CITY OF SANTA ROSA
MEMORANDUM

REGARDING: SANTA ROSA HOUSING COMMUNITY WORKSHOP

FROM: ANDY GUSTAVSON, SENIOR PLANNER
PLANNING AND ECONOMIC DEVELOPMENT DEPARTMENT

SUBJECT: HOUSING ACTION PLAN
INCLUSIONARY HOUSING ORDINANCE UPDATE
COMMERCIAL LINKAGE FEE

PURPOSE: SEEK INPUT FROM MARKET RATE DEVELOPERS, AFFORDABLE HOUSING PROVIDERS, AND COMMUNITY MEMBERS ABOUT INCLUSIONARY HOUSING AND COMMERCIAL LINKAGE FEE POLICY OPTIONS

The City of Santa Rosa Planning and Economic Development (PED) is developing updates to the City’s Housing Allocation Plan Ordinance (“HAP”, Inclusionary Housing Ordinance) and evaluating a new commercial linkage fee to help increase housing production within the city. The HAP Ordinance Update White Paper provides background on the City’s current HAP ordinance, reviews ordinances adopted in other jurisdictions, summarizes community feedback, reviews financial feasibility, and suggests policy options in support of the ordinance update. The Commercial Linkage Fee Study prepared for the City evaluates the impact commercial development has on affordable housing demand, and how this impact may be offset or mitigated by a new commercial linkage fee.

These documents are available on the City’s Inclusionary Housing Policy webpage.

In December 2017 PED hosted a community workshop series to gather preliminary feedback on the Inclusionary Housing Ordinance and how it can be improved. Representatives from for-profit developers, affordable housing providers, and Santa Rosa residents were brought together to share their experience and insight. At this time the City is embarking on a second outreach effort to gain feedback from these stakeholders regarding inclusionary housing policy options outlined in the White Paper in preparation for and to incorporate into updates to the City’s HAP ordinance for consideration by the City Council.
Work on a new Commercial Linkage Fee also began in 2017. PED is now seeking input from these same stakeholders to help PED inform City Council how this new fee may also help to increase affordable housing production within the city.

**SUMMARY**

The City of Santa Rosa undertook a multi-year process to develop the Housing Action Plan (HAP) to address the City’s ongoing unmet housing needs. This effort culminated in the City Council’s adoption of the HAP in late 2016. Program 1 of the HAP is to “increase inclusionary housing” through a variety of measures including the HAP Ordinance update and consideration of a new Commercial Linkage fee.

The following goals were specifically laid out to guide an update to the city’s inclusionary housing policies:

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 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 (HAPO) to implement these goals. The attached White Paper provides background to guide that update effort. The Housing Impact Fee Study assesses how changes to inclusionary housing percentage and in-lieu fee may affect the financial feasibility of residential development within the city.

The Commercial Linkage Fee Study establishes the impact new commercial development has on affordable housing demand and assesses how a new fee may offset or mitigate this impact.
COMMUNITY WORKSHOPS

The City’s 2016 Housing Action Plan seeks to increase affordable housing development on-site. PED is evaluating how the inclusionary housing ordinance update and the commercial linkage fee may help the City achieve that goal.

A community workshop is planned for Wednesday, August 7, 2019 to bring together market-rate housing developers, affordable housing builders and Santa Rosa community members to provide input and feedback on inclusionary housing and commercial linkage fee policy options. Input is sought to better understand the issues specific to Santa Rosa and to ensure that the implementing inclusionary housing ordinance update and a new commercial linkage fee looks holistically at the existing situation, the available tools, and the current challenges to facilitate the production of essential housing to meet the needs of Santa Rosa. The community workshop, as well as subsequent study sessions with the Planning Commission, Housing Authority, and City Council, will provide feedback city staff will use to prepare a recommended inclusionary housing ordinance update and commercial linkage fee for consideration by the City Council.

