



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: February 13, 2018

TO: Mayor and Councilmembers

FROM: Planning Division, Community Development

SUBJECT: Housing Task Force Update And Recommendations On The Average Unit-Size Density Incentive Program

RECOMMENDATION: That Council:

- A. Consider the Housing Task Force recommendations related to the Average Unit-Size Density Incentive Program as summarized in Attachment 1;
- B. Initiate Zoning Ordinance Amendments for those recommended actions that would cause revisions to Titles 28 and 30 of the Santa Barbara Municipal Code;
- C. Direct the Planning Commission and staff to complete remaining work objectives with the exception of Objective 8 (Point System); and
- D. Either direct staff to complete remaining work objectives within existing budget and workload priorities; or, if expeditious completion is desired, direct staff to return with the necessary budget adjustments needed to cover the cost to hire a full-time contract planner for eight months to implement the highest priority ordinance amendments and to fund any costs for potential legal support.

EXECUTIVE SUMMARY:

On December 13, 2016, City Council created the Housing Task Force (HTF) to analyze and consider amendments to the Average Unit-Size Density (AUD) Incentive Program. At that time, the Council expressed concerns about the affordability of AUD units and potential parking demand exceeding the required supply in some cases. The Council was also concerned about how the AUD Program would be evaluated to gauge the level of success at achieving the General Plan objectives. Four initial objectives were assigned to the HTF with an estimated duration of six months. On August 15, 2017, Council authorized continuation of the HTF to address additional objectives (Attachment 3 – Council Agenda Report). To date, the HTF has held eleven public meetings resulting in numerous recommendations, some of which have been initiated by City Council. The HTF

has provided recommendations for numerous objectives. The purpose of this agenda item is for Council to consider the HTF recommendations, initiate amendments to the AUD Program, and provide direction regarding the objectives that were not considered by the HTF.

TASK FORCE OBJECTIVES AND RECOMMENDATIONS:

As part of the General Plan's Adaptive Management Program, in September 2016, staff evaluated the effectiveness of the AUD Program in meeting its objectives to provide smaller, more affordable rental units closer to transit, services, and recreational opportunities. As a result of a September 6, 2016 meeting with the Planning Commission (PC), the PC forwarded several staff-recommended revisions to the AUD Program to the City Council and also adopted a resolution to recommend that "City Council form a Task Force to facilitate employer-sponsored housing and limited equity housing cooperatives under the AUD program, as well as affordable housing."

At its December 13, 2016, meeting the City Council created the Housing Task Force and identified its four initial objectives. The following are the objectives and resulting actions taken by the HTF and Council, where applicable (also see Attachment 1 – Summary of Housing Task Force Recommendations):

Objective 1: Explore options to assess impact fees or otherwise mandate the construction of rental housing affordable to households earning 80%–120% of the Area Median Income (AMI).

The AUD Program was intended to expand housing opportunities for middle to upper middle income households (120–200% AMI) by incentivizing smaller units. In terms of housing affordability, the effectiveness of the AUD Program to produce "affordable by design" rental units is mixed. Although the AUD Program has increased housing supply, the available data shows that rents in the new AUD projects are higher than can be afforded by moderate income households. It is estimated that households would need to earn approximately 160–190% AMI to afford AUD unit rents. According to the 2011–2015 American Community Survey, households earning 80–120% of AMI or moderate income represent 28% of the households in the City of Santa Barbara. The City's Quantified Objectives under the current Housing Element (2015–2023) includes a production objective of 13 new moderate income units by 2023; currently only four moderate income units have been produced. To address this affordability gap, Keyser Marston Associates, Inc. (KMA) recommends, based on the results of the Economic Feasibility Study, an on-site moderate income requirement of at least 10% for all rental projects of 10 units or larger, and a \$20.00 per square foot affordable housing in-lieu fee for projects smaller than 10 units.

HTF Action: Recommend to Council that the AUD ordinance be amended to require at least 10% on-site affordable rental units at the Moderate-Income (80%–120% of AMI) level.

HTF Action: Recommend to Council that the AUD ordinance be amended to set the inclusionary (or those projects that must include affordable units) threshold for those projects with 10 units or more, with a round up/down factor of 0.5.

HTF Action: Recommend that Council amend the AUD ordinance to adopt an in-lieu housing fee for smaller rental projects (fewer than 10 units) and fractional units at \$20.00 per square foot.

Objective 2: Investigate adjustments to parking requirements based on location, bulk, size, and scale, and desired outcomes such as smaller units, units with fewer bedrooms, parking in-lieu fees, or other benefits in exchange for parking requirement reductions.

