

Council/Agency Meeting Held: _____	_____ City Clerk's Signature
Deferred/Continued to: _____	
<input type="checkbox"/> Approved <input type="checkbox"/> Conditionally Approved <input type="checkbox"/> Denied	
Council Meeting Date:                      10/15/2007	Department ID Number:              PL07-31

**CITY OF HUNTINGTON BEACH  
REQUEST FOR CITY COUNCIL ACTION**

**SUBMITTED TO:** HONORABLE MAYOR AND CITY COUNCIL MEMBERS

**SUBMITTED BY:** *Penelope Culbreth Graft*  
PENELOPE CULBRETH-GRAFT, DPA, CITY ADMINISTRATOR

**PREPARED BY:** SCOTT HESS, DIRECTOR OF PLANNING *SH*

**SUBJECT:** Adopt Resolution setting forth an Affordable Housing In-Lieu Fee

Statement of Issue, Funding Source, Recommended Action, Alternative Action(s), Analysis, Environmental Status, Attachment(s)

**Statement of Issue:**

Transmitted for City Council consideration is a resolution that establishes an affordable housing in-lieu fee for new residential projects with three to nine units. Payment of the fee is allowed by the City's affordable housing ordinance. Staff recommends the City Council approve the resolution because adoption of the in-lieu fee will provide an alternative means for developers of small projects to satisfy the City's inclusionary housing requirements. In addition, there are three suggested improvements by Keyser Marston Associates to the existing affordable housing ordinance that staff recommends the City Council initiate.

**Funding Source:** Not applicable

**Recommended Action:**

**STAFF RECOMMENDATION:**

Motion to:

1. "Adopt Resolution No.2007-71, a resolution setting forth an Affordable Housing In-Lieu Fee as authorized by Zoning & Subdivision Ordinance 3687 Section 230.26 (ATTACHMENT NO. 1)."
2. "Direct staff to process a zoning text amendment to amend Section 230.26 to incorporate recommendations outlined in the Keyser Marston Associates report, dated January 23, 2006 (ATTACHMENT NO. 2)."

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## Alternative Action(s):

The City Council may make the following alternative motion(s):

1. "Deny the resolution setting forth the Affordable Housing In-Lieu Fee."
2. "Continue the resolution setting forth the Affordable Housing In-Lieu Fee and direct staff accordingly."
3. "Direct staff to include additional changes in the zoning text amendment that would modify the existing affordable housing ordinance."

## Analysis:

### A. PROJECT PROPOSAL:

Applicant: City of Huntington Beach

Location: Citywide

The proposed fee resolution represents a request to establish an in-lieu fee for affordable housing, pursuant to Section 230.26 B.4 of the Huntington Beach Zoning and Subdivision Ordinance (ATTACHMENT NO. 5). The proposed fee amounts are as follows:

Project Size (No. of Units)	Per Unit In-Lieu Fee
Three	\$9,430
Four	\$10,600
Five	\$11,780
Six	\$12,960
Seven	\$14,140
Eight	\$15,330
Nine	\$16,500

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Developers of small projects (three to nine units) would have the option of paying the fee in lieu of recording a covenant on a unit in their project. Fee revenues would be deposited in a new account called the Housing Trust Fund; the uses of the fee are set forth in the resolution and generally include a variety of widely-used financing techniques to assist the development community.

### B. BACKGROUND

The City of Huntington Beach has had an inclusionary housing requirement since the early 1990s, as set forth by policy. In October 2004, the City Council adopted an ordinance that codified this policy and established the option for payment of an in-lieu fee for projects with

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three to nine units. Pursuant to the ordinance, the City retained Keyser Marston Associates (KMA) to prepare a nexus study to calculate an appropriate and legally defensible in-lieu fee (ATTACHMENT NO. 2).

The City Council reviewed the nexus study at a Study Session in May 2006 and formed an Ad Hoc Committee to further discuss issues related to the analysis. The Ad Hoc Committee, with representatives from the Chamber of Commerce, Building Industry Association and Huntington Beach Tomorrow, met on July 25, 2006. Proposed in-lieu fees, calculated on a per square foot basis for both rental and ownership projects, were presented to the City Council for approval on May 7, 2007 (the RCA for that meeting is provided as ATTACHMENT NO. 3). Based on various comments, the City Council directed staff to hold another Ad Hoc Committee meeting to discuss possible revisions to the fee. On July 30, 2007 the Ad Hoc Committee met with representatives from the Chamber of Commerce and Building Industry Association and gave direction to the staff and consultant to calculate the fee on a per unit basis and to establish one fee for both rental and ownership projects. The Ad Hoc Committee also decided it would continue to meet and discuss other issues related to affordable housing requirements.

## C. STAFF ANALYSIS AND RECOMMENDATION:

The purpose of the KMA study was to calculate an in-lieu fee that developers of projects with three to nine units could pay to satisfy their inclusionary affordable housing requirement. The study quantified the difference between market rate prices and income restricted (affordable) prices in the City of Huntington Beach for rental and for-sale projects; this difference is referred to as the affordability gap. The average affordability gap for ownership projects was \$437,400 and \$105,000 for rental projects. Although the initial study calculated the fees on a per square foot basis, based on direction from the Ad Hoc Committee KMA used this same information to calculate the proposed in-lieu fees on a per unit basis, with adjustments for inflation to 2007 dollars (see ATTACHMENT NO. 4 for KMA memo regarding per unit fee calculations). The table below compares the fees for the two methodologies for a nine unit project.

Type of Project	Original Methodology		Revised Methodology (Currently Proposed)	
	Per Sq. Ft. Fee	Total Fee <sup>1</sup>	Per Unit Fee <sup>1</sup>	Total Fee
Ownership	\$14.55	\$235,710 (effectively \$26,190/unit)	\$16,500 (effectively \$9.17/sq. ft.)	\$148,500
Rental	\$7.84	\$61,740 (effectively \$6,860/unit)	\$16,500 (effectively \$18.86/sq. ft.)	\$148,500

<sup>1</sup>Based on 1,800 sq. ft. ownership unit and 875 sq. ft. rental unit; includes habitable area only. Total project size is nine units.

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As demonstrated in the preceding table, the per unit fees for ownership projects would notably decrease. Because most of the small (3-9 units) projects that have been built in the

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city in recent past are for-sale projects, the proposed per unit fee would bring significant relief to developers of these types of projects. The city may experience some small scale rental projects, which would be adversely affected by the per unit method when compared with the per square foot method. However, these projects would still benefit from being able to at least pay an in-lieu fee. It has also been the City's experience that the economics of doing small scale rental projects, given land costs and other market factors, indicate that this is not a type of development that would predominate.

Staff and KMA believe that the nexus study and follow-up memoranda, present a well documented, reasonable and legally defensible in-lieu fee for projects with three to nine units. Based on input from developers of small projects over the years, staff believes that providing an alternative means to satisfy the City's inclusionary housing agreement is needed. Developers have consistently noted concerns related to financing, monitoring, and qualifying buyers/renters as a result of having to restrict one on-site unit in a small project.

Pursuant to the City affordable housing ordinance, in-lieu fee payments would be deposited in a Housing Trust Fund. This fund will be established upon receipt of the first in-lieu fee payment. The City's ordinance lists the uses for the Housing Trust Fund and restricts the use of funds for projects that have a minimum of 50 percent of the units affordable to very low and low income households, with at least 20 percent of the units available to very low income households. At the discretion of the City Council, the funds may be used for pre-development costs, land or air rights acquisition, rehabilitation, land write downs, administrative costs, gap financing, or to lower the interest rate of construction loans or permanent financing. The Economic Development Department would administer the Housing Trust Fund.

### Other Issues related to the In-Lieu Fee

The Ad Hoc City Council Committee has decided to continue to meet to discuss various topics related to the in-lieu fee, including: allowance of a fee for all projects, fee methodology, and Regional Housing Needs Assessment (RHNA) requirements.

### Affordable Housing Ordinance Changes

As part of KMA's work in calculating an in-lieu, the City requested that they review the existing affordable housing ordinance and make recommendations to improve it. Their three recommendations are listed on page 16 of their original report (ATTACHMENT NO. 2), and are listed below:

1. The Ordinance should make it clear that developers can fulfill the inclusionary requirements with Median income units for ownership projects and low income units for rental projects
  2. The Ordinance should mandate that the affordable housing cost be calculated in accordance with the Code Section 50052.5 standards for ownership units and Code Section 50053 standards for rental units; and
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3. The Ordinance should only allow new development and substantial rehabilitation, as defined by the Code Section 33413 affordable housing production requirements, to fulfill the off-site inclusionary housing option allowed by the Ordinance.

Staff recommends the City Council direct that a zoning text amendment be processed to evaluate these recommended ordinance changes. Depending on the City Council's direction with regard to the other items in this RCA, these ordinance changes may or may not be necessary, or may need to be augmented.

### D. SUMMARY

Staff recommends that the City Council adopt the resolution to establish an affordable housing in-lieu fee for projects with three to nine units, consistent with the City's existing ordinance. Adoption of the proposed resolution will bring immediate relief to developers of smaller projects and would not preclude the City from subsequently modifying the fee structure if the City Council wishes to make the fee available to larger projects. Staff also recommends that the City Council initiate a zoning text amendment to incorporate the recommended ordinance changes articulated by KMA.

### Strategic Plan Goal:

The affordable housing in-lieu fee is consistent with Strategic Plan Goal L-1, "Establish the vision and create a land use plan for reuse of critical parcels so that the next phase of the community investment and improvement can begin." The proposed in-lieu fee will create a source of funds that the City can use to assist development and redevelopment of parcels suitable for housing and to stimulate investment in target areas.

### Environmental Status:

The proposed request is exempt from the California Environmental Quality Act pursuant to Section 15061 (b)(3).

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## Attachment(s):

City Clerk's Page Number	No.	Description
7	1.	Resolution No. <u>2007-71</u> , a resolution setting forth an affordable housing in-lieu fee as authorized by Zoning & Subdivision Ordinance 3687 Section 230.26
47	2.	Keyser Marston Associates Memorandum, dated January 23, 2006, Inclusionary Housing Ordinance In-Lieu Fee
80	3.	City Council staff report, dated May 7, 2007
105	4.	Keyser Marston Associates Memorandum, dated October 1, 2007, Inclusionary Housing In-Lieu Fee: Calculation Methodology
110	5.	Existing Zoning and Subdivision Ordinance Section 230.26 Affordable Housing
114	6.	PowerPoint Presentation Slides

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**ATTACHMENT #1**

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RESOLUTION NO. 2007-71

A RESOLUTION OF THE CITY COUNCIL OF THE  
CITY OF HUNTINGTON BEACH SETTING FORTH AN AFFORDABLE HOUSING  
IN-LIEU FEE AS AUTHORIZED BY ZONING & SUBDIVISION  
ORDINANCE 3687 SECTION 230.26

WHEREAS, on November 1, 2004 the Council adopted Ordinance No. 3687 adding Zoning & Subdivision Ordinance Section 230.26, relating to the goals and objectives of the City's Housing Element, which is intended to encourage very-low, low and median housing;

Pursuant to Section 230.26(B), a minimum of ten (10) percent of all residential construction projects of three (3) or more units must provide affordable housing units;

Pursuant to Section 230.26(b)(4), developers of residential projects consisting of nine or fewer units may elect to pay a fee in lieu of providing the required affordable units on site to fulfill the City's requirement of the Inclusionary Housing Ordinance, unless the affordable housing requirement is outlined as part of a Specific Plan Project;

The City Council has received the report from Keyser Marston Associates dated January 23, 2006, which includes an analysis pertaining to the City's Inclusionary Housing Ordinance and proposes an in-lieu fee consistent with the provisions of Zoning & Subdivision Ordinance Section 230.26. A copy of this study, as updated since January 23, 2006, is attached hereto as **Exhibit A** and incorporated herein by this reference.

NOW, THEREFORE, the City Council of the City of Huntington Beach does hereby resolve as follows:

1. The Keyser Marston report attached hereto as **Exhibit A** is received and filed.
2. The proposed per project in-lieu fee shall be as follows:

<u>Project Size</u>	<u>In Lieu Fee</u>	<u>Total Fee</u>
Three Units	\$9,430	\$28,290
Four Units	\$10,600	\$42,400
Five Units	\$11,780	\$58,900
Six Units	\$12,960	\$77,760
Seven Units	\$14,140	\$98,980
Eight Units	\$15,330	\$122,640
Nine Units	\$16,500	\$148,500

2. An Affordable Housing Trust Fund shall be created and used to receive all deposits of in-lieu fees paid pursuant to Zoning & Subdivision Section 230.26. Interest shall accrue to the fund and no other funds shall be commingled.

3. Monies in the Affordable Housing Trust Fund shall be used only to fund projects which have a minimum of fifty (50) percent of the dwelling units affordable to very-low and low income households, with at least twenty (20) percent of the units available to very-low income households based on the Orange County median income, adjusted for appropriate family size, as published by the United States Department of Housing and Urban Development or established by the State of California, pursuant to Health and Safety Code Sections 50079.5 and 50093, or a successor statute.

4. Permitted uses of the Affordable Housing Trust Fund shall be at the Council's discretion and include for pre-development costs, land or air rights acquisition, rehabilitation, land write-downs, administrative costs, gap financing, and lowering the interest rate of construction loans or permanent financing.

5. Any units that obtain or benefit from the Affordable Housing Trust Funds shall maintain the affordability of the units for a minimum of sixty (60) years.

6. The Affordable Housing Fee shall be updated every two years beginning in January 2008.

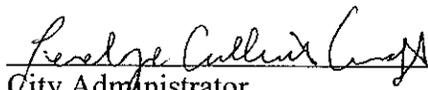
7. The Affordable Housing In-Lieu Fee shall be adjusted every January beginning 2008 by the Cost of Living Index.

8. The City Administrator or her designee shall administer the Affordable Housing Trust Fund and shall provide an annual report to City Council, which report shall include the beginning balance, ending balance, a description of the projects funded or to be funded each fiscal year. The first annual report shall be provided on or before December 1, 2007 for the 2007-08 fiscal year.

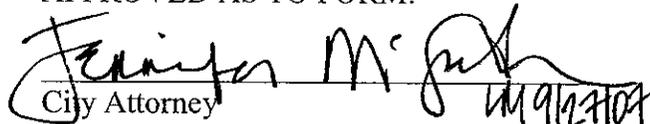
PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting thereof held on the \_\_\_\_\_ day of \_\_\_\_\_, 2007.

\_\_\_\_\_  
Mayor

REVIEWED AND APPROVED:

  
\_\_\_\_\_  
City Administrator

APPROVED AS TO FORM:

  
\_\_\_\_\_  
City Attorney

INITIATED AND APPROVED:

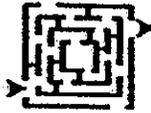
  
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Director of Planning

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# EXHIBIT A

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**KEYSER MARSTON ASSOCIATES**  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

JAN 26 2006  
City of Huntington Beach

**To:** Mary Beth Broeren, Principal Planner  
City of Huntington Beach

**From:** Kathleen Head  
Julie Romey

**Date:** January 23, 2006

**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
COMMERCIAL DEVELOPMENT

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
ROBERT J. WETMORE

LOS ANGELES  
ALVIN E. HOLLES, II  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
GARY D. SOO-HOO

SAN DIEGO  
GERALD M. TRIMBLE  
PAUL C. MARRA

At your request, Keyser Marston Associates, Inc. (KMA) prepared the following analysis pertaining to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). Specifically, KMA evaluated the Ordinance provision that allows developers of projects with nine or fewer units to pay a fee in lieu of providing affordable housing units within their project. The purpose of the following memorandum is to assist the City in establishing an in-lieu fee payment schedule to be applied to small projects.

**INCLUSIONARY HOUSING ORDINANCE REQUIREMENTS**

The Ordinance requirements that must be considered in establishing an in-lieu fee schedule are:

1. All for-sale and rental new construction housing projects with three or more units must make at least 10% of the units available to the following households:<sup>1</sup>
  - a. For-sale units must be made available to very-low, low or median income households.<sup>2</sup>
  - b. Rental units must be made available to very-low or low income households.

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<sup>1</sup> New residential projects are defined as an entirely new project or new units added to an existing project. Only new units are used to calculate the required number of affordable housing units.

<sup>2</sup> The median is defined as the Orange County median income (Median).

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2. The income and affordability covenants must remain in place for at least 60 years.
3. The affordable units must be:
  - a. Dispersed throughout the project;
  - b. Proportional in number, bedroom size and location to the market rate units;
  - c. Comparable with the market rate units in terms of the base design, appearance, materials and finish quality; and
  - d. Constructed and occupied concurrently with, or prior to, the construction and occupancy of market rate units.
4. For small projects, defined as projects including nine or fewer units, the inclusionary housing requirements may be satisfied by payment of an in-lieu fee established by resolution of the City Council and updated annually:<sup>3</sup>
  - a. The in-lieu fees will be deposited into a dedicated affordable housing account.
  - b. The account will only be used to provide funding assistance for construction or retention of affordable housing, and for reasonable administration costs.
5. Developers may choose to provide the affordable units at an off-site location as long as these units are under the full control of the Developer or other approved party. The following outlines the other conditions:
  - a. Off-site projects can be new construction or major physical rehabilitation of existing non-restricted units. At risk units and mobile homes may also be used to satisfy this requirement.
  - b. Off-site units must be constructed or rehabilitated prior to, or concurrently with, the primary project.

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<sup>3</sup> The fees are to be based upon the total number and size of the new residential units.

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- c. The sales prices or rents must be affordable to very-low, low or median income households pursuant to the terms of an Affordable Housing Agreement.

## **METHODOLOGY**

The vast majority of new residential projects within Huntington Beach are expected to be comprised of "for sale" projects. However, it is possible that rental development may also occur. Recognizing that the project economics vary between ownership and rental projects, and to avoid imposing onerous requirements on development, the KMA analysis evaluates both development types.

The first step in establishing an in-lieu fee is to quantify the financial impact associated with fulfilling the affordable housing requirements within market rate projects. That financial impact is equal to the difference between the market rate prices and the affordable price for the required income restricted units. This difference is known as the "affordability gap", and it is quantified using the following methodology:

1. The projected market rate sales prices and rents are compiled for prospective new residential projects.
2. The maximum affordable prices and rents are calculated based on the standards imposed by California Health and Safety Code (Code) Sections 50052.5 and Section 50053.
3. The difference between the market rate price and the defined affordable price represents the affordability gap associated with each income restricted unit required to be included in a market rate residential project.
4. The affordability gap per income restricted unit is multiplied times the number of units that must be income restricted. This represents the effective cost to a developer of fulfilling the inclusionary housing requirements on-site.
5. Since a fee is going to be paid in-lieu of providing any affordable units on-site, the effective cost is divided by the total square footage of the project. This represents the Base In-Lieu Fee amount.
6. The Ordinance limits the in-lieu fee option to projects with nine or fewer units. The in-lieu fee analysis recognizes that the inclusionary requirement has a greater impact on smaller projects than it does for a typically sized project.

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7. The Small Project in-lieu fee reflects the number of units in the project, which can range between three and nine units. To achieve this, it is necessary to create a Sliding Scale In-Lieu Fee amount that can be justified based on both the affordability gap and the feasibility analysis for the three- to nine-unit projects.

### Household Incomes

The Ordinance specifically identifies the Code Section 50093 income definition for moderate income households. However, the Ordinance limits the moderate income category to 100% of the Median instead of the 120% of Median maximum that is allowed by Section 50093.

The Ordinance also imposes very-low and low income restrictions. To account for these requirements, KMA assumed that Code Section 50105 would apply for very-low income households and that Code Section 50079.5 would apply for low income households.

