



**INCLUSIONARY HOUSING CREDIT PROGRAM
FOR URBAN INFILL AREAS
AUGUST 20, 2008**

SECTION 1—PROGRAM BACKGROUND

Section 1.1—Introduction

The City of West Sacramento’s Inclusionary Housing Program requires developers of market-rate housing to include a portion of affordable housing with each new project. The Inclusionary Housing (“IH”) requirement is among the most challenging financial issues to the planned development of higher-density residential and mixed-use projects within the City’s Redevelopment Project Area (“Project Area”)—particularly within the Triangle Specific Plan area, the Washington Specific Plan area, and the Central Business District along West Capitol Avenue.

This Inclusionary Housing Credit Program (“IHCP”) is intended to promote the feasibility of market-rate housing in these areas while also ensuring the satisfaction of the City’s affordable housing requirements. The IHCP shall implement the requirements of Chapter 15.10 of the City’s Municipal Code (Exhibit A), the IH Ordinance for the Project Area (the “Ordinance”) for qualifying residential and mixed-use projects developed within these Urban Infill Areas (“UIAs”—see graphic on page 4 for UIA boundaries).

Section 1.2—Background Information

Located within the Project Area, the UIAs are subject to the affordable housing requirements of California’s Community Redevelopment Law (“CRL”). CRL requires 15 percent of all residential development located within a Redevelopment Project Area to be provided as affordable housing to very low and low/moderate-income households. On a periodic basis, the City’s Redevelopment Agency* must demonstrate the Project Area’s satisfaction of this requirement or face substantial financial and legal penalties for non-compliance.

Since 1995, the City has operated an IH Program to meet the affordable housing obligations of the Project Area by requiring all new residential development to include the 15 percent affordability mandated by CRL. Chapter 15.10 of the City’s Municipal Code was adopted to enforce this requirement, and in general all new development since that time has provided the required affordable units without financial assistance from the City. Previous development projects within the Project Area have included lower-density detached single-family and garden style multifamily projects with affordable units mixed within these projects or built off-site in affordable multifamily housing developments.

* NOTE: As used in this IHCP, the term “City” may refer to the City of West Sacramento or the Redevelopment Agency of the City of West Sacramento, depending on context.

The City's desire for higher-density housing and intense development in the UIAs comes with considerably greater costs for developers compared to previous residential development in the Project Area. Due to these higher development costs, the City's IH requirement presents a challenge to the financial feasibility of high-density housing. In some competing local markets, namely downtown Sacramento, new projects are not currently subject to IH requirements. This difference undermines developers' ability to build financially competitive high-density residential and mixed-use projects in West Sacramento.

In contrast to West Sacramento's IH Program, the City of Sacramento Housing and Redevelopment Agency has typically provided gap financing to create the affordable housing needed for most of its redevelopment project areas to comply with CRL affordable housing requirements. However, the City of West Sacramento's Project Area does not generate sufficient tax increment financing for the City to shoulder this burden alone. A combination of public and private financial support is necessary to address the financial challenge posed by the IH requirement in order to make high-density residential and mixed-use development feasible in the UIAs.

Section 1.3—Program Purposes and Principles

The purposes of the IHCP are to:

- a. *Identify the specific options that will be utilized to meet the IH requirement.*
- b. *Minimize the financial burden of the IH requirement on new urban development in order to promote the feasibility of higher-density residential and mixed-use projects.*

The following principles related to the above program purposes have primarily guided the development of the IHCP:

- a. *IH requirements cannot be waived or reduced*—A waiver or reduction of the IH requirement is not a viable solution because it would ultimately place the Project Area in a position of non-compliance with CRL and jeopardize the City's ability to use tax increment funding to finance capital improvements and other activities in support of redevelopment throughout the Project Area.
- b. *A combination of public and private financial participation is necessary to satisfy IH requirements*—The City lacks the financial resources to solely finance the affordable units that will be required as a result of projected residential development in the UIAs. While the City has invested and will continue to invest a substantial amount of funding to create affordable housing, financial participation from developers is also necessary to leverage City funding to create additional affordable units.
- c. *Multiple and flexible affordable housing development options and financial tools must be utilized to satisfy IH requirements*—In order to meet the projected need for affordable housing units in support of market-rate development in the UIAs by the most cost-effective means, the City must be able to create affordable units using all available development options and financing mechanisms. While any available option will require some

contribution from market-rate developers, the City and its affordable housing development partners possess the expertise in producing affordable units and have access to state and federal financial resources that can assist in minimizing the necessary contribution from market-rate developers.

