



STAFF REPORT

DATE: 05/21/2025
TO: Honorable Mayor and City Council Members
FROM: Planning and Development Department

2025-200

REQUEST FOR CITY COUNCIL ACTION

SUBJECT:
INCLUSIONARY HOUSING ORDINANCE RESEARCH RESULTS

EXECUTIVE SUMMARY:

This staff report asks the City Council to provide direction on preparing an inclusionary housing ordinance and hiring a consultant to prepare a fee analysis for determining an in lieu fee associated with the ordinance. An inclusionary housing ordinance would require developers of new residential developments to provide a certain percentage of affordable housing units within the project or pay a fee in lieu of building affordable housing units on-site. The City would use the in lieu fee to create affordable housing.

RECOMMENDED ACTION:

That the City Council provide direction on preparing an inclusionary housing ordinance and hiring a consultant to prepare a fee analysis for determining an in-lieu fee associated with the ordinance.

BACKGROUND & HISTORY:

At the request of Council Member Speake, the City Council at its meeting on September 18, 2024, discussed the possibility of preparing an inclusionary housing ordinance. The Council was not opposed to the idea but first wanted to know more about it and if inclusionary housing ordinances in other cities have resulted in affordable housing being built.

What is an Inclusionary Housing Ordinance?

An inclusionary housing ordinance typically requires a portion of new residential construction to provide a certain percentage of residential units to be set aside for the sale or rent to low- or moderate-income households to increase the availability of affordable housing, or as an alternative, the developer would pay the City a fee in lieu of building affordable units within the project. The in-lieu fee would be dedicated to affordable housing and managed by the City's Housing Authority to facilitate the construction, acquisition and preservation of affordable housing.

Inclusionary Housing Ordinance Research

City staff researched 15 nearby cities in the counties of Riverside, Orange and San Bernardino to determine which cities have adopted an inclusionary housing ordinance. Based on the research, only four cities have an inclusionary housing ordinance. Table 1 shows the cities included in the research.

Table 1	
Inclusionary Housing Ordinance Research	
Riverside County	
City	IH Ordinance
Norco	Yes
Jurupa Valley	Yes
Riverside	No
Moreno Valley	No
Banning	No
Lake Elsinore	No
Temecula	No
Eastvale	No
San Jacinto	No
Orange County	
Tustin	Yes
Irvine	Yes
Yorba Linda	No
San Bernardino County	
Rancho Cucamonga	No
Ontario	No
Chino Hills	No

The cities of Norco, Tustin and Irvine are similar in the affordable housing requirement, which requires at least 15% of the total residential units of new residential construction to be affordable units using a combination of low and moderate income units. The affordable housing requirement in Jurupa Valley was lower, requiring 7% of the total residential units to be set aside as affordable. The combination of low and moderate income units varied in each city but the requirement for providing lower income units was generally the same at 9% and above. Also, Tustin's inclusionary housing requirement is not citywide and is limited to two geographical areas identified as the Red Hill Avenue Specific Plan and Downtown Commercial Core Specific Plan.

Each inclusionary housing ordinance allowed an alternative for a developer to use in lieu of constructing affordable housing units as part of new residential development. These alternatives would satisfy the developer's obligations required by the inclusionary housing ordinance. Common alternatives include:

- In lieu fee. The payment of a fee in lieu of constructing affordable housing units onsite. The in-lieu fee would be used by the city to provide affordable housing.
- Land donation. Land within the City is donated to the city by the developer to support the future construction of affordable housing units.
- Offsite units. Affordable units would be constructed offsite elsewhere in the city by the developer.
- Conversion of market rate units. Market rate units already constructed would be converted to affordable housing units for a certain period of time by the developer.
- Preservation of at-risk units. Existing affordable housing units that are at risk of losing funding would receive funding by the developer to extend the term of affordability for a certain period of time.

Table 2 summarizes the requirements of the inclusionary housing ordinances for the cities of Norco, Jurupa Valley, Tustin and Irvine.

