



STAFF REPORT – CITY COUNCIL MEETING

January 17, 2024

TO: Honorable Mayor and City Council Members

FROM: David Loya, Director of Community Development

PREPARER: David Loya, Director of Community Development

DATE: January 11, 2024

TITLE: **Consider Inclusionary Zoning Policy.**

RECOMMENDATION:

Staff recommends the Council consider and provide direction on the City's Inclusionary Zoning policy.

INTRODUCTION:

The Council and Planning Commission have considered Inclusionary Zoning on several occasions over the second half of 2023. The Planning Commission made a formal recommendation to the Council at a joint study session with the Commission on September 26, 2023. The Council directed the Commission to reconsider the program, including adding a moderate-income rental component to the program. On November 14, 2023, the Commission refined its recommendation adding a moderate-income rental requirement. This item provides the Council an opportunity to resolve the outstanding policy discussion and provide direction to develop both a policy and an implementing ordinance.

BACKGROUND:

The Commission has studied this issue at several hearings. Councilmembers should review the record for information on inclusionary zoning, including the staff report and video from the August 8, 2023, meeting. This context will assist understanding the Commission's recommendation based on the Council's direction at the September 26 Study Session. The matter was also taken up by the Commission on October 10 and November 14, 2023. The Commission made a recommendation at its November meeting.

DISCUSSION:

The Council directed staff to evaluate a workforce program. On October 10, 2023, staff provided an analysis of a moderate-income program to the Planning Commission. The conclusion of that assessment was that a moderate-income program is not needed. The rental rates as calculated using standard practices are higher than the market rate for nearly every family size earning 120% AMI, a program set based on generally accepted standards does not make sense in our area. The income of moderate-income households is sufficient to pay market rents without burden.

For the purposes of developing a workforce housing density bonus, we define the upper income limit as median income. A median-income household earnings and housing costs at the upper limit can pay market rents (Table 2). But the median income category floor is 80% AMI.

Table 2. Income and rents affordable to median income households.

Household Size	1	2	3	4	5
Unit Size	OBR	1BR	2BR	3BR	4BR
Median Monthly	\$4,887	\$5,587	\$6,283	\$6,983	\$7,541
30% Median Monthly	\$1,466	\$1,676	\$1,885	\$2,095	\$2,262
Less Utility Allowance	\$1,346	\$1,556	\$1,765	\$1,975	\$2,142
Hourly Wage (2080hr/yr)	\$28.20	\$32.24	\$36.25	\$40.29	\$43.51

The City could consider adopting its own standard that is based on low-income rent limits set by the State. This program will need to be evaluated by the City’s legal team but could be structured similar to the low-income program adjusting for income. Staff proposes using the formula 30% of 75% of AMI to establish rent limits adjusted for household size (Table 4).

Table 4. Comparison of various rent programs and market rent.

Household Size	1	2	3	4	5
	OBR	1BR	2BR	3BR	4BR
Low HOME Rent	\$722	\$773	\$928	\$1,072	\$1,196
High HOME Rent	\$812	\$907	\$1,183	\$1,360	\$1,498
Fair Market Rent Countywide	\$812	\$907	\$1,183	\$1,681	\$2,015
Market Rent Arcata*	\$975	\$1,195	\$1,350	\$2,000	\$2,424
Proposed Workforce Housing Limits	\$980	\$1,137	\$1,294	\$1,451	\$1,577

<https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/income-limits-2023.pdf>

* Data collected and analyzed by Community Development staff for current market conditions.

The Council had competing desires to increase the percentage of inclusionary units and simultaneously avoid interfering with the Gateway planning work due to the provisions of State Density Bonus Law. The following proposal was recommended by the Planning Commission on November 14, 2023, in an attempt to avoid interacting with Density Bonus law as it was written prior to January 1, 2024. In addition, the Commission recommended adding a median-income rental category (Table 5). This was the Commission’s recommendation as of for low and very low-income households. However, the Council may wish to revisit this based on changes in Density Bonus law effective Jan 1 (Table 6).

Table 5. Inclusionary Zoning Proposed Amendment.

Household Income	% Affordable	Requirement
Very-Low (50% AMI)	4%	Pick one
Low (80% AMI)	6%	Pick one
Median Income (AMI)	10%	Required

Density Bonus Amendments Jan 1, 2024

As of January 1, 2024, Density Bonus law changed pursuant to AB 1287. The law now requires affordable housing productions to hit thresholds of 15% very-low income, 24% low income, or 44% moderate income for owner-occupied units before density bonus triggers. This provides a larger gap between the City's Inclusionary Zoning requirement as proposed by the Planning Commission and the density bonus. The Council may wish to consider increasing the Inclusionary Zoning thresholds to obtain a higher proportion of affordable units since the overlap is less of an issue. Staff recommends the Council either return to the Commission recommendation of 6% for very-low and 9% for low income, or consider increasing the number to 10% and 15% respectively. There is now enough of a spread for these numbers to separate the programs.

This Commission proposal would require a developer that triggers inclusionary zoning to provide 10% of the units to households earning less than area median income, as well as either 4% to very-low income households or 6% to low-income households. Staff recommends the Council consider the "New Recommendation" shown in Table 6.

Table 6. Affordability comparisons between inclusionary zoning and density bonus.

Affordability Option	% affordable	unit count	
		30	150
New recommendation VL	10%	3	15
New recommendation L	15%	5	23
PC recommendation VL	4%	2	6
PC recommendation L	9%	3	14
Density Bonus VL	15%	5	23
Density Bonus L	24%	8	36

In addition, because the floor on moderate income affordable housing was raised to 44%. Council should consider how this interacts with the Community Benefits program. Currently, the program allows credit if greater than 50% of the units are for-sale owner occupied. This does not include a restriction for affordability. There is also credit if the Inclusionary Units are for-sale owner occupied. The density bonus for owner occupied only requires 44% of the units to trigger the benefits of density bonus. Council may want to consider creating a gap between these two programs.

Other jurisdictions' Inclusionary Zoning requirements

Santa Cruz - <https://www.cityofsantacruz.com/government/city-departments/economic-development/housing-assistance-information/housing-programs/measure-o-inclusionary-housing> - Measure O that implemented the Inclusionary Zoning requirements of Santa Cruz.
<https://www.codepublishing.com/CA/SantaCruz/html/SantaCruz24/SantaCruz2416.html>.

Inclusionary zoning ordinance: 1 unit for a 2-4 unit project; >4 units 20% for for-sale project. Rental projects 5 or greater must have 20%. Santa Cruz allows an in lieu fee.

Santa Rosa - <https://www.srcity.org/2556/Inclusionary-Housing-Policy> - 4% Low, 3% very low 5% moderate; in Downtown this is 4%, 3%, and 5%, respectively. All projects pay a housing impact fee or provide units. There is an alternative for off-site unit creation. Santa Rosa allows an in lieu fee.

Los Angeles County <https://planning.lacounty.gov/long-range-planning/inclusionary-housing/> - going through adoption of an amendment currently. Good resources on feasibility in their market. The threshold is 135% AMI, moderate income or less for rental and purchase projects.

General Info on IZ - https://wclp.org/wp-content/uploads/2018/12/inclusionary-factsheet_v2.pdf

POLICY IMPLICATIONS:

Inclusionary zoning will help stabilize neighborhoods in light of new development and ensure mixed income neighborhoods result from new investment.

COMMITTEE/COMMISSION REVIEW:

The Planning Commission made a recommendation on November 14, 2023.

ENVIRONMENTAL REVIEW (CEQA):

The General Plan EIR will cover this action.

BUDGET/FISCAL IMPACT:

This is part of the budget for the overall General Plan update.