



Community Development
Department

Memo

DATE: March 12, 2024
TO: Planning Commission
FROM: Robert (Dean) Flores, Senior Planner
RE: Additional Documents, Item No. 4
Inclusionary Housing Ordinance In-Lieu Fees

The attached includes:

1. 2 Public Comment letters received by 12:00 p.m. on March 12, 2024.
2. Correction on page 1 of Item 4 Staff Report.

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I am thrilled that Jason Claypool is now on the Planning Commission. We have needed someone who has experience in multifamily development. In my time in DTLA I saw many TCA buildings being built and was on DLANC right after he was.

Jason, can you ask Simon Ha or anybody else you worked with at Steinberg Hart or TCA the following question:

If you were building a 23 unit building, and you were required to have two very low income units and one low income unit, you would have a financing gap of \$1.35 million. (\$538k+\$538k+\$297k). You would also have an affordable housing fee of \$120k.

Ask them if this building could ever be built.

Ask them if there is any city that they have encountered a 7.5% Very low and 7.5% Low Income Inclusionary Housing Ordinance.

Or anybody, please ask EPS how this fee compares to other cities they have done this for??? How does this compare to Pasadena?

There is a reason that HCD decided to retroactively reject the 5th draft of the Housing Element. It is because our staff keeps doing NIMBY things like setting an IHO and In-Leiu fees that are so high that no building can ever be financially viable in South Pasadena and then lying to HCD about it.

Or like last month when they tried to not rezone the one property where someone wanted to build and then lied to you about what was in the Housing Element. I mean, the Housing Element literally had a paragraph stating that Victor Tangs property is supposed to be 70 DU/acre.

- **How addressed:** Site 3 is included in the Ostrich Farm mixed-use area as shown in Figure A-3.b (Page A1-15). This area will allow for densities of up to 70 du/ac. While this site could yield significantly more units once rezoned, the City currently has an application in for this site which indicates that the property owner intends to construction eight (8) above-moderate income units on the site. Therefore, the Housing Element reflects the current development application submitted by



Planning Commission Agenda Report

ITEM NO. 4

DATE: March 12, 2024

FROM: Angelica Frausto-Lupo, Community Development Director

PREPARED BY: Alison Becker, AICP, Deputy Community Development Director
Robert (Dean) Flores, Senior Planner

SUBJECT: **Recommendation to City Council to adopt Inclusionary Housing Ordinance In-Lieu Fee.**

Recommendation

It is recommended that the Planning Commission review the analysis prepared by the City's consultant – Economic & Planning Systems (EPS) – to establish an affordable housing in-lieu fee and recommend that the City Council adopt a fee resolution.

Background

In 2021, the South Pasadena City Council adopted an Inclusionary Housing Ordinance (IHO) (SPMC 36.375), subsequently updated in 2023, that applies to all multi-family or mixed-use projects featuring 10 or more residential units. The ordinance requires a minimum of 15% of units to be set aside at specified levels of affordability. For rental projects, 7.5% of units need to be set aside for Extremely-Low or Very-Low-Income Units and 7.5% for ~~Very~~-Low-Income Units. Developers of for-sale projects have the option to choose whether to provide the required 15% inclusionary units as moderate income, low income, very low income, or a combination thereof. Additionally, the ordinance requires the establishment of an in-lieu fee option wherein applicants may opt to pay in certain situations rather than provide all or part of the inclusionary units on-site.

The in-lieu fee schedule was not established as part of the IHO. In 2021, the City Council authorized funding for the in-lieu fee study following adoption of the IHO. In April 2022, Planning Division staff and EPS presented the Planning Commission with their initial analysis and framework of the proposed IHO in-lieu fee based on the previous iteration of said ordinance (See Attachment 1). During the meeting, the Planning Commission directed staff to revise the framework to ensure financial feasibility for development of units. Further, with the anticipated adoption of the 2021-2029 Housing Element (6th Cycle) and subsequent update to the IHO in 2023, this item was temporarily paused until the City was ready to revisit the proposed in-lieu fee.

Discussion/Analysis

The Inclusionary Housing Ordinance favors on-site unit construction over payment of a fee to build units elsewhere in the City. Only certain situations qualify developers for payment of a fee in-lieu of construction. Accordingly, the in-lieu fee required of a rental project will always be calculated on a fractional unit. Ownership projects that choose not

to provide on-site affordable housing units may pay the fee for the entire obligation. In both cases, the South Pasadena Municipal Code requires the in-lieu fee to be deposited in an affordable housing fund for the development or maintenance of affordable housing, which could include allocation of funding to non-profit housing developers building affordable housing in the City.

Affordability Levels

In their analysis of affordability levels, EPS utilized Los Angeles County data based on a 3-person household for Very-Low-, Low-, and Moderate-income levels (see Table 1 below). They used this data to extrapolate the proposed in-lieu fee required based on project type (Rental vs. For-Sale) and affordability level as shown in Table 2.

Table 1 – Housing Affordability Levels (LA County 2023)




			
3 Person HH	Very Low Income (Rental)	Low Income (Rental)	Moderate Income (For Sale)
Annual Household Income	\$56,750	\$90,850	\$106,050
Affordable Housing Costs (30% of Income)	\$17,025	\$27,255	\$31,815
Affordable Rent/Sale Price (after other hsg. costs)	\$1,188/mo.	\$2,040/mo.	\$376,000

Table 2 – Proposed In-Lieu Fee Per Required Affordable Unit by Square Feet

Affordability Level	Project Type	Fee Per Affordable Unit Square Foot
Very-Low Income (50% AMI)	Rental	\$538
Low-Income (80% AMI)	Rental	\$297
Moderate Income (120% AMI)	For-Sale	\$371

Affordability Gap Analysis

EPS then used the affordability level data above to analyze the impact of paying the in-lieu payment relative to the financial feasibility of building affordable units on-site. They did this using an affordability gap analysis, which compares the costs of building the affordable units to their value at affordable levels. EPS calculated this gap for three inclusionary requirement scenarios, as reflected in the City’s updated IHO:

1. A rental project’s inclusionary requirement includes a fractional unit affordable to Very-Low-income households.
2. A rental project’s inclusionary requirement includes a fractional unit affordable to Low-income households.
3. A for-sale project’s inclusionary requirement includes units affordable to Moderate income households.

