CITY OF SANTA ROSA
HOUSING ALLOCATION PLAN
ORDINANCE UPDATE
WHITE PAPER

JULY 2019

This document prepared for the City of Santa Rosa

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I. INTRODUCTION

The Santa Rosa Housing Allocation Plan ("Inclusionary Housing") Ordinance provides regulations for the development of affordable housing units for lower income households. The Ordinance was first adopted in 1992 and has been updated several times since then.

In late 2016, the Santa Rosa City Council accepted the Housing Action Plan, which includes a variety of programs aimed at addressing the City's ongoing housing needs. Program 1 of the Plan is to "increase inclusionary housing", wherein the following goals for updating the City's inclusionary housing policies were outlined:

1. ***On-Site Requirement.*** *Require on-site construction of inclusionary units in for-sale housing projects, or approval of alternative compliance.*[1]
2. ***Percent Required.*** Require a minimum of 15% of for-sale and for rent projects' total units to be affordable to a mix of low (80% AMI) and moderate (120% AMI) income households.
3. ***Incentives and Flexibility.*** Specify additional regulatory and financial incentives and alternative compliance measures as may be needed to maximize production of affordable housing units.
4. ***In-Lieu Fees.*** Update the fee schedule to reflect current data, and increase the fee charged on rental units (within the nexus based maximum) as part of the effort to encourage inclusionary units in market rate rental projects.
5. ***Innovation.*** Reflect emerging inclusionary housing policies and encourage innovation in achieving increased affordable housing.

In 2017, the City Council directed staff to amend the Housing Allocation Plan Ordinance to implement the goals of the Housing Action Plan. The following White Paper provides: a) background information on the City's current Ordinance; b) a review of other local ordinances and key decision points; c) a summary of community feedback and direction; d) a review of financial feasibility; and e) policy recommendations in support of the Ordinance update.

CURRENT INCLUSIONARY HOUSING ORDINANCE

The Housing Allocation Plan Ordinance is contained in Chapter 21-02 of the Municipal Code. The Ordinance was last revised in 2012 when payment of a housing impact fee (a fee in lieu of providing on-site affordable units) was established as the basic requirement for all residential projects. The current structure of the Ordinance is described below.

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[1] At the time the Housing Action Plan was prepared, the *Palmer* decision was in effect, precluding cities from requiring inclusionary requirements on rental units. The Housing Action Plan therefore limited its goals for on-site construction to for-sale projects. With the restrictions under *Palmer* no longer in place, the City can extend its goals for on-site affordable units to rental projects.

Applicability

The Ordinance applies to all "residential projects" in the City; which includes all projects that contain at least one residential unit. This definition encapsulates both purely residential projects as well as mixed-use projects with a residential component of at least one unit. As outlined in Municipal Code §21-02.080, four categories of otherwise residential projects are exempt from the Ordinance:

1. Dwelling units to replace previously existing dwelling units on the same lot if the previous unit was demolished or destroyed within five years of filing the permit application.
2. Homeless shelters, community care/health care facilities, single room occupancy units and units which, under formalized agreement, are only available for occupancy by lower-income households at affordable levels for a period of not less than 30 years.
3. Second (a.k.a. accessory) units.
4. A unit constructed under a building permit issued to an owner/builder.[2]

Throughout the Ordinance, the following income levels are referenced:

- Lower-Income Households: Represents households that are within the low- and very low-income categories.
- Very Low-Income Households: A household whose gross income, adjusted for household size, does not exceed ***50 percent*** of the area median income (AMI) as defined and updated by the U.S. Department of Housing and Urban Development (HUD).
- Low-Income Households: A household whose gross income, adjusted for household size, does not exceed ***80 percent*** of AMI as defined and updated by HUD.
- Moderate-Income Households: A household whose gross income, adjusted for household size, does not exceed ***120 percent*** of AMI as defined and updated by HUD.

Requirements

Compliance with the City's Housing Allocation Plan Ordinance requires payment of an in-lieu housing impact fee as a standard. Applicants have the option to provide on-site units instead of the fee or to comply using alternative measures outlined in §21-01.070.

Currently the Ordinance does not require on-site construction under any circumstances. Larger residential projects (those containing more than 70 units) are required to "consult" with the Director of Planning and Economic Development. If an applicant elects to construct on-site units, the affordable units must equate to 15% of the total number of units in the project.

[2] Owner/builder: an individual who obtains a building permit to construct a single dwelling unit on a single lot as his or her residence and who may not be issued another residential building permit as an "owner/builder" for a period of five years following the issuance of such a permit and the completion of construction of the dwelling unit authorized there under (see Santa Rosa Municipal Code §21-02.030).

Any units constructed pursuant to the Ordinance must be affordable to low-income households (80% AMI) for a period of not less than 30 years. Moderate-income housing and very-low income housing are not referenced or targeted in the Ordinance.

Alternative Compliance Options

Alternatives to paying the housing impact fee or providing affordable units on-site include:

- ***Provide affordable units off-site***
  If constructed off-site, the affordable housing units must equate to 20% of the total number of units in the project (inclusive of on- and off-site units). Off-site units must be within the same quadrant of the city. The developer must have ownership or a right to purchase the off-site. Units provided off-site may not receive public financing or subsidy.
- ***Dedicate or convey land for affordable housing***
  A developer may comply with the Inclusionary Ordinance by dedicating or conveying land to the City for the construction of low-income housing. Stipulations include:
  - The land must be within city limits
  - The land must be designated and suitable for multi-family development
  - The land must be used for lower-income housing
- ***Innovative approaches***
  This alternative compliance measure is left broad and flexible to allow negotiation by City staff and the review authority.

Relationship to Density Bonus

The Inclusionary Ordinance recognizes that constructed affordable housing units may be applied toward meeting the inclusionary housing requirements as well as qualifying a project for a density bonus, as outlined in §21-02.060. However, the Inclusionary Ordinance requires that density bonus units must be factored into the "total project units" for calculating the inclusionary percentage. This methodology runs counter to the principle established in State Density Bonus Law that does not count units granted through the density bonus program in the project total for the purposes of determining the affordable housing share.

Table 1 - Summary of Inclusionary Housing Ordinance Provisions

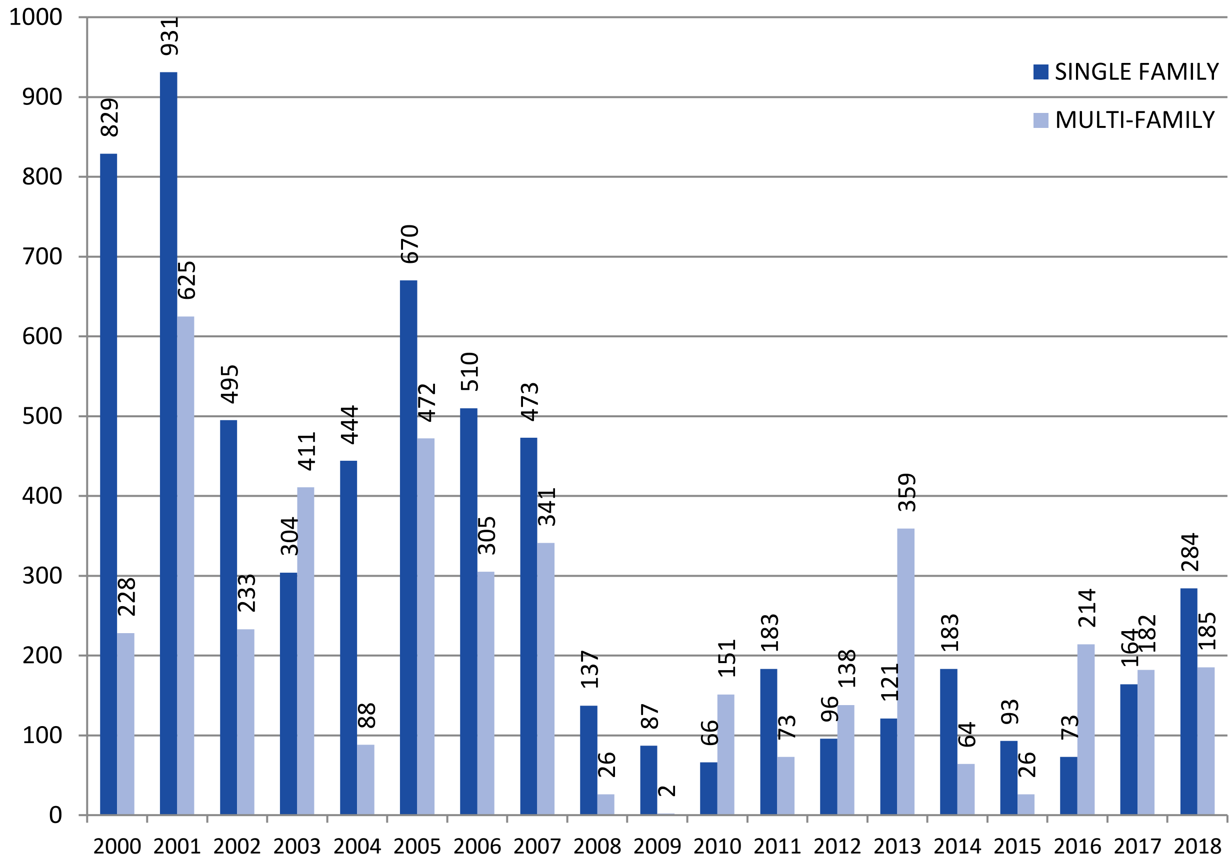
COMPLIANCE MEASURE	ALLOCATION	INCOME TARGET	TERM	INCENTIVE
Housing Impact Fee	N/A	N/A	N/A	Not available
On-Site Construction	15%	Low-income	30 years	1
Off-Site Construction	20%	Not defined**	30 years	1
Land Dedication	Not defined*	Lower income	N/A	1
Innovative Strategy	Not defined	Not defined	N/A	1

