

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: DAVID M. GUHIN
ASSISTANT CITY MANGER/ DIRECTOR
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
SUBJECT: HIGH-DENSITY MULTI-FAMILY RESIDENTIAL INCENTIVE
PROGRAM

AGENDA ACTION: RESOLUTIONS

RECOMMENDATION

It is recommended by the Planning and Economic Development Department that the Council, by approval of three separate resolutions, adopt a High-Density Multi-Family Residential Incentive Program to encourage the near-term development of multi-family housing in downtown Santa Rosa.

EXECUTIVE SUMMARY

The purpose of the High-Density Multi-Family Residential Incentive Program (Incentive Program) is to encourage housing development and increased density in downtown Santa Rosa through the reduction/deferral of City development impact fees. The program supports City Council goals to foster a strong downtown and meet housing needs and implements City Council priority 1.4 Downtown Housing.

It is recommended that the Incentive Program have a limited term of five years and be targeted toward residential projects located within the Downtown Station Area Specific Plan Area and the General Plan Downtown Core Boundary as shown on Attachment A (collectively, the "Downtown"). Recommended incentives for qualifying projects consist of:

- a) Downtown with CD-7, CD-10 Zoning: For residential projects proposing four or more stories, the Park Impact Fee and Capital Facilities Fee (CFF) would be paid on the first three residential floors while additional floors dedicated to residential use would be exempt from additional Park and CFF Impact fees.
- b) Downtown with CD-5, TV-M, TV-R, R-3-18, or R-3-30 Zoning: For residential projects proposing three or more stories, the Park and CFF Impact fee would be paid on the first two residential floors while additional floors dedicated for residential use would be exempt from additional Park and CFF Impact fees.

- c) Downtown residential projects proposing three or more stories with at least two floors dedicated for residential: Deferral of water and wastewater demand fees until after occupancy or, at developer's option, payable on a five-year payment plan.
- d) All areas in the Downtown: For affordable/inclusionary projects that construct the affordable units on-site pursuant to the City's Housing Allocation Plan, a reduction in Park and CFF Impact fees for non-exempt units to \$2 per square foot for the Park Impact Fee and \$2 per square foot for the CFF fee.

For purposes of the Incentive Program, floors are considered residential if at least 25% of gross floor area is dedicated to habitable space.

The City engaged the services of a real estate consultant, Keyser Marston Associates, Inc. (KMA), to provide an independent assessment of the need for the Incentive Program (see Attachment B). The KMA analysis illustrates the unique challenges that high-density projects in the downtown area currently face and affirms the need for incentives to enable projects to move forward in the near term.

BACKGROUND

In 2016, the City embarked on a major effort to address the current housing crisis. The Housing Action Plan, which was prepared by the City in October 2016, identifies several objectives including construction of 5,000 housing units in the current Housing Element Cycle (through 2023). The sudden loss of more than 3,000 homes in the Tubbs Fire dramatically exacerbated these housing needs.

The Downtown Station Area Specific Plan projected that 3,409 residential units would be constructed in the Plan area by 2027. Halfway through the planning period, only 100 residential units have been constructed, with an additional 275 units approved (not yet constructed).

While a lack of vitality in the downtown can in part be attributed to market forces, feedback has indicated that the Specific Plan is too restrictive, in terms of development standards such as density and height, to finance and fully realize the City's need for high density downtown housing and job centers within walking distance to the Downtown Sonoma Marin Area Rail Transit (SMART) Station and Transit Mall. Although the City is embarking on an update to the Specific Plan to address the density and height restrictions, the City is also looking at other factors, such as cost to construct and fee incentives, as a means to realize the vision of downtown residential development.

Downtown is vital to the City's housing strategy due to the area's capacity to accommodate density and to provide a diversity of housing options near transit. Aiming to address regional housing needs and intensify the vibrant and thriving economic center that is the downtown, the City Council identified the creation of Downtown Housing as a Tier 1 priority for 2018/2019, directing staff and resources to support policies and incentives to bring higher density and transit-oriented housing to the downtown area, including the reduction and deferral of development impact fees.