The City will promote the IH objective to locate affordable units near new market-rate units. However it is often difficult to achieve this proximity in cases, for example, where existing units are being rehabilitated for affordable housing or new units are being constructed on a targeted redevelopment site. Also, in order to successfully finance the construction or rehabilitation of affordable units, it is highly favorable to have a greater percentage of affordable units as opposed to a split of market-rate and affordable units in the project.

Considering these factors, the City's effort to create sufficient affordable housing to support market-rate development in the UIAs must allow flexibility related to the location of affordable units and the affordability mix of projects. Regardless of location and affordability mix of new affordable projects, the City will support the development of affordable units through the IHCP that meet desirable standards such as high-density design, smart-growth features such as transit-oriented and mixed-use development, green building, housing rehabilitation, and housing for special needs populations.

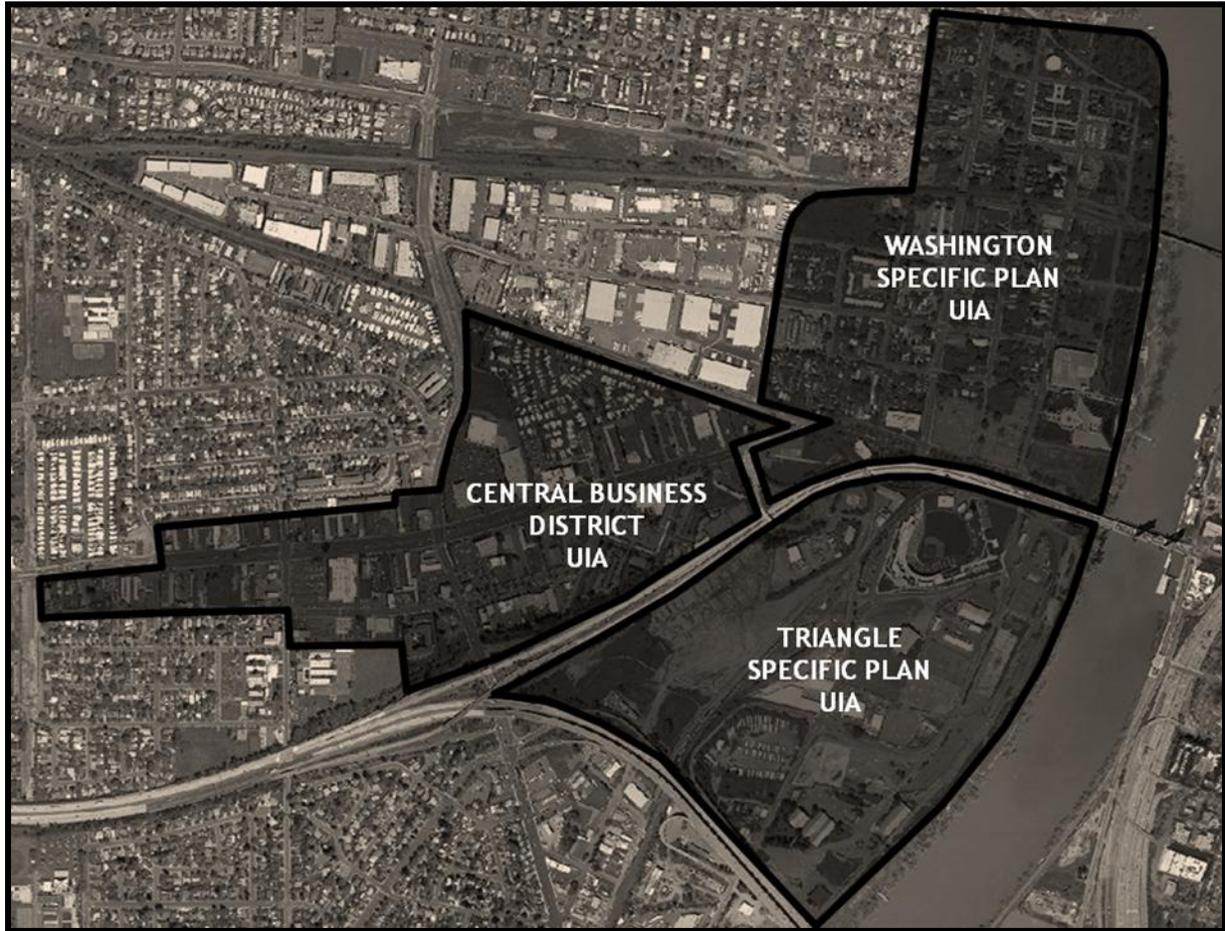
- d. *Affordable Housing will be encouraged within the UIAs*—Integration of affordable housing through the development of affordable or mixed-income housing is an important component of creating a vibrant, well-planned, transit-oriented, mixed-use community. The City will encourage the development of affordable housing within the UIAs through the IHCP. The City will ensure through its developer selection process that any affordable or mixed-income project that is built within these areas will retain an urban character and be built at a density and scale that will blend in with surrounding market-rate development.

