

Costa Mesa Redevelopment Agency

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**Downtown Redevelopment Project Area  
Redevelopment Implementation Plan (2010-2014)**

Adopted May 11, 2010

Development Services Department  
77 Fair Drive  
Costa Mesa, CA 92626



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# Section 1 Introduction

## A. Legislative Background

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The Implementation Plan has been prepared in response to the requirements of AB 1290: the California Redevelopment Law Reform Act of 1993. Effective as of January 1, 1994, AB 1290 amends or deletes significant portions of the Health and Safety Code which regulate redevelopment activities in California. Included in the regulation is the requirement that an Implementation Plan be prepared for all project areas every five years. This Plan is intended to fulfill that requirement, to serve as a multi-year planning vehicle for projects in the Downtown Redevelopment Project Area, and to articulate the link between the projects undertaken (including the provision of affordable housing) and the alleviation of blight in the Project Area. The Implementation Plan is a policy document, meant to guide the implementation of the Redevelopment Plan for the Costa Mesa Downtown Redevelopment Project Area (the “Redevelopment Plan”), but also to allow sufficient flexibility for the Agency to respond to specific redevelopment opportunities as they arise. This implementation plan covers the five-year period of January 1, 2010 through December 31, 2014 and incorporates recent changes in California Redevelopment Law (CRL).

## B. Project Area Description

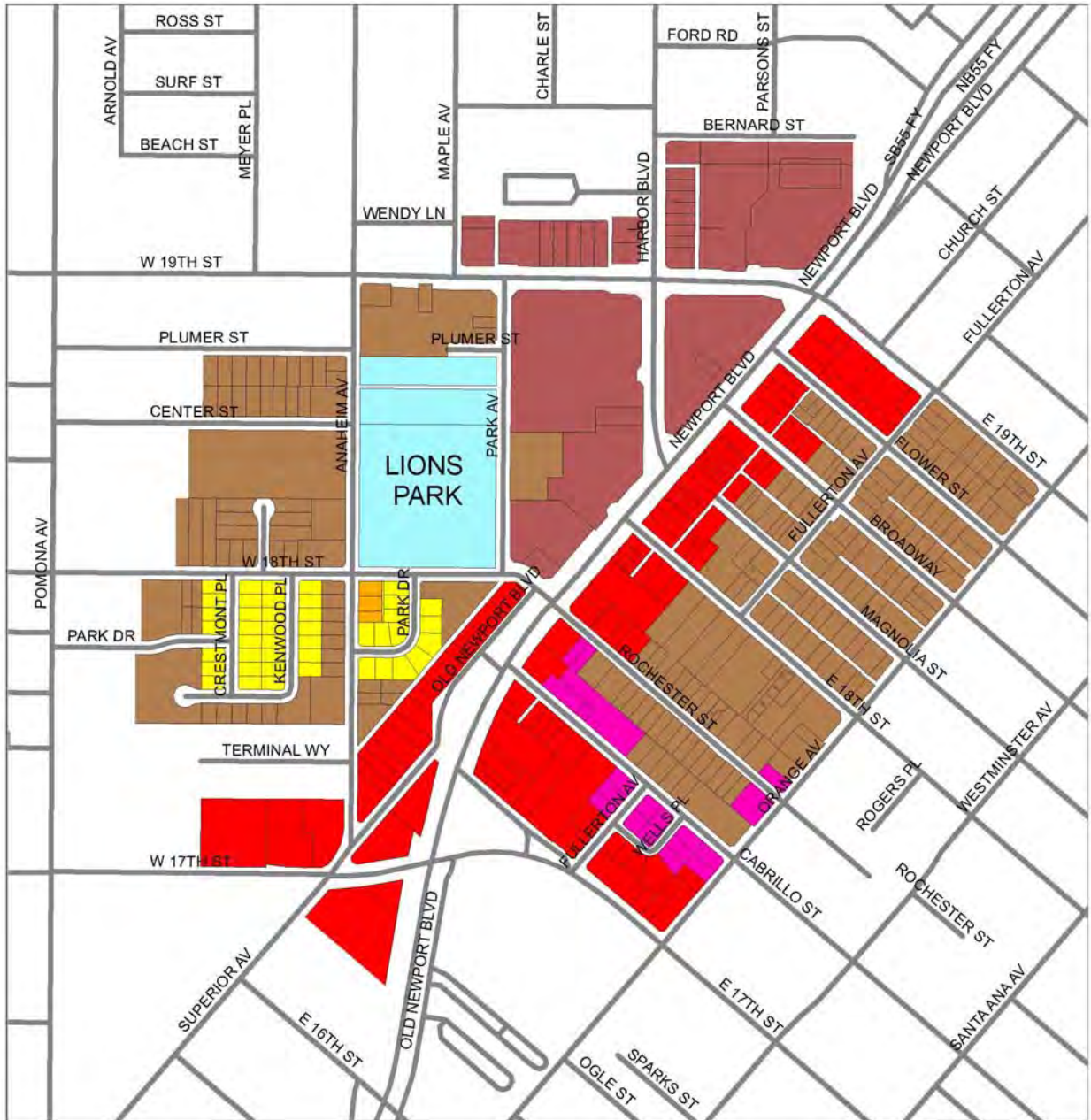
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The Downtown Redevelopment Project was adopted by Ordinance 73-44 on December 24, 1973, and subsequently amended by Ordinances No. 77-27, No. 77-36, No. 80-22 and No. 86-24 adopted on July 5, 1977, August 8, 1977, November 1, 1980, and December 15, 1986, respectively. Two additional amendments were adopted on November 7, 1994 by Ordinances No. 94-14 and 94-15. Neither the 1986, nor the 1994 amendments added territory to the Project Area. The 1977 and 1980 amendments collectively added only three parcels.

The original term of the Redevelopment Plan was forty years, expiring on December 24, 2013. However, City Council adopted Ordinance SB 1045 on November 17, 2003 to extend the term limit by an additional year (from 2013 to 2014).

The approximately 195-acre Project Area includes several residential neighborhoods and commercial corridors. The boundaries of the Project Area are illustrated in Figure 1.

Figure 1: Downtown Redevelopment Project Area – Land Use Plan



0 150 300 600 900 1,200 Feet



**Legend**

- Low Density Residential
- Medium Density Residential
- High Density Residential
- General Commercial
- Commercial Center
- Neighborhood Commercial
- Public/Institutional
- Streets

The Downtown Redevelopment Project was selected based on the following specific blighting influences in the Project Area:

- Age, obsolescence, deterioration and disuse;
- Deterioration and under-utilization;
- Irregular form/shape/size of parcels;
- Depreciated values, impaired investments to the extent that the capacity to pay taxes is reduced; and
- Inadequate streets, open spaces and public facilities.

Assembly Bill 1290 substantially changed the definition of blight which can be used to qualify project areas for adoption on or after January 1, 1994. While the Redevelopment Plan and the amendments adding territory were adopted prior to the effective date of AB 1290 and qualified under the previous definitions of blight, any future added territory must satisfy the post AB 1290 blight definitions.

### **Specific Goals and Objectives:**

As described in the Redevelopment Survey Report, dated October 1973, the Redevelopment Plan was adopted in order to accomplish the following goals:

- Correct problems of circulation, land use incompatibility and structural obsolescence.
- Make maximum use of private enterprise in eliminating the negative conditions evident in the Project Area, through the provision of public improvements such as street modifications and open spaces to provide a sound and attractive environment for redevelopment.

The key objectives to the revitalization of the Project Area are as follows:

1. Removal of structurally substandard and unsafe buildings;
2. Elimination of incompatible land uses and reassembly of parcels;
3. Stimulation of private investment;
4. Retention and rehabilitation of existing uses and structures where feasible;
5. Establishment of zoning to prevent blighting; and
6. Provision of adequate traffic circulation.

Improvement activities completed during prior implementation plan years have fulfilled most of the key objectives indicated above.

# Section 2 Elimination of Blight

## A. Elimination of Blighting Conditions in Project Areas

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Major projects and programs completed in the Project Area and a description of how they have contributed to blight alleviation are summarized below. These projects involve two basic programs in the alleviation of blight: Private Development/Business Improvement and Public Infrastructure Improvement. Public Infrastructure Improvement projects are not discussed in this document because other resources are used to fund these projects; however, projects are implemented in the Project Area and assist in the alleviation of blight. Housing programs are addressed in Section 3.5 of this Implementation Plan.

### 1. Private Development/Business Improvements

Private projects assisted by the Agency during the life of the Project have included the rehabilitation and development of retail, commercial and industrial buildings. These projects can be summarized as follows:

1. **Demonstration Block** – The Agency financed the rehabilitation of the buildings along the 1800 block of Newport Boulevard through the use of CDBG funds. Owners were given a grant for 50 percent of the rehabilitation costs, and the remaining 50 percent of costs were funded through deferred loans from the Agency.
2. **The Courtyards** – The Agency assisted in the assemblage of parcels and provided circulation improvements including the abandonment of the Newport Boulevard frontage road, for the construction of a 172,000 square-foot commercial development at the southwest corner of West 19th Street and Harbor Boulevard.
3. **Triangle Square** – The Agency assisted in the assemblage of numerous parcels and provided circulation improvements, including the abandonment of portions of the Newport Boulevard frontage road, for the construction of the 185,000 square-foot retail and entertainment center with town square at the southwest corner of West 19th Street and Newport Boulevard. The award-winning project was recognized by the California Chapter of the American Planning Association with the 1993 Project Planning Award, and by the Orange County Chapter of the American Institute of Architects with an Excellence Award in the Places in the Public Realm Award Program. In addition, the Agency pledged all of the tax increment generated from the development to repay a developer advance note for a period not to exceed 15 years.
4. **Parcel A** – The Agency entered into a Disposition and Development Agreement with a developer to construct a 21,150 square-foot retail building located north of the corner of

Newport Boulevard and 18<sup>th</sup> Street. The office building is occupied by dentists originally relocated from the Triangle Square site.

