

CITY OF SANTA ROSA
HOUSING ALLOCATION PLAN AMENDMENT,
HOUSING IMPACT FEE UPDATE, &
NEW COMMERCIAL LINKAGE FEE

CITY COUNCIL
OCTOBER 1, 2019



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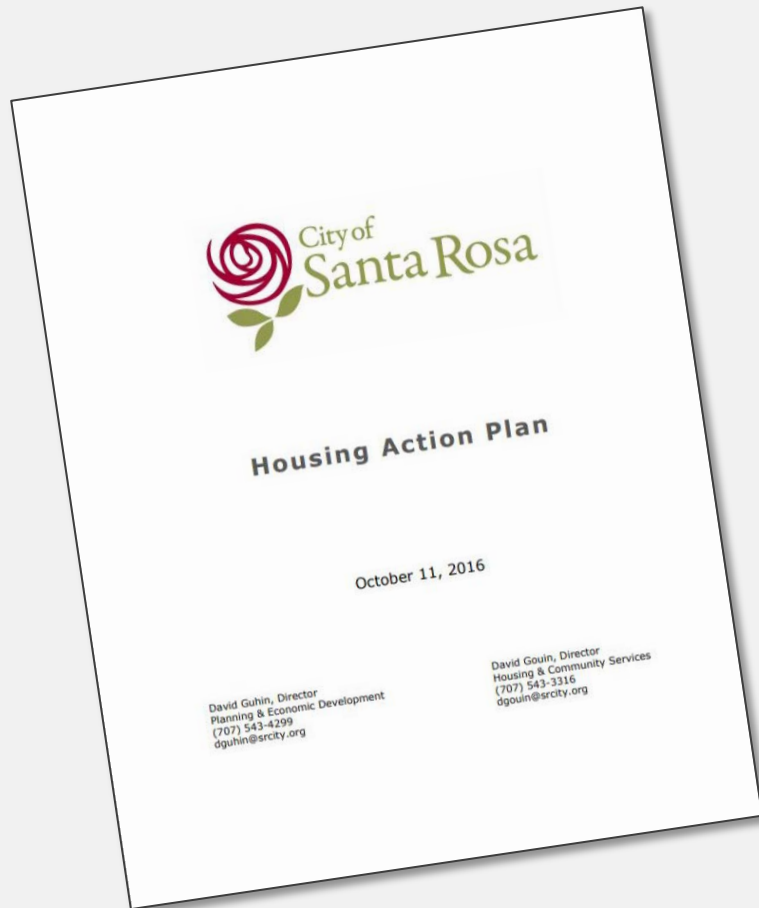
INTRODUCTION

HOUSING ACTION PLAN

Program I

“Increase Inclusionary Housing”

- Update Inclusionary Housing Ordinance (AKA “**Housing Allocation Plan**”)
- Evaluate New Commercial Linkage Fee.



INTRODUCTION

HOUSING ACTION PLAN

Other Affordable Housing Development Tools

- Density Bonus Ordinance
- Development Fee Reductions
- Accessory Dwelling Units
- Permit Streamlining, Process Improvements
- By-Right Development for Supportive Housing
- Assemble and Offer Public Land for Housing Development

INTRODUCTION

KEY POLICY CONSIDERATIONS

Inclusionary Housing

- Build Units or Pay Fee or Both
- Project Size, Affordable Percentage and Type
- Development Standard, Innovation and Flexibility
- Implementation
- Update Housing Impact Fee

