Agenda Item #15.2
For City Council Meeting of: October 1, 2019

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR SCHWEDHELM AND MEMBERS OF THE COUNCIL
FROM: ANDY GUSTAVSON, SENIOR PLANNER
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
SUBJECT: HOUSING ALLOCATION PLAN UPDATE AND COMMERCIAL LINKAGE FEE

AGENDA ACTION: ORDINANCE AND RESOLUTIONS

RECOMMENDATION:

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 amend the Housing Impact Fee structure, and (3) by resolution establish a Commercial Linkage Fee.

EXECUTIVE SUMMARY

Staff recommends the Council (1) amend the Housing Allocation Plan (City Code Chapter 21-02), (2) amend the Housing Impact Fee structure, and (3) establish a new Commercial Linkage Fee to increase affordable housing development within the City. These recommendations reflect policy options explored by the Council at its August 27, 2019 study session after considering comments expressed by market-rate and affordable housing developers and community members, and the findings presented in the Housing Allocation Plan Update White Paper and the Housing Impact Fee and Commercial Linkage Fee nexus studies.

The recommended amendments to the Housing Allocation Plan ("HAP" or "inclusionary housing ordinance") would reduce the current inclusionary percentage and expand financial incentives and alternative compliance measures to encourage inclusionary (on-site) affordable housing development. The recommended increase of the Housing Impact Fee (also known as "In-lieu fee") would expand the Housing Authority's capacity to fund affordable housing projects. The key amendments include:

- The current 15% inclusionary requirement is reduced to 8% for Low income units or 5% for Very Low income units in for-rent residential projects and to 10% for moderate income units in for-sale residential projects. These inclusionary

requirements are reduced by about 50% in the Downtown to help encourage residential projects.

- New incentives are offered to encourage innovation, provide flexibility needed by low income tax credit financing, and offer credit for providing extra inclusionary units.

- The Housing Impact fee increase is staged over five years from $2 to $5 per square foot for smaller units (909 square feet or less) and from $5 to $10 per square foot for larger units (910 square feet or more). In the Downtown, a discounted fee would apply to multifamily projects (for-rent and for-sale units) that would be staged over three years and not exceed $3 per square foot.

A new Commercial Linkage Fee is proposed to increase Housing Authority revenue to fund affordable housing projects within the City. The Commercial Linkage Fee Nexus and Feasibility Study evaluated the affordable housing demand generated by the most active commercial sectors in the city including hotels, retail/restaurants/services, and business park/light industrial, quantifying the connection between a commercial development and its demand for affordable housing. The study then established the maximum justifiable fee that could be assessed to help offset the affordable housing demand created by new development within these commercial sectors prior to considering financial feasibility. As financial feasibility of a fee is required by law, the recommended $3 per square foot fee, which is substantially below the maximum justifiable fee for each sector, tested positively against prototype pro forma analyses, showing limited financial impact to the minimum feasibility threshold. Additionally, the recommended $3 per square foot fee for each sector is within the range of the commercial linkage fees assessed by nearby and comparative jurisdictions.

BACKGROUND

1. Project Description

The Council's 2016 Housing Action Plan called for the update of the Housing Allocation Plan (HAP) and the Housing Impact Fee, and for preparation of a new Commercial Linkage Fee. These priority initiatives are intended to increase the production of affordable housing within the City.

The inclusionary housing policy options associated with the HAP amendment and Housing Impact Fee update focused on policy options to implement the following directives from the Council and are fully analyzed by the attached Housing Allocation Plan Ordinance Update White Paper (White Paper) and Residential Impact Fee Nexus and Feasibility Study (Residential Nexus Study) commissioned by PED:

- On-Site Requirement – Require on-site construction of inclusionary units in for-sale housing projects, or approval of alternative compliance.

- Percent Required - Require a minimum of 15% of for-sale and for rent projects' total units to be affordable to a mix of low (80% AMI) and moderate (120% AMI) income households.

- Incentives and Flexibility - Specify additional regulatory and financial incentives and alternative compliance measures as may be needed to maximize production of affordable housing units.

- Innovation - Reflect emerging inclusionary housing policies and encourage innovation in achieving increased affordable housing.

