

# Inclusionary Housing Ordinance Revisions

*The Economics of Land Use*



*presented to*

City of Healdsburg

City Council

*presented by*

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June 20, 2016

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# IHO Objectives

**Current proposal** = Expand Inclusionary Housing requirement to 30% of all for-sale housing units (from current 15%); add Middle Income tier and expand incentives\*

This is meant to:

1. Get affordable housing units built, by the private sector, on the remaining land in Healdsburg
2. Create more economically diverse neighborhoods
3. Expand affordable housing opportunities to “middle income households” (up to 160% of AMI)

\*Contingent upon voter approval of the proposed Growth Management Ordinance Amendment

# “Funding Gap” and Project Feasibility

- Any Inclusionary Housing program **requires a subsidy – either from lower land price or as additional cost upon market rate units**. This subsidy is the “funding gap” -- the difference between the cost to deliver the Affordable Housing Unit and the price it can be sold for.
- The “funding gap” allocated to the market rate units is the “cost burden”.
- **Increasing the percentage of affordable housing units** and/or the depth of affordability increases the “funding gap” on a given project. Ultimately if costs are too high the project is infeasible, *and nothing gets built – Market or Affordable units*.
- Average “cost burden” of the current proposal is **\$67,000 per Market Rate Unit**.

# Finding the Balance in the Revised IHO

1. How do we distribute inclusionary requirement over household income categories?
2. When and how much should payment-in-lieu be, and when would it be allowed to be used?
3. How do small projects (<6 units) comply with the IHO?
4. What “alternative compliance” approaches would be fair and help achieve our goals?
5. What incentives can we offer to increase uptake in program and delivery of new affordable housing?
6. How should rental housing contribute to affordable housing, if at all?

# 1. Distribution of Affordability

- Inclusionary “for sale” housing typically emphasized moderate income (81% to 120% AMI)
- Low income (50% to 80% AMI) possible but “funding gap” is large and families have difficulty qualifying for financing
- New “middle income” category (121% to 160%) may have little or no “funding gap”

**Proposal:** 0% Very Low\*; 7.5% Low; 7.5% Moderate; and 15% “Middle Income”

\*Very Low and Low Income Households best served by affordable rental housing developers utilizing LIHTC and other public subsidies

## 2. In Lieu Fee

- Current IHO includes an option to pay an in-lieu-fee:
  - \$15,000 for +2,300 sq. ft. unit
  - \$0 for less than a 1,300 sq. ft. unit.
- Under the new proposal, the estimated maximum “cost-based” fee is shown to be \$47,000.
- In lieu fee revenue is used to provide funding for other affordable housing programs (e.g. local match for LIHTC projects)

**Conclusion:** In-lieu fee should be increased, and only be applicable for projects less than 4 units and the “fractional” unit requirements on larger projects.

### 3. Small Project IHO Compliance

- Projects of 3 or less units would not build inclusionary unit but pay the new in lieu fee.
- Projects 4 to 6 units build one inclusionary unit and pay fractional in lieu fee.
- Projects +6 units construct 30% affordable units, across the percentages, and pay any fractional in-lieu fee amount that results.

## 4. Alternative Compliance

Circumstances may dictate that in some instances it will be in the City's interest to offer alternative compliance measures, such as:

- Construction and price-restriction on second unit (for projects <6 units)
- Housing site land dedication
- Acquiring or extending affordability contracts on existing housing units
- Offsite construction of some/all affordable units



## 5. Development Incentives

Regulatory and financial incentives offer a way to assure housing development (and thus inclusionary housing) feasibility, such as:

- Density bonus provisions at or above State-mandated
- Modified development standards (parking, etc.)
- Proportional development impact fee reductions for second units
- Development Impact Fee waivers or other financial participation, especially to deepen affordability, etc.

## 6. Applicability to Rental Housing

- Rental housing is currently preempted from inclusionary housing as established in the Palmer Case. A nexus-based impact fee requires adoption of Housing Impact Fee Ordinance.
- Housing impact fee requires nexus-based calculation of the impact of market rate housing production on demand for affordable housing units.

