



CITY OF HEALDSBURG CITY COUNCIL AGENDA STAFF REPORT

MEETING DATE: October 3, 2016

SUBJECT: Public hearing to consider a recommendation by the Planning Commission to rescind and replace Healdsburg Municipal Code Section 20.20.030: Inclusionary Housing and amend Healdsburg Municipal Code Section 20.28.310: Definitions and introduce for first reading

PREPARED BY: Karen Massey, Community Housing and Development Director

STRATEGIC INITIATIVE(S):
Quality of Life

RECOMMENDED ACTION(S):

Review the draft revisions, conduct the public hearing, and introduce for first reading an ordinance to rescind and replace Healdsburg Municipal Code Section 20.20.030: Inclusionary Housing and amend Healdsburg Municipal Code Section 20.28.310: Definitions and related CEQA Exemption

BACKGROUND:

In July, the City Council voted to place Measure R on the November 8th ballot for consideration by the voters. If adopted, Measure R will require the City to:

- Amend the City’s existing Growth Management Ordinance (“GMO”) to remove the restriction on the number of units allowed per year,
- Increase the Inclusionary Housing Ordinance requirement from the current 15% requirement to a 30% requirement,
- Adopt new growth management measures, and
- Adopt the Housing Action Plan.

In anticipation of the passage of Measure R on November 8th, the City retained Economic and Planning Systems to assist with the required revisions to the Inclusionary Housing Ordinance. Staff and EPS, working with the Community Housing Committee and City Council, developed the key concepts for and drafted the revised Inclusionary Housing Ordinance. The revised Inclusionary Housing Ordinance would only become effective pending the successful passage of Measure R on November 8th.

DISCUSSION/ANALYSIS:

The revised Inclusionary Housing Ordinance has been drafted consistent with the requirements of Measure R and the recommendations of the Housing Action Plan. The more substantive revisions to the Inclusionary Housing Ordinance include:

1. Expanding the definition of Affordable Housing in the Land Use Code to include Middle-Income Households earning between 121 – 160% of the area median income.
2. Adding the definition of Middle-Income Household and In-lieu Inclusionary Housing Fee and revising the definition of Above-Moderate Housing to reflect the new middle income category.
3. Increasing the inclusionary housing requirement from the current 15% requirement to 30% requirement.
4. Allocating the 30% inclusionary housing requirement across the household income levels (very low, low and moderate) as well as the new “middle income” level as follows: 0% very low, 7.5% low, 7.5% moderate, and 15% middle income (Consistent with policy H-C-5 of the adopted Housing Element which states “continue to require the provision of low- and moderate-income housing within residential development projects subject to the Inclusionary Housing Program.” Very low and low income units would be delivered by affordable rental housing developers utilizing Low Income Housing Tax Credits and other public subsidies.)
5. Adjusting the way small projects comply with the inclusionary housing requirement, as follows:
 - Projects of 1-3 units pay an in-lieu fee or construct a deed restricted secondary dwelling unit for every unit built.
 - Projects of 4-6 units construct one affordable unit and pay any fractional in-lieu fee amount needed to fulfill their remaining requirement OR construct a deed restricted secondary dwelling unit.
 - Projects of more than 6 units construct 30% affordable units, across the percentages defined above, and pay any fractional in-lieu fee amount that results from the 30% calculation.
6. Allowing for alternative compliance measures (other than paying the in lieu fee) including construction and price-restriction of a secondary dwelling unit, land dedication for third party built affordable housing, acquiring or extending affordability contracts on existing affordable housing units, conversion of existing market rate units to inclusionary units and offsite construction of some/all affordable units. Where compliance is met through dedication, requiring the land to be offered for dedication prior to issuance of the first Certificate of Occupancy for the residential project.
7. Modifying the exemptions provisions to require an inclusionary housing obligation for units and additions under 1,300 square feet in size consistent with policy H-12 of the

adopted Housing Element which states "...include an inclusionary housing obligation for units under 1,300 square feet which are currently exempt...". The draft Ordinance presented to and supported by the Planning Commission recommended the inclusionary requirement be applied to units and additions of 850 square feet and greater. After further discussion with EPS and the City Manager, Staff is recommending the inclusionary requirement only be extended to units and additions of more than 1,000 square feet (instead of 850 square feet). This modification would allow a property owner to construct an addition of 1,000 square feet without being subject to payment of the in-lieu inclusionary housing fee. This reduces by 300 square feet the threshold for any inclusionary housing obligations to be triggered, consistent with policy H-12 of the Housing Element. This allows families who are in smaller homes to be able to increase their home size as their family grows without triggering inclusionary fees yet still allows fees to be collected on large scale additions.

8. Requiring inclusionary units to be of the same product type as the market rate units in the residential project.
9. Establishing resident selection criteria to prioritize inclusionary units for Healdsburg residents and employees.
10. Increasing the term of affordability on for-sale inclusionary units from 20 years to 45 years, consistent with policies in place prior to the housing market downturn and retaining the affordability term of 55 years on rental inclusionary units.
11. General formatting and editing to ensure consistency.

Accompanying Policies and Procedures to implement the Inclusionary Housing Program and updated in-lieu inclusionary housing fees will also be brought forward to the City Council for consideration and the affordable housing rental and purchase rates will also be updated by Staff.

Economic & Planning Systems, Inc., (EPS) urban economists, have assisted with preparation of the revised Inclusionary Housing Ordinance. As a part of this effort, EPS has considered the revised Ordinance's effects upon the financial feasibility of new housing development and concluded that new housing development should not be deterred in Healdsburg under prevailing market conditions. The substantially increased inclusionary requirement (from 15 percent to 30 percent) is offset, in part, by the addition of the middle income category and by requiring low and moderate units (rather than very low) which lowers the average "funding gap" of the inclusionary units. Another reason for shifting the inclusionary requirement to "moderate" and "middle" income families is the difficulty that lower income households have in qualifying for mortgage financing. Under the revised Ordinance the City will also offer a range of alternative compliance mechanisms and incentives that can further offset the costs of building the inclusionary units. For example, by providing slightly more low income units (an additional 2.5%) developers can utilize the State of California density bonus law which would qualify them for a 20% density bonus.