- Housing Impact Fees - Update the fee schedule to reflect current data, and increase the fee charged on rental units (within the nexus based maximum) as part of the effort to encourage inclusionary units in market rate rental projects.

The 2016 Housing Action Plan also directed PED staff to bring forward a new Commercial Linkage Fee for consideration. The intent of this new fee is to establish a new revenue source the City could use to help increase affordable housing production to offset the affordable housing demand created by new commercial development within the City. The required nexus analysis to establish this fee is provided in the attached Commercial Linkage Fee Nexus and Feasibility Study (Commercial Linkage Study).

2. Project History

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

In October 2016, the City Council accepted the Housing Action Plan, which includes a variety of programs aimed at addressing the City's ongoing unmet housing needs. Program 1 of the Plan is to "increase inclusionary housing", which identified the following directives:

- 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.

- 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.

In May 2017, PED entered into a contract with Metropolitan Planning Group (M-Group) to assist with updating the City's Housing Allocation Plan Ordinance.

In December 2017, a series of stakeholder workshops were held with housing developers, affordable housing providers and the community to discuss possible updates to both the City's Housing Allocation Plan and Density Bonus Ordinances.

In May 2019 Strategic Economics, a separate consultant that was hired by the City to analyze the Housing Impact Fee and proposed Commercial Linkage Fee, prepared the Residential Impact Fee Nexus and Feasibility Study and Commercial Linkage Fee Nexus and Feasibility Study.

In July 2019, the Housing Allocation Plan Ordinance Update White Paper was released, which provides background information and policy considerations for an update to the Ordinance.

In August 2019 a series of community workshops and meetings were conducted to receive input from the community, residential developers and affordable housing providers regarding possible updates to the Housing Allocation Plan Ordinance, as well as the proposed changes to the Housing Impact Fee and the development of a new Commercial Linkage Fee.

On August 8, 26 and 27, 2019, study sessions were held with the Housing Authority, Planning Commission and Council, respectively, to receive feedback and direction on the proposed policy options for the Housing Allocation Plan Ordinance and associated impact fees.

ANALYSIS

1. General Plan

The proposed inclusionary housing ordinance update to Zoning Code Chapter 21-02 are consistent with the following General Plan goals and policies:

LUL-A	Foster a compact rather than a scattered development pattern in order to reduce travel, energy, land, and materials consumption while promoting greenhouse gas emission reductions citywide.
LUL-C	Maintain downtown as the major regional office, financial, civic and cultural center in the North Bay, and a vital mixed-use center.
LUL-C-1	Promote downtown as the center of the business, residential, social, and civic life of Santa Rosa by directing high intensity office uses, government, residential, and entertainment uses to locate downtown.

LUL-L-1	Establish land use designations and development standards which will result in a substantial number of new housing units within walking distance of the downtown SMART station site.
LUL-Z-1	Support future transit improvements and ridership, and provide a significant number of new residential units, through intensified land uses and increased residential densities.
LUL-Z-2	Support transit-oriented development in the project area by allowing adequate intensity of use and requiring pedestrian-oriented development (e.g., buildings along sidewalk, parking lots minimized).
UD-B-2	Encourage, promote, and assist in the development of housing units within downtown for a mix of income levels and housing types, including integrating housing into existing buildings as mixed use.
UD-B-4	Respect and relate the scale and character of development at the edges of downtown to the surrounding Preservation Districts.
UD-G-2	Locate higher density residential uses adjacent to transit facilities, shopping, and employment centers, and link these areas with bicycle and pedestrian paths.
H-A-2	Pursue the goal of meeting Santa Rosa's housing needs through increased densities, when compatible with existing neighborhoods. Development of existing and new higher-density sites must be designed in context with existing, surrounding neighborhoods. The number of affordable units permitted each year and the adequacy of higher-density sites shall be reported as part of the General Plan Annual Review report.
H-C-6	Facilitate higher-density and affordable housing development in Priority Development Areas (PDA), which include sites located near the rail transit corridor and on regional/arterial streets for convenient access to bus and rail transit. Implement existing PDA specific plans—the Downtown Station Area Specific Plan and the North Santa Rosa Station Area Specific Plan—and develop new plans, such as the Roseland Specific Plan, to encourage the development of homes that have access to services and amenities.
H-C-15	Encourage new affordable housing development to provide amenities for residents, such as on-site recreational facilities, children's programs (day care or after-school care), and community meeting spaces.
H-D-11	Encourage the development of affordable housing for the elderly, particularly for those in need of assisted and skilled nursing care. Continue

to provide funding and offer incentives such as density bonuses, reduced parking requirements, design flexibility, and deferred development fees.