A development and tax revenue analysis presented to the City Council in early 2016 by Urban 3, a planning and economics firm, provided the economic data supporting a higher density development approach in the downtown. The study found that high-density development generates significantly greater tax revenue per acre than suburban development, while also supporting the more efficient use of existing infrastructure investments.

PRIOR CITY COUNCIL REVIEW

Not applicable.

ANALYSIS

1. Purpose of Incentive Program

The purpose of the High-Density Residential Incentive Program is to encourage housing development of all affordability levels and increased densities in transit-rich downtown Santa Rosa through the reduction/deferral of development impact fees.

2. Status of Current Development Impact Fees

High-density residential projects are currently subject to development impact fees of approximately \$29,000 per unit, as detailed in Table 1. The proposed Incentive Program includes reductions to the Park Impact Fee and the Capital Facilities Fee, as well as the deferral of water and wastewater demand fees. In addition to these fees, high-density residential projects are subject to the Housing Allocation Fee, other miscellaneous City fees, and School District fees (none of which is included in the Incentive Program).

Table 1. Current Estimated Governmental Fees Per Unit
 Downtown High-Density Residential Projects

	Fee/Unit	%Total
Impact - Capital Facilities	\$5,433	19%
Impact - Park	\$7,734	27%
Water & Wastewater Demand	\$9,490	33%
Housing Allocation Fee (estimated) ¹	\$1,800	6%
School District	\$3,500	12%
All Other ²	\$1,100	4%
Total	\$29,057	100%

¹ Fee varies by unit mix. Above estimate assumes average unit size of 800 sq. ft. and average fee per unit of \$1.50 per sq. ft.

² Building inspection, plan review, fire permit, technology, advanced planning, micrographics, and state-mandated fees.

a. Capital Facilities Fee

The Capital Facilities Fee (CFF) was established to pay for certain public infrastructure facilities required to serve new development within the City. Infrastructure funded by the CFF includes street widening, traffic signals, freeway interchanges, bike paths, and storm drains. The current fee for “medium-high density” residential (18 or more dwelling units per acre) is \$5,433 per unit.

b. Park Impact Fee

All new residential developments in the City pay the Park Impact Fee on a per unit basis. These fees are used to help fund the costs of acquiring and constructing neighborhood and community parks. The current fee for multifamily dwellings is \$7,734 per unit. A developer dedicating parkland under the City’s Quimby Act requirements receives a credit against the Park Impact Fee.

c. Water and Wastewater Demand Fees

Demand fees, also known as connection fees, are one-time fees charged to new users (or existing users increasing capacity) connecting to Santa Rosa’s water and wastewater systems. Demand fees recover the costs associated with providing water and wastewater facility capacity to new users and existing users requiring additional capacity. The current fee for multifamily dwellings is \$2,469 per unit for water and \$7,021 per unit for wastewater.

3. Incentive Program Recommendations

a. Eligibility Requirements and Criteria

Staff recommends that residential projects meeting the following criteria be eligible for the Incentive Program:

- Located in the Downtown, conforming with the boundaries of the Downtown Station Area Specific Plan and the General Plan Downtown Core Boundary (see Attachment A).
- In the Downtown, with CD-7 or CD-10 Zoning: Four or more stories in height, with at least three floors dedicated to residential use.
- In the Downtown with CD-5, TV-M, TV-R, R-3-18, or R-3-30 Zoning: Three or more stories in height, with at least two floors dedicated to residential use.
- In the Downtown, affordable/inclusionary housing projects with on-site construction of affordable units.
- Not seeking overlapping fee reductions, such as the Park Impact Fee credit for the provision of private open space as defined in Ordinance number 3216.

- Breaking ground before August 31 2023. “Breaking ground” is defined as securing a foundation permit.

For purposes of the Incentive Program, floors are considered residential if at least 25% of gross floor area is dedicated to habitable space.

b. Downtown with CD-7 or CD-10 Zoning - Fee Reduction Incentives

For projects in the Downtown with CD-7 or CD-10 zoning, staff recommends introducing a partial reduction in Park Impact and Capital Facilities fees through a cap on the number of residential floors subject to these fees. Projects would be required to pay Park Impact and Capital Facilities fees on the first three floors of residential units. Fees for additional floors of residential dwelling units would be waived. For purposes of the Incentive Program, floors are considered residential if at least 25% of gross floor area is dedicated to habitable space.

