RESPONSE 15.41

The comment is noted for the record and will be forwarded to the City decision makers for their review and consideration. The information provided in this comment has been addressed in Response to Comment 15.6.

COMMENT 15.42

Housing Crisis Task Force

VERSION 1.0

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EXECUTIVE SUMMARY

In November 1999, a Housing Crisis Task Force made up of business and community representatives and staff of City agencies was convened by the Los Angeles City Council to consider the profound crisis of housing affordability in the City. The City's housing prices have risen so high that they not only devour the wages of working families, but threaten the City's continued economic growth. Los Angeles is a city of renters, yet in Los Angeles renters pay a higher proportion of their incomes for rent th anywhere else in the state.

The Housing Crisis Task Force recommends that the City take immediate action to:

1. Establish a housing trust fund with dedicated sources of local revenue.
2. Develop a comprehensive strategy to preserve existing affordable housing.
3. Create more affordable homeownership opportunities through innovative land use.
4. Make the City user-friendly with phone and Internet information services for housing, building, zoning and planning.

The Task Force made four main findings:

The City's economic recovery has been fueled by businesses dependent upon low-wage service workers, yet many of these workers must pay over half their income for rent. To afford a two-bedroom apartment renting at $766 per month, a worker would have to earn $14.90 per hour. A worker earning the California minimum wage of $5.75 an hour would have to work more than100 hours a week to pay the rent The City must intervene in the market to assure a sufficient supply of affordable housi for the City's workforce.

Over the next few years thousands of units in the City's older housing stock will be demolished to make way for new residential, commercial and school construction and as many as 10,000 units with federal, state or local subsidies could convert to market rate rents. The City must act now to preserve existing affordable housing.

The City is nearly built out, and suitable parcels of land for new housing are so scarce that construction has nearly ceased. Between July 1998 and June 1999, on 1,940 net new housing units were built in the City of Los Angeles while population increased by 65,000 people. Homeownership is a fading dream for most Los Angeles

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residents. Only 39 percent of the City's households own their own home compared to percent nationwide, and many middle income workers must commute long distances t afford single family homes. The City must ease land use restrictions to provide more opportunities for affordable homeownership

Los Angeles is a major center for the new information economy, yet City government is unable to efficiently provide critical information needed by residents and businesses. From the Rent Stabilization Division to the City Planning Department, accurate information should be easily available by phone and Internet to tenants seeking information on rent control, developers seeking zoning information an homeowners who wish to construct an accessory unit in the backyard.

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INTRODUCTION

The Housing Crisis Task Force

In September 1999, the National Low Income Housing Coalition released a study titled Out of Reach, documenting the profound crisis of housing affordability facing the residents of Los Angeles and the rest of the nation. According to the report, the City's workers must earn at least $14.90 per hour in order to afford the fair market rent of $7 per month for a two-bedroom apartment. A worker earning the federal minimum wage $5.15 an hour would have to work 111 hours a week to afford the rent. Even with California's higher minimum wage of $5.75 per hour, a work week of more than 100 hours is necessary to keep rent within 30 percent of income.

The Los Angeles City Council responded swiftly to this report by passing on Septemb 21, 1999, a motion introduced by Council Member Michael Feuer. The motion instruct the General Manager of the City's Housing Department to convene a task force that would make recommendations to the Mayor on Council on options to alleviate "the shortage of safe, decent and affordable housing within the City of Los Angeles."

A large group of men and women representing diverse sectors of the City's housing economy and representatives of key City agencies were invited to join the task force. Representatives of the private sector came from banks, the Chamber of Commerce, nonprofit housing development corporations, the Apartment Association of Greater Lo Angeles and many others. The Housing Department, the City Planning Department, Department of Building and Safety, the Housing Authority of the City of Los Angeles a the Los Angeles Homeless Services Authority all were part of the Task Force. A list of task force members can be found in the beginning of this report.

On October 28, 1999, the Housing Crisis Task Force began its work with a bus tour of affordable housing developments and slum housing. On November 4, the Task Force, with 78 people attending, assembled for its second meeting. At this meeting Sister Dia Donoghue, Executive Director of Esperanza Community Housing Corporation, and Lauren Saunders, Director of the Housing Conditions Project at Bet Tzedek Legal Services, were confirmed as co-chairs of the Task Force. The task force members the divided themselves into six subcommittees. The subcommittees addressed issues of funding, land use and planning, rental housing, the state of existing affordable housing research and economic development.

Over the next several months each subcommittee held four or five meetings and each drafted a substantial set of recommendations to the City Council on legislative and program changes to address the housing needs of the City's residents. More than 100 people attended at least one task force meeting, putting in more than1,000 volunteer hours on this report. The findings and recommendations are the considered opinions experts in all areas of housing provision.

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DIMENSIONS OF THE HOUSING CRISIS

The City of Los Angeles is in the grip of a profound crisis of housing affordability. The majority of the City's households are renters who are paying higher percentages of the incomes for rent than anyone else in California. Families of the City's lowest wage workers must pay more than half their incomes for rent or double up in substandard apartments.

Growing Gap Between Wages and Housing Costs

The 1990 Census found that 92 percent of renter households earning less than $25,0 per year and a quarter of all renter households were spending more than half their pre tax incomes for rent. Estimates of current rent burden can be made by calculating the income necessary to keep rent payments for an average two-bedroom apartment withi 30 percent of pre-tax household income.

In 1999, the fair market rent for a two-bedroom apartment in the City of Los Angeles w $766 per month including utilities. In order to expend only 30 percent of its income for this apartment, a household would have to have an income of $2,553 a month or $30,636 per year. This income requires an hourly wage of $14.73. But at California's minimum wage of $5.75 per hour, annual income is only $11,960 per year and the household can only pay $299 per month for rent. Even with the City of Los Angeles livi wage of $8.76 per hour without health benefits, the family earns only $18,222 per year and can pay only $455 per month for rent.

Table 1 shows the wages at various levels of income eligibility for federal housing assistance and typical occupations of the people who earn those wages. Over the pas ten years, job growth has been highest in the service sector and this growth is expect to continue. Low-wage jobs also make up a significant part of the next highest job gro sector, the wholesale and retail trade. Although there are a number of wage levels wit the service sector, low-wage jobs predominate. Health care workers, data entry clerks pest control workers and bank tellers all make around $10 to $12 an hour or between $20,000 and $24,000 a year. In garment manufacture, an important Los Angeles industry, sewing machine operators earn only $7 or $8 an hour or $15,000 to $17,000 per year. Line cooks and bakers in the restaurant industry earn similar wages, so do t maids and janitors who clean office buildings and hotels. However, while job growth h been concentrated in low-wage sectors, since the end of the recession in 1997, housi prices have continued to rise.

What is Affordable Housing?

Affordable housing is a term used to mean housing that is affordable to low income households. There are three components of the affordability standard. The first is the portion of income that should be allocated to housing costs. The federal government sets the standard of affordability at 30 percent of income.

Eligible Income

The second component of the affordability standard is the relationship of household income to the median income of households in a given area (The median is the point at which half of all incomes are higher and half are lower).

The federal government sets income eligibility standards for rental housing assistance with reference to area median income. The federal poverty standard is about 30 percent of median income. Households are eligible for housing assistance if they earn less than 50 percent of median income or, in certain programs, less than 60 percent or less than 80 percent of median income. Incomes are adjusted for the number of people in the family. In Los Angeles in 1999, the federally defined median income for a family of four was $51,300. Fifty percent of median was $17,950 for a one-person household and $25,650 for a four-person household (See Table 1).

Fair Market Rent

The government sets a third standard when providing housing assistance. That standard is the amount of rent, the "fair market rent" that the government will pay for an apartment unit occupied by households receiving federal housing assistance. Currently, the federal government's standard for fair market rent is the amount charged for rent in the 40th percentile of the housing market. That is the point at which 60 percent of rents are higher and 39 percent are lower. Allowable rents are adjusted by the number of bedrooms so $766 is the fair market rent for a two-bedroom apartment but $1,033 is the fair market rent for a three-bedroom apartment. When a family receives housing assistance, it pays 30 percent of its income for rent and the government pays the difference between 30 percent of household income and the fair market rent.

Table 1

Occupations at Various Incomes

Person/hh	Income	Hourly Wage	Sample Occupations
30% of county median			
1	$10,750	$5.16	manicurists
2	$12,300	$5.91	parking lot attendant
4	$15,400	$7.40	childcare workers
6	$17,850	$8.58	line cooks
50% of county median			
1	$17,950	$8.62	bank tellers
2	$20,500	$9.85	teachers aides
4	$25,650	$12.33	roofers
6	$29,750	$14.30	truck drivers-tractor trailer
8	$33,850	$16.27	sales representatives
80% of county median			
1	$28,750	$13.82	dental lab technicians
2	$32,850	$15.79	highway maintenance worker
3	$36,950	$17.76	legal secretaries
4	$41,050	$19.73	plumbers
6	$47,600	$22.88	technical writers/editors
8	$50,900	$24.47	registered nurses

Source: Wages, EDD, 1997 Occupational Wage Data. Income levels by HH Size, HACLA.

