Agenda Item #14.1
For Council Meeting of April 19, 2016

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL

FROM: WALTER KIESER, ECONOMIC AND PLANNING SYSTEMS
DAVID GOUIN, HOUSING AND COMMUNITY SERVICES
DAVID GUHIN, PLANNING AND ECONOMIC DEVELOPMENT

SUBJECT: SANTA ROSA HOUSING – REPORTS 3 AND 4: DEVELOPERS' ASSESSMENT OF SANTA ROSA AND HOUSING PROGRAM INITIATIVES

AGENDA ACTION: MOTION

RECOMMENDATION

It is recommended by the Housing and Community Services and Planning and Economic Development Departments that the Council, by motion, accept the report and authorize staff to proceed in developing a work plan to undertake housing initiatives outlined in the report.

EXECUTIVE SUMMARY

Santa Rosa faces a significant shortage of housing, particularly that available for moderate and lower income families. Following two housing-focused study sessions in fall 2015, the City Council embarked on a six-part housing series to address how Santa Rosa can increase production, achieving a goal of "housing for all."

Reports 1 and 2, focused on funding resources and development process improvements, were held on February 23, 2016. The focus of this report is two-fold, and includes: a summary of developer perspectives about housing development in Santa Rosa, and what incentives might spur it, and an assessment of various housing programs and their impact on provision of new housing.

Report 3 provides a summary of interviews conducted with local and regional developers. These interviews were conducted to gain a sense of market trends, opinions about the City's development review process, and to obtain a response to the reforms and funding measures being considered as part of the Housing Action Plan Update. Generally, the regional developers believe that while market conditions have improved in recent years for a range of housing product types, the protracted and uncertain development review process, high cost of fees and exactions, and federal and State endangered species (critical habitat) regulations remain a deterrent to investment. The local developers reflected similar constraints and revealed many examples of how these constraints have impeded housing development.

Interestingly, these concerns and criticisms expressed by the developers do not focus on the City's land use policies, per se. There was little concern expressed regarding the General Plan, the Housing Element, the Specific Plans, or the City's zoning regulations. Rather, the focus of concerns is upon a lack of leadership commitment to actually achieving these policies, and the related management and administrative regime that substantially increases the cost and risk of development by imposing delays, uncertainty, and costs on proposed housing projects. There is also concern expressed about the high cost of development processing and permit fees, development impact fees, and habitat mitigation costs that taken as a whole are very high in comparison with current market prices of housing.

The implication of this body of opinion is, while various policy and program reforms (as presented in this report) are in order and welcome, that the real issue in Santa Rosa is the need for a concerted political and organizational commitment to getting housing, housing for all, built. This will require a renewed commitment to established land use policy rather than questioning or even frustrating this policy on a project-by-project basis. This will also require the City management, the operating departments, and those involved in the development review and building regulation, to collaborate and operate in a business-like fashion to reduce the time, costs, and risks of the development review process.

Report 4 outlines five programs to achieve housing goals and objectives. These programs include: 1) increase inclusionary affordable housing; 2) achieve "affordability by design" in market rate projects; 3) assemble and offer public land for housing development; 4) improve development readiness of housing opportunity sites; and 5) increase affordable housing investment and developer partnerships. Recommended actions are included for each program, from ordinance amendments to a pilot program to fund regulatory and financial incentives.

After discussion of the City Council on Reports 3 and 4, staff will return with Report 5 on May 17 with a discussion of how programs outlined in Report 4 might proceed, including timing and cost.

BACKGROUND

Santa Rosa faces a significant shortage of housing, particularly that available for moderate and lower income families. The Council conducted study sessions in fall 2015 to understand housing needs, to review existing housing programs and funding opportunities, and to identify new approaches to increasing housing supply. A six part housing action plan report series is being developed to respond to Council direction provided in these sessions.

On February 23, 2016, the Council received a report regarding funding approaches to develop more housing in the community. The Council directed that staff proceed by:

1. Sustaining General Fund support for housing;
2. Increasing housing impact fees, offset by regulatory and financial incentives;
3. Adopting a commercial linkage fee;
4. Seeking voter approval of a tax measure providing support for housing programs;
5. Making short term investments in housing with high potential to stimulate production;
6. Increase housing funding;
7. Section 8 non-discrimination ordinance.

Also on February 23, 2016, the Council received a report outlining improvements made and underway to facilitate housing through changes to the development review process.

PRIOR CITY COUNCIL REVIEW

The Council conducted a study session on October 20, 2015 to define affordable housing needs, document current housing inventory, document existing housing programs and funding and estimate the cost of achieving affordable housing production as set forth in the General Plan Housing Element.

The Council conducted a second study session on November 10, 2015 to consider opportunities and actions to increase affordable housing supply, conserve and rehabilitate existing affordable housing, and provide direction regarding increasing affordable housing production.

On February 23, 2016 the Council considered two housing related items: Housing Report 1, focused on funding approaches, and Housing Report 2, regarding development process improvements.

ANALYSIS

HOUSING REPORT #3: Assessment of Santa Rosa by Regional and Local Developers

As a part of developing the Housing Action Plan City staff was directed to conduct outreach to the development community. This outreach has two purposes, first to gain a sense of general market and economic conditions affecting the building industry in Santa Rosa and also to respond to the housing programs we are preparing as part of the Housing Action Plan update. In addition to interviews with selected local and regional developers the outreach effort also includes public presentations, as invited, at topical civic organization meetings. The Planning and Economic Development Department has also organized a Developer Task Force; the group has recently had the opportunity to consider the proposed housing programs, to provide reactions to ongoing planning and procedural reforms, and to make other suggestions for improvements to City planning and development review procedures.

The following section provides a summary of findings from interviews with regional and local developers about the development climate in Santa Rosa. The interview questions are Attachment 1 to this report. Economic and Planning Systems, the consultant team working with City staff on the housing series, conducted telephone and in-person interviews with the selected regional and local developers.

Twelve interviews have been held with regional developers who were identified and selected because they are active housing developers in other parts of the Bay Area, but not (at least in recent years) in Santa Rosa. The focus of the regional developer interviews was to gain their opinions regarding development opportunities and market conditions in the North Bay and Santa Rosa in particular and to also gain their opinion regarding development opportunities and constraints.

The local developers were identified through the City's Pending Development Report, which outlines projects with pending or approved planning entitlements. The interviews included developers with projects approved within the last decade but remaining inactive and also with developers with active projects, either remaining in the entitlement process or recently entitled. Twenty five interviews were conducted. The focus of the local developer interviews was upon: 1) to learn why fully entitled projects have remained stalled despite an uptick in housing market conditions; 2) to gain opinions regarding their experiences with Santa Rosa's development review process; and 3) to provide a sounding board for the ongoing planning, regulatory, procedural, and fiscal reforms being considered as part of the Housing Action Plan update.

