

CITY OF SANTA ROSA

INCLUSIONARY HOUSING
& COMMERCIAL LINKAGE FEE
STUDY SESSION

CITY COUNCIL
AUGUST 27, 2019



Andy Gustavson
Senior Planner
Planning and Economic Development

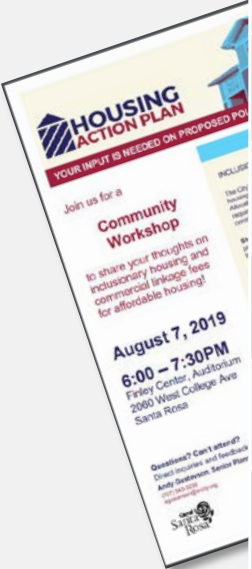
STUDY SESSION

**WHAT ARE THE CITY'S
POLICY OPTIONS
TO
INCREASE
INCLUSIONARY & AFFORDABLE HOUSING
PRODUCTION?**

INTRODUCTION PUBLIC INPUT AND SCHEDULE

Project Schedule

Project Kickoff, Initial Stakeholder Engagement, and Research	September-December 2017
White Paper (background information & options)	July 2019
Community and Stakeholder Workshops	August 7, 2019
Planning Commission Study Session	August 8, 2019
Housing Authority Study Session	August 26, 2019
City Council Study Session	August 27, 2019
City Council Public Hearing	October 1, 2019



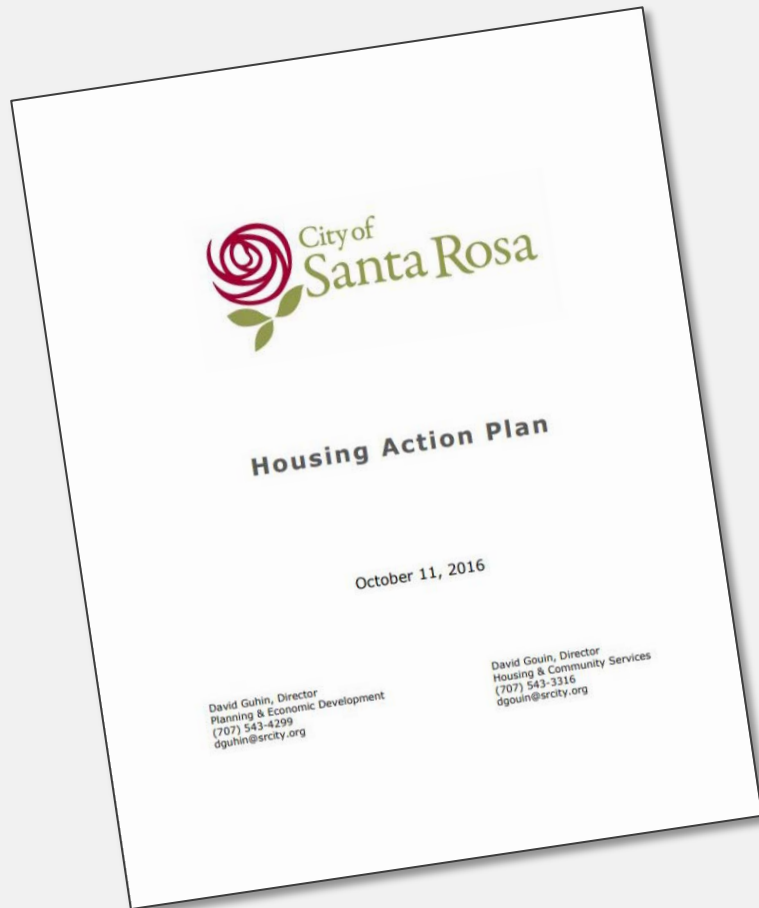
INTRODUCTION

HOUSING ACTION PLAN

Program I

“Increase Inclusionary Housing”

