELOPMENT COMMISSION

FROM: CYNTHIA J. KURTZ, CITY MANAGER/CHIEF EXECUTIVE OFFICER

SUBJECT: JOINT PUBLIC HEARING: APPROVAL OF AMENDED INCLUSIONARY HOUSING IN-LIEU FEE SCHEDULE AND INCLUSIONARY HOUSING REGULATIONS; AND JOINT APPROVAL BY THE CITY COUNCIL AND PASADENA COMMUNITY DEVELOPMENT COMMISSION OF THE LOCAL PREFERENCE AND PRIORITY SYSTEM GUIDELINES

RECOMMENDATION:

It is recommended that after close of the public hearing,

1. The City Council adopt a resolution amending:
 - a. Inclusionary Housing In-Lieu Fee Schedule as set forth in Exhibit "A", and
 - b. Inclusionary Housing Regulations as follows:
 - i. Use of Inclusionary Housing Trust Funds to assist residential developments shall be subject to review and to threshold criteria which limits the concentration of such developments in Sub-area "B";
 - ii. Eligible uses of Inclusionary Housing Trust Funds shall be expanded to include purchase of affordability covenants;
 - iii. In-Lieu Fee Schedule shall be updated and adopted by the City Council every five years, based on a real estate market study, with the following provisions:
 - 1) the updated In-Lieu Fees shall incorporate a 10% adjustment which would be fully waivable; and 2) during the five-year period the In-Lieu Fee Schedule shall be adjusted annually in accordance with Consumer Price Index (Housing Component);

- iv. City shall have a "right of first refusal" to purchase Inclusionary ownership units in the event of a resale;
 - v. Preparation of a Biennial Inclusionary Housing Program Performance Assessment; and
 - vi. Institution of a Preference and Priority System for local residents and employees.
2. The City Council and Pasadena Community Development Commission adopt a joint resolution approving the Pasadena Local Preference and Priority System Guidelines and its application to City of Pasadena and Pasadena Community Development Commission sponsored and/or supported affordable and workforce housing units.

EXECUTIVE SUMMARY

Approval of the Inclusionary Housing recommendations amend the Inclusionary Housing Regulations as approved by City Council on July 1, and August 1, 2005, and increases the In-lieu Fees paid by developers of residential projects subject to the City's Inclusionary Housing provisions. Additionally, approval of the Local Preference and Priority System Guidelines implements the directions approved by the City Council on August 1, 2005 to establish a priority selection system for affordable housing and workforce housing units sponsored or supported by the City of Pasadena or the Pasadena Community Development Commission with preferences for those persons and households whom live or work within Pasadena unless prohibited by law.

BACKGROUND

On July 11, 2005 the City Council conducted a public hearing and approved amendments to the Inclusionary Housing Ordinance and Inclusionary Housing Regulations. City Council also directed staff to: 1) research and develop a local preference program for affordable units supported with local resources and workforce housing units, and 2) conduct a financial analysis updating the In-Lieu Fee Schedule based on current market prices. Keyser Marston Associates (KMA) was commissioned to perform the financial analysis and update the In-lieu Fee Schedule. The Proposed In-Lieu Fee Schedule is attached as Exhibit "A" of this report and the KMA analysis is provided in Exhibit "C". The Local Preference and Priority System Guidelines are provided in Exhibit "B".

AMENDED IN-LIEU FEE SCHEDULE

On July 11, 2005 the City Council conducted a public hearing and approved amendments to the Inclusionary Housing Ordinance and Regulations that included application of the In-lieu Fee Schedule to residential projects including subdivision projects of 10 or more parcels and single-room occupancy projects of 10 or more units. Amendments to the In-Lieu Fee provisions were also approved as follows: 1) updating the In-Lieu Fee Schedule once every 5 years, based on

a real estate market study 2) incorporating a 10% surcharge to the base In-Lieu Fee which would be waived if 100% of the In-Lieu Fee is paid at issuance of a building permit and 3) instituting an annual adjustment to the In-Lieu Fee Schedule based upon market indices.

Subsequently, at City Council's direction KMA was contracted to perform the first 5 year real estate market analysis for the amended In-Lieu Fee Schedule. For the current analysis KMA again employed a methodology that divided the city into sub-areas to reflect varying land values and development characteristics. Based on KMA's survey of the housing market prices/rents in each sub-area and computation of the estimated maximum affordable housing costs payable by low and moderate income households, affordability gaps (differential between market costs and affordable costs) were calculated utilizing the 15% Inclusionary Housing requirement for both rental (10% low & 5% moderate-income) and for-sale (15% moderate-income) units. The affordability gaps were determined by number of units, development type, zoning restrictions, income group and sub-area, then converted to the applicable In-Lieu Fees. The In-Lieu Fees are based on the affordability gap and not the total unit development cost.

Staff is recommending approval of the proposed the In-Lieu Fee Schedule which represents 100% cost recovery of the financial gap between market rate housing units and on-site Inclusionary Units. The proposed In-Lieu Fee Schedule would also be adjusted annually based on the Consumer Price Index (Housing Component).

