

# INCLUSIONARY ORDINANCE BACKGROUND

## *History*

In October 2000, the City of Sacramento adopted the City's Mixed Income Housing, or Inclusionary Ordinance, City Code 17.190. The Inclusionary Ordinance ("Ordinance") aims to ensure the inclusion of housing affordable to low and very low-income households in new development projects in the City. The Ordinance applies only to New Growth areas of the City shown in Exhibit A. These New Growth areas include those portions of the City with the most residential growth potential, including the areas of North Natomas, Delta Shores and North Laguna Creek. Two infill growth areas, the Curtis Park Railyards and the Downtown Railyards, as well as any future City annexations are also subject to the Ordinance.

The Ordinance requires that developments within New Growth areas include at least 15 percent of their housing units at prices affordable to low and very low income households. The standard obligation is at least 10 percent affordable to very low income households (those making less than 50 percent of Area Median Income or "AMI") and at least five percent affordable to low income households (those making between 51 and 80 percent of AMI). To the extent possible, this obligation is to be included within the overall residential development although exclusively single family developments may provide inclusionary units off-site within the same community plan area. There are limited alternatives for developments under five acres and condominium developments under 200 units.

## **2007 Assessment**

In May 2007, SHRA staff completed a quantitative and qualitative assessment of the Ordinance. In general, the Ordinance has achieved many of the goals envisioned when adopted in 2000.

1. It has proven to be an effective affordable housing tool in New Growth areas. It has helped the City to achieve its goals of economic integration of New Growth areas and to meet its state affordable housing production goals.
2. It has increased housing opportunities for very low and low income households through the production of viable and attractive rental and ownership housing.
3. It has offered meaningful options to large developments with multifamily zoned land that are able to build onsite rental housing. This option effectively uses "production" affordable builders and affordable financing tools and achieves meaningful private market contribution.
4. Affordable housing has been produced concurrently with market rate developments.

The Assessment also found that creating and maintaining affordable homeownership units versus affordable rental units is an implementation challenge; only 23% of the inclusionary units are for-sale. Large developments will not choose homeownership for economic reasons — there is a large gap between market rate homeownership costs and affordable homeownership sales prices and there is no financial assistance available to these developments, while there are subsidy programs for affordable rental developments. Smaller and condominium developments that do not have multifamily land build homeownership for lack of viable alternatives. Finally, homeownership inclusionary is difficult for the homebuyer, as the ordinance restricts the equity appreciation that the homeowner can realize.

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### ***Housing Element***

In 2008, the City adopted the 2008-2013 Housing Element, which includes over 90 programs addressing housing needs throughout the City. This diverse approach to housing needs has resulted in the production of over 12,500 regulated affordable units, 89% of which are outside of the New Growth areas of the City.

During the course of adopting the 2008-2013 Housing Element, the City Council amended language pertaining to the Ordinance as follows (additions underlined):

“The City values inclusionary housing and is interested in expanding it citywide. Staff is directed to work with all stakeholders, and report back within one year to Council to determine whether it is feasible to extend the Mixed Income Housing Ordinance citywide, and if so, in what manner. The City shall use an economic analysis to evaluate the impact, timing and process of incorporating inclusionary housing obligations on areas not currently subject to the Mixed Income Housing Ordinance.”

### ***2008 Economic Impact Analysis***

In accordance with this direction, SHRA commissioned a consultant to complete an economic impact analysis of the current ordinance requirements and potential changes.

The findings of the analysis include:

- No new housing development was feasible under current (2008) market conditions, even with no inclusionary requirement.
- Large planned unit developments (PUDs) with multiple zoning designations will likely continue to choose multi-family rental inclusionary production if given the choice.
- Allowing higher sales prices aimed at more moderate-income families benefits developments (small subdivisions and condos) providing for sale inclusionary units.
- The addition of a potential in-lieu fee can dually serve as an alternative for the smaller, infill developments and provide funding to deepen affordability in rental housing or to maintain affordability in for-sale housing.

### ***2009 City Council Workshop***

In February 2009, SHRA held a workshop with Council to share the results of the economic analysis, along with a neighborhood characteristics survey, a review of other inclusionary ordinances and input from the community. Staff shared the following from this research and outreach:

- 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.
- To meet varying development and neighborhood conditions and to work in strong and weak markets (and periods), a more flexible inclusionary program may be desirable.

Based on these findings, staff offered three policy alternatives to the Council:

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.