Housing Allocation Plan Ordinance Update

Table 12 of the White Paper provides a comprehensive summary of a set of draft options to guide the current inclusionary housing ordinance and tracks directly to the goals outlined in Program 1 of the Housing Action Plan as identified above. The key decision points and policy considerations outlined in the White Paper include:

- Project Size Thresholds
- On-Site Inclusionary Requirement
- In Lieu Fee Levels
- Alternatives to On-Site Compliance
- Standards for Inclusionary Units
- Developer Incentives for On-Site Compliance
- Ordinance Exemptions

Additionally, the White Paper incorporates the findings as outlined in a nexus study and financial feasibility analysis completed by Strategic Economics for the City.

Input is sought in response to the White Paper to better understand the issues specific to Santa Rosa and to ensure that the implementing inclusionary housing ordinance update looks holistically at the existing situation, the available tools, and the current challenges to facilitate the production of essential housing to meet the needs of Santa Rosa. The community workshop provides the opportunity for the community to provide input and feedback to city
staff and the consultant team to prepare a recommended inclusionary housing ordinance update and commercial linkage fee for consideration by the City Council.

Reflecting back on the goals outlined in the Housing Action Plan, please consider the following questions to frame discussion and feedback for the workshop.

1. **On-Site Requirement.**
   a. What is the appropriate project size threshold to require on-site units vs allow in-lieu fee payment?

2. **Percent Required.**
   a. What affordable unit ratio is supportable in ownership and rental developments?
   b. What are the challenges with providing and integrating mixed income housing?

3. **Incentives and Flexibility.**
   a. What incentives that would better support on-site affordable housing construction?
   b. Are there policy options in the White Paper that may make housing production more difficult to realize?
   c. What are the barriers that developers are experiencing that the proposed policy options don’t address?
   d. Are there other things that should be considered for potential alternative compliance?

4. **In-Lieu Fees.**
   a. How might the proposed in-lieu fees create challenges for housing production?
   b. How might the collection of in-lieu fees support affordable housing developers in creating affordable housing in Santa Rosa?

5. **Innovation**
   a. Are there other aspects of a successful inclusionary housing ordinance that should be considered?
   b. Are there innovative approaches to affordable housing development that should be considered as part of this effort?

**New Commercial Linkage Fee**

Santa Rosa does not currently have a commercial linkage fee in place. The revenues collected from this type of fee may provide an important source of local funding and augment existing affordable housing funds. It should be noted that revenues from a commercial linkage fee need to be spent on housing that benefits the workforce since the funds stem from affordable housing impacts related to new employment.

In general, if enacted the fee would be applied in the same way as existing City impact fees.
Specifically, the fee would be geared toward new development and would not apply to tenant improvements on existing building square footage however would apply to increased square footage. As the fees outlined in the Commercial Linkage Fee Study are recommended to apply to hotel, retail, and business park/light industrial land uses only, City/civic projects would not be included.

Issues for discussion:

1. **Flexibility in the event of a recession:**
   This is a common question for impact fee programs. As there is not a commonly used or identified economic or real estate metric to use as a trigger for a fee reduction that adequately captures market feasibility, this approach is not generally pursued. In other communities, reductions in fees during recessions have not shown to have had a measurable impact on development because other market factors have a far more significant effect on development feasibility.

2. **Rates for development type:**
   The study outlines fees for hotel, retail, and business park/light industrial land uses. Fees may be set based on development feasibility of each development type and/or based on what the City would like to incentivize. For example, hotel and certain types of retail development in this current market are generally feasible whereas new development of business park/light industrial are viewed as more difficult to pencil out in Santa Rosa.

3. **Fee deferral by covenant:**
   Fee deferral until occupancy could be approached in the same manner as the City’s other impact fees.

**WORKSHOP SCHEDULE**

**WHEN:** WEDNESDAY, AUGUST 7, 2019
3:00 PM to 4:30 PM for MARKET RATE AND AFFORDABLE DEVELOPERS AND
6:00 PM to 7:30 PM for GENERAL SANTA ROSA COMMUNITY MEMBERS

**WHERE:** FINLEY CENTER, AUDITORIUM
2060 WEST COLLEGE AVE, SANTA ROSA

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