

From: [Jennifer Tanaka](#)
To: [CITY COUNCIL](#)
Cc: [CITY CLERK](#)
Subject: Comments for City Council Study Session 2/27/2024
Date: Tuesday, February 27, 2024 11:09:49 AM

Hello, Members of the City Council:

I have just a few questions/comments for the Study Session on in-lieu fees this evening.

- Please consider removing the in-lieu fee requirement for ownership housing. Our renter-to-homeowner ratio already attests to the difficulty of building ownership housing in Costa Mesa. Imposing an inclusionary housing fee on this type of housing, no matter how well intentioned, will function **as a straight tax on home ownership**. If we aren't going to require building any affordable ownership units, we shouldn't put the affordable ownership units we DO build further out of reach by taxing them.

- Please ask KMA to clarify its base fee recommendations for rental developments with densities 60+ DUA. At various points in the KMA report, the base fee for developments 60+ DUA is reported to be \$26.10, \$23.80, or \$19.50 per sq ft of leaseable space. I suspect the difference is due to switching among the 11% low income inclusionary requirements recommended by City Council, the 10% low income inclusionary requirements recommended by the Planning Commission, and the 5% very low income inclusionary requirement recommended by the Planning Commission.

- Can staff or KMA please explain why the fee is stepped up only between developments of 15 and 20 units? Given that only developments under 50 units are permitted to pay in-lieu fees based on the City Council recommendation, it seems odd that the fee per sq ft of leaseable space would be the same for a 21 unit building as it would for a 49 unit building. I would personally consider stepping up the fee more gradually, perhaps in increments of 5 or 10 rather than 1.

- Speaking of which, I would like the City Council to consider raising the in-lieu fee threshold from 50 units to something larger. Neighboring Huntington Beach has a 100 unit threshold and, given that there are some similarities in our markets, that seems like a reasonable place to start.

- It would be great if we could get some color from the Finance Director or the City Attorney about the amount of flexibility the City Council will have to adjust the fee, and how difficult that adjustment will be. Additionally, KMA recommends that the fee be updated at least every 5 years; given that this program is brand new and we would be getting feedback from developers for the first time, it may make sense to revisit the fee every year, at least for the next 3-5 years.

Thanks,
Jenn Tanaka

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From: pete_collectivehosingsupply.com
To: [CITY CLERK](#)
Cc: [STEPHENS, JOHN](#); [HARLAN, JEFFREY](#); [MARR, ANDREA](#); [CHAVEZ, MANUEL](#); [GAMEROS, LOREN](#); [HARPER, DON](#); [REYNOLDS, ARLIS](#)
Subject: Affordable housing Ordinance
Date: Tuesday, February 27, 2024 12:42:15 PM

Ladies and Gentlemen.

I am a real estate developer with a number of successful developments in the City of Costa Mesa. Westreef, Miraval, Collective, to name several. All of these projects are infill, low to medium density, for sale residential developments from 8- 21 homes.

I have reviewed the draft ordinance for income restrictions and potential in lieu fees and I feel that as proposed, the conditions would severely impact the ability of developments such as these to be proposed in the future.

I strongly believe the income restrictions on smaller projects in the 6-20 unit per acre density are inappropriate and will only go towards a reduction of much needed housing in these low to medium densities throughout the City.

It makes it almost impossible to include low-income restricted units in low to medium density and not impact the project as a whole. It is also very difficult if not impossible to find qualified buyers for income restricted units.

The proposed fees in lieu will also create a situation where many of the above referenced developments will become unfeasible due to the financial burden on the project. Having experience with fees in lieu in other cities including Huntington Beach, I believe the figures listed as comparison should be revisited for accuracy and actual implementation. In other words, the concept sounds good but in reality they do not result in the intended purpose.

Thank you for considering my experience and comments.

Kind regards,

Pete Zehnder
Collective Housing Supply Co.
949-230-5426

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February 27, 2024

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

Re: Study Session – Establish Affordable Housing Requirements

Dear Mayor and Council,

On behalf of the Building Industry Association of Southern California - Orange County Chapter (BIA/OC), I write to share additional context that has been missing from the Inclusionary Zoning conversation. The recently released findings of Keyser Marston (KMA) purports a fee of \$26.10 per sq/ft for the most likely style of rental construction and \$17.70 per sq/ft for ownership projects. These numbers should be viewed in light of similar recommendations in neighboring jurisdictions.

The best example is Santa Ana. Santa Ana used KMA to draft a policy and calculate fees, so its experience is particularly relevant. Most notably, the Santa Ana policy has been heralded by some as a “success,” generating affordable housing funds... but careful analysis of publicly available data challenges the assumption that the policy is driving the achieved revenues.

Last week, on February 20, 2024, Council and Staff engaged in a conversation on their Housing Opportunity Ordinance (HOO) at the Hour 4, Minute 29 mark. The video of this hearing can be found here: <https://www.santa-ana.org/agendas-and-minutes/>. Although staff reports are showing that funding is coming into the Santa Ana Inclusionary fund, ZERO dollars of the funding in question was contributed at the level established by their current policy. Not one project in Santa Ana has paid an in-lieu fee of \$15 per sq/ft in the 15 years that Santa Ana has had an in-lieu fee program. The average in-lieu fee paid throughout this time has been around \$5,000 per unit or \$5.00 per sq/ft. A stark contrast to the requirements of their current HOO.

Santa Ana staff provided analysis of HOO funds at their November 16, 2021 council hearing. Within that staff report is “Exhibit 5,” which looks back at thirteen entitled projects constituting 4,194 units with an average in-lieu fee of about \$5 per sq/ft.

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The delta between \$5 a sq/ft and \$15 a sq/ft is existential in the development world. Tonight, your staff report says the HOO sits at \$20 per sq/ft in Santa Ana, which needs to be fact checked as all indications are that Santa Ana remains at \$15 per sq/ft. Regardless, there is a clear, unequivocal demonstration taking place in real time, in Santa Ana, that their set fee is a policy failure and that projects moving to the entitlement phase can, at best, afford only a fraction of the rate claimed to be feasible.

It would be deeply troubling to see Costa Mesa follow suit in creating a fee structure in the \$17-\$26 range that serves only as the “thing” that must be avoided to make a project viable. Housing does not get built when a city makes a project harder to finance.

The point of raising this issue with Santa Ana (and it is not limited to just Santa Ana) is to show that Inclusionary Zoning and related fee structures are inherently difficult to implement correctly. Development is viewed on a parcel-by-parcel basis. Citywide generalities will inevitably result in lost housing opportunity, despite best intentions and efforts. Inclusionary Zoning is an excellent tool for giving the appearance that “something” is being done about housing affordability. The reality of Inclusionary Zoning is that it kills far more homes than it creates, ultimately fueling the growth of California’s housing crisis.

Thank you for your thoughtful consideration of the points raised above.

Sincerely,

A handwritten signature in black ink, appearing to read 'AW', with a long horizontal stroke extending to the right.

Adam S. Wood
Senior Vice President
Building Industry Association
of Southern California – Orange County Chapter