

MEMORANDUM

Date: August 15, 2023

To: Interested Parties

From: City of Sacramento Community Development Department

Subject: Mixed Income Housing Ordinance Draft Policy Objectives and Menu of Options

This memorandum, in conjunction with the release of the Draft Mixed Income Housing Ordinance Report prepared by Keyser Marston Associates, serves as the foundation for stakeholder, community member, and decision-maker conversations regarding the update to the Mixed Income Housing Ordinance.

Multiple inputs should inform the development of a recommended ordinance structure. These include identified policy objectives, financial feasibility of proposed requirements, studies of program requirements elsewhere, and the impact of similar requirements on housing production elsewhere. This memorandum provides draft policy objectives and potential program components for input and consideration. A summary of case studies provided in the draft report by Keyser Marston Associates is also included for ease of reference.

Next Steps

City staff are available to meet with stakeholders and community members through September 1, 2023 to provide input on the below draft policy objectives and potential program components. Preliminary Recommendations for an ordinance structure will be released in the Fall. 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](#).

Draft Policy Objectives

The below draft policy objectives have been developed to guide community members, stakeholders, and decision makers in the policy development process. These objectives reference the City's adopted [2021-2029 Housing Element](#).

#	Objective Name	Details
1	Increase affordable housing production (Housing Element Program H1)	Meet lower income housing needs by meeting annual Regional Housing Needs Allocation housing production goals of: <ul style="list-style-type: none"> • 654 extremely low income units per year • 654 very low income units per year • 788 low income units per year • 1,068 moderate income units per year
2	Ensure long-term affordability (Housing Element Goal 2)	Meet the majority of the lower income RHNA need (extremely low income, very low income, low income, and moderate income) through deed-restricted affordable unit production.
3	Affirmatively Further Fair Housing (Housing Element Goal 4)	Affirmatively further fair housing by providing more affordable housing opportunities in higher opportunity areas of the city.
4	Anti-displacement (Housing Element Goal 5)	Ensure affordable housing opportunities are created in areas at risk of gentrification and/or displacement.
5	Mixed income communities (Housing Element Policy H-4.3)	Create mixed income communities.
6	Do not pose a constraint to overall housing production (Housing Element Program H1)	Requirements do not constrain the production of housing.

Program Requirements for Consideration

Below are generalized policy options for consideration. Next to each option is an identification of the likelihood for each option to meet the objectives outlined above, as well as potential consequences.

Objectives:

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

Potential Requirement	Objective(s) Met						Potential Consequences
	1	2	3	4	5	6	
Citywide per sq.ft. impact fee only (amount TBD). Removal of \$0 rate for high density development + Housing Incentive Zone.	█	█			█	█	Least likely to meet objectives 3, 4, and 5.
Citywide % on-site units required with a lower in-lieu fee option (payment of in-lieu fee more likely)	█	█			█	█	Lower in-lieu fees may result in less mixed income developments. Less likely to meet objectives 3 and 5.
Citywide % on-site units required with a higher in-lieu fee option (on-site units more likely)	█	█	█		█	█	May constrain overall housing production (objective 6) depending on requirements. Not flexible.
Varying requirements (fee or build requirement) by strength of Sacramento's sub-markets	█	█				█	
Requiring on-site units in higher opportunity areas ¹	█	█	█		█		

KEY
➤ Likely (dependent on specified fee levels)
➤ Somewhat likely
➤ Unknown based on level of detail provided
➤ Somewhat unlikely
➤ Unlikely

Other Potential Program Components

Below is a list of other program components that could be considered as part of an update to the Mixed Income Housing Ordinance.

Flexible Ordinance Options

- Allowing a modified percentage of affordable units that maintains the same total number of bedrooms within the affordable units (“reconfiguration of bedrooms”)
- Allowing multiple options for meeting affordability requirements on-site (For example: option of 10% at 60 AMI rents OR 8% at 50 AMI rents)

Large Site Options

- Require large master planned communities of a specified size to provide a higher affordability percentage on site.

Financial Tool or Incentive Options

- Modify programs to further incentivize on-site affordable units
 - (e.g.) \$0 rate program for City controlled impact fees (set aside is currently \$3 Million per year)

Other Ordinance Implementation Options

- Adjust fee levels annually based on CCI
- Adjust market areas every 4 years using criteria specified in ordinance (if basing requirements on market areas)
- PDC or City Council Approval of in-lieu fee usage for projects of certain size and/or in specified geographic areas
- Establish a threshold project size above which program requirements apply, such as five or ten units
- Phase in of new fee levels over specified number of years (depending on fee level)

Case Studies Summary Table

Summarized below are case studies from seven local and non-local jurisdictions, which can be found on pages 70-107 of the Draft Report for the Mixed Income Housing Ordinance.