* Presumably 20% to match the requirement for off-site units.
** Presumably low-income to match the requirement for on-site construction

SANTA ROSA'S HOUSING DEVELOPMENT AND INCLUSIONARY EXPERIENCE

The success of Santa Rosa's inclusionary housing program in producing affordable housing is directly related to the amount of residential development occurring in the City, whether through market rate projects that integrate affordable units on-site or through development that generates in-lieu fees that can be used to fund affordable housing. The graph below depicts the number of residential building permits issued (not necessarily constructed) since 2000. As this illustrates, the level of residential development activity has fluctuated from a low of 94 permits in 2009 during the recession, up to a high of over 1,600 permits in 2001. Over the past three years (2016-2018), residential building permits have ranged from 300 - 500 units per year. City staff indicate that many more projects have received planning entitlements, but may delay pulling building permits and initiating construction until market conditions are optimal. The Creekside Village and North Village II subdivisions are two examples of substantially deferred construction in projects with on-site affordable units.

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



Santa Rosa's Housing Allocation Plan (inclusionary) Ordinance has been in place since 1992, with the Ordinance last amended in 2012 when payment of an in-lieu fee became the primary method of compliance. In the over 25 years since the Ordinance's inception, Santa Rosa has generated a total of $29 million in in-lieu fees, inclusive of loan repayments and interest. This revenue has been leveraged with other public and private funds to generate nearly 1,500 affordable units (919 at the very-low income level, and 569 at the low-income level) between 1992-2018. Table 2 identifies the affordable housing projects funded with in-lieu fee revenues.

Table 2 - Affordable Housing Projects funded with In-Lieu Fees (1992-2018)

Project Name	Year Constructed	Very Low Income Units	Low Income Units	Unrestricted Units	Total Project Units	In-Lieu Fee Funds
Panas Place Apartments	1999	37	29	0	66	$845,725
West Oaks Apartments	1999	15	37	1	53	$785,000
Jay's Place	2002	24	16	1	41	$519,718
Cypress Ridge	2004	85	35	2	122	$1,830,650
Northpoint Apartments II	2000	40	0	0	40	$481,482
Vintage Zinfandel	2002	26	102	1	129	$188,948
Timothy Road Apartments	2005	19	12	1	32	$137,414
Olive Grove Apartments	2006	76	50	2	128	$1,000,000
Arroyo Point	2007	47	22	1	70	$741,347
Colgan Meadows	2008	66	17	1	84	$4,147,086
Monte Vista	2007	65	40	2	107	$1,803,075
Rowan Court	2009	61	0	1	62	$2,047,853
The Crossings at Santa Rosa	2008	48	0	1	49	$1,500,000
Jennings Court Senior	2008	54	0	1	55	$2,095,067
Amorosa Village I	2011	68	28	1	97	$249,909
Amoroa Village II	2011	39	13	1	53	$137,040
Lantana Place	NA	0	48	0	48	$3,588,470
Acacia Lane Senior	2013	43	0	1	44	$22,044
Tierra Springs	2015	15	49	2	66	$1,286,795
Humboldt Apartments	2013	8	43	1	52	$515,304
Crossroads	2018	56	22	1	79	$335,828
Crossings on Aston	2018	21	5	0	26	$1,319,303
Benton Veterans Village	2018	6	1	0	7	$43,996
		919	**569**	**22**	**1,510**	**$25,622,054**

Note: All of the projects noted above are built or approved.

The inclusionary housing Ordinance has generated few on-site affordable units, with 174 low-income units completed and an additional 97 low-income and 12 moderate income units with planning entitlements (refer to Table 3 below). In aggregate, the 283 on-site affordable units represent just 19% of the approximately 1,500 affordable units produced through in-lieu fees. This result stems from the structure of the Ordinance, which is framed in terms of paying the impact fee rather than requiring on-site units, and because the financial burden of constructing affordable units - particularly low income for-sale units - well exceeds the cost of paying the impact fee.

Table 3 - On-site Inclusionary Units, 1992-2018

Project Name	Status	Year	Tenure	Very Low Income Units	Low Income Units	Moderate Income Units	Total Project Size
Donahue	Built	1993	Ownership	0	1	0	12
Cottonwood	Built	1994	Ownership	0	1	0	24
Franklin Park Place	Built	1996	Rental	0	2	0	200
Bellevue Ranch	Built	1999	Ownership	0	54	0	360
Orchard at Oakmont	Built	2005	Ownership	0	25	0	165
Alderbrook Heights	Built	2006	Rental	0	31	0	32
Woodbridge	Built	2006	Ownership	0	22	0	149
North Village I	Built	2007	Rental	0	14	0	99
Tierra Springs	Built	2007	Rental	0	24	0	162
Kawana Meadows	Entitled	2005	Rental	0	19	0	93
Creekside Village	Entitled	2005	Rental	0	24	0	164
Courtney Estates	Entitled	2007	Rental	0	8	0	54
North Village II	Entitled	2014	Rental	0	18	0	120
Fox Hollow	Entitled	2017	Ownership	0	10	0	178
Roundbarn Village	Entitled	2018	Ownership	0	0	12	238
38' North	Entitled	2018	Rental	0	18	0	120
TOTAL				**0**	**271**	**12**	**2,170**

Table 4 provides an overview of the unique parameters that arose in providing on-site affordable units in some of the City's inclusionary projects. The following elaborates on the challenges the city faced in obtaining on-site affordable units in several of these projects:

- Woodbridge – The 2006 Housing Allocation Plan Agreement provided for construction of 22 on-site ownership units in a 149 unit subdivision. The Agreement had an affordability term of seven years, rather than the 30 year term as originally approved by City Council. Following the execution of the agreement, the housing market began to deteriorate with foreclosures and short sales, and the developer was unable to sell five of the affordable units due to the affordability and resale restriction requirements. The developer sought an amendment to the Agreement to sell the units to either an income eligible buyer with the affordability and resale restrictions in place or to a market rate buyer and pay the Housing Authority $65,000 per unit.

- North Village I and II – The 2006 North Village I Housing Allocation Plan Agreement required 16 on-site rental units for low income households. North Village II, proposed by the same developer, entered into an agreement for 18 low income on-site rental units. In 2012, the developer and the City negotiated a total of 31 low income rental units and 1 unrestricted manager's unit for the entire project. The North Village II agreement stated that upon completion of the 32 units, the original 16 units in North Village I would be released. The North Village I units were constructed and occupied in 2007; North Village II went into default in 2014 and was subsequently sold. The new owner has presented proposals to reduce the on-site requirements for North Village II, which has not yet been constructed.

Table 4 - Inclusionary Housing Projects

Address	Project Name	Description	Discussion items
2290 Fulton Rd.	Woodbridge	29.3 acres Unit Type: 149 single-family Affordable: 19 low income units (15%)	• Relationship of this project to North Village I • 13-acre open space parcel conveyance included
7510 Sonoma Hwy.	Orchard at Oakmont	31 acres Unit Type: 165 single-family Affordable: 25 low income units (15%)	• Part of Oakmont Village Association • Exempted from the on-site requirement (ca. 2002) • Design changes include affordable unit integration
2360 Fulton Rd.	North Village I	Unit Type: 16 duplexes Affordable: 14 low income units	
2406 Fulton Rd.	North Village II (Summerset Village)	17.9 acres Unit Type: 24 single-family, 90 duets, 1 six-plex Affordable: 26 low income units	• Affordable units from Phase 1 consolidated to Phase 2 • On-site community center and open space
2323 Montgomery Dr.	Creekside Village	14.8 acres Unit Type: 140 condos, 25 multi-family senior units Affordable: 25 low income senior units	• Land donated for low-income senior apartments • General Plan midpoint density policy waived due to utility constraints

As of December 2018, Santa Rosa had a total of 3,389 deed restricted affordable housing units, with roughly half of these units assisted through in-lieu fees (Table 5). These include affordable rental units for families (64%), affordable senior housing (20%), rental housing for special needs populations (7%), and affordable homeownership units (9%).