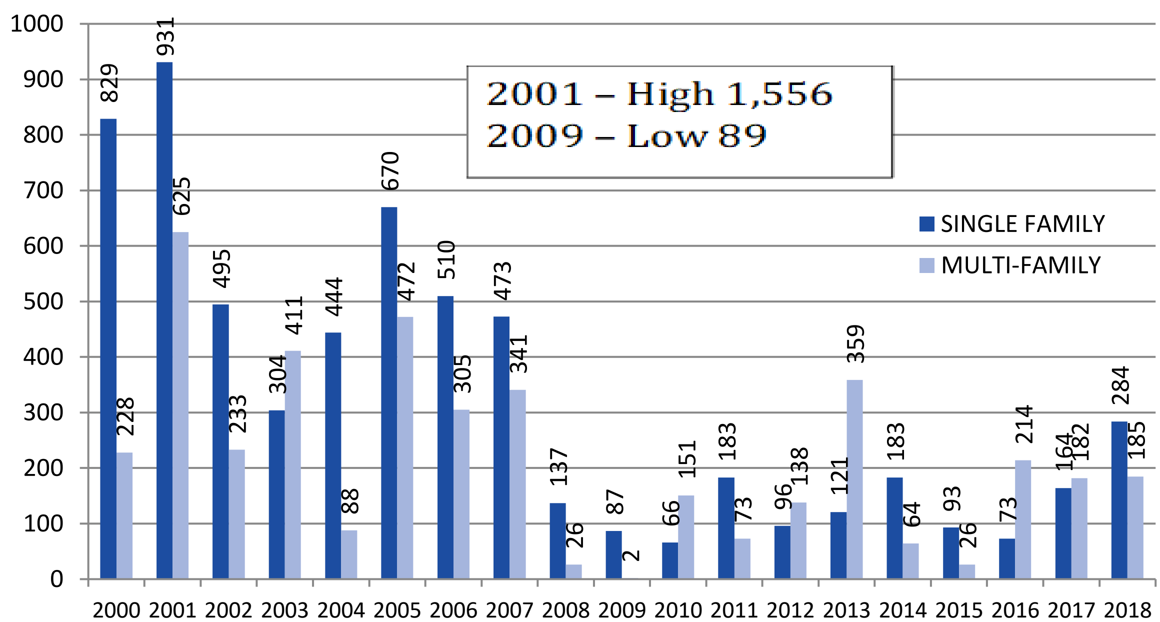
H-D-12 Encourage the provision of affordable housing for young adults, particularly former foster youth and young mothers, through planning consultations, streamlined permit processing, and funding assistance.

H-F-6 Ensure that regulations contained in the Santa Rosa Zoning Code provide development standards, parking requirements, and use allowances which facilitate the development of housing for all income groups.

2. Existing Housing Allocation Plan Ordinance

The Housing Allocation Plan is contained in Chapter 21-02 of the City Code. The HAP was revised in 2012 when payment of a housing impact fee (a fee paid 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 §21-02.070. Currently the HAP 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.

While there have been updates to the HAP in 2012, 2014 and 2016, the production of all single-family and multi-family residential housing in the City since the recession years of 2007 to 2009 has lagged well behind the numbers of all residential units



produced from the years 2000 to 2006, as illustrated by the chart. The peak of residential permits issued was a high of 1,556 units in 2001, with the low level of just 89 residential permits issued in 2009, in the depth of the national economic recession.

The production of market-rate and affordable housing since 1992, when the HAP inclusionary provision was first adopted, is shown in the table below.

Inclusionary Housing Projects 1992-2018

Units	Projects	Market-Rate Housing	Affordable Housing
Inclusionary (On-Site)	9 *	1,105	174 *
Housing Impact Fee	23	0	1,510
Total Units		1,105	1,684

* Another 7 Projects Entitled, But Not Built, Including 97 Low Income Affordable Housing Units and 12 Moderate Income Units.