	Year(s) Adopted	Program Structure	Units Per 1,000 Residents	% LI units produced over 10 years (2013-2022)	In-Lieu Fee Amount(s)	Unique Program Elements	Overall Housing Production Trends
West Sacramento	2005, amended in 2014 and 2020	10% inclusionary requirement, in-lieu fee with approval	58 units total 5 units LI	8%	\$7,551/ market rate unit. Requires Council approval.	<ul style="list-style-type: none"> Alternatives to onsite requirement include: in-lieu fees; acquiring, rehabilitating, and converting existing market rate units to inclusionary units; construction of inclusionary housing units at an off-site location; or acquiring and preserving at-risk affordable rental units. City Council must approve payment of in-lieu fees. Urban Infill Area Incentive Program 	<ul style="list-style-type: none"> Projects complied primarily through in-lieu fees paid rather than on site construction. The program was updated in 2014 to be less restrictive and reduce impact on market rate development. Production was reduced in the years immediately following the update. The pace of housing development is 2x per capita statewide rate. Results suggest that projects are able to sustain the City's requirements. Results suggest that housing production was driven by market conditions and not attributable to change in policy.
Roseville	1988	10% onsite requirement with limited allowance of in-lieu fee payment	77 units total 3 units LI	3%	\$278,849 per affordable unit allowed if specified. Requires Council approval.	<ul style="list-style-type: none"> Assigns affordable housing obligations on a parcel-by-parcel basis Market rate parcels are generally allowed to be built out independently of the timing of the affordable units In-lieu fee only allowed in some areas (~10% of projects) 	<ul style="list-style-type: none"> Overall housing production 3x statewide rate over last 10 years. Results suggest projects are able to sustain the cost of compliance. Fluctuation in housing production matched statewide trends.
Folsom	2002, amended 2013	10% inclusionary requirement w/ fee option. Applies to for	71 units total 6 units LI	8%	1% of lowest priced for sale units * total units. (Typically \$6,000 - \$10,000 per	<ul style="list-style-type: none"> In-lieu fee is set at 1% of the sales price for the lowest priced unit in the development multiplied by the total number of units in the project 	<ul style="list-style-type: none"> Projects have generally complied through fee payment Changes to ordinance in 2013 were designed to reduce financial impact to market rate development. Despite

	Year(s) Adopted	Program Structure	Units Per 1,000 Residents	% LI units produced over 10 years (2013-2022)	In-Lieu Fee Amount(s)	Unique Program Elements	Overall Housing Production Trends
		sale units only.			market rate unit)		reduction, City experience low permitting activity for several years. <ul style="list-style-type: none"> • Results suggest housing production was driven by market conditions and not attributable to change in policy. • Fluctuation in housing production matched statewide trends
Davis	1990, temporary update 2018. Update in process.	Inclusionary requirement, in-lieu fee with approval.	26 units total 5 units LI	18%	\$78,150 per affordable unit, with approval.	<ul style="list-style-type: none"> • Highest requirement in region (currently 15% with even mix of ELI, VLI, LI) 	<ul style="list-style-type: none"> • Trends are difficult to discern
Portland	2016	20% inclusionary requirement w/ fee option.	67 units total	Unknown 9.7% LI produced from 2017-2022 (6-year period)	\$23 - \$27 per gross square foot.	<ul style="list-style-type: none"> • Many compliance options: <ul style="list-style-type: none"> ○ May provide a modified percentage of affordable units that maintains the same total number of bedrooms within the affordable units ○ Incentives are designed to reduce compliance costs and encourage onsite units at 60% MFI, including exemptions for property taxes, construction excise taxes, parking requirements, and impact fees. ○ Inclusionary units can be consolidated into one building but will not receive local subsidy 	<ul style="list-style-type: none"> • Program has been successful by producing almost half units at 60% MFI, and almost all projects producing units onsite. • The city's State of Housing report suggests that the reduction in housing permitting and production since 2017 may have been a result of several factors, including a natural decline after the large spike and broader economic conditions. • Declines in housing production are closer to historic averages and were also seen in surrounding cities in Washington and Clackamas counties.
Denver	2001, updated 2017, 2022	8-15% inclusionary requirement w/ fee option	104 units total 8 units LI	7.7% (2012-2021)	ranges from \$250,000 to \$478,000 depending on	<ul style="list-style-type: none"> • Smaller projects pay fee per square foot rather than flat rate. • Requirements vary by market area 	<ul style="list-style-type: none"> • Overall housing production exceeds all other comparisons, which may be driven by a range of other factors.

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					unit type and market area	<ul style="list-style-type: none"> • Incentives include permit fee reduction, reduced parking requirements, and height/FAR exemptions. • 99-year deed restrictions required • Alternatives may be approved at the staff level • 10+ acres are “High Impact Developments” that must finalize and record a compliance plan approved by the City which requires community engagement. 	<ul style="list-style-type: none"> • Housing production data is an indication that projects were able to sustain the affordable housing fee requirements in place prior to 2022.
San Jose	1988; expanded Citywide 2010; first implemented 2016; amended 2021	15% inclusionary w/fee option	26 units total 3 units LI	12%	<p>2010: \$125,000 per affordable unit and fees for for-sale projects were \$157,858 per affordable unit</p> <p>2021: <u>Rental:</u> Moderate Market Areas: \$19.68/SF Strong Market Areas: \$45.26/SF <u>For-Sale:</u> \$26.32/SF</p> <p>(Fees reduced depending on</p>	<ul style="list-style-type: none"> • Alternatives under 2010 ordinance included land dedication, credits for surplus inclusionary units, acquisition rehab, and more. • 2021 ordinance provides tiered in lieu system that highly incentivizes onsite production • 100% AMI requirement has become obsolete due to a 28% increase in AMI since 2019. 	<ul style="list-style-type: none"> • Feasibility studies conducted on behalf of San Jose have indicated that rising construction costs contributed to greater feasibility challenges for market rate multi-family projects in San Jose. • The City’s inclusionary policies underwent four major changes over the prior decade, which have included provisions allowing pipeline projects to proceed under prior requirements, such that adoption dates don’t necessarily provide clear delineation between the policies applicable to specific projects in specific years. • The City also reached a limit under its North San Jose Development Policy, that resulted from a settlement agreement, which

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					# and AMI levels of affordable units provided.)		prevented additional housing units from being built within an area that had attracted significant housing development.