The income information is published by the State of California Housing and Community Development Department (HCD) annually. The income ranges for Orange County in 2005 are:

Household Size	Very-Low Income (Section 50105)	Low Income (Section 50079.5)	Median Income (Section 50093)
1 Person	\$0 - \$26,900	\$26,900 - \$43,000	\$43,000 - \$53,000
2 Person	\$0 - \$30,700	\$30,700 - \$49,150	\$49,150 - \$60,550
3 Person	\$0 - \$34,550	\$34,550 - \$55,300	\$55,300 - \$68,150
4 Person	\$0 - \$38,400	\$38,400 - \$61,450	\$61,450 - \$75,700
5 Person	\$0 - \$41,450	\$41,450 - \$66,350	\$66,350 - \$81,750
6 Person	\$0 - \$44,550	\$44,550 - \$71,250	\$71,250 - \$87,800
7 Person	\$0 - \$47,600	\$47,600 - \$76,200	\$76,200 - \$93,850
8 Person	\$0 - \$50,700	\$50,700 - \$81,100	\$81,100 - \$99,900

### Affordable Housing Cost Calculation Methodology

The Ordinance does not identify a methodology for calculating affordable housing cost. However, historically the City has used the calculation methodologies imposed by the California Health and Safety Code. Section 50053 defines the calculation methodology for rental units and Section 50052.5 provides the methodology for ownership units.

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**AFFORDABILITY GAP ANALYSIS – OWNERSHIP PROJECTS (APPENDIX A)**

**Market Rate Sales Prices**

Hanleywood Market Intelligence information indicates that the following single-family detached and attached residential projects are currently selling or recently sold out in Huntington Beach.

	Year Built	Sold Out	Product Type	Number of Units
Seabridge Villas <sup>4</sup>	2003	2004	Condos	344
Bel Air	2004	---	Duplex	102
Peninsula Point	2004	---	Detached	13
Sea Cove	2004	---	Townhomes	106
<b>Total Units</b>				<b>565</b>

As shown in Appendix A – Table 1, the following summarizes the sales prices for each product type:

	Average Unit Size (Sf)	Average Sales Prices	Average \$/Sf
One-bedroom Units	811	\$348,500	\$430
Two-bedroom Units	1,418	\$567,000	\$400
Three-bedroom Units	2,484	\$923,800	\$367
<b>Averages</b>	<b>1,841</b>	<b>\$854,000</b>	<b>\$464</b>

**Pricing Assumptions**

The market rate sales prices are based on the following assumptions:

	Unit Size (Sf)	\$/Sf	Sales Prices
One-bedroom Units	800	\$430	\$343,600
Two-bedroom Units	1,400	\$400	\$559,700
Three-bedroom Units	2,500	\$367	\$918,600

<sup>4</sup> The project was built in the 1980's, and was converted from apartments to condominiums in 2003.

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### Affordable Housing Cost Calculation

The affordable housing cost calculations included in the Code Section 50052.5 definition are:

1. The household incomes are based on a benchmark household size equal to one person more than the number of bedrooms.
2. The Ordinance sets the maximum household income for moderate income units at 100% of the Median as published by HCD.<sup>5</sup>
3. Thirty-five percent (35%) of the defined household income is allocated to housing related expenses. These expenses are defined as mortgage debt service payments, property taxes, maintenance costs, insurance costs, home owner's association (HOA) dues and utility costs. The Huntington Beach Redevelopment Agency (Agency) has historically calculated these costs for the City using the following assumptions:
  - a. Typically, the Agency estimates HOA fees, inclusive of homeowner's insurance, based on the actual HOA fees for a project. Therefore, KMA estimated the HOA fees by calculating the weighted average of the project comparables in Appendix A – Table 1.
  - b. The maintenance costs are estimated at \$50 per month.
  - c. The 2005 utility allowances are provided by the Orange County Housing Authority and include gas, electricity, trash and water expenses. These costs are as follows:

One-bedroom Units	\$71
Two-bedroom Units	\$82
Three-bedroom Units	\$115

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- d. In accordance with the Agency's methodology, the property tax cost is estimated at 1.08% of the projected affordable price for the units.
4. The mortgage amount that can be supported by a Median income household is based on a 30-year fully amortizing mortgage at 6.5% interest rate.<sup>6</sup>

<sup>5</sup> It is reasonable to assume that given a choice, a developer will provide Median income ownership units rather than very-low or low income ownership units.

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Assuming the home buyer makes a down payment equal to 10% of the affordable purchase price, the affordable prices for the Median income units in 2005 are:

	One-Bedroom Units	Two-Bedroom Units	Three-Bedroom Units
Supportable Mortgage	\$188,500	\$217,800	\$242,800
Home Buyer Down Payment	20,900	24,100	27,000
Affordable Purchase Price	\$209,400	\$241,900	\$269,800

### Affordability Gap Calculations

The results of the affordability gap analysis for Median income households are presented in Appendix A – Table 3. The analysis identifies the gaps between the maximum affordable prices and the projected market rate sales prices for one-, two- and three-bedroom units; the results are summarized below:

	One- Bedroom Units	Two- Bedroom Units	Three- Bedroom Units
Market Sales Prices	\$343,600	\$559,700	\$918,600
(Less) Median Income Sales Prices	(209,400)	(241,900)	(269,800)
Affordability Gap	\$134,200	\$317,800	\$648,800

For the purposes of this analysis, KMA distributed the units as follows: 25% one bedrooms; 25% two bedrooms; and 50% three bedrooms. Based on these assumptions, the average affordability gap per Median income unit is estimated at \$437,400.

### Inclusionary Housing Obligation Cost

The Ordinance requires developers to impose income and affordability restrictions on at least 10% of the units in an ownership project. It is the KMA assumption that developers would typically minimize the financial gap by earmarking the units for Median income households, rather than for very-low or low income households. When the \$437,400 gap per affordable unit is distributed across all units in a project, the cost is equal to \$43,700 per unit ( $\$437,400 \times 10\% = \$43,700$ ).

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<sup>6</sup>The level annual debt service amount on a loan at 6.5% interest is equal to 7.58% multiplied times the original balance on the first trust deed mortgage.

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### **AFFORDABILITY GAP ANALYSIS – RENTAL PROJECTS (APPENDIX B)**

The methodology used in the KMA affordability gap analysis for rental developments can be described as follows:

1. KMA obtained rents for recently renovated market rate apartment complexes in Huntington Beach from [www.rentnet.com](http://www.rentnet.com).
2. KMA calculated the maximum affordable rents for low income households based on the household income statistics distributed by HCD and the affordability standards imposed by Code Section 50053.<sup>7</sup>
3. To maximize management efficiency, new apartment projects typically include at least 50 units.<sup>8</sup> For the purposes of this analysis, KMA created a 50-unit prototype apartment project, and estimated the affordability gap associated with the imposition of low income rents on 10% of the units. The affordability gap was then translated into the value reduction generated by the income and affordability restrictions imposed by the Ordinance.
4. The Ordinance does not allow projects with more than nine units to pay the in-lieu fee. However, given the dearth of small new apartment projects, it is necessary to premise the affordability gap analysis on a larger project. The gap derived from this analysis is then adjusted to reflect the characteristics associated with a project that would qualify for the in-lieu fee payment option.

The tables that detail the rental analysis are located in Appendix B, and are organized as follows:

Table 1:	Apartment Rental Rate Comparables
Table 2:	Affordable Rent for Low Income Households
Table 3:	Project Value – 100% Market Rate Units
Table 4:	Project Value – 100% Low Income Units
Table 5:	Affordability Gap Calculation – Rental Projects

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<sup>7</sup> KMA assumed that developers will choose to provide low income units rather than very-low income units.

<sup>8</sup> Small investors will sometimes develop a smaller project to hold over the long-term. However, in the current market place it is far more financially advantageous to build a small condominium project rather than a small apartment project.

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### Market Rate Rents

The vast majority of the recently constructed apartment projects in Huntington Beach have been subject to long-term income and affordability restrictions. Given the lack of new rental development, KMA gathered rent comparables for apartment buildings that have been renovated since 2000. The following illustrates the average asking rents for recently rehabilitated apartment units in Huntington Beach:

Unit Type	Unit Size (Sf)	Monthly Rents	\$/Sf
Studio Units	452	\$1,000	\$2.26
One-bedroom Units	723	\$1,200	\$1.67
Two-bedroom Units	988	\$1,500	\$1.50
Three-bedroom Units	1,364	\$1,700	\$1.27

Based on the current market and development trends, KMA assumed that a typical apartment project would be focused on one- and two-bedroom units. Assuming a 15% premium for new construction, the projected market rents for a new apartment project are as follows:

Unit Type	Unit Size (Sf)	\$/Sf	Monthly Rents
One-bedroom Units	750	\$1.92	\$1,443
Two-bedroom Units	1,000	\$1.73	\$1,729

### Affordable Housing Rent Calculations

The Ordinance requires 10% of the units in a rental development to be subject to very-low or low income and affordability restrictions. Historically, the City has applied the Code Section 50053 affordable housing cost definition to the inclusionary housing rental units. The calculations are presented in Appendix B – Table 2, and the results can be summarized as follows:

1. The household incomes are based on benchmark household sizes of two persons for one-bedroom units and three persons for two-bedroom units.
2. The household income is set at 60% of the Median for low income units.
3. 30% of the defined household income is allocated to housing related expenses.

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4. The maximum allowable rent must be adjusted to reflect the fact that the tenants will be required to pay for interior utility costs. Based on the 2005 allowances provided by the County of Orange Housing Authority, the utilities are estimated at \$32 per month for one-bedroom units and \$40 per month for two-bedroom units.<sup>9</sup>
5. The income and affordability covenants must be imposed over at least a 60-year term.

The maximum allowable 2005 low income rents under the defined income categories are as follows:

Unit Type	Monthly Rents
One-bedroom Units	\$877
Two-bedroom Units	\$982

As a practical matter, tenants will not be willing to pay rent that exceeds the prevailing rate in the market area. As such, it is important to estimate the rents that could be achieved by apartments that are not subject to income and affordability restrictions. As can be seen in the following table, the projected market rents exceed the maximum affordable rents by 39% to 43%. Thus, KMA has applied the defined affordable rents to our affordability gap analysis.

Unit Type	Market Rate	Low Income	Difference
One-bedroom Units	\$1,443	\$877	(39%)
Two-bedroom Units	\$1,729	\$982	(43%)

#### Affordability Gap Calculations

The affordability gap calculations are presented in Appendix B. Table 3 provides a pro forma analysis for a market rate project and Table 4 presents the findings for a low income project. The assumptions that were applied to each scenario are:

1. The market rate and income restricted rents are based on the assumptions discussed in the preceding section of this analysis.
2. The revenue analyses include \$15 per unit per month in miscellaneous income and a 5% vacancy and collection allowance.

<sup>9</sup> Rental utility allowances include gas and electricity expenses only.

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3. The general operating expenses are estimated at \$3,800 per unit and a \$250 per unit per year allowance is provided to fund an operating and capital reserve account.
4. The property tax expense estimates vary among the market rate and income restricted apartment projects. The expense cost is equal to the value supported by the project at a 1.1% property tax rate.
5. The net operating income (NOI) for both the market rate and income restricted units was capitalized at a 6.0% rate to estimate the relative values supported by market rate and low income units.

Based on the preceding assumptions, the values per unit are estimated as follows:

	NOI / Unit	Value / Unit
100% Market Rate	\$12,000	\$200,000
100% Low Income	\$5,700	\$95,000

Appendix B – Table 5 illustrates the affordability gaps per affordable unit, which are summarized as follows:

Market Rate Scenario Value/Unit	\$200,000
(Less) Low Income Value/Unit	(95,500)
Affordability Gap	\$105,000

### **Inclusionary Housing Obligation Cost**

The Ordinance requires developers to set-aside 10% of the units in a rental project for very-low or low income households. Based on the KMA analysis, the affordability gap is estimated at an average of \$105,000 per income restricted unit included in the project.

A developer that chooses to pay the in-lieu fee will not be providing any affordable units within their market rate project. To translate the weighted average affordability gap into an in-lieu fee payment per market rate unit, it is necessary to multiply \$105,000 times the 10% inclusionary housing requirement. This equates to \$10,500 per unit development in a market rate project.

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## 2005 MAXIMUM ALLOWABLE IN-LIEU FEES

The City's objective is to establish an in-lieu fee schedule that provides the City with adequate funds to produce the inclusionary units in similar locations and product types. However, the primary reason the Ordinance allows projects with nine or fewer units to pay an in-lieu fee is that the City recognizes that the imposition of income and affordability restrictions has a disproportionate impact on small projects. Therefore, it is necessary to establish an in-lieu fee schedule that does not render small projects economically infeasible.

In order to demonstrate the effective cost of fulfilling the Ordinance's production requirements, the KMA financial analysis is based on the characteristics embodied by larger projects than would be allowed to pay the in-lieu fee. This in turn provides the foundation for creating an in-lieu fee schedule that does not render small development financially infeasible:

1. The Base In-Lieu fee is calculated at the 100% estimated affordability gap for a typically sized project.
2. Based on the survey data presented in this report, the average ownership unit is estimated at 1,800 square feet in size, and the average rental unit is estimated at 875 square feet in size.
3. The Base In-Lieu fees that correlate to the financial analyses presented in the financial analysis (Base In-Lieu Fees) are as follows:

	Per Affordable Unit	Per Market Rate Unit	Per Sf of Building Area
Ownership Projects	\$437,400	\$43,700	\$24
Rental Projects	\$105,000	\$10,500	\$12

KMA prepared comparative pro forma analyses of 30-unit and nine-unit "for sale" projects to assist in understanding the financial characteristics of the different project sizes (Appendix C – Table 1). Based on current projections, the developer profit per unit is approximately 46% less for the nine-unit project than the projected profit for the 30-unit project. To equalize the impact of the Ordinance's production requirement for projects with 10 or more units, and the in-lieu fee option provided to projects with nine or fewer units, KMA reduced the Base In-Lieu Fee by 46%.

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The resulting fees for nine-unit projects are:

	Per Sf of Building Area
Ownership Projects	\$13
Rental Projects	\$7

It is important to recognize that the financial impacts grow at a disproportionate rate as the project size decreases. To reflect this, KMA created the following sliding scale for three- to nine-unit projects:<sup>10</sup>

Project Size	As a % of Small Project Base Fee
Three Units	57%
Four Units	64%
Five Units	71%
Six Units	79%
Seven Units	92%
Eight Units	93%
Nine Units	100%

The in-lieu fees that result from the sliding scale are:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

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<sup>10</sup> It is difficult to precisely project the financial impact generated at each project size. The recommended sliding scale percentages are based on the scales currently being applied in West Hollywood and Pasadena.

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### IN-LIEU FEE COMPARISON ANALYSIS

To assist the City in setting the in-lieu fee payment amount, KMA compiled information from other Southern California jurisdictions that have inclusionary housing requirements, and that allow in-lieu fees to be paid. It is important to note, however, that the majority of the surveyed cities calculate the in-lieu fee on a case-by-case basis. In addition, many cities require the City Council to provide discretionary approval for a fee to be paid in-lieu of producing the affordable units.

For the surveyed cities that have established fee schedules, the in-lieu fee is calculated on one of the following bases:

1. Per square foot of building area included in the project;
2. Per unit developed in a market rate project; or
3. As a percentage of project or construction valuation.

The in-lieu fees charged in the surveyed cities are presented in the following tables:

Per Square Foot of Building Area	
Jurisdiction	In-Lieu Fee Amount
Chino <sup>11</sup>	\$2.72
Duarte	\$6.50
Pasadena <sup>12</sup>	
Rental Projects	\$12 - \$22
Ownership Projects	\$5 - \$41
San Diego <sup>13</sup>	\$1.25 - \$2.50
Santa Monica <sup>14</sup>	\$22.33 - \$26.08
West Hollywood <sup>15</sup>	\$6.70 - \$13.40

<sup>11</sup> The in-lieu fee amount is only applicable to projects developed in the Preserve.

<sup>12</sup> Projects with fewer than 10 units are exempt from the Program.

<sup>13</sup> The lower fee is charged for projects with fewer than 10 units.

<sup>14</sup> The lower fee is charged for apartment projects and the higher fee is charged for ownership projects.

<sup>15</sup> An in-lieu fee can only be paid for projects with 20 or fewer units. The fee varies by number of units in the project.

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Per Unit in a Market Rate Project	
Jurisdiction	In-Lieu Fee Amount
Agoura Hills <sup>16</sup>	\$4,541 - \$6,277
Laguna Beach <sup>17</sup>	\$7,047
Coronado	\$7,000

As a % of Project / Construction Valuation	
Jurisdiction	In-Lieu Fee Amount
San Clemente	1.00%
San Juan Capistrano	1.00%

The in-lieu fees being charged by the surveyed cities vary widely. Moreover, since many cities negotiate the in-lieu fee on a case-by-case basis, it is very difficult to identify the "typical" in-lieu fee being charged by cities that are implementing inclusionary housing programs. However, based on the available information, the maximum supportable fee in Huntington Beach is within the range of the fees currently being charged by other Southern California cities.

#### IN-LIEU FEE RECOMMENDATIONS

The establishment of an in-lieu fee amount requires several subjective judgments and decisions. To provide a framework for our recommendations, KMA considered the following factors:

1. The City's primary objective is to attract sufficient housing to fulfill the affordable housing production requirements imposed by Code Section 33413, and to eliminate the unmet need for affordable housing identified in the Regional Housing Needs Assessment (RHNA).
2. An inclusionary housing production requirement has a greater financial impact on small projects than it does on large projects. To mitigate this, the provision of an in-lieu fee option is an efficient method of enforcing the Ordinance without stopping the development of smaller projects.

<sup>16</sup> The lower fee is charged for apartment projects and the higher fee is charged for ownership projects.

<sup>17</sup> The fee is set at \$46,978 per affordable lot or unit. 15% of the units are required to be affordable.

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The preceding analysis indicates that the affordability gap is \$24 per square foot for ownership units and \$12 per square foot for rental projects. However, it is the KMA conclusion that fees of the this magnitude are likely to render small projects infeasible. To balance the City's objective to generate revenues to pursue affordable housing activities, against the need to ensure that the in-lieu fee does not result in a constraint to development, KMA recommends that the in-lieu fee schedule be set as follows:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

KMA also offers the following recommendations:

1. The City should create a mechanism for re-evaluating the in-lieu fee amount on a periodic basis. KMA suggests that the re-evaluation be performed at least every two years so that the in-lieu fee can keep pace with changes in the market place.
2. The Ordinance should be amended to provide the following clarifications:
  - a. The Ordinance should make it clear that developers can fulfill the inclusionary requirements with Median income units for ownership projects and low income units for rental projects;
  - b. The Ordinance should mandate that the affordable housing cost be calculated in accordance with the Code Section 50052.5 standards for ownership units and Code Section 50053 standards for rental units<sup>18</sup>; and
  - c. The Ordinance should only allow new development and substantial rehabilitation, as defined by the Code Section 33413 affordable housing production requirements, to fulfill the off-site inclusionary housing option allowed by the Ordinance.

<sup>18</sup> The City has set 100% of the Median as the maximum income for the moderate income "for sale" units. This standard should replace the 110% of the Median applied in the Code Section 50052.5 affordable housing cost calculation.

