
From: Tom Egan <nagemot@pacbell.net>
Sent: Tuesday, July 25, 2023 1:45 PM
To: CITY CLERK
Subject: Courtesy copy of letter discussing a way for Costa Mesa to get all of Fairview Center for housing

Hello Brenda,

I spoke with you earlier today about distributing within City Hall a courtesy copy of a letter to the editor of the Daily Pilot that I submitted yesterday. I want City Hall to have a heads-up ahead of the letter's publication.

I would appreciate it if you would forward the letter to the following:

- City Council
- Planning Commission
- City Manager
- Director, Economic and Development Services

Thank you for your help.

Tom Egan

Editor:

Response to Daily Pilot article of May 2, 2023 "**Local leaders weigh in on state plan for Costa Mesa's Fairview Developmental Center**"

There is a way for the City to get all of the Fairview property for housing and amenities and, by so doing, take a big step -- nearly 20% -- toward meeting the State of California housing mandate the city must plan and zone for. The idea is to create a more appropriate industrial-type area for the State's planned Emergency Operations Center (EOC) by capping a nearby portion of the SR-55 freeway. The cap would be at grade level, and would be, in essence, a very wide version of the existing bridges over the freeway that connect East and West Costa Mesa.

The EOC's planned helipad and ten-story lattice tower festooned with two-story whip antennas are not well-suited for a residential neighborhood like that planned for the Fairview property. So, it makes sense to site the EOC elsewhere in the city to forestall reasonable NIMBY political fights.

The State, in turn, could have quick freeway access and keep the components of its planned EOC together for optimal convenience in an emergency. Further, importantly, it would not have to compromise design because of adjacent residences.

Freeway capping has been around for some time. Cities have capped portions of their freeways. For example, Dallas TX built the 5.2-acre Klyde Warren Park above its recessed Woodall Rodgers Freeway

The SR 55 freeway in Costa Mesa is ideal for capping because so much of it is recessed. That is, the pavement and shoulders of the freeway are significantly below grade level of the surrounding city streets. This recession allows the supporting substructure for the cap to be simpler, thus minimizing design and construction costs.

Dozens of cities have built caps like this. The caps' uses range from parks to office buildings to convention centers.

Funding might come from several sources. For example, in the case of the Dallas cap, the funds came from four sources: Bond issued by the city; Texas Department of Transportation highway funds; USDOT stimulus funds; and private donations.

This capping concept that creates more buildable "land" might open up even more possibilities in Costa Mesa. For example, if the city capped more of the recessed SR 55 freeway within its boundaries, it would be creating acres of buildable space "out of thin air" so to speak. This new "land" could be used for not only the State's EOC, but also for other uses such as a park, other civic uses, industrial/commercial businesses, and a wildlife corridor to connect the upper Newport Bay Nature Preserve to the Nature Parks and Preserves in the Santa Ana River Estuary in Costa Mesa.

Tom Egan, Costa Mesa,

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July 17, 2023

Mayor Stephens and Councilmembers
City of Costa Mesa
77 Fair Drive
Costa Mesa, CA 92626

Mayor Stephens and Councilmembers

The Kennedy Commission (the Commission) is a broad-based coalition of residents and community organizations that advocates for the production of homes affordable for extremely low-income families earning less than \$30,000 annually in Orange County. Formed in 2001, the Commission has been successful in partnering and working with Orange County jurisdictions to create effective housing and land-use policies that have led to the construction of homes affordable to lower-income working families.

We are writing today to urge that the City of Costa Mesa adopt a strong Inclusionary Housing program to incentivize affordable housing opportunities on sites that are identified in the 6th Cycle Housing Element. We have participated in the affordable housing ordinance working group and study sessions. Based on our discussions we strongly believe that the policy needs to ensure that the City will effectively produce affordable housing at the extremely low, very low, and low-income level, these are the units not being created by the market. Moreover, we want to ensure that the city includes an Inclusionary Housing Ordinance as part of their housing programs and priorities to support extremely and very low-income families in Costa Mesa.