APPLICABLE GENERAL PLAN AND LAND USE CODE INFORMATION:

The revised Inclusionary Housing Ordinance is consistent with the following goals, policies and implementation measures of the adopted General Plan:

Housing Element

- H-C-5 Continue to require the provision of low- and moderate-income housing within residential development projects subject to the Inclusionary Housing Program.
- H-12 Inclusionary Housing Program. Continue to implement the Inclusionary Housing Program. Consider revisions to the inclusionary housing requirements, including a revision to include an inclusionary housing obligation for units under 1,300 square feet, which are currently (2014) exempt, and revisions to the current fee structure to be on a per-square-foot basis.
- H-D-5 Continue to impose long-term restrictions on the maximum rents and sale prices of affordable housing that is developed with City assistance as well as inclusionary units provided by private developers.
- H-A-4 Provide a wide range of housing opportunities for all economic segments of the community, while maintaining a mix of housing types in Healdsburg.
- H-A-6 Encourage the retention and development of rental units.
- H-C-3 Facilitate the development of housing affordable to lower- and moderate-income households, including first-time homebuyers.
- H-C-8 Strive to provide housing opportunities that are affordable to the local workforce.
- H-C-11 Explore creative housing types such as accessory dwelling units, co-op housing, micro units, and other flexible housing types to increase opportunities for affordable rental and homeownership.

Economic Development Element

- ED-C-1 Promote housing that is affordable to workers who are vital to the community.
- ED-2 Implement the programs contained in the Housing Element in order to promote affordable housing within the city for workers who are vital to the community.

Land Use

- LU-F-2 The City shall encourage mixed use development, including new housing and employment opportunities, as well as reuse of underutilized or vacant industrial land, around the historic railroad depot to support transit use at the depot.

In addition, the revised Inclusionary Housing Ordinance is consistent with the requirements contained in Measure R to be considered by voters on November 8th as well as the following recommendations of the adopted Housing Action Plan:

- PR-4 Expand the definition of Affordable Housing in the Land Use Code to include Middle Income Housing.
- PR-5 Revise the Inclusionary Housing Ordinance to require 30% Affordable Housing.
- SR-1.1 Implement local preference clauses on all new Affordable Housing units to serve local residents and employees first.
- SR-3.1 Require housing units built through the Inclusionary housing Ordinance to include a component of units deed-restricted to families making between 121-160% Area Median Income.

The key concepts contained within the proposed revisions were reviewed and supported by the Community Housing Committee and subsequently presented to the City Council on June 20th wherein direction was given to Staff to advance the Ordinance to the Planning Commission for review and recommendation. On September 13th the Planning Commission considered the proposed revisions and recommended them, 5 to 0, for adoption by the City Council.

ALTERNATIVES:

Accept the recommendation or provide other direction to Staff.

FISCAL IMPACT:

There is no fiscal impact as a direct result of the proposed action.

The City is currently under contract with Economic & Planning Systems to prepare the revised Inclusionary Housing Ordinance. These costs were anticipated and included in the FY 2016-17 Council adopted General Fund budget.

ENVIRONMENTAL ANALYSIS:

The proposed amendments to the Municipal Code are exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3). The proposed amendments will: revise the requirements for new residential development to include affordable housing units; change the administration of the inclusionary housing ordinance; and change certain definitions. The proposed amendments will not allow for, or encourage any more development than is already anticipated under the City's existing General Plan, or otherwise allow for or promote physical changes in the environment and, therefore, it can be seen with certainty that there is no possibility that the proposed amendments may have a significant on the environment.

ATTACHMENT(S):

100316 Track changes IHO
Ordinance

**Revisions to Inclusionary Housing Ordinance Section 20.20.030
(shown in track changes)**

Sec. ~~20.20.030~~18115 Inclusionary housing requirements

The following standards shall govern inclusionary housing development:

- (a) Applicability. The provisions of this section shall apply to any discretionary or ministerial approvals for ~~new-for-sale,~~ residential ~~development~~ projects. The following shall not be subject to the provisions of this section:
- (1) Residential dwellings for which a building permit has been issued by the City prior to ~~December 18, 1996;~~January 1, 2017;
 - (2) Existing residences that are altered, improved, restored, repaired, expanded or extended, provided that the number of dwelling units is not increased or that the exterior floor area of the dwelling is not increased ~~more by than 1,300~~1,000 square feet ~~or more;~~
 - (3) The construction of a new residential structure which replaces a residential structure that was destroyed or demolished within two years prior to the application for a building permit for the new residential structure, provided that the number of residential units is not increased from the number of residential units of the previously destroyed or demolished residential structure or that the replacement dwelling is not more than ~~1,299~~1,000 square feet larger than the original dwelling;
 - (4) The construction of a new residential structure which is not more than 1,000 square feet in size;
 - (5) Secondary dwelling units constructed pursuant to Sec. ~~1855, 20.20.010;~~ and constructed pursuant to this Zoning Ordinance.
 - (56) Residential development projects which are to be developed pursuant to the terms of a development agreement or vesting subdivision map executed prior to ~~December 18, 1996~~January 1, 2017; and-
 - (7) Residential subdivisions and multi-family housing projects that have received tentative map or other discretionary approval by the City Council prior to ~~December 18, 1996~~January 1, 2017.
- (b) Provision of required inclusionary units. The ~~following requirements apply to inclusionary housing requirements for of obligation of~~ for-sale residential ~~development~~ projects are set forth below unless alternative compliance is approved by the City Council for the project:
- (1) Projects with one (1) to three (3) dwelling units or lots: Unless otherwise provided for in this section, within a for-sale, residential project of one (1) to three (3) dwelling units or lots, the requirements of this section shall be met by through payment of in-lieu inclusionary housing fees for each above moderate market rate unit, pursuant to subsections (e) and (d).
 - (2) Projects with four (4) to six (6) dwelling units or lots: Unless otherwise provided for in this section, within a for-sale, residential project of four (4) to six (6) dwelling units or lots, the

~~requirements of this section shall be met applicants shall meet the inclusionary housing obligation through on-site construction of one (1) inclusionary unit to be made available to moderate-income households. The requirements of this section may be met in the following ways, or combinations thereof:~~

~~i.— Actual construction of the inclusionary unit within a project;~~

~~ii.— and Ppayment of a portion of the in-lieu inclusionary housing fees in an amount equivalent to the remaining fractional portion of the inclusionary unit requirement, pursuant to subsections (c) and (d)subsection (d) below.~~

