City of Del Mar
Staff Report

TO: Honorable Mayor and City Council Members

FROM: Kathleen A. Garcia, Planning and Community Development Director
Via Scott W. Huth, City Manager

DATE: June 4, 2018

SUBJECT: State of California 2017 Legislative Housing Package

REQUESTED ACTION/RECOMMENDATION:
Accept the attached report on new California housing legislation most pertinent to the City of Del Mar, discuss associated findings, and provide direction to staff and our Lobbyist.

BACKGROUND:
The State of California faces significant housing affordability and supply challenges. State housing officials estimate that 180,000 new homes are needed each year to keep pace with population growth, however less than half that number on average are constructed annually. In the San Diego region, there is the estimated need for approximately 22,000 – 25,000 new homes annually to meet the demand. Providing housing is especially challenging in coastal regions throughout the state, where there is high-wage job growth, built-out cities, sensitive natural resources, high cost of land and limited housing construction.

As a response to the housing crisis, the State Legislature adopted and Governor Jerry Brown signed a group of 15 bills into law in 2017. These laws, commonly called the "Housing Package," address three broad categories of legislation: 1) Local Accountability and Enforcement; 2) Streamlining Housing Development; and 3) Funding and Creation/Preservation of Housing.

To summarize these many pieces of legislation, the League of California Cities subsequently prepared the 2018 Guide to the New Housing Law in California brochure, which is in Attachment A. League staff also wrote summary articles regarding the relationship of these laws to local jurisdictions, which is included as Attachment B. The State Office of Housing and Community Development (HCD) has also compiled a summary of many of these bills, Attachment C.

This staff report summarizes the key legislation that does or can affect Del Mar and will have the most critical impact on the City.

City Council Action:

1. Local Accountability and Enforcement:
Housing Accountability Act (SB 167, AB 678, and AB 1515): These three bills strengthen the Housing Accountability Act by increasing the documentation necessary for a local agency to deny low and moderate–income housing development projects and require courts to impose a fine of $10,000 or more per unit when a local agency fails to legally defend their rejection of an affordable housing development project. AB 1515 also states that a housing development conforms with local land use requirements if there is substantial evidence that would allow a reasonable person to reach that conclusion. Together these three bills restrict a city's ability to deny, reduce the density of, or make infeasible housing developments and requires cities to justify these actions. These laws apply to all housing development projects, both affordable and market rate, as well as emergency shelters, and include mixed use projects with at least 2/3 of the square footage designated for residential use. A project denial, if challenged, can be defended only against objective standards (FAR, height, setback, etc.) and not likely the subjective standards, such as community character. If a project does not comply with objective standards, a city must provide a list of inconsistencies within 30 days of the application being deemed complete, otherwise the project is deemed consistent and it cannot be denied. Cities now must make much clearer findings and be supported by a "preponderance of evidence" in order to deny a project. If it is determined that a city denied a project in bad faith, a court may order approval, and mandatory fines can be imposed, with a 5 times enhanced fine if the city is found to have acted in bad faith.

Additional bills amended Housing Element law (AB 72, AB 1397, SB 166, AB 879) to give statutory authority to HCD in order to enforce state housing law at any time, and refer these violations to the Attorney General for action, if inconsistent with the adopted Housing Element. AB 1397 requires cities to provide more appropriate zoning for their share of the regional housing needs and increases those projects allowed by-right. SB 166, No Net Loss, requires general law cities to identify additional low-income housing sites in their Housing Element if market rate housing is developed on a site currently identified for low-income housing. AB 879 requires additional annual reporting for both general law and charter cities, including implementation, processing times and fees to assess impacts these discretionary actions have on the provision of affordable housing. AB 879 also has provisions for court ordered sanctions for reporting failure, including triggering streamlining approvals.

2. Streamlining Housing Development:
SB 35, AB 73 and SB 540 all work to streamline and incentivize housing production. SB 35 creates a streamlined approval process for developments in cities that have not yet met their housing targets, if they comply with existing zoning and provide at least 10% of units for lower-income families. AB 73 provides state financial incentives for cities that create zoning overlay districts with streamlined zoning for projects that use prevailing wage and include a minimum amount of affordable housing. Streamlined zoning would eliminate discretionary review, such as Design Review. SB 540 reduces the amount of environmental review for affordable housing projects in a workforce housing opportunity zone.

3. Funding and the Creation or Preservation of Housing

Five bills emphasize the creation or preservation of affordable housing. The most significant is SB 2 (Atkins), which imposes a fee on recording of real estate documents (excluding sales) for the purposes of funding affordable housing. The first year's funds will go to reducing homelessness; following years allocate 70% to local jurisdictions for affordable housing and the remainder to statewide programs. At this time, it has not been determined if this funding will be through competitive grants or direct distribution, but there may be the potential for some source of funding for local projects. SB 3 is a $4 billion general obligation bond on the November 2018 general election for assisting with affordable development. AB 1505 changes zoning regulations by authorizing cities to require low-income housing on site or off-site as a condition of the development of residential rental units. AB 1521 amends Preservation Noticing law by requiring the seller of subsidized housing to accept a bonafide offer to purchase and AB 571 makes modifications to the State's farmworker housing tax credit to increase use.

Next Steps

Each of these laws has the potential to affect Del Mar either through the potential for future funding (SB 2 and SB 3 primarily); streamlining the affordable housing approval process; and adding more accountability with corresponding enforcement. The trend at the State legislature is to make the Housing Element inventory more effective in requiring jurisdictions to produce affordable housing. There is growing support at the State level to override local land use authority in order to facilitate the development of more affordable housing and it is anticipated that there will be additional bills that address housing in future legislative sessions. New legislation may affect both the implementation of Del Mar's current Housing Element Action Plan, as well as the upcoming Housing Element update for the 2021-2029 cycle, which will begin work this year with the Regional Housing Need Allocation (RHNA). Staff will continue to monitor new legislation as well as comply with the reporting requirements and permit processing requirements.

FISCAL IMPACT:

This report is informational in nature and does not propose any actions that will affect the adopted 2017-2018 and 2018-2019 Operating and Capital Budget.

PRIOR CITY COUNCIL REVIEW:

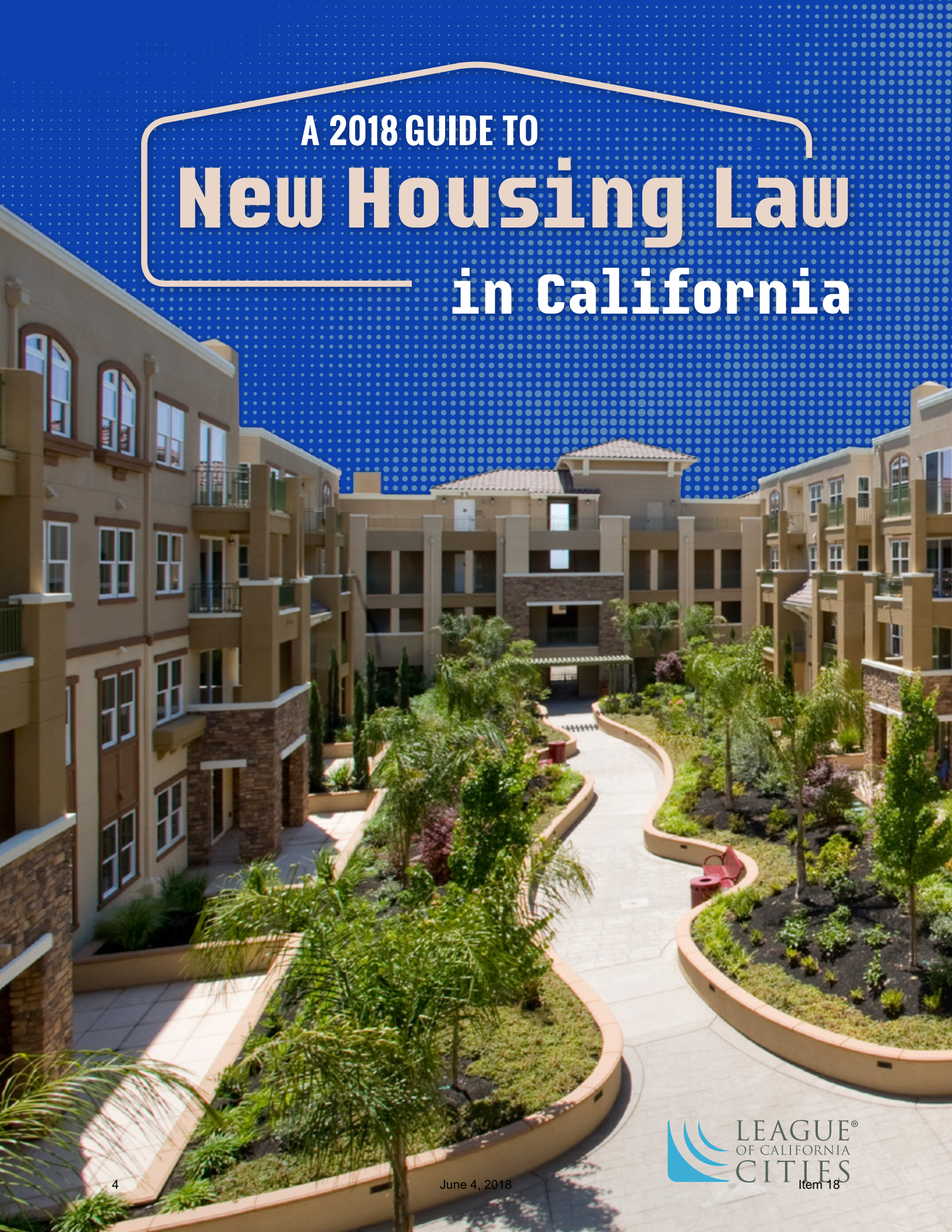
The City Council has not previously reviewed the recently adopted legislation on Affordable Housing.

ATTACHMENTS:

Attachment A – League of CA Cities 2018 Guide to New Housing Law
Attachment B – League of CA Cities Article on 2017 Housing Package
Attachment C – HCD California's 2017 Legislative Housing Package Summary

A 2018 GUIDE TO

New Housing Law in California



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INTRODUCTION

Housing affordability is an urgent issue in California, where a majority of renters (over 3 million households) pay more than 30 percent of their income toward rent and nearly one-third (over 1.5 million households) spend more than 50 percent of their income on rent. In addition, California's homeownership rates are at the lowest point since the 1940s. This has led many experts in the field to declare the current state of housing supply and affordability a crisis.

In his January 2017 budget proposal, Governor Brown set the tone and parameters for substantive action to address housing supply and affordability issues. He indicated that new and increased funding for housing must be instituted along with regulatory reform that streamlines local project approval processes and imposes more stringent measures of local accountability. These parameters guided legislative action throughout 2017, resulting in a package of bills signed into law.

Gov. Brown and state legislators made significant changes to local land-use processes and approved new sources of revenue for housing construction. Throughout the 2017 legislative session, the League advocated for proposals that preserved local authority while advancing much-needed housing development approvals.

This reference guide covers recent actions taken by the state Legislature to address the housing crisis and provides in-depth analysis and guidance on changes made to state and local land-use law that will affect city processes and functions related to housing development.

PART I. THE CALIFORNIA HOUSING CRISIS

Principal Causes of the Affordable Housing Shortage

Local governments are just one piece of the complex scenario that comprises the housing development process. Cities don't build homes — the private sector does. California's local governments must zone enough land in their General Plans to meet the state's projected housing need; however, cities don't control local market realities or the availability of state and federal funding needed to support the development of affordable housing. This is true not just in California but nationwide.

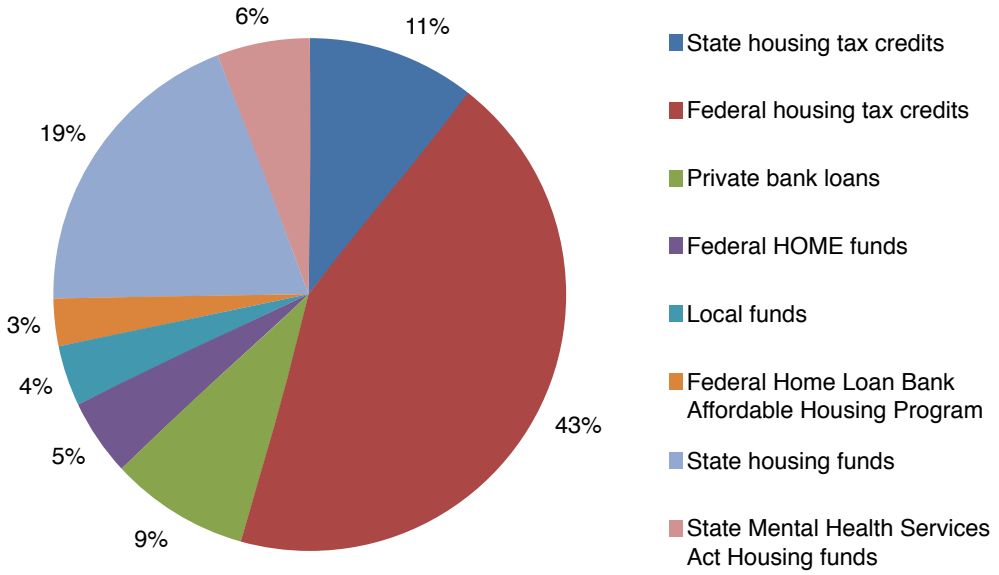
Significant barriers and disincentives constrain the production of affordable housing. These include:

- Lack of funding and subsidies needed to support housing that low- and moderate-income families can afford;
- Local and national economic and job market conditions; and
- Challenges for developers.

Lack of Funding and Subsidies for Affordable Housing

In addition to private sector financing, funding and subsidies to support the development of affordable housing come from two primary sources: federal and state government housing programs.

Sample Funding Mixes for Affordable Multifamily Developments



Source: California Department of Housing and Community Development, California's Housing Future: Challenges and Opportunities

It's extremely rare for a single affordable housing program to provide enough funding to finance an entire development, due to the costs of development and funding constraints and criteria that encourage developers to leverage other funds. The developer will typically apply for funding from multiple programs and private sector lenders that have overlapping policy goals and requirements. Private-sector lenders may also have additional criteria. The process of applying for and securing funding from multiple sources can add significantly to the lead time needed to start construction.

One multifamily development can easily need five to 10 funding sources to finance its construction. Developers generally layer financing from state and federal tax credits, state housing programs, local land donation and other local grants, federal housing programs and private loans from financial institutions. The chart "Sample Funding Mixes for Affordable Multifamily Developments" (below, left) offers an example of funding mixes for affordable multifamily developments.

Federal funding for affordable housing comprises a significant portion of California's resources to support affordable housing. However, due to pressures to cut federal spending and reduce the deficit, federal funding for housing has declined in recent years despite the increase in the number of severely cost-burdened, low-income renter households (which rose from 1.2 million in 2007 to 1.7 million in 2014). Between 2003 and 2015, Community Development Block Grant (CDBG) and HOME funds allocated to California by the U.S. Department of Housing and Urban Development (HUD) to produce affordable housing units have declined by 51 percent and 66 percent respectively (see "HUD Program Allocations to California 2003–2015" below).

Furthermore, few sources of affordable housing funding are stable or growing from year to year despite an increasing population and demand for housing. This funding uncertainty deters both efforts to address housing challenges in a sustained manner and developers' ability to build affordable housing.

The elimination of redevelopment agencies in California and the subsequent loss of over $5 billion in funding since 2011 compounded the state's affordable housing challenges. The state has never had a significant permanent source of affordable housing funding, and proceeds from the 2006 housing bond that helped create and preserve affordable apartments, urban infill infrastructure and single-family homes have been expended.

Local and National Economic and Job Market Conditions

Numerous factors contribute to local and national market conditions that affect the availability of affordable housing. The economic recovery from the Great Recession, when many middle-income families lost their homes to foreclosures, has occurred at different rates in communities throughout California. Areas with high-tech industry and some coastal areas recovered more rapidly than other regions.

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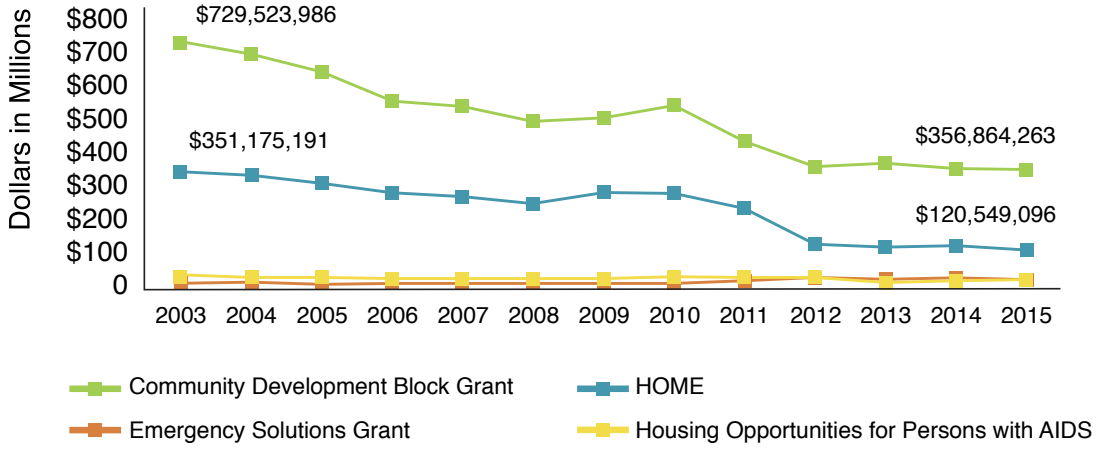
HUD Program Allocations to California 2003–2015
(Adjusted for Inflation)



Source: HUD Formula Program Allocations by State: 2003–2015 and *California Department of Housing and Community Development,* California's Housing Future: Challenges and Opportunities

Overall, the recovery has been uneven. Jobs in manufacturing and blue-collar industries have not fully rebounded, and jobs in the expanding service sector pay lower wages. Many households are still struggling to recover from the recession and home foreclosure crisis, and many recent college graduates are carrying significant debt — reducing their ability to purchase a home or pay rent.

Mortgage underwriting standards became more stringent in the aftermath of the foreclosure crisis, which can make it more difficult for potential homebuyers to qualify for the needed financing.

Some of the state's major homebuilders went out of business during the recession, leaving fewer companies to meet the demand for housing. Production of housing fell dramatically during the recession, which contributed significantly to a shortage of homes across the affordability spectrum. As the chart "Annual Production of Housing Units 2000–2015" (below) shows, housing "starts" statewide are at about half of pre-recession levels and fall far short of the state's projected need for 180,000 new homes per year.

Housing values also reflect the uneven recovery happening throughout the state. *The Wall Street Journal* recently compared home prices today to those of 2004. In San Jose, which is part of Silicon Valley where tech jobs pay top wages, prices are 54 percent higher than 2004 levels, but this is not so in areas hindered by a slower recovery from the recession. In Central Valley cities such as Stockton and Merced, housing prices are 21 and 16 percent lower respectively.

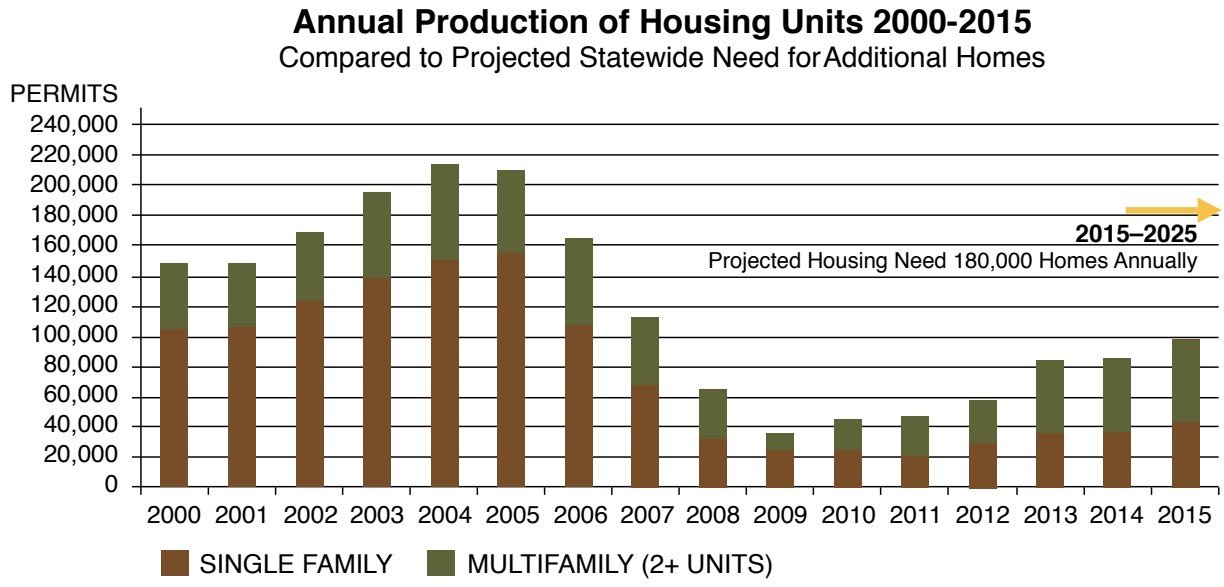
Challenges for Developers

In addition to funding challenges to develop affordable housing, other challenges further exacerbate the obstacles to development, including:

- Identifying an adequate supply of water;
- Complying with state regulations and energy standards, greenhouse gas reduction requirements and other environmental conditions;
- Competing with other developers to build high-end, more expensive housing;
- Infrastructure deficits;
- Market conditions, such as those described earlier; and
- The cost of land and construction.

Other Factors

In addition — but to a far lesser degree — factors at the local level can also impact the development of affordable housing. In some cities, new development requires voter approval. Community concerns about growth, density and preserving the character of an area may affect local development. Public hearings and other processing requirements add time to the approval timeline. Project opponents can use the environmental permitting process and litigation to limit or stop a project. However, the process of complying with the California Environmental Quality Act (CEQA) also serves to protect communities by ensuring that important environmental issues are identified and addressed.



Source: California Department of Housing and Community Development, California's Housing Future: Challenges and Opportunities

PART II. LEGISLATIVE RESPONSE: UNDERSTANDING THE CHANGES TO HOUSING AND LAND-USE LAWS

In an attempt to address some of the barriers to housing construction at the state and local level, lawmakers introduced more than 130 bills during the 2017 legislative session; many focused on constraining local land-use authority or eliminating local discretion. After months of negotiations and public hearings, 15 bills made it into the "housing package" and were signed by Gov. Brown. These bills fall into three main categories: funding, streamlining and local accountability. This section describes the most notable changes made to the state housing laws and identifies items or actions a city may want to consider in moving forward.

Funding Measures

The Legislature passed and Gov. Brown signed into law two key funding measures. The first, SB 2 (Atkins), imposes a new real estate recording fee to fund important affordable housing-related activities on a permanent, ongoing basis, effective Sept. 29, 2017. The second, SB 3 (Beall), places a $4 billion general obligation bond to fund housing on the November 2018 ballot and requires voter approval; if approved, funds likely will not be available until 2019.

SB 2 (Atkins, Chapter 364, Statutes of 2017) Building Homes and Jobs Act is projected to generate hundreds of millions of dollars annually for affordable housing, supportive housing, emergency shelters, transitional housing and other housing needs via a $75 to $225 recording fee on specified real estate documents.

In 2018, 50 percent of the funds collected are earmarked for local governments to update or create General Plans, Community Plans, Specific Plans, sustainable communities strategies and local coastal programs. Funds may also be used to conduct new environmental analyses that improve or expedite local permitting processes. The remaining 50 percent of the funds are allocated to the California Department of Housing and Community Development (HCD) to assist individuals experiencing or in danger of experiencing homelessness.

Beginning in 2019 and for subsequent years, 70 percent of the proceeds are allocated to local governments through the federal CDBG formula, so that the funds may be used to address housing needs at the local level. HCD will allocate the remaining 30 percent as follows: 5 percent for state incentive programs; 10 percent for farmworker housing; and 15 percent for the California Housing Finance Agency to create mixed-income multifamily residential housing for lower- to moderate-income households.

In consultation with stakeholders, HCD will adopt guidelines to implement SB 2 and determine methodologies to distribute funding allocations.

SB 3 (Beall, Chapter 365, Statutes of 2017) Veterans and Affordable Housing Bond Act of 2018 places a $4 billion general obligation bond on the November 2018 ballot to fund affordable housing programs and the veterans homeownership program (CalVet). If approved by voters, SB 3 would fund the following existing programs:

- Multifamily Housing Program — $1.5 billion, administered by HCD, to assist the new construction, rehabilitation and preservation of permanent and transitional rental housing for lower-income households through loans to local public entities and nonprofit and for-profit developers;
- Transit-Oriented Development Implementation Program — $150 million, administered by HCD, to provide low-interest loans for higher-density rental housing developments close to transit stations that include affordable units and as mortgage assistance for homeownership. Grants are also available to cities, counties and transit agencies for infrastructure improvements necessary for the development;
- Infill Incentive Grant Program — $300 million, administered by HCD, to promote infill housing developments by providing financial assistance for infill infrastructure that serves new construction and rehabilitates existing infrastructure to support greater housing density;
- Joe Serna, Jr. Farmworker Housing Grant Fund — $300 million, administered by HCD, to help finance the new construction, rehabilitation and acquisition of owner-occupied and rental housing units for agricultural workers;
- Local Housing Trust Fund Matching Grant Program — $300 million, administered by HCD, to help finance affordable housing by providing matching grants, dollar for dollar, to local housing trusts;
- CalHome Program — $300 million, administered by HCD, to help low- and very low- income households become or remain homeowners by providing grants to local public agencies and nonprofit developers to assist individual first-time homebuyers. It also provides direct loan forgiveness for development projects that include multiple ownership units and provides loans for property acquisition for mutual housing and cooperative developments;
- Self-Help Housing Fund — $150 million, administered by HCD. This program assists low- and moderate-income families with grants to build their homes with their own labor; and
- CalVet Home Loan Program — $1 billion, administered by the California Department of Veterans Affairs, provides loans to eligible veterans at below-market interest rates with few or no down payment requirements.

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Streamlining Measures

Gov. Brown made it very clear in the FY 2017–18 annual budget that he would not sign any housing funding bills without also expediting and streamlining the local housing permitting process. Lawmakers were eager to introduce measures to meet his demand. SB 35 (Wiener), SB 540 (Roth) and AB 73 (Chiu) take three different approaches to streamlining the housing approval process.

SB 35 (Wiener, Chapter 366, Statutes of 2017) streamlines multifamily housing project approvals, at the request of a developer, in a city that fails to issue building permits for its share of the regional housing need by income category. In a SB 35 city, approval of a qualifying housing development on qualifying site is a ministerial act, without CEQA review or public hearings.

Which Cities Must Streamline Housing Approvals Under SB 35?

Cities that meet the following criteria must approve qualifying multifamily housing projects that are consistent with objective planning and design review standards:

- The city fails to submit an annual housing element report for two consecutive years prior to the date when a development application is submitted; or
- HCD determines that the city issued fewer building permits than the locality's share of the Regional Housing Needs Allocation (RHNA) in each of the four income categories for that reporting period (the first four years or last four years of the eight-year housing element cycle).

Once eligibility has been determined, the development must be located on a site that:

- Is within a city that includes some portion of either an urbanized area (population 50,000 or more) or urban cluster (population at least 2,500 and less than 50,000);
- Has at least 75 percent of the perimeter adjoining parcels that are developed with urban uses; and
- Is zoned for residential use or residential mixed-use development or has a General Plan designation that allows residential use or a mix of residential and nonresidential uses, with at least two-thirds of the square footage of the development designated for residential use.

As set forth in the measure, "objective standards" involve "no personal or subjective judgment by a public official and are uniformly verifiable by reference to an external and uniform benchmark or criterion available and knowable by both the development applicant or proponent and the public official."

After determining that the locality is subject to streamlining, development sites are excluded if they are located in any of the following areas:

- Coastal zone;
- Prime farmland or farmland of statewide importance;
- Wetlands;
- Very high or high fire hazard severity zone;
- Delineated earthquake fault zone, unless the development complies with applicable seismic protection building code standards;
- Hazardous waste site, unless the state Department of Toxic Substances Control has cleared the site for residential use or residential mixed uses;
- Floodplain or floodway, unless the development has been issued a floodplain development permit or received a no-rise certification; and
- Lands under conservation easement.

In addition, development sites are excluded if they would demolish:

- A historic structure;
- Any housing occupied by tenants in the past 10 years; or
- Housing that is subject to rent or price control.

To be eligible for streamlining, the housing development must:

- Be on a qualifying site;
- Abide by certain inclusionary requirements (10 percent must be affordable to households earning 80 percent or less of area median income or 50 percent must be affordable to households earning 80 percent or less of area median income, depending upon the city's past approval of above-moderate income and lower-income housing, respectively); and
- Pay prevailing wages and use a "skilled and trained workforce."

Ministerial Approval

If a city determines that development is in conflict with "objective planning standards," then it must provide written documentation within 60 days of submittal if the development contains 150 or fewer housing units and within 90 days of submittal if the development contains more than 150 housing units.

Approvals must be completed within 90 to 180 days (depending on the number of units in housing development), must be ministerial and not subject to CEQA.

No parking requirements can be imposed on an SB 35 housing development project if it is located:

- Within a half-mile of public transit;
- Within an architecturally and historically significant historic district;
- In an area where on-street parking permits are required but not offered to the occupants of the development; or
- Where there is a car-share vehicle located within one block of the development.

One parking space per unit can be required of all other SB 35 projects.

How Long Does the Approval Last?

The approval does not expire if the project includes public investment in housing affordability beyond tax credits where 50 percent of units are affordable to households earning less than 80 percent of area median income (AMI).

If the project does not include 50 percent of units affordable to households earning less than 80 percent of AMI, approval automatically expires in three years except for a one-year extension if significant progress has been made in preparing the development for construction (such as filing a building permit application).

All approvals remain valid for three years and as long as vertical construction has begun and is in progress.

Opportunities and Considerations

Even though SB 35 makes significant changes to existing law, it is important to consider the following:

- All proposed projects seeking streamlining must be consistent with a jurisdiction's objective zoning standards and objective design review standards. If these standards are outdated or in need of revisions, there is opportunity to do so;
- If a jurisdiction does not have "objective zoning standards and objective design review standards," it may want to create them given that discretionary review is prohibited; and
- Funding assistance will be available in mid- to late 2019 under SB 2 (Atkins, Chapter 364, Statutes of 2017) for updating planning documents, including General Plans, Community Plans, Specific Plans, sustainable communities strategies and local coastal programs. HCD is currently establishing funding guidelines.

SB 540 (Roth, Chapter 369, Statutes of 2017) streamlines the housing approval process by allowing jurisdictions to establish Workforce Housing Opportunity Zones (WHOZs), which focus on workforce and affordable housing in areas close to jobs and transit and conform to California's greenhouse gas reduction laws. SB 540's objective is to set the stage for approval of housing developments by conducting all of the necessary planning, environmental review and public input on the front end through the adoption of a detailed Specific Plan. SB 540 provides the development community with certainty that for a five-year period, development consistent with the plan will be approved without further CEQA review or discretionary decision-making.

How Does the Streamlining Process Work?

Jurisdictions that opt in outline an area of contiguous or noncontiguous parcels that were identified in the locality's housing element site inventory. All development that occurs within the WHOZ must be consistent with the Specific Plan for the zone and the adopted sustainable communities strategy (SCS) or an alternative planning strategy (APS). See "About the Sustainable Communities Strategy and Alternative Planning Strategy" below for more information.

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About the Sustainable Communities Strategy and Alternative Planning Strategy

Under the Sustainable Communities Act, the California Air Resources Board (ARB) sets regional targets for greenhouse gas emissions reductions from passenger vehicle use. In 2010, ARB established these targets for 2020 and 2035 for each region covered by one of the state's metropolitan planning organizations (MPOs).

Each MPO must prepare a sustainable communities strategy (SCS) as an integral part of its regional transportation plan (RTP). The SCS contains land use, housing and transportation strategies that, if implemented, would allow the region to meet its greenhouse gas emission reduction targets. If the combination of measures in the SCS would not meet the regional targets, the MPO must prepare a separate alternative planning strategy (APS) to meet the targets.

The process for establishing a WHOZ is:

- Prepare and adopt a detailed Specific Plan and environmental impact report (EIR);
- Identify in the Specific Plan uniformly applied mitigation measures for traffic, water quality, natural resource protection, etc.;
- Identify in the Specific Plan uniformly applied development policies such as parking ordinances, grading ordinances, habitat protection, public access and reduction of greenhouse gas emissions;
- Clearly identify design review standards in the Specific Plan; and
- Identify a source of funding for infrastructure and services.

Not more than 50 percent of a jurisdiction's RHNA may be included in a WHOZ that accommodates 100 to 1,500 units.

The Specific Plan and EIR are valid for five years. After five years, the jurisdiction must review the plan and EIR, including conducting the CEQA analysis required in Public Resources Code section 21166, in order to extend the WHOZ for five additional years.

For a development project to receive streamlining within the WHOZ, the project must:

- Be consistent with the SCS;
- Comply with the development standards in the Specific Plan for the WHOZ;
- Comply with the mitigation measures in the Specific Plan for the WHOZ:
- Be consistent with the zonewide affordability requirements — at least 30 percent of the units affordable to moderate or middle-income households, 15 percent of the units affordable to lower-income households and 5 percent of the units affordable for very low-income households. No more than 50 percent of the units may be available to above-moderate-income households;
- Within developments affordable to households of above-moderate income, include 10 percent of units for lower-income households unless local inclusionary ordinance requires a higher percentage; and
- Pay prevailing wages.

If a developer proposes a project that complies with all of the required elements, a jurisdiction must approve the project without further discretionary or CEQA review unless it identifies a physical condition that would have a specific adverse impact on public health or safety.

AB 73 (Chiu, Chapter 371, Statutes of 2017) streamlines the housing approval process by allowing jurisdictions to create a housing sustainability district to complete upfront zoning and environmental review in order to receive incentive payments for development projects that are consistent with the ordinance. AB 73 is similar to SB 540 in concept; however, there are several key differences; for example, in AB 73:

- The housing sustainability district is a type of housing overlay zone, which allows for the ministerial approval of housing that includes 20 percent of units affordable to very low-, low- and moderate-income households;
- The ordinance establishing the housing sustainability district requires HCD approval and must remain in effect for 10 years;
- A Zoning Incentive Payment (unfunded) is available if HCD determines that approval of housing is consistent with the ordinance; and
- Developers must pay prevailing wages and ensure the use of a skilled and trained workforce.

Accountability Measures

The third aspect of the Legislature and the governor's housing package pertains to bills that seek to hold jurisdictions accountable for the lack of housing construction in their communities. While this view fails to acknowledge the many factors that affect housing construction and are beyond the

To make continued progress on housing in 2018, legislators should also consider creating more tools for local governments to fund infrastructure and affordable housing.

control of local government, the following measures significantly change existing law.

SB 167 (Skinner, Chapter 368, Statutes of 2017), AB 678 (Bocanegra, Chapter 373, Statutes of 2017), and AB 1515 (Daly, Chapter 378, Statutes of 2017) are three measures that were amended late in the 2017 legislative session to incorporate nearly all of the same changes to the Housing Accountability Act (HAA). The HAA significantly limits the ability of a jurisdiction to deny an affordable or market-rate housing project that is consistent with existing planning and zoning requirements (see "About the Housing Accountability Act" below). These measures amend the HAA as follows:

- Modifies the definition of mixed-use development to apply where at least two-thirds of the square footage is designated for residential use;
- Modifies the findings requirement to deny a housing development project to be supported by a preponderance of the evidence, rather than by substantial evidence in the record;
- Defines "lower density" to mean "any conditions that have the same effect or impact on the ability of the project to provide housing;"
- Requires an applicant to be notified if the jurisdiction considers a proposed housing development project to be inconsistent, not in compliance, or not in conformity with an applicable plan, program, policy, ordinance, standard, requirement or other similar provision. The jurisdiction must provide such notice within 30 days of the application being determined complete for a project with 150 or fewer housing units, and within 60 days for project with more than 150 units. If the jurisdiction fails to provide the required notice, the project is deemed consistent, compliant and in conformity with the applicable plan, program, policy ordinance, standard, requirement or other similar provision: and
- Deems a housing development project "consistent, compliant and in conformity with an applicable plan, program, policy, ordinance, standard, requirement or other similar provision if there is substantial evidence that would allow a reasonable person to conclude that the housing development project is consistent, compliant or in conformity."

About the Housing Accountability Act

The Housing Accountability Act states, "The Legislature's intent in enacting this section in 1982 and in expanding its provisions since then was to significantly increase the approval and construction of new housing for all economic segments of California's communities by meaningfully and effectively curbing the capability of local governments to deny, reduce the density of or render infeasible housing development projects. This intent has not been fulfilled."

SB 167, AB 678 and AB 1515 also provide new remedies for a court to compel a jurisdiction to comply with the HAA:

- If a court finds that a jurisdiction's findings are not supported by a preponderance of the evidence, the court must issue an order compelling compliance within 60 days. The court may issue an order directing the jurisdiction to approve the housing development project if the court finds that the jurisdiction acted in bad faith when it disapproved or conditionally approved the housing development project;
- If a jurisdiction fails to comply with the court order within 60 days, the court must impose fines on the jurisdiction at a minimum of $10,000 per unit in the housing development project on the date the application was deemed complete;
- If a jurisdiction fails to carry out a court order within 60 days, the court may issue further orders including an order to vacate the decision of the jurisdiction and to approve the housing development project as proposed by the applicant at the time the jurisdiction took the action determined to violate the HAA along with any standard conditions; and
- If the court finds that a jurisdiction acted in bad faith when it disapproved or conditionally approved a housing project and failed to carry out the court's order or judgment within 60 days, the court must multiply the $10,000 per-unit fine by a factor of five. "Bad faith includes but is not limited to an action that is frivolous or otherwise entirely without merit."

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Other Measures of Importance

In addition to the notable bills described here, Gov. Brown signed several other measures that provide new inclusionary powers to local governments, require additional General Plan reporting, increase housing element requirements and expand HCD's ability to review actions taken at the local level.

AB 1505 (Bloom, Chapter 376, Statutes of 2017) allows a jurisdiction to adopt an ordinance that requires a housing development to include a certain percentage of residential rental units affordable to and occupied by households with incomes that do not exceed limits for households with extremely low, very low, low or moderate income (see "AB 1505 Offers Solution to Palmer Decision" below). Such an ordinance must provide alternative means of compliance such as in-lieu fees, off-site construction, etc.

HCD may review any inclusionary rental housing ordinance adopted after Sept. 15, 2017, as follows:

- If the ordinance requires more than 15 percent to be occupied by households earning 80 percent or less of area median income and the jurisdiction failed to either meet at least 75 percent of its share of its above-moderate income RHNA (prorated based on the length of time within the planning period) or submit a General Plan annual report;
- HCD may request an economic feasibility study with evidence that such an ordinance does not unduly constrain the production of housing; and
- Within 90 days of submission of the economic feasibility study, HCD must decide whether the study meets the section's requirements. If not, the city must limit the ordinance to 15 percent low-income.

AB 1505 Offers Solution to Palmer Decision

The court in *Palmer/Sixth Street Properties L.P. v. City of Los Angeles,* (2009) 175 Cal. App. 4th 1396, invalidated a Los Angeles inclusionary housing requirement contained in a Specific Plan for an area of the city as applied to rental units on the basis that its pricing controls violated the Costa-Hawkins Act, which outlawed traditional rent control in new buildings in California. The court reasoned that the Costa-Hawkins Act pre-empted the application of inclusionary housing ordinances to rental housing. As a result of the decision, many cities with inclusionary housing ordinances suspended or amended their ordinances as applied to rental units; some adopted affordable housing rental impact fees. AB 1505 offers a solution and response to the *Palmer* decision.

AB 879 (Grayson, Chapter 374, Statutes of 2017) expands upon existing law that requires, by April 1 of each year, general law cities to send an annual report to their respective city councils, the state Office of Planning and Research (OPR) and HCD that includes information related to the implementation of the General Plan, including:

- The city's progress in meeting its share of RHNA;
- The city's progress in removing governmental constraints to the maintenance, improvement and development of housing; and
- Actions taken by the city toward completion of the programs identified in its housing element and the status of the city's compliance with the deadlines in its housing element.

Under AB 879, all cities including charter cities must submit an annual report containing the above information. In addition, cities must also provide the following new information in the annual report:

- The number of housing development applications received in the prior year;
- The number of units included in all development applications in the prior year;
- The number of units approved and disapproved in the prior year;
- A listing of sites rezoned to accommodate that portion of the city's RHNA for each income level that could not be accommodated in its housing element inventory and any additional sites identified under the "no net loss" provisions;
- The net number of new units of housing that have been issued a "completed entitlement," building permit or certificate of occupancy thus far in the housing element cycle (identified by the Assessor's Parcel Number) and the income category that each unit of housing satisfied (distinguishing between rental and for-sale units);
- The number of applications submitted under the new processing provided for by Section 65913.4 (enacted by SB 35), the location and number of developments approved pursuant to this new process, the total number of building permits issued pursuant to this new process and total number of units constructed pursuant to this new process; and
- The number of units approved within a Workforce Housing Opportunity Zone.

AB 879 also requires cities to include additional information when they submit their housing element to HCD, including:

- An analysis of governmental constraints that must include local ordinances that "directly impact the cost and supply of residential development"; and
- An analysis of nongovernmental constraints that must include requests to develop housing at densities below those anticipated in site inventory and the length of time between receiving approval for housing development and submittal of an application for building permit. The analysis must also include policies to remove nongovernmental constraints.

AB 1397 (Low, Chapter 375, Statutes of 2017) makes numerous changes to how a jurisdiction establishes its housing element site inventory. These changes include the following:

- Sites must be "available" for residential development and have "realistic and demonstrated" potential for redevelopment;
- Parcels must have sufficient water, sewer and dry utilities or part of a mandatory program to provide such utilities;
- Places restrictions on using nonvacant sites as part of the housing element inventory;
- Places limitations on continuing identification of nonvacant sites and certain vacant sites that have not been approved for housing development; and
- Stipulates that lower-income sites must be between one-half acre and 10 acres in size unless evidence is provided that a smaller or larger site is adequate.

AB 72 (Santiago, Chapter 370, Statutes of 2017) provides HCD new broad authority to find a jurisdiction's housing element out of substantial compliance if it determines that the jurisdiction fails to act in compliance with its housing element and allows HCD to refer violations of law to the attorney general. Specifically, AB 72:

- Requires HCD to review any action or failure to act by a jurisdiction that it determines is "inconsistent" with an adopted housing element or Section 65583, including any failure to implement any program actions included in the housing element;
- Requires HCD to issue written findings to the city as to whether the jurisdiction's action or failure to act complies with the jurisdiction's housing element or Section 65583 and provides no more than 30 days for the jurisdiction to respond to such findings. If HCD finds that the jurisdiction does not comply, then HCD can revoke its findings of compliance until the jurisdiction comes into compliance; and
- Provides that HCD may notify the attorney general that the jurisdiction is in violation of the Housing Accountability Act, Sections 65863, 65915 and 65008.

continued

Related Resources

For additional information and links to related resources, visit www.cacities.org/housing.

The "housing package" bills fall into three main categories: funding, streamlining and local accountability.

Looking Ahead

While it may appear that Gov. Brown and the Legislature made great progress in addressing the housing supply and affordability crisis gripping many regions of the state, the reality is somewhat more mixed. The passage of the 2017 housing package does not signal the end of the policy discussion. Aside from various incentive and funding measures, a portion of the housing package responded to a theme, championed by several advocacy groups and academics, that the local planning and approval process is the major cause of the state currently producing 100,000 units fewer annually than pre-recession levels. From a local government perspective, that assertion is incomplete and inaccurate. Going forward, it is time to dig deeper.

The legislative focus in 2017 lacked an exploration of other economic factors affecting the housing market. The foreclosure crisis resulted in displaced homeowners with damaged credit, widespread investor conversions of foreclosed single-family units into rentals and increasingly stringent lending criteria. Demographic factors may also affect demand as baby boomers with limited retirement savings and increased health-care costs approach retirement age. Younger residents, saddled with student debt, face challenges saving for down payments. Manufacturing and other higher-wage jobs are stagnating and being replaced via automation and conversion to a lower-wage service economy. Fewer skilled construction workers are available after many switched occupations during the recession.

Also missing in 2017 was a deeper examination of how other state policies intended to address legitimate issues affect land availability and the cost of housing. These include laws and policies aimed at limiting sprawl and protecting agricultural, coastal and open-space land from development; and building codes, energy standards, disabled access, wage requirements and other issues.

The funding for affordable housing approved during the 2017 session was certainly welcome — yet given the demand, it falls far short of the resources needed. It is unlikely, however, that cities can expect additional state funding for housing — other than the housing bond on the November ballot — from the Legislature in 2018.

Although many changes were made to the planning and approval process in 2017, local governments are still waiting for the market to fully recover and developers to step forward and propose housing projects at the levels observed prior to the recession. In 2018, a fuller examination by the Legislature is needed to explore the reasons why developers are not proposing projects at the pre-recession levels. Local governments cannot approve housing that is not proposed.

To make continued progress on housing in 2018, legislators should also consider creating more tools for local governments to fund infrastructure and affordable housing. Some legislators have begun discussing the need to restore a more robust redevelopment and affordable housing tool for local agencies, and that is encouraging. Reducing the local vote thresholds for infrastructure and affordable housing investments would also be helpful.

For more information, visit www.cacities.org/housing or contact Jason Rhine, legislative representative; phone: (916) 658-8264; email: jrhine@cacities.org. ■

Acknowledgments

Part I of this document is excerpted and adapted from "Finding Solutions to the Affordable Housing Crisis" by Carolyn Coleman, which appeared in the March 2017 issue of *Western City* magazine, the monthly publication of the League of California Cities online at www.westerncity.com.

