

INCLUSIONARY ZONING POLICIES IN CALIFORNIA: A COST-BENEFIT ANALYSIS
FROM THE PERSPECTIVE OF LOCAL GOVERNMENT OFFICIALS

A Thesis

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by

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Abstract
of
INCLUSIONARY ZONING POLICIES IN CALIFORNIA: A COST-BENEFIT ANALYSIS
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This thesis provides a qualitative examination of the costs and benefits of local inclusionary zoning (IZ) policies in California. Such policies rose in popularity in the 1970s to address the shortage of affordable housing and concentration of poverty in the United States. Recently, local governments in California have weakened or eliminated such regulations. This thesis provides a qualitative assessment of the costs and benefits of IZ policies from the perspective of local government officials to illuminate why cities and counties in California have recently started to reconsider the once popular affordable housing tool. My findings indicate IZ policies impose local costs while generating regional benefits. Thus, I provide two recommendations to strengthen local IZ policies in California. First, I argue local governments should adopt affordable housing development fees. Secondly, I suggest the state adopt and enforce a mandatory inclusionary housing program policy.

_____, Committee Chair
Robert W. Wassmer, Ph.D.

Date

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Chapter 1 INTRODUCTION

Since the 1970s, cities and counties in California have utilized inclusionary zoning (IZ) policies as a tool to increase the supply of affordable housing and promote the economic integration of communities. Such regulations require residential developers to designate a specific percentage of new housing units as income restricted. Such programs rose in popularity because they leverage private funds to promote economic and social integration. In 1994, 12 percent, of municipalities in California had an inclusionary zoning program. In 2003, the number jumped to 20 percent and continued to rise to 32 percent in 2007 (Non-Profit Housing Association of Northern California, 2007).

Recently, waves of local governments in California such as the City of Folsom and County of Sacramento began weakening or eliminating their inclusionary zoning ordinances. Hickey (2013) offers a list of five recent events that have affected IZ policies, including: the downturn in the U.S. housing market; funding cut for the federal HOME Program; California court decision prohibiting the application of inclusionary housing requirements to rental housing; the elimination of Redevelopment Agencies in California; suburbanization; and HUD's focus on fair housing requirements (p. 2).

The City of Folsom is one organization that recently altered its Inclusionary Housing Ordinance. In April 2011, the Sacramento Housing Authority (SHA) filed a lawsuit against the City of Folsom for discontinuing its Inclusionary Housing Ordinance and other violations related to the agency's Housing Element. In July 2012, the court

ruled the City's suspension of the inclusionary housing policy was inconsistent with the municipality's housing element and was void (Sacramento Housing Alliance, n.d.).

The City appealed and the two sides entered mediation talks. The SHA and City of Folsom reached an agreement in which the City would amend its housing element to reduce the housing production goals for low- and very low- income levels. In addition, the City agreed to modify its Inclusionary Housing Ordinance to permit an in-lieu fee option for housing developers (Sacramento Housing Alliance, n.d.). My thesis will explain the motivations behind the recent efforts led by California cities, such as Folsom, to eliminate local inclusionary housing ordinances.

A large body of literature documenting the costs and benefits of local IZ policies in California exists. However, there are two significant gaps in the examination of costs and benefits associated with such regulations. First, current analyses are limited to small geographic areas due to the variable economies throughout California. The following thesis will provide a qualitative analysis that is applicable statewide. Secondly, existing scholarship considers the costs and benefits of IZ policies from the viewpoint of society in general. The subsequent analysis will do this also, but additionally will contemplate the effects of IZ policies from the perspective of local government officials in California.

The forthcoming analysis presents a detailed examination of the costs and benefits of California's local inclusionary zoning (IZ) policies from the perspective of local government officials. Since it is difficult to put exact values on these benefits and costs, they will be listed here in descriptive form and the assignment of values will be left to reader who wishes to apply them to a specific jurisdiction or set of jurisdictions.

Specifically, this is a master's thesis that seeks to provide a list of costs and benefits California's IZ policies have on local governments to illuminate the recent revisions to IZ programs.

This first chapter consists of four sections. First, I will present a brief history of housing segregation in California and the rise of inclusionary zoning regulations. The following section compares the rates of residential segregation in 20th century-California to those in the 21st century. Next, I will present the composition of California's 21st-century neighborhoods. Lastly, I will present a preview of the remaining chapters in this thesis.

History of Housing Segregation in California

How did we get here? The exclusion of housing based on race was common in California from the mid-19th century until the Civil Rights Movement of the 1960s. As residential segregation based on race declined, housing discrimination based on income increased. This section briefly outlines the historical segregation of housing based on race and income in California from 1850 to the 1960s.

California Beginnings: 1850s to 1900

California's early history included a widespread system of *de jure de facto*, or consistent with the law, discrimination in housing for minority groups. In 1850, the State passed *An Act for the Government and Protection of Indians*. This law revoked land and other citizenship rights of the Native Americans. Likewise, African Americans were legally restricted from homesteading public land, attending public schools, and using public transportation, among other things (Noel and Cheng, 2009).

Chinese Americans also experienced residential segregation during this period of California history (Noel and Cheng, 2009). In 1870, the City of San Francisco passed the Bingham Ordinance, restricting Chinese Americans from living or working in San Francisco any place other than designated areas (Marcus, 2001). Lastly, Japanese Americans and Mexican also had limited options when it came to housing choice (Noel and Cheng, 2009). In the late 19th century, all minority groups in California experienced housing discrimination based on their race and ethnicity.

Early 20th-Century California: 1900 to 1959

The turn of the 20th century saw an increase in residential segregation among California communities. During this period of California history, the State took a *laissez-faire* approach to regulation. Thus, the majority of authority over housing was relegated to local governments (Noel and Cheng, 2009). In addition, discrimination of housing based on income increased as transportation innovations enabled wealthier households to relocate to the outskirts of cities. Some of the common exclusionary housing tools included codes, covenants, and restrictions; redlining; segregation of public housing; and exclusionary zoning policies.

Government Intervention in California's Housing Market

Many policymakers have long recognized the problems caused by housing discrimination, and various attempts aimed at addressing the issue have occurred over the decades. In 1941, President Franklin D. Roosevelt issued Executive Order 8802 in an attempt to stop the Civil Rights March on Washington. The legislation established a federal Fair Employment and Practices Commission to handle complaints of

discrimination in housing and other transactions based on race, religion, color, and national origin (Noel and Cheng, 2009). However, the commission disbanded four years later.

In 1959, activist civil rights succeeded, and Governor Pat Brown signed the Fair Employment Practices Act (FEPA), prohibiting discrimination in employment based on race, religion, color, national origin, and ancestry. That same year, the State legislature passed the Hawkins Act, prohibiting discrimination in publicly funded housing and the Unruh Civil Rights Act, banning arbitrary discrimination by business establishments and property owners.

More than a decade later, in 1963, the Legislature passed the Rumford Fair Housing Act, barring discrimination in rental properties with more than three units. In September 1965, the Legislature created the modern-day Department of Housing and Community Development (HCD) to promote and maintain adequate housing and decent living environments for all California citizens; protect public health and safety by developing and enforcing minimum construction regulations for all types of housing; and serve as a catalyst in seeking solutions to California's housing and community development problems through technical assistance, advice, research, and dissemination of information to citizens, industry, and government entities. Thus, the Division of Housing was transferred from the Department of Industrial Relations to HCD (HCD, n.d.).

In 1980, the California legislature merged the FEPA, Rumford Act, and Unruh Civil Rights Act to create the present-day Fair Housing and Employment Act (FEHA)

(Noel and Cheng, 2009). The current State Housing Law, established in 1961, is based on the original State Tenement Law of 1909, with a few exceptions. First, local governments were charged with enacting and enforcing local minimum building standards (as long as they meet minimum State standards). In addition, the State Housing Law now applied to all apartments, hotels, and dwellings in California. Also, instead of adopting changes through the legislature, the Division of Housing was granted the authority to adopt changes through the regulatory process (HUD, n.d.).

The Rise of Inclusionary Zoning Policies in California

The focus of this thesis is on one method aimed at addressing problems such as housing discrimination: inclusionary zoning policies. Inclusionary zoning (IZ) policies constitute a subset of inclusionary housing programs, and originated in the Washington D.C. metropolitan area in the 1970s. Such regulations are imposed by local cities and counties to encourage or require developers to include a percentage of affordable units for sale or rent in new housing developments. The dual-objective of inclusionary housing policies is to increase the supply of affordable housing and foster social and economic integration (Calavita and Grimes, 1998).

Typically, local inclusionary housing policies require housing developers to set aside 10 percent to 15 percent of total units for low- to moderate-income households. The California Department of Housing and Urban Development (HUD) defines low-income as 51 to 80 percent of the median household income and moderate-income as 81 percent to 120 percent of median household income (Fulton and Shigley, 2012).