Due to persistent low production of housing, especially on-site affordable units, the Council directed PED to update the HAP to increase housing production, as noted herein.

3. Housing Allocation Plan Policy Options

White Paper and Housing Nexus Study

The White Paper presents policy options for the HAP update based on an assessment of the City's inclusionary housing ordinance, review of other local ordinances, and the financial feasibility of residential development, as outlined by the Residential Nexus Study. It presents the following key inclusionary policy and housing impact fee options that allow residential projects to achieve financial feasibility:

- On-Site Requirement – Require inclusionary (on-site) units when residential developments construct five or more units. The developer can pay the Housing Impact fee on smaller projects or for fractional units.

- Percent Required –

  - For-Rent residential development: Reduction of the 15% low income inclusionary requirement to 8% for Low income units and 5% for Very Low income units.

  - For-Sale residential development: Reduction of the 15% low income inclusionary requirement to 10% for Moderate income units.

- Incentives and Flexibility – In addition to current alternatives, subject to Director approval, allow for conversion of market rate units to affordable, and preservation of at-risk affordable housing. Also, allow waiver of dispersion requirement unless clustering is required by tax credits or other financing sources; allow smaller inclusionary units but the same bedroom mix as market rate units; and grant pre-approved density bonus incentives.

- Innovation – Allow transfer of greater number of inclusionary units as “inclusionary credits” to a future project; allow reduced and deferred development fees.

- Housing Impact Fees – Increase current Housing Impact fees over five years to minimum threshold for feasibility, based on current residential development market conditions, as follows:

    - Single-family detached - $13/sf
    - Single-family attached - $10/sf
    - Apartments - $10/sf

Stakeholder and Community Feedback

Prior to the drafting the recommended updates to the HAP and Housing Impact fee, In August 2019, staff and consultants conducted a series of public workshops and study sessions with the Housing Authority, Planning Commission and Council to gather input, comments and feedback. See “Board/Commission/Committee Review and Recommendation” section of this report. The information gathered was integral and formed the basis for the crafting of the amended ordinance changes presented in this staff report. While there were many comments provided at the sessions, key comments and feedback for each section of the current HAP ordinance are presented below. The redlined text, in strike-out and underline format, and a draft clean version of the Housing Allocation Plan ordinance amendment to Chapter 21-02 of the City Code are attached.

Housing Allocation Plan Update Recommendation

The substantive recommended amendments to the Inclusionary Housing Ordinance are summarized by section as follows:

- Ordinance Name Change (Title of Ordinance)

  The Ordinance name is changed from “Housing Allocation Plan” to “Inclusionary Housing” to provide a clear reference to the purpose of the Ordinance, which is to focus on the provision of affordable housing for low and moderate-income households. The recommended name change also eliminates potentially confusing references to the Housing Action Plan which has the same acronym as Housing Allocation Plan.

- Income Levels (Section 21-02.010 Determinations and Section 21-02.020 Purpose)

The Ordinance will add moderate-income housing as an eligible inclusionary unit type.

- Definitions (21-02.030)

  The updated Inclusionary Ordinance clarifies and adds new definitions for:

  - Allocated Unit clarified by adding “for sale” and “moderate-income” to the definition.
  - Added Development Standard definition to specify height limits, setbacks, floor area ration, on-site open space, parking, etc.
  - Clarifying Downtown to mean the Downtown Station Area Specific Plan and the area included in the downtown core.
  - New Commercial use definition to establish and apply the new Commercial Linkage Fee.
  - State Income levels added to define very-low income, low-income and moderate-income households.
  - Lower income household and moderate-income household clarified consistent with State definitions.
  - Clarify the meaning of residential development to be consistent with State Law.
  - Updated the Review Authority definition to refer to the Planning and Economic Development Director and Housing and Community Services Director

- Applicability (21-02.040)

  The ordinance applies to all residential developments, including residential units of mixed-use projects and to commercial development with respect to the Commercial Linkage Fee requirement.

