Agenda Item #15.2
For Council Meeting of: August 4, 2026

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: GABE OSBURN, DIRECTOR
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT
SUBJECT: HIGH-DENSITY MULTI-FAMILY RESIDENTIAL INCENTIVE PROGRAM

AGENDA ACTION: RESOLUTIONS

RECOMMENDATION

The Planning and Economic Development Department recommends that the Council, by three separate resolutions: 1) rescind Resolution No. RES-2022-246 and set forth a revised schedule of capital facilities fees for the high density multi-family residential incentive program; 2) rescind Resolution No. RES-2022-247 and set forth a revised schedule of park development impact fees for the high density multi-family incentive program; and 3) rescind Resolution No. RES-2022-248 and establish payment options for water and wastewater demand fees for the high density multi-family residential incentive program to further support housing development and increased density in downtown Santa Rosa. This item has no impact on current fiscal year budget.

EXECUTIVE SUMMARY

On September 25, 2018, the City Council approved the establishment of the High-Density Multi-Family Incentive Program (Incentive Program). The purpose of the Incentive Program was to address the community's housing crisis by encouraging 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 promote Citywide economic development and plan for and encourage housing for all. Pursuant to the approved resolutions, eligible projects must be located within the boundaries of the Downtown Station Area Specific Plan and within one of the zoning districts identified in the resolutions. In the September 2018 resolutions, criteria was established for eligible residential projects including that they "break ground" by August 31, 2023. Breaking ground was defined as pulling a foundation building permit. As of October 2022, only one project, The Cannery located at 3 West 3rd Street, had taken advantage of the Incentive Program. Due to the ongoing housing crisis and delays in housing investments and construction at that time, on December 13, 2022, the Council adopted resolutions extending the Program through August 31, 2026. To date, six projects have taken advantage of the Incentive Program, with three additional projects

pending. Given the continued housing crisis and the City's need to develop an updated impact fee study, engage with the community and developers, and subsequently amend the Program as necessary, Staff recommends extending the Incentive Program through August 31, 2031, which is the only recommended change to the current program. The staff report describes program components that are currently in effect for background information.

GOAL

This item relates to Council Strategic Priority #3 – Promote Citywide Economic Development and Strategic Priority #5 – Plan for and Encourage Housing for All and Reduce Homelessness. The Incentive Program encourages housing development and increased density in downtown Santa Rosa through the reduction and deferral of development impact fees.

BACKGROUND/PRIOR COUNCIL REVIEW

In 2016, the City of Santa Rosa embarked on a major effort to address the current housing crisis. The Housing Action Plan, which was prepared by the City in October 2016, identified several objectives including construction of 5,000 housing units in the 5th Cycle Housing Element (through 2023). The sudden loss of more than 3,000 homes in the 2017 Tubbs Fire dramatically exacerbated these housing needs.

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.

The City's original Downtown Station Area Specific Plan, adopted in 2007, projected that 3,409 residential units would be constructed in the Plan area by 2027. Halfway through the planning period, only 100 residential units had been constructed, with an additional 275 units approved (not yet constructed at that time).

While a lack of vitality in the downtown can in part be attributed to market forces, feedback at that time indicated that the 2007 Specific Plan was too restrictive in terms of development standards, such as density and height, to finance and fully realize the City's needs – high density downtown housing and job centers within walking distance to the Downtown Sonoma Marin Area Rail Transit (SMART) Station and Transit Mall. In response, the City updated the Specific Plan to address flexibility in density and height, parking, and permit streamlining. The City combined this effort with other "UpDowntown Tools" such as reducing the cost to construct and exploring fee incentives as a means to realize the vision of downtown residential development.

On September 25, 2018, the Council adopted three separate resolutions to form the High-Density Multi-Family Residential Incentive Program (Resolution Nos. RES-2018-167, RES-2018-168, and RES-2018-169). The purpose of the Incentive Program was 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. The Incentive Program identified geographical boundaries consistent with the Downtown Station Area Specific Plan.

On June 18, 2019, the Council adopted administrative corrections to two of the three resolutions to identify and match up the eligible zoning districts within the Downtown Station Area Specific Plan boundaries. Resolutions adopted in support of these corrections were RES-2019-066 (Capital Facilities Fees) and RES-2019-067 (Park Fees). Resolution No. RES-2018-169, the original resolution that supported the fee deferral incentive associated with water and wastewater fees, did not require any corrective amendments as the resolution did not specify specific zoning districts.

