INCLUSIONARY HOUSING:

POLICY RECOMMENDATIONS

Prepared for:

City of Redlands

Prepared by:

Keyser Marston Associates, Inc.

January 30, 2023

TABLE OF CONTENTS

I. BACKGROUND

The City of Redlands (Redlands) is currently exploring the opportunity for creating an Inclusionary Housing program. To assist in this process, the City engaged Keyser Marston Associates, Inc. (KMA) to undertake the following tasks:

1. The preparation of a financial evaluation that tests the impacts created by the imposition of income and affordability restrictions on new residential development; and

2. The recommendation of policies to be incorporated into the Inclusionary Housing program.

As the first step in this process, KMA prepared the accompanying *Inclusionary Housing: Financial Evaluation* (Financial Evaluation). Based on the results of the Financial Evaluation, KMA prepared Inclusionary Housing program policy recommendations, which are presented in the following report.

This report is organized as follows:

1. The components of the recommended policies are identified.

2. The recommended implementation package is described.

3. Case studies are presented to compare the Inclusionary Housing options that could potentially be applied to hypothetical projects in Redlands.

II. POLICY RECOMMENDATIONS

KMA's Inclusionary Housing policy recommendations cover the following topics:

1. The income and affordability standards to be applied by the Inclusionary Housing program.

2. The minimum residential project size that will trigger an Inclusionary Housing obligation.

3. The affordable housing cost calculation methodologies to apply.

4. The covenant periods under which the income and affordability standards will be imposed for apartment projects and ownership housing projects.

5. Alternative means of fulfilling the Inclusionary Housing requirements.

6. The development standards that should be imposed on the affordable housing units that are produced to fulfill the Inclusionary Housing requirements.

7. Implementation activities that should be undertaken by the City.

A. Inclusionary Housing Income and Affordability Standards

Apartment Development

Based on all the factors considered in the Financial Evaluation, KMA concluded that a 9% low income Inclusionary Housing obligation can be supported by apartment development projects.

It should be noted that developers commonly use the California Government Code Section 65915 et seq. (Section 65915) density bonus to reduce the financial impact created by Inclusionary Housing requirements. Based on the characteristics of the affordability options provided by Section 65915, projects that utilize the density bonus are likely to fulfill the affordable housing requirements with very low income units.

The City must agree to count the affordable units used to fulfill Section 65915 affordable housing requirements towards the Inclusionary Housing requirements that will be imposed on a project.[1] This means that a developer must be allowed to use the same affordable units to fulfill both the Inclusionary Housing requirements and the Section 65915 requirements. However, in order to exercise this option, the developer must apply the more stringent of the two programs' requirements.

---

[1] *Latinos Unidos del Valle de Napa y Solano v. County of Napa,* 217 Cal. App. 4th 1160 (*Napa*).

It is KMA's opinion that the imposition of Inclusionary Housing requirements on apartment development will generate the following results:

1. Projects that can efficiently use the Section 65915 density bonus will use very low income units to fulfill the City's Inclusionary Housing requirements.

2. Projects that cannot efficiently apply the Section 65915 density bonus will fulfill the Inclusionary Housing obligation with low income units.

OWNERSHIP HOUSING DEVELOPMENT

Based on the results of the Financial Evaluation, KMA concluded that a 5% moderate income Inclusionary Housing obligation can be supported by ownership housing development projects.

The vast majority of ownership housing development in Redlands is low density in nature. Based on this fact, and the more stringent requirements imposed by Section 65915 on ownership housing projects, it is unlikely that a significant number of ownership housing projects will make use of the density bonus benefits.

B. Threshold Project Size

The majority of Inclusionary Housing programs in California include a threshold project size below which projects are not subject to the affordable housing production requirements. Common thresholds fall between three and 10 units. KMA is recommending that the City set the threshold project size at 10 units.

C. Affordable Housing Cost Calculation Methodology

APARTMENT DEVELOPMENT

KMA recommends that the "Affordable Rents" be based on the following standards:

1. Low income rents should be based on 80% of area median income (AMI). This percentage of AMI is based on the standard imposed in Assembly Bill (AB) 1505.

2. The Section 65915 density bonus uses the affordable housing cost calculation methodology defined in California Health & Safety Code (H&SC) Section 50053.