**APPENDIX A  
OWNERSHIP ANALYSIS**

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APPENDIX A - TABLE 1

NEW CONSTRUCTION SALES COMPARABLES  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA

Project/Address	Year Built / Sold Out	Type HOA Fee	Floorplans			Base Price	\$/Sf	
			Unit Type	# of Units	Unit Size (Sf)			
I. Seabridge Villas Beach Blvd & Adams	2003	Condo	One-bedroom	72	485	\$230,000	\$474	
			2004	\$350	One-bedroom	19	760	310,000
				One-bedroom	83	765	300,000	392
				One-bedroom	46	885	360,000	407
				Two-bedrooms	24	970	335,000	345
				Two-bedrooms	59	1,095	405,000	370
				Two-bedrooms	8	1,100	340,000	309
				Two-bedrooms	4	1,240	415,000	335
				Two-bedrooms	29	1,285	470,000	366
				<b>Totals/Averages</b>	<b>344</b>	<b>850</b>	<b>\$330,974</b>	<b>\$389</b>
II. Bel Air Gothard & Garfield	2004	Duplex \$276	Three-bedrooms	28	2,484	\$910,000	\$366	
			Three-bedrooms	25	2,497	898,820	360	
			Three-bedrooms	26	2,555	920,000	360	
			Three-bedrooms	23	2,636	907,855	344	
			<b>Totals/Averages</b>	<b>102</b>	<b>2,539</b>	<b>\$909,365</b>	<b>\$358</b>	
III. Peninsula Point Main Street & Clay	2004	SFD \$95	Three-bedrooms	5	1,990	\$869,900	\$437	
			Three-bedrooms	7	2,174	899,900	414	
			Three-bedrooms	1	2,260	919,900	407	
			<b>Totals/Averages</b>	<b>13</b>	<b>2,110</b>	<b>\$889,900</b>	<b>\$422</b>	
IV. Sea Cove PCH & Goldenwest	2004	Townhomes \$405	One-bedroom	26	1,770	\$838,990	\$474	
			Two-bedrooms	19	1,620	829,990	512	
			Two-bedrooms	21	1,845	917,990	498	
			Two-bedrooms	19	2,690	987,990	367	
			Three-bedrooms	21	2,450	1,014,990	414	
			<b>Totals/Averages</b>	<b>106</b>	<b>2,058</b>	<b>\$914,603</b>	<b>\$445</b>	
V. Attached Units / Large Projects				<b>552</b>	<b>1,834</b>	<b>\$853,140</b>	<b>\$465</b>	
	One-bedroom			246	811	\$348,470	\$430	
	Two-bedrooms			183	1,418	\$567,019	\$400	
	Three-bedrooms			123	2,524	\$927,399	\$367	
VI. Detached Units / Small Project				<b>13</b>	<b>2,110</b>	<b>\$889,900</b>	<b>\$422</b>	
	Three-bedroom Units			13	2,110	\$889,900	\$422	
VII. All Units				<b>565</b>	<b>1,841</b>	<b>\$853,986</b>	<b>\$464</b>	
	One-bedroom			246	811	\$348,470	\$430	
	Two-bedrooms			183	1,418	\$567,019	\$400	
	Three-bedrooms			136	2,484	\$923,814	\$367	

Source: Hanleywood Market Intelligence for the City of Huntington Beach.

APPENDIX A - TABLE 2

AFFORDABLE HOUSING PRICES  
 FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

	One-bedroom Units	Two-bedroom Units	Three-bedroom Units
I. Household Income @ 100% of County Median <sup>1</sup>	\$60,550	\$68,150	\$75,700
II. <u>Income Available for Mortgage Debt Service</u>			
Income Allotted for Housing @ 35% of Income <sup>2</sup>	\$21,200	\$23,900	\$26,500
(Less) Ongoing Expenses			
HOA, Insurance, Maintenance <sup>3</sup>	(3,792)	(3,792)	(3,792)
Utilities <sup>4</sup>	(852)	(984)	(1,380)
Property Taxes @ 1.08% of Affordable Price <sup>3</sup>	(2,262)	(2,603)	(2,914)
<b>Income Available for Mortgage Debt Service</b>	<b>\$14,294</b>	<b>\$16,521</b>	<b>\$18,414</b>
III. Maximum Mortgage @ 6.5% Interest Rate <sup>5</sup>	\$188,500	\$217,800	\$242,800
IV. Home Buyer Down Payment @ 10% Affordable Price <sup>3</sup>	\$20,900	\$24,100	\$27,000
<b>V. Maximum Affordable Home Price</b>	<b>\$209,400</b>	<b>\$241,900</b>	<b>\$269,800</b>

<sup>1</sup> Based on the 2005 Orange County median incomes provided by HCD. Per the requirements imposed by California Health and Safety Code Section 50052.5, the household size is set at three persons for two-bedroom units and four persons for three-bedroom units. The Ordinance limits the moderate income units to households earning 100% of the median.

<sup>2</sup> Based on California Health and Safety Code Section 50052.5.

<sup>3</sup> Based on the Redevelopment Agency's assumptions. The Agency calculates the affordable prices for the City.

<sup>4</sup> Based on the current Orange County utility allowances. Includes gas, electricity, water and trash.

<sup>5</sup> Based on the current 30-year fixed mortgage rate.

**APPENDIX A - TABLE 3**

**AFFORDABILITY GAP CALCULATION - OWNERSHIP PROJECTS  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	<u>One-bedroom Units</u>	<u>Two-bedroom Units</u>	<u>Three-bedroom Units</u>
<b>I. <u>Affordability Gap Calculation</u></b>			
Market Sales Prices <sup>1</sup>	\$343,600	\$559,700	\$918,600
(Less) Maximum Affordable Sales Prices <sup>2</sup>	(209,400)	(241,900)	(269,800)
<b>Affordability Gap / Affordable Unit</b>	<b>\$134,200</b>	<b>\$317,800</b>	<b>\$648,800</b>
<b>II. <u>Average Affordability Gap Calculation</u></b>		<u>Affordability Gap</u>	<u>Unit Type Distribution <sup>3</sup></u>
One-bedroom Units		\$134,200	25%
Two-bedroom Units		\$317,800	25%
Three-bedroom Units		\$648,800	50%
<b>Average Affordability Gap / Affordable Unit</b>			<b>\$437,400</b>
<b>III. <u>Affordability Gap / Total Unit Calculation</u></b>			
Average Affordability Gap / Affordable Unit			\$437,400
Affordable Units as a % of Total Units <sup>4</sup>			10%
<b>Affordability Gap / Total Unit</b>			<b>\$43,700</b>

<sup>1</sup> Market rate prices are based on the following: 800 sf one-bedroom units @ \$430/sf, 1,400 sf two-bedroom units @ \$400/sf, and 2,500 sf three-bedroom units @ \$367/sf.

<sup>2</sup> See APPENDIX A - TABLE 2.

<sup>3</sup> KMA estimate.

<sup>4</sup> Based on the City Ordinance.

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**APPENDIX B  
RENTAL ANALYSIS**

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APPENDIX B - TABLE 1

APARTMENT RENTAL RATE COMPARABLES  
 N-LIEU FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

Name & Address	Zip Code	Year Built / Renovated	Total Units	Unit Type	Base Rent	SF / Unit	\$ / SF
1 La Quinta Hermosa 16211 Parkside Lane	92647	1971 2000	94	1/1	\$1,155	725	\$1.59
				2/1	1,405	940	\$1.49
				2/1	1,415	945	\$1.50
				2/1	1,530	1,110	\$1.38
2 Las Brisas/Vida Del Mar Apartments 16602 and 16552 Sell Circle	92649	1976 2000	62	1/1	1,170	800	\$1.46
				2/2	1,450	1,200	\$1.21
3 Archstone Huntington Beach 8945 Riverbend Drive	92647	1986 2000	152	1/1	1,300	725	\$1.79
				2/1	1,650	925	\$1.78
4 Huntington Breakers 21270 Beach Blvd	92648	1985 2000	324	0/1	1,050	450	\$2.33
				1/1	1,305	635	\$2.06
				1/1	1,355	625	\$2.17
				2/2	1,615	925	\$1.75
				2/2	1,655	900	\$1.84
5 Los Patos Apartments 17172 Bolsa Chica	92649	1973 2004	71	0/1	1,000	400	\$2.50
				1/1	1,200	700	\$1.71
				2/1	1,500	1,000	\$1.50
6 Maddox Apartments 7051 Maddox Dr	92647	1971 2002	56	1/1	1,045	750	\$1.39
				2/1	1,300	980	\$1.33
				2/2	1,400	1,050	\$1.33
7 Ocean Breeze Villas 6401 Warner Ave	92647	1975 2000	288	1/1	1,125	718	\$1.57
				1/1	1,150	800	\$1.44
				2/1	1,225	850	\$1.44
				2/1	1,275	900	\$1.42
				2/2	1,450	1,100	\$1.32
				3/2	1,700	1,288	\$1.32
8 Avalon At Pacific Bay 6700 Warner Ave	92647	1970 1999	304	1/1	1,195	750	\$1.59
				2/1	1,540	1,000	\$1.54
				2/2	1,495	1,000	\$1.50
9 Huntington Creek 8211 San Angelo Dr	92647	1978 2001	194	0/1	990	505	\$1.96
				1/1	1,190	729	\$1.63
				2/1.5	1,510	1,075	\$1.40

	Sample Size	Average Unit Size	Min. Rent	Max. Rent	Avg. Rent	Avg. \$ / SF
Studios	3	452	\$1,000	\$1,100	\$1,000	\$2.26
1-Bedroom Units	11	723	\$1,000	\$1,400	\$1,200	\$1.67
2-Bedroom Units	17	988	\$1,200	\$1,700	\$1,500	\$1.50
3-Bedroom Units	2	1,364	\$1,700	\$1,800	\$1,700	\$1.27

Source: RentNet.com, 07/06/05.

APPENDIX B - TABLE 2

**AFFORDABLE RENTS FOR LOW INCOME HOUSEHOLDS**  
**FE FEE ANALYSIS**  
**HUNTINGTON BEACH, CALIFORNIA**

		One-Bedroom Units <sup>1</sup>	Two-Bedrooms Units <sup>1</sup>
<b>I. Low Income</b>			
Income @ 60% County Median	2	\$36,340	\$40,880
% of Income Allotted to Housing	3	30.0%	30.0%
Monthly Housing Expenses		\$909	\$1,022
(Less) Utilities Expenses <sup>4</sup>		(32)	(40)
<b>Monthly Rent</b>		<b>\$877</b>	<b>\$982</b>

<sup>1</sup> Based on the 2005 Orange County median incomes provided by HCD. Per the requirements imposed by California Health and Safety Code Section 50053, the household size is set at two persons for one-bedroom units and three persons for two-bedroom units.

<sup>2</sup> Based on the 2005 Orange County median incomes provided by HCD and the requirements imposed by California Health and Safety Code Section 50053.

<sup>3</sup> Based on the City Ordinance.

<sup>4</sup> Based on the current Orange County utility allowances. Includes gas and electricity.

**APPENDIX B - TABLE 3**

**PROJECT VALUE - 100% MARKET RATE UNITS  
RENTAL PROTOTYPE  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

<b>I. Rental Income</b>			
One-Bedroom <sup>1</sup>	25 Units	\$1,443 /Unit	\$433,000
Two-Bedrooms <sup>2</sup>	25 Units	\$1,729 /Unit	518,800
Miscellaneous Income	50 Units	\$15.00 /Unit	9,000
<b>Gross Income</b>			<b>\$960,800</b>
(Less) Vacancy Allowance	5.0% of Gross Income		(48,000)
<b>Effective Gross Income</b>			<b>\$912,800</b>
<b>II. Operating Expenses</b>			
General Operating Expenses	50 Units	\$3,800 /Unit	(\$190,000)
Property Taxes <sup>3</sup>	50 Units	\$2,201 /Unit	(110,000)
Operating & Capital Reserves	50 Units	\$250 /Unit	(12,500)
<b>Total Operating Expenses</b>			<b>(\$312,500)</b>
<b>III. Net Operating Income</b>			<b>\$600,300</b>
Per Unit			\$12,000
<b>IV. Project Value <sup>4</sup></b>			<b>\$10,005,000</b>
Per Unit			\$200,000

<sup>1</sup> Assumes one-bedroom units at 750 square feet and rent at \$1.92 /sf.  
<sup>2</sup> Assumes two-bedroom units at 1,000 square feet and rent at \$1.73 /sf.  
<sup>3</sup> The value is projected based on a 6.0% capitalization rate. The property tax rate is set at 1.10% of value.  
<sup>4</sup> The value is projected based on a 6.0% capitalization rate.

APPENDIX B - TABLE 4

PROJECT VALUE - 100% LOW INCOME UNITS  
 TOTAL PROTOTYPE  
 IN-LIEU FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

<b>I. Rental Income</b>				
One-Bedroom <sup>1</sup>	25 Units	\$877 /Unit		\$263,100
Two-Bedrooms <sup>1</sup>	25 Units	\$982 /Unit		294,600
Miscellaneous Income	50 Units	\$15.00 /Unit		<u>9,000</u>
Gross Income				\$566,700
(Less) Vacancy Allowance	5.0% of Gross Income			<u>(28,300)</u>
Effective Gross Income				\$538,400
<b>II. Operating Expenses</b>				
General Operating Expenses	50 Units	\$3,800 /Unit		(\$190,000)
Property Taxes <sup>2</sup>	50 Units	\$1,041 /Unit		(52,000)
Operating & Capital Reserves	50 Units	\$250 /Unit		<u>(12,500)</u>
Total Operating Expenses				(\$254,500)
<b>III. Net Operating Income</b>				\$283,900
Per Unit				\$5,700
<b>IV. Project Value <sup>3</sup></b>				\$4,732,000
Per Unit				\$95,000

<sup>1</sup> See APPENDIX B - TABLE 2.

<sup>2</sup> The value is projected based on a 6.0% capitalization rate. The property tax rate is set at 1.10% of value.

<sup>3</sup> The value is projected based on a 6.0% capitalization rate.

APPENDIX B - TABLE 5

**AFFORDABILITY GAP CALCULATION - RENTAL PROJECTS  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	<u>Net Operating Income</u>	<u>Project Value</u>	<u>Affordability Gap</u>
<b>I. <u>Affordability Gap</u></b>			
<u>Low Income Gap / Unit</u>			
Market Rate Scenario <sup>1</sup>	\$12,000	\$200,000	
Low Income Scenario <sup>2</sup>	\$5,700	\$95,000	
Affordability Gap / Unit			\$105,000
<b>II. <u>Affordability Gap / Total Unit Calculation</u></b>			
Affordability Gap / Affordable Unit			\$105,000
Affordable Units as a % of Total Units			10%
<b>Affordability Gap / Total Unit</b>			<b>\$10,500</b>

<sup>1</sup> See APPENDIX B - TABLE 3.  
<sup>2</sup> See APPENDIX B - TABLE 4.

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**APPENDIX C  
IN-LIEU FEE CALCULATION**

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**APPENDIX C - TABLE 1**

**SMALL PROJECT ANALYSIS  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

**Prototype Project**

<b>I. Projected Sales Revenues <sup>1</sup></b>	<b># of Units</b>	<b>Sales Prices</b>	<b>Total Revenue</b>
One-bedroom Units	5	\$343,600	\$1,718,000
Two-bedroom Units	5	559,700	2,799,000
Three-bedroom Units	20	918,600	18,372,000
<b>Total Project Revenue</b>	<b>30</b>	<b>\$762,967</b>	<b>\$22,889,000</b>
<b>II. Land + Construction Costs</b>	<b>\$649,000 /Unit</b>		<b>\$19,456,000</b>
<b>III. Developer Profit</b>			
Total	15% Sales Revenues		\$3,433,000
Per Unit			\$114,000

**Small Project**

<b>I. Projected Sales Revenues <sup>1</sup></b>	<b># of Units</b>	<b>Sales Prices</b>	<b>Total Revenue</b>
One-bedroom Units	2	\$343,600	\$687,000
Two-bedroom Units	2	559,700	1,119,000
Three-bedroom Units	5	918,600	4,593,000
<b>Total Project Revenue</b>	<b>9</b>	<b>\$711,000</b>	<b>\$6,399,000</b>
<b>II. Land + Construction Costs</b>	<b>\$649,000 /Unit</b>		<b>\$5,841,000</b>
<b>III. Developer Profit</b>			
Total			\$558,000
Profit Per Unit			\$62,000

<b>Profit Differential Per Unit</b>	<b>\$52,000</b>
<b>% Difference</b>	<b>46%</b>

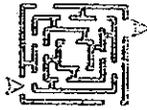
<sup>1</sup> See APPENDIX A - TABLE 3.  
<sup>2</sup> Based on stabilized return on total investment.

APPENDIX C - TABLE 2

2005 IN-LIEU FEE SUMMARY  
 IN-LIEU FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

I. <u>Base In-lieu Fee</u>	<u>/Total Unit</u>	<u>/Sf GBA</u>
2005 In-Lieu Fee - Ownership Projects	\$43,700 <sup>1</sup>	\$24 <sup>2</sup>
2005 In-Lieu Fee - Rental Projects	\$10,500 <sup>3</sup>	\$12 <sup>4</sup>
<b>II. <u>Base In-lieu Fee for Small Projects</u></b>		
	<u>Ownership</u>	<u>Rental</u>
Base In-lieu Fee	\$24	\$12
Loss in Profit <sup>5</sup>	46%	46%
Base In-lieu Fee for Small Projects	\$13	\$7
<b>III. <u>Sliding Scale as a % of the Base In-lieu Fee</u></b>		
	<u>Ownership</u>	<u>Rental</u>
Three Unit Projects	57%	57%
Four Unit Projects	64%	64%
Five Unit Projects	71%	71%
Six Unit Projects	79%	79%
Seven Unit Projects	92%	92%
Eight Unit Projects	93%	93%
Nine Unit Projects	100%	100%
<b>IV. <u>2005 Sliding Scale In-lieu Fee</u></b>		
	<u>Ownership</u>	<u>Rental</u>
Three Unit Projects	\$7	\$4
Four Unit Projects	\$8	\$4
Five Unit Projects	\$9	\$5
Six Unit Projects	\$10	\$6
Seven Unit Projects	\$12	\$6
Eight Unit Projects	\$12	\$7
Nine Unit Projects	\$13	\$7

<sup>1</sup> See APPENDIX A - TABLE 3.  
<sup>2</sup> Assumes that the units average 1,800 square feet in size.  
<sup>3</sup> See APPENDIX B - TABLE 5.  
<sup>4</sup> Assumes that the units average 875 square feet in size.  
<sup>5</sup> See APPENDIX C - TABLE 1.



**KEYSER MARSTON ASSOCIATES**  
 ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

**To:** Mary Beth Broeren, Principal Planner  
 City of Huntington Beach

**From:** Kathleen Head

**Date:** April 9, 2007

**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee Update

ADVISORS IN:  
 REAL ESTATE  
 REDEVELOPMENT  
 AFFORDABLE HOUSING  
 ECONOMIC DEVELOPMENT

SAN FRANCISCO  
 A. JERRY KEYSER  
 TIMOTHY C. KELLY  
 KATE EARLE FUNK  
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 ROBERT J. WETMORE

LOS ANGELES  
 CALVIN E. HOLLIS, II  
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 JAMES A. RABE  
 PAUL C. ANDERSON  
 GREGORY D. SOO-HOO  
 KEVIN E. ENGSTROM  
 JULIE L. ROMNEY

SAN DIEGO  
 GERALD M. TRIMBLE  
 PAUL C. MARRA

In a memorandum dated January 23, 2006, Keyser Marston Associates, Inc. (KMA) recommended an in-lieu fee schedule for residential projects with nine or fewer units that are subject to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). The recommended schedule is presented in the following table:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

The KMA analysis also recommended that the City create a mechanism for re-evaluating the in-lieu fee amount on a periodic basis. The periodic adjustment is intended to keep the fee amount in sync with changes in new housing prices.

It is the KMA recommendation that the City apply an adjustment factor tied to the annual change in new home prices in Orange County. This information is published by the Real Estate Research Council of Southern California in a quarterly report titled *Real Estate and Construction Report*.<sup>1</sup>

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<sup>1</sup> The information source is Data Quick Information Systems. The original data are taken from county records and the prices are calculated from the documentary transfer tax. Adjustments are made to remove very high-end and very low-end sales.

