



City of Costa Mesa

Agenda Report

77 Fair Drive
Costa Mesa, CA 92626

File #: 22-811

Meeting Date: 7/12/2022

TITLE:

HOUSING IN COSTA MESA STUDY SESSION AND UPDATE

DEPARTMENT: ECONOMIC AND DEVELOPMENT SERVICES DEPARTMENT/ PLANNING DIVISION

PRESENTED BY: JENNIFER LE, DIRECTOR OF ECONOMIC AND DEVELOPMENT SERVICES/ SCOTT DRAPKIN, ASSISTANT DIRECTOR OF DEVELOPMENT SERVICES

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RECOMMENDATION:

Conduct a Study Session regarding housing in Costa Mesa, consider the City Council Housing Ad Hoc Committee's recommendations, and direct staff as appropriate.

BACKGROUND:

In January 2021, the City Council established a three year goal to "*Diversity, Stabilize and Increase Housing to Reflect Community Needs*". This goal was established by the Council to address housing instability in the community and to prioritize efforts to plan for future housing for all segments of Costa Mesa's population. The Housing Study Session presentation will provide an update regarding community demographics, current conditions regarding affordable housing, review short and long range solutions for improving housing opportunities, and discuss local strategies based on input from the Costa Mesa community.

Housing and Community Health

In the context of evaluating overall community health, the Centers for Disease Control (CDC) Healthy People 2030 Report outlines best practices for community health and wellbeing. *The Social Determinants of Health* are defined as conditions in the places where people live, learn, work, and play that have been scientifically shown to affect a wide range of health and quality of life risks and outcomes. Broadly, there are five categories: 1) Neighborhood and the built environment; 2) Health and healthcare; 3) Social and Community Context; 4) Education; and, 5) Economic Stability. Collectively, these factors influence the overall health, wellbeing and quality of life for a community and its residents. Strategically planning for the housing needs in Costa Mesa requires a comprehensive approach that meets the diverse needs of its residents, with the overarching goal of improving community health, wellbeing and sustainability.

Community Demographics

According to the 2020 Census, the total population of Costa Mesa is 112,106, with 40% homeowner and 60% renter households. The median household income was reported as \$90,370 for Costa Mesa, with 10.3% of Costa Mesa residents living below the Federal poverty level. 85.4% of households reside in the same housing unit they did one year ago and 38.8% reported speaking a language other than English in the home.

Within the City of Costa Mesa, there are approximately 42,000 housing units. The average number of persons per unit is 2.73, per the US Census. The vacancy rate for available units is very low at 2.8% (Rate.com), which increases the demand for vacant units.

The cost of rental units has risen significantly in the past several years, outpacing household income growth for the same period. As of January 2020, the average monthly rent for a one bedroom rental unit in Costa Mesa was \$2,159, \$2,649 for a two bedroom unit, and \$3,160 for a three bedroom unit. The median sales price for an ownership home was over \$870,000.

Based on household income, approximately 48% of Costa Mesa households fall into low, very low or extremely low income categories, or below 80% Area Median Income. As a result, most of these lower income households cannot reasonably afford to buy or rent most housing in Costa Mesa.

Approximately 49% of Costa Mesa renters and 32% of homeowners experience a high cost burden for housing, meaning more than 30 percent of their income is spent on monthly housing costs. In addition, approximately 9% of Costa Mesa housing units are overcrowded, with a majority of those units being renter occupied.

Table 1

Households by Income Category, 2020		
Income Category (% of Orange County's AMI)	No. Households	of Percent
Extremely Low (30% AMI or less)	6,610	16.3%
Very Low (31 to 50% AMI)	5,220	12.9%
Low (51 to 80% AMI)	7,325	18.1%
Moderate or Above (over 80% AMI)	21,405	52.8%
Total	40,555	100%
Source: Department of Housing and Urban Development (HUD) Comprehensive Housing Affordability Strategy (CHAS), 2013-2017		

Seniors represent about 11% of the City's population and are often particularly vulnerable to economic fluctuations in the rental market due to fixed incomes and mobility/accessibility issues. As the population ages, this vulnerable population may be at even greater risk of experiencing housing instability due to higher housing costs and lack of affordability.

