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Council File: 99-1753
Council District: Citywide
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Honorable James K. Hahn
Mayor, City of Los Angeles
Room 300, City Hall
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Attn: **June Lagmay, Legislative Coordinator**

**TRANSMITTAL OF THE INCLUSIONARY HOUSING STUDY AND REQUEST FOR
APPROVAL OF RELATED RECOMMENDATIONS, AND PROFESSIONAL
SERVICES CONTRACT AMENDMENT**

SUMMARY

In April 2000, the Los Angeles Housing Department (LAHD) was instructed by the Mayor and City Council to identify what was needed to enact an inclusionary [zoning] housing program as part of the new Affordable Housing Trust Fund . Inclusionary zoning requires that developers of new housing "include" a certain percentage of units affordable to lower income households in their projects. In return for the provision of these units the developer usually receives one or several land use and planning concessions, fee deferments or waivers, and/or expedited processing. LAHD is hereby transmitting the City of Los Angeles Inclusionary Housing Study (the "inclusionary study") by David Paul Rosen & Associates (DRA) for Mayor and City Council consideration. In addition, LAHD is requesting approval to amend the DRA contract with additional funding.

The City of Los Angeles has experienced an affordable housing crisis for over 20 years. This crisis is a critical shortage of safe, decent, affordable housing, and is the result of many factors including an increasing population, low rate of construction/development, high cost of land, wages that have not kept pace with the cost of living, and limited financial and other resources for affordable housing development. The crisis has resulted in overcrowded and unsafe housing conditions, market rents have increased sharply for several years (HUD's Fair Market Rents

are below market rents in many parts of the City), a majority of low income residents paying more than half of their income on rent, higher prices for available land parcels, and other forces that continue to create more demand than available and affordable housing units.

During the late 1990s the City of Los Angeles responded to the crisis with the establishment of a task force to study the housing shortage (CF 99-1753), comprised of City, business, community, social and religious leaders. This comprehensive task force studied the crisis and produced "In Short Supply - Recommendations of the Los Angeles Housing Crisis Task Force". The report was presented to the Housing and Community Redevelopment Committee and City Council in April 2000, and included recommendations for the establishment of a Housing Trust Fund and revenue sources for that purpose, innovations in land use planning and development, inclusionary zoning and other suggestions to mitigate the housing crisis. Later in 2000, the City Planning Commission organized an Infill Housing Subcommittee which held hearings and developed additional recommendations for land use reforms.

The Mayor and the City Council established the Affordable Housing Trust Fund in Spring 2000 through the budget process with seed funding of \$5 million. In 2002, the Mayor and City Council enacted several zoning changes proposed by the Planning Department and Planning Commission to encourage housing development, including the creation of a Residential Accessory Services (RAS) Zone and a by-right density bonus of 35 percent for affordable housing developments located adjacent to certain land uses (CF 99-1753; CPC 2000-4788).

When the Mayor and City Council instructed LAHD (CF 99-1753) to look into the idea of inclusionary zoning in mid-2000, it was determined that an in-depth economic analysis was needed and LAHD was subsequently authorized to release a Request for Qualifications (RFQ) for Housing Studies, including an inclusionary housing study. In late 2001, LAHD executed a professional services agreement with DRA, Contract C-102376, to undertake the analysis, which is being submitted for review with this report.

The study is the result of a nearly year long comprehensive analysis of development trends and data in the City of Los Angeles, and consultation with private developers and staff from relevant City departments. The inclusionary study analyzes the economic cost of imposing an inclusionary obligation on market rate development. Utilizing a land residual analysis applied to six rental housing prototypes and to four owner housing prototypes (typical construction types in the City), the inclusionary study concludes that an inclusionary zoning requirement could be economically feasible, when applied to the large majority of housing prototypes typical of housing construction in Los Angeles, especially when combined with a package of alternative compliance and incentive options. The study's conclusions are as follows:

- **Rental Housing Development:** An inclusionary housing requirement of 10 percent of total units affordable to households at 45% of Area Median Income (approximately \$25,000 for a family of four, 2002);
- **Owner Housing Development:** An inclusionary housing requirement of 20 percent of total units affordable to households at 90 percent of Area Median Income (approximately \$50,000 for a family of four, 2002).

