



CITY OF ENCINITAS

CITY COUNCIL AGENDA REPORT

Meeting Date: May 12, 2004

STAFF REPORT ITEM #9

TO: Mayor and City Council
VIA: Kerry L. Miller, City Manager
FROM: Planning & Building Department
Patrick S. Murphy, Director
David de Cordova, Principal Planner
David Harris, Housing Coordinator

SUBJECT: Workshop to discuss the City's current Inclusionary Housing requirement, consider improvements to the Inclusionary Housing Policy, and provide direction to staff

BACKGROUND:

Inclusionary zoning is a planning tool to reserve a certain percentage of housing units for low and moderate-income households in new residential developments. Inclusionary housing can be used to address the need for affordable housing, both through the production of units by for-profit developers and by the generation of dedicated housing revenue through in-lieu fees. It also provides a creative way to disperse affordable housing units throughout the city.

Chapter 24.21 of the Encinitas Municipal Code requires developers to reserve 10% of all residential units for affordable housing or pay an in-lieu fee established by the City (see Exhibit 1). This regulation applies to new residential development projects of 10 or more units. Except for the Encinitas Ranch project, the inclusionary housing requirement has generally been fulfilled by the construction of accessory dwelling units. Although Chapter 24.21 provides for the payment of a fee in-lieu of dedication, the City has never established such a fee.

Staff is suggesting that the City revisit its inclusionary housing policy in order to address the increased demand for affordable housing. Since the inclusionary housing ordinance was adopted in 1990, the economics of the housing market have changed significantly. From 1991 to 1995, when the State was experiencing a recession, sales prices actually declined and rents dropped to relatively affordable levels. From 1996 to 2000, the housing market began a steady rebound as new single-family housing construction picked up and rents rose steadily. Since 2000, housing prices have increased from 15 to 25% annually, spurred on by low interest rates and strong regional job growth.

The lack of affordable housing is a regional issue affecting every jurisdiction in the county. In Encinitas, rental housing is no longer affordable for low-income families (in

the \$35,000 to \$45,000 range) and for-sale housing is no longer affordable for even moderate-income households (in the \$55,000 to \$75,000 range). Since 2000, the average 2-bedroom rent in Encinitas increased from \$1,100 to over \$1,300, and the median sales price for all homes in Encinitas has doubled from \$312,000 to \$631,000 (as reported by California Association of Realtors for March 2004).

ANALYSIS:

Economists generally agree on three primary factors responsible for the affordable housing crisis in Southern California:

- 1) Housing production is not keeping pace with population growth
- 2) Job growth has significantly exceeded housing growth
- 3) Wages have not kept up with the rising cost of housing

While housing production has steadily increased over past five years, the building industry is not creating affordable rental and for-sale housing to meet the needs of low and moderate-income households. In addition, state and federal government housing agencies are not providing sufficient subsidies to enable local jurisdictions and affordable housing developers to meet the demand for low and moderate-income housing.

Many local governments adopt inclusionary policies as a tool to meet their fair share requirements for affordable housing. Local jurisdictions are mandated by State law to set production goals in their housing elements, to identify sites with capacity for affordable housing, and to establish policies and programs that will enable it to meet its goals. (Every five years, the State determines the Regional Housing Needs and empowers SANDAG to allocate that need to the local jurisdictions, including a fair share of low and moderate-income housing. That process is currently underway for the 2005-2010 planning period.)

In 2003, a comprehensive survey of inclusionary housing programs was conducted by two non-profit housing organizations. The survey found that 107 jurisdictions have inclusionary housing policies and programs (20% of all California cities and counties). An excerpt from this report is attached (see Exhibit 2).

In San Diego County, several local jurisdictions have implemented inclusionary housing programs, including the cities of San Diego, Chula Vista, and Carlsbad. These policies have resulted in the production of thousands of affordable rental and homeownership units. Although Encinitas can learn from these models, the City ultimately needs to adopt a new inclusionary policy that works for Encinitas. Unlike the three cities listed above, Encinitas does not have large subdivision developments in the pipeline. Most new residential development in Encinitas will be in the form of small in-fill subdivisions and mixed-use projects.

In 2003, staff sent monitoring letters to 28 Encinitas property owners who have accessory units that were built under the City's inclusionary housing program. Out of 20 responses that were returned, only six units were actually being rented out to eligible tenants; eight property owners did not respond. Many owners expressed that they have no intention of ever renting out their accessory units. For staff, monitoring of these units has been difficult at best.