**To:** Mary Beth Broeren, City of Huntington Beach  
**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee Update

April 9, 2007  
Page 2

KMA used the fourth quarter reports for 2006 and 2005 to derive the percentage change in Orange County sales prices for new homes. That information indicates that the median price in December 2005 was \$707,500 and the median price in December 2006 was \$792,000. This represents an 11.94% increase. If this increase is applied to the fee schedule recommended by KMA in January 2006, the resulting schedule for 2007 is as follows:

2007 In-Lieu Fee Schedule		
Project Size	Ownership	Rental
Three Units	\$8.28	\$4.48
Four Units	\$9.29	\$5.04
Five Units	\$10.41	\$5.60
Six Units	\$11.42	\$6.16
Seven Units	\$13.32	\$7.16
Eight Units	\$13.54	\$7.28
Nine Units	\$14.55	\$7.84

**APPENDIX C - TABLE 2**

**2005 IN-LIEU FEE SUMMARY  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	<u>Total Fee Per Unit</u>
<b>I. <u>Base In-lieu Fee</u></b>	
2005 In-Lieu Fee - Ownership Projects	\$43,700 <sup>1</sup>
2005 In-Lieu Fee - Rental Projects	\$10,500 <sup>2</sup>
<b>Average Fee Per Unit</b>	<b>\$27,100</b>
<b>II. <u>Base In-lieu Fee for Small Projects</u></b>	
Base In-lieu Fee	\$27,100
Loss in Profit <sup>3</sup>	46%
<b>Base In-lieu Fee for Small Projects</b>	<b>\$14,739</b>
<b>III. <u>Sliding Scale as a % of the Base In-lieu Fee</u></b>	
Three Unit Projects	57%
Four Unit Projects	64%
Five Unit Projects	71%
Six Unit Projects	79%
Seven Unit Projects	92%
Eight Unit Projects	93%
Nine Unit Projects	100%

**IV. 2005 Sliding Scale In-lieu Fee**

Three Unit Projects	\$8,420
Four Unit Projects	\$9,450
Five Unit Projects	\$10,510
Six Unit Projects	\$11,580
Seven Unit Projects	\$13,530
Eight Unit Projects	\$13,690
Nine Unit Projects	\$14,740

<b>2007 Update</b>	
	11.94%
	\$9,430
	\$10,580
	\$11,760
	\$12,960
	\$15,150
	\$15,320
	\$16,500

<sup>1</sup> See APPENDIX A - TABLE 3.  
<sup>2</sup> See APPENDIX B - TABLE 5.  
<sup>3</sup> See APPENDIX C - TABLE 1.

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# KEYSER MARSTON ASSOCIATES

ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

## MEMORANDUM

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

**To:** Mary Beth Broeren, Principal Planner  
City of Huntington Beach

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
ROBERT J. WETMORE

**From:** Kathleen Head

**Date:** October 1, 2007

**Subject:** Inclusionary Housing In-Lieu Fee: Calculation Methodology

LOS ANGELES  
CALVIN E. HOLLIS, II  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
GREGORY D. SOO-HOO

In a memorandum dated January 23, 2006 Keyser Marston Associates, Inc. (KMA) recommended in-lieu fee schedules for residential projects with nine or fewer units that are subject to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). In a memorandum dated April 9, 2007, KMA updated the recommended fee schedules to reflect the percentage change in the median price for new homes in Orange County exhibited between December 2005 and December 2006. The fee schedule recommended in the April 9, 2007 analysis is presented in the following table:

SAN DIEGO  
GERALD M. TRIMBLE  
PAUL C. MARRA

2007 In-Lieu Fee Schedule - Fee Calculated Per Square Foot of Building Area in the Project		
Base Fee / Sq. Ft.	\$27	\$13
<u>Project Size</u>	<u>Ownership</u>	<u>Rental</u>
Three Units	\$8.28	\$4.48
Four Units	\$9.29	\$5.04
Five Units	\$10.41	\$5.60
Six Units	\$11.42	\$6.16
Seven Units	\$13.32	\$7.16
Eight Units	\$13.54	\$7.28
Nine Units	\$14.55	\$7.84

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**PROPOSED MODIFICATIONS TO THE CALCULATION METHODOLOGY**

In a workshop held on July 30, 2007, the Ad Hoc City Council Committee on Affordable Housing In-Lieu Fees (In-Lieu Fee Committee) requested that the in-lieu fee calculation methodology be modified as follows:

1. The in-lieu fee should be calculated based on the number of units in the project rather than on the building area in the project.
2. The in-lieu fee should not vary between ownership and rental projects.
3. The base year in-lieu fee should be set at the average of the fee amount derived for ownership and rental projects.

The in-lieu fee schedule identified in the January 2006 KMA analysis was based on a scale with uneven increases unit-by-unit between three and nine units. At the City's request, the currently recommended fee schedule increases the fee on a pro rata basis.

The in-lieu fees calculations resulting from the Ad Hoc City Council Committee and City staff direction are provided in Table 1, and can be summarized as follows:

2007 In-Lieu Fee Schedule - Fee Calculated Per Unit in the Project		
Base Fee / Unit	\$30,337	
<u>Project Size</u>	<u>Fee / Unit</u>	<u>Total Fee</u>
Three Units	\$9,430	\$28,290
Four Units	\$10,600	\$42,400
Five Units	\$11,780	\$58,900
Six Units	\$12,960	\$77,760
Seven Units	\$14,140	\$98,980
Eight Units	\$15,330	\$122,640
Nine Units	\$16,500	\$148,500

The KMA analysis recommended that the City adjust the fee amount annually based on the annual change in new home prices in Orange County. This information is published by the Real Estate Research Council of Southern California in a quarterly report titled *Real Estate and Construction Report*.<sup>1</sup> It is the KMA assumption that this adjustment methodology will be included in the in-lieu fee regulations.

<sup>1</sup> The information source is Data Quick Information Systems. The original data are taken from county records and the prices are calculated from the documentary transfer tax. Adjustments are made to remove very high-end and very low-end sales.

**To:** Mary Beth Broeren, City of Huntington Beach                      October 1, 2007  
**Subject:** Inclusionary Housing In-Lieu Fee: Calculation Methodology                      Page 3

## **FINDINGS**

The City's primary objectives in providing an in-lieu fee option in the Ordinance is to establish an fee schedule that meets the following criteria:

1. The funds should be sufficient to allow the City to produce the number of inclusionary units that would have been required within the project that has been allowed to pay the in-lieu fee.
2. The in-lieu fee schedule should be set at amounts that do not render small projects economically infeasible.

It should be recognized that the currently proposed in-lieu fee schedule will be insufficient to produce the inclusionary units in similar locations and product types to the market rate ownership units being developed. However, the establishment of an in-lieu fee schedule requires the City to make several subjective judgments and decisions. To that end, KMA considered the following factors:

1. The primary purpose of the Ordinance is to attract good quality affordable housing units to the community. There is no stated objective to provide low and moderate income households with luxury housing units.
2. New ownership housing units in Huntington Beach are commonly selling for prices in excess of \$1.0 million. It may be considered financially inefficient to provide affordable housing for moderate income households at that market price range.
3. The potential exists to create a diverse mix of affordable housing on a more cost efficient basis in rental units and/or in infill locations. As such, the currently proposed in-lieu fee schedule may provide sufficient revenues to produce the requisite number of inclusionary units in off-site locations.

It is the KMA opinion that the currently proposed in-lieu fee schedule balances the objectives to attract affordable housing units while limiting the in-lieu fee to amounts that can be supported by small projects. If the City wishes to allow projects with more than nine units to pay a fee in lieu of producing the required affordable units, it would be appropriate to use the Base Fee identified in the schedule to calculate the applicable in-lieu fee amount.

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**TABLE 1**

**2005 IN-LIEU FEE SUMMARY  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	<u>Average Unit Size (Sq. Ft.)</u>	<u>Fee / Sq. Ft. Building Area</u>	<u>Fee / Unit</u>
<b>I. <u>Base In-lieu Fee (2005)</u> <sup>1</sup></b>			
Ownership Projects	1,800	\$24	\$43,700
Rental Projects	875	\$12	\$10,500
<b>Average Fee Per Unit</b>			<b>\$27,100</b>
<b>II. <u>Base In-lieu Fee for Small Projects</u></b>			
Base In-lieu Fee	\$27,100		
Loss in Profit <sup>1</sup>	46%		
<b>Base In-lieu Fee for Small Projects</b>	<b>\$14,739</b>		
<b>III. <u>Sliding Scale as a % of the Base In-lieu Fee</u> <sup>2</sup></b>			
3 Unit Projects	57%		
4 Unit Projects	64%		
5 Unit Projects	71%		
6 Unit Projects	79%		
7 Unit Projects	86%		
8 Unit Projects	93%		
9 Unit Projects	100%		
<b>IV. <u>Sliding Scale In-lieu Fee</u></b>			
		<u>Fee / Unit</u>	<u>Total Fee</u>
	<u>2005 Data</u>	<u>2007 Update</u>	
		11.94% <sup>3</sup>	
3 Unit Projects	\$8,420	\$9,430	\$28,290
4 Unit Projects	\$9,470	\$10,600	\$42,400
5 Unit Projects	\$10,520	\$11,780	\$58,900
6 Unit Projects	\$11,580	\$12,960	\$77,760
7 Unit Projects	\$12,630	\$14,140	\$98,980
8 Unit Projects	\$13,690	\$15,330	\$122,640
9 Unit Projects	\$14,740	\$16,500	\$148,500

<sup>1</sup> Based on KMA analysis dated January 23, 2006.

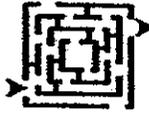
<sup>2</sup> The three-unit and nine-unit fee amounts are based on the January 23, 2006 analysis. The sliding scale has been adjusted to provide pro rata increases on a unit-by-unit basis.

<sup>3</sup> Based on the percentage change in the median price for new homes in Orange County between December 2005 and December 2006. The medians were \$707,500 and \$792,000, respectively. The source is the Real Estate and Construction Report published by the Real Estate Research Council of Southern California.

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# ATTACHMENT #2

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**KEYSER MARSTON ASSOCIATES**  
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

JAN 26 2006  
City of Huntington Beach

**MEMORANDUM**

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
COMMUNITY DEVELOPMENT

**To:** Mary Beth Broeren, Principal Planner  
City of Huntington Beach

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
ROBERT J. WETMORE

**From:** Kathleen Head  
Julie Romey

**Date:** January 23, 2006

LOS ANGELES  
CALVIN E. HOLLIS, II  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
REGORY D. SOO-HOO

**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee

SAN DIEGO  
GERALD M. TRIMBLE  
PAUL C. MARRA

At your request, Keyser Marston Associates, Inc. (KMA) prepared the following analysis pertaining to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). Specifically, KMA evaluated the Ordinance provision that allows developers of projects with nine or fewer units to pay a fee in lieu of providing affordable housing units within their project. The purpose of the following memorandum is to assist the City in establishing an in-lieu fee payment schedule to be applied to small projects.

**INCLUSIONARY HOUSING ORDINANCE REQUIREMENTS**

The Ordinance requirements that must be considered in establishing an in-lieu fee schedule are:

1. All for-sale and rental new construction housing projects with three or more units must make at least 10% of the units available to the following households:<sup>1</sup>
  - a. For-sale units must be made available to very-low, low or median income households.<sup>2</sup>
  - b. Rental units must be made available to very-low or low income households.

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<sup>1</sup> New residential projects are defined as an entirely new project or new units added to an existing project. Only new units are used to calculate the required number of affordable housing units.

<sup>2</sup> The median is defined as the Orange County median income (Median).

**To:** Mary Beth Broeren, City of Huntington Beach  
**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee

January 23, 2006  
Page 2

2. The income and affordability covenants must remain in place for at least 60 years.
3. The affordable units must be:
  - a. Dispersed throughout the project;
  - b. Proportional in number, bedroom size and location to the market rate units;
  - c. Comparable with the market rate units in terms of the base design, appearance, materials and finish quality; and
  - d. Constructed and occupied concurrently with, or prior to, the construction and occupancy of market rate units.
4. For small projects, defined as projects including nine or fewer units, the inclusionary housing requirements may be satisfied by payment of an in-lieu fee established by resolution of the City Council and updated annually.<sup>3</sup>
  - a. The in-lieu fees will be deposited into a dedicated affordable housing account.
  - b. The account will only be used to provide funding assistance for construction or retention of affordable housing, and for reasonable administration costs.
5. Developers may choose to provide the affordable units at an off-site location as long as these units are under the full control of the Developer or other approved party. The following outlines the other conditions:
  - a. Off-site projects can be new construction or major physical rehabilitation of existing non-restricted units. At risk units and mobile homes may also be used to satisfy this requirement.
  - b. Off-site units must be constructed or rehabilitated prior to, or concurrently with, the primary project.

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<sup>3</sup> The fees are to be based upon the total number and size of the new residential units.

To: Mary Beth Broeren, City of Huntington Beach  
Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23, 2006  
Page 3

- c. The sales prices or rents must be affordable to very-low, low or median income households pursuant to the terms of an Affordable Housing Agreement.

## **METHODOLOGY**

The vast majority of new residential projects within Huntington Beach are expected to be comprised of "for sale" projects. However, it is possible that rental development may also occur. Recognizing that the project economics vary between ownership and rental projects, and to avoid imposing onerous requirements on development, the KMA analysis evaluates both development types.

The first step in establishing an in-lieu fee is to quantify the financial impact associated with fulfilling the affordable housing requirements within market rate projects. That financial impact is equal to the difference between the market rate prices and the affordable price for the required income restricted units. This difference is known as the "affordability gap", and it is quantified using the following methodology:

1. The projected market rate sales prices and rents are compiled for prospective new residential projects.
2. The maximum affordable prices and rents are calculated based on the standards imposed by California Health and Safety Code (Code) Sections 50052.5 and Section 50053.
3. The difference between the market rate price and the defined affordable price represents the affordability gap associated with each income restricted unit required to be included in a market rate residential project.
4. The affordability gap per income restricted unit is multiplied times the number of units that must be income restricted. This represents the effective cost to a developer of fulfilling the inclusionary housing requirements on-site.
5. Since a fee is going to be paid in-lieu of providing any affordable units on-site, the effective cost is divided by the total square footage of the project. This represents the Base In-Lieu Fee amount.
6. The Ordinance limits the in-lieu fee option to projects with nine or fewer units. The in-lieu fee analysis recognizes that the inclusionary requirement has a greater impact on smaller projects than it does for a typically sized project.

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To: Mary Beth Broeren, City of Huntington Beach  
Subject: Inclusionary Housing Ordinance - In-Lieu Fee

January 23, 2006  
Page 4

7. The Small Project in-lieu fee reflects the number of units in the project, which can range between three and nine units. To achieve this, it is necessary to create a Sliding Scale In-Lieu Fee amount that can be justified based on both the affordability gap and the feasibility analysis for the three- to nine-unit projects.

### Household Incomes

The Ordinance specifically identifies the Code Section 50093 income definition for moderate income households. However, the Ordinance limits the moderate income category to 100% of the Median instead of the 120% of Median maximum that is allowed by Section 50093.

The Ordinance also imposes very-low and low income restrictions. To account for these requirements, KMA assumed that Code Section 50105 would apply for very-low income households and that Code Section 50079.5 would apply for low income households.

The income information is published by the State of California Housing and Community Development Department (HCD) annually. The income ranges for Orange County in 2005 are:

Household Size	Very-Low Income (Section 50105)	Low Income (Section 50079.5)	Median Income (Section 50093)
1 Person	\$0 - \$26,900	\$26,900 - \$43,000	\$43,000 - \$53,000
2 Person	\$0 - \$30,700	\$30,700 - \$49,150	\$49,150 - \$60,550
3 Person	\$0 - \$34,550	\$34,550 - \$55,300	\$55,300 - \$68,150
4 Person	\$0 - \$38,400	\$38,400 - \$61,450	\$61,450 - \$75,700
5 Person	\$0 - \$41,450	\$41,450 - \$66,350	\$66,350 - \$81,750
6 Person	\$0 - \$44,550	\$44,550 - \$71,250	\$71,250 - \$87,800
7 Person	\$0 - \$47,600	\$47,600 - \$76,200	\$76,200 - \$93,850
8 Person	\$0 - \$50,700	\$50,700 - \$81,100	\$81,100 - \$99,900

### Affordable Housing Cost Calculation Methodology

The Ordinance does not identify a methodology for calculating affordable housing cost. However, historically the City has used the calculation methodologies imposed by the California Health and Safety Code. Section 50053 defines the calculation methodology for rental units and Section 50052.5 provides the methodology for ownership units.

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**AFFORDABILITY GAP ANALYSIS – OWNERSHIP PROJECTS (APPENDIX A)**

**Market Rate Sales Prices**

Hanleywood Market Intelligence information indicates that the following single-family detached and attached residential projects are currently selling or recently sold out in Huntington Beach.

	Year Built	Sold Out	Product Type	Number of Units
Seabridge Villas <sup>4</sup>	2003	2004	Condos	344
Bel Air	2004	---	Duplex	102
Peninsula Point	2004	---	Detached	13
Sea Cove	2004	---	Townhomes	106
<b>Total Units</b>				<b>565</b>

As shown in Appendix A – Table 1, the following summarizes the sales prices for each product type:

	Average Unit Size (Sf)	Average Sales Prices	Average \$/Sf
One-bedroom Units	811	\$348,500	\$430
Two-bedroom Units	1,418	\$567,000	\$400
Three-bedroom Units	2,484	\$923,800	\$367
<b>Averages</b>	<b>1,841</b>	<b>\$854,000</b>	<b>\$464</b>

**Pricing Assumptions**

The market rate sales prices are based on the following assumptions:

	Unit Size (Sf)	\$/Sf	Sales Prices
One-bedroom Units	800	\$430	\$343,600
Two-bedroom Units	1,400	\$400	\$559,700
Three-bedroom Units	2,500	\$367	\$918,600

<sup>4</sup> The project was built in the 1980's, and was converted from apartments to condominiums in 2003.

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### Affordable Housing Cost Calculation

The affordable housing cost calculations included in the Code Section 50052.5 definition are:

1. The household incomes are based on a benchmark household size equal to one person more than the number of bedrooms.
2. The Ordinance sets the maximum household income for moderate income units at 100% of the Median as published by HCD.<sup>5</sup>
3. Thirty-five percent (35%) of the defined household income is allocated to housing related expenses. These expenses are defined as mortgage debt service payments, property taxes, maintenance costs, insurance costs, home owner's association (HOA) dues and utility costs. The Huntington Beach Redevelopment Agency (Agency) has historically calculated these costs for the City using the following assumptions:
  - a. Typically, the Agency estimates HOA fees, inclusive of homeowner's insurance, based on the actual HOA fees for a project. Therefore, KMA estimated the HOA fees by calculating the weighted average of the project comparables in Appendix A – Table 1.
  - b. The maintenance costs are estimated at \$50 per month.
  - c. The 2005 utility allowances are provided by the Orange County Housing Authority and include gas, electricity, trash and water expenses. These costs are as follows:

One-bedroom Units	\$71
Two-bedroom Units	\$82
Three-bedroom Units	\$115
  - d. In accordance with the Agency's methodology, the property tax cost is estimated at 1.08% of the projected affordable price for the units.
4. The mortgage amount that can be supported by a Median income household is based on a 30-year fully amortizing mortgage at 6.5% interest rate.<sup>6</sup>

<sup>5</sup> It is reasonable to assume that given a choice, a developer will provide Median income ownership units rather than very-low or low income ownership units.

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Assuming the home buyer makes a down payment equal to 10% of the affordable purchase price, the affordable prices for the Median income units in 2005 are:

	One-Bedroom Units	Two-Bedroom Units	Three-Bedroom Units
Supportable Mortgage	\$188,500	\$217,800	\$242,800
Home Buyer Down Payment	20,900	24,100	27,000
Affordable Purchase Price	\$209,400	\$241,900	\$269,800

### Affordability Gap Calculations

The results of the affordability gap analysis for Median income households are presented in Appendix A – Table 3. The analysis identifies the gaps between the maximum affordable prices and the projected market rate sales prices for one-, two- and three-bedroom units; the results are summarized below:

	One- Bedroom Units	Two- Bedroom Units	Three- Bedroom Units
Market Sales Prices	\$343,600	\$559,700	\$918,600
(Less) Median Income Sales Prices	(209,400)	(241,900)	(269,800)
Affordability Gap	\$134,200	\$317,800	\$648,800

For the purposes of this analysis, KMA distributed the units as follows: 25% one bedrooms; 25% two bedrooms; and 50% three bedrooms. Based on these assumptions, the average affordability gap per Median income unit is estimated at \$437,400.

