HOUSING WORKSHOP: JULY 31, 2000

INTRODUCTION:

The City Council held a Housing Workshop on June 19, 2000, and discussed three topics: Inclusionary Housing, Land Use, and Housing Supply. Council suggested that there be follow-up discussion of these topics at subsequent Council meetings. The purpose of this correspondence is to address the Inclusionary Housing topic and to propose the basic elements of an inclusionary housing program. The expected outcome of the discussion is to provide policy direction on this issue for inclusion in the Housing Element and the drafting of an ordinance, if appropriate.

An inclusionary housing program policy would require developers of new housing within Pasadena to provide a portion of the newly constructed units to be available either for rent or at sales prices affordable to families or individuals within a prescribed income bracket.

BACKGROUND:

There were two primary objectives in the City's General Plan that lead to the discussion of inclusionary housing. They are; to disperse the distribution of affordable housing equitably throughout the City, and to increase the overall supply of affordable housing. An inclusionary housing policy would address these two objectives by increasing the supply as new development takes place and dispersing affordable housing throughout the City.

Survey Results:

In response to Council's request for survey information on other cities' inclusionary housing programs, attached is a report prepared by the California Coalition for Rural Housing Projects, which surveyed and analyzed programs operated by California cities in 1994. Pages 48-55 of this report present the conclusion of the study. In addition, staff updated this survey (for a few cities) during the past month. The results of this update are included on the chart attached to this report.

Staff is also contacting representatives from cities that have inclusionary zoning ordinances so that they may share their experience with regard to market reaction to their program and the effectiveness of this program. A few developers who have been active in housing development in Pasadena have also been invited to share their views.

Program Elements:

Inclusionary housing programs adopted by cities are varied, most are mandatory programs and a few are voluntary. Key items in the programs include the following elements;

1. <u>Affordability:</u> The definition of "affordable" housing varies widely. Definitions typically have two parts; one is total household income (usually tied to a percent of the median income in the region, e.g. very low income is fifty percent of the median income of the area). The second part is the percentage of that income that is dedicated to shelter costs.

Programs typically include a percentage of housing units that are to be affordable and a percentage of this overall number to be affordable to very low, low and/or moderate-income households. This percentage may be different for apartments and for sale units. For definitions of income levels in Pasadena see Attachment No. 1.

- Minimum Project Size: Several programs have a threshold minimum number of units above which they are required to participate in the inclusionary program. Many programs exclude projects with less than 5 or 10 units or in some cases larger projects.
- 3. <u>Program Alternatives</u>: Several cities permit developers to pay an in-lieu fee in exchange for not providing affordable units. This in-lieu fee is used by the City to build or contract for affordable units. In many communities the fee is set relatively low in relation to the cost of providing an affordable unit and developers elect to pay the fee.
- 4. Housing <u>Unit Requirements</u>: Programs also require that the "affordable units" be dispersed throughout the project, that they be similar in size and outward appearance and have the same proportion of unit types as the overall project, i.e., a proportionate number of 1, 2, and 3 bedroom units.

STAFF PROPOSAL:

Based on a review of the programs offered, staff is recommending the conceptual program outlined under "Pasadena" in the survey sheet. Following City Council policy directions on this issue staff will detail a program.

- Minimum unit size for program participants: 10 units.
- Percentage affordable: 10-15%.
 - (a) Owner occupied: 10-15% moderate at 40% of household income.

(b) Rental units: 10-15%, 50% of which will be low and 50% moderate household income.

These requirements are intended to reflect the needs as identified in the Housing Element's Needs Assessment that indicates that of the low and moderate income population of Pasadena two thirds of the population is very low or low income and one third is moderate income. We would recommend different percentages of household income dedicated to housing costs for sale and rental income. For rental properties we are recommending that no more than 30% of household income be dedicated to housing costs and for homeownership housing this percentage be 40%. On the for sale product a larger percent of the housing cost will be the mortgage which will stay relatively constant over the life of tenure. Presuming that income rises or is at least tied to inflation, the percent of income dedicated to housing will decrease. In addition, the mortgage interest will provide a homeowner tax advantage that will not accrue the renter.

- (c) Payment of an in-lieu fee should be part of an inclusionary housing ordinance and the fee should be established at the level necessary to fund the "gap" between a market rate unit and an affordable unit. If council directs staff to proceed with an Inclusionary Program the establishment of the inlieu fee will require additional research of the various approaches as well as economic analysis.
- (d) The affordable units should be similar in size, design, and outward appearance to all other units in the project. The unit types of the affordable units should be proportional to the unit types found in the development.

There are many details to be considered following City Council direction on these policy issues. A few of these include how a homeowner and the City share the growth in equity of an affordable for sale units. Other issues include the relationship of inclusionary units to density bonus units, monitoring and enforcement of the program as well as the length of time the units need to be affordable.

There are several legal issues, which have arisen recently regarding inclusionary affordable housing programs. Any proposed program will have to be consistent with the current understanding of the law.