Another indicator of the need for very low cost housing in the City is the number of families who signed up for Section 8 tenant-based assistance when the waiting list recently opened for the first time in 10 years. About 153,000 families signed up, nearly 10 percent of all the City's households and nearly three times as many as all current holders of Section 8 certificates and vouchers. However, only about 3,600 of the City's 41,000 certificates or vouchers become available each year, so households on the waiting list may have to wait as long as 10 years. Only a small number of all househol eligible for Section 8 rental assistance actually receive it because, unlike the mortgage interest deduction for home owners, rental assistance is not an entitlement. Every ho owner may deduct the interest on his or her mortgage loan from the amount of income on which income tax must be paid but the number of Section 8 rental assistance certificates and vouchers approved by Congress each year falls far short of the numb of renter families who need such assistance.

Homeownership

Higher income households are driving out lower income households in the homeownership market as well. In contrast to national homeownership rates of 66 percent, only 39 percent of the City's households own their own home. Table 2 shows

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prices, mortgage payments and qualifying incomes for median priced homes in many the City's communities. In only one community could families earning the median inco of $51,300 afford the median priced home. Thousands of teachers, office workers, firefighters and others have moved to distant suburbs in search of affordable single family homes while prices in the City's single family areas have risen to levels affordab only to high income families.

Historically, African-American and Latino households have faced discrimination in obtaining mortgage loans and a recent study commissioned by HUD shows that minor households still have more trouble than Whites obtaining mortgage financing. They ar given less information when applying for loans, are turned down twice as often as Whi and receive lower loan amounts and less favorable loan terms. The study showed that African-American and Latino borrowers face racial discrimination at every stage of the mortgage lending process.

Because rates of homeownership are so low in Los Angeles, assistance to first-time home buyers is an important part of City housing policy. All assistance provided by the City is in partnership with a participating private sector lender. First-time home buyers can obtain low-interest loans or mortgage credit certificates from participating lenders. The City also uses grant funds from HUD to give direct cash assistance to first-time home buyers. These programs include second mortgages, downpayment and closing cost assistance. Some of the City's programs are available to households earning up t 120 percent of the area median income, or to particular groups, such as police officers and fire fighters. Most of the programs which offer larger amounts of cash assistance, such as deferred payment second mortgages and rehabilitation loans, are provided to home buyers who earn up to 80 percent of median income, in accordance with federal law (See Table 1 for the range of incomes at 80 percent of median).

Table 2

Housing Prices and Qualifying Incomes

	Median Sales Price	Total Monthly Cost	[illegible]
West Los Angeles	$329,000	$3,047.90	$130,623
Downtown LA / Central City	$315,000	$2,917.90	$125,053
South Los Angeles	$125,000	$1,157.80	$49,621
NE Los Angeles	$136,500	$1,265.00	$54,214
San Fernando Valley	$188,000	$1,741.20	$74,623
W. San Fernando Valley	$205,000	$1,899.00	$81,384
NE San Fernando Valley	$160,000	$1,482.30	$63,526
SE San Fernando Valley	$199,500	$1,848.40	$79,216
Venice	$345,000	$3,195.70	$136,959
Canoga Park	$132,500	$1,227.30	$52,598
Chatsworth	$209,000	$1,935.70	$82,957
Granada Hills	$209,000	$1,935.70	$82,957
Mission Hills	$167,000	$1,546.80	$66,289
North Hollywood	$161,750	$1,498.60	$64,227
Northridge	$256,000	$2,371.20	$101,624
Pacific Palisades	$740,000	$6,280.70	$269,174
Reseda	$156,000	$1,445.60	$61,953
Sherman Oaks	$315,000	$2,917.90	$125,053
Sylmar	$137,500	$1,273.90	$54,596
Van Nuys	$170,000	$1,574.50	$67,480

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San Pedro	$226,000	$2,093.40	$89,718
Torrance	$275,000	$2,547.80	$109,193
Westchester	$342,000	$3,167.90	$135,768
Westside	$685,000	$57,793.80	$248,304
Wilmington	$132,500	$1,227.30	$52,598

Source: Housing Price Data, California Association of Realtors, 3rd Quarter 199

Shortage of Land for Housing

In the past, the City met the needs of its growing population by building new housing. Now, although the City's population continues to grow, construction is at a near standstill. Between June 30, 1998 and July 1, 1999, the City's population increased by 65,000 persons but only 1,940 net new units were built. According to the California Department of Housing and Community Development (HCD), during the 1990s new housing production throughout California has been lower than at any time since World War II.

Residential construction is constrained by a number of factors. Construction costs are high. There is little vacant land left in the City and the land that is available is hard to assemble into large enough parcels to make development financially feasible. In areas like South Central Los Angeles, where there are larger parcels of vacant land, residen cannot afford the rents of $1,000 per month or more that must be charged by market rate developers. And even in underutilized commercial strips where the City would like encourage mixed use projects, that is, projects that combine residential and commerci space, contradictions between commercial and residential building codes have stymie successful development.

It is not possible to estimate the amount of vacant land zoned for residential use in the City, nor the number of underutilized parcels zoned for multifamily use that might become available in the next five years. Although the Housing Element of a city's General Plan usually provides this information, the City of Los Angeles chose not to inventory available sites in its current Draft Housing Element. Instead, the City simply provided an estimate of how many additional units might be built on residential properties zoned for higher densities than their current use.

Information gathered informally from developers indicates that available vacant parcel aren't large enough for profitable development and that it is difficult and time consumin to assemble parcels into sites large enough for building.

Overcrowding

Los Angeles is becoming a city of rich and poor with those in the middle absenting themselves to ever more distant suburbs. The City started the decade with more than 372,000 overcrowded units of which 102,000 were severely overcrowded. With a total housing stock of 1.3 million units, nearly 30 percent of all units were overcrowded. Overcrowding has certainly gotten worse over the last 10 years because while the population of the City has increased by 300,000 people, the number of housing units h gown by only 30,600. Figure 1 shows the annual increases in population and housing units between 1990 and 1999.

The small number of units now being built are either luxury units for high income households or government-subsidized units for low income households. While higher income families build ever larger houses in the city's most expensive areas, the solutio for the middle class in search of single family homes has been to move out to suburbs north and east Los Angeles County and to San Bernardino and Riverside Counties. T solution for the poor has been to double and triple up in existing housing and to add n sometimes substandard housing through unpermitted accessory units and converted garages in many of the City's neighborhoods. Such units can even be found in affluent areas.

Unpermitted Units

In the absence of professional developers who assemble land and finance to construc new housing, individual property owners throughout the City are supplementing their incomes and subsidizing their own homeownership by creating illegal rental units. At a time when new construction cannot meet the housing needs of a growing population, residents are clearly finding ways to accommodate growth. The City has a choice: it c permit additional housing in the form of accessory units and new construction on small

http://housingcrisisla.ucla.edu/Master.cfm?Page=Ta.../Main.cfm&Content- TaskForceReport.cf 2/7/01 lots, or it can refuse to permit these uses which will continue to be provided unpermitte by property owners.

Figure 1

Remaining Land for Housing

The truth is that the City is nearly built out at present levels of land use. The City has a total land area of 300,005 acres (469 square miles) of which 42 percent or 124,822 acres are devoted to residential uses. Most of this land, 104,884 acres, is in single fa use, only 19,938 acres are used for multi-family buildings including condominiums. So the approximately 2.3 million residents who live in multifamily dwellings are squeezed into only 15 percent of the residential land, while the remaining 85 percent of residenti land is reserved for the 1.5 million residents who own or rent single family homes.

While the City's Draft Housing Element estimates that at current zoning as many as 530,000 additional units might be built in single and multifamily areas, nearly all these units would have to built on land already being used for residential or commercial buildings. There is no indication of when any of this land might become available for development. So if the City is going to accommodate its growing population, it will hav to ease land use restrictions to permit more multifamily uses in mixed residential areas and on underutilized or obsolete commercial and industrial properties.

The City's inability to house its growing workforce threatens its continued economic recovery. Skilled workers may be lost to suburban business development. Businesses need affordable housing for their workers and local customers with disposable income that is, households whose housing expenditures don't exceed half their monthly wage. other California communities such as San Jose, San Francisco and Orange County, business leaders have organized in response to shortages of affordable housing.

Loss of Affordable Housing

Demolition

As housing prices quickly outstrip the wages of the City's workers, the City's oldest housing stock, which is its most affordable housing, is fast disappearing. Every year nearly a thousand units are demolished to make way for luxury housing or commercial developments. In the last decade, 12,500 housing units were demolished. Even more demolitions may be in store as the Los Angeles Unified School district looks for sites o which to construct 150 new schools.

Slum Housing

Deterioration also threatens the City's older housing units. A small, but not insignifican number of the City's rental housing owners fail to comply with even minimum habitabili standards. Conditions became so bad that in 1997 a Blue Ribbon Citizens' Committee on Slum Housing issued a stinging report. The Mayor and City Council responded immediately by creating the Ad Hoc Committee on Substandard Housing. This committee moved rental housing code enforcement investigation to the Housing Department and instituted the Systematic Housing Code Enforcement Program (SCE under which all rental housing is inspected once every three years instead of being inspected only in response to tenant complaints. The program is so effective that 96 percent of properties comply once they are cited and owners understand that severe penalties can be levied for non-compliance.