Table 5 - Existing Affordable Housing Units, 2018

Housing Type	Tenure	Eligibility	Units
Multifamily	Rental	Low/Very-Low Income	2,165
Senior	Rental	Low/Very-Low Income, 62 years+	689
Special Needs	Rent/Contract	Special Needs Individuals	227
Single-Family/Condo Owned	Own	Low/Moderate Income	308
Total			**3,389**

The geographic dispersion of affordable housing in Santa Rosa can be measured by evaluating the number of affordable units within each quadrant of the City (formed by the intersection of Highway 101 and Santa Rosa Creek). As shown in Table 6 below, affordable housing is fairly well distributed among the northwest, southeast and southwest quadrants, with each area containing between 26% to 35% of the City's affordable housing stock. The only area where affordable housing is under-represented is in the northeast, which contains just 10% of the affordable housing in the City.

Table 6 - Units by City Quadrant, 2018

Housing Type	Northwest	Northeast	Southwest	Southeast
Multifamily Rentals	820	151	691	503
Senior Rentals	210	99	0	380
Special Needs	7	69	51	100
Ownership	137	32	131	8
TOTAL	**1,174**	**351**	**873**	**991**
Percentage	**35%**	**10%**	**26%**	**29%**

The City continues to support additional affordable housing, with the following two new projects adding an additional 141 owner and renter units to the City's affordable housing inventory (Table 7).

Table 7 - Affordable Housing Projects with Entitlements

Project	Developer	Units	Tenure	Affordability	City Subsidy
Lantana Place	Burbank	48	Ownership-Duet Homes	80/120%	$5,780,000
Residences at Taylor Mountain	Kawana Meadows Dev. Corp	93	Rental	80%	N/A

II. LEGAL FRAMEWORK

The following two legal cases inform the current framework for inclusionary housing policy in California.

CALIFORNIA BUILDING INDUSTRY ASSOCIATION V. CITY OF SAN JOSE

In this 2015 decision, the California Supreme Court determined that inclusionary requirements for residential projects are land use provisions, similar to rent and price controls. Because land use and price control authority comes from a city's general police power, residential inclusionary requirements that are designed to further the public health, safety, and welfare can be adopted without being justified by a nexus study, so long as the requirements provide a property owner a fair and reasonable return on its property. Efforts to overturn the case at the US Supreme Court have thus far failed. Therefore, a nexus study is no longer required for residential inclusionary requirements; however, an economic feasibility study can be used to demonstrate that such requirements provide a fair and reasonable return for developers, and do not unduly burden development.

AB 1505 - THE “PALMER FIX”

The Palmer/Sixth Street Properties L.P. v. City of Los Angeles (*Palmer*) case was decided in 2009, and precluded California cities from requiring long term rent restrictions or inclusionary requirements on rental units. In September 2017, Governor Brown signed AB 1505 to restore cities ability to require on-site affordable units within rental projects. Under AB 1505, cities can impose inclusionary requirements on rental housing provided that: (1) the requirements are imposed in the zoning ordinance; (2) if more than 15 percent of rental units are required to be affordable to low-income households, State HCD may require that the requirement be justified by an economic feasibility study under certain circumstances; and (3) alternatives to on-site compliance are allowed. While AB 1505 requires alternative methods of compliance, it does not necessitate that applicants be provided the option of paying an in-lieu fee.

III. KEY DECISION POINTS RELATED TO INCLUSIONARY HOUSING POLICY

This section presents a summary table of how ten jurisdictions, as well as Santa Rosa, have structured their inclusionary housing programs. The section includes an overview of key decision points for every inclusionary housing program, with Santa Rosa's current approach and the approach taken in the ten other survey jurisdictions highlighted for comparison. Considerations for the Housing Allocation Plan Ordinance update are provided in Section VI.

REVIEW OF INCLUSIONARY HOUSING PROGRAMS

Residential Affordable Housing Requirements in Other Jurisdictions

Karen Warner Associates (KWA) assembled information on affordable housing requirements in other jurisdictions. A presentation of affordable housing requirements and fee levels in neighboring or other relevant jurisdictions is typically helpful in the decision-making process. An analysis of other communities' housing programs not only presents what others are adopting, but also illustrates the broad range in program design and customized features available to meet local needs.

For purposes of the Santa Rosa Inclusionary Program Review, KWA compiled information on the affordable housing requirements in seven communities in Sonoma County, as well as four of the larger communities in nearby Marin, Napa and Contra Costa counties with active affordable housing programs. The following communities were surveyed:

- Santa Rosa
- Healdsburg
- Petaluma
- Rohnert Park
- Sebastopol
- Sonoma (City)
- Windsor
- Napa (City)
- Novato
- Richmond
- San Rafael

The following four-page chart summarizes the key features of the eleven communities in the survey (Table 8). The chart was designed to focus on the major components of each program that would be most relevant to decision making in Santa Rosa, primarily the project size thresholds, on-site affordable unit requirements, and in-lieu fee options and fee levels.

For more complete information on the programs, please consult the website and code language of the individual cities.

Table 8 - Comparison of Inclusionary Housing Programs (June 2019)

	SANTA ROSA	HEALDSBURG	PETALUMA	ROHNERT PARK	SEBASTOPOL	SONOMA (CITY)
MIN. PROJECT SIZE *FOR IMPACT (OR IN-LIEU) FEE* *FOR BUILDING AFFORD. UNITS*	 1 unit n/a[a]	 1 unit 5 or more units	 5 or more units 5 or more units	 1 unit [a] > 50 units (for-sale only)	 n/a 5 or more units [a]	 n/a[a] 5 or more units
FOR-SALE ONSITE REQ'T *% AFFORDABLE UNITS* *QUALIFYING INCOME LEVEL*	 15%[b] Low	 20%[ab] 3/4 Mod, 1/4 Middle	 15% ½ Low, ½ Mod	 15% ½ Low, ½ Mod	 15% Mod or 10% Low or 5% Very Low	 20%[b] Low & Mod [c]
RENTAL ONSITE REQ'T *% AFFORDABLE UNITS* *QUALIFYING INCOME LEVEL*	 15% Low	 20%[ab] 1/4 Low, 3/4 Moderate	 15% ½Very Low, ½ Low	 N/A	 15% Mod or 10% Low or 5% Very Low	 20%[a] Low & Mod [c]
IMPACT/IN-LIEU FEE *(FS): FOR-SALE PROJECTS* *(R): RENTAL PROJECTS*	**FS:** 2.5% sales price **R:** Sliding Scale (unit size) <910 sf = $1/sf ≥1,750 sf = $12,712	Sliding scale (unit size) **FS:** 851 sf = $7,515 ≥2,500 sf = $41,750 **R:** 851 sf = $2,769 ≥1,200 sf = $3,692	Sliding scale (unit size)[a] 640 sf = $6,477 3,830 sf = $38,760	**FS:** $12,477/unit Fee allowed only for projects with 50 or fewer units **R:** $3.23/sf	$22.24/sf Fee allowed for unit fractions only [a]	No fee option
FEE TO ADD/REPLACE UNITS	No	Yes if >850 sf increase	No	No	No	Proposing on sq > 2,800
FRACTIONAL UNITS	Fractional fee or additional unit	Fractional fee or additional unit	Additional unit.	Fractional fee, additional unit, or alternative equivalent action	Fractional fee or additional unit	Not specified
ALTERNATIVES TO ONSITE *FEE OPTION* *LAND DEDICATION* *OFFSITE UNITS* *OTHER*	 Yes (Developer) Yes (City) Yes, 20% Low (City) Innovation (City)	 < 5 units (Developer) Yes (City) Yes (City) Alternt. methods (City)	 Yes (City) Yes (City) Yes (City) Alternt. methods (City)	 Yes (Developer) Yes (City) Yes (City) Alternt. equivalent (City)	 No Yes (City) Yes (City) Innovative methods (City)	 Currently not permitted [d]
INCLUSIONARY STANDARDS *SMALLER UNITS* *LESSER INTERIOR FINISHES* *OTHER*	reasonably compatible with design of other units in the development in terms of appearance, materials and quality finish; and similar unit type/size to the overall residential development.	 "must be substantially similar to market dus" 2nd units cannot fulfill inclusionary requirement.	 Yes Yes Not specified	 Yes, but equal BR mix Yes 2nd units limited to meeting no > than 50% inclusionary requirement.	 Yes [b] Yes Not specified	Not specified, but City allows modified standards (with PC approval)
OTHER CONCESSIONS/ INCENTIVES	1 incentive/concession per density bonus, or other benefits negotiated with City	Increased lot coverage, state density bonus	Housing funds for site acquisition, etc.; ↓ fees; fast-track processing	Density bonus, modified standards, financial assistance, fee deferral	Per state density bonus	Per state density bonus

Table 8 - Comparison of Inclusionary Housing Programs (June 2019) cont.