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



INTRODUCTION

HOUSING ACTION PLAN

Other Affordable Housing Development Tools

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

INTRODUCTION

KEY POLICY CONSIDERATIONS

Inclusionary Housing

- Build Units or Pay Fee or Both
- Project Size, Affordable Percentage and Type
- In-Lieu Fee Amount
- Development Standard, Innovation and Flexibility
- Implementation

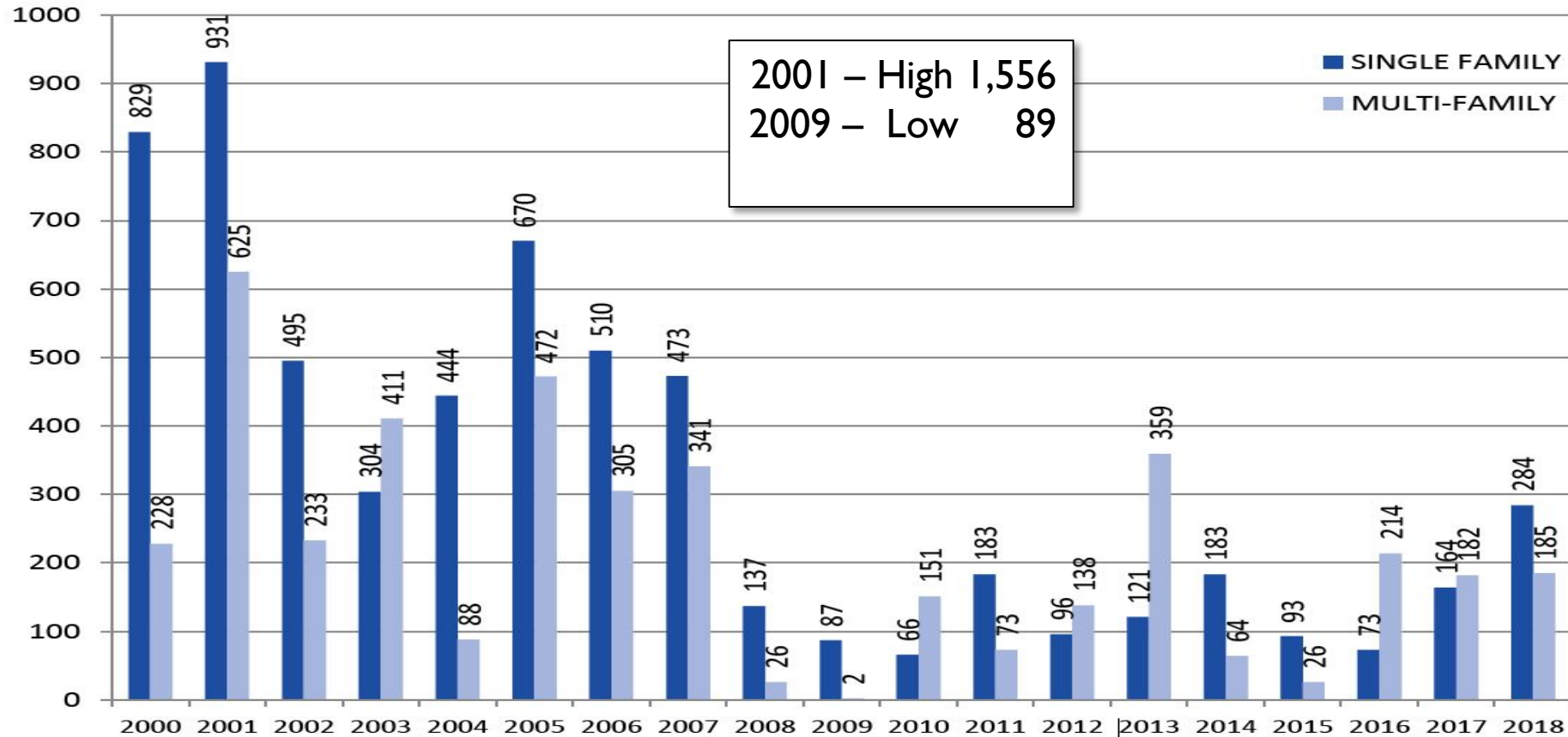
Commercial Linkage Fee

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

BACKGROUND

2000-2018 RESIDENTIAL PERMIT ACTIVITY

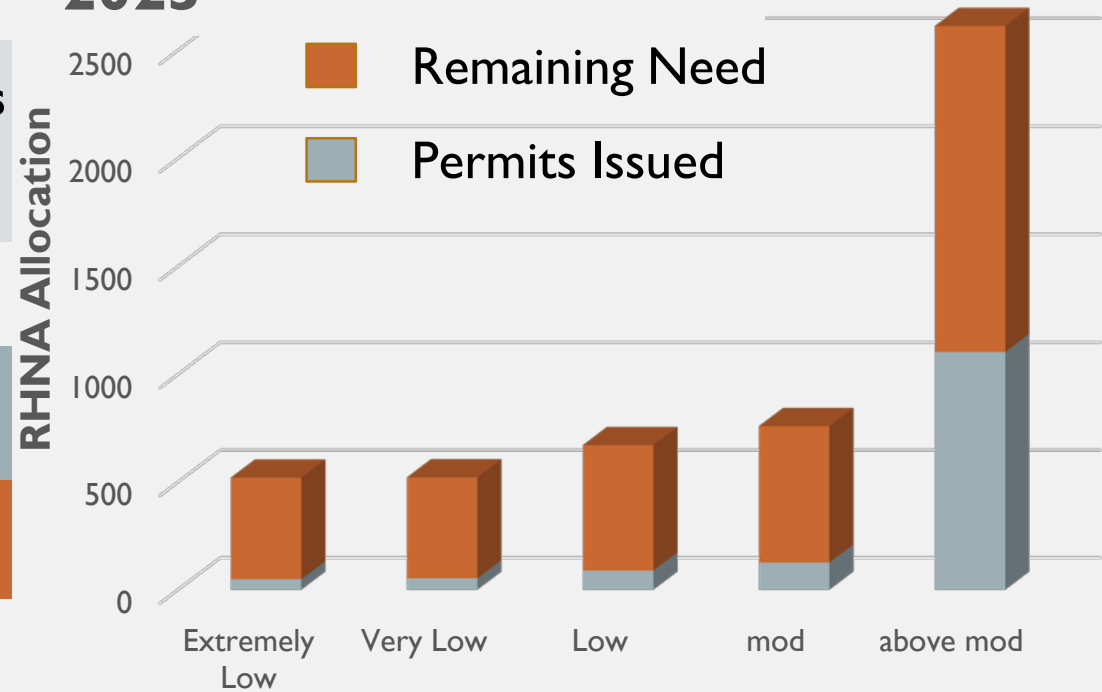
Figure 1 - SINGLE FAMILY AND MULTI-FAMILY BUILDING PERMITS 2000 - 2018



BACKGROUND HOUSING NEED

Building Permits by Housing Income Category 2015 - 2023

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



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

BACKGROUND *HOUSEHOLD INCOME CATEGORIES*

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

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

BACKGROUND

INCLUSIONARY HOUSING PRODUCTION

INCLUSIONARY UNITS VERSUS IN-LIEU FEE

	OUTCOME	IMPLEMENTATION	TYPICAL AFFORDABILITY LEVEL
Build Inclusionary Affordable Units	Developer constructs affordable units within Project based on required percentage	Developer Selects Project Site, Size & Timing	Low
Payment of In-Lieu Fee	Payment is used by Housing Authority to fund projects	Housing Authority selects Projects through annual NOFA process	Very Low & Low

BACKGROUND

AFFORDABLE HOUSING PRODUCTION

Inclusionary Housing Projects 1992 – 2018

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

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

INCLUSIONARY HOUSING *KEY POLICY CONSIDERATIONS*

- Build Units or Pay Fee or Both
- Project Size, Affordable Percentage and Type
- In-Lieu Fee Amount
- Development Standard, Innovation and Flexibility
- Implementation