# How It Would All Work

Housing Prototype and Project Size	Very Low < 50% AMI	Low 51-80% AMI	Moderate 81-120% AMI	Middle Income 121-160% AMI	Primary Compliance	Affordable Housing Units	Alternative Compliance		Development Incentives (offered in Housing Action Plan)	
							Fee	Other	Regulatory	Financial
1 to 3 Housing units	0	0	0	0	Pay fee proportional to cost of unit	0	N/A	Build and deed restrict secondary dwelling unit (s)	Regulatory incentives for second unit (HAP A-2)	Proportional development impact fee reductions for second unit (HAP A-2 & PR-4)
4 to 6 units	0	0	1	0	Build one affordable housing unit & Pay proportional fee for balance of any fractional unit that results from 30% calculation (4)	1	N/A	Build and deed restrict secondary dwelling unit (s) (as alternate to paying fee for fractional unit)	Regulatory incentives for second unit (HAP A-2)	Proportional development impact fee reductions for second unit (HAP A-2 & PR-4)
Greater than 6 units	0%	7.5%	7.5%	15.0%	Build 30% affordable units on-site	.30 times total number of units in project	Pay proportional fee for balance of any fractional unit that results from 30% calculation	With City approval: -- Land dedication for affordable housing -- Acquire/extend affordability contracts -- Offsite construction (all or part)	Density bonus as per State Law and other regulatory incentives (HAP PR-3)	Financial subsidies (fee waiver, etc.) considered on case-by-case basis (HAP A-2 & PR-5)

# Worksheet Notes

1. Very Low and Low Income Households typically require affordable housing provided with public subsidies and tax credits assembled by affordable housing developers.
2. Fractional fee is the amount above a cardinal number of housing units required.

# Rationale for Proposed Revisions

- 30% requirement component of GMO ballot language
- 30% requirement, Middle Income Definition & Incentives included in Housing Action Plan Priority Recommendations 1-3
- Focuses creation of inclusionary units to low, moderate and middle income categories which:
  - make up 80% of City's regional housing need
  - were identified in Housing Needs Assessment as needing 37-44 units constructed per year to achieve 40% target of employees able to live in town
- Supports HAP Objective 2 by allowing fractional requirement to be met by construction of deed-restricted SDU

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# Questions?

# Comparing Current and Proposed IHO

## Current IHO

## Proposed IHO

Inclusionary Requirement	15% of New For Sale Housing	30% of New For Sale Housing
How Requirement is Distributed Across Income Groups	10% Very Low & Low 5% Moderate	7.5% Low 7.5% Moderate 15% Middle Income
What does the Payment-in-Lieu option cost?	Based on SF, Ranges from \$0 for < 1,300 SF to maximum of \$15,000 for >2,300 SF	TBD, estimated up to \$47,000 per market rate unit
How are Small Projects Addressed?	For 6 or less units, pay-in-lieu fee	For 3 or less units, pay-in-lieu fee For 4 units or more, build affordable unit(s) & payment-in-lieu for fractional units
What Alternative Compliance Methods are Available?	Payment-in-lieu, Land Dedication, Offsite Construction	Build deed restricted Secondary Dwelling Unit, Payment-in-Lieu for fractional units, Land Dedication, Offsite Construction, Acquire/extend Affordability Contracts
What Incentives are Available to Encourage the kind of Development we want?	State mandated density bonus	State mandated density bonus and other regulatory or financial incentives at discretion of the City



# IHO Model Income assumptions

Item	Units by Income Level		
	Low Income	Moderate Income	Middle Income
Percent of AMI used in calculations	<b>65% AMI</b>	<b>100% AMI</b>	<b>140% AMI</b>
Household Income	\$53,150	\$82,600	\$115,640
Income available for housing (at 30% of income)	\$15,945	\$28,910	\$40,474
Supportable Housing Price	\$204,276	\$325,288	\$473,708