Table 2 Summary of Inclusionary Housing Requirements			
New Residential Development Affected	Affordable Housing Requirement	Alternatives for New Residential Development	In Lieu Fee
Norco			
≥ 5 single family units ≥ 5 multi-family units	15% in the following combination: <ul style="list-style-type: none"> • 9% low income • 6% moderate income (the above option can be reduced [credit] if a percentage of very low-income units are provided)	≤ 20 residential units: <ul style="list-style-type: none"> • In lieu fee • Offsite units • Land donation 	Escalating fee. Fee is based on square foot per market rate unit type & project size.
Jurupa Valley			
All residential types.	7% in the following combination: <ul style="list-style-type: none"> • 1st unit at moderate • 2nd unit at low • 3rd & 4th units at very low Subsequent units to follow the same distribution such that 25% at moderate, 25% at low and 50% at very low	<ul style="list-style-type: none"> • In lieu fee • Offsite units • Land dedication • Conversion of market rate units to affordable units • Preservation of at-risk units 	\$2.50 per square foot of each market rate unit in the project.
Tustin			
All residential types.	15% in the following combination: <ul style="list-style-type: none"> • 6% very low • 4.5% low • 4.5 % moderate, or 12.5% in the following combination: <ul style="list-style-type: none"> • 7.5% very low 	≤ 20 residential units: <ul style="list-style-type: none"> • In lieu fee • Offsite units • Land donation 	\$15,494 per market rate unit but allows a 50% reduction under the Voluntary

Table 2 Summary of Inclusionary Housing Requirements			
New Residential Development Affected	Affordable Housing Requirement	Alternatives for New Residential Development	In Lieu Fee
	<ul style="list-style-type: none"> • 5% moderate, or 15% in the following combination: <ul style="list-style-type: none"> • 5% very low • 10% low 		Workforce Housing Incentive Program (VWHIP).
Irvine			
All residential types.	15% in the following combination: <ul style="list-style-type: none"> • 5% very low • 5% low • 5% moderate 	≤ 50 residential units: <ul style="list-style-type: none"> • Offsite units • In lieu fee • Land dedication • Conversion of market rate units to affordable housing • Preservation of at-risk units 	\$16,693 per market rate unit in project.

Affordable Housing Outcomes from Inclusionary Housing Requirements

Table 3 summarizes the number of affordable housing units created resulting from the inclusionary housing requirements in the cities researched.

Table 3 Affordable Housing Outcomes		
City	IH Ordinance Adoption	Affordable Units Resulting From IH Ordinance
Irvine	2003	2,111 units constructed 433 units entitled (Irvine Housing Element, May 24, 2022)
Tustin	2018	2 units constructed 9 units entitled
Jurupa Valley	2022	No reportable metric
Norco	2022	No reportable metric

It is worth noting that Irvine has a robust housing market unlike the other cities in this research and the development of affordable housing units is beyond the requirements of Irvine's inclusionary housing ordinance. Irvine has other funding sources and partnerships with developers that support the creation of affordable housing. For example, during the 5th Cycle Housing Element period from 2014 to 2020, Irvine issued

permits for 31,009 housing units. Of those, 14,184 units were affordable housing units, which exceeds the number of units created from the inclusionary housing ordinance.

Norco and Jurupa Valley's inclusionary housing ordinances adopted in 2022 are fairly new. According to the ordinance in Jurupa Valley, the city is required to report on the effectiveness of the ordinance within three years from the date of its adoption, which is sometime around August 2025.

ANALYSIS:

The following outlines the process for the City in preparing an inclusionary housing ordinance.

- Prepare draft ordinance. Staff would prepare a draft ordinance that would describe the requirements for inclusionary housing.
- Fee study. The City would hire a fee consultant to prepare a fee study for determining an "in lieu" fee that can be considered as an alternative to satisfying the inclusionary housing requirement. The in-lieu fee would be paid by the developer for not constructing the affordable housing units in the project.
- Public outreach. The City would do outreach to homebuilders and stakeholders to share the draft requirements of the inclusionary housing ordinance and the amount of the in-lieu fee.
- City Council update. Staff would present the draft ordinance and in lieu fee to the council before the final ordinance is presented to the council for adoption.

Time and Cost

The city anticipates it will take 12 to 18 months to prepare the ordinance, fee study, and conduct the public outreach. The cost of the fee study is anticipated to range from \$20,000 to \$50,000.

FINANCIAL IMPACT:

The anticipated cost for this request ranges from \$20,000 to \$50,000.

ENVIRONMENTAL ANALYSIS:

This action is exempt pursuant to Section 15061(b)(3) of the Guidelines for the California Environmental Quality Act (CEQA), which states that a project is exempt from CEQA if the activity is covered by the commonsense exemption that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. This action is simply to receive direction from the City Council to initiate the process of preparing an ordinance for inclusionary housing. There is no possibility that this activity will have a significant effect on the environment. Therefore, no environmental analysis is required.

PREPARED BY: JOANNE COLETTA, PLANNING AND DEVELOPMENT DIRECTOR

ATTACHMENTS:

1. Exhibit 1 – Inclusionary Housing Ordinance research power point
2. Exhibit 2 – Council Member Speake future agenda item request