~~(3) Projects with seven (7) or more dwelling units or lots:~~

~~(4) Unless otherwise provided for in this section, within a for-sale, residential project of seven (7) or more dwelling units or lots, the requirements of this section shall be met through on-site construction of inclusionary units and payment of in-lieu inclusionary housing fees in an amount equivalent to the remaining fractional portion of the inclusionary unit requirement, pursuant to subsections (c) and (d). aAt least fifteen thirty (1530) percent of the total number of new dwelling units or lots within a for-sale, residential development project shall be inclusionary units made available to middle-, moderate-, or low-, or very low-income households. Of these inclusionary units, at least ten fifteen (1015) percent shall be for middle-very low and low-income households, and at least five seven and one half (7.5) percent shall be for moderate-income households and seven and one half (7.5) percent shall be for low-income households.~~

~~The targeted incomes by income category for inclusionary units shall be distributed across the income categories. In the event a qualified homebuyer cannot be identified within 90 days of initial offering, targeted incomes may be adjusted within the income category, subject to market demands and upon approval of the City.~~

~~The City reserves the right to create very-low income inclusionary units by purchasing (buying down) affordability contracts from property owners. The City shall establish the price of a very low-income unit consistent with the difference in subsidy between that required to make an inclusionary unit affordable to a low-income household and that required to make an inclusionary unit affordable to a very-low income household. The City may exercise its option to buy down at its discretion so long as fees are available in the Inclusionary Housing Deposit account for this purpose. The pricing methodology, timing of buy-down and other required information shall be set forth in the Inclusionary Housing Agreement.~~

~~(3) The requirements of this section may be met in the following ways, or combinations thereof:~~

~~i.— Actual construction of inclusionary dwellings within a project;~~

~~ii.— Construction of inclusionary units on another site within the City;~~

~~(4) The applicant shall, upon the finding by the Planning Commission or City Council, as appropriate, that the construction of required inclusionary units is not feasible or appropriate as part of a residential development at the project site or elsewhere within the City, shall meet the inclusionary requirement as required below for a project with six (6) or fewer dwelling units.~~

The following requirements shall apply to residential development projects with six (6) or fewer dwelling units:

- i. — ~~Payment of in lieu fees for each above moderate unit pursuant to subsection (d);~~
- ii. — ~~In lieu dedication of land for affordable housing purposes, pursuant to subsection (e).~~

(c) In-lieu inclusionary housing fees. Where provided for in subsections ~~(b)(3) and (e)~~, ~~in lieu of actually constructing affordable housing units, residential builders and~~ applicants may elect to pay an in-lieu inclusionary housing fee resulting from the fractional unit requirement for each for-sale, market rate unit in the residential project. The amount of the in-lieu inclusionary housing fee shall be set by resolution of the City Council and may be periodically updated to reflect changing housing conditions within the community, including the actual costs of providing affordable housing. Fees collected for this purpose shall be deposited by the City into an ~~Affordable Housing Trust~~Inclusionary Housing Deposit Fund ~~account~~ for the purpose of providing affordable housing programs and services in the community. Fees shall be payable at the time of building permit issuance.

(d) Fractional Unit Requirements. In determining the number of inclusionary units required, fractional units that may result from the application of these requirements may be satisfied by one of the ~~two~~ following methods, at the discretion of the applicant:

- (1) Fractional numbers of inclusionary units may be "rounded up" to the nearest whole integer and treated as a whole inclusionary unit.
- (2) Payment of a portion of the in-lieu fee ~~allowed pursuant to subsection (d)~~ in an amount equivalent to the remaining fractional portion of the inclusionary unit requirement, pursuant to subsection (c).
- (3) Construction of a deed-restricted secondary dwelling unit made available to moderate-income households.

(e) Alternative Compliance: Subject to the approval of the ~~final decision-making body~~City Council for the project, the requirements of this Section may be met in the following alternative ways, or combinations thereof:

- (1) Off-site construction~~inclusionary units:~~ In lieu of constructing required inclusionary units on-site, inclusionary housing requirements may be satisfied by constructing some or all of the required inclusionary units associated with ~~one a~~ for-sale, residential development project may be constructed on another site or sites within the City, in accordance with subsection (b). The resultant linked project sites shall be considered a single combined inclusionary housing project and shall be reviewed concurrently by the City. Off-site inclusionary units shall be constructed and occupied concurrently with or prior to the construction and occupancy of the for-sale, residential project. In phased for-sale, residential projects, inclusionary units may be constructed and occupied in proportion to the number of units in each phase of the project. Inclusionary housing units not built on the site of the proposed original project shall be constructed simultaneously with market rate dwellings constructed on the original site, unless alternative arrangements are approved as part of the project approval.

In addition to any other findings required by statute, ordinance or otherwise, any approval of the linked projects sites shall include the following findings that must be made prior to the approval of off-site inclusionary units:

- a. That practical difficulties exist with providing the required inclusionary units on the for-sale, residential project ~~original development~~ site;
- b. That the proposed ~~off-site~~ location for off-site inclusionary units will not result in an unreasonable concentration of ~~inclusionary units~~ affordable housing in one geographic ~~location~~ area of the City; and
- c. That all other provisions of this section have been or will be complied with, as guaranteed through the imposition of conditions of approval.

Where off-site inclusionary units are permitted ~~off-site~~, such units do not count as affordable units for the purpose of ~~the receiving site~~ qualifying for a density bonus.

- (2) In-lieu land dedications: ~~Where provided for in subsection (e), i~~ In lieu of constructing required inclusionary units, ~~residential builders and applicants for residential projects may choose to satisfy inclusionary housing requirements~~ inclusionary housing requirements may be satisfied by an irrevocable offer of dedication of land for construction of ~~affordable housing~~ inclusionary units within City limits. Identification of the land to be dedicated shall be accomplished prior to approval of the discretionary permit for the for-sale, residential ~~development project~~.

In addition to any other findings required by statute, ordinance, or otherwise, any ~~project~~ approval for in-lieu land dedication shall include a finding that the land to be dedicated is not subject to liens, is served or proposed to be served by municipal services including water, sewer, roads, electricity, telephone and other similar customary services, is suitable for the construction of inclusionary units and contains no unusual planning or development constraints that would hinder or preclude the development of inclusionary units.

