

# Agenda Report

June 10, 2013

**TO:** Honorable Mayor and City Council

**THROUGH:** Economic Development and Technology Committee (June 5, 2013)

**FROM:** Housing Department

**SUBJECT: AMENDMENT TO INCLUSIONARY HOUSING REGULATIONS; USE OF PROGRAM INCOME FOR ADMINISTRATIVE EXPENDITURES IN CONNECTION WITH THE ACQUISITION, PRESERVATION AND OPERATION OF AFFORDABLE HOMEOWNERSHIP UNITS**

## **RECOMMENDATION:**

It is recommended that the City Council adopt a resolution:

- A. Finding that the proposed amendment to the Inclusionary Housing Regulations is exempt from the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines Section 15061(b)(3), General Rule; and
- B. Approving the proposed amendment to the Inclusionary Housing Regulations as described in this agenda report.

## **BACKGROUND**

City covenants on affordable homeownership housing units typically contain a provision under which the City has a right of first refusal to purchase the property in the event that the owner desires to resell the property or in the event of a default. The right of first refusal is an important mechanism which enables the City to preserve the covenants and to keep properties within the City's affordable housing inventory. This pertains to housing units for which the City extended homebuyer loan assistance and to housing units that are restricted through the City's Inclusionary and density bonus programs. With the elimination of redevelopment by the State, and annual curtailment in federal HOME entitlement monies, the only primary source of funding currently available to the City to acquire such properties is local Inclusionary Housing funds. The use of these funds are proscribed within the Inclusionary Housing Regulations (the "Regulations"), which were originally adopted by City Council on September 10, 2001 (with

amendments approved in 2003, 2004, 2004 and 2006). The use of Inclusionary Housing funds for acquisition of housing to preserve affordability is an eligible activity under the Regulations.

The most recent Inclusionary Housing-funded acquisition of an affordable deed-restricted property was a condominium unit located at 125 N. Allen Avenue, #317. Under City Council authority on April 16, 2012, the transaction closed on May 24, 2012 and the dwelling unit has been rented to a very low income tenant under the City's Section 8 rental subsidy program. As discussed with the City Council in April 2012, the Housing Department intends to operate and hold the property for a number of years until such time market conditions allow the dwelling unit to be resold at a price which would enable the City to recoup its investment. In the interim, the dwelling unit is retained as affordable housing for very low and low income households paying no more than 30% of their income on rent.

The Housing Department plans to utilize this as a model, acquiring deed-restricted homeownership properties when such opportunities arise. This model is also advantageous in that it can generate a positive cash flow of an estimated \$3,232 in "program income" per unit annually (net of property management fees, operating costs, and replacement reserves). As proposed, these funds can be utilized as an additional revenue source to support Housing Department administration and operations, which in turn may reduce the department's need for City General Fund support. However, while the Regulations enable the use of Inclusionary Housing funds for property acquisition, there is no provision pertaining to Inclusionary program income and the use of such funds. The subject staff recommendation addresses this by way of a proposed amendment to the Regulations.

#### **AMENDMENT TO INCLUSIONARY HOUSING REGULATIONS**

As proposed, the City's Inclusionary Housing Regulations, Section VII ("Inclusionary Housing Trust Fund") will be amended to include the following new provisions:

- 1) Definition of "Program Income" as positive cash flow generated from the rental operation of formerly deed-restricted affordable homeownership units that have been acquired by the City with Inclusionary Housing Funds.
- 2) Allowance for Program Income to be used for eligible activities specified in the Regulations, including the support of Housing Department administration and operations.
- 3) Stipulation that use of Program Income for Housing Department administrative and operational support shall be subject to annual budgetary approval of City Council.

**COUNCIL POLICY CONSIDERATION**

The proposed action supports the following City Council Strategic Objectives: maintain fiscal responsibility and stability, and support and promote the quality of life and the local economy.