Housing availability, affordability and quality standards are key considerations to preserve the existing housing supply but also to develop new units to meet the current and future needs of working and middle class families, individuals and seniors.

Status of General Plan Housing Element

The Housing Element is a chapter or “element” of the City’s General Plan and generally outlines the City’s policy framework and action items for housing for the next eight years. The Housing Element is required to be certified by the State, with a deadline for local adoption in February 2022.

The City began its Housing Element Update in late 2019. As part of the update, the City is required to identify potential land suitable for housing development to meet future housing needs as defined by the State’s Regional Housing Needs Assessment (RHNA) allocation for Costa Mesa. The City must also establish goals, policies, objectives and an implementation program that outlines the City’s eight year plan for responding to the community’s housing needs for residents at all income levels.

Although the City does not build housing, the Housing Element is intended to create the regulatory framework that provides opportunities for the private sector to develop housing.

Regional Housing Needs Assessment (RHNA) Allocation

Similar to previous housing element cycles and as required by law, the State prepared a Regional Housing Needs Assessment (RHNA) that allocates the City’s “fair share” of regional housing. The City has been required by the State to plan and zone for a total of 11,760 units (total RHNA) that includes 2,919 “very low” income units, 1,794 “low” income units, 2,088 “moderate” income units and 4,959 “above moderate” income units (Table 2).

Table 2 - Costa Mesa RHNA

Income Category	% of Area Median Income (AMI)	Income Range*		RHNA Allocation (Housing Units)
		Min.	Max.	
Very Low Income	0 - 50% AMI	--	\$53,350	2,919
Low Income	51 – 80% AMI	\$53,350	\$85,360	1,794
Moderate Income	81 – 120% AMI	\$85,360	\$128,040	2,088
Above Moderate Income	>120% AMI	\$128,040	--	4,959
Total:				11,760

The City is not required to build this number of housing units; however, the City must update the Housing Element to support the future development of additional housing units through land use related goals, policies, and programs, and submit annual reports to the State as to the City’s progress in implementing its plan. This process has been in place in California since 1969 and the current 8-year cycle is the sixth one since its inception.

Housing Element Outreach and Community Feedback

Since early 2020, the City has reached out to the community including

residents and other stakeholders to obtain feedback on the need for affordable housing and appropriate locations known as “opportunity sites” for potential future housing development. Specifically, City staff and its Housing Element expert consultant (Kimley-Horn) hosted two City-wide Town Hall meetings (November 18, 2020 and September 2, 2021), two outreach meetings for the City’s six voting districts (February 17, 2021 and February 18, 2021), and several other stakeholder meetings with affordable housing advocates, the development community, and local community organizations and service providers. A community housing survey was posted online in both English and Spanish with over 400 community responses received. A Special Study Session with the Planning Commission was held on March 1, 2021 and with the City Council on March 23, 2021. In addition, on April 27, 2021 and September 13, 2021, the City Council and Planning Commission held joint public Study Sessions. These meetings were widely publicized in both English and Spanish and at each step there were opportunities for public involvement and comment in crafting the City’s housing plan. The Draft Housing Element was also circulated for public comment between August 17, 2021 and September 15, 2021 and the City received over 50 public comments. Community feedback guided the decisions as to appropriate housing opportunity sites, and the housing policies and programs to be included in the City’s 6th Cycle Housing Element Update.

Housing Element “Guiding Principles”

Based on the extensive input received from community outreach efforts, local officials and other stakeholders, the City established “Guiding Principles” that were central to the Housing Element update process. These Guiding Principles reflected the desire for a Costa Mesa housing plan that focused on maintaining the character of existing and established single-family residential neighborhoods, while focusing new housing and mixed use opportunities along the City’s major commercial and industrial corridors. This feedback shaped the site analysis process and the development of the City’s housing goals, programs, and policies.