On October 13, 2020, the Council adopted the Downtown Station Area Specific Plan Update, replacing the 2007 Specific Plan with new tools to facilitate high density mixed use residential and commercial development proximate to transit facilities, including the Downtown SMART rail station, the Downtown Transit Mall, and major bus routes. The updated Specific Plan looks at buildout over a 20-year period, or through 2040, and projects an increase of 7,000 new residential units to be constructed over that period.

Due to the ongoing housing crisis and to support anticipated projects in the downtown area that were in process, on December 13, 2022, the Council adopted Resolution Nos. RES-2022-246, 247 and 248, to extend the requirement to break ground from August 31, 2023 to August 31, 2026, and to amend the applicable zoning districts to reflect new zoning district names adopted as part of the Downtown Station Area Specific Plan.

ANALYSIS

Residential development within the Downtown Station Area Specific Plan remains a critical component of the City's housing strategy because the area is well suited to accommodate higher densities and a diverse mix of housing options in proximity to transit. Aiming to address regional housing needs and intensify the vibrant and thriving economic center that is the downtown, the Council has continued to identify the development of housing for all in the yearly Council goal setting, 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.

1. Purpose of Incentive Program

   The purpose of the High-Density Multi-Family 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, including reduced Capital Facilities and Parks fees and deferral of payment of Water/Wastewater fees (no fee reduction). The purpose of each fee is described below:

a. **Capital Facilities Fee (CFF)**

The CFF was established to pay for certain public infrastructure facilities required to serve new development and additional infrastructure demands within the City. Infrastructure funded by the CFF includes:

- Roadway and intersection improvements such as street widening, traffic signals and freeway interchanges;
- Storm drainage improvements relating to capacity or system alteration needs;
- Public safety infrastructure such as the construction of new fire stations and police substations;
- Public transit system facility enhancements; and
- Bicycle and pedestrian improvements.

b. **Park Impact Fee**

All new residential developments in the City pay the Park Impact fee on a per unit basis to support increase park development and access for the benefit of both new and existing community members. These fees are the primary source of funds used to help acquire and construct new neighborhood and community parks as well as modernizing, updating and expanding existing park properties. 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.

2. <u>Development Impact Fees – Without the Incentive Program</u>

Without the Incentive Program, a high-density residential project would pay significantly more in Park and CFF fees. As an example, Table 1, below, illustrates the total Park and CFF fees that would be required for a 7-story, 296-unit, multi-family residential project in the downtown area. In addition to these fees, high-density residential projects are subject to the Housing Allocation Fee and other miscellaneous City fees, as well as School District fees (none of which is included in the Incentive Program).

Table 1: Example Park Impact Fee and Capital Facilities Fee (CFF) Incentives
7-Story, 296-Unit Market Rate Apartment Project in Downtown with CMU Zoning
WITHOUT the Incentive Program

	Total Sq. Ft.	Residential Units	Park / Unit	CFF / Unit	Total / Unit	Total Fees
Floor 1 – parking/amenities	54,978	0	N/A	N/A	N/A	N/A
Floor 1 – residential	3,720	4	$11,519	$6,821	$18,340	$73,360
Floor 2 – parking/amenities	46,959	0	N/A	N/A	N/A	N/A
Floor 2 – residential	11,739	17	$11,519	$6,821	$18,340	$311,780
Floor 3 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 4 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 5 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 6 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 7 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Total WITHOUT Incentives						**$5,428,640**

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

3. Incentive Program – How it Works

a. **Eligibility Requirements and Criteria**

Residential projects meeting the following criteria are eligible for the Incentive Program:

- For purposes of the Incentive Program, floors are considered residential if at least 25% of gross floor area is dedicated to habitable space.
- Located in the downtown, conforming with the boundaries of the Downtown Station Area Specific Plan (see Attachment 1).
- In the downtown, with Core Mixed Use (CMU) Zoning, in the area identified as requiring a maximum Floor Area Ratio (FAR) of 8.0: Four or more stories in height, with at least three floors dedicated to residential use.
- For all other projects in the downtown: 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 No. 3216.