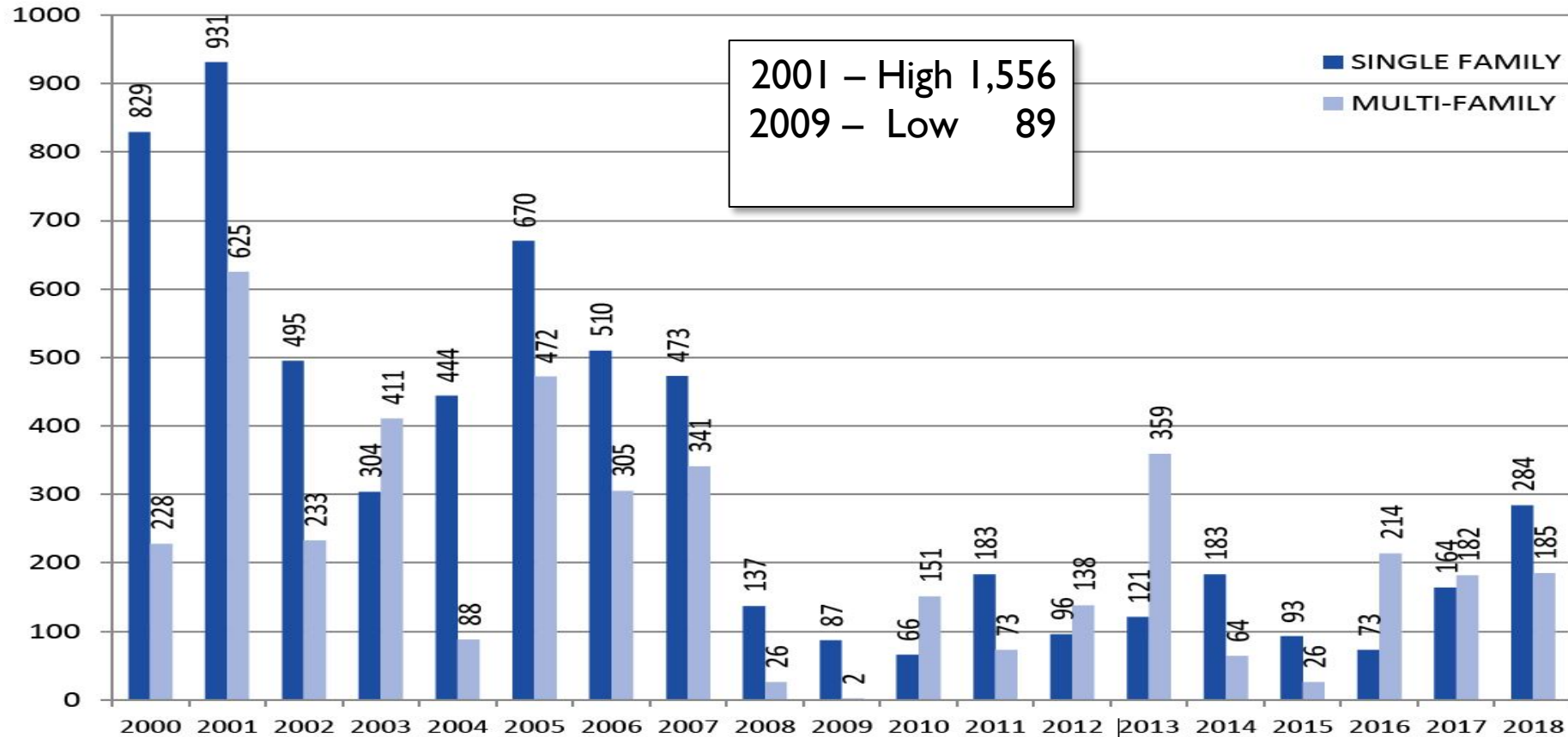
Commercial Linkage Fee

- Fit with housing strategy
- Fee amount and development costs
- Compare with neighboring jurisdictions
- Fee payment alternatives

BACKGROUND

2000-2018 RESIDENTIAL PERMIT ACTIVITY

Figure 1 - SINGLE FAMILY AND MULTI-FAMILY BUILDING PERMITS 2000 - 2018

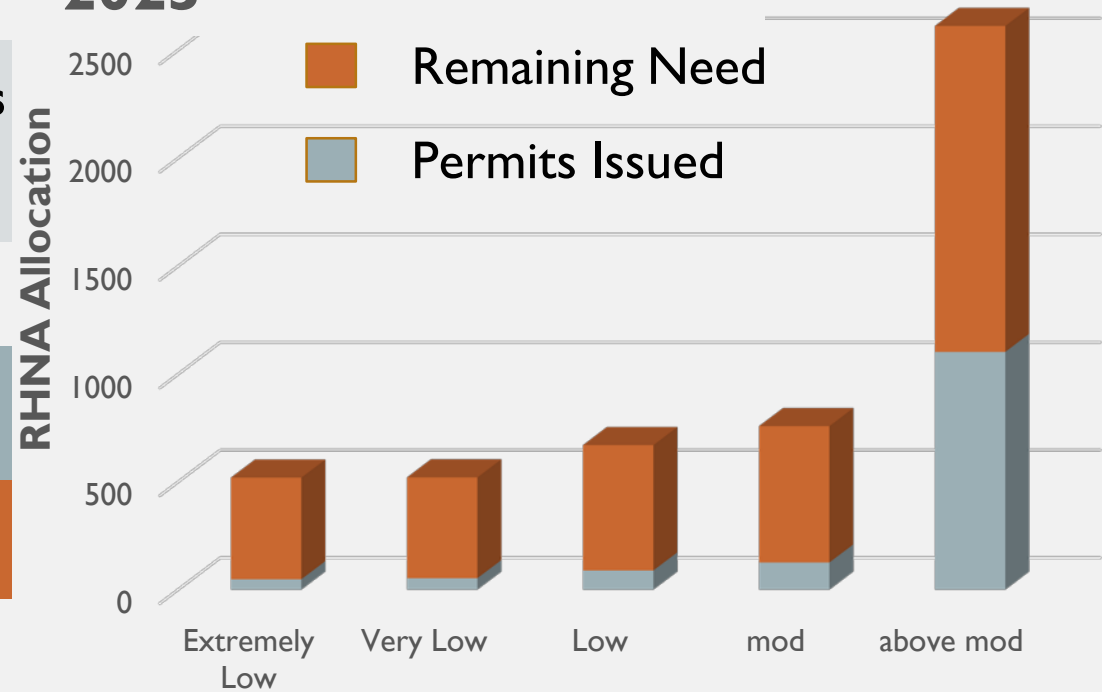


BACKGROUND

HOUSING PRODUCTION AND NEED

Building Permits by Housing Income Category 2015 - 2023

Housing Units	Household Income Categories				
	Extremely Low	Very Low	Low	Mod	Above Mod
ABAG RHNA City Share	520	521	671	759	2,612
Permits Issued 2015 – 2018 *	48	53	89	126	1,103
Remaining Need	472	468	582	633	1,509



Housing Units by Income Category

The Regional Housing Needs Assessment (RHNA) represents new housing units, by income category, needed within the City to help fulfill its share of Countywide housing demand in 2023.