- Inclusionary Requirements (21-02.050)

  All sub-sections are amended and/or replaced, including:

  - Added provision to require residential or mixed-use projects of seven, or more, rental units to provide at least 8% of new units as affordable to low-income, or at least 5% units affordable to very low-income

    - Added provision to require residential or mixed-use projects for seven units, or more, for-sale units to provide at least 10% of new units as affordable to moderate-income.
    - Downtown, these inclusionary percentages are reduced by 50% to help incentivize development of for-rent and for-sale units.
    - Allocated units will be subject to affordability restrictions for at least 55 years, a change from 30 years.
    - Fractional units of less than 0.5 pay a fractional impact fee, while 0.5 and above rounded to the next larger integer.
    - Replacement of affordable units when existing affordable units eliminated in a project.

- Relationship to Density Bonus Provisions (21-02.060)
    - The term “development” is replaced with “applicant” to clarify responsibility.
    - Deletes “rental” and adds “or moderate” for consistency with Chapter.
    - Clarifies that density bonus units are “not” included in the total project unit count which is in turn used to calculate the number of “required” allocated units.

- Flexible Off-Site Unit Requirements (21-02.070 Alternative Compliance)
    - Retain existing provisions to allow off-site allocated units and add a new flexibility provision to allow allocated units in another Quadrant if the off-site location would better serve City objectives.
    - Applicant may offer land dedication suitable for affordable housing, on a site owned by applicant, or where an applicant has an irrevocable option to purchase the land.
    - Off-site land must be for low income – no change
    - Adhere to requirements for land offered to the City
    - New provision to allow Market-rate units to be converted to affordable
    - New provision to allow Applicant to offer to purchase low income units to preserve at-risk units

- New provision to allow Applicant to construct additional affordable units as credit to meet requirements

- Innovation encouraged – must meet objective of the amended inclusionary ordinance

- Exemptions expanded to include new Commercial Linkage Fee provision (21-02.080 Exemptions)

  - Existing inclusionary exemptions continue, as supported by workshop and study session comments, including Accessory Dwelling Unit, deed restricted affordable housing unit, homeless shelters, community care/health facilities, single resident occupancy units, and units constructed by an owner/builder, additions and replacement units.

  - A new subsection is added to list exemptions for the new commercial linkage fee including:

    1. Mixed-use projects consisting of two stories or more of residential over commercial space.
    2. Any commercial development project being constructed by or on behalf of a government or public institution such as a school, museum, homeless shelter or other such community use projects.
    3. Public and private childcare facilities.
    4. The construction of homeless shelters, community care/health care facilities, single room occupancy units and units which, under agreement with the City or a City agency, are only available for occupancy by lower or moderate income households at affordable rents or affordable sales prices for a period of not less than 55 years.
    5. Churches.
    6. Reconstruction of any building that was destroyed by fire, flood, earthquake or other act of nature, so long as the square footage does not exceed the square footage before the loss.
    7. Replacement for commercial use gross floor area previously on the site but demolished within one year prior to the filing of a complete application for the new construction.

- Establishment, Payment, and Use of the Housing Impact and Commercial Linkage Fee (21-02.090)

  - A statement is added to support the purpose of the housing impact fee and to establish an annual adjustment of the fee based on a consumer price index.

  - The affordability term for all affordable housing projects assisted with housing impact fees is increased from 30 to 55 years, consistent with the City's Density

Bonus Ordinance, state Density Bonus law, Low-Income Housing Tax Credit (LIHTC) financing, and other state and federal affordable housing funding sources.

- New subsection added to establish the new Commercial Linkage Fee. The revenues from this fund will be used by the City to fund affordable housing projects and thereby help off-set affordable housing demand generated by new commercial development.

- Inclusionary Unit Development Standards (21-02.100)

  - The distribution of allocated units throughout residential project continues to be primary goal.

  - The number of bedrooms in allocated units must be comparable with market rate units.

  - Interior finishes and size of allocated units may vary from market rate units, but the exterior finish and overall quality must be of good quality and consistent with market rate units.

  - Clarification added that Accessory Dwelling Units do not count towards inclusionary requirements

- Affordable Housing Incentives (21-02.110)

  This section continues to provide regulatory, procedural or financial incentives, including a density bonus or modified development standards in exchange for on-site inclusionary units. These incentives, which are requested by the applicant, are approved by the Director of Planning and Economic Development.