5. **Mother's Market (formerly Borders Book and Music)** – Surplus property from the widening of East 19th Street was incorporated into the redevelopment of the 2.9-acre store and adjacent retail building. Total development includes 29,700 square feet of retail space.

## 2. Public Infrastructure Improvements

Public infrastructure projects assisted by the Agency during the life of the Project have included the rehabilitation and development of retail, commercial and industrial buildings. These projects can be summarized as follows:

1. **Realignment of East and West 17th Streets at their respective intersections with Newport Blvd.** – The Agency participated in the realignment of West and East 17th Streets at their intersections with Newport Boulevard to correct inadequate traffic circulation problems and to reconfigure adjacent development parcels.
2. **Lions Park expansion** – A combination of Agency and CDBG funds were used to expand the existing Lions Park and to upgrade public facilities, including construction, upgrades of restrooms, new security gates, new dugout benches, addition of new lighting, and upgrades of shelter improvements.
3. **Fire Station #3** – Construction, upgrades of building exterior and interiors, including restroom, showers, sleeping quarters, front apparatus doors, new automated rear vehicle gate.
4. **Neighborhood Community Center** – New dance floor.
5. **Downtown Recreation Center** – Construction and upgrades to building.
6. **Police Substation** – Construction and upgrades of building exterior.
7. **Vehicle Parking District Improvements** – Construction, upgrade of parking lot/street improvements.
8. **SR55 Gateway Median Improvement** – Median improvement to right-of-way (ROW).
9. **Davis Ball Field Lighting Project** – Improve lighting at facility.

# Section 3 Tax Increment Financing

## A. Status of Tax Increment Funds

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This section presents the estimated revenues available over the next five years to fund the Implementation Plan activities.

The Costa Mesa Redevelopment Agency operates three distinct funds: the Tax Increment Fund, the Low and Moderate Housing Fund (20% Set-Aside Fund), and the Downtown Project Fund.

### 2. Tax Increment Fund

The Tax Increment Fund is used to account for revenues accumulated for the payment of the Agency's long-term debt. The revenues for this fund consist of 80% of the total tax increment generated by the Agency. Table 1 presents a cash flow projection for the Tax Increment Fund for FY 2009-10 through 2014-15 (July 1, 2009 through June 30, 2015). Total tax increment revenues from this planning period are estimated at \$22,420,419.

**Table 1: Projected Tax Increment Revenue**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Tax increment (80%)	\$3,325,400	\$3,458,416	\$3,596,753	\$3,740,623	\$3,890,248	\$4,045,858	\$22,057,298
Interest on Investments	\$33,254	\$34,584	\$35,968	\$37,406	\$38,902	\$40,459	\$220,573
Other Revenue	\$15,000	\$25,510	\$25,510	\$25,510	\$25,510	\$25,510	\$142,550
<b>Total Revenue</b>	<b>\$3,373,654</b>	<b>\$3,518,510</b>	<b>\$3,658,230</b>	<b>\$3,803,539</b>	<b>\$3,954,660</b>	<b>\$4,111,826</b>	<b>\$22,420,419</b>

Source: Costa Mesa Redevelopment Agency, 2009.

Assumptions:

1. Tax Revenue = 4% Annual Growth
2. Interest Revenue = 1% of Tax Increment Revenues

Expenditures from the Tax Increment Fund include bond debt service principal and interest payments, and repayment of the advance from the City. The Tax Increment Fund is projected to have no funds available by the end of FY 2014-15.

### 3. Low and Moderate Housing Fund

As part of the Agency's efforts to meet its unmet housing needs, tax increment housing set-aside funds have been and will continue to be used to create affordable housing units. Table 2 presents a cash flow projection for the Low and Moderate Housing Fund for FYs 2009-10 through 2014-15. The revenues for this fund consist of 20% of the total tax increment generated by the Agency. In addition, it is projected that \$55,145 in interest will be earned during the

period. Over the period of FY 2009-10 to FY 2014-15, it is estimated that \$5,569,468 will be deposited in the Low and Moderate Housing Fund.

**Table 2: Projected Low/Mod Housing Fund Revenue**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Tax increment (20%)	\$831,350	\$864,604	\$899,188	\$935,156	\$972,562	\$1,011,464	\$5,514,324
Interest on Investments	\$8,314	\$8,646	\$8,992	\$9,352	\$9,726	\$10,115	\$55,145
<b>Total Revenue</b>	<b>\$839,664</b>	<b>\$873,250</b>	<b>\$908,180</b>	<b>\$944,507</b>	<b>\$982,288</b>	<b>\$1,021,579</b>	<b>\$5,569,468</b>

Source: Costa Mesa Redevelopment Agency, 2009.

Assumptions:

1. Tax Revenue = 4% Annual Growth
2. Interest Revenue = 1% of Tax Increment Revenues

Expenditures from the Low/Mod Housing Fund include First Time Homebuyer Program assistance, Single-Family Residence Rehabilitation Program assistance, and funding for various affordable housing projects. The Low/Mod Housing Fund is projected to have no funds available by the end of FY 2014-15.

## 1. Downtown Project Fund

Table 3 presents a cash flow projection for the Downtown Project Fund for FYs 2009-10 through 2014-15. The revenues for this fund consist of rental revenues and monetary transfers from the City, as well as any excess tax increment generated by the Agency. Over the period of FY 2009-10 to FY 2014-15, it is estimated that \$12,033,988 will be deposited in the Downtown Project Fund.

**Table 3: Projected Downtown Project Fund Revenue**

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Rental Revenue	\$104,309	\$109,309	\$114,309	\$119,309	\$124,309	\$129,309	\$700,854
Transfer from City/ Excess Tax Increment	\$1,623,936	\$2,192,003	\$1,654,959	\$1,800,355	\$1,953,676	\$2,108,205	\$11,333,134
<b>Total Revenue</b>	<b>\$1,728,245</b>	<b>\$2,301,312</b>	<b>\$1,769,268</b>	<b>\$1,919,664</b>	<b>\$2,077,985</b>	<b>\$2,237,514</b>	<b>\$12,033,988</b>

Source: Costa Mesa Redevelopment Agency, 2009.

Expenditures from the Downtown Project Fund are made up primarily of various capital improvement projects, including the Lions Park expansion. The Downtown Project Fund is expected to have an available balance of \$8,923,334 at the beginning of FY 2015-16.

## 2. State Budget Crisis and Potential Impact on Agency Funds

As a result of the economic downturn, revenues for the federal government and State of California continued to decline. The California Legislature enacted a number of budget bills to augment the State's declining revenue. One of which was aimed at shifting revenue from the State's redevelopment agencies – AB 26, enacted Chapter 21 to amend Health and Safety Code 33000, California Redevelopment Law.

The purpose of Chapter 21 is to allow the State to take \$2.05 billion in redevelopment revenues from the State's redevelopment agencies. The redevelopment funds would be deposited into the Supplemental Educational Revenue Augmentation Funds (SERAF) which is to be distributed to schools to meet the State's Proposition 98 obligations to education. The State would take the redevelopment revenues from FY 2009-2010 and FY 2010-2011. The Costa Mesa Community Redevelopment Agency would be required to pay the \$1.7 million for these two fiscal years. Impact to the Agency would result in a payment of \$1.4 million for 2009-2010 by May 10, 2010 and a payment of \$300,000 for 2010-2011 by May 10, 2011. On October 20, 2009, the California Redevelopment Association and two member agencies filed a lawsuit to challenge the constitutionality of State raids of redevelopment funds.

A legal decision will be rendered in the future that may have significant consequences on the ability of the Costa Mesa Community Redevelopment Agency's to carry out its future work program. The Agency will need to make a decision on which funding source to pay the State SERAF charge if the California Redevelopment Association does not prevail in its legal challenge. The Agency can use its tax increment funds from the Downtown Project Area or from its Low and Moderate Income Housing Funds. Should the Agency select using its Low and Moderate Income Housing Funds, they must be paid back within five years to the fund. *If the Low and Moderate Income Housing Funds are used to make SERAF payments, the Agency will not be able to pursue some of the housing projects identified in this Implementation Plan.*

# Section 4 Redevelopment Activities

## A. Planned Activities for 2010-2015

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The Agency’s planned blight alleviation activities and programs over the next five years are outlined in Table 4. The role of each program in the alleviation of blight is also presented.

**Table 4: Blight Alleviation Activities and Programs**

<b>Projects/Programs</b>	<b>Private Development/ Business Improvement</b>	<b>Public Infrastructure Improvement</b>	<b>Planning/ Administration</b>
Remove blighted buildings	✓		
Remove incompatible mixes of land uses		✓	✓
Combine small and oddly-shaped parcels into usable development sites		✓	✓
Rehabilitate existing buildings	✓		
Enact zoning standards to require a higher quality standard of development			✓
Circulation Improvements		✓	✓
Expand and upgrade open space and public facilities		✓	✓

# Section 5 Housing Obligations

## A. Legislative Requirements

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California Community Redevelopment Law (Health and Safety Code § 33000 et. seq.) establishes the provision of low- and moderate-income housing opportunities as one of the fundamental goals of redevelopment. Redevelopment housing requirements are three-fold:

- **Replacement Requirement.** Redevelopment agencies must replace low and moderate income housing that is removed as a result of a redevelopment project in a Project Area or an Amended Project Area adopted on or after January 1, 1976 (the Replacement Rule, Section 33413(a)). After 1997, however, this obligation was imposed on all redevelopment project areas.
- **Housing Production Requirement.** In a redevelopment project area adopted or amended on or after January 1, 1976, a fixed percentage of all housing constructed in the project area must be affordable to low and moderate income persons and families (the Inclusionary Rule, Section 33413(b)).
- **Housing Fund Requirement.** Agencies must expend at least 20 percent of tax increment revenue to increase, improve, and preserve the supply of low and moderate income housing in a Project Area established on or after January 1, 1977 (the Set-Aside Rule, Section 33334.2). Funds must be spent in proportion to the community's needs in the Housing Element and other state requirements.