BACKGROUND *HOUSEHOLD INCOME CATEGORIES*

HOUSEHOLD INCOME CATEGORY	PERCENT OF AREA MEDIAN INCOME (AMI) ADJUSTED FOR HOUSEHOLD SIZE*	ANNUAL INCOME ADJUSTED FOR HOUSEHOLD WITH THREE PERSONS \$83,950
Very Low	≤ 50%	≤ \$48,600
Low	51 – 80%	\$48,601 - 77,800
Moderate	81 – 120%	\$77,801 - 100,750

* State Department of Housing and Community Development, State Income Limits for 2019, Sonoma Area Median Income for a Household with Three Persons - \$83,950 per year.

BACKGROUND

INCLUSIONARY HOUSING DIRECTION

INCLUSIONARY VERSUS HOUSING IMPACT FEE

	OUTCOME	IMPLEMENTATION	TYPICAL AFFORDABILITY LEVEL
Inclusionary Housing	Developer constructs affordable units within Project based on required percentage	Developer Selects Project Site, Size & Timing	Low
Housing Impact Fee	Developer payment is used by Housing Authority to fund projects	Housing Authority selects Projects through annual NOFA process	Very Low & Low

BACKGROUND

AFFORDABLE HOUSING PRODUCTION

Inclusionary Housing Projects 1992 – 2018

	Projects	Market-Rate Housing	Affordable Housing
Inclusionary On-Site	9 *	1,105	174 *
Housing Impact Fee	23	0	1,510

* Another 7 Projects Entitled but Not Built including 97 Low Income Affordable Housing Units and 12 Moderate Income Units.

INCLUSIONARY HOUSING PLANNING COMMISSION COMMENTS

- Pursue blended inclusionary on-site and Housing Impact fee ordinance to promote:

*Equitable Citywide Distribution
Mixed Income Projects*

*Neighborhood Integration
For Sale (Single Family) & Rental (Multi Family) projects*

- Adjust project size, inclusionary percentage, income mix, and Housing Impact fee to support above goals.
- Provide flexibility and incentives to promote construction of residential projects.

*Quadrant & Project Dispersion Review
Small & Family Unit Incentives
Allow Baseline Unit Interior Finishes*

*Density Bonus Concessions
Downtown Fee Exemption*

- Increase deed restriction to 55 years; Simplify and update Housing Impact Fee

INCLUSIONARY HOUSING *PUBLIC COMMENTS*

Housing Impact Fee

- Helps to fund income rental housing with tax credits.
- Allow fee to pay for fractional inclusionary unit.

Inclusionary

- Non-profit and for-profit developers partner to build mixed income projects similar to market rate housing.
- Consider tiered inclusionary percentage based on affordability - 8% at 80 AMI, 6% at 60 AMI.
- Require more inclusionary units for higher income projects, fewer units for lower income level.

Land dedication

- Land dedication value or benefit can be substantially below the cost of site development and construction.

Implementation

- The equity of waiving the dispersion requirement needs review.
- Project dispersion (affordable units dispersed within building) trigger tax credit issues that may be avoided by site dispersion.
- Increase affordable contract term from 30 to 55 years.

INCLUSIONARY HOUSING WHITE PAPER AND NEXUS STUDY

Identifies Residential Development Feasibility Threshold.
Presents Inclusionary Policy Options.

TYPICAL RESIDENTIAL TYPES		AVERAGE SALES PRICE OR RENT	DEVELOPMENT FEASIBILITY THRESHOLD RETURN ON COST/YIELD
Single-Family Detached	2,000 SF	\$660,000 \$330 SF	15-18% a
Single-Family Attached (Townhomes)	1,600 SF	\$480,000 \$305 SF	15-18% a
Apartments	1 bedroom	\$2,000 \$2.67 SF	6-7% b
	2 bedroom	\$2,500 \$2.50 SF	
	3 bedroom	\$2,900 \$2.42 SF	

