

MEMORANDUM

Date: October 26, 2023

To: Interested Parties

From: City of Sacramento Community Development Department

Subject: Mixed Income Housing Ordinance Preliminary Recommendations

Over the past two months, City staff have met with interested parties and stakeholders to provide an overview of and receive feedback on the Mixed Income Housing Ordinance Draft Report, draft policy objectives, and potential ordinance options for consideration. This outreach, in combination with the contents of the Draft Report, provided the foundation for the development of preliminary recommendations for a revised Mixed income Housing Ordinance.

The following pages contain staff's Preliminary Recommendations for the Mixed Income Housing Ordinance. These recommendations were developed with the goal of meeting each of the below policy objectives:

1. Increase affordable housing production
2. Ensure long-term affordability
3. Affirmatively Further Fair Housing
4. Anti-displacement
5. Mixed income developments/communities
6. Do not pose a constraint to overall housing production

Next Steps

Staff will be conducting outreach with interested parties on these recommendations over the following month and will be presenting the recommendations to the following governing bodies:

- Sacramento Housing and Redevelopment Commission (November 1)
- Planning and Design Commission (November 9)
- City Council (November 28)

City staff are available to meet with stakeholders and community members through November 17th. Written comments on the recommendations are due by November 23rd.

Final Recommendations for an ordinance structure will be released in the Winter. Final Ordinance adoption is anticipated for Spring 2024.

Please reach out to Greta Soos, Project Manager, to request a meeting or provide comments (gsoos@cityofsacramento.org).

Sign up for email updates on the project [here](#).

Mixed Income Housing Ordinance Preliminary Recommendations

1) On-site Affordability Requirement

Consider establishing the following options for projects to include affordable units on-site:

| | For-Sale |
|----------|---|
| Option A | 10% at 80% AMI prices |
| Option B | 10% affordable rental units at an average of 60% AMI or below |
| Option C | Alternative mix that provides the same or greater affordability |

| | Rental |
|----------|---|
| Option A | 12% at 70% AMI rents |
| Option B | 10% at 60% AMI rents |
| Option C | 8% at 50% AMI rents |
| Option D | Alternative mix that provides the same or greater affordability |

In addition to the above requirements, the following would apply:

- Affordable rental units must have a minimum term of 30 years.
- Projects may calculate the affordable unit requirement as a percentage of bedrooms or livable square footage, instead of a percentage of units.
- For-sale affordable homes could be made affordable through the use of a shared appreciation note¹ or through use of scaled equity over time.
- Exempt projects would include:
 1. Projects adding ten or fewer primary dwelling units (not including any Accessory Dwelling Units).
 2. Projects with an in-force development agreement adopted prior to the current ordinance

¹ <https://www.treasurer.ca.gov/publications/ca-dream-for-all-report.pdf> (Page 24)

Affordable Rents and Sales Prices

For reference, below is a table showing affordable sales prices and rents using 2023 State Income Limits²:

| Affordable Sales Prices Three-bedroom example | | Affordable Rent Two-bedroom example | |
|--|-----------|--|---------------|
| Low Income, 60% of AMI | \$169,100 | Very Low Income, 50% of AMI | \$1,072 / Mo. |
| Moderate Income, 80% of AMI | \$290,600 | Low Income, 60% of AMI | \$1,314 / Mo. |
| Moderate Income, 100% of AMI | \$376,300 | Low Income, 70% of AMI | \$1,555 / Mo. |

**AMI=Area Median Income*

The average rent for existing rental units in Sacramento is approximately \$1,650 per Month (including older units) and the median sales price for existing homes is approximately \$455,000. New market rate for sale units require ~86% to 241% of AMI to afford, and new market rate rental units require ~102% to 120% of AMI to afford.