INCLUSIONARY HOUSING PLANNING COMMISSION COMMENTS

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

*Equitable Citywide Distribution
Mixed Income Projects*

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

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

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

*Density Bonus Concessions
Downtown Fee Exemption*

- Increase deed restriction to 55 years; Simplify and update In-Lieu Fee

INCLUSIONARY HOUSING *PUBLIC COMMENTS*

In-Lieu Fee

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

Inclusionary

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

Land dedication

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

Implementation

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

INCLUSIONARY HOUSING WHITE PAPER AND NEXUS STUDY

Identifies Residential Development Feasibility Threshold.
Presents Inclusionary Policy Options.

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

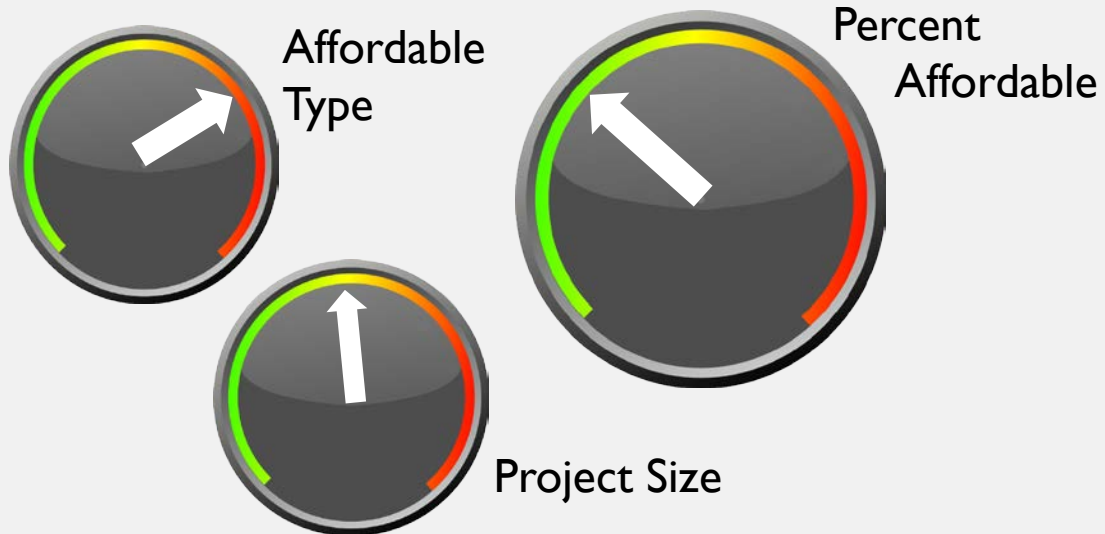
a. Interviews with developers.