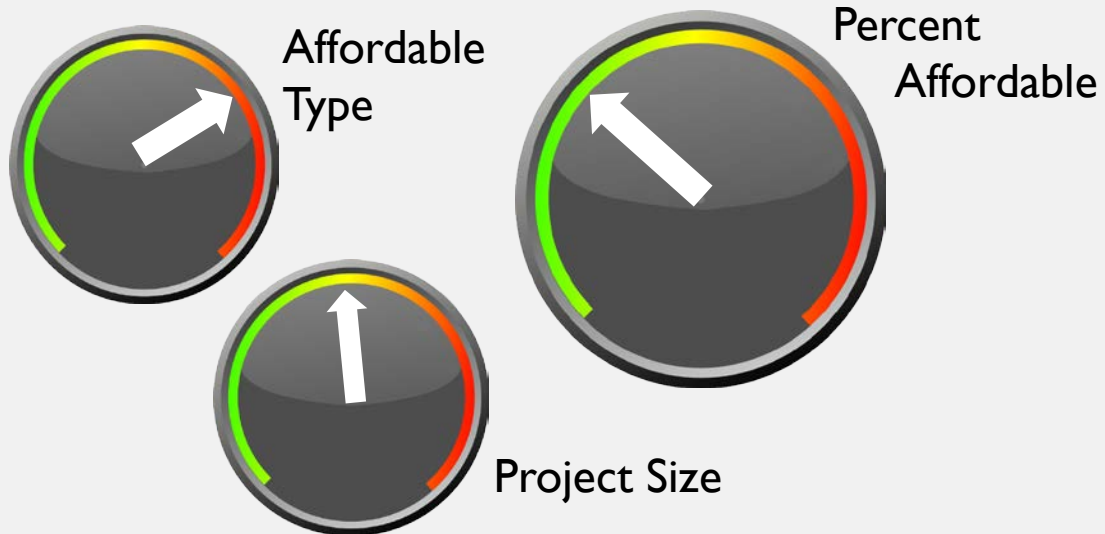
a. Interviews with developers.