—> **Expiring Federal and Local Subsidies**

In neighborhoods where rental prices are rising, apartments with federally subsidized rents may convert to market rates under programs that allow owners to prepay subsidized mortgages or terminate project-based Section 8 contracts. While most tenants in these buildings will receive Section 8 vouchers, the units themselves will no longer be affordable to lower income households.

According to the California Housing Partnership Corporation (CHPC), the City has 21,391 housing units financed by FHA mortgage insurance programs 221(d)(3) and 2 and by Section 8 project-based assistance. A number of buildings have both Section 8 and either Section 221(d) (3) or 236. These programs allow property owners the optio of paying their mortgages before the maturity date (prepaying) or "opting out" of Sectio 8 contracts. Rents in the buildings can then be raised to market rates. In areas of the City where market rents are higher than the rents the owner receives from the U.S. Department of Housing and Urban Development (HUD), a number of owners are

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planning to terminate their contracts with HUD and raise their rents to market rates. T City's Draft Housing Element identifies another 22,235 units with tax-exempt bond finance or finance from the Los Angeles Community Redevelopment Agency, the California Housing Finance Agency, the City's Community Development Block Grant, HOME funds or other sources. CHPC estimates that 6,597 of the federally financed u are at high or medium risk of converting to market rates in the next five years, while according to LAHD, affordability restrictions on 7,234 units with a variety of state and local subsidies are set to expire over the next eight years. Of that number, about half, 3,534, may have already converted to market rate.

What is Section 8?

Section 8, first authorized by the federal government in 1974, is a rental assistance program. There is a tenant-based program administered by the local housing authorit and a project-based program administered directly by HUD. The tenant-based progra issues vouchers to eligible individuals and families to help them pay their rent. Under this program, a tenant contributes 30 percent of adjusted income for rent and the housing authority pays the remaining portion of the rent directly to the property owner

Rents can be no higher than rents for similar unassisted units n the same neighborhood or the fair market rent for the area as determined by HUD, unless the tenant is willing to pay a higher proportion of income for rent. In that case, a tenant m pay up to 40 percent of income for rent and the rent can exceed fair market. Before a unit can be approved for occupancy by a family with a Section 8 voucher, the unit mu pass a habitability inspection conducted by the local housing authority. Property owners sign contracts with the housing authority but may "opt out" of these contracts any time.

In the project-based Section 8 program, owners contract directly with HUD for rent subsidies. Eligible tenants still pay only 30 percent of income for rent but the subsidy i attached to the unit, not the tenant family. At one time, project-based Section 8 subsidies were used to build many new units, but almost no new project-based subsidies are now available.

Households are eligible for Section 8 assistance if their income is no higher than 50 percent of county median income (See Table 1). Unfortunately, there are never as many vouchers as there are families who need assistance.

Furthermore, while the federal government will "enhance" the vouchers as long as the original tenants remain in their buildings, once the tenants leave, the voucher will no longer be enhanced and tenants may have trouble finding comparable housing even the Section 8 vouchers. Because HUD's "fair market rents" are set at 40 percent of th median rent, 60 percent of all rents in Los Angeles are higher than the highest rent HU is willing to pay for poor tenants. As these changes continue, many tenants will be displaced from their neighborhoods and the number of affordable units will be substantially reduced. Tenants in units whose state or local affordability restrictions expire will not receive Section 8 certificates. Tenants who live in older, bond-financed units may have somewhat higher incomes than tenants in the federally financed units, but in many areas, even incomes at 80 percent of median may not give tenants much choice in the rental housing market. Tenants who earn 50 percent or less of median income will have trouble finding any housing they can afford.

With the continuing loss of affordable units, the City's affordable housing programs cannot keep the problem from getting worse at present levels of expenditure. Every ye the Los Angeles Housing Department finances the construction or rehabilitation of 900 1,000 affordable units while 750 or more affordable older units are demolished and 50 or more units with federal or local subsidies raise their rents to market rates. The resul is that the number of houses and apartments affordable to low-wage workers is rapidl diminishing.

Homelessness

Based on a study conducted by Shelter Partnership in 1994, the City estimates that there are 109,000 homeless people in Los Angeles over the course of a year. In this group are about 19,900 members of homeless families including 14,000 homeless children. According to a survey of 30 cities by the U.S. Conference of Mayors, about 2 percent of homeless adults are working and yet cannot afford rent. Homeless families and individuals who are trying to regain self-sufficiency through education and work need very low rents, no more than $200 or $300 per month, to obtain permanent housing.

Reductions in Federal, State and Local Housing Expenditures

Federal budget authority for additional affordable housing units reached a high in 1980 and has declined precipitously since then. In 1980 the federal government gave budge authority for $54 billion in constant 1999 dollars for housing, in 2000 the amount is $18 million. At the height of federal expenditure, 541,000 new or rehabilitated units or Secti 8 certificates were authorized but since 1996 there has been no budget authority for th production of new Section 8 housing units. Most federal housing expenditures are for ongoing financial commitments to maintain and operate subsidized units produced in previous years. These outlays have risen steadily over the past 24 years and are expected to be $26 billion in 2000.

The City receives about the same amount every year in federal Community Development Block Grant Funds but because these funds can be used for many purposes from housing to soccer fields, there is a great deal of competition for these funds among different City programs. The amount allocated to housing has decreased recent years as CDBG funds have been budgeted for the Targeted Neighborhood Initiative and other non-housing uses.

In the late 1980s and early 1990s the Los Angeles Community Redevelopment Agenc was able to spend up to $100 million per year on affordable housing out of its Central Business District and Bunker Hill Redevelopment Project Areas. But these projects no have only enough funds to make the interest payments on their bonds.

The state has a mixed record on housing. In the late 1980s, several state bond issues produced funds for two rental rehabilitation programs. Those programs have no curre funds although a new state housing bond is under consideration by the Governor and both houses of the legislature.

The result of all the changes in federal, state and local programs is that the City has fewer dollars for new construction or rehabilitation of affordable housing while existing affordable units are fast disappearing. According to the Southern California Associatio of Non-profit Housing, Los Angeles spends about $23 per person on affordable housin none of it from the General Fund. In contrast, New York spends $89 per person, nearl four times as much as Los Angeles. Similarly, Chicago spends $76 per person, San Jose $71 per person and Seattle $66 per person. Between 1986 and 1996 New York City spent $4.2 billion in mostly city funds to construct or rehabilitate over 140,000 housing units, more than all other major cities in the United States combined.

Population Growth and Housing Need

The City's population grew by fits and starts over the last decade with some populatio decline after the 1994 Northridge earthquake. Nevertheless, the California Department Finance population estimates show an increase of 300,000 people between 1990 and 1999 with 65,000 additional people between 1998 and 1999. About 80 percent of the City's population growth is natural increase, that is, the excess of births over deaths, only a small portion is the result of net migration.

The Southern California Association of Governments (SCAG) is responsible for projecting housing needs in all the jurisdictions in its five-county region. In estimating t need for additional housing units, SCAG takes into account population growth, vacanc rates, job growth, and other factors but does not make adjustments for overcrowding, overpayment, or slum conditions. SCAG bases its projections on estimates of growth provided by local jurisdictions.

When making its allocation the need for new housing units, SCAG takes into account only income, employment and population within jurisdictions, but also the regional distribution of employment and income. SCAG then makes an adjustment in its allocations so that one jurisdiction will not end up providing most of the low income housing while another fails to provide any affordable housing. SCAG calls this distribution "fair share." The fair share distribution assigns each county and city in SCAG's five-county region with a portion of projected growth in housing units at four different income levels. The government of each jurisdiction must show the provision adequate sites for these new housing units in its state-mandated Housing Element of t

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General Plan but the state's enforcement mechanisms are weak and litigation is sometimes necessary to compel compliance. Many of the cities surrounding Los Angeles provide little or no affordable housing, leaving Los Angeles with the responsibility for housing poor families who work throughout the region. A permanent solution for the housing crisis will require stronger regional government and the willingness of cities throughout the region to permit and assist the development of a fai share of housing for all income groups.

According to SCAG's calculations, the City will need 60,280 new units in a seven and half year period between 1998 and 2005 or about 8,000 new units a year. Of this number, 3,787 must be affordable to households earning less than 80 percent of medi income. The allocation includes about 10,000 units of replacement housing. The City's building permit data shows that between July 1998 and June 1999, 2,621 units were constructed and 781 were demolished. In the six months between June and Decembe 1999, 2,337 units were constructed and 429 units were demolished. Although construction appears to be increasing, it is still a long way from the 8,000 annual units projected by SCAG. Nor does new construction address the problem of affordability th faces so many Los Angeles households. As stated earlier, land and building costs are expensive that market-rate developers can't construct new rental housing with rents under $1,000 per month. In fact, new construction compounds the affordability proble because the units demolished to make way for new construction are the City's older a most affordable housing units.

In order to construct the 3,787 units of affordable housing needed annually, the City would have to increase its annual housing expenditures by $100 million.