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

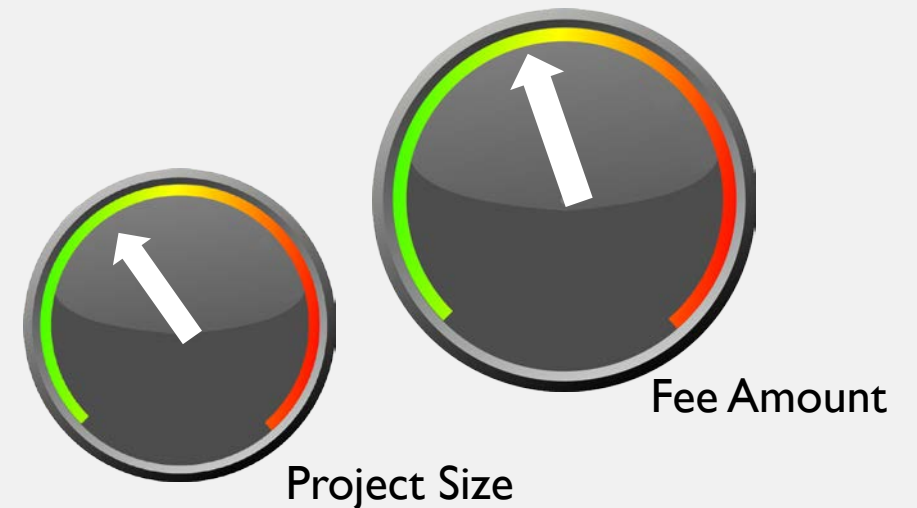
INCLUSIONARY HOUSING POLICY DISCUSSION STARTING POINT

Adjust Inclusionary Policy to Accomplish Housing Objective

Inclusionary On-Site Units



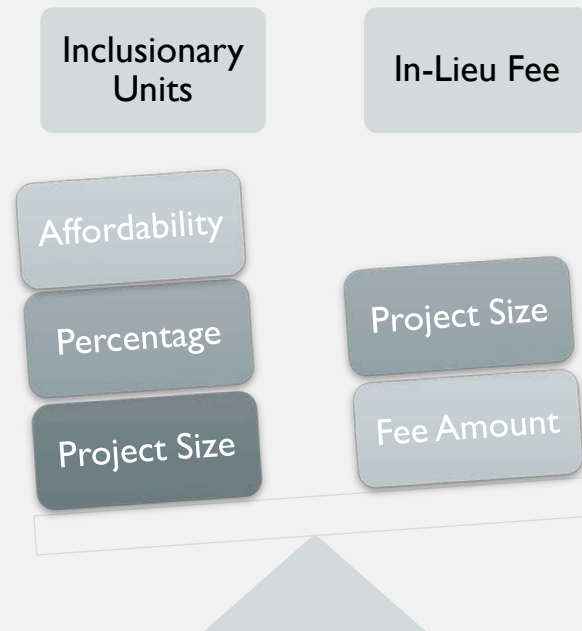
In-Lieu Fee



INCLUSIONARY HOUSING *POLICY DISCUSSION STARTING POINT*

Balance Affordable Housing Production & Development Feasibility

**Build Affordable Units
In Market Rate
Projects**



**Fund Affordable
Housing Projects**

Development Feasibility
(return on cost/yield)

INCLUSIONARY HOUSING *POLICY OPTIONS*

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

EXISTING	WHAT IF?
<p>Developer elects to pay In-Lieu Fee or build On-site Units.</p>	<ul style="list-style-type: none"> • Continue existing policy. • Build Units - Require Inclusionary on-site units to be built concurrent with Project. • Pay In-Lieu Fee – Require payment of fee the City can use to fund Affordable Housing Projects. • Blended Option – Require combination of inclusionary on-site units and in-lieu fee based on project size, percentage, or affordability.

INCLUSIONARY HOUSING *POLICY OPTIONS*

Should Project Size determine when Inclusionary On-Site Units are required?

EXISTING	WHAT IF?
<p>All residential projects with 1 or more units (exemptions apply)</p>	<ul style="list-style-type: none"> • Continue existing policy. • Require all projects to build On-Site Units with set Percentage and Affordability • 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.

INCLUSIONARY HOUSING POLICY OPTIONS

What is appropriate the On-Site Percentage Requirement?

EXISTING	WHAT IF?
For Sale 15% at Low (80% AMI)	10% Units for Moderate Income Households
For Rent 15% at Low (80% AMI)	8% Units for Low Income Households