SECTION 2—IHCP OPTIONS FOR DEVELOPERS

Under the IHCP there are four options for UIA developers to satisfy the affordable housing requirements of their market-rate residential projects. This section provides details on each option, along with incentives and requirements that apply to their usage. These options include:

- a. Purchasing Inclusionary Housing Credits (IH Credits) from the City's Inclusionary Housing Bank (IH Bank).
- b. Dedicating property within the UIAs for the development of affordable housing.
- c. Proposing an off-site option to produce affordable units involving an affordable housing development partner.
- d. Including all or a portion of the required affordable units within the market-rate housing project.

INCLUSIONARY HOUSING CREDIT PROGRAM URBAN INFILL AREAS



Urban Infill Area	Boundary Description
Triangle Specific Plan UIA	Includes the entire area covered by the Triangle Specific Plan
Washington Specific Plan UIA	Includes the entire area covered by the Washington Specific Plan
Central Business District UIA	Includes all parcels located within the Central Business District (CBD) Zone, excluding those not within the boundary of the Project Area

Section 2.1—Option 1: Purchase of IH Credits from the City’s IH Bank

The primary component of the IHCP is the availability of IH Credits through the City’s IH Bank for market-rate housing developers in the UIAs to meet the affordable housing requirements of their projects. This section explains the requirements and procedures for UIA developers to utilize this option of the IHCP.

Section 2.1.1—IH Bank Background

Chapter 15.10 has resulted in private sector production of over 400 affordable units in the Project Area since the Ordinance’s implementation in 1995. The City has also been active in producing affordable housing by providing financial assistance to affordable new construction and rehabilitation projects. Using the City’s Housing Set-Aside Funds and other financial sources such as state and federal grants and loans, the City has subsidized several hundred units of affordable housing.

It is important to note that most of these affordable units produced with the financial assistance of the City were attributed to the Cline and Wolfington legal settlements of the 1990s. For this reason, nearly all of the affordable units that were produced with public financial assistance were not able to be counted towards the satisfaction of the Project Area’s affordable housing requirements under CRL.

In 2007, the City began to focus its financial assistance on projects that would add affordable units to the City’s inventory in addition to those already being produced through the IH Program. Since then financial commitments have been made to multiple affordable new construction and rehabilitation projects, creating a total of 218 affordable units in excess of those produced through the IH Program. The production of these additional affordable units has allowed the City to establish an “Inclusionary Housing Bank” of “Inclusionary Housing Credits” that are available for purchase by UIA developers.

In order to sustain the IH Bank for long-term use, funding that is received by the City from the sale of IH Credits will reimburse the City for its initial investment in creating the affordable units for the IH Bank. These funds will be reinvested by the City as financial assistance to create additional affordable units (i.e. additional IH Credits).

The IH Bank provides a mutually beneficial option for developers and the City, as it allows developers to satisfy their affordable housing requirements simply, with certainty, and at a fixed cost. Furthermore, developers’ cost of fulfilling the affordable housing obligation through the purchase of IH Credits is significantly less than the cost of privately subsidizing the construction of affordable housing. For the City, the sale of IH Credits provides a funding stream that can be leveraged with Housing Set-Aside funds, state and federal grants and loans, and other funding sources to create additional affordable housing in advance of market-rate development. These leveraged funds provide a significant financial resource and increased flexibility to the City in advancing affordable housing and redevelopment objectives.

Section 2.1.2—IH Credits Available

Based on current financial commitments and housing production, a total of 218 affordable units or IH Credits are available in the IH Bank. At this current unit total, the IH Bank provides sufficient affordable units to support the development of up to 1,453 market-rate units (218 represents 15 percent of 1,453). The City will maintain a database of IH Credits that includes those that are available for purchase by developers and those that have been sold as the current IH Credit total is adjusted.

Section 2.1.3—Cost of IH Credits

The City has invested a total of \$10,367,100 in Housing Set-Aside funding towards the creation of the first 218 IH Credits—an average cost of \$47,555 per affordable unit.