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ORIGINS OF THE HOUSING CRISIS

This crisis is not news to policy makers. Twelve years ago, the Blue Ribbon Committe for Affordable Housing appointed by Mayor Tom Bradley issued a report calling for ma reforms in City housing policy. The response of the City was immediate and vigorous. Within two years, the City created a new Department of Housing, and nearly complete work on a major initiative for housing finance, a linkage fee on commercial developme Ironically, at that time City expenditures on housing were much higher than they are now. Over the next few years the City experienced a series of setbacks: a deep recession, the 1992 civil disturbances and the Northridge earthquake in 1994 that ma nearly 20,000 housing units uninhabitable. The new housing department was instrumental in the earthquake recovery effort, obtaining $300 million from the U.S. Department of Housing and Urban Development to rehabilitate 8,269 privately owned housing units of which 30 percent, 2,512 units, have now have long-term affordability restrictions.

Economic recovery began in the late 1990s and by the end of 1999 unemployment in Los Angeles County had dropped to 5.7 percent. But housing prices also rose sharply and with little or no vacant land left housing construction was minimal. The new prosperity put hundreds of thousands back to work but did not lift all the city's workers out of poverty.

A more recent example of the City's power to remedy housing problems can be found the Systematic Housing Code Enforcement Program instituted by the Mayor and City Council in response to the report of the Blue Ribbon Citizens' Committee on Slum Housing. This program has retained the firm support of City leaders despite a series o legal challenges by landlord groups. It is this kind of resolve that the City's elected leaders must bring to the problems of housing affordability now facing the City's workforce.

The housing crisis arises out of the interaction of three underlying economic forces, lo density land use or sprawl, global economic restructuring that replaced higher paying aerospace and factory jobs with low-wage service sector employment, and the "fiscalization" of land after Proposition 13.

Land Use

Local land use patterns emphasizing single family housing and automobile transportati have decreased the supply of residential land available for development to nearly zero This reduction in the supply of land combined with steady population growth within the City's borders has pushed housing prices up to the point that new rental units cannot built for less than $1,000 per month and households earning the median annual incom of $51,300 cannot afford median priced homes in most of the City's neighborhoods

This same development pattern strings commercial development out along arterials instead of concentrating it in tidy multi-street commercial grids, bringing street traffic in many areas to a virtual standstill at the same time that low density development combined with multiple destination inter-suburban commutes is creating near gridlock the freeways. In response to the existing traffic congestion, nearly all residents, wheth in single or multifamily zones, now perceive additional residential development as a generator of intolerable traffic.

Restructured Work

Second, changes in the global economy and defense cut-backs have restructured the wage scale, eliminating higher paid skilled industrial jobs and replacing them with very low wage service jobs. Los Angeles was once home to the aerospace industry and a thriving manufacturing economy that included automobiles, assembly plants, tire manufacture, machine tools and many others. These have been replaced by low-wag industries such as garment and furniture manufacture and by service and retail trade. The gap between wages and housing costs has widened to the point that the wage needed to afford a two-bedroom apartment is Los Angeles is $14.90. But the Californi minimum wage is only $5.75 an hour and even the City's living wage is set at only $7. an hour with health benefits or $8.76 an hour without these benefits.

"Fiscalization" of Land

Finally, after Proposition 13, localities could no longer raise the property tax rate in ord to generate more income so cities came to rely more and more on the sales tax revenues generated by retail development. Land that could have been used for housin was devoted to retail development instead and cities now compete with one another fo large retail developments.

Conclusion

The interaction of these three structural problems is at the root of the City's housing crisis. It is a pattern repeated in cities throughout the state. So far, Los Angeles has largely ignored the crisis, trusting that economic prosperity will not be affected if the housing supply does not respond to continued population growth. But business leader in other parts of the state perceive high housing prices as a threat to continued busine growth and in the Santa Clara Valley, for example, the Silicon Valley Manufacturers Group is aggressively seeking ways to provide more affordable housing. Business leaders in San Francisco, the Santa Clara Valley, Orange County and other communiti have also responded to skyrocketing housing prices.

With housing costs consuming larger and larger amounts of workers' incomes and a virtual standstill in new housing production, the City must take immediate action to increase funds available for housing subsidy, modify zoning restrictions to allow the production of more affordable houses and apartments, develop a comprehensive strategy to preserve existing affordable housing and reorganize its information system ensure easy access to the information about housing, building, zoning and planning needed by businesses and residents.

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RECOMMENDATIONS

The recommendations of the Housing Crisis Task Force are divided into six areas:

- Funding,
- Existing Affordable Housing,
- Land Use and Planning,
- Rental Housing,
- Basic Research and
- Economic Development.

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FUNDING SUBCOMMITTEE

Summary of Recommendations

F1 CALCULATE THE SUBSIDY GAP

F1.1 Direct the Affordable Housing Commission to conduct an annual housing needs analysis that includes calculation of the aggregate subsidy gap and to recommend ways to close the gap

F2 CREATE A HOUSING TRUST FUND

F2.1 Adopt an inclusionary program for residential development.

F2.1.1 Adopt an inclusionary zoning ordinance.

F2.1.2 Adopt an "in-lieu fee" as part of the inclusionary zoning ordinance
Estimated amount: $14-20 million/year

F2.1.3 Comply with the State's Mello Act coastal housing requirements.

F2.2 Adopt a linkage fee on commercial development
Estimated Amount: $10 - $18 million/ year

F2.3 CRA Central Business District Project Area tax revenues
Estimated Amount: $8 - $10 million/year

F2.4 Citywide property tax growth
Estimated amount: $5.8 - $16.2 million/year

F2.5 Transient occupancy tax
Estimated Amount: up to $9.8 - $49 million/year

F2.5.1 Dedicate a portion of the transient occupancy tax.

F2.5.2 Increase the transient occupancy tax.

F2.6 Levy fees on water usage above a first-tier (life-line) base amount
Estimated amount: $2.5 . $7.5 million/year

F2.7 Secure stock options in exchange for Community Development Bank investments in e-commerce ventures
Estimated amount: Unknown

F2.8 Study additional fees on luxury items.

F2.8.1 Cable TV Franchise Fee ($3.6 - $18 million)

F2.9 Local general obligation bond for housing
Estimated amount: $100 million (one time)

F2.10 Parking users tax
Estimated Amount: $4 - $20 million

F2.11 Increase the redevelopment housing set-aside.

F2.12 Dedicate to housing production at least 75 percent of program income generated by repayment of earthquake and all other Los Angeles Housing Department (LAHD) and CRA housing loans

F3 COMPLETE AND EVALUATE THE TARGETED NEIGHBORHOOD INITIATIVE BEFORE COMMITTIN NEW FUNDS

F4 IMPROVE THE CONDOMINIUM CONVERSION FEES PROGRAM

F4.1 Revise the condominium conversion ordinance to allow funds to be spent citywide if no local project surfaces within one year of the fees being paid.
Estimated amount: $1.3 million (one-time)

F4.2 Establish a formula for the in-lieu fees that is directly tied to the actual cost of developing the replacem housing.

F5 CRA BUNKER HILL PROJECT AREA

F5.1 Dedicate future CRA revenues from the Bunker Hill project area to fund affordable housing developme citywide.

F5.2 Seek legislation increasing the housing replacement ratio for the Bunker Hill project area

F6 ACTIVELY SUPPORT A STATE GENERAL OBLIGATION BOND FOR AFFORDABLE RENTAL HOUSING

F7 SUPPORT A CHANGE IN FEDERAL LAW TO FACILITATE USING HOME FUNDS FOR DEVELOPMENTS THAT UTILIZE FEDERAL LOW INCOME HOUSING TAX CREDITS

F8 REVISE THE STATE STATUTE OF LIMITATIONS FOR CONSTRUCTION DEFECT LITIGATION

F9 CONSOLIDATE THE HOUSING FUNCTIONS OF THE LOS ANGELES HOUSING DEPARTMENT AN

THE CRA AT LAHD

RECOMMENDATIONS OF THE FUNDING SUBCOMMITTEE

Affordable Housing & Economic Vitality

To remain economically competitive, Los Angeles must have housing that is affordabl to workers with a wide range of incomes. Existing and new businesses consider available housing for their employees in making decisions on where to locate. In addition, businesses with goods and services to sell need consumers with disposable income - in other words, a population whose housing costs are within 30 percent of household income. Shortages of affordable housing make Los Angeles a less desirabl place for businesses to locate. For the future economic vitality of Los Angeles, the Cit needs an adequate supply of housing that is affordable to all people, including minimu wage workers.

Los Angeles has one of the lowest rates of home ownership in the country and the widest gaps between income and housing costs. In addition, Los Angeles has one of t worst problems of overcrowding and slum housing in the state. These statistics reveal housing crisis for middle income people wanting to buy homes, working people unable afford decent housing, and poor people living in slum conditions. Many cities, includin Los Angeles, have addressed affordability problems for first time home buyers by providing subsidies to individual families. To make housing affordable for working families earning $25,000 or less, the City must develop more rental housing.

Housing developers typically combine conventional financing from private banks and investments from corporations or individuals to build or buy apartment buildings that re at market rates. To be affordable to low income people, rents must be below market rates. This requires a subsidy. The "subsidy gap" is the amount needed to develop the project with affordable rents after taking into account the conventional financing from private banks (debt) and investments from private or corporate sources (equity). Affordable housing developers use the same sources as market-rate developers and f the "subsidy gap" with federal, state or local government subsidies, or sometimes with foundation grants.