- Annual Review (21-02.140)

  The Department of Planning and Economic Development will track the effectiveness of the City's inclusionary housing ordinance and present an annual report to Council documenting inclusionary units (and Accessory Dwelling Units) entitled and constructed Citywide and in the downtown area.

4. <u>Housing Impact Fee Update</u>

The Housing Impact fee is established by the existing Housing Allocation Plan (City Code Section 21-02.090). It is paid to the City and used by the Housing Authority help fund affordable housing development within the City. This section further stipulates that fees generated by downtown residential development shall be used to help build affordable housing downtown whenever possible. It also provides that the fee for rental units shall be adjusted annually based on an accepted construction cost index.

The existing fee for for-sale attached and detached single family units is 2.5% of sales price. The assessed fee on new 2,000 square foot single family detached dwelling and a 1,600 square foot single family attached (townhouse) dwelling, based on average sales price, is $16,500 and $12,200, respectively. The fee for apartments varies based on size. A small unit (less than 910 square feet) is assessed $1 per square foot; for larger units (910 square feet and larger) the fee is starts at $1.42 and increases to $7.62 per square feet based on unit size. The Housing Impact fee was last updated in 2014.

The Residential Housing Impact Fee Nexus and Feasibility Study established fee options based on the financial feasibility threshold for new residential development. It analyzed the most likely type of residential development to occur within the city including a three-bedroom and two and a half bathrooms, 2,000 square foot detached single family dwelling, a three bedroom attached single family dwelling (or townhouse), and an apartment complex (25 units per acre) with a mix of one- and two-bedroom units and some three-bedroom units. It determined the minimum return on investment the developer must receive to consider a residential project to be financially feasible. This threshold is 15 to 18 percent return on cost for-sale attached and detached single family dwellings, and 6 to 7 percent return on yield for for-rent apartments. Based on these thresholds and the total cost of construction, the maximum financially feasible fee is $10-13 per square foot for single family detached and attached dwellings, and $5-10 per square foot for an apartment project. These fees equate to 3-5 percent of the total cost of construction for detached and attached single family dwellings, and 2-3 percent for apartment projects. The current fee, by comparison, equates to 3 percent of the cost to construct detached or attached single family units or 1 percent of apartment projects.

The Housing Impact Fee increase outlined in the recommended Inclusionary Housing Ordinance in the table below falls at the low end of the maximum financially feasible fee range. It would apply to for-sale and for-rent residential projects and would be phased over five years to not adversely impact pending or active residential development projects. The fee would be based on unit square footage, with a reduced fee rate for smaller units (less than 910 square feet). This provision would continue to encourage small unit development with a lower base fee. The citywide fee increase would occur in three steps over five years as listed in the table below. A discounted Housing Impact fee would apply to multifamily development downtown and is intended to encourage higher intensity residential development downtown. Single family residential development downtown would be subject to the regular citywide fee. Finally, the fee resolution would institute an annual fee increase starting in year six based on the Bureau of Labor Statistics San Francisco/Oakland/San Jose Consumer Price Index.

Dwelling Unit Size	**Citywide For-Rent & For-Sale All Dwelling Unit Types**			**Downtown For-Rent & For-Sale Multifamily Only**	
(Square Feet)	**Y 1-2**	**Y 3-5**	**Y 5+**	**Y 1-2**	**Y 3+**
0-909	$2/SF	$4/SF	$5/SF	$1/SF	$2/SF
910 +	$5/SF	$8/SF	$10/SF	$3/SF	$3/SF

The resulting fee would eventually equate to 3-5 percent of the total cost of construction for detached and attached single family dwellings, and 2-3 percent for apartment projects. The fee generated by a single family detached units will increase from $16,500 to $26,000, single family attached from $12,200 to $16,000, and apartment units from $2,327 to $4,539. This additional fee revenue would increase the City's capacity to fund affordable housing projects. Finally, as noted by the White Paper, the recommended fee would fall below the highest fees charged by local jurisdictions (Healdsburg, Petaluma, and Novato).