OWNERSHIP HOUSING DEVELOPMENT

KMA recommends that the City apply the H&SC Section 50052.5 methodology to the calculation of "Affordable Sales Prices". In addition, the following specific calculation metrics are being recommended by KMA.

Benchmark Mortgage Interest Rate

The mortgage interest rate chosen to be applied in the calculations creates a significant impact on the Affordable Sales Price. In establishing a benchmark interest rate it is important to understand the following issues that are commonly faced by moderate income first time home buyers:

1. Credit history and scores that do not fall within the exceptional level required to obtain the lowest interest rate available in the marketplace;
2. Back-end ratios that are often higher than the typical ratios applied in conventional lenders' underwriting standards for the lowest interest rate mortgages; and
3. There is a limited pool of mortgage lenders that are willing to provide loans on homes that are subject to income and affordability covenants. These lenders do not generally offer the lowest interest rates available in the marketplace.

Given that mortgage interest rates can be expected to fluctuate over time, KMA recommends that the City apply the following conservative methodology in setting the benchmark interest rate used in the Affordable Sales Price calculations:

1. KMA recommends that the benchmark mortgage interest rate be set on the first day of each calendar quarter.
2. In setting the benchmark interest rate, KMA recommends using the interest rate published by Freddie Mac for 30-year fixed interest rate fully amortizing mortgages.

Range of Allowable Home Buyer Down Payments

An Inclusionary Housing program is intended to target home buyers that could otherwise not afford to purchase a home in Redlands. To achieve that goal while minimizing the risk of defaults, KMA recommends that the following down payment requirements be imposed:

1. The minimum home buyer down payment should be set at 5% of the Affordable Sales Price:
    a. At least 1% of the down payment must be provided from the home buyer's own funds.

b. Gifts funds may be obtained by the home buyer to fulfill the balance of the 5% requirement.

2. The maximum down payment amount should be set at 20% of the Affordable Sales Price:

3. Gift funds of up to $50,000 may be used for the down payment amount that falls between 1% and 20% of the Affordable Sales Price.

D. Covenant Periods

Apartment Development

KMA recommends that the covenants for the affordable apartment units be required to remain in place for as long as the property is developed with a residential use, but for not less than 55 years. Following the 55-year term, the covenant should only be removed if at some point the property is rezoned and subsequently put to a non-residential use.

Ownership Housing Development

KMA recommends that the covenant period for affordable ownership housing units be set at one cumulative 45-year period. Within that one 45-year period the home must be sold and resold to moderate income households at the then current Affordable Sales Price.

E. Alternative Means of Fulfilling Inclusionary Housing Obligations

AB 1505, which was adopted by the State Legislature in 2017, includes a provision that requires jurisdictions to provide alternative means of complying with the income and affordability requirements imposed by an Inclusionary Housing program. AB 1505 identifies the following potential alternatives to the on-site production of affordable housing units:[2]

1. Payment of a fee in lieu of producing affordable units;

2. Off-site development of affordable units;

3. Land dedication; and

4. Acquisition and rehabilitation of existing units.

[2] AB 1505 only applies the restrictions imposed on apartment development. However, the provision of alternative means of compliance is a best practice, and is commonly provided to ownership housing development as well.

Jurisdictions have the discretion to provide any of these alternatives, or additional alternatives that are not listed in AB 1505, as long as alternative means of compliance are offered.

IN-LIEU FEE PAYMENT

In-Lieu Fee Payment Thresholds

KMA recommends that the City allow developers to pay a fee in lieu of producing affordable units in the following cases:

1. The following options should be offered to proposed apartment projects:

    a. Inclusionary Housing requirements have a disproportionate impact on smaller projects, because there are fewer market rate units available to spread the impact created by the income and affordability standards. KMA recommends that an in-lieu fee payment be allowed by right for apartment projects with 22 or fewer units. [3]

    b. As a baseline, apartment projects with more than 22 units should be required to produce the requisite number of “Inclusionary Units”. However, the City Council should be provided with the discretion to allow an in-lieu fee to be paid for apartment projects with more than 22 units if they are deemed to exhibit “Extreme Economic Hardship” circumstances as defined below.

    > Demonstration that new construction of the required affordable units would create an unreasonable hardship due to such factors as project size, site constraints, and/or excessively large Affordability Gaps. The ultimate burden is on the developer to prove that none of the affordable housing production alternatives provided in the Inclusionary Housing Ordinance can be used without creating an extreme economic hardship on the project. One manner in which this can be achieved is for the developer to demonstrate that the imposition of the affordable housing production requirements would violate the California and/or United States Constitutions.