- *The City will plan for future housing primarily along major commercial, industrial, and mixed-use corridors within Costa Mesa that are compatible with growth, while preserving established residential neighborhoods;*
- *Each neighborhood, community, and district within Costa Mesa has its own unique characteristics and needs. Future housing growth will build upon Costa Mesa’s history and complement the diversity and unique characteristics that already exist within each area; and*
- *The City will plan for a diverse range of housing forms, types, and densities to address the housing needs of an inclusive and diverse community and provide housing opportunities that meet the needs of all residents, including low-income households, seniors, multi-generational families, larger households, and special needs groups.*

Housing Element Adoption and State Certification Status

Following public review, the Housing Element was submitted to the State in October 2021 for review. The City received a State comment letter in December 2021 requesting revisions. Staff revised the Housing Element to respond to State comments prior to presenting the draft Housing Element to the Planning Commission for its final recommendation.

The Planning Commission held three (3) public hearings on November 8, 2021, November 22, 2021 and December 13, 2021 and ultimately recommended approval to the City Council. The City Council held two (2) additional public hearings on January 18, 2022 and on February 1, 2022 and adopted the Housing Element, directing staff to resubmit the adopted Housing Element and continue to work toward State certification.

Staff resubmitted the adopted Housing Element in February 2022 and received a second State comment letter in April 2022 requesting additional revisions. The State's second letter requested additional information on several topics, requested the City lower its ADU construction estimates, and modify housing program language related to Extremely Low Income Households, Fairview Development Center, Rezoning Sites, and minimizing constraints to housing posed by the requirements of Measure Y. Staff have made draft revisions, met with HCD staff, and intend to resubmit the Housing Element in July for certification. Following certification, staff would return to the City Council with the State-certified Housing Element for final adoption.

Under AB1398 signed into law in 2021, Cities without HCD-certified housing elements by October 2021 (which represented a vast majority of SCAG cities) were required to accelerate re-zoning of certain areas within their jurisdiction as needed to accommodate their RHNA allocation by October 2022. However, under AB/SB 197 (2022), cities in the SCAG region would have 3 years and 120 days (February 2025) to re-zone those areas if:

- The local government failed to adopt a housing element found to be in *substantial compliance* by HCD, and;
- The local government adopts a certified housing element by October 2022.

City Council Housing Ad Hoc Committee

On October 19, 2021, the City Council formed a City Council Housing Ad Hoc Committee. The Housing Ad Hoc Committee was formed to review and advise City staff on housing matters and to formulate housing recommendations to the City Council for action at public meetings. The Ad Hoc Committee is comprised of three City Council members (Councilmember Harlan, Councilmember Reynolds and Mayor Pro Tem Marr) and is advisory in nature, of limited duration and has held meetings on an as needed basis.

Following receipt of the State's December 2021 comment letter which stated that Measure Y was "clearly a constraint on development and conflicts with meeting State requirements", the Housing Ad Hoc Committee hosted a community forum on January 11, 2022 to discuss options for achieving community housing goals in the context of the Measure Y requirements. Public testimony was beneficial for the Ad Hoc members to gain insight into current community sentiment regarding Measure Y and the future housing development needs for Costa Mesa's working and middle class families, individuals and residents. Moreover, a consultant was hired to conduct additional community

surveys in order to obtain further feedback from Costa Mesa residents regarding their priorities as it relates to housing and economic revitalization. Over 400 residents were surveyed. Their extensive feedback formed the basis of the Housing Ad Hoc Committee's recommendations in the Planning for the Future section of this report. Lastly, the Ad Hoc Committee held approximately a dozen meetings with City staff to provide in depth direction, feedback and analysis regarding the proposed solutions to the housing crisis that are contained in this report.