INCLUSIONARY HOUSING POLICY OPTIONS

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

		EXISTING	WHAT IF?
<u>For Sale</u>		2.5% of sales price:	Update In-Lieu fee to:
Single Family Detached	2,000 SF	\$660,000 \$16,500 Fee	\$13 per SF \$26,000 Fee
Single Family Attached	1,600 SF	\$480,000 \$12,200 Fee	\$10 per SF \$16,000 Fee
<u>For Rent</u>		Sliding scale based on unit size:	Update In-Lieu fee to:
Apartments	908 SF	\$1.00 SF \$908 Fee	< 908 SF \$10.00 SF \$9,080 Fee
	1,750 SF	\$7.26 SF \$12,712 Fee	≥ 1,750 SF \$10.00 SF \$17,500 Fee
<u>Downtown</u>		Sliding scale based on unit size:	<ul style="list-style-type: none"> • Continue existing policy. • Apply Updated In-Lieu Fee. • Reduce fee for smaller units. • Fee waiver or reduction.
Higher density, mixed use housing projects		\$1.00 SF \$908 Fee \$7.26 SF \$12,712 Fee	

INCLUSIONARY HOUSING POLICY OPTIONS

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

 High
 Low

INCLUSIONARY HOUSING *POLICY OPTIONS*

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

EXISTING	WHAT IF?
<p>Similar mix of unit type & floor area.</p>	<ul style="list-style-type: none"> • Continue existing policy. • Allow smaller unit with same bedroom mix as market-rate units. • Set minimum unit size and number of bedrooms.
<p>Compatible exterior appearance, materials and finish quality.</p>	<ul style="list-style-type: none"> • Continue existing policy. • Allow less expensive interior amenities; Require same exteriors.

INCLUSIONARY HOUSING *POLICY OPTIONS*

Should inclusionary on-site unit requirements allow flexibility?

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

INCLUSIONARY HOUSING *POLICY OPTIONS*

**Should certain residential types be exempt
and should the affordability term be extended?**

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

INCLUSIONARY HOUSING SUMMARY

Policy Questions

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

Should Project Size determine Inclusionary On-Site Unit Requirement?

What is the Appropriate On-Site Percentage Requirement?

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

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

Should inclusionary on-site unit requirements allow flexibility?

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

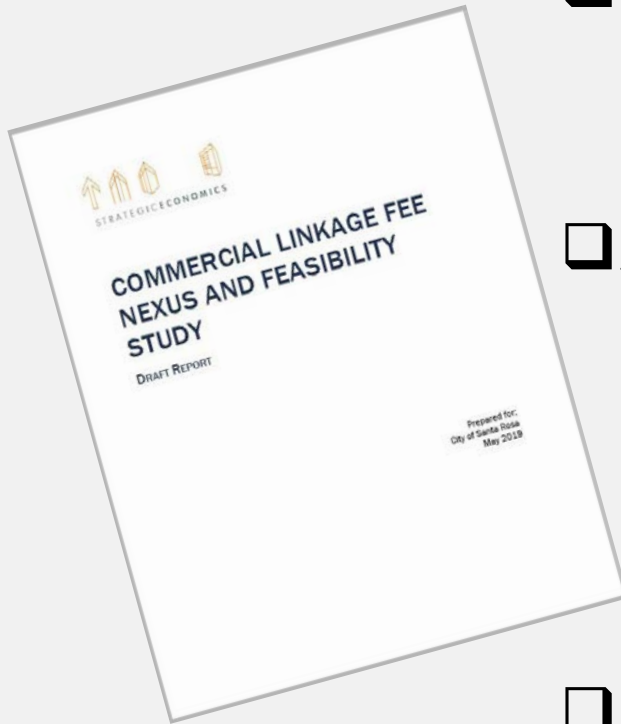
Should certain residential types be exempt and should the affordability term be extended?

COMMERCIAL LINKAGE FEE *FEATURES & COMPONENTS*

- Provides Local Funding Source for Workforce Housing
- Common Practice & Legally Defensible
(Cotati, Petaluma, Rohnert Park, Sonoma County)
- Based on Total Development Cost and Financial Feasibility
- Annual Fee Adjustment Mechanism based on Cost Index

COMMERCIAL LINKAGE FEE *NEXUS STUDY*

- ❑ Purpose – Establish relationship or “Nexus” between commercial development and Affordable Housing demand.
- ❑ Analyzed likely commercial development within City.
 - Hotel
 - Retail/Restaurants/Services
 - Business Park/Light Industrial
- ❑ Evaluates impact fee feasibility and threshold.