- (2) Land for ~~affordable housing projects~~ inclusionary units shall be dedicated to either for-profit or non-profit affordable housing builders only. The amount of land shall be as much as necessary to ~~be one and one half (1 ½) times provide for~~ the equivalent number ~~for the of~~ required inclusionary units, assuming the same product type to be developed as part of the for-sale, residential project, in accordance with subsection (e). The land shall be offered for dedication prior to issuance of the first Certificate of Occupancy for the for-sale, residential project. The City Council may approve, conditionally approve or reject such offer of dedication. If the City Council rejects such offer of dedication, ~~the applicant or developer shall be required to meet~~ the inclusionary housing requirement shall be met by other means set forth in this section.

- (3) Conversion of existing market rate units to inclusionary units, in an amount equal to the inclusionary housing requirement;

- (4) Acquisition and extension of an existing affordability contract, in an amount equal to the in-lieu inclusionary housing fee; and
- (5) Other equivalent methods which meet the housing goals and objectives of the City intent of the Housing Element as determined acceptable by the final decision-making body for the project.
- (f) Affordable Housing Incentives. An applicant may request an affordable housing incentive subject to the terms set forth in Sections 20.20.035 and 20.20.040.
- (g) Affordable housing Inclusionary unit development standards. In addition to other development standards and requirements set forth in ~~the zoning ordinance~~ this Title, the following standards ~~must shall~~ be met for the construction of inclusionary ~~dwelling~~ units:
- (1) ~~Required in~~ Inclusionary units shall be constructed and occupied concurrently with or prior to the construction of construction and occupancy of the for-sale, residential project, market rate units, unless an alternative schedule based on extenuating circumstances is adopted as part of the project approval. In phased projects, inclusionary units shall be constructed and occupied in proportion to the number of units in each phase of the project.
 - (2) Inclusionary units shall be distributed throughout the for-sale, residential project site, to the fullest extent practicable. built on the project site unless alternative arrangements are made pursuant to subsections (c), (d) or (e), and, to the fullest extent practicable, distributed throughout the residential project site.
 - (3) Inclusionary units shall reflect the range of number of bedrooms provided in the for-sale, residential project as a whole. For those for sale, residential ~~development~~ projects that are required to provide ten (10) or more inclusionary units, at least ten (10) ~~10~~ percent of the inclusionary units shall have three or more bedrooms.
 - (4) ~~The~~ The size (square footage) and amenities of inclusionary units may be reduced from the overall quality of the market rate units, provided that all other zoning and building codes are met. However, the inclusionary units shall be the same product type and the exterior design of the inclusionary units shall be reasonably consistent and compatible with the total overall project design in terms of appearance, materials and finished quality, as determined through the Design Review process.
 - (5) Residents of inclusionary units shall not be denied access to common open spaces or recreational amenities.
 - (6) Inclusionary units may be for-sale and/or rental units, subject to the approval of the City Council.
 - ~~(6) Second dwelling units, as provided for in Article 18 of the Zoning Ordinance, shall not be counted toward inclusionary housing requirements.~~
 - (hg) Submittal of inclusionary housing information.
 - ~~(4)~~ Any application submitted to the City for a for-sale, residential ~~development~~ projects shall include the proposed method of satisfying the inclusionary housing requirements, which ~~proposal~~ shall be reviewed as part of the development permit process. ~~This~~ The proposal shall

include information as to the total number of units being requested for City approval, the number of inclusionary ~~housing~~ units included within the ~~project application~~, the proposed sales prices of both market-rate and inclusionary units, the proposed methods for income screening of prospective residents and other information deemed necessary by the City.

(i) Inclusionary housing occupancy and resale agreements. The following shall govern the occupancy and resale of inclusionary units ~~and future resale of such units~~:

(1) For-sale inclusionary units must remain affordable for a minimum forty-five (45) year period. Rental inclusionary units must remain affordable for a minimum fifty-five (55) year period. Resale of an inclusionary unit re-starts the affordability period for a minimum of an additional forty-five (45) years, depending upon the terms of the Inclusionary Housing Agreement. Affordability restrictions begin upon issuance of the first certificate of occupancy for an inclusionary unit and continue for the specified time period even if any financial assistance provided is repaid prior to the end of the restriction period.

(2) Only middle-, moderate-, low- and very low-income households may occupy inclusionary housing units during the term of any resale or occupancy agreement. The City or its designee shall notify all potential purchasers of an inclusionary unit to ensure adherence to the income restrictions for inclusionary units.

(3) Owner must use any inclusionary unit purchased under this program as their primary residence (includes all owners on title) and may not rent or lease the unit, including any short term rental, or use the unit as a secondary or vacation residence.

~~(2) — The City shall identify and periodically update the housing prices that qualify as affordable for very low-, low-, moderate-, and above-moderate~~

(4) Applicants proposing to meet the inclusionary requirement through the provision of for-sale inclusionary units shall enter into an Inclusionary Housing Agreement with the City prior to final map recordation for the for-sale, residential project. All buyers of "for-sale" inclusionary units shall enter into an Inclusionary Housing Resale Agreement with the City prior to close of escrow for such inclusionary unit. The Inclusionary Housing Resale Agreement shall specify, at a minimum, the income restriction on the household purchasing and occupying the inclusionary unit, the number of years that the inclusionary unit shall remain as affordable to the target household income, an option for the City or its designee to designate an eligible purchaser, the City's right of first refusal to purchase the inclusionary unit, and a calculation of future equity assignment upon sale of the inclusionary unit. The Inclusionary Housing Resale -Agreement shall be recorded against each applicable inclusionary unit.

(5) Applicants proposing to meet the inclusionary requirement through the provision of rental inclusionary units shall enter into an Inclusionary Housing Agreement with the City prior to the issuance of a final certificate of occupancy permit for the for-sale, residential project. The Inclusionary Housing Agreement shall specify income restrictions on the households occupying the inclusionary units and the number of

years that the inclusionary units shall remain affordable to the target ~~households~~incomes.

