



# **SACRAMENTO HOUSING AND REDEVELOPMENT AGENCY**



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October 9, 1990

Budget & Finance and Transportation/  
Community Development Committees of the  
City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: Inclusionary Zoning Policies

## SUMMARY

At the request of the Budget & Finance and Transportation/Community Development Committees and the City Council, this staff report presents information regarding inclusionary zoning policy options. The report includes a discussion of policy issues and features that could be incorporated into an inclusionary policy and a description of several programs that have been implemented in other jurisdictions. The report supports conceptual approval of an inclusionary policy; however, the report recommends that further evaluation of specific features, legal requirements and economic considerations be conducted prior to the adoption of a policy for the City.

## BACKGROUND

As most commonly used in California jurisdictions, inclusionary zoning policies require and/or provide incentives for the construction of low and moderate-income housing within or in conjunction with the development of new market-rate housing. Such policies may be designed to achieve two important objectives. First, an inclusionary policy can ensure that the supply of affordable housing units continues to increase as the community grows. Second, by requiring construction of affordable units as part of each new development, an inclusionary policy can ensure that affordable housing opportunities are available throughout the community. This latter objective can help to achieve socio-economic integration by ensuring a fair share distribution of affordable housing.

## Housing Needs

An inclusionary policy is viewed as one tool among others necessary to address Sacramento's severe and growing housing affordability problem. As documented in the Housing Assistance Plan, Program, and Financing Strategy (HAPPFS), produced by the City/County

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Housing Finance Task Force, over 44,000 low-income renter households pay more than 30% of their income for rent. This figure represents an existing housing need as of the 1980 Census. We know that affordability has declined since then. Currently, only 12,000 assisted units are available. The waiting list for housing assistance numbers over 18,000 households. Furthermore, over 7,200 federally-subsidized units are eligible to convert to market-rate by the year 2008. Of these, 5,935 units in 85 complexes are eligible within the next five years.

In addition, the purchase of a home has been all but pushed out of reach for the majority of Sacramento first-time buyers. According to the Sacramento Association of Realtors, in August of this year the median resale price for an existing home reached \$143,000, a 45% increase over the August 1988 median of \$98,500.<sup>1</sup> To purchase today's median priced resale home, a household would need an annual income of approximately \$50,700 or about 135% of the area median.

According to the Sacramento Area Council of Governments' Regional Housing Needs Plan, to meet the City's fair share of the regional need for the period 1989 through 1996, 16,751 new units must be constructed within the City. SACOG projects that of that figure, 32%, or 5,312 units must be affordable to low and very low-income households. On an annual basis, that translates into 760 units.

## Financial Resources

To address the problem of housing affordability, the HAPFES recommends the formation of a housing partnership involving the business, financial, housing development, and government sectors. This partnership strategy is designed to ensure that the financial resources required to meet the community's need for low-income housing come from a broadly-based spectrum. In accordance with this goal, the Agency has aggressively pursued state and federal funds for housing, has initiated a dialogue with lenders in order to secure debt financing on favorable terms, and has begun to analyze the feasibility of a general obligation bond for housing. These sources supplement such local revenue sources as tax increment funds and the commercial development fee that funds the City's Housing Trust Fund.

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<sup>1</sup> The median price for a new home in the Sacramento area averages approximately \$30,000 more than the median for existing homes.

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To better address public housing location and a fair share program, the HAPFES recommended a modified approach to inclusionary zoning whereby the Agency would have the first right of refusal to purchase land for public housing in new residential developments. Staff supports this concept and would like to see such a policy implemented. However, given the high cost of land and severely limited public funding sources, a significant amount of land purchase would not be possible. An inclusionary policy in some form could go a long way toward increasing the supply of affordable housing and achieving better economic integration in our community.

## Inclusionary policies adopted in other jurisdictions

Over 40 California jurisdictions have adopted inclusionary policies. These policies include a wide array of features. Attachment 1 provides an outline of the major components of an inclusionary program and indicates several policy options. Specific recommendations will be made in a subsequent staff report. The attachment also includes a description of inclusionary policies adopted in Orange County, Irvine, Davis and Roseville.