Regional Developer Summary

Santa Rosa has never been a market with significant penetration by the large national "merchant builders"; the market has long been dominated by local developers. The scale of development opportunities and the competitiveness of the local builders and developers may explain this history. While Santa Rosa has the employment base, market size, and income levels that support new home construction, it remains beyond the core of the Bay Area employment and housing market. The following points summarize the regional developer interviews.

- The post-recession housing finance environment has become much more challenging and competitive. Due to the huge contraction of banks involved in construction lending nationally, the industry has moved increasingly towards private equity financing. The changes in bank lending is one explanation why smaller regional developers and builders were decimated by the Recession. Going forward it will be important for areas seeking quality development to attract the larger regional and national developers that have access to necessary capital.

- While City policy has shifted to seeking higher density multifamily housing, the market demand for denser, attached for sale housing is not fully there yet. At the same time single family home prices are not yet forcing the market to consider alternative product types. As example, generally to be feasible for the developer, a conventionally constructed attached condominium unit needs to sell for $600,000 or more. At those price points, a family can still buy a single family detached unit in Santa Rosa, which is where market preferences seem to remain (though supply limitations in Santa Rosa may also affect this shift).

- At the same time there has been a market shift evident towards multifamily rental housing in the Bay Area and also in Santa Rosa. This shift is due to affordability constraints on newly formed households and increased mortgage lending standards that make qualifying for homeownership more difficult. There is also a simple preference being expressed by millennials and "empty-nesters" for high density urban rental housing.

- The whole concept of supply and demand has apparently been lost in Sonoma County. Sonoma County does not have a demand problem; it has a lack of supply problem. Planning and development restrictions including growth management policies, environmental restrictions and regulations, and a generally growth-negative public policy, and administration has resulted in persistent under production despite recent increases in the number and income of local households.

- There appears to be a lack of political will and leadership to develop more housing. Council members apparently respond primarily to existing residents, who for the most part, aren't interested in growth and new development and do not understand how new development is a necessary part of sustaining a local economy. There does not appear to be much political support to engage the conversation about why housing production is essential, let alone adopting new, more development friendly policies and programs. Effective City leadership will be key to achieving the necessary changes.

- While there appears to be support for affordable housing projects, there are not adequate resources available to match the deep subsidies needed to achieve a meaningful amount of affordable housing. New market rate housing needs to be part of the solution to creating affordable housing.

- The City has a poor regional reputation related to its planning and development review procedures which are viewed as costly, protracted, and uncertain. While such constraints have long been a problem in Santa Rosa, such a planning and regulatory regime is completely out of sync with current market and development finance characterized by higher equity requirements, more demanding and costly construction loan standards, and higher mortgage lending standards.

- Planning and development review staff are viewed as not authorized to make decisions, always needed to "check" with senior staff, or rely on and defer to process, all of which takes precious time. The limited counter hours were not convenient (note: this problem has recently been addressed). Also, simple question posed to staff on a given Wednesday might not be answered until the following Tuesday, or later. It would be good if staff could adopt a more responsive private-sector approach to interacting with applicants (there seems to be little appreciation of the costs of time delays, excessive special studies, and procedural uncertainty).

- State and federal regulations affecting land use and development (environmental, habitat mitigation, etc.) greatly increase cost of development and related time and risks of obtaining necessary entitlements. This problem limits the effective supply of developable land in Santa Rosa.

Local Developer Summary

As a preface to this summary of the interviews it is important to recognize that the local building industry, especially the local developers who were historically active in Santa Rosa, were eliminated or downsized by the Great Recession, during which a significant contraction of the industry occurred. Even as market conditions have returned the industry has not recovered, as is evidenced by the historically low development activity in the post-recession period. This may be attributable to the effects of the federal and State environmental regulations (CTS mitigation, etc.) as well as the general difficulty and cost of obtaining development entitlements. Developers interviewed represented a range of product types and locations and current activity. The following points summarize the regional developer interviews.

- As to the constraints affecting approved but unbuilt projects the general consensus is that this can be explained by three (often interacting) factors: 1) The high cost, time required, and risks associated with obtaining State and federal permits primarily related to California Tiger Salamander critical habitat loss mitigation; 2) the generally high cost of fees including building permit processing fees and the development impact fees charged by the City and other agencies; and 3) that some of the approved subdivisions are outdated with respect to current market conditions (e.g. small lot sizes, etc.).

  - Regarding the State and federal permitting and the related costs and delays, it is generally agreed that the situation will continue to constrain the City's development potential. Pending new regulations could make matters worse. Some programmatic intervention, as anticipated in the *Santa Rosa Conservation Strategy 2005* is definitely required to create a more cost-effective and less time consuming method for achieving the required habitat mitigation. There was general support for such an approach and a willingness to participate in finding a renewed programmatic solution.

- Despite the fact that the local development community is relatively small and have been active in Santa Rosa for some time, in some cases decades, relations between the development community and the City have not always been effective at achieving the City's planning goals and development policies. The decades-long accretion of planning policies, growth management programs, development regulations and procedures, all intended to manage growth, along with poor staff performance and lack of interdepartmental coordination, have constituted a considerable constraint on desired and albeit necessary new housing development in Santa Rosa.

- The Recession-related cut-backs of planning and building staff, the resulting loss of key experienced senior staff, and the increasing permit and processing costs related to "cost-recovery", have resulted in a costly, protracted, and uncertain entitlement process. Developers reported numerous cases of delays lasting months simply due to scheduling and protracted and iterative review. This situation is not consistent with effective planning administration and certainly is a constraint on attracting the investment needed to achieve the City's housing production objective. Development review policies and procedures in other California cities and around the Country may provide some guidance on how reforms might occur.

- The interviewees expressed a positive opinion regarding the City's recent efforts to remedy past procedural and development review deficiencies. The additional staff and resources recently committed by the City Council are viewed with optimism for positive change towards shorter turnaround times on discretionary review, permit processing, and engineering review. The engagement and concern surrounding the housing crisis by the City Council is also appreciated, though ultimately success will be defined by actual changes and reforms that have been mobilized by the Council's direction.

- Regarding the specific reforms being considered, there has been a generally positive response, in concept, to the notions of: 1) additional regulatory reforms to reduce excessive discretion and related processing delays, 2) achieving inclusionary housing through incentives such as additional density bonus provisions, impact fee relief, and additional financial subsidies; 3) the City becoming more proactive and entrepreneurial in enhancing the development readiness of its housing opportunity sites, and 4) continuing with existing affordable housing programs.

- Regarding the range of funding measures, there was general support for the notion of increasing investment in housing through infrastructure investments, improving development readiness of housing opportunity sites, and increasing subsidies for affordable housing production. However, there is little appetite for increasing cost burdens on developers through higher housing impact fees, commercial linkage fees, or increased development impact fees. It is generally stated that few projects that prove feasible are running on paper-thin margins; additional costs imposed at this time will simply sustain the existing housing production slump.