AFFORDABLE HOUSING NEED IN COSTA MESA

Residents in Costa Mesa are being impacted by a housing and homeless crisis due to the rent increases and the lack of affordable housing options that are not being built in the city. Many families continue to face economic and housing insecurity due to the high housing cost. According to the City's 2021-29 Housing Element data, there are a total of 24,987 renter households in Costa Mesa, with 12,640 or 50.6% of those households spending thirty percent or more of gross income on housing costs.¹ Additionally, 6,465 or 25.9% renter households are extremely rent burdened and are paying fifty percent or more of gross income on housing costs. The data also shows that a significant portion of job salaries in Costa Mesa employment industries fall into the lower-income categories.² The City should take into account its local economy and offer healthy and affordable housing options that the current market-rate housing development is not offering.

Low income residents in Orange County would need to earn \$51.39 per hour - 3.3 times the state minimum wage - to afford the average monthly asking rent of \$2,648 and this does not account

¹ SCAG Pre-Certified Housing Data for the City of Costa Mesa, April 2021

² Costa Mesa 2021-2029 Draft Housing Element: Community Profile, August 2021

for current families that are living paycheck to paycheck.³ The housing policies and programs in Costa Mesa must support the residents living and working in the City.

As rents continue to rise in Orange County, the rental housing market has become unaffordable to lower income families struggling to remain housed. In Costa Mesa, the median income for a two-bedroom apartment ranges from \$2,648-\$4,581.⁴ These rents are unrealistic and unattainable for low and extremely low socioeconomic residents. Therefore, we are prioritizing the **Inclusionary Housing Ordinance** as a way to bridge the gap between the extremely low, very low-, and low-income rents and the higher rents in the housing market.

HOUSING PRODUCTION IN COSTA MESA

In the 2014-2021 Housing Element Planning Period the City of Costa Mesa's lack of affordable housing policies and programs led to a robust housing production that greatly exceeded the above moderate-income level RHNA, but minimal production of lower income housing that only met a fraction of the city's lower income housing needs. In addition, the lack of affordable housing policies led to a deficit of affordable housing sites for lower income RHNA in the 5th cycle since market rate housing was developed on the opportunity sites.

For the 2014-2021 Housing Element planning period, the city had a total RHNA of two, with one unit at very low-income units, one unit at low-income and 0 units at moderate and above moderate. While the City of Costa Mesa approved 9 deed restricted units at their lower RHNA, these numbers do not reflect the dire needs of the very low and low-income residents in Costa Mesa. However, for the above moderate-income units, the city outperformed and exceeded the RHNA by approving 1,192 moderate and above moderate-income RHNA units.

While market rate housing production is clearly happening in Costa Mesa because of incentives and concessions to developers, it is occurring in an imbalanced way that is not producing affordable housing for lower income families. The implementation of the Inclusionary Housing Ordinance will continue to offer development opportunities and create affordable housing in exchange for the incentives and concessions being provided for market rate development. The Inclusionary policy will create affordable housing along with market rate housing. Moreover, it will encourage the city to prioritize housing that is affordable for residents living below the poverty line and facing housing and economic uncertainty.

In the current 6th cycle planning period, the city has a RHNA of 2,919 for very low-income households (families making less than \$50,000), 1,794 for Low and 7,047 for moderate and above moderate. To date the city has not constructed any affordable housing developments for low-income residents. It is important that while the city creates new housing opportunities that it supports low-income residents through an *Inclusionary Housing Ordinance* that ensures housing is produced equitably and meets the current and future needs of all Costa Mesa residents. The Commission strongly recommends the city adopt an Inclusionary Housing Ordinance that requires **20%** of units of all citywide residential projects be set at the **extremely low (7.5%), very low (7.5%), and low-income levels (5%)**. This ordinance will ensure the city meets their low and very low-income housing needs.

³ Orange County Housing Needs Report 2022, CA Housing Partnership Corp.

⁴ RentCafe

The city must address housing inequity in implementing their 6th Cycle Housing Element to support acutely low, extremely low, and very low-income residents. We recommend the city prioritize an Inclusionary Housing Ordinance to bridge the gaps within the housing market and provide various resources to low and extremely low socioeconomic income residents. The Inclusionary Housing Ordinance provides a framework for the city and housing developers on methods to address market and housing needs while providing incentives to build and options to meet the affordable housing onsite, off site, with in lieu fees or donation land.

An Inclusionary Housing program will help the city create certainty in development and will ensure that housing opportunity sites are developed with market rate and affordable housing in a balanced manner. The Inclusionary Housing Ordinance will also help the city not face no net loss as a result of losing affordable housing opportunity sites to market rate developments.

