



# RANCHO PALOS VERDES

## **AFFORDABLE HOUSING - BACKGROUND INFORMATION**

**November 14, 2008**

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The following provides some background information on the requirements of State Housing Law, prior City decisions that created the foundation for the development of an affordable housing program in the City, and the status of the City's current affordable housing fund programs.

### **Why is there a need for Affordable Housing and what is the City's obligation to provide for it?**

In a report entitled "California's Deepening Housing Crisis", authored by the California Department of Housing and Community Development (HCD), it is projected that California's population will increase by around 600,000 persons annually over the next decade. Unfortunately, housing production within the state has not kept pace with past population increases, nor is it expected to keep pace with projected future population increases. This disparity leads to an increase in demand for housing, higher housing costs, and subsequently a greater demand for affordable housing.

HCD's mission is "to provide leadership, policies and programs to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians". One of HCD's goals is to increase the supply of housing, especially affordable housing. To help meet this goal, HCD is charged with administering state housing law. State housing law affects all cities and counties within the State by requiring each to prepare and adopt a General Plan Housing Element. According to State law, the City's Housing Element *"shall consist of an identification and analysis of existing and projected housing needs and a statement of goals, policies, quantified objectives, financial resources, and scheduled programs for the preservation, improvement, and development of housing"*. So, regardless of individual opinion of HCD's mission statement and implementation goals, and whether the City should be required to increase its housing stock while also providing for affordable housing, it is still incumbent upon the City to comply with State housing law.

To satisfy State requirements, the City's Housing Element must include certain components, one of which is an assessment of housing needs, as prescribed by State housing law. The assignment of a City's housing construction need has always been one of the most difficult aspects of housing law. Currently, based upon population projections, existing housing supply,

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economics and other factors, the State determines the total construction need for each region - meaning how many new housing units need to be constructed in the region to meet the region's need over the next 5 years. In our region HCD provides the construction needs number to the Southern California Association of Governments (SCAG), who is then responsible for disaggregating that number amongst all of the cities and counties in the SCAG region. This process is called the Regional Housing Needs Assessment (RHNA).

State housing law requires cities and counties to update their Housing Element every 5 years. In compliance with State law, the City of Rancho Palos Verdes adopted an updated Housing Element on June 17, 2008. The City's Housing Element "needs analysis" is based upon the RHNA that was provided by SCAG. The City's share of the regional housing need as allocated by SCAG for the January 1, 2006 through June 30, 2014 planning period is as follows:

**RHNA Construction Need for RPV – 2008 Housing Element**

Income Category	Number of Housing Units
Very Low	16
Low	10
Moderate	11
Above Moderate	23
Total	60

It is important to note that it is not the City's responsibility to actually develop and build these units. State law only requires that a City show that there is adequate sites for these units, that the City assist in the development of housing to meet the needs, and remove governmental constraints where appropriate and legal. The City's Housing Element currently shows that there is land available to construct these new housing units. For example, the Housing Element identifies the RDA's parcel located on the northwest corner of Crestridge Road and Crenshaw Boulevard as a site that can meet the low and very-low income affordable housing need. It is important to note that, at this time, there are no penalties for a city not reaching its RHNA target. However, based upon the continuing housing crisis in the State and previously proposed legislation, Staff would expect that in the future there may be legislation that would penalize a City for non-compliance.

## **How are affordable income levels derived and who fits into these income levels?**

According to the U.S Department of Housing and Urban Development (HUD), affordable housing means that families should devote no more than 30% of their income to rent or mortgage payments and utilities.