- A key part of gaining developer support for the proposed new funding sources will rest on how cost-effective these funding programs can be – thus, existing funding sources, as previously committed, should be secured and sustained, overhead and program costs should be minimized (while delivering the maximum amount of effort to facilitating actual housing production), and existing and new funding sources should be allocated through application of transparent efficiency procedures (the most housing for the dollar).

- Related to funding, the application and utility of the existing Mello Roos Community Facilities District (CFD) was questioned repeatedly. The current CFD configuration is viewed as inequitable, ineffective at meeting its stated purpose, and inconsistent with legal directives. There may be an opportunity to restructure the CFD to serve a broader purpose of financing fee obligations having other, broader application.

HOUSING REPORT #4: Alternative Housing Programs

The Housing Action Plan contains five programs that collectively can achieve the established goals and objectives:

- Program 1 --Increase inclusionary affordable housing
- Program 2 -- Achieve "affordability by design" in market-rate projects
- Program 3 -- Assemble and offer public land for housing development
- Program 4 -- Improve development readiness of housing opportunity sites
- Program 5 – Increase affordable housing investment and developer partnerships

These five programs reflect the direction provided by the City Council in the Housing Study Sessions, further analysis and development by staff, and input received through the developer interview process. Initial staff recommendations and discussion for each of the programs is provided below. Following discussion and direction from the Council additional analysis by staff will be conducted in preparation of the respective implementing actions.

Program #1 – Increase Inclusionary Affordable Housing

A key directive from the Council is to increase the production of affordable housing as part of market-rate housing projects. The structure of the Housing Allocation Plan Ordinance requires that such inclusionary housing be achieved voluntarily (in lieu of paying the impact fee) through incentives offered to market-rate developers. The following four actions comprise incentives that can encourage market rate developers to include affordable units in their market rate projects.

a. Housing Allocation Plan Impact Fee Changes

Recommendation:

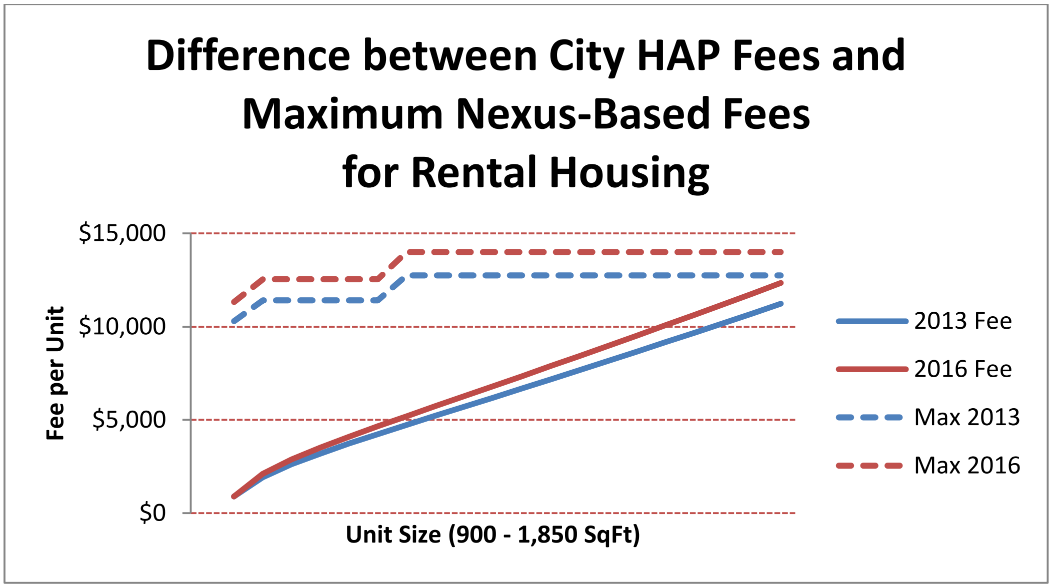
Adopt a 2016 HAP impact fee schedule that includes: 1) an update of the fee reflecting 2016 data; 2) a simplification the fee reorganizing existing schedule into fewer fee categories; and 3) an increase in the fee charged on rental units (within nexus-based maximum) as part of effort to encourage inclusionary units in market rate rental projects.

Review existing HAP Ordinance to determine need for amendments to conform with emerging inclusionary housing policies including expanding definition of "affordable" to include moderate income households, and to make reference to the full range of incentives now being considered.

Discussion:

The current Housing Allocation Plan (HAP) impact fee for rental units is structured to increase the fee proportional to unit size. (The fee for for-sale units is 2.5% of the sales price). The logic of this "gradient" is to reduce the cost of the fee for the smaller units in an effort to promote smaller units given their likely lower rent levels.

The table below shows the current fee structure in comparison with the "maximum fee" as established in the Housing Allocation Plan Nexus Study completed in 2012.



While leaving the fee on smaller rental units (e.g. less than 900 square feet) at $1 per square foot (on the presumption that these units can contribute to at least moderate income housing need), increases in the housing fee (closer to the maximum) could contribute to the decision to consider providing affordable units in lieu of paying the impact fee. In any case such fee increases, given the nexus-based maximum, would be proportionately small and not really create much of a disincentive. Thus, achieving inclusionary units in rental projects will need to rely upon the regulatory (e.g. density bonus) and financial incentives described below.

Regarding actual amendments to the HAP Ordinance, staff finds the fee can be adjusted by council resolution. The recommended review would ascertain whether amendments to the HAP are needed and provide an opportunity to more explicitly incorporate the full range of incentives, and the terms under which they will be offered, in the Ordinance.

b. Seek Inclusionary Units in For Sale Housing Projects

Recommendation:

Allow for sale residential projects to provide 10 percent of the project's total units as inclusionary housing affordable to moderate income households (up to 120 percent of AMI) in lieu of paying the HAP impact fee. Offer additional regulatory and financial incentives as may be needed to incentivize such inclusionary housing.

Discussion:

A for-sale program should be directed to moderate income households (120% of area median income or below) based on the City's past experience and the current lending environment which limits a household's ability at the very low (50% of area median income) or low income (80% of area median income) to obtain financing.

The table below is an estimate of what a household could afford at various income levels based on a 4.25% mortgage rate with a 10% down payment.

	MAXIMUM PURCHASE PRICE		
Targeted Income Level	**2 Bedroom**	**3 Bedroom**	**4 Bedroom**
	3-person HH	4-person HH	5-person HH
VERY LOW (50% AMI)	$78,000.00	$86,750.00	$92,700.00
LOW (80%)	$145,750.00	$162,300.00	$174,250.00
MODERATE (120%)	$344,000.00	$382,500.00	$366,800.00
150% AMI	$502,600.00	$558,700.00	$602,400.00

The City's experience with for-sale housing, for the most part, has been at the 80% of median income level. Since the inception of the HAP in June 1992, the following units have been provided to first time homebuyers due regulatory compliance with the HAP Ordinance:

- 1994 – Cottonwood: one unit resale restricted at 80% of area median income for thirty years. The unit is still restricted and has changed ownership three times. The restriction will end in December 2024.