2. Ownership housing projects of any size should be provided with the option to pay an in-lieu fee.

3. An in-lieu fee should be allowed to be paid for any fractional Inclusionary Unit obligation.

[3] For a 22 units project a 9% low income requirements generates a 1.98 unit Inclusionary Housing obligation. This is as close to a to a whole number obligation as is mathematically possible.

The key advantages of this strategy are:

1. The City can target the use of the in-lieu fee revenue to projects undertaken by developers that have specific expertise in the development and operation of affordable housing projects.

2. The in-lieu fee revenues can be used as a leveraging source for dedicated affordable housing projects that have access to outside public funding sources. This leveraging creates a more cost-efficient way to achieve deeper affordability than can be supported by an Inclusionary Housing requirement alone.

In-Lieu Fee Schedules

KMA recommends that the City assess the in-lieu fee based on the leasable area in apartment projects and the saleable area in ownership housing projects. This measurement takes the unit sizes into account, which more equitably allocates the in-lieu fee payment obligation. Based on that assumption, and the Financial Evaluation results, KMA recommends that the following the following in-lieu fee schedules be applied:

Recommended In-Lieu Fee Payment Schedules Per Square Foot of Total Leasable or Saleable Area in the Project			
Number of Units	Apartment Projects	Townhome & Small Lot Home Development [4]	Detached Single Family Home Development
10	$1.52	$0.77	$1.19
11	$3.05	$1.54	$2.38
12	$4.57	$2.31	$3.58
13	$6.09	$3.08	$4.77
14	$7.62	$3.85	$5.96
15	$9.14	$4.62	$7.15
16	$10.66	$5.38	$8.35
17	$12.18	$6.15	$9.54
18	$13.71	$6.92	$10.73
19	$15.23	$7.69	$11.92
20	$16.75	$8.46	$13.12
21	$18.28	$9.23	$14.31
22+	$19.80	$10.00	$15.50

[4] "Small Lot Home Development" is defined as homes constructed on lots that are 4,500 square feet and smaller.

Assuming the City chooses to allow in-lieu fees to be paid for any fractional Inclusionary Unit obligation, the following in-lieu fee schedule should be applied:

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Leasable Area of One Unit in the Apartment Development		
Net Affordability Gap Per Inclusionary Unit		$188,200
Average Unit Size (Square Feet of Leasable Area)		973
In-Lieu Fee Per Square Foot of One Unit		$193.50
	Fractional In-Lieu Fee: Per Square Foot of One Unit	Total Fractional In-Lieu Fee: Prototype Apartment Development
.1	$19.40	$18,870
.2	$38.70	$37,640
.3	$58.10	$56,500
.4	$77.40	$75,270
.5	$96.80	$94,140
.6	$116.10	$112,910
.7	$135.50	$131,770
.8	$154.80	$150,540
.9	$174.20	$169,410

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Townhome or Small Lot Home Development Ownership Housing Development		
Net Affordability Gap Per Inclusionary Unit		$259,500
Average Unit Size (Square Feet of Saleable Area)		1,440
In-Lieu Fee Per Square Foot of One Unit		$180.20
	Fractional In-Lieu Fee: Per Square Foot of One Unit	Total Fractional In-Lieu Fee: Prototype Ownership Housing Development
.1	$18.00	$25,920
.2	$36.00	$51,840
.3	$54.10	$77,900
.4	$72.10	$103,820
.5	$90.10	$129,740
.6	$108.10	$155,660
.7	$126.10	$181,580
.8	$144.20	$207,650
.9	$162.20	$233,570

Fractional In-Lieu Fee Payment Calculations Per Square Foot of the Saleable Area of One Unit in the Detached Single Family Home Development Ownership Housing Development		
Net Affordability Gap Per Inclusionary Unit		$735,400
Average Unit Size (Square Feet of Saleable Area)		2,370
In-Lieu Fee Per Square Foot of One Unit		$310.30
	Fractional In-Lieu Fee: Per Square Foot of One Unit	Total Fractional In-Lieu Fee: Prototype Ownership Housing Development
.1	$31.00	$73,470
.2	$62.10	$147,180
.3	$93.10	$220,650
.4	$124.10	$294,120
.5	$155.20	$367,820
.6	$186.20	$441,290
.7	$217.20	$514,760
.8	$248.20	$588,230
.9	$279.30	$661,940

In-Lieu Fee Payment Timing

Developers should be required to pay the in-lieu fee when building permits are obtained for the project. However, for phased projects the developer should be allowed to pay a pro rata share of the in-lieu fee concurrently with the issuance of building permits for each development phase.

