

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: ANDY GUSTAVSON, SENIOR PLANNER  
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT

SUBJECT: REPORT REGARDING HOUSING ALLOCATION PLAN UPDATE  
AND CONSIDERATION OF A COMMERCIAL LINKAGE FEE

AGENDA ACTION: RECEIVE REPORT

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RECOMMENDATION

It is recommended by the Planning and Economic Development (PED) that the Council hold a Study Session to receive reports regarding updating the Housing Allocation Plan (“HAP”) and the consideration of a new Commercial Linkage Fee to increase affordable housing production.

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EXECUTIVE SUMMARY

This staff report presents three reports that evaluate the feasibility of increasing affordable housing production through an update of the Housing Allocation Plan (HAP; aka “Inclusionary Housing Ordinance”) and the introduction of a Commercial Linkage Fee. The Housing Allocation Plan Ordinance Update White Paper evaluates policy options of changing the percentage of on-site inclusionary housing and adjusting the affordable housing impact (“in-lieu”) fees associated with residential development projects. It considers the Council’s goal to amend the current ordinance to require for-sale residential projects to build at least 15 percent of the total units as affordable units for low and moderate income households. It also evaluates additional financial incentives and alternative compliance measures, and looks at other ways to encourage innovation in achieving increased inclusionary housing. The Residential Impact Fee Nexus and Feasibility Study quantifies the connection between the development of market rate housing and the demand for affordable housing units and outlines options to adjust the City’s existing housing impact in-lieu fee.

The Commercial Linkage Fee Nexus and Feasibility Study quantifies the connection between new development of market-rate commercial space and its impact on the demand for affordable housing units, which is necessary to establish a commercial linkage fee. It also considers the feasibility and other policy implications of this potential

new impact fee, which the City would use to fund housing development to offset increased affordable housing demand created by new commercial development.

The Authority's comments as well as comments collected at planned study sessions/workshops with the Planning Commission, market-rate and affordable housing developers, and the public will shape the recommended action on the HAP ordinance update and commercial linkage fee that will be presented for consideration by the Council.

## BACKGROUND

The Housing Allocation Plan was enacted in 1992 and updated in 2012 and 2014. It is the purpose of the HAP to meet the Santa Rosa General Plan goals to expand the supply of housing available to lower income households.

In 2016, the Council adopted the Housing Action Plan. Increase Inclusionary Housing is identified as Program 1 priority of the plan. The Council's goal is to increase the production of affordable housing as part of market-rate housing projects. The Council directed staff to review and update the HAP to achieve the following outcomes:

- Seek Inclusionary Units in For-Sale Housing Projects. Include a requirement that for-sale housing projects include on-site affordable units, which would be for sale to moderate and low income households.
- As part of the amendment, require a minimum of 15 percent of the for-sale project's total units be affordable to a mix of low (up to 80 percent of AMI) and moderate income households (up to 120 percent of AMI).
- Specify additional regulatory and financial incentives and alternative compliance measures as may be needed to maximize production of affordable housing units.
- Encourage innovation in achieving increased inclusionary housing.

During the discussion to increase inclusionary housing requirements Council raised the question of developing a commercial linkage fee. This, too, was included in the Housing Action Plan under Program 1, with Council directing staff to conduct a commercial linkage fee nexus study and to consider imposing a fee at a level deemed not to inhibit development. It was stated that any commercial linkage fee should be tied to regulatory and other incentives directed to desired commercial development as a part of broader economic development efforts.

A white paper and two reports were prepared to establish the impact market-rate housing and commercial development has on affordable housing demand and to evaluate measures, including inclusionary housing, in-lieu fee, and other policy changes the City should consider to increase affordable housing production and thus reduce the impact of this demand. These reports are attached to this staff report.

These reports, attached, were presented at a developer roundtable and a community workshop on August 7<sup>th</sup>. The Planning Commission and Housing Authority received this report at study sessions held on August 8<sup>th</sup> and August 26<sup>th</sup>. The comments received

on August 7<sup>th</sup> and 8<sup>th</sup> are presented in the Analysis section of this report. Staff will report the Housing Authority's August 26<sup>th</sup> comments in its presentation to the Council.

## PRIOR HOUSING AUTHORITY REVIEW

None.