COMMERCIAL LINKAGE FEE *PROTOTYPES*

Reasonably expected commercial development based on recent trends.

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

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

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

COMMERCIAL LINKAGE FEE *KEY POLICY CONSIDERATIONS*

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

COMMERCIAL LINKAGE FEE *PLANNING COMMISSION COMMENTS*

- The fee is needed to augment affordable housing funds.
- Regular review is recommended.
- Define new construction; Clarify if fee applies to change in use as well as a new commercial development.
- Suggested \$3.00 per square foot fee is reasonable.

COMMERCIAL LINKAGE FEE *PUBLIC COMMENTS*

- Provides another fee source for affordable housing
- Jobs housing balance - puts some responsibility on commercial business to provide housing for their employees
- Ensure fees are not discouraging residential or commercial development
- Use of collected fee needs to be transparent and must be directly related to workforce housing

COMMERCIAL LINKAGE FEE *POLICY OPTIONS*

Should the City adopt a Commercial Linkage Fee;
How does the fee fit into housing strategy?

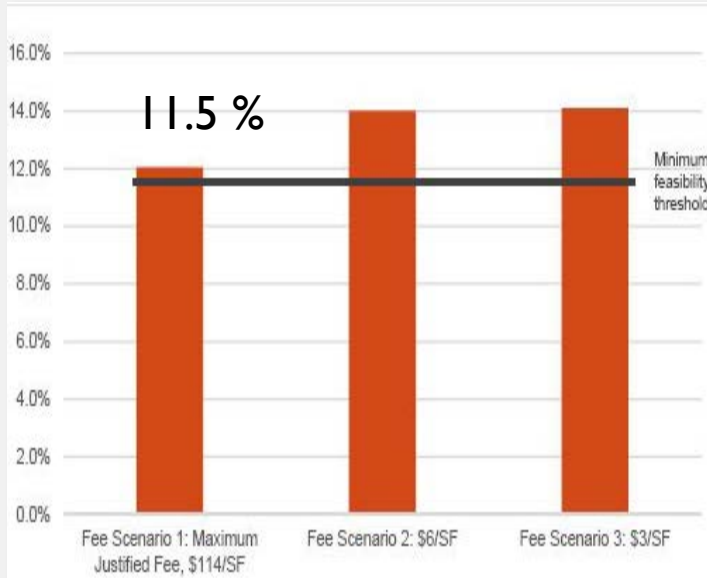
EXISTING	WHAT IF?
No commercial linkage fee in place.	<ul style="list-style-type: none">• Continue existing policy.• Establish commercial linkage fee to augment City affordable housing funds.

COMMERCIAL LINKAGE FEE *POLICY OPTIONS*

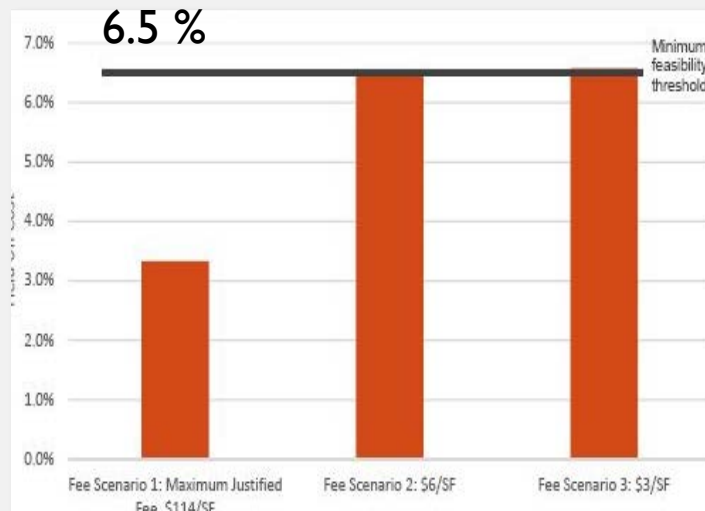
How much should the fee increase total development costs?