OFF-SITE PRODUCTION OF THE REQUIRED INCLUSIONARY UNITS

Apartment Development

Off-site production of Inclusionary Units should not be offered as an Inclusionary Housing fulfillment option for apartment development projects. It is KMA's opinion that, from a public policy perspective, it is better to integrate market rate and affordable rental units into the same project.

Ownership Housing Development

KMA recommends that the developers of ownership housing projects be given the option to fulfill the Inclusionary Housing obligation in one of the following ways:

1. The off-site production of affordable apartment units; or

2. The creation of a parcel within an ownership housing development site on which affordable apartment units are constructed.

For both of these options, KMA recommends that the Inclusionary Housing requirement be set as follows:

1. The Inclusionary Housing percentage should be set at 9% of the total number of units in the market rate project; and

2. The units should be required to be rented at the low income standard.

LAND DEDICATION

The City Council should have the discretion, but not the requirement, to approve a developer's proposal to dedicate property in lieu of producing Inclusionary Units. KMA recommends that the following threshold requirements be imposed for any property put forth for City Council consideration:

1. The developer must be willing to convey the property to the City at no cost.

2. The developer must provide evidence of the following when the land dedication proposal is submitted:

    a. The developer must have site control with lien-free title. Any encumbrances or easements that adversely impact the property's title must be disclosed and factored into the estimated value of the interests proposed to be conveyed to the City.

    b. The property cannot contain any hazardous materials at the time the land dedication proposal is submitted:

        i. The developer must disclose whether any hazardous materials were previously contained on the site; and

        ii. If hazardous materials were previously remediated, the developer must provide evidence that the cleanup was performed in accordance with applicable law.

c. The property cannot have been improved with any residential use for at least five years prior to the submission of a land dedication proposal.

d. Payment in full of all property taxes and special taxes must have been made when the proposal is submitted, and again prior to conveyance of the property to the City.

3. It is assumed that the dedicated site would subsequently be developed with an affordable apartment project. Based on that assumption, KMA recommends that the following Inclusionary Housing obligations be applied:

   a. The requirement should be set at 15% of the of units in the project that triggered the Inclusionary Housing obligation; and

   b. The income and affordability standards should be set at the very low income level.

4. The property must embody the following characteristics:

   a. The land dedication site must meet the following conditions:

      i. The site's General Plan and zoning standards must allow for a residential use at a density sufficient to allow for the requisite number of Inclusionary Units to be developed.

      ii. The site must consist of at least one acre of land irrespective of the number of Inclusionary Units required to be provided.

      iii. The site must be suitable in terms of size, configuration, and physical characteristics to allow for the requisite number of Inclusionary Units to be developed on a cost efficient basis.

   b. The property must be fully served by the necessary infrastructure prior to conveyance to the City.

5. KMA recommends that the City only re-convey dedicated properties to developers with experience developing affordable apartment projects targeted to very low income households. To assist the City in evaluating land dedication proposals, the prospective developer should be required to submit the following documents:

   a. A conceptual site plan and narrative description of a project that could be developed on the property.

b. A identification of the income and affordability restrictions proposed to be imposed.

c. A pro forma analysis that quantifies any financial gap associated with the identified development scope, and describes how this financial gap will be filled.

d. If a Section 65915 density bonus will be required, the terms of the requested density bonus; incentives and concessions; and development standards waivers must be identified.

Prior to submitting a proposal to the City Council for consideration, the City staff should independently evaluate the information submitted by the developer. Based on that review, the City should determine whether the proposal meets the defined threshold standards.