2017 Legislative Session Makes Many Changes to California Housing Law

BY JASON RHINE

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Jason Rhine is a legislative representative for the League and can be reached at jrhine@cacities.org.

California faces significant housing affordability and supply challenges, especially in coastal regions where the technology sector has experienced booming high-wage job growth combined with limited housing construction.

State housing officials estimate that 180,000 homes need to be built each year to keep pace with population growth. Over the past decade, on average, less than half that number have been constructed annually.

What Caused the Problem and How Can It Be Fixed?

Several factors helped create the current situation. The massive withdrawal of state funding for affordable housing has certainly contributed to the affordability crisis. Since the state eliminated redevelopment agencies in 2011, local agencies have lost over $5 billion for affordable housing. The proceeds of the state housing bond (Proposition 1C of 2007) have been expended. Furthermore, since the 1980s the federal government has been backing out of funding affordable housing, which compounds these factors. Despite the state budget flourishing in recent years due to infusions of income tax, no significant funds (other than some cap-and-trade dollars) have been allocated for affordable housing.

In an effort to address some of the barriers to housing construction at the state and local levels, lawmakers introduced more than 130 bills in the 2017 legislative session, many focused on reducing or eliminating local land-use authority and discretion. After months of negotiations and public hearings, 15 bills made it into the “Housing Package” and Gov. Jerry Brown signed them. These bills fall into three main categories: funding, streamlining and local accountability.

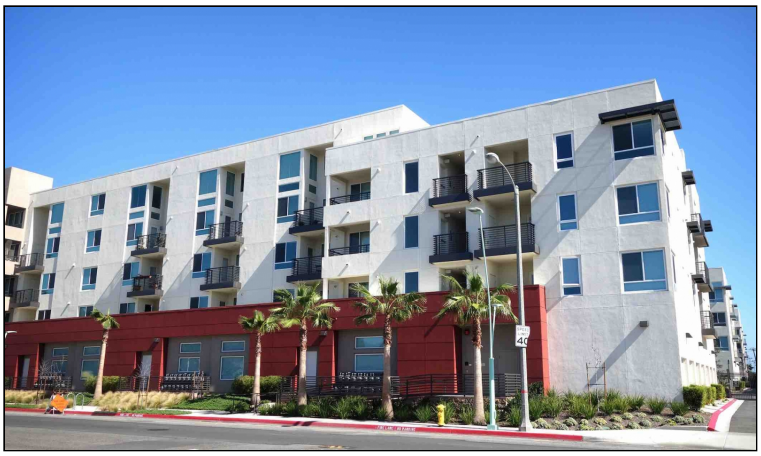
League Blueprint for More Housing Takes on the Challenge

The Housing Package includes the League’s “Blueprint for More Housing,” which comprises two key funding measures: SB 2 (Atkins), a real-estate transaction fee that is projected to generate hundreds of millions of dollars annually and SB 3 (Beall), a $4 billion

housing bond. A third essential bill, SB 540 (Roth), streamlines housing approval.

Housing Package of Bills Signed by the Governor

Funding Bills



AB 571 (E. Garcia, Chapter 372, Statutes of 2017) Farmworker Housing Tax Credits makes changes to the farmworker housing tax credit set-aside within the Low-Income Housing Tax Credit Program and to the state Department of Housing and Community Development (HCD) Office of Migrant Services. These changes make it easier to develop farmworker housing by easing qualifications for the tax credit program.

SB 2 (Atkins, Chapter 364, Statutes of 2017) Building Homes and Jobs Act is projected to generate hundreds of millions of dollars annually for affordable housing, supportive housing, emergency shelters, transitional housing and other housing needs via a $75 to $225 recording fee on specified real estate documents. For 2018, 50 percent of the funds collected are directed to local governments to update planning documents. Beginning in 2019 and for subsequent years, 70 percent of the proceeds are allocated to local governments through the federal Community Development Block Grant formula, so that the funds may be used to address housing needs at the local level.

SB 3 (Beall, Chapter 365, Statutes of 2017) Veterans and Affordable Housing Bond Act of 2018 places a $4 billion general obligation bond on the November 2018 ballot to provide funding for affordable housing programs and the veterans home ownership program (CalVet). If approved by voters, SB 3 would fund the following existing programs:

- Multifamily Housing Program — $1.5 billion;
- Transit-Oriented Development Implementation Program — $150 million;
- Infill Incentive Grant Program — $300 million;
- Joe Serna, Jr. Farmworker Housing Grant Fund — $300 million;
- Local Housing Trust Fund Matching Grant Program — $300 million;
- CalHome Program — $300 million;
- Self-Help Housing Program — $150 million; and
- CalVet Home Loan Program — $1 billion.

Streamlining/Planning Bills

AB 73 (Chiu, Chapter 371, Statutes of 2017) Planning and Zoning: housing sustainability districts allows a city or county to create a housing sustainability district to complete upfront zoning and environmental review so that it can receive incentive payments for development projects that are consistent with the jurisdiction's ordinance.

AB 879 (Grayson, Chapter 374, Statutes of 2017) Planning and Zoning: housing element requires HCD to study the Mitigation Fee Act (MFA) and determine the reasonableness of local development fees and develop findings and recommendations on potential amendments to the MFA to substantially reduce fees for residential development.

AB 1397 (Low, Chapter 375, Statutes of 2017) Local Planning: housing element; inventory of land for residential development revises the inventory of land suitable for residential development identified in a city's housing element to include vacant sites and sites that have "realistic and demonstrated potential" for redevelopment to meet a portion of the locality's housing need for a designated income level. AB 1397 also requires cities and counties to demonstrate local efforts to remove "nongovernmental constraints" that limit housing construction, including the cost of land or rental rates, despite the fact that local governments have no control over these constraints.

AB 1505 (Bloom, Chapter 376, Statutes of 2017) Land Use: zoning regulations clarifies and strengthens local authority to enact inclusionary rental housing programs, in accordance with the jurisdiction's police power.

AB 1521 (Bloom, Chapter 377, Statutes of 2017) Land Use: notice of proposed change; assisted housing developments strengthens the Preservation Notice Law regarding the preservation of state-assisted housing developments by requiring an owner of an assisted housing development to accept a bona fide offer to purchase from a qualified purchaser.

SB 35 (Wiener, Chapter 366, Statutes of 2017) Planning and Zoning: affordable housing; streamlined approval process requires nearly every city to ministerially approve multifamily housing developments that are consistent with existing locally adopted plans and zoning ordinances without any new project-level analysis. A city is subject to SB 35 if it:

1. Is an urbanized area (population over 50,000) or urban cluster (population over 2,500, but less than 50,000); and
2. Issued fewer housing permits than the Regional Housing Needs Allocation (RHNA) for each income category.

SB 35 further restricts development by excluding sites within the coastal zone, important habitat areas, high fire hazard zones, delineated earthquake fault zones unless mitigated, floodplains, prime farmland and hazardous waste sites. Developers that use SB 35 streamlining must pay prevailing wage, ensure that skilled and trained workers completed the development and set aside 10 to 50 percent of the units for affordable housing. SB 35 sunsets in 2026.

SB 166 (Skinner, Chapter 367, Statutes of 2017) Residential Density and Affordability amends the No Net Loss Zoning law to require local governments to maintain adequate housing sites at all times throughout the planning period for all levels of income. This measure prohibits a city, county or city and county from permitting or causing its inventory of sites identified in a housing element to be insufficient to meet its remaining unmet share of the regional housing need for lower and moderate-income households.

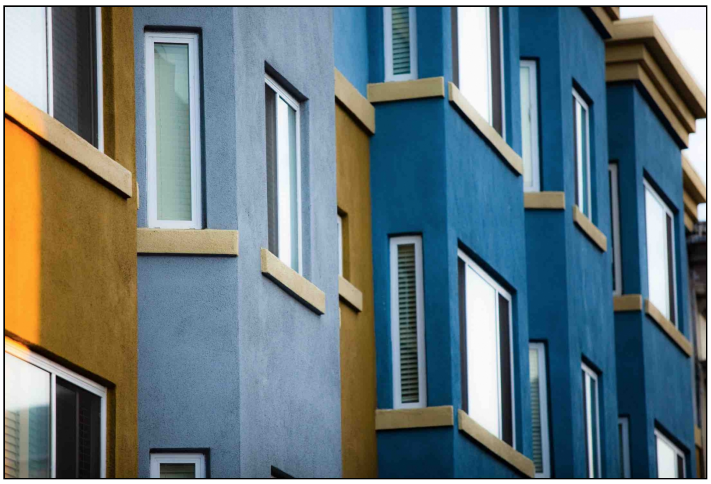
SB 540 (Roth, Chapter 369, Statutes of 2017) Workforce Housing Opportunity Zone streamlines the housing approval process by having cities identify Workforce Housing Opportunity Zones, in which enhanced planning, necessary environmental reviews and public engagement occur at the front end of the process. After completing and adopting the Specific Plan and environmental impact report, the housing project will be approved ministerially without any additional review. SB 540 provides a grant or loan to fund upfront planning and environmental review.

Enforcement Bills

AB 72 (Santiago, Chapter 370, Statutes of 2017) Housing provides HCD broad new authority to review any action by a city or county that HCD determines is inconsistent with an adopted housing element and allows HCD to decertify an approved housing element. AB 72 also allows HCD to review and refer to the attorney general alleged violations of state law, including the Housing Accountability Act, No Net Loss, Density Bonus and anti-discrimination housing statutes.

AB 1515 (Daly, Chapter 378, Statutes of 2017) Planning and Zoning: housing requires housing projects to be deemed consistent, compliant and conforming with an applicable plan, if there is substantial evidence that would allow a reasonable person to conclude that the housing development project or emergency shelter is consistent, compliant or conforming.

SB 167 (Skinner, Chapter 368, Statutes of 2017) Housing Accountability Act and AB 678 (Bocanegra, Chapter 373, Statutes of 2017) Housing Accountability Act make a number of changes to the Housing Accountability Act. Most notably, SB 167 requires housing project denials to be supported by findings that are based on "a preponderance of evidence" rather than "substantial evidence." SB 167 also imposes mandatory fines of $10,000 on cities that fail to comply with a judge's order within 60 days and allows enhanced fines (multiplied by a factor of five) if a city acts in bad faith.



Outlook for the 2018 Legislative Session

At the bill-signing ceremony for the 2017 Housing Package, many law-makers insisted that this was only the first step in addressing California's housing affordability and supply crisis. Many more bills will likely be introduced in January and February 2018, adding to the dozens of other housing bills still pending and technically eligible for a vote. Housing policy will continue to generate extensive activity during the 2018 legislative session.

Related Resources for Cities

In December, the League releases its *2017 Legislative Briefing Book,* which contains a detailed appendix focused on all of the key housing-related bills signed by the governor. The League is also offering *A 2018 Guide to New Housing Law in California* to help cities understand the changes to the state's housing laws and actions that can be taken to prepare for these changes. For more information, visit www.cacities.org/housing.

Photo credit: Apartment building with palm trees, J.D.S./Shutterstock.com; Blue apartments, Halbergman.

CALIFORNIA'S 2017 LEGISLATIVE HOUSING PACKAGE

Streamline Housing Development	
Planning & Zoning	**SB 35 (Wiener) Streamline Approval Process** *Opt-in program for developers* Creates a streamlined approval process for developments in localities that have not yet met their housing targets, provided that the development is on an infill site and complies with existing residential and mixed use zoning. Participating developments must provide at least 10 percent of units for lower-income families. All projects over 10 units must be prevailing wage and larger projects must provide skilled and trained labor.
Planning & Zoning	**AB 73 (Chiu) Streamline and Incentivize Housing Production** *Opt-in program for jurisdictions and developers* Provides state financial incentives to cities and counties that create a zoning overlay district with streamlined zoning. Development projects must use prevailing wage and include a minimum amount of affordable housing.
Planning & Zoning	**SB 540 (Roth) Workforce Housing Opportunity Zones** *Opt-in program for jurisdictions* Authorizes the state to provide planning funds to a city or county to adopt a specific housing development plan that minimizes project level environmental review. Requires at least 50 percent of total housing units within that plan to be affordable to persons or families, at or below moderate income, with at least 10 percent of total units affordable for lower income households. Development projects must use prevailing wage.
Accountability and Enforcement	
Amends Housing Accountability Act	**AB 678 (Bocanegra)/SB 167 (Skinner) Strengthen the Housing Accountability Act** Strengthens the Housing Accountability Act by increasing the documentation necessary and the standard of proof required for a local agency to legally defend its denial of low and moderate-income housing development projects, and requires courts to impose a fine of $10,000 or more per unit on local agencies that fail to legally defend their rejection of an affordable housing development project.

Accountability and Enforcement (Continued)	
Amends Housing Accountability Act	**AB 1515 (Daly) Reasonable Person Standard** States that a housing development conforms with local land use requirements if there is substantial evidence that would allow a reasonable person to reach that conclusion.
Amends Housing Element Law	**AB 72 (Santiago) Enforce Housing Element Law** Authorizes HCD to find a jurisdiction out of compliance with state housing law at any time (instead of the current eight-year time period), and refer any violations of state housing law to the Attorney General if it determines the action is inconsistent with the locality's adopted housing element.
Amends Housing Element Law	**AB 1397 (Low) Adequate Housing Element Sites** Requires cities to zone more appropriately for their share of regional housing needs and in certain circumstances require by-right[1] development on identified sites. Requires stronger justification when non-vacant sites are used to meet housing needs, particularly for lower income housing.
Amends Existing Housing Law	**SB 166 (Skinner) No Net Loss** Requires a city or county to identify additional low-income housing sites in their housing element when market-rate housing is developed on a site currently identified for low-income housing.
Amends Existing Reporting Requirements	**AB 879 (Grayson) and Related Reporting Bills** Make various updates to housing element and annual report requirements to provide data on local implementation including number of project application and approvals, processing times, and approval processes. Charter cities would no longer be exempt from housing reporting. Requires HCD to deliver a report to the Legislature on how local fees impact the cost of housing development.

[1] Current housing law defines by-right as local government review of a project may not require a conditional use permit or other discretionary action that would constitute a "project" under the California Environmental Quality Act

Create and Preserve Affordable Housing	
Ongoing Source	**SB 2 (Atkins) Building Jobs and Homes Act** Imposes a fee on recording of real estate documents excluding sales for the purposes of funding affordable housing. Provides that first year proceeds will be split evenly between local planning grants and HCD's programs that address homelessness. Thereafter, 70 percent of the proceeds will be allocated to local governments in either an over-the-counter or competitive process. Fifteen percent will be allocated to HCD, ten percent to assist the development of farmworker housing and five percent to administer a program to incentivize the permitting of affordable housing. Fifteen percent will be allocated to CalHFA to assist mixed-income multifamily developments.
Affordable Housing Bond	**SB 3 (Beall) Veterans and Affordable Housing Bond Act** Places a $4 billion general obligation bond on the November 2018 general election ballot. Allocates $3 billion in bond proceeds among programs that assist affordable multifamily developments, housing for farmworkers, transit-oriented development, infrastructure for infill development, and homeownership. Also funds matching grants for Local Housing Trust Funds and homeownership programs. Provides $1 billion in bond proceeds to CalVet for home and farm purchase assistance for veterans.
Land Use: Zoning Regulations	**AB 1505 (Bloom) Inclusionary Ordinances** Authorizes the legislative body of a city or county to require a certain amount of low-income housing on-site or off-site as a condition of the development of residential rental units.
Amends Preservation Noticing law	**AB 1521 (Bloom) Preserve the Existing Affordable Housing Stock** Requires the seller of a subsidized housing development to accept a bonafide offer to purchase from a qualified purchaser, if specified requirements are met. Gives HCD additional tracking and enforcement responsibilities to ensure compliance.
Amends Farmworker Housing and Office of Migrant Services Programs	**AB 571 (E. Garcia) Low-Income Housing Credits for Farmworkers** Makes modifications to the state's farmworker housing tax credit to increase use. Authorizes HCD to advance funds to operators of migrant housing centers at the beginning of each season to allow them to get up-and-running. Extends the period of time that migrant housing centers may be occupied up to 275 days.

City of Del Mar
Staff Report

TO: Honorable Mayor and City Council Members

FROM: Kathleen A. Garcia, Planning and Community Development Director
Via Scott W. Huth, City Manager

DATE: June 4, 2018

SUBJECT: SANDAG Regional Housing Needs Assessment Process

REQUESTED ACTION/RECOMMENDATION:

Receive report and provide direction for staff during the future SANDAG allocation process.

EXECUTIVE SUMMARY:

The California Department of Housing and Community Development (HCD) and SANDAG are preparing the Regional Housing Needs Assessment (RHNA). This process determines the distribution of affordable and market-rate housing for individual jurisdictions in the region. Staff is requesting City Council direction for any future negotiations on the assessment. The assessment will determine the City's housing allocation numbers for the next Housing Element cycle.

DISCUSSION/ANALYSIS:

Since 1969, the State of California has required that all local governments (cities and counties) adequately plan to meet the housing needs of everyone in the community. California's local governments meet this requirement by adopting housing plans as part of their "general plan" (also required by the state), locally called the Del Mar Community Plan. The law mandating that housing be included as an element of each jurisdiction's general plan is known as "housing-element law."

California's housing element law acknowledges that, in order for the private market to adequately address the housing needs and demand of Californians, local governments must adopt plans and regulatory systems that provide opportunities for (and do not unduly constrain), housing development. As a result, housing policy in California rests largely on the effective implementation of local housing elements.

While the RHNA process traditionally has been considered as a planning exercise, recent legislation has modified the RHNA process so that now there are implications for local governments based on fulfillment of the local RHNA allocations outlined in the RHNA Plan

City Council Action:

and local housing elements. For example, Senate Bill 35 (Wiener, 2017) (SB 35) requires local governments to approve certain development by-right if they are not making adequate progress toward their RHNA allocation. With more than 60 percent of the current RHNA cycle (2010-2020) underway, the region has permitted approximately 31.3 percent of the housing units called for in the cycle. Based on data received as of January 31, 2018, HCD determined that each of the local jurisdictions in the San Diego region, except for Lemon Grove because of their housing production, are subject to some form of SB 35 streamlining.

The State-mandated RHNA process for the sixth housing element cycle (June 30, 2021–April 15, 2029) has been initiated by HCD and SANDAG and is being prepared in conjunction with the development of San Diego Forward: The 2019-2050 Regional Plan. The RHNA process has three main components: 1) **RHNA-Determination** (HCD's region-wide housing needs determination); 2) **RHNA-Plan** (SANDAG's plan to distribute the RHNA-Determination to the local jurisdictions; and 3) **RHNA Allocation** (each jurisdiction's housing need allocation in four income categories for use in updating the local Housing Element of their General Plan). Currently, SANDAG is in the consultation stage with HCD on the RHNA determination, the first step of the process.

Step 1. RHNA Assessment Determination:
HCD is responsible for determining the regional housing needs ***assessment*** (segmented by income levels) for each region's "council of governments" (COG), which in San Diego County is SANDAG. HCD starts with demographic population information from the California Department of Finance and uses a formula to calculate a figure for each region/COG in the state. The draft RHNA Determination received from HCD without adjustments, would establish a need for more than 171,685 new housing units in the San Diego region for the next housing element cycle (Attachment A).

After receipt of the draft determination, SANDAG then consults with HCD — taking into account factors not captured in the calculations — to arrive at a final figure. The consultation process is intended to provide regions with an opportunity to provide local data that HCD may consider for incorporation into the final RHNA Determination. SANDAG has requested that HCD focus on aligning overcrowding and replacement rates in their calculation with trends traditionally seen in the San Diego region rather than nationally. SANDAG anticipates a response from HCD this summer with a determination of the final figure. This final figure becomes the regional housing needs ***assessment*** for San Diego County.

While the Sixth Cycle Assessment is not yet finalized, we can look at the previous Fifth Cycle to estimate how this may be allocated to the region in the following table:

Fifth Cycle and Estimated Sixth Cycle RHNA Assessment			
Income Categories	***% of Allocation***	***Fifth Cycle (2013) Regional Housing Units***	***Estimated Regional Sixth Cycle (2021) Housing Units***
Very Low	22.5%	36,450	38,629
Low	17.1%	27,700	29,358
Moderate	18.9%	30,610	32,449
Above-Moderate	41.5%	67,220	71,249
Total		**161,980**	**171,685**

It is anticipated that the SANDAG Board of Directors will adopt the final regional assessment by the end of 2018.

Step 2. RHNA Plan Allocation:
Once HCD and SANDAG have agreed to the region's assessment figure (the amount of housing that must be planned for), SANDAG is responsible for divvying up (allocating) the housing need amongst all of the jurisdictions (cities/counties) within that region. SANDAG does this in a Regional Housing Need Allocation Plan (RHNA Plan).

During the last cycle, SANDAG's Regional Planning Technical Working Group (TWG) and Regional Housing Working Group (RHWG) looked at various options for distribution, including options distributed by using the regional income percentages and options that did not exceed local jurisdiction's projected capacity. The options were then presented to SANDAG's Regional Planning Committee (RPC) who then made a recommendation to the SANDAG Board for their preferred methodology and allocation. The selected distribution reflected direction that all jurisdictions would receive a fair-share percentage that was influenced by, but not dependent upon, capacity. A similar process for the Sixth Cycle Allocation is anticipated to occur between January and May of 2019.

Step 3. RHNA Allocation and the Sixth Cycle Housing Element:
Following the Sixth Cycle Allocation, the City of Del Mar will have approximately two years to update and adopt a new Housing Element and have it certified by HCD, so that it is in effect prior to June 30, 2021.

Using preliminary numbers and the previous process, Del Mar could anticipate a new RHNA allocation that is approximately 1.06 times the Fifth Cycle allocation. There is also the possibility that HCD could apply an additional penalty based upon the limited implementation seen in the Fifth Cycle.

Potential RHNA Obligation by Income Level		
Income Category (% of County AMI)	**Fifth Cycle Number of Units**	**Estimated Sixth Cycle Number of Units**
Extremely Low (30% or Less)	4	4-5
Very Low (31% to 50%)	3	3-4
Low (51% to 80%)	5	5-6
Moderate (81% to 120%)	15	16
Above Moderate (Over 120%)	34	36
Penalty Units (10 Low, 5 Moderate)	15	?
TOTAL	**76**	**81-?**

Attachment B shows the typical salary ranges for each of the income categories above, as well as the allowable rent per income category, currently capped at 30% of income. Staff is requesting City Council direction on Del Mar's position regarding the potential development of SANDAG RHNA allocation scenarios and any elements to include in future negotiations. This process will occur during the summer and fall of 2018 and will be discussed at future City Council meetings as the allocation process progresses.

PRIOR CITY COUNCIL REVIEW:

City Council adopted the Fifth Cycle Housing Element on May 20, 2013.

FISCAL IMPACT:

There is no direct fiscal impact associated with this action.

ENVIRONMENTAL IMPACT:

This discussion is not considered a project per the CEQA guideline definition.

NEXUS TO CITY COUNCIL GOALS AND PRIORITIES:

In compliance with the State mandate, the production of the Sixth Cycle Housing Element is identified in the City Council Priorities, initiating in FY2018-2019.

ATTACHMENTS:

Attachment A – HCD Sixth Cycle Initial Assessment, March 2018
Attachment B –Persons per Household/Maximum Rent/Income Levels

AGENDA ITEM NO. 18-05-2

BOARD OF DIRECTORS
MAY 11, 2018

ACTION REQUESTED: APPROVE

DRAFT REGIONAL HOUSING NEEDS ASSESSMENT DETERMINATION

File Number 3102000

Recommendation:

The Regional Planning Committee recommends that the SANDAG Board of Directors authorize the Executive Director to submit comments to the California Department of Housing and Community Development, accepting the draft Regional Housing Needs Determination for the San Diego Region for the sixth housing element cycle.

Introduction

The Regional Housing Needs Assessment (RHNA) for the sixth housing element cycle (June 30, 2021–April 15, 2029) is being prepared in conjunction with the development of San Diego Forward: The 2019-2050 Regional Plan (2019 Regional Plan).

On March 7, 2018, SANDAG received a draft RHNA Determination (Attachment 1) from the Department of Housing and Community Development (HCD), which reflects the state's assessment of the regionwide housing need that would form the basis of the next RHNA Plan.

At its meeting on May 4, 2018, the Regional Planning Committee received a presentation on potential changes to the RHNA Determination that could be proposed to reflect factors unique to housing in the San Diego region. The Regional Planning Committee recommended that the Board of Directors accept the draft RHNA Determination without adjustments, which in effect would establish a need for more than 171,000 new housing units in the San Diego region for the next housing element cycle.

Discussion

The RHNA process has three main components:

- RHNA Determination – Department of Housing and Community Development (HCD) determination of the regionwide housing need
- RHNA Plan – The SANDAG plan to allocate the RHNA Determination to each local jurisdiction by four income categories
- RHNA – Each jurisdiction's housing need allocation in four income categories for use in updating the housing elements of its general plan

The RHNA Determination is the first step in the RHNA process. Pursuant to Government Code Sections 65584(b) and 65584.01(c), HCD is required to consult with SANDAG to create the final RHNA Determination. The consultation process is intended to provide regions with an opportunity to provide local data that HCD may consider for incorporation into the final RHNA Determination.

While the RHNA process traditionally has been considered as a planning exercise, recent legislation has modified the RHNA process so that now there are implications for local governments based on fulfillment of the local RHNA allocations outlined in the RHNA Plan and local housing elements. For example, Senate Bill 35 (Wiener, 2017) (SB 35) requires local governments to approve certain development by-right if they are not making adequate progress toward their RHNA allocation.

With more than 60 percent of the current RHNA cycle (2010-2020) underway, the region has permitted approximately 31.3 percent of the housing units called for in the cycle. Based on data received as of January 31, 2018, HCD determined that each of the local jurisdictions in the San Diego region, except for Lemon Grove, are subject to some form of SB 35 streamlining.

Staff reviewed the data included in the draft HCD RHNA Determination and, based on input from the Regional Planning Technical Working Group (the region's 19 planning directors), identified several adjustments that could be made to better reflect realistic conditions in the region. These proposed adjustments, which include a focus on aligning overcrowding and replacement rates in the calculation with trends traditionally seen in the San Diego region, are outlined in Attachment 2.

Regional Planning Committee Feedback and Recommendation

Regional Planning Committee members recognized the importance of considering locally relevant data so that RHNA allocations are realistic and can be met. However, Committee members commented that negotiating with HCD to reduce the housing unit number in previous RHNA cycles has contributed to the housing crisis seen today. There was consensus by the Regional Planning Committee that accepting the HCD RHNA Determination could more effectively address that crisis and improve the region's housing availability going forward. Committee members discussed the need to plan and prepare for higher numbers of housing units in local land use plans, recognizing that housing development often occurs at much lower densities than planned. Therefore, the Regional Planning Committee recommended accepting HCD's draft RHNA Determination as is.

Next Steps

Pending action by the Board of Directors, SANDAG staff will submit a letter to HCD accepting the draft RHNA Determination for the San Diego region. Staff will then return to the Regional Planning Technical Working Group, Regional Planning Committee, and Board of Directors to present the final RHNA Determination and begin the process to develop the RHNA Plan with all 19 jurisdictions.

KIM KAWADA
Chief Deputy Executive Director

Attachments:
1. HCD Draft RHNA Determination (Sixth Housing Element Cycle, 2018)
2. Potential Changes to the HCD Adjustments included in the draft RHNA Determination

Key Staff Contact: Seth Litchney, (619) 699-1943, seth.litchney@sandag.org

San Diego County: June 30 2020-April 15 2029 (8.8 years) HCD Determined Population, Households, & Housing Unit Need					
1	**Population:** April 15, 2029 (DOF June 30, 2029 projection adjusted - 2.5 months to April 15 2029)				3,613,215
2	- *Group Quarters Population (DOF June 30 2029 projection adjusted -2.5 months to April 15 2029)*				-118,075
3	**Household (HH) Population**				3,495,140
	Household Formation Groups	**HCD Adjusted DOF Projected HH Population**	***DOF HH Formation Rates***	**HCD Adjusted DOF Projected Households**	
		3,495,140		**1,251,115**	
	under 15 years	648,185	n/a	n/a	
	15 - 24 years	504,775	9.98%	50,356	
	25 - 34 years	402,920	37.25%	150,099	
	35 - 44 years	399,705	46.54%	186,020	
	45 - 54 years	428,715	50.72%	217,455	
	55 - 64 years	388,650	53.69%	208,648	
	65 -74 years	380,010	57.98%	220,348	
	75 - 84 years	250,550	62.03%	155,414	
	85+	91,630	68.51%	62,775	
4	**Projected Households (Occupied Unit Stock)**				**1,251,115**
5	+ Vacancy (Maximum Standard 5% vs County ACS 2012-2016 %)	5.00%	2.48%	2.52%	31,500
6	+ Overcrowding (US avg % vs.County 2012-2016 ACS %)	3.34%	6.43%	3.09%	38,700
7	+ Replacement Adj (.5% min, 5% max, vs.% DOF Demolitions 10 year average)	.5 - 5%	0.32%	0.50%	6,255
8	- *Occupied Units (HHs) estimated January* ***1 2020***				-1,155,883
	6th Cycle Regional Housing Need Assessment (RHNA)				**171,685**

1-4 Population, Group Quarters, Household Population, & Projected Households: Pursuant to Government Code Section 65584.01, projections were extrapolated from Department of Finance (DOF) projections. Population reflects total persons. Group Quarter Population reflects persons in a dormitory, group home, institution, military, etc. that do not require residential housing. Household Population reflects persons requiring residential housing. Projected Households reflect the propensity of persons, by age-groups, to form households at different rates based on Census trends.

5 Vacancy Adjustment: HCD applies a vacancy adjustment (standard 5% maximum to total housing stock) and adjusts the maximum % based on the county's current "for rent and sale" vacancy % to provide healthy market vacancies to facilitate housing availability and resident mobility. Adjustment is difference between standard 5% and County's current vacancy rate based on the 2012-2016 ACS data.

6 Overcrowding adjustment: In Counties where overcrowding is greater than the U.S overcrowding rate of 3.34%, HCD applies an adjustment based on the amount the County's overcrowding rate exceeds the U.S. overcrowding rate. Data is from 2012-2016 ACS.

7 Replacement Adjustment: HCD applies a replacement adjustment between .5% & 5% to total housing stock based on the current 10-year average % of demolitions county local government annual reports to Department of Finance.

8 Occupied Units: This figure reflects DOF's estimate of occupied units at the start of January closest to projection period start, per DOF E-5 report.

Potential Changes to the Department of Housing and Community Development Adjustments included in the Draft Regional Housing Needs Assessment Determination

The following potential changes were presented to the Regional Planning Committee and Regional Planning Technical Working Group for consideration.

Vacancy Rate

A 5 percent vacancy rate is generally believed to provide enough available housing units to sufficiently provide choice and mobility for residents. A rate below 5 percent can lead to increased rents and housing costs. The Department of Housing and Community Development's (HCD) proposed vacancy adjustment is consistent with the preliminary 2018 SANDAG Regional Growth Forecast, which calls for achieving a housing vacancy rate of 5 percent by 2029. The Expert Review Panel assembled to provide input on the Regional Growth Forecast suggested that a 5 percent vacancy rate is needed to provide a healthy housing market.

No changes are proposed to the 5 percent vacancy adjustment recommended by HCD.

Overcrowding Adjustment

Overcrowding is defined in state law as more than one resident per room in each dwelling. The overcrowding adjustment is intended to increase the supply of housing to lower the number of overcrowded households. The overcrowding adjustment used in the draft RHNA Determination compares San Diego County overcrowding rates to the overcrowding rates of the United States. According to the American Community Survey (five-year data used in the draft RHNA Determination), San Diego County had an overcrowding rate of 6.43 percent of all households, while the national overcrowding rate was 3.34 percent of all households. The Western States Region has an overcrowding rate of 5.87 percent[1].

Higher overcrowding in the western states may be caused by geographic/topographical constraints such as mountain and desert areas that limit growth and demographic differences like immigration from areas where overcrowding is more common. Lowering the overcrowding rate in San Diego to a national average would be difficult to accomplish in a single housing element cycle.

HCD could consider using an overcrowding rate consistent with the Western States average (5.87%).

Replacement Adjustment

To account for housing lost by demolition or natural disaster, the RHNA calculation is adjusted to include additional housing units to replace those that will be lost during the RHNA cycle. In the draft RHNA Determination, HCD set a minimum and maximum replacement rate of 0.5 percent and 5.0 percent, respectively. HCD then compared the ten-year average of demolitions local governments reported to Department of Finance (DOF) to the minimum and maximum replacement rates. Since the San Diego County demolitions percentage (0.32%) was lower than the HCD minimum replacement rate, 0.5 percent was used in the draft RHNA Determination.

[1] The Census West Region includes the following states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Since demolitions reported to DOF represent a verifiable, realistic data point, HCD could consider the Replacement Adjustment be calculated at the region's average of 0.32 percent. Using this approach, the adjustment would account for the number of units usually demolished in the San Diego region during a RHNA cycle.

Calculation Methodology

One other factor contained in the draft RHNA Determination is that HCD calculated these three adjustments based on the total number of housing units in the region rather than the number of housing units needed in the eight-year housing element cycle, as in past RHNA Determinations. It is understood that this new methodology is in response to the tremendous need for housing that has developed since the last RHNA process eight years ago. However, it may be more realistic, while still being responsive to the tremendous housing need, to transition to this new methodology during this RHNA cycle, rather than applying it fully throughout the entire period.

HCD could consider a transition in applying the new methodology, applying the adjustments to a portion of the units this cycle.

Attachment B

Affordability Levels in Del Mar

The chart below shows the Area Median Income (AMI) levels for the County of San Diego in 2017 as well as the associated rental rates which are limited to 30% of gross household income:

2017 San Diego County AMI Chart								
Income Category	**Number of Persons in Household[1]**							
	1 person		**2 persons**		**3 persons**		**4 persons**	
	Annual Income	*Monthly Rent*	Annual Income	*Monthly Rent*	Annual Income	*Monthly Rent*	Annual Income	*Monthly Rent*
Extremely Low	$19,000	*$475.00*	$21,800	*$545.00*	$24,550	*$613.75*	$27,250	*$681.25*
Very Low	$31,850	*$796.25*	$36,400	*$910.00*	$40,950	*$1,023.75*	$45,450	*$1,136.25*
Low	$50,950	*$1,273.75*	$58,200	*$1,455.00*	$65,500	*$1,637.50*	$72,750	*$1,818.75*
Moderate	$66,600	*$1,665.00*	$76,100	*$1,902.50*	$85,650	*$2,141.25*	$95,150	*$2,378.75*
Above Moderate	$66,601+	*$1,666.00+*	$76,101+	*$1,903.00+*	$85,651+	*$2,142.00+*	$95,151+	*$2,379.00+*

[1] https://www.sandiegocounty.gov/content/sdc/sdhcd/rental-assistance/income-limits-ami.html

City of Del Mar
Staff Report

TO: Honorable Mayor and City Council Members

FROM: Kathleen A. Garcia, Planning and Community Development Director
Prepared by Shaun McMahon, Management Analyst
Via Scott W. Huth, City Manager

DATE: June 4, 2018

SUBJECT: "22 in 5" Affordable Housing Program

REQUESTED ACTION/RECOMMENDATION:
Accept the attached report and discuss the associated findings of the report. Provide staff with direction on the priority implementation projects so that staff may develop work plans and budget for implementation, as necessary.

BACKGROUND:
The "22 in 5" Affordable Housing Program is a City Council Priority Project, intended to develop a plan to accomplish 22 affordable housing units in Del Mar within approximately five years (by the end of 2021). At its November 21, 2016 City Council meeting, the City Council, based upon recommendations from the Housing Corporation, directed staff to move forward with the work program and allocated funding for the analysis.

At its February 2, 2017 meeting, the Housing Corporation reviewed the draft scope of work and provided comments which were then incorporated into the Request for Proposal (RFP 2017-01). The RFP was released for bids on February 28, 2017 and disseminated through Del Mar's Bid Board; the San Diego Housing Federation (the region's affordable housing advocacy group) who shared it with its statewide mailing list; the Del Mar Housing Corporation and the Finance Committee's subcommittee for Affordable Housing for further distribution. Staff also provided the RFP to interested parties identified by the San Diego Housing Federation.

The City received a proposal from LeSar Development Consultants (LDC) teaming with Keyser Marston Associates (KMA) for cost-estimates, pro-formas and funding gap analysis. The LDC proposal was selected because it meets the budget parameters, scope of work, qualifications and it demonstrated a strong understanding of the issues facing Del Mar.

City Council Action:

Since the selection of LeSar Development Consultants, the consultant team has been preparing the "22 in 5" report, looking at various solutions in creating 22 affordable units prior to the end of the current housing cycle (2013-2021).

The 22 units comprise 12 affordable units (4 extremely low-income, 3 very low-income, and 5 low-income), which is the City's lower income housing assessment for the current housing element cycle, and additional 10 low-income units, which is a penalty for the City's failure in achieving the goals set in the previous housing element cycle (2005-2010). The total 5th Cycle RHNA assessment for Del Mar is 61 units; in addition to the 22 low-income units discussed above, the total assessment also requires the City to generate 20 moderate-income and 34 above-moderate-income units (76 units total). Although this report focusses mainly on achieving low income units, many of the strategies proposed in this report can also be used to meet the City's moderate-income housing commitment as well.

DISCUSSION/ANALYSIS:

"22 in 5" is the City's goal to provide 22 affordable homes within five years. To accomplish this goal, the consultant team created four key strategies with twenty-six (26) different scenarios as options to attain 22 units of affordable housing within this housing cycle. The strategies are summarized below and can be viewed in detail in the attached draft report (Attachment A).

Strategy 1: Explore Potential for Acquisition, Rehab, and Conversion

This first strategy evaluates existing City building stock that can be acquired, rehabilitated or converted, and then made available as affordable housing. Three possible scenarios were explored under this strategy.

1. The purchase of a multifamily complex with a large number of units, designating 22 of those units as affordable rentals, and then maintain the remainder as market-rate renter-occupied units. The market-rate units could not only provide the City with revenue, but also act as placeholders to accommodate future affordable housing needs;
2. The purchase of a single-family home and converting it into affordable housing; and
3. Creating affordable housing through condominium conversion.

Strategy 2 & 2A: Unlock Land for Development of City-owned Sites

The second strategy involves unlocking City-owned land for (re)development and the potential rezoning of areas of land in order to create affordable housing. It was the direction of City Council to analyze all potential City-owned land options to determine feasibility, even if seemingly infeasible or undesirable.

A total of 15 scenarios were analyzed under this strategy. These 15 scenarios involve the following properties and areas of land:

1. Civic Center;
2. Zuni Reservoir;
3. Shores Park;
4. 21st Street Tennis Courts;
5. Public Works Yard;
6. Public Rights-of-Way; and
7. The North Commercial and Professional Commercial Zones.

Strategy 3: Obtain Covenants on Projects Being Developed
The third strategy looks to create affordable units by obtaining covenants on projects currently being developed within the City. A covenant is an agreement, such as in a contract that runs with the land regardless of the owner. These scenarios include:

1. Offering incentives to homeowners or developers that agree to maintain a pre-determined level of affordability in their units;
2. Obtaining affordable units from the Watermark project, if it is approved;
3. Obtaining affordable units from the 941 Camino del Mar project, if it is approved; and
4. Obtaining affordable units from the Del Mar Resort project, if it is approved.

Strategy 4: Partnership Opportunities with the 22nd District Agricultural Association
The fourth and final strategy from the report is aimed at creating affordable housing at the Del Mar Fairgrounds via a partnership with the 22nd District Agricultural Association. This could be achieved through a number of scenarios which include:

1. Creating affordable units in the backstretch housing;
2. Constructing new affordable housing units in the backstretch housing parking lot; and
3. Annexation of the Surf and Turf R.V. Park into the City's jurisdictional boundary and creating affordable housing on the site.

The consultant team identified the feasibility and approximate timeframe to meet the objectives, however they did not apply a filter of community acceptance or the other City Council priorities. As such, all options in the report are presented with only the quantifiable information. It is the responsibility of the City Council to determine the community priorities based on both the quantitative factors discussed in the "22 in 5" report and the qualitative factors of the community and its other priorities. Although it may be determined that many of the options may not be high priority, or reasonably feasible to achieve the objectives in the short term, it was very important that the housing consultant evaluate every option available to the City. By doing so, the City Council is presented many different scenarios to consider in order to produce 22 affordable units before the end of 2021.

Based on the findings of the report and staff's analysis of the various scenarios presented, staff has prepared a draft recommendation list which assigns a score between 1-5 to all

options, 1 being the highest priority and 5 being lowest priority items, based upon both qualitative and quantitative factors (Attachment B). Additionally, staff also analyzed how many years each option could potentially take to complete. This information is also included in the complete recommendation list. Of the twenty-six strategies analyzed, staff assigned the following seven (7) priorities a ranking of "First Priority":

- Encourage Condominium Conversions;
- Revise the In-Lieu Housing Mitigation Fees;
- Rezone the North Commercial Zone to allow residential (20du/ac[1]);
- Rezone the Professional Commercial Zone to allow residential (20du/ac[2]);
- Obtain affordable units in the Watermark Del Mar project, if approved;
- Obtain affordable units in the 941 Camino del Mar project, if approved; and
- Obtain affordable units in the Del Mar Resort project, if approved.

The complete list of scenarios and staff rankings can be viewed as Attachment B.

In the deliberations, the City Council is asked to:

1. Accept the attached report; and
2. To confirm staff's initial rankings, modify rankings as necessary; and
3. Direct staff to begin implementation of any or all of the first phase and any of the second phase actions to ensure successful implementation.

FISCAL IMPACT:
This report is informational in nature and does not propose any actions which will impact the adopted 2017-2018 and 2018-2019 Operating and Capital Budget. However, the attached report (Attachment A) includes various scenarios which could be acted upon in future City Council actions. These will be separately analyzed to determine their financial feasibility and fiscal impact.

PRIOR CITY COUNCIL REVIEW:
On November 21, 2016, the City Council authorized the general work program and budget range for the "22 in 5" Affordable Housing Program. Subsequently, on May 1, 2017, the City Council authorized the selection of LeSar Development Consultants to carry out the "22 in 5" task order.

ATTACHMENTS:
Attachment A – Del Mar "22 in 5" Report
Attachment B – Staff Ranking of Proposed Strategies

[1] Residential Density of Twenty (20) Dwelling Units Per Acre
[2] Residential Density of Twenty (20) Dwelling Units Per Acre

Attachment A

Del Mar "22 IN 5"

Four Key Strategies to Provide 22 Affordable Housing Units in Five Years

Prepared For

May 2018

Prepared for the City of Del Mar by:
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Table of Contents

Executive Summary

"22 in 5" is the City of Del Mar's roadmap to provide 22 affordable homes – 4 units for extremely low-income, 3 units for very low-income, and 15 units for low-income households,[1] within five years (i.e. by 2022). These 22 units were derived from the City's RHNA (Regional Housing Need Allocation) assessment, and are outlined in the City's certified Housing Element of its adopted General Plan. The total RHNA assessment for Del Mar for the planning cycle 2013-2021 is 76 units; in addition to the lower-income units listed above, the total assessment also includes 20 moderate-income and 34 above moderate-income units. Because moderate-income and above moderate-income housing tends to be built naturally, this report focuses only on the extremely low-income, very low-income, and low-income units.

Four Key Strategies to Achieve "22 in 5"

Our team developed Four Key Strategies with 26 scenarios to create 22 units of affordable housing in 5 years. The four key strategies are as follows: (1) Explore potential for acquisition, rehab, and conversion; (2) Unlock land for development of City-owned sites; (3) Obtain or acquire covenants on projects being developed; and, (4) Pursue partnership opportunities with the 22nd District Agricultural Association which operates the Del Mar Fairgrounds.

Strategy 1: Explore Potential for Acquisition, Rehab, and Conversion[2]

This first strategy aims to identify a portion of Del Mar's residential building stock that can be acquired, rehabilitated or converted, and then made available as affordable housing. Three possible scenarios were explored under this strategy. First, the City's existing Multifamily housing stock was examined to determine whether there was potential for the City or a developer to obtain a building and convert it into affordable housing. Ideally, the City could purchase a multifamily complex with a large number of units, designate 22 of those units as affordable rentals, and then maintain the remainder as market-rate renter-occupied units. The market-rate units could not only provide the City with revenue, but also act as placeholders to accommodate future affordable housing needs. Unfortunately, as of this writing, there are no known multifamily buildings on the market. Nevertheless, the analysis shows that older renter-occupied multifamily buildings with more than 10 units have potential for acquisition, rehabilitation and conversion. Second, Del Mar's market for single-family homes was studied to determine whether it would be feasible for the City to purchase a home and convert it into affordable housing. This option was considered undesirable due to the high costs of land acquisition and single-family home ownership in Del Mar.[3] The third scenario explored the possibility of creating affordable housing through condominium conversion. The analysis indicates that encouraging condominium conversion could yield fruitful results in Del Mar since the 20 percent "set-aside" provision would help create lower-income units and the In-Lieu Housing Mitigation fees would generate revenue for the City's Housing Assistance Reserve Fund.

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[1] The definition of each income category has been provided in Appendix IV.

[2] Cal. Gov't Code §§65583(1)(a) and (c) provide that no more than 25 percent of a RHNA requirement may be met through rehab, conversion, or preservation. Converted units must not be acquired by eminent domain, must increase the overall affordable housing stock, and must be rent restricted with covenants in place for at least 55 years, and, except in the case of substantial rehab, must be part of a project with at least three units.

[3] Conventional 30-Year Fixed Mortgage Rates, Zillow.com. https://www.zillow.com/research/data/#other-metrics. Accessed 9.1.17.