In 1969, the legislature enacted the Housing Element Law to address the issue of rising housing prices and the imbalance between jobs and affordable housing (Fulton and Shigley, 2012; National Housing Conference, 2004). The law mandates local governments to create a plan to outline their strategy to meet the existing and projected housing needs of all people, regardless of their economic status. As a result of the Housing Element Law, a wave of local governments, including the City of Irvine and Orange County, in California voluntarily adopted such programs in the 1970s.

In 1980, the California legislature strengthened the Housing Element Law by basing the assessment of local housing needs on the jurisdiction's share of the regional housing need. The State's Department of Housing and Community Development (HCD) interpreted the mandate as an obligation to zone according to the region's housing needs (National Housing Conference, 2004). In 2003, 107 California cities and counties, approximately 20 percent, had inclusionary housing programs (Calavita, 2004).

Residential Segregation in 20th Century versus 21st Century

Until the second half of the 21st century, the fight for integrated housing largely focused on racial equality. However, following the Civil Rights Movement of the 1960s, the prevalent term broadened from racial segregation to income segregation. This shift in terms is documented in the case of *South Burlington County NAACP v. Township of Mount Laurel*. The local NAACP branch alleged the Township of Mount Laurel practiced exclusionary zoning policies to bar racial minorities. The court agreed with the NAACP, but instead of charging the policies were racially motivated, the finding stated the policy excluded low- and moderate-income families (Nirider, 2008). The broadened

term seems to imply the chief concern of residential segregation altered from race to income. Massey and Denton (1993) argue the underclass is a negative externality of historic residential segregation policies and practices.

Although racial segregation has declined in California over the past 40 years, it has not been eliminated. In fact, three decades after the federal government passed the Fair Housing Act, the United States Department of Housing and Urban Development (HUD) estimates more than two million incidents of unlawful discrimination occur each year (Farley and Squires, 2005). According to Clark (2002), the growing affluence of the increasing minority population has contributed to the integration of America's urban neighborhoods (p. 84). It is important to note the country's neighborhoods will never be perfectly racially integrated due to varying degrees of wealth, neighborhood preferences, and the structure of urban housing (Clark, 2002).

Racial minorities in California still routinely experience discrimination when trying to rent or purchase a home; however, evidence suggests a lack of affordable housing near employment opportunities is the chief problem in the 21st century. In 2010, more than four decades after the State enacted the Housing Element Law, 28 percent of lower-income households in were located in a primarily lower-income census tract (up from 23 percent in 1980) and 18 percent of upper-income households resided in majority upper-income census tract (up from 9 percent in 1980) (Fry and Taylor, 2012).

Demand for Affordable Housing Units

In 2014, the low-, median-, and moderate-income household limits for a family of four are \$60,000; \$76,100; and \$91,300 respectively (Bates, 2014). Generally, programs

expect the owner of an inclusionary unit will not pay more than 30 to 35 percent of their monthly gross income on associated housing costs, including mortgage, interest, property taxes, and insurance (NAHB, 2011).

An area's median income provides a sense of what IZ consumers are willing to pay. For example, in Sacramento County a family of four with an annual household income of \$60,000 could pay up to 35 percent, or \$18,000 per year (\$1,500 per month), for an IZ unit. Based on a monthly allowance of \$1,500 and approximately \$400 per month in associated housing costs (interest, property taxes, and insurance), a low-income IZ unit would have to sell for approximately \$157,072. In July 2014, there were a total of 996 single-family, apartment, and condominiums for sale in Sacramento County for under \$157,072 (Zillow, 2014). Sacramento County has a population of 1,418,788. Of that, approximately 269,570 (19 percent) of households have an annual income between \$50,000 and \$74,999 (U.S. Census Bureau, 2012).

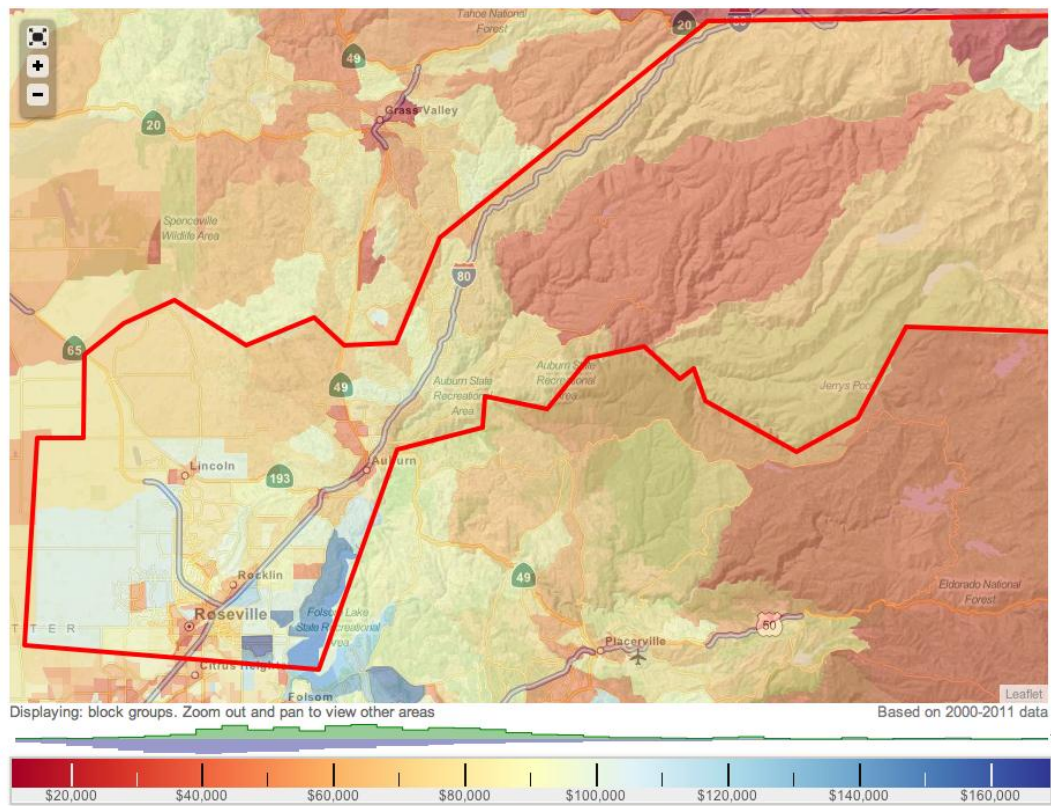
Although it is a rough estimate, there are only 996 units for sale compared to approximately 268,574 households within the same income range. Although it is undetermined how many people within this income limits own their homes currently, it is evident there is a shortage of homes for sale for low-income families. If we apply the ideal homeownership of 77 percent discussed in the previous section, inclusionary zoning policies have the potential to assist approximately 207,569 low-income households in Sacramento County. According to the National Housing Conference (2004), inclusionary IZ policies have the potential to create at least 15,000 affordable units in California annually (p. 9).

Residential Income Segregation in 21st-Century California

Housing segregation based on income includes practices such as local zoning restrictions that establish a minimum square footage for homes, two-car garage, and other factors that raise the price of the home. If an entire area only allows residential development with the aforementioned characteristics, low-income individuals cannot afford to reside there. Although some minorities may not desire to live in that area, the availability of employment at retail locations, restaurants, and other service industry employment opportunities draw jobseekers to suburban areas.

Why are affordable housing policies necessary in California? The following demographic data focuses on Sacramento Region due to the availability of information. As demonstrated in Figure 1, the high-income neighborhoods, indicated in blue, are primarily adjoining to low-income ones. This indicates urban income segregation is currently present in Placer County, California.