- 1995 – Donahue: one unit resale restricted at 80% of area median income for thirty years. The unit is still restricted and has changed ownership two times. The restriction will end in December 2025.

- 2006 – Woodbridge: 22 total units, 19 of which were sold to households below 80% of area median income with resale restrictions for the first seven years; the difference between the appraised value and the affordable sales price (In Kind) was captured in a promissory note, which is due and payable to the Housing Authority on the sale of the home. Three of the units were sold at market rate due to a negotiated Council approved concession. To date, nine homes have been lost due to foreclosure and the debt owed to the Housing Authority has been written off. The seven year resale restriction has elapsed for the remaining units. These units now can be sold at market rate. No repayments of the remaining promissory notes have been received.

Special circumstance HAP compliance:

- 2005 – Orchard at Oakmont: although properties in Oakmont are only required to pay the housing impact fee, the developer provided 25 ownership units to seniors, resale price restricted at 80% of area median income for thirty years. After the expiration of the thirty year contract, the owner at the time may remain in the unit. Once the unit is vacated, it reverts back to the developer at the affordable purchase price.
- 2008 – Meritage Homes (Meritage): 24 negotiated *temporary* for-sale units sold to households below 120% of area median income. The Dauenhauer subdivision was purchased through a foreclosure by Meritage. An adjacent parcel was slated to fulfill the inclusionary requirement for the Dauenhauer subdivision (24 rental units @ 80% of area median income) which was owned by a separate entity when Meritage took title to the property for the market rate Dauenhauer units. The HAP Ordinance requires concurrent development of the inclusionary units, which was not possible at the time given Meritage had no control over the separate rental parcel. The allowance for the temporary resale restricted units enabled the Meritage market rate units to start construction; the resale restrictions on the 24 units to be released once the rental units were built by another entity. The 24 rental units have been completed and the resale restrictions have been released.

Two models could accomplish the inclusion of moderate income, resale restricted units in market rate projects:

1) The developer builds the unit and provides it to a moderate income household.
   - The City would be responsible for contracts between the developer and the City, a thirty year resale restriction agreement between the City and the homebuyer, determining income eligibility of the perspective buyer, and on-going administration for resales and owner occupancy compliance monitoring.
   - This model would require additional staff and resources to pay for administration of the program.

2) The developer dedicates parcels for the for-sale inclusionary units to a land trust.
   - The developer builds the unit and turns it over to the land trust; the cost of construction is paid back to the developer when the unit sells.

- The land trust markets the unit, finds the homebuyer, provides first-time homebuyer training, manages the execution of documents required by the City, the developer, and the lender, and oversees the escrow process.
- The homebuyer enters into a 99-year ground lease and resale restriction agreement with the land trust (the City has the first right of refusal, or can assign its rights, should the land trust become insolvent).
- The land trust provides post-purchase services to the buyers.
- All aspects of resales, including identifying buyers, calculating the resale price, and facilitating the execution of all documents is performed by the land trust.
- The land trust performs all owner occupancy compliance monitoring.

c. Offer Regulatory and Financial Incentives

Recommendation:

Establish a set of financial and regulatory incentives to offer market rate developers to include affordable housing in their housing projects.

Provide annual 2016/17 budget appropriation to fund these incentives as a "pilot program"; funding will be allocated to prospective project applicants on a "first come-first served" basis based on identified criteria.

Discussion:

Achieving affordable housing units in market rate projects will require a range of regulatory and financial incentives to encourage developers to take this approach in lieu of paying the HAP fee. Such incentives may include:

- Exemption from Housing Allocation Plan impact fees on all units
- Waiver or reduction of City's development impact fees on affordable units
- Acquisition of affordability contracts (see Program 5), when shown to be cost-effective
- Offer "fast track" approval and plan review for exemplary housing projects that meet high development standards

The incentives are necessary because providing the inclusionary affordable housing units bears a substantial cost to the developer, basically the difference between the cost to build the units and the price (or rent) affordable by very low, low, or moderate income families. Current analysis of the subsidies necessary to fund the gap between cost and affordable rents and prices suggest that incentives necessary for achieving affordable units in rental projects (at an average household income of 60 percent of AMI) would be in the range of $160,000 per unit. The cost of achieving affordable units in for sale projects (at an average household income of 100 percent of AMI) may have no "funding gap"'; however, incentives, in addition to waiver of the HAP impact fee, may be needed to incentivize agreement to include such units.

d. Amend Local Density Bonus Ordinance

Recommendation:

Amend the zoning code to provide local density bonus provisions in addition to those specified by State law.

Areas of analysis and decisions include:

- Appropriate additional density above state-allowed 35%, with consideration of up to 100%;
- Level of affordability to be achieved through the offering of additional density;
- Whether the additional density bonus will be allowed in all residential areas or vary by residential density category;
- Whether specific areas of the city should be targeted for density bonus through use of an overlay zone;
- Neighborhood compatibility;
- Type of affordable units to be included – rental, ownership or both;
- Consideration of expanded list of concessions and incentives.

Discussion:

State Planning and Zoning Law requires that local jurisdictions allow an increase in residential density up to 35% above the applicable zoning district maximum, for projects providing affordable or senior housing units. In addition, a developer may request incentives and concessions from the City which will result in cost reductions for the development. Incentives and concessions are defined as a reduction in site development standards or a modification of zoning code requirements.

Santa Rosa has density bonus provisions which generally reflect state law as cited above. The proposal for consideration of the Council is adoption of a local density bonus law which would meet state requirements but also provide a local tool to spur housing development. Other jurisdictions have allowed for bonuses above the 35%

and there is at least one affordable housing project pending in Santa Rosa that has requested a higher bonus as an incentive necessary for project feasibility.

Possible Expansion of Local Density Bonus Regulations

Density bonus is generally expressed as a percentage. For instance, if the general plan and zoning allow 10 units, but the developer wants to build 12, the extra 2 units is a 20% density bonus. State law allows a maximum of 35%, which would allow an additional 3.5 units, rounded up to 4 units in this example.

Allowing more than a 35% increase in density is one of the possible provisions in a local ordinance. Other California jurisdictions have taken this approach, with a variety of options.

For instance, Sonoma County allows a bonus of up to 50% above the maximum density in return for greater affordability than required in state law or on-site renewable energy systems generating at least 70% of the project's electrical energy demand or specified accessibility improvements. The County allows a 100% bonus for higher density land use designations providing 40% of the project to lower income households, with a specified maximum of 30 units per acre.

Napa provides a maximum bonus of 100% and requires developers demonstrate that the project provides more affordable housing than required by the state law provisions or that the project incorporates amenities or public benefits that justify the increased density. The decision making body for the development may consider criteria for approving the increase: affordable units in excess of state law, high quality design that fits within the neighborhood, superior mitigation of neighborhood impacts, underground parking, or other amenities which contribute to the neighborhood.