b. CBRE Cap Rate Survey, 1st half 2018, Oakland Suburban Market

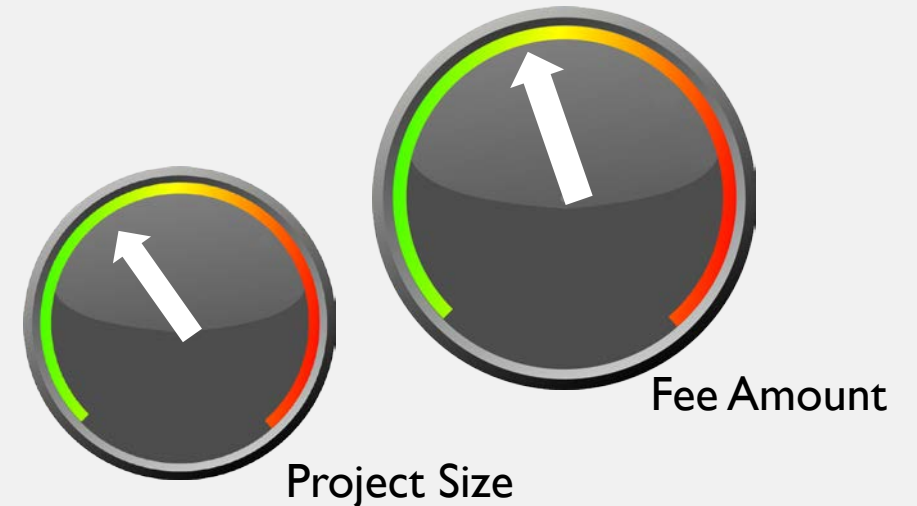
INCLUSIONARY HOUSING POLICY DISCUSSION STARTING POINT

Adjust Inclusionary Policy to Accomplish Housing Objective

Inclusionary On-Site Units

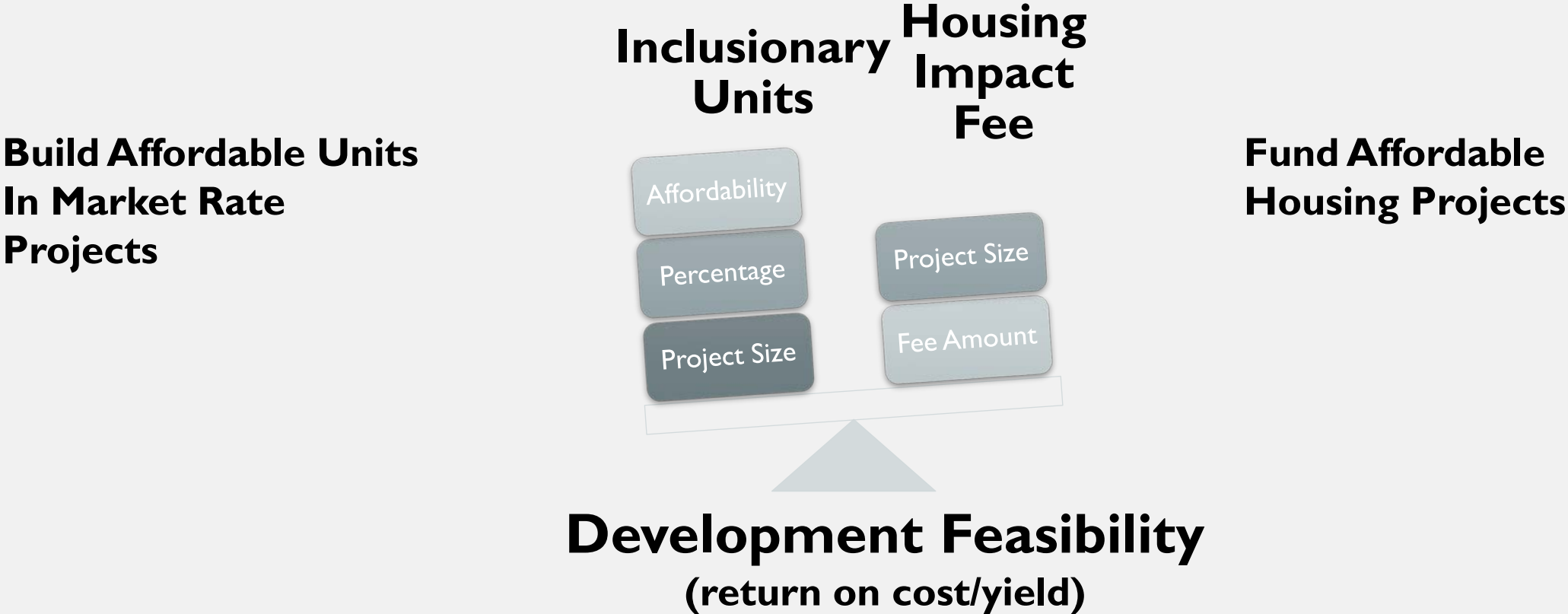


Housing Impact Fee



INCLUSIONARY HOUSING *POLICY DISCUSSION*

Balance Affordable Housing Production & Development Feasibility



INCLUSIONARY HOUSING *POLICY RECOMMENDATION*

Inclusionary Requirement

EXISTING	PROPOSED
Developer chooses to pay Housing Impact Fee or build inclusionary units.	<ul style="list-style-type: none">• Projects 1 to 7 units – Developer pays Housing Impact Fee.• Projects 8 or more units – Developer chooses to pay Housing Impact Fee or build Inclusionary Units.

INCLUSIONARY HOUSING *POLICY RECOMMENDATION*

Project Size Criteria

EXISTING	PROPOSED
All residential projects with 1 or more units (exemptions apply)	Same

INCLUSIONARY HOUSING POLICY RECOMMENDATION

Inclusionary Percentage		
EXISTING	PROPOSED	
<u>For Sale</u> 15% Low (80% AMI)	Citywide	<u>For-Sale</u> 10% Moderate (120% AMI)
<u>For Rent</u> 15% Low (80% AMI)	Citywide	<u>For-Rent</u> 8% Low (80% AMI) 5% Very Low (60% AMI)
<u>N/A</u>	Downtown Multifamily, Mixed Use projects only	<u>For-Sale</u> 5% Moderate (120% AMI) <u>For-Rent</u> 4% Low (80% AMI) 3% Very Low (60% AMI)

INCLUSIONARY HOUSING *POLICY RECOMMENDATION*

Inclusionary Development Standard

EXISTING	Proposed
Similar mix of unit type & floor area.	<ul style="list-style-type: none">• Allow similar bedroom and size units as market-rate units.
Compatible exterior appearance, materials and finish quality.	<ul style="list-style-type: none">• Continue existing policy.

INCLUSIONARY HOUSING *POLICY RECOMMENDATION*

Alternative Compliance (flexibility)

EXISTING	PROPOSED
<p>Alt to On-Site Units</p> <ul style="list-style-type: none"> • Off-site • Land dedication • Innovative Alternative 	<ul style="list-style-type: none"> • Continue existing policy. • Allow Conversion of Existing Units to Affordable & Preservation of At-Risk Affordable Housing.
<p>Geographic Dispersion</p> <ul style="list-style-type: none"> • Off-site Units in same quadrant • Land dedication 	<ul style="list-style-type: none"> • Require disperse units within project except when prevented by financing (tax credits).
<p>NA</p>	<ul style="list-style-type: none"> • Allow transfer of a greater number of inclusionary units provided on one site as inclusionary "credits" in a future project.