EXISTING	WHAT IF?
No commercial linkage fee in place.	<ul style="list-style-type: none">• Limit fee amount to maintain commercial sector financial feasibility• Adopt a single fee for all or vary fee.

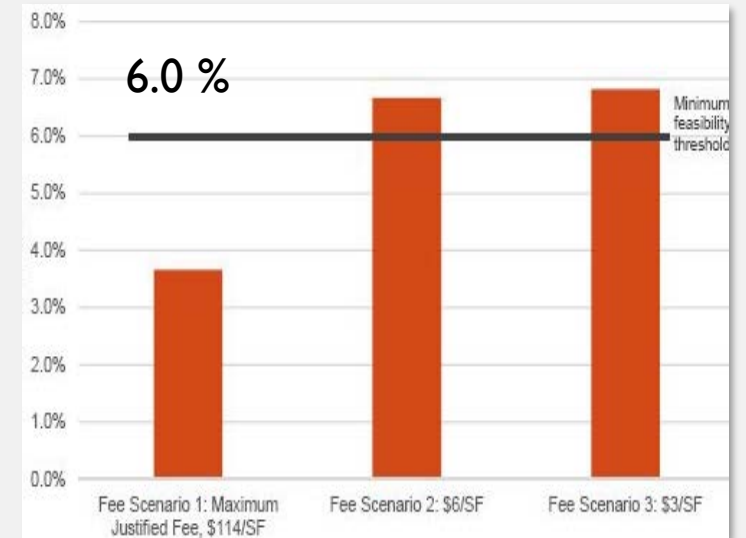
COMMERCIAL LINKAGE FEE MINIMUM RETURN ON INVESTMENT



HOTEL - 11.5-13.5%



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



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

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

COMMERCIAL LINKAGE FEE *AFFORDABLE HOUSING DEMAND*

Commercial Linkage Fee Study established maximum justified fee based worker household income by commercial sector and housing affordability gap

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

FIGURE 10: RECOMMENDED LINKAGE FEES BY COMMERCIAL PROTOTYPE

COMMERCIAL LINKAGE FEE *POLICY OPTIONS*

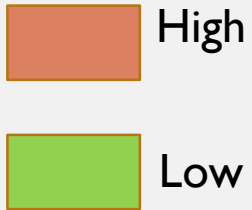
**How should the fee compare
with neighboring or other comparable jurisdictions?**

EXISTING	WHAT IF?
No commercial linkage fee in place.	<ul style="list-style-type: none">• Adopt a fee that is competitive with neighboring jurisdictions.

COMMERCIAL LINKAGE FEE FEE COMPARISON

EXISTING COMMERCIAL LINKAGE FEES IN SELECTED CITIES

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



COMMERCIAL LINKAGE FEE *POLICY OPTIONS*

What options exist for fee payment alternatives?

EXISTING	WHAT IF?
No commercial linkage fee in place.	<ul style="list-style-type: none">• Allow fee deferral

COMMERCIAL LINKAGE FEE SUMMARY

Policy Questions

Should the City adopt a Commercial Linkage Fee; How does the fee fit into housing strategy?

How much should the fee increase total development costs?

How should the fee compare with neighboring or other comparable jurisdictions?

What options exist for fee payment alternatives?

Project Schedule

Project Kickoff, Initial Stakeholder Engagement, and Research	September-December 2017
White Paper (background information & options)	July 2019
Community and Stakeholder Workshops	August 7, 2019
Planning Commission Study Session	August 8, 2019
Housing Authority Study Session	August 26, 2019
City Council Study Session	August 27, 2019
City Council Public Hearing	October 1, 2019

Andy Gustavson, Senior Planner
(707) 543-3236
agustavson@srcity.org

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