- Breaking ground before August 31, 2031. “Breaking ground” is defined as securing a foundation permit.

b. **Market Rate Housing Example – CFF and Park Fees**

For projects in the downtown with CMU zoning, with a maximum FAR of 8.0, the Incentive Program provides for a partial reduction in Park Impact and CFF through a cap on the number of residential floors subject to these fees. Projects are required to pay Park Impact and CFF on the first three floors of residential units. Fees for additional floors of residential dwelling units are waived. For purposes of the Incentive Program, floors are considered residential if at least 25% of gross floor area is dedicated to habitable space.

As seen in Table 2, below, a 7-story, 296-unit market rate residential building containing five residential floors (with two floors dedicated to parking and other amenities, along with limited residential units that make up less than 25% of the gross floor area) located in the CMU Zoning District (maximum FAR of 8.0) would be subject to Park Impact and Capital Facilities fees for units located on floors 3 through 5, while fees would be waived for units on floors 6 and 7.

Under the Incentive Program, Capital Facilities and Park Impact fees for a market rate project would total $3,026,100, representing a reduction of approximately 44% from the standard fee structure.

Table 2: Example Park Impact Fee and Capital Facilities Fee (CFF) Incentives
7-Story, 296-Unit ***Market Rate*** *Apartment Project in Downtown with CMU Zoning*
WITH *the Incentive Program*

	Total Sq. Ft.	Residential Units	Park / Unit	CFF / Unit	Total / Unit	Total Fees (296 units)
Floor 1 – parking/amenities	54,978	0	N/A	N/A	N/A	N/A
Floor 1 – residential	3,720	4	N/A	N/A	N/A	N/A
Floor 2 – parking/amenities	46,959	0	N/A	N/A	N/A	N/A
Floor 2 – residential	11,739	17	N/A	N/A	N/A	N/A
Floor 3 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 4 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 5 – residential	58,698	55	$11,519	$6,821	$18,340	$1,008,700
Floor 6 – residential	58,698	55	$0	$0	$0	$0
Floor 7 – residential	58,698	55	$0	$0	$0	$0
Total Market Rate WITH Incentives						**$3,026,100**

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

c. Affordable Housing – CFF and Park Fees

The Incentive Program provides 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 reduction for affordable units to $2 per square-foot for Park Impact Fees and $2 per square-foot for CFF.

The reduced fee applies to affordable and inclusionary units that are not otherwise eligible for the upper-floor fee waiver. Table 3 illustrates fees for a 7-story, 296-unit affordable/inclusionary apartment project in the Downtown with CMU zoning (maximum FAR of 8.0). Under the Incentive Program, Capital Facilities and Park Impact fees for the project would total $704,376, representing a reduction of approximately 87% from the standard fee structure.

In addition to the CFF and Park fee incentives, affordable and inclusionary units also are exempt from paying Housing Impact Fees, which adds an additional incentive.

Table 3: Example Park Impact Fee and Capital Facilities Fee (CFF) Incentives
*7-Story, 296-Unit **Affordable** Apartment Project in Downtown with CMU Zoning*
***WITH** the Incentive Program*

	Total Sq. Ft.	Residential Units	Park $2 / Sq. Ft.	CFF $2 / Sq. ft.	Total Fees $4 / Sq. Ft.
Floor 1 – parking/amenities	54,978	0	N/A	N/A	N/A
Floor 1 – residential	3,720	4	N/A	N/A	N/A
Floor 2 – parking/amenities	46,959	0	N/A	N/A	N/A
Floor 2 – residential	11,739	17	N/A	N/A	N/A
Floor 3 – residential	58,698	55	$117,396	$117,396	$234,792
Floor 4 – residential	58,698	55	$117,396	$117,396	$234,792
Floor 5 – residential	58,698	55	$117,396	$117,396	$234,792
Floor 6 – residential	58,698	55	$0	$0	$0
Floor 7 – residential	58,698	55	$0	$0	$0
Total Market Rate WITH Incentives					**$704,376**

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

d. **Water and Wastewater Fee Deferral Incentives**

The Incentive Program also includes two options for 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):

- Option 1: Deferral of payment of residential water and wastewater demand fees until after 75% occupancy of all residential units within the project or six months from the date of final inspection approval, whichever is sooner.

- Option 2: Five-year payment plan for residential water and wastewater demand fees in five equal annual payments subject to interest based on the Prime interest rate, as published on the Bloomberg on-line internet site (www.bloomberg.com).

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 (Attachment 2), Keyser Marston Associates (KMA) estimates the cost savings to the developer by deferring fee payments to be approximately 18% of current 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. Incentive Program - Implementation to Date

Since its adoption in September 2018, several eligible high-density, multi-family projects have taken advantage of the Incentive Program.