INCLUSIONARY HOUSING *POLICY RECOMMENDATION*

Implementation

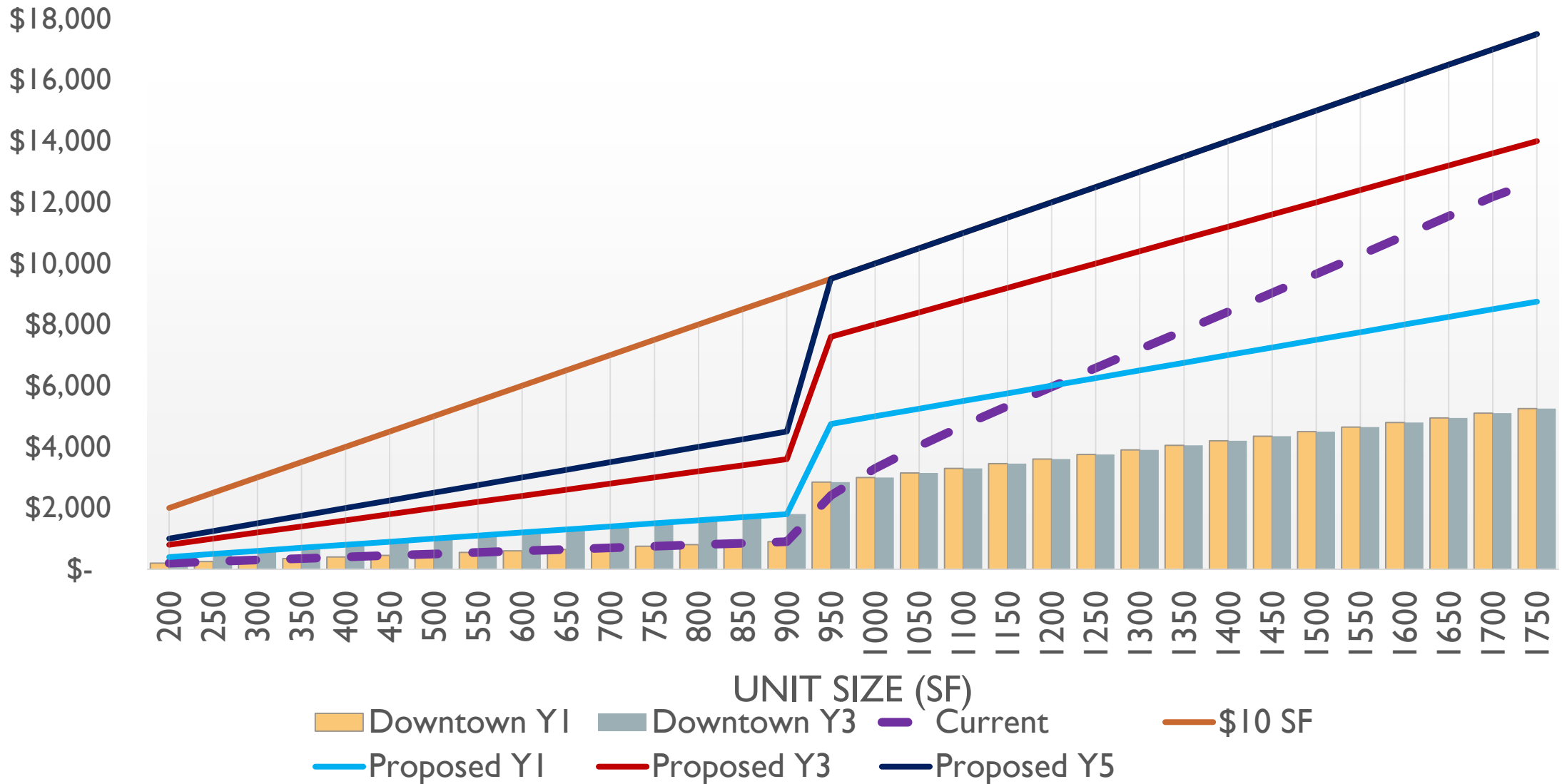
EXISTING	PROPOSED
<p>Affordability Period 30 years</p>	<ul style="list-style-type: none"> Extend affordability period to 55 years, consistent with Density Bonus law and existing affordable housing programs
<p>Ordinance Exemptions Accessory Dwelling Unit, deed restricted affordable housing unit, homeless shelters, community care/health facilities, Single Resident Occupancy, and units constructed by an owner/builder, additions and replacement units</p>	<ul style="list-style-type: none"> Continue existing policy.

INCLUSIONARY HOUSING POLICY RECOMMENDATION

Housing Impact Fee

	UNIT AREA	EXISTING FEE	PROPOSED FEE STAGED INCREASE
<u>For Sale</u> Single Family Detached & Attached	NA	2.5% sales price	≤909 SF Y1 \$2 / Y3 \$4 / Y5 \$5 ≥910 SF Y1 \$5 / Y3 \$8 / Y5 \$10
<u>For Rent</u> Multifamily	≤909 SF 910-1,750 SF	\$1 SF \$1.37 - \$7.26 SF	≤909 SF Y1 \$2 / Y3 \$4 / Y5 \$5 ≥910 SF Y1 \$5 / Y3 \$8 / Y5 \$10
<u>Downtown</u> Multifamily For-Rent & For-Sale	≤909 SF 910-1,750 SF	\$1 SF \$1.37 - \$7.26 SF	≤909 SF Y1 \$1 / Y3 \$2 ≥910 SF Y1 \$3 / Y3 \$3