PREFERENCE AND PRIORITY SYSTEM

In response to the City Council's direction to institute a local preference and priority system in the provision of affordable and workforce housing units in the City, staff proposes the attached Local Preference and Priority System Guidelines. Several existing local preference programs, currently implemented by various California jurisdictions, were reviewed and the common characteristics found in these programs were utilized to develop the Pasadena Local Preference and Priority Guidelines. The proposed guidelines set forth the priority order of preferences along with procedures for administering the local preference program. The priority system is to be used whenever affordable and/or workforce ownership or rental housing units are made available to applicants who are income eligible households:

- a. First priority is given to eligible households that reside and work in the City of Pasadena;
- b. Second priority is given to eligible households that reside in the City of Pasadena;
- c. Third priority is given to eligible households that work within the City of Pasadena;
- d. Fourth priority is given to eligible households that have been involuntarily displaced from the City of Pasadena;

The proposed Pasadena Local Preference and Priority System Guidelines substantially advances the opportunity for participation by local residents and those who work in Pasadena

in City and Commission sponsored/supported affordable housing (i.e., Density Bonus, Affordable Housing Fee Waivers, Housing Opportunities Fund, Community Development Block Grant, Emergency Shelter Grant, Supportive Housing, Section 8 Housing Choice Voucher, Homeownership Opportunities, Rental Rehabilitation, etc.) and workforce housing units. Presently, the vast majority of new market rate multi-family rental developments and for-sale ownership units in Pasadena are not affordable to lower and moderate-income households whom are local residents or local employees. Moreover, market conditions, including the high cost of residential land, construction costs and financing costs make accessibility to affordable housing and workforce housing difficult for local residents and local employees.

The Local Preference and Priority System Guidelines require a priority order be utilized by developers and owners of City/Commission sponsored/supported affordable and workforce housing units to promote the availability of these units for local low and moderate-income residents and employees. The Guidelines also set forth the procedures for implementing the Local Preference and Priority System. The Guidelines include the following provisions: 1) Preference, 2) Residency, 3) Employment, 4) Involuntary Displacement, 5) Marketing and Selection Plan, 6) Determination of Eligibility, 7) Priority Ranking, 8) Selection of Qualified Applicant, 9) Compliance Monitoring, and 10) Penalties for Non-compliance. The proposed Pasadena Local Preference and Priority System Guidelines are attached as Exhibit "B".

CHILDREN, YOUTH AND FAMILY IMPACT

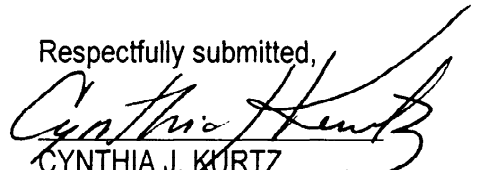
Approval of the subject recommendation will provide increased opportunities for the provision of inclusionary housing units and guidance to staff and developers/owners of affordable and workforce housing units in the selection of eligible households whom are local residents or locally employed within the city of Pasadena. Implementation of the amended Inclusionary Housing Regulations and Local Preference and Priority Guidelines will provide an increased opportunity for those households living or working in Pasadena to secure affordable/workforce housing units and retain or enhance their available access to city goods and services.

FISCAL IMPACT


Approval of the recommended In-Lieu Fees will generate fee increases ranging from 35% to 223%, depending on the Sub-area. Based on KMA's analysis, if developers opt to pay the proposed In-Lieu Fees, the revenue to the Inclusionary Housing Trust Fund would increase by an average of approximately \$11,400 per unit for dwellings constructed during fiscal year 2006.

To date, the City has contracted In-Lieu Fee payments totaling \$10,692,832 and collected \$7,481,771. The balance, \$3,211,061, is expected to be collected within the next 18 months.

Respectfully submitted,

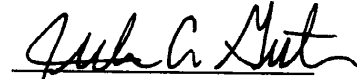

CYNTHIA J. KURTZ
City Manager/Chief Executive Officer

Prepared by:



GREGORY ROBINSON
Housing/Community
Development Administrator

Approved by:



for BRIAN K. WILLIAMS
Assistant City Manager

EXHIBIT "A"

PROPOSED IN-LIEU FEE SCHEDULE
(In-Lieu Fees Per Square Foot)

Rental Units In-Lieu Fee				
	10 – 49 Units		50 + Units	
	Existing Fee	Proposed Fee 2006	Existing Fee	Proposed Fee 2006
Sub-area A*	TBD	TBD	TBD	TBD
Sub-area B*	\$1	\$1	\$1	\$1
Sub-area C	\$16	\$22	\$22	\$30
Sub-area D	\$12	\$20	\$17	\$28
For Sale Units In-Lieu Fee				
	10 – 49 Units		50 + Units	
	Existing Fee	Proposed Fee 2006	Existing Fee	Proposed Fee 2006
Sub-area A	\$30	\$38	\$41	\$53
Sub-area B	\$5	\$14	\$7	\$19
Sub-area C	\$7	\$23	\$10	\$32
Sub-area D	\$12	\$18	\$17	\$25

* No market data was available at the time of the Keyser Marston Associates (KMA) study in 2005 to establish a baseline In-lieu fee for rental housing in Sub-areas A and B. The rental In-lieu fees for Sub-area A shall be determined (TBD) in accordance with the KMA study methodology at the time of an application for payment of In-lieu fees for a rental housing project. For rental housing in Sub-area B, the existing In-lieu fee is retained.