	WINDSOR	NAPA (CITY)	NOVATO	RICHMOND	SAN RAFAEL
MIN. PROJECT SIZE *FOR IMPACT (OR IN-LIEU) FEE* *FOR BUILDING AFFORD. UNITS*	 10 or more units [a] 10 or more units	 1 unit N/A	 3 units [a] 7 or more units	 10 or more units [a] 10 or more units	 For fractional units 5 or more units [a]
FOR-SALE ONSITE REQ'T *% AFFORDABLE UNITS* *QUALIFYING INCOME LEVEL* *Note: (FS): FOR-SALE PROJECTS*	10% mod income, 7.5% low income, or 5% very low income	N/A	7-10 units: 10% 11-19 units: 11-19% 20 or more units: 20% FS: ½ Low, ½ Mod	17% mod income, 15% low income, 10% very low income, or 12% very low/low mix [b] Senior: ¼ V.Low/Low	2 - 10 units: 10% 11 - 20 units: 15% 21+ units: 20% FS: ½ Low, ½ Mod
RENTAL ONSITE REQ'T *% AFFORDABLE UNITS* *QUALIFYING INCOME LEVEL* *Note: (R): RENTAL PROJECTS*	10% mod income, 7.5% low income, or 5% very low income	N/A	7-10 units: 10% 11-19 units: 11-19% 20 or more units: 20% **R**: ½ V.Low, ½ Low	17% mod, 15% low, 10% v. low, or 12% V.low/low mix [b] **Senior**: ¼ V.Low/Low	2 - 10 units: 10% 11 - 20 units: 15% 21+ units: 20% **R**: ½ V.Low, ½ Low
IMPACT/IN-LIEU FEE *Note:* *(FS): FOR-SALE PROJECTS* *(R): RENTAL PROJECTS* *(C): CONDOMINIUM PROJECTS*	Sliding scale (unit size)[a] 1,000sf = $3.50/sf 4,000sf = $5.08/sf	**R:** $4.05/sf **C:** $4.75/sf **Single-Fam**: $4.75/sf ADUs <500 sf exempt	Sliding scale (project size) [b] **FS:** $18,788/du <11 units $37,577/du 20+ units **R:** $10,870/du <11 units $21,746/du 20+ units	7% of projected construction costs for each non-inclusionary unit	$343,969.47 for one full affordable unit
FEE TO ADD/REPLACE UNITS	No	No	No	No	No
FRACTIONAL UNITS	Fractional fee	N/A	<0.7: Fractional fee >0.7: Provide full unit	<0.5: Round down >0.5: Round up	<0.5: Fractional fee >0.5: Provide full unit Alternative equivalent
ALTERNATIVES TO ONSITE *FEE OPTION* *LAND DEDICATION* *OFFSITE UNITS* *OTHER*	 Yes (developer)[a] Yes (City) Yes (City)	 N/A Alternative equivalent proposal (City) [b]	 Yes, Council approval [c] Yes, Council approval Yes, Council approval Credit for extra units [d]	 Yes	 Yes, Council approval Yes, Council approval Yes, Council approval Alternative equivalent
INCLUSIONARY STANDARDS *SMALLER UNITS (BR: Bedrooms)* *LESSER INTERIOR FINISHES* *OTHER*	 Yes, but equal BR mix Yes Exteriors: equal quality	 N/A	 Yes, but equal BR mix	 No (proposed) No	 Yes [c] Yes Yes
OTHER CONCESSIONS/ INCENTIVES	Density bonus; ↓site standards; modified architectural req't; ↓ parking; fee deferrals; fast track processing	Not specified	Per state density bonus	Density bonus; ↓site standards; mixed use zoning; fee waivers; expedited review; assistance in obtaining State/Federal subsidies	Density bonus [d] incentives; concessions; waivers; modifications; revised parking standards

General Table Notes:

1. This table presents an overview of selected inclusionary programs. Refer to City codes for more specific details.
2. Mod. income = 120% Area Median Income (AMI), Median = 100% AMI, Low = 80% AMI, Very Low = 50% AMI, Extremely Low = 30% AMI.
3. Under "Alternatives to Onsite Units", (Developer) and (City) refer to which entity has discretion.
4. Abbreviations: FS = For Sale R = Rental C = Condominium BR = Bedroom SF = Square Feet N/A = Not ApplicableJurisdiction-Specific Notes:

Santa Rosa:

[a] Developers of projects with 70+ units required to consider providing on-site units, though primary form of compliance is payment of in-lieu fee.

[b] In June 2016, City Council approved a Housing Action Plan, with direction to modify the Affordable Housing (Inclusionary) Ordinance to: require inclusionary units in for-sale housing projects, provide incentives for inclusionary units, and to increase the housing impact fees (with passage of AB 1505, city also now supports on-site rental requirement). A Residential Impact Fee Nexus and Feasibility Study has been prepared which supports increased in-lieu fees, with adoption of an updated Housing Allocation Plan Ordinance targeted for fall 2019.

Healdsburg:

[a] City Council adopted an updated Inclusionary Housing Ordinance in June 2019 as informed by a financial feasibility analysis with the goal of optimizing affordable production without overburdening developers. The primary changes to the Ordinance include: a) reducing the project size for on-site compliance from 7 to 5; b) increasing the inclusionary requirement from 15% to 20%; c) incorporation of a middle income tier (121-160% AMI) for ownership projects; and d) defining low, moderate and middle income at reduced levels to deepen the level of affordability (low = 76% AMI, Moderate = 100% AMI, Middle = 140% AMI).

[b] In projects with 10+ inclusionary units, a minimum of 10% must have 3 bedrooms.

Petaluma:

[a] City adopted its first Inclusionary Ordinance in September 2018, having previously based its inclusionary housing requirements on policies and programs contained in the Housing Element. While development applicants had previously opted to pay the in-lieu fee, the new Ordinance requires on-site provision of inclusionary units in both rental and ownership projects, with payment of an in-lieu fee or other alternative methods of compliance subject to City Council approval. In conjunction with adoption of the Ordinance, the City adopted increases to the inclusionary housing in-lieu fee to be more commensurate with the affordability gap between market rate and affordable units.

Rohnert Park:

[a] Inclusionary requirements had always been met on-site as the City had not established an in-lieu fee. On June 25, 2019 the City Council adopted an update to its Inclusionary Ordinance, including eliminating the on-site requirement for rentals and instead requiring an impact fee, and allowing payment of an in-lieu fee on for-sale projects with 50 or fewer units.

Sebastopol:

[a] The City updated its inclusionary requirements in 2018, including the following changes: decreasing requirements from 20% to 15% mod, 10% low or 5% very low; reinstating application to rental; increasing threshold from 3 to 5 units; exempting units <840 sf; allowance for land dedication, off-site construction and innovative approaches.

[b] Bedroom mix of inclusionary units should be comparable to market units and comply with the min. unit sizes: 0-1 BR = 600 sf, 2 BR = 750 sf, 3 BR = 900 sf, 4 BR = 1,200 sf.

Sonoma (city):

[a] City prepared updated nexus and impact fee study in 2018, and is in the process of updating its inclusionary Ordinance.. Recommendations include: 1) establish impact fee for smaller (1-4 unit) projects, and continue to require on-site provision of affordable units in projects with 5+ units, with alternative compliance options subject to Council approval; 2) adopt impact fees in the range of $4/sf (1,000 sf unit) to $10/sf (4,000+ sf unit) for ownership units and $5.50/sf for rental units; 3) reduce the on-site requirement for ownership units to 15% moderate (110% AMI) income; 4) re-initiate the 20% on-site requirement for rental projects with 1/2 low (70% AMI) and 1/2 moderate income units, while allowing rental projects to pay an in-lieu fee during a 2 year phase in

period; 5) establish a $4/sf fee on additions that result in a total house size of 2,800 sq ft or larger; 6) allow 2-4 unit projects to provide a rent restricted ADU in-lieu of paying the fee.

[b] In 5-9 unit projects, 1 inclusionary unit is required.

[c] In Sonoma Residential District, at least half of inclusionary units must be affordable to low income households.

[d] While off-site compliance not specified in Ordinance, occasionally done in practice (e.g. apartment units permitted to fulfill inclusionary obligation of single-family subdivision).

Windsor:

[a] Town presented nexus study to Town Council, along with recommended changes to inclusionary program in November 2017. The study's primary recommendations included: 1) require on-site units in projects above a certain size threshold; 2) apply inclusionary/in-lieu requirements to development of 1 or more units; 3) increase in-lieu fee levels to amounts commensurate with other Sonoma Co jurisdictions: single-family - $7.57/sf, condominium - $6.85/sf, apartment - $5.84/sf. However, due to the impact of the Sonoma County fires on the regional economy, as of June 2019, Town Council has continued to defer increasing the Town's inclusionary requirements and raising fees beyond an annual inflationary adjustment.

