



# City of Santa Barbara California

## PLANNING COMMISSION STAFF REPORT

**AGENDA DATE:** June 21, 2007  
**TO:** Planning Commission  
**FROM:** Bettie Weiss, City Planner *BLW*  
 Steven Faulstich, Housing Programs Supervisor *SF*  
**SUBJECT:** Revisions to the Inclusionary Housing Ordinance

### RECOMMENDATION:

That the Planning Commission hold a public hearing regarding possible changes to the Inclusionary Housing Ordinance as recommended by the City's Housing Policy Steering Committee, and forward the matter to the City Council with the Commission's recommendations.

### I. DISCUSSION

This report presents information regarding possible revisions to the City's Inclusionary Housing Ordinance (IHO), which was adopted in 2004. This Ordinance requires that all ownership subdivisions of 10 or more units, whether new construction or condominium conversions, are required to provide 15% of the total units as "inclusionary units." This requirement applies equally to residential zones and commercial zones. Inclusionary units must be sold at prices affordable to middle-income households. Developers are entitled to a density bonus for the inclusionary units.

The City's Housing Policy Steering Committee (HPSC) was asked by Council to review and make recommendations about possible revisions to the Inclusionary Housing Ordinance. The HPSC members are: Councilmembers Brian Barnwell, Iya Falcone, and Helene Schneider, and Planning Commissioners Bruce Bartlett, Charmaine Jacobs, and John Jostes. The Committee met on April 10 and again on May 24, 2007, heard input from members of the public, and considered issues such as whether the Inclusionary Ordinance should apply to projects with fewer than 10 units, and whether the inclusionary percentage should be increased from the current 15%.

After reading staff's analysis and engaging in considerable dialog with developers, housing advocates and other members of the public, the Committee adopted a series of motions which recommended that the IHO be amended as follows:

- The IHO would apply to subdivisions of 2 or more lots, new condominium projects of 2 or more units, and conversions of 2 or more units to condominiums. This is a proposed change from the current threshold of 10 or more. Projects such as apartments or other multifamily units where the units are not subdivided and may not be sold separately will continue to be exempt from the IHO.
- Projects (including condo conversions) of 2, 3 or 4 units would pay a pro-rated in-lieu fee, with no requirement to provide an inclusionary unit and no entitlement to a density bonus. The

developer could still apply for a density bonus for these smaller projects, but approval of the density bonus would be discretionary.

- Projects and condo conversions of 5 or more units could choose between paying a pro-rated in-lieu fee or providing the required inclusionary unit(s) on site. As is provided in the current IHO, the applicant would be entitled to a density bonus by right for the required inclusionary units. Of course, the Staff Hearing Officer, Planning Commission and City Council still retain their discretionary review of any requested modifications (such as parking and setbacks), and still must make any required findings.
- For projects in residential zones, and in commercially zoned sites outside the Central Business District, the recommended inclusionary requirements are:
  - 10% for projects of 2 through 9 units
  - 15% for projects of 10 through 24 units
  - 20% for projects of 25 and more units
- For projects in the Central Business District, the recommended inclusionary requirements are:
  - 15% for projects of 2 through 9 units
  - 20% for projects of 10 and more units
- The current policy of granting a density bonus for the required inclusionary units as an entitlement would continue (except for projects of 2, 3 or 4 units as noted above). The revised ordinance would eliminate the necessity for a lot-area modification for such density bonuses, and would instead deem the density bonus for the required inclusionary units to be by right.
- In condo conversion projects, the number of units to which the inclusionary percentage applies would be the greater of:
  - The number of apartments on the site before the condo conversion, or
  - The number of condos after conversion.
- The in-lieu fee would remain high to encourage developers to build the units on-site.

The Housing Policy Steering Committee discussed incorporating some incentives into the IHO to encourage smaller unit sizes, but decided to defer that discussion and instead look to the Plan Santa Barbara process to address unit size, variable density, possible Floor Area Ratios, etc.