ANALYSIS:

CONSTRAINTS, CHALLENGES AND OPPORTUNITIES

Lack of Funding for Housing Development and Community Revitalization

With the loss of \$2 billion in Statewide Redevelopment funding to localities in 2011, cities in California have far less capacity to significantly revitalize aged infrastructure, develop new residential units and improve business corridors to meet changes in community needs. The City of Costa Mesa, the County, and 24 other cities in Orange County have joined in a regional Housing Finance Trust to support housing development. The Trust has the initial goal of achieving 2,700 housing units within the first 5 years with permanent supportive housing and affordable housing at the lowest income levels being the focus of the Trust. While multiple cities and projects have received modest funding allocations, it is unclear whether the Trust will be able to achieve its goals given its financial constraints.

RHNA Allocation and State Mandates

With a RHNA allocation of 11,760 units and nearly half of those units in more affordable categories, the City has a difficult task in planning for high quality housing types and locations that are compatible with the fabric of existing Costa Mesa neighborhoods. In addition, the City is subject to State mandated timelines to complete planning and zoning actions quickly and must report annually on its progress in meeting housing goals.

In recent years, the State has enacted more severe penalties for non-compliance and last year funded an expanded enforcement team with a new Housing Accountability Unit that specifically enforces Housing Element compliance. Non-compliance can lead to revocation of housing element certification and/or referral to the California Office of the Attorney General. Ultimately, the City can be subject to severe fines of up to \$100,000 per month, loss of State funding, and perhaps more importantly loss of local control over its land use decisions. The State can override the City's land use authority and mandate "by right" development and/or suspend the City's authority to issue any building permits. Outside groups may also file legal actions against the City for non-compliance.

More importantly, the current trends of escalating housing costs, lack of housing units across all income levels, and increased housing instability, are creating an urgency to develop long term planning and construction efforts necessary to meet the current and future housing needs of Costa Mesa residents.

In the meantime, City staff continue to work with the State to obtain State HCD certification for the City's Housing Element. The State's April 2022 comment letter continues to request more specific information about actions the City will take to achieve its housing goals in light of Measure Y.

SHORT TERM HOUSING SOLUTIONS

The City is actively developing strategies to strengthen its housing objectives. Increasing rental and home ownership opportunities at all income levels is critical to maintaining a vibrant, diverse and economically stable community in Costa Mesa.

Homelessness Prevention and Intervention Efforts

The City of Costa Mesa has been proactive in its efforts to develop strategies to strengthen the safety net for all of its residents, particularly those at risk or experiencing homelessness. Despite pandemic related barriers, from April 2019 to June 2022, a total of 225 homeless individuals from Costa Mesa are now permanently housed. The 2020 Point in Time Count showed a 20% decrease in unsheltered persons in the City. To maximize street outreach efforts, additional housing options are desperately needed.

Rental Assistance to Families and Individuals

Additionally, the City Council invested \$1.6 million in financial assistance for rental households to mitigate pandemic impacts and rapidly rising rental costs due to market inflation and looming recession conditions. The City has executed contracts with three non-profit organizations to administer a variety of rental assistance programs to prevent homelessness for hundreds of Costa Mesa renters. Concurrently, the State and County operated rental relief programs that provided nearly \$19 million to 1,500 households within Costa Mesa, with 61% of those served in the 30% AMI extremely low income category.

HOME Funds for Affordable Housing Development

In addition to direct rental assistance programs to bridge the gap in the short-term, the City Council also approved an Annual Action Plan in May 2022 that earmarked \$2.3 Million in Home Investment Partnership (HOME) Program funds toward the development of affordable housing units. The HOME funding source is the primary funding source to support the development of affordable housing in Costa Mesa, and per Council policy direction, has been deployed to aid in this housing development strategy.

