

# **City of Oceanside Comprehensive Affordable Housing Strategy**

Submitted to:

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## Chapter I: Introduction

The City of Oceanside retained David Paul Rosen & Associates (DRA) to prepare a Comprehensive Affordable Housing Strategy ("Strategy") to guide the City's and Agency's affordable housing activities and make maximum use of the City of Oceanside's local housing resources to meet local affordable housing needs. Local resources available to the City include HOME funds, Redevelopment Housing Set-Aside funds and in lieu fee revenues, among others.

The Comprehensive Affordable Housing Strategy will complement the Redevelopment Agency's (Agency) Five-Year Implementation Plan for program years 2000 to 2004 in compliance with AB 1290; and the City's Housing Element, which will need to be updated shortly. The resulting Strategy for the period FY 2004 to FY 2008 is based on the City's housing needs, affordability gap analysis, site assessment, available local and non-local financial resources as analyzed by DRA. The policy recommendations of the Strategy were developed by the Oceanside Affordable Housing Task Force (Task Force), which was convened by the City Council for the purpose of this effort. DRA facilitated the Task Force process, and provided technical guidance to the Task Force with assistance from the City's Housing staff.

This Affordable Housing Strategy addresses a range of household incomes from \$19,000 to \$66,000 for a family of four in 2003, representing families earning 30 percent to 120 percent of area median income<sup>1</sup>. Affordable housing programs define affordability as a percentage of area median income for the County, as adjusted by HUD annually and by household size.

Chapter II provides the background for the study and a summary of affordable housing needs in the City. Chapter III presents the affordable housing policies for the City developed by the Task Force, which guide the Strategy. Chapter IV budgets expenditures of local City and Agency housing resources, including HOME funds, Redevelopment Housing Set-Aside funds and in lieu fee revenues, for the period 2004 through 2008, based on the policy priorities developed by the Task Force.

In order to provide the factual background necessary for the Task Force and the City Council to make informed policy decisions, the Strategy contains a series of appendices that provide detailed policy, programmatic, data and economic analyses. **Appendix A** contains a description of non-local affordable housing programs which can be used to leverage Oceanside's own financial resources.

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<sup>1</sup> Equals 30% of \$63,800 and 120% of \$60,100, respectively. HUD median income for San Diego County was \$60,100 in 2003. Because of high cost of housing in San Diego, HUD income limits were increased to 30%, 50% and 80% of \$63,800. For households earning 100% of median income and above, State income limits are based on the \$60,100 figure.

**Appendix B** presents an affordability gap analysis that examines the economics of affordable housing development in Oceanside for renters and owners. This analysis calculates the gap between the costs of affordable housing development in Oceanside and the amount that low and moderate income households can afford to pay for that housing. The “affordability gap” represents the capital subsidy required from the City, Agency or non-local sources to develop housing affordable to families at various income levels in Oceanside. The gap analysis was applied to five housing prototypes (three owner and two renter) typical of housing developed today in Oceanside.

**Appendix C** provides an economic evaluation of inclusionary housing requirements in Oceanside. The methodology uses the housing prototypes and the gap analysis to calculate the “affordability cost” to the private developer of meeting the affordability requirements and standards under consideration.

The affordability cost is then compared to potential cost savings from various incentives that might be offered to housing developers to help offset the cost of the inclusionary requirements. These incentives include density bonuses, development fee deferrals, and design modifications for the affordable units.

We also examined the potential economic value of the alternatives to on-site development of affordable units. These include alternative product type (e.g. townhomes in lieu of detached units); off-site compliance; and acquisition/rehabilitation of existing multifamily units in place of new affordable unit construction.

The potential cost savings from the incentives, offsets and alternative compliance provisions listed above are compared to the affordability cost, illustrating the net impact of the hypothetical regulatory “packages.”

**Appendix D** provides a preliminary assessment of 43 vacant sites in the City of Oceanside and their potential appropriateness for affordable housing development. These sites were evaluated against criteria intended to serve as guidelines in the consideration and selection of vacant sites for new affordable housing construction in Oceanside. The criteria were developed by DRA and incorporate those used by existing leveraged financing sources, including tax credits and the Multifamily Housing Program. The criteria were reviewed and approved by the Land Committee and ultimately the full Task Force. Based on this initial evaluation, 27 of the 43 sites were found generally consistent with the affordable housing site evaluation criteria. The assessment did not determine whether the sites would score highly for leveraged financing nor did it identify all potential barriers to affordable housing development.

Together, these appendices provide substantial data, information and analyses to assist the City in formulating policies, programs and a capital plan for affordable housing that best meets Oceanside’s needs and economic conditions.

## **Chapter II: Background on Affordable Housing Needs**

The City of Oceanside is a coastal California city with a population of over 160,000. Rapid increases in housing prices in the City in recent years have outstripped growth in household income, drastically reducing housing affordability and leading the Oceanside City Council to declare a housing crisis in August, 2003. The Council retained David Paul Rosen & Associates (DRA) to prepare a Comprehensive Affordable Housing Strategy and empanelled a Task Force widely representative of the community to guide that effort.

This chapter briefly summarizes key housing characteristics and affordable housing needs in Oceanside based on data from SANDAG, the U.S. Census, and the California Association of Realtors. It also summarizes quantified housing goals contained in the City's current Housing Element. This information sets the stage for developing a strategy to meet affordable housing needs and requirements in the City.

### **A. Summary of Housing Characteristics**

As of the 2000 Census, the City of Oceanside had a population of 160,905 and 56,488 occupied housing units, for an average household size of 2.85 persons, similar to the average household size in the County of 2.7 persons.

The City's housing stock is comprised of 21,426 renter-occupied units (38%) and 35,062 owner-occupied units (62%). The City's homeownership rate is higher than the County's, which is 56%. One quarter of the City's housing units were built prior to 1960.