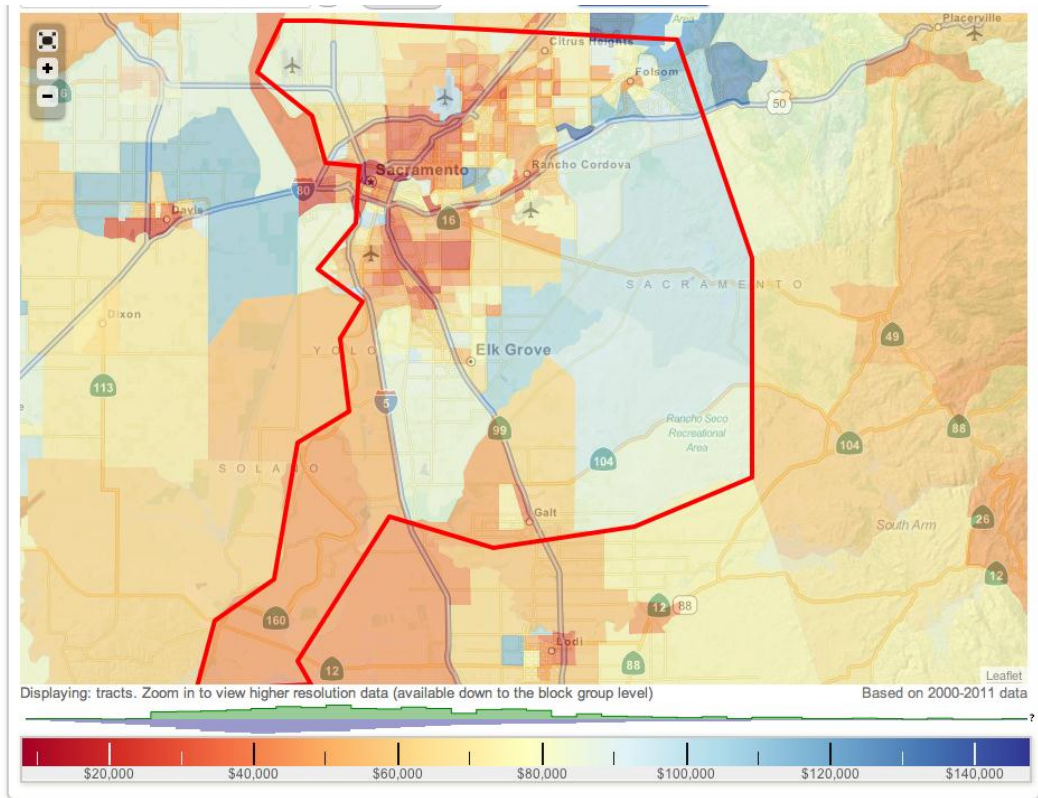
Figure 1: Median family income distribution in Placer County, California



Source: http://www.city-data.com/county/Placer_County-CA.html

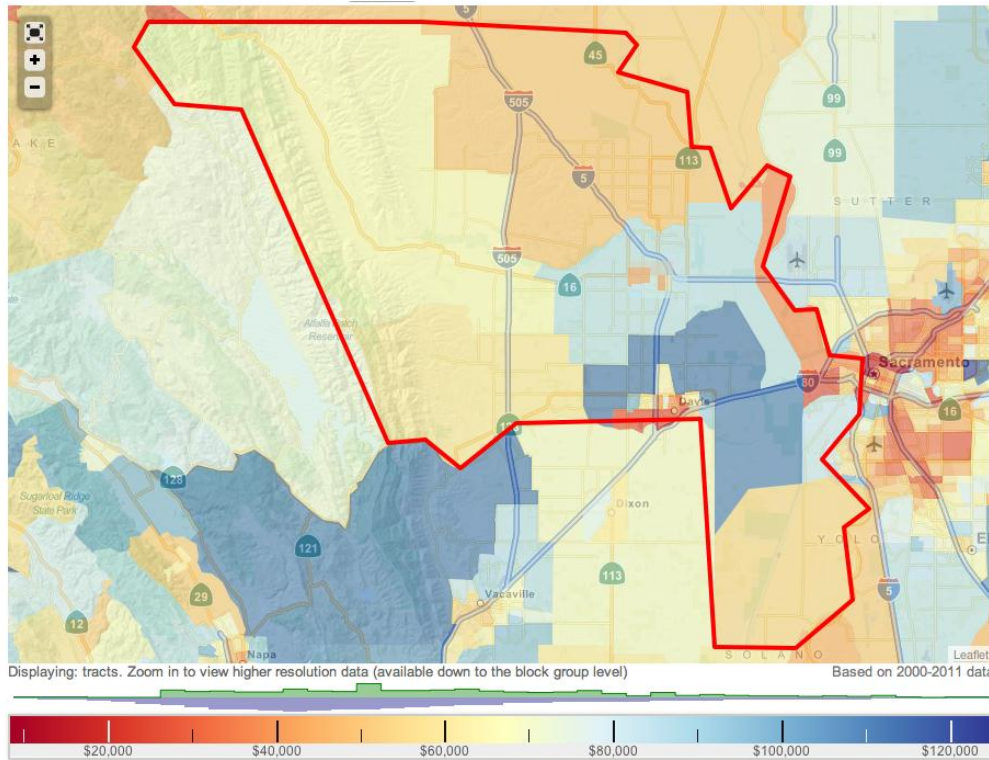
Similar to Placer County, Figure 2 demonstrates a clear separation between low- and high- income residential developments in the County of Sacramento. Additionally, Figure 3 illustrates a similar pattern in Yolo County. Thus, income segregation seems to affect both urban and rural areas. In addition, evidence suggests the trend of income segregation persists throughout California. According to Fry and Taylor (2012), Los Angeles is among 27 of the nation's 30 largest metropolitan areas with increasing residential income segregation. According to the Pew Research Center study, 34 percent of lower-income households in the Los Angeles metropolitan area reside in a primarily lower-income census tract (Fry and Taylor, 2012).

Figure 2: Median family income distribution in Sacramento County, California



Source: http://www.city-data.com/county/Sacramento_County-CA.html

Figure 3: Median family income distribution in Yolo County, California



Source: http://www.city-data.com/county/Yolo_County-CA.html

Affordable Housing Supply and Distribution in 21st-Century California

As illustrated in the previous section, income levels distinctly segregate neighborhoods in Sacramento Region. In the forthcoming section, I will demonstrate there is also a limited supply of affordable housing that is geographically unevenly distributed throughout the Sacramento Region. The Sacramento Area Council of Governments (SACOG) is responsible for establishing the number of housing units that cities and counties must plan for in their State-mandated housing elements. The SACOG Regional Housing Needs Allocation (RHNA) establishes the number of units local governments must plan to develop in order to meet the housing needs of future population projections. The 2013-2021 RHNA established the following number of very-

low, and extremely-low income units that must be developed in order to meet future demands for the Sacramento region: Placer County, 9,779 units; Sacramento County, 22,397 units; and Yolo County, 4,181 units (SACOG, 2013). The large number of units required to meet future demand indicates the lack of existing affordable housing units within the Sacramento region.

According to the U.S. Department of Housing and Urban Development (2014), housing is considered affordable when rent and utility costs equal a maximum of 30 percent of a household's income. A family of four with two working parents earning minimum wage generate a combined annual salary of approximately \$30,720, meaning they can afford \$700 per month in mortgage and utility payments. Assuming a \$15,000 down payment and an interest rate of 3.85 percent, the maximum home price a family with a \$700-per-month budget is approximately \$114,000 (HUD, 2014).

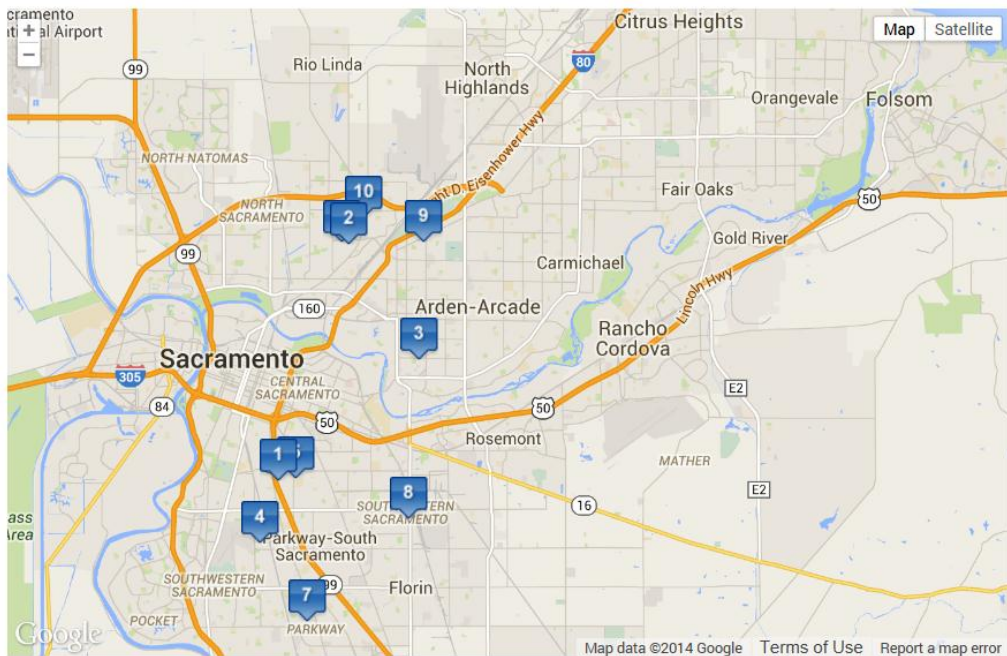
Figures 4 and 5 illustrate the concentration of affordable units (under \$115,000) within Placer and Sacramento Counties. Yolo County had no properties listings with a sale price below \$115,000 (Metrolist, 2014). The concentration of affordable units within the city of Sacramento demonstrates the geographic disparity of affordable housing within the Sacramento region.