A project now proposed in Santa Rosa offers an example. The project developer is investigating a possible 100% density bonus for this multifamily project and indicates that the project is not financially feasible without the bonus. The site would allow 88 units, and 176 are proposed. The units would be for seniors, at low income (at the 50 and 60% of median income level).

A bonus as needed by this project would require an amendment to the zoning code to allow more than a 35% bonus. An alternative route would be for the developer to pursue a General Plan land use change on the site, a discretionary action which may or may not be supported by neighbors and decision makers.

Program #2 – Achieve "Affordable by Design" Housing

This program would promote construction of housing units that may cost less because they are small and efficiently designed. This reduced cost could also come from regulatory incentives, public investments, or subsidies such as fee waivers. Such units would target housing for moderate income households. Possibilities for design of smaller units are outlined below.

"Tiny houses" are not specifically included in this discussion. Tiny houses, if on wheels, are categorized as temporary housing. As permanent housing, the California Building Code requires a minimum unit size of 220 square feet, which could be included in a multifamily development project or on a foundation.

a. Modify definition of residential "qualifying units"

Recommendation:

Simplify the current definition of qualifying units in the growth management program and consider reestablishing this definition in the Housing Allocation Plan. Research and establish unit size to meet moderate income rent and sales price data. Consider simplification of growth management ordinance.

Discussion:

In 1992, Santa Rosa introduced a "qualifying unit" in the Growth Management and Housing Allocation Plan programs. The idea was that smaller units would rent or sell for market prices which would be affordable to moderate income households. Such a unit is defined as:

1) A for sale, single family, attached or detached dwelling unit on a lot not exceeding 4000 square feet in area, with a) two or fewer bedrooms with a maximum of 900 square feet; b) three bedrooms with a maximum of 1200 square feet; or c) four bedrooms with a maximum of 1250 square feet. (Note: An additional 100 square feet is allowed for 2-story units).
2) A multi-family unit of any size, or
3) For-sale, single family attached units of any size, provided that the density of such units is at least 10 dwelling units per acre.

When these programs were initiated, a qualifying unit was exempt from the Housing Allocation Plan – no fee was required and no affordable units were required. Such units were also drawn from Growth Management's Reserve A allotment pool, which was generally more available given the ordinance's requirements, an incentive when residential growth was strong.

For some time, these small units on small lots did sell for prices affordable to moderate income households, but this affordability dwindled over time and the exemption was removed. In the last revision of the HAP in 2012, the definition was removed. But it remains in the Growth Management program.

This built-in provision affords an opportunity to revisit the qualifying unit definition and analyze how it might be amended to reinvigorate this concept and incentivize smaller units.

b. Reduce barriers to second dwelling unit construction

Recommendation:

Initiate amendment to the second unit provisions to remove the deed restriction requirements for second units and to revise parking requirements. This could include allowing on-street parking to count toward meeting the requirement of one space, and/or requiring no additional parking in certain city locations, such as Priority Development Areas.

Discussion:

In the last 20 years, Santa Rosa has issued building permits for 593 second dwelling units, an average of 29 per year. Generally, 700 square foot maximum second units are allowed on any single family lot with the addition of a parking space. More specifically, requirements for the location of a second unit in Santa Rosa include:

- May be located on a lot that allows single family dwellings that is undeveloped or contains a legal single family dwelling;
- May be located where roadways, utilities and services are determined to be adequate to serve it;
- May not exceed 700 square feet in area;
- Must meet setback requirements, height limits, and lot coverage requirements of the zoning code;
- Must provide one parking space for the additional unit on the site;
- Must complete a deed restriction limiting occupancy of one of the units on the site to the property owner.

To build a second unit in Santa Rosa, an applicant submits an application for a second unit along with a building permit application. The application must be consistent with the basic requirements noted above and include a plot plan, floor plan, elevations, materials and color board to show compatibility with the main unit, building cross sections, photographs of the site and adjacent properties, and a signed deed restriction, ready for recordation.

The application is routed to a planner who checks for compliance with the zoning code standards, including compatibility with adjacent uses. The application is then routed to the Building Division for building code compliance review and permit issuance.

The City Council, in recent discussions, has been interested in how additional second units might be encouraged in Santa Rosa. Santa Rosa's process to develop a second unit was simplified in 2002, requiring a building permit only. While the process has been streamlined, some local requirements could be viewed as impediments to new second unit construction. A few of these are highlighted below.

Parking. An additional on-site parking space is required for the second unit to minimize any impact to neighboring properties. The space may be uncovered, compact, or tandem, and within the front yard setback when located in the driveway. If not in the driveway, the space must be outside any setback. This provision is less restrictive than for other residential units and is meant to allow second units on sites where on-site parking may be difficult to achieve.

Deed Restriction. The Santa Rosa code requires that one of the units on site be owner occupied, and this is accomplished through a recorded deed restriction. The reason for this requirement is to ensure a property owner is on site who will oversee and manage a rental unit. This provides assurance to neighbors that any concerns with a nearby rental will be addressed, which in turn helps the viability and acceptance of new second units.

Development costs. In 2014, City fees for new second dwelling units averaged just under $23,000. School impact fees averaged just over $1,000. (A second unit in the southwest is also subject to an impact fee of $7,669, and one in the southeast has an impact fee of $6,043).

Financing. In the recent Smith Village project considered by the City Council, the applicant noted that rent from a second unit is no longer considered when a home buyer seeks financing to purchase a single family unit with a second unit. This means that financing is more difficult to achieve, and the pool of potential homebuyers for units with second units is reduced overall.

c. Single Room Occupancy Facilities

Recommendation:

Consider revision of Single Room Occupancy (SRO) standards to identify if changes such as eliminating conditional use permit requirement would facilitate construction.

Discussion:

Santa Rosa included single room occupancy (SRO) facilities in its zoning code in 2006. SROs have a minimum size of 150 square feet and a maximum of 400 square feet. The units may include partial or full bathrooms and kitchens, or common facilities may be provided.

SROs are allowed in general commercial, community shopping center, and downtown commercial zoning districts. A conditional use permit and design review are required. An SRO facility with 10 or more units must have on-site management. Required parking is 0.5 spaces per unit. No SROs have been built or converted in the decade since these standards were adopted. The Palms, in the County on Santa Rosa Avenue, is an example of an SRO or efficiency units.

d. Create Partnership with Developer(s) of Modular Housing

Recommendation:

Seek a pilot program partnership with developers of modular housing that can be price restricted to moderate income households (100% – 120% AMI).

Discussion:

The production housing industry is moving towards modular construction. Such technology has the opportunity to lower costs while maintaining high architectural design and building component standards. Lower costs are achieved through economies of scale and also reduced time and cost for plan check as the key building components are largely pre-approved by building officials.