2) Alternatives To Including Affordable Units On-Site

In-Lieu Fee

Consider adoption of in-lieu fees to the following levels:

| In-Lieu Fee Recommendations | | |
|------------------------------------|-----------|----------|
| Market Area (see page 3) | Rental | For-Sale |
| Central City | \$10/SF | \$10/SF |
| Inner South & East and West of I-5 | \$7/SF | \$10/SF |
| Southern Neighborhoods | \$3.54/SF | \$6/SF |
| North Sacramento and South Natomas | \$3.54/SF | \$5/SF |
| North Natomas | \$3.54/SF | \$7/SF |

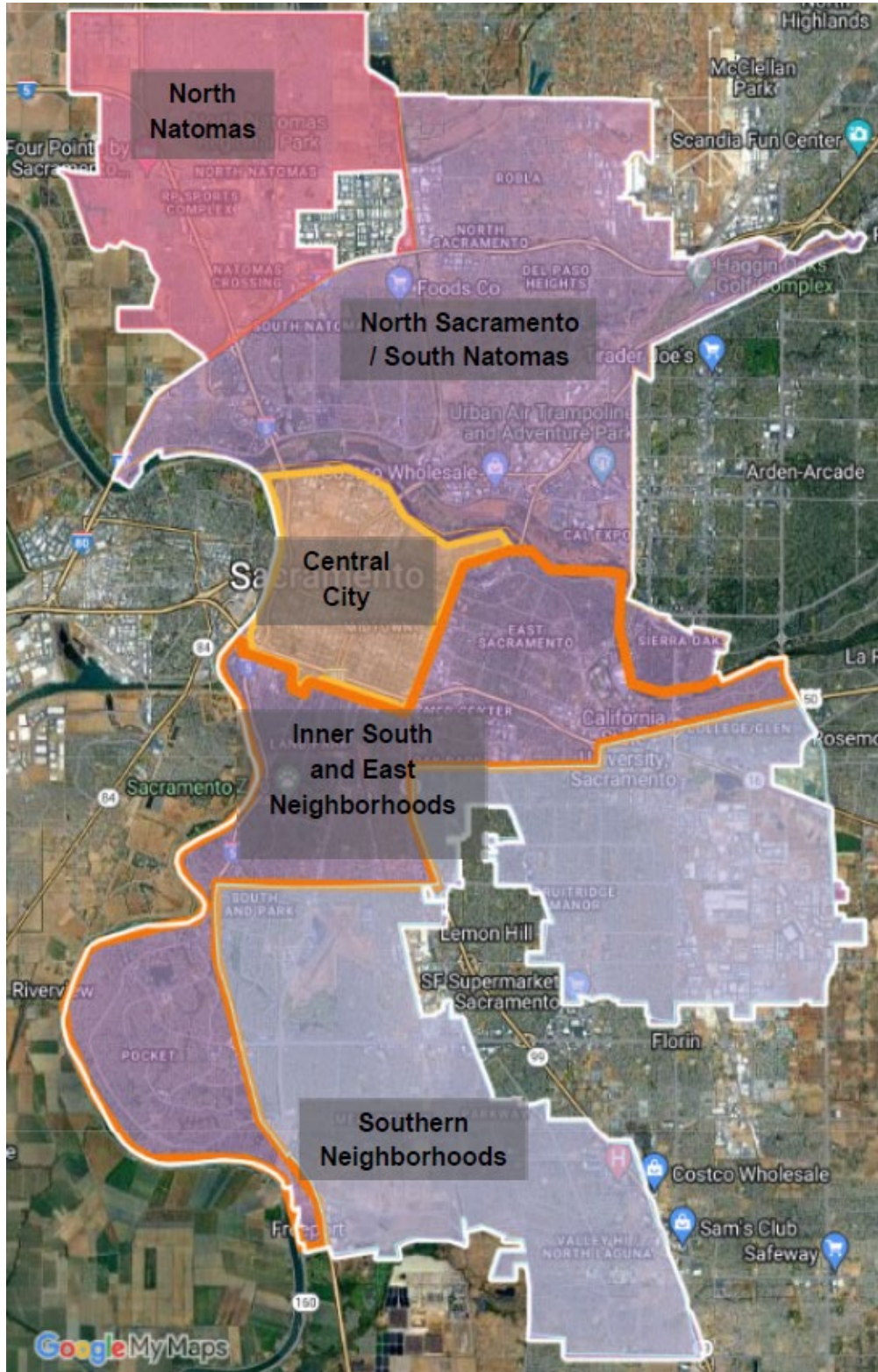
Note: These fee amounts do not account for the annual CCI escalation that occurs every fiscal year on July 1 once the Ordinance is in place.