2000 Median household income in the City was roughly equivalent to the County's at \$46,000 and \$47,000, respectively.

Rental vacancy rates in the City increase when troops are deployed from adjacent Camp Pendleton, but have remained below 2.5 percent in the last four years, indicating a tight rental market. It is especially difficult to find larger three-bedroom units. The average rent is approximately \$970.

City staff estimate that Oceanside is 80 percent built out, with another 10 to 15 percent of residential development already in the pipeline. As the City nears build out, the supply of readily developable land for housing rapidly diminishes. Few apartments, which comprise the most affordable segment of the private housing market, have been built in Oceanside in the last few years due to market conditions and a lack of appropriately zoned multi-family land. Those that have been built are either subsidized affordable housing units or targeted toward the luxury end of the rental housing market.

## **B. Affordable Housing Needs**

Current housing needs include those households overpaying for housing, households living in overcrowded housing, and certain special-needs groups, which have a more difficult time finding decent, safe and affordable housing due to special circumstances.

According to the U.S. Department of Housing and Urban Development (HUD) standard, households paying 30 percent or more of their gross income on housing are considered to be paying more than is affordable for housing. Households paying greater than this amount therefore have less discretionary income remaining for other necessities such as food, clothing, utilities, education and health care.

The 2000 Census reports that 9,826 renter households in Oceanside paid more than 30 percent of their income on rent, representing 46 percent of all renter households in the City. Furthermore, 4,377 renter households (21 percent of all renter households) paid more than 50 percent of their income for housing.

The problem of housing overpayment is most severe for those households with limited incomes. Of the 5,553 renter households earning under \$20,000 in 1999, according to the 2000 Census, a total of 4,789 (86 percent) paid more than 30 percent of their income for housing. Of the 11,121 renter households earning under \$35,000, 8,730 (78 percent) paid more than 30 percent of their income for housing.

New market rate multifamily housing in San Diego MSA is difficult and expensive to construct and requires an often arduous entitlement process. With the exception of highly-subsidized affordable projects, few rental developments have been completed over the past ten years, and those that have are mainly luxury units targeted to moderate and high-income households. Apartment vacancies in San Diego MSA are among the lowest in the country, averaging less than 4 percent, maintaining high rent levels averaging \$1,100 a month (for a two bedroom unit). Increases in house prices and rents have exceeded increases in income, decreasing the affordability of housing in Oceanside and throughout the MSA..

Overcrowding is a less extensive problem than overpayment in Oceanside. According to the U.S. Department of Housing and Urban Development (HUD) standard, households with an average of more than 1 person per room (excluding kitchens and bathrooms) are considered overcrowded, and households with more than 1.5 persons per room are considered severely overcrowded. The 2000 Census reported that 7,362 households, or 13.1 percent of all households in Oceanside had more than 1.0 persons per room. Of these, 4,056 households (7.2 percent) had more than 1.5 persons per room.

### C. Housing Element Requirements

The Housing Element for the City of Oceanside is an element of the City's General Plan. The current Housing Element covers the time period from July 1, 1999 to June 30, 2004.

The Housing Element contains two sets of numerical goals: the City's share of the region's future housing needs (regional share goals) and the affordable housing goal for self-certification. Both goals are divided into several income categories. **Table 1** summarizes the City's regional share needs and self-certification affordable housing goals. If the self-certification goals are met, it means that Oceanside's Housing Element for the next five-year period can be certified without having to undergo review and comment by the State Department of Housing and Community Development (HCD).

In addition to proposing programs to encourage the construction of new affordable housing in Oceanside and additional affordable housing opportunities using existing housing, the housing element is required to show that the City has adequate sites with appropriate zoning and adequate public services to accommodate its regional share needs. The current Housing Element was able to demonstrate the City's capacity to accommodate its share of the region's housing needs using vacant land, land with infill potential, and land with the potential to redevelop to residential uses.

The City was able to meet, and in fact substantially exceed, its 1991 to 1999 self-certification affordable housing goals and therefore to self-certify its current housing element. The deadline to meet the current self-certification housing goal is July 1, 2004. Oceanside does not currently have a pipeline of affordable housing projects in the process of development, and it will not meet its current self-certification goal by July, 2004. Unmet goals from the current planning period may be carried over into the next planning period.



**Table 1**  
**Regional Share Needs and Self-Certification Goals**  
**City of Oceanside**  
**1999 to 2004**

<u><b>Income Limit (2003)<sup>1</sup></b></u>	<u><b>Regional Share Needs</b></u>	<u><b>Self-Certification Goals</b></u>
\$19,150	N/A	255
\$31,900	1,474	302
\$51,050	962	387
\$76,550	1,561	N/A
Above \$76,550	2,781	N/A
Total	<u>6,778</u>	<u>944</u>

(1) Based on 2003 HUD income limits for San Diego County representing 30%, 50%, 80% and 120%, respectively, of \$63,800 for a family of four persons. These categories are defined as extremely low income, very low income, low income and moderate income in the Housing Element.

Source: SANDAG; City of Oceanside Housing Element, 1999-2004

## Chapter III: Affordable Housing Policies

### A. Summary and Key Recommendations

The Affordable Housing Task Force empanelled by the Oceanside City Council in August, 2003 to guide development of the Comprehensive Affordable Housing Strategy met eight times over five months to review data and analyses provided by David Paul Rosen & Associates (DRA) and to develop policy recommendations for the Strategy. The Task Force also formed two Committees, the Finance Committee and the Land Committee to address issues of affordable housing finance (both local and non-local sources) and the limited availability of sites for affordable housing, respectively. Each of the Committees met two or three additional times and presented recommendations for action by the full Task Force.

The Task Force reached consensus on almost all of the recommended policy guidelines contained in this chapter. The few areas where consensus was not reached are identified in the sections below, along with the voting record of the Task Force on these items.