In 2022, the City Manager's Office and Planning and Economic Development Department hosted a series of conversations with downtown, affordable and market rate housing developers. Through the Developer Roundtable Series, City leadership and development services staff received frank feedback from the development community on the challenges they experience as well as ideas for additional streamlining to support housing production.

A common thread throughout the sessions was gratitude to the City on supporting high density downtown housing through staffing and third-party plan review, permit streamlining, and fee incentives. Many project applicants stressed that while the economy and market conditions caused unwanted delays and volatile cost increases, the Incentive Program maintained their investment momentum and enthusiasm for building housing in downtown Santa Rosa. They did express concern however, that these delays could cause projects to sunset out of eligibility based on the "breaking ground" deadline. As a result, Council extended the prior sunset date of August 31, 2023 to August 31, 2026.

To date, the following projects have taken advantage of, or are currently pending use of, the Incentive Program:

Status	Project	Description	Address
Complete	The Cannery at Railroad Square	129 multi-family units (100% affordable) (6 stories)	3 West 3rd Street
Complete	Pullman Lofts – Phase 1	74 multi-family units (3 stories)	701 Wilson Street
Complete	Pullman Lofts – Phase 2	40 multi-family units (5 stories)	85 8th Street
Complete	888 4th Street	90 multi-family units (7 stories)	888 4th Street
Complete	The Felix	168 multi-family units (8 stories)	420 Mendocino Avenue
Complete	891 3rd Street Multi-Family Housing	18 multi-family units (3-stories)	891 3rd Street
Pending	Avenue 320 Apartments	37 multi-family units (3 stories)	320 College / 325 Lincoln
Pending	Pullman Lofts III	69 multi-family units (6 stories)	700 Wilson Street
Pending	Humboldt Street Apartments	299 multi-family units (7 stories)	425 Humboldt Street

5. Next Steps

As a result of the continuing housing crises, as well as the continued interest by developers to maintain the Incentive Program, staff is recommending that the current expiration date of August 31, 2026 be extended to August 31, 2031. The additional time would allow the City the opportunity to develop an updated impact fee study and engage with the community and developers. While the additional time is longer than the prior time extension, it is consistent with the original 5-year Program timeline, and would ensure that the fee study, outreach, and any resulting amendments to the Incentive Program, are completed without the need to request an additional time extension.

FISCAL IMPACT

Although the Incentive Program reduces or defers certain development impact fees, developers continue to pay a portion of applicable Park Impact and Capital Facilities fees. A 2015 Urban3 study commissioned by the City demonstrated that higher-density downtown development generates greater fiscal returns per acre while making more efficient use of existing public infrastructure.

The Incentive Program has proven to attract investment into high-density residential development in the City's downtown. If this momentum continues, it will bring new residents, transit-oriented housing options, reduced Vehicle Miles Travelled (VMT), increased consumer spending, business activity, and tax revenues to the downtown area and will foster the overall economic vitality of the community.

ENVIRONMENTAL IMPACT

The action of extending the Incentive Program is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential to result 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. The creation of government funding mechanisms or other government fiscal activities is not a "project" subject to environmental review pursuant to CEQA Guidelines Section 15378, subdivision (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) because the fee modification is for the purpose of obtaining funds for capital projects necessary to maintain service within existing service areas. In the alternative, the action is further exempt from CEQA Guidelines Section 15061(b)(3) because it can be seen with certainty that there is no possibility that the action may have a significant effect on the environment.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary (the “Downtown”)
- Attachment 2 – Keyser Marston Associates, Inc. memorandum
- Attachment 3 – Maximum Base FAR Map
- Attachment 4 – RES-2019-066 (CFF)
- Attachment 5 – RES-2019-067 (Parks)
- Attachment 6 – RES-2018-169 (Water and Wastewater)
- Attachment 7 – RES-2022-246 (CFF)
- Attachment 8 – RES-2022-247 (Parks)
- Attachment 9 – RES-2022-248 (Water and Wastewater)
- Resolution 1 (CFF) / Exhibit A – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary
- Resolution 2 (Parks) / Exhibit A – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary
- Resolution 3 (Water and Wastewater) / Exhibit A – Map of Downtown Specific Plan Area and General Plan Downtown Core Boundary

PRESENTER(S)

Jessica Jones, Deputy Director – Planning