Throughout the contract period LAHD and DRA provided briefing sessions to explain the study approach and methodology. The original budget for these sessions has been expended and the professional services contract with DRA needs to be amended for additional funds to go forward with technical briefings regarding the study findings. Therefore, LAHD is requesting approval to amend DRA's contract with additional funding in the amount of \$75,000, for a new total of \$401,020. Attached to this transmittal report is a draft second contract amendment adding \$75,000, which has been reviewed by the City Attorney. LAHD is also concurrently processing a first contract amendment, adding one 12-month term (for a new end date of October 14, 2003) to the contract, through a transmittal to the Mayor and City Administrative Officer pursuant to Executive Directive 16. The Personnel Department's review for Charter Section 1022 compliance was completed on April 3, 2001, through the Personnel Department Contract Review Report, as part of their review and approval of the various areas of housing studies covered in LAHD's 2000 Request for Qualifications.

RECOMMENDATIONS

The General Manager, LAHD, respectfully recommends:

1. That your office schedule this transmittal at the next available meeting of the appropriate City Council committee (s) for review and forward it to the City Council for review and approval immediately thereafter;
2. That the City Council:
 - A. REVIEW and approve the attached City of Los Angeles Inclusionary Housing Study by David Paul Rosen & Associates, and instruct the General Manager, LAHD, or his designee, with the Planning Department and City Attorney to prepare a draft Inclusionary Zoning Ordinance and submit it for Mayor and City Council consideration;
 - B. AUTHORIZE the General Manager, LAHD, or his designee, to execute an amendment to the existing professional services agreement with David Paul Rosen & Associates, contract C-102376, by increasing the contract amount by \$75,000 for a new total of \$401,020, subject to the approval of the City Attorney;
 - C. AUTHORIZE the City Controller to:
 1. Establish a new account within the Affordable Housing Trust Fund No. 44G/43 as follows:

Account Number	Account Title
T143	LAHD

2. Transfer appropriations within the Affordable Housing Trust Fund No. 44G/43 as follows:

From: S211 - Housing Development	\$75,000
To: T143 - LAHD	\$75,000

- D. AUTHORIZE the City Controller to increase appropriations in Fiscal Year 2002-03 General Fund, Fund 100/43, Account 3040 Contractual Services by \$75,000, and expend funds on an as-needed basis upon receipt of proper written demand from the General Manager, LAHD or his designee;
- E. AUTHORIZE the General Manager, LAHD or his designee, to prepare Controller instructions for any necessary technical adjustments, subject to approval of the City Administrative Officer (CAO) and INSTRUCT the Controller to implement the instructions;
- F. AUTHORIZE the General Manager, LAHD or his designee, to make further amendments to this contract, as needed, pursuant to the Mayor's Executive Directive 16, with review by the CAO.

3. That the Mayor concur with the actions of the City Council.

BACKGROUND

An inclusionary zoning [housing] ordinance requires that developers of new housing "include" a certain percentage of units affordable to lower income households in their projects. In return for the provision of these units the developer usually receives one or several land use and planning concessions, fee deferments or waivers, and/or expedited processing. In a high cost housing market, inclusionary zoning ensures that some housing for lower income households will be included in the mix of newly constructed units over the long term.

According to the Southern California Association of Governments (SCAG), Los Angeles will need more than 28,000 new housing units by 2005 to accommodate residents earning less than 80% of the Area Median Income (AMI). This figure, along with the City of Los Angeles' population increase between June 30, 1998, and July 1, 1999, of 65,000, and the fact that only 1,940 new housing units were built, demonstrates the need for additional housing units.

More than 115 local jurisdictions in California utilize an inclusionary zoning (housing) ordinance to increase their supply of affordable housing. Most recently, the City of Fremont in the San Francisco Bay Area approved an inclusionary housing program; Pasadena enacted one in 2001 and Long Beach is currently conducting an economic study for that purpose as well.

In late April 2000, three weeks after the delivery of 'In Short Supply', the report of the Housing Crisis Task Force, the LAHD was instructed by the City Council to identify what was needed to enact an inclusionary housing program as part of the new Affordable Housing Trust Fund recommended by the report. (CF 99-1753). In late 2001, LAHD executed a professional

services agreement with DRA, Contract C-102376 to undertake the analysis, which is being submitted for consideration with this report.

The contract required that DRA complete an inclusionary housing study, followed by a replacement housing study. LAHD worked with DRA in the identification and development of the economic and other data components utilized in the inclusionary study, and facilitated information gathering and communication with various participants, including access to detailed and accurate real estate data. Great effort has been made to identify and detail real estate development statistics, prototypes and related data over the past five years, as this information is the foundation of the economic analysis for the study and the analysis must be realistic and representative of development trends in the City.