EXHIBIT "B"

PASADENA LOCAL PREFERENCE AND PRIORITY SYSTEM GUIDELINES

To the extent permissible under applicable state and federal law, people who live and/or work in the city of Pasadena shall have priority over other persons to rent or purchase affordable and workforce housing units which are supported or sponsored by the City of Pasadena or Pasadena Community Development Commission (Commission). The Pasadena Local Preference and Priority System Guidelines presented herewith shall apply to all developers, owners and their agents, successors and assigns proposing affordable and/or workforce housing sponsored and/or supported by the City/Commission in whole or part.

1. PREFERENCES

Based upon the approval by the City Council of Pasadena on January 30, 2006 the City of Pasadena and the Pasadena Community Development Commission shall henceforth utilize the following priority order whenever ownership or rental housing units are made available to applicants who are income eligible households:

- a. First priority is given to eligible households that live and work in the City of Pasadena;
- b. Second priority is given to eligible households that live in the City of Pasadena;
- c. Third priority is given to eligible households that work within the City of Pasadena;
- d. Fourth priority is given to eligible households that have been involuntarily displaced from the City of Pasadena;

2. RESIDENCY

- a. Definition of residency. To qualify as an applicant who is a resident of the city of Pasadena, the applicant responsible for renting or purchasing the affordable or workforce housing unit must have their principal place of residence within the city of Pasadena as of the date of application.
- b. Evidence of residency. The developer/owner shall require the applicant to submit a driver's license, voter registration, utility bill, or other evidence as proof of residency in Pasadena.

3. EMPLOYMENT

- a. Definition of employment. To qualify as an applicant who is employed within the city of Pasadena, the applicant responsible for renting or purchasing the affordable or workforce housing unit must demonstrate that both of the following criteria have been met:

- i. Location of Work. At least one of the signators of the tenant lease or purchase agreement for the applicant's household must be employed within the city of Pasadena as of the date of application. Work is defined for purposes of this section as owning or operating a business located within the city of Pasadena, employment for wages or salary for an employer located within the city of Pasadena, contract employment where the actual work is conducted within the city of Pasadena, or commission work where the applicant's principal location from which he/she worked is located within the city of Pasadena.
 - ii. Hours of Work. At least one signators of the tenant lease or purchase agreement for the applicant's household must have been employed within the city of Pasadena an average of at least 20 hours per week as of the date of application.
- b. Evidence of employment. The developer/owner shall require applicants to submit pay stubs, W-2 forms, tax returns, employer certification, or other evidence as proof of employment at a business location within the city of Pasadena.

4. INVOLUNTARY DISPLACEMENT

- a. Definition of involuntary displacement. To qualify as an applicant who has been involuntarily displaced from the city of Pasadena, the applicant responsible for renting or purchasing the affordable or workforce housing unit must demonstrate that, by no fault of the applicant, one of the following criteria has been met including the submission of the appropriate documentation to the developer/owner as cited below:
 - i. Disaster or Government Action. Written verification by the displacing unit or agency of government, (i.e., HUD, City Departments, etc.) or by a service agency such as the Red Cross.
 - ii. Termination of tenancy. Written notification by the property owner/agent to the applicant of the termination of the applicant tenancy for no fault (i.e., sales agreements, foreclosure notices, condominium conversion, building permits, etc.).
 - iii. Domestic Violence. Written verification from police, social service agency, court, clergy person, physician, and/or public or private facility giving shelter and/or counseling to victims.
 - iv. Witness Protection Program. Certification by a law enforcement agency of the applicant's participation in the Witness Protection Program.
 - v. Hate Crimes. Written statement from law enforcement agency, HUD, Housing Rights Center or other agencies responsible for non-discrimination advocacy. Statement should contain approximate number of occurrences and date of last occurrence.

- vi. Inaccessibility of Unit. Statement from the property owner of the critical elements that are inaccessible, and that the owner is not going to make the needed modifications, or permit the family to make the modifications.
- vii. Substandard Housing. Written verification from a reliable, knowledgeable professional.
- viii. Homelessness. Written verification by a public or private facility providing shelter, the police, or a social services agency certifying that the applicant lacks a fixed, regular, and adequate nighttime residence.

5. MARKETING AND SELECTION PLAN

The developer/owner and/or its agent shall affirmatively market the affordable and/or workforce housing units to ensure that all applicants, regardless of eligibility for the preference, are aware of the housing opportunity.