## C. Summary of Housing Needs

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State law requires that the expenditure of Redevelopment Housing Set-Aside funds must address the housing needs of a community and that the Redevelopment Implementation Plan must be consistent with the Housing Element. The following summary of housing needs is an excerpt from the City of Costa Mesa 2008-2014 Housing Element.

### 1. Housing Availability

The City of Costa Mesa is surrounded by five cities: Fountain Valley, Huntington Beach, Irvine, Newport Beach and Santa Ana. Costa Mesa and its surrounding cities play a significant role in meeting the housing needs of Orange County and the greater Los Angeles Consolidated Metropolitan Statistical Area (CMSA).

Much like the rest of Orange County, Costa Mesa had a population boom in the 1960s with an average annual growth around ten percent. From 1970 to 2000, however, population growth became moderate and steady with rates averaging about one percent. Between 1950 and 1970, the City added 20,312 households, while increasing its land area through annexations from 3.5 square miles to 14.7 square miles. The City continued to experience large increases in the number of households through the 1970s but the City's growth slowed over the next 30 years as Costa Mesa became increasingly built-out. As of 2009, there were 41,891 households within the 16 square miles of the City.

Single-family homes made up less than one-half (47.8 percent) of the City's housing stock in 2009. Between 1960 and 1980, there was a trend for the new construction of multi-family units (five or more units per structure) in Costa Mesa. This trend leveled off over the next 27 years, however, and in 2009 approximately 50 percent of the housing units in the City were multi-family, compared to 34 percent Countywide.

## **2. Housing Affordability**

One of the major barriers to housing availability is the cost of housing. In order to provide housing to all economic levels in the community, a wide variety of housing opportunities at various prices should be made available. Table 5 describes the ideal monthly housing payments for households in four major income groups: extremely low, very low, low, and moderate.

**Table 5: Housing Affordability**

Household	Annual Income	Affordable Costs (All Costs)		Estimated Utility Allowance		Taxes and Insurance	Affordable Rent	Affordable Home Price
		Rental Costs	Owner Costs	Renters	Owners			
<i>Extremely Low Income (0-30% AMI)</i>								
1-Person	\$19,550	\$489	\$489	\$122	\$158	\$98	\$367	\$48,226
2-Person	\$22,300	\$558	\$558	\$151	\$200	\$112	\$407	\$50,917
3-Person	\$25,100	\$628	\$628	\$180	\$243	\$126	\$448	\$53,608
4-Person	\$27,900	\$698	\$698	\$209	\$279	\$140	\$489	\$57,747
5-Person	\$30,150	\$754	\$754	\$242	\$322	\$151	\$512	\$58,161
<i>Very Low Income (31-50% AMI)</i>								
1-Person	\$32,550	\$814	\$814	\$122	\$158	\$163	\$692	\$102,041
2-Person	\$37,200	\$930	\$930	\$151	\$200	\$186	\$779	\$112,597
3-Person	\$41,850	\$1,046	\$1,046	\$180	\$243	\$209	\$866	\$122,946
4-Person	\$46,500	\$1,163	\$1,163	\$209	\$279	\$233	\$954	\$134,744
5-Person	\$50,200	\$1,255	\$1,255	\$242	\$322	\$251	\$1,013	\$141,160
<i>Low Income (51-80%)</i>								
1-Person	\$52,100	\$1,303	\$1,303	\$122	\$158	\$261	\$1,181	\$182,970
2-Person	\$59,500	\$1,488	\$1,488	\$151	\$200	\$298	\$1,337	\$204,910
3-Person	\$66,950	\$1,674	\$1,674	\$180	\$243	\$335	\$1,494	\$226,850
4-Person	\$74,400	\$1,860	\$1,860	\$209	\$279	\$372	\$1,651	\$250,238
5-Person	\$80,350	\$2,009	\$2,009	\$242	\$322	\$402	\$1,767	\$265,969
<i>Moderate Income (81-120% AMI)</i>								
1-Person	\$72,300	\$1,808	\$2,109	\$122	\$158	\$422	\$1,686	\$316,472
2-Person	\$82,650	\$2,066	\$2,411	\$151	\$200	\$482	\$1,915	\$357,764
3-Person	\$92,950	\$2,324	\$2,711	\$180	\$243	\$542	\$2,144	\$398,608
4-Person	\$103,300	\$2,583	\$3,013	\$209	\$279	\$603	\$2,374	\$441,142
5-Person	\$111,550	\$2,789	\$3,254	\$242	\$322	\$651	\$2,547	\$472,086

Assumptions: HCD income limits, 2009; Health and Safety code definitions of affordable housing costs (between 30 and 35% of household income depending on tenure and income level); HUD utility allowance; 20% of monthly affordable cost for taxes and insurance; 10% down payment; and 5% interest rate for a 30-year fixed-rate mortgage loan. Taxes and insurance apply to owner costs only; renters do not usually pay taxes or insurance.

Source: State Department of Housing and Community Development Income Limits, 2009.

### *Single-Family Homes*

Regional home prices of single-family homes tripled between 1970 and 1979 and continued to increase through the 1980s. In the early 1990s, the residential market declined and continued to decline until approximately 2000. Since 2000, however, housing prices have increased dramatically in Costa Mesa and throughout California. However, recent indicators suggest that the trend of increasing housing prices is reversing. At the same time, a new problem is occurring throughout California – defaults on subprime mortgages. Over the last few years, many homeowners have acquired mortgages that they could not afford, often due to variable

interest rate loans, or other “creative” financing such as zero downpayment or negative amortization loans. As interest rates increase, the rate of foreclosures could also increase. As a result, many homeowners may face foreclosures and the demand for rental housing may increase.

In 2005, the median single-family home price (based on units sold) in Costa Mesa was approximately \$700,000, and in 2006, the median price increased to \$715,000.<sup>1</sup> During the first quarter of 2007, the median home price increased again to \$750,000, making it one of the few cities in Orange County that saw an increase in home prices between 2006 and 2007. However, as of the third quarter of 2007, prices in Costa Mesa decreased to a median of \$681,000. By the end of 2008, median prices had dipped even lower to \$529,000, and by September 2009, median home prices had fallen to \$501,000. Nevertheless, current home prices are significantly higher than they were 10 years ago. For example, in 1997, the median single-family home price was \$220,000.

Home prices countywide mirrored the plummeting home prices in Costa Mesa. In Orange County, the median single-family sales price increased from \$610,000 to \$624,000 as of the third quarter of 2007. However, by September 2009, the median price of a single-family home in Orange County was just \$500,000.

### *Condominiums*

According to Zillow.com, a real estate data service, the median price of condominiums in the City of Costa Mesa was \$519,000 in 2007 (third quarter) and \$470,000 in 2006, an increase of 10.4 percent. By comparison, median condominium sales price in the City of Costa Mesa was moderately expensive, ranking third highest amongst surrounding jurisdictions. The City’s median condominium sales price (\$421,000) was higher than the County’s median price of \$300,000, as of the third quarter of 2009.

Condominiums offer a niche in the housing market between the single-family sales and the rental market. With sales prices in the \$300,000 to \$700,000 range, moderate income groups could afford to own condominiums priced in the lower end of this range in Costa Mesa. However, most condominiums are not affordable for lower income households.

### *Apartment Rates*

According to a citywide apartment survey conducted in May and June 2007 as part of the City’s Housing Element update, rental rates for apartments in Costa Mesa range from \$750 a month for a studio to \$2,550 a month for a three-bedroom apartment. According to interviews with property owners/managers, apartment rents have been increasing at approximately \$50 per year.

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<sup>1</sup> 2005 and 2006 home price data obtained from Dataquick and 2007 home price data obtained from Zillow; both Dataquick and Zillow are real estate data services.

