



# Housing Report #1

## Housing Programs and Funding Recommendations

City Council

---

February 23, 2016

David Gouin, Director Housing and Community Services  
Walter Kieser, Economic Planning Systems

# Housing Programs

Housing Action Plan will encompass a range of existing and new housing programs:

## Existing Programs:

1. Affordable Housing Production Subsidies
2. Administration of federal Housing Choice Voucher Program
3. Homeless Housing and Services
4. Supporting Special Needs Housing

## New Housing Program Options:

5. Affordable Housing Conversion and Preservation
6. Housing Rehabilitation (expansion of existing program)
7. Inclusionary Housing Fees
8. Housing Incentive Program
9. Housing Site Assembly and Readiness

# New Housing Programs

- New housing programs seek to diversify and improve efficiency of affordable housing investments.
- New housing programs respond to previous City Council direction.
- Following discussion and review, preferred new housing programs will be further evaluated and developed.
- Effectiveness of the programs will be linked to funding for each of the programs.
- Council can initiate implementing actions for preferred programs in July.

## 5. Affordable Housing Conversion and Preservation

- Opportunities for conversion and preservation exist in Santa Rosa; City currently has 4,000 housing units under contract.
- Housing conversion and preservation involves either buying or extending contracts to provide affordably priced units from existing market rate units or expiring affordable housing units.
- Can be used to achieve desired level of affordability.
- Cost of a ten year affordability contract for 60% median income pricing estimated to be \$67,000.
- \$1 million investment would produce 15 affordable units per year with 10 year affordability contracts.

## 6. Housing Rehabilitation

- Housing rehabilitation involves offering owners of market rate rental housing funding for major rehabilitation of the rental units in exchange for a fixed term contract to maintain affordability.
- City currently offers rehabilitation loans, funded with a portion of the CDBG funds, including a contract with the County.
- The new program would expand the program seeking longer term affordability contracts with owners.
- Cost of rehabilitation contract to gain 5 year 60% median income price restriction is estimated to be \$36,000.
- \$1 million investment would produce 28 affordable units per year with 5 year affordability contracts.

## 7. Seek Inclusionary Housing

- Under City's HAP, inclusionary housing is an option provided to developers in lieu of paying housing impact fee.
- Inclusionary housing has potential to be more cost-effective than production subsidies offered to affordable housing developers and distributes units throughout the City.
- Inclusionary units should primarily be sought in rental housing projects.
- Opportunities for creating "for sale" inclusionary housing units should be sought while addressing feasibility issues.
- Regulatory and financial incentives will be necessary to make on-site inclusionary rental unit construction a feasible option for developers.

## 8. Housing Incentive Program

---

Housing Incentive Program includes a range of regulatory incentives (e.g. density bonus), and targeted subsidies and investments. The Program includes:

- Incentives targeted at rental housing projects to support production of inclusionary rental housing units (offsetting housing impact fees).
- Incentives targeted at market rate for sale or rental housing to achieve “affordability-by-design” housing units.
- Incentives to improve feasibility and production of desired market rate housing.

## 9. Housing Site Assembly and Readiness

- This new program would involve programmatic acquisition, improvement, and disposition of land for housing purposes.
- Sites may include existing public lands with development potential, assembly of private lands for subsequent disposition, and partnerships with developers to overcome site-related constraints.
- Sites may require proactive (City-initiated) rezoning or other regulatory changes.
- City's interest would be to include affordable housing units on projects constructed on the acquired sites.
- Priority should be for assessment and subsequent disposition of public sites with near-term development potential.



Existing funding for affordable housing derives from a range of program funding (HAP fees, loan portfolio), General Fund appropriations, and federal grant funding:

- HAP Fees
- Loan Portfolio
- General Fund Appropriations
- Community Development Block Grant (CDBG)
- HOME Investments Partnerships Program (HOME)
- Federal Housing Choice Voucher Program

# Existing Funding Resources Assessment

- Total funding (excluding federal rent subsidies) through the current Housing Element Cycle from existing funding sources is estimated to be \$40 million (2015 \$), approximately \$5 million per year.
- Funding sources for affordable housing production keyed to development (impact fees) or real estate activity (RPTT) are variable from year-to-year and may increase during forecast period.
- Approximately \$1.2 million required for Housing Authority staffing and administrative purposes, reducing annual funding available for programs to \$3.8 million.

11

# New Housing Program Funding

1. Existing funding resources are not adequate to achieve the City's housing objectives.
2. The overarching goal of the Housing Action Plan is to stimulate production in Santa Rosa, both market rate and affordable, especially housing located in the specific plans and other transit-served areas.
3. Funding for expanding the City's affordable housing production can come from three general sources:
  - Increasing existing housing fees, levying new fees, or pursuing a voter-approved tax measure.
  - Tapping the revenue increases (tax increments) resulting from economic expansion and housing program investments.
  - Shifting General Fund expenditure priorities (increasing housing funding at expense of other City services).

# Funding Recommendations

1. Sustain existing General Fund support of homeless and housing programs
2. Adopt regulatory and financial incentives that offset recommended increase HAP impact fees.
3. Adopt Commercial Linkage Fee.
4. Seek voter-approved tax measure to support housing programs.
5. Consider short-term investments in housing programs needed to stimulate housing production and economic development.
6. Increase housing program funding in future years proportional to measurable increases in development and real estate-related revenues (property taxes, RPTT, processing fees and charges).

# 1. Sustain General Fund Support

Sustain current level of General Fund support for housing programs:

- Funding for Homeless housing facilities and services equaling \$1.4 million annually.
- General Fund appropriation equal to 20 percent share of RPTT revenues (\$200,000 in FY 2015/16). Revisit Council Policy 000-48, designate General Fund support for homeless and affordable housing production).
- Sustain share of CDBG Program at 85 percent of total grant (\$845,000 in FY 2015/16).