- a. Marketing Plan. Prior to the developer/owner's publication of the availability of affordable and/or workforce units, developer/owner shall prepare a marketing plan in a form reasonably satisfactory to the City/Commission for attracting qualified applicants. The developer/owner shall be responsible for implementing the marketing plan. The marketing plan shall include the initial sales prices or rents of each unit, the preference and priority system and shall target advertising and marketing efforts within the city of Pasadena. City/Commission may assist the developer/owner in the marketing of the affordable and workforce units to qualified applicants under any program that City/Commission may offer and may provide names of prospective qualified applicants to developer/owner.
- b. Notification to City. Whenever an affordable and/or workforce unit becomes available, the developer shall immediately notify, in writing, the Housing and Community Development Administrator.
- c. Publication requirement. Whenever an affordable and/or workforce housing units becomes available during the first year after the receipt of a City certificate of occupancy, the developer/owner shall publish notices of the availability of the units in newspapers circulated widely in the City of Pasadena, including newspapers that reach minority communities. At least one notice shall be published in a Spanish language newspaper of general circulation. Examples of appropriate newspapers include the Star News, Pasadena Weekly, Pasadena/San Gabriel Valley Journal and La Opinion. The notice should briefly explain what affordable and/or workforce housing is, state the applicable income requirements, indicate where applications are available, state when the application period opens and closes, and provide a telephone number for questions. Applications may require the name, address, and telephone number of the applicant; the number of persons to occupy the household; and any other information relevant to determine whether the applicant is eligible for local preferences and to occupy unit. The developer/owner shall submit proof of publication to the Housing and Community Development Administrator.

- d. Selection Plan. Prior to the developer/owner's acceptance of the first application for an affordable and/or workforce housing unit, the developer/owner shall prepare and retain a Selection Plan which shall set forth the process for selection of qualified applicants. The Selection Plan shall contain, but is not limited to, the following information
 - i. Unit Description. A brief description of the affordable and/or workforce unit(s) including the unit-mix, location, structure, size and whether the unit(s) is for ownership or rental.
 - ii. Income Criteria. The eligible income range for rent or purchase affordable and/or workforce units.
 - iii. Priority System. The preference and priority system to be utilized by the developer/owner based primarily on an applicant's residence and employment location, with higher priority allocated to persons who live and/or work within the city of Pasadena.
 - iv. Application Submission. Description of the application requirements. The conditions by which interested parties must submit a completed application to the developer/owner, including form of application, the stipulated date and time for application, number of applications to be submitted, disqualifications, etc.
 - v. Selection Criteria. Explanation of the developer's selection criteria and process based on the review of information submitted on the applications. Identification of corrective actions if a review of an application results in a determination that the City preferences assigned to the applicant was inaccurate.

6. DETERMINATION OF ELIGIBILITY

- a. Verification of Preference. As part of the review process, applicants will be contacted directly to provide verification of their residence and employment history and evidence supporting any of the preferences identified. For persons who are retired at the time of application, the applicant's work history immediately prior to retirement can be considered.
- b. Verification of Income. The developer/owner of affordable and/or workforce housing units, which are offered for rent, sale, or lease, shall require the applicant to provide proof that he/she meets the occupancy and income criteria set forth by the applicable City or Commission program(s).

7. PRIORITY RANKING; SELECTION OF QUALIFIED APPLICANT

- a. Priority System. The priority order for categories are as follows:

- i. Applicant where at least one of the signators of the tenant lease or purchase agreement is a Pasadena resident and employed within the city of Pasadena at the time of application.
 - ii. Applicant where at least one of the signators of the tenant lease or purchase agreement is employed within the city of Pasadena at the time of application.
 - iii. Applicant where at least one of the signators of the tenant lease or purchase agreement had been involuntarily displaced from the city of Pasadena at the time of application but had previously lived and worked within the city of Pasadena.
 - iv. Applicant where at least one of the signators of the tenant lease or purchase agreement had been involuntarily displaced from the city of Pasadena at the time of application but had previously lived within the city of Pasadena.
 - v. All other applicants.
- b. Priority List. Applicants for affordable and/or workforce housing units shall be maintained on a priority list. Applicants shall be listed in order of total preferences. Applicants equal in preferences shall be prioritized by date and time of receipt of their applications. All applicants must meet income eligibility requirements as established for the applicable affordable and/or workforce housing units.
- The priority list shall be utilized to select applicant for the sale or rent of available affordable and/or workforce housing units for one year after receipt of a City certificate of occupancy for the designated unit. For rental affordable and/or workforce units, developer/owner shall annually update the priority list in accord with the priority order.
- c. Applicant Selection. The developer/owner of affordable and/or workforce housing units is required to fill vacant units in either one of two ways:
- i. Selecting Income-Eligible applicants themselves as long as the developer/owner complies with the local preferences and priority ranking system and publication requirements set forth herein. The following selection processes are permissible:
 - Selection from the Priority List in rank order, or
 - Lottery of the top candidates on Priority List.
 - ii. Selecting Income-Eligible applicants from the City/Commission's Section 8 Housing Choice Voucher Waiting List, Supportive Housing Waiting List or Homeownership Waiting List available from the Office of the City Manager, Housing and Community Development.
- d. Unit Sale or Rental. The actual sale or rental of a unit will be based on the ability of the qualified applicant(s) to meet applicable eligibility guidelines and/or obtain financing within a time frame established by the developer/owner.