The degree to which inclusionary policies have been effective can be attributed to two primary factors: whether the policy is mandatory or voluntary; and the degree to which the policy is economically feasible given market considerations, development and land costs, the degree of targeting required, and the availability of incentives for the development of low-income housing.

## Policy considerations

To meet the objectives of increasing the supply of affordable housing and facilitating economic integration, the Agency staff supports an inclusionary policy for the City of Sacramento. The specifics of such a policy need to be developed jointly by Agency and City staff, including the Redevelopment and Planning Commissions, and should be guided by the following considerations:

- 1) The inclusionary requirement should not be so onerous as to make housing development infeasible. Further economic analysis is necessary to develop recommendations regarding the percentage of units and the degree of targeting to be required. The analysis will consider the developer's opportunity cost as well as the degree to which costs might be shifted onto market rate units.

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- 2) To the maximum extent feasible, the City should consider assistance to developers in order to reduce development costs. Such assistance might include expedited processing, a waiver, reduction, or deferral of fees,<sup>2</sup> and modification of design and development standards.<sup>3</sup> A reduction in development costs can increase the feasibility of an inclusionary policy and can assist in accomplishing a greater degree of targeting.
- 3) The City should evaluate methods and procedures that can reduce the time required for project review and approval. Such time savings may allow developers to offset the cost of providing targeted units.
- 4) To the extent that funds are available, the City should provide subsidies in order to increase the level of affordability in targeted units. In addition, assistance should be provided to help developers obtain reduced cost financing through state and federal programs and private lenders.<sup>4</sup>

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<sup>2</sup> The City of Roseville offers a fee deferral program under which fees are paid at issuance of occupancy permits. Because the developer pays the accrued fee along with interest at the rate that the City would have earned on its pooled income account, City revenues are not reduced. The developer gains the advantage of reducing the amount of high-interest bridge financing necessary for construction.

<sup>3</sup> State law requires the City to provide either a density bonus of 25% above the allowable density or an incentive of equivalent financial value for developments in which either 20% of the units are reserved for lower income households or 10% are reserved for very low-income occupancy. In addition, unless it is shown to be unnecessary for project feasibility, the law requires the provision of an additional incentive (Health & Safety Code Sec. 65915).

<sup>4</sup> Subsidies/assistance might include deferred loans funded through tax increment or housing trust fund revenues, grants or loans provided by the CDBG program, bond financing, and assistance in applying for state housing construction loans, state and federal tax credits, and reduced cost loans available through private lenders that have made community reinvestment commitments.

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- 5) Unless made infeasible due to small project size, the inclusionary requirement should be mandatory, and should apply to all new construction. A voluntary policy is likely to yield few units. Because an important objective is the distribution of housing opportunities throughout the community, the policy should emphasize construction on-site. Payment of in lieu fees or construction on alternate sites should be discouraged.
- 6) The policy should apply to both rental and ownership developments.
- 7) The policy should include provisions that ensure the longest feasible term of affordability. Such provisions might include recorded regulatory agreements for rental units and some form of resale control for ownership units.<sup>5</sup>
- 8) As an alternative to requiring the developer to build the targeted units, the policy should include an option to allow the developer to dedicate land for later construction by the Agency or another developer.<sup>6</sup>
- 9) The policy should address affirmative marketing efforts whereby preference is given to members of minority groups that are underrepresented in the census tract in which the proposed development is to be located and to households that include a member whose place of employment is located within Sacramento County.
- 10) The policy should be easily administered and should provide predictable and consistent requirements. Further evaluation will be done regarding adoption and implementation of a policy as part of the Housing Element, as an amendment to the zoning ordinance, and as incorporated into individual development agreements.

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<sup>5</sup> Provisions to ensure continued availability of affordable homes for first-time buyers might include: a requirement that the house be sold to a qualified buyer at an affordable price or a requirement that a share of the home's appreciation be paid into a fund to assist future first-time homebuyers.

<sup>6</sup> To the extent that land is transferred at less than market value, the developer may qualify for state and federal tax deductions.

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- 11) The policy should be developed in cooperation with the Housing Element update currently being conducted by the Planning Department.