In addition to the specific policy items addressed below, the Task Force recommended, on a consensus basis, the following three key recommendations:

#### **Key Recommendations of the Affordable Housing Task Force to the Oceanside City Council:**

1. Move forward immediately with an implementation plan that actively stimulates the production of additional affordable housing in Oceanside to address the growing affordable housing crisis in the City.
2. The implementation plan must address the dwindling supply of vacant, developable land in Oceanside for affordable housing by aggressively land banking appropriate sites most competitive for leveraged financing. Land banking involves purchasing land now to protect against future price escalation. Some sites may be developed immediately while others are held for future development. The City should proceed immediately to purchase sites before rezoning those them as necessary to ensure that affordable housing gets built. The City Council should empower the Housing and Neighborhood Services Department to take the actions necessary to secure these properties for the City's short- and long-term future.
3. The inclusionary housing program should include incentives to encourage developers to build units on site.

The detailed policy guidelines presented below have been divided into three categories:

- Guiding principles, which are recommended as the basis for development of the Oceanside Comprehensive Affordable Housing Strategy;
- Policies for the Affordable Housing Expenditure Plan, which will guide expenditure of City's local financial resources, including Redevelopment Housing Set-Aside funds, HOME funds and in-lieu fees, among others, to assist the development and preservation of affordable housing; and
- Policies for the Inclusionary Housing Program, which relate to recommended modifications to the City's existing Inclusionary Housing Program that do not involve the expenditure of City financial resources.

**City of Oceanside**  
**Comprehensive Affordable Housing Strategy**  
**Guiding Principles**

<b>Topic</b>	<b>Guiding Principles</b>
Addressing Oceanside's Housing Needs	<ul style="list-style-type: none"> <li>• Meet Five-Year Housing Element Quantified Goals</li> <li>• Provide a majority of assistance (units, not dollars) to those most in need (renters with incomes at or below 50% of area median income)</li> </ul>
Compliance with City Standards and Procedures	<ul style="list-style-type: none"> <li>• Maintain acceptable quality, design, and appearance</li> <li>• Provide incentives to reduce housing costs without materially affecting quality or marketability</li> </ul>
Sound Investment and Financial Management of City Resources	<ul style="list-style-type: none"> <li>• Maximize leverage of local housing funds</li> <li>• Maximize term of affordability to prevent private enrichment and protect substantial City investment in affordable housing</li> <li>• Adopt financially sound due diligence, deal structuring, underwriting and asset management policies and procedures</li> </ul>
Flexible and Efficient Program Design	<ul style="list-style-type: none"> <li>• Take advantage of opportunities as they arise</li> <li>• Minimize administrative overhead</li> <li>• Assure efficiency for for-profit and nonprofit private sector project sponsors</li> <li>• Maximize flexibility and creativity</li> </ul>

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Guiding Principles**

<b>Topic</b>	<b>Guiding Principles</b>
Location	<ul style="list-style-type: none"><li>• Use available sites with appropriate zoning: multifamily sites will be needed</li><li>• Consider all available sites, including commercial and industrial sites which are not considered “prime”, including amend current zoning at adequate densities to provide for adequate multifamily designations</li><li>• Comply with overall citywide plans for distribution of housing types and densities to create the mix of housing types and prices envisioned by the City’s General Plan, within the context of available multi-family sites noted above.</li><li>• Stimulate neighborhood revitalization through affordable housing investment</li></ul>
Mixed Income and Mixed Use Projects	<ul style="list-style-type: none"><li>• Provide for a better balance of jobs and housing citywide</li><li>• Better use higher density infill sites</li></ul>

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Housing Expenditure Plan**

<b>Topic</b>	<b>Recommended Guidelines</b>
Land Banking	<ul style="list-style-type: none"><li>• Aggressively seek City/Agency acquisition of appropriate, competitive affordable housing sites</li><li>• Opportunity driven based on affordable housing goals</li></ul>
Ground Leasing	<ul style="list-style-type: none"><li>• Maximize City/Agency ability to preserve housing asset and ensure permanent affordability, while maintaining flexibility, through ground leasing of City/Agency owned sites</li></ul>
Renter and Owner	<p>Guideline for percentage of assisted units: 80% renter units 20% owner units</p> <ul style="list-style-type: none"><li>• consider alternative ownership structures as tool to move residents into affordable ownership housing</li></ul>
Income Targeting	<p>Guidelines for income targeting:<sup>1</sup></p> <ul style="list-style-type: none"><li>• 80% of units, not funds, for renters at up to 60% AMI (\$38,300 family of 4)<sup>2</sup> with an average affordability of 50% AMI (\$31,900 family of 4)<sup>2</sup></li><li>• Attempt to meet Housing Element goals and leverage requirements for units at 30% AMI (\$19,150 for a family of 4)<sup>2</sup> while underwriting economically sound projects to ensure very long-term financial viability</li><li>• 20% of units, not funds, for owners at 80% AMI (\$51,000 for a family of 4)<sup>2</sup></li></ul>

<sup>1</sup> No rental units are proposed at 80% of area median income (AMI) because of lack of leverage opportunities, potential market risk (rental), and the large subsidies required.

<sup>2</sup> Based on 2003 HUD income limits for the County of San Diego.

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Housing Expenditure Plan**

<b>Topic</b>	<b>Recommended Guidelines</b>
Population Served	75% to 85% family 10% to 15% senior (e.g. able-bodied, frail, assisted living, aging in place) <sup>1</sup> 5% to 10% special needs as development economics allow
Mix of Unit Sizes (Linked to Population Served)	The following guidelines should be flexible based on need, demand and economics of specific projects: Family <sup>2</sup> : 0-5% one bedroom/studio 30%-60% two bedroom 30%-60% three bedroom 0-5% four plus bedrooms Senior <sup>3</sup> : 90% one bedroom 10% two bedroom
New Construction and Acquisition/ Rehabilitation	Preference for new construction, with distribution to new construction and acquisition/rehabilitation for affordable multifamily housing dictated by housing element goals, site acquisition and acquisition/rehabilitation opportunities, and need, demand and economic requirements of project pipeline <sup>4</sup>

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<sup>1</sup> Households with a head of household aged 65 years or older comprise 10.2% of households and persons 65 years of age or older comprise 13.5% of the population, based on 2000 U.S. Census data for the City of Oceanside.