The different levels of affordability are based upon a percentage of County median income, as follows:

Very Low Income Level	=	0-50% of Median Income
Low Income Level	=	50-80% of Median Income
Moderate Income Level	=	80-120% of Median Income
Above Moderate Level	=	+120% of Median Income

As an example of how these affordability levels translate to the provision of affordable housing units, according to HUD, the 2008 median family income for a four-person household in Los

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Angeles County was \$59,800. Based upon this figure, it is determined that a "Very Low" income family of four, renting a 2-bedroom apartment would not be expected to pay more than \$636 per month. A "Low" income family of four, renting a 2-bedroom apartment, would not be expected to pay more than \$764 per month. During the preparation of the City's Housing Element in 2000 a survey was conducted of existing rental units in the City and it was found that only about 10% of the total rental units surveyed had monthly rents of less than \$1,000. In 2007 a similar survey showed that less than 1% of rental units had monthly rents less than \$1,000. Subsequently, in this example, lower income families are most likely not able to find a rental unit in the City that is affordable. If they did rent a unit, most likely they would be paying more for that unit than what they could afford – this is called "overpaying". It is estimated that there are 994 rental households and 3,550 owner households in the City that are currently overpaying.

When speaking of "Affordable Housing", there is a myth that the people who need and live in affordable housing will not fit into respected neighborhoods. It is important to identify who these people really are. Households earning lower incomes can have a variety of occupational and educational backgrounds. In an example presented by HCD in their report entitled, "Myths and Facts About Affordable and High Density Housing", it states that a starting elementary or high-school teacher in the City of Mountain View (Santa Clara County) with a gross monthly income of \$3,200 (annual income of \$38,400) can afford to pay \$960 a month in rent, which qualifies as "Low" Income if she lives alone and "Very-Low" Income if she supports two children. Another example is that of a starting air-traffic controller in San Diego County, with income barely higher than \$31,000 a year, would also qualify for affordable housing. Other occupations, such as librarians, sheriffs' deputies, nurses, and fire fighters, who are vital members of our communities, also fit into persons/families who need affordable housing.

### **What is the Current Status of the City's Affordable Housing Fund Programs?**

To help meet the affordable housing needs of the City as delegated by SCAG through the RHNA and identified in the City's General Plan Housing Element, the City has established two affordable housing fund programs. Below is a discussion of each program and its current fund status.

#### Redevelopment Agency 20% Affordable Housing Set-aside Fund:

Per State law, the Redevelopment Agency has set-aside twenty percent (20%) of its gross annual tax increment into the Agency's Low and Moderate Income Housing Fund. The purpose of this Fund is to increase, improve and preserve the City's supply of low and moderate-income housing. In carrying out the housing set-aside requirements, the Agency may expend these funds on a number of different programs, including acquiring real property.

Once the unexpended and unencumbered funds in this Fund exceed \$1 million, the RDA has up to 1 year to either transfer the excess funds (funds over \$1 million) to the County Housing Authority or come up with a plan on how it intends on expending the excess funds. If the Agency does not transfer the funds to the County, but instead comes up with an expenditure plan, the excess funds must be spent on a program within the City within 2 years of adoption of the expenditure plan. In summary, the Agency would have a maximum of 3 years to expend excess surplus funds once the \$1 million Fund threshold is exceeded. If the excess surplus funds were not spent within 3 years, at the end of the third year, the Agency could face penalties that would

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affect the expenditure of other Agency funds. The Agency's Housing Fund balance exceeded the \$1 million threshold in December 2004. Specifically, as of December 31, 2004, the fund balance was \$1,003,663. As a result, the Agency had 3 years (until July 1, 2008) to expend such excess funds. To address this excess surplus issue and avoid potential penalties, during the summer of 2008, the Agency purchased an existing condominium unit, which it plans to re-sell to an affordable family. It is important to note that given the balance of funds that the Agency still has accumulated within this program, and the anticipated funds to be received annually in the future, the Agency will continually face an excess surplus issue.

In March 2000, the Agency purchased the Crestridge property for \$702,392 with RDA set-aside funds. Under state law, once purchased, the Agency has 5 years to initiate activities to provide affordable housing on the property. However, this was extended for one additional 5-year period as the Agency adopted a resolution in March 2005 affirming its intention that the property be used for the development of affordable housing - thereby extending the deadline to 2010.