## **FINANCIAL DATA**

The economic and legal research necessary to carry out the recommendations contained in this staff report can be covered under 1990-91 Agency budget authority.

## **MBE/WBE EFFORTS**

The proposed action does not require MBE/WBE considerations.

## **ENVIRONMENTAL REVIEW**

The proposed action is exempt from environmental review per CEQA Guidelines Section 15378(b)(3); NEPA does not apply.

## **POLICY IMPLICATIONS**

Although adoption of an inclusionary zoning ordinance represents a new policy tool, such action would be consistent with the City's adopted Housing Element which includes provisions supporting the development of housing affordable to households of all economic levels. In addition, an inclusionary policy is consistent with the intent of the City's Fair Share Plan. Prior to drafting an inclusionary policy, it will be necessary to conduct an evaluation of legal requirements and to assess the potential economic impact of proposed requirements and incentives.

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## RECOMMENDATION

Staff recommends that the Committee request the Agency staff to assume lead responsibility for conducting the necessary research and to prepare, for later consideration by the City Planning Commission, the Redevelopment Commission, and the City Council, an implementation plan and ordinances necessary to implement an inclusionary housing policy.

Respectfully submitted,

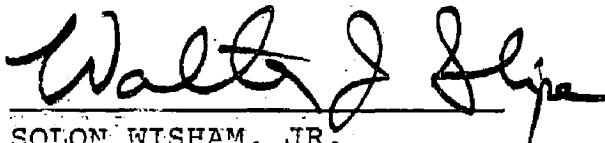


ROBERT E. SMITH  
Executive Director  
Sacramento Housing and Redevelopment  
Agency



MICHAEL M. DAVIS  
Director  
City of Sacramento  
Planning and Development  
Department

TRANSMITTAL TO COUNCIL:



For

SOLOM WISHAM, JR.  
Assistant City Manager

Contact person: Thomas V. Lee, 440-1357  
Marty Van Duyn, 449-5381

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Attachment 1  
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## INCLUSIONARY ZONING OPTIONS

Document:           Zoning ordinance  
                     Housing element  
                     Specific plan  
                     Individual development agreement.

Applicability:       Rental; ownership.  
                     All new construction.  
                     Triggered by rezoning, conditional use permit, other.

Targeting:           Percent of median income (very low, low, moderate, proportion)

Number of units:     % of total  
                     Exemption for small developments

Term of control:     Permanent; 30 years; other

Enforcement:         Annual income and rent verification  
                     Regulatory agreement  
                     Deed restriction

Resale controls:     Pay back deferred 2nd mortgage  
                     Shared appreciation  
                     Sale only to qualified buyer

In lieu options:     Fee  
                     Land dedication  
                     Build off-site

Fee rate:            Sufficient to build elsewhere  
                     Sufficient to encourage construction onsite

Land price:          Cost; fair market value; adjusted to reflect rent/price control

Incentives/  
subsidies:           Density bonus, fee waiver, fee deferral,  
                     priority processing, modification of design and development  
                     standards, reduced/deferred-interest loan.

Unit features:       Identical to market-rate  
                     Allow unit size reduction  
                     Allow lot size reduction  
                     Allow amenity reduction  
                     Require dispersion throughout development

Marketing:           Preference to households employed within county,  
                     underrepresented minorities

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## CITY OF ROSEVILLE

Document	Housing element, specific plans, development agreements.						
Adopted (amended)	December, 1988.						
Application	<p>New residential construction in specific plan areas. New residential construction in infill areas if the property receives a change in residential density or is rezoned from another use. Exception: properties that received land use, zoning, or project approval prior to December 31, 1987.</p> <p>Each Specific Plan Area (SPA) will develop a plan for achieving 10% low-income housing goal and a projection of necessary subsidies. These plans will be approved by City Council and incorporated into the development agreement for the SPA. Projects developed within the SPA will be governed by individual development agreements that are in accordance with the SPA agreement.</p> <p>If necessary subsidies are not available, the Affordable Housing Goal may be deferred, reduced, or eliminated.</p>						
Number of units	Goal = 10% of units constructed in specific plan and infill areas. Number will depend upon availability of subsidies and will be specified in individual development agreements.						
Targeting	<table border="0"><thead><tr><th><u>% of median</u></th><th><u>% of units</u></th></tr></thead><tbody><tr><td>80%</td><td>40% of 10% goal</td></tr><tr><td>50%</td><td>60% of 10% goal</td></tr></tbody></table> <p>Income mix to be specified in development agreement.</p>	<u>% of median</u>	<u>% of units</u>	80%	40% of 10% goal	50%	60% of 10% goal
<u>% of median</u>	<u>% of units</u>						
80%	40% of 10% goal						
50%	60% of 10% goal						
Max. rent	30% of applicable income category, specified in development agreement.						
Max. sale price	PITI $\leq$ 35% gross income, targeted to households at 80 - 100% of median. Specified in development agreement.						