Napa (city):

[a] In 2012, the City amended its Inclusionary Housing Ordinance to an Affordable Housing Impact Fee Ordinance. As an alternative to payment of an impact fee, residential development may propose an alternative equivalent action, including: construction of affordable units on- or off-site, land dedication, provision of affordable rental units, conversion of market rate units to affordable ownership units, preservation of affordable units at risk of loss, or other means consistent with the Housing Element.

Novato:

[a] 1-2 unit projects greater than 3,000 sf/unit are required to pay an in-lieu fee.

[b] In-lieu fee is charged on total units in project. For example, a 9-unit ownership project would pay a total fee of $169,092 ($18,788 x 9 units).

[c] City Council is required to make one or more of the following findings to allow in-lieu fee payment in 7+ unit projects: project location, density, accessibility to public transportation, environmental conditions, or whether fee payment would better serve City housing goals.

[d] Developer has option to provide additional affordable units in one project, and credit towards the affordable requirement in another project.

Richmond:

[a] City in process of updating Ordinance based on Residential Nexus Study and Financial Feasibility Analysis. Recommended changes include (April 2019): 1) modifying in-lieu fee from 7% construction costs to $11/sf, with fees to be phased in north of I-580 to reflect more challenging project economics; 2) apply different production requirements to owner and rental housing as follows: owner - 10% moderate or 7% low income, rental - 10% low or 9% very low income; 3) allow affordable units to be 10% smaller than market rate units and permit clustering of affordable units if required by tax credit or other financing sources.

[b] Where a combination of very low and low income inclusionary units is provided (12.5% total inclusionary units), a minimum of 2 very low-income units are required.

San Rafael:

[a] Projects with 1 - 4 detached units larger than 1,800 square feet per unit are also subject to the Ordinance.

[b] While developer not required to provide affordable units identical to market-rate units, Ordinance does require the same or substantially similar mix of unit size and compatibility with the design, materials, amenities, and appearance of market rate units.

[c] City has integrated density bonus and inclusionary requirements in a single ordinance and has been successful in achieving numerous inclusionary housing projects which also take advantage of density bonus incentives for on-site affordable units.

SUMMARY OF FINDINGS THROUGH THE JURISDICTION REVIEW

Review of the eleven jurisdiction's inclusionary housing programs illustrates the range of program requirements for each of the following decision points:

- Project Size Threshold
- On-Site Requirement
- On-Site Units vs. Fee Payment
- Fee Levels
- Developer Incentives

Many of the jurisdictions surveyed are either in the process or have recently revised their inclusionary programs to improve their effectiveness. Depending on their individual policy goals, some jurisdictions have amended their Ordinances to emphasize on-site production of affordable units (Healdsburg, Petaluma), whereas others have switched to a fee-based program to generate funds in support of affordable housing (Rohnert Park). Once these new programs have been in place for a number of years, the City will have an opportunity to evaluate their relative success in producing affordable units.

Project Size Thresholds

Current Santa Rosa Ordinance*:* Santa Rosa's inclusionary requirements are applicable to projects with one or more units (with the exception of single-family units to be occupied by an owner/builder), with all projects eligible to pay a fee in-lieu fee of providing affordable units.

Other Jurisdictions: Among the eleven inclusionary programs reviewed, six extend affordable housing requirements/impact fees to projects with one or more units (Santa Rosa, Healdsburg, Napa City, Novato, Rohnert Park and San Rafael), with Sonoma City in the process of adopting impact fees on 1-4 unit projects. Both San Rafael and Novato apply inclusionary requirements to 1+ unit single-family projects with units above a minimum size threshold, at 1,800 sf and 3,000 sf respectively. Project size thresholds in other communities include 5+ units in Petaluma and Sebastopol, and 10+ units in Richmond and Windsor. All jurisdictions surveyed with an inclusionary requirement on 1-4 unit projects allow payment of a fee in-lieu of providing on-site units.

On-Site Requirements

Current Santa Rosa Ordinance*:* Residential development applicants choosing to provide allocated units on-site are required to provide 15% low income (80% AMI) units in both for-sale and rental projects. Projects of less than 70 units providing on-site units are eligible to receive one incentive or concession consistent with the City's density bonus and other developer incentives provisions, or other benefits as negotiated with the City.

Other Jurisdictions: Santa Rosa's existing inclusionary requirement of 15% low income units reflects an average requirement in regard to the percentage of units, but a relatively onerous requirement in regard to the affordability of units in for-sale projects. Four of the surveyed jurisdictions had a 20% affordability requirement on for-sale projects, with affordability levels ranging from 1/2 low income and 1/2 moderate income (Novato, San Rafael, Sonoma), to 3/4 moderate income and 1/4 middle income (Healdsburg). Both San Rafael and Novato use a sliding scale to determine the inclusionary percentage, with projects under 10 units having a 10% requirement, and projects between 11-19 units having a 15% requirement. In addition to Santa Rosa, other jurisdictions with a 15% requirement on for-sale projects include Petaluma and Rohnert Park, (both requiring 1/2 low and 1/2 moderate income units), Sebastopol (allowing all moderate income units), and Richmond (low income units). Richmond's 15% low income requirement is comparable to Santa Rosa's, though Richmond allows the option of providing a greater percentage of moderate income units (17%), or a lesser percentage of very low income units (10%).

While the percent on-site requirement did not vary among for-sale and rental projects, several jurisdictions had deeper affordability requirements for rental projects. Novato, Petaluma, and San Rafael all require inclusionary rental units to be divided between very low income and low income units. And Healdsburg requires 1/4 low income and 3/4 moderate income units.

On-Site Units vs. Fee Payment

Current Santa Rosa Ordinance*:* Santa Rosa currently implements a fee-based inclusionary program, with no requirement to produce affordable units on-site. While City staff routinely consult with applicants about the option to provide on-site units or other alternative compliance measures, as presented earlier in Table 3, very few inclusionary units have been produced. Instead, over $29 million in in-lieu fee revenues have been collected since the program's inception in 1992, contributing to the construction of nearly 1,500 affordable units (919 at the very-low income level, and 569 at the low-income level).

Other Jurisdictions*:* Six of the eleven communities surveyed require on-site units for projects above a given size threshold (generally five or more units), and offer no fee “buy out” without a special City Council procedure (Healdsburg, Novato, Petaluma, San Rafael, Sebastopol and Sonoma). Similar to Santa Rosa, the cities of Napa, Richmond, Rohnert Park and Windsor all currently implement a fee-based program, with no mandatory requirement to provide on-site affordable units. Interviews with the survey jurisdictions confirm that when given the choice between providing on-site affordable units or paying an in-lieu fee, developers will almost always pay the fee, unless the cost of compliance is well below the fee amount.

Following the *Palmer* decision in 2009, impact fees had been the only avenue for instituting affordable housing requirements on rentals. On-site affordable rental units were sometimes encouraged as an "alternative equivalent proposal" to fee payment, and establishing high impact fees (as supported by a nexus study) were used to support this approach. For example, San Rafael has been successful in achieving on-site affordable rental units by establishing high impact fees (approx. $344,000/affordable unit) and encouraging developers to take advantage of density bonus incentives for the inclusion of affordable rental units on-site. The passage of AB 1505 overturned the *Palmer* decision, and as of January 2018, jurisdictions are again authorized to require on-site inclusionary units as a condition of development in rental projects.

Fee Levels

***Current Santa Rosa Ordinance**:* Santa Rosa currently charges a fee on for-sale units based on 2.5% of the unit sales price. The housing impact fee for rental units is based on the unit's size, and ranges from $1/square foot for units under 910 square feet, up to $12,712 per unit for units 1,750 square feet and larger.

Other Jurisdictions: In addition to Santa Rosa, six of the other communities have either recently updated or are in the process of updating their affordable housing requirements and fee levels (Healdsburg, Petaluma, Richmond, Rohnert Park, Sebastopol and Sonoma). Healdsburg's recently adopted Ordinance (June 2019) modifies requirements to optimize on-site production, including the creation of a new middle-income tier (120-160% AMI), and the adoption of fees at "full cost" of providing the inclusionary unit. In contrast, Rohnert Park recently shifted from requiring on-site production to implementation of an impact fee on all rental projects, and on for-sale projects with 50 or fewer units. Sonoma is in the process of updating its Ordinance to allow fee payment for the first time on projects with 1-4 units. Richmond is also looking to increase fees as a means of encouraging on-site production, but plans to phase in fees in the northern portion of the City to reflect more challenging project economics.

