**CITY OF LONG BEACH**

DEPARTMENT OF COMMUNITY DEVELOPMENT

333 WEST OCEAN BOULEVARD • LONG BEACH, CALIFORNIA 90802

April 12, 2005

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

- (1) Establish a Housing Trust Fund for the City of Long Beach and request the City Attorney to prepare an ordinance establishing the terms and conditions for administering the Housing Trust Fund; and
- (2) Direct the Planning Commission to prepare an inclusionary housing ordinance. (Citywide)

**DISCUSSION**

On June 11, 2002, the City Council requested the City Manager to prepare a report regarding the feasibility of establishing a housing trust fund (HTF) for the City of Long Beach, including identification of potential funding sources. A Housing Trust Fund would provide a continuing source of funds to improve and/or increase the supply of affordable rental and ownership housing. Attachment 1 lists the jurisdictions that have established HTFs, including those in California. Attachment 2 lists the revenue sources and eligible uses of the HTFs established in major and selected California cities.

On September 10, 2002, City Council authorized the City Manager to enter into a contract with David Rosen & Associates (DRA) to conduct the study. Preliminary findings were presented to the City's senior management team and, individually, to the Mayor and available City Councilmembers. The preliminary findings were also shared with developers to validate the consultant's assumptions. DRA's final report was completed in October 2003 and concluded that an HTF could be established in Long Beach. The report further recommended adopting an inclusionary housing ordinance. Any in-lieu fees generated would go into the HTF. Another source of funds recommended is a commercial linkage fee, which staff is not proposing at this time.

An inclusionary housing ordinance would require residential developers to provide a percentage of new units at affordable rents or purchase price. The inclusionary units can be provided on site or offsite, or in case of financial infeasibility to provide units, an inclusionary housing in-lieu fee can be paid by the developer and deposited into the Housing Trust Fund. Attachment 3 lists jurisdictions in California that have adopted inclusionary housing policies.

A commercial linkage fee is a development fee based on findings that new non-residential developments create a need for affordable housing. Attachment 4 is a 2003 survey of cities in California with commercial linkage fee ordinances.

### **Consultant Findings and Conclusions**

For inclusionary housing, the study concluded that imposing the following requirements on new residential construction are feasible for most housing prototypes in Long Beach: for rental developments - 10% of the units must be rented at amounts affordable to those earning at or below \$25,000 (2003, family of four); and for ownership developments - 15% of the units must be sold at prices affordable to households earning at or below \$50,000 (2003, family of four). If the developer chooses not to build the units, the inclusionary in-lieu fee equals approximately \$14,000 per unit on all rental units and \$12,000 per unit on all units for ownership housing. Using an average unit size of 1,000 sq. ft., this translates to an in-lieu fee of \$14 per sq. ft. for rental units and \$12 per sq. ft. for ownership units.

For commercial development linkage fee, the study concluded that linkage fees in the range of \$10 to \$15 per sq. ft., on top of current Long Beach fees, are supportable while maintaining residual land values in recent market sales comparables and appraised values (typically \$15 to \$25 per sq. ft., 1998 -2003 data).

### **Community Outreach**

Over the following months, the consultant findings and conclusions on HTF were shared in group or individual meetings with developers, business associations and housing advocates. The reaction regarding the Housing Trust Fund has been positive; almost everyone recognizes the need for more affordable housing. However, there has been mixed reaction concerning the proposed HTF revenue sources, the target population to be served by the HTF, and the proposed fees. Attachment 5 is a matrix showing the recommendations from staff, The Long Beach Housing Development Company (LBHDC), and the Long Beach Housing Trust Fund Coalition (LBHTFC). Attachment 6 is the LBHDC's position statement on the HTF. Attachment 7 lists the recommendations from the LBHTFC.

The LBHDC, LBHTFC, and other groups have strongly suggested other revenue sources that could fund the HTF. Some recommended sources include a percentage of any increase in current real property transfer tax, a percentage of any increase in transient occupancy tax, and an increase of redevelopment housing set-aside over the 20% currently required by law. In their view, looking at other funding sources would mean that the housing development community is not being singled out for these proposed new fees. Attachment 8 is staff's analysis of these other funding sources.

### **Staff Recommendations**

Staff recommends the actions listed below.