ACQUISITION AND REHABILITATION OF EXISTING UNITS

One reason the City is considering the creation of an Inclusionary Housing program is to assist in meeting its Regional Housing Needs Assessment (RHNA) targets. The only way that the acquisition and rehabilitation of existing units can be used to obtain RHNA credit is if the following conditions are met:

1. The project(s) must be identified in the City's Housing Element; and

2. The units must be in need of substantial rehabilitation as defined by H&SC Section 33413 (2) (A) (iv).

The City has recently adopted the Sixth Cycle Housing Element for the period between 2021 and 2029. Given that no existing properties were identified as acquisition and rehabilitation opportunities, it will not be possible to count this type of project towards the RHNA obligation. As such, KMA recommends that acquisition and rehabilitation of existing projects not be offered as an Inclusionary Housing fulfillment option.

F. Inclusionary Housing Development Standards

ON-SITE PRODUCTION OPTION

Apartment Development

KMA recommends that the following standards be applied to the on-site production of Inclusionary Units within market rate apartment projects:

1. The affordable housing units must be constructed concurrently with the market rate project, and they must be dispersed throughout the project.

2. The affordable housing units should be required to comply with the following development scope requirements:

   a. The bedroom mix for the Inclusionary Units must be proportional to the bedroom mix of the market rate units. However, the Inclusionary Units may be smaller in square footage than the market rate units.

   b. The interior improvements of the Inclusionary Units must comport with defined quality standards such as those applied California Tax Credit Allocation Committee.[5] The market rate units in the project can include enhanced interior improvements.

Ownership Housing Development

KMA recommends that the following standards be applied to the on-site production of Inclusionary Units within market rate ownership housing projects:

1. The Inclusionary Units must be dispersed throughout the project.

2. The affordable housing units must be built concurrently with the market rate project. The Inclusionary Units can be constructed in phases if the market rate project is being developed in phases.

3. The affordable housing units must comply with the following development scope requirements:

   a. The bedroom mix for the Inclusionary Units must be proportional to the bedroom mix of the market rate units. However, the Inclusionary Units may be smaller in square footage than the market rate units.

   b. The exterior improvements for the Inclusionary Units must be comparable to the exterior improvements for the market rate units.

   c. The interior improvements for the Inclusionary Units must meet the following standards:

[5] California Tax Credit Allocation Committee Regulations Implementing the Federal and State Low Income Housing Tax Credit Laws Section 10325 (f) (7).

i. The interior finishes must be comparable to the base level interior finishes provided in the market rate units; and

ii. The appliance packages must be the same as the packages provided in the base level market rate units.

OFF SITE AND PARCELIZATION PRODUCTION OPTIONS

If a developer chooses to fulfill the Inclusionary Housing obligation off site, or by creating a separate parcel on the development site for the affordable units, the following development standards should be imposed:

1. The Inclusionary Housing obligation must be fulfilled with apartment units.

2. An off-site development parcel must be located within close proximity of the market rate project that is subject to the Inclusionary Housing obligations.

3. Design, building quality and maintenance standards should be based on a defined standard such as the requirements imposed by the Tax Credit program.

4. The bedroom mix is not be required to match the unit mix provided in the market rate ownership housing project. However, the following standards should be imposed:

    a. The percentage of studio units is capped at 15%;

    b. At least 40% of the units must include two or more bedrooms; and

    c. The remaining units must include one or more bedrooms.

5. Under the following circumstances the developer of the market rate project should be allowed to enter into an agreement with an affordable housing developer to construct, own and operate the affordable housing project:

    a. The affordable housing developer must have recent relevant experience and be approved by the City.

    b. The affordable housing developer may not request any financial assistance from the City.

    c. The developer may apply to use the Section 65915 density bonus and the statutorily established number of incentives or concessions.

6. The affordable housing project must be constructed prior to or concurrently with the market rate project that triggered the Inclusionary Housing obligation. If the market rate project is proposed to be developed in phases, the affordable housing units should be required to be developed along with the first phase of the market rate project.

III. IMPLEMENTATION RECOMMENDATIONS

As part of the implementation process for the Inclusionary Housing program KMA recommends that the City take the following actions:

A. Marketing Requirements

The City wishes to focus the marketing effort in a manner that focuses on households that live and/or work in Redlands. To that end, the Inclusionary Housing regulations will require developers to prominently advertise the Inclusionary Units in local publications. In addition, information pertaining to Inclusionary Units that are being developed and marketed should be placed on the City's website.

B. Inclusionary Housing Guidelines

Manuals should be prepared that detail the Inclusionary Housing policies and procedures that will be applied to residential projects that are subject to the Inclusionary Housing program requirements. Due to the significant differences in the requirements, separate manuals should be prepared for apartment development and ownership housing development.