Strategy 2: Unlock Land for Development of City-owned Sites

The second strategy involves "unlocking land," which can be accomplished by making city-owned properties available for (re)development. A total of 15 scenarios were analyzed. If the reservoir on Zuni Street, which we refer to as Zuni Reservoir, were to be relocated, the site could be rezoned to accommodate either two single family homes, each with an Accessory Dwelling Unit (ADU), or up to 12 multifamily units. Similarly, the expansion area of the site of the new Civic Center could potentially accommodate four townhouses or six to eight tiny homes, and the Tennis Courts at 21st Street and Court Street have potential to create either six to eight tiny homes or four townhomes or two single-family homes, each with an ADU. Depending on the location and the amounts of land designated for residential development, the Shores Property could potentially create between four and eight homes. If uses were "swapped" between the Shores Property and the Public Works Yard, then the Shores Property could maintain the Winston School and accommodate 20 affordable renter-occupied units as well as the public works building and part of its accessory spaces and facilities. The remaining portion of the public works facilities, including the garage and heavy equipment warehouse, could be reconstructed in the developable section of the Public Works Yard, and the storage bay could relocate to an expansion area on the new Civic Center site. The site of the Public Works Yard could potentially provide up to 28 units (22 affordable, and 6 market-rate); however, potential flooding and future sea-level rises in this area could make the site undesirable for residential/affordable housing development. Rights-of-way (ROWs) and small publicly-owned sites across the City have potential to create either 22 tiny homes or 22 multifamily renter-occupied affordable units. Adopting a zone code amendment in the Professional Commercial and North Commercial Zones to allow for a mixture of commercial and residential uses could potentially create between 4 and 28 affordable units.[4] Without rezoning, the Professional Commercial and North Commercial Zones have potential to create at least eight residential units that are accessory to the primary commercial uses.

Strategy 3: Obtain Covenants on Projects Being Developed

The City of Del Mar could create affordable units by obtaining covenants on projects being developed. A covenant is an agreement, such as in a contract. For example, the City could offer certain incentives to homeowners or developers that agree to maintain a pre-determined level of affordability in their units. In the case of Accessory Dwelling Units (ADUs) and Junior Accessory Dwelling Units (JADUs), the City could provide incentives such as an increase in maximum size from 550 sq. ft. to 850 sq. ft., increasing FAR, and/or property tax abatement for owners that will provide the units at affordable rates for 10-30 years.

Three development applications have been received for projects which would include affordable units: Watermark, the Del Mar Resort, and the 941 Camino Del Mar project. At the time of this writing, Watermark's development application identifies 7-8 affordable units. The Del Mar Resort and 941 Camino Del Mar projects also propose a number of units which, as of this date, has yet to be approved. Assuming these three projects are approved as submitted and built, the affordable units created could potentially meet the goal of 22 in 5. In addition, if the City of Del Mar were to obtain covenants for additional affordable units in these and other projects, it could meet its future needs as well.

[4] The City of Del Mar's 2013-2021 Housing Element commits to rezoning both the Professional Commercial and the North Commercial Zones. City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, page 70.

Strategy 4: Pursue Partnership Opportunities with the 22nd District Agricultural Association (Del Mar Fairgrounds)

A partnership with the 22nd District Agricultural Association could provide the City with numerous opportunities to create affordable housing at the Del Mar Fairgrounds. This could be achieved either by replacing a portion of the Backstretch housing quarters, or developing housing on the Parking Lot/Laydown site. If the City were to reach an agreement with the Fairgrounds, 22 permanent housing units could be achieved in the Backstretch Area, and the Backstretch Parking Lot/Laydown site could potentially accommodate 36-45 units. The City could request an annexation of the Surf and Turf R.V. Park, which is on a property owned by the State of California, within the limits of the City of San Diego. The site of the Surf and Turf R.V. Park could potentially accommodate between 50-62 units. The process of annexation is administered by San Diego Local Agency Formation Commission (LAFCO), which is a county-wide planning and regulatory entity responsible for processing requests for boundary changes. Because the process requires cross-jurisdictional agreements, the likelihood of implementing the annexation process within five years could be low.

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Figure 1.

Overview: Solutions Framework Four Key Strategies to Create Affordable Housing in Five Years	
Recommendation	**Potential for Affordable Housing**
Strategy 1: Potential for Acquisition, Rehab, and Conversion[5]	
Obtain Multifamily Dwellings	• Older renter-occupied multifamily buildings with more than 10 units have potential for acquisition, rehabilitation and conversion
Obtain Single Family Homes	• Undesirable due to cost[6]
Encourage Condominium Conversion and Revise In-Lieu Housing Mitigation Fees	• Abundant potential to convert multifamily buildings to condominiums
	• Adjustment of In-Lieu Housing Mitigation Fees would enlarge the Housing Reserve Fund
Strategy 2: Unlock Land for Development of City-owned Sites and Rezoning	
Shores Property (portion of park site)	• Potential to create 8 homes: 4 single family homes, each with an ADU
	• Potential to create 4 homes: 2 duplexes
	• Potential to create 8 townhomes
	• Potential to create 20 multifamily units
Civic Center (Expansion Area C)	• Potential to create 6-8 tiny homes
	• Potential to create 4 townhouses
Zuni Reservoir	• Potential to create 4 homes: 2 single family homes, each with an ADU
	• Potential to create up to 12 multifamily units
Tennis Courts at 21st Street and Court Street	• Potential to create 6-8 tiny homes (Retains one tennis court)
	• Potential to create 5 townhouses (Retains one tennis court)
	• Potential to create 4 homes: 2 single family homes, each with an ADU (Loses both tennis courts)
Public Works Yard	• Potential to create 28 dwelling units (22 affordable and 6 market-rate); undesirable due to potential flooding and future sea-level rises
Rights-of-Way	• Potential to create 22 tiny homes, or 22 multifamily units, or combination thereof
Strategy 2A: Rezone of Privately Owned Properties	
Rezoning of North Commercial and Professional Commercial Zones	• Potential to create up to 28 affordable multifamily units
	• Potential to create at least 8 ADUs
Strategy 3: Obtain Covenants on Projects Being Developed	
Incentivize ADUs and Junior ADUs with covenants	• Potential through development of new ADUs with incentives and covenants, and through an amnesty program, to place restrictive covenants on ADUs
Watermark Specific Plan	• If approved, potential to achieve 7-8 affordable units
The Del Mar Resort Specific Plan	• If approved, potential for additional affordable units
941 CDM Specific Plan	• If approved, potential for additional affordable units
Strategy 4: Pursue Partnership Opportunities with the Del Mar Fairgrounds	
Backstretch Housing	• Potential to create 22 affordable units
The Fairgrounds Laydown/ Parking Lot	• Potential to create 36-45 units (22 affordable units and 14-23 market rate units)
The Surf and Turf R.V. Park	• Potential to create 50-62 units; however, not likely to occur within five years.

[5] Cal. Gov't Code §§65583(1)(a) and (c) provide that no more than 25 percent of a RHNA requirement may be met through rehab, conversion, or preservation. Converted units must not be acquired by eminent domain, must increase the overall affordable housing stock, and must be rent restricted with covenants in place for at least 55 years, and, except in the case of substantial rehab, must be part of a project with at least three units.

[6] Conventional 30-Year Fixed Mortgage Rates, Zillow.com. https://www.zillow.com/research/data/#other-metrics. Accessed 9.1.17.

Introduction

"22 in 5" is the City of Del Mar's policy guideline to provide 22 affordable housing units by the year 2022, and to partially achieve the City's share of the regional affordable housing needs. This goal is derived from the City's RHNA (Regional Housing Need Allocation) assessment, and outlined in the City's certified Housing Element of its adopted General Plan.

The 22 units comprise 12 affordable units (4 extremely low-income, 3 very low-income, and 5 low-income), which is the City's lower income housing assessment for the current housing element cycle (2013-2021), and 10 low-income units, which is a penalty for the City's failure in achieving the goals set in the 2005-2012 housing element cycle. The total RHNA assessment for Del Mar is 76 units; in addition to the low-income units discussed above, the total assessment also requires the City to generate 20 moderate-income and 34 above-moderate-income units. Because moderate-income and above moderate-income housing tends to be built naturally, this report focuses only on the extremely low-income, very low-income, and low-income units. However, many of the strategies proposed in this report can also be used to meet the City's moderate-income housing commitment.

The current housing element cycle assessment of 12 units was derived by the State of California's Housing and Community Development Department (HCD) using data gathered by SANDAG (San Diego Association of Governments), such as: anticipated household growth associated with projected population increases; household size and trends in household size; the rate of household formation; vacancy rates; and, the relationship between jobs and housing.[7] HCD then calculated the assessment, using the following factors: the relationship between jobs and housing; opportunities and constraints to the development of additional housing; the distribution of household growth in relation to regional and public transportation; market demand for housing; any agreements for counties to direct growth toward unincorporated areas; the loss of units in assisted living developments; high-housing cost burdens; the housing needs of farmworkers; the housing needs generated by the presence of a university; and, any other factors adopted by the Council of Governments (SANDAG acts as San Diego's Council of Governments).

The 10-unit penalty based on the 2005-2012 housing element cycle was levied through the authority of AB 1233, which became effective on January 1, 2006. Through AB 1233, HCD assesses a penalty equal to the portion of the previous RHNA assessment that was not accommodated, either through not having been built, or in terms of land not being made available for the production of housing. Del Mar's 2005-2012 Housing Element was not certified by HCD as being in compliance with state law because it did not demonstrate the feasibility of its sites inventory for facilitating the development of affordable housing. In addition, while 75 units were found to be either constructed, under construction, or permitted during the previous cycle, however, none of them met the requirements for extremely low, very low, or low-income households. As a result, the penalty of 10 low-income units was determined.

In addition to meeting the essential "22 in 5" affordable housing goal, the City is committed to identifying and evaluating strategies that will achieve the longer term benefits of generating increased affordable housing stock beyond the five-year target date to meet changing demographic needs.

[7] California Government Code §65584.01(c)(1)

Figure 2.

City of Del Mar Regional Housing Needs Assessment (RHNA)		
Income Category	**Units**	%
Extremely Low	4	5.3
Very Low	3	3.9
Low	15*	19.7
Moderate	20**	26.3
Above Moderate	34	44.7
Total	**76**	**100%**
*Consists of 10 units from previous housing cycle penalty and 5 units from 2013-2021 housing cycle. **Consists of 5 units from previous housing cycle penalty and 15 units from 2013-2021 housing cycle.		

The City of Del Mar partnered with our team, LeSar Development Consultants and Keyser Marston Associates Inc., to develop a variety of creative ideas and solutions to ensure the City meets its goal of 22 units by 2022. The Del Mar "22 in 5" Program Report is the result of this partnership. It includes Four Key Strategies and a Capital Plan to help the City achieve its affordable housing goal.

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Solutions Framework Strategy #1: Potential for Acquisition, Rehab, and Conversion [8]

Acquisition and conversion of a portion of Del Mar's residential building stock to affordable housing units could be a strategy to meet the City's RHNA requirements. This section scrutinizes the feasibility of this strategy for different housing types, i.e. multifamily dwelling units, single-family homes, and condominiums.

A. Obtain Multifamily Dwellings

Although single family homes (attached and detached) and duplexes account for the majority of the housing stock in Del Mar, the acquisition/conversion of multifamily dwellings could be regarded as a strategy to help the City meet its current regional share of 22 affordable dwelling units. This section, after providing a brief review of the multifamily housing stock in Del Mar, explores different aspects of this scenario. It should be noted that due to a lack of statistical data on the composition of the City's multifamily housing stock, 2011-2015 American Community Survey estimates, among other available data, were used as the basis for the following section.

Del Mar's Multifamily Housing Stock

According to Del mar Municipal Code (DMMC), a multifamily dwelling is "A building, portion thereof or buildings used for occupancy by three or more families…living independently of each other, and containing three or more dwelling units..."[9] According to 2011-2015 American Community Survey estimates, roughly 38 percent of Del Mar's housing stock in 2015 consisted of three or more units (See Figure 3).[10] Del Mar's Housing Element also stipulates that roughly 30 percent of the City's housing stock is comprised of multifamily projects of various types.[11]

Figure 3. Del Mar Housing Stock Estimates

Units in Structure	2010		2015		%
	Units	% of Units	Units	% of Units, rounded	
1 unit, detached	1,386	51%	1,384	49%	0%
1 unit, attached	540	20%	185	7%	-66%
2 units	106	4%	192	7%	81%
3 or 4 units	102	4%	97	3%	-5%
5 to 9 units	39	1%	77	3%	97%
10 to 19 units	242	9%	466	17%	93%
20 or more units	297	11%	413	15%	39%
Total units	**2,712**	**100%**	**2,814**	**100%**	**4%**

Source: US Census Bureau, Selected Housing Characteristics. 2011-2015 American Community Survey 5-Year Estimates

[8] Cal. Gov't Code §§65583(1)(a) and (c) provide that no more than 25 percent of a RHNA requirement may be met through rehab, conversion, or preservation. Converted units must not be acquired by eminent domain, must increase the overall affordable housing stock, and must be rent restricted with covenants in place for at least 55 years, and, except in the case of substantial rehab, must be part of a project with at least three units.

[9] DMMC 30.04.010 K.

[10] The statistical figures estimated by American Community Surveys include large margins of error and should be considered with reservation and, if possible, crosschecked to ensure consistency.

[11] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.1.

In both 2010 and 2015 estimates, multifamily complexes with more than ten units constituted the majority of multifamily units (80 percent and 84 percent of the multifamily housing stock, respectively). In terms of age of residential buildings, American Community Survey Estimate in 2015 indicates that 85 percent of Del Mar's housing stock was built before 1990 (See Figure 4).

Figure 4.

Year Structure Built	Units	% of Units
2014 or later	0	0%
2010 to 2013	55	2%
2000 to 2009	165	6%
1990 to 1999	191	7%
1980 to 1989	424	15%
1970 to 1979	779	28%
1960 to 1969	619	22%
1950 to 1959	354	13%
1940 to 1949	184	7%
1939 or earlier	43	2%
Total	**2,814**	**100%**

US Census Bureau, Selected Housing Characteristics. 2011-2015 American Community Survey 5-Year Estimates

Moreover, most of the City's residential buildings, which are pre Proposition 13 ownership,[12] were built between 1970 and 1979 (28 percent) and 1960 and 1969 (22 percent), respectively. Figure 5 outlines the year structures were built for each unit type by tenure. As Figure 5 illustrates, no multifamily owner-occupied units have been constructed in Del Mar since 2000. Most of such dwellings (65 percent) were built between 1960 and 1979, and 38 percent are structures that contain 2 to 4 units. Similarly, there have been no multifamily renter-occupied units built since 2000. Most of the units in this category (77 percent) were also built between 1960 and 1979, and 38 percent are structures that contain 5 to 19 units.

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[12] On June 6th, 1978, nearly two-thirds of California's voters passed Proposition 13, reducing property tax rates on homes, businesses and farms by about 57%. Prior to Proposition 13, the property tax rate throughout California averaged a little less than 3% of market value. Additionally, there were no limits on increases for the tax rate or on individual ad valorem (assessed value of property) charges. Under Proposition 13 tax reform, property tax value was rolled back and frozen at the 1976 assessed value level. California Tax Data, "What is Proposition 13?" https://www.californiataxdata.com/pdf/Prop13.pdf.

Figure 5.

Year Structure Built, by Tenure	1 unit	2 to 4 units	5 to 19 units	20 to 49 units	50 or more units	Total
Owner-Occupied Units						
2010 or later	55	0	0	0	0	55
2000 to 2009	96	0	0	0	0	96
1980 to 1999	261	0	0	0	23	284
1960 to 1979	311	25	17	0	0	353
1940 to 1959	349	0	0	0	0	349
1939 or earlier	24	0	0	0	0	24
Renter-Occupied Units						
2010 or later	0	0	0	0	0	0
2000 to 2009	16	0	0	0	0	16
1980 to 1999	29	0	52	13	0	94
1960 to 1979	112	72	228	138	137	687
1940 to 1959	45	72	0	31	0	148
1939 or earlier	19	0	0	0	0	19

US Census Bureau, Selected Housing Characteristics. 2011-2015 American Community Survey 5-Year Estimates (Tenure by Year Structure Built by Units in Structure,") [13]

Multifamily Housing Acquisition and Rehabilitation Prototypes

I. Prototype Project Descriptions

A potential strategy for the City to create affordable housing units within the next five years is the acquisition, rehabilitation, and conversion of existing apartments within the City into affordable units. At the time the report was prepared (April 2018), there were no multifamily units on the market in Del Mar. Consequently, our report is based not on any specific available property, but instead on general information regarding three representative types of existing multifamily housing projects: Small (12 units); Medium (25 units); and Large (100 units). This scenario assumes that a City-selected developer or the City itself would acquire an existing apartment building to substantially rehabilitate and then restrict some or all of the units to meet the City's RHNA (Regional Housing Needs Allocation) obligation. In an effort to assess the economic feasibility of potential acquisition/rehabilitation options for the City, an economic feasibility analysis was prepared for alternative affordable housing scenarios.

Three development scenarios for the City were analyzed, as follows:

- Scenario A – Small Multi-Family – Acquisition of a 12-unit apartment complex for conversion into 12 affordable rental units.

- Scenario B – Medium Multi-Family – Acquisition of a 25-unit apartment complex for conversion into 24 affordable rental units and one market-rate manager unit.

[13] United States Census Bureau, 2011-2015 American Community Survey 5-Year Estimates, "Tenure by Year Structure Built by Units in Structure," https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_15_5YR_B25127&prodType=table

- Scenario C- Large Multi-Family – Acquisition of a 100-unit apartment complex for conversion into 22 affordable rental units, 77 market-rate rental units and one manager unit.

For each scenario, a detailed financial feasibility model was prepared. Exhibit 1 below presents a comparison of the project descriptions for each scenario.

Exhibit 1: Prototype Project Descriptions			
	Scenario A	***Scenario B***	***Scenario C***
	Small Multi-Family	**Medium Multi-Family**	**Large Multi-Family**
Number of Units	12 Units	25 Units	100 Units
Density	20 Units/Acre	25 Units/Acre	35 Units/Acre
Bedroom Types	1 and 2 Bedrooms	1 and 2 bedrooms	1, 2, and 3 bedrooms
Parking	12 Spaces Surface	25 Spaces Surface/Tuck-Under	150 Spaces Surface/Tuck-Under
Affordability Mix			
Extremely Low	2 Units	4 Units	4 Units
Very Low	2 Units	3 Units	16 Units
Low	8 Units	17 Units	2 Units
Total Affordable	12 Units	24 Units	22 Units
Market-Rate	0 Units	0 Units	77 Units
Manager	0 Units	1 Unit	1 Unit
Total	12 Units	25 Units	100 Units
Basis for Affordability Mix	Falls short of RHNA goal; affordability mix based on pro rata allocation of RHNA targets.	Meets RHNA goal; increased number of Low Income units to allow for 100% of project to be eligible for Low Income Housing Tax Credits	Meets RHNA goal; increased number of Very Low income units to achieve favorable financing for projects with up to 20% Very Low income. Income from market-rate units could be used to help subsidize project.

II. Financial Feasibility

A detailed financial model was prepared to assess the financial feasibility of each scenario. Each financial model included assumptions regarding development costs estimates, maximum affordable rents, achievable market rental values, operating expenses, and available funding. Our detailed financial models are presented in attached Tables 1-3, in a side-by-side forma, and briefly reviewed below.

Exhibits 2 through 5 present comparisons of the estimated development costs, financing assumptions and calculated financing gap for each alternative. The financing gap (Exhibit 4) is calculated as the difference between total development costs (Exhibit 2) and total funding sources (Exhibit 3). As shown in Exhibit 4, the analysis assumed funding sources available to each prototype would include a combination of tax-exempt bonds debt, equity funding sources (i.e., 4% Low Income Housing Tax Credits and developer equity investment in market-rate units), and deferred developer fee.

Exhibit 2 – Total Development Costs

	Scenario A	***Scenario B***	***Scenario C***
	Small Multi-Family **12 Units** *12 affordable units*	**Medium Multi-Family** **25 Units** *24 affordable units* *1 market-rate (manager) unit*	**Large Multi-Family** **100 Units** *22 affordable* *77 market-rate units* *1 manager unit*
Acquisition Costs	$3,900,000	$7,500,000	$27,500,000
Direct Costs	$1,283,000	$2,326,000	$12,911,000
Indirect/Financing Costs	$1,224,000	$2,356,000	$6,316,000
Total Development Costs	$6,407,000	$12,182,000	$46,727,000
Per Unit	$534,000	$487,000	$467,000

It should be noted that the acquisition costs are an assumption based on a search of apartment building sales comparables that have occurred since January 2014 in Solana Beach, Cardiff, and Encinitas (west of Interstate 5), as no sales for apartment buildings were found within the City of Del Mar. Specific properties have not been identified and potential relocation costs have not been included in the cost estimate.

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The following summarizes the potential funding sources that could be available for an acquisition/rehabilitation project:

Exhibit 3 – Sources of Funds			
	Scenario A	***Scenario B***	***Scenario C***
	Small Multi-Family **12 Units** *12 affordable units*	**Medium Multi-Family** **25 Units** *24 affordable units* *1 market-rate (manager) unit*	**Large Multi-Family** **100 Units** *22 affordable* *77 market-rate units* *1 manager unit*
Supportable Permanent Loan	$789,000	$1,480,000	$26,364,000
Tax Credits	$1,826,000	$3,470,000	$3,086,000
Deferred Developer Fee	$138,000	$263,000	$0
Developer Equity Investment	$0	$0	$3,998,000
Total Sources of Funds	$2,753,000	$5,213,000	$33,448,000

The comparison of total funding sources and total development costs yields a financing gap for all three scenarios. As shown in Exhibit 5, the resulting financing gaps range between *negative* $3.7 million and $13.3 million, as follows:

Exhibit 4 – Estimate of Financing Surplus/(Gap)			
	Scenario A	***Scenario B***	***Scenario C***
	Small Multi-Family **12 Units** *12 affordable units*	**Medium Multi-Family** **25 Units** *24 affordable units* *1 market-rate (manager) unit*	**Large Multi-Family** **100 Units** *22 affordable* *77 market-rate units* *1 manager unit*
Sources of Funds	$2,753,000	$5,213,000	$33,448,000
(Less) Development Costs	($6,407,000)	($12,182,000)	($46,727,000)
Financing Gap	**($3,654,000)**	**($6,969,000)**	**($13,279,000)**
Per Unit	($305,000)	($279,000)	($133,000)
Per Affordable Unit	($305,000)	($290,000)	($604,000)

The financing gaps above indicate that a developer would need to identify *additional* loan or grant funds from a local, state, or federal funding source in order to develop affordable units within the City.

As shown in Exhibit 5, absent acquisition costs, the development scenarios yield a financing surplus, ranging between $246,000 and $14.2 million, as follows:

Exhibit 5 – Estimate of Financing Surplus/(Gap) – Excluding Acquisition Costs			
	Scenario A	***Scenario B***	***Scenario C***
	Small Multi-Family **12 Units** *12 affordable units*	**Medium Multi-Family** **25 Units** *24 affordable units* *1 market-rate (manager) unit*	**Large Multi-Family** **100 Units** *22 affordable* *77 market-rate units* *1 manager unit*
Sources of Funds	$2,753,000	$5,213,000	$33,448,000
(Less) Development Costs excluding Acquisition	($2,507,000)	($4,682,000)	($19,227,000)
Financing Surplus	**$264,000**	**$531,000**	**$14,221,000**
Per Unit	$21,000	$21,000	$142,000
Per Affordable Unit	$21,000	$22,000	$646,000

The financing surplus above indicate that a developer would <u>not</u> need an *additional* loan or grant funds from a local, state, or federal funding source if acquisition of an existing apartment was available at no cost.

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Table 1.

ESTIMATED DEVELOPMENT COSTS
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

	Scenario A			Scenario B			Scenario C		
	Small Multi-Family			Medium Multi-Family			Large Multi-Family		
	Totals	Per Unit	Comments	Totals	Per Unit	Comments	Totals	Per Unit	Comments
I. Direct Costs (1)									
Off-Site Improvements	$78,000	$6,500	$3 /SF Site Area	$131,000	$5,240	$3 /SF Site Area	$373,000	$3,730	$3 /SF Site Area
On-Site Improvements	$523,000	$43,583	$20 /SF Site Area	$871,000	$34,840	$20 /SF Site Area	$3,111,000	$31,110	$25 /SF Site Area
Parking	$0	$0	Included above	$0	$0	Included above	$0	$0	Included above
Building Rehabilitation	$585,000	$48,750	$50 /SF GBA	$1,138,000	$45,520	$50 /SF GBA	$8,312,000	$83,120	$75 /SF GBA
FF&E/Amenities	$36,000	$3,000	Allowance	$75,000	$3,000	Allowance	$500,000	$5,000	Allowance
Contingency	$61,000	$5,083	5.0% of Directs	$111,000	$4,440	5.0% of Directs	$615,000	$6,150	5.0% of Directs
Total Direct Costs	$1,283,000	$106,917	$110 /SF GBA	$2,326,000	$93,040	$102 /SF GBA	$12,911,000	$129,110	$116 /SF GBA
II. Indirect Costs									
Architecture & Engineering	$77,000	$6,417	6.0% of Directs	$140,000	$5,600	6.0% of Directs	$775,000	$7,750	6.0% of Directs
Permits & Fees (2)	$240,000	$20,000	Allowance	$500,000	$20,000	Allowance	$2,000,000	$20,000	Allowance
Legal & Accounting	$19,000	$1,583	1.5% of Directs	$35,000	$1,400	1.5% of Directs	$194,000	$1,940	1.5% of Directs
Taxes & Insurance	$19,000	$1,583	1.5% of Directs	$35,000	$1,400	1.5% of Directs	$194,000	$1,940	1.5% of Directs
Developer Fee - Non-Tax Credit Units	$0	$0	0.0% of Directs	$0	$0	0.0% of Directs	$398,000	$3,980	3.1% of Directs
Developer Fee - Tax Credit Units	$691,000	$57,583	53.9% of Directs	$1,313,000	$52,520	56.4% of Directs	$1,168,000	$11,680	9.0% of Directs
Marketing/Lease-Up	$18,000	$1,500	Allowance	$38,000	$1,500	Allowance	$150,000	$1,500	Allowance
Contingency	$32,000	$2,667	3.0% Above Indirects	$62,000	$2,480	3.0% Above Indirects	$146,000	$1,460	3.0% Above Indirects
Total Indirect Costs	$1,096,000	$91,333	85.4% of Directs	$2,123,000	$84,920	91.3% of Directs	$5,025,000	$50,250	38.9% of Directs
III. Financing Costs (3)	$128,000	$10,667	10.0% of Directs	$233,000	$9,320	10.0% of Directs	$1,291,000	$12,910	10.0% of Directs
IV. Total Development Costs excluding Acquisition	**$2,507,000**	**$208,917**	**$214 /SF GBA**	**$4,682,000**	**$187,280**	**$206 /SF GBA**	**$19,227,000**	**$192,270**	**$173 /SF GBA**
V. Add: Acquisition Costs	$3,900,000	$325,000	$333 /SF GBA	$7,500,000	$300,000	$330 /SF GBA	$27,500,000	$275,000	$248 /SF GBA
VI. Total Development Costs with Acquisition	**$6,407,000**	**$533,917**	**$548 /SF GBA**	**$12,182,000**	**$487,280**	**$535 /SF GBA**	**$46,727,000**	**$467,270**	**$422 /SF GBA**

(1) Does not assume the payment of prevailing wages.
(2) Estimate; not verified by KMA or City.
(3) Allowance for loan fees, interest during construction/lease-up, title/recording/escrow, and operating reserves.

Table 2.

ESTIMATED NET OPERATING INCOME
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

	Scenario A					Scenario B					Scenario C				
	Small Multi-Family					Medium Multi-Family					Large Multi-Family				
I. Gross Scheduled Income	Unit Size	Units	$/SF	$/Month	Annual	Unit Size	Units	$/SF	$/Month	Annual	Unit Size	Units	$/SF	$/Month	Annual
A. One Bedroom															
30% of AMI	800 SF	1	$0.54	$430	$5,000	775 SF	2	$0.55	$430	$10,000	750 SF	1	$0.57	$430	$5,000
50% of AMI	800 SF	1	$0.93	$747	$9,000	775 SF	1	$0.96	$747	$9,000	750 SF	5	$1.00	$747	$45,000
60% of AMI	800 SF	3	$1.13	$906	$33,000	775 SF	7	$1.17	$906	$76,000	750 SF	1	$1.21	$906	$11,000
Market-Rate	800 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	750 SF	23	$3.20	$2,400	$662,000
Subtotal	800 SF	5	$0.98	$783	$47,000	775 SF	10	$1.02	$792	$95,000	750 SF	30	$2.68	$2,008	$723,000
B. Two Bedroom															
30% of AMI	1,100 SF	1	$0.00	$475	$6,000	1,000 SF	2	$0.48	$475	$11,000	1,050 SF	2	$0.45	$475	$11,000
50% of AMI	1,100 SF	1	$0.76	$832	$10,000	1,000 SF	2	$0.83	$832	$20,000	1,050 SF	9	$0.79	$832	$90,000
60% of AMI	1,100 SF	5	$0.00	$1,010	$61,000	1,000 SF	10	$1.01	$1,010	$121,000	1,050 SF	1	$0.96	$1,010	$12,000
Market-Rate	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	1,050 SF	42	$2.76	$2,900	$1,462,000
Manager	0 SF	0	$0.00	$0	$0	1,000 SF	1	$0.00	$0	$0	1,050 SF	1	$0.00	$0	$0
Subtotal	1,100 SF	7	$0.83	$917	$77,000	1,000 SF	15	$0.84	$844	$152,000	1,050 SF	55	$2.27	$2,386	$1,575,000
C. Three Bedroom															
30% of AMI	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	1,300 SF	1	$0.40	$522	$6,000
50% of AMI	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	1,300 SF	2	$0.71	$918	$22,000
60% of AMI	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0
Market-Rate	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	1,300 SF	12	$2.69	$3,500	$504,000
Subtotal	0 SF	0	$0.00	$0	$0	0 SF	0	$0.00	$0	$0	1,300 SF	15	$2.27	$2,956	$532,000
D. Total/Average	975 SF	12	$0.88	$861	$124,000	910 SF	25	$0.90	$823	$247,000	998 SF	100	$2.42	$2,358	$2,830,000
E. Add: Other Income		$20 /Unit/Month			$3,000		$20 /Unit/Month			$6,000		$40 /Unit/Month			$48,000
F. Total Gross Scheduled Income (GSI)					$127,000					$253,000					$2,878,000
II. Effective Gross Income (EGI)															
(Less) Vacancy		5.0% of GSI			($6,000)		5.0% of GSI			($13,000)		5.0% of GSI			($144,000)
Total Effective Gross Income (EGI)					$121,000					$240,000					$2,734,000
III. Operating Expenses															
(Less) Operating Expenses		$5,000 /Unit/Year			($60,000)		$5,000 /Unit/Year			($125,000)		$5,000 /Unit/Year			($500,000)
(Less) Property Taxes		$0 /Unit/Year			$0 (1)		$0 /Unit/Year			$0 (1)		$3,570 /Unit/Year (2)			($357,000)
(Less) Replacement Reserves		$300 /Unit/Year			($4,000)		$300 /Unit/Year			($8,000)		$300 /Unit/Year			($30,000)
(Less) Monitoring Fees		$150 /Unit/Year (3)			($2,000)		$150 /Unit/Year (3)			($4,000)		$150 /Unit/Year (3)			($3,000)
Total Expenses		$5,500 /Unit/Year			($66,000)		$5,480 /Unit/Year			($137,000)		$8,900 /Unit/Year			($890,000)
		54.5% of EGI					57.1% of EGI					32.6% of EGI			
IV. Net Operating Income					**$55,000**					**$103,000**					**$1,844,000**

(1) Assumes that the project will receive tax-exempt status.
(2) Property taxes are based upon the value of the market-rate units and do not apply to the affordable units.
(3) Per affordable unit.

Table 3.

ESTIMATED FINANCING GAP
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

	Scenario A Small Multi-Family	Scenario B Medium Multi-Family	Scenario C Large Multi-Family
I. Sources of Funds			
Supportable Permanent Loan	$789,000	$1,480,000	$26,364,000
Low Income Housing Tax Credit Equity	$1,826,000	$3,470,000	$3,086,000
Deferred Developer Fee	$138,000	$263,000	$0
Developer Equity Investment	$0	$0	$3,998,000
Total Sources of Funds	$2,753,000	$5,213,000	$33,448,000
II. (Less) Development Costs	($6,407,000)	($12,182,000)	($46,727,000)
III. Financing Surplus/(Deficit)	**($3,654,000)**	**($6,969,000)**	**($13,279,000)**
Per Total Unit	**($305,000)**	**($279,000)**	**($133,000)**
Per Affordable Unit	**($305,000)**	**($290,000)**	**($604,000)**

Analysis

Pros: Del Mar's older renter-occupied multifamily buildings with more than 10 units could have potential for acquisition, rehabilitation and conversion, and help the City meet a percentage of its RHNA requirements. Based on the financial feasibility model developed for this scenario, in addition to available funding resources, roughly $3,654,000 would be required to obtain and renovate a 12-unit multifamily building and convert it into affordable housing, while $6,969,000 will be required to fill the financing gap for the acquisition/rehabilitation and conversion of a 25-unit multifamily building in Del Mar.

Cons: Acquisition and conversion of a rental multifamily building in Del Mar could be a controversial and costly scenario, as this process involves relocation and displacement of the existing tenants. Furthermore, the financing gaps estimated for different development models could pose significant barriers to this scenario. Given the existing balance of the City's Housing Assistance Reserve Fund ($482,000 in January 2018), if the City were to obtain a prototypical multifamily building, a considerable financing gap would need to be filled. Potential developers also need to seek additional loans or grants from local, state, or federal agencies and institutions to fill the financing gaps.

All in all, acquisition and conversion of a rental multifamily building(s) to affordable housing could be a strategy to meet the City's RHNA requirements. Considering all contingencies surrounding the process, this approach could be evaluated as a medium-priority, medium-feasibility scenario with medium economic desirability.

Recommendations:

- Make an inventory of rental multifamily buildings in Del Mar that have potential for acquisition/conversion, and act as a mediator between developers and landlords. The potential impacts of the process on the community should be carefully scrutinized.
- Collaborate with developers to identify potential funding resources from local, state, or federal agencies and institutions that could be tapped into for acquisition and conversion of rental multifamily buildings. The City could develop multiple public-private partnership options to address the financing gaps. For instance, upon City Council approval, a portion of the required funds could be provided by the City (in exchange for a number of affordable units) and the developer has to find other resources to finance the remainder. Even landlords could be engaged in such programs.

B. Obtain Single-Family Homes

As mentioned in the previous section, the majority (70 percent) of Del Mar's existing housing stock consists of single-family units. There are no mobile homes in Del Mar. Since the City is essentially built-out, only a limited amount of land remains for future residential development.[14] While the acquisition/conversion of single-family homes could be regarded as another strategy to create additional affordable housing in the City, it may not be part of a solution to meet the City's RHNA requirements for affordable housing because state law requires that to be counted towards RHNA, converted units must be in multifamily buildings, unless they are substantially rehabilitated.[15] In this section various dimensions of this scenario will be scrutinized.

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[14] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.1.

[15] Cal. Gov't Code §§65583(1)(a) and (c) provide that no more than 25 percent of a RHNA requirement may be met through rehab, conversion, or preservation. Converted units must not be acquired by eminent domain, must increase the overall affordable housing stock, and must be rent restricted with covenants in place for at least 55 years, and, except in the case of substantial rehab, must be part of a project with at least three units.

Background

Del Mar is not affordable for low-income renters and buyers. The current "price-to-rent" ratio[16] in the City is 20.77 (as of July 2017). The City's average yearly price-to-rent ratio has decreased each year from a high of 21.91 in 2014 to 20.55 in 2017 (year-to-date). Therefore, renting is a more economically sound decision for many residents of the City. However, the market rates for single-family rentals over the past couple of years indicate that these housing types are beyond the reach of lower income families. The average monthly median rent for a single-family home in Del Mar was $11,364 in 2016, a 34 percent increase since 2011. There was a one percent decrease in 2012 in average monthly median rent, followed by a one percent and three percent increase in 2013 and 2014, respectively. In 2015, the median rent jumped up 14 percent, followed by a 15 percent increase in 2016. In 2017, median rents have decreased by 10 percent, but are still over $10,000 per month.[17]

The sales market has been equally competitive and unaffordable for moderate to low income families. The current median sale price for a single-family home in Del Mar is $2,464,800 (as of July 2017). The annual average median sale price for a single-family home has increased each year from $2,201,880 in 2013 to $2,520,642 in 2016, an increase of 15 percent. In 2017, the average median sale price decreased by 0.3 percent for an average of $2,512,786 (year-to-date).[18] Using the current median sale price of $2,464,800, the estimated mortgage payment for a median-priced single-family home in Del Mar would be about $4,477 per month, using a 3.74 percent conventional fixed mortgage rate (as of August 2017).[19] To purchase a single-family one-dwelling unit in the City, a household would need an annual income of about $179,080.

Analysis

A review of the majority of single-family homes that are for sale in Del Mar in July 2017 showed that with the median list price per square foot at $1,527 and the median list price per structure at $3,395,000, the conversion of an existing single-family home for affordable housing is a cost-prohibitive, last-resort scenario.[20]

Pros: Obtaining single-family homes could help the city create affordable housing. At existing market rates, $54.2 million would be required to buy 22 single-family units; alternatively, $250,000 per month would be needed to rent 22 single-family units.

Cons: Conversion of single family homes to affordable housing does not satisfy RHNA requirements. Furthermore, given the existing balance of the City's Housing Assistance Reserve Fund ($482,000 in January 2018), if the City were to purchase single-family units, a significant financing gap would need to be filled. The Del Mar Housing Corporation is paying roughly $7,000 in rental subsidies per month,

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[16] The "price-to-rent" ratio is a well-established economic principle used for real estate valuation. It is typically calculated as the ratio of home prices to annualized rent in a given location. At its most basic level, the price-to-rent ratio is a benchmark for understanding whether is it better to rent or buy a property. A price-to-rent ratio of 1 to 15 indicates it is much better to buy than rent; a price-to-rent ratio of 16 to 20 indicates it is typically better to rent than buy; and a price-to-rent ratio of 21 or more indicates it is much better to rent than buy. Investopedia, "Price-to-Rent Ration," https://www.investopedia.com/terms/p/price-to-rent-ratio.asp?lgl=myfinance-layout-no-ads. Accessed 1.1.18.

[17] ZRI Time Series: SFR ($), Zillow.com. https://www.zillow.com/research/data/#rental-data. Accessed 9.1.17.

[18] ZHVI Single-Family Homes Time Series ($), Zillow.com. https://www.zillow.com/research/data/#median-home-value. Accessed 9.1.17.

[19] Conventional 30-Year Fixed Mortgage Rates, Zillow.com. https://www.zillow.com/research/data/#other-metrics. Accessed 9.1.17.

[20] https://www.zillow.com/del-mar-ca/home-values/

and without a steady source of funding or revenue to cover the differentials, the estimated costs to rent 22 single-family units is well beyond Del Mar's Housing Assistance Reserve Fund. The Housing Assistant Reserve Fund would need to increase to $53.7 million for purchase or approximately $3 million annually for long-term rentals.

Because of the fact that single-family home conversion does not count towards RHNA unless it undergoes substantial rehabilitation, coupled with high sales prices and rental rates of single-family homes in the City, acquisition of single-family homes is not an economically feasible scenario to achieve 22 affordable units.[21] As a result, this is the most expensive, lowest priority scenario for the City of Del Mar.

Recommendation:

- Refrain from the acquisition/conversion of single-family homes, as it is not a realistic strategy.

C. Encourage Condominium Conversion and Revise In-Lieu Housing Mitigation Fees[22]

Facilitating condominium conversion is a potential strategy to meet the City's RHNA requirements for affordable housing. In this section various aspects of this scenario will be analyzed.

Background

With a view to protecting Del Mar's stock of apartment units, the City, historically, prohibited the conversion of apartments to condominiums when the respective apartment or multifamily building was non-conforming in terms of density.[23] In light of the City's 2013-2021 Housing Element (Housing Element Objective #1), this regulation was revisited and eventually modified in 2015 when the City adopted code amendment ordinance No. 905 to specifically allow condominium conversions of over-density residential complexes.[24] The ordinance allows conversion of dwelling units located on a property that is non-conforming with the underlying zoning designation's maximum density development standards.[25] Conversion types allowed include condominium, community apartment project, stock cooperative project, and tenancy-in-common forms of ownership, as long as the proposed conversion will be compliant with all other applicable provisions of the Del Mar Municipal Code, including Affordable Housing Mitigation requirements.[26]

The City's Condominium Conversion Ordinance initially required that the conversion of three or more rental units into condominiums be conditioned such that two-thirds (67 percent) of the total number of converted units be set-aside and offered for rent at or below the "Fair Market Rent" to very low-income tenants (with incomes not exceeding 50 percent of the AMI). The original intent of the two-thirds set-aside requirement was to preserve the City's existing market-rate rental housing stock of

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[21] Title 30 - Zoning, City of Del Mar. http://www.delmar.ca.us/222/Title-30---Zoning. Accessed 9.1.17.

[22] Cal. Gov't Code §§65583(1)(a) and (c) provide that no more than 25 percent of a RHNA requirement may be met through rehab, conversion, or preservation. Converted units must not be acquired by eminent domain, must increase the overall affordable housing stock, and must be rent restricted with covenants in place for at least 55 years, and, except in the case of substantial rehab, must be part of a project with at least three units.

[23] As an example, when the number of units on the site exceeded the number of dwelling units per acre as specified in the underlying zoning designation, the property is non-conforming and prohibited from conversion. Most apartments that held a non-conforming density status were built either before the City's incorporation in 1959, or before the adoption of the Del Mar Community Plan in 1976.

[24] "City of Del Mar '22 In 5'Program, Opportunities/Considerations for Conversion of Multi-Dwelling properties to Affordable Housing," May 23, 2017, pp. 3-5.

[25] DMMC 24.40.110 A.

[26] DMMC 24.40.110 A.

three or more units. While this ordinance was effective in serving its purpose, it did not result in providing opportunities for lower income households in the community. As housing costs continue to rise, marker-rate rental housing is becoming less affordable for lower income households.[27] In November 2017, for instance, the median rent rates for studio, one-bedroom, two-bedroom, and three-bedroom apartment units in Del Mar were $2,000, $2,364, $3,900, and $6,900 respectively, making the rental market cost-prohibitive to households whose income is lower than 80 percent of Area Median Income.[28] According to HUD, FY 2018 Fair Market Rents in Del Mar for one-bedroom, two-bedroom, three-bedroom, and four-bedroom apartment units are estimated at $1,830, 2,380, 3,240, and $4,190, respectively.[29]

The City of Del Mar has already taken some steps to allow condominium conversions while ensuring the establishment of designated affordable housing units. For example, the City's inclusionary housing mitigation requirements, identified in DMMC Chapter 24.21, was amended so that 20 percent of units in new and converted condominium projects (with more than ten units) must be reserved as rentals for 55 years for low, very low, and/or extremely low households.[30] Fiscal factors that may apply to condominium conversion of multifamily apartments (three or more units) include Tenant Relocation Payment, Curing of Zoning Non-Conformities other than density, and Property Upgrades in Compliance with Uniform Building Codes.[31]

Condominium conversion has been practiced in Del Mar. Between 2010 and 2017, the City has received 17 applications for condo conversions. In general, the creation of a condominium type of ownership in Del Mar is a two-step process. The first step requires approval of a Tentative Parcel Map (TPM) through public hearings at both the Planning Commission and the City Council. The second step is the approval of the Parcel Map itself, which does not require a public hearing. The City Council is required to approve the Parcel Map if it is found to be in conformance with the previously approved Tentative Parcel Map. Approval of the Parcel Map allows the applicant to record the subdivision.[32] Despite all associated fees, condominium conversion has proved to be a profitable endeavor for property owners. For instance, in March 2015 the City Council approved the conversion of a duplex home, within the RM-Central Zone, to two condominium units. The conversion process has increased the cumulative market value of the subdivided properties by 30 percent. While the market value of the duplex property before subdivision was estimated at $1,963,349, the three and two-bedroom condominium units are now roughly priced at $1,600,875 and $957,621, respectively.[33]

Analysis

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[27] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.47.
[28] These figures were calculated based on the available rentals in the City. Del Mar Rental Buildings, Zillow.com. https://www.zillow.com/homes/Del-Mar-CA_rb/. Date of Access: 11/14/17.
[29] HUD USER, "San Diego-Carlsbad, CA MSA Small Area FY 2018 Fair Market Rents," https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2018_code/2018summary.odn.
[30] City of Del Mar Municipal Code, "Chapter 24.21- Dedication: Affordable Housing Mitigation," https://library.municode.com/ca/del_mar/codes/municipal_code?nodeId=TIT24SU_CH24.21DEAFHOMI_24.21.025AFHOMIRECODWUNCOSTCOCOAPCOPR
[31] Keyser Marston Associates, "City of Del Mar '22 In 5' Program, Opportunities/Considerations for Conversion of Multi-Dwelling properties to Affordable Housing," May 23, 2017, pp. 3-5.
[32] City of Del Mar Staff Report, "Parcel Map for TPM-05-03; A request for approval of a Parcel Map to create two condominium units on a property located at 327 and 329 10th Street, in the RM-Central Zone," March 5, 2012. http://www.delmar.ca.us/AgendaCenter/ViewFile/Item/634?fileID=659. Date of Access: 11/14/17.
[33] Del Mar CA Duplex & Triplex Homes, Zillow.com https://www.zillow.com/homes/for_sale/Del-Mar-CA/condo_type/8185_rid/32.976736,-117.253519,32.94703,-117.299653_rect/14_zm/ . Date of Access: 11/14/17.