Homekey Motel Conversion Program

The California Department of Housing and Community Development's Homekey Program provides direct housing opportunities by subsidizing the acquisition and conversion of hotels and motels to expedite development of permanent supportive housing to get at-risk families and individuals off the streets.

The Motel 6 Project in Costa Mesa was awarded funding from the State Homekey Program and the County Housing Authority. This one project will generate up to 88 units of permanent housing for veterans, and low-income seniors over age 62.

Converting an existing motel to permanent housing will further stabilize the site, with long term residents and an experienced service provider that is on-site providing supportive services. When complete, it will be the first deed-restricted affordable housing units credited towards the City's 6th

Cycle RHNA allocation.

Accessory Dwelling Units (ADUs)

ADU's are a part of the City's overall housing strategy to meet its RHNA allocation and increase housing and affordable housing supply in the short and long term. ADU's provide an opportunity to increase housing stock, and smaller ADU's will likely rent at prices which fall within affordable categories, thereby increasing more affordable rental housing opportunities. The City adopted an ADU Ordinance in 2018 and updated it in 2021 to allow compatible ADU's within existing residential neighborhoods. Since 2018, the City has received over 200 ADU applications. Over 100 ADU's are either constructed or have building permits issued and are under construction, with the remainder in plan check.

The City's Housing Element estimates 572 ADU's will be constructed over the next eight years (nearly 400 projected to fall within low and very-low income categories).

Fairview Developmental Center

In 2020, the City Council created an Ad Hoc Committee to advise staff on matters related to the Fairview Developmental Center and present recommendations to the City Council as needed. In 2020, the Council identified a vision statement for FDC that included support for 1,500 mixed use/mixed income housing units at the site, including workforce, veterans, and permanent supportive housing. The Council directed staff to continue to coordinate with the State with the goal of maintaining local input into future development options at the site.

The City's Housing Element also lists FDC as a housing opportunity site and estimated 2,300 units for the location.

In 2022, City staff worked with the State to discuss the process for deciding the future disposition of the site in order to ensure local input over the final disposition of this land asset located in the City's boundaries. This process will require the City to develop a Specific Plan to accommodate between 1,500 to 2,500 housing units at the location, to include mixed income, permanent supportive housing, affordable and market rate housing types. We are pleased to report the State will provide \$3.5 million in funding to support a three year contract for local outreach and planning efforts with the ultimate goal of the State retaining a developer through a public RFP process to construct the local vision for the site established by the City. (SB188)

PLANNING FOR THE FUTURE

For the 2014 to 2021 Housing Element planning period (5th cycle RHNA), 1,232 housing units were permitted in Costa Mesa, with only 17, 37, and 19 of the housing units falling into the very low, low and moderate income categories, respectively. The majority of the affordable units were ADU's constructed in the last few years of the planning period with 9 of the units constructed as part of the housing project at the former Costa Mesa Motor Inn site (2277 Harbor Blvd).

The City's RHNA allocation for the 2021-2029 planning period is 11,760 units. Although staff disagrees with this allocation and filed an appeal similar to many Orange County cities, staff acknowledges that housing instability due to rising rental and ownership housing prices that is outpacing income growth, coupled with a low vacancy rate in an environment where new housing

construction projects are minimal, points to the need for an immediate and proactive approach to plan for new housing projects that will truly benefit Costa Mesa's residents.

In addition, because the City has very few areas which permit residential development at or above 30 du/ac (the default density identified by State HCD as the density at which the market begins to create affordable housing), the City does not have the capacity in place to provide for more affordable housing options without re-visioning some of the City's major commercial and industrial corridors to allow for mixed use/ housing projects.

Revitalizing Key Corridors While Keeping Single Family Residential Areas Intact

In keeping with the Housing Element's Guiding Principles and feedback from the community, the Housing Element identifies future housing opportunity sites exclusively on commercial and industrial corridors, and north of the 405 freeway (where housing projects up to 125/dwelling units per acre already exist), while protecting established single-family residential neighborhoods and open space areas. The Housing Opportunity Sites are generally located on:

- Harbor Boulevard;
- Areas north of the I-405 freeway;
- West 18th and 19th Streets;
- Placentia Avenue; and
- the SoBECA area.