**Table 6: Apartment Rents (2007)**

Unit Size	Average Rent	Rent Range
Studio	\$1,018	\$750-\$1,229
One-Bedroom/One-Bathroom	\$1,214	\$875-\$1,507
Two-Bedroom/One-Bathroom	\$1,377	\$1,185-\$1,849
Two-Bedroom/Two-Bathroom	\$1,708	\$1,200-\$2,500
Three-Bedroom/Two-Bathroom	\$2,095	\$1,525-\$2,550
<b>TOTAL</b>	<b>\$1,401</b>	<b>\$750 - \$2,550</b>

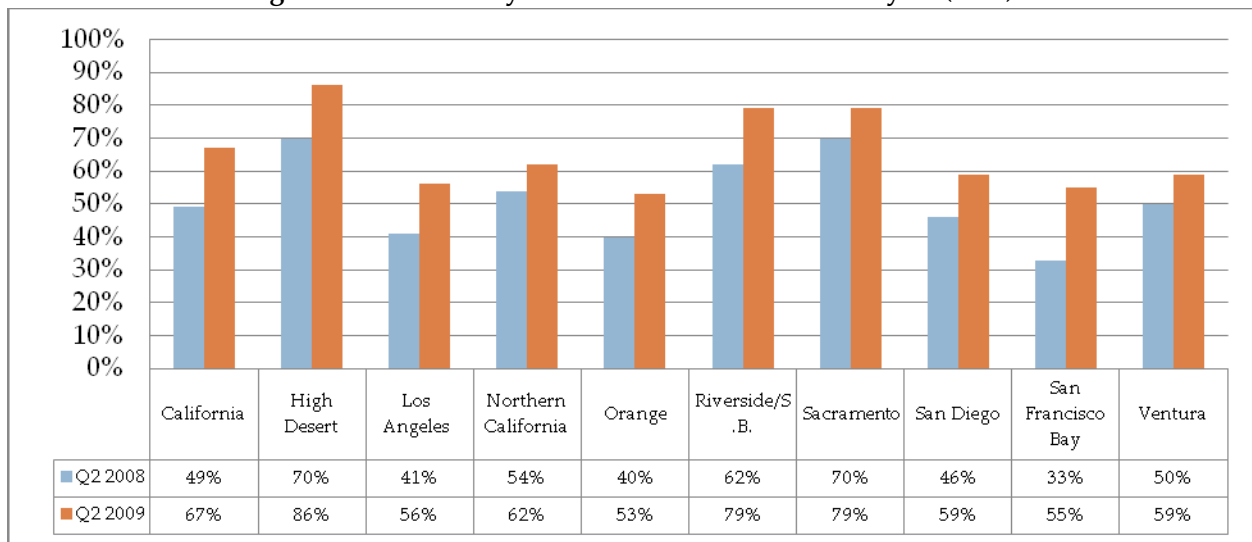
Source: Veronica Tam and Associates, 2007, based on a telephone survey of apartment complexes in the City. A total of 75 complexes were contacted.

*Affordability*

Affordability can be defined as a household spending 30 percent or less of household income for housing. Housing costs include rent or mortgage payments, insurance, taxes, and utilities.

According to the California Association of Realtors (CAR), Orange, Los Angeles, and San Diego counties had the least affordable home prices to first-time homebuyers. In the second quarter of 2009, 53 percent of the first-time home buyers in Orange County could afford a modest home, a significant improvement compared to one year before (Figure 2).

**Figure 2: Affordability Index for First-Time Homebuyers (2009)**



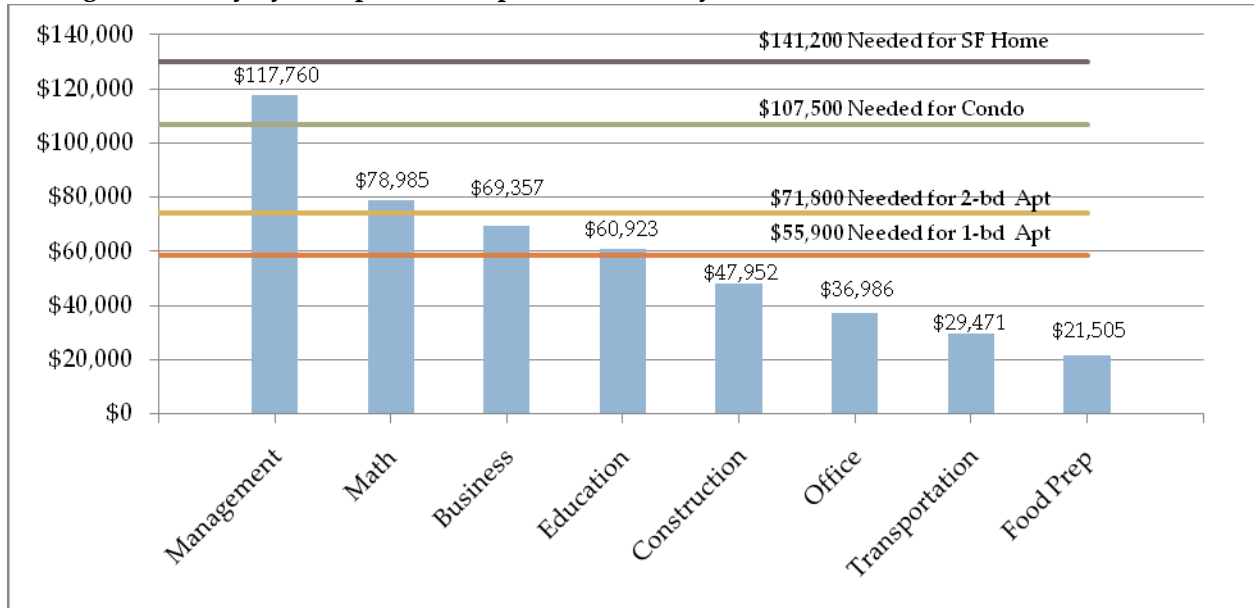
Abbreviation: Q2 = Second Quarter

Source: California Association of Realtors, 2009.

Note: The California Association of Realtors used the following assumptions: 6.3% interest on a 30-year loan; 10% downpayment; 40% of income to spend on housing; and first-time buyers purchasing an entry-level home at 85% of the prevailing median price.

To afford a median priced single-family home in Costa Mesa, an annual salary of \$141,200 would be needed and a person has to make approximately \$107,500 to afford a median priced condominium. Most occupations in Orange County offer much lower salaries (Figure 3). Similarly, many occupations offer wages below what would be needed to afford an average priced two-bedroom apartment in Costa Mesa (Table 6).

**Figure 3: Salary by Occupation Compared with Salary Needed for Median Priced Home (2009)**



Sources:

1. Wage information obtained from the State Employment Development Department.
2. Affordability calculations prepared by Veronica Tam and Associates, 2009.

The U.S. Department of Housing and Urban Development (HUD) estimates Area Median Income (AMI) for each county in the United States. These AMI figures are used to classify households into income groups (i.e., extremely low, very low, low, moderate, and above moderate). The City’s income distribution is shown in Table 7. Overall, the City has a larger proportion of lower and moderate income households compared to the County.

**Table 7: Households by Income Group**

Income	% of County	Costa Mesa		% of County's Households
		% of Households	Estimated # of Households	
Extremely Low Income	0-30% AMI	12.4%	4,862	10.4%
Very Low Income	31-50% AMI	12.6%	4,940	11.1%
Low Income	51% - 80% AMI	20.8%	8,155	17.7%
Moderate Income	81% -120% AMI	21.9%	8,586	19.9%
Above Moderate Income	Greater Than 120% AMI	32.3%	12,664	40.9%

Sources:

1. Southern California Association of Governments (SCAG).
2. U.S. Department of Housing and Urban Development (HUD), 2000 Comprehensive Housing Affordability Strategy (CHAS) data based on 2000 Census data.

Note: SCAG provides income distribution by the four income categories (very low, low, moderate, and above moderate), based on 2000 Census data and HUD established Area Median Income. No separate data is provided for extremely low income households. HUD CHAS data provides income distribution for extremely low, very low, low, and other income households. CHAS data is used to apportion the very low income category into extremely low and very low income groups.

### 3. Housing Adequacy

As a general rule, housing units require major repairs and rehabilitation after 20 to 30 years. As an older and built out community, more than 75 percent of the housing units were built prior to 1980. Specifically, 84.3 percent of the owner units compared to 72.1 percent of the renter units were constructed prior to 1980; these units are either older than or approaching 30 years of age, potentially requiring major repairs or rehabilitation.

Substandard is defined as either in need of rehabilitation or replacement. Overall, the City's housing stock is in good conditions. According to the City's Code Enforcement staff, less than ten percent of the City's housing stock is in need of minor repairs. Only two percent of the housing units may be considered in need of substantial rehabilitation and between one and three units in the City are in need of replacement.

The City of Costa Mesa takes a proactive approach toward housing conditions through housing rehabilitation programs and code enforcement programs. Existing housing rehabilitation and code enforcement programs are successfully correcting code violations and maintaining the housing stock.

Effective September 2000, the City of Costa Mesa adopted by ordinance Title 20 - "Costa Mesa Property Maintenance Regulations." The purpose of Title 20 is to identify property maintenance standards and establish procedures for the prosecution and abatement of public nuisance conditions identified therein. Through these regulations, City Code Enforcement staff is able to encourage homeowners and apartment building owners to maintain their property by

painting, re-landscaping and correcting various property maintenance issues such as, removal of inoperative vehicles, enclosure of trash bins, onsite drainage issues, abatement of weeds and rubbish from properties and other issues identified in Title 20. It is through these efforts that the number of substandard housing units in Costa Mesa is minimized.

#### **4. Share of Regional Housing Needs**

State Housing Element law requires that a local jurisdiction accommodate a share of the region's projected housing needs for the planning period. This share, called the Regional Housing Needs Allocation (RHNA), is important because State law mandates that jurisdictions provide sufficient land to accommodate a variety of housing opportunities for all economic segments of the community. Compliance with this requirement is measured by the jurisdiction's ability in providing adequate land to accommodate the RHNA.

The Southern California Association of Governments (SCAG), as the regional planning agency, is responsible for allocating the RHNA to individual jurisdictions within the six-county region, including the County of Orange.<sup>2</sup> The Orange County Council of Governments (OCCOG), a subregional planning organization, worked closely with SCAG to develop the RHNA for Orange County jurisdictions.

The RHNA is distributed by income category. For the 2008 Housing Element update, the City of Costa Mesa is allocated a RHNA of 1,682 units as follows:

- Extremely Low/Very Low-Income (up to 50 percent of AMI): 353 units (21.0 percent)<sup>3</sup>
- Low-Income (51 to 80 percent of AMI): 289 units (17.2 percent)
- Moderate-Income (81 to 120 percent of AMI): 330 units (19.6 percent)
- Above Moderate-Income (more than 120 percent of AMI): 710 units (42.2 percent)

The City must ensure the availability of residential sites at adequate densities and appropriate development standards to accommodate these units.