Land Dedication

Land dedication may be made to SHRA within a half mile of the project site for development of affordable housing, subject to approval and any conditions to be established in the Ordinance or adopted guidelines.

² 2023 State Income Limits. California Department of Housing and Community Development Division Of Housing Policy Development. <https://www.hcd.ca.gov/sites/default/files/docs/grants-and-funding/income-limits-2023.pdf>

Market Areas



3) In-Lieu Fee Phase In

A phase-in of new fees could be considered given the currently weaker market conditions so that projects that move forward in the near term would not be subject to the full rates.

Phased in Fee Rates

Rental

| Market Area | Step 1 Rate Per Square Foot (current HIF Rate) | Step 2 Rate Per Square Foot (50% increase between \$3.54 and final rate) | Final Fee Rate Per Square Foot |
|------------------------------------|--|--|--------------------------------|
| Central City | \$3.54 | \$6.77 | \$10 |
| Inner South & East and West of I-5 | \$3.54 | \$5.27 | \$7 |
| Southern Neighborhoods | \$3.54 | \$3.54 | \$3.54 |
| North Sacramento and South Natomas | \$3.54 | \$3.54 | \$3.54 |
| North Natomas | \$3.54 | \$3.54 | \$3.54 |

Note: These fee amounts do not account for the annual CCI escalation that occurs every fiscal year on July 1 once the Ordinance is in place.

For-Sale

| Market Area | Step 1 Rate Per Square Foot (current HIF Rate) | Step 2 Rate Per Square Foot (50% increase between \$3.50 and final rate) | Final Fee Rate Per Square Foot |
|------------------------------------|--|--|--------------------------------|
| Central City | \$3.54 | \$6.77 | \$10 |
| Inner South & East and West of I-5 | \$3.54 | \$6.77 | \$10 |
| Southern Neighborhoods | \$3.54 | \$4.77 | \$6 |
| North Sacramento and South Natomas | \$3.54 | \$4.27 | \$5 |
| North Natomas | \$3.54 | \$5.27 | \$7 |

Note: These fee amounts do not account for the annual CCI escalation that occurs every fiscal year on July 1 once the Ordinance is in place.

Phase in Triggers

- January 1, 2025: Step 1 goes into effect
- July 1, 20XX: July 1 following the calendar year in which building permits for 2,500 market rate unit building permits (excluding deed-restricted affordable and ADU housing units) are pulled, Step 2 goes into effect
- July 1, 20XX: July 1 following the second calendar year that 2,500 market rate unit building permits (excluding deed-restricted affordable and ADU housing units) are pulled, 100% of fee rate goes into effect

4) Incentives for On-Site Units

If in-lieu fees are permitted by-right and adopted at the levels identified above, the expectation is that most projects will pay fees rather than provide inclusionary units on-site, because this would be the least costly and most straightforward alternative. However, subject to funding availability, incentives could be given to projects that do elect to provide inclusionary units on-site. Some potential options are as follows:

- *Reduction of Impact fees* – For projects providing on-site affordable units, the City could provide reduced impact fees (amount to be specified) beyond those offered via the zero-dollar rate program, by offering reduced impact fees on market-rate units.
- *Infrastructure improvements* – The City could cover some of the cost of off-site infrastructure improvements for projects providing on-site affordable units such as curb, gutter, or sidewalk improvements.
- *Density Bonus (if units are income restricted for at least 55-years, consistent with State Density Bonus Law)*– When building on-site units, developers will be able to use state density bonus law concessions and incentives (and also the City Ministerial Approval of Infill Housing process in certain cases).

5) Large Projects

Consider establishing the following options for large development projects. Large scale development projects include projects with 750 or more units **and** a site size of 15 or more acres.

| | Large-Scale Developments |
|----------|---|
| Option A | 15% for-sale affordable at 80% AMI prices |
| Option B | 20% affordable rental units at an average of 60% AMI rents or below |
| Option C | A combination of the above two options |
| Option D | Alternative mix that provides the same or greater affordability |

Land dedication may be made to SHRA within a half mile of the project site for development of affordable housing, subject to approval and any conditions to be established in the Ordinance or adopted guidelines.