Such housing has the potential to meet the need of the moderate income families that cannot afford higher priced homes but at the same time do not qualify for housing subsidies. Several builders in the City are now using modular building technology but a pilot program, focused on providing moderate income rental and for sale housing could inform policy changes and partnerships to significantly expand housing production in the City. Such a program could be linked to disposition of one of the public parcels as described in Program #3.

Program #3 – Assemble and offer public land for housing development

The City (and other public agencies) own substantial lands within the City. Some of these lands may no longer have a public purpose (or can serve public and housing needs simultaneously). This Program would involve the City assembling, improving, and disposing of these lands for housing production purposes. A key part of this program would be the objective of including at least 15 percent of the housing units created affordable by low income households (80 percent of AMI). The key item here is that the City must be in a proactive "value maximizing" mode with respect to these parcels as a part of the effort to maximize its ability to include affordable housing units. This effort may include "pre-entitlement", site improvements and infrastructure, and other incentives as may be necessary to attract developers and build affordable housing units. Four actions are recommended as part of this Program:

a. Seek affordable housing units in pending public land disposition projects
Recommendation:

Assure that pending negotiations and disposition efforts by the County (County Hospital Site) and SMART (Station Area parcel) include a requirement for provision of at least 15 percent of units affordable to low income households (60 percent AMI).

Discussion:

Publicly owned lands that are suitable for conversion to multifamily housing and mixed use development offer an opportunity to require, through the purchase and sale agreement, inclusion of affordable housing units. The City is currently involved in several such sites including the SMART site adjacent to the downtown rail station, the County Hospital Site on Chanate Road, and other sites may be available such as one or more of the Downtown parking lots, the Water Agency site on West College, etc.

b. Identify City (and other publicly-owned) parcels suitable for housing production

Recommendation:

Identify and evaluate all vacant or underutilized public lands in Santa Rosa for potential disposition to housing developers. In all cases such land dispositions should contain a requirement that housing projects provide a minimum of 15 percent of the units affordable to low income families.

Discussion:

In addition to the public land disposition projects currently being offered to developers, there remain a number of publically-owned properties with potential for housing development. City staff has created detailed maps of these parcels and has begun evaluation to identify those parcels with substantial housing development potential. The key opportunity here is that these properties can be offered, on a competitive basis, to developers with a range of specific conditions, most importantly, the requirement that a portion of the housing units be contractually price-restricted for low-income households. While the specific requirements may vary from project-to-project, the basic target for such inclusionary units in rental housing projects should be 15 percent affordable to households averaging 60 percent of AMI.

c. Consider strategic acquisition and "banking" of land suitable for housing development for subsequent improvement and disposition for affordable housing projects.

Assembling land and offering it on a conditional basis to the private sector can support housing development in a variety of ways including making development sites larger and more feasible for development and also offers the opportunity to achieve inclusionary affordable housing units.

Recommendation:

On an opportunistic basis, purchase (or otherwise acquire) private land suitable for housing development and offer these lands to affordable housing developers.

Discussion:

Land banking (acquiring and holding land for subsequent disposition to the private sector for development purposes) has long been a key part of municipal redevelopment efforts in the United States. Loss of local redevelopment powers in California has reduced funding (property tax increment financing) and constrained the ability of local jurisdictions to buy and sell land. However, remaining municipal authority can sustain a land banking program.

Occasionally private lands may become available at competitive prices that, when purchased and offered to affordable housing developers can provide a cost-effective method of providing (or reducing) the subsidies necessary to support the desired level of affordable housing. Such land banking sites may come from developer in lieu dedications of sites or outright purchases of land for housing purposes.

The City is currently reviewing a proposal from a developer of a single family subdivision in northwest Santa Rosa to dedicate land in southwest Santa Rosa to comply with the Housing Allocation Plan as an alternative to paying the housing impact fee. This proposal offers an opportunity to refine and study how land banking might work.

d. **Revise policies and procedures for vacation of public right-of-way to enhance development potential of adjoining private development sites.**

The current process for "vacating" or selling these rights-of-way is cumbersome and time-consuming. If these rights-of-way were available to adjoining private properties it could increase their development potential and development efficiency.

Recommendation:

Identify and evaluate all remnant or unused rights-of-way owned by the City (or other public agencies) and offer these rights-of-way to adjoining property owners to increase development potential of their property.

Create a streamlined administrative process for vacating and disposing of unused rights-of-way.

Discussion:

The City (and other public agencies) holds easements and rights-of-way that are no longer needed for public purposes. Such parcels often adjoin vacant or underutilized parcels that have development potential. In these cases "vacating" these rights-of-way can increase development potential of the adjoining private parcels. In addition, vacation of rights-of-way can provide for better site planning and design. There are several recent or current examples of such rights-of-way:

North Street Apartments. The parcel that the recently approved North Street Apartments is located adjoins a small "sliver" right-of-way". If the right-of-way had been vacated and offered to the project, several more housing units could have been added.

Kia – Santa Rosa Avenue. The right-of-way vacation of South A Street encouraged economic development in facilitating the development of the Kia auto dealership which fronts on Santa Rosa Avenue. While this is a non-residential development, it could have similar application to residential development.

Program #4 -- Improve development readiness of housing opportunity sites

This program includes identifying "opportunity sites", parcels, or groups of parcels, with good physical, regulatory, and market potential for multifamily and mixed use development. Beyond simple identification this program would identify specific policies, regulatory changes, or public investments that would improve development readiness.

This program should also include consideration of concepts presented to the Planning Commission and City Council by Urban3, a planning and economics firm, in early 2016. Urban3's Santa Rosa development and tax revenue analysis showed downtown had stronger economic potency, because of the dense built environment, where development can utilize existing infrastructure, versus incurring new costs for suburban development. Downtown plays a vital role in the local housing market due to its capacity to accommodate density and provide new housing options.

a. Complete housing opportunity site identification and assessment

Recommendation:

Complete Housing Opportunity Site mapping and assessment to identify additional sites. Develop information about these sites and assess development readiness.

Discussion:

City staff, building on prior efforts and using the City's GIS mapping capabilities, have compiled a map that identifies multi-family housing opportunity sites throughout the City. These are opportunity sites identified in the General Plan Housing Element. A second round of mapping will expand the definition of opportunity sites beyond those vacant or underutilized properties that are currently zoned for multi-family development.

b. Initiate zoning and other changes intended to maximize housing production potential on opportunity sites

Assuring the zoning that imparts development regulations consistent with the General Plan and with the intention of maximizing housing potential is an important step in assuring development readiness.