Pros: As indicated in Del Mar's 2013-2021 Housing Element, given the high cost of land acquisition and home ownership in the City, affordable rental housing should be encouraged and strengthened across Del Mar. To this end, encouraging condominium conversion could yield fruitful results in Del Mar as most of the existing multifamily rental units in the community have potential to convert to a condominium form of ownership. A report[34] commissioned by the City in May 2017 has evaluated the opportunities for conversion of 12 renter-occupied apartment complexes— 380 units in total[35]— in light of the recent code amendments. The report has estimated that through the 20 percent "set-aside" requirement, up to 74 affordable rental housing units could be created, helping the City meet its existing and future RHNA obligations. According to the report, all 12 complexes are exempt from Curing of Zoning Non-conformities;[36] however, landlords/subdividers will be required to make Tenant Relocation Payments as well as cover upgrade and remodeling expenses associated with each building.[37] Not only would the City benefit from the 20 percent "set-aside" requirements, it could also facilitate property upgrades for its aging multifamily apartment units. Furthermore, as will be discussed in the following section, the "set-aside" requirement could be replaced with the In-Lieu Housing Mitigation fees which would generate revenue for the City's Housing Assistance Reserve Fund.

Cons: Condominium conversion could eventually result in the depletion of the inventory of rental apartment units in Del Mar. As discussed earlier, due to increasing housing costs and sales rates in Del Mar, the conversion of multifamily units (in the case of duplexes or two-unit homes) to a condominium form of ownership would not necessarily create affordable dwellings for lower income families.

Condominium conversion could help the City meet its RHNA obligations. Given the high cost of land acquisition and home ownership, encouraging condominium conversion (in particular in the case of multifamily buildings with more than five units) would be one of the least expensive, high-priority, and medium-feasibility scenarios available to the City of Del Mar to achieve 22 affordable units.

Recommendations:

- Proactively encourage condominium conversion by publicizing new amendments, easing existing regulations, and cooperating with landlords/subdividers.
- Adopt a public outreach action plan to inform the potential landlords, developers, and financiers about the possibilities and options that the City's Affordable Housing Mitigation Requirements for conversion of dwelling units would offer.
- Consider code amendments in such areas as Curing of Zoning Non-conformities and Compliance with Uniform Building Codes to facilitate condominium conversion.
- Grant exemptions, when possible, to non-conforming buildings with respect to compliance with current Building and Zoning Codes.
- Permit conversion when landlords/subdividers are willing to go above the required provisions in the law— for instance, when double the otherwise required number of reserved units are provided, or if double the in-lieu housing mitigation fee is paid.

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[34] Keyser Marston Associates, "City of Del Mar '22 In 5'Program, Opportunities/Considerations for Conversion of Multi-Dwelling properties to Affordable Housing," May 23, 2017

[35] The breakdown of the units is as follows: (87+16+15+21+22+28+12+54+12+97+4+12)

[36] In some cases, older apartment complexes that have non-conforming densities may also be non-conforming in terms of the underlying zone's construction standards, such as maximum floor area ratio, height or lot coverage. However, Section 30.76.120 of Del Mar's Zoning code provides flexibility for remodeling or rebuilding of residential developments with three or more units.

[37] Keyser Marston Associates, "City of Del Mar '22 In 5' Program, Opportunities/Considerations for Conversion of Multi-Dwelling properties to Affordable Housing," May 23, 2017, pp. 3-5.

- Collaborate with landlords/subdividers to find innovative mechanisms to finance Tenant Relocation Payment.
- Cap the number of converted units permitted in each planning cycle to ensure that the development of new condominiums would not disproportionately diminish the stock of multi-family rental housing in the community. The maximum number of condo conversion allowed could equal Del Mar's assigned share of RHNA-allocated affordable housing units in each planning period.

In-Lieu Housing Mitigation Fees

An In-lieu housing mitigation fee is a fee paid to the City by a landlord/subdivider in accordance with the provisions of Del Mar Municipal Code, Chapter 24.21, as a means to offset and mitigate the adverse impacts that a subdivision, including condominium conversion, would have on providing housing opportunities within the community for a wide range of income levels.[38] In-lieu housing mitigation fees are deposited into the City's Housing Assistance Reserve Fund. The current rate of the in-lieu fee is $23,508 per unit;[39] however, this rate is under consideration for a fee revision as part of a separate process. Revising the in-lieu fees could be regarded as a potential strategy to help the City develop its programs for lower income housing.

Analysis

Pros: The In-Lieu Housing Mitigation Fee may help the City accumulate capital to finance a wide range of affordable housing projects.

Cons: Adjusting the In-Lieu Housing Mitigation Fee might be seen by developers/subdividers as a deterrent to condominium conversion.

Recommendation:

- Adjust Del Mar's In-Lieu Housing Mitigations Fees.

To date, the accumulation of fees in the City's Housing Assistance Reserve Fund (as of January 2018, it amounted to $482,000) has not grown to a level that would support the high cost of land acquisition or construction costs for affordable units in the 2013-2021 Housing Element cycle.[40] A revision of the In-Lieu Housing Mitigation fee from the existing flat rate of $23,508 per unit to a per-square-foot fee formula might be a viable scenario for the City to increase its financial reserves for affordable housing. For instance, had a mitigation fee of $30 per square foot been applied for 17 condominium conversion applications that the City has received between 2010 and 2017, the city could have generated more than three times as much revenue as it did during this period (roughly an additional $950,000).[41]

- The City Council should adopt an ordinance to enable the City to tap into the Housing Assistance Fund to finance various affordable housing projects.

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[38] City of Del Mar Municipal Code," Chapter 24.21- Dedication: Affordable Housing Mitigation," https://library.municode.com/ca/del_mar/codes/municipal_code?nodeId=TIT24SU_CH24.21DEAFHOMI_24.21.025AFHOMIRECODWUNCOSTCOCOAPCOPR

[39] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.46.

[40] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.81.

[41] Keyser Marston Associates," Nexus Study on Housing Mitigation Measures and Fees," Draft Version. September 2017.

Solutions Framework Strategy #2: Unlock Land for Development of City-Owned Sites and Rezoning

Land can be "unlocked" by either making publicly-owned land available for development, or by rezoning land so that residential development can occur. The strategies here include unlocking various parcels owned by the City, and rezoning the North Commercial and Professional Commercial zones to allow for residential uses.

A. Unlock Larger City-Owned Sites

i. The Shores Property (Portions of the Park)

One of the City-owned properties with potential for residential/affordable housing development is the Shores Property. This section explores four alternative scenarios for portions of the Shores Property that could help the city meet its RHNA requirements for affordable housing.

The 5.4 acre Del Mar Shores Property, located west of Camino Del Mar, south of 9th Street, and east of Stratford Court, was purchased by the City of Del Mar from Del Mar Unified School District in 2008 (See Figure 6). The property was acquired with the intentions of preserving open space and recreational uses, and allowing the continued operation of its current occupant, The Winston School. Apart from the portion leased by The Winston School, a section of the property (roughly 2 acres in size), known as Shores Park, is currently used for informal recreation and as an intermittent dog park. The former Del Mar Unified School District buildings on the site are used by two Del Mar non-profit organizations – Del Mar Community Connections and the Del Mar Foundation. A master planning process has been launched to develop a long-range vision to guide the park's future development, facilities, and programs, as well as a plan for implementation.[42] The City Council has nominated eight community members to serve on the Shores Advisory Committee and the committee is working with the City Council on various recreational and educational options for the site.

Any use of all or part of the property as residential would require a Zoning change and subsequent CEQA analysis. Changing the land use from the Public Facilities zone and its recreational uses could potentially require additional funding commitments based on the conditions of purchase.[43]

[42] City of Del Mar Website, "Shores Park Master Plan," http://www.delmar.ca.us/452/Shores-Park-Master-Plan. Date of Access: 11/14/17.

[43] Purchase and Sale Agreement and Escrow Instructions between The City of Del Mar and The Del Mar Union School District. 07/31/07.

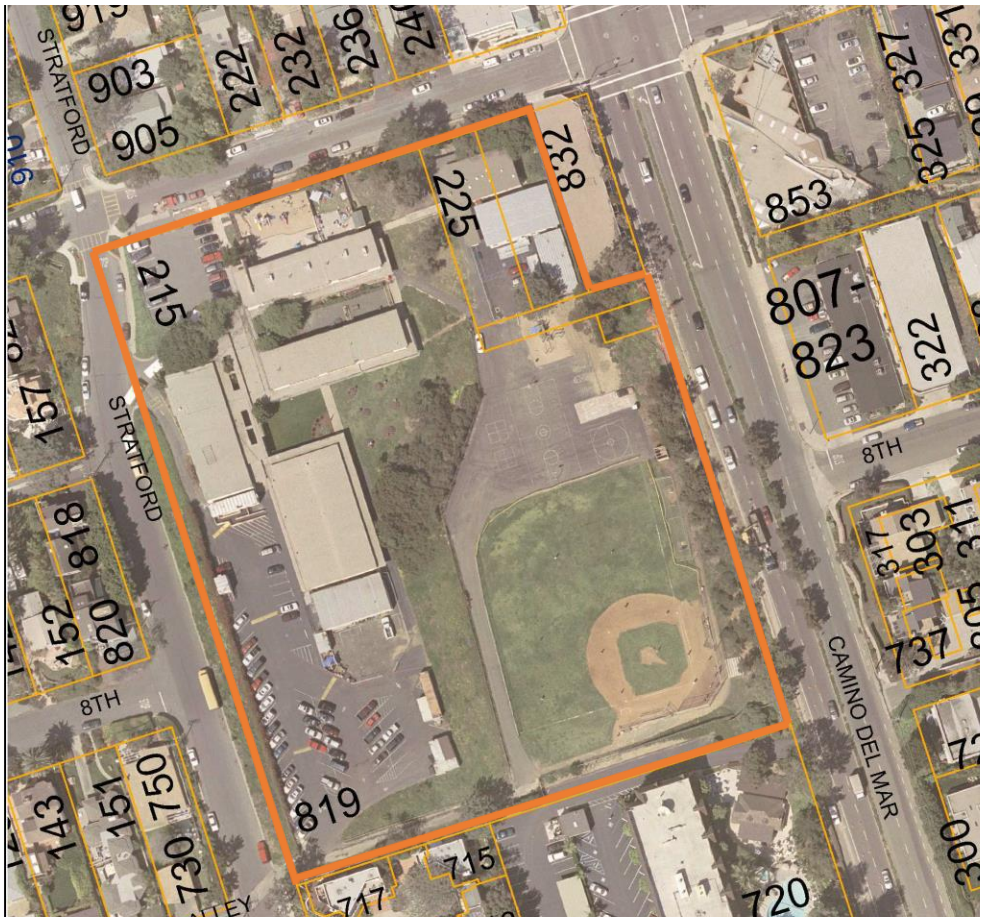

Figure 6. The Shores Property (Source: City Facility Planning Study (2013), City of Del Mar Website)

Currently, the Shores Property is designated as Public Facilities (PF) Zone, which is designed for "Publicly-owned land set aside, or in use, to support public schools and governmental offices and facilities."[44] A change in zoning would be necessary for any residential use. Based on the density and housing types that the City's zoning ordinance and the Housing Element have allowed in the blocks surrounding the Shores Property, and the amount of land that each layout requires, our team explored four different scenarios for the development of affordable housing on the site.

Shores Property Scenario 1.A

In order to retain the character of the neighborhood, Scenario 1.A calls for a subdivision and rezone of roughly a half acre of the Shores Property to R1-5 Zone, which would mirror the residential block across Camino Del Mar. The R1-5 (Medium Density Single-Family Residential) Zone would allow for one, single-family unit per 5,000-square-foot lot, with a minimum depth and width of 90 feet and 50 feet, respectively. The maximum lot coverage allowed is the greatest of either 45 percent of the lot or 3,000 square feet. Floor area ratio set for the site is the greatest of 30 percent or 2,000 square feet. Setback requirements are as follows: 20 feet front, 20 feet rear, 5 feet interior side, and 10 feet street side. As a result, this scenario would provide for eight homes – four single family homes, each with an ADU. Two configurations could be envisaged for this scenario. In the first alternative, Figures 7 and 8, the subdivisions would occupy the southern edge of the property (which is part of the land used as park), fronting Hotel Del Mar. Driveways are accessed via an alley extended from Stratford Court (this alley

[44] DMMC, "Public Facilities Zone," Chapter 30.31.
https://gvhotlinks.storage.googleapis.com/ImageFiles_DELMAR/pf.pdf

could come all the way through to Camino Del Mar, or end just before Camino Del Mar as a cul-de-sac). A driveway could also come off Camino Del Mar on the east side of the four parcels.

Figure 7. Shores Property Scenario 1.A. (First Alternative)

Figure 8. Shores Property Scenario 1.A. (First Alternative)

In the second alternative of Scenario 1.A, Figures 9 and 10, the four parcels would occupy the southeastern edge of the Shores Property, lying along Camino Del Mar, perpendicular to Hotel Del Mar. In this case, driveways are accessed via an extended alley from Stratford Court, with a left turn behind the four parcels to provide access to each parcel. Parking requirements for this zone would call for two garaged spaces per unit. However, since the Shores Property is within a half mile of public transit (bus stop), parking requirements for the ADUs would be waived.[45]

[45] The City Council of the City of Del Mar, "Ordinance No.932," p.26.

Figure 9. Shores Property Scenario 1.A. (Second Alternative)

Figure 10. Shores Property Scenario 1.A. (Second Alternative)

Shores Property Scenario 2.A

Scenario 2.A, which is one of the most compact ways to provide four units, calls for a subdivision and rezone of a 16,000-square-foot portion of the site to Medium Density Mixed South (RM-South) Zone. The RM-South zoning is designed to allow single, duplex, and multifamily residential development, and to preserve, to the extent possible, a village-like character in areas where predominantly multifamily development already exists and is interspersed with vacant land. This scenario would provide for four homes –two duplexes– fronting the existing multifamily residential blocks. The RM-South zoning would allow for two units on a minimum 8,000-square-foot lot. The maximum lot coverage allowed is 50 percent of the lot. Floor area ratio set for the site is 35 percent. Setbacks requirements are as follows: 20 feet front, 20 feet rear, 10 feet interior side, and 10 feet street side. The building height may not exceed 26 feet. Two arrangements could be envisaged for this scenario. In the first alternative, Figures 11 and 12, the subdivisions would occupy the southwestern side of the property (which is part of the land leased by The Winston School) and face the existing multifamily residential block.

Driveways are accessed from the existing alley, which would likely need to be widened. Alternatively, 8th Street could be extended across Stratford to create a driveway access lane.

Figure 11. Shores Property Scenario 2.A. (First Alternative)

Figure 12. Shores PropertyScenario 2.A. (First Alternative)

In the second alternative, Figures 13 and 14, the two parcels would face Stratford Court. In this arrangement, driveways would go directly to Stratford Court. Alternatively, the driveways could be accessed from a widened alley with a turn behind the two parcels. Parking requirements for this zone would call for one garaged space per studio or one-bedroom; and two spaces for two- or three-bedroom, one of which must be garaged.

Figure 13. Shores Property Scenario 2.A. (Second Alternative)

Figure 14. Shores Property Scenario 2.A. (Second Alternative)

Shores Property Scenario 3.A

Scenario 3.A would call for a subdivision and rezone of a 28,000-square-foot portion of the Shores Property (which is part of the land leased by The Winston School) to RM-South Zone, mirroring the apartments just south of the site. This scenario would provide for eight townhomes organized around a central driveway similar to the apartments south of the site. In this scenario, similar to the residential site south of the parcel, the alley would be widened, and a drive aisle would come northerly through the middle of the site to provide driveway access on either side.

Figure 15. Shores Property Scenario 3.A.

Shores Property Scenario 4.A

This scenario considers the site of the Shores Property vis-à-vis the two other City-owned properties, the Public Works Yard and the Civic Center, and entails exchanging of functions across the three sites. This scenario, which works in conjunction with Public Works Yard Scenario 1.B calls for rezoning of the entire Shores Park, roughly 2 acres in size, to a zoning designation which allows a mixture of office and residential uses at a density of 20-25 dwelling units per acre (See Figure 16). In doing so, this scenario extends the zoning designation envisaged by the Housing Element for the adjoining Professional Commercial (PC) Zone, which extends along Camino Del Mar, onto the site. This scenario also calls for converting the Public Works Yard into a public park, and relocating the existing buildings, garage, and warehouse, which are currently housed at the Public Works Yard, to the Shores Property or the reserved areas on the new Civic Center Site. Assuming that 50 percent of the proposed acreage (i.e. 1 acre) will include a residential component at 20 dwelling units per acre, 20 affordable renter-occupied units is expected to be achieved in the proposed mixed-use development on the Shores Park. The remaining half of the site (1 acre) would accommodate the public works building and part of its accessory spaces and facilities, such as offices, work areas, locker rooms, break rooms, as well as parts rooms. The remaining portion of the public works facilities, including the garage and heavy equipment warehouse, could be reconstructed in the developable section of Public Works Yard (Zone AE), on flood-prevention design and construction principles. The storage bay could relocate to the new Civic Center site.

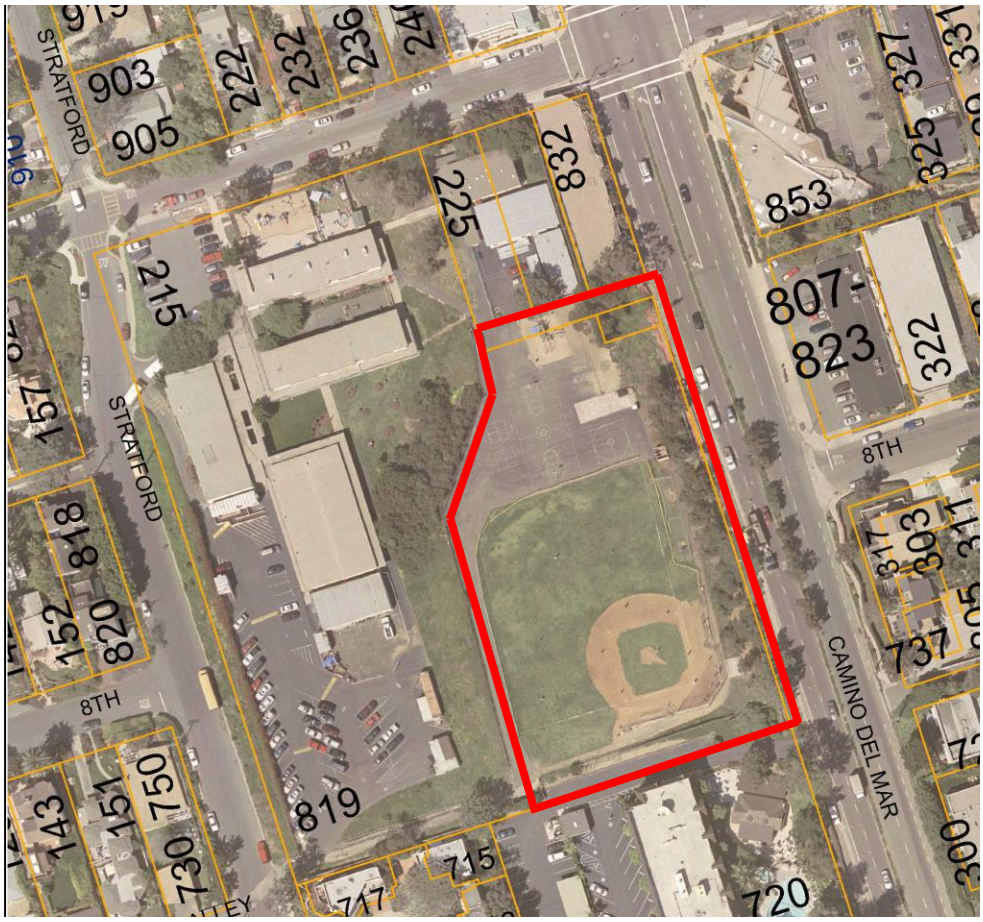

Figure 16. Shores Property Scenario 4.A

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Pro Forma Round II

To assess the economic feasibility of developing new units, an analysis was prepared assuming the construction of affordable housing units on two hypothetical sites, as summarized in Exhibit 6.

Exhibit 6: Project Description – New Construction			
	Site #1	**Site #2**	
	1.0 Acres / 17 Units	**2.0 Acres / 34 Units**	
	Affordable Rental	**Affordable Rental**	**Market Rate Townhomes**
	Stacked Flats over Semi-Subterranean Parking	**Stacked Flats over Semi-Subterranean Parking**	**Townhomes with Private Garages**
Site Size	1.0 Acres	1.0 Acres	1.0 Acres
Project Size	17 Units	17 Units	17 Units
Density	17 Units/Acre	17 Units/Acre	17 Units/Acre
Bedroom Types	1, 2, 3 bedrooms	1, 2, 3 bedrooms	2 and 3 bedrooms
Parking	34 Total Spaces 5 Surface Spaces 29 Semi-Subterranean	34 Total Spaces 5 Surface Spaces 29 Semi-Subterranean	39 Total Spaces 5 Surface Spaces 34 Private Garages
Affordability Mix:			
Extremely Low Income	4 units	4 units	0 units
Very Low Income	3 units	3 units	0 units
Low Income	9 units	9 units	0 units
Total Affordable Units	16 units	16 units	0 units
Market Rate Units	0 units	0 units	17 units
Manager Unit	1 units	1 units	0 units
Total Units	17 units	17 units	17 units
Basis for Affordability Mix	Meets RHNA goal; number of Low Income units increased to allow for 100% of project to be eligible for Low Income Housing Tax Credits	Meets RHNA goal; number of Low Income units increased to allow for 100% of project to be eligible for Low Income Housing Tax Credits	RHNA goal met in rental project.

This analysis assumes that the City would acquire an improved property to develop a new residential development. The City would then convey the site to a City-selected developer. As shown above, Site #2 was assumed to be developed with a combination of new affordable rental units and market-rate townhomes. Proceeds from the sale of the property for market-rate townhomes would be used to offset any financing gap on the affordable units.

Financial Feasibility

The financial feasibility of the new construction affordable housing development scenarios was determined through the preparation of financial pro formas. Detailed financial models are presented in attached Tables 4-8, in a side-by-side format, and briefly reviewed below.

As with the acquisition/rehabilitation scenarios discussed in this report, financial pro formas for the two new construction development scenarios were prepared using estimates of development costs, operating income and expenses, and achievable funding sources. Exhibit 7 provides a summary of the total development costs estimated for Site #1 and Site #2.

Exhibit 7: Estimated Development Costs			
	Site #1	**Site #2**	
	Apartments 16 Affordable 1 Manager's Unit	**Apartments 16 Affordable 1 Manager's Unit**	**Townhomes 17 Market Rate Units**
Acquisition Costs	$6,534,000	$6,534,000	$6,534,000
Direct Costs	$5,351,000	$5,351,000	$5,173,000
Indirect Costs	$1,972,000	$1,927,000	$1,218,000
Financing Costs	$535,000	$535,000	$517,000
Total Development Costs	**$14,392,000**	**$14,392,000**	**$13,442,000**
Per Unit	$847,000	$847,000	$791,000

It should be noted that the acquisition costs are an assumption based on a search of land sale comparables that have occurred since January 2014 in Del Mar, Solana Beach, Cardiff, and Encinitas (west of Interstate 5). Specific properties have not been identified for the prototypes. No relocation or lease buyout costs have been included in the cost estimates as the City will not be required to relocate commercial tenants. As long as the properties are purchased by the City through traditional means (i.e., without eminent domain), relocation costs are not required to be paid to displaced commercial tenants. In such cases, the City's obligations to commercial tenants will be controlled by the leases held by those commercial tenants.

As shown in Exhibit 8, a residual land value analysis was used to estimate the amount that the City could expect to receive from a market rate developer for a 1.0 acre residentially zoned site (Site #2).

Exhibit 8: Residual Land Value – Site #2 Townhomes	
Gross Sales Proceeds	$21,375,000
(Less) Cost of Sale	($1,069,000)
(Less) Threshold Developer Profit	($3,206,000)
Net Sales Proceeds	$17,100,000
(Less) Total Development Costs (excluding Acquisition Costs)	($6,908,000)
Residual Land Value	**$10,192,000**
Per Unit	$600,000
Per SF Site Are	$234

The gross sales proceeds are calculated assuming that the sales prices would range from $1,125,000 for a two-bedroom unit and $1,350,000 for a three-bedroom unit, or $900 per square foot. This assumption was based on the median resale price for condominiums in Del Mar in September 2017 of $1,088,000, or $822 per square foot (plus a slight premium for new construction).

After assuming cost of sale and developer profit factors of 5 percent and of 15 percent of gross sales revenues, respectively, total residual value is estimated at approximately $10.19 million, or $234 per square foot of land area.

Exhibit 9 summarizes the financing sources for Site #1 and the affordable housing component of Site #2. As shown, the assumed funding sources available to each prototype would include a combination of tax-exempt bond debt, equity funding in the form of 4 percent Low Income Housing Tax Credits, funds from the sale of market rate townhome property (Site #2 only), and deferred developer fee.

Exhibit 9: Sources of Funds		
	Site #1	**Site #2**
	Apartments 16 Affordable 1 Manager's Unit	**Apartments 16 Affordable 1 Manager's Unit**
Supportable Tax-Exempt Bonds	$872,000	$872,000
4% Tax Credit Equity	$3,110,000	$3,110,000
Deferred Developer Fee	$197,000	$197,000
Land Sales Proceeds	$0	$10,192,000
Total Sources of Funds	**$4,179,000**	**$14,371,000**
Per Unit	$261,000	$898,000

The financing gap is calculated as the difference between total development costs (Exhibit 7) and total funding sources (Exhibit 9). As shown, the comparison of total funding and total development costs yields a financing gap for Site #1 and a financing surplus for Site #2.

Exhibit 10: Estimate of Financing Surplus/(Gap)		
	Site #1	**Site #2**
	Apartments 16 Affordable 1 Manager's Unit	**Apartments 16 Affordable 1 Manager's Unit**
Total Sources of Funds	$4,179,000	$14,371,000
(Less) Total Development Costs	($14,392,000)	($14,392,000)
Total Financing Surplus/(Gap)	**($10,213,000)**	**($21,000)**
Per Unit	($601,000)	($1,000)

As illustrated above, assuming that the prototype sites are acquired for $150 per square foot of land area, Site #1 results in a net financing gap of $10.21 million that would be required to be filed in order for the prototype project to be feasible. The financing gap for Site #1 indicates that a developer would need to identify *additional* loan or grant funds from a local, state, or federal funding source in order to develop new construction affordable units within the City.

Site #2 results in a financing gap that is essentially $0 on an order of magnitude basis, if a 2.00-acre property could be purchased for approximately $6.50 million, or $75 per square foot of land area, 34 residential units could potentially be developed at no additional cost to the City. In contrast, to develop a small rental project on one acre, the City would likely need to provide $3.7 million in additional assistance plus the actual purchase price of the site.

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Del Mar RHNA Assessment:		
Extremely Low	4 Units	18%
Very Low	3 Units	14%
Low	15 Units	68%
Total	22 Units	100%

TABLE 4

PROJECT DESCRIPTION
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

	Site #1			Site #2					
	1.0 Acre Site / 17 Units			2.0 Acre Site / 34 Units					
	Affordable - Rental			Affordable - Rental			Market-Rate - For-Sale		
	Stacked Flats over Semi-Subterranean Parking			Stacked Flats over Semi-Subterranean Parking			Townhomes with Private Garages		
I. Site Area	1.00 Acre			1.00 Acre			1.00 Acre		
II. Gross Building Area									
Net Residential	15,550 SF	95%		15,550 SF	95%		23,750 SF	100%	
Circulation / Lobby	818 SF	5%		818 SF	5%		0 SF	0%	
Total Gross Building Area	16,368 SF	100%		16,368 SF	100%		23,750 SF	100%	
III. Number of Units									
One Bedroom	5 Units	29%	750 SF	5 Units	29%	750 SF			
Two Bedroom	10 Units	59%	950 SF	10 Units	59%	950 SF	7 Units	41%	1,250 SF
Three Bedroom	2 Units	12%	1,150 SF	2 Units	12%	1,150 SF	10 Units	59%	1,500 SF
Total Number of Units	17 Units	100%	915 SF	17 Units	100%	915 SF	17 Units	100%	1,397 SF
IV. Affordability Mix									
Extremely Low (30% AMI)	4 Units	24%		4 Units	24%				
Very Low (50% AMI)	3 Units	18%		3 Units	18%				
Low (60% AMI)	9 Units	53%		9 Units	53%				
Market-Rate	0 Units	0%		0 Units	0%		17 Units	100%	
Manager	1 Unit	6%		1 Unit	6%		0 Units	0%	
Subtotal	17 Units	100%		17 Units	100%		17 Units	100%	
V. Density	17.0 Units/Acre			17.0 Units/Acre			17.0 Units/Acre		
VI. Floor Area Ratio (FAR)	0.38 FAR			0.38 FAR			0.55 FAR		
VII. Number of Stories	2 Stories			2 Stories			2 Stories		
VIII. Parking (1)									
Surface Parking	5 Spaces			5 Spaces			5 Spaces		
Private Garages	0 Spaces			0 Spaces			34 Spaces		
Semi-Subterranean Parking	29 Spaces			29 Spaces			0 Spaces		
Number of Parking Spaces	34 Spaces			34 Spaces			39 Spaces		
Parking Ratio	2.0 Spaces/Unit			2.0 Spaces/Unit			2.3 Spaces/Unit		

(1) Per City of Del Mar Parking requirements for multifamily dwelling units. Assumes one-bedroom units @ 1 space per unit; two- and three- bedroom units @ 2 spaces per unit; and 1 guest space per every four units.

TABLE 5
ESTIMATED DEVELOPMENT COSTS
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

NEW CONSTRUCTION

	Site #1			Site #2					
	1.0 Acre Site / 17 Units			2.0 Acre Site / 34 Units					
	Affordable - Rental			Affordable - Rental			Market-Rate - For-Sale		
	Totals	Per Unit	Comments	Totals	Per Unit	Comments	Totals	Per Unit	Comments
I. Direct Costs (1)									
Off-Site Improvements	$131,000	$7,706	$3 /SF Site Area	$131,000	$7,706	$3 /SF Site Area	$131,000	$7,706	$3 /SF Site Area
On-Site Improvements	$653,000	$38,412	$15 /SF Site Area	$653,000	$38,412	$15 /SF Site Area	$653,000	$38,412	$15 /SF Site Area
Site Preparation (2)	$1,089,000	$64,059	$25 /SF Site Area	$1,089,000	$64,059	$25 /SF Site Area	$1,089,000	$64,059	$25 /SF Site Area
Parking - Semi-Subterranean (3)	$725,000	$42,647	$25,000 /Space	$725,000	$42,647	$25,000 /Space	$0	$0	$0 /Space
Shell Construction - Residential	$2,455,000	$144,412	$150 /SF GBA	$2,455,000	$144,412	$150 /SF GBA	$2,969,000	$174,647	$125 /SF GBA
FF&E/Amenities	$43,000	$2,500	Allowance	$43,000	$2,500	Allowance	$85,000	$5,000	Allowance
Contingency	$255,000	$15,000	5.0% of Directs	$255,000	$15,000	5.0% of Directs	$246,000	$14,471	5.0% of Directs
Total Direct Costs	$5,351,000	$314,765	$327 /SF GBA	$5,351,000	$314,765	$327 /SF GBA	$5,173,000	$304,294	$218 /SF GBA
II. Indirect Costs									
Architecture & Engineering	$321,000	$18,882	6.0% of Directs	$321,000	$18,882	6.0% of Directs	$310,000	$18,235	6.0% of Directs
Permits & Fees (4)	$425,000	$25,000	Allowance	$425,000	$25,000	Allowance	$425,000	$25,000	Allowance
Legal & Accounting	$80,000	$4,706	1.5% of Directs	$80,000	$4,706	1.5% of Directs	$78,000	$4,588	1.5% of Directs
Taxes & Insurance	$80,000	$4,706	1.5% of Directs	$80,000	$4,706	1.5% of Directs	$78,000	$4,588	1.5% of Directs
Developer Fee - Non-Tax Credit Units	$0	$0	0.0% of Directs	$0	$0	0.0% of Directs	$207,000	$12,176	4.0% of Directs
Developer Fee - Tax Credit Units	$983,000	$57,824	18.4% of Directs	$983,000	$57,824	18.4% of Directs	$0	$0	0.0% of Directs
Relocation	$0	$0	0.0% of Directs (7)	$0	$0	0.0% of Directs (7)	$0	$0	0.0% of Directs (7)
Marketing/Lease-Up	$26,000	$1,500	Allowance	$26,000	$1,500	Allowance	$85,000	$5,000	Allowance
Contingency	$57,000	$3,353	3.0% Above Indirects	$57,000	$3,353	3.0% Above Indirects	$35,000	$2,059	3.0% Above Indirects
Total Indirect Costs	$1,972,000	$116,000	36.9% of Directs	$1,972,000	$116,000	36.9% of Directs	$1,218,000	$71,647	23.5% of Directs
III. Financing Costs (5)	$535,000	$31,471	10.0% of Directs	$535,000	$31,471	10.0% of Directs	$517,000	$30,412	10.0% of Directs
IV. Total Development Costs excl. Acquisition	**$7,858,000**	**$462,235**	**$480 /SF GBA**	**$7,858,000**	**$462,235**	**$480 /SF GBA**	**$6,908,000**	**$406,353**	**$422 /SF GBA**
V. Add: Acquisition Costs (6)	$6,534,000	$384,353	$150 /SF Site Area	$6,534,000	$384,353	$150 /SF Site Area	$6,534,000	$384,353	$150 /SF Site Area
VI. Total Development Costs with Acquisition	**$14,392,000**	**$846,588**	**$879 /SF GBA**	**$14,392,000**	**$846,588**	**$879 /SF GBA**	**$13,442,000**	**$790,706**	**$821 /SF GBA**

(1) Includes the payment of prevailing wages.

(2) Reflects estimated cost to raise site above flood plain. Actual costs to be verified.

(3) Preliminary estimate pending guidance from the City regarding the City's covered parking requirements.

(4) Estimate; not verified by KMA or City.

(5) Allowance for loan fees, interest during construction/lease-up/sales, title/recording/escrow, and operating reserves.

(6) Assumes the acquisition of an improved property. Estimated based on a survey of land sales that occurred since January 2014 in Del Mar, Solana Beach, Cardiff, and Encinitas (west of Interstate 5).

(7) These calculations assume a purchase through traditional means. Relocation costs are not required to be paid to displaced commercial tenants where jurisdictions purchase properties through traditional means. In such cases, the jurisdiction's obligations to commercial tenants is controlled by the leases held by those commercial tenants. In cases where eminent domain is employed, the jurisdiction would incur relocation costs and, potentially, claims by the commercial tenants relating to lost goodwill. *See,* California Code of Civil Procedure §1263.510.

ESTIMATED NET OPERATING INCOME
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

	Site #1					Site #2				
	1.0 Acre Site / 17 Units					2.0 Acre Site / 34 Units				
	Affordable - Rental (1)					Affordable - Rental (1)				
I. Gross Scheduled Income	Unit Size	Units	$/SF	$/Month	Annual	Unit Size	Units	$/SF	$/Month	Annual
A. One Bedroom										
30% of AMI	750 SF	1	$0.57	$430	$5,000	750 SF	1	$0.57	$430	$5,000
50% of AMI	750 SF	1	$1.00	$747	$9,000	750 SF	1	$1.00	$747	$9,000
60% of AMI	750 SF	3	$1.21	$906	$33,000	750 SF	3	$1.21	$906	$33,000
Market-Rate	750 SF	0	$0.00	$0	$0	750 SF	0	$3.50	$2,625	$0
Subtotal	750 SF	5	$1.04	$783	$47,000	750 SF	5	$1.04	$783	$47,000
B. Two Bedroom										
30% of AMI	950 SF	2	$0.00	$475	$11,000	950 SF	2	$0.50	$475	$11,000
50% of AMI	950 SF	2	$0.88	$832	$20,000	950 SF	2	$0.88	$832	$20,000
60% of AMI	950 SF	5	$0.00	$1,010	$61,000	950 SF	5	$1.06	$1,010	$61,000
Market-Rate	950 SF	0	$0.00	$0	$0	950 SF	0	$3.00	$2,850	$0
Manager	950 SF	1	$0.00	$0	$0	950 SF	1	$0.00	$0	$0
Subtotal	950 SF	10	$0.81	$767	$92,000	950 SF	10	$0.81	$767	$92,000
C. Three Bedroom										
30% of AMI	1,150 SF	1	$0.00	$522	$6,000	1,150 SF	1	$0.45	$522	$6,000
50% of AMI	1,150 SF	0	$0.00	$918	$0	1,150 SF	0	$0.80	$918	$0
60% of AMI	1,150 SF	1	$0.00	$1,117	$13,000	1,150 SF	1	$0.97	$1,117	$13,000
Market-Rate	1,150 SF	0	$0.00	$0	$0	1,150 SF	0	$2.75	$3,163	$0
Subtotal	1,150 SF	2	$0.00	$0	$19,000	1,150 SF	2	$0.00	$0	$19,000
D. Total/Average	915 SF	17	$0.85	$775	$158,000	915 SF	17	$0.85	$775	$158,000
E. Add: Other Income		$20 /Unit/Month			$4,000		$20 /Unit/Month			$4,000
F. Total Gross Scheduled Income (GSI)					$162,000					$162,000
II. Effective Gross Income (EGI)										
(Less) Vacancy		5.0% of GSI			($8,000)		5.0% of GSI			($8,000)
Total Effective Gross Income (EGI)					$154,000					$154,000
III. Operating Expenses										
(Less) Operating Expenses		$5,000 /Unit/Year			($85,000)		$5,000 /Unit/Year			($85,000)
(Less) Property Taxes (1)		$0 /Unit/Year			$0		$0 /Unit/Year			$0
(Less) Replacement Reserves		$300 /Unit/Year			($5,000)		$300 /Unit/Year			($5,000)
(Less) Monitoring Fees		$150 /Unit/Year (2)			($3,000)		$150 /Unit/Year (2)			($3,000)
Total Expenses		$5,471 /Unit/Year			($93,000)		$5,471 /Unit/Year			($93,000)
		60.4% of EGI					60.4% of EGI			
IV. Net Operating Income					**$61,000**					**$61,000**

(1) Assumes that the project will receive tax-exempt status.
(2) Per affordable unit. Monitoring fees will be paid to the City.

TABLE 7

RESIDUAL LAND VALUE - RESIDENTIAL - FOR-SALE "22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

NEW CONSTRUCTION

	Site #2					
	2.0 Acre Site / 34 Units					
	Market-Rate - For-Sale					
	Average Unit Size		# of Units	Average Price Per SF (1)	Average Price Per Unit (1)	Gross Sales
I. Sales Proceeds - Market-Rate Units						
Two Bedroom	1,250	SF	7	$900	$1,125,000	$7,875,000
Three Bedroom	1,500	SF	10	$900	$1,350,000	$13,500,000
II. Gross Sales Proceeds	1,397	SF	17	$900	$1,257,353	$21,375,000

III. Net Sales Proceeds			
Gross Sales Proceeds			$21,375,000
(Less) Cost of Sale @	5.0%	of Gross Sales Proceeds	
(Less) Target Developer Profit @	15.0%	of Gross Sales Proceeds	($3,206,000)
Net Sales Proceeds - Residential - For-Sale			**$17,100,000**

IV. Residual Land Value	
Net Sales Proceeds	$17,100,000
(Less) Total Development Costs excluding Acquisition Costs	($6,908,000)
Residual Land Value	**$10,192,000**
Per Unit	**$600,000**
Per SF Site Area	**$234**

TABLE 8

ESTIMATED FINANCING GAP
"22 IN 5" AFFORDABLE HOUSING PROGRAM
CITY OF DEL MAR

		Site #1 1.0 Acre Site / 17 Units		Site #2 2.0 Acre Site / 34 Units	
(1)	Supportable Permanent Loan				
	Net Operating Income		$61,000		$61,000
	Interest Rate - Tax-Exempt Bond		4.5%		4.5%
	Term (Years)		30		30
	Debt Coverage Ratio		1.15		1.15
	Annual Debt Service		$53,000		$53,000
	Permanent Loan		$872,000		$872,000
(2)	Low Income Housing Tax Credits (Federal)				
	Estimate of Eligible Basis:				
	Total Development Costs		$14,392,000		$14,392,000
	(Less) Ineligible Costs	47.6%	($6,857,000)	47.6%	($6,857,000)
	Eligible Basis		$7,535,000		$7,535,000
	Tax Credit Proceeds:				
	Eligible Basis		$7,535,000		$7,535,000
	Impacted Bonus Factor	130%	$9,795,500	130%	$9,795,500
	Tax Credit Qualified Units/Applicable Factor	100%	$9,795,500	100%	$9,795,500
	Tax Credit Rate	3.24%	$317,374	3.24%	$317,374
	Total Tax Credits @	10	$3,173,742	10	$3,173,742
	Limited Partner Share	99.99%	$3,173,425	99.99%	$3,173,425
	Present Market Value @	98.0%	$3,110,000	98.0%	$3,110,000
(3)	Estimate of Deferred Developer Overhead Fee				
	Eligible Basis		$7,535,000		$7,535,000
	(Less) Developer Fee		($983,000)		($983,000)
	Unadjusted Eligible Basis		$6,552,000		$6,552,000
	Total Developer Overhead Fee	15.0%	$983,000	15.0%	$983,000
	Total Deferred Developer Overhead Fee or General Partner Contribution	20.0%	$197,000	20.0%	$197,000

Analysis

Pros: Del Mar's Housing Element has assigned no housing capacity to the properties within the Public Facilities Zone. Nevertheless, the Housing Element suggests that the City should explore the existing sites within the PF Zone and determine if any of the three government-owned properties that have a PF Zone designation (i.e. the Shores Property, the Public Works Yard, and the Civic Center site) would be appropriate for siting of residential uses (Objective #2).[46] Not only does the Shores Property have potential for residential development, it can also help Del Mar achieve a percentage of its share of regional affordable housing obligations. The great advantage of the Shores Property is that it is owned by the City and, if considered for affordable housing development, the land cost factor which is a considerable impediment to affordable housing development in Del Mar will be eliminated. Using the financial feasibility model identified for two development prototypes in this report, the development costs for Scenario 4.A, when land costs are excluded, are roughly estimated at $460,000 per affordable unit. In this case, the financing gap that would need to be filled by the City would be approximately $216,000 per unit.[47]

The four scenarios explored here cover between 16,000 square feet (0.5 acre) and 87,000 square feet (2 acres) of the 5.2-acre site and produce between 4 and 20 affordable units, providing the City with a range of acreages, housing options, and budgeting options to choose from. Furthermore, Shores Property scenarios are compatible with the zoning designations set by Del Mar's zoning ordinance and Housing Element for the surrounding properties. Scenario 4.A, in particular, would make the City resilient in light of potential flooding and future sea-level rises; it would also help preserve and revitalize swaths of wetlands surrounding the Public Works Yard. If the entire Shores Property is rezoned for a mixed-use residential development, the City would be able to create 20 affordable rental units and also accommodate the Public Works Department offices and accessory facilities. At the same time, the City will experience no net loss of its open spaces and outdoor recreational facilities.

Cons: Since the property has been envisioned as a "neighborhood park" by Del Mar residents, the idea of incorporating affordable housing into the Shores Park Master Plan Project could be met with mixed reactions from the community. On the surface, this strategy might seem as if the City is trading a portion of its open public space, which could offer a wide range of public goods and recreational uses, for residential development. In that sense, conversion of the Shores property (in particular the Shores Park) into a mixed-use residential use will be controversial. Furthermore, Scenario 4.A requires the City to finance the relocation and reconstruction of Public Works buildings and amenities, adding a premium to the estimated financing gap.

Overall, it can be argued that dedication of a portion of the Shores Property to a residential use could help the City of Del Mar meet part of its RHNA obligations. The four scenarios could collectively be evaluated as high-priority, economically-desirable, and medium-feasibility strategies.

Recommendations:

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[46] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, pp.71 &87.

[47] It should be noted that the figures provided above for the construction cost per affordable unit and the financing gap are based on a financial feasibility model calculated for a development scenario with a density of 17 du/ac. As such, these figures are not accurate for a development scenario with a density of 20-25du/ac. However, it can be argued that based on the economies of scale principal, construction cost per unit would be lower for a higher density project, and that the difference between the two scenarios in terms of the estimated figures would be negligible.

- Proactively pursue the strategy of incorporating housing into the Shores Park Master Plan.
- Present and discuss the scenarios described here in future community outreach programs and workshops related to the Shore Property master planning process.

ii. Public Works Yard

A second City-owned property with potential for residential/affordable housing development is the Public Works Yard. This section explores two alternative scenarios for this site that could help the city meet its RHNA obligation.

The Public Works Yard is a 2.2-acre piece of land located in the northern portion of the City of Del Mar, and is home to Del Mar Public Works Department, which maintains the City's essential infrastructure. The Public Works Yard houses the City's heavy equipment, storage bins, as well as various types of construction materials. The main Public Works building consists of two offices, two additional work areas, a locker room, break room, and a 2-car storage bay and a parts room.

The property, on which the Public Works Yard sits, is part of a larger stretch of wetland bounded by the San Dieguito River to the north, a railroad to the west, Jimmy Durante Boulevard to the east, and San Dieguito Drive and a triangular open space to the south (See Figure 17). The site is located within the City of Del Mar's Floodplain and Floodway (FW) Zone (See Figure 18). According to the City's zoning laws, the purpose of the FW Zone is to preserve areas subject to relatively deep and high velocity floodwater by prohibiting uses which would constitute an unreasonable, unnecessary, undesirable or dangerous impediment to the flow of floodwaters, or cause a cumulative increase in the water surface elevation of the base flood of more than one foot at any point. Therefore, the Del Mar Municipal Code prohibits the following uses in FW Zone: permanent structures, placement of mobile homes, parking that does not serve one of the allowed uses, and placement of fill.[48] The Public Works Yard is also within two layers of Special Flood Hazard Areas as defined by Federal Emergency Management Agency (FEMA)'s Flood Insurance Rate Map (See Figure 19).