In Los Angeles, banks are competing with each other to finance affordable housing projects and there are a number of affordable housing developers capable of developi more projects. The bottleneck is the shortage of government subsidy.

The City is the principal source of housing subsidy. This year, the City of Los Angeles will invest $23 million from two federal programs, HOME and the Community Development Block Grant, to subsidize the rehabilitation or construction of 900 to 1,00 units of affordable housing. However, according to the Southern California Association Government's Regional Housing Needs Assessment, Los Angeles needs to produce about 8,000 new housing units each year to keep up with population growth. Nearly h of these - 3,800 per year - should be affordable to low income households.

Estimating $35,000 of City subsidy to make one unit permanently affordable to low income families, Los Angeles needs to invest $132 million per year in the affordable housing market. Even with such an increased level of investment, the City would only maintain, not reduce, current high levels of overcrowding, substandard housing and hi rents relative to incomes.

The City is spending $23 million per year on housing subsidy. Another $109 million a year is needed just to keep up with population growth.

#1 CALCULATE THE SUBSIDY GAP

To adequately support the development of affordable housing, the City needs a clear Idea of both the magnitude of the problem and the amount of government subsidy needed. The SCAG (Southern California Association of Governments) new constructi figures (3,800 units per year of low and very low income housing) do not take into account the need to reduce overcrowding, eliminate slum housing and make rents mo affordable. The City should use market data and information from local, regional and state agencies to quantify the subsidy need and develop a housing production plan th meets the need.

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F1.1

Direct the Affordable Housing Commission to conduct an annual housing needs analy that includes a calculation of the aggregate subsidy gap and to recommend ways to close the gap.

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F2. CREATE A HOUSING TRUST FUND

With a minimum subsidy gap of $100 million per year, Los Angeles cannot afford to rel on the state and federal governments for the financial resources to develop affordable housing. Other cities and states with similar housing affordability problems have creat housing trust funds with dedicated revenue streams to ensure adequate production of affordable housing.

Counting the federal block grant funds that pass through the City, Los Angeles spends about $23 per person on affordable housing, none of it from the General Fund. In contrast, New York spends $89 per person, nearly four times as much as Los Angeles Similarly, Chicago spends $76 per person, San Jose $71 per person and Seattle $66 person.

The following are proposals for revenue that could be permanently dedicated to a housing trust fund for the sustained development of affordable housing.

F2.1 Adopt an inclusionary program for residential development.

Inclusionary zoning ordinances have been successfully used by more than 75 Californ cities to link new housing construction and the provision of affordable housing. Inclusionary zoning is a land use regulation that requires a minimum percentage of lo and moderate income housing in new developments. Many cities give developers a range of options for meeting the affordable housing requirements.

The City has some experience with inclusionary programs because the state's Mello A imposes inclusionary requirements on development in the coastal zone. The City also has an existing in-lieu fee program for condominium conversions. Thus, the proposal f an inclusionary program could be considered the extension of existing programs rathe than the introduction of a completely new program.

F2.1.1 Adopt an inclusionary zoning ordinance.

Develop an ordinance to require the provision of units affordable to very low, low and moderate income households in certain new housing developments. Conduct a study determine the minimum project size for application of the inclusionary requirement, the mix of affordability levels, and the percentage of units required in each project. Identify package of incentives for developers (in addition to the current Affordable Housing Incentives Program) that includes full or partial fee waivers and create a menu of optio for fulfilling the inclusionary requirement, such as off-site units, in-lieu fees, and land donations.

F2.1.2 Adopt an in-lieu fee as part of the inclusionary zoning ordinance.

Estimated amount: $14-20 million/year

An in-lieu fee should be one of the options in an inclusionary zoning program. The fee would be an alternative to including an affordable unit in new residential construction. The fee would go to a housing trust fund and be used to construct or rehabilitate affordable housing on another site. Santa Monica has an in-lieu fee of $6.14 per squar foot for apartments and $7.15 for condominiums. A $7 per square foot in-lieu fee woul generate $14 - $20 million per year.

F2.1.3 Comply with the State's Mello Act coastal housing requirements.

Develop guidelines for compliance with Mello Act coastal housing requirements. Requi that any very low, low or moderate income housing units in the coastal zone that are demolished or converted be replaced by units in the same income category. Also requ that all new coastal zone housing include housing units for low and very low income households or in-lieu fees sufficient to develop such housing.

F2.2 Adopt a linkage fee for commercial development.

Estimated Amount: $10 - $18 million/year

New commercial space attracts new businesses and promotes the expansion of existi

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businesses. The City's economy is booming and new businesses are creating new job However, many of the new jobs are low-wage service jobs in sectors such as retailing whose workers cannot afford current rents. Since the City already has a shortage of housing affordable to lower wage workers, the creation of additional jobs creates more demand for affordable housing than can be met by the City's housing market.

In ten cities around the country with housing problems similar to those in Los Angeles, impact or mitigation fees have been imposed on commercial development to help subsidize affordable housing units. These cities include San Francisco, Boston, Sacramento, San Diego, Palo Alto, Menlo Park and Cupertino. Adoption of impact fee did not stymie commercial development in these cities and had only a negligible impac on commercial rents. Courts have found these "linkage" fees legal when a nexus or connection can be shown between the development and the need for affordable housing. The fee goes into a trust fund dedicated to affordable housing.

Impact or linkage fees are allowed under state law and do not require a vote of the people because they are one-time only charges. Before adopting an impact fee, the lo government must conduct a nexus study to demonstrate the link between the commercial development and the need for affordable housing. In 1990 the Los Angele City Council completed a nexus study for a linkage fee to be imposed on certain categories of commercial development larger than 40,000 square feet. The study recommended that the fee not exceed 3.5 percent of valuation, which was about $5 p square foot in 1990 dollars. In 1991, the City adopted a notice and credit ordinance to notify developers that they might be subject to a fee. This ordinance remains on the books in the City's Building Code at 107.4.7, Affordable Housing Mitigation Fee. But th fee itself was never adopted because by 1991 Los Angeles was mired in a severe recession and commercial real estate development came to a virtual standstill.

Now is an excellent time to adopt a linkage fee, as commercial vacancy rates are dropping and development is increasing. At current levels of development, an impact f of $7 per square foot would generate between $10 and $18 million a year.

F2.3 CRA Central Business District Project Area tax revenues

Estimated Amount: $8 - $10 million/year.

Redevelopment agencies can generate substantial funds because they collect the difference in property tax revenues between a base year when an area is first designated a redevelopment project and the tax income in subsequent years as prope values rise. The Community Redevelopment Agency's (CRA) Central Business Distric (CBD) Project Area was a splendid source of funds for downtown commercial and residential development but it was capped at a total of $750 million. Next year the CR is expected to pay off the remaining bond debt for the CBD project. Once the debt is paid, the project will cease to exist and the $30 million in annual tax increment revenu that once flowed to the CRA will revert to the various taxing authorities. The City's sha of these revenues will be about $10 million a year. The City's share of downtown property tax revenues should be permanently dedicated to a housing trust fund.

F2.4 Citywide property tax growth

Estimated amount: $5.8 - $16.2 million/year

Generally, property tax revenues increase from year to year. Revenues from property taxes in the City enjoyed an average annual growth of 2.3 percent in the past three years and are estimated to grow by 5.9 percent in the current budget year, due to the City's recovery from the real estate slump of the early and mid- 1990s. Given the importance of City investment in the affordable housing market, the City should dedica at least 20 percent of the growth in property tax revenues to building the supply of affordable housing. About 20 percent of the growth in property tax receipts would be $5.8 - $8.1 million, 30 percent, $8.8 - $12.1 million and 40 percent, $11.7 - $16.2 millio

F2.5 Transient occupancy tax

Estimated Amount: up to $9.8 - $49 million/year

The transient occupancy tax is a 14 percent local tax on hotel room rates and is expected to generate $98.7 million this budget year. Revenues from the transient occupancy tax have increased an average of 8 percent over the past four years. More than 90 percent of the occupancy tax revenues go into the General Fund with 6.5 percent reserved for tourism related items. The City expects to build more hotels in th Staples Arena area which should further boost revenues from this source. At the sam time low-wage employment and the need for affordable housing will also increase.

F2.5.1 Dedicate a portion of the transient occupancy tax.

Dedicating a percentage of the current revenues would not require a vote of the electorate because it would not be a tax increase. Dedicating 10 percent of the Transi Occupancy Tax to affordable housing development would be $9.8 million, 20 percent would be $19.6 million, 30 percent would be $29.4 million, 40 percent would be $39.2 million, and 50 percent would be $49.0 million. San Francisco uses part of its hotel roo tax to fund affordable housing.

F2.5.2 Increase the transient occupancy tax

Increasing the tax from 14 percent to 15 percent would generate $8.68 million per yea Such an increase would likely be subject to Prop. 218, requiring approval of two-thirds the electorate if the increase were dedicated to affordable housing, or a majority of vot if the revenue went to the General Fund.

F2.6 Levy fees on water usage above a first-tier (life-line) base amount.