Figure 4: Distribution of homes for sale in Placer County, California with a list price of \$115,000 or less



Source: <http://www.metrolistmls.com/>

Figure 5: Distribution of Homes for Sale in Sacramento County, California with a list price of \$115,000 or less



Source: <http://www.metrolistmls.com/>

Conclusion

As stated previously, the goal of inclusionary zoning policies is two-fold: increase the supply of affordable housing and promote economic integration. After nearly half of a century since the State-mandated affordable housing requirements went into effect, the lack of affordable housing and economic segregation persist in California. In the following thesis, I will outline the costs and benefits of inclusionary zoning policies from the perspective of local government officials to shed light on why such programs have been ineffective.

The next chapter provides a synthesis of the current literature analyzing the costs and benefits of local inclusionary housing policies. Subsequently, I perform a cost-benefit analysis of local IZ policies from the perspective of local government officials in Chapter 3. Lastly, Chapter 4 concludes with a summary of findings and two recommendations to strengthen IZ policies in California.

Chapter 2 LITERATURE REVIEW

Introduction

The following chapter presents a synthesis of the existing literature examining the costs and benefits of inclusionary zoning (IZ) policies for the following affected groups: developers; local governments; affordable-housing beneficiaries; urban residents; suburban employers; prospective moderate- and high-income homebuyers; existing moderate- and high-income homeowners; and society in general. The first section presents a summary of the literature analyzing the costs and benefits for associated with inclusionary zoning policies. Next, I will discuss the benefits discussed in existing literature examining local IZ policies. I then conclude with important lessons learned from this that I will apply to my own research.

Costs and Benefits of Inclusionary Zoning Policies

As stated in the introduction, many local governments in California have recently modified or eliminated their inclusionary zoning requirements. However, the supply of affordable units remains below the demand. In this section, I will outline the costs of local inclusionary zoning policies to the various affected groups in order to determine whether the costs associated with such policies outweigh the benefits.

Costs of Inclusionary Zoning Policies

Developers

Opponents of inclusionary zoning regulations argue such policies increase production costs for developers. Housing economists generally accept the notion that all else equal, subsidized housing developments cost significantly more than the

development of unsubsidized units. Specifically, developers and funding governments typically spend approximately \$1.20 to as high as \$1.60 to produce \$1.00 of rental value (Ellickson, 2010). According to housing economists, the high cost of subsidized projects is a result of the extra time and effort from both the developer and public officials. The additional work associated with subsidized projects includes completing a complex array of applications for various subsidies and conducting supplementary public outreach required to obtain land and use permits due to likely controversy of subsidized housing projects (Ellickson, 2010).

Local Governments

As stated above, the high cost of subsidized projects is a result of the extra time and effort from local municipalities and developers. The costs to local governments include increased staff time to evaluate, issue, and monitor permits related to the IZ development. Furthermore, the political issues caused by not in my backyard (NIMBY) efforts often bestow a cost on cities and counties in the form of staff time (Ellickson, 2010). In addition, existing literature suggests large-scale affordable housing projects of more than 50 units may result in increased crime. However, studies suggest mixed-income affordable housing projects of less than 50 units do not increase crime rates (Agnew, n.d.).

Low-Income Affordable Housing Beneficiaries

According to Ellickson (2010), some studies on residential preferences suggest most low-income minority households are not thrilled to relocate to wealthier white neighborhoods

(p. 1015). However, studies exist that present contrary findings, as I will discuss in the following section.

Urban Residents

In addition to monetary consequences, inclusionary zoning opponents point out social consequences that are also associated with such regulations. Specifically, opponents argue the affordable housing strategy entices the “best of the poor”, or the highest-achieving low-income residents, to move out of inner cities and into suburban areas (Glaeser and Gyourko, 2002). As a result, a cost of inclusionary zoning policies is increased blight of existing urban low-income neighborhoods as more underprivileged people relocate to pursue affordable housing elsewhere.

Prospective Moderate- and High-Income Homebuyers

Scholars contend the decline in the profitability of housing developments due to affordable housing requirements causes a decline in moderate- to high-income housing supply and as a result, increased housing prices at these levels (Schuetz et al., 2007, Glaeser and Gyourko, 2002). Others argue the increased prices result from the shift of the tax burden from developers to moderate- and high-income homebuyers in the form of increased housing prices (Burchell and Galley, C., 2000). Essentially, moderate- and high-income homebuyers subsidize the affordable units within the development by paying more for their homes.

Existing Moderate- and High-Income Homeowners

According to Farley et al (1978), whites have historically been reluctant to remain in neighborhoods where blacks are moving in; which some contend results in decreased

property values for existing moderate- and high-income homeowners. Based on a 1976 Detroit-area study, Farley et al (1978) contends whites are reluctant to purchase homes in integrated neighborhoods. However, attitudes seem to be shifting with time. Specifically, the percentage of whites who said they would not be upset if a black person with similar education and income moved into their neighborhood rose from 35 percent in 1942 to 84 percent in 1972 (Sheatsley, 1966; National Opinion Research Center, 1972).

More recent research suggests affordable housing does not have a definite positive or negative effect on surrounding home values. Overall, existing scholarship is ambiguous as to whether or not mixed-income housing developments have a positive or negative impact on surrounding property values. Instead, contemporary scholars contend the effect on neighborhood property values depends on a complex interaction of a variety of variables such as project scale, management type, and neighborhood characteristics (Agnew, n.d.). However, homeowners located within close-proximity of proposed mixed-income housing projects often resist such developments. Scholars attribute such opposition to the stigma associated with public housing projects (University of Chicago, 2013).

Finally, relocating low-income students to existing schools in moderate- and high-income neighborhoods may decrease the quality of education for students currently enrolled. Although there is no definitive amount, researchers recognize that low-income students, students of color, and English learners often require higher levels of funding per student than their classmates (Barondess et al, 2012). Thus, the increase in low-income

students could decrease revenue for other students, potentially diminishing the educational quality for the existing pupils.

Society

Because affordable housing units constructed in response to local mandates are usually in suburban areas, some opponents argue inclusionary zoning requirements increase urban sprawl by encouraging the poor to leave central places and go to spreading suburban communities (Burchell and Galley, 2000).

Summary of Costs Associated with Inclusionary Zoning Policies:

- Increased cost of development increases cost for moderate- and high-income homebuyers
- Increased staff time spent on processing development applications for local governments
- Increased crime in large-scale (> 50 units) affordable housing projects
- Low-income affordable housing beneficiaries may not desire to relocate in primarily-white suburban neighborhoods
- Increased blight for remaining urban residents
- Rise in home prices in moderate- negatively impact prospective homebuyers in the same income range
- Decreased property values for existing moderate- and high-income homeowners
- Decreased educational quality for existing students
- Increased urban sprawl

Benefits of Inclusionary Zoning Policies

As previously stated, the purpose of inclusionary zoning (IZ) policies is to increase the supply of affordable housing units in specific neighborhoods believed to offer greater benefits to the poor from living there as compared to where they currently live. The following section presents the current literature analyzing the benefits of increasing the affordable housing supply through inclusionary zoning policies.

Low-Income Affordable Housing Beneficiaries

A 1976 Detroit-area study found most black respondents expressed preference for racially diverse neighborhoods. Scholars found the percentage of blacks in Detroit that prefer to live in mixed neighborhoods rose from 56 percent to 62 percent (Farley et al., 1978). Thus, one benefit of IZ policies is increased locational choice for low-income affordable housing beneficiaries. Specifically, increased access to housing in moderate- and high-income neighborhoods may improve health outcomes for beneficiaries by reducing exposure to hazards in poor quality housing and the financial burden on such families (Agnew, n.d.).

Urban Residents

Inclusionary zoning policies generally relocate low-income families to suburban neighborhoods. Existing literature suggests this provides benefits to remaining urban residents such as reduced traffic congestion, which decreases pollution and shortens commute times (McCarthy, n.d.).

Suburban Employers

In addition, inclusionary zoning policies enable high-priced municipalities to attract low- and moderate-wage workers by providing them with an affordable place to live close to employment opportunities. This is beneficial to suburban employers because it affords them a steady workforce (McCarthy, n.d.).

Society

One of the benefits of inclusionary zoning policies is increased social capital. Specifically, inclusionary zoning (IZ) policies create stable tenants with an increased incentive to participate in local politics that are more likely to be stable employees with children that do not suffer from constant relocation, which is a leading cause of educational underachievement (Ellickson, 2010; Agnew, n.d.). In addition, scholars argue IZ programs increase access to jobs, quality schools, access to health care, and the likelihood of financial success for minorities (Farley and Squires, 2005; Agnew, n.d.). In sum, the aforementioned externalities of inclusionary zoning (IZ) policies increase the social capital of affordable housing beneficiaries.