INCLUSIONARY HOUSING PROGRAMS

Inclusionary housing programs have a long history of success in addressing housing needs that are not addressed by market rate development. Traditional planning that provides greater development opportunities through specific plans, rezoning, and general plan amendments has incentivized market rate development, but not produced affordable housing. A city must have an affordable housing program that produces balanced housing development. Amongst the cities in Orange County, there are thirteen cities that have adopted an Inclusionary Housing Ordinance and have seen progress towards balanced and equitable housing development in their cities.

While most cities have exceeded their above moderate and moderate housing production in OC, only the cities with a strong affordable housing policy have created balanced housing developments that are meeting their low and very low-income housing needs along with market rate. Inclusionary Housing programs have proven effective in cities like Santa Ana and Irvine, where they are creating equitable progress towards meeting their RHNA for market-rate and low/very low-income housing.

In Santa Ana, the Housing Opportunities Ordinance has been impactful in the development of affordable housing. Santa Ana's program requires developments to contribute: a minimum of 15% of units that are affordable for low-income households, or a minimum of 10% are for very low-income households, or a minimum of 5% are for extremely low-income households.⁵ As a result of the program, in the 5th Cycle (2014-21) the City of Santa Ana greatly exceeded its RHNA targets in a balanced manner. **It approved over 4,900 new housing units, the majority, 3,274 of the units were approved as market-rate above moderate and 1,568 units at the low and very low-income levels.**

Another positive example of an effective **Inclusionary Housing Ordinance is the City of Irvine**. The program requires 15% of units to be affordable at 5% moderate, 5% low and 5% very low. As a result of the program, in the 5th Cycle (2014-21) the City of Irvine greatly exceeded its RHNA targets, but also produced significant affordable housing in the lower categories. **It approved over 31,009 new housing units, the majority, 29,823 of the units were approved as**

⁵ Santa Ana RHNA Progress 2014-2020

market-rate moderate and above moderate units and 1,186 units at the low and very low-income levels.

Because of the city's desire to address deeper affordable housing levels the city is proposing new changes to the program as part of their 6th Cycle Housing Element implementation. The city is proposing to increase the inclusionary requirement from the 15% to 20% (9% very low, 6% low, and 5% moderate)⁶

These cities have included the Inclusionary Housing Ordinance as part of their policies and programs, and it has not impacted their creation of market rate housing developments in the city. Instead, the cities continue to incentivize market rate housing and also include housing units for acutely, extremely, very, and low-income families.

The inclusionary housing programs also offer an in-lieu fee option. With the usage of an in-lieu fee in both cities, the money deposited into the Inclusionary Housing Fund increase has been used to supply housing affordable to low, very low, and extremely low-income households in cities. The fee is calculated based on the true cost to develop affordable housing units and other financial and market factors and lowers other development costs such as predevelopment. Currently, Santa Ana's in-lieu fee is: 5-9 units is \$6 per square foot, and 10-14 is \$9 per square foot, 15-19 is \$12 per square foot, 20+ is \$15 per square foot. In comparison, Irvine's Inclusionary Housing program requires 15% (5% very low, 5% low, and 5% moderate) as affordable units and has an in-lieu fee of \$16,600 per unit. As part of their 6th Cycle Housing Element the city is committing to increase the Inclusionary Housing to 20% (9% very low, 6% low, and 5% moderate).

Inclusionary rental and ownership homes have an affordability period up to 60 years from the time a home was built. Inclusionary Housing Program homes that are sold must be purchased by an eligible buyer and the price of the home must fall within an affordable price limit calculated by the City. The prices are calculated for affordability and are not driven by property values or other market conditions. This provides longstanding solutions to address housing needs. Inclusionary Housing Ordinances is an additional tool for cities that can be used with other housing programs and policies to create long term affordability and increase affordable housing options.

Costa Mesa must focus on creating balanced housing development that addresses affordable housing production not met by the market. Merely increasing production is not the answer to addressing the affordable housing crisis. As we have seen from past performance, the market is simply creating units that are not affordable to most Costa Mesa residents struggling to find affordable housing options. The focus should be on affordable housing and policies that create opportunities for extremely, and very low-income families. We strongly propose the city create equitable-development goals that support the current needs of the community now and for the future, which will not only come with increasing development but focusing on the overall picture of *affordability and sustainability*. The implementation of an Inclusionary Housing Ordinance will not hinder housing development, as demonstrated cities in OC have policies and programs to increase affordable housing and market rate housing in a balanced way.