Therefore, the average cost of an IH Credit for a market-rate developer would be \$47,555—allowing the City to fully recover its initial investment to create the IH Credit. For a market-rate developer, this cost can be expressed on a per market-rate unit cost of \$7,133.25 (based on the 15 percent affordability requirement), as demonstrated by the examples in the table below:

Market Rate Project Size	50 units	100 units	275 units
Affordable Housing Obligation	7.5 units	15 units	41.25 units
IH Credits Purchased	7.5	15	41.25
Current IH Credit Value	\$47,555		
Cost to Purchase IH Credits	\$356,663	\$713,325	\$1,961,644
Cost Per Market-Rate Unit	\$7,133.25		

Section 2.1.4—Geographic Distribution of IH Credits

In consideration of the City’s current focus on the feasibility of development in the Triangle area and projected near-term housing production in the UIAs, the majority of IH Credits in the IH Bank will be set-aside for Triangle UIA development projects. The following geographic breakdown applies for the development of the first 1,453 market-rate units supported by the IH Bank:

Area	IH Credits Reserved	Market-Rate Units Supported
Triangle Specific Plan UIA	150	1,000
Washington Specific Plan & CBD UIAs	68	453

Periodically, the City Manager may re-evaluate this geographical distribution and make adjustments to balance changes in market conditions or development priorities and opportunities.

Section 2.1.5—UIA Project Density Qualifications

The option to purchase IH Credits is intended to provide an incentive to developing projects in the UIAs at higher densities where on-site inclusion of affordable units is infeasible due to high construction costs associated with achieving the desired density level. In order to be eligible to purchase IH Credits, projects within the UIAs must have a minimum residential gross density of 30 units per acre. For mixed-use projects with a residential component, the calculation of residential density will be adjusted to account for retail or office space in the project. For projects that include higher-density and lower-density units as part of a large map, master plan, or multi-phased development, the average density of all the projects will be used to determine the project’s density qualification to purchase IH Credits. Under such circumstances, the City may require a Development Agreement with the UIA developer to ensure that the qualifying average density is met through build-out of the project.

Projects located in the UIAs that do not meet the density qualification may still request to purchase IH Credits to satisfy their affordable housing requirement, however this request must be approved by the City Council as opposed to the City Manager through an Affordable Housing Agreement. The City Council, at its discretion, may approve or deny the developer's request or allow the developer to meet only a portion of the affordable housing requirement through the purchase of IH Credits (for example, the developer could be allowed to purchase IH Credits to cover only the very low-income portion of the affordable housing requirement but include the low/moderate-income portion of the requirement on-site).

Section 2.1.6—Procedure for Purchasing IH Credits

IH Credits are available for purchase by eligible UIA developers on a first-come, first-served basis. In order to document the purchase of IH Credits by developers under the IHCP, the following procedure will apply:

- a. *Project Qualification:*
To qualify for purchase of IH Credits, a UIA project must satisfy the density qualifications of Section 2.1.5 and have a development application deemed complete by the City's Community Development Department. The project may also qualify through the approval of a Development Agreement by the City Council.
- b. *Request to Purchase IH Credits:*
A UIA developer electing to purchase IH Credits must submit a written request to the City's Housing and Community Investment Department (HCI) that includes, at a minimum, the name and location of the UIA project, the total number of units in the project, the density of the project (in order to demonstrate that the project meets the minimum density qualifications of Section 2.1.5), and the number of IH Credits the developer is requesting to purchase. HCI staff will then verify that the project is eligible for the IHCP and that sufficient IH Credits are available.
- c. *Purchase of IH Credits and Affordable Housing Agreement:*
Once the project has been deemed eligible, the developer will enter into an Affordable Housing Agreement approved by the City Manager. The Affordable Housing Agreement will memorialize the developer's purchase of IH Credits as satisfaction of the affordable housing requirements of the project. The IH Credits must be paid for by the developer at the time the Affordable Housing Agreement is executed, which in no case shall be later than the time required by Section 15.10.060 of the Ordinance.
- d. *Duration & Non-Transferability of IH Credits:*
Once an Affordable Housing Agreement for the project has been executed and the developer has paid for the IH Credits, the IH Credits shall run with the land and do not expire. If the number of market-rate housing units in the project is increased after the Affordable Housing Agreement is executed and IH Credits are purchased, the developer must amend the agreement to address how the additional IH obligation will be satisfied. IH Credits purchased by UIA developers must be used for the projects specifically identified to receive the credits in the Affordable Housing Agreement.