Recommendation:

Following assessment of the Housing Opportunity Sites determine what (if any) regulatory (zoning) changes are needed to maximize housing potential for the *selected Opportunity Sites. Zoning regulations should impart, to the extent possible, "use-by-right", i.e. a limitation on the need for further discretionary review such as conditional use permits that add uncertainty and time to the approval process.*

Discussion:

The majority of the identified Housing Opportunity Sites have already been rezoned as part of the housing element update or through preparation of the downtown and north station area specific plans or other rezoning actions for multifamily or mixed use development purposes. There have also been recent amendments to the zoning code that increase the "use-by-right" quality of various zoning districts. Additional review, amendments, and rezonings can assure that all housing opportunity sites are zoned in a manner that maximizes their housing potential and that increases certainty and reduces time necessary to obtain development entitlement.

c. Complete infrastructure improvement programs for the Specific Plan areas and commercial corridors with housing potential

Recommendation:

Conduct further review of the infrastructure needs within the Specific Plan areas and refine the "Basic Improvement Programs" for each area. Focus of this effort should be upon those infrastructure improvements needed to improve development readiness of the identified Housing Opportunity Sites.

Discussion:

Substantial analysis regarding infrastructure needs in the Specific Plan areas has already been conducted and, in some instances (e.g. Downtown Station Area Specific Plan) key infrastructure improvements have been completed). This action would focus on completing this effort. The pending update of the City's development impact fees, as currently proposed, will contribute to this effort.

d. Consider options for a "programmatic approach" to meeting Critical Habitat Designated Area mitigation requirements

A very large percentage of the previously approved housing projects that have not proceeded to building permits and construction are not being pursued due to high development costs; these costs include the City (and other agencies') development impact fees and also the time, risks, and costs of mitigating endangered species habitat loss (California Tiger Salamander).

Recommendation:

Create a Task Force that assembles City staff, industry representatives, regulating agencies, and other interest groups and experts to consider programmatic approaches to meeting critical habitat mitigation requirements.

Discussion:

There are approximately 2,900 currently pending or approved housing units in northwest and southwest Santa Rosa, approximately 73 percent of all pending or approved housing units. Many of these units are not proceeding to development due to the costs of meeting critical habitat mitigation requirements.

The scale of this problem suggests that without some new, programmatic approach, the City's development capacity, which is largely located on the west side of Highway 101, will never be developed. Such an outcome undermines the City's General Plan, its intentions to meet the City's housing needs, and also the City's ability to complete infrastructure needed to serve existing as well as future residents of the City.

While the *Programmatic Biological Opinion* (2007) anticipated the need for additional work implementing the plan, this implementation effort has never been undertaken. Meanwhile, the Draft Recovery Plan (2014) further restricted the ability to mitigate habitat loss in the designated area. A new *Programmatic Biological Opinion* is expected soon that will further restrict mitigation to core areas. So, without some intervention and effort by all the parties affected by these regulations, the situation, the inability of the City to achieve its General Plan and to build needed housing, will only worsen.

e. Implement Permit Streamlining for Planning Entitlements

The Planning Division is not regularly operating in compliance with State time limits on development project applications, even for housing projects, despite their current priority status by the Council and the Planning and Economic Development Department. Completeness review in particular is a key milestone challenge for projects due to its relationship to time limits. The current completeness and review process results in multiple plan iterations and incremental requests for additional information.

Recommendation:
Work with staff, applicants and the public to define specific time frames for processing development applications in compliance with state time limits, develop mutually beneficial application completeness checklists, and identify, track and report performance metrics.

Discussion:

Common complaints of the City's planning entitlement process include that it takes too long to receive staff comments, staff comments and definition of "completeness" are inconsistent across the plan review team, compliance with state time limits per the Permit Streamlining Act and the California Environmental Quality Act are not complied with, and there is a lack of transparency and accountability in project status and staff performance.

Addressing these issues collaboratively with staff, applicants and the public will build trust and relationship with the community, create mutually acceptable completeness checklists, timeframes and consistent definitions of completeness, reduced turnaround times from application to action due to more informed and complete applications, and accountability and transparency through metric-based quantitative and qualitative reporting of performance.

Staff is currently preparing a request for proposals to attract consultant assistance to implement this project.

f. Revise Hillside Zoning Ordinance Regulations

The existing hillside development regulations have proven to be overly prescriptive and thus have inhibited development potential of housing opportunity sites. The basic policy objectives related to building safety and protection of scenic backdrops can be preserved while reforming these regulations.

Recommendation:

Amend hillside development standards to add flexibility while maintaining purpose of respecting natural features and terrain

Discussion:

Santa Rosa's hillside development regulations apply to sites with slopes of 10% or more. Their purpose is to ensure hillside development is designed to be sensitive to existing terrain, views, and significant natural landforms and features.

Hillside development permits are required for proposed development on slopes of 10% or greater, with some exceptions for minor alterations. Subdivisions, multifamily and non-residential development require review by the Planning Commission. The Zoning Administrator may approve a hillside development permit for a single dwelling on an existing parcel or an addition to an existing dwelling with an increase in floor area of more than 10%, including accessory structures such as retaining walls and pools.

Hillside development can be challenging given site characteristics, and because of this some sites have difficulty fully meeting the standards, particularly for driveways and in meeting setbacks. This is generally due to the strict application of the standards; some projects meet the intent of the regulations but cannot meet them to the letter. Projects close to meeting the standards but needing a slight variation or exception would also require a zoning variance, which allows relief from strict application of zoning code regulations. A variance is a separate application, which can contribute to lengthening processing time, cost, and uncertainty. Additionally, findings to approve a variance are difficult to make.

Staff and the development community have discussed possible streamlining of some provisions of the hillside standards. This includes allowing exceptions or flexibility where there will be no visual or topographical impact, providing discretion to the Planning and Economic Development Department Director in cases of minor variations from the standards, providing a mechanism for "over-the counter" review of some hillside development permits, and possible exemption projects which were approved prior to the hillside regulations going into effect in 2004.

Staff is proceeding with a request for proposals soliciting consultant assistance in analyzing these options and expects to have a draft revisions before decision makers later this year. Other, shorter term solutions will also be discussed.

g. Streamline Design Review Process

The design review process, as currently practiced and linked to adopted development standards and guidelines, is time consuming and often involves conversations at Design Review Board meetings about how the Design Guidelines are interpreted and how they are applied and implemented. This process constrains and increases cost and risk of housing development. Reforms can be created which preserve the basic need for achieving quality development without impeding it.

Recommendation:

Identify specific reforms to the design review process (and the related design guidelines) that refine the applicability and scope of design review. These reforms should expand the use of administrative design review (based on a check list approach and approval for projects meeting all requirements by City staff) and clarification of the scope of review by the Design Review Board.

Evaluate the benefit of Concept Design Review in terms of reducing time and increasing certainty in the development review process.

Discussion:

Design review process as currently practiced adds considerable time, and also risk to development projects. It is not clear that the related extended review time and project risk (managing mandated changed to the project, etc.) yields any particular improvement in the quality of design of buildings in Santa Rosa. Additionally, clarification and better definition of roles of City Boards and Commissions in the broader context of land use decisions will help board members and the public to understand board roles and purview in decision making.