Affordable housing fees reflect a range of approaches in the survey jurisdictions. Fees on for-sale units, where permitted, are most commonly charged on a sliding scale based on the size of the unit (Healdsburg, Petaluma, Sonoma, Windsor), or less commonly based on the size of the project (Novato). Some jurisdictions charge a flat fee for ownership projects, including Napa City ($4.75/sf for single-family and condos), Rohnert Park ($12,477 per for-sale unit), and Richmond (proposing to change to $11/sf from current approach of 7% projected construction costs). San Rafael limits the payment of in-lieu fees to fractional inclusionary units, and 1-4 unit single-family projects with units of less than 1,800 square feet, with a current fee level of $343,969.47 for one full affordable unit. Sebastopol also limits fee payment to fractional units, and recently adopted an updated fee of $22.24/sf. Fees on rental units, where permitted, are almost all charged based on unit size, either using a sliding scale like Santa Rosa, or a flat fee/square foot.

Table 9 summarizes housing fees in the survey jurisdictions with a current housing in-lieu/or impact fee. For comparison, fees have been presented on a price/square foot basis for three different unit types: 2,000 square foot single-family detached homes, 1,600 square foot single-family attached (townhome) units, and 950 square foot apartment units. For Santa Rosa, a sales price of $660,000 was assumed for the single-family detached unit and $488,00 for the attached unit, consistent with the *Residential Impact Fee Nexus and Feasibility Study* prepared by Strategic Economics for the City (May 2019).

As shown, the single-family detached fee of $8.25/sf in Santa Rosa falls in the middle of the eight jurisdictions presented, with a low of $4.03/sf in Windsor and high of $16.79/sf in Healdsburg.

Similarly, Santa Rosa's single-family attached fee of $7.63/sf is in the middle of the fees presented, and fairly comparable to Rohnert Park's recently updated fee of $7.80/sf. Rental impact fees range from a low of $2.10/sf in Windsor to a high of $11.44/sf in Novato, with Santa Rosa's fee of $2.54/sf the second lowest among the eight jurisdictions surveyed.

Table 9 - In-Lieu/ Impact Fees in Other Jurisdictions

JURISDICTION	ELIGIBLE PROJECTS	FOR SALE UNITS		RENTAL UNITS
		2,000 sf detached unit	1,600 sf attached unit	950 sf
Santa Rosa[a]	All	$8.25/sf	$7.63/sf	$2.54/sf
Healdsburg	1 - 5 units	$16.70/sf	$16.70/sf	$3.08/sf[b]
Napa (City)	All	$4.75/sf	$4.75/sf	$4.05/sf
Novato[c]	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[d]	All, except 50+ unit for-sale projects	$6.24/sf	$7.80/sf	$3.23/sf
Sonoma (proposed)[e]	1-4 units	$6.00/sf	$5.20/sf	$5.50/sf
Windsor	10+ units	$4.03/sf	$3.82/sf	$2.10/sf

[a] Fee amount in Santa Rosa based on $660,000 single-family detached home, and $488,000 single-family attached home (source: Residential Impact Fee Nexus and Feasibility Study, Strategic Economics May 2019)

[b] To encourage smaller unit sizes, Healdsburg calculates fees on units <1,200 sf at 50% of the full fee. The full fee for rental units >1,200 sf is $6.15/sf.

[c] Novato's fees increase with project size. As City only allows fees by-right in 3-6 unit projects, fees presented represent the lowest cost tier of 1-10 units.

[d] Rohnert Park adopted its updated Ordinance on June 25, 2019 with the updated fees to go before Council on July 9.

[e] City in process of preparing updated Inclusionary Ordinance and adopting updated fees as directed by City Council.

The *Residential Impact Fee and Feasibility Study* recommends the following updated fees for Santa Rosa:

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

These proposed fee levels would move Santa Rosa towards the upper end of the range of fees charged, though not the highest. The proposed fee of $10/sf for single-family attached and apartments is comparable to Petaluma's recently updated fees of $10.12/sf. The findings and recommendations of the Feasibility Study will be further discussed in Chapter V.

Developer Incentives

Current Santa Rosa Ordinance*:* The City's Ordinance specifies that residential developers choosing to provide on-site units are entitled to one incentive/concession as outlined in the City's density bonus Ordinance, and other incentives or benefits as negotiated with the City.

Other Jurisdictions*:* Most jurisdiction's ordinances reference the ability of on-site inclusionary units to qualify for incentives and concessions under State density bonus law. Healdsburg, Petaluma, Richmond, Rohnert Park, San Rafael and Windsor specify a variety of additional incentives for on-site units, such as: modified development standards, modified architectural standards, waiver or deferral of building permit/other fees, expedited review, reduced parking and local funding assistance.

The surveyed cities allow alternative compliance options that include land donation, off-site construction, in-lieu fees, and other negotiated alternatives. There are also varied approaches to whether the alternative compliance option is available at the applicant's discretion or the City's discretion. Several cities include a broad category of alternative compliance that can be negotiated with the City, including Santa Rosa's Ordinance which allows for "innovative alternatives."

As a means of lowering the cost of providing on-site inclusionary units, most jurisdictions surveyed allow the affordable units to be smaller in size than the market rate units, with several communities requiring the overall bedroom mix to be the same. Sebastopol establishes minimum unit sizes for inclusionary units, and Healdsburg prohibits the use of accessory dwelling units to fulfill on-site inclusionary obligations. Many jurisdictions also allow lesser interior amenities in affordable units, as long the exterior appearance and overall quality of construction is comparable to market rate units. Santa Rosa's Ordinance requires on-site affordable units to be reasonably compatible with the design of other units in the development in terms of appearance, materials and quality finish, and requires similar unit types and sizes to the overall residential development.

IV. PRELIMINARY FEEDBACK AND COMMUNITY DIRECTION

On December 9, 2017 M-Group and City staff conducted a day-long workshop series to gather preliminary feedback on the Inclusionary Housing Ordinance and how it may be improved. Three groups were targeted to share their experience and insight:

- For-profit developers
- Affordable housing providers
- Santa Rosa residents

The following section summarizes the feedback provided by each of these groups for the Inclusionary Housing Ordinance.

FEEDBACK FROM DEVELOPERS

- Securing financing for housing projects has become a challenge. Increasingly, lenders are looking for “stand alone” affordable housing development (whether that means building up in a single building, or building out horizontally as a section of subdivision) that can be financed separately from the market-rate component of the project.
    - Stand-alone affordable housing projects are the most efficient way to construct affordable units. Projects can be mixed income, but the affordable component may need to be distinct to be financed individually as required under certain public funding sources.
- Capital costs are a major hurdle for affordable housing development. Reducing these costs would improve the feasibility of integrating units on-site.
- The Inclusionary Housing Ordinance should recognize that requiring affordable units to be built first or at the same time as market rate units is infeasible.
- The City could waive fees associated with developing residential projects on housing opportunity sites.
- Basing density calculations on square footage rather than units would incentivize a larger number of smaller units to be built.
- The carrying cost of land is a major financial risk for developers. The development review and approval process takes too long, and this causes a major financial burden. Streamline housing projects as much as possible to reduce these expenses.
- Higher in-lieu fees make development more difficult, and there are currently no subsidies available in California to help make the development profitable.
- Projects in the urban core are significantly more expensive due to acquisition, demolition, and infrastructure costs. This must be considered if the goal is to focus development downtown. Potentially, an infrastructure financing district may be needed.
- The cost of a very low-income units is in excess of $200,000/unit compared to an equivalent market rate unit.

- Private/public partnerships are needed to spread the risk and costs.
- Housing of all types are beneficial to the community: including market rate. These types of projects should not be penalized.
- Incomes in the area are not high enough to carry the higher rents on market rate units necessary to cover the expected loss in revenue for low income inclusionary units.

FEEDBACK FROM AFFORDABLE HOUSING PROVIDERS

- Site requirements should be relaxed or made more flexible to accommodate inclusionary units.
- Integrating affordable units with market rate units is the most desirable scenario.
- Moderate income units should be emphasized in the Inclusionary Housing Ordinance to reduce financial pressure that stems from low- and very low-income units.
- A one-size-fits all on-site inclusionary percentage requirement is inappropriate: the percentage of inclusionary housing that can be accommodated in an individual project will vary due to the unique set of factors that determine costs.
- The City should engage in public land assembly, land banking, and land acquisition, then make the land available to housing developers through a competitive bid process. This would help deal with the loss of the redevelopment agency.
- Entitlement certainty is a major benefit and should be encouraged.
- Consider the length of affordability terms: Land trusts require affordability in perpetuity. Perhaps replacing the current deed restriction structure with a land trust holding requirement may be appropriate.