For example, a six-story, 100-unit market rate residential building containing five residential floors (with the ground floor dedicated to parking, commercial, and amenities) located in CD-7 zoning would be subject to Park Impact and Capital Facilities fees for units located on floors 2 through 4, while fees would be waived for units on floors 5 and 6. Net of incentives, Capital Facilities and Park Impact fees would total approximately \$790,000, or \$7,900 per unit, representing a 40% reduction from the existing fee structure.

Table 2: Example Park Impact Fee and Capital Facilities Fee (CFF) Incentives
 6-Story, 100-Unit Market Rate Apartment Project in Downtown with CD-7 Zoning

	Units	Park / Unit	CFF / Unit	Total / Unit	Total Fees
Floor 1	0	n/a	n/a	n/a	n/a
Floors 2-4	60	\$5,433	\$7,734	\$13,167	\$790,020
Floors 5-6	<u>40</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total, with Incentives (a)	100	\$3,260	\$3,640	\$7,900	\$790,020
Total, without Incentives (b)	100	\$5,433	\$7,734	\$13,167	\$1,316,700
Fee Incentive (a-b)	100	(\$2,173)	(\$4,094)	(\$5,267)	(\$526,680)
Incentive %					40%

Illustrative estimate. Fees will vary based on distribution of units by floor.

c. Downtown with CD-5, TV-M, TV-R, R-3-18, and R-3-30 Zoning - Fee Reduction Incentives

The intent of the Incentive Program is to encourage greater density throughout the Downtown. With this in mind, staff recommends tailoring incentives to the development standards set by zoning districts within the Downtown Station Area Plan and General Plan

Downtown Core Boundary. While the most significant incentives would be available to projects in the Downtown zoned for seven to ten stories (CD-7 and CD10 zoning), different incentive parameters are recommended for projects located elsewhere within the Downtown, including Railroad Square, where heights are limited per CD-5, TV-M, TV-R, R-3-18, and R-3-30 zoning.

The proposed Incentive Program for high-density residential projects in these areas is designed to assure that developers are adequately incentivized to maximize the density as envisioned in the Downtown. For example, in Railroad Square, the number of residential floors subject to Park Impact and Capital Facilities fees is recommended to be set at two floors instead of three, thus enhancing the incentive to build the maximum of five stories. Under this Incentive Program, a five-story project in Railroad Square would receive a 50% reduction in Park Impact and Capital Facilities fees versus the 25% fee waiver for a similarly sized project in the Downtown CD-7 and CD-10 zoning.

Table 5: Park Impact Fee and Capital Facilities Fee (CFF) After Incentives in Railroad Square

	<u>Downtown CD-7 and CD-10 Incentive</u>		<u>Railroad Square Example</u>	
	<u>4 Stories</u>	<u>5 Stories</u>	<u>4 Stories</u>	<u>5 Stories</u>
Residential Floors	3	4	3	4
Base Fee Per Unit	\$13,167	\$13,167	\$13,167	\$13,167
Floors Subject to Fee	3	3	2	2
% of units (approximate)	100%	75%	67%	50%
Net Fees/ Unit	\$13,167	\$9,875	\$8,778	\$6,584
Fee Incentive / Unit	\$0	(\$3,292)	(\$4,389)	(\$6,584)
Incentive %	0%	25%	33%	50%

Illustrative estimate. Fees will vary based on distribution of units by floor.

d. Affordable and Inclusionary Fee Incentive

Staff recommends providing additional fee incentives specifically for affordable housing projects and inclusionary housing projects that designate a certain percentage of units as affordable, and construct the affordable units on-site pursuant to the City’s Housing Allocation Plan. The additional incentives would consist of a temporary reduction in Park Impact and Capital Facilities fees for affordable units to \$2 per square foot for Park Impact Fees, and \$2 per square foot for Capital Facilities. Assuming an average unit size of 800 square feet, affordable and inclusionary projects would owe \$3,260 per unit under the Incentive Program versus \$13,167 per unit under the existing fee schedule. The reduced fee would apply to market rate and inclusionary units not otherwise exempt under the fee waiver for upper floors. Table 3 illustrates fees owed for a six-story, 100-unit affordable/inclusionary apartment project in the Downtown with CD-7 zoning with an average unit size of 800 square feet. Under the Incentive Program, Capital Facilities and

Park Impact fees would total approximately \$192,000, or \$1,920 per unit, representing an 85% reduction from the existing fee structure.