- (6) City or its designee has an option to purchase the inclusionary unit upon notification of intent to sell by owner.
- (7) The City shall identify and periodically update the housing prices and rents that qualify as affordable for very low-, low-, moderate-, and middle-incomes.
- (8) The City shall adopt and periodically update policies and procedures for the implementation of the inclusionary housing program.
- (4) ~~The minimum time period for which an inclusionary unit shall be reserved for its targeted household shall be established by City Council resolution.~~
- (j) ~~(i)~~ Management and monitoring of inclusionary units. ~~Rental Inclusionary inclusionary rental~~ units shall be professionally managed and/or operated by the owner of the residential complex or the authorized agent of the owner in accordance with an Inclusionary ~~Rental-Housing~~ Agreement prepared by the City. Each owner of ~~rental~~ inclusionary ~~rental~~ unit(s) shall submit an annual Tenant Income Certificate report to the ~~Planning-Community Housing and Development~~ Department, no later than March 1, for the previous calendar year, identifying monthly rental rates, vacancy status of each inclusionary unit, income status for each resident and any other related data deemed necessary by the City while ensuring privacy for all residents.
- (k) Inclusionary Unit Resident Selection Criteria. No household shall be permitted to occupy an inclusionary unit unless the City or its designee has approved the household's eligibility. Eligible potential occupants of inclusionary units will be qualified on the basis of household income, the median combined household income statistics for Sonoma County published periodically by the California Department of Housing and Community Development, all sources of household income and assets, the relationship between household size and the size of available inclusionary units, and any further criteria required by law. Selection of qualified person should be based on the following priorities:
- (1) Employed within the boundaries of the City of Healdsburg for at least the past 3 continuous years, or
 - (2) Live in Healdsburg and have been a City resident for at least the past 3 continuous years.

**Revisions to Definitions Section 20.28.310
(shown in track changes)**

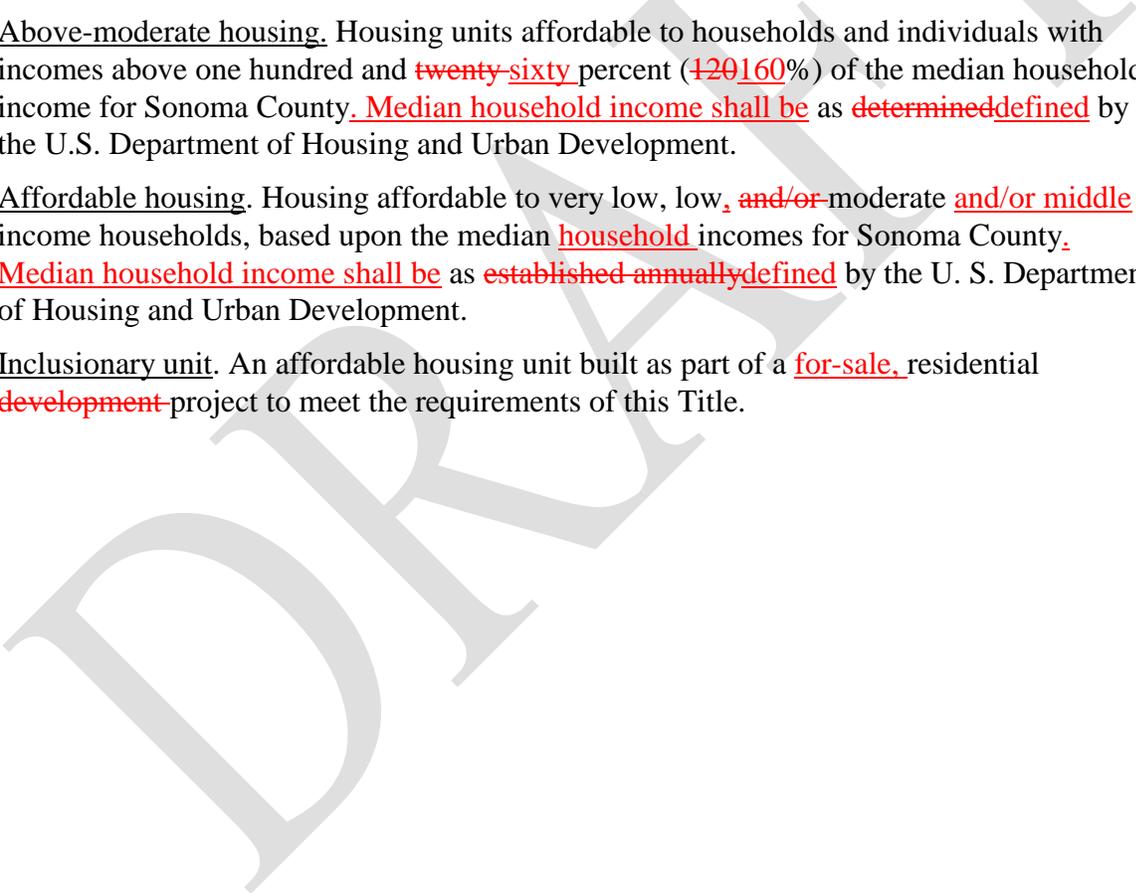
In-lieu inclusionary housing fee. A fee levied by the City, consistent with the requirements of the Inclusionary Housing Ordinance, in-lieu of construction of inclusionary units.

Middle-income household. A household earning an income from one hundred and twenty-one (121) up to one hundred and sixty (160) percent of the median household income for Sonoma County. Median household income shall be as defined by the U.S. Department of Housing and Urban Development. “Middle-Income Household” income range may be less than 160% of the median household income for Sonoma County if the related maximum housing price, as computed by the City, would require a mortgage that exceeds the amount of a “conforming” mortgage loan for Sonoma County as periodically redefined by the U.S. Department of Housing and Urban Development.

Above-moderate housing. Housing units affordable to households and individuals with incomes above one hundred and ~~twenty-sixty~~ percent (120/160%) of the median household income for Sonoma County. Median household income shall be as ~~determined~~ defined by the U.S. Department of Housing and Urban Development.

Affordable housing. Housing affordable to very low, low, ~~and/or~~ moderate and/or middle income households, based upon the median household incomes for Sonoma County. Median household income shall be as ~~established annually~~ defined by the U. S. Department of Housing and Urban Development.

Inclusionary unit. An affordable housing unit built as part of a for-sale, residential ~~development~~ project to meet the requirements of this Title.