In addition, although not specifically identified for potential housing sites, programs are included in the Housing Element to evaluate and plan for mixed use / housing on the Newport Boulevard and 17th Street corridors, as well as further study of the potential for housing in the Airport Industrial area.

Newport Boulevard

The Newport Boulevard corridor contains a mix of commercial uses including 1980's-era motels on small lots fronting Newport Boulevard adjacent to the SR-55 freeway. This area presents an opportunity for focused mixed-use/ housing development which would further enliven the corridor through the addition of strategically located residential uses. The City adopted a Specific Plan for the area in the 1990's which allows for residential development but has proven to be relatively ineffective at producing redevelopment or modernization of outdated and underutilized properties. The result is an aging corridor in need of updating to attract new businesses, as well as potential housing opportunities.

Harbor Boulevard

There is currently a mixed use overlay along Harbor Boulevard that extends from 19th Street to north of Victoria Street. This overlay could be modified to allow more creative options for mixed use and residential development.

North of the I-405 Freeway

The area north of the 405 freeway is separated from established single-family residential neighborhoods and is already home to a number of high quality apartment communities like 580 Anton, Halcyon, Enclave and the Lakes, which are already developed at densities up to 125 du/acre. This area is a mix of commercial, industrial, and Planned Development sites and is in proximity to some of the City's major job centers and retail shopping destinations. Some of this area is already included in the City's North Costa Mesa Specific Plan, which was originally approved in 1994.

Future Land Use Plan Updates

Planning for potential housing along the above described corridors and making progress toward Costa Mesa's community housing goals will require the City to amend its General Plan and undertake rezoning actions including updates to the following outdated land use plans:

- North Costa Mesa Specific Plan
- 19 West Urban Plan
- SoBECA Urban Plan
- Mesa West Bluff Urban Plan
- Residential Ownership Urban Plan (Proposed to be Removed)
- Harbor Mixed-Use Overlay
- Newport Boulevard Specific Plan

Many of these plans are 20 to 30 years old and no longer reflect the community's vision for housing or high quality development. Updates to these plans are already called for and included in the City's Housing Element.

Each update would be accompanied and informed by ongoing in-depth community outreach and visioning exercises. Community visioning is critical to neighborhood planning and necessary to envision how housing opportunity areas identified in a Housing Element will translate into well-designed, high quality, compatible housing projects that fit into the context of its surroundings.

Following community outreach, these land use plans would be released for a public comment period to ensure opportunities for community feedback. Ultimately, all land use plan updates would be reviewed by the Planning Commission and decided on by the City Council at a public hearing. Land use plan updates would also require review under the California Environmental Quality Act (CEQA) including preparation of environmental studies and circulation of environmental documents for public review prior to any decisions.

Housing Ad Hoc Committee Recommendation

In order to move forward with the above described community visioning efforts and land use plan updates for the City's major commercial/industrial corridors and the area north of the I-405 freeway within the timeframes mandated by the State, the Housing Ad Hoc Committee recommends that the City Council direct staff to agendize a Council discussion and action on a ballot measure at the July

19, 2022 Council meeting.

ALTERNATIVES:

This is a Study Session; hence, no alternatives are identified.

FISCAL REVIEW:

There are no fiscal impacts associated with the Housing Study Session and Update.

LEGAL REVIEW:

The City Attorney's Office has approved this report as to form.

CITY COUNCIL GOALS AND PRIORITIES:

This item supports the following City Council Goal:

- Diversify, Stabilize and Increase Housing to Reflect Community Needs

CONCLUSION:

Staff recommends that the City Council receive and file this report and provide direction to staff as appropriate.