Local Governments

Inclusionary zoning regulations provide a tool for local governments to increase the supply of affordable housing. Calavita and Grimes (2010) contend such mandates limit the ability of NIMBY (not in my backyard) efforts to block developments that include affordable units. In addition, local inclusionary zoning requirements provide a financing mechanism for local governments to meet State-mandated affordable housing requirements (Burchell and Galley, 2000).

Summary of Benefits Associated with Inclusionary Zoning Policies:

- Increases locational choice for low-income affordable housing beneficiaries
- Provide a steady workforce for suburban employers
- Increased social capital
- Reduce the power of NIMBY efforts to block affordable housing developments
- Provide a financing mechanism for local governments to meet State-mandated requirements

Conclusion

In this section, I presented a synthesis of existing literature examining the costs and benefits of local inclusionary zoning (IZ) policies for each of the affected sectors as detailed in Tables 1 and 2. Current scholarship on the costs of local inclusionary zoning policies include: increased cost to developers; increased staff time spent on processing development applications for local governments; the reluctance of low-income IZ beneficiaries to relocate in primarily-white suburban neighborhoods; rise in blight for remaining urban residents; decreased property values for existing moderate- and high-income homeowners; diminished educational quality for schools in moderate- and high-income neighborhoods; and increased urban sprawl (Ellickson, 2010; Schuetz et al., 2007; Glaeser and Gyourko, 2002; Barondess et al., Burchell, R. and Galley, 2000).

On the other hand, proponents of inclusionary zoning policies indicate benefits of inclusionary zoning (IZ) policies include: preference of African Americans to live in racially and economically diverse neighborhoods, steady workforce for suburban employers, increased social capital is a common benefit, and financing mechanism for

local governments to meet State-mandated requirements for affordable housing stock. In the next section, I will perform a cost-benefit analysis of local IZ programs in California from the perspective of local government officials based on a combination of existing scholarship and my own research.

Table 1: Literature examining costs of inclusionary zoning policies

AUTHOR(S)	YEAR	TITLE	COSTS
Schuetz et al.	2007	<i>The Effects of Inclusionary Zoning on Local Housing Markets: Lessons from the San Francisco, Washington DC and Suburban Boston areas</i>	<ul style="list-style-type: none"> • Increased regulations lead to decreased housing supply and increased housing prices
Ellickson, R	2010	<i>The false promise of the mixed-income housing project</i>	<ul style="list-style-type: none"> • Higher production costs for developer • Developer/owner dis-incentivized to monitor quality of subsidized units during and after construction because of high demand for affordable units (perverse incentives) • Social consequences of locked-in tenants: may prevent someone from moving to a more dynamic employment environment, may worsen tenant-landlord relations because landlord has less incentive to cooperate with tenant's complaint
Glaeser, E. and Gyourko, J.	2002	<i>Zoning's Steep Price</i>	<ul style="list-style-type: none"> • Zoning policies increase cost of land, thus increasing housing prices
Burchell, R. and Galley, C.	2000	<i>Inclusionary zoning: Pros and cons</i>	<ul style="list-style-type: none"> • Shifts the tax burden to other groups • Increases property values • Entices "best of the poor" to move to suburbs instead of having a positive influence on the urban neighborhood • Increased urban sprawl
Ruiz-Tagle, Javier	2013	<i>A Theory of Socio-Spatial Integration: Problems, Policies, and Concepts from a U.S. Perspective</i>	<ul style="list-style-type: none"> • Relocates low-income families from social services and transportation • Mandated quota limits flexibility of local governments to increase integration potential
Barondess, H.; Hahnel, C., and Stewart, J.	2012	<i>Tipping the Scale Towards Equity</i>	<ul style="list-style-type: none"> • Increased costs for schools in moderate- and high-income areas to accommodate additional low-income students could result in decreased quality of education

Table 2: Literature analyzing benefits of inclusionary zoning policies

AUTHOR	YEAR	TITLE	BENEFITS
Agnew, Spencer	n.d.	<i>The impact of affordable housing on communities and household</i>	<ul style="list-style-type: none"> • May improve health outcomes for beneficiaries by reducing exposure to hazards in poor quality housing and the financial burden on such families • Increase access to jobs, quality schools, access to health care, and the likelihood of financial success for minorities
Ruiz-Tagle, Javier	2013	<i>A theory of socio-spatial integration: Problems, policies, and concepts from a U.S. perspective</i>	<ul style="list-style-type: none"> • Opens up exclusive suburbs to foster economic and racial integration • Development of social networks and social capital • Possibility of social control • Modeling of culture and behavior • Improvement of the political economy of places
Ellickson, R	2010	<i>The false promise of the mixed-income housing project</i>	<ul style="list-style-type: none"> • May raise value of surrounding properties (but unsubsidized development would raise more) • Increases social capital: creates stable tenants which have a greater incentive to be active in local politics, more likely to be a stable employee, and children do not suffer from constant relocation
Farley, J. and Squires, G.	2005	<i>Fences and neighbors: segregation in 21st-century America</i>	<ul style="list-style-type: none"> • Increases access to jobs for minorities • Increases access to quality schools • Increases access to health care • Increases likelihood of financial success
Calavita, N. and Grimes, K.	1998	<i>Inclusionary housing in California: The experience of two decades</i>	<ul style="list-style-type: none"> • Reduces power of NIBY efforts to block affordable housing projects • Creates diverse communities
Burchell, R. and Galley, C.	2000	<i>Inclusionary zoning: Pros and cons</i>	<ul style="list-style-type: none"> • Provides a financing mechanism for local governments to meet affordable housing requirements • Spreads out burden of poor • Connects low-wage work force to service industry employers • Decreases sprawl

Seitles, M.	1996	<i>The perpetuation of residential racial segregation in America: historical discrimination, modern forms of exclusion, and inclusionary remedies</i>	<ul style="list-style-type: none"> • Increased safety and education • Decreased transportation costs • Decreased unemployment rate • Promulgation of equal opportunity • Fosters tolerance and understanding through racial integration
McCarthy, D.	n.d.	<i>On inclusionary zoning: The economics</i>	<ul style="list-style-type: none"> • Decreased traffic congestion, pollution, and commute times • Increased ability of high-priced municipalities to attract low- and moderate-wage workers • Prevents flight of young people from affluent areas

Chapter Three COST-BENEFIT ANALYSIS

Introduction

In the previous chapter, I presented a synthesis of the current scholarship analyzing the costs and benefits of inclusionary zoning (IZ) policies. In the forthcoming chapter, I describe the methodology I will use to evaluate each effect of local IZ policies. Next, I will outline the criteria I will use to assess the impacts generated by local IZ programs in California. Lastly, I conduct a cost-benefit analysis of IZ policies from the perspective of local government officials.

Methodology

To identify the costs and benefits of local IZ policies, I compiled data from existing scholarship, Internet data, and my personal experiences. The quantification of costs and benefits that result from IZ policies is challenging due to a lack of data and the variation of impacts across localities. In addition, many of the costs are impossible to quantify. For example, the only feasible way to measure the emotional costs associated with lack of spatial choice would be to conduct a contingent-valuation survey to gather self-reported data.

Due to a lack of resources and problems associated with self-reported information, I do not have ample information to provide a quantitative value for each cost and benefit of local IZ policies in California. Therefore, the subsequent cost-benefit analysis will be of a qualitative nature. That is, I will not put a dollar value on any of the cost and benefits, but instead just list them in a manner that is easily accessible to a policymaker.