Table 3: Example Park Impact Fee and Capital Facilities Fee (CFF) Incentives
6-Story, 100-Unit Affordable Apartment Project (with affordable units constructed on-site) in
Downtown with CD-7 Zoning

	Units	Park / Unit	CFF / Unit	Total / Unit	Total Fees
Floor 1	0	n/a	n/a	n/a	n/a
Floors 2-4	60	\$1,600	\$1,600	\$3,200	\$192,000
Floors 5-6	<u>40</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Total, with Incentives (a)	100	\$960	\$960	\$1,920	\$192,000
Total, before Incentives (b)	100	\$5,433	\$7,734	\$13,167	\$1,316,700
Fee Incentive (a-b)	100	(\$4,473)	(\$6,774)	(\$11,247)	(\$1,124,700)
Incentive %					85%

Illustrative estimate. Fees will vary based on distribution of units by floor and average unit size (800 SF per unit assumed here).

Table 4 illustrates the fee incentive per unit for market rate and affordable/ inclusionary projects with heights from four to 10 stories in the Downtown with CD-7 and CD-10 zoning. For market-rate projects, the incentive ranges from \$0 (for a 4-story building) to nearly \$9,000 per unit (for a 10-story building) in the Downtown. For affordable/ inclusionary projects, the incentive ranges from nearly \$10,000 per unit (for a 4-story building) to approximately \$12,100 per unit (for a 10-story building).

Table 4: Park Impact Fee and Capital Facilities Fee (CFF) Before and After Incentives Downtown High-Density Residential Projects (in the Downtown with CD-7 and CD-10 zoning)

	4 Stories	5 Stories	6 Stories	7 Stories	10 Stories
Residential Floors	3	4	5	6	9
<u>BEFORE INCENTIVES</u>					
Fee Per Unit (All Floors)	\$13,167	\$13,167	\$13,167	\$13,167	\$13,167
<u>AFTER INCENTIVES</u>					
<u>Market Rate</u>					
Fee Per Unit	\$13,167	\$13,167	\$13,167	\$13,167	\$13,167
% Units Subject to Fee	100%	75%	60%	50%	33%
Net Fees/ Unit	<u>\$13,167</u>	<u>\$9,875</u>	<u>\$7,900</u>	<u>\$6,584</u>	<u>\$4,389</u>
Fee Incentive/ Unit	\$0	(\$3,292)	(\$5,267)	(\$6,584)	(\$8,778)
<u>Affordable/ Inclusionary</u>					
Base Fee /SF	\$4.00	\$4.00	\$4.00	\$4.00	\$4.00
Base Fee/ Unit (800 SF/ Unit)	\$3,200	\$3,200	\$3,200	\$3,200	\$3,200
% Units Subject to Fee	100%	75%	60%	50%	33%
Net Fees/ Unit	<u>\$3,200</u>	<u>\$2,400</u>	<u>\$1,920</u>	<u>\$1,600</u>	<u>\$1,067</u>
Fee Incentive/ Unit	(\$9,967)	(\$10,767)	(\$11,247)	(\$11,567)	(\$12,100)

Illustrative estimate. Fees will vary based on distribution of units by floor and average unit size.

e. Water and Wastewater Fee Deferral Incentives

As part of the Incentive Program, staff recommends the deferral of water and wastewater demand fees for eligible projects (Downtown residential projects proposing three or more stories with at least two floors dedicated for residential) until the earlier to occur of (1) 75% of the residential units are occupied or (2) 6-months after final inspection. A deed of trust would be recorded against the property to secure the fee amount.