Section 2.1.7—IH Bank Sustainability

Once the first 218 IH Credits have been exhausted, additional IH Credits will be made available from the production of additional affordable units at the then-current cost to the City. The City may utilize available funding including the City’s Housing Set-Aside Funds, state and federal gap financing programs, and funding received through the sale of IH Credits to subsidize the production of additional affordable units. As new affordable units are produced and added to the IH Bank, the City will assign a cost to new IH Credits based on the City’s investment to create the credits. As with the first 218 IH Credits created through the IH Bank, the City intends to use funds that are recaptured through the sale of IH Credits to subsidize the production of additional affordable units, thereby sustaining the IH Bank for the long-term build-out of the UIAs.

Section 2.2—Option 2: Land Dedication for Affordable Units within the UIAs

UIA developers may propose to satisfy the affordable housing requirement of their projects by dedicating land within one of the UIAs to an affordable housing developer selected by the City for the purpose of constructing new affordable units. Under this option—similar to the option to purchase IH Credits described in Section 2.1—developers will receive IH Credits through accepted land dedication proposals towards the satisfaction of their projects’ affordable housing requirement. Unlike the option to purchase IH Credits in Section 2.1, UIA projects that satisfy their affordable housing requirement through a land dedication are not subject to minimum density requirements.

Section 2.2.1—Requirements for Land Dedication within the UIAs

To be considered for approval by the City, land dedication proposals must meet the following requirements:

- a. *Property Location:*
The property proposed for land dedication must be located within one of the UIAs, although not necessarily within the same UIA as the developer’s market-rate project.
- b. *Property Size and Condition:*
Unless a smaller site is accepted by the City Manager based on overriding considerations such as an opportunity to meet special housing needs, the proposed land dedication site must have a developable area of at least 1.5 acres. The property must also be free of soil or groundwater contamination as demonstrated by an environmental site assessment accepted by the City.
- c. *Zoning Requirements:*
The proposed land dedication site must be appropriately zoned for the development of multifamily residential housing at a density of at least 40 units per acre.
- d. *Infrastructure Improvements:*
As a condition of the developer receiving IH Credits for the land dedication, the proposed land dedication site must be fully improved with off-site infrastructure including paved street access, frontage improvements (curb,

gutter, sidewalk, streetlights, etc.), and utility service connections (water, gas, sewer, electric, etc.) stubbed to the property lines (and installed underground if otherwise required by the City for the development of the site). The City may make exceptions to these infrastructure improvement requirements if grant funding is secured to cover the cost of infrastructure improvements in an area that includes the land dedication site.

e. *Affordable Housing Developer Selection:*

The developer offering the land dedication site must agree to allow the City to utilize a competitive process (Request for Qualifications or Proposals) in selecting the affordable housing developer to construct an affordable project on the site. The UIA developer has the option to assist the City with the developer selection process by participating on the City's developer selection panel for the land dedication project.

f. *Availability of Primary and Gap Financing:*

City staff will evaluate the land dedication proposal in consideration of the projected availability of primary and gap financing sources needed to construct the affordable project at the site. These funding sources include Low-Income Housing Tax Credits, Tax-Exempt Multifamily Housing Bonds, Housing Set-Aside Funds, and other local, state, and federal gap financing sources. The City Manager may reject a land dedication proposal if it is determined that insufficient funding for the project will be available within a reasonable timeframe for the project to be constructed in concurrence with or before the construction of the UIA developer's market-rate units. UIA developers may offer to provide gap financing in order to allow the affordable project to be constructed if such a determination is made.

Section 2.2.2—Calculation of IH Credits from Land Dedication

If the land dedication proposal is approved, the UIA developer's project will receive IH Credits based on the calculation described in this section. The amount of IH Credits the developer will receive from the land dedication will be based on a value of 40 units per gross acre unless a higher density value is approved by the City Manager based on the actual density of a proposed project at the land dedication site. Additionally, since affordable projects built on land dedication sites carry their own 15 percent IH requirement (as newly constructed residential units, land dedication projects are subject to the Ordinance), the actual amount of IH Credits will be valued at 85 percent of the total unit value. This calculation of IH Credits for a land dedication can be expressed by the following formula:

$$\text{Dedication Site Acreage} \times 40 \text{ Units} = \text{Total Units} \times 85 \text{ Percent} = \text{IH Credits}$$

The base density level of 40 units per gross acre is based on current and predictable future assumptions regarding the availability of financing to build new affordable projects and the feasibility to build affordable projects at this density within the UIAs. The following table provides examples of IH Credit calculations:

Land Dedication Site Size	1.5 Acres	2 Acres	3 Acres
Density Value	40 Units/Acre	40 Units/Acre	40 Units/Acre
Total Unit Value	60 Units	80 Units	120 Units
15% Inclusionary Requirement	9 Units	12 Units	18 Units
IH Credits Received	51 Credits	68 Credits	102 Credits
Market-Rate Units Supported	340 Units	453 Units	680 Units

Section 2.2.3—Creation of Additional IH Credits from Land Dedication Projects

In the case of a land dedication where the City provides gap financing to the affordable project, and the number of affordable units actually constructed exceeds the number of IH Credits originally granted to the developer, then the City will retain those additional units as IH Credits for the IH Bank.

Section 2.2.4—Review and Approval of Land Dedication Proposals

After receiving a land dedication proposal from a UIA developer, City staff will calculate the number of IH Credits the developer would receive and review the proposal to determine if it meets the requirements described in Section 2.2.1. The City reserves the right to reject any land dedication proposal.

If the land dedication proposal is accepted, the developer and the City will enter into an Affordable Housing Agreement approved by the City Manager to memorialize the terms of the dedication. These terms will include, but not be limited to, the developer’s schedule for performing necessary infrastructure improvements related to the site and the City’s schedule for soliciting and selecting a developer for the affordable project. The Affordable Housing Agreement will stipulate that, once all of the site criteria have been met and the site has been deeded to the City or its selected affordable housing developer, the UIA developer’s project will receive the IH Credits from the dedication to satisfy the project’s affordable housing requirement.

Section 2.2.5—Timing of Land Dedication

The land dedication site must be deeded by the UIA developer to the City’s selected affordable housing developer no later than the issuance of the first building permit for the UIA developer’s project.

Section 2.3—Option 3: Off-Site Production of Affordable Units

UIA project developers may propose to meet their affordable housing obligations through an off-site alternative option pursuant to Section 15.10.90 of the Ordinance. Under this IHCP, the City Manager is authorized to approve the Affordable Housing Agreement based on a determination of the following:

- a. The proposed alternative is consistent with the General Standards of Approval listed in Section 15.10.090(C) of the Ordinance.

- b. The off-site location for the proposed alternative is located within the Project Area. Any proposed alternative involving a site located outside of the Project Area must be approved by the City Council pursuant to Section 15.10.090(D) of the Ordinance.

Section 2.4—Option 4: On-Site Inclusion of Affordable Units

Developers of projects in the UIAs may also meet their affordable housing obligations by complying with the standard requirements of the Ordinance. All or a portion of the affordable units required for the project may be provided on-site within the project, as provided in Section 15.10.070 of the Ordinance.

Section 2.5—Combination of Options

UIA developers may also satisfy the affordable housing obligation of their projects through a combination of options. A developer, for example, could provide a portion of the required affordable units on-site and satisfy the remaining requirement through the purchase of IH Credits, land dedication, or other acceptable off-site means.

SECTION 3—PROGRAM ADMINISTRATION

Section 3.1—IHCP Administration, Tracking, and Reporting

HCI will be responsible for the implementation and management of the IHCP. This includes ensuring that UIA projects comply with their affordable housing requirements through one of the available options and that the Project Area maintains compliance with its IH production requirements under CRL throughout the implementation of the IHCP.

On an annual basis, HCI will provide an update to the City Council on the implementation of the IHCP. This update will include, at a minimum, a report on the status of the IH Bank and any recommended programmatic adjustments or IHCP policy amendments.

Section 3.2—Approval of Affordable Housing Agreements

The City Manager is authorized to approve Affordable Housing Agreements with UIA developers after confirming that the affordable housing requirements of their projects are being satisfied in accordance with this program. Affordable Housing Agreements must be executed by the City and the UIA developer no later than the time required by Section 15.10.060 of the Ordinance.

Under this program, there are two scenarios in which City Council approval of an Affordable Housing Agreement for a UIA project will be required:

- a. The residential density of the UIA project is below the minimum qualifying density required to purchase IH Credits under Section 2.1 and the UIA developer is requesting to purchase IH Credits to satisfy all or a portion of the project's affordable housing requirement.
- b. An off-site alternative is being proposed to satisfy the UIA project's affordable housing requirement involving affordable units located outside of the Project Area.

EXHIBITS

- a. Municipal Code Chapter 15.10—Inclusionary Housing Ordinance for the Redevelopment Project Area