Estimated amount: $32.4 million/year

The Department of Water & Power (DWP) sells both water and electricity to residents the City. The larger part of the department is the power section, which is streamlining t become competitive in the soon-to-be-deregulated market. However, the DWP has a monopoly on water delivery that is expected to continue for the foreseeable future. An increase in user fees would have the dual purpose of generating more revenue while encouraging consumers to conserve water. Water is billed on the basis of two tiers, on for baseline usage and a higher rate for use over the baseline. By raising only the second tier, the financial burden would fall on those customers who are large or inefficient water users. It is not clear whether a user utility fee would require ballot approval under Prop. 218. A 10 percent user fee on full second tier revenues would generate about $7.5 million per year. Seventeen cities in Los Angeles County impose user fees on water.

F2.7 Secure stock options in exchange for Community Development Bank Investments in e-commerce ventures.

Estimated amount: Unknown

A Community Development Bank was started with Section 108 loans and revenue generated by the bank must be used to pay back the loans. Any excess should be dedicated to producing affordable housing.

The Los Angeles Community Development Bank is investing in a number of e-commerce ventures. Many will probably fail, but if just one is successful it is likely to become very profitable. Stock options in such a company could be sold to generate revenues for affordable housing or retained as revenue sources if the company pays dividends. LAHD should work with the Community Development Bank to assess the possibility of assigning to the City future stock options in e-commerce ventures to be used for affordable housing. Such an approach would not put any financial burden on t start-up companies, as the options would be taken at the point the company goes publ This idea needs further development.

F2.8 Study additional fees on luxury items.

The City should study the feasibility of generating revenues for housing from local fee on luxury items such as annual fees on luxury boxes at arenas, fees on tickets to sporting or entertainment events costing more than $50 per seat, fees on car rentals, fees on airplane tickets or airport departure taxes.

F2.8.1 Cable TV Franchise Fee ($3.6 - $18 million)

This is a 5 percent fee negotiated between the Cable TV company and the City. The f is passed on to consumers. However, because it is a franchise fee, not a tax, increasi it would not require a vote of the people. Each 1 percent increase generates about $3. million. So raising the fee from 5 percent to 6 percent would generate $3.6 million, to 7 percent, $7.2 million, to 8 percent $10.8 million, to 9 percent $14.4 million, and to 10 percent - $18 million. The funds would be added to the housing trust fund.

F2.9 Local general obligation bond for housing

Estimated amount: $100 million (one time)

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A general obligation bond for housing would provide one-time seed money for the housing trust fund. A bond measure requires approval of two-thirds of the electorate. I 1989, LA voters narrowly missed approving a $100 million local housing bond (Proposition 3). The following year, another $100 million housing bond (Proposition K) received 54 percent of the vote. The mood of the voters concerning bond measures m have changed in the intervening years. In 1997, Los Angeles voters approved Proposition BB with over $2 billion for school repair and reconstruction, and in 1998, voters approved a $178 million bond to construct 32 branch libraries.

F2.10 Parking users tax

Estimated Amount: $4 - $20 million per year

The City has a 10 percent tax on parking in pay lots or garages. The tax generates $4 million per year that goes into the General Fund. Raising the tax by one percentage p to 11 percent would generate $4 million, to 12 percent, $8 million, to 13 percent $12 million, to 14 percent, $16 million, to 15 percent, $20 million. If the increased amount went to the General Fund, approval by a majority of voters would be required. An equivalent amount of General Fund revenues could then be put in the housing trust fu San Francisco has a 25 percent parking tax.

F2.11 Increase the redevelopment housing set-aside.

Amend state law to require that redevelopment agencies within the County of Los Angeles set aside 30 percent rather than 20 percent of redevelopment revenue and redevelopment bond proceeds for affordable housing.

Although unlikely to produce immediate revenue, increasing the set-aside would ensur that additional funds would be spent on affordable housing when CRA projects do produce revenue again. The recommendation is limited to redevelopment agencies within Los Angeles County because in other areas of the state $400 million in housing set-aside money remains unspent by communities unwilling to produce affordable housing. When housing funds were available, the CRA spent hundreds of millions of dollars on affordable housing.

F2.12 Dedicate to housing production at least 75 percent of program income generated by repayment of earthquake and all other Los Angeles Housing Department (LAHD) and CRA housing loans.

The City has an affordable housing loan portfolio worth hundreds of millions of dollars. Nearly $300 million in earthquake recovery loans alone were made in the 1990s. Sinc these loans were made for housing and came from housing funds (e.g., CDBG, HOM HOPWA, tax increment), revenues generated by repayment should go back to the Housing Department as a revolving fund or to the new housing trust fund to finance additional affordable units for the next generation.

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F3. COMPLETE AND EVALUATE THE TARGETED NEIGHBORHOOD INITIATIVE BEFORE COMMITTING NEW FUNDS

In 1997, the Mayor proposed and the City Council agreed to divert $30 million of Community Development Block Grant (CDBG) funds over a three-year period to a ne Targeted Neighborhood Initiative (TNI) pilot project. The TNI has been annually allocat $12 million in CDBG funds that previously were dedicated through the City budget-making process for the development of affordable housing. Before any new funds are committed to this project for new neighborhoods, the current TNI Program should be completed and thoroughly evaluated. In the meanwhile, the $6 million of CDBG now available for Fiscal Year 2000-01 (since the TNI funding was extended to a fourth year $6 million in Fiscal Year 1999-2000 and $6 million in Fiscal Year 2000-2001) should b added back into the housing budget.

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F4 IMPROVE THE CONDOMINIUM CONVERSION FEES PROGRAM

F4.1 Revise the condominium conversion ordinance to allow funds to be spent citywide if no local project surfaces within one year of the fees being paid.

Estimated amount: $1.3 million (one-time)

The City's condominium conversion ordinance requires developers of new condominiums to replace one-for-one any housing demolished to make way for the ne construction. One of the replacement options allows developers to pay an "in-lieu fee" each unit demolished. The in-lieu fees are reserved for subsidizing rental housing with 1.5 miles of the demolished units. The current City ordinance also requires a $500 per unit fee when housing is converted to condominiums. Currently, the City has about $1 million in unexpended in-lieu fees and $80,500 in $500 per unit fees, none of which ha been spent because of the narrow geographic restrictions. The original Council resolution called for council review of the policy every two years. The City Council sho review this ordinance and revise it to allow such funds to be used to develop housing citywide if they cannot be used in the immediate area within a year.

F4.2 Establish a formula for in-lieu fees that is directly tied to the actual cost of developing the replacement housing.

The money collected for the in-lieu fees is woefully inadequate to provide the one-for-one replacement housing required in the ordinance. For example, fees on one project were $3,380 to subsidize six moderate income units, while another approved months earlier was $5,662 to subsidize four moderate income units, both for 30 years of affordability. These amounts are only $18 and $47 per unit per month, respectively. Currently the average LAHD subsidy on a unit of housing affordable to low income households is $35,000, which many argue is too low. It appears that the in-lieu fees generated are between five and10 percent of the actual costs of replacement housing. Where fees are allowed in-lieu of actually providing the replacement housing, these fe should be directly tied to the actual cost of developing the housing.

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F5. CRA BUNKER HILL PROJECT AREA

F5.1 Dedicate future CRA revenues from the Bunker Hill project area to fund affordable housing development citywide.

CRA's Bunker Hill funds have been used to develop affordable housing units citywide. The loss of these CRA funds, due to the lingering effects of the recession on property tax assessments in the project area, is a major cause of the current crisis in financing affordable housing in the City. Although the Bunker Hill project area is not currently producing enough revenues to support more housing development, it will in the future generate more funds. All future tax increment produced by the Bunker Hill project area should be dedicated to citywide affordable housing development.

F5.2 Seek legislation increasing the housing replacement ratio for the Bunker Hi project area

Under state law, the CRA is voluntarily developing three replacement units citywide for every unit of housing demolished in the project area. To meet this goal, the CRA will have to develop an additional 7,000 units of housing. Although no housing is currently being produced with Bunker Hill project funds, there should be revenues in five to ten years. The City should seek a change in state law to allow the CRA to voluntarily build five replacement units citywide for every unit demolished in the project area.

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F6. ACTIVELY SUPPORT A STATE GENERAL OBLIGATION BOND FOR AFFORDABLE RENTAL HOUSING

There are two affordable housing bond measures, AB 398 (Midgen) and SB 510 (Alarcon) before the state legislature which have the support of the leadership of both houses. If passed, the bonds will be voted on by the electorate in November 2000. Th City Council should go on record in support of a housing bond with substantial resourc for affordable rental housing.

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F7. SUPPORT A CHANGE IN FEDERAL LAW TO FACILITATE USING HOME FUNDS FOR DEVELOPMENTS THAT UTILIZE FEDERAL LOW INCOME HOUSIN TAX CREDITS

The federal HOME program was designed to fund affordable housing. However, laws governing the federal Low Income Housing Tax Credit make projects that utilize HOM funds not competitive. HOME is an entitlement program like the Community Development Block Grant Program which is also a source of housing finance. Yet, on

CDBG funds have been given to a state or city, Congress considers them local funds. The City should lobby Congress to amend the law so that HOME funds can also be considered local funds and can be used competitively in projects applying for tax credi

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F8. REVISE THE STATE STATUTE OF LIMITATIONS FOR CONDOMINIUM CONSTRUCTION DEFECT LITIGATION

Currently, condominium owners have up to ten years to file a lawsuit (other states typically have a one-year limitation), thus leaving architects, developers, and contracto open to liability risk for an extended period of time. The result is a growing unwillingne to build condominiums and other types of attached housing. Attached housing developments such as condominiums, town homes, and small lot single-family project achieve higher densities, are ideal for mixed-use and infill situations, and create viable ownership alternatives to the single-family home. The statute of limitations governing construction defect litigation should be revised to allow a shorter period during which condominium owners can file lawsuits. The City should direct its state lobbyist to work revise the construction defect statute of limitations by forming a coalition with other citi and counties facing a similar housing crisis.