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<sup>2</sup> Southern California Association of Governments (SCAG) covers a six-county region, including Los Angeles, Orange, Riverside, San Bernardino, Ventura, and Imperial.

<sup>3</sup> The City has a RHNA allocation of 353 very low income units (inclusive of extremely low income units). Pursuant to new State law, the City must project the number of extremely low income housing needs based on Census income distribution or assume 50 percent of the very low income units are extremely low. According to CHAS data (based on Census data), the City had 25 percent very low income households (12.4 percent extremely low income and 12.6 percent very low income). Therefore the City's RHNA of 353 very low income units are split into 176 extremely low and 177 very low income units.

## 5. Special Housing Needs

Certain segments of the population have greater difficulty in finding decent, affordable housing due to special circumstances. Special circumstances may be related to one's employment and income, family characteristics, disability, and household characteristics among others. As a result, certain groups within Costa Mesa may experience a higher prevalence of lower income, overpayment, overcrowding, or other housing problems. State Housing Element law identifies the following "special needs" groups: senior households, disabled persons, large households, female-headed families with children, farmworkers, and homeless persons.

### Elderly

Elderly persons (age 65 or older) may live in housing that costs too much or live in housing that does not accommodate their specific needs for assistance. In 1990, there were 5,032 elderly-headed households, which represented 13.4 percent of the total households in the City. Between 1990 and 2000, the number of elderly-headed households increased to 5,717 at an average of 1.5 percent annually, much faster than the rate of general household growth (0.5 percent). Elderly households represented 14.7 percent of the City's total households in 2000. The State Department of Finance projected that in 2008 there will be 6,410 elderly households in the City, constituting 16.1 percent of the total City households. As the proportion of elderly households continues to increase in Costa Mesa, the provision of housing options for elderly persons should be a priority.

In 2000, 29.4 percent of the elderly households in the City were renters, compared to 21.2 percent in Orange County. The proportion of senior renters in Costa Mesa has decreased since 1990 when 36.5 percent of elderly households were renters. Change in the proportion of senior renters is dependent on the quantity of housing options and the propensity to convert to ownership.

A majority of the City's elderly population (60.9 percent) lived in family households, which are defined as a householder living with one or more persons related by birth, marriage or adoption. The remainder of the elderly population lived in non-family households, such as roommates or elderly persons living alone (32.5 percent) or in group quarters such as nursing homes (6.5 percent). Non-family households are persons living alone or with non-relatives only.

Elderly households tend to rely on fixed and lower incomes. According to the CHAS data<sup>4</sup>, more than half of the City's elderly renter-households had extremely low and low incomes. By comparison, a majority of the City's elderly owner-households had moderate or above moderate incomes (Table 8).

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<sup>4</sup> Comprehensive Housing Affordability Strategy (CHAS) data were developed by the Bureau of the Census for the U.S. Department of Housing and Urban Development (HUD) using 2000 Census data.

**Table 8: Income Distribution and Cost Burden for Elderly Households (2000)**

Income	Elderly Owner-Households			Elderly Renter-Households		
	Total Households	% Cost Burden	% Severe Cost Burden	Total Households	% Cost Burden	% Severe Cost Burden
Total Elderly Households	4,039	31.7%	15.4%	1,678	59.1%	36.1%
Extremely Low (Up to 30% AMI)	13.9%	74.7%	55.6%	35.4%	80.1%	59.6%
Very Low Income (31-50% AMI)	14.2%	44.1%	15.3%	19.4%	73.3%	50.9%
Low Income (51-80% AMI)	21.9%	38.0%	19.3%	19.3%	64.8%	26.8%
Moderate/Above Moderate Income (More than 80% AMI)	50.0%	13.5%	2.5%	26.0%	15.9%	0.0%

Sources:

1. Bureau of the Census, 2000 (total households by tenure).
2. U.S. Department of Housing and Urban Development, Comprehensive Housing Affordability Strategy (CHAS) Data, 2000 (income by tenure).

An important measure of housing affordability is “cost burden.” Cost burden is defined as monthly housing costs in excess of 30 percent of a household’s gross income, and severe cost burden is defined as housing costs exceeding 50 percent of gross household income. According to the CHAS data, Census, 59.1 percent of the elderly renter-households had a housing cost burden in Costa Mesa, compared to 31.7 percent of the elderly owner-households (Table 8). Among the extremely low income group, cost burden impacted owner- and renter-households almost equally. However, for very low and low income households, cost burden was more prevalent among renters than among owners.

Three senior apartment complexes are located in the City of Costa Mesa. All are subsidized through various public programs, such as the HUD Section 202. Currently, the vacancy rate is zero percent in these properties and the turnover is low. Subsequently, waiting lists for these units are very long. The three complexes include: Bethel Towers (270 units), St. John’s Manor (36 units), and Casa Bella (75 units). Some elderly residents are served through other publicly assisted properties with smaller unit sizes, such as Costa Mesa Village (96 units), Park Place Village (60 units), and Newport Senior Village (91 units for seniors only). These are single-room occupancy units (SROs).

The City also has several senior mobile home parks. These include: Island View; Orange Coast; Playport Estates; and Rolling Homes Park. These four parks total 242 units.

The City of Costa Mesa is committed to serving the needs of its elderly population and therefore supports efforts related to: age restricted mobile home parks, independent retirement living, assisted living, residential care, and skilled nursing facilities. In addition, the City also has a

second unit/granny unit ordinance for the new construction of age restricted units on parcels zoned for single-family dwellings.

### Persons with Disabilities

Persons with disabilities usually have special housing needs, particularly in terms of affordability, accessibility, and proximity to employment, social services, and medical services. The Census defines disability as a long-lasting physical, mental, or emotional condition. This condition can make it difficult for a person to do activities such as walking, climbing stairs, dressing, bathing, learning, or remembering. This condition can also impede a person from being able to go outside the home alone or to work at a job or business.

In 2000, a total of 16,103 persons aged five and above in Costa Mesa had one of more disabilities, representing 16.1 percent of the population (Table 9). In comparison, 16.6 percent of the County of Orange residents aged five and above were considered disabled. Among the City’s disabled residents (in working age), the majority (61 percent) were employed, although many may be under-employed or not making adequate incomes to afford housing, health care, and other necessities.

**Table 9: Disabled Persons by Age (2000)**

Work Disability Status	Number	Percent of Total
Age 5 to 20	1,484	6.8%
Age 21 to 65	11,248	16.3%
Percent Employed within Working Age		61%
Age 65 and Above	3,371	37.9%
<b>Total</b>	<b>16,103</b>	<b>16.1%</b>

Source: Bureau of the Census, 2000.

According to the 2000 Census, more than one-third of the City’s elderly residents had one or more disabilities. Specifically, 25.4 percent of elderly residents in Costa Mesa had a physical disability and 8.4 percent had a self-care disability. Additionally, 18.6 percent of elderly had a disability preventing them from going outside of their home (Table 10). This proportion does not include elderly in skilled nursing or other related facilities. These elderly individuals may need some type of assisted living or residential care facility. According to the State Department of Social Services Licensing Division, as of November 2009, 52 residential care facilities<sup>5</sup> in the City offer a combined capacity of 505 beds, including both ambulatory and non-ambulatory elderly persons, as well as elderly persons with dementia.

<sup>5</sup> Includes adult residential facilities and residential care facilities for the elderly.

**Table 10: Elderly by Disability (2000)**

<b>Disability</b>	<b>Percent</b>
Sensory Disability	13.1%
Physical Disability	25.8%
Mental Disability	10.7%
Self-Care Disability	8.4%
Go-Outside-Home-Disability	18.6%

Source: Bureau of the Census, 2000.

Note: Data not mutually exclusive.

The City of Costa Mesa is dedicated to accommodating the needs of disabled persons and therefore supports the Fairview Developmental Center and other residential facilities in the City. In September 2007, a total of 11 community care facilities in Costa Mesa are licensed by the State Department of Social Services to serve the supportive housing and service needs of persons with disabilities. These facilities provide 91 beds for developmentally disabled residents; another 555 clients are served at adult day care facilities. In addition, the City of Costa Mesa is home to the Fairview Developmental Center that serves developmentally disabled persons. Fairview is licensed for 1,200 beds and currently has 850 beds. Harbor Village (formerly the Fairview Housing Project) gives priority to employees and transitional patients of Fairview Developmental Center.

### **Large Households**

Large households are defined as those with five or more members residing in the home. These households are a special need group because many communities have a limited supply of adequately sized and affordable housing units. In order to save for other of life's basic necessities including food, clothing and medical care, it is common for lower income large households to reside in smaller units, which frequently results in overcrowding. In 2000, 13.9 percent of the households in the City of Costa Mesa consisted of five or more persons, representing an increase from 1990 when 9.9 percent of the City households were large households.

Often, an issue with housing large households, particularly those of lower incomes, is overcrowding. Overcrowding is defined as a housing unit occupied by more than one person per room. A severely overcrowded housing unit is one with more than 1.5 persons per room. A room is defined as a bedroom, living room, dining room, or finished recreation room, but excludes kitchen and bathroom.

Specifically, overcrowding tends to impact renter-households more severely than owner-households. As shown in Table 11, 5,326 renter-households (22.8 percent of all renters) and 759 owner-households (4.8 percent of all owners) were overcrowded in 2000. Between 1990 and 2000, the rate of overcrowding increased for both owner- and renter-households, with the rate of severe overcrowding increasing substantially.