**A. Staff Analysis of the Financial Impact of Various Inclusionary Requirements**

To provide background and context for reviewing possible changes to the IHO, City Housing Programs staff developed a set of financial models to show the likely financial impact of various percentages of inclusionary requirements. The financial models were reviewed by several local developers, architects and housing advocates, and were adjusted to address their comments and suggestions. From the models, it appears that increasing the inclusionary requirement to 20% would be workable for projects in mixed-use zones, but increasing it to 30% would make the projects financially infeasible. In the Central Business District, where parking requirements are reduced for both commercial uses and residential uses, the models

showed that projects could remain financially feasible with a somewhat higher inclusionary percentage than would work for projects outside the CBD.

In residential zones, for projects of between 3 and 9 units, a 10% inclusionary requirement would have a substantial impact on the project finances, but such projects may still be feasible if they pay a pro-rated in-lieu fee. Building the inclusionary unit on-site, even with a density bonus, would appear to make such projects infeasible.

The HPSC considered the information provided by these models in arriving at their recommended changes to the IHO.

Here is the summary of the bottom-line conclusions from financial models:

**Scenario A** – 15 unit mixed-use outside the Central Business District

- 15% Feasible
- 20% Borderline Feasible if in-lieu fee paid
- 25% Not Feasible
- 30% Not Feasible

**Scenario B** – 15 unit mixed-use in the Central Business District (this produces different results because of the reduced parking requirements for projects in the CBD)

- 15% Feasible
- 20% Feasible
- 25% Borderline Feasible if in-lieu fee paid
- 30% Not Feasible

**Scenario C** – 7 new condos on R-3 lot

- 10% – unit built on site Not Feasible
- 10% - in-lieu fee paid Borderline Feasible

**B. Threshold Number Of Units**

Staff recommended that the inclusionary requirement be expanded to apply to subdivisions of 3 or more units (or, in the case of lot splits and bare land subdivisions, 3 or more lots), rather than the current threshold of 10 units.

**HPSC Recommendation:** The IHO would apply to subdivisions of 2 or more units or lots. Projects of 2, 3 or 4 units would pay a pro-rated in-lieu fee, with no requirement to provide an inclusionary unit and no entitlement to a density bonus. The developer could still apply for a density bonus for these smaller projects, but approval would be discretionary. Projects and condo conversions of 5 or more units could choose between providing the required inclusionary unit(s) on site or paying a pro-rated in-lieu fee.

**C. Decision Matrix**

Staff prepared a table for the HPSC in order to frame the discussion of what inclusionary requirements should apply in three types of zoning and for three ranges of project sizes. This table, or decision matrix, is attached as Exhibit A. The nine columns show all combinations of

the three zones and the three project size ranges. The choices for the inclusionary percentages vary from none to 30%. The boxes next to the choices that would likely cause a project to become financially not feasible have been shaded. If the financial feasibility of an inclusionary percentage was borderline, a question mark is shown. The Committee, after much discussion and consideration, arrived at a consensus on which percentage to choose in each column. The Committee’s choices are circled.

**D. In-Lieu Fees**

The current in-lieu fee formula results in a fee of \$475,000. This is a large increase since 2004 when the fee was \$310,000. Staff recommended that the formula be revised in order to yield a lower in-lieu fee. Under two proposed alternative methods of calculation, the new fee amount would be either about \$370,000 or about \$317,000. Staff felt that these fees would likely be high enough to encourage construction of the inclusionary units on-site, especially the higher alternative. If the in-lieu fee is paid, it will be used to supplement diminishing affordable housing subsidy funds, and also will serve as the only source of funding that would be available to the City to purchase middle income units that might be in default or foreclosure. The City would then be able to resell the unit and preserve the affordability restrictions.

The following table shows the amount of pro-rated in-lieu fee that would be required for projects of 2 through 9 units, outside of the Central Business District.