⁶ Irvine RHNA Progress 2014-2020

We also want to acknowledge Costa Mesa's Measure Y and its impact on affordable housing developments. One of the City's largest constraints to affordable housing development is Measure Y, because it prioritizes lower density and less development options. The City's residents recently passed a measure to exempt certain sites from the Measure Y constraints. These sites are vital to addressing affordable housing needs as they are being identified for affordable housing at lower income. An Inclusionary Housing Ordinance would be a policy to ensure that affordable housing gets built at targeted categories at the extremely low and low income.

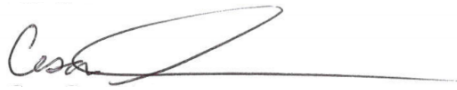
CONCLUSION

The implementation of a strong Inclusionary Housing Ordinance that specifically focuses on extremely low, very low and low is essential to address the housing crisis impacting lower income families in Costa Mesa. An Inclusionary Housing Ordinance will bridge the gaps of systemic inequity by providing safe and affordable housing to working families facing housing and economic insecurity because of the lack of affordable housing options.

We are strongly recommending that the city implement an Inclusionary Housing Ordinance to ensure housing is produced equitably and creates balanced housing development to support housing for lower income residents. **The Inclusionary Housing Ordinance needs to require 20% of units on residential projects be set at the extremely low (7.5%), very low (7.5%), and low-income levels (5%).**

We look forward to working with the City of Costa Mesa to encourage effective housing policies that will help create balanced housing development and create much-needed affordable housing in our local communities. If you have any questions, please feel free to contact me at (949) 250-0909 or cesarc@kennedycommission.org

Sincerely,



Cesar Covarrubias
Executive Director

From: cmcdonald.home@gmail.com
Sent: Wednesday, July 26, 2023 7:59 AM
To: STEPHENS, JOHN; HARLAN, JEFFREY; REYNOLDS, ARLIS; MARR, ANDREA; CHAVEZ, MANUEL; GAMEROS, LOREN; HARPER, DON; TOLER, RUSSELL; ZICH, JON; VIVAR, JIMMY; ROJAS, JOHNNY; VALLARTA, ANGELY; ERETH, ADAM
Cc: GREEN, BRENDA; CITY CLERK
Subject: Joint Study Session - 07/26/23 - Inclusionary Housing Ordinance

Honorable Mayor, City Council Members and Planning Commissioners:

Why do we need an inclusionary housing ordinance? An IHO is one strategy in solving a problem that exists for many of your constituents. A poll by the Public Policy Institute of California in February of this year shows that 74% of likely voters in California see affordable housing as a big problem. You've heard speakers at the Planning Commission and City Council meetings express a need for assistance in facing economic and racial segregation.

The last study session gave you a good overview of some of the options and considerations. The current Agenda Report sets forth draft policy goals but fails to include the goal of working towards making certain affordable housing for very low,- low- and moderate-income residents gets built and the City provides the zoning and programs to help meet our RHNA. Since adopting an IHO is a program in our Housing Element, that needs to be the primary goal of the IHO. If the City fails to focus on this, the consequences could be dire. We know the HCD is unhappy with our approach to fair housing by its motion to file an amicus brief in the Ohio House case. The State of California, which does not have to approve the IHO itself, may find that our Housing Element continues to be noncompliant and take punitive action against the City for adopting an IHO that doesn't function to create more housing opportunities.

If the City truly intends to meet its RHNA, then the set-aside percentages in the Agenda Report will need to be higher. Cities in California typically use a set-aside percentage that is between 10% and 20%, with 15% being the average. Using a lower set-aside percentage as an incentive to developers is risky because it will likely not produce the desired number of units to satisfy the City's RHNA. Splitting the set-aside percentages between rental and for-sale housing is a method that is used by other cities but can have impacts on certain protected classes. Care must be taken not to create an exclusionary housing policy because the set-aside on for-sale housing is considerably less than rental (for example, the 5% low-income set-aside on townhomes).

I note that no mention has been made in the Agenda Report about allowing developers of for-sale housing the option of producing affordable rental units as part of a proposed

project. Since we are adopting an IHO as a program to our Housing Element, I believe that option must be offered in the IHO.

