REPORT TO REDEVELOPMENT AGENCY

DATE: **JUNE 27, 2007**

TO: **HONORABLE CHAIR AND MEMBERS OF THE REDEVELOPMENT AGENCY**

FROM: **GREG RAMIREZ, EXECUTIVE DIRECTOR**

BY: **MIKE KAMINO, DIRECTOR OF PLANNING AND COMMUNITY DEVELOPMENT**

SUBJECT: **AFFORDABLE HOUSING IMPLEMENTATION STRATEGY REPORT**

The purpose of this item is to provide information to the Redevelopment Agency (RDA or Agency) and to receive direction from the RDA on the framework and future course of action of the Agency's affordable housing efforts. As background, in November 2006, the Agency entered into a contract with Rosenow Spevacek Group (RSG) for consulting services to assist the RDA in meeting the affordable housing mandates of the California Redevelopment Law. RSG's scope of work consists of two phases. Phase I called for preparation of the attached "issue paper" entitled *Affordable Housing Implementation Strategy Report* (*Report*), which serves as a comprehensive overview of affordable housing needs, including existing circumstances and legal requirements, and to help establish the framework of options for programming of the RDA's affordable housing efforts. Phase I also called for a presentation to the Agency on the findings and recommendations of the *Report*. Phase II is for the actual implementation of programs based on direction given as part of Phase I to fulfill the City's affordable housing obligations.

Phase I culminates with this evening's presentation of the attached *Report* by RSG, and receiving the Agency's direction to staff and the consultant for Phase II, the implementation phase. The *Report* recommends the following specific Phase II implementation programs.

A. *Development of Mixed-Use Ownership Condominiums* – This entails including affordable housing units in new construction condominium projects in the Redevelopment Project Area (Project Area) to expand the City's affordable housing ownership, while dispersing the affordable units among market rate units. The emphasis would be on development in urbanizing infill locations, and so most of this effort would be focused in the Agoura Village area. The City would assist in this effort by providing a subsidy to the developers for the cost gap, the difference between the cost of constructing the unit and the amount households at different affordable income levels can afford to buy the unit.

B. *Nine Percent Low Income Housing Tax Credit (LIHTC) Rental Housing* – LIHTCs are competitively awarded Federal and State tax credits available to developers of extremely low-, very low-, and low-income housing units. The program is regulated and administered by the IRS at the Federal level, and the California Tax Credit Allocation Committee (State Treasury Department) at the State level. The tax credit enables lower income housing sponsors and developers to raise project equity through the sale of tax benefits to investors, in exchange for providing a minimum amount of units for low-income residents, usually for a period of 30 years. Investors receive a ten-year stream of Federal tax credits. The value of these credits is usually converted into equity in the project, resulting in reduced debt and more affordable rents. The units would be developed as either new construction or through acquisition and substantial rehabilitation projects, usually in conjunction with non-profit developers. The City would assist in this program by providing a construction cost gap subsidy.

C. *Purchase of Affordability Restrictions* – Purchase of affordability restrictions can be an immediate, cost-effective means for expanding the supply of affordable units. This program would be geared primarily toward existing units in the Project Area. It entails the City providing a fee to the owners of rental units in exchange for keeping the units restricted to households of certain lower income levels for an established period of time.

D. *Homebuyer Assistance Loans* – The City's First Time Homebuyer Program would be focused on the purchase of new construction condominiums in the Project Area to fulfill the City's affordable workforce housing needs. Loans made in conjunction with the condominium development assistance program would be cost effective, as the loans would secure the required long-term affordability restrictions reflecting the gap between the market value of the unit and the affordable purchase price.

The following is an approach in which the City would partner with private and public property owners to develop affordable housing units in a variety of ways. The particular methods to create the units would vary.

E. *Participation with Private and Public Property Owners* – Opportunities for developing mixed-income condominium projects on underutilized properties and infill sites in the City would be explored for participation with private property owners (particularly in the Project Area), as well as other public property owners in the City, including the Las Virgenes Unified School District.

Prior to arriving at these five programs, RSG prepared a report entitled *Preliminary Affordable Housing Data Collection and Analysis*. The data collection focused on the resale housing market within eleven City neighborhoods, with a "gap analysis" provided, reflecting the difference between the affordable purchase prices and the market values of the units (i.e., what the City subsidy would need to be). A series of potential affordable housing initiatives was also presented by RSG. These initiatives included: (1) Revising the First Time Homebuyer Program to increase loan amounts and income limits; (2) Increase the City's in-lieu affordable housing fee to reflect current market conditions; (3) Initiating a developer assistance program for vacant and underutilized property in the City, whereby the City helps fund the costs of developing the affordable units; (4) Initiating a program with existing property owners for long-term affordability restrictions on units, with the City "purchasing" these restrictions from the owners; (5) Initiating a housing subsidy program for the City to pay, on a monthly or annual basis, to special needs categories of residents, such as senior citizens. In addition to the data collection and analysis, RSG staff spoke with area realtors, potential Agoura Village Specific Plan (part of the Redevelopment Area) developers/applicants, as well as representatives of the Las Virgenes Unified School District. The potential for utilizing Low Income Housing Tax Credits (LIHTC) was also evaluated. These various initiatives were further reviewed by staff and the Council Affordable Housing Subcommittee, and refined to a series of five recommended programs, as outlined above.