5. <u>Commercial Linkage Fee</u>

Santa Rosa does not currently have a commercial linkage fee in place. The 2016 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.

The recommended Inclusionary Housing Ordinance establishes the Commercial Linkage Fee in Section 21-02.090.B and would be applicable to all new and/or expanded nonresidential development projects, as well as changes in nonresidential use and/or interior remodels of existing nonresidential buildings that increase the number of employees. That said, the fee is geared toward new development and would not apply to tenant improvements on existing building square footage that does not substantially increase the number of employees.

While the fees outlined in the study are recommended to apply to all commercial, retail, and industrial development, certain exemptions to the fee are also recommended, including mixed-use projects consisting of two stories or more of residential over commercial space, any development by or on behalf of a government or public institution such as a school, museum, health care or community care facility, homeless shelter, public and private childcare facilities, and churches. Furthermore, it is recommended that a Commercial Linkage fee credit may be allowed should a developer provide affordable housing through some other means that is reviewed and approved by the director of Planning and Economic Develoment.

A list of projects for which this fee could have been applicable between 2016 to July 2019 was reviewed and found that of the approximately 260,000 square feet constructed in this time period, a total of $780,000.00 could have been collected. For the six months reviewed in 2019, 115,000 square feet of nonresidential space was constructed and would have net $345,000 to the Housing Trust.

COMMUNITY COMMENTS

For-profit housing developers, non-profit affordable housing organizations, and community comments are summarized below.

1. Housing Impact fees. Fee helps to fund lower income rental housing with tax credits and provide means to pay for fractional inclusionary unit.

2. Inclusionary units. Non-profit developers partner with for-profit developers to build inclusionary units in mixed income projects; Consider tiered inclusionary percentage based on affordability - 8% at Low income (80 AMI), 6% at Very Low income (60 AMI).

3. Land Dedication. The value or benefit of land dedication can be substantially below the cost of site development and construction.

4. Implementation. Review equity of waiving the dispersion requirement and consider waiver of dispersion within projects (buildings) when required by tax credit financing. Increase affordable contract term from 30 to 55 years.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Planning Commission

A summary of comments provided at the Planning Commission Workshop on August 8, 2019 include the following:

1. Pursue blended inclusionary on-site and in-lieu fee ordinance to promote:

   - Equitable Citywide Distribution
   - Neighborhood Integration
   - Mixed Income Projects
   - For Sale (Single Family) & Rental (Multi Family) projects

2. Adjust project size, inclusionary percentage, income mix, and in-lieu fee to support above goals

3. 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

4. Increase deed restriction to 55 years

5. Simplify and update In-lieu Fee

<u>Housing Authority</u>

The Housing Authority Board met on August 26, 2019. A brief summary of Board members' responses to eight questions posed by staff indicated preferences for policy considerations for updating the Inclusionary Housing Ordinance included the following:

1. Should Residential Projects be Required to Build Units On-Site or Pay the In-lieu Fee or Both?

   Preference for the Blended Option includes a combination of inclusionary on-site units and an in-lieu fee based on project size, percentage or affordability.

2. Should Project Size determine Inclusionary On-Site Unit Requirement?

   Preference for Allowing smaller projects under 7 units to pay an In-lieu Fee, require larger projects to build on-site with a sliding scale for project size.

3. What is the Appropriate On-Site Percentage Requirement?

   Support for 10% for-sale for moderate-income households and 8% for rental project for low-income.

4. What is the Appropriate In-lieu fee and should it vary to incentivize housing production?

   Preference for incentives especially for low income rentals, with a $3 per square foot fee.

5. Should inclusionary unit size and finish be the same as market rate units?

   Support for a set of base standards for interior finishes and flexibility for market-rate units but keep exterior improvements the same for market and affordable projects.

6. Should inclusionary on-site unit requirements allow flexibility?

Yes, continue existing policies for off-site, land dedication and innovative alternatives. Require units dispersed.

7. What is the appropriate in-lieu fee and should it vary to incentivize housing production?

   Yes, keep the in-lieu fee at a rate to not dissuade development proposals in the city and in keeping with financial feasibility factors.

