

INTRODUCTION

The Need for Affordable Housing

Like virtually every other area across California, the Sacramento region is facing a growing affordable housing crisis, with rents and home prices skyrocketing beyond the reach of many families. Those at the lower end of the income spectrum, including minimum-wage workers, seniors living on social security, and persons with disabilities, are virtually priced out of the market. For many, the options are substandard and overcrowded units, and ultimately for some, the street. While the impact is felt most profoundly by poorer households, the problem of housing affordability is increasingly climbing its way up the income ladder. Many middle-income professionals, such as teachers and public safety workers, are also finding it harder and harder to find a decent home they can afford.

In April 2004, the median price of an existing home in the Sacramento region was \$297,420, a 25.9 percent increase over the previous year.¹ In fact, the median sales price increased by double digits over the past several years. According to an index maintained by the California Association of Realtors, only 33 percent of households in the Sacramento region were able to afford this median priced home, a 10 percent decrease from the previous year.

Even apartments, which are generally an affordable option for lower-income families, are often priced beyond the reach of many households. In 2004, the Fair Market Rent in Sacramento for a 2-bedroom apartment is \$950.² A family must earn \$38,000 annually to afford this rent and if they are earning minimum wage, they must work 108 hours a week to meet such a housing cost. Just like the new single-

¹ California Association of Realtors, www.car.org.

² Fair Market Rent is defined by HUD as the dollar amount below which 50 percent of the standard-quality rental housing units are rented. (Traditionally FMR is set at the 40th percentile, but in certain areas, such as Sacramento, it is defined as the 50th percentile.)

family homes being constructed in the area, new apartments are not helping to alleviate the shortage of affordable units. The average rent in complexes built since 2000 is \$1,126, well above what many lower-income households can afford to pay.³

High housing costs prevent many from being able to live in the same community in which they work and instead force workers to commute in from more affordable areas. The number of workers commuting 90 minutes or more to work in the Sacramento metropolitan area almost doubled in just 10 years—a 96 percent increase between 1990 and 2000.⁴ The growing number of commuters and increased commute time has adverse effects, such as increased air and water pollution and less time for families to spend together. In addition, businesses may begin to experience increased difficulty filling lower-level, and even entry-level professional, positions as individuals are unable or unwilling to make the commute from where they can afford to live.

Residential development patterns over the last few decades have tended to segregate incomes, often isolating lower-income households in older, poorer neighborhoods because that is the only place they can afford to be. These communities often offer fewer amenities and opportunities, such as quality schools and other community outlets, and experience higher incidences of crime, unemployment and other social ills. With fewer resources and positive role models, residents often find themselves trapped in a cycle of poverty.

Looking for New Answers

The trends described above mirror those seen around California and the nation. Despite the growing need, public funding has not kept up. As a result, communities are looking for new and creative ways to address the need for affordable housing. Many have looked to capitalize on the booming real estate market by implementing inclusionary housing programs. Inclusionary housing or zoning policies require or encourage a certain percentage of housing in a proposed residential development be made affordable to lower-income households. In its ideal form, inclusionary zoning is seen not only as a way of increasing the supply of affordable housing, but also as a method of creating diverse, vibrant neighborhoods throughout a community.

How effective inclusionary housing programs are at addressing either of these goals is a matter of debate. Opponents believe that developers are forced to pass on the losses they must take on the

³ Data tracked by C.B. Richard Ellis.

⁴ *California Budget Project, Locked Out 2002: California's Affordable Housing Crisis Continues (Sacramento: October 2002), p. 23. Available on-line at www.cbp.org.*

affordable units to the market-rate units, thereby merely increasing the costs for moderate and higher-income households. Ultimately, some argue, inclusionary housing requirements could even discourage developers from building at all, further exacerbating the limited housing supply problem. Others feel that inclusionary programs are an inefficient way of addressing the affordable housing problem and that lower-income families are better served through methods such as mortgage and rental assistance programs that directly support the consumer.