<sup>2</sup> Recommendation is predicated upon the predominance of one and two bedroom units in the existing rental market in Oceanside.

<sup>3</sup> Recommendation is based on the fact that seniors are generally over-housed in two-bedroom units.

<sup>4</sup> New units are needed to increase supply and meet housing element goals, as site availability allows. Acquisition and rehabilitation should be targeted to neighborhood preservation

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Housing Expenditure Plan**

<b>Topic</b>	<b>Recommended Guidelines</b>
Geographic Targeting and Location	<ul style="list-style-type: none"><li>• new construction: opportunity driven; mixed use sites; infill sites</li><li>• acquisition/rehabilitation: neighborhood revitalization areas</li></ul>
Continuum of Housing in Oceanside	<ul style="list-style-type: none"><li>• offer priority to Oceanside residents and employees, within legal constraints</li><li>• provide a continuum of affordable housing opportunities, with incentives to move residents “up” to market-rate and ownership housing</li></ul>
Eligible Borrowers and Grantees	<p>The following are eligible borrowers and grantees as appropriate within limitations of financing sources:</p> <ul style="list-style-type: none"><li>• Nonprofit housing developers</li><li>• For profit housing developers</li><li>• Social service providers</li></ul>
Density and Zoning	<ul style="list-style-type: none"><li>• Ensure adequate availability of multifamily zoned sites to meet housing needs</li><li>• Explore creative ways to ensure adequate multifamily sites (e.g. overlay zones; rezoning of City-owned sites)</li></ul>



**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Housing Expenditure Plan**

<b>Topic</b>	<b>Recommended Guidelines</b>
Definition of Affordable Housing Expense	Renter: 30% of gross income for rent plus utilities  Owner: 35% of gross income for principle, interest, taxes, insurance, special assessments and homeowner association dues unless otherwise prescribed by law (e.g. California Redevelopment Law)
Term of Affordability	<ul style="list-style-type: none"><li>• Renter: Permanent, preserved through regulatory agreements</li><li>• Owner: 55 years; preserved through resale restrictions</li></ul>

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Inclusionary Housing Program**

<b>Topic</b>	<b>Current Ordinance</b>	<b>Recommended Policy</b>
Set-Aside Requirements	10% of rental units affordable at 60% AMI  10% of owner units affordable at 100% AMI	No change.  Developers must provide 10% of units at 50% AMI or 20% of units at 60% AMI to use density bonus for rental housing.
Geographic Applicability	Citywide except for redevelopment project areas	Citywide except for existing Redevelopment Project Areas; should apply to future new Redevelopment Project Areas
Minimum Project Size	Applies to all residential projects of three units or more including condo conversions	No change. Prohibit subdivisions of two units in attempt to avoid requirements
Design of Units—Bedroom Count Proportionality	Affordable units must contain proportionally the same or a larger number of bedrooms than the market rate units	Apply requirement to total number of bedrooms in project. Affordable units should not have more bedrooms than largest market rate units.
Design of Units—Other	Design and exterior appearance of affordable units shall be compatible with and substantially the same as (interpreted as identical to) market rate units	Affordable units may: <ul style="list-style-type: none"> <li>• be smaller than market rate units, down to established minimum sizes</li> <li>• have more modest interior finishes</li> </ul>

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Inclusionary Housing Program**

<b>Topic</b>	<b>Current Ordinance</b>	<b>Recommended Policy</b>
Fee Deferrals	No provision	If affordable units are provided on site, payment of City impact fees may be deferred from time of building permit to certificate of occupancy
Acquisition/ Rehabilitation	No provisions	Allow developer to acquire and rehabilitate existing rental multifamily units with permanent affordability in target revitalization areas in place of new affordable unit construction (rental and owner), subject to: 1) net unit benefit equivalent to inclusionary requirement; 2) standards for housing comparability; 3) timing and enforceability issues to be resolved; and 4) financing and underwriting approved by City
Alternative Unit Type	No provisions	Allow townhomes, zero lot line or smaller lot splits for affordable units in single-family detached home development offsite or onsite

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Inclusionary Housing Program**

<b>Topic</b>	<b>Current Ordinance</b>	<b>Recommended Policy</b>
Off-Site Construction	Off-site provision of for sale units may be allowed at sole discretion of City if applicant can demonstrate that on-site provision is not feasible	Allow off-site provision of rental and for-sale subject to timing and enforceability issues to be resolved
Credit Exchange Program	Applicant may satisfy requirement through “purchase” of excess newly constructed units elsewhere if applicant can demonstrate that on-site provision is not feasible	Make option available to all developers subject to timing and enforceability issues to be resolved
Maximum Affordable Housing Expense	Renter: 30% of gross income for rent plus utilities  Owner: Affordable sales price = 250% AMI, adjusted by household size (equal to number of bedrooms plus one)	No change  Owner: 35% of gross income for principal, interest, taxes, insurance, homeowner association dues and special assessments/fees
Term of Affordability	55 years	Renter: Permanent Owner: 55 years

**City of Oceanside  
Comprehensive Affordable Housing Strategy**

**Affordable Housing Policies  
Inclusionary Housing Program**

<b>Topic</b>	<b>Current Ordinance</b>	<b>Recommended Policy</b>
Documentation of Rent Restrictions	Deed restriction, covenant and/or other instrument enforceable by the city and approved by the city attorney limiting the resale of affordable units to eligible low and moderate income households	Deed restriction and recorded regulatory restriction limiting rents and occupancy for renter; resale restrictions for owner
In Lieu Fee Applicability	Option available to all developers	No change
In Lieu Fee Amount	For renter and owner:  Equals median sales price of homes sold in the City of Oceanside based on the last quarter of the prior calendar year minus 250 times median income for a family of four in prior year	\$10,275 fee per unit (all units in development)