Proposed 2019 Housing Impact Fee



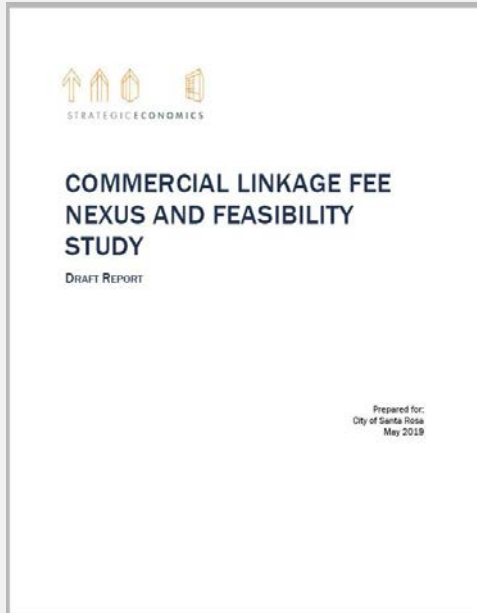
INCLUSIONARY HOUSING FEE COMPARISON

Housing Impact Fee Comparison				
JURISDICTION	ELIGIBLE PROJECTS	FOR-SALE SINGLE FAMILY		RENTAL APARTMENT 950 SF
		DETACHED 2,000 SF	ATTACHED 1,600 SF	
Santa Rosa (Proposed Fee)	All	\$8.25/sf	\$7.63/sf	\$2.54/sf
Healdsburg	1 - 5 units	\$16.70/sf	\$16.70/sf	\$3.08/sf
Napa (City)	All	\$4.75/sf	\$4.75/sf	\$4.05/sf
Novato	3-6 units	\$9.39/sf	\$11.74/sf	\$11.44/sf
Petaluma	5+ units	\$10.12/sf	\$10.12/sf	\$10.12/sf
Rohnert Park	All, except 50+ for-sale projects	\$6.24/sf	\$7.80/sf	\$3.23/sf
Sonoma (proposed)	1-4 units	\$6.00/sf	\$5.20/sf	\$5.50/sf
Windsor	10+ units	\$4.03/sf	\$3.82/sf	\$2.10/sf

High

Low

COMMERCIAL LINKAGE FEE *NEXUS STUDY*



- ❖ **Purpose of Fee:** mitigate affordable housing demand resulting from commercial development
- ❖ **Study** establishes relationship or “Nexus” between commercial development and Affordable Housing demand
 - **Analyzed** most common recent commercial development types in city
 - **Evaluates** impact fee feasibility and threshold

COMMERCIAL LINKAGE FEE *PROTOTYPES*

Purpose of Prototype Analysis:

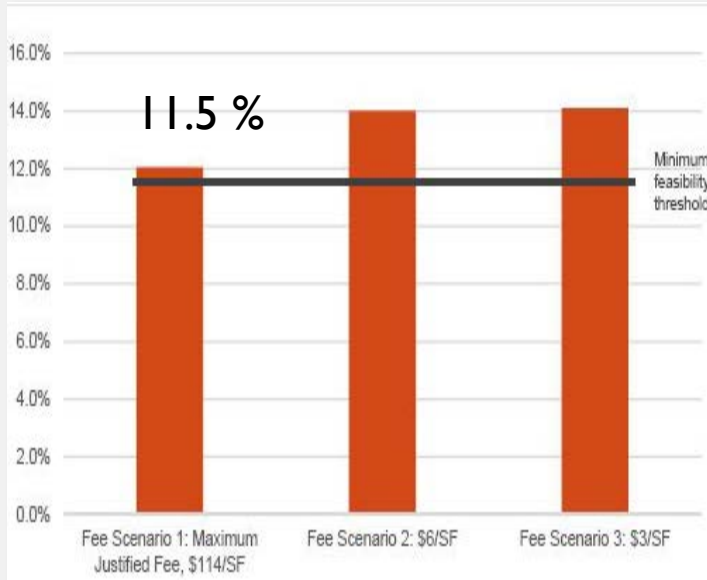
Uses most typical commercial development types to study the jobs-housing linkage; prototypes not intended to represent specific projects

Hotel: Full-service hotels, limited-service hotels, motels, and other lodging.

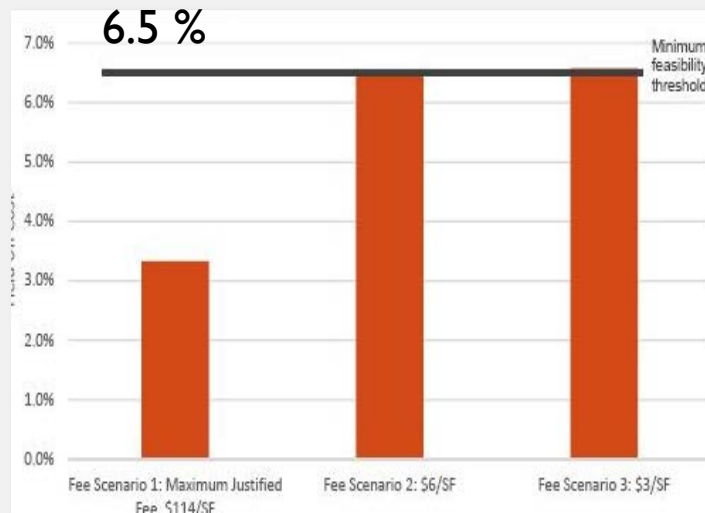
Retail/Restaurants/Services: Retail stores, restaurants, and personal care spaces accommodating businesses like nail salons and dry cleaners.