Program #5 – Increase housing investment and developer partnerships

This program includes the City's efforts to provide facilities and services to its homeless population, the traditional subsidies made by the City to affordable housing developers, and also a new focus upon the acquisition of affordability contracts (housing rehabilitation, extension of contracts, and purchase of contracts), and reduce rental housing barriers. It is estimated that such acquisition of affordable housing units, while not creating new housing, preserves existing affordable housing units.

a. City Homeless Facilities and Programs

Recommendation:

Subject to future Council approval, continue support for homeless services and Special Needs facilities at existing (FY 2015-16) levels.

Discussion:

The City has increased its financial support to homeless services programs in FY 2015/16 by committing general fund resources in excess of $600,000 for the Winter Shelter Bed program at Samuel Jones Hall, Homeless Outreach Services Team (HOST) pilot program, the Community Housing Assistance Pilot Program (CHAPP) and the HCA rental assistance program operated by Community Action Partnership of Sonoma County.

On-going financial support to the operation of the City-owned Samuel Jones Homeless Shelter, the countywide Continuum of Care, the Point-In-Time homeless count, and mandated Fair Housing services has in recent years been funded with the Housing Authority's twenty-percent portion of Real Property Transfer Tax revenue.

Special Needs facilities are funded with HOME funds; 15% of the total HOME funds is designated to Community Housing Development Organizations (CHDO).

b. Affordable Housing Subsidies and Partnerships
Recommendation:

Continue providing City funding to developers of affordable housing projects that rely upon attracting Low Income Housing Tax Credits (LIHTC). In order to assure cost effectiveness of these investments apply a formal criteria-based process for awarding such funding to affordable housing developers.

Discussion:

The expanded effort to promote housing generally and to include affordable housing units in market rate development, as recommended and discussed in Programs 1 through 4, is expected to stimulate housing production and increase the inclusion of affordable housing units in both rental and for sale housing. However, such programs will not be capable, given cost considerations, to provide housing for the City's extremely low, very low, and all of the low income households.

Accordingly, a portion of funding made available for subsidizing housing production should be allocated to continuing the critical Low Income Housing Tax Credits (LIHTC) affordable housing projects, particularly those that provide housing at the low end of affordability spectrum. The chart below shows the need by income category.

Income Category	Percentage of Households	# of Households
Extremely Low – 30% AMI	13%	8,185
Very Low – 50% AMI	11%	6,717
Low – 80% AMI	17%	10,555
Moderate – 120% AMI	10%	6,209
Above Moderate	49%	30,424
TOTAL		62,090

The majority of LIHTC financed projects are sponsored by mission driven affordable housing developers that are committed to the community. The sponsor plans to own and operate the development in perpetuity, well beyond the initial 55-year term of affordability.

LIHTC requirements include:

- 55-year term of affordability

- Inclusion of a community center
- Social services
- Sustainable building materials and energy efficiency
- Proximity to amenities, such as: schools, libraries, hospitals, parks, grocery stores, pharmacies, and transit
- Acceptance of Section 8 Voucher holders
- Quality management oversight
- Compliance reporting to lenders, the equity investor, and the State

The LIHTC projects require a competition for allocation of the tax credits. A key criteria in the competition is the availability of "local subsidy" funding. Historically redevelopment agency funding provided a steady source for such local subsidy but without redevelopment there is less funding available. The level of local subsidy needed to be competitive, based upon recent projects, is in the range of $100,000 per housing unit (the actual amount for given projects varies substantially).

Typically, after the initial ten to fifteen-year tax credit period expires, the property is re-syndicated, which means that a new equity investor joins the partnership providing financial resources (cash contribution) to rehabilitate the units ($25,000 to $30,000 per unit); the 55-year term of affordability starts over.

c. Acquisition of Housing and Purchase of Affordable Housing Contracts

Recommendation:

Investigate the potential for acquiring affordability contracts by testing:

1) *The willingness of owners of rental properties to participate in a rehabilitation loan program – funds to make property repairs in exchange for restricted rents to low income households;*
2) *The willingness of owners of housing bond-financed developments to participate in a purchase program whereby the City would pay for the difference between market rate and affordable rent in exchange for extending the term of an existing Regulatory Agreement; and*
3) *The willingness of rental property owners currently not under a regulatory agreement to enter into a contract in exchange for payment of the market*

   rate/affordable rent differential with household income restricted to 80% area median income.

The length of a contract would be dependent on an owners' interest in the specific program.

Discussion:

Rehabilitation loan program

- An estimated $20,000 per unit would be probable in order for an owner to participate in a loan program requiring restricted tenant income and rents for an extended term. On-going reporting and monitoring would be required.

- A zero percent interest loan for five years is most likely. Depending on the loan to value of the property and cash flow, a five year balloon payment loan may be problematic.

- The City suspended its Rehabilitation Loan Program in FY 2008/2009. In order to establish a new rehabilitation loan program, additional staff would be needed or a contract with Sonoma County to facilitate the program. Either option would require funds for administration.

Regulatory term extension of bond financed properties

- The City was the Issuer of multifamily housing revenue bonds for many developments in the 1980s and 1990s where 20% of the total number of units were set aside to be rented to households at 80% area median income or less with restricted rents at 60%. One multifamily development with 26 restricted units will lose affordability in April this year and another 36 units will be lost to market in February of 2018.

- Purchasing an extension of an already recorded agreement will allow existing tenants to have additional time in a bond restricted unit before a market rate rent is imposed; will help with tenant displacement at a time of low vacancy rates.

- Estimated cost for the 26 units is $45,000 per year, an average of $1,731 per unit per year (at current market rate rents)

- Estimated cost for the 36 units is $277,000 per year, an average of $7,694 per unit per year (at current market rate rents)

Direct purchase of contracts for restricted tenant income and rent

This program would be similar to the bond financed properties' program. The range of subsidy would be from $1,731 per unit per year to $7,694 per unit per year, or higher if market rents escalate.

d. Investigate developer and landlord partnerships

Recommendation:

Research the feasibility of implementing a program to link nonprofits and service providers with landlords so that individuals and families can find a home.

Discussion:

Such a program can help mitigate the real and perceived risks associated with renting to homeless, or formally homeless. Landlord concerns include, non-payment of rent, property damage, or the burden of having to deal with other potential problems caused by tenants.

Financial incentives could be provided to landlords, such as: payment of rent deposits, the first month's rent, a pre-leasing bonus, rental assistance to qualified residents, access to eviction prevention funds, and support to perform basic maintenance.

Further assistance to landlords could include: case management support for qualified residents, routine inspections, master lease with a nonprofit, 24-hour support hotline, and a tenant-certification program that provides perspective tenants with education on budgeting, credit, and other tools to help them be responsible tenants.

FISCAL IMPACT

This is an informational report which does not have a fiscal impact on the General Fund.

ENVIRONMENTAL IMPACT

This is an informational report that is not a project under the California Environmental Quality Act.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Attachment 1 – Interview Questions from Regional and Local Developer Interviews
- Attachment 2 – Report 4 Summary of Recommended Housing Program Initiatives

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