**Table 11: Overcrowding**

	1990		2000		Change	
	Number	Percent	Number	Percent	Number	Percent
Owner-Households	15,051	---	15,811	---	---	---
Overcrowding	299	2.0%	350	2.2%	51	17.1%
Severe Overcrowding	188	1.2%	409	2.6%	221	117.6%
Renter-Households	22,416	---	23,377	---	---	---
Overcrowding	1,105	4.9%	1,433	6.1%	328	29.7%
Severe Overcrowding	2,106	9.4%	3,893	16.7%	1,787	84.5%
Total Households	37,467	---	39,188	---	---	---
Overcrowding	1,404	3.7%	1,783	4.5%	379	27.0%
Severe Overcrowding	2,294	6.1%	4,302	11.0%	2,008	87.5%

Source: Bureau of the Census, 1990 and 2000.

Note: Overcrowding data is based on 5-percent sample Census data. Total number of households deviates slightly from 100-percent sample data.

This situation is largely a result of the lack of large rental units and most large renter-households are unable to afford the large ownership units. For example, a total of 3,709 large renter-households resided in Costa Mesa in 2000, while there were only 480 rental units with four or more bedrooms. In comparison, 4,719 large owner units were potentially available to 1,624 large owner-households in the City.

### **Female-Headed Households**

According to the 2000 Census, 58.1 percent of all households in the City were families, compared to 71.0 percent in the County (Table 12). The proportion of families in the City was estimated to have increased to 59.3 percent in 2005. However, the increase was in families with no children.

**Table 12: Household Type (2000)**

Household Type	1990		2000	
	Number	Percent of Total	Number	Percent of Total
Families	21,436	57.2%	22,776	58.1%
Married Couples	15,917	42.5%	16,762	42.8%
With Children	7,176	19.2%	8,435	21.5%
Female-Headed	3,691	9.9%	4,028	10.3%
With Children	2,102	5.6%	2,137	5.5%
Non-Families	16,031	42.8%	16,440	41.9%
Singles	10,201	32.1%	11,006	28.1%
Elderly (65+)	2,259	6.0%	2,489	6.3%
<b>Total</b>	<b>37,467</b>	<b>100.0%</b>	<b>39,206</b>	<b>100.0%</b>

Source: Bureau of the Census, 1990 and 2000.

Female-headed families represented 10.3 percent of all households in the City in 2000, with approximately half of these families consisting of single-parents with children. In 2000, the poverty level was \$17,050 for a four-person family. Of the female-headed families with children, 21.8 percent were living below the poverty level in 2000, compared to 12.4 percent of all families with children.

The City of Costa Mesa recognizes the needs of single-parent households. To expand housing opportunities in areas near schools, jobs, child care, and transportation, in 2006, the City created three Urban Plans to encourage mixed-use developments in three distinct areas. Programs that address affordable housing for lower and moderate income households benefit female-headed households. In addition, incentives are provided in the City's density bonus provisions to encourage affordable housing that incorporates child care facilities. The City's new Family Residential Occupancy (FRO) program encourages the development of or conversion of hotel rooms into small housing units that are geared toward small households, including single-parent households.

### **Farmworkers**

According to the 2002 Census of Agriculture, Orange County contains a total of 348 farms on 68,018 acres. Approximately, 58.5 percent of the farms are between one and nine acres in size and 74.8 percent are smaller than 50 acres. The smaller farms generally require fewer workers. About half of the farms (187 farms) hired farm laborers for a total of 7,884 workers; however, 60.8 percent of the farm laborers worked less than 150 days a year. The average payroll per worker was estimated at \$6,372. Overall, the role of agriculture in Orange County is decreasing as acres of farm land are converting to other land uses.

Currently, there are two remaining farms in the City of Costa Mesa: Sakioka Farm and Segerstrom Farm. In 2007, the City of Costa Mesa requested the California Department of

Conservation remove Sakioka Lots 1 and 2 from the State Farmland Map. Specifically, the properties listed above be designated as Land Committed to Non-Agricultural Use and designated on the Farmland Map as Urban and Built-Up Land. The General Plan Land Use Designations and Development Agreements on each of the subject properties allow for commercial and/residential development. Sakioka Lot 1, with the general plan designation of High Density Residential, is the future site of an 890-unit apartment development at approximately 22 units per acre. Completion of the first phase of the apartment complex is anticipated in Spring 2008. Sakioka Lot 2, with a General Plan designation of Urban Center Commercial, is designated for commercial office development with a maximum Floor Area Ratio (FAR) of 0.50 for retail uses and 0.60 for office uses. Limited agricultural activities occurring right now at Lot 2 will be phased out.

Segerstrom Farm is still in agricultural production on approximately 43 acres and has approximately two to seven workers throughout the year. The major crops cultivated at this farm are bean crops, which are amenable to mechanical planting and harvesting. Family members of this family-owned operation often are involved in these activities.

Due to the two small farms and associated small number of farmworkers, the housing needs of farmworkers in the City of Costa Mesa are considered to be minor and may be addressed through existing housing strategies.

### **Homeless Persons**

According to the 2005-2010 Consolidated Plan for Costa Mesa, Orange County suffers from a severe lack of affordable housing for both renters and buyers. The Orange County 2004 Continuum of Care Application submitted to HUD indicates that Orange County is home to approximately 35,000 homeless and at-risk homeless persons, of whom 7 percent are families with children. Chronically homeless persons make up 22 percent of the homeless population, 20 percent are victims of domestic violence, 18 percent are chronic substance abusers, 6 percent are mentally ill, another 6 percent are living with HIV/AIDS, and two percent are either veterans or emancipated youths. From 2003 to 2004, Orange County's chronic homeless population increased in tandem with the 25-percent increase in the general homeless population.

Specific information on the homeless in individual jurisdictions within Orange County is not available. Service providers can only comment on the number of homeless persons they serve but are not able to estimate the number of those who do not seek assistance from their agencies, nor are the agencies able to address the duplicative count issue (one person seeking assistance in several agencies are often counted more than one time).

According to the 2005-2010 Consolidated Plan for Costa Mesa, as a general practice, jurisdictions often use proportional figures for estimating the homeless population – since the City of Costa Mesa comprised about 3.8 percent of the County population, the City may have an equal share of the homeless. Using this general assumption, the homeless and at-risk homeless

in Costa Mesa can be placed at about 1,340 persons. Similar to other Orange County cities, the seasonal need for homeless/emergency shelters is typically heightened during late fall, winter, and early spring seasons, and it is during these cold-weather periods that the demand for shelter is generally higher. According to the Consolidated Plan, based on accomplishment data submitted by service providers funded by the City, about 309 persons were provided with emergency shelter assistance and 72 persons were assisted with transitional housing services on an annual basis.

A number of agencies in Costa Mesa provide shelters and services for the homeless and persons at risk of becoming homeless. These include:

- HOPE Institute (YWCA of Central Orange County)
- Human Options
- Mental Health Activities Center
- Orange Coast Interfaith Shelter
- Serving People in Need (SPIN)
- Share Our Selves (SOS) Emergency Services
- Someone Cares Soup Kitchen

Through the annual CDBG allocation process, the City provides funding to agencies that serve various special needs groups in the City.

## **D. Status of Housing Obligations**

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### **1. Housing Replacement Requirements**

When residential units housing low and moderate income households are demolished or taken out of the affordable housing stock as part of a redevelopment project, the Agency must replace those units within four years after they are demolished or removed from the market. The replacement housing obligation is only triggered where units were destroyed or removed by a redevelopment project that is subject to a written agreement with the Agency or where financial assistance has been provided by the Agency. Destroyed units that were vacant, but could reasonably be expected to be occupied by low and moderate income households if occupied, must also be replaced within four years.

Redevelopment law requires that all destroyed or removed dwellings to be replaced with units affordable to the same income levels as the destroyed or removed units. In addition, the housing must be made affordable for a minimum of 45 years for owner-occupied units and 55 years for renter-occupied units.

No housing unit was destroyed or demolished due to Agency action in the Downtown Project Area, and therefore the Agency has not incurred any replacement housing obligations.

## **2. Housing Production Requirements**

CRL requires that at least 15 percent of all non-Agency-developed housing in a project area be affordable to low- and moderate-income households, of which at least 40 percent of which must be affordable to and occupied by very low-income households. CRL also requires that at least 30 percent of all Agency-developed/substantially rehabilitated housing be affordable to low- and moderate-income households, at least 50 percent of which must be housing affordable to and occupied by very low-income households.

Housing "developed by an agency" is housing constructed by the agency pursuant to a public works contract, whether inside or outside a redevelopment project area. In an agency-developed project, the agency serves as a co-owner/partner, rather than a mere lender for the project. Non-Agency-developed housing in a project area is housing by public or private persons or entities other than the redevelopment agency, and includes both agency-assisted and unassisted housing. Both trigger inclusionary obligations.

Substantial rehabilitation is defined as rehabilitation with cost that constitutes at least 25 percent of the after rehabilitation value of the dwelling, inclusive of the land value. The inclusionary obligation arises when multi-family rental dwelling units with three or more units are substantially rehabilitated with agency assistance, or when single-family dwelling units with one or two units are substantially rehabilitated using agency assistance.

Only a small portion of the Agency's redevelopment Project Area is subject to inclusionary housing production requirements. Since 2005, one 32-unit housing project was constructed at 1901 Newport Boulevard that triggered an inclusionary requirement of five units. The requirement of five low and moderate income housing units for this project has already been met by the Agency through the construction of five affordable units in collaboration with Habitat for Humanity. No additional housing construction is expected to occur in this portion of the Downtown Project Area that is subject to the inclusionary housing requirement. While 1901 Newport Boulevard is in foreclosure at the writing of this report, this status does not impact the affordability of the affordable units created.