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F9. CONSOLIDATE THE HOUSING FUNCTIONS OF THE LOS ANGELES HOU DEPARTMENT AND THE CRA AT LAHD

The CRA no longer has a large pool of tax increment money to spend on housing. In fact, much of its housing funds now come from the Community Development Block Grant. In the interest of efficiency, the housing functions and staff of the CRA should b incorporated into the Los Angeles Housing Department.

STATE OF EXISTING AFFORDABLE HOUSING SUBCOMMITTEE

Summary of Recommendations

E1. DEVELOP A PRESERVATION STRATEGY FOR ALL AT-RISK AFFORDABLE HOUSING

E1.1 Update and regularly revise the LAHD list of at-risk subsidized housing

E1.2 Obtain copies of regulatory agreements.

E1.3 Require owners opting out of their subsidized rental contracts to notify the City of their intentions one (year in advance of the opt out.

E1.4 Preserve HUD-financed and City bond financed affordable housing.

E1.5 Facilitate ownership transfers of prepayment buildings.

E1.5.1 Meet with residents of at-risk developments to provide accurate and up-to-date information.

E1.5.2 Make direct contact with owners to discuss options for preserving the developments.

E1.5.3 Identify ways to acquire at-risk housing for the purpose of transferring this housing to nonprofits and other entities that are willing to maintain it as permanently affordable, deed-restricted, below-market-co housing.

E1.6 Consider the imposition of a fee on owners who opt out of subsidized housing

E1.7 Identify pools of funds for the preservation of at-risk affordable housing.

E1.7.1 Prioritize the use of HOME or other soft dollars for the preservation of HUD assisted and/or insured, multifamily housing.

E1.7.2 Create a 501(c)(3) bond pool for purchasers to obtain favorable rates on deals when they are available particularly making smaller deals possible.

E1.7.3 Provide gap financing for acquisition of at-risk buildings.

E2 ENSURE ENFORCEMENT OF THE RENT STABILIZATION ORDINANCE (RSO) IN PRE-1979 HOUSING WHERE THE OWNER HAS PREPAYED THE HUD MORTGAGE

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E2.1 Prosecute owners who charge illegal rents.

E2.2 Provide sufficient staff in the LAHD Rent Division to investigate illegal rent complaints.

E2.3 Create a fund to assist tenants with illegally demanded rent while their cases are being prosecuted.

E2.4 Require consideration of cross complaints of RSO violations in unlawful detainer cases.

E2.4.1 For this to be feasible, the County courts would have to agree to "fast-track" RSO criminal complaints, and this may require legislation.

E3 CREATE THE POSITION OF AFFORDABLE HOUSING PRESERVATION COORDINATOR.

E4 MONITOR MAJOR PRIVATE AND PUBLIC DEVELOPMENT PROJECTS TO IDENTIFY AND MITIGA LOSS OF AFFORDABLE HOUSING

E5 EDUCATE ELECTED OFFICIALS AND THEIR STAFF ON THE ISSUE OF AT-RISK SUBSIDIZED HOUSING

RECOMMENDATIONS OF THE STATE OF EXISTING AFFORDABL[illegible] SUBCOMMITTEE

In the City of Los Angeles there are nearly 40,000 privately owned units with various types of subsidies from the federal, state and local government that make the rents affordable to their low-income occupants. These programs include federal low interest loans and mortgage insurance programs FHA 221(d)(3) and FHA 236, the federal project-based Section 8 program, deferred payment finance from the Los Angeles Community Redevelopment Agency, the Los Angeles Housing Department and state and local tax-exempt bonds.

All have restrictions on the amount of rent that can be charged and the income levels eligible renters. The restrictions have terms of varying lengths and when these terms expire, the owners may raise the rents to market rates or the unit may lose the supplement that lowered the rent to an affordable level. Some of the subsidy program have options that let owners end their participation in the program early by "prepaying, that is, paying the entire amount due on the mortgage early. The Section 8 project-bas assistance program allows owners to "opt out" of the program and raise their rents to t market rate.

Market rents in many parts of Los Angeles are now higher than the rents paid by subsi programs and some owners of buildings that are eligible to "opt out" of the subsidy programs or prepay their mortgages are choosing to do so. At the same time, in other units, the term of the affordability restriction is expiring. These changes expose many Los Angeles renters to the threat of displacement because they will not be able to pay the higher rents. In buildings whose owners have project-based Section 8 contracts, al eligible tenants will receive Section 8 vouchers. The vouchers will be "enhanced" if the rents rise above HUD's allowable fair market rents. But the owners only have to accep the vouchers for one year and tenants may not be able to find comparable housing in t same neighborhoods. This will impose hardships on families with children in local schools and seniors who have to leave a supportive community.

In other subsidized buildings the rents are low and some or all tenants have low incom but are not eligible for Section 8 and won't receive vouchers. City law now makes pre-1979 buildings subject to the Rent Stabilization Ordinance if they leave federal subsid programs. Therefore tenants in these buildings should be able to go on paying the sa low rent. However, some property owners insist they have the right to raise rents to market for existing tenants. Tenants of these landlords may not know their rights, or m be subject to eviction if they refuse to pay an illegally demanded amount. In such case timely investigation and enforcement by the Rent Stabilization Division is critical to preventing displacement of tenants.

In buildings subsidized by the Community Redevelopment Agency or by bond finance and built after 1979, the rents will rise to market rates when the subsidy program ends The risk of displacement of lower income tenants is even greater in these buildings. Given high rental housing costs throughout the City, the displaced tenants may not be able to find any units they can afford. With thousands of units in the City at risk of converting to market rates, many tenants in these units face possible displacement an it is imperative that the City develop a strategy to preserve the affordability of as many "at-risk" units as possible and to protect the occupants of the units.

The preservation strategy must be a multi-branched strategy that includes a monitorin program to track the status of all units at risk of losing their subsidies, coordination

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among all agencies involved (the U.S. Department of Housing and Urban Developme the Los Angeles Housing Department, the California Housing Partnership Corporation, the Housing Authority of the City of Los Angeles, the Los Angeles Homeless Service Authority, the Coalition for Economic Survival, and others), tenant notification and assistance, consultation with owners about possible incentives to continue participatio in the subsidy programs and new resources to fund acquisition and rehabilitation of buildings that become available for sale.

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E1 DEVELOP A PRESERVATION STRATEGY FOR ALL AT-RISK AFFORDABLE HOUSING

E1.1 Update and regularly revise the LAHD list of at-risk subsidized housing.

Conduct an update of the LAHD list of all at-risk subsidized housing in the City of Los Angles. This list should include units financed by the U.S. Department of Housing and Urban Development (HUD), units financed by tax-exempt bonds issued by the Los Angeles Housing Department (LAHD) and other entities, units financed by the Community Redevelopment Agency (CRA), units financed by the California Housing Finance Agency, (CHFA), and units produced under the City's density bonus and land use affordability covenants.

Update the subsidized housing list at least every six months for purposes of regular reports to the City Council, Mayor, and public.

E1.2 Obtain copies of regulatory agreements.

Obtain copies of actual regulatory agreements or other documents that will allow an informed evaluation of an owner's options.

E1.3 Require owners opting out of their subsidized rental contracts to notify the City of their intentions one (1) year in advance of the opt out.

E1.4 Preserve HUD-financed and City bond financed affordable housing.

Include both HUD financed and City bond-financed properties in programs to preserve affordable housing (to avoid another Warner Center situation).

Facilitate ownership transfers of prepayment buildings.

Facilitate potential ownership transfers of prepayment buildings or other specified properties and identify related funding sources. To these ends the City and appropriat agencies should:

E1.5.1 Meet with residents of at-risk developments to provide accurate and up-t date information.

E1.5.2 Make direct contact with owners to discuss options for preserving the developments.

E1.5.3 Identify ways to acquire at-risk housing for the purpose of transferring th housing to nonprofits and other entities that are willing to maintain it as permanently affordable, deed-restricted, below-market-cost housing.

Consider imposing a fee per unit on owners who opt out of subsidized housing. This fe would go into a preservation fund to be used in assisting the transfer of at-risk housing nonprofits.

E1.7 Identify pools of funds for the preservation of at-risk affordable housing.

E1.7.1 Prioritize the use of HOME or other soft dollars for the preservation of HU assisted and/or insured, multifamily housing.

E1.7.2 Create a 501(c)(3) bond pool for purchasers to obtain favorable rates on deals when they are available, particularly making smaller deals possible.

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E1.7.3 Provide gap financing for acquisition of at-risk buildings.

As interest rates rise, the City should provide secondary gap financing, based on cash flow. These would be loans, not grants, which, even under current rates, should be competitive.