Definition of Appropriate Decision-Making Criteria

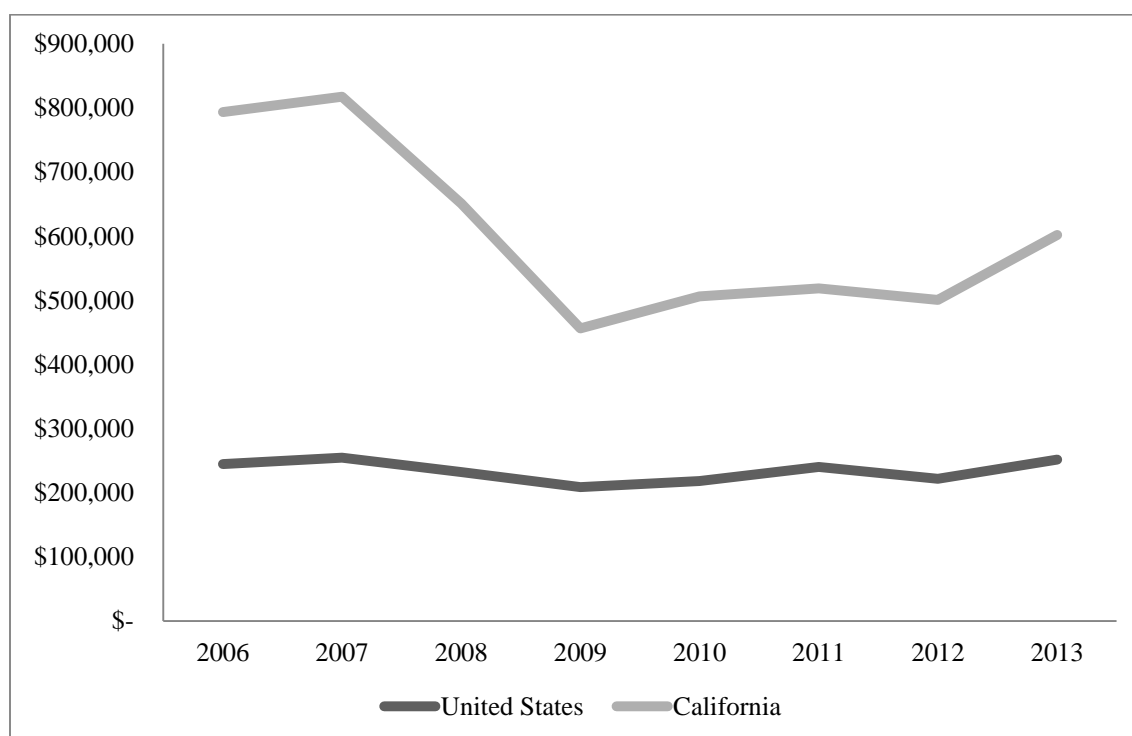
In order to determine the political feasibility of local inclusionary zoning (IZ) policies from the perspective of California's local government officials, I will establish criteria to evaluate whether the costs of IZ policies outweigh the benefits identified from existing scholarship and my own research. First, it is necessary to redefine the goals of the policy. The dual-objective of IZ policies is to increase the supply of affordable housing and foster social and economic integration (Calavita and Grimes, 1998). In addition, decision-makers must also consider the economic and social implications of such policies. In the next section, I will quantify the change in supply of affordable housing as well as social and economic integration resulting from local IZ policies. Subsequently, I will analyze the impacts of such policies in relation to other goals of decision-makers such as the social and economic impacts.

Change in Affordable Housing Supply

A community's affordability refers to the relationship between the median income and median home price in a given area. From the mid-1970s to 2004, inclusionary housing efforts in California have produced over 34,000 affordable units (NHC, 2004). Over more than three decades, that is an average of only approximately 1,100 affordable units annually. With a population of over 38 million people, the production of 1,100 affordable units does not have a significant impact on the social or economic makeup of California. The need for affordable housing is largely dependent on economic factors that lead to a disproportionality between income and housing prices. As illustrated in Figure 6, the median home price in California peaked in 2007 at \$592,420 just before rapidly

falling as the Great Recession hit in 2008 with a low of \$247,630 in 2009. Since then, California's median home price has steadily increased to \$350,490 in 2013.

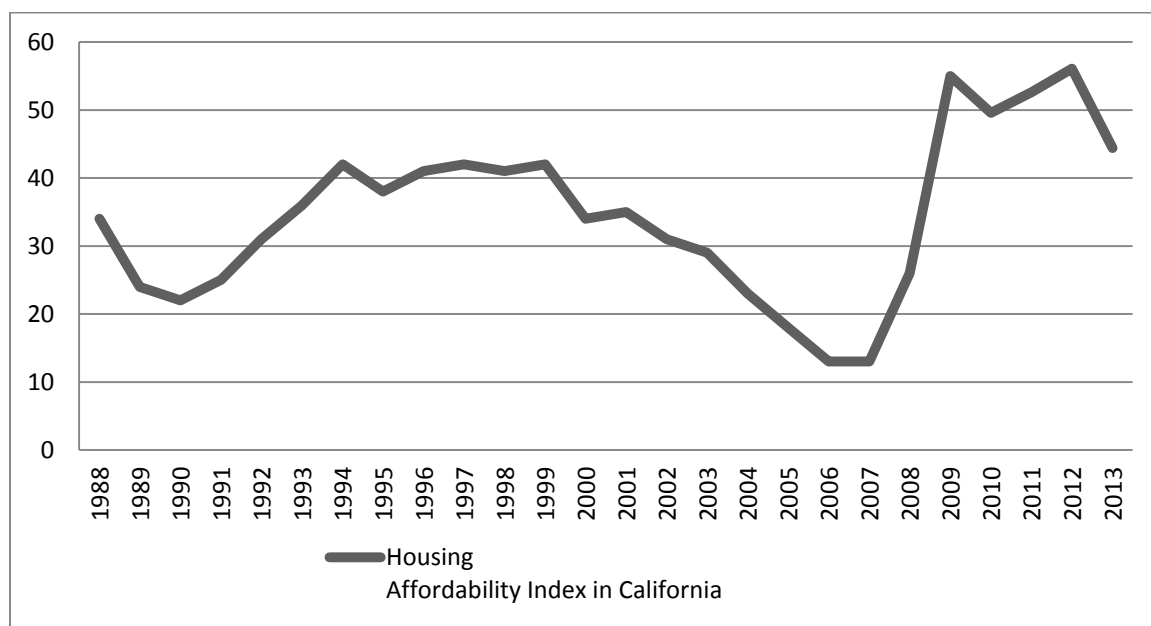
Figure 6: Median Home Price in California and United States, 2006 to 2013



Source: <http://www.car.org/marketdata/data/haitraditional/>

The California Association of Realtors (CAR) maintains a Traditional Housing Affordability Index (HAI) to measure the percentage of households that can afford to purchase a median-priced home. As depicted in Figure 7, housing affordability in California has been at its highest point since 2008. In 2013, California scored an HAI of 44, compared to 57 in the United States for the same year (California Association of Realtors, 2014). Compared to the United States, California's housing market is more volatile with higher-priced homes (California Association of Realtors, 2014). Given the unique nature of California's housing market, local government officials should consider the importance of providing affordable housing opportunities.

Figure 7: Housing Affordability Index in California, 1988 to 2013



Source: <http://www.car.org/marketdata/data/haitraditional/>

Social and Economic Implications

Local government officials must balance the needs of many different groups and interests regardless of income or politics. Therefore, decision-makers must consider equity when evaluating the costs and benefits of a policy. The State's Department of Housing and Community Development (HCD) imposes requirements on cities and counties based on the ethical responsibility to provide residency opportunities for low- and moderate-income residents. Inclusionary zoning (IZ) policies are a tool for local governments to increase the supply of affordable housing units in moderate- and high-income areas. Without such policies, historical traditions and market forces often centralized low-income residents in a small geographic area with little public investment and job opportunities.

In addition, local government agencies operate as businesses and taxpayer exactions in the form of property and sales taxes are their primary revenue sources. In 2012, the State of California exacted \$10,087,559,000 in sales tax revenue, compared to \$2,079,878,000 in property tax revenue in the same year (Governing, n.d.). However, the City of Sacramento reported \$50,683,000 in sales tax revenue and \$114,874,000 in property tax revenue for 2012 (City of Sacramento, 2013). It is evident that property tax revenue is the primary source of funding for most local agencies. Therefore, decision-makers must consider the implications of inclusionary zoning (IZ) policies have on local property owners, residents, and business owners. Given said logic, I will use the following categories to evaluate the appropriateness of local inclusionary zoning (IZ) policies: economic impact, quality of life, and equity.

Identification of Costs and Benefits

In this section, I will list the costs and benefits of inclusionary zoning (IZ) policies from the perspective of local government officials. Scholars examining the effects of IZ regulations contend they potentially lead to the following costs for local governments and their existing residents: decreased market rate housing developments; higher staff costs to administer IZ program; increased possible crime and lower public school outcomes due to the greater presence of low SES residents; decreased property tax revenue from lower value housing replacing higher cost; and potential increased costs to provide services to more residents as affordable housing is likely to have more residents per square foot (Ellickson. 2010; Schuetz et al., 2007; Glaeser and Gyourko, 2002; Burchell, R. and Galley, 2000).

On the other hand, proponents of IZ policies contend they may also offer the following positive benefits to a local government and its businesses and residents: a more accessible workforce for suburban service-sector-based employers; access to increased social capital for the relocating urban resident (mentors for children lower crime rates, access to “better” performing and schools and the group of active parents that contribute to this, etc.); and a mechanism for local governments to meet State-mandated requirements for affordable housing stock. In the next section, I will identify the costs and benefits of inclusionary zoning policies in qualitative terms for each stakeholder group. See Table 3 for a comprehensive list of costs and benefits of IZ policies by stakeholder.

Developers

One cost of inclusionary zoning policies is the increased price of development. Because the home price depends on the homebuyer’s income, housing developers must sell affordable units below market price. As a result of the decline in the profitability of housing developments, the supply of moderate- to high-income housing decreases and housing prices at these levels increase (Schuetz et al., 2007, Glaeser and Gyourko, 2002). On the other hand, IZ policies do not provide any direct benefits to housing developers.