## **E. Housing Fund Requirements**

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### **1. Statutory Requirements**

CRL requires redevelopment agencies to set aside a minimum 20 percent of the tax increment to a Low- and Moderate-Income Housing Fund (Housing Set-Aside Fund). The Housing Set-Aside Fund must be used to increase, improve and preserve the community's supply of low- and moderate-income housing within the territorial jurisdiction of the agency.

CRL also sets forth a variety of options for expending the Housing Set-Aside Fund, including the following:

- Acquire real property or building sites;
- Improve real property or building sites with on-site or off-site improvements;
- Donate real property to private or public persons or entities;
- Finance insurance premiums during the construction or rehabilitation of affordable housing that are administered by governmental or nonprofit organizations;
- Construct, acquire, or rehabilitate properties;
- Provide subsidies to lower and moderate income households;
- Develop plans, pay principal and interest on bonds, loans, advances, or other indebtedness, or pay financing or carrying charges;
- Maintain the supply of mobile homes;
- Preserve publicly assisted housing units that are at risk of converting to market-rate housing;
- Fulfill replacement housing requirements; and
- Subsidize administrative expenses provided the expenses are proportionate to the amount spent on the production, improvement, and preservation of housing.

While the Housing Set-Aside Fund can be used for on- and off-site improvements, the improvements must be made as part of an overall project/program that directly results in new construction or rehabilitation of affordable units.

## **2. Housing Set-Aside Funds Available**

Between FY 2009 and 2014, the Agency anticipates receiving \$5,569,467 in Housing Set-Aside Funds (Table 2). Combined with a beginning balance of \$2,192,483, approximately \$7.7 million may be available for housing programs and activities over the planning period of this Implementation Plan.

## **3. Excess Surplus**

Pursuant to CRL, the Agency must expend monies in the Housing Set-Aside Fund in a timely manner. CRL Section 33334.12 establishes a threshold for when “excess surplus” occurs and the penalty associated with the surplus. Specifically, excess surplus is defined as unexpended or unencumbered Housing Set-Aside Fund balances that exceed the greater of \$1,000,000 or the aggregate amount deposited into the Housing Set-Aside Fund during the preceding four years. An agency with excess surplus has one year either to transfer the surplus to the local housing authority or to expend the fund. Failure to spend or encumber the excess surplus within an additional two years (for a total of three years from the date the funds became excess surplus) will result in the agency losing most of its discretionary powers over redevelopment until the surplus, plus 50 percent of the surplus amount, is spent or encumbered. Bond proceeds are not included in the calculation of excess surplus.

During the previous four years, the Costa Mesa Redevelopment Agency had a total Housing Set-Aside Fund deposit of \$4,527,926 (Table 13):

- FY 2005/06: \$1,044,904
- FY 2006/07: \$866,801
- FY 2007/08: \$1,210,032
- FY 2008/09: \$1,406,189

For this Implementation Plan period (FY 2010-2015), the Agency had a beginning balance of \$2,192,483. This beginning balance is less than the Agency’s total deposit of the preceding four years; no excess surplus has incurred thus far.

**Table 13: Four-Year Housing Set-Aside Deposits**

<b>Fiscal Year</b>	<b>Deposit</b>
<b>Balance as of July 1, 2009</b>	<b>\$2,192,483</b>
FY 2005/06	\$1,044,904
FY 2006/07	\$866,801
FY 2007/08	\$1,210,032
FY 2008/09	\$1,406,189
<b>Total Deposit</b>	<b>\$4,527,926</b>

As illustrated in Table 13, based on the beginning balance and projected deposits into the Affordable Housing Fund, the Agency does not currently have an excess surplus balance. Moreover, the construction of the currently proposed affordable housing projects is anticipated to eliminate the potential for excess surplus during the current Implementation Plan cycle and throughout the Project Area life.

## **4. Targeting Requirements**

### **Expenditures by Income Level**

CRL requires agencies to target expenditure of the Housing Set-Aside Funds in proportion to the total low and moderate income housing needs in the community. The intent is to ensure that very low income households are receiving a fair share of housing funds through redevelopment activities. The first compliance period for this requirement runs from January 1, 2002 through December 31, 2014. In assessing the Agency’s progress on this requirement, the expenditures for very low, low, and moderate income housing are compared to the share of housing dedicated to the low and moderate income groups in the City’s RHNA.

The City’s strategy is to leverage redevelopment funds with HOME funds. Specifically, HOME funds are used to provide affordable housing opportunities for lower income residents.

Between FY 2002 and FY 2009, an estimated \$2,277,616 in HOME funds were expended on lower income housing activities. Overall, the Agency has made gradual improvements toward balancing its expenditures of housing funds to reflect the RHNA allocation during the last planning period. Table 14 summarizes the Agency/City's cumulative expenditures by income group, with and without HOME funds as leverage.

**Table 14: Housing Set-Aside Expenditures by Income (2002-2009)**

Income Group	RHNA Allocation FY 1998-2005		Housing Set-Aside Expended				Total Set-Aside Expended FY 2002-FY2009		Cumulative Expenditures (Set-Aside and HOME) FY 2002-FY2009	
			FY 2002-FY 2004		FY 2005-FY 2009					
	#	%	\$	%	\$ <sup>1</sup>	%	\$	%	\$	%
Extremely Low/ Very Low	Single-Family Rehabilitation; Acquisition/ Rehabilitation Projects									
	265	36.6%	\$0	0.0%	\$631,186	13.7%	\$631,186	11.4%	\$1,614,996	20.7%
Low	Single-Family Rehabilitation; Acquisition/ Rehabilitation Projects									
	180	24.9%	\$205,850	22.2%	\$877,004	19.1%	\$1,082,854	19.6%	\$2,376,660	30.5%
Moderate	First Time Homebuyer Program; Acquisition/ Rehabilitation Projects; New Construction Projects									
	279	38.5%	\$722,700	77.8%	\$3,085,831	67.2%	\$3,808,531	69.0%	\$3,808,531	48.8%
<b>Total</b>	<b>724</b>	<b>100%</b>	<b>\$928,550</b>	<b>100%</b>	<b>\$4,594,021</b>	<b>100%</b>	<b>\$5,522,571</b>	<b>100%</b>	<b>\$7,800,187</b>	<b>100%</b>

However, further balancing is required for the upcoming planning period of this implementation plan (Table 15). With the new RHNA for the 2008-2014 Housing Element period, the Agency may expend set-aside funds in the proportion of 36.3 percent on extremely low and very low income households, 29.7 percent on low income households, and 34.0 percent on moderate income households. To make up the under-expenditures from previous years, the Agency will have to expend set-aside funds in the distribution of 51.9 percent on extremely low and very low income households, 28.9 percent on low income households, and 19.2 percent on moderate income households, assuming no HOME funds are used as leverage. When HOME funds are used, the Agency will be able to adjust the distribution and ongoing monitoring is required to ensure compliance with redevelopment requirements.

**Table 15: Housing Set-Aside Expenditures by Income (2009-2014)**

Income Group	RHNA Allocation FY 2008-2014		Cumulative Expenditures FY 2002-FY2009		Projected Housing Set-Aside Available FY 2009-FY 2014		Projected Cumulative Expenditures FY 2002- FY 2014
	#	%	\$	%	\$	%	%
Extremely Low/ Very Low	353	36.3%	\$1,614,996	20.7%	\$4,028,453	51.9%	36.3%
Low	289	29.7%	\$2,376,660	30.5%	\$2,243,204	28.9%	29.7%
Moderate	330	34.0%	\$3,808,531	48.8%	\$1,490,295	19.2%	34.0%
<b>Total</b>	<b>972</b>	<b>100.0%</b>	<b>\$7,800,187</b>	<b>100.0%</b>	<b>\$7,761,952</b>	<b>100.0%</b>	<b>100.0%</b>

CRL requires the progress towards fulfilling the income proportionality test to be projected on an annual basis. The following table identifies the actual expenditures between January 1, 2002 and June 30, 2009, and the projected expenditures for the balance of the Implementation Plan period:

**Table 16: Housing Set-Aside Expenditures by Income (January 1, 2002 – December 31, 2014)**

Time Period	Income			Total
	Very-Low	Low	Moderate	
1/1/02-6/30/09	\$1,614,996	\$2,376,660	\$3,808,531	\$7,800,187
FY 2009/10	\$435,785	\$242,660	\$161,219	\$839,664
FY 2010/11	\$453,220	\$952,370	\$167,660	\$1,573,250
FY 2011/12	\$471,345	\$262,465	\$174,370	\$908,180
FY 2012/13	\$490,200	\$272,960	\$181,347	\$944,507
FY 2013/14	\$509,810	\$283,880	\$188,598	\$982,288
FY 2014/15	\$1,668,093	\$228,869	\$617,101	\$2,514,063
Total	\$5,643,449	\$4,619,864	\$5,298,826	\$15,562,139
% of Total	36.3%	29.7%	34%	100%

### Expenditures by Household Type

Another provision of CRL addresses expenditures on age restricted housing. Under CRL, the Housing Set-Aside Funds must be spent on housing not subject to age restrictions in at least the same proportion as the non-senior population in the community.