Number of Units in Project	Percent of In-Lieu Fee Required	Current In-Lieu Fee (based on a full fee of \$475,000)	Alternative A (based on a full fee of \$370,000)	Alternative B (based on a full fee of \$317,000)
2	20%	\$95,000	\$74,000	\$63,400
3	30%	\$142,500	\$111,000	\$95,100
4	40%	\$190,000	\$148,000	\$126,800
5	50%	\$237,500	\$185,000	\$158,500
6	60%	\$285,000	\$222,000	\$190,200
7	70%	\$332,500	\$259,000	\$221,900
8	80%	\$380,000	\$296,000	\$253,600
9	90%	\$427,500	\$333,000	\$285,300

**HPSC Recommendation:** The in-lieu fee should be kept high in order to encourage the building of units on-site. The method of calculation was not specified.

**E. Condo Conversion Project Considerations**

The Committee expressed concern about the conversion of a given number of apartments into a smaller number of condominiums. For example, an applicant may propose converting a 10-unit

apartment building into 6 or 8 larger condominiums. The Committee recommended that the IHO be revised to require that the inclusionary requirement be calculated on the larger of either

- The number of apartments on the site before the condo conversion, or
- The number of condos after conversion.

## **II. CONCLUSION**

This noticed public hearing will give an additional opportunity for interested persons to provide input on possible changes to the Inclusionary Housing Ordinance. It will also provide a forum for Planning Commissioners to review the all of the changes recommended by the Housing Policy Steering Committee and to forward the matter to the City Council along with the Commission's recommendations on these proposed changes and any others.

Exhibit:

A. Decision Matrix Used by the HPSC

**Exhibit A.**  
**Decision Matrix Used by the Housing Policy Steering Committee,**  
**Showing the Committee's Choices Circled in each Column**

**POSSIBLE REVISIONS TO THE REQUIRED INCLUSIONARY PERCENTAGE**  
**(for 3 project size categories in each of 3 locations in Santa Barbara)**

Please mark your preferred percentage of inclusionary requirement in each column.  
 One choice per column, and any box may be chosen, whether blank, filled-in or shaded

RESIDENTIAL-ONLY ZONES			COMMERCIAL ZONES OUTSIDE THE CENTRAL BUSINESS DISTRICT (CBD)			COMMERCIAL ZONES WITHIN THE CBD		
Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8	Column 9
Below 10 Units	10 to 24 Units	25 and More Units	Below 10 Units	10 to 24 Units	25 and More Units	Below 10 Units	10 to 24 Units	25 and More Units
None <input type="checkbox"/>			None <input type="checkbox"/>			None <input type="checkbox"/>		
10% <input type="checkbox"/>			10% <input type="checkbox"/>			10% <input type="checkbox"/>		
15% <input checked="" type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>	15% <input type="checkbox"/>
	20% <input checked="" type="checkbox"/>	20% <input type="checkbox"/>	20% <input checked="" type="checkbox"/>	20% <input type="checkbox"/>	20% <input type="checkbox"/>	20% <input checked="" type="checkbox"/>	20% <input type="checkbox"/>	20% <input type="checkbox"/>
	25% <input checked="" type="checkbox"/>	25% <input checked="" type="checkbox"/>	25% <input checked="" type="checkbox"/>	25% <input checked="" type="checkbox"/>	25% <input type="checkbox"/>	25% <input checked="" type="checkbox"/>	25% <input type="checkbox"/>	25% <input type="checkbox"/>
	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>	30% <input checked="" type="checkbox"/>
(other) ___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>	___% <input type="checkbox"/>

**LEGEND:**

(Based on the financial feasibility analysis done by  
 Housing Programs staff)

- Blank boxes indicate that this inclusionary percentage will not cause most projects (of the indicated size and location) to become financially Not Feasible
- Boxes with a question mark indicate that this inclusionary percentage may or may not cause projects to become financially Not Feasible
- Shaded boxes with an "NF" indicate that this inclusionary percentage most likely will cause projects to become financially Not Feasible