C. Inclusionary Housing Program Updates

The Inclusionary Housing program should be updated at regular intervals:

1. The entire program should be re-evaluated at least every five years.

2. To allow in-lieu fees to keep pace with changes in the market place during the intervening periods, the in-lieu fees should continue to be adjusted each year based on the percentage change in new home prices in San Bernardino County as published annually by the Real Estate Research Council (RERC).

D. Staffing Plan

A staffing plan should be created for managing the development process and the ongoing monitoring of the Inclusionary Units once they are built.

IV. CASE STUDIES

The following sections of this report describe case studies for a hypothetical apartment project and a hypothetical ownership housing project. The case studies identify each of the recommended options for fulfilling the Inclusionary Housing requirements.

It is important to note that these case studies are based on the policy recommendations provided in this report. If the City ultimately chooses to apply different requirements, these case studies will need to be modified accordingly.

A. Apartment Project

The development scope used in the apartment project case study can be described as follows:

1. The market rate project includes 100 apartment units.

2. The development site consists of market 3.33 acres of land area, which represents a density of 30 units per acre.

The unit mix is presented in the following table:

Unit Mix - Hypothetical Apartment Project			
Number of Bedrooms	Number of Units	Percentage of Total	Leasable Square Feet
1	35	35%	750
2	55	55%	900
3	10	10%	1,100
Total	100	100%	86,570

ON-SITE PRODUCTION OF AFFORDABLE APARTMENT UNITS

A developer may select the on-site production option by right. The requirements associated with this alternative are:

1. Apartment development projects are subject to a 9% low income requirement. This equates to a nine unit Inclusionary Housing requirement for a 100 unit project.

2. To match the distribution of the bedroom types included in the market rate apartment project, the Inclusionary Units must be provided in the following mix:

Affordable Housing Unit Mix On-Site Fulfillment of the Inclusionary Housing Requirement Apartment Project		
Number of Bedrooms	Number of Units	Percentage of Total
1	3	33%
2	5	56%
3	1	11%
Total	9	100%

3. The Inclusionary Units must be dispersed throughout the market rate project and developed concurrently with the market rate project.

In-Lieu Fee Payment

Under the recommended structure, a 100 unit apartment project would not be allowed to pay a fee to fulfill the Inclusionary Housing obligation. However, if the developer can prove an Extreme Economic Hardship, the City Council has the discretion to approve the payment of an in lieu fee.

Based on the in-lieu fee schedule being recommended by KMA, the hypothetical apartment project would generate the following in-lieu fee payment obligation:

1. The total leasable area of the 100 unit market rate project is 86,750 square feet.

2. The in-lieu fee for projects that include 22 or more units is $19.80 per square foot of leasable area.

3. The resulting total in-lieu fee is $1.7 million, which equates to $17,200 per unit in the market rate project.

Off-Site Projection of Affordable Apartment Units

This alternative cannot be used for the fulfillment of the Inclusionary Housing requirement for a market rate apartment development project.

LAND DEDICATION

The use of the land dedication option should be subject to City Council approval. Proposals must meet all the following requirements in order to be presented to the City Council for consideration:

1. The Inclusionary Housing obligation is set at 15% of the units being constructed in the market rate project. This equates to 15 units for the hypothetical 100 unit project.

2. The income and affordability standard is set at the very low income level.

3. At an assumed allowable density of 30 units per acre, 15 units could be developed on.5 acres of land. However, the recommended minimum site area for the land dedication alternative is set at one acre. Thus, in this case study example a developer would be required to dedicate at least one acre of land to the City.

4. The unit mix requirements are:

Affordable Housing Unit Mix Land Dedication to Fulfill the Inclusionary Housing Requirement Apartment Project		
Number of Bedrooms	Number of Units	Percentage of Total
Studio	2	No more than 15%
1	7	47%
2+	6	No less than 40%
Total	15	100%

5. The developer must submit a conceptual plan and a pro forma analysis to demonstrate that an apartment project that includes 15 very low income units will be feasible with no financial contribution from the City.