The zoning used in the proforma calculations in the consultant's analysis is less dense than what is used in the Housing Element. Measure K never specified the number of dwelling units per acre along the subject corridors, but the analysis uses 60 dwelling units per acre. If the zoning ends up being denser, for example, the 90 units per acre that the Housing Element shows North of the 405 Freeway, then the analysis is faulty. We need a proforma analysis that aligns more with the upzoning anticipated by the Housing Element.

Allowing developers to pay in-lieu fees is an issue if market-rate developers are forcing affordable housing developers out of the market because they can pay more for land and their projects "pencil out" better. Because of the availability of very little vacant land in Costa Mesa, the City may end up keeping those fees for many, many years before they can be used for an affordable project. While a first-time homebuyer program can help those trying to qualify for a starter home, it is a one-time affordable transaction. It may not preserve a residence as affordable for the next buyer, nor does it do anything toward helping the City satisfy its RHNA. Care needs to be taken that alternative means of compliance don't simply assist developers.

I note that the financial analysis shows that building for-sale housing on the Corridors would not be financially feasible because many of the parcels are used as motels, which provide more income than for-sale housing. This means that one of the selling points of Measure K turned out to be false.

In addition, it would have been helpful to have engagement of the public in a visioning and planning process done prior to the adoption of an IHO. Having affordable housing near transit lines, bike lanes and pedestrian paths would enable the lowering of parking in the new units. While Fairview Developmental Center is a site that could accommodate affordable housing, it will not satisfy all the units required to be zoned to meet the City's RHNA. We need a vision of the rest of the city, along with land use and transportation policies and investments, to make Costa Mesa flourish.

Thank you for your consideration.

Cynthia McDonald

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July 26, 2023
Via Email

Costa Mesa City Council
Planning Commission of the City of Costa Mesa
77 Fair Drive
Costa Mesa, CA 92626
citycouncil@costamesaca.gov
PCPublicComments@costamesaca.gov

Dear Members of the City Council and Planning Commission:

I will not be able to attend the Study Session on Wednesday, so I wanted to send in a few thoughts about the updated agenda report and reports by Keyser Marston Associates (KMA) being considered in connection with the potential adoption of an inclusionary housing ordinance (IHO).

The analysis KMA presents appears, on the surface, to be sophisticated and comprehensive; how could a 230+ page report be otherwise? But, in my layman's opinion, KMA omits three issues that I think are important to consider as we go down the road of an IHO.

First, I am surprised that KMA did not address the fact Costa Mesa's development pipeline was effectively ended by the adoption of Measure Y in 2016, which was only partially repealed by Measure K in 2023. **As we know, Measure Y remains in full force and effect everywhere outside the Measure K corridors.** This has at least two implications worth mentioning:

- A "citywide" IHO will be effectively meaningless outside the Measure K corridors, as not only will these properties not be subject to offsetting upzoning, no substantial development of any kind is economically feasible under the regulatory burden imposed by Measure Y.
- Most developers will need to purchase new properties and restart their development pipelines from effectively scratch. This will be a significant undertaking: not only are properties significantly more expensive than they were almost seven years ago due to baseline inflation, the cost of capital has risen dramatically during that time period. For reference, the federal funds effective rate in October 2016 was 0.4%; by May 2023, it had risen to 5.3%.

KMA does not analyze whether there has been a detectable uptick in interest in properties subject to Measure K, which is surprising given that KMA anticipates that upzoning will result in a significant increase in sale prices. It would be helpful to understand the extent to which sale prices and sale activity have already risen *in anticipation of upzoning*. If you anticipate that a property will be subject to a "windfall" like upzoning, it would be reasonable to assume that some developers would look to purchase properties *now* so they could reap that windfall themselves, and accordingly, current property owners should be raising their prices. Is this happening? Is it outpacing inflation? KMA doesn't say.

Therefore, given the “drag” on development posed by our historical regulatory environment (and our current regulatory environment outside the Measure K corridors), it is worth wondering if KMA’s “funds available for inclusionary housing” have been overestimated.

Second, KMA again reports on the *details* of other cities’ IHOs, but it does not report on the *effectiveness* of those other cities’ policies. Did any of the jurisdictions listed in Appendix A achieve significant production of both market rate and affordable housing? Were KMA’s estimates of the amount of “funds available for inclusionary housing” ultimately borne out in practice? If not, why not? Once again, KMA doesn’t say.