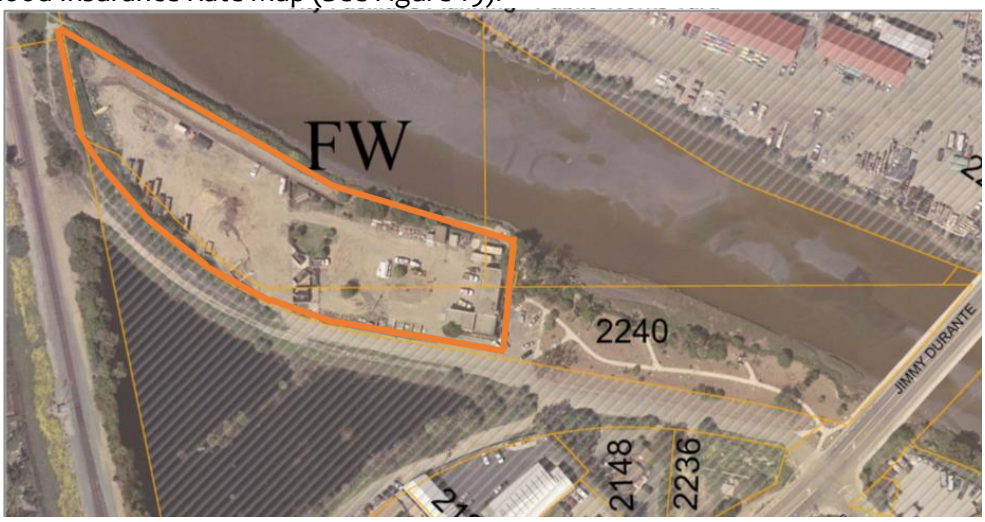

Figure 17. The Public Works Yard (Source: City Facility Planning Study (2013), City of Del Mar Website)

[48] Del Mar Municipal Code, "Chapter 30.29 - FLOODWAY ZONE (FW)"

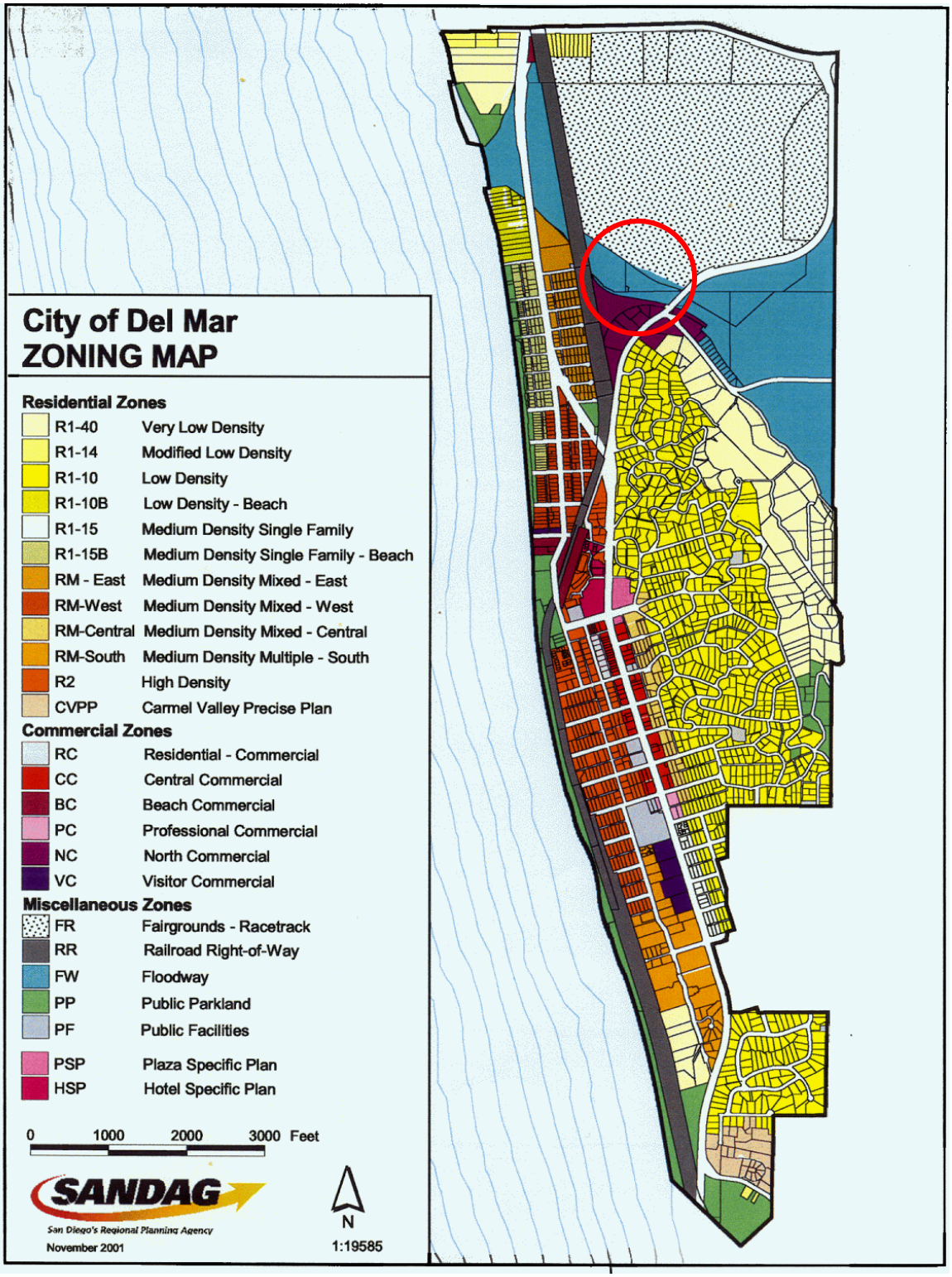

Figure 18. Site of the Public Works yard (Source: City of Del Mar Zoning Map)

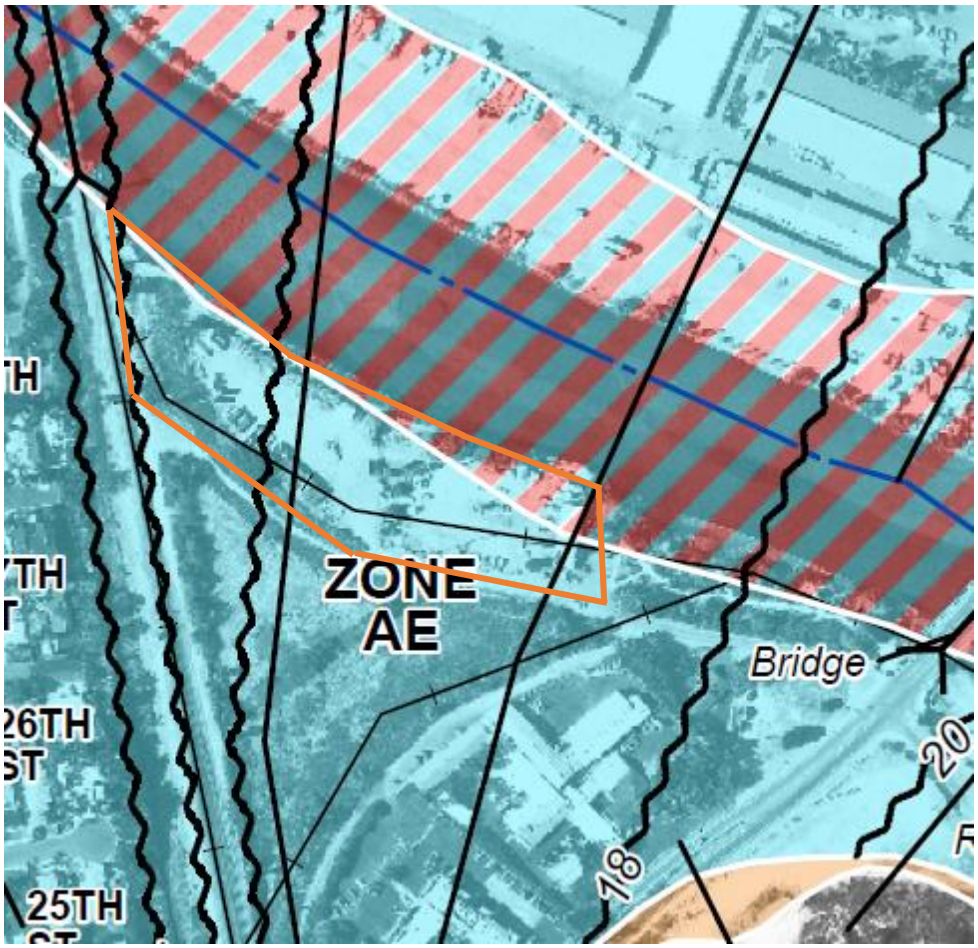

Figure 19. Public Works Yard is located within two layers of Special Flood Hazard Areas, namely Zone AE and Regulatory Floodway (Source: Preliminary FIRM Maps by FEMA, 2/3/2017)

Public Works Yard Scenario 1.A

Assuming that careful environmental consideration and standard flood prevention strategies— such as elevation, flood-proofing, etc. — are implemented, the site of the Public Works Yard could be considered for a residential use. Only the southern section of the site that falls into Zone AE, also known as the 100-year floodplain, is developable. A Floodplain Development Permit is required and, pursuant to the Federal Emergency Management Agency (FEMA) and City regulations, the finished floor of the new residences must be elevated to a level above the established Base Flood Elevation (BFE) for the property as shown on the FEMA's FIRM maps. This scenario would call for rezoning of the site to permit owner-occupied and rental multifamily residential use (with discretionary approval for the use and allowable density). The scenario also requires that Public Works buildings, garage, and warehouse relocate to other City-owned properties, such the new Civic Center (the areas designated for future extension) or the Shores Property. Considering the City's highest density of 17.6 dwelling units per acre, which is allowed in RM-East Zone, the developable section of the Public Works Yard (roughly 1.6 acres in size) has a capacity for the development of at least 28 residential units. Of this projected number, 22 units could be designated for renter-occupied affordable housing and the remaining 6 units for owner-occupied market-rate housing (townhomes).

Analysis

Pros: The section of the Public Works Yard that is located within the FIRM Map's Zone AE might help the City meet its RHNA requirements. The site is publicly owned, so a major impediment to the development of affordable housing in Del Mar, i.e. the land costs, would be eliminated. Using the financial feasibility model identified for two development prototypes in this report, the development costs, when land costs and additional direct and indirect flood prevention expenses are excluded, are roughly estimated at $462,000 per affordable unit.

Cons: The site is an active Public Works Yard and would require relocation of a sensitive facility. According to the Del Mar Municipal Code, the Public Works Yard has limited development potential because of its location within the City's Floodplain and Floodway (FW) Zone and would require a zoning change. Furthermore, new development in Special Flood Hazard Area, as identified by FEMA, will be subject to permit requirements and development limitations to help avoid or reduce projected flood impacts. Owners in the Special Flood Hazard Area will also be required to buy flood insurance.[49] As a result, design and construction requirements and associated fees would make any development on the site very costly.

Overall, it can be argued that while this scenario has some potential to help the city achieve 22 affordable units, such factors as flood-prevention measures and considerations make Public Works Yard Scenario 1.A one of the least desirable, low-priority, and low-feasibility scenarios for Affordable Housing.

Recommendation:

- Refrain from developing the Public Works Yard, which should not be regarded as a potential site for residential/affordable housing because of potential flooding and sea-level rises.

Public Works Yard Scenario 1.B

The second scenario considers the site of the Public Works Yard vis-à-vis the two other City-owned properties, the Shores Property and the Civic Center, and entails exchanging of functions across the three sites. This scenario, which works in conjunction with Shores Property Scenario 4.A and Civic Center Scenario 1.C, calls for converting the entire Public Works Yard into a public park, and relocating the existing buildings, garage, and warehouse which are currently housed at the Public Works Yard to the Shores Property or the areas designated for future extension on the new Civic Center site. Assuming that 50 percent of the Shores Property (i.e. 1 acre) (as part of a mixed use residential development scenario) would accommodate the public works building and part of its accessory spaces and facilities, such as offices, work areas, locker rooms, break rooms, as well as parts rooms, the remaining portion of the public works facilities, including the garage and heavy equipment warehouse, could be reconstructed in the developable section of Public Works Yard (Zone AE), on flood-prevention design and construction principles. The storage bay could relocate to the reserved areas on the new Civic Center site.

Analysis

Pros: Not only could this scenario indirectly help the City meet its RHNA requirements, it would also make Del Mar resilient in light of potential flooding and future sea-level rises and help preserve, and revitalize, the swaths of wetlands surrounding the Public Works Yard. In conjunction with Shores

[49] City of Del Mar, "FEMA - CCAMP Project," http://www.delmar.ca.us/618/FEMA---CCAMP-Project. Date of Access: 01-09-2018.

Property Scenario 4.A., this strategy could create 20 affordable units and also accommodate the Public Works Department offices and accessory facilities in flood-proof buildings. At the same time, the City will experience no net loss of its open spaces and outdoor recreational facilities.

Cons: This scenario is not a stand-alone strategy and its projected outcomes depend, to a large degree, on the feasibility of Shores Property Scenario 4.A. Furthermore, this scenario requires the City to finance the relocation and reconstruction of Public Works buildings and amenities.

Overall, Public Works Scenario 1.B could be evaluated as a high-priority, economically-desirable, and medium-feasibility strategy.

Recommendations:

- Pursue the strategy of swapping functions between the Public Works Yard and Shores Park.
- Strongly consider the strategy of incorporating a mixture of housing and office uses into the Shores Park Master Plan.

iii. Civic Center

A third publicly-owned property which has potential for affordable housing development is the former City Hall site on which Del Mar's new Civic Center is under construction. The 1.5-acre property, which is located on the west side of Camino Del Mar between 10th and 11th streets (See Figure 20), is currently within the Public Facilities (PF) Zone, which is designed for "Publicly-owned land set aside, or in use, to support public schools and governmental offices and facilities."[50] Del Mar's new Civic Center includes a City Hall, a Town Hall, a 140-stall below-grade parking structure, a breezeway, and a 15,000-square-foot plaza for public events (See Figure 21).[51]

Figure 20. The site of the former City Hall, where Del Mar's new Civic Center is being constructed

[50] DMMC, "Public Facilities Zone," Chapter 30.31. https://gvhotlinks.storage.googleapis.com/ImageFiles_DELMAR/pf.pdf

[51] City of Del Mar, "City Hall/Town Hall Project," http://www.delmar.ca.us/353/City-HallTown-Hall. Date of Access: 01-09-2018.

The design of the new Civic Center also contains three areas, 20,000 square feet in total, reserved for future expansion (See Figure 22).[52] Possibilities envisioned for the expansion areas include, but are not limited to, public facilities, restaurants or commercial establishments that could generate revenue for the city, or even a location for the historic Alvarado House, which used to exist in the vicinity of 10th Street.[53]

Figure 21. Refined Conceptual Site plan (Source: Final Environmental Impact Report for the Del Mar Civic Center Project, RECON Number 7786 December 16, 2015)

Civic Center Scenario 1.A

This scenario calls for rezoning of a portion of Expansion Area C to a residential use. The proposed area is approximately 4,500 square feet and located in the southwestern corner of the site. Depending on the configuration of the structures, Expansion Area C could likely accommodate six to eight tiny homes, 400 square feet each. It should be noted that any future development of the expansion areas would need to be reviewed for compliance with the existing land use and zoning, design review, and the analysis contained within the Environmental Impact Report for the Del Mar Civic Center Project. Since the proposed scenario is not consistent with existing land use and zoning, it would require further analysis under CEQA and consideration of land use or zoning amendments as applicable.

[52] RECON, Final Environmental Impact Report for the Del Mar Civic Center Project, RECON Number 7786 December 16, 2015, Page E-1

[53] RECON, Final Environmental Impact Report for the Del Mar Civic Center Project, RECON Number 7786 December 16, 2015, Page 4.2-16

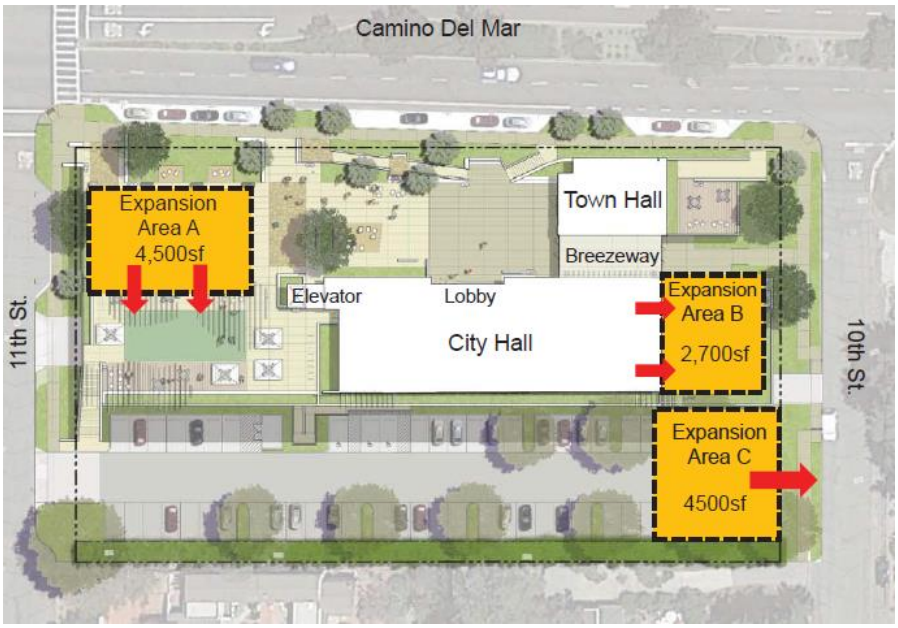

Figure 22. Refined Conceptual Site plan (Source: Final Environmental Impact Report for the Del Mar Civic Center Project, RECON Number 7786 December 16, 2015)

Civic Center Scenario 1.B

Civic Center Scenario 1.B envisions a subdivision and rezone of the entire Expansion Area C to a residential use. The proposed area, which is 4,500 square feet in size, could accommodate up to four detached townhouses on five small lots, 1000 square feet each. This scenario requires the Del Mar City Council to adopt an amendment to the City's Municipal Code to allow for small lot developments in the form of detached townhomes. The new ordinance would set new rules on the minimum lot size allowed as well as bulk, height, setbacks, parking and other requirements for townhomes. Parking for the proposed small lot developments could be provided at the rear of the site, as part of the proposed parking spaces in the southern section of the Civic Center property.

Civic Center Scenario 1.C

This scenario works in conjunction with Public Works Yard Scenario 1.B and Shores Park Scenario 4.A. Collectively, these scenarios envision the conversion of the entire Public Works Yard into a public park, the relocation of the existing buildings, garage, and warehouse, which are currently housed at the Public Works Yard, to the Shores Property and the Expansion Area C, and a rezone of the Shores Park to mixed-use residential development. Although Civic Center Scenario 1.C does not directly produce affordable housing, it would indirectly facilitate the creation of 20 affordable renter-occupied units through the proposed mixed-use development at Shores Park.

Analysis

Pros: The three scenarios discussed above could help the city create between four and 20 homes that would count towards Del Mar's RHNA allocation targets. The Civic Center property is owned by the City, so the land costs which constitute a major barrier to affordable housing development will be eliminated. Furthermore, construction costs of tiny homes will be much lower than those of conventional houses. At present in the San Diego region, a tiny home, roughly between 300 and 400

square feet in size, could be purchased at $50,000 to $75,000.[54] In other words, building six to eight tiny homes in Expansion Area C would cost the City between $300,000 and $600,000. The placement of such small scale structures as tiny homes with low-profile rooflines in the southwestern section of the site would meet the height limit set by the existing zoning code (which is 26 feet above 10th Street) and reduce the impacts to ocean views across the site from Camino del Mar.

Cons: The idea of building tiny homes in Expansion Area C might trigger opposition from the community. Nearby homeowners have already voiced concern about private residential views, glare and light, and the noise and traffic that new development might bring to the neighborhood. In addition to environmental review and approval of a rezone, the placement of tiny homes or townhouses in Expansion Area C will require a Design Review Permit (DRB). Furthermore, the estimated costs to purchase eight tiny homes at current market rates may be beyond the City's Housing Assistance Reserve Fund, which was $482,000 in January 2018.

Overall, it can be argued that Civic Center Scenario could help the City meet a percentage of its RHNA obligations. This scenario could be evaluated as a medium-priority strategy with medium feasibility and medium economic desirability.

Recommendations:

- Formulate an alternative scenario for the future development of Expansion Area C that entails a housing component.
- Carry out public outreach to discuss this scenario, highlight the advantages of building tiny homes or townhouses on the lot, and address concerns regarding potential environmental and aesthetic impacts of such developments on the adjacent neighborhood.

B. Unlock Smaller City-Owned Sites

i. Public Rights-of-Way (ROWs) & Small Publicly-Owned Sites

Throughout Del Mar there are multiple City-owned properties within the public right-of-way which have potential to accommodate future developments, including affordable residential developments. In addition, the City holds a handful of parcels which are vacant yet do not meet the minimum lot size requirements set forth in the Zoning Ordinance. While some of these areas are currently being used for vehicular or pedestrian access, or other City functions, others are vacant and have potential for immediate development. This section explores the potential to create affordable housing on these sites.

Public Rights-of-Way Scenario

This scenario calls for activating dormant rights-of-way (ROWs) and small publicly-owned sites across the City that could be utilized for the development of affordable housing. Eight strips of land with potential for future development were identified. These sites, totaling approximately 63,000 square feet, are scattered across the City, ranging from a ROW adjacent to Border Avenue to a ROW on Carmel Valley Road. The sites also vary in size, geographical conditions, and development regulations. The largest is roughly 26,000 square feet, and the smallest is 2,600 square feet. Some of the identified sites include substantially steep slopes, while others are relatively flat yet lie within the Floodplain Overlay Zone. In some cases, the land is ready to be developed without major rezoning or regulatory changes.

[54] Tiny Homes Listing, https://tinyhouselistings.com/search?lat=32.715738&lng=-117.16108380000003&page=2&search=San%20Diego%2C%20CA%2C%20USA. Date of Access: 01-0-2018

In other cases, in which adjacent privately-owned property may be redeveloped, an opportunity could be created for the City to unlock the land and propose the development of affordable housing. In this case, the land could be traded for additional affordable units incorporated into the development proposal.

Analysis

Pros: This scenario could help the City meet a portion, if not all, of its RHNA obligation. All the identified properties are publicly owned, so land costs – which are a major impediment to the development of affordable housing in Del Mar - would be eliminated. Taken together, these sites could provide more than enough space for the placement of at least 22 tiny homes, 400 square feet each. Assuming that eight tiny homes, depending on the configuration and size of the structures, would need about 5,000 square feet of land, 22 tiny homes would require approximately 13,750 square feet of land. Therefore, even if 75 percent of the aggregated areas, due to geographical conditions, location, size, etc., could not provide suitable settings for residential development, the remainder would be enough for the City to achieve 22 tiny homes. In this case, more money will be saved as the construction costs of tiny homes will be much lower than those estimated for conventional homes. Currently, in the San Diego region a tiny home, roughly between 300 and 400 square feet in size, could be purchased at $50,000 to $75,000.[55] Therefore, purchasing 22 tiny homes would cost the City between $1,100,000 and $1,650,000.

In order for the City to achieve 22 multifamily renter-occupied affordable units at 20-25 dwelling units per acre on the identified sites, at least between 60-75 percent of the aggregated properties should be conducive to multifamily residential development. In other words, even if 35-40 percent of the aggregated areas, due to environmental conditions, could not provide suitable settings for residential development, the remainder would be enough for the City to achieve 22 affordable rentals.

Using the financial feasibility model identified for two development prototypes in this report, the development costs for this scenario, when land costs and additional direct and indirect flood prevention expenses are excluded, could roughly be estimated at $460,000 per affordable unit. In this case, the financing gap that needs to be filled by the City would be approximately $216,000 per unit, or $4,752,000 for 22 units.[56]

Cons: Currently, most of the identified sites are being utilized by existing roadways and/or adjacent existing developments. Additionally, some of the areas include substantially steep slopes, or lie within overlay zones in which development is restricted. Furthermore, the financing gaps that need to be filled for each option may be beyond the City's Housing Assistance Reserve Fund, which in January 2018 amounted to $482,000. Depending on which option the city might choose, the Housing Assistance Reserve Fund would need to increase between $1,100,000 to $4,752,000. Furthermore, since some of the identified ROWs and sites are located within the San Dieguito River's 100-year

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[55] Tiny Homes Listing, https://tinyhouselistings.com/search?lat=32.715738&lng=-117.16108380000003&page=2&search=San%20Diego%2C%20CA%2C%20USA. Date of Access: 01-0-2018

[56] It should be noted that the figures provided above for the construction cost per affordable unit and the financing gap are based on a financial feasibility model calculated for a development scenario with a density of 17 du/ac. As such, these figures are not accurate for a development scenario with a density of 20-25du/ac. However, it can be argued that based on the economies of scale principal, construction cost per unit would be lower for a higher density project, and that the difference between the two scenarios in terms of the estimated figures would be negligible.

floodplain, permit requirements and special provisions could be applicable, and extra design and construction requirements and fees might be added to the projected costs.

Overall, it can be argued that this scenario could help the City achieve 22 affordable units to meet its RHNA obligation. Given various dimensions of the options discussed above, this scenario could be assessed as a medium-priority, medium-feasibility strategy with medium economic desirability.

Recommendations:

- Conduct a detailed feasibility analysis for the identified properties to accurately measure each site's potential, both as independent sites and in combination with adjacent properties, for affordable housing development.
- Identify the local, state, and federal resources that could be tapped into to help fill the financing gaps for different options.

ii. Grayfield Lands[57]

Opening up underutilized or obsolete infrastructure sites, including water towers, could be a viable solution to generate land for redevelopment. Currently, there are numerous examples across the country demonstrating how cities have successfully sold water towers or tanks for redevelopment purposes. For instance, the City of Del Mar itself sold an obsolete reservoir site for $6 million as raw land. In Rolla, Missouri, Rolla Municipal Utilities auctioned a 100,000-gallon steel water tank in 2012 via GovDeals.com, an online marketplace for government agencies to auction surplus and unclaimed property.[58] The final bid came to a total of $1,376.77, with the bidder responsible for removal of the tank. The City of Dewey, Oklahoma, sold its obsolete 1,000,000-gallon water ground storage tank for $6 in January 2017.[59] Although this number may seem low, the City of Dewey considered it a net gain since the removal costs were estimated at $45,000. Dewey has since built a new water tower, and has plans to build a new police station on the site.[60] Current examples of reservoirs for sale located specifically in single-family neighborhoods include Portland, Oregon,[61] where Water Bureau surplus properties are listed online, and Pacific Beach, San Diego, California.[62]

Zuni Drive Water Reservoir

The potentially obsolete reservoir at the end of Zuni Drive (626 Zuni Drive) could have possibilities for residential/affordable housing development.[63] The Zuni Reservoir lies within a Low Density Residential (R1-10) zoning area, while the site itself is within a Public Facilities (PF) Zone (See Figure 23).

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[57] In this report, a narrow definition of the phrase Grayfield Lands is used which includes the aging, underutilized, failing, or obsolete infrastructure sites and facilities in the City of Del Mar.
[58] GovDeals, Rolla, MO. https://www.govdeals.com/index.cfm?fa=Main.Item&itemid=82&acctid=3536.
[59] GovDeals, Dewey, OK. https://www.govdeals.com/index.cfm?fa=Main.Item&itemid=13&acctid=4261.
[60] News on 6. http://www.newson6.com/story/34367527/city-of-dewey-saves-45k-by-selling-water-tower-for-6.
[61] Portland Water Bureau. https://www.portlandoregon.gov/water/63601.
[62] San Diego Office of the City Clerk, "Resolution Number R-311544." February 14, 2018.
[63] Cal. Gov't Code §§65583(1)(a) and (c) provide that no more than 25 percent of a RHNA requirement may be met through rehab, conversion, or preservation. Converted units must not be acquired by eminent domain, must increase the overall affordable housing stock, and must be rent restricted with covenants in place for at least 55 years, and, except in the case of substantial rehab, must be part of a project with at least three units.

Figures 23. Water Reservoir at 626 Zuni Drive

Zuni Drive Water Reservoir Scenario 1.A

This scenario calls for dismantling the reservoir and rezoning of the 28,000-square-foot property, on which it currently stands, to R1-10 Zone. This would allow for a primary residence and an accessory dwelling unit (ADU) on each parcel over 10,000 sq. ft. Therefore, the reservoir site, when cleared, could be subdivided into two 14,000-square-foot parcels, each creating two dwelling units – one primary dwelling unit, and one detached secondary dwelling unit or ADU, for a total of four units.

Zuni Drive Water Reservoir Scenario 1.B

This scenario calls for dismantling the reservoir and rezoning of the 28,000-square-foot property to a residential use which would allow for a renter-occupied multifamily residential use at 20 dwelling units per acre. Therefore, the 0.6-acre site could potentially achieve up to 12 lower income dwelling units. Using the financial feasibility model identified for two development prototypes in this report that assumes a density of 17 dwelling units per acre (close to the maximum density currently allowed in Del Mar—that is 17.6 du/ac), the Zuni Reservoir site could generate ten affordable rental units.

Analysis

Pros: Not only could converting the Zuni Drive Water Reservoir into a residential use help the city meet a percentage of its RHNA requirements, it could also help solidify the residential character of the neighborhood. The first scenario could achieve four dwelling units, two single-family homes and two ADUs. Assuming that the City acted as developer, the four units, thus achieved, could be used in two ways: (1) the City could designate all four units as affordable housing; or, (2) the City could turn the ADUs into covenant-and income-restricted affordable units and sell the single-family homes at market rates. In this way, two affordable units would be created and extra revenue would be generated for Del Mar's Housing Assistance Reserve Fund. The property is owned by the City so the land costs which account for the major impediment to developing affordable housing in Del Mar will be eliminated. Furthermore, if the City were to develop the property, both rezoning and ADU fees, which together might amount to $11,730, would be waived.

Zuni Drive Water Reservoir Scenario 1.B could generate between 10 and 12 affordable units. Using the financial feasibility model identified for two development prototypes in this report, the development costs for the second scenario, when land costs are excluded, are roughly estimated at $460,000 per affordable unit. In this case, the financing gap that needs to be filled, either by the City or a developer or through a partnership, would be approximately $216,000 per unit.

Cons: The Zuni Drive Reservoir is still in use. Thus, the City has to plan to compensate for the loss of the volume of water supplied by the Zuni reservoir either by increasing the capacity of the existing sources or building a new water tank. If the latter is the case, then a site for relocation of the reservoir should be identified. Therefore, the idea of converting the Zuni reservoir would have financial and strategic implications for the City of Del Mar. The City would incur extra costs, if it were to disassemble the reservoir and clear the site on its own.

The second scenario, in particular, might cause opposition from the community, as it implants a multifamily building in the middle of a low-density, single-family neighborhood.

Overall, it can be argued that converting the Zuni Drive Water Reservoir into a residential use could help the city meet part of its RHNA requirements for affordable housing. Considering all aspects of the two scenarios, scenario 1.A could be evaluated as a medium-priority strategy with medium feasibility and medium economic desirability, and scenario 1.B could be assessed as a high-priority strategy with medium feasibility and high economic desirability.

Recommendations:

- Assess the implications of repurposing the Zuni Drive Water Reservoir for the City and its water supply system.

iii. Tennis Courts at 21st Street and Court Street

A number of open public spaces across the City of Del Mar could be regarded as potential sites for affordable housing development. This section explores a range of development possibilities for public tennis courts located near the intersection of 21st Street and Court Street. The 12,000-square-foot site is part of a larger triangular stretch of land, 46,000 square feet in size, which has taken shape between 21st Street, Court Street, and the Railroad Right-of-Way (See Figure 24). The tennis courts site is located within the Public Parkland (PP) Zone. According to Del Mar's Zoning Ordinance, the PP Zone is designed for "publicly owned land designated for use as a public park or open space preserve, and to land which is subject to the public trust."[64] The site is also within Zone AE, also known as the 100-year floodplain, which is a layer in the Special Flood Hazard Areas, as defined by the Federal Emergency Management Agency (FEMA)'s Flood Insurance Rate Map.

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[64] Del Mar Municipal Code, "Chapter 30.30 - PUBLIC PARKLAND ZONE (PP)," https://library.municode.com/ca/del_mar/codes/municipal_code?nodeId=TIT30ZO_CH30.30PUPAZOPP

Figure 24. Tennis Courts site at 21st Street and Court Street

Tennis Courts Scenario 1.A

Assuming that careful environmental consideration and standard flood prevention strategies— such as elevation, flood-proofing, etc. — are executed, the tennis courts site could be considered for rezoning from recreation to a residential use. Nonetheless, a Floodplain Development Permit is required and, pursuant to the Federal Emergency Management Agency (FEMA) and City regulations, the finished floor of the new residences must be elevated to a level above the established Base Flood Elevation (BFE) for the property as shown on the FEMA's FIRM maps. This scenario calls for a subdivision and partial rezone of 5,000 square feet of the tennis courts site, roughly equivalent to the size of one tennis court, to a residential use. This site could provide space for the development of approximately six to eight tiny homes, 400 square feet each, depending upon the configuration of the structures.

Tennis Courts Scenario 1.B

Tennis Courts Scenario 1.B envisions a subdivision and rezone of 5,000 square feet of the tennis courts site, roughly equivalent to the size of one tennis court, to a residential use. The proposed site could accommodate up to five detached townhouses on five small lots, 1000 square feet each. Moreover, this scenario requires that the Del Mar City Council adopt an amendment to the City's Municipal Code to allow for small lot developments in the form of detached townhomes. The new ordinance would set new rules on the minimum lot size allowed as well as bulk, height, setbacks, parking and other requirements for townhomes. Parking for the proposed small lot developments could be consolidated and, for instance, sited at the rear of the triangular site, close to the existing parking spaces to the south of the tennis courts.

Tennis Courts Scenario 1.c
Scenario 1.c calls for a subdivision and rezone of the entire tennis courts site to the Residential Medium Density Mixed East (RM-East) Zone, which would mirror the residential block just north of the site. The RM-East Zone is designed to allow for an area of single-family and duplex development on individual lots of 5,000 square feet or greater in those areas where a substantial number of two-family dwellings already exist.[65] As a result, the site could generate four dwelling units: two single-family homes and two accessory dwelling units.

Analysis
Pros: The scenarios discussed above have potential to create between four and eight dwelling units which could count towards Del Mar's RHNA requirements. Since the land is owned by the City the "acquisition costs" which constitute a major factor in developing affordable housing will be eliminated. In Scenario 1.A, in particular, more money will be saved as the construction costs of tiny homes will be much lower than those associated with conventional houses. Currently, in the San Diego region a tiny home, roughly between 300 and 400 square feet in size, could be purchased at $50,000 to $75,000.[66] Therefore, building six to eight tiny homes would cost the City between $300,000 and $600,000. Scenario 1.A also preserves one of the tennis courts for public recreation.

Scenario 1.B could achieve up to six detached townhouses. Scenario 1.C could produce four dwelling units: two single-family homes and two ADUs. Assuming that the City acted as a developer, the four units, thus achieved, could be used in two ways. The City could designate all four units as affordable housing. Alternatively, the City could turn the ADUs into covenant and income-restricted affordable units and sell the single-family homes at market rates. In this way, two affordable units would be created and extra revenue would be generated for Del Mar's Housing Assistance Reserve Fund. Furthermore, if the City were to develop the property, rezoning and ADU fees, which together might amount to $11,730, as well as the floodplain development fees would be waived. The fees associated with floodplain development are as follows (City of Del Mar Schedule of Planning Land Use Application Fees and Charges, as of Sept. 1, 2017):

Floodplain Development Permit	$1,640
Floodplain Development Permit – request for hardship relief from regulations	$5,380

Cons: The idea of converting the public tennis courts into a residential function might be met with opposition from Del Mar residents. Furthermore, the estimated costs to purchase eight tiny homes at current market rates or to build two single-family homes and two ADUs may be beyond the City's Housing Assistance Reserve Fund, which in January 2018 was $482,000. The financing gap in the second scenario would be considerable since new development in Special Flood Hazard Area, as identified by FEMA, will be subject to permit requirements and development limitations to help avoid or reduce projected flood impacts. Homeowners in the Special Flood Hazard Area will also be required to buy flood insurance.[67]

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[65] Del Mar Municipal Code, "Chapter 30.16 - MEDIUM DENSITY SINGLE-MIXED RESIDENTIAL-EAST (RM-EAST)," https://library.municode.com/ca/del_mar/codes/municipal_code?nodeId=TIT30ZO_CH30.16MEDESIXERESTST
[66] Tiny Homes Listing, https://tinyhouselistings.com/search?lat=32.715738&lng=-117.16108380000003&page=2&search=San%20Diego%2C%20CA%2C%20USA. Date of Access: 01-0-2018
[67] City of Del Mar, "FEMA - CCAMP Project," http://www.delmar.ca.us/618/FEMA---CCAMP-Project. Date of Access: 01-09-2018.

Overall, it can be argued that public tennis courts could have potential for affordable housing development. Considering different aspects of the scenarios discussed earlier, scenario 1.A could be evaluated as a high-priority strategy with medium feasibility and high economic desirability, and scenario 1.B could be assessed as a medium-priority strategy with medium feasibility and medium economic desirability.

Recommendations:

- Create a work program to develop a plan to implement the scenario of building tiny homes on a portion of the public tennis courts.
- Conduct public outreach to raise awareness of the rationale behind the plan, and simultaneously identify potential sites across Del Mar for relocation of the tennis courts.

iv. Unlock Land by Upzoning North Commercial (NC) and Professional Commercial (PC) Zones

Rezoning of properties in the North Commercial and Professional Commercial Zones to a mixture of residential and commercial uses with increased residential density or encouraging property owners to build a companion dwelling unit on site could be viable strategies with potential to accommodate affordable housing in Del Mar. This section explores different aspects of these scenarios.

i. Professional Commercial Zone

The City's Professional Commercial (PC) Zone is located along Camino Del Mar and consists of four parcels with a total land area of 1.28 acres (See Figure 25).[68] Currently, the PC Zone is designed to allow office use within the village center in a way that will not detract from the area's predominantly retail character. The City's existing zoning law requires that office and professional uses be geographically concentrated so as to minimize retail parking problems, disruption of pedestrian-oriented shops, and to make a smooth transition from retail to residential at the south end of the village center. A single dwelling is allowed per building site as an accessory to another allowed use on the site. The PC Zone allows development at maximum Floor Area Ratio (FAR) figure of 60 percent, the highest FAR of any of the City's zones.[69]

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[68] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.70

[69] Del Mar Municipal Code, "Chapter 30.25 - PROFESSIONAL COMMERCIAL ZONE (PC)," https://library.municode.com/ca/del_mar/codes/municipal_code?nodeId=TIT30ZO_CH30.25PRCOZOPC

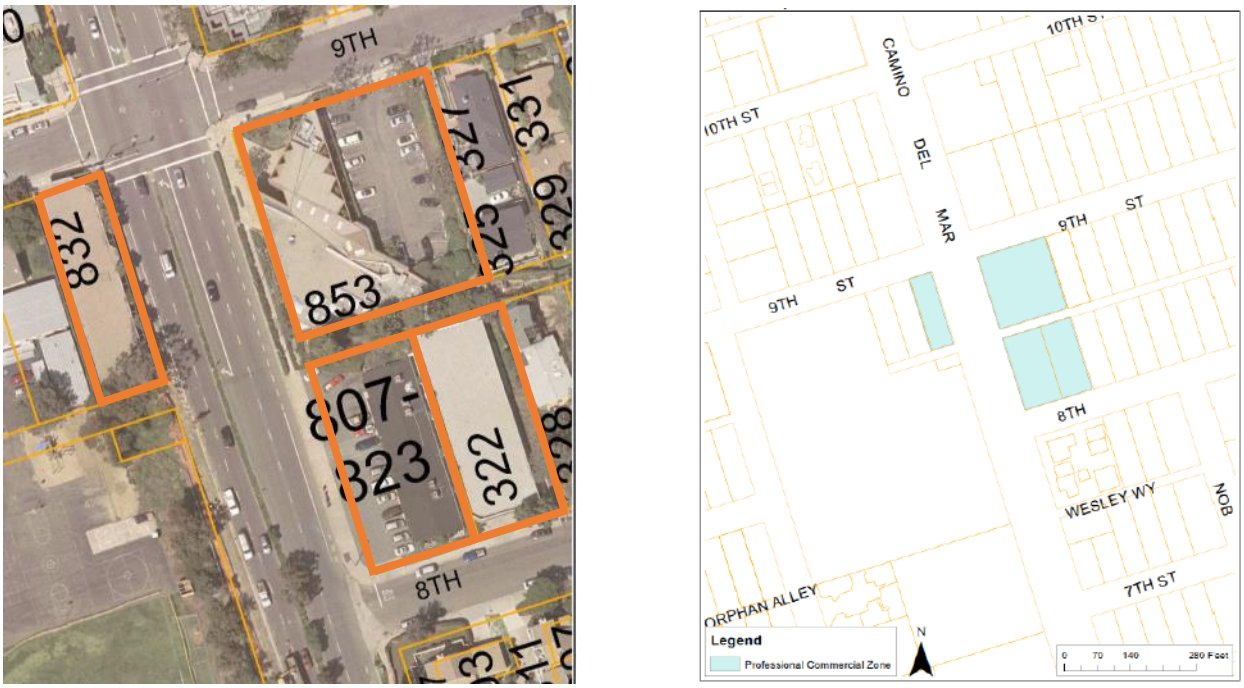

Figure 25. The Four Parcels within the Professional Commercial Zone (Source: Left: City Facility Planning Study (2013), City of Del Mar Website; Right: Del Mar Housing Element (2013))

ii. North Commercial Zone (Figure 26)

The City's North Commercial (NC) Zone is located along a major circulation corridor, Jimmy Durante Boulevard, an area served by municipal services and near the site of a proposed regional rail transit stop at the Del Mar Fairgrounds.[70] Currently, the North Commercial (NC) Zone is designed to allow commercial and light manufacturing uses. According to Del Mar Zoning Code, development in the NC Zone shall be of low intensity and profile, offering a lively open air commercial environment with substantial open space. The NC Zone also allows a single dwelling unit per parcel, as an accessory to another allowed use on the site.[71] Excluding the two vacant properties (the Watermark properties) for which a development proposal has been proposed (See Strategy #3, Section A), the NC Zone consists of 13 parcels with a total land area of 12.94 acres.[72] The majority of these properties are currently developed with office or light industrial uses.

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[70] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.51
[71] Del Mar Municipal Code, "Chapter 30.24 - NORTH COMMERCIAL ZONE (NC)," https://library.municode.com/ca/del_mar/codes/municipal_code?nodeId=TIT30ZO_CH30.24NOCOZONC
[72] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.70

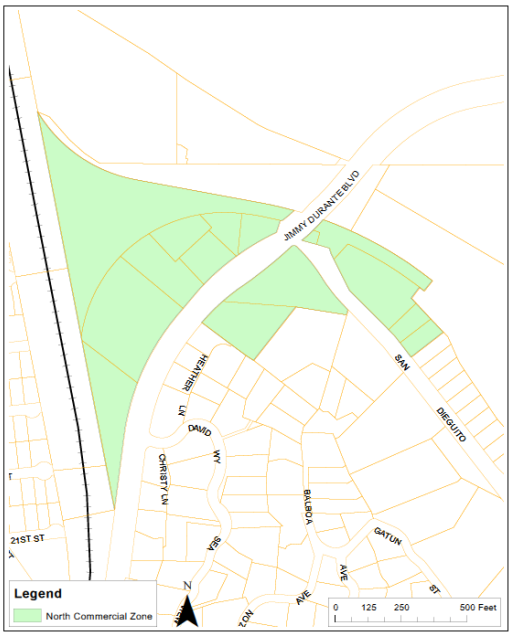

Figure 26. The 15 Parcels within the North Commercial Zone (Source: Del Mar Housing Element (2013))

NC and PC Zones Scenario 1.A

In compliance with Del Mar's Housing Element, this scenario calls for adopting a zone code amendment in the PC and NC Zones to assign a new land use designation to allow for a mixture of commercial and residential uses at a density of 20 to 25 dwelling units per acre. Not every parcel, if and when redeveloped, would include a residential component. Assuming that 50 percent of the total acreage (1.28+12.94 (14.22)/2=7.11 acres), will include a residential component at a density of 20 dwelling units per acre, the NC and PC Zones have potential to accommodate roughly 140 dwelling units. Del Mar's Affordable Housing Mitigation Code for new Condominium and Community Apartment Units, identified in DMMC Chapter 24.21.030, requires development proposals for ten units or more to set aside 20 percent of the new units for rental to low-income households, with a further requirement that two of the set-aside units be reserved for rental at below market rates to a very low-income household and two of the set-aside units reserved for rental at below market rates to an extremely low-income household.[73] Therefore, the NC and PC Zones could create 28 affordable rental units. Assuming that only 25 percent of the total acreage (14.22X.25=3.5 acres) will include a residential component and using a conservative assumption of 15 units per acre as an average density (75 percent of maximum), 52 units could be achieved in mixed-use projects, of which 10 units would be designated for lower income households. If only 10 percent of the total acreage (14.22X.10=1.422 acres) will include a residential component with an average density of 15 units per acre, roughly 21 units could be achieved in mixed-use projects in the NC and PC Zones, of which four units would be allocated to affordable renter-occupied housing.