8. COMPLIANCE MONITORING

- a. Compliance Report. The developer/owner shall provide a written compliance report to the Housing and Community Development Administrator upon selection of the qualified applicants. The report shall include, but is not limited to, the following information.
 - i. Summary of Selection Process including a the Marketing and Selection Plan; and
 - ii. Name, Address, Telephone and Preference Category and Ranking of Selected Applicant(s)
- b. Certification of compliance. The developer/owner of affordable and/or workforce units shall certify the local preferences awarded to applicants were consistent with these guidelines. A certification form approved by the City shall be completed and submitted with the Compliance Report.
- c. Record Retention. The developer/owner shall retain records of the evidence and documents utilized to select applicant(s) for the sale or rent of available affordable and/or workforce housing units in accordance with these guidelines for two year after the date of occupancy by the first applicant.
- d. Compliance monitoring. City/Commission shall monitor the developer/owner's compliance with these guidelines which may include an on-site monitoring visit to review the developer/owner's records, interviews with selected applicant(s), and/or other methods deemed appropriate.

9. PENALTIES FOR NON-COMPLIANCE

- a. Notice of Non-compliance. Except as otherwise provided herein, if it is determined that a violation of these guidelines has occurred, the Housing and Community Development Administrator shall issue a notice of non-compliance and require the developer, owner or tenant (as applicable) to cure the violation within 30 days, unless a different period is provided at the Administrator's discretion.
- b. Monetary Penalty. Any party who sells or rents an affordable and/or workforce housing unit in violation of these guidelines shall be required to forfeit all monetary amounts so obtained. Recovered funds shall be deposited into the Commission's Housing Opportunities Fund.
- c. Litigation. The City may institute any appropriate legal actions or proceedings necessary to ensure compliance with these guidelines, including but not limited to: (1) actions to revoke, deny or suspend any permit, including a building permit, certificate of occupancy, or discretionary approval; and (2) actions for injunctive relief or damages.
- d. Legal Costs. In any action to enforce these guidelines, the City shall be entitled to recover its reasonable attorney's fees and costs.

EXHIBIT "C"

UPDATED FINANCIAL ANALYSIS

PERFORMED BY

KEYSER MARSTON ASSOCIATES, INC.

FOR

INCLUSIONARY HOUSING IN-LIEU FEES (2006)



KEYSER MARSTON ASSOCIATES
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

ADVISORS IN:
REAL ESTATE
REDEVELOPMENT
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

SAN FRANCISCO
A. JERRY KEYSER
TIMOTHY C. KELLY
KATE EARLE FUNK
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LOS ANGELES
CALVIN E. HOLLIS, II
KATHLEEN H. HEAD
JAMES A. RABF
PAUL C. ANDERSON
GREGORY D. SOO-HOO

SAN DIEGO
GERALD M. TRIMBLE
PAUL C. MARRA

To: Gregory Robinson, Housing Administrator
City of Pasadena

From: Kathleen Head
Julie Romey

Date: October 5, 2005

Subject: Inclusionary Housing Ordinance - In-Lieu Fee Update (2005)

At your request, Keyser Marston Associates, Inc. (KMA) prepared an updated financial analysis in support of the rental and ownership inclusionary housing in-lieu fees imposed by the Pasadena Inclusionary Housing Ordinance (Ordinance). The purpose of this analysis is to calculate the in-lieu fees based on current market conditions.

BACKGROUND

In 2001, the City of Pasadena (City) adopted the Ordinance, which requires 15% of all newly constructed units in residential developments of 10 units or more to be sold or rented to low and moderate income households at an affordable housing cost. The specific requirements are:

1. **Ownership projects:** The requirement can be fulfilled with units for moderate income households, which are defined as households earning up to 120% of the Los Angeles County median income (Median) as defined by the California Housing and Community Development Department (HCD).
2. **Rental projects:** At least 10% of the units must be set-aside for low income households, and the remaining requirement can be filled with moderate income units.

The affordable housing costs are defined as follows:

1. Affordable Rents:
 - a. Low Income Rents – 30% multiplied times 80% of the Median; and
 - b. Moderate Income Rents – 30% multiplied times 120% of the Median.
2. The Affordable Housing Cost for ownership units is calculated based on 40% multiplied times 110% of the Median.

The Ordinance also allows developers to fulfill the inclusionary housing requirements by paying an in-lieu fee. For purposes of establishing the in-lieu fee, the Ordinance breaks the City into four subareas. The in-lieu fees imposed per square foot of gross building area (GBA) developed in market rate projects currently are as follows:

Rental Units			
Subareas	Number of Units		
	< 10	10 – 49	50 +
A	Exempt	TBD	TBD
B	Exempt	\$1	\$1
C	Exempt	\$16	\$22
D	Exempt	\$12	\$17

Ownership Units			
Subareas	Number of Units		
	< 10	10 – 49	50 +
A	Exempt	\$30	\$41
B	Exempt	\$5	\$7
C	Exempt	\$7	\$10
D	Exempt	\$12	\$17

The in-lieu fees are set at the amounts deemed to be financially equivalent to fulfilling the Ordinance's inclusionary housing production requirements on site. To quantify the in-lieu fee amounts, it is necessary to identify the financial impact created by the Ordinance's affordability requirements. That financial impact is equal to the difference in value between a market rate project with no income and affordability restrictions and a project that provides the 15% inclusionary requirement on-site. This difference is known as the "affordability gap".