Business Park/Light Industrial: Light industrial, office, and R&D users, including open floor-plan offices, medical offices, and cannabis-related uses found in Sonoma County

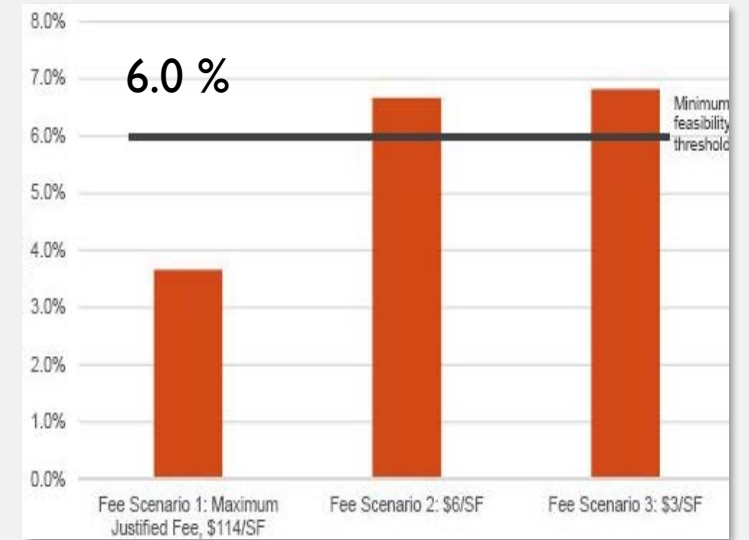
COMMERCIAL LINKAGE FEE MINIMUM RETURN ON INVESTMENT



HOTEL - 11.5-13.5%



**RETAIL, RESTAURANT
& SERVICES - 6.5-7.5%**



**BUSINESS PARK &
LIGHT INDUSTRIAL - 6-7%**

Relationship between
Commercial Development Financial Feasibility (Yield on Cost) &
In-Lieu Fee Options at \$114 (maximum), \$6 SF, and \$3 SF

COMMERCIAL LINKAGE FEE *AFFORDABLE HOUSING DEMAND*

Maximum Justified fee vs. Financially Feasible Fee

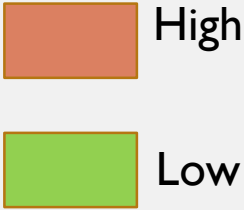
Commercial Sector	Maximum Justified Fee	Fee Option
Hotel	\$75	\$3
Retail, Restaurants & Personal Services	\$320	\$3
Business Park & Light Industrial	\$114	\$3

FIGURE 10: RECOMMENDED LINKAGE FEES BY COMMERCIAL PROTOTYPE

COMMERCIAL LINKAGE FEE FEE COMPARISON

EXISTING COMMERCIAL LINKAGE FEES IN SELECTED CITIES

Comparison City & County	Hotel	Retail, Restaurant, Personal Services	Business Park & Light Industrial
Berkeley	\$4.50	\$4.50	\$2.25
Cotati	\$2.08	\$3.59	\$2.15
Fremont	\$6.00	\$6.00	\$3.00
Napa	\$6.00	\$3.55	\$3.50
Petaluma	\$2.42	\$4.17	\$2.49
Pleasanton	\$3.15	\$3.15	\$3.15
Rohnert Park	\$0.69	\$1.19	\$0.71
San Rafael	\$1.91	\$5.73	\$4.14
Sonoma County	\$2.92	\$5.05	\$3.01



COMMERCIAL LINKAGE FEE *STUDY SESSION CONSIDERATIONS*

- ❖ Should the City adopt a Commercial Linkage Fee; How does the fee fit into housing strategy?
- ❖ How much should the fee increase total development costs?
- ❖ How should the fee compare with neighboring or other comparable jurisdictions?
- ❖ What options exist for fee payment alternatives?

COMMERCIAL LINKAGE FEE ORDINANCE RECOMMENDATIONS

- ❖ Adopt a \$3/SF Commercial Linkage Fee on all commercial developments with the following exemptions:
 - Mixed-Use Projects consisting of 2 stories or more of residential over commercial
 - Government or public institutions
 - Public and private childcare facilities
 - Homeless shelters, community care facilities, SRO units that are only available for occupancy by lower or moderate income households
 - Churches
- ❖ Adjustment of Fee: starting the first year after adoption of the resolution, the fee will be adjusted annually each July 1 based on CPI-U

RECOMMENDED ACTION

It is recommended by the Planning and Economic Development Department that the Council:

1. Introduce an ordinance amending City Code Chapter 21-02, Housing Allocation Plan, to amend the requirements and incentives for providing on-site inclusionary housing units,
2. By resolution update the existing Housing Impact Fee structure
3. By resolution establish a new Commercial Linkage Fee.

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More information at Inclusionary Policy Webpage:
srcity.org/2556/Inclusionary-Housing-Policy