### Inclusionary Housing Obligation Cost

The Ordinance requires developers to impose income and affordability restrictions on at least 10% of the units in an ownership project. It is the KMA assumption that developers would typically minimize the financial gap by earmarking the units for Median income households, rather than for very-low or low income households. When the \$437,400 gap per affordable unit is distributed across all units in a project, the cost is equal to \$43,700 per unit ( $\$437,400 \times 10\% = \$43,700$ ).

<sup>6</sup>The level annual debt service amount on a loan at 6.5% interest is equal to 7.58% multiplied times the original balance on the first trust deed mortgage.

### AFFORDABILITY GAP ANALYSIS – RENTAL PROJECTS (APPENDIX B)

The methodology used in the KMA affordability gap analysis for rental developments can be described as follows:

1. KMA obtained rents for recently renovated market rate apartment complexes in Huntington Beach from www.rentnet.com.
2. KMA calculated the maximum affordable rents for low income households based on the household income statistics distributed by HCD and the affordability standards imposed by Code Section 50053.<sup>7</sup>
3. To maximize management efficiency, new apartment projects typically include at least 50 units.<sup>8</sup> For the purposes of this analysis, KMA created a 50-unit prototype apartment project, and estimated the affordability gap associated with the imposition of low income rents on 10% of the units. The affordability gap was then translated into the value reduction generated by the income and affordability restrictions imposed by the Ordinance.
4. The Ordinance does not allow projects with more than nine units to pay the in-lieu fee. However, given the dearth of small new apartment projects, it is necessary to premise the affordability gap analysis on a larger project. The gap derived from this analysis is then adjusted to reflect the characteristics associated with a project that would qualify for the in-lieu fee payment option.

The tables that detail the rental analysis are located in Appendix B, and are organized as follows:

Table 1:	Apartment Rental Rate Comparables
Table 2:	Affordable Rent for Low Income Households
Table 3:	Project Value – 100% Market Rate Units
Table 4:	Project Value – 100% Low Income Units
Table 5:	Affordability Gap Calculation – Rental Projects

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<sup>7</sup> KMA assumed that developers will choose to provide low income units rather than very-low income units.

<sup>8</sup> Small investors will sometimes develop a smaller project to hold over the long-term. However, in the current market place it is far more financially advantageous to build a small condominium project rather than a small apartment project.

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### Market Rate Rents

The vast majority of the recently constructed apartment projects in Huntington Beach have been subject to long-term income and affordability restrictions. Given the lack of new rental development, KMA gathered rent comparables for apartment buildings that have been renovated since 2000. The following illustrates the average asking rents for recently rehabilitated apartment units in Huntington Beach:

Unit Type	Unit Size (Sf)	Monthly Rents	\$/Sf
Studio Units	452	\$1,000	\$2.26
One-bedroom Units	723	\$1,200	\$1.67
Two-bedroom Units	988	\$1,500	\$1.50
Three-bedroom Units	1,364	\$1,700	\$1.27

Based on the current market and development trends, KMA assumed that a typical apartment project would be focused on one- and two-bedroom units. Assuming a 15% premium for new construction, the projected market rents for a new apartment project are as follows:

Unit Type	Unit Size (Sf)	\$/Sf	Monthly Rents
One-bedroom Units	750	\$1.92	\$1,443
Two-bedroom Units	1,000	\$1.73	\$1,729

### Affordable Housing Rent Calculations

The Ordinance requires 10% of the units in a rental development to be subject to very-low or low income and affordability restrictions. Historically, the City has applied the Code Section 50053 affordable housing cost definition to the inclusionary housing rental units. The calculations are presented in Appendix B – Table 2, and the results can be summarized as follows:

1. The household incomes are based on benchmark household sizes of two persons for one-bedroom units and three persons for two-bedroom units.
2. The household income is set at 60% of the Median for low income units.
3. 30% of the defined household income is allocated to housing related expenses.

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4. The maximum allowable rent must be adjusted to reflect the fact that the tenants will be required to pay for interior utility costs. Based on the 2005 allowances provided by the County of Orange Housing Authority, the utilities are estimated at \$32 per month for one-bedroom units and \$40 per month for two-bedroom units.<sup>9</sup>
5. The income and affordability covenants must be imposed over at least a 60-year term.

The maximum allowable 2005 low income rents under the defined income categories are as follows:

Unit Type	Monthly Rents
One-bedroom Units	\$877
Two-bedroom Units	\$982

As a practical matter, tenants will not be willing to pay rent that exceeds the prevailing rate in the market area. As such, it is important to estimate the rents that could be achieved by apartments that are not subject to income and affordability restrictions. As can be seen in the following table, the projected market rents exceed the maximum affordable rents by 39% to 43%. Thus, KMA has applied the defined affordable rents to our affordability gap analysis.

Unit Type	Market Rate	Low Income	Difference
One-bedroom Units	\$1,443	\$877	(39%)
Two-bedroom Units	\$1,729	\$982	(43%)

#### Affordability Gap Calculations

The affordability gap calculations are presented in Appendix B. Table 3 provides a pro forma analysis for a market rate project and Table 4 presents the findings for a low income project. The assumptions that were applied to each scenario are:

1. The market rate and income restricted rents are based on the assumptions discussed in the preceding section of this analysis.
2. The revenue analyses include \$15 per unit per month in miscellaneous income and a 5% vacancy and collection allowance.

<sup>9</sup> Rental utility allowances include gas and electricity expenses only.

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3. The general operating expenses are estimated at \$3,800 per unit and a \$250 per unit per year allowance is provided to fund an operating and capital reserve account.
4. The property tax expense estimates vary among the market rate and income restricted apartment projects. The expense cost is equal to the value supported by the project at a 1.1% property tax rate.
5. The net operating income (NOI) for both the market rate and income restricted units was capitalized at a 6.0% rate to estimate the relative values supported by market rate and low income units.

Based on the preceding assumptions, the values per unit are estimated as follows:

	NOI / Unit	Value / Unit
100% Market Rate	\$12,000	\$200,000
100% Low Income	\$5,700	\$95,000

Appendix B – Table 5 illustrates the affordability gaps per affordable unit, which are summarized as follows:

Market Rate Scenario Value/Unit	\$200,000
(Less) Low Income Value/Unit	(95,500)
Affordability Gap	\$105,000

#### **Inclusionary Housing Obligation Cost**

The Ordinance requires developers to set-aside 10% of the units in a rental project for very-low or low income households. Based on the KMA analysis, the affordability gap is estimated at an average of \$105,000 per income restricted unit included in the project.

A developer that chooses to pay the in-lieu fee will not be providing any affordable units within their market rate project. To translate the weighted average affordability gap into an in-lieu fee payment per market rate unit, it is necessary to multiply \$105,000 times the 10% inclusionary housing requirement. This equates to \$10,500 per unit development in a market rate project.

**2005 MAXIMUM ALLOWABLE IN-LIEU FEES**

The City's objective is to establish an in-lieu fee schedule that provides the City with adequate funds to produce the inclusionary units in similar locations and product types. However, the primary reason the Ordinance allows projects with nine or fewer units to pay an in-lieu fee is that the City recognizes that the imposition of income and affordability restrictions has a disproportionate impact on small projects. Therefore, it is necessary to establish an in-lieu fee schedule that does not render small projects economically infeasible.

In order to demonstrate the effective cost of fulfilling the Ordinance's production requirements, the KMA financial analysis is based on the characteristics embodied by larger projects than would be allowed to pay the in-lieu fee. This in turn provides the foundation for creating an in-lieu fee schedule that does not render small development financially infeasible:

1. The Base In-Lieu fee is calculated at the 100% estimated affordability gap for a typically sized project.
2. Based on the survey data presented in this report, the average ownership unit is estimated at 1,800 square feet in size, and the average rental unit is estimated at 875 square feet in size.
3. The Base In-Lieu fees that correlate to the financial analyses presented in the financial analysis (Base In-Lieu Fees) are as follows:

	Per Affordable Unit	Per Market Rate Unit	Per Sf of Building Area
Ownership Projects	\$437,400	\$43,700	\$24
Rental Projects	\$105,000	\$10,500	\$12

KMA prepared comparative pro forma analyses of 30-unit and nine-unit "for sale" projects to assist in understanding the financial characteristics of the different project sizes (Appendix C – Table 1). Based on current projections, the developer profit per unit is approximately 46% less for the nine-unit project than the projected profit for the 30-unit project. To equalize the impact of the Ordinance's production requirement for projects with 10 or more units, and the in-lieu fee option provided to projects with nine or fewer units, KMA reduced the Base In-Lieu Fee by 46%.

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The resulting fees for nine-unit projects are:

	Per Sf of Building Area
Ownership Projects	\$13
Rental Projects	\$7

It is important to recognize that the financial impacts grow at a disproportionate rate as the project size decreases. To reflect this, KMA created the following sliding scale for three- to nine-unit projects:<sup>10</sup>

Project Size	As a % of Small Project Base Fee
Three Units	57%
Four Units	64%
Five Units	71%
Six Units	79%
Seven Units	92%
Eight Units	93%
Nine Units	100%

The in-lieu fees that result from the sliding scale are:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

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<sup>10</sup> It is difficult to precisely project the financial impact generated at each project size. The recommended sliding scale percentages are based on the scales currently being applied in West Hollywood and Pasadena.

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### IN-LIEU FEE COMPARISON ANALYSIS

To assist the City in setting the in-lieu fee payment amount, KMA compiled information from other Southern California jurisdictions that have inclusionary housing requirements, and that allow in-lieu fees to be paid. It is important to note, however, that the majority of the surveyed cities calculate the in-lieu fee on a case-by-case basis. In addition, many cities require the City Council to provide discretionary approval for a fee to be paid in-lieu of producing the affordable units.

For the surveyed cities that have established fee schedules, the in-lieu fee is calculated on one of the following bases:

1. Per square foot of building area included in the project;
2. Per unit developed in a market rate project; or
3. As a percentage of project or construction valuation.

The in-lieu fees charged in the surveyed cities are presented in the following tables:

Per Square Foot of Building Area	
Jurisdiction	In-Lieu Fee Amount
Chino <sup>11</sup>	\$2.72
Duarte	\$6.50
Pasadena <sup>12</sup>	
Rental Projects	\$12 - \$22
Ownership Projects	\$5 - \$41
San Diego <sup>13</sup>	\$1.25 - \$2.50
Santa Monica <sup>14</sup>	\$22.33 - \$26.08
West Hollywood <sup>15</sup>	\$6.70 - \$13.40

<sup>11</sup> The in-lieu fee amount is only applicable to projects developed in the Preserve.

<sup>12</sup> Projects with fewer than 10 units are exempt from the Program.

<sup>13</sup> The lower fee is charged for projects with fewer than 10 units.

<sup>14</sup> The lower fee is charged for apartment projects and the higher fee is charged for ownership projects.

<sup>15</sup> An in-lieu fee can only be paid for projects with 20 or fewer units. The fee varies by number of units in the project.

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Per Unit in a Market Rate Project	
Jurisdiction	In-Lieu Fee Amount
Agoura Hills <sup>16</sup>	\$4,541 - \$6,277
Laguna Beach <sup>17</sup>	\$7,047
Coronado	\$7,000

As a % of Project / Construction Valuation	
Jurisdiction	In-Lieu Fee Amount
San Clemente	1.00%
San Juan Capistrano	1.00%

The in-lieu fees being charged by the surveyed cities vary widely. Moreover, since many cities negotiate the in-lieu fee on a case-by-case basis, it is very difficult to identify the "typical" in-lieu fee being charged by cities that are implementing inclusionary housing programs. However, based on the available information, the maximum supportable fee in Huntington Beach is within the range of the fees currently being charged by other Southern California cities.

#### IN-LIEU FEE RECOMMENDATIONS

The establishment of an in-lieu fee amount requires several subjective judgments and decisions. To provide a framework for our recommendations, KMA considered the following factors:

1. The City's primary objective is to attract sufficient housing to fulfill the affordable housing production requirements imposed by Code Section 33413, and to eliminate the unmet need for affordable housing identified in the Regional Housing Needs Assessment (RHNA).
2. An inclusionary housing production requirement has a greater financial impact on small projects than it does on large projects. To mitigate this, the provision of an in-lieu fee option is an efficient method of enforcing the Ordinance without stopping the development of smaller projects.

<sup>16</sup> The lower fee is charged for apartment projects and the higher fee is charged for ownership projects.

<sup>17</sup> The fee is set at \$46,978 per affordable lot or unit. 15% of the units are required to be affordable.

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The preceding analysis indicates that the affordability gap is \$24 per square foot for ownership units and \$12 per square foot for rental projects. However, it is the KMA conclusion that fees of the this magnitude are likely to render small projects infeasible. To balance the City's objective to generate revenues to pursue affordable housing activities, against the need to ensure that the in-lieu fee does not result in a constraint to development, KMA recommends that the in-lieu fee schedule be set as follows:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

KMA also offers the following recommendations:

1. The City should create a mechanism for re-evaluating the in-lieu fee amount on a periodic basis. KMA suggests that the re-evaluation be performed at least every two years so that the in-lieu fee can keep pace with changes in the market place.
2. The Ordinance should be amended to provide the following clarifications:
  - a. The Ordinance should make it clear that developers can fulfill the inclusionary requirements with Median income units for ownership projects and low income units for rental projects;
  - b. The Ordinance should mandate that the affordable housing cost be calculated in accordance with the Code Section 50052.5 standards for ownership units and Code Section 50053 standards for rental units<sup>18</sup>; and
  - c. The Ordinance should only allow new development and substantial rehabilitation, as defined by the Code Section 33413 affordable housing production requirements, to fulfill the off-site inclusionary housing option allowed by the Ordinance.

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<sup>18</sup> The City has set 100% of the Median as the maximum income for the moderate income "for sale" units. This standard should replace the 110% of the Median applied in the Code Section 50052.5 affordable housing cost calculation.

**APPENDIX A  
OWNERSHIP ANALYSIS**

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APPENDIX A - TABLE 1

NEW CONSTRUCTION SALES COMPARABLES  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA

Project/Address	Year Built / Sold Out	Type HOA Fee	Floorplans				
			Unit Type	# of Units	Unit Size (Sf)	Base Price	\$/Sf
I. Seabridge Villas Beach Blvd & Adams	2003	Condo	One-bedroom	72	485	\$230,000	\$474
			One-bedroom	19	760	310,000	408
	2004	Condo	One-bedroom	83	765	300,000	392
			One-bedroom	46	885	360,000	407
			Two-bedrooms	24	970	335,000	345
			Two-bedrooms	59	1,095	405,000	370
			Two-bedrooms	8	1,100	340,000	309
			Two-bedrooms	4	1,240	415,000	335
			Two-bedrooms	29	1,285	470,000	366
			<b>Totals/Averages</b>	<b>344</b>	<b>850</b>	<b>\$330,974</b>	<b>\$389</b>
II. Bel Air Gothard & Garfield	2004	Duplex \$276	Three-bedrooms	28	2,484	\$910,000	\$366
			Three-bedrooms	25	2,497	898,820	360
			Three-bedrooms	26	2,555	920,000	360
			Three-bedrooms	23	2,636	907,855	344
			<b>Totals/Averages</b>	<b>102</b>	<b>2,539</b>	<b>\$909,365</b>	<b>\$358</b>
III. Peninsula Point Main Street & Clay	2004	SFD \$95	Three-bedrooms	5	1,990	\$869,900	\$437
			Three-bedrooms	7	2,174	899,900	414
			Three-bedrooms	1	2,260	919,900	407
			<b>Totals/Averages</b>	<b>13</b>	<b>2,110</b>	<b>\$889,900</b>	<b>\$422</b>
IV. Sea Cove PCH & Goldenwest	2004	Townhomes \$405	One-bedroom	26	1,770	\$838,990	\$474
			Two-bedrooms	19	1,620	829,990	512
			Two-bedrooms	21	1,845	917,990	498
			Two-bedrooms	19	2,690	987,990	367
			Three-bedrooms	21	2,450	1,014,990	414
			<b>Totals/Averages</b>	<b>106</b>	<b>2,058</b>	<b>\$914,603</b>	<b>\$445</b>
V.	<b>Attached Units / Large Projects</b>		<b>552</b>	<b>1,834</b>	<b>\$853,140</b>	<b>\$465</b>	
	One-bedroom		246	811	\$348,470	\$430	
	Two-bedrooms		183	1,418	\$567,019	\$400	
	Three-bedrooms		123	2,524	\$927,399	\$367	
VI.	<b>Detached Units / Small Project</b>		<b>13</b>	<b>2,110</b>	<b>\$889,900</b>	<b>\$422</b>	
	Three-bedroom Units		13	2,110	\$889,900	\$422	
VII.	<b>All Units</b>		<b>565</b>	<b>1,841</b>	<b>\$853,986</b>	<b>\$464</b>	
	One-bedroom		246	811	\$348,470	\$430	
	Two-bedrooms		183	1,418	\$567,019	\$400	
	Three-bedrooms		136	2,484	\$923,814	\$367	

Source: Hanleywood Market Intelligence for the City of Huntington Beach.

APPENDIX A - TABLE 2

AFFORDABLE HOUSING PRICES  
 FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

	One-bedroom Units	Two-bedroom Units	Three-bedroom Units
I. Household Income @ 100% of County Median <sup>1</sup>	\$60,550	\$68,150	\$75,700
II. <u>Income Available for Mortgage Debt Service</u>			
Income Allotted for Housing @ 35% of Income <sup>2</sup>	\$21,200	\$23,900	\$26,500
(Less) Ongoing Expenses			
HOA, Insurance, Maintenance <sup>3</sup>	(3,792)	(3,792)	(3,792)
Utilities <sup>4</sup>	(852)	(984)	(1,380)
Property Taxes @ 1.08% of Affordable Price <sup>3</sup>	(2,262)	(2,603)	(2,914)
Income Available for Mortgage Debt Service	\$14,294	\$16,521	\$18,414
III. Maximum Mortgage @ 6.5% Interest Rate <sup>5</sup>	\$188,500	\$217,800	\$242,800
IV. Home Buyer Down Payment @ 10% Affordable Price <sup>3</sup>	\$20,900	\$24,100	\$27,000
V. <b>Maximum Affordable Home Price</b>	<b>\$209,400</b>	<b>\$241,900</b>	<b>\$269,800</b>

<sup>1</sup> Based on the 2005 Orange County median incomes provided by HCD. Per the requirements imposed by California Health and Safety Code Section 50052.5, the household size is set at three persons for two-bedroom units and four persons for three-bedroom units. The Ordinance limits the moderate income units to households earning 100% of the median.

<sup>2</sup> Based on California Health and Safety Code Section 50052.5.

<sup>3</sup> Based on the Redevelopment Agency's assumptions. The Agency calculates the affordable prices for the City.

<sup>4</sup> Based on the current Orange County utility allowances. Includes gas, electricity, water and trash.

<sup>5</sup> Based on the current 30-year fixed mortgage rate.

APPENDIX A - TABLE 3

**AFFORDABILITY GAP CALCULATION - OWNERSHIP PROJECTS  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	One-bedroom Units	Two-bedroom Units	Three-bedroom Units
<b>I. <u>Affordability Gap Calculation</u></b>			
Market Sales Prices <sup>1</sup>	\$343,600	\$559,700	\$918,600
(Less) Maximum Affordable Sales Prices <sup>2</sup>	(209,400)	(241,900)	(269,800)
<b>Affordability Gap / Affordable Unit</b>	<b>\$134,200</b>	<b>\$317,800</b>	<b>\$648,800</b>
<b>II. <u>Average Affordability Gap Calculation</u></b>			
		Affordability Gap	Unit Type Distribution <sup>3</sup>
One-bedroom Units		\$134,200	25%
Two-bedroom Units		\$317,800	25%
Three-bedroom Units		\$648,800	50%
<b>Average Affordability Gap / Affordable Unit</b>			<b>\$437,400</b>
<b>III. <u>Affordability Gap / Total Unit Calculation</u></b>			
Average Affordability Gap / Affordable Unit			\$437,400
Affordable Units as a % of Total Units <sup>4</sup>			10%
<b>Affordability Gap / Total Unit</b>			<b>\$43,700</b>

<sup>1</sup> Market rate prices are based on the following: 800 sf one-bedroom units @ \$430/sf, 1,400 sf two-bedroom units @ \$400/sf, and 2,500 sf three-bedroom units @ \$367/sf.  
<sup>2</sup> See APPENDIX A - TABLE 2.  
<sup>3</sup> KMA estimate.  
<sup>4</sup> Based on the City Ordinance.