**City of Oceanside  
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**Affordable Housing Policies  
Inclusionary Housing Program**

<b>Topic</b>	<b>Current Ordinance</b>	<b>Recommended Policy</b>
Annual Escalation of In Lieu Fee Amount	See formula above	Adjust in lieu fee annually based on trailing 3-year average annual percentage increase in CPI
Use of In Lieu Fees	Not specified	All fee revenue to be spent according to the Expenditure Plan policies

## **Chapter IV: Affordable Housing Resources and Expenditure Plan FY 2003/04 Through FY 2007/08**

### **A. Introduction**

This chapter projects the City of Oceanside's resources for affordable housing for the period FY 2003/04 through FY 2007/08, summarizes anticipated per unit subsidy requirements based on the findings of the affordability gap analysis, and presents an affordable housing financial assistance for the five year projections period of FY 2003/04 through FY 2007/08 consistent with the policy priorities established in Chapter I.

### **B. Local Resources for Housing**

**Table 2** presents projected financial resources available for affordable housing in the City of Oceanside over the five-year period from FY 2003/04 through FY 2007/08, based on information provided by City staff. It includes actual in-lieu fees paid in the first seven months of FY 2003/04 but excludes projections of in-lieu fees for the remainder of the five-year period. Projected in-lieu fee revenues from the City's pipeline of residential development are calculated separately below.

Table 2 shows the current fund balance as of June 30, 2003, which was \$15.47 million. The majority of this available balance was comprised of inclusionary in-lieu fees, which total \$11.39 million. The City also had \$1.30 million in HOME funds, \$0.93 million in Redevelopment Housing Set-Aside Funds, and \$0.87 million in Section 8 Administrative Reserves. In addition, the City had \$0.57 million in Mortgage Revenue Bond Fees, \$0.21 million in the CDBG Rehabilitation Revolving Loan Fund, and \$0.19 million in CDBG Rehabilitation Program Income.

Table 2 also projects additional housing revenues to the City over the FY 2003/04 through FY 2007/08 period. Over the five-year period, the City is expected to receive approximately \$4.3 million in additional HOME funds and \$6.6 million in Redevelopment Housing Set-Aside Funds.

Table 2 estimates that the City will receive \$6.9 million in additional in lieu fees in FY 2003/04, based on a projected total of 669 additional housing units and the current in-lieu fee of \$10,275 per unit. The projection of 669 units for FY 2003/04 is based on 390 actual units paying fees through the first seven months of the fiscal year, pro-rated over the entire 12-month period.

**Table 2**  
**LOCAL RESOURCES FOR AFFORDABLE HOUSING**  
**CITY OF OCEANSIDE**  
**FY 2003/04 to FY 2007/08**

	Fund Balance	Annual Revenue Projections					Five-Year	Administrative	Total
	<u>30-Jun-03</u>	<u>FY 03/04</u>	<u>FY 04/05</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>	<u>TOTAL</u>	<u>Costs</u>	<u>Est. Program Revenue</u>
<b>INCOME BY SOURCE OF FUNDS</b>									
HOME Investment Partnership (1)	\$1,297,722	\$960,965	\$960,965	\$960,965	\$960,965	\$960,965	\$4,804,825	\$480,483	\$5,622,064
HOME Program Income (2)	\$0	\$250,000	\$200,000	\$150,000	\$100,000	\$100,000	\$800,000	\$80,000	\$720,000
CDBG Rehab. Revolving Loan Fund (3)	\$210,696	\$83,000	\$25,000	\$25,000	\$25,000	\$25,000	\$183,000		\$393,696
CDBG Rehab. Program Income (4)	191,988	250,000	250,000	250,000	250,000	250,000	\$1,250,000		\$1,441,988
Redevelopment Housing Set-Aside (5)	932,868	1,059,000	1,162,000	1,378,000	1,448,000	1,516,000	\$6,563,000	\$656,300	\$6,839,568
Repayment to Housing Set-Aside Fund (6)	0	77,250	86,250	95,250	105,000	203,250	\$567,000	\$56,700	\$510,300
Inclusionary In-Lieu Fees (7)	11,394,456	7,706,250	TBD	TBD	TBD	TBD	\$7,706,250	\$150,000	\$18,950,706
Mortgage Revenue Bond Fees (8)	574,026	190,000	217,500	217,500	217,500	217,500	\$1,060,000	\$530,000	\$1,104,026
Section 8 Admin. Reserve (9)	869,454	TBD	TBD	TBD	TBD	TBD	\$0	\$87,000	\$782,454
Condominium Conversion Fees (10)	0	600,000	TBD	TBD	TBD	TBD	\$600,000	\$60,000	\$540,000
<b>Total Housing Funds</b>	<b>\$15,471,210</b>	<b>\$11,176,465</b>	<b>\$2,901,715</b>	<b>\$3,076,715</b>	<b>\$3,106,465</b>	<b>\$3,272,715</b>	<b>\$23,534,075</b>	<b>\$2,100,483</b>	<b>\$36,904,802</b>

- (1) Projections assume annual amount of HOME funds remains constant at FY 03/04 level.  
\$1.5 million of HOME funds have been allocated to affordable housing projects in pipeline
- (2) Projected program income is an estimate of the repayment of first time homebuyer loans
- (3) Projections assume that \$275,000 will be allocated annually for CDBG housing rehab loans out of prior year program income and any balance from new entitlement funds
- (4) Projections assume that \$250,000 of CDBG rehab loans will be paid back annually  
FY02/03 funds expended for Libby Lake Community Center (not housing-related)
- (5) Projections based on estimated tax increment revenue
- (6) Repayment of \$4.5 million begins in FY 03-04 and is completed in FY 2015
- (7) Projected revenue is based on an in-lieu fee of \$10, 275 per unit for 750 units in FY 03-04,
- (8) These funds are currently used to fund homeless programs and to support monitoring activities
- (9) This is a one-time revenue that will not generate future income due to a change in HUD regulations
- (10) This is a one-time estimated revenue from the Arbor Hill Condo Conversion

Source: City of Oceanside Housing and Neighborhood Services; David Paul Rosen & Associates.