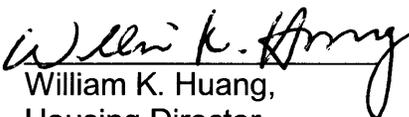
**ENVIRONMENTAL ANALYSIS**

The proposed action is an approval of the Inclusionary Housing Regulations pertaining to the use of program income generated from the operation of acquired affordable housing units and is exempt from CEQA per Section 15061(b)(3) (General Rule).

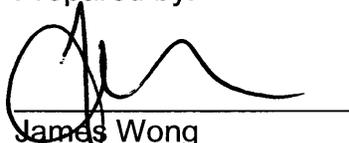
**FISCAL IMPACT**

While approval of the staff recommendation will have no direct fiscal impact on the City General Fund, the availability of Inclusionary Housing program income as an additional revenue source to support the operations of the Housing Department may reduce the department's need for General Fund support. As part of the City's annual budgeting process, the Housing Department will seek approval of the amount of Inclusionary program income which may be utilized to support department administrative costs.

Respectfully submitted,

  
William K. Huang,  
Housing Director

Prepared by:

  
James Wong  
Senior Project Manager

Approved by:

  
Michael J. Beck  
City Manager

RESOLUTION NO. \_\_\_\_\_

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASADENA  
AMENDING THE INCLUSIONARY REGULATIONS, SECTION VII  
(INCLUSIONARY HOUSING TRUST FUND) TO ACCOUNT FOR  
PROGRAM INCOME.**

RECITALS:

WHEREAS, the City Council of the City of Pasadena had adopted Ordinance No. 7028 revising Chapter 17.42 (hereinafter, "Chapter 17.42") to Title 17 (revised Zoning Ordinance) of the Pasadena Municipal Code to require Inclusionary Units in accordance with procedures and standards set forth in the City of Pasadena Inclusionary Housing Regulations; and

WHEREAS, Chapter 17.42 establishes standards and procedures that encourage development of housing affordable to a range of households with varying income levels; and

WHEREAS, pursuant to Chapter 17.42.020(A) of Chapter 17.42 of Title 17 entitled Additional Regulations, the City Council has established regulations for the implementation of Chapter 17.42; and

WHEREAS, the City of Pasadena Inclusionary Housing Regulations are silent regarding income that may derived from affordable housing units that may be owned and operated by the City of Pasadena; and

WHEREAS, the City Council now desires to amend the Inclusionary Housing Regulations to define and account for income that may be derived from City owned and operated affordable homeownership units; and

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF PASADENA  
HEREBY FINDS, DETERMINES, RESOLVES AND ORDERS AS FOLLOWS:**

Section 1. Recitals. The above recitals, and each of them, are true and correct.

Section 2. All defined terms herein, as indicated by initial capitalization shall have the same meaning as in Chapter 17.42, unless otherwise indicated.

Section 3. The City's Inclusionary Housing Regulations, Section VII ("Inclusionary Housing Trust Fund") shall be amended to include the following new provisions:

- A. "Program Income" shall be defined as any cash flow generated from the rental operation of formerly deed-restricted, affordable, homeownership units that have been acquired by the City with Inclusionary Housing Funds above and beyond operational expenses incurred to maintain and operate the affordable units.
- B. Program Income shall be used for eligible activities specified in Section VII of the Inclusionary Regulations, including the support of Housing Department administration and operations.
- C. The use of Program Income for Housing Department administrative and operational support shall be subject to annual budgetary approval of City Council.

ADOPTED at a regular meeting of the City Council on the \_\_\_\_ day of June, 2013, by the following vote:

AYES:

NOES:

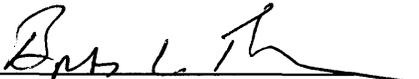
ABSENT:

ABSTAIN:

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Mark Jomsky, City Clerk

APPROVED AS TO FORM:

  
Brad L. Fuller  
Assistant City Attorney