Attachment: 100316 Track changes IHO (1363 : IHO 1st Reading)

CITY OF HEALDSBURG

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF HEALDSBURG RESCINDING AND REPLACING HEALDSBURG MUNICIPAL CODE SECTION 20.20.030: INCLUSIONARY HOUSING AND AMENDING HEALDSBURG MUNICIPAL CODE SECTION 20.28.310: DEFINITIONS AND APPROVING RELATED CEQA EXEMPTION

WHEREAS, during a duly noticed City Council meeting on July 18, 2016, the City Council voted to place a measure (“Measure R”) on the November 8, 2016 ballot that, if approved by the voters, would amend the GMO to require the City to increase the inclusionary housing requirements on new development to 30% of the new units, remove the existing restrictions on the number of new housing units allowed per year, require the City to adopt and periodically update a Housing Action Plan, and require the City to adopt and periodically amend new growth management measures, to be modified only when the City updates the General Plan Housing Element; and

WHEREAS, certain changes to Healdsburg Municipal Code Section 20.20.030: Inclusionary Housing are needed to implement the requirements of Measure R; and

WHEREAS, certain other changes to Healdsburg Municipal Code Section 20.20.030: Inclusionary Housing and Section 20.28.310: Definitions are needed to implement the recommendations of the adopted Housing Action Plan and clarify the inclusionary requirements of the City; and

WHEREAS, the proposed amendments to the Municipal Code are exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3). The proposed amendments will: revise the requirements for new residential development to include affordable housing units; change the administration of the inclusionary housing ordinance; and change certain definitions; and

WHEREAS, the proposed amendments will not allow for, or encourage any more development than is already anticipated under the City’s existing General Plan, or otherwise allow for or promote physical changes in the environment and, therefore, it can be seen with certainty that there is no possibility that the proposed amendments may have a significant on the environment; and

WHEREAS, the Planning Commission held a public hearing on September 13, 2016 at which it reviewed the proposed amendments, considered all public comments on the revisions and related CEQA exemption and recommended approval to the City Council; and

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WHEREAS, the purpose of the revisions is to comply with the requirements of Measure R and the recommendations of the adopted Housing Action Plan, and is conditioned upon the adoption of Measure R by the voters on November 8, 2106; and

WHEREAS, based upon the analysis contained in the staff report the revisions have been determined to be consistent with the General Plan including the Goals, Policies and Implementation Measures of the Housing, Land Use and Economic Development Elements of the adopted General Plan.

NOW, THEREFORE, the City Council of the City of Healdsburg does ordain as follows:

Section 1. Findings

The above recitals are hereby declared to be true and correct findings of the City Council of the City of Healdsburg.

Section 2. Rescind and replace Healdsburg Municipal Code Section 20.20.030: Inclusionary Housing

Healdsburg Municipal Code Section 20.20.030: Inclusionary Housing is hereby rescinded and replaced to read as follows:

Sec. 20.20.030 Inclusionary housing

The following standards shall govern inclusionary housing development:

- A. Applicability. The provisions of this section shall apply to any discretionary or ministerial approvals for for-sale, residential projects. The following shall not be subject to the provisions of this section:
1. Residential dwellings for which a building permit has been issued by the City prior to January 1, 2017;
 2. Existing residences that are altered, improved, restored, repaired, expanded or extended, provided that the number of dwelling units is not increased or that the exterior floor area of the dwelling is not increased more than 1,000 square feet;
 3. The construction of a new residential structure which replaces a residential structure that was destroyed or demolished within two years prior to the application for a building permit for the new residential structure, provided that the number of residential units is not increased from the number of residential units of the previously destroyed or demolished residential structure or that the replacement dwelling is not more than 1,000 square feet larger than the original dwelling;

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4. The construction of a new residential structure which is not more than 1,000 square feet in size;
 5. Secondary dwelling units constructed pursuant to Sec. 20.20.010;
 6. Residential development projects which are to be developed pursuant to the terms of a development agreement or vesting subdivision map executed prior to January 1, 2017; and
 7. Residential subdivisions and multi-family housing projects that have received tentative map or other discretionary approval by the City Council prior to January 1, 2017.
- B. Provision of required inclusionary units. The inclusionary housing requirements of for-sale residential projects are set forth below unless alternative compliance is approved by the City Council for the project:
1. Projects with one (1) to three (3) dwelling units or lots: Unless otherwise provided for in this section, within a for-sale, residential project of one (1) to three (3) dwelling units or lots, the requirements of this section shall be met through payment of in-lieu inclusionary housing fees for each market rate unit, pursuant to subsections C and D.
 2. Projects with four (4) to six (6) dwelling units or lots: Unless otherwise provided for in this section, within a for-sale, residential project of four (4) to six (6) dwelling units or lots, the requirements of this section shall be met through on-site construction of one (1) inclusionary unit to be made available to moderate-income households and payment of in-lieu inclusionary housing fees in an amount equivalent to the remaining fractional portion of the inclusionary unit requirement, pursuant to subsections C and D.
 3. Projects with seven (7) or more dwelling units or lots: Unless otherwise provided for in this section, within a for-sale, residential project of seven (7) or more dwelling units or lots, the requirements of this section shall be met through on-site construction of inclusionary units and payment of in-lieu inclusionary housing fees in an amount equivalent to the remaining fractional portion of the inclusionary unit requirement, pursuant to subsections C and D. At least thirty (30) percent of the total number of new dwelling units or lots within a for-sale, residential project shall be inclusionary units made available to middle-, moderate-, or low-income households. Of these inclusionary units, at least fifteen (15) percent shall be for middle-income households, seven and one half (7.5) percent shall be for moderate-income households and seven and one half (7.5) percent shall be for low-income households.

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The targeted incomes by income category for inclusionary units shall be distributed across the income categories. In the event a qualified homebuyer cannot be identified within 90 days of initial offering, targeted incomes may be adjusted within the income category, subject to market demands and upon approval of the City.

The City reserves the right to create very-low income inclusionary units by purchasing (buying down) affordability contracts from property owners. The City shall establish the price of a very low-income unit consistent with the difference in subsidy between that required to make an inclusionary unit affordable to a low-income household and that required to make an inclusionary unit affordable to a very-low income household. The City may exercise its option to buy down at its discretion so long as fees are available in the Inclusionary Housing Deposit account for this purpose. The pricing methodology, timing of buy-down and other required information shall be set forth in the Inclusionary Housing Agreement.