### City's In-Lieu Affordable Housing Program:

With the adoption of the revised Development Code in May 1997, the City established several affordable housing programs. One of these, contained in Section 17.11.140, has provisions for the establishment of an in-lieu affordable housing fee to be applied to new residential development projects in lieu of constructing affordable housing units within a project. Currently, through the In-lieu Program, the City has collected \$256,683 from the development of the Seabreeze Tract in June 1998 and \$596,494 from the Oceanfront Estates Tract in March 2000 for a total estimated July 30, 2008 in-lieu fund balance, plus interest, of \$800,924.

According to State Law, the City must expend these funds within 5 years of obtaining them. However, the City has the option of extending the deadline for an additional 5 years. In 2003 the Council made the necessary findings to extend the deadline for funds received from the Seabreeze Tract for an additional 5 years to 2008. Likewise, in March 2005, the Council extended the deadline for the Oceanfront Estates Tract for another 5 years to 2010. To avoid losing the funds it received from the Seabreeze Tract, similar to the Agency's purchase described above, during the summer of 2008, the City purchased an existing condominium, which it plans to re-sell to an affordable family.

In addition to residential projects, the Development Code also requires non-residential projects to pay an in-lieu fee towards the development of affordable housing if the project exceeds certain thresholds. Thus far only one approved project has triggered this requirement, that being the Long Point Resort project. Based upon that project's estimated number of employees, it is estimated that the Long Point Resort developer will have to provide an in-lieu fee amount of \$931,910. According to the Long Point Resort's conditions of approval, this fee would need to be paid prior to issuance of a certificate of use and occupancy for the resort, which is expected to occur during 2009.

### **What is the Current City Policy on Spending the City's Affordable Housing Funds?**

Given the deadlines to expend affordable housing funds and to develop the Agency's Crestridge property, a critical point has been reached. Acknowledging this, at the September 18, 2007 City

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Council meeting, the City Council directed Staff to expand its options of programs in utilizing its affordable housing funds by moving forward with a combination of programs, which include:

- 1) Set up and implement the purchase of existing units for the purpose of providing affordable housing.
- 2) Release an RFQ to find a reputable affordable housing developer to move forward in the development of only the RDA's parcel, with the intent of releasing an RFP a month later to those qualified firms.
- 3) Prepare a First Time Homebuyers/Silent Second Program to assist affordable buyers in purchasing a home.

As noted above, the Agency and the City each have recently purchased one condominium unit thereby addressing Program #1 above. In conjunction with the City's consultant, Tierra West Advisors, a First Time Homebuyer/Silent Second Program is being developed, which will be used to sell the condominium units. It is expected that the units will be ready to advertise in Fall 2008 – thereby implementing Program #3.

As directed by the Council, in January 2008, Staff released an RFQ to find a reputable affordable housing developer to move forward in the development of only the 19.63-acre Redevelopment Agency parcel. At their September 16, 2008 meeting, the Council entered into an Exclusive Negotiating Agreement with AMCAL Multi-Housing Inc.

At this time, a 40-unit apartment project for seniors is being proposed. A preliminary proforma estimated the assistance that will be required from the Agency is approximately \$2.6 million plus the land, and plus development fees, which could increase the amount to approximately \$3.2 million.

As stated above, the Agency has until March 2010 to begin construction of the Crestridge project. To meet this deadline, the following schedule should be maintained:

Sept. 2008	Agency enters into an ENA with a developer
Sept. – Dec. 2008	Prepare studies (traffic, geologic, view/visual) that would be used in the preparation of an environmental document (EIR or Mitigated Negative Declaration) in compliance with CEQA
Nov. 2008	Developer submits formal development proposal and project proforma
Dec. 2008	Agency enters into a Disposition and Development Agreement (DDA) with the developer
Jan. 2009	Process entitlements through the Planning Commission
Feb. 2009	Process entitlements through City Council/Agency
March 2009	Developer submits application for a 9% tax credit allocation

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Oct. 2009                      Start Construction

Dec. 2010                      Complete Construction