The KMA financial update is organized as follows:

1. KMA estimated the current market rents and sales prices for the four rental and ownership subareas (Appendix A).

2. KMA calculated the maximum affordable rents and sales prices in accordance with the Ordinance (Appendix B).
3. Based on the current affordability gap calculations, KMA recommended in-lieu fee amounts for rental and ownership projects that are subject to the Ordinance (Appendices C and D).

2005 MARKET RATE RENTS AND SALES PRICES (APPENDIX A)

The market analysis portion of the In-lieu fee update is organized as follows:

Appendix A Market Data	
Exhibit 1	Map of Rental Subareas
Exhibit 2	Map of Ownership Subareas
Table 1:	2005 Market Rent Comparables by Project
A:	Subarea C
B:	Subarea D
Table 2:	New Attached Ownership Projects
A:	Subarea A
B:	Subarea B
C:	Subarea C
D:	Subarea D

Market Rents (Tables 1A and 1B)

KMA used the following market rent data in the updated market analysis:

1. Subareas A and B: It was determined that no significant market rate apartment development has occurred within these subareas. Since market data are not available, it will be necessary to calculate the in-lieu fee on a project-by-project basis.
2. Subareas C and D: KMA undertook a rental survey of newly constructed apartment projects in these subareas.

As shown in Tables 1A and 1B, the current market rents in Subareas C and D are estimated as follows:

	Rent Per Square Foot of GBA					
	All Surveyed Projects		Projects Completed in 2004 & 2005		New Construction Premium	
	One-Bdrm Units	Two-Bdrm Units	One-Bdrm Units	Two-Bdrm Units	One-Bdrm Units	Two-Bdrm Units
Subarea C	\$2.22	\$1.89	\$2.57	\$2.36	16%	25%
Subarea D	\$2.41	\$2.21	\$2.44	\$2.30	1%	4%

To estimate the achievable market rents for new construction projects in Subareas C and D, KMA assumed that one-bedroom units average 700 square feet and two-bedroom units average 1,000 square feet. Utilizing the market rents per square foot of GBA for recently completed projects, the following summarizes the current market rents per unit:

	One-bedroom Units	Two-bedroom Units
Subarea C	\$1,800	\$2,360
Subarea D	\$1,710	\$2,300

Market Sales Prices (Tables 1A, 1B and 1C)

As in the previous in-lieu fees analyses, KMA has assumed that the vast majority of new ownership housing projects in excess of 10 units will be medium to high density condominium projects. As shown in Tables 2A, 2B and 2C, two-bedroom units are the typical unit type currently being developed in Pasadena. The unit sales prices and sizes vary by subarea as follows:

Two-bedroom Units	Average Sales Price	Average Unit Size	Average \$/Sf
Subarea A	\$824,700	1,682	\$490
Subarea C	\$537,100	1,426	\$377
Subarea D	\$391,300	964	\$406

There is currently a limited inventory of new condominium development in Subarea B. As such, there is insufficient comparable data from which to predict the market rate prices that can be achieved by new development. To resolve this problem, KMA extrapolated the achievable market rate condominium prices from the available data by creating a "Sales Price Factor". The Sales Price Factor can be described as follows:

1. The two-bedroom sales prices that can be achieved in Subarea A were estimated based on the sales information gathered from the recently completed Delacy at Green project, plus the available information for condominium resales in Subarea A. The information is summarized as follows:
 - a. The Subarea A new construction average sales price equals \$824,700; and
 - b. The median sales price for the resale of existing two-bedroom units is \$580,000.
2. The resulting Sales Price Factor is 1.42 ($\$824,700 / \$580,000$).

It is necessary to use resales information and the Sales Price Factor to estimate the sales prices for new units in Subarea B. The calculations applied in this analysis are:

1. The average resale value for two-bedroom units in Subarea B is \$315,000.
2. When the Sales Price Factor is applied to the \$315,000 average resale price, the new construction sales price for two-bedroom units in Subarea B is estimated at \$447,900.

KMA estimated the achievable market rate prices for new two-bedroom condominium units as follows:

	Two-bedroom Units		
	2005	2004	% Change
Subarea A	\$824,700	\$512,600	60%
Subarea B	\$447,900	\$314,200	43%
Subarea C	\$537,100	\$294,900	82%
Subarea D	\$391,300	\$380,300	3%

2005 MAXIMUM AFFORDABLE RENTS AND PRICE CALCULATIONS (APPENDIX B)

The maximum affordable rents and sales price calculations are organized in Appendix B as follows:

Appendix B 2005 Affordable Rents and Sales Prices	
Table 1:	Affordable Rent Calculation
Table 2:	Affordable Sales Price Calculations

The following provides the methodology for calculating the 2005 affordable housing rents and sales prices to be used in the in-lieu fee calculations.

Maximum Affordable Rents (Table 1)

Based on the Ordinance, 5% of the units in rental developments must be set-aside for moderate income families and 10% of the units must be set-aside for low income families. The assumptions used to estimate the maximum affordable rents can be summarized as follows:

1. The household incomes are based on two-person households for one-bedroom units, and three-person households for two-bedroom units.
2. The household income is set at 80% of the Median for the low income units and 120% of the Median for the moderate income units.
3. 30% of the defined household income is allocated to housing related expenses.
4. The maximum allowable rent must be adjusted to reflect the fact that the tenants will be required to pay for interior utilities costs. Based on the 2005 allowances provided by the City, the utilities are estimated at \$53 per month for one-bedroom units and \$68 per month for two-bedroom units.

