

DATE: March 3, 2004

TO: Honorable Mayor and City Councilmembers

FROM: Housing and Neighborhood Services Department

SUBJECT: **COMPREHENSIVE AFFORDABLE HOUSING STRATEGY**

SYNOPSIS

Staff is seeking direction from the City Council

BACKGROUND

On June 11, 2003, the City Council adopted a resolution declaring an affordable housing crisis in the City of Oceanside, and established an Affordable Housing Task Force to examine the inclusionary housing policy and to develop a comprehensive affordable housing strategy with recommendations for consideration by the City Council.

The City retained David Paul Rosen and Associates (DRA) to facilitate the Task Force process and to provide technical guidance and economic analysis to assist the City and Task Force in formulating policies; programs and a capital plan for affordable housing to meet Oceanside's affordable housing goals. The Task Force met eight times over a period of five months and reached consensus on almost all recommended policy guidelines. In addition, two committees were formed, the Finance Committee and the Land Committee to address issues of affordable housing finance and the limited availability of sites for housing development. Attached is the final report of the Task Force prepared by DRA.

ANALYSIS

The Housing Element for the City of Oceanside is an element of the City's General Plan and is required to be updated every five years. The current Housing Element covers the time period from July 1, 1999 to June 30, 2004. The Housing Element contains two numeric goals, regional share goals and affordable housing goals for self-certification. The deadline to meet the current self-certification housing goal is July 1, 2004. Oceanside does not currently have a pipeline of affordable housing projects in the process of development and will not be able to meet its self-certification goal. The regional share needs for housing types is 6,778 units and for self-certification 944 units for households in the low-income brackets.

The Task Force reviewed programs and policies to address the housing goals of the next five-year housing element period.

The Task Force, with technical assistance from DRA and staff, developed “Guiding Principles” that were utilized as the basis for development of the strategy. The Task Force reached consensus in recommending policies for the Affordable Housing Expenditure Plan to be utilized as a guide for the expenditure of City financial resources to assist the development of new affordable housing and to preserve existing affordable housing. In addition, the Task Force reviewed the City’s Inclusionary Housing Program and is making recommendations to amend the current City policy, which does not involve the expenditure of City financial resources.

The guiding principles included topics such as addressing Oceanside’s housing needs, compliance with City standards and procedures, sound investment and financial management of City resources, a flexible and efficient program design, location of affordable housing, including the need to consider mixed income and mixed use projects to provide for a better balance of jobs and housing citywide.

The Expenditure Plan includes land banking, ground leasing, a guideline for the production of renter v. owner units, income targeting, senior v. family housing based on need, demand and the economics of a specific project, new construction and acquisition/rehabilitation; geographic targeting, eligible borrowers/developers, density and zoning to meet housing needs, definition of affordable housing expense and term of affordability.

The Task Force is recommending several modifications to the City’s existing Inclusionary Housing Policy including modifications making the program consistent with state density bonus requirements, allowing developers to build their inclusionary requirements off-site or through acquisition and rehabilitation of existing units, and some incentives for developers to build on-site including fee deferrals, alternative unit types, and design of units requiring total number of bedrooms in project v. number of units, and design of units, allowing smaller than market rate units and more modest interior finishes.

The Task Force is recommending that the City retain the provision that allows developers to pay a fee in-lieu of providing the affordable units. The Task Force is recommending that the fee remain at its current level of \$10,275 per unit for all unit types. The Task Force is recommending that the fee be adjusted annually on trailing 3-year average of the annual percentage increase in the Consumer Price Index.

DRA prepared an affordability gap analysis for three ownership-housing prototypes and two rental housing prototypes representing market-rate housing currently or prospectively being developed in Oceanside. Based on the gap, the in-lieu fees for the housing prototypes set at the economic equivalent of providing the units on site represent a gap of between \$8,300 and \$27,000 per unit. By comparison, the fee under the City’s current in-lieu fee formula for 2003 is \$15,975.

Although the State Housing and Community Development Department and SANDAG have not determined the City's regional or fair share goals for the 2004-2009 Housing Element cycle, staff believes that the fair share goal will be higher than the 1999-2004 cycle plus the current shortfall. The projection is that the City's new construction goal will increase at least by 25% plus the shortfall or 855 units requiring a local subsidy of \$79,813,000, and with a 50% increase, the unit count would be 879 units requiring a local subsidy of \$92,535,400.

As indicated above, had the City Council adjusted the in-lieu fee in 2003, the current fee would be \$15,950. Based on the median sales price of all homes sales in the fourth quarter of 2003, the new fee using the current formula would be \$20,050 effective June 1, 2004. This formula uses a factor of 250% to calculate the affordable housing sales price. This formula supports the economic analysis provided by DRA that would enable the City to leverage other resources to produce units to meet the City's affordable housing goals.

Another option for the City Council to consider is to modify the current formula to more accurately reflect current bank underwriting criteria by using a factor of 300% to calculate the affordable housing sales price. The result of this calculation is a higher sales price that is affordable to median-income families and an in-lieu fee of \$16,860. This recommendation can be supported under current market conditions.

FISCAL IMPACT

Staff is seeking direction. No fiscal impact.

CITY ATTORNEY'S ANALYSIS

The City Council is authorized to accept or reject the report. Implementation of the recommendations must comply with applicable law, and will require further review by the City Attorney, as well as further action by the City Council. Any new fees or fee structures must be rationally based, e.g., not arbitrary, and shall be adopted pursuant to a public hearing.

RECOMMENDATION

PREPARED BY:

SUBMITTED BY:

Margery M. Pierce
Director of Housing and
Neighborhood Services

Steven R. Jepsen
City Manager

REVIEWED BY:

Michelle Skaggs Lawrence, Assistant to the City Manager

Michael J. Blessing, Deputy City Manager

Attachments: