



**Sacramento
Housing &
Redevelopment
Agency**

REPORT TO CITY COUNCIL
City of Sacramento
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Staff Report
February 10, 2009

**Honorable Mayor and
Members of the City Council**

Title: Inclusionary Housing Workshop

Location/Council District: Citywide

Recommendation: Review results of economic analysis and neighborhood research. Provide direction on potential framework for changes to Mixed Income Housing (Inclusionary) Ordinance.

Contact: Lisa Bates, Deputy Executive Director, 440-1330, Cindy Cavanaugh, Assistant Director, 440-1317

Presenters: Emily Halcon, Management Analyst

Department: Sacramento Housing and Redevelopment Agency

Description/Analysis

Issue: In updating the City of Sacramento's Housing Element over the past year, inclusionary housing policies and practices have consistently risen to the top as needing additional analysis and broader, deeper conversation. Council members have expressed interest in modifying the City's current inclusionary approach to meet City Housing Element goals, including:

- Expanding the application of inclusionary housing beyond the current "New Growth" boundaries;
- Encouraging inclusionary homeownership opportunities and increasing equity share for homeowners;
- Providing additional options for the development of inclusionary housing, especially for small developers and infill developers; and
- Diversifying inclusionary housing outcomes, such as promoting smaller, mixed-income rental developments.

This report builds on the May 2007 assessment that showed a highly productive inclusionary program that worked well for large developers in greenfield areas of the City during a period of strong and unique market conditions. It was less successful in producing affordable ownership units, or in providing meaningful options for smaller developments. This report presents additional information

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(listed below and detailed in Attachment 1) to help inform the Council discussion on potential changes:

- An economic analysis prepared by Bay Area Economics that tests the feasibility of adding inclusionary options to several housing prototypes;
- A neighborhood characteristics survey that looks at relevant demographic and housing information;
- A review of other jurisdictional approaches to inclusionary housing; and
- Feedback from community and neighborhood groups on potential strategies and processes for changing the ordinance.

While conclusions are not uniform or entirely straightforward, staff has learned the following from these studies and outreach:

1. The economic analysis is limited because new housing development is infeasible in the current market, but additional inclusionary requirements could delay market recovery. The impact of inclusionary requirements among several prototypes is greater for small development and for dense, infill development. It also confirms rental as the most feasible option and suggests that a higher income target for homeownership is appropriate.
2. Neighborhoods vary greatly by growth potential, tenure, market prices, income and poverty levels thereby necessitating multiple housing strategies that not only enhance affordability in new developments but encourage rehabilitation of aging housing stock and improve overall neighborhood conditions in weaker housing markets.
3. To meet varying development and neighborhood conditions and to function in both strong and weak markets (and periods), a more flexible inclusionary program may be desirable. Examples of flexible policies seen in other jurisdictions include: targeting moderately affordable units in its for-sale products, allowing alternative options such as fees for some developments, and exempting some areas of the City or types of developments.

Developing realistic or productive ordinance modifications is challenging given these extraordinary times of real estate and economic uncertainty. Policy changes can impact market recovery. In addition, it is difficult to formulate options that will be viable under market conditions that do not currently exist. For these reasons, staff offers three policy alternatives:

1. Maintain current ordinance and revisit changes when market stabilizes;
2. Make ordinance changes that improve flexibility and homeownership outcomes, but do not change geographic application until market stabilizes.
3. Make ordinance changes as in option two, but expand geographic application of ordinance.

Should the Council wish to pursue ordinance changes, this report offers a beginning policy framework that allows for more exemptions and options than the current ordinance, recognizing the diversity of land, housing, and neighborhoods

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that would be captured in a citywide approach. Key features of the suggested approach include:

- Increase exemptions for projects and areas. Exempt certain geographic areas, such as areas with high poverty concentrations or redevelopment areas meeting their affordable housing obligations within their boundaries. Increase the threshold for small project exemptions, currently at nine units.
- Create more compliance options, such as an in-lieu fee and/or compliance by building unregulated housing that achieves affordability through design or by location. Use the in-lieu fee to achieve other goals, such as deepening affordability in rental projects, allowing an equity share for homeowners while continuing affordability for homeownership units, and/or improving tenant services in multifamily developments
- Modify homeownership options to enhance feasibility, including targeting households with moderate incomes. Allow owners to achieve equity more comparable to the marketplace.

Staff is seeking feedback on the general policy direction, and, if changes are desired, on the approaches for improving flexibility and for expanding the ordinance citywide. If Council wishes to move forward with policy alternatives two or three on page two, staff recommends that a well defined stakeholder group which includes neighborhood representatives, builders, and advocacy groups be appointed to work out the details of several key provisions, such as exemptions, options and targeting.

Policy Considerations: Provision of affordable housing and creation of integrated communities are City of Sacramento priorities that the inclusionary housing program seeks to address. Program five of the Housing Element of the 2030 General Plan notes the importance of Inclusionary Housing and commits the City to exploring possible expansion of the ordinance citywide. This workshop begins that discussion with the Council, stakeholders and the community.

Environmental Considerations:

California Environmental Quality Act (CEQA): This is not a project as defined by the California Environmental Quality Act (CEQA) [CEQA Section 21065 and CEQA Guidelines Section 15378 (b)(4)].

Sustainability Considerations: The items discussed through the Inclusionary Housing Workshop are consistent with the goals, policies and targets of the City of Sacramento Sustainability Master Plan. Inclusionary housing policies help implement the Sacramento Area Council of Government (SACOG) Blueprint, a target of the “Urban Design, Land Use, Green Building and Transportation” focus area of the master plan by ensuring that new residential projects include units affordable to a diverse range of income groups.

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Committee/Commission Action: Staff presented this report to the Sacramento Housing and Redevelopment Commission on February 4, 2009, and will be presenting it to the City of Sacramento Planning Commission on February 12, 2009. Staff will report out on any comments from the SHRA Commission during the Council workshop and on any comments from the Planning Commission at future Council discussions.

Rationale for Recommendation: As required in the recently adopted 2008-2013 Housing Element, staff is asking for initial Council input and direction on changes to the Inclusionary Ordinance.

Financial Considerations: There are no financial impacts associated with the Inclusionary Housing workshop.

M/WBE Considerations: The items discussed in this report have no M/WBE impact; therefore, M/WBE considerations do not apply.

Respectfully Submitted by: _____
LA SHELLE DOZIER
Executive Director

Recommendation Approved:

RAY KERRIDGE
City Manager

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