



# 2004 Legislative Proposal

Department of Transportation

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## **TITLE**

**Affordable Housing For Low and Moderate-Income Tenants**

## **CONTACT PERSON:**

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## **DATE:**

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## **SUMMARY**

In furtherance of the Legislature's overall goal of preserving and protecting affordable housing for persons of low and moderate-income, as illustrated by way of its enactment of Government Code Sections 54235-54238.7, the Department is proposing revisions to said Government Code sections. This proposal will assure that existing low and moderate-income tenants in state housing, who may (should the property be declared surplus) qualify to purchase their residences pursuant to the above-referenced Government Codes, will not be displaced and lose this opportunity due to rental rates increasing beyond their financial means. This proposal also provides for a clarification of the definition of which homes would fall within the parameters of said Government Codes and provide for a more equitable distribution of the benefits tenants may be eligible for.

## **IDENTIFICATION OF ISSUE/OPPORTUNITY**

There exists an ongoing shortage of affordable rental housing in California, particularly for persons of low and moderate income. Government Code Sections 54235-54238.7 were passed in 1979 to address this shortage and to mitigate environmental effects of highway activities by preserving, upgrading and expanding the supply of housing available to persons of low and moderate-income. The above-referenced Government Codes require the Department to sell surplus residential property, originally purchased for the Route 710 freeway in Los Angeles County, to current qualified residents at "affordable prices" or public housing agencies at "reasonable" prices, as defined.

This proposal would amend Government Code Sections 54235-54238.7 to ensure that low and moderate-income tenants, who could potentially purchase their home pursuant to this legislation, would not lose this opportunity by being priced out of their rentals due to rapidly increasing rental rates. The proposed revisions would authorize the Department to charge affordable rents (as defined in the proposed language in Exhibit A) to said qualified tenants if the Department has made a finding that it is appropriate and in the overall public interest to mitigate for social, environmental or economic impacts of the project for which the properties were acquired.

In enacting the initial legislation, it is clear that the Legislature's intent was to preserve and expand the supply of low and moderate-income housing. The existing Codes however do not specifically define a limit on the value of homes that could be considered "affordable". The proposed Code revisions would serve to define those homes falling under the purview of Government Code Sections 54235-54238.7 as those homes for which the fair market value falls at or below the median home price for Los

Angeles County. This clarification would result in approximately 70% of 710 Corridor homes being considered affordable.

Generally, properties in Pasadena and South Pasadena are not consistent with the commonly-accepted definition of “low or moderate income housing”. Many of these properties are extremely large and historically significant. Some of the single-family residences in this category have living areas exceeding 5,000 S.F. and fair market values in excess of \$1,000,000. On the other hand, El Sereno properties, also acquired for the 710 corridor, are generally more modest in size and market value. Most of the rentals in this area can be considered affordable.

Therefore, under the legislation as currently written, tenants with similar incomes would have vastly different opportunities to purchase their rental housing, should it be declared surplus. A tenant in El Sereno might be able to purchase their rental unit valued at \$300,000 at an “affordable” price, while a Pasadena tenant could conceivably be afforded the opportunity to purchase a far larger property, perhaps one with historical significance, with a fair market value in excess of \$1,000,000 at a similar “affordable” price. In the interest of fairness and equity, this proposal would amend Government Code Sections 54235-54238.7 as described above.

## **PROPOSED SOLUTION**

This proposal would align the Department’s policies and procedures with the goals of the Legislature with regards to preserving the availability of affordable housing to low and moderate income tenants. This proposal would reinforce the original intent of the legislature in its enactment of Government Code Section 54235-54238.7 by taking measures that both preserve the stock of rental housing available to low and moderate-income tenants and provide for the fair and equitable distribution of the benefits afforded 710 Corridor tenants by way of this legislation. This proposal will also ensure that tenants who are able to purchase their homes are purchasing homes that they can afford to adequately maintain.

The suggested language of these proposed revisions is shown in red on Attachment “A”.

## **PROGRAM BACKGROUND**

Currently, Department policies and procedures dictate that fair market rent be received from State tenants. Rents are adjusted annually in accordance with market conditions. Current market conditions indicate rapidly rising housing costs throughout the state. Were the Department to raise rents to market levels, some current low and moderate-income tenants might be forced to relocate to more affordable housing, and in doing so, lose any opportunity that they may have under the Government Code to purchase the property that they occupy.

Currently, Government Code Section 54235-54238.7 dictates that surplus residential housing along the 710 freeway corridor be sold to low and moderate-income tenants at an affordable price, regardless of the fair market value of the property that they currently occupy, or their ability to maintain the property. This creates the potential for the inequitable distribution of the benefits provided by the existing code.

### **PROBABLE SUPPORT AND OPPOSITION**

- Support:  
The cities of Pasadena and South Pasadena supported a previous, similar proposal. Affordable Housing advocates.
- Opposition:  
Tenants occupying rental housing valued in excess of the median home price for Los Angeles County.

### **FISCAL IMPACT**

This proposal will result in increased income to the State Highway Account from the sale of high value surplus properties at fair market value, as opposed to an “affordable” price. In addition, there may be substantial savings to the Department in reduced or eliminated repair and rehabilitation costs for high-value surplus residential properties.

Additional findings regarding fiscal impacts are shown on Attachment “B”.