- C. In-lieu inclusionary housing fee. Where provided for in subsection (b), applicants may pay an in-lieu inclusionary housing fee resulting from the fractional unit requirement for each for-sale, market rate unit in the residential project. The amount of the in-lieu inclusionary housing fee shall be set by resolution of the City Council and may be periodically updated to reflect changing housing conditions within the community, including the actual costs of providing affordable housing. Fees collected for this purpose shall be deposited by the City into an Inclusionary Housing Deposit account for the purpose of providing affordable housing programs and services in the community. Fees shall be payable at the time of building permit issuance.
- D. Fractional Unit Requirement. In determining the number of inclusionary units required, fractional units that may result from the application of these requirements may be satisfied by one of the following methods, at the discretion of the applicant:
1. Fractional numbers of inclusionary units may be "rounded up" to the nearest whole integer and treated as a whole inclusionary unit.
 2. Payment of a portion of the in-lieu fee in an amount equivalent to the remaining fractional portion of the inclusionary unit requirement, pursuant to subsection C.
 3. Construction of a deed-restricted secondary dwelling unit made available to moderate-income households.
- E. Alternative Compliance: Subject to the approval of the City Council, the requirements of this section may be met in the following alternative ways, or combinations thereof:

1. Off-site construction: In lieu of constructing required inclusionary units on-site, inclusionary housing requirements may be satisfied by constructing some or all of the required inclusionary units associated with a for-sale, residential project on another site or sites within the City. The resultant linked project sites shall be considered a single combined project and shall be reviewed concurrently by the City. Off-site inclusionary units shall be constructed and occupied concurrently with or prior to the construction and occupancy of the for-sale, residential project. In phased for-sale, residential projects, inclusionary units may be constructed and occupied in proportion to the number of units in each phase of the project.

In addition to any other findings required by statute, ordinance or otherwise, any approval of the linked project sites shall include the following findings that must be made prior to the approval of off-site inclusionary units:

- a. That practical difficulties exist with providing the required inclusionary units on the for-sale, residential project site;
- b. That the proposed location for off-site inclusionary units will not result in an unreasonable concentration of affordable housing in one geographic area of the City; and
- c. That all other provisions of this section have been or will be complied with, as guaranteed through the imposition of conditions of approval.

Where off-site inclusionary units are permitted, such units do not count as affordable units for the purpose of qualifying for a density bonus.

2. In-lieu land dedication: In lieu of constructing required inclusionary units, inclusionary housing requirements may be satisfied by an irrevocable offer of dedication of land for construction of inclusionary units within the City limits. Identification of the land to be dedicated shall be accomplished prior to approval of the discretionary permit for the for-sale, residential project.

In addition to any other findings required by statute, ordinance, or otherwise, any approval for in-lieu land dedication shall include a finding that the land to be dedicated is not subject to liens, is served or proposed to be served by municipal services including water, sewer, roads, electricity, telephone and other similar customary services, is suitable for the construction of inclusionary units and contains no unusual planning or development constraints that would hinder or preclude the development of inclusionary units.

Land for inclusionary units shall be dedicated to either for-profit or non-profit affordable housing builders only. The amount of land shall be as much as necessary to provide for

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- the equivalent number of required inclusionary units, assuming the same product type to be developed as part of the for-sale, residential project, in accordance with subsection B. The land shall be offered for dedication prior to issuance of the first Certificate of Occupancy for the for-sale, residential project. The City Council may approve, conditionally approve or reject such offer of dedication. If the City Council rejects such offer of dedication, the inclusionary housing requirement shall be met by other means set forth in this section.
3. Conversion of existing market rate units to inclusionary units, in an amount equal to the inclusionary housing requirement.
 4. Acquisition and extension of an existing affordability contract, in an amount equal to the in-lieu inclusionary housing fee.
 5. Other equivalent methods which meet the housing goals and objectives of the City.
- F. Affordable Housing Incentives. An applicant may request an affordable housing incentive subject to the terms set forth in Sections 20.20.035 and 20.20.040.
- G. Inclusionary unit development standards. In addition to other development standards and requirements set forth in this Title, the following standards shall be met for the construction of inclusionary units:
1. Inclusionary units shall be constructed and occupied concurrently with or prior to the construction and occupancy of the for-sale, residential project, unless an alternative schedule based on extenuating circumstances is adopted as part of the project approval. In phased projects, inclusionary units shall be constructed and occupied in proportion to the number of units in each phase of the project.
 2. Inclusionary units shall be distributed throughout the for-sale, residential project site, to the fullest extent practicable.
 3. Inclusionary units shall reflect the range of number of bedrooms provided in the for-sale, residential project as a whole. For residential projects that are required to provide ten (10) or more inclusionary units, at least ten (10) percent of the inclusionary units shall have three or more bedrooms.
 4. The square footage and amenities of inclusionary units may be reduced from the overall quality of the market rate units, provided that all other zoning and building codes are met. However, the inclusionary units shall be the same product type and the exterior design shall be reasonably consistent and compatible with the overall project design in terms of appearance, materials and finished quality, as determined through the Design Review process.

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5. Residents of inclusionary units shall not be denied access to common open spaces or recreational amenities.
 6. Inclusionary units may be for-sale and/or rental units, subject to the approval of the City Council.
- H. Submittal of inclusionary housing information. Any application submitted to the City for a for-sale, residential project shall include the proposed method of satisfying the inclusionary housing requirements, which shall be reviewed as part of the development permit process. The proposal shall include information as to the total number of units being requested for City approval, the number of inclusionary units included within the project, the proposed sales prices of both market-rate and inclusionary units, the proposed methods for income screening of prospective residents and other information deemed necessary by the City.
- I. Inclusionary housing occupancy and resale agreements. The following shall govern the occupancy and resale of inclusionary units:
1. For-sale inclusionary units must remain affordable for a minimum forty-five (45) year period. Rental inclusionary units must remain affordable for a minimum fifty-five (55) year period. Resale of an inclusionary unit re-starts the affordability period for a minimum of an additional forty-five (45) years, depending upon the terms of the Inclusionary Housing Agreement. Affordability restrictions begin upon issuance of the first certificate of occupancy for an inclusionary unit and continue for the specified time period even if any financial assistance provided is repaid prior to the end of the restriction period.
 2. Only middle-, moderate-, low- and very low-income households may occupy inclusionary units during the term of any resale or occupancy agreement. The City or its designee shall notify all potential purchasers of an inclusionary unit to ensure adherence to the income restrictions.
 3. Owner must use any inclusionary unit purchased under this program as their primary residence (includes all owners on title) and may not rent or lease the unit, including any short term rental, or use the unit as a secondary or vacation residence.
 4. Applicants proposing to meet the inclusionary requirement through the provision of for-sale inclusionary units shall enter into an Inclusionary Housing Agreement with the City prior to final map recordation for the for-sale, residential project. All buyers of for-sale inclusionary units shall enter into an Inclusionary Housing Resale Agreement with the City prior to close of escrow for such inclusionary unit. The Inclusionary Housing Resale Agreement shall specify, at a minimum, the income