FEEDBACK FROM SANTA ROSA RESIDENTS

- Look at community land trusts as a tool to assemble land and reduce development costs for developers and housing providers. City surplus land can be used as the starting point.
- Higher inclusionary fees will put an additional challenge on development that is already constrained. This may stifle housing development and result in further constrained supply.
- Inclusionary housing requirements may result in increased housing prices as market rate units will need to be priced higher to offset the costs of affordable housing.
- The Inclusionary Housing Ordinance should aim to replace units lost in the fires; the share of very low-, low-, and moderate-income units in need may have been altered by the fires.
- Allow alternative housing options to satisfy the inclusionary requirements.
- The current inclusionary housing Ordinance is not producing enough affordable units.
- The number of residents at each household income level is the number of units that are needed, and how the inclusionary housing policy should be targeted.
- Require developers to build affordable housing on-site to address the lack of supply.
- Increase inclusionary fees to generate resources for the construction of affordable units.

- Moderate-income units may not be appropriate as these are at, or near market rates.
- The moderate-income density bonus requirement is an add on to inclusionary (inclusionary housing does not require moderate income).

V. SUMMARY OF FINANCIAL FEASIBILITY

The City contracted with Strategic Economics to prepare a *Residential Impact Fee Nexus and Feasibility Study* in support of the update to the Housing Allocation Plan Ordinance. The nexus study component calculates the maximum legal fee that can be charged on new development for affordable housing. The feasibility study evaluates the financial viability of increasing the current residential impact fee level, as well as changing the percentage on-site requirement.

RESIDENTIAL IMPACT FEE

Strategic Economics tested the impact of a range of different fee levels on development feasibility. The following scenarios were tested:

- Existing Fee: This scenario tests Santa Rosa's existing affordable housing impact fee
- Maximum Justified Fee: This scenario tests the maximum that Santa Rosa could charge to mitigate affordable housing demand related to market rate residential development as supported by the nexus study
- Fee Increase: These scenarios test the feasibility of two different fee levels between Santa Rosa's existing fees and the maximum justified fee level.

Table 10 below presents the four fee scenarios for three different residential prototypes: single-family detached, single-family attached, and multi-family apartments. Financial feasibility was measured based on a return on cost of at least 15-18% for single-family prototypes, and a yield on cost of at least 6-7% for the apartment prototype. Utilizing these measures, the feasibility analysis indicates that at current market prices, the City's existing impact fees (Scenario 1) meet the minimum threshold for feasibility, though the maximum justified fees (Scenario 2) exceed the feasibility threshold. Testing the feasibility of two different fee levels that fall between the City's existing fees and the maximum justified fee, Scenario 3 results in the highest fee that still achieves financial feasibility.

Table 10 - Financial Feasibility of In-Lieu Fee Scenarios

	Single-Family Detached		Single-Family Attached		Multifamily Apartments	
Fee Scenario	**Fee/Sq Ft**	**Return on Cost**	**Fee/Sq Ft**	**Return on Cost**	**Fee/Sq Ft**	**Yield on Cost**
Fee Scenario 1: Existing Fee	$8.25	17.8%	$7.60	16.3%	$2.56	6.2%
Fee Scenario 2: Max Justified Fee	$25	10.3%	$21	10.1%	$34	5.6%
Fee Scenario 3	$13	15.6%	$10	15.2%	$10	6.0%
Fee Scenario 4	$10	17.0%	$9	15.7%	$5	6.1%

Source: Residential Impact Fee Nexus and Feasibility Study, Strategic Economics, May 2019.
The following residential prototypes were defined based on recent development characteristics in the City: a) $660,000 single-family detached unit, 2,000 sf; b) $488,000 single-family attached unit, 1,600 sf; c) 908 sf apartment unit.

Based on the findings of the feasibility analysis, along with a comparison of fees in neighboring jurisdictions, Strategic Economics recommends the following fees tested under Scenario 3:

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

Their study further recommends that the City should consider a reduced fee schedule and/or additional incentives for high density residential development within Santa Rosa's Downtown Specific Plan, citing a recent study that found those building types to be challenged under current conditions.[3]

ON-SITE INCLUSIONARY REQUIREMENT

Strategic Economics also tested a range of on-site inclusionary requirements on development feasibility, ranging from 10-15% for the single-family prototypes, and 8-15% for the apartment prototype. Each of these scenarios were tested with and without development impact fee waivers on the affordable units. Financial feasibility is based on the same measure as for the in-lieu fee scenarios, with a return on cost of at least 15-18% necessary for single-family prototypes, and a yield on cost of at least 6-7% required for the apartment prototype.

As shown in Table 11 below, a 15% moderate income requirement does not meet the feasibility threshold for the single-family prototypes, though with the addition of an impact fee waiver, the single-family attached prototype can accommodate a 15% requirement. A 10% moderate income requirement is feasible for both single-family prototypes. For apartments, Santa Rosa's existing 15% low income requirement does not meet the feasibility threshold, and lowering the requirement to 10% still does not achieve financial feasibility. Under current market conditions, an 8% low income requirement just meets the threshold for financial feasibility.

Table 11 - Financial Feasibility of On-Site Inclusionary Scenarios

Single-Family Detached		Single-Family Attached		Multifamily Apartments	
On-Site Req.	**Return on Cost**	**On-Site Req.**	**Return on Cost**	**On-Site Req.**	**Yield on Cost**
15% mod income	12.59%	15% mod income	14.81%	15% low income	5.83%
15% mod w/h impact fee waivers	13.24%	15% mod w/h impact fee waivers	15.59%	15% low w/h impact fee waivers	5.87%
10% mod income	16.01%	10% mod income	16.84%	10% low income	5.96%
10% mod w/h impact fee waivers	16.43%	10% mod w/h impact fee waivers	17.34%	10% low w/h impact fee waivers	5.99%
				8% low income	6.01%
				8% low w/h impact fee waivers	6.04%

Source: Residential Impact Fee Nexus and Feasibility Study, Strategic Economics, May 2019.
In all on-site inclusionary scenarios, the inclusionary units replace the affordable housing in -lieu fee.

[3] Keyser Marston Associates, Inc., September 6, 2018, *Memorandum: High-Density Multi-Family Residential Incentives.*

Based on these findings, Strategic Economics recommends the following percentages and affordability levels that achieve financial feasibility:

- Single-family detached - 10% moderate income
- Single-family attached - 10% moderate income
- Apartments - 8% low income

The study also recommends that the City include regulatory and financial incentives in its inclusionary housing policy to further facilitate on-site inclusionary units.

VI. POLICY CONSIDERATIONS

As presented in the introduction to this report, Santa Rosa's Housing Action Plan sets forth the following goals for the update of the Housing Allocation Plan Ordinance:

1. ***On-Site Requirement.*** Require on-site construction of inclusionary units in for-sale housing projects, or approval of alternative compliance.
2. ***Percent Required.*** Require a minimum of 15% of for-sale projects' total units to be affordable to a mix of low (80% AMI) and moderate (120% AMI) income households.
3. ***Incentives and Flexibility.*** Specify additional regulatory and financial incentives and alternative compliance measures as may be needed to maximize production of affordable housing units.
4. ***In-Lieu Fees.*** Update the fee schedule to reflect current data, and increase the fee charged on rental units (within the nexus based maximum) as part of the effort to encourage inclusionary units in market rate rental projects.
5. ***Innovation.*** Reflect emerging inclusionary housing policies and encourage innovation in achieving increased affordable housing.

Based on this direction, along with the background information presented in this White Paper, the consultant team has developed the following preliminary recommendations for each of the key decision points in the Ordinance. The recommendations are summarized in Table 12 below, followed by a discussion of each item.

Table 12 - Draft Recommendations for Housing Allocation Plan Ordinance

Key Decision	Current Program	Draft Recommendation
For Sale Projects		
Project Size Threshold	1 or more units: in-lieu fee	1-4 units: in lieu fee 5 or more: on-site or alternative equivalent required
On-Site Requirement	15% at Low (80% AMI) Income	10% at Moderate (110% AMI) income
In-Lieu Fee Level	2.5% of sales price	Single-family detached: \$13/sf Single-family attached: \$10/sf
Rental Projects		
Project Size Threshold	1 or more units: in-lieu fee	1-4 units: in lieu fee 5 or more: on-site or alternative equivalent required
On-Site Requirement	15% at Low (80% AMI) Income	8% at Low (80% AMI) income
In-Lieu Fee Level	Sliding scale: < 910 sf = \$1/sf ≥ 1,750 sf = \$12,712/unit	Apartments: \$10/sf Reduced fees in the downtown core Reduced fees on smaller units