The maximum allowable rents under the defined income categories are as follows:

	One-bedroom Units	Two-bedroom Units
Low Income	\$829	\$924
Moderate Income	\$1,270	\$1,420
Weighted Average	\$976	\$1,089

As a practical matter, tenants will not be willing to pay rent that exceeds the prevailing rate in the market area. As such, it is important to estimate the rents that could be generated by the units being evaluated if they were rented without affordability restrictions.

Based on the market rent estimates previously discussed, it is evident that the maximum affordable rents are lower than the achievable market rents in Subareas C and D. Thus, the maximum affordable rents would prevail in these subareas.

Maximum Affordable Sales Prices (Table 2)

KMA calculated the maximum affordable sales price for moderate income households based on household income statistics distributed by HCD, and the affordability standards imposed by the Ordinance. The Ordinance applies the following affordable housing cost definition to the inclusionary housing units:

1. The household incomes are based on benchmark household sizes equal to one person more than the number of bedrooms in the unit.
2. For moderate income units, the household income is set at 110% of the Median.
3. Forty percent (40%) of the defined household income is allocated to housing related expenses. These expenses are defined as mortgage debt service payments, property taxes, insurance costs, maintenance costs and utility costs. For purposes of this analysis, these costs have been estimated as follows:
 - a. The property tax cost is set at 1.1% of the projected affordable price for the units.
 - b. The insurance and maintenance costs for two-bedroom units is estimated at \$150 per month, which totals \$1,800 per year.
 - c. The utility allowances include gas, electricity, trash and water expenses published by the Pasadena Housing Authority. The current allowances for two-bedroom units is \$104 per month, which equates to \$1,248 per year.
 - d. The supportable mortgage amount is calculated based on the 30-year Fannie Mae interest rate plus a 50 basis points margin. Based on information published weekly in the Los Angeles Times, the interest rate plus margin is currently 6.31%.
 - e. The home buyer down payment is set at 5% of the home's affordable price.

As shown in Table 2, the maximum 2005 affordable sales price for two-bedroom units equals \$229,900.

IN-LIEU FEE CALCULATION METHODOLOGY

A primary goal of the Ordinance is to encourage developers to construct the inclusionary housing units within proposed market rate residential projects. Recognizing this, the KMA in-lieu fee calculation methodology is based on the affordability gap associated with fulfilling the Ordinance requirements on-site within proposed market rate projects.

The on-site affordable housing production requirements allow the developer to set-aside 15% of the units for low and moderate income households. To create an in-lieu fee structure that will provide the City with sufficient revenue to produce the requisite number of affordable housing units, the in-lieu fee should be set equal to the affordability gap associated with the on-site production requirement.

2005 Rental Units Affordability Gap Analysis (Appendix C)

The KMA affordability gap analysis is organized as follows in Appendix C:

Appendix C Rental In-Lieu Fee Worksheets	
Table 1:	Rental Project (Subarea C)
Table 2:	Rental Project (Subarea D)

The methodology used in the KMA affordability gap analysis for rental developments can be described as follows:

1. KMA created a prototype apartment project comprised of 100 units, with the following unit mix:
 - a. 50 one-bedroom units averaging 700 square feet per unit; and
 - b. 50 two-bedroom units averaging 1,000 square feet per unit.
2. The stabilized net operating income (NOI) estimates for the 100% market rate prototypes and the 15% inclusionary prototypes are based on the following assumptions:¹

¹ The NOI is the gross potential rental revenue minus a vacancy and collection allowance and minus operating expenses. Debt service payments are not included in the NOI calculation.

- a. The income analysis for both market rate and income restricted projects include \$8 per unit per month in miscellaneous income and a standard 5% vacancy and collection allowance.
- b. Operating expenses:
 - i. General operating expenses are set at \$3,000 per unit.
 - ii. A property management fee equal to 5% of the effective gross income (EGI) is provided.
 - iii. The property tax expense estimates vary among the market rate and income restricted apartment projects. The difference is calculated by comparing the values supported by the various scenarios, assuming a 1.1% tax rate.
 - iv. The annual reserve requirements are estimated at \$150 per unit.
- 3. The project's value is calculated for each scenario by capitalizing the stabilized NOI at a 5.5% capitalization rate.
- 4. The estimated project values for each scenario are compared to each other to identify the affordability gaps. These affordability gaps were then translated into the value reduction generated by the income and affordability restrictions.