Analysis

<u>Pros:</u> NC and PC Zones Scenario 1.A could help Del Mar achieve between 4 and 28 affordable units. Due to proximity to the site of a proposed regional transit stop, properties in the North Commercial Zone are ideal for accommodating vulnerable populations, such as the elderly, the chronically homeless, and

[73] Del Mar Municipal Code, "Affordable Housing Mitigation Requirements for New Condominium, Stock Cooperatives and Community Apartment Units," Chapter 24.21.030.

people with disabilities, who would require access to social and supportive services. This scenario also diversifies the housing options that the City might offer to its current and future residents. According to Del Mar's Housing Elements, the zone code amendment in the NC and PC Zones could include consideration for allowance of additional mixed-use developments and activities, such as live-work units of the type frequently found in artists' colonies.[74]

Cons: The costly process of rezoning of land in Del Mar could become a deterrent for landlords and/or private developers. As of September 2017, the initial deposit required for a change of designation on Zoning Map in Del Mar was $10,000. Nonetheless, additional costs and fees related to Environmental Impact Report (EIR),[75] public outreach, etc. might increase the expenses up to $500,000.

Overall, it can be argued that NC and PC Zones Scenario 1.A could help the City meet a percentage, if not all, of its RHNA obligations. Given different aspects of the scenario, it could be evaluated as an economically desirable, high-priority, and medium-feasibility strategy.

Recommendations:

- Proactively pursue a zone code amendment to the NC and PC Zones' development standards to increase the allowable residential density to 20 du/ac.
- Ease the process of the rezoning of land, particularly for the properties in the NC and PC Zones.
    - Waive all or a portion of planning fees for projects that set aside more than 20 percent of their units for affordable housing.
    - Offer tiered fee waivers and reductions based on the number of units that will be affordable, the level of AMI of potential residents, and compliant design standards.
    - Encourage redevelopment by offering incentives for projects that provide additional affordable housing. Incentives could include density and floor area ratio (FAR) bonuses, reduced processing fees, expedited permit processing, reduced parking requirements, and fee waiver for change of designation.

NC and PC Zones Scenario 2.A

In compliance with Del Mar's Zoning Ordinance that allows one residential accessory unit by right in the NC and PC Zones, this scenario calls for incentivizing property owners to build a companion dwelling unit on site. There are several underutilized properties in these two zones that could be prime locations for a residential companion unit. Ideally, 16 accessory dwelling units could be created on 16 properties in the NC and PC Zones, excluding the Watermark properties in the North Commercial Zone. Assuming that 50 percent of the properties have potential to build companion dwelling units, this scenario could achieve eight ADUS.

Analysis

Pros: This scenario could help the City meet a percentage of its RHNA requirements. No zone code amendments are required. Should an incentivization program be considered, the following are costs related to secondary dwelling units in Del Mar (City of Del Mar Schedule of Planning Land Use Application Fees and Charges, as of Sept. 1, 2017):

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[74] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.70

[75] Environmental Impact Reports (or EIRs) are reports to inform the public and public agency decision-makers of significant environmental effects of proposed projects, identify possible ways to minimize those effects, and describe reasonable alternatives to those projects.

Affordable Second-Dwelling Unit (flat fee)	$865

Cons: This would require a property owner to add an additional unit which is outside of the City's control and therefore difficult to rely upon to meet a target goal.

It can be argued that NC and PC Zones Scenario 2.A could help the City meet a percentage of its RHNA obligations. Given different aspects of the scenario, it could be evaluated as an economically desirable, high-priority, and medium-feasibility strategy.

Recommendation:

- Consider introducing new ordinances to waive associated fees and streamline applications for ADUS in the NC and PC Zones. These could include fee waivers of application fees, permitting fees, grading fees, Planning application fees, inspection fees, water connection fees or sewer connection fees.
- Pass legislation to enable the Director of Planning and Community Development to waive all, or a portion of, planning fees for ADUs that are designated as affordable housing units.

There are similar companion unit incentive programs that have been put in place around the country. In September 2015, Honolulu Mayor Kirk Caldwell signed Bill 20 into law, which allowed for homeowners with lots of 3,500 sq. ft. or larger to build ADUs. However, the permit process remained slow and expensive for residents. As such, in July 2016, Bill 27 waived all building permit, grading, inspection, and wastewater facility charges and fees for a two-year period.[76] In March 2017, over 1,200 homeowners had filed the preliminary paperwork for ADUs, and the City of Honolulu had granted about 150 permits.[77]

The City of Santa Cruz is waiving permit fees in exchange for a property owner's agreement to restrict the rental of a new ADU unit to low or very-low income households, with more fees waived for very-low income households.[78] Similarly, the City of Solana Beach's Accessory Dwelling Unit Ordinance (470) allows the City to consider waiving fees, reducing parking and development standards, or approving other forms of assistance for ADUs if owners of the units elect to file a 30-year deed restriction to rent the unit to lower income households.[79] Additionally, ADU proposals conforming to Solana Beach's City requirements will be considered without a discretionary review process or hearing.

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[76] KHON. (July 21, 2016). Honolulu mayor signs ADU incentive bill into law. http://khon2.com/2016/07/21/honolulu-mayor-signs-adu-incentive-bill-into-law/.
[77] KHON. (March 31, 2017). ADU built on State Capitol lawn to highlight statewide need for affordable housing. http://khon2.com/2017/03/31/adu-being-built-on-state-capitol-lawn-to-highlight-need-of-affordable-housing-needs/.
[78] City of Santa Cruz. (2016). http://www.cityofsantacruz.com/home/showdocument?id=53802.
[79] City of Solana Beach. (2017). http://www.ci.solana-beach.ca.us/vertical/sites/%7B840804C2-F869-4904-9AE3-720581350CE7%7D/uploads/ORD_470_(11-09-16)_(Eff_12-09-16)_Accessory_Dwelling_Units_.pdf.

Solutions Framework Strategy #3: Obtain Covenants on Projects Being Developed

Development proposals provide great opportunities for the City of Del Mar to obtain lower-income dwelling units with restrictive covenants and meet the City's RHNA requirements for affordable housing. In this section various dimensions of this strategy for different projects will be explored.

A. Obtain Covenants on Units in Watermark Properties

The proposed Watermark development site consists of two commonly-owned adjoining properties (APNs 299-100-47 and 48), 2.3 acres in aggregate, located on the corner of Jimmy Durante Boulevard and San Dieguito Drive. The site, which is one block south of Del Mar Fairgrounds, is now vacant yet is temporarily used as overflow parking for the Fairgrounds and Race Season (See Figure 27).[80]

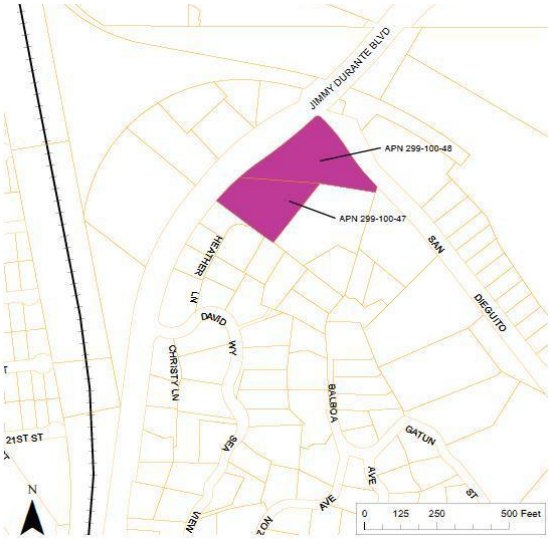

Figure 27. Watermark properties
(Source: City of Del Mar Housing Element 2013-2021)

The Watermark properties are located within the City's North Commercial (NC) Zone, initially designated for commercial and light manufacturing uses. Land Use re-designation of the two properties to a zoning classification that allows, by right, residential development at a density of 20 to 25 du/ac is one of the goals set by Del Mar's Housing Element to meet the City's RHNA obligation of 22 lower income Units. To this end, the Housing Element has projected 18 and 23 potential lower income units for APN 299-100-47 and APN 299-100-48 properties, respectively.[81]

In 2015, a housing development proposal was submitted by the property owner to the City of Del Mar. The proposed 48-home project created a density of about 20 dwelling units per acre and covered nearly half of the site. Seven of the units were designated for affordable housing, of which four units were to be donated to the City (See Figure 28).

[80] City of Del Mar Community Plan Housing Element 2013-2021.
[81] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.B-32

Figure 28- Watermark Del Mar, 48-home Alternative Site Plan[82]

After receiving public comments on the plan, the developer proposed a new, reduced density alternative with 38 homes at a density of 16 dwelling units per acre, covering over a third of the lot. The new plan would provide eight affordable units, of which four would be donated to the City in perpetuity (See Figure 29).[83]

Figure 29- Watermark Del Mar, 38-home Alternative Site Plan[84]

As of December 2017, the two alternatives (48 dwellings at 20 du/ac and 38 dwellings at 16 du/ac) are going through the CEQA evaluation and entitlement processes. Upon the City Council's authorization, the developer is preparing a Specific Plan as well as other permit applications for the project. A Specific

[82] www.watermarkdelmar.com
[83] Watermark Del Mar, "About," http://www.watermarkdelmar.com/about-watermark/. Date of Access: January 24, 2018.
[84] www.watermarkdelmar.com

Plan is a tool used by the City of Del Mar for the systematic implementation of its Community (general) Plan, in the case of Watermark, for the Housing Element of the Community Plan. A Specific Plan effectively establishes a link between implementing policies of the general plan and the individual development proposals in a defined area, establishes standards for development, lays out development parameters for the site and sets new zoning laws that supersede existing regulations.

Analysis

Pros: If the Specific Plan is approved, the City of Del Mar would be able to achieve seven to eight covenant-restricted affordable units through the development proposals for the Watermark properties. Such restrictions, in the form of covenants, would ensure that the units would remain affordable for years to come. By designating eight units as lower-income housing, the second alternative, in particular, meets the City's Affordable Housing Mitigation Requirements for new Condominium and Community Apartment Units, identified in DMMC Chapter 24.21.030. The Municipal Code requires development proposals for 30 or more units to set aside 20 percent of the new units for rental to low-income households, with a further requirement that two of the set-aside units be reserved for rental at below market rates to a very low-income household and two of the set-aside units reserved for rental at below market rates to an extremely low-income household.[85]

Cons: Should the City approve either of the development proposals, it would fall short of meeting the number of lower-income units projected by the Housing Element for the Watermark properties. In particular, approving the second alternative, which is a development proposal at a density of 16 du/ac, means providing fewer lower income units on the site than identified in the Housing Element.

Overall, it can be argued that this scenario could help the City satisfy a portion of its RHNA obligations by obtaining seven to eight covenant-restricted affordable owner/renter-occupied units. Additionally, development agreements could enable additional affordable units above those proposed by the developer as an exceptional public benefit. Given various aspects of the development proposals, this scenario could be evaluated as an economically-desirable, high-priority, and high-feasibility strategy.

Recommendation:

- Strive throughout negotiations with developers to not only increase the percentage of units designated as affordable in each project, but also to diversify the variation and size of the proposed lower income units.

B. Obtain Covenants on the Del Mar Resort Project

The Del Mar Resort Project is a 16-acre bluff-top resort which has been proposed for an oceanfront, triangular site in the northwest section of Del Mar. The proposed project is located on the southwest corner of the Via de la Valle-Camino Del Mar intersection just north of North Beach, which lies at the mouth of the San Dieguito River. The access to the property is from Border Avenue, which separates the City of Del Mar from its neighbor to the north, the City of Solana Beach (See Figure 30).[86]

[85] Del Mar Municipal Code, "Affordable Housing Mitigation Requirements for New Condominium, Stock Cooperatives and Community Apartment Units," Chapter 24.21.030.

[86] The San Diego Union-Tribune, "Solana Beach to fell effects of Del Mar resort," By Phil Diehl, August 31, 2017. http://www.sandiegouniontribune.com/communities/north-county/sd-no-delmar-resort-20170831-story.html.

Figure 30. The Site of the Del Mar Resort[87]

The proposed resort will sit on seven contiguous residential parcels which were optioned from three different families in 2017. The owner of one of the larger lots had planned to subdivide his property into five gated estates, and is approved for such if no resort materializes. According to the City of Del Mar Zoning Map, the parcels are zoned as very low density residential (R1-40) and modified low density residential (R1-14) (See Figure 31). Because the lots have to be rezoned for Hotel use, several legislative changes and discretionary permits must be approved.[88] Similar to the development proposals for the Watermark properties, in June 2017, the Del Mar City Council approved the preparation of a Specific Plan to entitle the parcels.[89] In addition, required development permits include a Conditional Use Permit (CUP), Coastal Development Permit (CDP) and Design Review Permit (DRP). A ministerial Building Permit is also required. As of spring, 2018, the resort project is undergoing development and environmental reviews by the City of Del Mar. The resort project will require approvals from the City and the California Coastal Commission. Developers do not expect construction to begin for several years. Once it starts, the project could be built out in 26 to 28 months.[90]

[87] Googlemaps.com
[88] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.B-6
[89] The Coast News Group, "Plans for bluff-top resort unveiled," by Brianca Kaplanek, September 8, 2017. https://www.thecoastnews.com/2017/09/08/plans-for-bluff-top-resort-unveiled/.
[90] San Diego Business Journal, "Blufftop Battleground," by Lou Hirsh, October 12, 2017. https://www.sdbj.com/news/2017/oct/12/blufftop-battleground/.

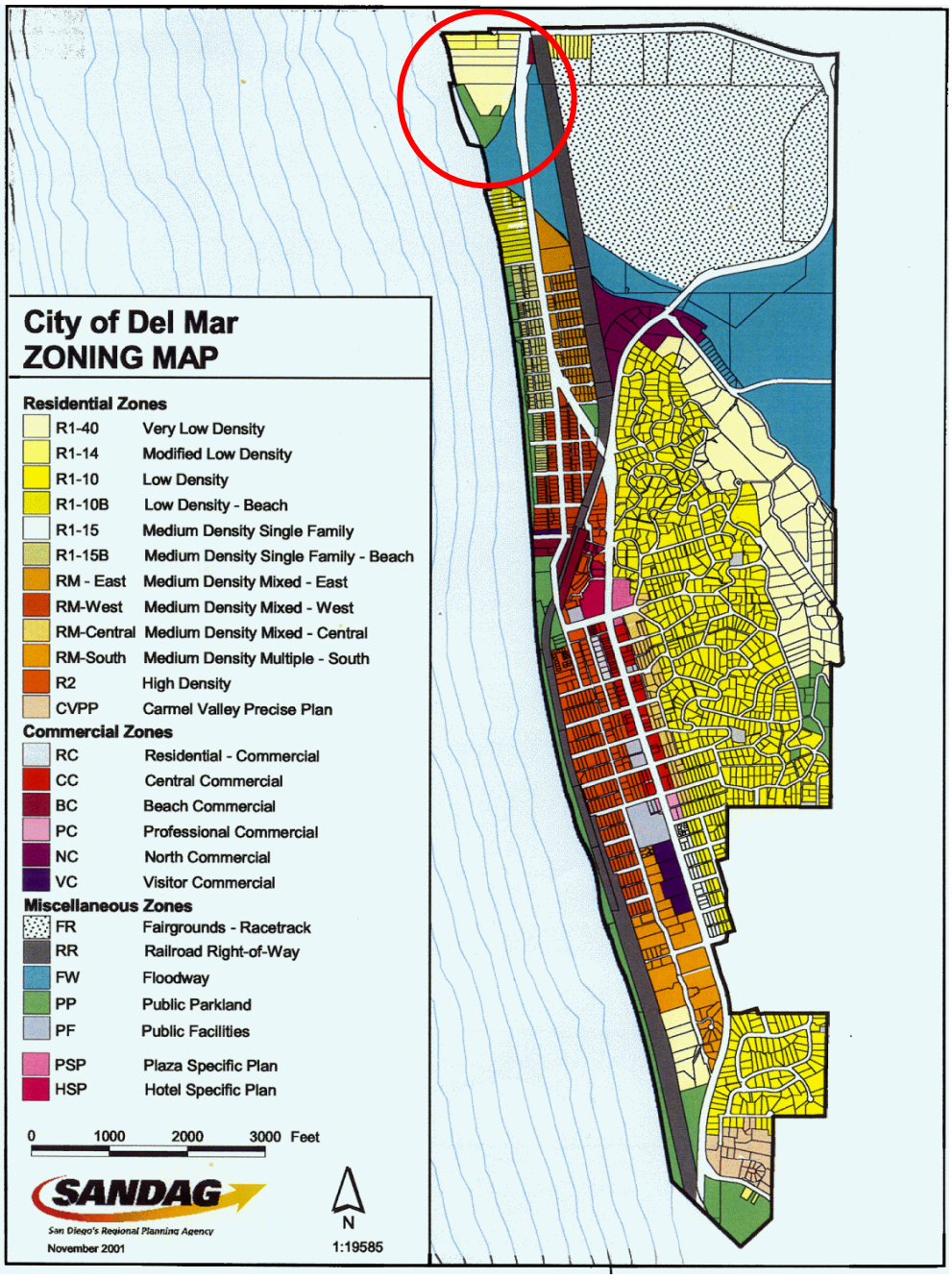

Figure 31.- The Site of the Proposed Del Mar Resort (Source: City of Del Mar)

The proposed Resort Project plans to have approximately 250 hotel rooms, 76 owner-occupied resort villas, restaurants, meeting space, a public park, and walking trails. The project also proposes 15 affordable rental units (the required 20 percent) identified as workforce housing. It should be noted that the project's exact disposition will be determined through the entitlement process.

Analysis

Pros: If the Specific Plan is approved, the proposed Resort Project could help the City obtain approximately 15 covenant-restricted affordable units. The development proposal would also open up a prime oceanfront site to the public. This would add to the City's inventory of open public spaces and enhance Del Mar residents' quality of life in the long run.

Cons: The project is in its early stages of development processing and currently has no guaranteed entitlements. Given the scope and magnitude of the development proposal, more affordable housing units could have been included in the project. The project, by the nature of a new large resort development, will be adding to the City's demand for low income housing, given its workforce. This is not accounted for in the 15 units. Furthermore, as of January 2018, it is not clear to which economic segment(s) or income categories the proposed affordable housing units will be geared. The surrounding community has expressed concern about the project's potential impacts on traffic, noise and views of the sea.

This scenario could help the City meet a percentage of its immediate RHNA obligations by achieving approximately 15 affordable renter-occupied units. Considering various aspects of the development proposal, this scenario could be evaluated as an economically-desirable, high-priority, and high-feasibility strategy for achieving affordable housing.

Recommendations:

- Collaborate with the development team to increase the Resort Project's percentage of affordable housing units.
- Ensure that the proposed affordable housing, as defined in the scope of the project, would meet the income requirements and therefore count towards the City's RHNA allocation targets.

C. Obtain Covenants on the 941 Camino Del Mar Project

A specific Plan has been developed for a half-acre property, previously known as Garden Del Mar, at the intersection of Camino Del Mar and 10th Street (APNs 300-221-32 and 300-221-22) (see figure 32). The proposed project envisions a two-story, mixed-use development comprised of a range of professional office, commercial and "residential hospitality" uses. While allowing for maximum flexibility and adaptability in future uses due to the potential changes in market demands,[91] the Specific Plan would allow up to 22 "residential hospitality" units within a maximum of two stories within the project site.[92]

[91] RECON Environmental, Inc.,"Draft Supplemental Environmental Impact Report for the 941 Camino Del Mar Specific Plan," March 28, 2018, P.3-1

[92] RECON Environmental, Inc.,"Draft Supplemental Environmental Impact Report for the 941 Camino Del Mar Specific Plan," March 28, 2018, P.3-4

Figure 32- The 941 Camino Del Mar Project (Source: Draft Supplemental Environmental Impact Report for the 941 Camino Del Mar Specific Plan, 2018)

As of this writing, entitlements have been requested for the proposed project. Moreover, the Draft Supplemental Environmental Impact Report (SEIR) has been released and is going through the 45-day review period.

Analysis

Pros: If the Specific Plan is approved and permission for 22 "residential hospitality" units is granted, the City of Del Mar could achieve four to five covenant-restricted affordable units. The City's Affordable Housing Mitigation Requirements for new Condominium and Community Apartment Units, identified in DMMC Chapter 24.21.030, requires development proposals for 20-29 units to set aside 20 percent of the new units for rental to low-income households, with a further requirement that two of the set-aside units be reserved for rental at below market rates to very low-income households and two of the set-aside units reserved for rental at below market rates to extremely low-income households.[93]

Cons: The project is in its early stages of development processing and currently has no guaranteed entitlements.

This scenario could help the City meet a percentage of its immediate RHNA obligations by achieving approximately 4-5 affordable renter-occupied units. Considering various aspects of the development

[93] Del Mar Municipal Code, "Affordable Housing Mitigation Requirements for New Condominium, Stock Cooperatives and Community Apartment Units," Chapter 24.21.030.

proposal, this scenario could be evaluated as an economically-desirable, high-priority, and high-feasibility strategy for achieving affordable housing.

Recommendations:

- Provide incentives to encourage the developer to increase the number of set-aside affordable units.
- Preferably, secure at least two units for each low-income category (2 units for low-income, 2 units for very low-income, and 2 units for extremely low-income households).

D. Obtain Covenants in Accessory Dwelling Units and Junior Accessory Dwelling Units

Accessory Dwelling Units (ADUs) are emerging as an important new housing typology in California, for both rental housing and to house extended family members. Given their smaller size, absence of land costs, and financial benefit to existing homeowners, ADUs are a relatively accessible form of new housing production and have become an increasingly important contributor to California cities' housing stock.

The City of Del Mar should consider steps to encourage ADU production in order to meet increased demand for housing, and to help meet the goal of creating 22 units of affordable housing by 2022.

Background

In 1999, the City of Del Mar enacted a Second Dwelling Unit Ordinance to allow the construction of ADUs on properties otherwise zoned for single family development.

This ordinance restricted ADUs to a limited number of residential zones, established minimum lot sizes which precluded many homeowners from building ADUs, required ADUs to record affordability covenants, and required discretionary design review. Because of these restrictions, there were no ADUs permitted between 1999 (when the ordinance was adopted) and October 2017 when it was superseded.

In order to encourage production of ADUs to help meet state housing goals, the state legislature approved a series of bills that took effect on January 1, 2017 requiring cities to create ordinances that would reduce regulatory barriers to the development of ADUs. Any city that does not have an ADU ordinance that complies with the new state law would automatically defer to the development standards in the state law.

As a result of state law that took effect in January 2017, the City of Del Mar adopted new ADU regulations in October 2017 in order to provide for ministerial approval consistent with the State law as amended, and to make other changes as described below. Justification of this new ordinance included, among other reasons, the ability for ADUs to help the City of Del Mar meet its affordable housing goals.

The new ordinance, adopted by Del Mar City Council in October 2017 (and approved by the California Coastal Commission on February 8th 2018) includes four primary changes to help encourage production of ADUs:

1) Expanded zones in which ADUs are allowed to all residential zones (with the exception of RM-South, which is already a higher-density zone);
2) Eliminated minimum lot size requirements;
3) Eliminated the requirement that all ADUs be deed-restricted with affordability covenants; and
4) Eliminated design review (as mandated by State Law).

As a result of these changes in the new ordinance, the first two permits have been issued for the development of ADUs in Del Mar. Neither of these units are anticipated to be deed-restricted as affordable housing and therefore not anticipated to count towards the City's 22-unit affordable-housing goal.

Fees for an ADUs permit are approximately $9,695, including plan check and building issuance fees, which is relatively low compared to many other California cities.[94]

The City of Del Mar does not have data on unpermitted ADUs, although anecdotal evidence suggests that they do exist in limited number, including freestanding ADUs as well as conversions of existing spaces.

Analysis
Given the land use and market characteristics described above, there are both opportunities and challenges to strengthening ADU production in Del Mar.

Opportunities

1) Construction Cost-Property Value Differential. High property values in Del Mar incentivize the production of ADUs, because the differential between the construction cost and the post-construction value is significant. According to the Del Mar Housing Element, average construction costs are about $200 per square foot. But the value of property in Del Mar is about $1,527 per square foot—an 850 percent differential[95]. Thus, building ADUs creates significant value with a modest investment.

2) Newly Expanded Sites for ADUs. Del Mar's new ADU ordinance increases the land area available for ADUs from 36% to 47% of the land area in Del Mar[96]—expanding the opportunity for nearly all Del Mar homeowners to build ADUs.

3) Availability of Owner Financing. According to the Del Mar Housing Element, many homeowners have large amounts of equity and could thus finance ADUs with home equity lines of credit or cash-out refinancing.

[94] Per City of Del Mar / City of Solano Beach Building Division (February 2018)
[95] https://www.zillow.com/del-mar-ca/home-values/ (July 2017)
[96] Per City of Del Mar Planning Department land mass inventory (February 2018)

Challenges

1) Maximum size. The current maximum size of 550 square feet restricts ADUs to studios and small one bedrooms, limiting the ability for ADUs to serve families and for homeowners to take full advantage of the economic benefits of ADUs.

2) Legalization of Existing Unpermitted Units. Anecdotal evidence suggests that there are unpermitted units already in existence that could be permitted which would allow better tracking of ADUs and better compliance with building codes for the safety of owners, tenants, and neighbors. Current regulations, including the maximum size mentioned above, discourage some owners of unpermitted units from permitting those units, including those unpermitted units that are conversions of existing residential spaces.

3) Restrictive FAR. Many of the single family properties in Del Mar are already developed to their maximum allowed FAR[97] and therefore cannot build any additional square footage, including freestanding ADUs or ADU additions.

4) Increased Assessments. Some homeowners are discouraged from building ADUs because of fears of increased property valuation assessments that would be triggered through addition of space or rehabilitation of existing space to an ADU.

Review of Successful Strategies in Other West Coast Cities

Many west coast cities have embraced ADUs as a way to increase housing options for renters and provide revenue streams to homeowners. These cities have deployed numerous tactics to address the specific local challenges to production of ADUs. These tactics have had varied impacts.

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[97] Per discussion with City of Del Mar Planning Department

Figure 33. Solutions applied in other cities

City	Tactic(s)	Impact
Portland	Permit Fee Waiver; Advocacy-led tours/workshops	Production increased from approximately 25 annually between 2000-2009 to 615 in 2017.[98]
Santa Cruz	Marketing, Prototyping, Financial Incentives	Increased from 21 units in 2015 to 38 units in 2017.[99]
Los Angeles	Deference to State Law, Marketing, Prototyping	Production increased from approximately 95 units annually to 1,970 annually[100]
San Diego	Code changes: increase maximum size, eliminate parking for small units, and allow parking in setbacks	Increased ADU permits from approximately 16 in 2015 and 2016 to 64 in 2017.[101]

Conclusion

Based on the opportunities and challenges in Del Mar and successful strategies from other West Coast cities, there are several potential strategies the City of Del Mar can undertake to increase ADU production and achieve its affordable housing production goals.

1) Increase maximum allowable size for ADUs created within existing permitted space. Increasing the maximum size from 550 square feet to at least 850 square feet for ADUs created within existing, permitted spaces (such as primary homes, garages, or guest houses) will allow homeowners to take greater advantage of the economic benefits of ADUs, to provide new opportunities for housing families, and to encourage homeowners with unpermitted units to legalize those units.

2) Allow increase maximum size of new ADUs in exchange for income-restricted ADUs. Increasing the maximum allowable size of a newly-constructed ADU to 850 square feet (from 550 square feet) in exchange for deed-restricting the ADU for low-income residents for 10-30 years would incentivize some homeowners to voluntarily restrict rental rates for their new tenants. Given the high returns on adding square footage (see 'Construction Cost – Property Value Differential' above), adding ADUs while restricting incomes of ADU tenants is still a strong value proposition to homeowners. This is discussed in greater detail in the next section and in Figure 33.

[98] "The Ascent of ADUs in Portland" published by Accessory Dwellings, February, 2017. https://accessorydwellings.org/2017/02/27/the-ascension-of-adus-in-portland/

[99] "ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes" published by University of California Berkley's Terner Center for Housing Innovation, December 2017. https://ternercenter.berkeley.edu/blog/adu-update-early-lessons-and-impacts-of-californias-state-and-local-policy

[100] *Ibid.* and City of Los Angeles Open Data Portal

[101] *Ibid.*

3) Allow Additional Square Footage Beyond FAR maximums for income-restricted ADUs. Similar to #2 above, in this scenario homeowners who have already reached the maximum allowable FAR on their sites would be allowed to add up to 550 sf of additional building area for an ADU, if they agreed to rent the unit at affordable levels for 10-30 years.

4) Enact a Property Tax Abatement for income-restricted ADUs. Under this program, property owners who file for an ADU permit and rent to income-restricted tenants would receive a property tax abatement for the ADU. The income restriction would be covenanted and have a term up to 30 years. Property tax abatement programs, such as the Mills Act, have successfully encouraged homeowners to make property improvements that create value for both the homeowner and the city, and could serve as a precedent for a Del Mar City program.

Areas for Further Research

As ADU production increases in Del Mar, additional research can be conducted to evaluate the market for ADUs and refine ADU policies as needed. Additional research questions include:

1) What are the actual construction costs for ADUs?
2) What are the market rents for ADUs?
3) What are typical floor plan/configurations of ADUs?
4) How many unpermitted spaces that could be considered as ADUs are there in Del Mar?

These additional questions (#1 - #3) could be answered through interviews with the 2 homeowners with ADU permits. Question #4 could be answered through a deeper GIS analysis using city parcel, permit and code enforcement data.

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Figure 34. ADU Value Capture Calculations

Using construction costs, rents, and restricted rents in the Housing Element, this table calculates the hypothetical value increase that a homeowner would realize from constructing an ADU. It also calculates the 'loss' of rental income if they rented the unit at restricted rates for affordable housing. Depending on the term of the affordability covenant and the size of the unit, the net benefit to the homeowner is between $500,900 and $1,399,200.

Assumptions			
550	Current Maximum Square Footage		
850	Proposed Maximum Square Footage		
1,200	Proposed Max Square Footage, with Affordability Bonus		
$109	Per Square Foot Construction Cost		
$1,527	Per Square Foot Property Value		
$1,285	80% AMI Rent (2 people)		
$1,606	80% AMI Rent (4 people)		
$1,735	80% AMI Rent (5 people)		
$2,060	Market 1 BR rent		
$2,371	Market 2 BR rent		
$2,575	Market 3 BR rents		
	550 sf (1 BR)	**850 sf (2 BR)**	**1,200 sf (3 BR)**
Construction Cost	$59,950	$92,650	$130,800
Value Increase	$839,850	$1,297,950	$1,832,400
Net Gain	$779,900	$1,205,300	$1,701,600
Annual Restricted Rent	$15,420	$19,272	$20,820
Annual Market Rent	$24,720	$28,452	$30,900
Annual Rent 'Loss'	($9,300)	($9,180)	($10,080)
Rent Loss (10 yrs)	($93,000)	($91,800)	($100,800)
Net Benefit Over 10 Years (Net Gain - 10 yr loss)	$686,900	$1,113,500	$1,600,800
Rent Loss (30 yrs)	($279,000)	($275,400)	($302,400)
Net Benefit Over 30 Years (Net Gain) - (30 yr loss)	$500,900	$929,900	$1,399,200

Sources: Construction costs, AMI rents, and Market Rents per Del Mar Housing Element.
https://www.zillow.com/del-mar-ca/home-values/ (July 2017)

Solutions Framework Strategy #4: Pursue Partnership Opportunities with the Del Mar Fairgrounds

Located in the northeastern section of the City, the Del Mar Fairgrounds occupies 20 percent of the land area of Del Mar and is the City's largest employer. Owned and operated by the 22nd District Agricultural Association (DAA) on behalf of the State of California, the Fairgrounds hosts the San Diego County Fair every year, which is one the most successful and well-attended fairs in the United States, with attendance of over 1.2 million visitors during its 22-day run. The 43-day horse-racing meet that follows the Fair each year is also regarded as one of the finest race meets in the country, with attendance of over 700,000 spectators each year. The economic impact of racing at the Fairgrounds on the San Diego economy has been estimated in excess of $100 million. The annual Fair contributes in excess of $160 million to the local economy, and interim events bring in $98 million. The total economic impact of all Fairgrounds activities is over $358 million.[102] The Fairgrounds also contributes to the regional economy by creating low-income seasonal job opportunities in a high-cost market.

Forging a partnership with the Fairgrounds could provide the City of Del Mar with opportunities to fulfill its RHNA requirements. This section explores different aspects of this strategy.

A. Del Mar Fairgrounds Backstretch Housing

The Fairgrounds property includes a horseman's village in the horse stable area known as "the backstretch." (See Figure 35). The village, originally built in 1937, currently consists of approximately 273 dormitory-style rooms, each roughly measuring 10 to 12 square feet and accommodating two people per room.[103] The rooms, organized into several quarters, are leased to seasonal laborers, such as fair and carnival workers, equine grooms, stable hands, jockeys, etc. The backstretch housing along with the Recreational Vehicle spaces provide housing on the Fairgrounds for 1,200 people, on a seasonal basis.[104]

Overall, there is very limited information about the physical conditions of the housing quarters in the Fairgrounds. According to Fairgrounds 2008 Master Plan, the backstretch housing in certain sections of the stable area is quite "old" and "substandard" and requires "constant attention to maintain adequate living standards."[105] The quarters are composed of different building types and units. Racetrack workers' quarters, for instance, include block-walled rooms, each furnished with a sink, a shelf, a rack, and shared showers and toilets.[106] Given the requirements set by both the State of California and Del Mar Municipal Code, and assuming that none of the units includes individual toilets, showers and kitchen, the backstretch housing in its current conditions would not meet the State definition of a "dwelling unit" and therefore would not satisfy RHNA requirements.

Improvement of the existing backstretch area by continuing to rebuild living quarters in accordance with the Backstretch Master Plan is one of the long-term objectives of the Fairgrounds 2008 Master

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[102] 2008 Master Plan: Del Mar Fairgrounds and Horsepark, Prepared by LSA Associates, LLC., April 2011, p.1
[103] Del Mar Times, "Del Mar considering affordable housing on fairgrounds," December 31, 2012. http://www.delmartimes.net/sddmt-del-mar-considering-affordable-housing-on-2012dec31-story.html.
[104] City of Del Mar Community Plan Housing Element 2013-2021, April 2013, p. 28.
[105] 2008 Master Plan: Del Mar Fairgrounds and Horsepark, Prepared by LSA Associates, LLC., April 2011, p.10
[106] The San Diego Union-Tribune, "Many workers call the fairgrounds home," By Adam Kaye, June 20, 2007. http://www.sandiegouniontribune.com/sdut-many-workers-call-the-fairgrounds-home-2007jun20-story.html.

Plan.[107] The Master Plan envisions the demolition of a portion of the existing dormitory-style housing in the southern section of the Fairgrounds, a beige-and-green wooden building of 48 rooms known as the "Motel 6," and construction of 78 new replacement units in the living quarters in the Backstretch Area to be available for the fairgrounds seasonal workers, as well as for some of its temporary employees. [108]

Figure 35- Backstretch Area (Source: 2008 Fairgrounds Master Plan)

Backstretch Housing Scenario

In compliance with the City's Housing Element, this scenario calls for collaborating with the 22nd DAA to ensure that at least 22 units of the total replacement units identified in the DAA's Master Plan be constructed in a manner such that they would be both affordable and eligible to count towards Del Mar's RHNA requirements. In order for the City to gain RHNA credits, the new units need to meet the Department of Housing and Community Development (HCD) parameters for what constitutes a housing unit. The criterion used by HCD requires that the units meet the definition of "Dwelling Unit" as defined in the State Building Code and the US Census.

Analysis

Pros: This scenario could help the City meet all the 22 affordable housing units identified by RHNA. Although the definition of "Dwelling Unit" as defined in the State Building Code and the US Census

[107] 2008 Master Plan: Del Mar Fairgrounds and Horsepark, Prepared by LSA Associates, LLC., April 2011, P.18.
[108] City of Del Mar Community Plan Housing Element 2013-2021, April 2013, pp.28 & 71

stipulates that the units be equipped with sanitary and cooking facilities, they do not specify the length of time that a unit must be occupied, leaving flexibility for seasonal employees or worker housing. The two parties already taken initiatives to forge a partnership. On February 19, 2013, the Del Mar City Council adopted a resolution to initiate a partnership between the City and the 22nd District to carry out shared goals regarding housing at the Fairgrounds property.[109] The resolution also suggests that the City's dedicated Housing Assistance Reserve Fund could be used to help finance the respective housing project.[110] On March 12, 2013, the Board of Directors of the 22nd District Agricultural Association adopted a similar resolution. Under the latter resolution, the construction of the "Dwelling Units," or partnership with the City, will be contingent upon Del Mar's payment for all the added housing costs for kitchenettes and restrooms.[111] If an agreement could be reached, the costs of land, which is a major deterrent to developing affordable housing in Del Mar, would be eliminated.

Cons: Due to its proximity to the San Dieguito River Valley and Lagoon, the entire Del Mar Fairgrounds falls within the 100-year floodplain, or Zone AE, as defined in the Federal Emergency Management Agency (FEMA)'s FIRM Maps. Therefore, a Floodplain Development Permit is required for development proposals and, pursuant to the FEMA and City regulations, the finished floor of the new residences must be elevated to a level above the established Base Flood Elevation (BFE). Furthermore, new development in this area could be prohibited unless it can be shown that permanent structures are capable of withstanding periodic flooding and do not require the construction of offsite flood protective works, disturbance to environmentally sensitive areas will be minimized, increase in flood flow velocities will not occur, any loss or degradation of existing wildlife habitat areas will be completely mitigated, and there will be no adverse water quality impacts to adjacent or downstream wetland areas.[112] Residents in the Special Flood Hazard Areas will also be required to buy flood insurance.[113] All these provisions might make the design and construction expenses of any housing development in the Backstretch Area comparatively costly.

Furthermore, provision of sanitary and cooking facilities or covering the whole expense of making 22 permanent housing units in the Backstretch Area may be beyond the capacity of Del Mar's Housing Assistance Reserve Fund, which amounted to $482,000 in January 2018. The City may need to look into additional sources to cover the financing gap. Moreover, the process of negotiations with Fairgrounds officials to reach a deal has proved to be lengthy and may extend beyond 2022.

Nevertheless, it can be argued that this scenario could help the City achieve 22 affordable units to meet its RHNA obligation. Considering the different parameters discussed above, this strategy could be assessed as a high-priority, medium-feasibility scenario with high economic desirability.

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[109] City of Del Mar Memorandum, "Resolution to initiate a partnership with the 22nd District Agricultural. Association (22nd DAA) to carry out shared goals for affordable housing at the Fairgrounds property," February 19, 2013.
[110] City of Del Mar Memorandum, "Resolution to initiate a partnership with the 22nd District Agricultural. Association (22nd DAA) to carry out shared goals for affordable housing at the Fairgrounds property," February 19, 2013.
[111] Rancho Santa Fe News, "Fair board OKs elephant rides, housing," By Bianca Kaplanek, March 22, 2013, p, A3. https://issuu.com/coastnewsgroup/docs/rancho-santa-fe-2013-03-22.
[112] City of San Diego Planning Department, "Torrey Pines Community Plan," Appendix E, p.117
[113] City of Del Mar, "FEMA - CCAMP Project," http://www.delmar.ca.us/618/FEMA---CCAMP-Project. Date of Access: 01-09-2018.

Recommendations:

- Proactively continue negotiations with Fairgrounds authorities to reach a win-win solution to create 22 permanent housing units on the Fairgrounds by 2022.
- Concurrently, create a work program to carry out a site-specific financial feasibility analysis for the project. Such an analysis could be used as the basis for various partnership opportunities between the City and the Fairgrounds.
- Identify potential sites in the Backstretch area that could fulfill shared goals regarding housing.

B. Del Mar Fairgrounds Laydown/Parking Lot

A potential site which could offer partnership opportunities between the City and the Fairgrounds to create affordable housing is the Laydown/Parking Lot. The site is situated near the Fairgrounds' East Main Stable Gate, just southwest of the Via De La Valle - Jimmy Durante Blvd intersection (See Figure 36). The Laydown/Parking Lot, which is roughly 78,500 square feet (approximately 1.8 acres), is located within the City of Del Mar's Fairgrounds-Racetrack (FR) Zone. The site is currently used as a parking lot for the backstretch area.

Laydown/Parking Lot Scenario

This scenario calls for collaborating with the 22nd DAA to convert the Laydown/Parking Lot into a residential use. The site has potential to accommodate a portion of the 78 new replacement units envisioned in Fairgrounds 2008 Master Plan in the Backstretch Area. The City of Del Mar's 2013-2021 Housing Element suggests a range of land use planning programs to designate appropriate locations for higher density residential development.[114] The Housing Element also acknowledges the inclusion of a housing component in the 22nd DAA Fairgrounds Master Plan at a residential density of not less than 20 dwelling units per acre.[115] Therefore, the Laydown/Parking Lot could create a residential complex comprised of 36-45 units at a density of 20-25 dwelling units per acre. Of this projected number, 22 units could be designated for renter-occupied affordable housing.

Figure 36- Parking Lot/Laydown Site (Source: Google Maps)

[114] City of Del Mar, "City of Del Mar Community Plan Housing Element 2013-2021," April 30, 2013. p. 62.
[115] City of Del Mar, "City of Del Mar Community Plan Housing Element 2013-2021," April 30, 2013. p. 87.

Analysis

Pros: This scenario could help the City meet all the 22 affordable housing units identified by RHNA. The site is strategically located with good access to major transportation routes (Jimmy Durante Blvd and Via De La Valle). Since the land is owned by the State, no code amendment in zoning is required. A separate street access to the site should be considered. Using the financial feasibility model identified for two development prototypes in this report, the development costs for this scenario, when land costs and additional direct and indirect flood prevention expenses are excluded, are roughly estimated at $460,000 per affordable unit. In this case, the financing gap that needs to be filled jointly by the City and State would be approximately $216,000 per unit, or $4,752,000 for 22 units.[116]

Cons: Given the existing balance of the City's Housing Assistance Reserve Fund ($482,000 in January 2018), if the City were to independently provide 22 units, a significant financing gap would need to be filled. In this case, the Housing Assistant Reserve Fund would need to increase to $4,752,000. Furthermore, since the site is located within the San Dieguito River's 100-year floodplain, new development will be subject to permit requirements and development limitations to help avoid or reduce projected flood impacts. As a result, extra design and construction requirements and associated fees would be added to the projected costs.

Overall, it can be argued that this scenario could help the City achieve 22 affordable units to meet its RHNA obligation. Given various aspects of this approach, this scenario could be assessed as a high-priority, high-feasibility strategy with medium economic desirability.

Recommendations:

- Initiate talks with Fairgrounds officials regarding housing opportunities on the Parking Lot/Laydown Site.
- Identify funding resources from local, State, and Federal entities to fill the financing gap.

C. Pursue the Annexation of Surf and Turf Park to the City of Del Mar

A second site within the boundary of the Del Mar Fairgrounds with potential to create affordable housing is the Surf and Turf R.V. Park. The proposed site is a rectangular parcel located in the City of San Diego at the northeastern edge of the City of Del Mar just across the street from the Del Mar Thoroughbred Club (See Figure 37). The Surf and Turf R.V. Park is roughly 110,000 square feet (approximately 2.5 acres), and is bounded by the Hilton San Diego/ Del Mar complex to the north, Del Mar Golf Center and Recreational Complex (Wave Volleyball club and tennis courts) to the east, a feeder road (Turf Road) to the south, and Jimmy Durante Blvd to the east (See Figure 38). The R.V. Park is managed by the interim Executive Manager of Del Mar Golf Center, offering short- and long-term accommodation services to up to 62 recreational vehicles (See Figure 39).

[116] The figures provided above for the construction cost per affordable unit and the financing gap are based on a financial feasibility model calculated for a development scenario with a density of 17 du/ac. As such, these figures are not accurate for a development scenario with a density of 20-25du/ac. However, it can be argued that based on the economies of scale principal, construction cost per unit would be lower for a higher density project, and that the difference between the two scenarios in terms of the estimated figures would be negligible.