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## City of Roseville (continued)

Term	Specified in development agreement. 30 years if density bonus is granted.
Unit features	Affordable units may not be inferior to other units in the development. Affordable units may not be clustered in one location within the development.
Alternatives	In lieu fee consisting of cash or a land dedication will be included in the SPA plan. The in lieu fee must be sufficient to allow development of affordable units on an alternate site when combined with the assembled subsidies. Development agreement may specify that participation in Section 8 program may substitute for a portion of the required units.
Enforcement	Annual report evaluating compliance by individual projects and overall 10% goal. Monitoring to be done by Planning Department. Failure to comply with development agreement provisions may cause project denial or restriction of further development.
Marketing	Not specified.
Potential incentives/subsidies	Density bonus, fast track processing, modification of subdivision standards, state, federal, local funds.
Production	328 family and 114 elderly rental units are under construction or approved. All will be affordable at 60% of median or less. 50 single family detached units which will be sold at an estimated \$120,000 have received tentative map approval.

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## CITY OF IRVINE

Document	Housing Element								
Adopted (amended)	1980 (1989)								
Application	Applies to new construction as condition of approval for CUP or zoning amendment.								
Number of units	Goal = 25% of new units constructed city-wide. Specific requirements to be set for each planning area at time of approval.								
Targeting	<table><thead><tr><th><u>% of median</u></th><th><u># units</u></th></tr></thead><tbody><tr><td>0-30%</td><td>1% of total units</td></tr><tr><td>30-50%</td><td>11.5% of total units</td></tr><tr><td>50-80%</td><td>12.5% of total units</td></tr></tbody></table> <p>10% of targeted units must be accessible to disabled.</p> <p>10% of affordable units must be 3 and 4 bedroom units.</p> <p>Goal: 10% of affordable units for ownership</p>	<u>% of median</u>	<u># units</u>	0-30%	1% of total units	30-50%	11.5% of total units	50-80%	12.5% of total units
<u>% of median</u>	<u># units</u>								
0-30%	1% of total units								
30-50%	11.5% of total units								
50-80%	12.5% of total units								
Max. rent	30% of max. income in category								
Max. sale price	Housing debt/income ratio max. 40%								
Term	30 years								
Unit features	Not specified.								
Alternatives	Not specified.								
Enforcement	Deed restriction, annual monitoring. City has right to purchase ownership units at initial price plus index.								

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## **City of Irvine (continued)**

<b>Marketing</b>	Affirmative marketing to minority groups required. Priority must be given to households that include a member employed in the City and households that have a Section 8 certificate or voucher.
<b>Potential incentives/subsidies</b>	Bond issue, assistance in obtaining gov't grants and loans, housing trust funds, tax credits, priority processing, parking reductions, fee reductions. Priority for subsidies given to developments that include a longer term of affordability, a greater number of affordable units, or deeper targeting.
<b>Production</b>	3700 affordable units during the past 8-10 years.