Existing Moderate and High-Income Homeowners

As a result of inclusionary zoning (IZ) policies property values for the existing high-priced neighborhoods are said to decrease as a result of the integration of low-income families into exclusive neighborhoods. This can be driven by the actual or perceived fear of greater crime and lower quality public school outcomes.

Local Government

Local governments, such as cities and counties, realize both costs and benefits from inclusionary zoning (IZ) policies. A direct cost of IZ policies includes increased staff time to develop, adopt, and implement the policy. For example, a staff member must write the policy and present it to the governing board for adoption. After the policy is adopted, the agency must create internal procedures to implement the ordinance. Furthermore, local government staff could see an increase of time spent on processing housing development permit applications subject to the IZ policy. Inclusionary zoning (IZ) policies cost the City of Palo Alto between \$40,000 and \$60,000 annually in administration costs to manage price controls on 253 units over the past 30 years (Powell and Stringham, 2004). Although some agencies collect additional permit fees to offset the additional staff time, it is unclear whether they adequately compensate for the entire expense associated with the additional tasks.

Furthermore, due to the decreased sale price of the affordable units and a potential decrease in values of surrounding moderate- and high-income properties, local governments may receive less property tax than if the homes were sold at market rate. This poses a potential cost to taxpayers in the form of decreased funding for city services. Powell and Stringham (2004) conducted a study of the fiscal impacts of IZ policies and found such regulations cost the average jurisdiction \$45 million in lost tax revenue (p. 5).

In addition, creating mixed-income communities through IZ policies has the potential to increase urban blight and crime. As the most successful low-income urban residents relocate to moderate- and high-income suburban communities, urban blight will

most likely increase. The increase in urban blight could impose additional expenses on local government in order to abate issues such as graffiti, illegal dumping, and crime.

On the other hand, inclusionary zoning (IZ) policies offer a benefit to local governments. Specifically, the policy is a tool for local governments to meet their State-mandated affordable housing requirements with minimal cost to the agency. Inclusionary zoning regulations provide an essential tool for local governments to increase the supply of affordable housing. As Calavita and Grimes (2010) point out, such mandates limit the ability of NIMBY (not in my backyard) efforts to block developments that include affordable units. In addition, local inclusionary zoning requirements provide a financing mechanism for local governments to meet State-mandated affordable housing requirements (Burchell and Galley, 2000).

Lastly, affordable housing regulations provide a clear policy direction for local government staff. Because the policy does not leave room for interpretation, inclusionary zoning policies make affordable housing regulations a ministerial action. Thus, the legal risks to local governments are diminished significantly. In addition, transforming low-income residents into contributing members of society reduces the potential need for government services and most-likely will increase their probable tax contribution.

Low-Income Housing Beneficiaries

Although existing literature is ambiguous as to whether low-income minorities prefer to relocate to a primarily white suburb, it is safe to assume that many may not desire to relocate to a different community. As a result, decision makers could potentially

view this as a cost or benefit. However, it is a cost for the portion of the urban low-income population that does not desire to relocate to suburban communities.

Existing literature supports the desire of African Americans to locate in racially and ethnically diverse neighborhoods. In addition to blacks, other low-income residents may elect to move to suburban areas for other reasons such as better schools and employment opportunities, if not for preference. Thus, inclusionary zoning (IZ) policies provide low-income families and individuals with the choice to locate either in the city or surrounding suburbs, which is a significant benefit for low-income affordable housing recipients.

Prospective Moderate- and High-Income Homebuyers

As discussed in the previous chapter, opponents of mixed-income housing policies argue such regulations interfere with the market to increase housing prices for prospective moderate- and high-income homebuyers (Schuetz et al., 2007). Another cost of inclusionary zoning policies is tax incidence, or who actually bears the expense of the regulation. Opponents argue developers pass the increased fees associated with IZ regulations on to homeowners in the form of increased housing prices (Burchell and Galley, C., 2000). The question of economic incidence of inclusionary zoning policies often emerges as a potential cost to prospective moderate- and high-income homebuyers. Essentially, they subsidize the affordable units by paying more for their homes.

Society

A social cost of increased home values includes the inability of purchasers on the fringe of affordability to purchase a home. The incapability of low-income individuals

and families to own a home may lead to a rise in residential instability as renters have less incentive to remain in one location for a long period of time. Furthermore, when moderate-income individuals and families are priced-out of the housing market, it impedes the promulgation of the American dream. Because they are priced out of the housing market, such individuals do not have the opportunity to earn equity and climb the social ladder.

In addition, existing scholarship points out creating affordable housing opportunities through IZ policies promulgates urban sprawl. Negative externalities associated with increased travel time in automobiles as suburban communities have limited public transportation and a large distance between residential areas and amenities.

Existing literature contends IZ policies increase social capital by creating stable tenants. Spatial stability generates an increased incentive to participate in local politics, stable employees, and children that do not suffer from constant relocation (Ellickson, 2010). In addition, scholars argue IZ programs increase access to jobs, quality schools, access to health care, and the likelihood of financial success for minorities (Farley, J. and Squires, G., 2005).

The ability for low-income individuals and families to achieve home ownership promulgates the American dream. In addition to psychological benefits, participation in the housing market provides an opportunity for networking as well as access to additional employment and housing choices. This provides a multitude of benefits, such as prospective social advancement, which increases the value of the community's human capital. On the other hand, most IZ policies mandate the project-based regulations remain

occupied by low-income residents indefinitely. Thus, low-income affordable housing recipients do not profit from equity as market-rate homeowners do.

Suburban Employers

Suburban employers do not realize direct costs as a result of local inclusionary zoning (IZ) policies in California. However, providing an affordable place for serviced-based employees to reside is a benefit to suburban employers (and the consumers of the goods and services that they provide) as well. In suburban areas there is a high percentage of service-based retail to cater to the surrounding moderate- and high-income residents. Thus, there is a high-demand for low-wage workers. Providing affordable housing opportunities in suburban neighborhoods increases the low-wage labor force for area employers such as restaurants and retail. The employers can then pay less in an hourly wage to attract workers. This either results in higher profits for the business and/or lower prices for the suburban consumers of the services produced by the firm.

Urban Residents

In order to take advantage of affordable housing policies, low-income renters and homebuyers must demonstrate the ability to pay. As a result, most program beneficiaries are the most responsible in their community. Thus, relocating the best of the community leaves the less-responsible residents to reside in the city neighborhood, which may result in increased blight for remaining urban residents.

Table 3: List of costs and benefits associated with local inclusionary zoning policies by stakeholder

STAKEHOLDER	COST	BENEFIT
Developers	<ul style="list-style-type: none"> • Increased development costs depending how much passed onto moderate/high housing consumers 	<ul style="list-style-type: none"> • None
Local Government	<ul style="list-style-type: none"> ▪ Increased staff time to create, adopt, and implement, and enforce policy ▪ Reduced property tax revenue ▪ Increased development cost may impede economic development 	<ul style="list-style-type: none"> ▪ None
Low-Income Affordable Housing Beneficiaries	<ul style="list-style-type: none"> ▪ Limited spatial choice ▪ Inability to relocate at will 	<ul style="list-style-type: none"> ▪ Discounted purchase price of home ▪ Pride of ownership ▪ Tax exemptions ▪ Access to “better” social capital • Access to better employment opportunities and higher wages • Increased educational opportunities • Increased employment opportunities • Locational stability • Increased financial stability
Suburban Employers	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Increased low-wage workforce, lowers wage needed to be paid, and greater profits.
Suburban Residents	<ul style="list-style-type: none"> • Increased crime may result in rise in theft • Possible lower “quality” public school outcomes 	<ul style="list-style-type: none"> • If employers can hire workers at lower wages, suburban employers may pass the savings on to consumers.

Existing Moderate and High-Income Homeowners	<ul style="list-style-type: none"> • Potentially decreased home values 	<ul style="list-style-type: none"> • Exposure to a more diverse neighbors and the culture awareness this creates
Society	<ul style="list-style-type: none"> • None 	<ul style="list-style-type: none"> • Less negative externalities from children from low socioeconomic (SES) backgrounds never reaching full potential by growing up in a low SES neighborhood • Less commuting and Greenhouse Gas (GhG) emission from workers living closer to suburban retail jobs
Urban Residents	<ul style="list-style-type: none"> • Possible increased crime and blight from low socioeconomic status (SES) leaving neighborhoods and moving to suburbs 	<ul style="list-style-type: none"> • Decreased congestion and pollution

Application of Appropriate Decision-Making Criteria

In the previous section, I defined the decision-making criteria as the economic impact, effect on quality of life, and equity of IZ policies. Next, I will evaluate the costs and benefits using said themes from the perspective of local government officials.