Deferring payment of fees to allow for occupancy is a valuable incentive that offers significant savings, as developers would otherwise have to finance this expense, generally from equity, which requires a return once it is funded. In the attached memorandum, Keyser Marston Associates (KMA) estimates the cost savings to the developer by deferring fee payments to be approximately 18% of current fees, or about \$1,700 per unit based on current water and wastewater fees. Alternatively, developers could choose to finance the water and wastewater fees for 5-years with interest with equal annual payments subject to accrual of interest at the Prime lending rate. A deed of trust would be recorded against the property to secure the fee amount.

4. Recommended Restrictions on Use of Park Impact Fee Revenue

The City Code was recently amended allowing for one-half of Park Impact Fee revenue to be expended outside the zone in which the fee revenue is collected. However, given the proposed temporary reduction in the Park Impact Fee, it is important to ensure that adequate resources are available to meet the park and recreation needs of new downtown residents. For this reason, Staff recommends requiring that 100% of Park Impact Fee revenue collected under the Incentive Program be spent in the Downtown area for the creation, expansion, and/or enhancement of parks and recreation facilities.

5. Impact of Incentives on Development Economics

KMA's conceptual analysis uses prototypes developed with City staff to illustrate "typical" high-density multi-family residential projects in Downtown based on current market conditions. KMA concludes that high-density multi-family residential projects currently face challenges owing to rising development costs and the inability to project future apartment rent growth to fully offset rising costs. According to KMA, if the proposed Incentive Program is approved, it would create a positive impact and create a higher probability that high-density residential projects will move forward. While other variables in addition to fee incentives must be addressed, the Incentive Program is one piece of the puzzle that developers could use as they seek to fund projects in the near term.

KMA also affirmed that additional incentives are merited for affordable/ inclusionary projects. The estimated gap between the value of an affordable unit, as supported by rents at 60% of Area Median Income (AMI), versus the cost to build that affordable unit, is approximately \$266,000 per unit. While a portion of the gap can be offset by Low Income Housing Tax Credits, it is common for affordable projects to require additional local subsidies on the order of \$100,000 to \$200,000 per unit. Reducing fees for affordable units offsets the subsidy that would be required from other local sources, such as the City of Santa Rosa Housing Authority. The fee reduction applies only to projects that construct affordable units on-site pursuant to the City's Housing Allocation Plan.

FISCAL IMPACT

A 2015 study by Urban 3 commissioned by the City highlights the fiscal benefits of encouraging higher density development in the downtown. The study showed that focusing development where adequate infrastructure already exists is more efficient and gains higher revenue per acre versus suburban development.

If the Incentive Program succeeds in spurring high-density residential development, it will bring new residents, transit-oriented housing options, reduced VMT, increased consumer spending, business activity, and tax revenues to the downtown area and will foster the overall economic development of the community.

Under the Incentive Program, developers will continue to pay a portion of Park Impact and Capital Facilities fees. For every 100 residential units built under the program, developers will contribute approximately \$790,000 in Park Impact and Capital Facilities fees and receive approximately \$520,000 in fee waivers/ incentives (based on a six-story, market rate building in the Downtown). Fee incentives are anticipated to be higher for affordable projects but will serve to reduce the gap financing that the City often provides to affordable developments through other local sources and will incentivize developers to construct affordable units on-site rather than paying a fee.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guidelines section 15378. Pursuant to CEQA, the creation of government funding mechanisms or other government fiscal activities is not a “project” subject to environmental review. (CEQA Guidelines section 15378, subd. (b)(4).) The action is also exempt from CEQA pursuant to Public Resources Code section 21080(b)(8) and CEQA Guidelines section 15273(a)(4) in that the fee modification is for the purpose of obtaining funds for capital projects necessary to maintain service within existing service areas, and is further exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3) in that the activity in question will not have a significant effect on the environment.

ATTACHMENTS

- Attachment 1 – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary (the “Downtown”)
- Attachment 2 – Keyser Marston Associates, Inc. memorandum
- Resolution 1 – Capital Facilities Fees
- Exhibit A – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary
- Resolution 2 – Park Impact Fees
- Exhibit A – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary
- Resolution 3 – Water and Wastewater Fees
- Exhibit A – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary

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