Table 2 does not include projections of in-lieu fees for the last five months of FY 2003/04 and the remaining four years from FY 2004/05 through FY 2007/08. Future in lieu fee revenues will depend upon housing production in Oceanside, which may be highly variable based on housing market and economic conditions, particularly over a five-year period. As mentioned previously, a separate analysis of potential in lieu fee revenues is presented below. Table 2 also does not project additional Section 8 Administrative Reserves or condominium conversion fees the might be received over the five-year period, as these categories are also difficult to project.

The City is expected to receive smaller amounts of funds in the remaining categories, for total additional revenues of \$22.2 million over the five-year period. Combined with the current fund balance, projected total available revenues over the five-year period in Table 2 equal \$34.8 million. This provides a conservative projection of available revenue excluding additional in lieu fees the City may receive.

We estimate administrative costs at approximately 10 percent of program funding, consisting with federal guidelines for the HOME program. The remainder would representing subsidies to renter and owner housing.

**Table 3** presents a projection of in-lieu fee revenues from the City's current pipeline of residential development, including approved projects and those in the application stage. Raw data on the number of units in the pipeline was provided by the City's tracking log. The number of units in approved projects was cross-checked against the number of units that have already paid in-lieu fees by City housing staff to determine the remaining number of approved units for which fees have not yet been paid. The projections exclude approved general plan amendments for residential developments that have not yet filed applications (e.g. Dixie Street) and a few small projects of three to eight units each.

Based on the recommendations of the Task Force, the current in lieu fee would remain at \$10,275 per unit and would escalate annually at the three-year trailing Consumer Price Index (CPI) for all urban consumers for San Diego County. We have projected the annual escalation in the in-lieu fee based on the three-year trailing average increase in the CPI of 4.6% for 2000 through 2002.

For projects which are already under construction, the in lieu fee amount was locked in at the time the building permit was pulled on the first unit. Of the total of 306 units in projects which are already underway, 24 units will pay a fee of \$7,875 and 282units will pay a fee of \$10,275.

**Table 3**  
**PROJECTED IN-LIEU FEE REVENUES FROM CURRENT RESIDENTIAL PROJECT PIPELINE (1)**  
**CITY OF OCEANSIDE**  
**FY 2003/04 to FY 2007/08**

<b>Project Status</b>	<b>Number of Housing Units</b>	<b>Projected Revenues</b>
Underway (2)	306	\$3,086,600
Approved, Not Started (3)	436	\$4,582,900
Morro Hills, Not Started (4)	717	\$7,666,400
Applications on File (5)	885	\$7,805,200
<b>Total Pipeline</b>	<b>2,344</b>	<b>\$23,141,100</b>

- (1) Raw data on the number of units in the pipeline from the City's tracking log cross-checked against the number of units which have already paid in-lieu fees by City housing staff. Excludes approved general plan amendments for residential developments that have not yet filed applications (e.g. Dixie Street) and a few small projects of three to eight units each. Based on the recommendations of the Task Force, the current in lieu fee would remain at \$10,275 per unit and would escalate annually at the three-year trailing Consumer Price Index (CPI) for all urban consumers for San Diego County. Based on the three-year trailing average increase in the CPI of 4.6% for 2000 through 2002, the projected escalated per unit fee by year equals:

<u>FY 03/04</u>	<u>FY 04/05</u>	<u>FY 05/06</u>	<u>FY 06/07</u>	<u>FY 07/08</u>
\$10,275	\$10,748	\$11,242	\$11,759	\$12,300

- (2) Equals number of units not yet issued building permits in projects already under construction. Of the total 306 units, 24 units will pay a fee of \$7,875 and 282 units will pay a fee of \$10,275.
- (3) Approved projects not yet under construction. Several of these projects will probably try to pull their first building permit to lock in the current fee of \$10,275. We have estimated that one-half will pay fee of \$10,275 and the other half will pay a projected FY 2004/05 fee of \$10,748.
- (4) Units not yet under construction at the Morro Hills planned subdivision. Morro Hills may try to pull permits to lock in the current fee of \$10,275 for a portion of these units. We have assumed that one-third will pay current fee of \$10,275, one-third will pay projected FY 2004/05 fee of \$10,748 and one-third will pay projected FY 2005/06 fee of \$11,242.
- (5) The number of proposed units in applications on file; developers may have to reduce the number of units before plan approval, may not succeed in obtaining approval, or may withdraw project prior to approval. For the purposes of these projections, we have assumed 75% of the total units are approved and pay a fee at the projected FY 2006/07 amount of \$11,759.

Source: City of Oceanside Housing and Neighborhood Services; David Paul Rosen & Associates.

A total of 1,153 units are in approved projects not yet under construction, including 717 units at Morro Hills and 436 units in other developments. Some of these projects may lock in the current fee of \$10,275 by pulling their first building permits before the fee increases. For the purposes of these projections, we have assumed that that one-third of the remaining units at Morro Hills will pay current fee of \$10,275 per unit, one-third will pay the projected FY 2004/05 fee of \$10,748 per unit, and one-third will pay the projected FY 2005/06 fee of \$11,242 per unit.

Of the remaining 436 units in approved projects, we have estimated that one-half will pay the current fee of \$10,275 per unit and the other half will pay a projected FY 2004/05 fee of \$10,748 per unit.

There are another 885 units in projects which have submitted applications but have not been approved. Developers of these projects may have to reduce the number of units before plan approval, may be unsuccessful in obtaining approval, or may withdraw their project prior to approval. For the purposes of the projections in Table 3, we have assumed 75 percent of these units would be built and would pay the projected FY 2006/07 fee of \$11,759 per unit.

Under these assumptions, total in lieu fee revenues from the current pipeline are projected at approximately \$23.1 million. Added to the \$34.8 million in projected revenues from Table 2, the City would have a total of \$57.9 million in housing fund revenues over the five-year projection period.