## ANALYSIS

### Housing Allocation Plan Update

The HAP Ordinance is contained in Chapter 21-02 of the Municipal Code. The Ordinance was last revised in 2012 when payment of a housing impact fee (a fee in lieu of providing on-site affordable units) was established as the basic requirement for all residential projects. Applicants have the option to provide on-site affordable units instead of the fee or to comply using alternative measures outlined in §21-01.070. Currently the Ordinance does not require on-site construction under any circumstances. Larger residential projects (those containing more than 70 units) are required to "consult" with the Director of Planning and Economic Development about providing on-site units

Due to persistent low production of housing in the City, the Council directed PED to update the HAP Ordinance to increase housing production, as noted above. The key policy issues and questions raised by the attached white paper that evaluated this matter are listed below.

Issues for discussion:

1. On-Site Requirement.
  - a. Should this requirement be the default for all residential projects? What are the pros or cons of this as a default?
  - b. What is the appropriate project size threshold to require on-site units vs allow in-lieu fee payment?
2. Percent Required.
  - a. What affordable unit ratio is supportable in ownership and rental developments?
  - b. What are the challenges with providing and integrating mixed income housing?
3. Incentives and Flexibility.
  - a. What incentives that would better support on-site affordable housing construction?

- b. Are there policy options in the White Paper that may make housing production more difficult to realize?
- c. What are the barriers that developers are experiencing that the proposed policy options don't address?
- d. Are there other things that should be considered for potential alternative compliance?

#### 4. In-Lieu Fees.

- a. Should this requirement be the default for all residential projects? What are the pros or cons of this as a default?
- b. How might the proposed in-lieu fees create challenges for housing production?
- c. How might the collection of in-lieu fees support affordable housing developers in creating affordable housing in Santa Rosa?

#### 5. Innovation

- a. Are there other aspects of a successful inclusionary housing ordinance that should be considered?
- b. Are there innovative approaches to affordable housing development that should be considered as part of this effort?

### Commercial Linkage Fee

Santa Rosa does not currently have a commercial linkage fee in place. The 2017 Housing Action Plan called for the preparation of the Commercial Linkage Fee Study to evaluate if such a fee may provide the City with another affordable housing funding source to help increase inclusionary housing. The revenues collected from this type of fee may provide an important source of local funding and augment existing affordable housing funds. It should be noted that revenues from a commercial linkage fee need to be spent on housing that benefits the workforce since the funds stem from affordable housing impacts related to new employment.

In general, if enacted the fee would be applied in the same way as existing City impact fees. Specifically, the fee would be geared toward new development and would not apply to tenant improvements on existing building square footage however would apply to increased square footage. As the fees outlined in the study are recommended to apply to hotel, retail, and business park/light industrial land uses only, City/civic projects would not be included.

Issues for discussion:

1. Should the City impose a new commercial linkage fee?

Does the nexus fee establish the relationship between commercial development and the demand for affordable housing within the city? Will it

2. Flexibility in the event of a recession:

This is a common question for impact fee programs. As there is not a commonly used or identified economic or real estate metric to use as trigger for a fee reduction that adequately captures market feasibility, this approach is not generally pursued. In other communities, reductions in fees during recessions have not shown to have had a measurable impact on development because other market factors have a far more significant effect on development feasibility.

3. Rates for development type:

The study outlines fees for hotel, retail, and business park/light industrial land uses. Fees may be set based on development feasibility of each development type and/or based on what the City would like to incentivize. For example, hotel and certain types of retail development in this current market are generally feasible whereas new development of business park/light industrial are viewed as more difficult to pencil out in Santa Rosa.

4. Fee deferral by covenant:

Fee deferral until occupancy could be approached in the same manner as the City's other impact fees.

### FISCAL IMPACT

There are no direct fiscal impacts associated with the HAP Ordinance update nor with the adoption of a Commercial Linkage 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 Guideline section 15378.

### BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The Planning Commission and Housing Authority received this report on August 8<sup>th</sup> and 26<sup>th</sup>. Their feedback is summarized in the background section.

### NOTIFICATION

A public information notice was posted on the PED [Inclusionary Housing Policy](#) website and distributed to interested parties by email.

## ATTACHMENTS

Attachment 1 – Housing Allocation Plan Ordinance Update White Paper

Attachment 2 – Residential Impact Fee Nexus and Feasibility Study

Attachment 3 – Commercial Linkage Fee Nexus and Feasibility Study

## CONTACT

Andy Gustavson, Senior Planner

[Agustavson@srcity.org](mailto:Agustavson@srcity.org)

707-543-3236