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**APPENDIX B  
RENTAL ANALYSIS**

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APPENDIX B - TABLE 1

APARTMENT RENTAL RATE COMPARABLES  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA

Name & Address	Zip Code	Year Built / Renovated	Total Units	Unit Type	Base Rent	SF / Unit	\$/SF
1 La Quinta Hermosa 16211 Parkside Lane	92647	1971 2000	94	1/1	\$1,155	725	\$1.59
				2/1	1,405	940	\$1.49
				2/1	1,415	945	\$1.50
				2/1	1,530	1,110	\$1.38
2 Las Brisas/Vida Del Mar Apartments 16602 and 16552 Sell Circle	92649	1976 2000	62	1/1	1,170	800	\$1.46
				2/2	1,450	1,200	\$1.21
3 Archstone Huntington Beach 8945 Riverbend Drive	92647	1986 2000	152	1/1	1,300	725	\$1.79
				2/1	1,650	925	\$1.78
4 Huntington Breakers 21270 Beach Blvd	92648	1985 2000	324	0/1	1,050	450	\$2.33
				1/1	1,305	635	\$2.06
				1/1	1,355	625	\$2.17
				2/2	1,615	925	\$1.75
				2/2	1,655	900	\$1.84
				2/2	1,655	900	\$1.84
5 Los Patos Apartments 17172 Bolsa Chica	92649	1973 2004	71	0/1	1,000	400	\$2.50
				1/1	1,200	700	\$1.71
				2/1	1,500	1,000	\$1.50
6 Maddox Apartments 7051 Maddox Dr	92647	1971 2002	56	1/1	1,045	750	\$1.39
				2/1	1,300	980	\$1.33
				2/2	1,400	1,050	\$1.33
7 Ocean Breeze Villas 6401 Wamer Ave	92647	1975 2000	288	1/1	1,125	718	\$1.57
				1/1	1,150	800	\$1.44
				2/1	1,225	850	\$1.44
				2/1	1,275	900	\$1.42
				2/2	1,450	1,100	\$1.32
				3/2	1,700	1,288	\$1.32
3/2	1,750	1,440	\$1.22				
8 Avalon At Pacific Bay 6700 Wamer Ave	92647	1970 1999	304	1/1	1,195	750	\$1.59
				2/1	1,540	1,000	\$1.54
				2/2	1,495	1,000	\$1.50
9 Huntington Creek 8211 San Angelo Dr	92647	1978 2001	194	0/1	990	505	\$1.96
				1/1	1,190	729	\$1.63
				2/1.5	1,510	1,075	\$1.40

	Sample Size	Average Unit Size	Min. Rent	Max. Rent	Avg. Rent	Avg. \$/SF
Studios	3	452	\$1,000	\$1,100	\$1,000	\$2.26
1-Bedroom Units	11	723	\$1,000	\$1,400	\$1,200	\$1.67
2-Bedroom Units	17	988	\$1,200	\$1,700	\$1,500	\$1.50
3-Bedroom Units	2	1,364	\$1,700	\$1,800	\$1,700	\$1.27

Source: RentNet.com, 07/06/05.

APPENDIX B - TABLE 2

AFFORDABLE RENTS FOR LOW INCOME HOUSEHOLDS

FEES ANALYSIS

HUNTINGTON BEACH, CALIFORNIA

		One-Bedroom Units <sup>1</sup>	Two-Bedrooms Units <sup>1</sup>
I. <b>Low Income</b>			
Income @ 60% County Median	<sup>2</sup>	\$36,340	\$40,880
% of Income Allotted to Housing	<sup>3</sup>	30.0%	30.0%
Monthly Housing Expenses		\$909	\$1,022
(Less) Utilities Expenses <sup>4</sup>		(32)	(40)
<b>Monthly Rent</b>		<b>\$877</b>	<b>\$982</b>

<sup>1</sup> Based on the 2005 Orange County median incomes provided by HCD. Per the requirements imposed by California Health and Safety Code Section 50053, the household size is set at two persons for one-bedroom units and three persons for two-bedroom units.

<sup>2</sup> Based on the 2005 Orange County median incomes provided by HCD and the requirements imposed by California Health and Safety Code Section 50053.

<sup>3</sup> Based on the City Ordinance.

<sup>4</sup> Based on the current Orange County utility allowances. Includes gas and electricity.

APPENDIX B - TABLE 3

PROJECT VALUE - 100% MARKET RATE UNITS  
 RENTAL PROTOTYPE  
 IN-LIEU FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

<b>I. Rental Income</b>			
One-Bedroom <sup>1</sup>	25 Units	\$1,443 /Unit	\$433,000
Two-Bedrooms <sup>2</sup>	25 Units	\$1,729 /Unit	518,800
Miscellaneous Income	50 Units	\$15.00 /Unit	9,000
Gross Income			\$960,800
(Less) Vacancy Allowance	5.0% of Gross Income		(48,000)
Effective Gross Income			\$912,800
<b>II. Operating Expenses</b>			
General Operating Expenses	50 Units	\$3,800 /Unit	(\$190,000)
Property Taxes <sup>3</sup>	50 Units	\$2,201 /Unit	(110,000)
Operating & Capital Reserves	50 Units	\$250 /Unit	(12,500)
Total Operating Expenses			(\$312,500)
<b>III. Net Operating Income</b>			
Per Unit			\$600,300
Per Unit			\$12,000
<b>IV. Project Value <sup>4</sup></b>			
Per Unit			\$10,005,000
Per Unit			\$200,000

<sup>1</sup> Assumes one-bedroom units at 750 square feet and rent at \$1.92 /sf.

<sup>2</sup> Assumes two-bedroom units at 1,000 square feet and rent at \$1.73 /sf.

<sup>3</sup> The value is projected based on a 6.0% capitalization rate. The property tax rate is set at 1.10% of value.

<sup>4</sup> The value is projected based on a 6.0% capitalization rate.

APPENDIX B - TABLE 4

PROJECT VALUE - 100% LOW INCOME UNITS  
 TOTAL PROTOTYPE  
 IN-LIEU FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

<b>I. Rental Income</b>			
One-Bedroom <sup>1</sup>	25 Units	\$877 /Unit	\$263,100
Two-Bedrooms <sup>1</sup>	25 Units	\$982 /Unit	294,600
Miscellaneous Income	50 Units	\$15.00 /Unit	<u>9,000</u>
Gross Income			\$566,700
(Less) Vacancy Allowance	5.0% of Gross Income		<u>(28,300)</u>
Effective Gross Income			\$538,400
<b>II. Operating Expenses</b>			
General Operating Expenses	50 Units	\$3,800 /Unit	(\$190,000)
Property Taxes <sup>2</sup>	50 Units	\$1,041 /Unit	(52,000)
Operatng & Capital Reserves	50 Units	\$250 /Unit	<u>(12,500)</u>
Total Operating Expenses			(\$254,500)
<b>III. Net Operating Income</b>			<b>\$283,900</b>
Per Unit			<b>\$5,700</b>
<b>IV. Project Value <sup>3</sup></b>			<b>\$4,732,000</b>
Per Unit			<b>\$95,000</b>

<sup>1</sup> See APPENDIX B - TABLE 2.

<sup>2</sup> The value is projected based on a 6.0% capitalization rate. The property tax rate is set at 1.10% of value.

<sup>3</sup> The value is projected based on a 6.0% capitalization rate.

**APPENDIX B - TABLE 5**

**AFFORDABILITY GAP CALCULATION - RENTAL PROJECTS  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	<u>Net Operating Income</u>	<u>Project Value</u>	<u>Affordability Gap</u>
<b>I. <u>Affordability Gap</u></b>			
<u>Low Income Gap / Unit</u>			
Market Rate Scenario <sup>1</sup>	\$12,000	\$200,000	
Low Income Scenario <sup>2</sup>	\$5,700	\$95,000	
Affordability Gap / Unit			\$105,000
<b>II. <u>Affordability Gap / Total Unit Calculation</u></b>			
Affordability Gap / Affordable Unit			\$105,000
Affordable Units as a % of Total Units			10%
<b>Affordability Gap / Total Unit</b>			<b>\$10,500</b>

<sup>1</sup> See APPENDIX B - TABLE 3.

<sup>2</sup> See APPENDIX B - TABLE 4.

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**APPENDIX C  
IN-LIEU FEE CALCULATION**

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APPENDIX C - TABLE 1

SMALL PROJECT ANALYSIS  
 IN-LIEU FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

Prototype Project

I. <u>Projected Sales Revenues</u> <sup>1</sup>	# of Units	Sales Prices	Total Revenue
One-bedroom Units	5	\$343,600	\$1,718,000
Two-bedroom Units	5	559,700	2,799,000
Three-bedroom Units	20	918,600	18,372,000
<b>Total Project Revenue</b>	<b>30</b>	<b>\$762,967</b>	<b>\$22,889,000</b>
II. Land + Construction Costs	\$649,000 /Unit		\$19,456,000
III. <u>Developer Profit</u>			
Total	15% Sales Revenues		\$3,433,000
Per Unit			\$114,000

Small Project

I. <u>Projected Sales Revenues</u> <sup>1</sup>	# of Units	Sales Prices	Total Revenue
One-bedroom Units	2	\$343,600	\$687,000
Two-bedroom Units	2	559,700	1,119,000
Three-bedroom Units	5	918,600	4,593,000
<b>Total Project Revenue</b>	<b>9</b>	<b>\$711,000</b>	<b>\$6,399,000</b>
II. Land + Construction Costs	\$649,000 /Unit		\$5,841,000
III. <u>Developer Profit</u>			
Total			\$558,000
Profit Per Unit			\$62,000

Profit Differential Per Unit	\$52,000
% Difference	46%

<sup>1</sup> See APPENDIX A - TABLE 3.  
<sup>2</sup> Based on stabilized return on total investment.

APPENDIX C - TABLE 2

2005 IN-LIEU FEE SUMMARY  
 II. U FEE ANALYSIS  
 HUNTINGTON BEACH, CALIFORNIA

I. <u>Base In-lieu Fee</u>	<u>/Total Unit</u>	<u>/SF GBA</u>
2005 In-Lieu Fee - Ownership Projects	\$43,700 <sup>1</sup>	\$24 <sup>2</sup>
2005 In-Lieu Fee - Rental Projects	\$10,500 <sup>3</sup>	\$12 <sup>4</sup>

II. <u>Base In-lieu Fee for Small Projects</u>	<u>Ownership</u>	<u>Rental</u>
Base In-lieu Fee	\$24	\$12
Loss in Profit <sup>5</sup>	46%	46%
 Base In-lieu Fee for Small Projects	 \$13	 \$7

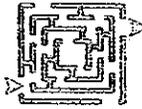
  

III. <u>Sliding Scale as a % of the Base In-lieu Fee</u>	<u>Ownership</u>	<u>Rental</u>
Three Unit Projects	57%	57%
Four Unit Projects	64%	64%
Five Unit Projects	71%	71%
Six Unit Projects	79%	79%
Seven Unit Projects	92%	92%
Eight Unit Projects	93%	93%
Nine Unit Projects	100%	100%

IV. <u>2005 Sliding Scale In-lieu Fee</u>	<u>Ownership</u>	<u>Rental</u>
Three Unit Projects	\$7	\$4
Four Unit Projects	\$8	\$4
Five Unit Projects	\$9	\$5
Six Unit Projects	\$10	\$6
Seven Unit Projects	\$12	\$6
Eight Unit Projects	\$12	\$7
Nine Unit Projects	\$13	\$7

<sup>1</sup> See APPENDIX A - TABLE 3.  
<sup>2</sup> Assumes that the units average 1,800 square feet in size.  
<sup>3</sup> See APPENDIX B - TABLE 5.  
<sup>4</sup> Assumes that the units average 875 square feet in size.  
<sup>5</sup> See APPENDIX C - TABLE 1.



**KEYSER MARSTON ASSOCIATES**  
 ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

**MEMORANDUM**

**To:** Mary Beth Broeren, Principal Planner  
 City of Huntington Beach

**From:** Kathleen Head

**Date:** April 9, 2007

**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee Update

ADVISORS IN:  
 REAL ESTATE  
 REDEVELOPMENT  
 AFFORDABLE HOUSING  
 ECONOMIC DEVELOPMENT

SAN FRANCISCO  
 A. JERRY KEYSER  
 TIMOTHY C. KELLY  
 KATE EARLE FUNK  
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LOS ANGELES  
 CALVIN E. HOLLIS, II  
 KATHLEEN H. HEAD  
 JAMES A. RARE  
 PAUL C. ANDERSON  
 GREGORY D. SOO-HOO  
 KEVIN E. ENGSTROM  
 JULIE L. ROMFY

SAN DIEGO  
 GERALD M. TRIMBLE  
 PAUL C. MARRA

In a memorandum dated January 23, 2006, Keyser Marston Associates, Inc. (KMA) recommended an in-lieu fee schedule for residential projects with nine or fewer units that are subject to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). The recommended schedule is presented in the following table:

Project Size	Ownership	Rental
Three Units	\$7	\$4
Four Units	\$8	\$4
Five Units	\$9	\$5
Six Units	\$10	\$6
Seven Units	\$12	\$6
Eight Units	\$12	\$7
Nine Units	\$13	\$7

The KMA analysis also recommended that the City create a mechanism for re-evaluating the in-lieu fee amount on a periodic basis. The periodic adjustment is intended to keep the fee amount in sync with changes in new housing prices.

It is the KMA recommendation that the City apply an adjustment factor tied to the annual change in new home prices in Orange County. This information is published by the Real Estate Research Council of Southern California in a quarterly report titled *Real Estate and Construction Report*.<sup>1</sup>

<sup>1</sup> The information source is Data Quick Information Systems. The original data are taken from county records and the prices are calculated from the documentary transfer tax. Adjustments are made to remove very high-end and very low-end sales.

**To:** Mary Beth Broeren, City of Huntington Beach  
**Subject:** Inclusionary Housing Ordinance - In-Lieu Fee Update

April 9, 2007  
Page 2

KMA used the fourth quarter reports for 2006 and 2005 to derive the percentage change in Orange County sales prices for new homes. That information indicates that the median price in December 2005 was \$707,500 and the median price in December 2006 was \$792,000. This represents an 11.94% increase. If this increase is applied to the fee schedule recommended by KMA in January 2006, the resulting schedule for 2007 is as follows:

2007 In-Lieu Fee Schedule		
Project Size	Ownership	Rental
Three Units	\$8.28	\$4.48
Four Units	\$9.29	\$5.04
Five Units	\$10.41	\$5.60
Six Units	\$11.42	\$6.16
Seven Units	\$13.32	\$7.16
Eight Units	\$13.54	\$7.28
Nine Units	\$14.55	\$7.84

**APPENDIX C - TABLE 2**

**2005 IN-LIEU FEE SUMMARY  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

	<u>Total Fee Per Unit</u>	
<b>I. <u>Base In-lieu Fee</u></b>		
2005 In-Lieu Fee - Ownership Projects	\$43,700 <sup>1</sup>	
2005 In-Lieu Fee - Rental Projects	\$10,500 <sup>2</sup>	
<b>Average Fee Per Unit</b>	<b>\$27,100</b>	
<b>II. <u>Base In-lieu Fee for Small Projects</u></b>		
Base In-lieu Fee	\$27,100	
Loss in Profit <sup>3</sup>	46%	
<b>Base In-lieu Fee for Small Projects</b>	<b>\$14,739</b>	
<b>III. <u>Sliding Scale as a % of the Base In-lieu Fee</u></b>		
Three Unit Projects	57%	
Four Unit Projects	64%	
Five Unit Projects	71%	
Six Unit Projects	79%	
Seven Unit Projects	92%	
Eight Unit Projects	93%	
Nine Unit Projects	100%	
<b>IV. <u>2005 Sliding Scale In-lieu Fee</u></b>		
Three Unit Projects	\$8,420	<b>2007 Update</b> 11.94%
Four Unit Projects	\$9,450	\$9,430
Five Unit Projects	\$10,510	\$10,580
Six Unit Projects	\$11,580	\$11,760
Seven Unit Projects	\$13,530	\$12,960
Eight Unit Projects	\$13,690	\$15,150
Nine Unit Projects	\$14,740	\$15,320
		\$16,500

<sup>1</sup> See APPENDIX A - TABLE 3.  
<sup>2</sup> See APPENDIX B - TABLE 5.  
<sup>3</sup> See APPENDIX C - TABLE 1.

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# ATTACHMENT #3

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Council/Agency Meeting Held: _____	_____ City Clerk's Signature
Deferred/Continued to: _____	
<input type="checkbox"/> Approved <input type="checkbox"/> Conditionally Approved <input type="checkbox"/> Denied	
Council Meeting Date:                      May 7, 2007	Department ID Number:                      PL07-12

**CITY OF HUNTINGTON BEACH  
REQUEST FOR CITY COUNCIL ACTION**

**SUBMITTED TO:** HONORABLE MAYOR AND CITY COUNCIL MEMBERS

**SUBMITTED BY:** PENELOPE CULBRETH-GRAFT, CITY ADMINISTRATOR 

**PREPARED BY:** SCOTT HESS, DIRECTOR OF PLANNING 

**SUBJECT:** Adopt Resolution setting forth an Affordable Housing In-Lieu Fee

**Statement of Issue, Funding Source, Recommended Action, Alternative Action(s), Analysis, Environmental Status, Attachment(s)**

**Statement of Issue:**

Transmitted for City Council consideration is a resolution that establishes an affordable housing in-lieu fee for new residential projects with three to nine units. Payment of the fee is allowed by the City's affordable housing ordinance. Staff recommends the City Council approve the resolution because adoption of the in-lieu fee will provide an alternative means for developers of small projects to satisfy the City's inclusionary housing requirements. In addition, there are three suggested improvements by Keyser Marston Associates to the existing affordable housing ordinance that staff recommends the City Council initiate.

**Funding Source:** Not applicable

**Recommended Action:**

**STAFF RECOMMENDATION:**

Motion to:

1. "Adopt Resolution No. 2007-29, a resolution setting forth an Affordable Housing In-Lieu Fee as authorized by Zoning & Subdivision Ordinance 3687 Section 230.26." (ATTACHMENT NO. 1)
2. "Direct staff to process a zoning text amendment to amend Section 230.26 to incorporate recommendations outlined in the Keyser Marston Associates report, dated January 23, 2006 (ATTACHMENT NO. 2)."

# REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER: PL07-12

## Alternative Action(s):

The City Council may make the following alternative motion(s):

1. "Deny the resolution setting forth the Affordable Housing In-Lieu Fee."
2. "Continue the resolution setting forth the Affordable Housing In-Lieu Fee and direct staff accordingly."
3. "Direct staff to include additional changes in the zoning text amendment that would modify the existing affordable housing ordinance."

## Analysis:

### A. PROJECT PROPOSAL:

Applicant: City of Huntington Beach

Location: Citywide

The proposed fee resolution represents a request to establish an in-lieu fee for affordable housing, pursuant to Section 230.26 B.4 of the Huntington Beach Zoning and Subdivision Ordinance. (ATTACHMENT NO. 4) The proposed fee amounts are as follows:

Project Size (No. of Units)	In-Lieu Fee Per Square Foot Of Habitable Area <sup>1</sup>	
	Ownership Projects	Rental Projects
Three	\$8.28	\$4.48
Four	\$9.29	\$5.04
Five	\$10.41	\$5.60
Six	\$11.42	\$6.16
Seven	\$13.32	\$7.16
Eight	\$13.54	\$7.28
Nine	\$14.55	\$7.84

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<sup>1</sup>Habitable area excludes garage, porch, decks/balconies.