### **C. Affordability Gap Analysis**

The affordability “gap” represents the capital subsidy required to develop housing affordable to families at a range of income levels. This gap must be filled from Agency housing funds, other local funds, or non-local resources available for affordable housing development in Oceanside. Findings from the gap analysis were used to develop a five-year affordable housing budget for the City of Oceanside, for the period FY 2004 to FY 2008, based on the policy priorities described in Chapter I.

Per unit financial subsidy requirements for prototypical housing developments in Oceanside are summarized in **Table 4** below. These housing prototypes are described in Appendix B. For the rental prototypes, the per unit subsidies are shown by alternative leveraging scenario. Income targeting for the leverage scenarios, specified in detail in Appendix B, includes very low income households earning up to 50 percent of area median income for the 9 percent tax credit scenario, and a combination of very low and low income households earning up to 60 percent of area median income for the other scenarios. For the owner prototypes, per unit subsidies are shown by buyer income level as a percentage of area median income.

**Table 4**  
**Summary of Per-Unit Subsidy Requirements<sup>1</sup>**  
**New Construction of Renter and Owner Housing**  
**City of Oceanside**  
**2003**

<b>Rental Prototypes</b>	<b>9% Tax Credits<sup>2</sup></b>	<b>4% Tax Credits/ Tax-Exempt Bonds<sup>3</sup></b>	<b>4% Tax Credits/ Tax-Exempt Bonds/MHP<sup>4</sup></b>	<b>No Leverage<sup>5</sup></b>
Garden Apts., 18 units/acre	\$8,000	\$79,000	\$44,000	\$93,000
Apartments, 30 units/acre	\$10,000	\$90,000	\$51,000	\$102,000
<b>Owner Prototypes</b>	<b>80% AMI</b>	<b>100% AMI</b>	<b>110% AMI</b>	
Townhomes	\$99,000	\$25,000	\$3,000	
Single-Family Detached, 5,000 SF Lot	\$174,000	\$95,000	\$66,000	
Single-Family Detached, 7,500 SF Lot	\$227,000	\$141,000	\$109,000	

<sup>1</sup> Based on 2003 HUD and State Department of Housing and Community Development (HCD) income limits for San Diego County, adjusted for household size.

<sup>2</sup> Assumes average affordability at 47% of area median income.

<sup>3</sup> Assumes average affordability at 57% of area median income.

<sup>4</sup> Assumes average affordability at 49% of area median income.

<sup>5</sup> Assumes units affordable at 60% area median income.

Source: Appendix B; David Paul Rosen & Associates

## **D. Affordable Housing Assistance Capacity**

The financial capacity of the Agency to subsidize affordable housing will depend upon its success in securing non-local sources of subsidy to leverage local resources, among other variables including land costs, development costs, interest rates, and growth in household incomes. **Table 5** illustrates capacity of the City's projected housing resources to assist new affordable housing construction based on the per unit subsidy amounts by housing prototype and leveraged financing source from the gap analysis.

Table 5 illustrates the total number of units that could be constructed if **all** of Oceanside's resources over the five-year period were spent on each prototype/leverage scenario. The exception is the 9% tax credit scenario for rental housing. We have placed an assumed "cap" on the number of units we expect to City to be able to assist under this leverage scenario due to the highly competitive nature of the tax credit allocation system.

Table 5 illustrates that, given the high costs of subsidizing affordable housing in Oceanside, the City's substantial financial resources can subsidize a relatively modest number of new affordable units even with aggressive leveraged financing from non-local sources.

## **E. Estimated Expenditure Plan**

**Table 6** presents the estimated number of units that could be assisted in Oceanside over the five-year projection period based on the policy priorities established by the Task Force and on per unit subsidy requirements developed from the gap analysis.

The policy recommendations developed by the Task Force develop guidelines for expenditures by renter/owner, family/senior/special needs and income targeting categories. These recommendations include a 80% to 20% split between renter housing, targeted to households at an average area median income (AMI) of 50%, and owner households, at or below 80% AMI. They also include percentage ranges of 75% to 85% for families, \$10% to 15% for seniors and 5% to 10% for special needs populations.

The actual number of units that Oceanside can assist will depend upon its success in securing non-local leveraged financing, including 9% tax credits, 4% tax credits with tax-exempt bonds and State programs such as the Multifamily Housing Program for renter housing and the CalHome program for owner housing.

Table 6 allocates expenditures to family, senior and special needs rental housing and owner housing in the approximate percentage guidelines developed by the task force, using the per unit gap estimates from Table 4 and incorporating assumptions on leverage and escalation in gap funding requirements over the five-year period.

**Table 5**  
**Financial Assistance Capacity Illustrations**  
**New Affordable Housing Construction**  
**City of Oceanside Comprehensive Affordable Housing Strategy**  
**FY 2003/04 - FY 2007/08**

**Est. City Housing Program**  
**Revenue Available: \$60,045,902**  
**FY 2003/04-FY 2007/08 (1)**

FY 2003/04-FY 2007/08 (1)			Estimated	
Program Element	Leverage Scenario	Income Targeting	City Subsidy Cost Per Unit (2)	Assistance Capacity (3) (# of Units)
Renter Prototypes--No Leverage				
Renter Prototype #1 Garden Apartments	N/A	45% AMI	\$117,000	513
		60% AMI	\$93,000	646
Renter Prototype #2 Apartments	N/A	45% AMI	\$127,000	473
		60% AMI	\$102,000	589
Renter Prototypes/Leverage Scenarios				
Renter Prototype #1 Garden Apartments	9% Tax Credits, Federal and State	47% Ave. AMI	\$8,000	Appx. 160 to 500 (4)
	4% Tax Credits, Tax-Exempt Bonds	57% Ave. AMI	\$79,000	760
	Multifamily Housing Program (MHP)	49% Ave. AMI	\$69,000	870
	MHP, 4% Tax Credits, Tax-Exempt Bonds	49% Ave. AMI	\$44,000	1,365
Renter Prototype #2 Apartments	9% Tax Credits, Federal and State	47% Ave. AMI	\$10,000	Appx. 160 to 500 (4)
	4% Tax Credits, Tax-Exempt Bonds	57% Ave. AMI	\$90,000	667
	Multifamily Housing Program (MHP)	49% Ave. AMI	\$79,000	760
	MHP, 4% Tax Credits, Tax-Exempt Bonds	49% Ave. AMI	\$51,000	1,177
Owner Prototypes (4)				
Owner Prototype #3 Townhomes	N/A	80% AMI	\$99,000	607
	N/A	100% AMI	\$25,000	2,402
	N/A	110% AMI	Assistance Not Needed	N/A