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E2 ENSURE ENFORCEMENT OF THE RENT STABILIZATION ORDINANCE (RSO IN PRE-1979 HOUSING WHERE THE OWNER HAS PREPAYED THE HUD MORTGAGE

Tenants in prepayment units face many problems. City law requires that the rents in these units comply with the amount allowed by the RSO. But current enforcement measures are weak and the LAHD Rent Stabilization Unit doesn't have sufficient staff conduct timely investigations of complaints from tenants that the owner is charging ille rents.

E2.1 Prosecute owners who charge illegal rents.

Request the City Attorney to prosecute owners who violate the Rent Stabilization Ordinance by charging illegal rents at HUD prepayment buildings. If illegal rent is bein collected on a continual basis there should be no statute of limitation issue. Consider hearing officer program for illegal rent complaints.

E2.2 Provide sufficient staff in the LAHD Rent Division to investigate illegal rent complaints.

Ensure that there is sufficient staff in the LAHD Rent Stabilization Unit to fully investig illegal rent complaints from prepayment properties and refer owners to the City Attorn for prosecution when warranted.

E2.3 Create a fund to assist tenants with illegally demanded rent while their cas are being prosecuted.

Create a fund to assist tenants with the illegally demanded rent while their cases are being prosecuted by the City Attorney. This fund is essential to prevent tenants from being evicted for non-payment of rent before the criminal case goes to trial.

E2.4 Require consideration of cross complaints of RSO violations in unlawful detainer cases.

Investigate state legislation to require unlawful detainer court judges to consider cross complaints of RSO violations before ruling on the unlawful detainer complaint.

For this to be feasible, the County courts would have to agree to "fast-track" RS criminal complaints, and this may require legislation.

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E3 CREATE THE POSITION OF AFFORDABLE HOUSING PRESERVATION COORDINATOR

The position of affordable housing preservation coordinator is needed to monitor HUD prepayment buildings and properties with expiring affordability covenants (such as the bond-financed Warner Center in the Valley). The coordinator will collaborate with the Housing Authority of the City of Los Angeles, which becomes involved with properties times of prepayment or opt-out and provide information and assistance to the tenants ensure their rights are maintained under the Rent Stablilization Ordinance. The coordinator will also ensure that tenants in bond-financed buildings are notified well in advance of the expiration of the affordability covenant, and that information on alternative housing opportunities is made available to tenants who will be displaced by large rent increase when the rents in post-1979 buildings not covered by the RSO are raised to market levels.

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E4 MONITOR MAJOR PRIVATE AND PUBLIC DEVELOPMENT PROJECTS TO IDENTIFY AND MITIGATE LOSS OF AFFORDABLE HOUSING

The development of new schools, commercial projects and civic buildings may all cau the loss of affordable housing. LAHD must monitor the housing impacts of these developments and take action to minimize the loss of units and mitigate unavoidable

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losses. (See Rental Housing Subcommittee Recommendations 4.5 and 4.6). A project that requires immediate attention is the City of Angels /Crown Hill Monument development in downtown Los Angeles, near 3rd Street and Bixel Street.

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E5. EDUCATE ELECTED OFFICIALS AND THEIR STAFF ON THE ISSUE OF AT-RISK SUBSIDIZED HOUSING

Conduct workshops on the state of at-risk subsidized housing (including HUD prepayment properties, LAHD, Bond-financed, CRA, CHFA) for Los Angeles' elected officials (including state and federal representatives) and staff.

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LAND USE AND PLANNING SUBCOMMITTE

SUMMARY OF RECOMMENDATIONS

P1	MODIFY THE CITY'S ZONING CODE TO PROMOTE AFFORDABLE HOUSING
P1.1	Allow a more flexible building envelope in selected residential zones.
P1.1.1	Allow a 50 percent density bonus for 100 percent affordable housing developments
P1.2	Decrease minimum lot size in selected areas to encourage production of affordable units.
P1.3	Create intermediate residential zoning designations (R1.5, R2.5, R3.5, etc.).
P1.4	Revise the zoning code to encourage the development of more family units.
P1.5	Rezone more properties for multi-family uses.
P1.6	Facilitate mixed use projects.
P1.7	Reduce parking requirements near public ransportation.
P1.8	Allow housing development on obsolete industrial land.
P1.9	"Grandfather in" existing land use entitlements for affordable housing reconstruction.
P1.10	Facilitate affordable home ownership with a small lot program in selected areas.
P1.11	Convene a panel of private sector architects, planners, developers, lenders, affordable housing advocates and others who are experts on land use and building to make specific, feasible recommendations on zoning reforms.
P1.12	Revise the Los Angeles zoning code for compliance with state and federal fair housing laws.
P2	EXPEDITE PROCESSING FOR HOUSING DEVELOPMENT
P2.1	Create a Building and Safety check list for all approvals needed for new housing development.
P2.2	Guarantee completion of a plan check review within two weeks for affordable housing applicants
P2.3	Create a case manager program for affordable housing developments in both the City Planning Department and the Department of Building and Safety.
P3	IMPROVE PUBLIC ACCESS TO PLANNING, ZONING AND BUILDING AND SAFETY INFORMATIO
P3.1	When the code revision is complete, develop a simple print booklet and online guide to the zoning co for property owners and developers.
P3.2	Make zoning information available on line and by telephone, further reducing the time required for permit processing and plan check.
P3.3	Create an information quality control program.
P3.4	Allow payments of approval and other fees over the phone or Internet.
P3.5	Digitize existing and approved land use information and make it available on the City's website.
P3.6	Put the City's inventory of 9,200 City-owned sites on line.
P3.7	Identify and disseminate data about vacant and underutilized land parcel by parcel.
P4	CREATE GREATER AFFORDABLE HOUSING INCENTIVES
P4.1	Include additional incentives in the City's Affordable Housing Incentives Ordinance.
P5	INCREASE HOME OWNERSHIP OPPORTUNITIES BY PERMITTING THE DEVELOPMENT OF ACCESSORY UNITS

5.1 Facilitate the production of accessory units in selected areas.

P6 ENSURE THE SAFETY OF RENTERS BY CREATING HABITABILITY STANDARDS AND A LEGALIZATION PROCESS FOR ILLEGAL UNITS

6.1 Create habitability standards and a process to legalize certain garage units.

P7 ESTABLISH A NEW ENTITY TO PROVIDE ONGOING EXTERNAL LEADERSHIP TO ADDRESS TH CITY'S HOUSING CRISIS

P7.1 Create a Leadership Council on Affordable Housing and Economic Vitality.

P7.2 Review the role, mandate and authority of the existing Affordable Housing Commission and make recommendations to the Mayor and Council

P8 EDUCATE THE PUBLIC ABOUT THE NEED TO INCREASE THE SUPPLY OF AFFORDABLE HOUSING FOR ALL INCOME GROUPS

P8.1 Design competition for well-designed alternative models of multifamily housing.

P8.2 Design studies for new forms of affordable housing.

P8.3 Educate new area planning commissioners and members of neighborhood councils about the need fo affordable housing.

P9 INTEGRATE AFFORDABLE HOUSING IN MAJOR PROJECTS SUCH AS NEW SCHOOLS AND TRANSIT DEVELOPMENT

P9.1 Work with other agencies to include affordable housing in the development of civic projects such as schools, large commercial developments and transit.

P10 ENCOURAGE SUSTAINABLE DEVELOPMENT AND GREEN BUILDING PRACTICES

P10.1 Provide incentives to projects that incorporate sustainable building practices.

Make more efficient use of sites

P10.1.2 Incorporate more efficient energy systems.

P10.1.3 Emphasize recycling.

P10.2 Eliminate City regulations that hinder sustainable development approaches.

RECOMMENDATIONS OF THE LAND USE AND PLANNING SUBCOMMITTEE

According to estimates of the California Department of Finance, the City's population increased by 300,000 persons over the last decade but only 30,600 net new housing units were built. Last year alone the population increased by 65,500 new persons (22,500 households) but only 1,940 net new units were built. As the population of the City continues to grow, the development of new housing falls farther behind. The Regional Housing Needs Assessment of the Southern California Association of Governments calls for 8,000 new units a year of which 3,800 should be affordable to households earning 80 percent or less of median income. Only about 500 new afforda units are produced each year.

The City faces a crisis in housing affordability. Low-income renters must pay more tha half their income for rent and only 39 percent of the City's households own their own home. The crisis calls for a new partnership between the development community and the City. The City's land use planning and regulatory tools give it the power to reshape Los Angeles to meet new needs. To develop more affordable units, the City must revi its zoning and building codes to create additional building sites, increase the number o possible units and reduce development costs. This includes creating a more flexible building envelope, removing barriers to mixed use development and providing greater flexibility in lot sizes. Because delays in obtaining planning approvals and permits add costs to development, the City must also continue the reform of permit processing to make it easy for the public to file applications and obtain approvals. Finally, the City m work with the development community to find new ways to assemble sites in the City's underutilized commercial and industrial areas and with neighborhood groups to create more home ownership opportunities in selected areas using smaller lots.

The City can make its neighborhoods better places to live by creating greater incentiv for mixed use, transportation-oriented and resource-efficient development projects an by identifying ways to reduce development costs and encourage sustainable building practices.

All sectors of the development community have a crucial role to play in solving the Cit housing crisis. Large scale developers can restructure parts of downtown and other

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