Figure 37- The Surf and Turf R.V. Park (Source: 2008 Fairgrounds Master Plan)

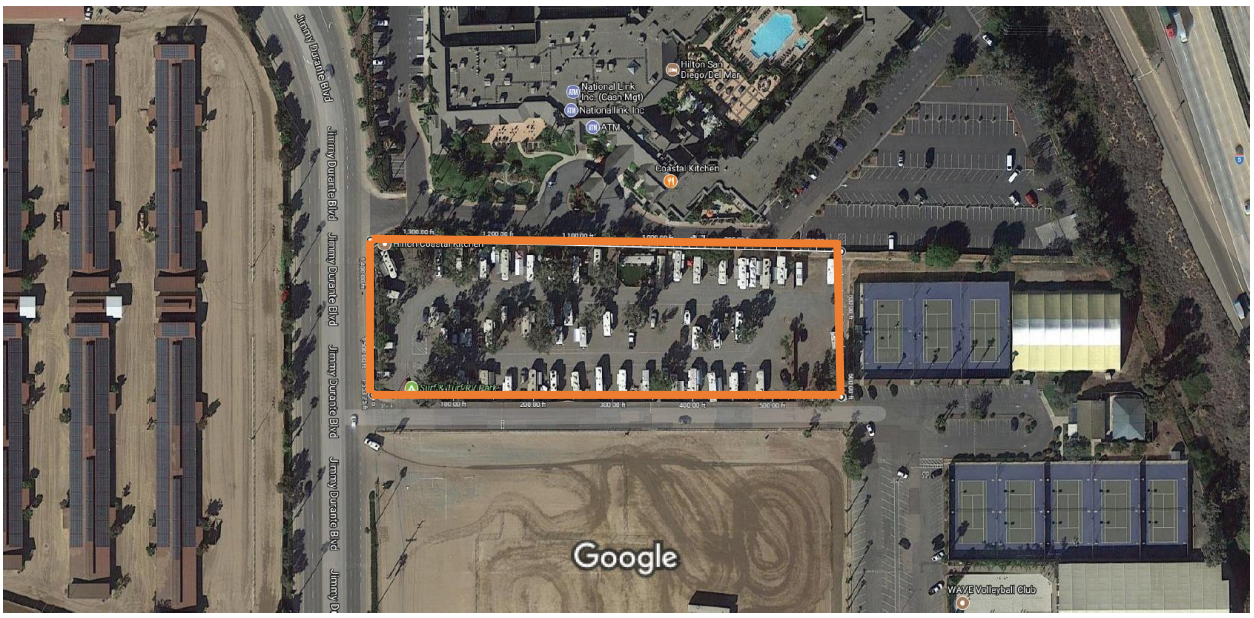

Figure 38- The Site of the Surf and Turf R.V. Park (Source: Google Maps)

Figures 39- Views from inside the Surf and Turf R.V. Park (Source: Surf and Turf R.V. Park Website)

The Surf and Turf R.V. Park is located within the boundaries of the City of San Diego's Torrey Pines Community Plan. The Community Plan's Commercial Element suggests that this property be maintained as a less intensive Commercial Recreation Zone with such uses as those that exist on the site and its surroundings (See Figure 40). According to the City of San Diego zoning map, the Surf and Turf R.V. Park is within AR-1-1 (Agricultural, Regional, Use Package 1, and Development Regulation 1) Zone (See Figure 41).

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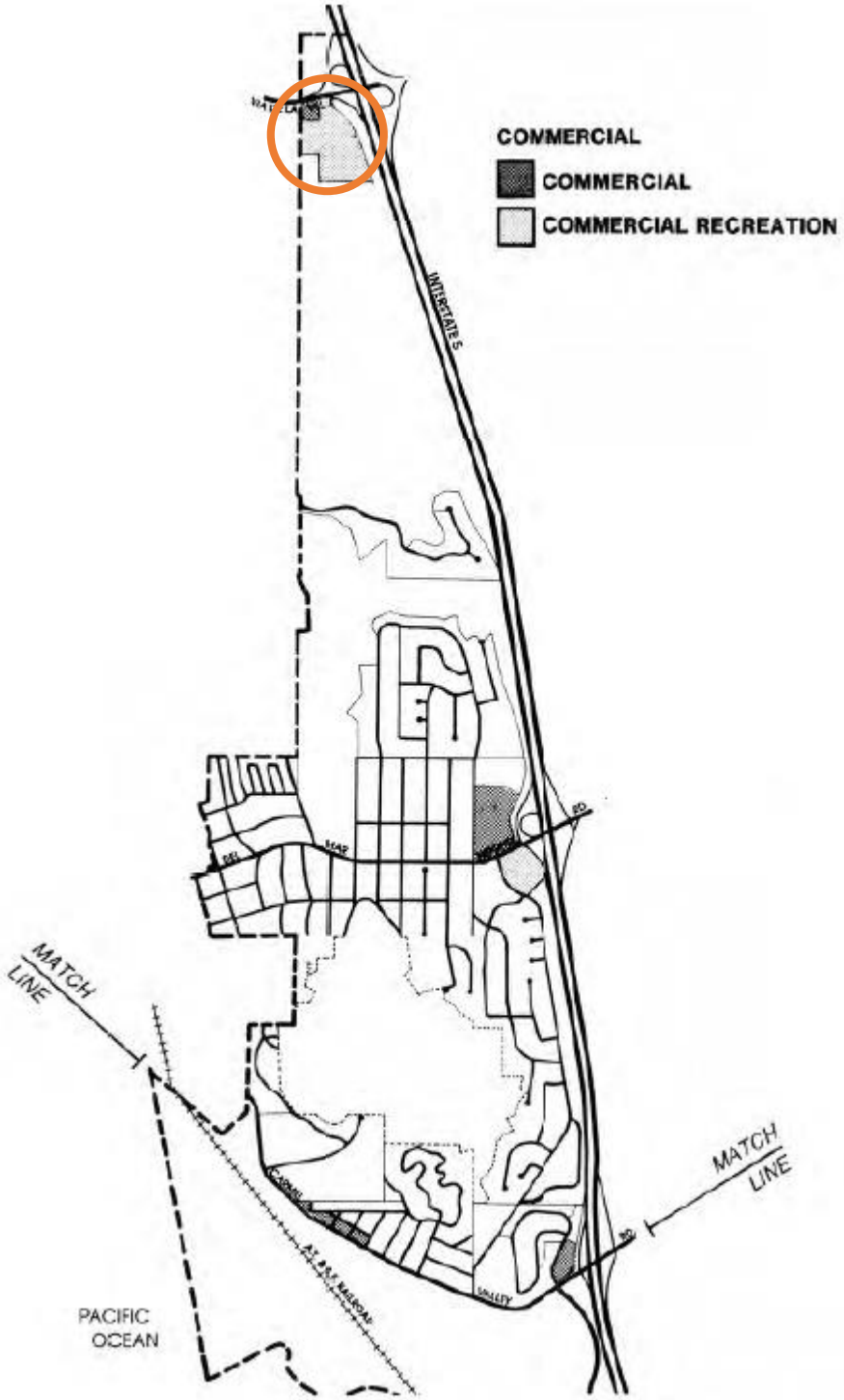

Figure 40.- The Surf and Turf R.V. Park is zoned as Commercial Recreation in Torrey Pines Community Plan (Source: Torrey Pines Community Plan, p.74)

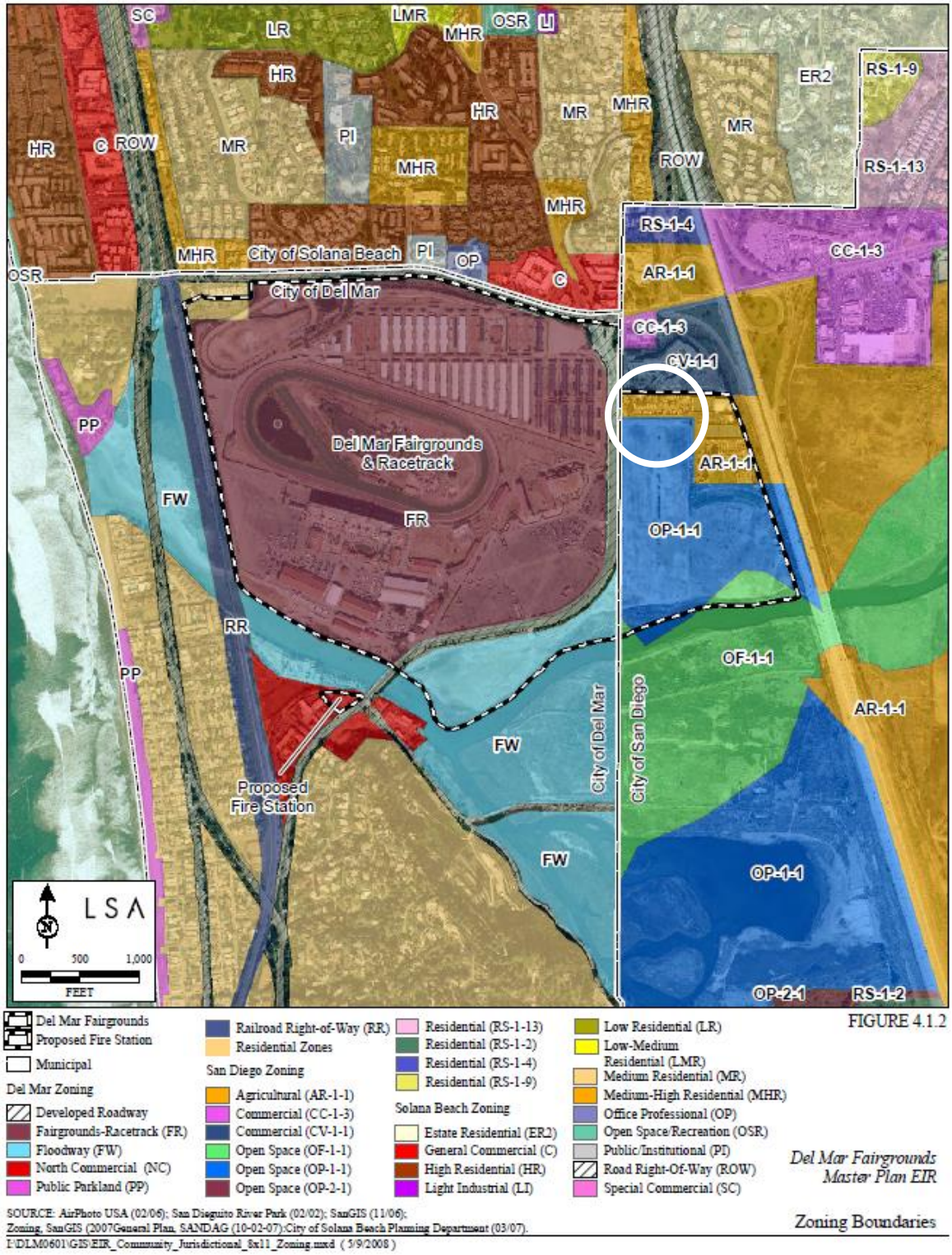

Figure 41.- The Surf and Turf R.V. Park is zoned for agricultural uses in a regional zoning map (Source: Fairgrounds Master Plan)

Surf and Turf R.V. Park Scenario

This scenario calls for collaborating with the 22nd DAA and the City of San Diego to annex the Surf and Turf R.V. Park to the City of Del Mar, and then rezone the land for a residential use. According to the 2013-2021 Housing Element, which acknowledges the inclusion of a housing component in the 22nd DAA Fairgrounds Master Plan at a residential density of not less than 20 dwelling units per acre,[117] the property has potential to create a multifamily residential complex including 50-62 units at 20-25 dwelling units per acre. Of this projected number, 22 units could be designated for renter-occupied affordable housing to fulfill Del Mar's 2013-2020 Cycle Regional Housing Needs Allocation, and the remaining units (23-40) could be considered for owner-occupied market-rate housing (town homes). Like the rest of the Del Mar Fairgrounds, the site of the Surf and Turf R.V. Park is located within the San Dieguito River's 100-year floodplain. As such, a Floodplain Development Permit is required and, pursuant to the Federal Emergency Management Agency (FEMA) and City regulations, the finished floor of the new residences must be elevated to a level above the established Base Flood Elevation (BFE) for the property as shown on FEMA's FIRM maps.

Analysis

Pros: The Surf and Turf R.V. Park could help the City of Del Mar meet its RHNA requirements. The site is roughly 600 feet south of Via De La Valle with easy access to Interstate 5. The process of annexation, which is administered by San Diego Local Agency Formation Commission (LAFCO), is detailed in Appendix I of this report. Assuming that the City of Del Mar, the City of San Diego, and the State of California were to agree on the annexation proposal, the processing fees for this site, which are also detailed in Appendix I, would be approximately $16,000, not including environmental review fees or other miscellaneous fees—such as surcharge fees, deferral of fees, and fees associated with conducting authority protest proceedings.[118] Using the financial feasibility model identified for two development prototypes in this report, the development costs, when land costs and additional direct and indirect flood prevention expenses are excluded, are roughly estimated at $462,000 per affordable unit. Nevertheless, the proposed mixed-income housing project offers potential for a public-private partnership.

Cons: The process of annexation might be bureaucratically lengthy and politically complex, and extend beyond the 2022 goal. The financing gap that needs to be filled by the City (or a developer) to build 22 affordable units on the Surf and Turf R.V. Park, with assumptions discussed earlier, would be approximately $216,000 per unit. Given the existing balance of the City's Housing Assistance Reserve Fund ($482,000 in January 2018), if the City were to independently build 22 units on site, a significant financing gap would need to be filled. In this case, the Housing Assistant Reserve Fund would need to increase to approximately $4,752,000. Furthermore, since the site is located within the San Dieguito River's 100-year floodplain, the proposed housing project will be subject to permit requirements and development limitations to help address projected flood impacts. As a result, extra design and construction provisions and associated fees would be added to the projected costs.

The City of Del Mar could achieve 22 lower income homes and satisfy its RHNA obligation through annexation of the Surf and Turf R. V. Park. Given all aspects of this scenario, it could be assessed as a high-priority, medium-feasibility strategy with high economic desirability.

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[117] City of Del Mar, "City of Del Mar Community Plan Housing Element 2013-2021," April 30, 2013. p. 87.
[118] San Diego Local Agency Formation Commission Website, "About LAFCO: Spheres of Influence," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.

Recommendation:

- Initiate negotiations with Fairgrounds officials and the City of San Diego regarding the annexation of the Surf and Turf R.V. Park. The City should also set up an ad-hoc interjurisdictional working group to identify ways to streamline and expedite the annexation procedure through LAFCO.

Section II: Capital Plan

This section provides background on the current funding environment for addressing the need for affordable housing in California.

Funding Environment

The September 2017 Federal House of Representatives vote on the FY 2018 omnibus spending bill proposed to cut $483 million from HUD, creating uncertainty about future funding to address housing affordability.[119] While funding for key homelessness programs was largely preserved, the Federal Administration's original FY 2018 budget proposed eliminating funding for the Community Development Block Grant program (CDBG) and HOME Investment Partnerships program (HOME), as well as the Housing Trust Fund and the HUD VASH voucher program. Furthermore, the recent federal tax reform has lowered the corporate tax rate which would decrease the value of tax credits that corporations would gain when investing in affordable housing projects. The Tax Reform and Jobs Act is expected to result in the loss of roughly 235,000 affordable rental homes across the nation over the next decade. The potential decrease in production of affordable housing in California due to the recent tax reform is estimated at 49,000 units over the next ten years.

In contrast, recognizing the severity of the housing crisis statewide, in September 2017 the California legislature passed a package of 15 housing bills to promote the development of affordable housing, streamline approval processes for housing development, and enforce compliance with Housing Element laws in an effort to ensure adequate housing to meet the needs of residents at all income levels. Several of these laws, including the Building Homes and Jobs Act (SB-2) and the Veterans and Affordable Housing Bond Act of 2018 (SB-3), proposed for the November 2018 ballot, will provide new sources of funding to increase the production of affordable housing.

Overview of Current and Potential Funding

The following tables provides an overview of current and potential sources of funding for affordable housing at the federal, state, and local levels.

[119] National Council of State Housing Agencies. (2017). House Passes FY 2018 Omnibus Spending Bill.

Figure 42. Existing Federal Sources

Existing Federal Funding Sources	
Source	**Description**
Low-Income Housing Tax Credits (LIHTC)	Since its passage as part of the 1986 Tax Reform Act, the Low-Income Housing Tax Credit program has become the leading source of subsidy financing for affordable housing production in the United States, and has created an estimated 3 million units of housing for low income people, or an average of 110,000 units each year. The tax credits are apportioned to states based upon population, and each state's allocating agency awards the tax credits on a competitive basis to affordable housing developers, generally based upon the depth of affordability, location near transportation and services, and other factors. In California, allocations are made by region to ensure relatively even distribution of credits to the major metropolitan areas of the State, with a set aside for rural projects. States also allocate a certain level of "non-competitive" tax credits to developers, known as "4 percent tax credits," that are intended to be financed by a combination of 4 percent tax credits and tax exempt housing bonds. These 4 percent tax credits provide a lower level of subsidy than the competitive "9 percent tax credits" and can be deployed to projects designed for higher incomes or for mixed-income projects, or can be leveraged with higher levels of state and local subsidies. The 1.3-trillion-dollar Omnibus Spending Bill, also known as the Consolidated Appropriations Act, was passed by Congress and signed into law by the President on March 23, 2018. The bill made two changes to the Low-Income Housing Tax Credit (LIHTC) Program. The bill enlarged the amount of 9-percent tax credit allocation cap by 12.5 percent over the next four years, allowing the states to increase the credits that can be allocated to qualified low-income housing projects for each fiscal year. This provision is effective from 2018 through 2011 calendar years. The bill also created a new "set-aside" option, known as "Income Averaging" (IA), a provision derived from the 2017 Affordable Housing Credit Improvement Act. The income averaging provision adds a third minimum "set-aside" criterion to the current low-income requirements for qualified projects. Under the previous law, in order to qualify for low-income housing tax credits, rental properties had to meet one of the two set-aside criteria: The projects either had to reserve at least 20 percent of the rental units to households with income levels at or below 50 percent of area median income (AMI), or designate 40 percent of the rental units to households with incomes at or below 60 percent of AMI. Under the new Income Averaging provision, projects may qualify for low-income housing tax credits if at least 40 percent of the total residential units are earmarked to individuals with income levels equal to or less than the "imputed income limitations" assigned to the units. The IA provision lowers the set-aside amount to 25 percent in areas with high housing

Existing Federal Funding Sources	
Source	**Description**
	costs. Pursuant to federal law, the imputed income limitation should not exceed 60 percent of AMI, and the assigned rent to the unit should not exceed 30 percent of the respective imputed rate.[120] However, the IA provision allows for renting the units to individuals with income levels as high as 80 percent of AMI if the project's overall household income average is kept at 60 percent of AMI. In 2017, the California Tax Credit Allocation Committee (TCAC) awarded nearly $95 million in 9 percent federal tax credits and $73.5 million in state credits to 82 projects, which will result in the development of 4,513 units of low-income housing. TCAC also awarded $4.4 million in federal credits and $13.8 million in state credits to five projects to fund the development of 386 units of low-income housing under the federal 4 percent plus state credit program. In addition, $225 million was awarded to 182 projects to fund 19,418 units of housing for projects using 4 percent federal credits tax-exempt bond financing.[121] LIHTC 9 percent credits are highly competitive, whereas the 4 percent tax credits are allocated to all qualifying projects that apply for tax credits. Under this allocation method, the City of Del Mar competes with other cities within the region for credits. The current federal tax reform legislation (as of the end of November 2017) that is moving through the Senate would repeal the State's ability to issue tax-exempt bonds and thereby eliminate the ability to access and utilize the 4% low income housing tax credit which is awarded only upon receipt of tax-exempt bond authority. If approved, this legislation would significantly reduce the amount of financing available for the development of affordable housing in California and nationwide. Eligibility: An affordable housing rental project in Del Mar is eligible for the competitively allocated 9% Tax Credits as well as the non-competitive Tax-Exempt Bonds / 4% Tax Credits. Analysis: In order to obtain a 9% Tax Credit allocation from TCAC, the City will need to contribute funding sources (or land) to improve the tie-breaker score. Tie-breaker scores in San Diego County over the past six rounds have ranged between 42.3% and 76.2%, with the average of 59%. Local jurisdiction contribution (excluding land contributions) ranged between $13,000 and $114,000 per affordable unit, with the average local subsidy at $72,000 per affordable unit.

[120] The US Department of Housing and Urban Development, "Income Limits: Frequently Asked Questions," https://www.huduser.gov/portal/datasets/il/il12/faqs_12.pdf.
[121] California Tax Credit Allocation Committee. (2017). Fast Facts 2016 Totals.

Existing Federal Funding Sources	
Source	**Description**
	In regards to the TEB/4% Tax Credit scenario, the local contribution will likely need to double that provided under the 9% Tax Credit scenario.
HOME Investment Partnerships Program (HOME)	The HOME Investment Partnerships Program is the largest federal block grant designed to support state and local governments in the creation of affordable housing for low-income households. Funds can be used to build, buy, or rehabilitate affordable housing or to provide direct rental assistance to low-income households. Eligibility: An affordable housing rental project in Del Mar is eligible for HOME funds allocated by the County of San Diego. Analysis: These funds are allocated on an annual basis through the County of San Diego Innovative Housing Trust Fund NOFA. Federal prevailing wages will be applied to the construction costs if the funds are applied to 12 or more units.
Community Development Block Grant Funding (CDBG)[122]	Annual NOFAs are released to announce CDBG funding on a formula basis to revitalize neighborhoods, expand economic development opportunities primarily for low- and moderate-income individuals, and improve community infrastructure and services. Funding can be used for a wide range of activities, including the acquisition of property, rehabilitation of residential structures, and construction of public facilities and community improvements to benefit the health and welfare of the community. Eligibility: An affordable housing rental project in Del Mar is eligible for CDBG funds allocated by the County of San Diego. Analysis: These funds are allocated on an annual basis through the County of San Diego Innovative Housing Trust Fund NOFA. Federal prevailing wages will be applied to the construction costs if the funds are applied to 12 or more units.
Project-Based Vouchers (Section 8 and VASH)	Both the Section 8 and VASH Housing Choice Voucher programs, which are administered by public housing agencies, are able to attach funding to specific housing units when the owner or developer agrees to rehabilitate, construct or set aside a portion of units for existing development. The Section 8 program can attach up to 20 percent of its vouchers to specific projects. The HUD-VASH program can opt to make 100 percent of their vouchers project-based as long as their overall voucher allocation includes no more than 20 percent of project-based vouchers. HUD-VASH also requires housing agencies to seek HUD and VA approval to use project-based vouchers. San Diego County's VASH is administered by the County of

Existing Federal Funding Sources	
Source	**Description**
	San Diego's Housing and Human Service Agency's Housing and Community Development Department, and by the San Diego Housing Commission. Eligibility: An affordable housing rental project in Del Mar is eligible for project based section 8 vouchers allocated by the County of San Diego. Analysis: The vouchers are distributed by the County of San Diego through a NOFA process when funding is available. Key considerations include: geographic distribution of affordable housing, de-concentration of poverty, fair housing, local community support and projects serving special needs populations with supportive services. Currently, only two affordable housing developments receive Project Based Vouchers from the County (Pine View Apartments in Fallbrook and Vista Terrace in Vista). Federal prevailing wages will be applied to the construction costs if the funds are applied to 12 or more units.

Figure 43. Potential Federal Funding Sources

Potential Federal Funding Sources	
Source	**Description**
National Housing Trust Fund	Administered by the State Department of Housing and Community Development (HCD), this fund provides for the construction, rehabilitation, and preservation of rental homes and for homeownership for extremely low- and very low-income families, including homeless families. Applications are invited through the issuance of NOFAs, and will be paired with another State program. HCD anticipates releasing a NOFA for $33 million in funding in late 2017.[123] Eligibility: HCD has yet to publish the NOFA for this funding source. Therefore, the feasibility of using these funds in an affordable housing rental project in Del Mar is unknown. Analysis: HCD has yet to publish the NOFA for this funding source. Therefore, the feasibility of using these funds in an affordable housing rental project in Del Mar is unknown.

[123] Department of Housing and Community Development. (2017). Communication with L. Bates

Figure 44. Potential State Funding Sources

Potential State Funding Sources	
Source	**Description**
Veterans Housing and Homelessness Prevention (VHHP) Program	HCD administers the VHHP program in conjunction with the California Housing Finance Agency (CalHFA) and the California Department of Veterans Affairs (CalVet). These developments provide apartments for Veterans, including homeless Veterans. As of June 2017, approximately $241.7 million of $570 million in total funding has been awarded.[124] Eligibility: A multifamily project in Del Mar could be eligible for this type of funding, if it houses veterans and their families.
Affordable Housing and Sustainable Communities (AHSC)	Administered by the Strategic Growth Council and implemented by HCD, the AHSC Program funds land use, housing, transportation, and land preservation projects to support infill and compact development with the goal of reducing greenhouse gas ("GHG") emissions. Eligible applicant entities include a locality, public housing authority, redevelopment successor agency, transit agency, Joint Powers Authority, and facilities district, among others. Projects must benefit disadvantaged communities by increasing the accessibility of affordable housing, employment centers, and key destinations via low-carbon transportation, such as mass transit, bicycling, or walking. The maximum AHSC Program loan, grant award, or combination thereof is $20 million with a minimum award of at least $1 million in Transit-Oriented Development (TOD) Project Areas and $500,000 in Integrated Connectivity Project (ICP) Areas and Rural Integration Project Areas (RIPA). A single developer may receive no more than $40 million per NOFA funding cycle. An estimated $255 million is available in the Round 3 NOFA, which was released October 2, 2017. Eligibility: An affordable rental housing project in Del Mar, may be eligible for this funding source. Analysis: The Program favors transit-oriented developments in disadvantaged communities. Over the past two funding rounds only two projects have received an award in San Diego County: (1) Westside Infill TOD in National City (FY 2014-15) and (2) Cornerstone Place in El Cajon (FY 2015-16).

[124] http://www.hcd.ca.gov/grants-funding/active-funding/vhhp/docs/VHHP-Award-Data-Summary.pdf

Potential State Funding Sources	
Source	**Description**
Building Homes and Jobs Act	The Building Homes and Jobs Act (SB 2) creates a permanent revenue source for affordable housing, and is expected to generate approximately $250 million annually through recording fees charged on specified real estate transactions. In 2018, half the funds will be allocated to local governments to update planning documents and zoning ordinances to streamline housing production, and half will be made available to fund programs for individuals experiencing or at risk of homelessness. Beginning in 2019, 70 percent of the funds will be allocated to local governments, and 30 percent of the funds will be appropriated for mixed-income multifamily residential housing, state incentive programs, and efforts to address affordable homeownership and rental housing opportunities for agricultural workers and their families. The 70 percent that will be allocated to local governments will have the following eligible uses: • low-income housing: Low-income multifamily housing development; capitalized reserves for permanent supportive housing; acquisition and rehabilitation of foreclosed or vacant homes; and accessibility modifications. • moderate-income housing: Home rental and ownership for middle-income families; homeownership opportunities, including down payment assistance. • homelessness: Rapid rehousing; rental assistance; navigation centers; emergency shelters; and permanent transitional housing. • local matching funds: Local or regional housing trust funds; Low and Moderate Income Housing Asset Fund. • Incentives: Incentives or matching funds for permitting new housing. To be eligible for the planning funding in the first year and the 70 percent which in the second year and beyond, local governments will need to submit a plan indicating how funds will be used to meet the unmet share of housing needs, have a compliant housing element and submit a current annual report, track the use of allocated funds, and prioritize funds to increase the housing supply for households at or below 60 percent of the area median income. (Additional information is available in Appendix H.) Funds for the first year will most likely be part of the state budget which is expected to be passed by June 30th, 2018. Assuming this occurs, funds could be available to be awarded as soon as July 2018. Funds for the second year will most likely be part of the state budget which is expected to be passed by June 30th, 2019, and could be made available to be awarded as early as July 2019.

Potential State Funding Sources	
Source	**Description**
	Eligibility: The State of California has not yet issued a NOFA for these funds. However, given what information has already been released, it does appear that an affordable housing project in Del Mar could be eligible for these funds.
The Veterans and Affordable Housing Bond Act of 2018	This law authorizes a November 2018 ballot measure seeking voter approval for $4 billion in bond funding. The bond would provide $3 billion in funding for the Local Housing Trust Fund to cover the cost of existing housing programs, and provide for infill infrastructure financing and affordable housing matching grant programs. The remaining $1 billion would extend the Cal-Vet Farm and Home Loan Program, which provides veterans with assistance to purchase homes, farms, and mobile homes. It is imperative that the City of Del Mar ensure that all current and potential programs use the state guidelines so as to take full advantage of forthcoming state dollars for affordable housing. The money collected will be allocated as follows: 1. $1,500,000,000 will be deposited in the Housing Rehabilitation Loan Fund established. The money in the fund will be used for the Multifamily Housing program, to be expended to assist in the new construction, rehabilitation, and preservation of permanent and transitional rental housing for persons with incomes of up to 60 percent of the area median income. 2. $150,000,000 will be deposited into the Transit-Oriented Development Implementation Fund to provide local assistance to cities, counties, cities and counties, transit agencies, and developers for the purpose of developing or facilitating the development of higher density uses within close proximity to transit stations that will increase public transit ridership. 3. $300,000,000 will be deposited in the Regional Planning, Housing, and Infill Incentive Account, which is created within the fund. Money in the account will be available for infill incentive grants to assist in the new construction and rehabilitation of infrastructure that supports high-density affordable and mixed-income housing in locations designated as infill, including: a. Park creation, development, or rehabilitation to encourage infill development b. Water, sewer, or other public infrastructure costs associated with infill development c. Transportation improvements related to infill development projects

Potential State Funding Sources	
Source	**Description**
	d. Traffic mitigation 4. $300,000,000 to be deposited in the Affordable Housing Innovation Fund. Money in the fund will be available to fund competitive grants or loans to local housing trust funds that develop, own, lend, or invest in affordable housing and used to create pilot programs to demonstrate innovative, cost-saving approaches to creating or preserving affordable housing. Local housing trust funds shall be derived on an ongoing basis from private contribution or governmental sources that are not otherwise restricted in use for housing programs.[58] Eligibility: An affordable rental housing project in Del Mar, may be eligible for this funding source.

Figure 45. Existing Local Funding Sources

Existing Local Funding Sources	
Source	**Description**
County of San Diego Housing Trust Fund	• In October 2017, the County Board of Supervisors established an ordinance to create an interest bearing Innovative Housing Trust Fund, which will be leveraged to develop 600 to 1,000 units of affordable housing over the next five years. Capitalized with $25 million from the County, the fund will support projects that provide housing for vulnerable populations, such as veterans, transitional age foster youth, persons with disabilities, and low-income senior and families. Eligible projects include the construction, acquisition, and rehabilitation of residential units, including the development of surplus land, gap financing for shovel-ready development, loan repayments on distressed properties, the conversion of group homes, and the creation of modular homes and accessory dwelling units. Funds will be made available through a competitive Notice of Funding Availability (NOFA), which will target funding to specific geographic areas and populations based on need while also prioritizing projects that effectively leverage other public and private funding, as well as other resources. HHSA anticipates releasing the NOFA in December 2017 with applications due in March 2018.[125] <u>Eligibility:</u> An affordable rental housing project in Del Mar, may be eligible for this funding source. <u>Analysis:</u> Up to $25 million is available in the NOFA released by San Diego County on December 7, 2017. Preferential consideration provided to developments that: (1) create new affordable housing; (2) serve a special needs group; (3) leverage over resources; (4) include a self-sufficiency component; (5) incorporate green building and resource-efficient technologies; and (6) include a Whole Person Wellness component (services for people who are homeless and experience serious mental illness). Application submission is required by March 1, 2018.

[125] County of San Diego Health and Human Services Agency (2017). Adopt an Ordinance to Establish an Innovative Housing Trust Fund.

Figure 46. Potential Local Funding Sources

Potential Local Funding Sources	
Source	**Description**
Enhanced Infrastructure Financing Districts (EIFDs) and Community Revitalization and Investment Authorities (CRIAs).	Following the dissolution of redevelopment agencies, the State adopted several economic development tools that employ more restrictive tax increment funding mechanisms than the one utilized under redevelopment. These tools include an "enhanced infrastructure financing district" (EIFD) and Community Revitalization and Investment Authorities (CRIA). AB 1568 allows a local jurisdiction to direct a portion of its local sales and use taxes and transaction and use taxes to an EIFD if the area is an infill site and specific affordable housing requirements are met.[126] In addition, AB 2492 allows a local jurisdiction to create a separate public agency, known as a CRIA, authorized to adopt a community revitalization and investment plan and to receive and spend property tax increment revenues to provide funding for infrastructure and affordable housing, among other uses.[127] EIFD Eligibility: An affordable rental housing project in Del Mar, may be eligible for this funding source. EIFD Analysis: This funding source requires extensive review and approval process. City must identify potential infrastructure improvements to be funded through EIFD. Requires 55% voter approval to issue bonds. CRIA Eligibly: Del Mar is not eligible for this funding source. CRIA Analysis: CRIAs can only be created in areas where 80% of land contains census tracts with income at less than 80% of the area median income; crime rates at least 5% higher than the statewide average crime rate; deteriorated infrastructures; deteriorated commercial or residential structures.

[126] AB 1568. Enhanced Infrastructure Financing Districts.
[127] AB 2492. Community Revitalization and Investment Authorities.

Appendix I: RHNA

BACKGROUND

The California State Legislature has declared, "…the availability of housing is of statewide importance, and the early attainment of decent housing and a suitable living environment for every Californian, including farmworkers, is a priority of the highest order…the provision of housing affordable to low and moderate income households requires cooperation of all levels of government…" and, "governments have a responsibility to use their powers to make adequate provision for the housing needs of all economic segments of the community."[128]

This declaration is the basis for California's State Housing Element Law, which requires each city to adopt a housing element as part of its general plan.[129] State law provides a list of items which must be included in a housing element.[130] Below, we touch only upon those that relate to Del Mar's 22 in 5 Program, such as the mandate to report on housing needs and an inventory of resources and constraints relevant to meeting those needs,[131] as well as an analysis of population and employment trends and projections of existing and projected housing needs for all income levels, including the jurisdiction's share of regional housing needs.[132] Housing elements must also include:

1. An analysis of household characteristics, such as overcrowding and housing stock condition[133];
2. An inventory of land suitable for residential development, including vacant sites and sites having potential for redevelopment and an analysis of the zoning of these sites[134];
3. An analysis of potential and actual governmental constraints on the development of housing for all income levels;
4. Local efforts made to remove constraints;[135] and
5. An analysis of non-governmental constraints, such as land prices.[136]

Other portions of the housing element, such as requirements related to shelter housing, are not covered in this report.

Housing Elements must also include a list of actions that will be taken during the planning period, along with a timeline for implementation, to achieve the goals of the housing element through land use and development goals, regulatory concessions and incentives, and federal and state financing, as

[128] California Government Code §65580.
[129] California Government Code §65302(c).
[130] California Government Code §65580.
[131] California Government Code §65583(a).
[132] California Government Code §65583(a)(1).
[133] California Government Code §65583(a)(2).
[134] California Government Code §65583(a)(3).
[135] California Government Code §65583(a)(5).
[136] California Government Code §65583(a)(6).

appropriate.[137] These actions include steps necessary to ensure that the sites included in the inventory of sites meet the needs of the populations for whom the housing is targeted.[138] [139]

Regional Housing Needs Allocation (RHNA) Process

Regional Housing Needs Allocation (RHNA) numbers are based on a combination of federal and state law. Below is a step-by-step analysis of how the determination is made.

a. Step One: The United States Department of Housing and Urban Development (HUD) sets "Median Family Income" (MFI) numbers

Every year, HUD updates its Section 8 Income limits to ensure that they reflect changes in income levels.[140] These calculations are made with five-year survey data from the American Community Survey (ACS)[141] and augmented by the latest 1-year ACS estimates. For instance, for Fiscal Year 2017 Median Family Income estimates, HUD uses 5-year survey data (ACS 2010-2014) augmented by 2014, 1-year ACS estimates. To ensure that the estimated income growth figures are realistic, HUD aligns the data with the projected inflation rates for the variation in prices paid by typical consumers for retail goods and other services, known as Consumer Price Index. This statistical analysis, or adjustment, compares the estimated income growth for a certain income category to the projected purchasing power of that particular group. Therefore, HUD may apply exceptions to areas with unusually high or low family income, uneven housing cost-to-income relationships or historical exceptions. In the case of Fiscal Year 2017 Median Family Income estimates, HUD adjusts the survey data to account for anticipated income growth by applying the Consumer Price Index (CPI) inflation forecast (from federal Fiscal years mid-2014 through mid-2017) that the United States Congressional Budget Office published in January 2017.[142] HUD's calculation of Median Family Income is used to determine very low-income limits that are then used as the basis to calculate income limits for other income categories. The end result is what HUD calls Median Family Income numbers for each region. HUD released its updated numbers for different income groups on April 17, 2017, reflected in Figure 2 (below).[143]

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[137] California Government Code §65583(c).

[138] California Government Code §65583(c)(1)(A),(B),(C).

[139] *A jurisdiction may show that it does not have adequate resources to meet its fair share of housing needs, if their housing element contains quantitative analyses supporting these projections and the conclusion that the city cannot meet its acknowledged need for housing.* California Land Use and Planning Law (2016), *citing* Hoffmaster v. City of San Diego, 55 Cal. App. 4th at 1108.

[140] Memo, "State Income Limits for 2017," by State of California Department of Housing and Community Development, Division of Housing Policy and Development, dated 6.9.17. All numbers in Figure 2 were derived from this source.

[141] The United States Census Bureau, "American Community Survey," https://www.census.gov/programs-surveys/acs/about.html. Accessed: 01-10-2018.

[142] Memo, "State Income Limits for 2017," by State of California Department of Housing and Community Development, Division of Housing Policy and Development, dated 6.9.17.

[143] FY 2017 Income Limits Documentation System, https://www.huduser.gov/portal/datasets/il/il2017/2017summary.odn

Figure 47. HUD Median Family Income (MFI) Numbers for 2017[144]

FY 2017 Income Limit Area	Median Income	Category	Persons in Family			
			1	2	3	4
San Diego County	$79,300	Low Income 80%	$50,950	$58,200	$65,500	$72,750
		Very Low Income 50%	$31,850	$36,400	$40,950	$45,450
		Extremely Low Income 30%[145]	$19,100	$21,800	$24,550	$27,250

b. Step Two: California's Department of Housing and Community Development (HCD) Revises HUD's Median Family Income (MFI) Numbers to Determine California's AMI Numbers[146]

Once HUD releases its Median Family Income (MFI) numbers, HCD revises the numbers and uses those revisions to determine California area median income (AMI) limits at 30 percent, 50 percent, and 80 percent.[147] In doing so, HCD also (1) increases a county's AMI as necessary so that it equals California's non-metropolitan median income; (2) adjusts AMIs so that there is no decrease for any year after 2009;[148] and (3) determines AMI income limits for moderate-income families in California (120 percent of AMI).

c. Step Three: SANDAG Weighs in as San Diego County's Council of Governments

In accordance with California Government Code, HCD determines each region's share of the state's housing needs with the help of each region's Council of Governments (COG).[149] In San Diego, the COG is SANDAG. Together, HCD and SANDAG determine what methodology will be used to allocate San Diego County's share.[150]

California Government Code §65584.01(c)(1) requires SANDAG to provide HCD with the following information, stated as:

(A) Anticipated household growth associated with projected population increases.

(B) Household size data and trends in household size.

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[144] FY 2017 Income Limits Documentation System, https://www.huduser.gov/portal/datasets/il/il2017/2017summary.odn

[145] HUD's methodology for calculating "extremely low income" is unique from its other calculations. "Extremely low" calculations are based on the FY 2014 Consolidated Appropriations Act, which defines "extremely low income" as the greater of either (1) 60% of the Section 8 very low-income limit, or, (2) the poverty guideline, which is set by the United States Department of Health and Human Services, as long as the poverty guideline is not greater than the Section 8 very low-income limit.

[146] Gov't Code §65584.01.

[147] Memo, "State Income Limits for 2017," by State of California Department of Housing and Community Development, Division of Housing Policy and Development, dated 6.9.17. All three steps described are derived from this source.

[148] This is done in accordance with HCD's February 2013 HH Policy, "to not decrease income category and area median income levels below a prior year's highest level." Memo, "State Income Limits for 2017," by State of California Department of Housing and Community Development, Division of Housing Policy and Development, dated 6.9.17.

[149] This is required in California Government Code §§65584(b0, 65584.01).

[150] Memo, "State Income Limits for 2017," by State of California Department of Housing and Community Development, Division of Housing Policy and Development, dated 6.9.17.

(C) The rate of household formation, or headship rates, based on age, gender, ethnicity, or other established demographic measures.
(D) The vacancy rates in existing housing stock, and the vacancy rates for healthy housing market functioning and regional mobility, as well as housing replacement needs.
(E) Other characteristics of the composition of the projected population.
(F) The relationship between jobs and housing, including any imbalance between jobs and housing.

d. Methodology of Calculation of Assessment

i. Factors

Once HCD receives the information it requires from SANDAG, HCD calculates San Diego's allocation.[151] In doing so, it must use the following factors, which state law requires local Councils of Governments (COGs) such as SANDAG to include in the development of the methodology that allocates RHNA. These factors are stated as:

1) The jurisdiction's existing and projected jobs and housing relationship.
2) The jurisdiction's opportunities and constraints related to the development of additional housing, including the following:
   (A) Lack of capacity for sewer or water service due to federal or state laws.
   (B) The availability of land suitable for urban development or for conversion to residential use, the availability of underutilized land, and opportunities for infill development and increased residential densities. The [COG] may not limit its consideration of suitable housing sites or land suitable for urban development to existing zoning ordinances and land use restrictions of a locality, but shall consider the potential for increased residential development under alternative zoning ordinances and land use restrictions.
   (C) Lands preserved or protected from urban development under existing federal or state programs…
   (D) County policies to preserve prime agricultural land … within an unincorporated area.
(3) The distribution of household growth assumed for purposes of a comparable period of regional transportation plans and opportunities to maximize the use of public transportation and existing transportation infrastructure.
(4) The market demand for housing.
(5) Agreements between a county and cities in a county to direct growth toward unincorporated areas of the county.
(6) The loss of units contained in assisted housing developments … that changed to non-low-income use throughout mortgage prepayment, subsidy contract expirations, or termination of use restrictions.
(7) High-housing cost burdens.
(8) The housing needs of farmworkers.
(9) The housing needs generated by the presence of a… university….
(10) Any other factors adopted by the [COG].[152]

[151] California Government Code §§65584.01(c)(2), (d)(1).
[152] Gov't Code §65584.04(d)(1)-(10).

Each city's share of the RHNA is calculated according to four income levels, which are based on each Council of Government's area median income (AMI).[153]

ii. Objections to Calculations

After HCD publishes its calculations, SANDAG has the right to object within 30 days, on two bases: (1) improper population projections or (2) improper application of the allocation methodology.[154] HCD is not aware of SANDAG ever having objected to or appealed the process.

As shown above, assessments are made in terms of "income level," not in terms of AMI. Income levels are defined by the State of California Title 25, which is titled, "Housing and Community Development." Title 25 cross-references to California Health and Safety Code, Division 31, "Housing and Home Finance," which in turn relies upon the income limits set specifically for San Diego County by SANDAG, which are memorialized in Title 25.
"Lower income household" is defined by California law as people or families whose gross income does not exceed 80 percent of AMI.[155] Lower income households include very low-income households and extremely low-income households.[156]

Figure 48. San Diego County Income Categories by Household Size

County	Income Category	Number of Persons in Household							
		1	2	3	4	5	6	7	8
San Diego County (4-Person Area Median Income: $79,300)	Extremely Low	$19,100	$21,800	$24,550	$27,250	$29,450	$32,960	$37,140	$41,320
	Very Low Income	$31,850	$36,400	$40,950	$45,450	$49,100	$52,750	$56,400	$60,000
	Low Income	$50,950	$58,200	$65,500	$72,750	$78,600	$84,400	$90,250	$96,050
	Median Income	$55,500	$63,450	$71,350	$79,300	$85,650	$92,000	$98,350	$104,700
	Moderate Income	$66,600	$76,100	$85,650	$95,150	$102,750	$110,350	$118,000	$125,600

e. Policy Objectives of RHNA Assessment

The law that requires RHNA assessments is based on certain policy objectives.[157] The first is to increase the overall housing supply and encourage a mix of housing types and levels of affordability in such a way that is allocated throughout a region in an "equitable manner."[158] The second is to support the development of infill projects, promote socioeconomic equality, protect environment and agricultural

[153] "'Area Median Income' means area median income as periodically established by [HCD] pursuant to Section 50093 of the Health and Safety Code." Cal. Gov't Code §65889.5(h)(4).
[154] California Government Code §§65584.01(d)(1),(2),(3).
[155] 25 CCR § 6928. **Lower Income Households.**
[156] "(b) 'Lower income households' includes very low-income households, as defined in Section 50105, and extremely low-income households, as defined in Section 50106."
[157] Government Code §65584(d).
[158] Government Code §65584(d)(1).

resources, and encourage "efficient development patterns."[159] Objective three is to further the intraregional relationship that exists between jobs and housing.[160] Finally, the last objective is to ensure that any one jurisdiction's allocation within a certain income level takes into account the amount of housing at that income level which already exists within that jurisdiction.[161] In other words, if a jurisdiction is assessed a certain level of low-income housing, and that jurisdiction already includes a disproportionately high level of low-income housing, the assessment would be adjusted and lowered accordingly.

f. Annual Reporting Requirement by City of Del Mar

i. Required Reporting

State law requires that each planning agency must provide an annual progress report to HCD by April 1 of each year, including the "status of the plan and progress in its implementation," and the "progress in meeting its share of regional housing needs … and local efforts to remove governmental constraints to the maintenance, improvement, and development of housing…."[162] The City of Del Mar has submitted its 2016 annual progress report.

II. What Constitutes a "Unit" for Purposes of Satisfying RHNA

a. General Background

The term "dwelling unit" or "housing unit" is defined at the federal, state, and municipal levels. Our analysis applies first the federal definition, then the state, and, finally, the definition under Del Mar Municipal Code (DMMC). As is standard with federal law where jurisdiction remains with the states, the federal definition is quite broad. The State of California definition is complex and detailed, while the definition within Del Mar Municipal Code is concise and clear. Therefore, the bulk of this answer will lie within the interpretation of state law.

While we do tackle many legal definitions, questions, and constraints within this report, we do not provide legal advice, neither through this memo nor otherwise. A legal question that is not answered by this memo is whether a jurisdiction could certify to a department of the State of California that a "housing unit" has been created, when that unit meets only federal, but not state or municipal, requirements.

i. FEDERAL: Definition of "housing unit" according to United States Census Bureau, which is the definition upon which HCD Relies

The federal definition is quite broad, as is required of federal laws which are limited by the jurisdiction of the states. Federal law provides the following:

> "A housing unit…is ***a house, an apartment, a group of rooms, or a single room intended for occupancy as separate living quarters. Separate living quarters are those in which the occupants live separately from any other individuals in the building and which have a direct access from the outside of the building or through a common hall.*** In accordance with this definition, each apartment unit in an apartment building is counted as one housing unit. Housing units, as distinguished from 'HUD-code' manufactured (mobile) homes, include conventional 'site-built' units, prefabricated, panelized, sectional, and modular units.