RSG staff made a presentation on the *Affordable Housing Implementation Strategy Report* to the City Council Affordable Housing Subcommittee on April 23, 2007, which agreed with the *Report*'s recommendations. The five programs selected, as outlined above, were based on the following priorities:

- Emphasis on long-term deed restrictions on affordable units.
- Emphasis on affordable units being in the RDA Project Area, where a 1:1 credit ratio for providing affordable units can be achieved, as opposed to a 0.5:1 ratio outside of the Project Area.
- Compliance with California Redevelopment Law and State Housing Element Law (Regional Housing Needs Allocation - RHNA) which place priority on certain income categories and timelines for affordable housing development and entering into affordability restrictions.
- Financial considerations and resource availability. In particular, this involves selecting programs that are the most effective and efficient for meeting affordable housing requirements, while at the same time maximizing and leveraging City funds and funding assistance. The RDA currently has $2.6 million in the 20% housing set-aside fund (Low-Moderate Income Housing fund), and is projected to have nearly $7.4 million within the next five years, assuming there are no expenditures from these monies. There is also currently $1.6 million in the inclusionary housing in-lieu fund.
- Consideration of community acceptance of the programs, and selection of sites that stimulate economic development and complement Agoura Village.

If the Agency concurs with these recommendations, RSG and staff will immediately pursue the particular programs. During Phase II, RSG and staff will work closely with the Affordable Housing Subcommittee in further developing the details of each program including negotiations with property owners and developers. Any agreements or commitment of funds, or any changes to the programs or priorities, would be subject to review and approval by the Agency.

In addition, two changes to the Municipal Code that would be necessary to carry forward the recommendations, as well as to ensure consistency with current State laws, and which are recommended by RSG, are: (1) Updating the Inclusionary Housing Ordinance; and (2) Updating the Density Bonus Ordinance. The primary changes include the following:

Inclusionary Housing Ordinance

The Inclusionary Housing Ordinance requires that in all residential developments with more than ten dwelling units, at least 15 percent of all units be made available to low- to moderate-income households. The Ordinance also provides for an allowance for location of the inclusionary units offsite, and for paying a fee in place of providing the inclusionary units (i.e., in lieu fee), under certain scenarios. Per the Code, the current in-lieu fee is established at $6,277 per unit for single-family, condominium and townhome developments, and $4,541 per unit for apartments. The ordinance was adopted in September 1987, and amended last in September 2000 to include the in-lieu fee option. Further amendments would be to:

1. Increase the in-lieu fee to accurately reflect housing costs. This would necessitate conducting surveys of the costs of developing housing and in lieu fees in other jurisdictions. Reconsider the findings or conditions under which in lieu fees may be paid.

2. Add provisions for development that occurs in the Redevelopment Project Area to be consistent with California Redevelopment Law. Currently in the Code, projects in the Project Area are only required to meet the same inclusionary housing requirements that apply to other areas of the City, as noted above. However, per Redevelopment Law, in the Project Area, a higher percentage of the affordable units (40 percent of the 15 percent) must be allocated to the very low income category (as opposed to low/moderate categories). Therefore, the Code needs to be changed to ensure that higher ratios of lower income units are created in the Project Area.

3. Conduct a survey to determine current definitions of low and middle/moderate income categories, based on U.S. Department of Housing and Urban Development (HUD) data, as periodically required in Section 9133.1.I of the Municipal Code.

Density Bonus Ordinance

The State's density bonus law (Government Code Sections 65915-65918) is essentially a voluntary inclusionary housing ordinance that provides incentives to developers who include affordable housing in their projects. The law requires cities and counties to grant developers both density bonuses of 20 to 35 percent additional residential units, depending on the amount and type of affordable housing provided, and exceptions from normally applicable zoning and other development standards. The law requires that cities and counties adopt ordinances specifying how they will comply with the legislation. The ordinance has been part of the City Code for a number of years. Staff is proposing to update the current ordinance to reflect fairly recent changes to the State density bonus law made by SB 1818 (2004) and SB 435, Chapter 496 (2005). Staff will coordinate with the City Attorney to prepare this update.

RECOMMENDATION

Staff recommends that the Redevelopment Agency accept the *Affordable Housing Implementation Strategy Report*; adopt programs A through E, as listed in the staff report; and authorize staff to prepare revisions to the Inclusionary Housing Ordinance and Density Bonus Ordinance.

Attachment: *Affordable Housing Implementation Strategy Report* (prepared by RSG)