- (1) From Tables 2 and 3. Includes projections of in-lieu fees from the project pipeline.
- (2) Equals average per unit subsidy required across all unit bedroom counts for each prototype, based on affordability gap analysis
- (3) Assumes entire available five-year funds spent on one prototype/leverage scenario.
- (4) Given competitiveness of 9% tax credit allocations, we do not expect Oceanside to secure tax credits on more than two to five projects over five years, or about 160 to 500 units.
- (5) Owner gaps depend upon subsidy funding sources; numbers shown do not deduct utility allowances as required under California Redevelopment Law, which would make gaps higher.

Source: David Paul Rosen & Associates

**Table 6**  
**Estimated Expenditure Plan**  
**City of Oceanside Comprehensive Affordable Housing Strategy**  
**2003/04 - 2007/08**

**A. Total Funds Available, Five-Year Period, FY 2003/04-2006/07**

Projected Five-Year Housing Resources Excluding Future In-Lieu Fees (1)	\$36,904,802
Projected In-Lieu Fee Revenues from Project Pipeline (2)	\$23,141,100
<b>Total Funds Available, Five-Year Period, FY 2003/04-2007/08</b>	<b>\$60,045,902</b>

**B. Summary of Policy Goals (% of Units Assisted) (3)**

Income Targeting By Renter/Owner:	By Family/Senior
Renter: 80% of units @ 50% Average AMI	Family: 75% to 85% of rental units = 60% to 68% of total units
Owner: 20% of units @ 80% Maximum AMI	Senior: 10% to 15% of rental units = 8% to 12% of total units
	Special Needs: 5% to 10% of rental units = 4% to 8% of total units

**C. Expenditure Plan Goals**

<b>Program/Project Type</b>	<b>Assumed Leverage Source</b>	<b>Estimated Average Income Targeting</b>	<b>Assistance Goals (# of Units)</b>	<b>Percent of Total Units</b>	<b>Estimated Average Subsidy Cost Per Unit (4)</b>	<b>Five-Year Expenditures</b>	<b>% of Total Five-Year Expenditures</b>
New Construction Family Rental	9% tax credits	47% AMI	300	32%	\$10,800	\$3,240,000	6%
New Construction Family Rental	4% tax credits, tax-exempt bonds	57% AMI	300	32%	\$94,800	\$28,440,000	49%
<b>Subtotal--Family Rental</b>			<b>600</b>	<b>64%</b>		<b>\$31,680,000</b>	<b>55%</b>
New Construction Senior Rental	4% tax credits, tax-exempt bonds	47% AMI	125	13%	\$94,800	\$11,850,000	21%
New Construction Special Needs Rental	4% tax credits, tax-exempt bonds	47% AMI	75	8%	\$94,800	\$7,110,000	12%
<b>Total Rental</b>			<b>800</b>	<b>86%</b>		<b>\$43,530,000</b>	<b>76%</b>
New Construction Owner Townhome (5)	CalHOME	80% AMI	35	4%	\$58,800	\$2,058,000	4%
New Construction Owner Townhome	None	80% AMI	100	11%	\$118,800	\$11,880,000	21%
<b>Subtotal Owner</b>			<b>135</b>	<b>14%</b>		<b>\$13,938,000</b>	<b>24%</b>
<b>Total Units</b>			<b>935</b>	<b>100%</b>		<b>\$57,468,000</b>	<b>100%</b>

- (1) Total funds available for affordable housing programs and administrative costs, net of debt service requirements.  
See Table 2 for projections of affordable housing resources excluding future in lieu fees.
- (2) Assumes units in current residential pipeline are built and pay fees within the five-year period according to the assumptions in Table 3.
- (3) See policy recommendations in Chapter I. AMI = area median income, adjusted by household size.
- (4) Based on per unit subsidy amounts from the gap analysis, escalated 20% for inflation over the five-year period. For renters, equals the average gap for the two apartment prototypes; for owners it equals the gap for the townhome prototype.
- (5) Per unit subsidy based on owner townhome gap (before escalation) of \$99,000 per unit less \$60,000 per unit subsidy from the CalHOME program.

We have assumed that the City will be successful in securing 9% tax credits for 300 units of family rental housing and in securing 4% tax credit/tax-exempt bond financing for an additional 300 family rental units, 175 senior rental units, and 25 special needs rental units. We consider this an aggressive leverage assumption. We also assume the City receives about \$2 million in HELP financing, sufficient to assist about 35 units of owner housing with a CalHOME subsidy amount of \$60,000 per unit.

We have escalated per unit gap funding requirements 20% from the figures indicated by the gap analysis as a rough estimate of the increase in the gap resulting from faster escalation of housing costs than household incomes over the five-year projection period.

Based on these assumptions, the City has the capacity to develop approximately 800 units of affordable rental housing affordable to very low and low income households, and an additional 135 ownership units affordable to low income households. Providing assistance to these 935 units is projected to cost about \$57 million in gap funding. Given the income targeting assumptions, not all of these units would qualify towards Housing Element goals. We have not made explicit assumptions about administrative costs but an affordable housing program of this magnitude will incur significant costs for predevelopment activities, consultants and staff, some of which may not be recoverable through project financing.