As shown in Tables 1 and 2, based on the preceding assumptions, the values per unit are estimated as follows:

	100% Market Rate	15% Affordable	Affordability Gaps
Subarea C	\$293,600	\$268,200	\$25,400
Subarea D	\$281,300	\$257,700	\$23,500

2005 Ownership Units Affordability Gap Analysis (Appendix D)

The KMA affordability gap analysis for ownership units is located in Appendix D and is organized as follows:

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Appendix D Ownership In-Lieu Fee Worksheets	
Table 1:	Subarea A
Table 2:	Subarea B
Table 3:	Subarea C
Table 4:	Subarea D

As in the previous analysis, KMA has assumed that the vast majority of new ownership housing projects in excess of 10 units will be medium to high density condominium projects. Tables 1 through 4 present a 60 two-bedroom units ownership project with the following assumptions:

	Average Unit Size (Sf)	Total GBA (Sf)
Subarea A	1,682	100,920
Subarea B	1,682	100,920
Subarea C	1,426	85,560
Subarea D	964	57,840

The affordability gap calculations are summarized as follows:

	Market Rate Sales Prices	Moderate Income Prices	Affordability Gap
Subarea A	\$824,700	\$229,900	\$594,800
Subarea B	\$447,900	\$229,900	\$218,000
Subarea C	\$537,100	\$229,900	\$307,200
Subarea D	\$391,300	\$229,900	\$161,400

2005 IN-LIEU FEE SCHEDULE

KMA calculated the in-lieu fees based on the following assumptions:

1. Projects including fewer than 10 units are exempt from the Ordinance requirements.
2. Based on the methodology applied in the previous in-lieu fee analyses, the in-lieu fee for projects with 10 to 49 units is based on a calculated decrease in the land value equal to 28%.

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3. The in-lieu fee is set at 100% of the affordability gap associated with fulfilling the Ordinance requirements on site.

2005 Rental In-Lieu Fees

	10 – 49 Units			50+ Units		
	2005	2004	% Change	2005	2004	% Change
Subarea A	TBD	TBD	NA	TBD	TBD	NA
Subarea B	TBD	\$1	NA	TBD	\$1	NA
Subarea C	\$22	\$16	35%	\$30	\$22	36%
Subarea D	\$20	\$12	66%	\$28	\$17	63%

2005 Ownership In-Lieu Fees

	10 – 49 Units			50+ Units		
	2005	2004	% Change	2005	2004	% Change
Subarea A	\$38	\$30	27%	\$53	\$41	29%
Subarea B	\$14	\$5	180%	\$19	\$7	178%
Subarea C	\$23	\$7	232%	\$32	\$10	223%
Subarea D	\$18	\$12	51%	\$25	\$17	48%

2005 Household Income Restrictions

Based on the income data distributed by HCD for 2005, the income levels for the households that will be served by the Ordinance are:

Household Size	Very-Low Income Households	Low Income Households	Moderate Income Households
1 Person	\$0 – 22,950	\$22,950 – 36,700	\$36,700 – 46,250
2 Person	\$0 – 26,200	\$26,200 – 41,900	\$41,900 – 52,900
3 Person	\$0 – 29,500	\$29,500 – 47,150	\$47,150 – 59,500
4 Person	\$0 – 32,750	\$32,750 – 52,400	\$52,400 – 66,100
5 Person	\$0 – 35,350	\$35,350 – 56,600	\$56,600 – 71,400
6 Person	\$0 – 38,000	\$38,000 – 60,800	\$60,800 – 76,700
7 Person	\$0 – 40,600	\$40,600 – 65,000	\$65,000 – 81,950
8 Person	\$0 – 43,250	\$43,250 – 69,150	\$69,150 – 87,250

**SUMMARY TABLE
INCLUSIONARY HOUSING IN-LIEU FEE CALCULATION
PASADENA, CALIFORNIA**

	Affordability Gap			Proposed Fees		
	Affordable Unit	Per Total Unit	Per Sf GBA	> 10 Units	10 - 49 Units	50 + Units
I. Rental Units						
SUBAREA A	TBD	TBD	TBD	Exempt	TBD	TBD
SUBAREA B	TBD	TBD	TBD	Exempt	TBD	TBD
SUBAREA C	\$169,500	\$25,400	\$30	Exempt	\$22	\$30
SUBAREA D	\$156,900	\$23,500	\$28	Exempt	\$20	\$28
II. Ownership Units						
SUBAREA A	\$594,800	\$89,200	\$53	Exempt	\$38	\$53
SUBAREA B	\$218,000	\$32,700	\$19	Exempt	\$14	\$19
SUBAREA C	\$307,200	\$46,100	\$32	Exempt	\$23	\$32
SUBAREA D	\$161,400	\$24,200	\$25	Exempt	\$18	\$25
				Current Fees		
				Units	Units	Units
I. Rental Units						
SUBAREA A				Exempt	TBD	TBD
SUBAREA B				Exempt	\$1	\$1
SUBAREA C				Exempt	\$16	\$22
SUBAREA D				Exempt	\$12	\$17
II. Ownership Units						
SUBAREA A				Exempt	\$30	\$41
SUBAREA B				Exempt	\$5	\$7
SUBAREA C				Exempt	\$7	\$10
SUBAREA D				Exempt	\$12	\$17
				% Change		
				Units	Units	Units
I. Rental Units						
SUBAREA A				NA	NA	NA
SUBAREA B				NA	NA	NA
SUBAREA C				NA	35%	36%
SUBAREA D				NA	66%	63%
II. Ownership Units						
SUBAREA A				NA	27%	29%
SUBAREA B				NA	180%	178%
SUBAREA C				NA	232%	223%
SUBAREA D				NA	51%	48%