Fee Calculation Methodology

The City’s IHO’s definition of an in-lieu fee is the “amount that is equivalent to the cost of providing a comparable unit for each unit that would have been provided in the project.” As such, in order to determine the estimated cost of a proposed development, EPS used a financing gap approach, which represents a subsidy needed to finance the same unit type elsewhere. This approach aligns with the City’s IHO language as it reflects the actual cost to the developer to provide affordable units on-site (see Figure 1 below).

Figure 1 – Financing Gap Calculation



Then, EPS used this Financing Gap Calculation to determine the affordable unit subsidy per unit and per square feet for each affordability income level, which is known as the in-lieu fee calculation, as shown in Tables 3 and 4.

Table 3 – In-Lieu Fee for Affordable Rental Units

Financing Gap at Very Low Income (50% AMI)

Value/Unit	\$171,000
Costs/Unit	\$709,000
Subsidy per Affordable Unit	\$538,000
Subsidy per Affordable Sq. Ft. [1]	\$538

Financing Gap at Low Income (80% AMI)

Value/Unit	\$412,000
Costs/Unit	\$709,000
Subsidy per Affordable Unit	\$297,000
Subsidy per Affordable Sq. Ft. [1]	\$297

[1] Based on a 1,000 square foot unit.

Source: Economic & Planning Systems

Table 4 – In-Lieu Fee for Affordable For-Sale Units

Item	<i>Moderate (120% AMI)</i>
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Proposed For-Sale In-Lieu Fee Calculation

Value/Unit	\$376,000
Costs/Unit	\$821,798
Subsidy per Affordable Unit	\$445,798
Subsidy per Affordable Sq. Ft. [1]	\$371

[1] Based on a 1,200 square foot unit.

Source: Economic & Planning Systems, Inc.

Finally, EPS used the in-lieu fee calculation for each scenario and provided examples of an in-lieu fee total for each project type as shown in Figures 2 and 3 below. A more detailed analysis of both the Affordability Gap Analysis and the in-lieu fee calculations can be found in EPS' Memorandum included as Attachment 2 of this staff report.

Figure 2 – Rental Project In-Lieu Fee Owed

Rental Project In-Lieu Fee Formula

For Projects Requiring a Partial Very-Low Income Unit:
Fractional Unit Required x Average Sq.Ft. of Market-Rate Units x \$538.00

For Projects Requiring a Partial Low-Income Unit:
Fractional Unit Required x Average Sq.Ft. of Market-Rate Units x \$297.00

Example Calculations

Example Project 1 is a 23-unit development with an average unit size of 900 sq. ft.

Affordable units required = 23 units*15% = 3.45 units

Inclusionary requirement is at least 2 Very-Low income units, 1 Low-income units, and either a fee paid on 0.45 Low-income units or an additional Low-income unit.

Fee Owed = 0.45 units x 900 sq. ft. x \$297 = \$120,285

Example Project 2 is a 58-unit development with an average unit size of 1,200 sq. ft.

Affordable units required = 58 units*15% = 8.7 units

Inclusionary requirement is 4 Very-Low income units, 4 Low-income units, and either a fee paid on 0.7 Very-Low income units or an additional Very-Low income unit.

Fee Owed = 0.7 units x 1,200 sq. ft. x \$538 = \$451,920

Figure 3 – For-Sale Project In-Lieu Fee Owed

For-Sale Project In-Lieu Fee Formula

For Projects Building Affordable Units On-Site:
Fractional Unit Required (if applicable) x Average Sq.Ft. of Market-Rate Units x \$371.00

For Projects Not Building Affordable Units On-Site:
Total Affordable Units Required x Average Sq.Ft. of Market-Rate Units x \$371.00

Example Calculation

Example Project is a 18-unit for-sale development. Each unit is 1,500 square feet, for a total project size of 21,000 square feet.

Affordable units required = 18 units*15% = 2.7 moderate-income units

Inclusionary requirement is 2 moderate income units, and a fee paid on 0.8 moderate income units; or a fee paid on 2.7 moderate income units

Fee for Fractional Unit = 0.7 units x 1,500 sq. ft. x \$371 = \$389,550

Fee for All Req. Units = 2.7 units x 1,500 sq. ft. x \$371 = \$1,502,550

To summarize, based on the analysis performed by EPS, the proposed IHO in-lieu fees shall be set based on the following project types listed in Table 2 and as below:

1. **\$538** per square foot for rental projects at Very-Low Income (50% AMI),
2. **\$297** per square foot for rental projects at Low Income (80% AMI), and
3. **\$371** per square foot for for-sale projects at Moderate Income (120% AMI).

Next Steps

If the Commission recommends approval of the IHO in-lieu fees, the City Council will hold a public hearing on the item tentatively scheduled on April 17, 2024.

Legal Review

The City Attorney has reviewed this item.

Attachments

1. April 18, 2022 Planning Commission Staff Report (Item No. 3)
2. Economic & Planning Systems (EPS) In-Lieu Fee Memorandum