Developers of small projects (three to nine units) would have the option of paying the "ownership projects" fee in lieu of recording a covenant on a unit in their project. Similarly, an apartment project developer could pay the "rental projects" in-lieu fee. Fee revenues would be deposited in a new account called the Housing Trust Fund; the uses of the fee are set forth in the resolution and generally include a variety of widely-used financing techniques to assist the development community.

# REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER: PL07-12

## B. BACKGROUND

The City of Huntington Beach has had an inclusionary housing requirement since the early 1990s, as set forth by policy. In October 2004, the City Council adopted an ordinance that codified this policy and established the option for payment of an in-lieu fee for projects with three to nine units. Pursuant to the ordinance, the City retained Keyser Marston Associates (KMA) to prepare a nexus study to calculate an appropriate and legally defensible in-lieu fee (ATTACHMENT NO. 2).

The City Council reviewed the nexus study at a Study Session in May 2006 and formed an Ad Hoc Committee to further discuss issues related to the analysis. The Ad Hoc Committee, with representatives from the Chamber of Commerce, Building Industry Association and Huntington Beach Tomorrow, met on July 25, 2006. As a result of the discussion, the City Council Committee members directed staff to continue the processing of the in-lieu fee for projects with three to nine units and provide information to the City Council regarding other aspects of the affordable housing ordinance and in-lieu fee, such as allowance of a fee for all projects and fractional calculations, Regional Housing Needs Assessment (RHNA) considerations and rental versus ownership housing.

## C. STAFF ANALYSIS AND RECOMMENDATION:

### In Lieu Fee for Small Projects

The purpose of the KMA study was to calculate an in-lieu fee that developers of projects with three to nine units could pay to satisfy their inclusionary affordable housing requirement. The study quantifies the difference between market rate prices and income restricted (affordable) prices in the City of Huntington Beach for for-sale and rental projects; this difference is referred to as the affordability gap. The average affordability gap for ownership projects is \$437,400 and \$105,000 for rental projects. The affordability gap is used to develop the per square foot in-lieu fee, based on the City's 10 percent inclusionary requirement and the average size of ownership and rental units. To account for the economics of smaller size projects, KMA incorporated a 46 percent downward adjustment in the fee. The resulting fees are listed in the table on page 2 of this report and range from \$4.48 to \$7.84 per square foot for rental projects and from \$8.28 to \$14.55 for ownership projects. The recommended fees include an inflation adjustment from the 2006 KMA study, as is presented in the follow-up memorandum from KMA (ATTACHMENT NO. 3).

Examples of how much the in-lieu fee might be for sample projects are presented below. D3 . 83

Type of Project	No. of Total Units in Project	Size of Each Unit (Habitable Area Only)	Total Project Square Footage	In-lieu Fee per sq. ft.	Total In-lieu fee required
Ownership	4	1200 sq. ft.	4800 sq. ft.	\$9.29	\$44,592
Rental	4	800 sq. ft.	3200 sq. ft.	\$5.04	\$16,128

## REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER: PL07-12

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Staff and KMA believe that the nexus study presents a well documented, reasonable and legally defensible in-lieu fee for projects with three to nine units. Based on input from developers of small projects over the years, staff believes that providing an alternative means to satisfy the City's inclusionary housing agreement is needed. Developers have consistently noted concerns related to financing, monitoring, and qualifying buyers/renters as a result of having to restrict one on-site unit in a small project. With respect to the specific fees that are recommended for adoption, however, the development community has expressed that calculating an in-lieu based on an ownership project is unreasonable due to the costs of development, including land. Rather, many believe that the affordable housing in-lieu fee should be calculated only using rental projects. As demonstrated in the table on page 2 of this report, the in-lieu for rental projects is notably less.

Pursuant to the City affordable housing ordinance, in-lieu fee payments would be deposited in a Housing Trust Fund. This fund will be established upon receipt of the first in-lieu fee payment. The City's ordinance lists the uses for the Housing Trust Fund and restricts the use of funds for projects that have a minimum of 50 percent of the units affordable to very low and low income households, with at least 20 percent of the units available to very low income households. At the discretion of the City Council, the funds may be used for pre-development costs, land or air rights acquisition, rehabilitation, land write downs, administrative costs, gap financing, or to lower the interest rate of construction loans or permanent financing. The Economic Development Department would administer the Housing Trust Fund.

### Other Issues related to the In-Lieu Fee

The Ad Hoc City Council Committee discussed several topics related to the in-lieu fee and requested that staff provide a review of these topics in this report.

#### *Allowance of fee for all projects*

The development community has expressed a strong interest in allowing all new residential projects, regardless of size, to pay an in-lieu fee rather than directly providing the units. From the developers' perspective, the ability to pay a fee has the advantage of being less expensive, quicker, easier to get financing without affordable covenants recorded on the property, and less cumbersome in that they do not have to manage screening affordable buyers or renters. The advantage of this approach to the City is that monies would accrue more quickly in the Housing Trust Fund, which would give the City more resources with which to assist affordable housing projects. From the City's perspective, the disadvantages of this approach are that affordable housing is less likely to be integrated into projects throughout the city, and additional staff resources would be required to administer a more sizable fund.

In the past, the City Council has expressed the opinion that the development community is best suited to creating new housing, including affordable housing. Moreover, the City Council thought that larger projects were better able to absorb the cost of providing

## REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER:PL07-12

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affordable units. Hence, the ordinance that was adopted in 2004 only allows smaller size projects to pay an in-lieu fee. In response to the input received from the development community, the City Council may wish to direct staff to amend the affordable housing ordinance to increase the size of projects that could pay an in-lieu fee or to allow all projects to pay the fee. Should the City Council decide to modify the ordinance in this regard, the City would be required to complete a nexus study, similar to the one attached to this RCA. This would be done concurrent with the zoning text amendment.

### *Fractional calculations*

The City requires that a minimum of 10 percent of a project's units be affordable, either on-site or off-site. To comply with the ordinance, if the calculation results in a fractional number, it is rounded up to the next whole number. Otherwise, rounding down would result in less than the 10 percent requirement. Thus, a four unit project would be required to provide one affordable unit ( $4 \times 0.10 = 0.4$  is rounded to 1), and a 23 unit project would be required to provide three affordable units ( $23 \times 0.10 = 2.3$  is rounded up to 3). The development community has requested that the City consider not rounding up when determining the affordable requirement. With the proposed in-lieu fee, this approach has been incorporated in that the fee is calculated using the 10 percent factor. In the case of projects that are not currently eligible to pay the fee, the City could consider allowing payment of an in-lieu fee for the fractional portion only. Using the 23 unit project as an example, a developer could be required to provide two affordable units and pay the fee for the 0.3 portion. Alternatively, if the City changes the existing ordinance to allow any size unit to pay a fee, then the fractional calculation would ultimately be incorporated. In either case, staff would recommend that the specific calculation method be set forth in the zoning code via changes to the existing ordinance.

### *Ownership versus Rental housing*

The City Council Ad Hoc Committee discussed the concept of only requiring affordable housing to be rental. Concerns were expressed about the difficulty in monitoring for-sale projects over the long term and finding buyers who qualify. Currently, the City does not mandate what type of unit a developer must provide, i.e. owner or rental, to comply with the affordable requirement. Thus, if a developer is building an ownership project, rather than record a covenant on one or more units in their project, the developer could elect to acquire a rental project and restrict it accordingly. Clearly, this is less feasible for a small scale project in that it may be cost prohibitive, or it may be difficult to find a rental project that is for sale. At this point in time, staff does not recommend changing the ordinance to specify that only affordable rental units would be required. It may be the case that a large scale ownership project would find it easier to meet its affordable housing requirement on site. This would more likely continue to be the case if the City Council does not pursue allowing all projects to pay an in-lieu fee regardless of size.

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## REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER: PL07-12

### *RHNA requirements*

All jurisdictions in California are required to demonstrate in their General Plan Housing Elements how they are able to contribute to meeting their fair share of the needed housing supply for their region over a period of five to eight years. The number of housing units assigned to each jurisdiction is embodied in the Regional Housing Needs Assessment (RHNA). The RHNA divides housing need into four income categories: Very Low, Low, Moderate and Upper, and specifies how many units in each of these income categories should be built during the planning period. The RHNA requirements are the underpinning for the City of Huntington Beach's affordable housing ordinance. By having an inclusionary housing requirement, the City is more likely to be successful in having affordable units created, which allows the City to demonstrate to the State good faith efforts toward ameliorating the statewide housing shortage.

The City Council Ad Hoc Committee briefly discussed the role that RHNA plays in driving City policy. Staff stated that they would report back on the next RHNA cycle, which officially began in February 2007 when the Southern California Association of Governments approved the draft RHNA for the Housing Element cycle for January 1, 2006 through June 30, 2014.

	Income Categories/Number of Units				
	Very Low	Low	Moderate	Upper	Total
Existing RHNA (1998-2005)	388	255	400	972	2,015
New Draft RHNA (2006-2014)	450	366	410	848	2,074

As shown in the above table, the City's allocation of Very Low and Low income units has increased by a total of 173 units, even though the overall total has increased by only 59 units. This is an indicator that the number of Very Low and Low income units in the city is disproportionate to the need in the region. Based on these new RHNA numbers, staff believes that the City's affordable housing requirements will continue to play a critical role in satisfying statewide housing goals and therefore should not be lessened. However, these numbers also give support to the concept of encouraging affordable rental projects, given that they would have a greater feasibility of being developed as Very Low and Low income projects.

### Affordable Housing Ordinance Changes

As part of KMA's work in calculating an in-lieu, the City requested that they review the existing affordable housing ordinance and make recommendations to improve it. Their three

## REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER:PL07-12

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recommendations are listed on page 16 of the report (ATTACHMENT NO. 2), and are listed below:

1. The Ordinance should make it clear that developers can fulfill the inclusionary requirements with Median income units for ownership projects and low income units for rental projects
2. The Ordinance should mandate that the affordable housing cost be calculated in accordance with the Code Section 50052.5 standards for ownership units and Code Section 50053 standards for rental units; and
3. The Ordinance should only allow new development and substantial rehabilitation, as defined by the Code Section 33413 affordable housing production requirements, to fulfill the off-site inclusionary housing option allowed by the Ordinance.

Staff recommends the City Council direct that a zoning text amendment be processed to evaluate these recommended ordinance changes. Depending on the City Council's direction with regard to the other items in this RCA, these ordinance changes may or may not be necessary, or may need to be augmented.

### D. SUMMARY

Staff recommends that the City Council adopt the resolution to establish an affordable housing in-lieu fee for projects with three to nine units, consistent with the City's existing ordinance. Adoption of the proposed resolution will bring immediate relief to developers of smaller projects and would not preclude the City from subsequently modifying the fee structure if the City Council wishes to make the fee available to larger projects. Staff also recommends that the City Council initiate a zoning text amendment to incorporate the recommended ordinance changes articulated by KMA.

### Strategic Plan Goal:

The affordable housing in-lieu fee is consistent with Strategic Plan Goal L-1, "Establish the vision and create a land use plan for reuse of critical parcels so that the next phase of the community investment and improvement can begin." The proposed in-lieu fee will create a source of funds that the City can use to assist development and redevelopment of parcels suitable for housing and to stimulate investment in target areas.

### Environmental Status:

The proposed request is exempt from the California Environmental Quality Act pursuant to Section 15061 (b)(3).

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# REQUEST FOR ACTION

MEETING DATE: May 7, 2007

DEPARTMENT ID NUMBER: PL07-12

## Attachment(s):

City Clerk's Page Number	No.	Description
9	1.	Resolution No. 2007-29 , a resolution setting forth an affordable housing in-lieu fee as authorized by Zoning & Subdivision Ordinance 3687 Section 230.26
14	2.	<del>Keyser Marston Associates Memorandum, dated January 23, 2006, Inclusionary Housing Ordinance In-Lieu Fee</del>
44	3.	<del>Keyser Marston Associates Memorandum, dated April 9, 2007, Inclusionary Housing Ordinance In-Lieu Fee Update</del>
47	4.	<del>Existing Zoning and Subdivision Ordinance Section 230.26 Affordable Housing</del>
51	5.	PowerPoint Presentation Slides

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*May 7, 2007*  
*RCA PL 07-12*

**ATTACHMENT #1**

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RESOLUTION NO. 2007-29

A RESOLUTION OF THE CITY COUNCIL OF THE  
CITY OF HUNTINGTON BEACH SETTING FORTH AN AFFORDABLE HOUSING  
IN-LIEU FEE AS AUTHORIZED BY ZONING & SUBDIVISION  
ORDINANCE 3687 SECTION 230.26

WHEREAS, on November 1, 2004 the Council adopted Ordinance No. 3687 adding Zoning & Subdivision Ordinance Section 230.26, relating to the goals and objectives of the City's Housing Element, which is intended to encourage very-low, low and median housing;

WHEREAS, pursuant to Section 230.26(b)(4), developers of residential projects consisting of nine or fewer units may elect to pay a fee in lieu of providing affordable units on site to fulfill the requirement of the City's Inclusionary Housing Ordinance, unless the affordable housing requirement is outlined as part of a Specific Plan Project;

WHEREAS, the City Council has received the report from Keyser Marston Associates dated January 23, 2006, which includes an analysis pertaining to the City's Inclusionary Housing Ordinance and proposes an in-lieu fee consistent with the provisions of Zoning & Subdivision Ordinance Section 230.26. A copy of this study is attached hereto as **Exhibit A** and incorporated herein by this reference.

NOW, THEREFORE, the City Council of the City of Huntington Beach does hereby resolve as follows:

1. The Keyser Marston report attached hereto as **Exhibit A** is received and filed.
2. The proposed per square foot in-lieu fee shall be as follows:

<u>Project Size</u>	<u>Ownership</u>	<u>Rental</u>
Three Units	\$8.28	\$4.48
Four Units	\$9.29	\$5.04
Five Units	\$10.41	\$5.60
Six Units	\$11.42	\$6.16
Seven Units	\$13.32	\$7.16
Eight Units	\$13.54	\$7.28
Nine Units	\$14.55	\$7.84

2. An Affordable Housing Trust Fund shall be created and used to receive all deposits of in-lieu fees paid pursuant to Zoning & Subdivision Section 230.26. Interest shall accrue to the fund and no other funds shall be commingled.

3. Monies in the Affordable Housing Trust Fund shall be used only to fund projects which have a minimum of fifty (50) percent of the dwelling units affordable to very-low and low income households, with at least twenty (20) percent of the units available to very-low income households based on the Orange County median income, adjusted for appropriate family size, as published by the United States Department of Housing and Urban Development or established by the State of California, pursuant to Health and Safety Code Sections 50079.5 and 50093, or a successor statute.

4. Permitted uses of the Affordable Housing Trust Fund shall be at the Council's discretion and include for pre-development costs, land or air rights acquisition, rehabilitation, land write-downs, administrative costs, gap financing, and lowering the interest rate of construction loans or permanent financing.

5. Any units that obtain or benefit from the Affordable Housing Trust Funds shall maintain the affordability of the units for a minimum of sixty (60) years.

6. The Affordable Housing Fee shall be updated every two years beginning in January 2008.

7. The Affordable Housing In-Lieu Fee shall be adjusted every January beginning 2008 by the Cost of Living Index.

8. The City Administrator or her designee shall administer the Affordable Housing Trust Fund and shall provide an annual report to City Council, which report shall include the beginning balance, ending balance, a description of the projects funded or to be funded each fiscal year. The first annual report shall be provided on or before December 1, 2007 for the 2006-07 fiscal year.

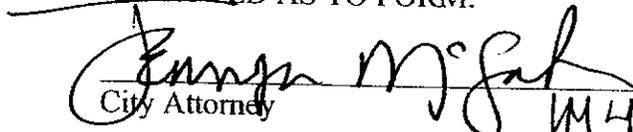
PASSED AND ADOPTED by the City Council of the City of Huntington Beach at a regular meeting thereof held on the \_\_\_\_\_ day of \_\_\_\_\_, 2007.

\_\_\_\_\_  
Mayor

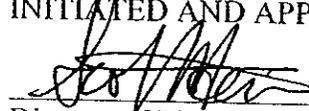
REVIEWED AND APPROVED:

  
\_\_\_\_\_  
City Administrator

APPROVED AS TO FORM:

  
\_\_\_\_\_  
City Attorney IM 4116107

INITIATED AND APPROVED:

  
\_\_\_\_\_  
Director of Planning

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# EXHIBIT A

PLEASE SEE ATTACHMENT NO. 2  
TO THIS RCA  
FOR THE KEYSER MARSTON REPORT  
THAT IS EXHIBIT A  
FOR THE RESOLUTION

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*May 7, 2007*  
*RCA PL 07-12*

**ATTACHMENT #5**

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# Affordable Housing In-Lieu Fee

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**May 7, 2007**

# Request

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- o Adopt affordable housing in-lieu fee for small residential projects with 3 to 9 units, pursuant to a study prepared by Keyser Marston Associates (KMA)
- o Direct staff to process text changes to the affordable housing ordinance

# Background

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- City Council approved affordable housing ordinance October 2004
- Ordinance allows for an in-lieu fee for projects with 3 to 9 units
- City Council reviewed the in-lieu fee nexus study at a Study Session May 2006
- City Council Ad Hoc Committee formed and met July 2006
- Staff directed to process the in-lieu fee as calculated by KMA and report on other items

## Existing Affordable Housing Ordinance Requirements

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- Applies to new residential projects with 3 or more units
- Requires 10% of units as affordable (on-site or off-site)
- Requires for-sale units at Median income or lower; requires rental units at Low or Very Low income
- Allows payment of in-lieu fee for only projects with 3 to 9 units.

# In-Lieu Fee Methodology

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- Calculate Affordability Gap
  - Difference between market rate prices and income restricted (affordable) prices
- Calculate Effective Cost to Developer
  - Affordability Gap per affordable unit x required number of affordable units
- Establish Base In-Lieu Fee Amount
  - Effective Cost / Total Sq. Ft. of Project
- Create a Small Project In-Lieu Fee
  - Adjust Base In-Lieu Fee for small projects

# In-Lieu Fee Methodology (cont'd)

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- Affordability Gap
  - Ownership Project = \$437,000
  - Rental Project = \$105,000
- Effective Cost to Developer (Gap x 10%)
  - Ownership Project = \$43,700
  - Rental Project = \$10,500
- Establish Base In-Lieu Fee (Cost/Avg. Sq. Ft.)
  - Ownership Project = \$24 per sq. ft.
  - Rental Project = \$12 per sq. ft.
- Create a Small Project In-Lieu Fee (46% decrease in Base Fee)
  - 9-unit Ownership Project = \$13 per sq. ft.
  - 9-unit Rental Project = \$7 per sq. ft.
- In-Lieu Fee study calculations updated for inflation
  - Ownership Project = \$14.55 per sq. ft.
  - Rental Project = \$7.84 per sq. ft.

# Proposed In-Lieu Fee

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Project Size (No. of Units)	In-Lieu Fee Per Square Foot Of Habitable Area <sup>1</sup>	
	Ownership Projects	Rental Projects
Three	\$8.28	\$4.48
Four	\$9.29	\$5.04
Five	\$10.41	\$5.60
Six	\$11.42	\$6.16
Seven	\$13.32	\$7.16
Eight	\$13.54	\$7.28
Nine	\$14.55	\$7.84

<sup>1</sup>Habitable area excludes garage, porch, decks/  
balconies.

# Analysis

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- In-Lieu Fee methodology based on well-established, accepted practice
- Adoption would provide alternative means for small projects to satisfy requirements
- In-Lieu Fee revenues would be deposited in a Housing Trust Fund
- Revenues would be used for uses listed in ordinance, including land acquisition, rehabilitation, gap financing, etc.
- Development community has expressed interest in having the fee based solely on rental projects due to cost/feasibility.

## Analysis (cont'd)

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- KMA recommends that the City make some changes to its affordable housing ordinance, to improve clarity and consistency with other regulations.
  - Specify that ownership projects are at Median income level and rental projects are at low income levels.
  - Specify the state code sections that would be used to calculate affordable housing cost.
  - Specific that only allow new development and substantially rehabilitated units may be used to fulfill off-site requirements.