1. Establish a Housing Trust Fund with the following general parameters:

**A. Uses**

- New construction, both rental and ownership
- Acquisition and/or rehabilitation, both rental and ownership
- Rehabilitation loan programs, both rental and ownership
- First-time homebuyer assistance programs
- Special needs projects or programs

**B. Target Population**

- 40% of funds for extremely low-income households (those with income not exceeding \$13,750 for a 1-person household or \$25,950 for an 8-person household, based on 2005 income levels)
- 60% of funds for moderate-income households (those with income not exceeding \$46,250 for a 1-person household or \$87,250 for an 8-person household, based on 2005 income levels)

**C. Length of Affordability Restrictions on HTF-Assisted Units**

- Rental - 55 years
- Ownership - 30 years

**D. Funding Source**

- Inclusionary housing in-lieu fees

**E. Administration**

- The Long Beach Housing Development Company

2. Direct the Planning Commission to prepare an inclusionary housing ordinance with the following general parameters:

**A. Applicability**

- New construction, rental and for-sale

**B. Exemptions**

- Any project that has been submitted for an entitlement including California Environmental Quality Act (CEQA) review, as long as the application package

has been deemed complete by the Department of Planning and Building when the inclusionary housing ordinance is adopted

- Developments of 4 units or less

**C. Inclusionary Requirement**

- 10% of all new rental units affordable to households with income not exceeding 50% of area median income
- 15% of all for-sale units affordable to households with income not exceeding 120% of area median income

During the first year following the adoption of the ordinance, the inclusionary requirement will be 5% for rental units and 8% for for-sale units. The full inclusionary requirement will start on the second year following the ordinance's adoption.

**D. Restriction Period**

- 55 years for rental units; 45 years for ownership units

**E. Alternatives to On-Site Construction**

- Payment of an in-lieu fee
- New unit at another site within a 3-mile radius of the development
- Existing rental unit at another site within a 3-mile radius of the development
- Financial assistance in an amount equal to or greater than the in-lieu fee by developer to a non-profit developer
- Donation of environmentally clean land, developable for housing, with land appraised at a value equal to or greater than the in-lieu fee

**F. In-Lieu Fee**

- Year 1: \$5 per sq. ft. of living area
- Year 2: \$7.50 per sq. ft., plus a percentage equal to the increase in the median housing sales price in Long Beach in the preceding year
- Year 3: \$10 per sq. ft., plus a percentage equal to the increase in the median housing sales price in Long Beach the preceding year

Attachment 9 provides a comparison of the proposed \$5 in-lieu fee with the fees currently charged in selected California cities with inclusionary housing ordinances.

**G. Developer Incentives**

- Credit towards the required number of inclusionary units if units are fully handicapped accessible (1.5) and/or visitable (1.25)

- 25% density bonus
- Height bonus
- HTF to advance permit fees; to be paid by developer prior to issuance of Certificate of Occupancy
- Expedited permit processing

Staff does not recommend the implementation of a commercial linkage fee at this time but will likely revisit this issue when nonresidential development in the City appears to be able to sustain additional fees.

This letter was reviewed by Deputy City Attorney Everett Glenn on March 29, 2005, and Budget Management Officer David Wodynski on April 4, 2005.

TIMING CONSIDERATIONS

Council action is requested at the April 12, 2005 meeting in order to move forward with these proposed housing initiatives.

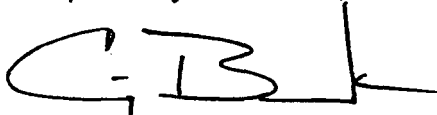
FISCAL IMPACT

City Council's approval of the proposed recommendations may increase revenues for affordable housing. When that happens, the Department of Community Development will request appropriate budget adjustments in the Housing Development Fund (SR 135).

SUGGESTED ACTION:

Approve recommendations.

Respectfully submitted,



*MS* MELANIE S. FALLON  
DIRECTOR OF COMMUNITY DEVELOPMENT

MSF/ES/ET/lh

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APPROVED:

  
GERALD R. MILLER  
CITY MANAGER

Attachments:

Attachment 1 - Jurisdictions with Housing Trust Funds

Attachment 2 - Housing Trust Fund Revenue Sources and Eligible Uses of Ten California Cities

Attachment 3 - List of California Cities and Counties with Inclusionary Housing Policies or Programs

Attachment 4 - Survey of Cities in California with Commercial Linkage Fee Ordinances

Attachment 5 - Matrix of Consultant Conclusions, and Recommendations from Staff and other Stakeholders Regarding Housing Trust Fund, Inclusionary Housing and Commercial Linkage Fees

Attachment 6 - LBHDC's Position Statement on the Housing Trust Fund

Attachment 7 - Long Beach Housing Trust Fund Coalition's Recommendations

Attachment 8 - Other Potential Revenue Sources for the Housing Trust Fund

Attachment 9 - Comparison of Current Residential Development Impact Fees in Selected California Cities with Inclusionary Housing Ordinances