B. Ownership Housing Project

The development scope used in the ownership housing project case study can be described as follows:

1. The market rate project consists of 120 detached single family homes.

2. The development site consists of 20 acres, which represents a density of six units per acre.

The unit mix is presented in the following table:

Unit Mix - Hypothetical Ownership Housing Project Detached Single Family Home Development			
Number of Bedrooms	Number of Units	Percentage of Total	Saleable Square Feet
3	24	20%	1,800
4	60	50%	2,400
5	36	30%	2,900
Total	120	100%	291,600

ON-SITE PRODUCTION OF AFFORDABLE OWNERSHIP HOUSING UNITS

The requirements associated with the on-site production alternative are:

1. Ownership housing development projects are subject to a 5% moderate income requirement. This equates to a six unit Inclusionary Housing requirement for a 120 unit project.

2. To match the distribution of the bedroom types included in the market rate detached single family home project, the Inclusionary Units must be provided in the following mix:

Affordable Housing Unit Mix On-Site Fulfillment of the Inclusionary Housing Requirement Ownership Housing Project Detached Single Family Home Development		
Number of Bedrooms	Number of Units	Percentage of Total
3	1	17%
4	3	50%
5	2	33%
Total	6	100%

3. The Inclusionary Units must be dispersed throughout the market rate project and developed concurrently with the market rate project.

In-Lieu Fee Payment

Under the recommended structure, the developer of any ownership housing project would be allowed to pay a fee in lieu of producing affordable housing units. Based on the in-lieu fee schedule being recommended by KMA, the hypothetical ownership housing project would generate the following in-lieu fee payment obligation:

1. The total saleable area of the 120 unit market rate project is 291,600 square feet.

2. The in-lieu fee for detached single family home projects that include 22 or more units is $15.50 per square foot of saleable area.

3. The resulting total in-lieu fee is $4.5 million, which equates to $37,700 per unit in the market rate project.

Off-Site Production or Parcelization of the Ownership Housing Project Site

A developer may select the off-site production or parcelization option by right. However, the City Council has the following approval rights:

1. For the off-site production option: Approval rights over the development site's location.

2. For the parcelization option: Approval rights over the parcel size and the location within the original development site.

The fulfillment requirements imposed by both options are:

1. The Inclusionary Housing obligation must be fulfilled with the development of affordable apartment units.

2. A 9% Inclusionary Housing requirement is imposed. This equates to an 11 unit requirement.

3. The income and affordability restrictions are set at the low income level.

4. To fulfill the recommended unit distribution standards, the off-site affordable housing units would be required to be provided in the following mix:

Affordable Housing Unit Mix Off-Site Production or Parcelization of the Ownership Housing Development Project Site Affordable Apartment Units		
Number of Bedrooms	Number of Units	Percentage of Total
Studio	1	No more than 15%
1	5	45%
2+	5	No less than 40%
Total	11	100%

5. The affordable apartment units must be constructed concurrently with the market rate ownership housing project.

Land Dedication

1. The use of the land dedication option should be subject to City Council approval. Proposals must meet all the following requirements in order to be presented to the City Council for consideration:

2. The Inclusionary Housing obligation is set at 15% of the units being constructed in the market rate project. This equates to 18 units for the hypothetical 120 unit project.

3. It is assumed that the dedicated site would ultimately be developed with an affordable apartment project.

4. The income and affordability standard is set at the very low income level.

5. At an assumed allowable density of 30 units per acre, the dedicated site would need to include .6 acres of land area. Based on the recommended minimum site size required to use the land dedication alternative, this case study project would require the dedication of one acre of land to the City.

The unit mix requirements are:

Affordable Housing Unit Mix Land Dedication to Fulfill the Inclusionary Housing Requirement Ownership Housing Project		
Number of Bedrooms	Number of Units	Percentage of Total
Studio	2	No more than 15%
1	8	44%
2+	8	No less than 40%
Total	18	100%

6. The developer must submit a conceptual plan and a pro forma analysis to demonstrate that an apartment project that includes 18 very low income units will be feasible with no financial contribution from the City.

V. SUMMARY

The preceding report presented KMA's policy recommendations related to creating an Inclusionary Housing program. The recommended affordable housing requirements are based on the results of the accompanying Financial Evaluation, and on an evaluation of the array of fulfillment options that can be made available to the developers of market rate residential projects.

It should be City's goal to create an Inclusionary Housing program that balances the interests of property owners and developers against the public benefits associated with increasing the inventory of affordable housing units in the community. To that end, KMA identified supportable Inclusionary Housing production requirements and provided a mix of alternative methods for fulfilling the requirements.