Table 12 - Draft Recommendations for Housing Allocation Plan Ordinance

Key Decision	Current Program	Draft Recommendation
All Residential Projects		
Alternatives to On-Site	In-lieu fee, allocated units off-site, land dedication or conveyance, innovative alternatives	Continue with current alternatives, subject to Director approval. Modify current alternatives to allow for conversion of market rate units to affordable, and preservation of affordable housing at-risk of loss.
Geographic Dispersion	Off-site units required to be located in same quadrant. Impaction determination for land dedication, prohibiting if within 1,000 ft of housing with >50% low unit units, with exception of downtown.	Eliminate existing provisions. Require inclusionary units to be dispersed within project, unless clustering of affordable units is required by tax credits or other financing sources.
Inclusionary Standards	Units must be of similar unit type and size as market units, and be reasonably compatible in terms of appearance, materials and quality finish.	Allow for smaller unit sizes, but require same bedroom mix as market units. Allow less expensive interior amenities. Require same exteriors.
Developer Incentives	1 incentive/concession per City's density bonus, or other benefits negotiated with City	Pre-approved density bonus incentives. Reduced development fees. Fee deferral to certificate of occupancy. Fast track processing.
Inclusionary Credits	Not specified	Allow transfer of a greater number of inclusionary units provided on one site as inclusionary "credits" in a future project.
Ordinance Exemptions	Accessory dwelling units, affordable deed restricted units, homeless shelters, community care/health facilities, SROs, units constructed by an owner/builder, additions and replacement units	Continue with current exemptions.
Affordability Period	30 years	55 years. Consistent with Density Bonus law and existing affordable housing programs
Fractional Units	Fractions rounded down to next lower whole number. Requirement can be met through fee or additional unit.	< 0.5: fractional fee > 0.5: provide full unit

PROJECT SIZE THRESHOLDS, ON-SITE COMPLIANCE AND FEE LEVELS

The nexus study supports a fee requirement down to one unit, consistent with the City's current approach, and similar to the requirement in the majority of jurisdictions surveyed.

Interviews with the survey jurisdictions confirm that when given the choice between providing on-site affordable units or paying an in-lieu fee, developers will almost always pay the fee, unless the cost of on-site compliance is well below the fee amount. Survey jurisdictions that were most successful in producing on-site units limit by-right fee payment to smaller project sizes, with discretionary approval required on projects above a specified size threshold.

The recommendation is to continue to allow for-sale and rental projects of up to four units to pay the in-lieu fee to minimize the impact of affordable housing requirements on small projects. Projects with five or more units would be required to provide inclusionary units on-site, with allowance for alternatives subject to approval by the Director of Planning and Economic Development.

While the Housing Action Plan recommends a 15% low/mod inclusionary requirement for ownership projects, the financial feasibility analysis only supports a requirement of 10% moderate income for ownership projects and 8% low income for rental projects. These on-site requirements are below that imposed by the majority of jurisdictions surveyed. After the new Ordinance has been in place for five years and the City can evaluate its effectiveness, the feasibility study should be updated to determine whether the market can support an additional on-site requirement.

The recommended in-lieu fee levels of $13/sf for single-family detached and $10/sf for single-family attached and rental units are the maximum levels supported by the feasibility study. Due to the economic challenges of building the higher density product types the City wishes to encourage in the downtown, reduced fee levels and reduced inclusionary requirements, along with additional development incentives should be considered for the Downtown Specific Plan area. The necessity for these modified requirements for downtown can be re-evaluated in conjunction with a City-wide update of the feasibility study in five years. In order to encourage the production of smaller rental units, the City may want to continue to implement a reduced in-lieu fee for apartments below a certain size threshold. For example, Healdsburg calculates fees on rental units <1,200 square feet at 50% of the full fee.

ALTERNATIVES TO ON-SITE COMPLIANCE AND GEOGRAPHIC DISPERSION

The recommendation is to continue Santa Rosa's current alternatives to on-site production (in-lieu fee, off-site, land dedication, innovative alternatives), but to explicitly state approval is at the discretion of the Director of Planning and Economic Development. The City may want to develop subjective criteria required for approval of alternatives to on-site compliance, similar to the City of Novato that requires findings to allow for in-lieu fee payment based on project location, density, accessibility to public transportation or environmental conditions. Additional alternatives that are worth considering include preservation of assisted housing at-risk of conversion to market rate, and conversion of market rate units to affordable rents, such as the recent acquisition of Parkwood Apartments. While these options do not increase the supply of housing, they do serve to preserve and enhance affordability. Both can be structured in a way to be eligible for regional housing needs (RHNA) credit in the Housing Element.

The City's current provisions for alternative compliance include requirements for geographic dispersion that may constrain the viability of these options. For example, off-site housing is currently required to be located in the same quadrant as the market rate project, with quadrants formed by the intersection of Highway 101 and Santa Rosa Creek. Off-site housing typically occurs through partnership with a non-profit that provides the affordable units on a site they control. The more flexibility the City can provide for such partnerships between market rate and affordable housing developers, the greater likelihood for success.

A second geographic dispersion requirement in the City's Ordinance applies to alternative compliance through land dedication. An "impaction determination" is required whereby the proposed site cannot be located within 1,000 feet of one or more existing or approved developments with 50% or more lower income units, unless the development is located downtown. The Ordinance does allow for the review authority to override a determination of impaction by making findings that local schools, services and adjacent uses will not be negatively impacted by the construction of affordable units on the site. With approximately 3,400 affordable units located throughout Santa Rosa, this 1,000-foot restriction may constrain the use of otherwise viable sites for affordable housing. None of the other inclusionary ordinances reviewed had such geographic restrictions. It is recommended that the City eliminate the impaction determination, and instead incorporate integration criteria for affordable units within each project similar to provisions included in the City's recently updated Density Bonus Ordinance.

INCLUSIONARY STANDARDS AND DEVELOPER INCENTIVES

As a means of reducing the costs of on-site compliance, it is recommended the City allow modified standards for affordable units (less expensive interior amenities and smaller unit sizes), similar to the majority of jurisdictions surveyed. The exterior design of affordable and market rate units should be indistinguishable. We also recommend requiring that the overall bedroom mix be in the same proportion as market rate units in the project, and that minimum unit sizes are established for each unit type (one bedroom, two bedrooms, etc).

Another by-right incentive recommended to reduce the costs of on-site compliance is the deferral of project development fees from building permit issuance to certificate of occupancy.

The City's current Housing Allocation Plan Ordinance specifies that developments choosing to provide affordable units on-site are eligible to receive one incentive or concession "as outlined in the City's density bonus or other developer incentives provisions or other benefits as negotiated with the City." Santa Rosa's recently updated Density Bonus Ordinance provides for the following pre-approved[4] incentives and concessions:

1. Setback Reduction. A setback reduction of up to 25%, but not to be less than 20% below the average of the developed lots on the same block face.
2. Auto Parking. Up to 50% reduction where State Density Bonus Law reduced parking ratios are not already applied.
3. Lot Coverage. Increase in allowable lot coverage by up to 10% of lot area.
4. Building Height. Increase of the larger of up to 12 feet or 10% beyond current maximum permitted.

The City should consider offering these same incentives for on-site inclusionary units, particularly in the Downtown Specific Plan boundary where the City wishes to encourage higher residential densities. As the financial feasibility analysis only supports an 8% low income requirement for rental projects, such projects do not meet the minimum 10% low income requirement to qualify for a density bonus. For-sale projects providing 10% moderate income units would, however, qualify for a 5% density bonus and one incentive or concession. We recommend providing pre-approved incentives for on-site units regardless of whether the project is eligible for a density bonus.

We recommend including the following additional incentives in the Ordinance, subject to Director review and approval:

- waiver or modification of City standards
- direct financial assistance

INCLUSIONARY CREDITS

Allowing inclusionary "credits", or transfer between projects is another tool that can ease the burden of providing on-site affordable units. Under this approach, a developer can provide a greater number of affordable units in a project than required under the Ordinance, with the additional units eligible to be credited toward meeting the inclusionary requirements in a future project. Credits can only be used to fulfill required affordable units in a future project within the same income category and are generally required to be used within 5-10 years. Projects that have received a density bonus or which receive a government subsidy in any form, financial or other, do not qualify as generating inclusionary credits. The cities of Novato and Rohnert Park have both established processes for transferring inclusionary unit credits.

[4] Applicants requesting pre-approved incentives are not required to provide written evidence that the concession or incentive would result in identifiable and actual cost reductions to provide for affordable housing costs or for rents for the targeted units.

ORDINANCE EXEMPTIONS

The recommendation is to continue Santa Rosa's current exemptions to the inclusionary program (accessory dwelling units, affordable deed restricted units, homeless shelters, community care/health facilities, SROs and units constructed by an owner/builder).

AFFORDABILITY PERIOD

We recommend increasing the current 30 year affordability period to 55 years, consistent with State density bonus requirements, as well as existing affordable housing programs.

FRACTIONAL UNITS

Santa Rosa's current Ordinance rounds down fractional unit requirements to next lower whole number. We recommend fractions of less than 0.5 be permitted to pay a fractional in-lieu fee. Fractions of 0.5 and above should be rounded up and be required to provide a full unit, consistent with the City's Density Bonus requirements.