Additionally, LAHD convened a Developer Advisory Group, comprised of both for-profit and non-profit housing developers, to assist in the development of the various housing prototypes, development costs and economic incentives which DRA utilized in the analyses. Detailed notes from these meetings are included in the report. Based on the Developer Advisory Group and actual development activity in the City, DRA modeled six Rental Housing Prototype Projects (including low density garden style development to high density multiple-level/subterranean parking development) and four Owner Housing Prototype Projects (including single family attached to condominium development) in which to study the effect of an inclusionary obligation.

The attached Inclusionary Housing Report has been developed in three sections. Section One is the executive summary, which provides a brief overview of the report methodology and a residual land analysis that details the impact of an inclusionary obligation on typical rental and owner developments. Section Two is the inclusionary housing analysis, which provides the economic and development foundation for the report. Section Three has the complete appendices to the report, and includes technical notes, additional analyses, and a complete economic basis for the report.

APPROPRIATION OF FUNDS FOR INCLUSIONARY HOUSING AND REPLACEMENT HOUSING STUDY

LAHD requests that an additional \$75,000 be added to the existing contract amount of \$326,020, for a new total of \$401,020.

Concurrent with the analytical work, LAHD and DRA have provided briefing sessions upon request about the inclusionary study to staff of elected officials and numerous interested parties and stakeholders. Briefings include description of study methodology, general policy discussions and related information. When the contract was executed it was estimated that DRA would provide these types of briefings on an as-needed basis. Based on the substantial number of briefing sessions completed (and a number of follow-up meetings and briefings which have been requested) and the extensive and detailed nature of the briefings provided by DRA, the budget for this task has been expended. LAHD is requesting additional funding so that DRA may continue to provide the City and community leaders with detailed briefing meetings, especially in light of the completion of the report and the complexity of the economic analysis. Such briefings have already been requested by the Central City Association's Housing Committee, and the Housing

LA trust fund campaign.

The original contract allocated \$25,000 for "Other Services", which would provide LAHD with related services to be determined. LAHD determined that the inclusionary housing study would benefit from the addition of a graphic analysis of historical residential construction activity (single family, multifamily) of 20 California cities, plotted against several macroeconomic indicators and the imposition of an inclusionary housing policy/ordinance (ten without inclusionary housing policies and ten with inclusionary housing policies) that may affect new construction housing production. The graphic analysis expended the full \$25,000.

The budget for the additional scope of work is \$75,000, which represents the additional time needed to provide briefings and attend public meetings, as needed, as well as funding for inclusionary-related other services that may be requested. Since additional time will be required to provide advisory services for the presentation of the final report as well as completion of the replacement housing study, which uses data obtained in the inclusionary housing study, a request to extend the time of the contract via the Executive Directive 16 process has already been submitted by LAHD, for another 12-month term, with a new end date of October 14, 2003.

CONTRACT RECOMMENDATION

At this time, LAHD requests that the City Council approve the attached amendment of the existing contract with David Rosen & Associates. Further, LAHD requests that City Council appropriate \$75,000 from the Affordable Housing Trust Fund for that purpose.

FISCAL IMPACT

There is no fiscal impact to the General Fund. The requested \$75,000 is from the Affordable Housing Trust Fund which includes non-General Fund monies from the Municipal Housing Finance Fund.

CONCLUSION

Inclusionary housing programs are increasingly viewed nationwide as an important 'tool in the tool box' to increase the supply of decent, affordable housing. The City of Los Angeles Inclusionary Housing Study by David Paul Rosen & Associates is a thorough and thoughtful analysis based on current real estate development practices and trends in Los Angeles. It deserves a careful review, as the City endeavors to address its affordable housing crisis.

Prepared by:



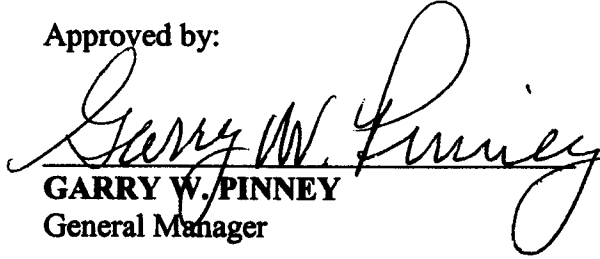
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GARRY W. PINNEY
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Attachment