A recent change (SB 527) in State law clarifies that the calculation of senior proportion should be based on the lower income population only, not the entire population. According to the Comprehensive Housing Affordability Strategy (CHAS) data developed by the U.S. Department of Housing and Urban Development using 2000 Census data, a total of 16,353 lower income households were residing in the City of Costa Mesa. Among these lower income households, 3,555 (21.7 percent) were lower income elderly households. Therefore, up to 21.7 percent of the Housing Set-Aside Fund may be spent on affordable housing opportunities for seniors, while the balance, 78.3 percent, may be spent on affordable housing opportunities that are not subject to age restrictions. Table 17 summarizes the Agency’s cumulative set-aside

expenditures by household type. As shown, the Agency has met this requirement between 2002 and 2009.

**Table 17: Housing Set-Aside Expenditures by Household Type (2002-2009)**

Income Group	Target Allocation	Housing Set-Aside Expended				Total Set-Aside Expended	
		FY 2002-FY 2004		FY 2005-FY 2009		FY 2002-FY2009	
	%	\$	%	\$ <sup>1</sup>	%	\$	%
Senior Housing	Acquisition/ Rehabilitation Projects						
	21.7%	\$0	0.0%	\$543,510	11.8%	\$543,510	9.8%
Family/Non-Senior Housing	Single Family Rehabilitation; Acquisition/ Rehabilitation Project; First Time Homebuyer Program						
	78.3%	\$928,550	100.0%	\$4,050,511	88.2%	\$4,979,061	90.2%
<b>Total</b>	<b>100.0%</b>	<b>\$928,550</b>	<b>100.0%</b>	<b>\$4,594,021</b>	<b>100.0%</b>	<b>\$5,522,571</b>	<b>100.0%</b>

In future years, the Agency may choose to increase funding on senior housing but not to exceed 30.2 percent of the projected funds available for FY 2009-FY 2014 to ensure the overall proportion is maintained (Table 18).

**Table 18: Housing Set-Aside Expenditures by Household Type (2009-2014)**

Income Group	Target Allocation	Cumulative Expenditures FY 2002-FY2009		Projected Housing Set-Aside Available FY 2009-FY 2014		Projected Cumulative Expenditures FY 2002-FY 2014
		\$	%	\$	%	
Senior Housing	21.7%	\$543,510	9.8%	\$2,344,109	30.2%	21.7%
Family/Non-Senior Housing	78.3%	\$4,979,061	90.2%	\$5,417,842	69.8%	78.3%
<b>Total</b>	<b>100.0%</b>	<b>\$5,522,571</b>	<b>100.0%</b>	<b>\$7,761,951</b>	<b>100.0%</b>	<b>100.0%</b>

## 5. Other Reporting Requirements

During the previous five-year Implementation Plan period (January 1, 2005 – December 31, 2009), Set-Aside funds were not used to assist any units covenanted for extremely low income households, or to assist housing units available to families with children. During the five-year period, approximately \$2.1 million in HOME Investment Partnership Act (HOME) program funds were used by the Agency to assist in the rehabilitation of homes for very-low and low income households. No income restricted housing units were constructed in the Project Area with other locally controlled government assistance or without Agency assistance.

## 6. Additional Funding Sources

Important housing funding resources available to the City of Costa Mesa include the Community Development Block Grant (CDBG) and HOME program funds. Specifically, the

City receives approximately \$700,000 in HOME funds annually. HOME funds are used primarily for rehabilitation loans and grants, and acquisition/rehabilitation of rental units. The majority of HOME funds are used to support single-family rehabilitation efforts in the City. The City also receives approximately \$1.4 million in CDBG funds annually. CDBG funds are used primarily for rental and owner housing rehabilitation activities, infrastructure and public facility improvements, and public services.

## F. Redevelopment Housing Programs

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The CRL requires that the Agency includes a ten-year housing compliance plan in the Implementation Plan. During the planning period of this Implementation Plan, the Agency anticipates using the Housing Set-Aside Fund on the following programs:

1. **Single-Family Rehabilitation Loan Program:** This program is designed to assist qualified property owners to improve single-family properties. It is anticipated that this program will be used to assist 10 very-low and low income households per year.
2. **Neighborhood Improvement Grant Program:** Small grants are available to assist with property improvements for both income-qualified single-family property owners and mobile home owners. It is estimated that funding will be provided to 30 very-low and low income households per year.
3. **Incentives for Affordable Housing:** The City will continue to pursue funding, partner with nonprofits and provide incentives (i.e., density bonuses, fee reduction, etc.) to developers that agree to reserve a portion of the project units for very low, low, or moderate income households (common interest developments only), or for seniors.

The Agency has set aside \$700,000 in Housing Set-Aside funds to assist a potential 52 unit apartment project targeted to very-low and low income senior citizens (Baker Street Apartments). This project proponent is in the process of applying for Low Income Housing Tax Credits, and is anticipated to be developed during FY 2010/11.

4. **First-Time Homebuyer Assistance:** Costs Mesa assists moderate income homebuyers through its Homebuyer Assistance Loan program. This program provides a sizable second mortgage to income qualified homebuyers to purchase a home in the City. Loans are made on a deferred payment, shared appreciation basis. Based on available resources, it is estimated that this program will be used to assist one moderate income household per year.
5. **First-Time Homebuyer New Construction and Acquisition/Rehabilitation:** The Agency will work with qualified developers to develop ownership housing affordable to low and moderate income households. The Agency will pursue acquisition/ rehabilitation opportunities where the Agency would acquire underutilized properties for construction of

affordable ownership housing by qualified developers. The Agency will also provide first-time homebuyer loans that include rehabilitation costs to target less expensive homes and reduce slums and blight.

The City of Costa Mesa is partnering with the cities of Fullerton and La Habra to pursue the Neighborhood Stabilization Program (NSP) funds. Under this program, the City expects to receive \$303,000 in NSP funds. The Agency will leverage \$360,000 in Housing Set-Aside funds to acquire and rehabilitate foreclosed properties and resell the units to moderate income first-time homebuyers. It is estimated that four to five homes will be purchased and rehabilitated under this program during FY 2009/10.

6. **Preservation of At-Risk Housing:** Two projects at risk of converting to market-rate housing between 2008 and 2018: 75-unit Casa Bella senior housing project and 270-unit Bethel Towers. The Agency has identified Bethel Towers as a key project to pursue over the next two years. Redevelopment housing set-aside funds have been allocated to provide rehabilitation and conservation improvements to Bethel Towers in exchange for an extension of the affordability covenant.

The Agency had originally set aside \$262,079 in Housing Set-Aside funds to assist in the preservation of Bethel Towers. However, the property owner has indicated that they would not participate in the Agency's program. The Agency will pursue other preservation projects in the future.

7. **Single-Room Occupancy (SRO), Family Residential Occupancy (FRO), Extended Stay Units:** The Agency would also promote the conversion of motel rooms into extended stay units.
8. **Land Acquisition:** As funding permits, the Agency will acquire privately owned land to assemble a site(s) suitable for the development of new housing for lower and moderate income seniors, persons with disabilities, and/or families.

## **G. Redevelopment Plan Termination**

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Section 33490(a)(4) of the CRL requires the Implementation Plan for any redevelopment project area, which is within six years of the time limit of effectiveness, to include an explanation of how the Agency will meet its statutorily housing obligations. The specific obligations that must be addressed are detailed in Section 33333.8 (a) and Section 33413 (a) and (b).

The land use controls imposed by the Redevelopment Plan for the Downtown Redevelopment Project Area will terminate in 2014. As such, it is necessary for the Agency to fulfill this CRL reporting obligation.

## **1. Housing Set-Aside Fund Deposit and Expenditure Requirements**

At the end of the Redevelopment Plan effectiveness period, the Agency will have complied with the following pertinent Section 33333.8(a) deposit and expenditure requirements:

1. The Agency will have deposited 20 percent of all tax increment revenue received by the Agency into the Housing Fund;
2. The Agency will have complied with both the expenditures proportionality tests imposed by Section 33334.4; and
3. The Agency will not have experienced excess surplus as defined by Section 33334.12.

## **2. Affordable Housing Replacement and Production Requirements**

The Agency is currently in compliance with the replacement housing and inclusionary housing production requirements imposed by Section 33413 (a) and (b). It is not anticipated that any additional replacement housing or inclusionary housing production obligations will be incurred throughout the remaining life of the Redevelopment Plan.

## **3. Activities Following Termination of the Redevelopment Plan Effectiveness Period**

CRL Section 33333.6 allows redevelopment agencies to continue collecting tax increment for up to 10 years following the termination of the Redevelopment Plan effectiveness. During this 10-year period, the Agency has no authority to take any actions other than to repay previously incurred indebtedness, to comply with Section 33333.8 affordable housing obligations, and to enforce existing covenants, contracts and other obligations.

It is anticipated that the Agency will have remaining outstanding debt when the time limit of effectiveness for the Downtown Redevelopment Project Area expires. It is further anticipated that the Agency will be able to repay any outstanding debt by December 31, 2024.

It is assumed that the CRL Section 33334.2 requirement to deposit twenty percent of the tax increment received into the Housing Set-Aside Fund will continue during the period between 2014 and 2024. However, the Agency does not have the express authority to enter into any new projects or programs. Therefore, the Agency activities during this period will be limited to the implementation of the following existing programs:

1. Single-Family Rehabilitation Loan Program;
2. Neighborhood Improvement Grant Program; and
3. First-Time Homebuyer Assistance Program.

During the period between 2014 and 2024, the Agency will comply with the following Section 33333.8 requirements:

1. The funds will be expended in accordance with the proportionality requirements imposed by Section 33334.4;
2. The funds will be expended in a timely fashion as prescribed by Section 33334.12; and
3. Any monies remaining in the Housing Set-Aside Fund as of December 31, 2024 will be transferred to a special fund of the community, or to the county housing authority.