Policy Issues

The key policy decisions related to an effective inclusionary policy are:

- 1) The percentage of affordable units required
- 2) Income targeting of the affordable units: very low, low, and/or moderate
- 3) Alternatives to on-site construction
- 4) Developer incentives
- 5) Length of affordability
- 6) The City's role in implementation and administration

Developer Issues

When inclusionary housing requirements are imposed on residential projects, the most important issues for developers are:

- 1) Is the policy flexible, allowing a variety of options to meet requirements?
- 2) Will the City offer incentives that reduce development costs, including reduction in site development standards and faster processing time?
- 3) Does the City provide clear and fair guidelines for applications to a variety of residential projects, such that the cost of meeting the policy requirements are quantifiable?
- 4) If there is an in-lieu fee option, is the in-lieu fee reasonable? Are increases in the in-lieu fee predictable?

Inclusionary Options

Several options for improving the effectiveness of the inclusionary housing policy, include:

- 1) Provide alternatives to on-site construction of affordable units, including offering an in-lieu fee option, allowing off-site construction, or providing for land dedication;
 - a) Allow the in-lieu fee option only for projects of fewer than 10 units;
 - b) Off-site construction should be within the same community planning area and a higher percentage of affordable units should be required (e.g. 15% rather than 10%)
 - c) Land dedication (may be feasible only at higher densities than single-family zoning)
- 2) Offer developer incentives, including density bonus, fast track processing, fee deferrals, and flexibility on development standards
 - a) For example, the current density bonus ordinance allows a 25% density increase; the City might consider combining the inclusionary and density bonus units if a developer agrees to make 20% of units affordable
 - b) Fast track processing may require the additional staff time or a prioritization process for such development applications

- c) Flexible standards might include allowing duplex units in single family zone or reductions in site development standards (e.g. lot size, setbacks, parking)
- 3) Establish the length of affordability to be a minimum of 55 years, or require permanent affordability
- 4) Apply the inclusionary requirement to all projects of 3 or more units instead of the current size of 10 or more units

In-lieu Fee Option

One important consideration regarding the in-lieu fee option is that it allows the developer to transfer the responsibility for producing affordable housing units to the City. While the fees generate local revenue for affordable housing, it leaves unresolved the questions of who will develop the units, where they will be sited, and how long will it take to complete. In addition, if the revenue is insufficient to produce the number of units required, the City must consider its ability to leverage funding from other sources to make the units feasible. To effectively utilize the in-lieu fee revenue, the City will need to identify potential sites and develop an implementation strategy.

Ideally, the amount of the in-lieu fee should be sufficient to enable the City to produce the affordable unit(s). Per state requirements, a study is performed prior to the establishment of a fee to justify the amount of the fee. Jurisdictions vary greatly on the amount and application of the in-lieu fee (see Exhibit 3). The City of Oceanside, for example, has the highest fee in the county at \$103,750 per required affordable unit (\$10,375 per market rate unit) and it applies to all projects of 3 or more units. The City of San Diego has a sliding scale starting at a \$1.25 per square foot for projects of fewer than 10 units and \$2.50 per square foot for projects of 10 units or more. (For purposes of comparison, the fee for a typical 2,700 sq. ft. home would be either \$3,375 or \$6,750). The City of Carlsbad has an in-lieu fee of \$4,515 per market rate unit for projects of 6 or fewer units, and does not allow an in-lieu fee option for projects of 7 or more units.

FISCAL AND STAFF IMPACTS:

The fiscal and staff impacts associated with potential changes to the Inclusionary Housing requirements are unknown at this time. Once the City Council has provided direction on possible options to consider, staff will evaluate fiscal and staff impacts in more detail. There are no direct impacts associated with the current policy since the inclusionary requirement is placed on the developers. Staff impacts relate to assuring the requirement is satisfied with new development and on-going monitoring of existing inclusionary units.

RECOMMENDATION:

Staff recommends that the City Council receive information and public testimony and provide direction to staff as to which options, if any, the Council wishes to pursue in improving the Inclusionary Housing requirement.

Exhibits

1- Chapter 24.21 of the Encinitas Municipal Code

- 2- Executive Summary from “Inclusionary Housing in California: 30 Years of Innovation”, published by California Coalition for Rural Housing and Non-Profit Housing Association of Northern California
- 3- Inclusionary Housing Survey (San Diego County)