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## ORANGE COUNTY

*This summary describes the provisions of Orange County's inclusionary policy as it was structured in 1983. Beginning in 1984, the mandatory aspects of the program were phased out.*

Document	Housing Element								
Adopted (amended)	1979 (1983)								
Application	Applies to new construction of developments of 30 or more units except in community plan areas in which more than 25% of the housing stock is affordable. (The original policy applied to developments of five or more units.)								
Number of units	As originally adopted, goal = 25% of new units constructed city-wide.								
Targeting	<table><tr><th><u>% of median</u></th><th><u># units</u></th></tr><tr><td>0-80%</td><td>10% of total units</td></tr><tr><td>81-100%</td><td>10% of total units</td></tr><tr><td>101-120%</td><td>5% of total units</td></tr></table> <p>Original policy was mandatory. The 1983 amendment phased out mandatory components, and stipulated that if available incentives were insufficient to make construction of low-income units feasible, targeting could be directed to 81-100% of median income level.</p>	<u>% of median</u>	<u># units</u>	0-80%	10% of total units	81-100%	10% of total units	101-120%	5% of total units
<u>% of median</u>	<u># units</u>								
0-80%	10% of total units								
81-100%	10% of total units								
101-120%	5% of total units								
Max. rent	25% of income for households at or below 80% of median income; 30% of income for households above 81% of median.								
Max. sale price	Not specified.								
Unit features	Avoid concentration of targeted units. Build affordable units in same development phase as market-rate units.								
Alternatives	Excess affordable unit credits are earned for projects in which more than 10% of the units are low-income or which have a longer term of affordability than required. These credits may be used to fulfill requirements in another development or may be sold to another developer. Transfer requires approval by Planning Commission and Board of Supervisors. Transfer to a location within a								

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## Orange County (continued)

planning area which has met the 25% affordable objective may be denied.

Land dedication.

Developer may propose other alternatives that assure provision of equivalent number of units.

### Enforcement

Recorded regulatory agreement for rental. Ownership units subject to provisions of state and federal assistance if used. Policy "encourages" use of resale controls for other units. Board's preferred method was 20-year deed restriction giving the County a right of first refusal to purchase at a price that increases at a rate equal to the increase in County median income.

### Marketing

No requirement specified.

### Potential incentives/ subsidies

Streamlined processing, master environmental assessment along with inclusion of mitigating measures in codes so that projects which are in compliance may be granted a Negative Declaration.

Incentives provided to projects that target more than 10% of units to households at or below 80% of median. Possible subsidies include: bond financing, density bonus, parking reduction, park dedication reduction, height limit increase, land writedown, public financing of infrastructure.

### Production

From 1979 to 1983, the County approved 20,287 units, of which 6,389 were on-site affordable units.

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## CITY OF DAVIS

Document                      Ordinance  
  
Adopted  
(amended)                    1989    (1990)  
  
Application                  All new construction

Requirements  
for Ownership  
Developments

### On-site construction:

<u>% of median</u>	<u># units</u>
90%	5% of total units
100%	5% of total units

Higher income categories may be allowed if the City Council determines that development at this level is infeasible.

Max. sale price: \$96,000 for households earning 90% of median or less; \$110,000 for households earning 100% of median (or as established by City Council resolution).

A deferred second mortgage will be provided, to be financed jointly by a developer contribution and city fee deferral/waiver.

Targeted units may be offered for rent rather than sale.

### Land dedication:

In addition to fulfilling the on-site construction requirement, the developer must dedicate land sufficient for construction of units equalling 10% of the total units. The dedication requirement is calculated at a density of 15 units per acre. In addition, lots sufficient for construction of units equalling 5% of the total must be dedicated for self-help construction. Units constructed on dedicated land must be permanently affordable.

An in lieu fee may be paid for developments of less than 10 acres or 30 homes.

Incentive/subsidy: One-for-one density bonus.

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City of Davis  
continued

## Requirements for Rental Developments

<u>% of median</u>	<u># targeted units</u>	
	<u>20 units or more</u>	<u>5-19 units</u>
80%	25% of units	15% of units
50%	10% of units	10% of units

Max. rent: 30% of income standard

Term of affordability: permanent.

Unit features: Mix of unit sizes. Affordable units may not be clustered.

Incentives/  
subsidies: One-for-one density bonus for on-site construction and land dedication.

Alternatives: Rental developers may dedicate land for equivalent number of units (calculated at 20 units per acre) or may develop an individualized means of compliance, subject to City Council approval. Dedication of existing units may be allowed. An in lieu fee may be paid for developments of less than ten acres.

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