Supporters believe inclusionary housing is a way to increase the affordable housing supply at little cost to local governments. This is significant as the demand for affordable housing soars, while the level of funding local entities receive continues to dwindle. It is also a way to produce affordable housing in areas that would never otherwise support it, either due to existing development patterns, limited land for residential development, high land costs, or neighborhood opposition.⁵

Despite these on-going deliberations, the use of inclusionary housing policies continues to expand. Since the first policy was adopted in 1971 by Fairfax County, Virginia, at least 130 municipalities and counties across the country have implemented inclusionary housing programs of some form.⁶

With some of the highest housing costs in the nation, California is currently leading the charge in the adoption of inclusionary programs. According to a recent study by the Non-Profit Housing Association of Northern California and the California Coalition for Rural Housing, one-fifth of all localities in California (107 cities and counties) have implemented some form of inclusionary housing policy. At least a dozen other jurisdictions are also considering adopting such a program.

Turning Policies into Housing

While the debate continues over the effectiveness of inclusionary housing programs, the entities involved in the production of housing must, nonetheless, learn to do business under them. Local jurisdictions must design their policies and programs and implement them. Market-rate developers must figure out the best way to fulfill their obligation within the jurisdiction's requirements. For all involved, it may mean learning some new ways of doing business. Planners may have to gain an understanding of the requirements of affordable housing funding programs and the bearing that has on siting. Local governments may have to figure out how they will monitor the inclusionary units for continued affordability. Developers may have to have to learn about new funding mechanisms. And so on.

⁵ *Pro and con arguments summarized from a discussion in Inclusionary Housing in California: 30 Years of Innovation, California Coalition for Rural Housing and Non-Profit Housing Association of Northern California, 2003.*

⁶ *Data compiled by housing expert David Rusk.*

The goal of this guide is to assist with this effort. The guide is not a policy document providing commentary on the effectiveness of inclusionary housing or what elements constitute a good policy. Instead, it is intended to be a practical resource to assist those involved with inclusionary housing programs in fulfilling their particular realm of the local policy.

In particular, this guide focuses on the Sacramento region. Twelve jurisdictions in the area have adopted some form of inclusionary program and another handful are currently contemplating the possibility.

The guide begins by summarizing the policies in each of these jurisdictions. The summaries highlight the key requirements and restrictions of an area's policy. In addition to providing a quick reference for the developer, the summaries may also serve as a tool to other jurisdictions. As a local government reevaluates their current inclusionary policy or contemplates the creation of a new one, they can quickly see who has what requirements and seek feedback on the effectiveness of such requirements. It may also assist jurisdictions in creating policies that complement one another and, perhaps, create some common expectations across the region where practical.

The next section covers possible areas of partnership to assist in meeting a project's inclusionary obligations. This discussion primarily focuses on the market-rate developer and the groups they can partner with who are already experienced in developing affordable housing and working with lower-income households, saving the developer the effort of learning a new line of business.

The third section looks at the roles of local government and includes short discussions on the different capacities in which the developer will have to work with or may receive assistance from local entities. Also included is a chart showing the specific departments or divisions involved in the inclusionary processes in the jurisdictions in the Sacramento region.

The final section provides information on funding programs available to the developer and to the homebuyer. While many market-rate developers may be aware of some public funding opportunities, such as Low-Income Housing Tax Credits, they may not be aware of the full range of available programs. In addition, they may not be aware of the numerous assistance programs available to the low-income homebuyer that can help stretch their ability to get into a home. This information may also prove helpful to real estate professionals and mortgage lenders that do not traditionally work with lower-income households.

While all the information contained in these sections attempts to be as accurate as possible, the information covered is constantly changing or is not easily nailed down. Many of the jurisdictions are just now implementing their inclusionary policy or are fine tuning an existing policy based on their experiences with it so far. What is required or allowed today may change in the coming months. The process of entitling a proposed project varies from project to project depending on the nature of the development. Thus it is hard to nail down the specific effects inclusionary obligations may have on the timing of a project. The terms of funding programs change with market fluctuations and funding availability. As a result of factors such as these, it can not be guaranteed that the information presented in this guide will stay accurate over time and should not be considered a definitive source. Where possible, contact information is given so that the reader can verify that they are working with the most current information.