8. Should certain residential types be exempt, and should the affordability term be extended?

   Yes, continue the existing policy for Accessory Dwelling Units, deed restricted projects, community care/health facilities, SRO units, owner-builder units, additions and replacement units. Extend affordable term from 30 years to 55 years.

<u>PRIOR CITY COUNCIL REVIEW</u>

The City Council on Aug 27, 2019 held a study session to consider potential provisions of the proposed Inclusionary Housing Ordinance. After a presentation by Planning staff regarding options for the Inclusionary Housing update, individual Councilmembers provided feedback to the following policy considerations. While there was not a Council vote on each topic, there was general agreement to the responses provided by Councilmembers to the eight questions posed by staff, as follows:

1. Should Residential Projects be Required to Build Units On-Site or Pay the In-lieu Fee or Both?

   Preference for the Blended Option – Require a combination of inclusionary on-site units and an in-lieu fee based on project size, percentage or affordability.

2. Should Project Size determine Inclusionary On-Site Unit Requirement?

   - Allow Small Projects to Pay In-lieu fee, Require Large Projects Build On-Site Units.
   - Sliding scale project size based on inclusionary percentage or affordability.

3. What is the Appropriate On-Site Percentage Requirement?

   - 10% of For-sale units affordable to moderate-income households
   - 8% of Rental units for low income households
   - At least 5% of total units affordable for very low-income households.

4. What is the Appropriate In-lieu fee and should it vary to incentivize housing production?

   - For-sale housing impact fee of $10 -$13 per square foot by unit size
   - For-rent housing impact fee of $10 per square foot
   - Downtown – mixed-use housing projects – apply a 50% fee reduction and possibly consider a fee waiver or reduction.

5. Should inclusionary unit size and finish be the same as market-rate units?

   Allow flexibility for inclusionary unit sizes; utilize a base standard for interior finishes and standard exterior design and landscaping for all units.

6. Should inclusionary on-site unit requirements allow flexibility?

   Yes, the general consensus was for allowing flexibility for inclusionary units provided on site and consideration for overall development financial feasibility.

7. What is the appropriate in-lieu fee and should it vary to incentivize housing production?

   Yes, the consensus was for setting the in-lieu fee in a manner that incentivizes production of low-income units on off-site parcels

8. Should certain residential types be exempt, and should the affordability term be extended?

   Yes, keep the existing ordinance provisions to exempt Accessory Dwelling Units, deed restricted affordable housing unit, homeless shelters, community care/health facilities, Single Resident Occupancy, and units constructed by an owner/builder, additions and replacement unit.

<u>FISCAL IMPACT</u>

Adoption of the proposed ordinance would not have a fiscal impact on the General Fund. The direct cost of ordinance administration will continue to be covered by existing development review fees. The fees collected for the Housing Impact Fee, as well as the proposed Commercial Linkage Fee, will provide additional funding for development of affordable housing Citywide.

<u>ENVIRONMENTAL IMPACT</u>

The proposed Ordinance Update has been evaluated pursuant to the provisions of the California Environmental Quality Act (CEQA). This action is exempt from 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 sections 15061 (b)(3) and 15378.

NOTIFICATION

A notice for the public hearing was issued pursuant to Zoning Code Section 20-66.020(D), Alternative to Mailing. This provision provides that, if the number of property owners to whom notice would be mailed would exceed 1,000, the City may, as an alternative to mailing and on-site posting, provide notice by placing an advertisement of at least one-eighth page in at least one newspaper of general circulation 10 days prior to the hearing.

The proposed Zoning Code Text Amendment would affect properties Citywide, therefore, a one-eighth page advertisement was placed in the Press Democrat. The notice was also emailed to a list of stakeholders developed through the public workshops for the project and to the City's Community Advisory Board, and the notice was posted at City Hall. Finally, a project website was created, which provides information on the project.

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
Attachment 4 - Redlined Municipal Code Chapter 21-02
Attachment 5 – Planning Commission Minutes, August 8, 2019
Attachment 6 – Housing Authority Minutes, August 26, 2019
Ordinance – Inclusionary Housing Ordinance Amendment
Resolution – Housing Impact Fee
Resolution – Commercial Linkage Fee

WEBSITE RESOURCES

Project Website: https://srcity.org/2556/Inclusionary-Housing-Policy

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