## 2. Increase Housing Impact Fees offset with incentives

- Increase existing Housing Impact Fees as part of effort to encourage the production of on-site rental housing units in lieu of the fee.
- Nexus Study supports Housing Impact Fees roughly double the rates currently charged
- Increases in Impact Fees may affect feasibility of development
- Fee increases should be offset with regulatory and financial incentives that market-rate housing developers can tap to improve financial performance of their projects (see Housing Program #8, above).

### 3. Adopt Commercial Linkage Fee

1. City Council has previously authorized completion of a Commercial Linkage Fee Study.
2. Following completion of Commercial Linkage Nexus Study, adopt commercial linkage fee.
3. Level of the fee should be set at a level deemed not to have detrimental on desired commercial development.
4. Regulatory and other incentives should be offered to desired commercial development.



## 4. Seek Voter-Approved Tax Measure

1. Voter approval of a tax measure would provide sustained financial support for the City's housing programs.
2. Could include funding for a bond measure and ongoing "pay-as-you-go" programs.
3. A general obligation bond with a 0.02 mil rate on the City's current assessed valuation would generate roughly \$4 million annually thus supporting a bond measure in the \$40 to \$50 million range.
4. Cost would be about \$20 per \$100,000 of assessed valuation.
5. The support for a housing bond measure can be explored by including it in current polling related to the Measure P reauthorization.

## 5. Short term Investments in Housing

Consider targeted expenditures in Housing Programs with highest potential for stimulation housing production in FY 2016/17 Budget.

- Such funding could draw on reserves, anticipated revenue, or grant funding.
- Programs with high potential to stimulate housing production in the short term include:
  - Providing financial subsidies to currently entitled affordable housing project(s)
  - Additional resources in Planning and Economic Development Department to implement the Process Improvement Action Plan.
  - Investments needed to ready available public (or privately-owned sites for housing development).
  - Funding for the inclusionary housing incentive program.

## 6. Future Increase in Housing Funding

- Implementation of the Housing Action Plan programs, in combination with improvement in market conditions, will result in increased real estate investment in the City.
- This new development will result in increases in development-related revenues (property taxes, RPTT, fees, etc.).
- A portion of this new revenue can be “captured” and re-invested in housing programs further stimulating desired housing development.
- The new Enhanced Infrastructure Financing District (EIFD) legislation offers a mechanism for capturing tax increments that can be used for funding housing programs.

# Proposed Funding Resources Forecast

Recommendation Item		Recommended Change	Eight Year Forecast of Revenue by Fiscal Year (millions)								
			16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	Total
1.1	General Fund (portion of Real Property Transfer Tax)	Sustain existing funding	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$0.183	\$1.464
1.2	General Fund (Homeless Services funding)	Sustain existing funding	\$1.400	\$1.400	\$1.400	\$1.400	\$1.400	\$1.400	\$1.400	\$1.400	\$11.200
1.3	Housing Impact Fees	Existing HAP fees (see item 2.0)	\$1.000	\$1.500	\$1.500	\$1.500	\$2.000	\$2.000	\$2.000	\$2.500	\$14.000
1.4	Loan Repayments	Sustain existing funding	\$1.200	\$1.200	\$1.200	\$1.200	\$1.200	\$1.200	\$1.200	\$1.200	\$9.600
1.5	Community Development Block Grant (CDBG)	Sustain existing funding	\$0.845	\$0.845	\$0.845	\$0.845	\$0.845	\$0.845	\$0.845	\$0.845	\$6.760
1.6	Home Investment Partnership (HOME)	Sustain existing funding	\$0.364	\$0.364	\$0.364	\$0.364	\$0.364	\$0.364	\$0.364	\$0.364	\$2.915
2.0	Housing Impact Fees	Increase HAP fees	\$0.000	\$0.500	\$0.500	\$0.500	\$1.000	\$1.000	\$1.000	\$1.500	\$6.000
3.0	Commercial Linkage Fee	Adopt New Fee	\$0.000	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$0.500	\$3.500
4.0	Voter-approved housing tax measure	Seek funding at \$4 million annually	\$0.000	\$0.000	\$4.000	\$4.000	\$4.000	\$4.000	\$4.000	\$4.000	\$24.000
5.0	Short term investments in housing programs	Not calculated	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD
6.0	Property tax increment funding	Allocate 50% of increment 2017-2023	\$0.000	\$0.497	\$0.517	\$0.538	\$0.559	\$0.582	\$0.605	\$0.629	\$3.927
	Total		\$11.982	\$17.999	\$22.040	\$23.082	\$24.126	\$24.172	\$25.219	\$96.487	\$83.366

# Proposed Funding Resources Assessment

- Total housing funding (excluding federal rent subsidies) through the current Housing Element Cycle could be at least doubled from existing levels (from approximately \$40 million to \$84) with the recommended funding actions.
- As part of Housing Action Plan all available funding will be allocated to the identified Housing Programs based on “return on investment” criteria such as “number of housing units produced” and “fiscal stimulus”.
- This level of investment in housing if efficiently allocated and administered has potential to create 2,000 affordable housing units over the next seven years, in addition to stimulating additional market rate housing.

# Housing Action Plan Summary

- Concerted regulatory reforms, housing incentives and investments are needed to stimulate Santa Rosa's housing market and create more "housing for all".
- Regulatory and entitlement reforms are targeted at reducing regulatory barriers, increasing certainty and lowering the costs and risks of development in the City.
- Financial incentives and investments can improve development feasibility generally and add to the City's supply of affordable housing and homeless facilities and services.
- Increased housing production is part of broader economic development strategy that expands the City's tax base, increasing its ability to invest further in housing production.

# Housing Action Plan Summary