[159] Government Code §65584(d)(2).
[160] Government Code §65584(d)(3).
[161] Government Code §65584(d)(4).
[162] Cal. Gov't Code §§ 65400(2)(A), (B).

"Housing unit statistics also exclude group quarters (such as dormitories and rooming houses), transient accommodations (such as transient hotels, motels, and tourist courts), moved or relocated buildings, and housing units created in an existing residential or nonresidential structure. Units in assisted living facilities are considered to be housing units; however, units in nursing homes are not considered to be housing units."[163]

ii. STATE OF CALIFORNIA

1. California Building Standards Code and California Residential Code

CCR, Title 24 embodies building standards that originate with various state agencies, such as the Department of Housing and Community Development (HCD).[164] HCD and other state agencies submit proposed building standards to the California Building Standards Commission (CBSC), which then decides whether to adopt the proposed standards as law under CCR Title 24.[165] Title 24 includes both the California Building Code in Part I and the California Residential Code in Part 2.5. Both the Building Code and the Residential Code are based on the International Building Code.

Under these California state laws, a "dwelling unit" is a "single unit providing complete independent living facilities for one or more persons, including permanent provisions for living, sleeping, eating, cooking, and sanitation."[166] A dwelling unit that is offered for rent or lease must have a heating facility capable of maintaining a minimum room temperature of 70 degrees F, and when the heating facility is not under the control of the tenant or other occupant, it is required to be set at a minimum of 70 degrees F, 24 hours a day.[167] Hotplates, if used, may not be used for more than two occupants[168] and must be located in front of a wall that is lined from 12 inches below to 24 inches above the hotplate,[169] used only in rooms that are at least 120 square feet,[170] have a sink with hot and cold running water,[171] and comply with State Building Standard Code regarding window area, ventilation, ceiling height, and cubic airspace.[172] Finally, plumbing fixtures must supply hot water at a minimum of 110 degrees F.[173]

iii. DEL MAR MUNICIPAL CODE (DMMC): Definition of "unit"

According to Del Mar Municipal Code (DMMC), a dwelling is "a building or portion thereof used exclusively for residential purposes, including one-family, two-family, and multiple dwellings, but not including hotels, boardinghouses, lodging houses, and all forms of vehicles including immobilized vehicles.[174],[175]" DMMC defines "dwelling unit" as "one or more rooms in a building or portion thereof

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[163] United States Census Bureau. https://www.census.gov/construction/chars/definitions/Accessed 7.20.17. *Emphasis added.*

[164] Department of Housing and Community Development, State of California, "A Guide to Housing Construction Codes," at 6. (2014)

[165] Department of Housing and Community Development, State of California, "A Guide to Housing Construction Codes," at 6. (2014)

[166] California Residential Code, Part II, Chapter 2 (2016).

[167] CCR, Title 25, Chapter 1, Article 5, §34, Heating.

[168] CCR, Title 25, Chapter 1, Subchapter 1, Article 5, §44(a).

[169] CCR, Title 25, Chapter 1, Subchapter 1, Article 5, §44(e).

[170] CCR, Title 25, Chapter 1, Subchapter 1, Article 5, §44(f).

[171] CCR, Title 25, Chapter 1, Subchapter 1, Article 5, §44(g).

[172] CCR, Title 25, Chapter 1, Subchapter 1, Article 5, §44(k).

[173] CCR, Title 25, Chapter 1, Article 4, §30.

[174] DMMC 30.04.010 (J).

[175] "Immobilized Vehicle" is not defined within the DMMC.

used, intended, or designed to be used for occupancy by one family (including their guests, servants, and employees) for living or sleeping purposes, and having only one kitchen."[176] Finally, DMMC defines a multifamily dwelling as "A building, portion thereof, or buildings used for occupancy by three or more families… living independently of each other, and containing three or more dwelling units..."[177]

iv. Whether number of bedrooms is factor in definition of "unit" or in fulfilling RHNA requirement

The number of bedrooms does not factor into how RHNA requirements are met. For example, both a one-bedroom apartment and a three-bedroom apartment would be considered one "unit" for RHNA purposes.

b. Del Mar-Specific Applications of the Federal, State, and Municipal Definitions of "Dwelling Unit" for Purposes of RHNA

i. Worker Housing (Fairgrounds)

The Del Mar Fairgrounds include "backstretch housing" – approximately 660 units that are leased to employers to house their seasonal workers.[178] LDC toured the exteriors and a few interiors of backstretch housing and determined that they are likely not eligible to be counted as dwellings satisfying RHNA without first addressing laws regarding unit size, accessibility, heating, and the inclusion of kitchens, bathrooms, sinks, fire sprinklers, and closets. Ultimately, any specific assessment of whether an already existing site, such as the backstretch housing, would meet the legal requirements to be considered housing units, is best conducted by Del Mar's Building Inspector.

<u>Whether Backstretch Housing Could Qualify as Traditional Dwelling Units in their Current Condition</u>
The backstretch housing units are too small to qualify as traditional dwelling units. Even if they did meet the space requirements, they would most likely require a very great deal of work. The 2016 California Residential Code requires that an efficiency dwelling unit must have a minimum living room floor area of not less than 220 square feet,[179] a separate closet,[180] toilet facilities, "including a water closet, lavatory, and a bathtub or shower,"[181] and a kitchen area with a sink.[182] A caretaker would also be required: "A manager, janitor, housekeeper, or other responsible person shall reside upon the premises and shall have charge of every apartment house in which there are 16 or more apartments… . Only one caretaker would be required for all structures under one ownership and on one contiguous parcel of land."[183]

Given these requirements, and assuming that none of the units have toilets or showers, the backstretch housing would not meet the state definition of a dwelling unit and therefore would not satisfy RHNA requirements.

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[176] DMMC 30.04.010 N.
[177] DMMC 30.04.010 K.
[178] The allowable uses of the Fairgrounds-Race Track Zone are regulated by the 22nd Agricultural District Association. Del Mar Municipal Code 30.27.030, Allowable Uses.
[179] California Residential Code R304.5.1.
[180] California Residential Code R304.5.2.
[181] California Residential Code R306.5.4.
[182] California Residential Code R306.5.3.
[183] CCR, Title 25, Chapter 1, Subchapter 1, Article 5, §42. Caretaker.

Whether Backstretch Housing Would Qualify as Tiny Homes

Although not defined yet by state law, tiny homes are generally understood to be stand-alone structures, although technically they may qualify even in a townhome (separated) configuration. In May 2016, the State of California Department of Housing and Community Development issued an information bulletin to clarify the legality of design, construction, and use of residential structures commonly referred to as "tiny homes." Tiny homes must comply with the California Building Standards Code (CBSC) for residential structures, including a minimum height of 7 feet, 6 inches, a minimum of 120 square feet gross floor area, and no less than 70 square feet net floor area for all other rooms.

Because the backstretch housing units are stacked, typically with four on the bottom floor and four on the top floor, they would not qualify under any of the permitted definitions[184] that are commonly understood as tiny homes.

ii. ADUs and Junior ADUs Qualify Towards RHNA

Both accessory dwelling units (ADUs) and junior ADUs qualify under California Government Code §655831.1 as units that would satisfy a RHNA requirement.[185] To meet certain AMI requirements, the ADUs would need to have covenants restricting the amount of rent. Jurisdictions where rents for ADUs are naturally below market rate may self-certify that the ADUs are being rented at particular AMIs, based on comparable rents. However, this would not be the case in Del Mar, where market rate rents are not naturally affordable to low and medium-income households.

iii. Tiny Homes May Qualify Towards RHNA

Tiny homes are a new, innovative housing typology that have yet to be defined by California State law. A tiny home will satisfy RHNA requirements, but because there is no state law definition, tiny homes must comply with one of the following housing types in order to be permitted: (1) a "site-built home" in compliance with California Building Standards Code; (2) a recreational vehicle; (3) a park trailer; or (4) a manufactured home. Ultimately, however, any "tiny home" built in Del Mar would need to meet the DMMC requirements, which currently does not mention or include a permitting category specific to tiny homes.

According to Housing and Community Development, California Building Standards Code requires that a site-built tiny home have a minimum ceiling height of 7 feet 6 inches, a minimum of one room with at least 120 square feet of gross floor area, and a net floor area of at least 70 square feet in all other

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[184] See below, "iii. Tiny Homes." While not defined by the State of California, units mischaracterized as "tiny homes" may be permitted as one of the following: (1) a "site-built home" in compliance with California Building Standards Code; (2) a recreational vehicle; (3) a park trailer; or (4) a manufactured home.

[185] California Government Code §65583.1. "Housing Elements. (a) The Department of Housing and Community Development, in evaluating a proposed or adopted housing element for substantial compliance with this article, may allow a city or county to identify adequate sites, as required pursuant to Section 65583, by a variety of methods, including, but not limited to, re-designation of property to a more intense land use category and increasing the density allowed within one or more categories. ***The department may also allow a city or county to identify sites fo*r *accessory dwelling units based on the number of accessory dwelling units developed in the prior housing element planning period whether or not the units are permitted by right, the need for these units in the community, the resources or incentives available for their development, and any other relevant factors, as determined by the department.*** Nothing in this section reduces the responsibility of a city or county to identify, by income category, the total number of sites for residential development as required by this article." *Emphasis added.*

rooms.[186] A tiny home permitted as a recreational vehicle must be less than 320 square feet of internal living room area (excluding closets, cabinets, kitchens, fixtures, etc.).[187] A tiny home permitted as a park trailer may not exceed 14 feet in width, or 400 square feet of gross floor area (excluding any loft space).[188] A manufactured home could qualify as a tiny home if it is transportable, at least 8 feet in width or 40 feet in length (320 square feet), and also includes the use of a permanent chassis.[189]

Other housing typologies, such as factory-built housing and camping cabins, are often mistaken for tiny homes, but HCD does not recognize these as tiny homes.

iv. Hostel Units do not Qualify Towards RHNA

Under DMMC §30.04.010, Hostel Units are not dwelling units and therefore do not satisfy RHNA. DMMC 30.04.010(J) excludes "…hotels, boardinghouses, lodging houses…"[190] from being defined as dwelling units. Additionally, DMMC 30.04.080 (D) defines "hotel" as a "building or group of buildings [with] six or more guest rooms where lodging with or without meals is provided for compensation, and where no provision is made for cooking in any individual room or suite."[191] DMMC defines a boardinghouse as "a building where lodging and meals are provided for compensation, but not including rest homes."[192] Therefore, a hostel unit would be considered a hotel and would not satisfy RHNA. no

v. Hosting International Students does not Qualify Towards RHNA

A home's satisfaction of RHNA requirements would not be altered by the presence in that home of a student renter. The home would have already been counted as a dwelling unit in the housing element. The addition of a student renter would not convert the home into more than one dwelling unit. Therefore, hosting students does not satisfy RHNA requirements.

c. Covenants

i. How Long Must Covenants Run for Qualification as a "Unit" Satisfying RHNA?

There is no requirement for a covenant to run in order for a unit to qualify as affordable at a particular income level and satisfy RHNA requirements. It is sufficient for a jurisdiction to certify to HCD that a unit has been created and that it will be made available at a particular income level.

For example, units which are naturally occurring affordable housing (NOAH), such as junior ADUs or ADUs, need not have covenants running with the land in order to meet RHNA requirements. In the instance of junior ADUs and ADUs, it would suffice for the jurisdiction to show that it has studied rents

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[186] Information Bulletin 2016-01, p.2. (2016).
[187] California Health and Safety Code §18010.
[188] California Health and Safety Code §18009.3, 18033.
[189] California Health and Safety Code §18007.
[190] The full text of DMMC §30.04.010 (J) reads, "**Dwelling.** A building or portion thereof used exclusively for residential purposes, including one-family, two-family, and multiple dwellings, but not including hotels, boardinghouses, lodging houses, and all forms of vehicles including immobilized vehicles."
[191] The full text of DMMC §30.04.080 (D) reads, "**Hotel.** A building or group of buildings in which there are six or more guest rooms where lodging with or without meals is provided for compensation, and where no provision is made for cooking in any individual room or suite. "Hotel" shall include jails, hospitals, asylums, sanitariums, orphanages, prisons, detention homes, and similar buildings where human beings are housed and detained under legal or medical restraint."
[192] DMMC 30.04.010 (E).

in the area and that, based on that study, the newly created units would be rented at a particular income level.

III. Tackling Unmet RHNA Requirements

a. Appeals

A jurisdiction may review or appeal the allocation data upon which that jurisdiction's RHNA assessment was based.[193] In conversations with HCD and SANDAG, neither was able to recall a time when an appeal or objection was made.

b. Recent Legislation

SB 35 (Wiener). To reduce barriers to development, Senate Bill 35[194] (Wiener, D-San Francisco) (codified on January 1, 2018, as California Government Code §65400) creates a streamlined, ministerial approval process for infill developments in jurisdictions that have not met their RHNA assessments. In doing so, it eliminates multiple local planning reviews for projects that meet certain zoning and affordability standards in jurisdictions with lagging housing production rates. The bill also requires qualifying projects to meet prevailing wage standards for construction workers. SB 35 only applies to cities and unincorporated areas that have urban clusters or a site where 75 percent of the perimeter adjoins parcels that are already developed with urban uses. Codified in part as California Government Code §65913.4, the law excludes the coastal zone, as defined in Division 20 of the Public Resources Code.[195]

SB 166 (Skinner). Senate Bill 166 Known as the "No Net Loss Zoning Law, and codified on January 1, 2018, as California Government Code §65863, this law prohibits jurisdictions, in most situations, from permitting a project at a rate lower than the already-established density allows. With some exceptions, "Lower residential density" a density that is lower than 80 percent of the maximum allowable density.

SB 166 was designed to reinvigorate the existing Planning and Zoning Law that requires every jurisdiction in the State of California to ensure that its housing element inventory can accommodate its share of the regional housing need throughout the planning period. SB 166 would specifically prohibit a jurisdiction from permitting or causing its inventory of sites identified in the housing element to be insufficient to meet its remaining unmet share of the regional housing need for lower and moderate-income households. Furthermore, SB 166 would require a jurisdiction to make specified written findings if the jurisdiction allows development of any parcel with fewer units by income category than identified in the housing element for that parcel.[196]

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[193] § 65584.2. Share of regional housing need; review or appeal.

[194] California Legislative Information. SB-35 Planning and zoning: affordable housing: streamlined approval process. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB35

[195] California Government Code, §65913.4(a) provides, "A development proponent may submit an application for a development that is subject to the streamlined, ministerial approval process… not subject to a conditional use permit if the development satisfies all of the following objective planning standards… (6) The development is not located on a site that is any of the following: (A) A coastal zone, as defined in Division 20 (commencing with Section 30000) of the Public Resources Code.

[196] California Legislative Information, "State Bill No. 166-Chapter 367," http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB166. Date of Access: 01-12-2018

This law would have implications for the City of Del Mar in the case of development proposals put forward for the Watermark properties. To fully address Del Mar's lower income RHNA of 22 units, the Housing Element calls for rezoning of vacant North Commercial Zone Sites (Watermark properties) to a new land use designation that allows residential uses at 20 to 25 units per acre. As a result, the Housing Element has projected 18 and 23 potential lower income units for APN 299-100-47 and APN 299-100-48 properties, respectively.[197] However, after public consultation, the current development proposal for the two sites has a density of 16 dwelling units per acre, providing only 8 residential units for lower income households.

If the City of Del Mar decides to approve the existing project proposal for the sites, the City should provide substantial evidence that the remaining sites in the Housing Element are adequate to accommodate 14 units, which is Del Mar's remaining unmet share of the regional housing need for lower income households. In other words, Del Mar should prove that there would be no net loss of its residential unit capacity. In this case, the City of Del mar could argue that 14 units would be achieved via modification of the development standards of the Professional Commercial and North Commercial Zones to allow residential development at a density of 20 du/ac development and via consideration of modifying the provisions of the Public Facilities (PF) Zone to allow residential uses. Del Mar's Housing Element has projected 19 and 5 potential lower income units for North Commercial Zone and Public Facilities Zone, respectively. If the City cannot provide substantial evidence that the existing sites in the housing Element are capable of providing the remaining 14 affordable units, SB 166 would require the City, within 180 days, to identify and make available additional adequate sites.

SB 166 would also provide that an action that creates an obligation to identify or make available additional adequate sites and the action to identify or make available those sites would not create an obligation under the California Environmental Quality Act to identify, analyze, or mitigate the environmental impacts of that subsequent action.[198]

c. Amendment of RHNA Law

Amendment of RHNA law would require action by the state legislature. Success of an amendment would depend on its nature, considering the climate around housing in California and the general need for more housing throughout the state.

d. Future Assessments Forecast

i. SANDAG's Forecasting Process

SANDAG's most recent forecast, "2050 Regional Growth Forecast" was adopted by the SANDAG Board of Directors in 2013.[199] Each forecast is developed by SANDAG through a two-step process. First, SANDAG creates a regional forecast of housing, population, and jobs. To accomplish this, it uses its Demographic and Economic Forecasting Model (DEFM) to determine estimates on future growth.[200] Second, SANDAG creates the sub-regional forecast. In this most recent forecast, for the first time

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[197] City of Del Mar Community Plan: Housing Element 2013-2021, April 2013, p.B-32

[198] California Legislative Information, "State Bill No. 166-Chapter 367," http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB166. Date of Access: 01-12-2018

[199] Growth Forecasts, Series 13: 2050 Regional Growth Forecast. http://www.sandag.org/index.asp?classid=12&subclassid=84&projectid=503&fuseaction=projects.detail. Accessed 8.1.17.

[200] Growth Forecasts, Series 13: 2050 Regional Growth Forecast. http://www.sandag.org/index.asp?classid=12&subclassid=84&projectid=503&fuseaction=projects.detail. Accessed 8.1.17.

SANDAG used a new tool, the Production, Exchange, Consumption, and Allocation System (PECAS), which forecasts economic conditions and return on investment calculations related to projections on development, redevelopment, and infill projects. PECAS forecasts are based on extensive input from local jurisdictions, mostly culled from the land use and housing elements of each jurisdiction's general plan. In this way, SANDAG is able to know details such as each jurisdiction's parcel level capacity, including the capacity of vacant land and the extent to which already developed land has the capacity to increase density.

ii. The Effect of Population Decline on Forecasted RHNA

Because a region's population is taken into account when RHNA is allocated, a decline in population at any income level could result in a decline in its RHNA assessment. If a jurisdiction (city or county) believed that its population was in decline or going to decline, it could request that such population decline be a factor in SANDAG's RHNA allocation. In doing so, the jurisdiction may need to provide SANDAG with data evidencing the population decline.

CONCLUSION

Del Mar's RHNA assessment can be met only with housing units that meet the requirements of the Del Mar Municipal Code, state law, and the United States Census Bureau. Of these, state law embodies the most stringent requirements. The laws that are easiest to amend, the Del Mar Municipal Code, are most likely to affect change, such as amendments to allow tiny homes, to support linkage fees, to incentivize accessory dwelling units, or other such measures.

Appendix II: LAFCO and the Process of Annexation

San Diego Local Agency Formation Commission (SD LAFCO) is an independent county-wide planning and regulatory agency with quasi-legislative authority which was initially established by State Law, District Reorganization Act, in 1963.[201] LAFCO is tasked with overseeing the territorial changes in local agencies, reorganizing governmental structure, and streamlining government services across the county.[202] LAFCO's major goals are to encourage orderly growth, promote logical and efficient public services for cities and special districts, streamline governmental structure, and discourage premature conversion of prime agricultural and open space lands to urban uses.[203] San Diego LAFCO is now governed by the Cortese–Knox–Hertzberg Local Government Reorganization Act of 2000 which establishes procedures for local government changes of organization, including city incorporation, annexations to a city or special district, and city and special district consolidations.[204] San Diego LAFCO is also obligated to develop and adopt spheres of influence for each city and special district within the county. A sphere of influence (SOI) is defined as a "plan for the probable physical boundaries and service area of a local government agency as determined by the Commission" (Government Code Section 56076). Spheres are characterized as planning tools used to provide guidance for individual proposals involving jurisdictional changes, and are intended to encourage efficient provision of organized community services and prevent duplication of service delivery. Periodically, spheres may be amended, but are required to be updated every five years.[205]

San Diego LAFCO consists of eight regular members: two members from the Board of Supervisors, two city representatives, one City of San Diego representative, two special district representatives, and one public member, who is appointed by the other members of the Commission. There are five alternates to the regular members; one for each category. Alternate Commissioners can vote only in the absence or disqualification of regular Commissioners. All Commissioners are appointed to four-year terms.[206]

I. The Process of Annexation

A. Initiation Requirements

The application process for the annexation of the Surf and Turf R.V. Park to the City of Del Mar would go through the General Procedures. This category of application procedures is employed for routine changes of organization such as annexation or detachment applications. Before initiating the process, three sets of requirements should be fulfilled, as described below.

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[201] San Diego Local Agency Formation Commission Website, "About LAFCO: Legislative Authority," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.
[202] San Diego Local Agency Formation Commission Website, "About LAFCO: General Purpose and Responsibilities," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.
[203] San Diego Local Agency Formation Commission Website, "About LAFCO: Commission Goals," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.
[204] Assembly Committee on Local Government Honorable Susan Talamantes Eggman, Chair. "Guide to the Cortese–Knox–Hertzberg Local Government Reorganization Act of 2000," December 15, 2016.
[205] San Diego Local Agency Formation Commission Website, "About LAFCO: Spheres of Influence," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.
[206] San Diego Local Agency Formation Commission Website, "About LAFCO: Membership and Meetings," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.

i. Location Requirements

The government code §§56653, 56654, 56741, 56742, and 56742.5 require that the annexation area be located in the same county as the annexing city's, and also be contiguous with that city.[207] The Surf and Turf R.V. Park would meet these requirements.

ii. Sphere of Influence Requirements

The law also requires that a territory must be within a city's SOI in order to be annexed.[208] The City of Del Mar's latest adopted SOI (08/01/2016) is co-terminus with the City's boundary. In terms of municipal services, the City of Del Mar provides fire protection, water, and wastewater collection services citywide and gets other services, such as water and wastewater treatment and police services, from the city of San Diego or from private entities. Since the R.V. Park is not located within the City of Del Mar's SOI, an amendment request for the SOI should be submitted by the City of Del Mar to the San Diego LAFCO.

iii. Inhabited vs. Uninhabited Territories

It should also be determined whether the annexation territory is inhabited or uninhabited. According to the State Law, areas containing fewer than 12 registered voters are considered uninhabited territories, and areas with 12 or more registered voters are regarded as inhabited territories.[209] Since no registered voters live permanently in the R.V. Park, the proposed annexation area is regarded by the San Diego LAFCO as uninhabited territory.

B. Proposal Processing and Submittals

The first step in proposal processing is to inform the City of San Diego and the State of California regarding the annexation project. Both agencies should be in agreement with the project as they have the right to protest the proceedings and terminate the annexation process.[210] In the next step, the Del Mar City Council, also known as the "proponent," should make a proposal for a change of organization, or reorganization, by the adoption of a resolution of application.[211] The resolution requires the following contents:

a) A statement that the proposal is made pursuant to Government Code Section 56654.
b) A statement regarding the nature of the proposal and a list of all proposed changes of organization.
c) A statement of the reason or reasons for the proposal.
d) A description of the external boundary of the affected territory accompanied by a map showing that boundary.
e) The stated proposed terms and conditions.

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[207] San Diego Local Agency Formation Commission Website, "Uninhabited City Annexation," http://www.sdlafco.org/flowcharts/Flowchart_Uninhabited_City_Annex.pdf. Date of Access: 11-09-2017.
[208] San Diego Local Agency Formation Commission Website, "About LAFCO: Spheres of Influence," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.
[209] Governor's Office of Planning and Research, "LAFCOs, General Plans, and City Annexations," February 7, 2012.
[210] Robert Barry (The San Diego LAFCO Analyst), Phone Interview on Proposal Processing. 11-08-2017.
[211] San Diego Local Agency Formation Commission Website, "Resolution of Application Guidelines and Sample Resolution," http://www.sdlafco.org/document/guidenresolution.pdf. Date of Access: 11-09-2017.

f) A statement that the City's sphere of influence must be amended in conjunction with approval of the proposed change of organization.
g) A request that proceedings be taken for the proposal pursuant to Government Code Section 56654.[212]

The San Diego LAFCO has a Change of Organization Form that must be completed and accompany the resolution of application.[213] Additional materials which should be attached to the Form include the following:

a) A metes-and-bounds legal description of the proposal territory perimeter for the proposed boundary change, a reproducible parcel/plat map, and a vicinity map.[214]
b) Environmental documentation to comply with the California Environmental Quality Act (CEQA). Due to the type of the proposed redevelopment plan, the annexation project may qualify for a categorical exemption from CEQA.
c) One copy of the City of Del Mar resolution approving pre-zoning and general plan land-use designations for the proposal territory.
d) Jurisdictional Conflict (if existing).
e) Completed Campaign Contribution Disclosure Form and Evaluation Checklist for Disclosure of Political Expenditures.
f) City of San Diego and California State Consent Forms for Inclusion of Property.
g) Completed Subject Agency Supplemental Information Form from each subject agency.
h) LAFCO Processing Fees should be calculated and paid by the City of Del Mar, i.e. the "Proponent."[215] The processing fees include the following:

    i. Charges for each jurisdictional changes (i.e., annexation, detachment, latent power activation or expansion) and sphere amendment (3 x $4,050).
    ii. City of Del Mar's Sphere of Influence update proposal ($5,500).
    iii. Acreage Fee ($410).
    iv. City Service Review ($5,500).
    v. Environmental Review Fees.[216]
    vi. State Board of Equalization Fee, upon approval of the proposal ($350).
    vii. Miscellaneous Fees (Surcharge fees, Deferral of fees, fees associated with conducting authority and protest proceedings, etc.).

i) The City of Del Mar's plan for providing services also must be submitted with the application pursuant to Government Code Section 56653.

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[212] Ibid.
[213] San Diego Local Agency Formation Commission Website, "Change of Organization or Reorganization Application," http://www.sdlafco.org/forms/organization_reorganization.pdf. Date of Access: 11-09-2017.
[214] San Diego Local Agency Formation Commission Website, "Map and Legal (Geographic) Description Requirements," http://www.sdlafco.org/forms/legal_description.pdf. Date of Access: 11-09-2017.
[215] San Diego Local Agency Formation Commission Website, "San Diego LAFCO Processing Fee Schedule," http://www.sdlafco.org/document/feeschedule.pdf. Date of Access: 11-09-2017.
[216] Ibid. See page 2

C. Staff Review

Upon receipt of the proposal, a San Diego LAFCO analyst would assign a reference number and title. When the proposal is deemed complete, the City of Del Mar will be notified, a preliminary staff report along with a letter and a site map will be sent to all interested agencies, and stakeholder comments and recommendations are solicited. A separate letter, which acknowledges receipt of the application, is sent to the Auditor, the Department of Planning and Land Use, the Assessor, and the City of San Diego, and the State of California that would be affected by the proposed jurisdictional change. In addition to the letter, the Assessor receives copies of the metes-and-bounds legal description of the proposal area and a form that, when complete, is returned to LAFCO.[217]

D. Property Tax Resolution

The next step involves the estimation of the exchange of property tax revenue between the City of Del Mar and the City of San Diego. The San Diego LAFCO would determine whether or not the proposal falls under one of the three master resolutions adopted by San Diego County pertaining to annexations. If the proposal does not fall under any of the master resolutions, the potential exchange of property taxes is negotiated between the two cities and a separate resolution is adopted.[218]

E. Commission Review and Approval

When all required documents are submitted and the analysis has been completed, the Proposal for Annexation is scheduled for a decision by the Commission. For routine and non-controversial applications, if all the required documents are submitted to LAFCO, processing time would be between four to six months. More complex proposals might take longer. Regular LAFCO meetings are scheduled for 9:00 a.m., on the first Monday of each month, in Room 302 of the County Administration Center, 1600 Pacific Highway. When the first Monday is a holiday, the meeting is usually held the following Monday.[219]

The date, time, and place of public hearing will be specified and all the agencies involved will be notified. If the Proposal for Annexation is approved by the Commission, a proposal is subject to a protest proceeding. However, this proceeding may be waived if all the affected parties do not oppose the waiver or if there is no public protest or any other written opposition. Otherwise, a noticed public hearing would be conducted, which is known as "conducting Authority Procedures."[220] If the proposal is approved and the protest proceeding is waived, a resolution ordering the change of organization is adopted by the San Diego LAFCO. After a mandated consideration period, which is 30 days, the resolution and associated materials will be filed with the County Recorder through "Procedures for Final Filings."[221]

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[217] San Diego Local Agency Formation Commission Website, "Proposal Processing General Procedures," http://www.sdlafco.org/document/generalproceed.pdf. Date of Access: 11-09-2017, P.1
[218] Ibid.
[219] San Diego Local Agency Formation Commission Website, "About LAFCO: Membership and Meetings," http://www.sdlafco.org/Webpages/about_lafco.htm. Date of Access: 11-09-2017.
[220] San Diego Local Agency Formation Commission Website, "Conducting Authority Procedures," http://www.sdlafco.org/document/condauthproceed.pdf. Date of Access: 11-09-2017.
[221] San Diego Local Agency Formation Commission Website, "Procedures for Final Filings," http://www.sdlafco.org/document/finalfilingproceed.pdf. Date of Access: 11-09-2017.

Appendix III: Methodology

Our team employed a multifaceted lens to analyze and evaluate different scenarios in this report. The first stage of the analysis gives an overview of the scenario by providing general information about the context, scope, and characteristics of the subject matter. For instance, when evaluating a specific site with respect to its potentiality for the development of affordable housing, all relevant data will be provided, including a map of the property, its size and location, zoning requirements, environmental qualities, existing uses, and structures on-site—among others. This section is followed by an analysis of the scenario's strengths and weaknesses along economic, socio-political, environmental, and technical lines. To make the analysis more comprehensible, this section is divided into two separate categories (Pros vs. Cons). The analysis is concluded with a concise summary of the scenario and its assessment in terms of feasibility and economic desirability. Further, based on the levels of feasibility and economic desirability, each scenario is assigned a priority ranking.

To make the assessment more tangible, each evaluation parameter (feasibility, economic desirability, and priority) is placed on a tripartite scale: low, medium, and high. It should be noted that rather than measuring different variables in quantitative terms, the scaling system is based entirely on qualitative assessment of each scenario. For instance, if scenario X could help Del Mar achieve its target goals (22 lower-income units in 5 years) with the least capital costs incurred by the City, then scenario X could be regarded as a strategy with high economic desirability. Conversely, if scenario Y requires the City to go through a complex and bureaucratic process to obtain a privately-owned piece of property which is subject to flooding, then it can be argued that the scenario entails variables that could not entirely be controlled by the City, so it is very likely that scenario Y is a low-feasibility strategy-- not to mention that it might also be one of the least desirable strategies from an economic point of view. Needless to say that feasibility and economic desirability are not mutually exclusive. Furthermore, when a scenario is economically desirable it is not guaranteed that it will be highly feasible as well. For instance, scenario X might entail a great deal of public opposition and, depending on the severity of the public protest, it could be assessed as a scenario with medium or low feasibility.

Appendix IV: Glossary of Terms

A

ACS: American Community Survey provides detailed information about housing and populations in the United States. This information is gathered through surveys conducted by the United States Census Bureau.

Acquisition Costs: The total cost of purchasing property. This includes not only the cost of the land, but also any related costs, such as surveying.

ADU: Accessory Dwelling Unit. Also known as a Companion Unit or Granny Flat, this type of unit is accessory to a single family home.

AMI: Area Median Income. As of this writing the AMI for San Diego County is $79,300 for a family of four.

Annexation: Annexation, in the context of this report, refers to the act of incorporating a piece of land currently not within the jurisdiction of the City of Del Mar, into the jurisdiction of the City of Del Mar.

B

Backstretch Housing: The Backstretch of the Del Mar Fairgrounds is the area where horses are stabled. According to Fairgrounds staff, it also includes 660 units of temporary living spaces for fairgrounds workers.

C

California Building Standards Commission (CBSC): California Building Standards Commission is authorized by California Building Standards Law to adopt California's building codes. The California Building Standards Code govern the design and construction of buildings in California.

California Government Code: California State Law relating to the administration of local and state governments within the state.

California Health and Safety Code: California state law relating to health and safety.

California Environmental Quality Act (CEQA) Review: Environmental review mandated by the California Environmental Quality Act that involves the evaluation of the potential impact of a project upon the environment. Environmental review is a legal requirement for a variety of project types, including land development, change in land use, and change in regulations applicable to land use and development.

COG: Council of Governments. The COG for San Diego County is SANDAG. SANDAG stands for "San Diego Association of Governments." COGs are regional planning commissions.

Condominium Conversion: The legal conversion of an apartment or other multi-family dwelling unit into a condominium.

Covenant: A written agreement, a contract. In the context of this report, a covenant is an agreement by a homeowner to act in a certain why, for example, to rent a housing unit at a certain level of affordability, in exchange for incentives given by the City of Del Mar.

D

Demographic and Economic Forecasted Model (DEFM): A model used by SANDAG in its forecasting process, the DEFM provides data that can be used to forecast housing and job needs for the region.

Deferred Developer Fee: Any portion of the fee paid by a developer to a government, which is paid not as a development expense. Instead, the funds remain with the rental project and are used to cover development costs.

Del Mar Resort: A proposed project at the southwest corner of the intersection of Via del la Valle and Camino Del Mar. At the time of this writing, the proposal includes 290 hotel rooms, 86 owner-occupied villas, restaurants, meeting space, a public park, walking trails, and 11 affordable rental units.

Del Mar Municipal Code (DMMC): It is an online platform that contains numerous documents pertaining to land use development standards and permitting requirements. It can be reached at: https://library.municode.com/ca/del_mar/codes/municipal_code

E

Extremely Low-Income: As of this writing, Extremely Low Income in San Diego County is $27,250 for a family of four.

Environmental Impact Report (EIR): It is a report to inform the public and public agency decision-makers of significant environmental effects of proposed projects, identify possible ways to minimize those effects, and describe reasonable alternatives to those projects.

F

Floor Area Ratio (FAR): It is the relationship between the total amount of usable floor area that a building has, or has been permitted for the building, and the total area of the lot on which the building stands. This ratio is determined by dividing the total, or gross, floor area of the building by the gross area of the lot.

Financing Gap: Also referred to as "gap financing" or "soft funding," this is the amount of capital that must be raised even after a developer secures a mortgage and Low Income Housing Tax Credits (LIHTC). Some examples are the HOME Investment Partnerships (HOME) program and Community Development Block Grant (CDBG) funding.

G

Grayfield Land: In this report, a narrow definition of the phrase Grayfield Land is used which refers to the aging, underutilized, failing, or obsolete infrastructure sites and facilities in the City of Del Mar.

H

HCD: State of California's Department of Housing and Community Development.

Housing Element: A Housing Element is one of seven sections required by the State of California in each jurisdiction's General Plan. Among other things, the Housing Element must contain an assessment of the jurisdiction's housing needs; a land inventory that identifies sites for housing production; and, a statement of the jurisdiction's goals relating to production, preservation, and improvement of housing. It must also address the removal of inappropriate restraints on housing development. Housing elements must be updated periodically, submitted to HCD for approval, and then adopted by the local jurisdiction. Del Mar's Housing Element is in compliance with state law.

HUD: United States Department of Housing and Urban Development

I

In-lieu Housing mitigation fee: It is a fee paid by a developer or subdivider as a substitute for their affordable housing requirements. In-lieu fees are generally paid into a housing trust fund and used to finance affordable housing developed off site. However, these fees are sometimes seen as offering a "loophole" that allows developers to avoid building affordable units on site.

Infill Development: The process of developing or redeveloping urban parcels.

International Building Code (IBC): A model building code created by the International Code Council. This is the basis for California building law.

J

Junior Accessory Dwelling Unit (ADU): According to state law, this is a unit which is completely contained within an already-existing residence and does not exceed 500 square feet in size. It may either have its own sanitation facilities, or share sanitation facilities with the existing residence.

K

L

Local Agency Formation Commission (LAFCO): A state agency that regulates boundary changes.

Linkage Fee: Also known as "impact fees," these programs link the production of commercial or market-rate residential real estate to the production of affordable housing. For example, a commercial development that creates low wage jobs could be linked to the need for affordable housing because of anticipated low wage workers moving into the area.

Low-Income: As of this writing, Low Income in San Diego County is $72,750 for a family of four. This represents 80 percent of the Area Median Income (AMI), which is $79,300 for a family of four.

Low Income Housing Tax Credits (LIHTC): CTCAC (California Tax Credit Allocation Committee) administers the federal and state Low-Income Housing Tax Credit Programs. Funding is provided through three different programs: Federal (9%) Tax Credits; Federal (4%) Plus State Tax Credits; and, Federal (4%) Tax Credits with Tax-Exempt Bond Financing Awards. All three programs facilitate private investment of capital into the development of affordable rental housing or low-income Californians.

M

Medium Density Mixed Residential South (RM-South): According to Del Mar Municipal Code, the RM-South Zone is designed to allow single, duplex, and multi-family residential development, and to

preserve, insofar as possible, a village-like character in areas where predominantly multi-family development already exists and is interspersed with vacant land.

Median Family Income (MFI): The median income of a family of four in any given region. As of this writing, the median family income for a four-person family in San Diego County is $79,500.

Mills Act: Mills Act: The Mills Act was enacted in 1972 by the State of California to enable local jurisdictions to enter into legal contracts with property owners of "qualified historic properties" who actively participate in the restoration and maintenance of their historic properties while receiving property tax relief. The San Diego City Council adopted Council Policy 700-46 in 1995 to provide the owners with a monetary incentive in the form of a property tax reduction for "the maintenance, restoration and rehabilitation of historic properties" within the City of San Diego. The Mills Act Program agreement is a legal contract binding the owner of a designated historical resource to maintain the subject property consistent with the U.S. Secretary of the Interior's Standards, to provide visibility of the historical resource from the public right-of-way, and to improve or rehabilitate the property based on specific conditions included in the agreement. The agreement is recorded with the County which allows the Assessor to determine the property tax, based on a formula set in State Law that typically results in a substantial annual savings to the property owner. The average savings is 50 percent with a range of property tax reduction between 25 percent and 75 percent.

Multifamily Housing: A development of multiple, separate housing units, such as in the form of apartments.

N

No Net Loss Zoning: Codified as California Government Code §65863, and taking effect January 1, 2018, this law prohibits jurisdictions, in most situations, from permitting a project at a rate lower than the already-established density allows. With some exceptions, "Lower residential density" a density that is lower than 80 percent of the maximum allowable density.

NOFA: Notice of Funding Availability. This document is used by governments to announce the availability of capital to fund a project.

O

P

Price-to-Rent Ratio: It is a well-established economic principle used for real estate valuation. It is typically calculated as the ratio of home prices to annualized rent in a given location. At its most basic level, the price-to-rent ratio is a benchmark for understanding whether is it better to rent or buy a property. A price-to-rent ratio of 1 to 15 indicates it is much better to buy than rent; a price-to-rent ratio of 16 to 20 indicates it is typically better to rent than buy; and a price-to-rent ratio of 21 or more indicates it is much better to rent than buy.

Pro Forma: A document that estimates the financial needs and results of a project.

Proposition 13: It is an amendment to California Constitution which was approved on June 6th, 1978, by nearly two-thirds of California's voters, reducing property tax rates on homes, businesses and farms by 57 percent. Proposition 13 established the concepts of a base year value for property tax

assessments, and limitations on the tax rate and assessment increase for real property. Prior to Proposition 13, the property tax rate throughout California averaged a little less than 3% of market value. Additionally, there were no limits on increases for the tax rate or on individual ad valorem (assessed value of property) charges. Under Proposition 13 tax reform, property tax value was rolled back and frozen at the 1976 assessed value level.

Q

R

Residual Land Value: A method of calculating the value of developable land. First, the total value of the development is calculated. Then, all costs associated with the development are subtracted from the total value, excluding the cost of the land. The remaining amount is the residual land value.

Regional Housing Needs Assessment (RHNA): The assessment of housing units, by income level, that the state places on local jurisdictions.

S

Surf and Turf RV Park: It is a recreational park designated for recreational vehicles from September 15 - May 31 each year. The San Diego County Fair and Del Mar Thoroughbred Club use the property during the summer months. The Surf and Turf R.V. Park is located right at the northeastern edge of the City of Del Mar just across the street from the Del Mar Fairgrounds. The site is roughly 110,000 square feet (approximately 2.5 acres), and is bounded by the Hilton San Diego/ Del Mar complex to the north, Del Mar Golf Center and Recreational Complex (Wave Volleyball club and tennis courts) to the east, a feeder road (Turf Road) to the south, and Jimmy Durante Blvd to the east. The R.V. Park is managed by the interim Executive Manager of Del Mar Golf Center, offering short- and long- term accommodation services to up to 62 recreational vehicles.

T

Tax-Exempt Bonds: Issued by state or local government, these bonds are exempt from federal income taxes, and in some case, state and local taxes as well.

Tiny Homes: Also called Micro Units and Micro Homes, these units are typically between 40-500 square feet. The State of California has no specific legal definition for "tiny homes." As a result, they are permitted under different uses, such as factory-built housing or recreational vehicles.

Title 24: California Code of Regulations, Title 24, embodies building standards which originate with various agencies, such as the California Department of Housing and Community Development (HCD). The California Code of Regulations includes the California Building Code in Part 1, and the California Residential Code in Part 2.5; both the California Building Code and the California Residential Code are based on the International Building Code.

U

Unlocking land: The process by which government-owned land is made available for the development of housing.

V

Very Low Income: As of this writing, Very Low Income in San Diego County is $45,450 for a family of four. This represents 50 percent of the Area Median Income (AMI), which is $79,300 for a family of four.

Visitor Commercial (VC) Zone: According to Del Mar Municipal Code, the VC Zone is designed to allow activities such as hotels and motels which enable visitors to enjoy the coastal environment. Development shall be of low intensity in keeping with the village-like character of the community while preserving coastal vistas. Development criteria shall include controls to insure low to medium density, and an informal, predominantly low rise type of development with a two-story limitation.

W

Watermark Properties: A development proposed to be located at the corner of San Dieguito Drive and Jimmy Durante Boulevard. The project would include 38 units, 7-8 of which would be made available as affordable housing.

X

Y

Z

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Staff Ranking of Scenarios to Create Affordable Housing in Five Years				
Recommendation	**Potential for Affordable Housing**	**Staff Ranking: 1-5**	**Est. Timeframe**	**Notes**
Strategy 1: Potential for Acquisition, Rehab, and Conversion				
Obtain Multifamily Dwellings	• Older renter-occupied multifamily buildings with more than 10 units have potential for acquisition, rehabilitation and conversion	**4**	**3-6 years**	
Obtain Single Family Homes	• Undesirable due to cost	**5**	**N/A**	
Encourage Condominium Conversion and Revise In-Lieu Housing Mitigation Fees	• Abundant potential to convert multifamily buildings to condominiums	**1**	**1-2 years**	
	• Adjustment of In-Lieu Housing Mitigation Fees would enlarge the Housing Reserve Fund	**1**	**1 year**	
Strategy 2: Unlock Land for Development of City-owned Sites and Rezoning Public Property				
Shores Property	• Potential to create 8 homes: 4 single family homes, each with an ADU	**4**	**4-6 years**	
	• Potential to create 4 homes: 2 duplexes	**4**	**4-6 years**	
	• Potential to create 8 townhomes	**5**	**N/A**	
	• Potential to create 20 multifamily units	**5**	**N/A**	
Civic Center	• Potential to create 6-8 tiny homes	**4**	**4-6 years**	
	• Potential to create 4 townhouses	**4**	**4-6 years**	
Zuni Reservoir	• Potential to create 4 homes- 2 single family homes, each with an ADU	**2**	**2-3 years**	
	• Potential to create up to 12 multifamily units	**3**	**2-3 years**	
Tennis Courts at 21st and Court Street	• Potential to create 6-8 tiny homes	**2**	**3-5 years**	
	• Potential to create 5 townhouses	**3**	**3-5 years**	
	• Potential to create 4 homes: 2 single family homes, each with an ADU	**3**	**3-5 years**	
Public Works Yard	• Potential to create 28 dwelling units (22 affordable and 6 market-rate), but undesirable due to potential flooding and future sea-level rises	**5**	**N/A**	
Rights-of-Way	• Potential to create either 22 tiny homes, or 22 multifamily units, or a combination thereof	**3**	**2-4 years**	
Strategy 2A: Rezone Private Property				
Rezoning of North Commercial and Professional Commercial Zones	• Potential to create up to 28 affordable multifamily units	**1**	**1-2 years**	
	• Potential to create at least 8 ADUs	**1**	**1-2 years**	
Strategy 3: Obtain Covenants on Projects Being Developed				
Incentivize ADUs and Junior ADUs with covenants	• Potential through development of new ADUs with incentives and covenants, and through an amnesty program, to place restrictive covenants on ADUs	**2**	**1-2 years**	
Watermark	• Development application identifies 7-8 affordable units.	**1**	**2-4 years**	
The Del Mar Resort	• Potential for additional affordable units.	**1**	**3-6 years**	
941 CDM	• Potential for additional affordable units	**1**	**2-4 years**	
Strategy 4: Pursue Partnership Opportunities with the Del Mar Fairgrounds				
Backstretch Housing	• Potential to create 22 affordable units	**4**	**6-8 years**	
The Fairgrounds Laydown/Parking Lot	• Potential to create 36-45 units (22 affordable units and 14-23 units at market rates)	**4**	**6-8 years**	
The Surf and Turf R.V. Park	• Potential to create 50-62 units; however, not likely to occur within five years.	**3/4**	**6-10 years**	