As I stated with my co-signors in our prior letter, IHOs’ track record regarding the actual production of housing is very mixed, and if KMA has consulted on a significant number of such IHOs, it is reasonable to ask whether its guidance is producing IHOs that get the results they claim. If jurisdictions are not meeting their affordable or market rate production goals under their IHOs, then isn’t it possible that the thresholds set by such IHOs are too onerous to be economically supportable?

In particular, I am very troubled by KMA’s reliance on this comparative “analysis” to set the threshold for the minimum project size. In its policy recommendation memo, KMA notes that “common thresholds” for IHO minimum project sizes “fall between 3 and ten units”, before recommending that the City adopt five units as its minimum project size to align with the State Density Bonus law. First, using the State Density Bonus law, which is *an incentive program* and not a regulatory mandate, is irrelevant. Not only is an incentive *nothing like* a regulatory mandate, KMA itself dismisses the likely effects of the State Density Bonus law elsewhere in its financial evaluation. And second, I have to think that this “finger in the air” approach to setting something as critically important as the minimum project size is *exactly* how many other California jurisdictions that have adopted IHOs still have a dearth of affordable housing and ridiculously expensive market rate housing. **A true financial evaluation should include careful and site-specific economic analysis.** With respect to minimum project size, this isn’t it.

Third, an approach that is not discussed in the KMA materials is San Diego’s, which adopted a more aggressive inclusionary housing ordinance in 2020 (again with KMA’s advice) while exempting significant parts of the city from it, and providing *incentives* rather than *obligations* to build in those exempted zones. Additionally, areas of the city subject to the IHO are having those obligations *phased in over time*, rather than applied all at once. I think both points deserve more attention:

- *Incentives versus obligations.* In areas where San Diego wants to build more housing, particularly middle class housing at scale, San Diego *exempts* these areas from the obligations of its IHO and replaces those regulations with a set of incentives that provide substantial benefits to developers that set aside significant amounts of affordable units. As KMA notes in our financial evaluation, applying the State Density Bonus in Costa Mesa typically makes projects *worse off*, or at least no better off, than the base zoning,

especially if we grant parking relief as part of the upzoning (see Financial Evaluation, p. 23). Therefore, if we want to incentivize the production of housing, why not set thresholds that are more aggressive in exchange for greater accommodations than the State Density Bonus law would provide? KMA waves away any consideration of incentives with statements such as, “based on historical development patterns it can be assumed that [above moderate income] units will be produced by market rate developers without City intervention” (Financial Evaluation, p. 15). *But with all due respect, if that were remotely true, Costa Mesa’s affordable housing crisis would not be nearly as severe as it is.* Yet here we are.

- *Phased implementation.* Costa Mesa finds itself in an uncertain development market (due to its historical regulatory constraints) and an unsettled macroeconomic environment. Therefore, it would be very prudent to consider phasing in any inclusionary housing ordinance over a period of years so that the market can adjust *and* so the City can evaluate housing production at each incremental step. This would also allow the City to “pause” ramping up the inclusionary housing requirements if it appeared that doing so would substantially burden the future production of housing.

I think these two features deserve additional study. Costa Mesa doesn’t just need to build affordable housing; it needs to repair its development market, which is a huge task unto itself. I wonder if these approaches – using affordable housing set-asides as *incentives* rather than mandates, and, to the extent units are mandated, phasing those incentives in over time – would encourage developers to get started quickly (so as to “lock-in” the incentives and the lower regulatory requirements offered in earlier years), and thus help to “kick start” our dormant pipeline. Once we get started again, it will be much easier to determine the extent to which the market can bear additional regulatory burden while maintaining a reasonable level of production.

Honestly, I think Costa Mesa is better off without an inclusionary housing ordinance at this time, but I understand our State regulatory situation effectively requires it. Therefore, I hope you examine all options and details critically, including the analysis of your advisors. Hopefully these thoughts are helpful.

Best,
Jenn Tanaka
321 Broadway, Costa Mesa

July 26, 2023

Dear Members of the City Council and Planning Commission,

There is **one glaring omission** in the pending proposal for an inclusionary housing ordinance (IHO). That omission is a **required set-aside of very-low-income units**.

The affordable housing crisis in Costa Mesa is deepening. Nearly half of the city's households are low-income. Strikingly, **29% of CM households are very-low-income**, meaning a family of four exists on annual earnings of less than \$51,500.