- restriction on the household purchasing and occupying the inclusionary unit, the number of years that the inclusionary unit shall remain as affordable to the target income, an option for the City or its designee to designate an eligible purchaser, the City's right of first refusal to purchase the inclusionary unit, and a calculation of future equity assignment upon sale of the inclusionary unit. The Inclusionary Housing Resale Agreement shall be recorded against each applicable inclusionary unit.
5. Applicants proposing to meet the inclusionary requirement through the provision of rental inclusionary units shall enter into an Inclusionary Housing Agreement with the City prior to the issuance of a certificate of occupancy for the for-sale, residential project. The Inclusionary Housing Agreement shall specify, at a minimum, income restrictions on the households occupying the inclusionary units and the number of years that the inclusionary units shall remain affordable to the target incomes.
 6. City or its designee has an option to purchase the inclusionary unit upon notification of intent to sell by owner.
 7. The City shall identify and periodically update the housing prices and rents that qualify as affordable for very low-, low-, moderate-, and middle-incomes.
 8. The City shall adopt and periodically update policies and procedures for the implementation of the inclusionary housing program.
- J. Management and monitoring of inclusionary units. Rental inclusionary units shall be professionally managed and/or operated by the owner of the residential complex or the authorized agent of the owner in accordance with an Inclusionary Housing Agreement prepared by the City. Each owner of rental inclusionary unit(s) shall submit an annual Tenant Income Certificate report to the Community Housing and Development Department, no later than March 1, for the previous calendar year, identifying monthly rental rates, vacancy status of each inclusionary unit, income status for each resident and any other related data deemed necessary by the City while ensuring privacy for all residents.
- K. Inclusionary Unit Resident Selection Criteria. No household shall be permitted to occupy an inclusionary unit unless the City or its designee has approved the household's eligibility. Eligible potential occupants of inclusionary units will be qualified on the basis of household income, the median combined household income statistics for Sonoma County published periodically by the California Department of Housing and Community Development, all sources of household income and assets, the relationship between household size and the size of available inclusionary units, and any further criteria required by law. Selection of qualified person should be based on the following priorities:

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1. Employed within the boundaries of the City of Healdsburg for at least the past 3 continuous years, or
2. Live in Healdsburg and have been a City resident for at least the past 3 continuous years.

Section 3. Chapter 20.28 of the Healdsburg Municipal Code is hereby revised to amend Section 20.28.310: Definitions to read and provide as follows:

Section 20.28.310: Definitions, is amended to add:

In-lieu inclusionary housing fee. A fee levied by the City, consistent with the requirements of the Inclusionary Housing Ordinance, in-lieu of construction of inclusionary units.

Middle-income household. A household earning an income from one hundred and twenty-one (121) up to one hundred and sixty (160) percent of the median household income for Sonoma County. Median household income shall be as defined by the U.S. Department of Housing and Urban Development. “Middle-Income Household” income range may be less than 160% of the median household income for Sonoma County if the related maximum housing price, as computed by the City, would require a mortgage that exceeds the amount of a “conforming” mortgage loan for Sonoma County as periodically redefined by the U.S. Department of Housing and Urban Development.

Section 20.28.310: Definitions is amended to read as follows:

Above-moderate housing. Housing units affordable to households and individuals with incomes above one hundred and sixty percent (160%) of the median household income for Sonoma County. Median household income shall be as defined by the U.S. Department of Housing and Urban Development.

Affordable housing. Housing affordable to very low, low, moderate and/or middle income households, based upon the median household incomes for Sonoma County. Median household income shall be as defined by the U. S. Department of Housing and Urban Development.

Inclusionary unit. An affordable housing unit built as part of a for-sale, residential project to meet the requirements of this Title.

Section 4. Environmental Compliance.

The proposed amendments to the Municipal Code are exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3). The proposed amendments will: revise the requirements for new residential development to include affordable housing units; change the administration of the inclusionary housing ordinance; and change certain definitions. The proposed amendments will not allow for, or encourage any more development than is already anticipated under the City’s

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existing General Plan, or otherwise allow for or promote physical changes in the environment and, therefore, it can be seen with certainty that there is no possibility that the proposed amendments may have a significant on the environment.

Section 5. Severability.

If any provision of this ordinance or the application thereof to any person or circumstance is held invalid, the remainder of the ordinance and the application of such provision to other persons or circumstances shall not be affected thereby.

Section 6. Effective Date and Publication.

The effectiveness of this ordinance is conditioned on the passage of an amendment to the Growth Management Ordinance by Healdsburg voters at the November 8, 2016 election and this ordinance shall take effect as of January 1, 2017, but only if the voters pass the proposed amendment to the Growth Management Ordinance. Should the voters reject the proposed amendment to the Growth Management Ordinance this ordinance shall be null and void and shall have no force or effect.

INTRODUCED by the City Council of the City of Healdsburg on the 3rd day of October, 2016 and PASSED and APPROVED on the ____ day of _____ 2016 by the following vote:

AYES: Councilmembers: ()

NOES: Councilmembers: ()

ABSENT: Councilmembers: ()

ABSTAINING: Councilmembers: ()

SO ORDERED

ATTEST

Thomas L. Chambers, Mayor

Maria Curiel, City Clerk

Dated: _____

Attachment: Ordinance (1363 : IHO 1st Reading)