## Recommendation

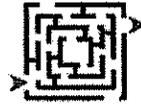
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- Staff recommends the City Council:
  - Adopt the Affordable Housing In-Lieu Fee for small projects
  - Direct that a zoning text amendment be processed to modify the affordable housing ordinance pursuant to KMA's recommendations.

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**ATTACHMENT #4**

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# KEYSER MARSTON ASSOCIATES

ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

## MEMORANDUM

ADVISORS IN:  
REAL ESTATE  
REDEVELOPMENT  
AFFORDABLE HOUSING  
ECONOMIC DEVELOPMENT

**To:** Mary Beth Broeren, Principal Planner  
City of Huntington Beach

SAN FRANCISCO  
A. JERRY KEYSER  
TIMOTHY C. KELLY  
KATE EARLE FUNK  
DEBBIE M. KERN  
ROBERT J. WETMORE

**From:** Kathleen Head

**Date:** October 1, 2007

LOS ANGELES  
CALVIN E. HOLLIS, II  
KATHLEEN H. HEAD  
JAMES A. RABE  
PAUL C. ANDERSON  
GREGORY D. SOO-HOO

**Subject:** Inclusionary Housing In-Lieu Fee: Calculation Methodology

SAN DIEGO  
GERALD M. TRIMBLE  
PAUL C. MARRA

In a memorandum dated January 23, 2006 Keyser Marston Associates, Inc. (KMA) recommended in-lieu fee schedules for residential projects with nine or fewer units that are subject to the City of Huntington Beach (City) Inclusionary Housing Ordinance (Ordinance). In a memorandum dated April 9, 2007, KMA updated the recommended fee schedules to reflect the percentage change in the median price for new homes in Orange County exhibited between December 2005 and December 2006. The fee schedule recommended in the April 9, 2007 analysis is presented in the following table:

2007 In-Lieu Fee Schedule - Fee Calculated Per Square Foot of Building Area in the Project		
Base Fee / Sq. Ft.	\$27	\$13
<u>Project Size</u>	<u>Ownership</u>	<u>Rental</u>
Three Units	\$8.28	\$4.48
Four Units	\$9.29	\$5.04
Five Units	\$10.41	\$5.60
Six Units	\$11.42	\$6.16
Seven Units	\$13.32	\$7.16
Eight Units	\$13.54	\$7.28
Nine Units	\$14.55	\$7.84

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**PROPOSED MODIFICATIONS TO THE CALCULATION METHODOLOGY**

In a workshop held on July 30, 2007, the Ad Hoc City Council Committee on Affordable Housing In-Lieu Fees (In-Lieu Fee Committee) requested that the in-lieu fee calculation methodology be modified as follows:

1. The in-lieu fee should be calculated based on the number of units in the project rather than on the building area in the project.
2. The in-lieu fee should not vary between ownership and rental projects.
3. The base year in-lieu fee should be set at the average of the fee amount derived for ownership and rental projects.

The in-lieu fee schedule identified in the January 2006 KMA analysis was based on a scale with uneven increases unit-by-unit between three and nine units. At the City's request, the currently recommended fee schedule increases the fee on a pro rata basis.

The in-lieu fees calculations resulting from the Ad Hoc City Council Committee and City staff direction are provided in Table 1, and can be summarized as follows:

2007 In-Lieu Fee Schedule - Fee Calculated Per Unit in the Project		
Base Fee / Unit	\$30,337	
<u>Project Size</u>	<u>Fee / Unit</u>	<u>Total Fee</u>
Three Units	\$9,430	\$28,290
Four Units	\$10,600	\$42,400
Five Units	\$11,780	\$58,900
Six Units	\$12,960	\$77,760
Seven Units	\$14,140	\$98,980
Eight Units	\$15,330	\$122,640
Nine Units	\$16,500	\$148,500

The KMA analysis recommended that the City adjust the fee amount annually based on the annual change in new home prices in Orange County. This information is published by the Real Estate Research Council of Southern California in a quarterly report titled *Real Estate and Construction Report*.<sup>1</sup> It is the KMA assumption that this adjustment methodology will be included in the in-lieu fee regulations.

<sup>1</sup> The information source is Data Quick Information Systems. The original data are taken from county records and the prices are calculated from the documentary transfer tax. Adjustments are made to remove very high-end and very low-end sales.

## FINDINGS

The City's primary objectives in providing an in-lieu fee option in the Ordinance is to establish an fee schedule that meets the following criteria:

1. The funds should be sufficient to allow the City to produce the number of inclusionary units that would have been required within the project that has been allowed to pay the in-lieu fee.
2. The in-lieu fee schedule should be set at amounts that do not render small projects economically infeasible.

It should be recognized that the currently proposed in-lieu fee schedule will be insufficient to produce the inclusionary units in similar locations and product types to the market rate ownership units being developed. However, the establishment of an in-lieu fee schedule requires the City to make several subjective judgments and decisions. To that end, KMA considered the following factors:

1. The primary purpose of the Ordinance is to attract good quality affordable housing units to the community. There is no stated objective to provide low and moderate income households with luxury housing units.
2. New ownership housing units in Huntington Beach are commonly selling for prices in excess of \$1.0 million. It may be considered financially inefficient to provide affordable housing for moderate income households at that market price range.
3. The potential exists to create a diverse mix of affordable housing on a more cost efficient basis in rental units and/or in infill locations. As such, the currently proposed in-lieu fee schedule may provide sufficient revenues to produce the requisite number of inclusionary units in off-site locations.

It is the KMA opinion that the currently proposed in-lieu fee schedule balances the objectives to attract affordable housing units while limiting the in-lieu fee to amounts that can be supported by small projects. If the City wishes to allow projects with more than nine units to pay a fee in lieu of producing the required affordable units, it would be appropriate to use the Base Fee identified in the schedule to calculate the applicable in-lieu fee amount.

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**TABLE 1**

**2005 IN-LIEU FEE SUMMARY  
IN-LIEU FEE ANALYSIS  
HUNTINGTON BEACH, CALIFORNIA**

I. <u>Base In-lieu Fee (2005)</u> <sup>1</sup>	Average Unit Size	Fee / Sq. Ft.	Fee / Unit
	(Sq. Ft.)	Building Area	
Ownership Projects	1,800	\$24	\$43,700
Rental Projects	875	\$12	\$10,500
<b>Average Fee Per Unit</b>			<b>\$27,100</b>
<b>II. <u>Base In-lieu Fee for Small Projects</u></b>			
Base In-lieu Fee	\$27,100		
Loss in Profit <sup>1</sup>	46%		
<b>Base In-lieu Fee for Small Projects</b>	<b>\$14,739</b>		
<b>III. <u>Sliding Scale as a % of the Base In-lieu Fee</u> <sup>2</sup></b>			
3 Unit Projects	57%		
4 Unit Projects	64%		
5 Unit Projects	71%		
6 Unit Projects	79%		
7 Unit Projects	86%		
8 Unit Projects	93%		
9 Unit Projects	100%		
<b>IV. <u>Sliding Scale In-lieu Fee</u></b>			
	<u>Fee / Unit</u>		<u>Total Fee</u>
	<u>2005 Data</u>	<u>2007 Update</u>	
		11.94% <sup>3</sup>	
3 Unit Projects	\$8,420	\$9,430	\$28,290
4 Unit Projects	\$9,470	\$10,600	\$42,400
5 Unit Projects	\$10,520	\$11,780	\$58,900
6 Unit Projects	\$11,580	\$12,960	\$77,760
7 Unit Projects	\$12,630	\$14,140	\$98,980
8 Unit Projects	\$13,690	\$15,330	\$122,640
9 Unit Projects	\$14,740	\$16,500	\$148,500

<sup>1</sup> Based on KMA analysis dated January 23, 2006.

<sup>2</sup> The three-unit and nine-unit fee amounts are based on the January 23, 2006 analysis. The sliding scale has been adjusted to provide pro rata increases on a unit-by-unit basis.

<sup>3</sup> Based on the percentage change in the median price for new homes in Orange County between December 2005 and December 2006. The medians were \$707,500 and \$792,000, respectively. The source is the Real Estate and Construction Report published by the Real Estate Research Council of Southern California.

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**ATTACHMENT #5**

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Landscaping

Tree wells adjacent to landscape parkways on the street side of curb is encouraged, however shall not encroach into the min. 24 foot wide drive aisle. Also see Chapter 232 Landscaping

**230.26 Affordable Housing (3687-12/04)**

**A. Purpose.**

1. The purpose and intent of this Chapter is to implement the goals, objectives and policies of the City's Housing Element. It is intended to encourage very low, low-and median income housing, which is integrated, compatible with and complements adjacent uses, and is located in close proximity to public and commercial services. (3687-12/04)
2. The affordable housing program is one tool the City utilizes to meet its commitment to provide housing affordable to all economic sectors, and to meet its regional fair-share requirements for construction of affordable housing. (3687-12/04)

**B. Applicability. This section shall apply to new residential projects three (3) or more units in size. (3687-12/04)**

1. A minimum of ten (10) percent of all new residential construction shall be affordable housing units. (3687-12/04)
2. Rental units included in the project shall be made available to very low or low-income households based on the Orange County Median Income, adjusted for appropriate family size, as published by the United States Department of Housing and Urban Development or established by the State of California, pursuant to Health and Safety Code Section 50093, or a successor statute. (3687-12/04)
3. For sale units included in the project shall be made available to very low, low or median income level households based on the Orange County Median Income, adjusted for appropriate family size, as published by the United States Department of Housing and Urban Development or established by the State of California, pursuant to Health and Safety Code Section 50093, or a successor statute. (3687-12/04)
4. Developers of residential projects consisting of nine or fewer units may elect to pay a fee in lieu of providing the units on-site to fulfill the requirement of the Section, unless the affordable housing requirement is outlined as part of a specific plan project. (3687-12/04)
5. Developers of residential projects may elect to provide the affordable units at an off-site location pursuant to subsection B unless otherwise outlined as part of a specific plan project. If affordable units are off-site, they must be under the full control of the applicant, or other approved party. (3687-12/04)
6. New residential projects shall include construction of an entirely new project or new units added to an existing project. For purposes of determining the required number of affordable housing units, only new units shall be counted. (3687-12/04)

C. Fees in Lieu of Construction.

1. Fees paid to fulfill the requirements of this Section shall be placed in the City's Affordable Housing Trust Fund, the use of which is governed by subsection E. (3687-12/04)
2. The amount of the in-lieu fees shall be calculated using the fee schedule established annually by resolution of the City Council. (3687-12/04)
3. One hundred (100) percent of the fees required by this Section shall be paid prior to issuance of a building permit. (3687-12/04)
4. Fees paid as a result of new residential projects shall be based upon the total number and size of the new residential units which are to be constructed. (3687-12/04)

D. Off-Site Construction of Affordable Units. Except as may be required by the California Coastal Act and/or the California Government Code Section 65590 or a successor statute, developers may provide the required affordable housing off-site, at one or several sites, within the City of Huntington Beach. (3687-12/04)

1. Off-site projects may be new construction or major physical rehabilitation, equal to more than one-third the value of the existing improvement, excluding land value, of existing non-restricted units conditioned upon being restricted to long-term affordability. "At Risk" units identified in the Housing Element or mobile homes may be used to satisfy this requirement. (3687-12/04)
2. All affordable off-site housing shall be constructed or rehabilitated prior to or concurrently with the primary project. Final approval (occupancy) of the first market rate residential unit shall be contingent upon the completion and public availability, or evidence of the applicant's reasonable progress towards attainment of completion, of the affordable units. (3687-12/04)

E. Miscellaneous Provisions.

1. The conditions of approval for any project that requires affordable units shall specify the following items: (3687-12/04)
  - (a) The density bonus being provided pursuant to Section 230.14, if any; (3687-12/04)
  - (b) The number of affordable units; (3687-12/04)
  - (c) The number of units at each income level as related to Orange County Median Income; and (3687-12/04)
  - (d) A list of any other incentives offered by the City. (3687-12/04)
2. An Affordable Housing Agreement outlining all aspects of the affordable housing provisions shall be executed between the applicant and the City and recorded with the Orange County Recorder's Office prior to issuance of the first building permit. (3687-12/04)
3. The Agreement shall specify an affordability term of not less than sixty (60) years. (3687-12/04)

4. In a project requiring an in-lieu fee, the applicant shall execute and record an Agreement to pay an Affordable Housing In-Lieu Fee. (3687-12/04)
5. All affordable on-site units in a project shall be constructed concurrently with or prior to the construction of the primary project units unless otherwise approved through a phasing plan. Final approval (occupancy) of the first market rate residential unit shall be contingent upon the completion and public availability, or evidence of the applicant's reasonable progress towards attainment of completion, of the affordable units. (3687-12/04)
6. All affordable units shall be reasonably dispersed throughout the project unless otherwise designed through a master plan, shall contain on average the same number of bedrooms as the market rate units in the project, and shall be comparable with the market rate units in terms of exterior appearance, materials and finished quality. (3687-12/04)
7. Affordable Housing Trust Funds shall be used for projects which have a minimum of fifty (50) percent of the dwelling units affordable to very low- and low-income households, with at least twenty (20) percent of the units available to very low-income households. Concurrent with establishing the annual fee schedule pursuant to subsection C, the City Council shall by resolution set forth the permitted uses of Affordable Housing Trust Funds. All units that obtain Affordable Housing Trust Funds shall maintain the affordability of the units for a minimum of sixty (60) years. The funds may, at the discretion of the City Council, be used for pre-development costs, land or air rights acquisition, rehabilitation, land write downs, administrative costs, gap financing, or to lower the interest rate of construction loans or permanent financing. (3687-12/04)
8. New affordable units shall be occupied in the following manner: (3687-12/04)
  - (a) If residential rental units are being demolished and the existing tenant(s) meets the eligibility requirements, he/she shall be given the right of first refusal to occupy the affordable unit(s); or (3687-12/04)
  - (b) If there are no qualified tenants, or if the qualified tenant(s) chooses not to exercise the right of first refusal, or if no demolition of residential rental units occurs, then qualified households or buyers will be selected. (3687-12/04)

F. Price of Affordable Units. Affordable units shall be sold or rented at prices affordable to very low, low- or median-income households pursuant to terms of the Affordable Housing Agreement. (3687-12/04)

~~230.28 (Reserved)~~

~~230.30 (Reserved)~~

Non-Residential Districts

230.32 Service Stations

The following supplemental development standards shall apply to the Service Station use classification.

A. Minimum parcel size. 22,500 square feet.

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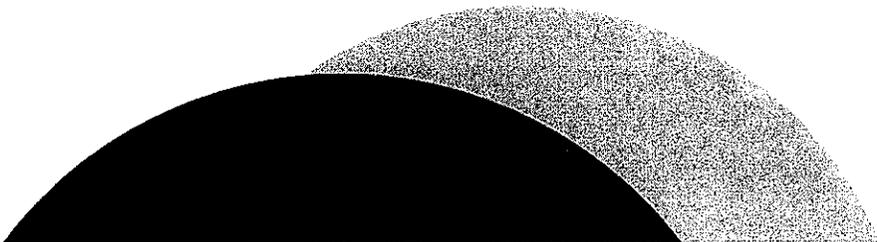
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# Affordable Housing In-Lieu Fee

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**October 15, 2007**



## Request

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- o Adopt affordable housing in-lieu fee for small residential projects with 3 to 9 units, pursuant to a study prepared by Keyser Marston Associates (KMA)
- o Direct staff to process text changes to the affordable housing ordinance

# Background

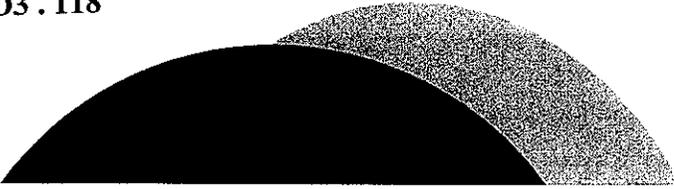
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- City Council approved affordable housing ordinance October 2004
- Ordinance allows for an in-lieu fee for projects with 3 to 9 units
- City Council held a study session in May 2006 and a public hearing in May 2007
- City Council Ad Hoc Committee met July 2006 and July 2007

## Existing Affordable Housing Ordinance Requirements

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- Applies to new residential projects with 3 or more units
- Requires 10% of units as affordable (on-site or off-site)
- Requires for-sale units at Median income or lower; requires rental units at Low or Very Low income
- Allows payment of in-lieu fee for only projects with 3 to 9 units.



# In-Lieu Fee Methodology

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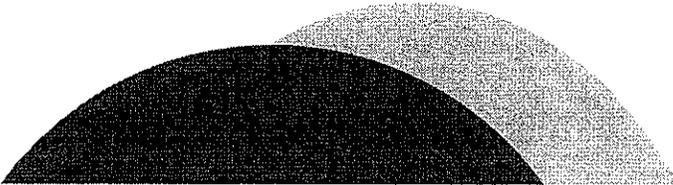
- Calculate Affordability Gap
  - Difference between market rate prices and income restricted (affordable) prices
- Calculate Effective Cost to Developer
  - Affordability Gap per affordable unit x required number of affordable units
- Establish Base In-Lieu Fee Amount
  - Effective Cost / Total Sq. Ft. of Project
- Create a Small Project In-Lieu Fee
  - Adjust Base In-Lieu Fee for small projects

# Per Square Foot In-Lieu Fee presented May 2007

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Project Size (No. of Units)	In-Lieu Fee Per Square Foot Of Habitable Area <sup>1</sup>	
	Ownership Projects	Rental Projects
Three	\$8.28	\$4.48
Four	\$9.29	\$5.04
Five	\$10.41	\$5.60
Six	\$11.42	\$6.16
Seven	\$13.32	\$7.16
Eight	\$13.54	\$7.28
Nine	\$14.55	\$7.84

<sup>1</sup>Habitable area excludes garage, porch, decks/  
balconies.



# Ad Hoc Committee Direction

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- Revise Methodology:
  - To reduce the amount of fees overall and simplify the fee structure by having one fee for both ownership and rental projects
  - To not penalize projects w/ larger units (i.e. more square footage) and develop a per unit fee

# Currently Proposed In-Lieu Fee

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Project Size (No. of Units)	Per Unit In-Lieu Fee
Three	\$9,430
Four	\$10,600
Five	\$11,780
Six	\$12,960
Seven	\$14,140
Eight	\$15,330
Nine	\$16,500



# Comparison of Per Unit and Per Square Foot In-lieu Fees

Type of Project	Original Methodology		Revised Methodology (Currently Proposed)	
	Per Sq. Ft. Fee	Total Fee <sup>1</sup>	Per Unit Fee <sup>1</sup>	Total Fee
Ownership	\$14.55	\$235,710 (effectively \$26,190/unit)	\$16,500 (effectively \$9.17/sq. ft.)	\$148,500
Rental	\$7.84	\$61,740 (effectively \$6,860/unit)	\$16,500 (effectively \$18.86/sq. ft.)	\$148,500

<sup>1</sup>Based on 1,800 sq. ft. ownership unit and 875 sq. ft. rental unit; includes habitable area only. Total project size is nine units.

# Analysis

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- In-Lieu Fee methodology based on well-established, accepted practice
- Adoption would provide alternative means for small projects to satisfy requirements
- In-Lieu Fee revenues would be deposited in a Housing Trust Fund
- Revenues would be used for uses listed in ordinance, including land acquisition, rehabilitation, gap financing, etc.



## Analysis (cont'd)

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- KMA recommends that the City make some changes to its affordable housing ordinance, to improve clarity and consistency with other regulations.
- Specify that ownership projects are at Median income level and rental projects are at low income levels.
- Specify the state code sections that would be used to calculate affordable housing cost.
- Specific that only allow new development and substantially rehabilitated units may be used to fulfill off-site requirements.

## Recommendation

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- Staff recommends the City Council:
  - Adopt the Affordable Housing In-Lieu Fee for small projects
  - Direct that a zoning text amendment be processed to modify the affordable housing ordinance pursuant to KMA's recommendations.