Who are these very-low-income workers struggling to survive in Costa Mesa? They work in construction (\$31,719/year), office and administrative support (\$47,758), health care support (\$28,243), protective services (\$31,878), building and grounds cleaning and maintenance (\$25,534), transportation (\$31,750), and food preparation and serving (\$26,465). (See Housing Element, Table 2-8.) These are essential workers, whose services are crucial to our community's economic and social health. But they cannot afford to rent an apartment here—all are “rent-burdened.” (Id., Community Profile, 2-36.)

Unless required to do so, the market will not provide affordable housing for these very-low-income households. The proof? Between 2014 and 2021, Costa Mesa saw **1134 market rate** apartments built, but **only nine** very-low-income deed-restricted units. In other words, **without an inclusionary ordinance**, 93% of the rental units produced in Costa Mesa during the last Housing Element cycle were above-moderate and **less than 1% were very-low-income**.

Similar scenarios played out across Orange County, wherever cities lacked an IHO requiring some percentage of very-low-income units. For example, in Anaheim, out of 8719 units built, 95% were above-moderate, 3% were very-low; in Brea, out of 2181 units, 98% were above-moderate, 0% were very-low; in Lake Forest, out of 3650 units, 93% were above-moderate, less than 1% were very-low; in Mission Viejo, out of 909 units, 93% were above-moderate, .1% were very-low; in Huntington Beach, between 2014-2019, out of 2472 units built, 84% were above-moderate, 2.5% were very-low. (See collected Annual Progress Reports, HCD website.)

In contrast, in cities with an IHO ordinance that requires some percentage of **very-low-income units**, this crucial sector of the housing market **grew** in the last planning period. For example, in San Clemente, which requires a 4% set-aside of very-low-income units in any project of over 6 units, out of 698 units, 80% were above-moderate and **9.7% were very-low**. In Santa Ana, which has an IHO requiring either 15% low, 10% very low, or 5% extremely low (or some combination of those categories), out of 4907 units, 67% were above-moderate and **9% were very-low**.

It is a myth that a strong IHO will kill housing production. Our neighbor, the City of Irvine, has long had a very effective IHO, requiring 5% very-low, 5% low-, and 5% moderate. Despite these requirements, housing production boomed during the last planning cycle, creating housing opportunities across multiple segments of the market: 31,000 units were built, including **1149 very-low-income units**.

What is the right IHO for Costa Mesa? The Costa Mesa Affordable Housing Coalition has been advocating for an IHO for years. We realize coming up with the right formula for the required affordability levels and % set-asides is complicated. If the requirement is too onerous, housing won't get developed. **If the requirement is too conservative**, the city will fail to meet its lower-income RHNA numbers and, even worse, a large share of its residents will continue to suffer from the soul-crushing burden of paying unaffordable rent.

We have talked with several experienced developers about the right IHO "formula" for Costa Mesa. All seemed to agree that Irvine's IHO – "5-5-5"—works. It produces a substantial amount of affordable housing and it does not dampen market-rate production. One developer noted that Irvine's successful redevelopment of industrial sites mirrors what Costa Mesa anticipates will happen here, once the upzoning outlined in our Housing Element happens.

The developers also seemed to agree **there is a "sweet spot"** where density is high enough to absorb both the cost of aboveground parking and an inclusionary requirement of very-low-income units. (We focused on the very-low requirement because we believe that is the most pressing need in Costa Mesa and it will not be met without an inclusionary requirement. See above.)

One developer said it would be "workable" to require a **"10-12% set-aside of very-low-units at a density of 50-80 DU/A"** – and a bit **higher north of the 405**. Another developer said it would not be too much to require **"5% very-low- at a density of 50-59 DU/A."** The third developer was not ready to state what formula might work, but he did praise Irvine's IHO and said it's a good comparison for Costa Mesa.

The important point here is that developers seem to agree that they can "work" with an IHO in Costa Mesa that requires somewhere between 5% and 12% very-low-income units, depending on the density (somewhere between 50 and 80 DU/A.) The details need to be ironed out, of course, but Costa Mesa can rest assured adopting a meaningful very-low-income inclusionary requirement will not stop housing development here.

For our part, we believe Costa Mesa should adopt an IHO that requires a set-aside of **7.5% very-low- and 7.5% low-income units for densities above 50 DU/A**. A lesser, but still significant, requirement for lesser densities should apply as well, with the likely result that these developments will generate in lieu fees.

Thank you for your hard work on this most important issue.

Kathy Esfahani,
on behalf of the Costa Mesa Affordable Housing Coalition