Economic Impact

One cost of inclusionary zoning (IZ) policies includes increased development costs for housing developers. The increased development costs are likely to have a negative impact on economic development. The reduced price of the affordable homes result in decreased property tax revenues for local governments. Because property tax revenue is a large portion of revenue for cities and counties, this is a noteworthy effect from the perspective local government officials. On the other hand, IZ policies benefit suburban employers, particularly those in the service-industry, in that they provide an increased low-wage workforce. This could potentially result in a price discount for customers, if the retailer passes on the cost savings to them. The lower prices would most-likely increase demand and could result in higher sales-tax revenue for local governments.

Quality of Life

Program beneficiaries realize the most benefits inclusionary zoning (IZ) policies such as access to higher-quality schools; potential revenue from equity; and pride of ownership. However, the limited spatial choice may have a negative impact on IZ program beneficiaries due to the distance from friends and family and the increased cost of living in a moderate- and high-income neighborhood. IZ policies may negatively

impact the community due to the increased resources required to administer such programs. Furthermore, the increased blight and crime could increase staff time for local governments. The additional staff time and resources to administer IZ programs and abate blight and crime reduces the number of services, such as infrastructure repairs, the agency can perform. Lastly, IZ policies could decrease educational quality in moderate- and high-income schools. The decision to allocate time and resources to IZ policies could have a negative impact on the quality of life for the community.

Equity

Although low- and moderate-income residents do not have economic power, government officials have an obligation to consider equity when evaluating policies. IZ policies increase equity by facilitating the implementation of affordable housing opportunities for low- and moderate-income individuals and families. Although IZ programs assist a limited number of low- and moderate-income individuals and families, they provide program beneficiaries with the opportunity to achieve financial stability and increase their quality of life. The lack of affordable housing is a widespread issue in California and government officials have a moral obligation to address the problem.

Conclusion

In this chapter, I presented an analysis of the costs and benefits of local inclusionary zoning (IZ) programs as a means to promote affordable mixed-income housing developments in California from the perspective of local government officials. I commenced by presenting the methodology and criteria I used to evaluate IZ policies. In addition, I defined the aggregate positive and negative effects of the policies by

stakeholder. Next, I performed a cost-benefit analysis from the viewpoint of local government officials. Finally, I concluded with a discussion of the impacts of IZ policies on the economy, quality of life, and equity. In the next chapter, I will conclude with an examination of the findings and present two recommendations to strengthen IZ policies in California based on the preceding analysis.

Chapter Four FINDINGS AND RECOMMENDATIONS

Introduction

In the prior chapter, I conducted a cost-benefit analysis of local inclusionary zoning (IZ) policies in California. In this chapter, I outline the costs and benefits of IZ policies as detailed in Chapter 3. Subsequently, I present findings based on my research and evaluation to guide local policymakers in examining IZ policies. Furthermore, I provide an analysis of policy weaknesses and offer two recommendations to improve IZ programs in California.

Recap of Costs and Benefits Associated with Inclusionary Zoning Policies

Local inclusionary zoning (IZ) policies in California generate costs and benefits to a number of stakeholders. Specifically, IZ policies cause the following costs: increased expenses for housing developers; reduced staff time and property tax revenue for local governments; inhibition of local efforts to generate economic development activities; increased crime and blight for urban residents; potentially decreased property values for moderate- and high-income homeowners; possible lower “quality” public school outcomes; and limited spatial choice for low- and moderate-income IZ beneficiaries.

On the other hand, IZ policies produce the following benefits to low- and moderate-income IZ beneficiaries: discounted home purchase price; pride of ownership; tax exemptions; access to “better” social capital; access to better employment opportunities and higher wages; increased educational opportunities; increased educational opportunities; locational stability; and increased financial stability. Furthermore, IZ regulations increase the low-wage workforce for suburban employers,

which may result in lower prices for suburban residents. Existing moderate- and high-income homeowners may benefit by increased exposure to a more diverse neighbors and the cultural awareness this creates. IZ policies also offer fewer negative externalities from low-socioeconomic status (SES) children never reaching full potential by growing up in a low-SES neighborhood. Lastly, IZ programs reduce commuting and greenhouse gas (GHG) emissions from workers.

Summary of Findings

As previously discussed, local agencies such as the City of Folsom and County of Sacramento have recently reconsidered their inclusionary zoning (IZ) ordinances. Using the analysis of costs and benefits presented in the previous chapter, I will offer a summary of findings and recommendations to guide local policymakers in contemplating IZ policies.

Local Costs; Regional Benefits

When evaluating inclusionary zoning (IZ) policies, local government officials must consider their impacts on the economy, quality of life, and the equity within their relative jurisdictions. In response to the City of Folsom's decision to suspend its IZ program, Council member Andy Morin cited a burden on homeowners and builders (Long, 2011). In 2014, the County of Sacramento weakened its IZ program in response to its negative impact on new development (Locke, 2 March 2014). Although providing affordable housing provides a social benefit, local decision-makers have an obligation to represent the interests of homeowners and businesses as they provide the majority of

funding to the municipality. While the region benefits from IZ programs, such regulations result in a net economic loss to the locality.

Loss of Redevelopment Funding

Prior to their dissolution in 2012, the State required Redevelopment agencies (RDAs) to devote 20 percent of tax increment property tax revenue to affordable housing. However, the elimination of RDAs has left local governments with limited revenue sources to fund affordable housing programs. In fact, the City of Folsom lost between \$1.5 and \$2 million annually after the State abolished RDAs in 2012; a portion of which was used to subsidize IZ-mandated affordable housing development (Long, 2011). Thus, community members would have to sacrifice existing services or increase taxes to continue IZ programs in a post-Redevelopment era.

Political Feasibility

Although local government officials may support the goals of IZ policies, such programs require cities and counties to voluntarily subsidize the affordable housing needs of surrounding communities at a cost to local taxpayers. For example, a growing suburb may elect to develop only market-rate housing and as a result increase the affordable housing burden for other municipalities within the region. The increased burden for other municipalities could lead to a decreased in the level of services the community currently receives. Despite that IZ policies may be equitable on a regional or state level, local officials must establish a direct benefit to constituents in order to justify the additional cost. Given the opposition by the building industry and homeowners, IZ policies have limited support from local stakeholders.

Policy Weaknesses

One weakness of inclusionary zoning policies is their dependence on the housing market. For example, during the Great Recession, housing development came to a halt; so did the development of affordable units (Hickey, 2013). To maintain the supply of affordable housing units during an economic downturn, the regulation cannot rely exclusively on market forces. Secondly, there is a lack of oversight of local IZ policies. State law required inclusionary policies in redevelopment areas, but the elimination of RDAs ceased the implementation requirements and enforcement of local policies. Thus, adoption of local IZ policies is voluntary and regulated by the courts.

Recommendations

As mentioned previously, there are two significant weaknesses in California's inclusionary zoning (IZ) programs: an over-dependence on the housing market and lack of State oversight. To strengthen IZ policies I offer two suggestions: local governments should adopt affordable housing development fees and the state should implement and enforce a statewide inclusionary housing program.

First, I recommend local government officials consider levying affordable housing development fees on commercial properties to account for the number of employees they bring in to the community. Although a nexus study must be performed prior to adoption, I suggest the funds be calculated based on square footage of the building and placed into an account to fund affordable housing developments in targeted areas. The revenue could then be used to fund affordable housing developments in moderate- and high-income neighborhoods during economic downturns.

Secondly, I recommend the State adopt a mandatory inclusionary housing requirement with enforcement mechanisms to promote compliance. Because each community is different, I do not endorse specifying the manner in which local governments satisfy their inclusionary housing requirements. In my opinion, the Department of Housing and Community Development (HCD) should be responsible for monitoring and enforcing the jurisdiction's progress in meeting their required number of affordable units. I suggest HCD withhold Community Development Block Grants (CDBG) from municipalities that do not provide their fair share of affordable housing units.

Conclusion

Since the 1970s, local governments in California have utilized inclusionary zoning (IZ) policies as a tool to increase the supply of affordable housing and integrate communities. Recently, local governments such as the City of Folsom and County of Sacramento have weakened their IZ requirements. Although IZ policies offer significant benefits, program participants receive the majority of the value. However, local taxpayers bear the majority of the costs.

Prior to 2012, local governments in California used Redevelopment revenue to subsidize the below-market IZ units for developers. After the State eliminated tax increment financing (TIF) authorized by Redevelopment law, local governments were forced to rethink their approach to affordable housing policy. Because affordable housing is a regional issue and the adoption of IZ programs are voluntary, it is inequitable to place

the burden of cost on a single municipality. Thus, many municipalities began weakening IZ regulations due to the disproportionate costs imposed on local governments.

There are two significant weaknesses in California's inclusionary zoning (IZ) programs: an over-dependence on the housing market and lack of State oversight. To address these drawbacks, I recommend local governments levy affordable housing development fees from commercial developments. In addition, I suggest the State implement and enforce a statewide inclusionary housing program. Together, these improvements would assist local governments to increase the supply of affordable housing and economic integration during economic downturns and without disproportionate costs to local governments due to the current lack of accountability.

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