Transportation Planning staff provided a report to the HTF with options for amending parking regulations and mitigating on-street parking demand for the AUD Program consistent with adopted City policies related to land use, housing, and transportation to better facilitate the desired type and location of new multi-unit housing in the AUD Program. A key discovery was that less housing has been proposed within the Central Business District (CBD), which was the primary focus and intended location for new multi-unit housing projects per General Plan policies. Because the parking requirement for mixed-use projects within the CBD was already one space per unit, the reduced parking requirement for AUD units did not further incentivize additional housing production within the CBD. The HTF parking policy recommendations address the fact that AUD projects located outside of the CBD would likely not meet their parking demand and increase the incentive for housing within the CBD. Attachment 4, the memorandum from Transportation Planning staff to the HTF dated May 19, 2017, provides additional background information and discussion.

HTF Action: Recommend to Council that 2 parking spaces be required for 3-or-more-bedroom AUD units outside of the Central Business District.

Council Directive (August 15, 2017): Initiate a Zoning Ordinance Amendment to require 2 parking spaces for units with 3 or more bedrooms proposed for Average Unit-Size Density Incentive Program projects located outside the Central Business District.

HTF Action: Recommend that Council:

- *Protect neighborhoods and maximize parking options Citywide*
- *Exclude AUD projects from the Residential Parking Program*
- *Require unbundled parking for AUD projects to allow residents to choose the parking they need [Typically rental units and residential condominiums include parking as part of the rent or purchase price. Unbundled parking is when the cost of a parking space is charged separate from housing costs and allows for tenants or condominium owners to choose whether or not to pay for parking.]*
- *Monitor and expand car share as warranted*

HTF Action: Recommend that Council:

- *Increase parking incentives for housing within the Central Business District*
- *Consider parking maximums or a parking in-lieu fee [Parking maximums set an upper limit on the number of parking spaces that may be provided. Currently, the City's Zoning Ordinances require parking minimums based on land use with no parking maximums.]*
- *Manage Downtown Parking facilities to allow residential use*

HTF Action: Recommend that Council:

- *Require 1.5 parking spaces for any AUD units over 700 square feet outside the CBD; and*
- *Require 1 parking space for any AUD unit under 700 square feet*

HTF Action: Recommend that Council:

- *In the Central Business District, provide developers of AUD projects the option of a \$20,000 in-lieu fee per parking space*

Objective 3: Consider potential sources of information to better analyze the AUD Program's effectiveness in providing workforce housing and housing for households already working or living in Santa Barbara.

The City Council authorized an expenditure to conduct a Nexus Study and an Economic Feasibility Study. These studies were presented to the HTF and stakeholders by KMA, with the studies' findings and recommendations considered as part of the HTF's actions. The Executive Summary is provided as Attachment 2. Copies of the final studies have been placed in the Council's reading file and are available for public review in the City Clerk's Office. They are also available on the City's website at SantaBarbaraCA.gov/HousingTaskForce.

Objective 4: Explore ways to encourage employer-sponsored and limited-equity cooperative housing development.

The HTF did not take any action on this objective. Presentations were provided on a Peoples' Self-Helping Housing Corporation's project in development in San Luis Obispo and Cottage Hospital's exiting Employee Housing Program, and architect Detty Peikert discussed a local project in the formative stages.

On June 13, 2017, during a discussion of mobile home park conversion regulations, the City Council assigned the HTF the following additional objective in order to disincentivize the redevelopment of existing mobile home parks into higher density housing:

Objective 5: Consider amending the AUD ordinance map to exclude mobile home parks.

HTF Action: Revise the AUD Program map to exclude Mobile-Home parks

Council Directive (August 15, 2017): *Initiate a Zoning Ordinance Amendment to amend the AUD Program Map to exclude mobile-home parks.*

HTF Related Action: *Recommend that the AUD ordinance prohibit any AUD unit from being converted to Short Term Rentals or Hotel uses*

Related Council Directive (August 15, 2017): *Initiate a Zoning Ordinance Amendment to prohibit all units approved under the Average Unit-Size Density Incentive Program from being converted to a short-term rental/hotel.*

On August 15, 2017, after receiving an update on the initial progress made by the HTF, City Council authorized continuation of the HTF to address the following additional objectives with respect to the AUD Program:

Objective 6: *Address Central Business District issues (fees, incentives, increase of residential use within the district).*

The Nexus and Economic Feasibility Studies concluded that Medium-High Density projects in the CBD are generally infeasible based on current project economics. To incentivize AUD production in the CBD the City may wish to consider higher densities than is currently permitted; however, the HTF has not yet taken action on this objective. Additional work on this could be taken up by the Housing Task Force, or Council may opt to assign this task to the Planning Commission. If the latter option is selected, the Planning Commission may initiate a Zoning Ordinance Amendment if it finds the proposal meritorious.

Objective 7: *Consider the geographic boundaries of the AUD Program area (review Citywide).*

During HTF deliberations, stakeholders and HTF members discussed options for modifying the AUD map and adjusting the density levels. The HTF has not yet taken action on this objective. Here again, this work could be taken up by the HTF, or Council may assign this task to the Planning Commission. If the latter option is selected, the Planning Commission may initiate a Zoning Ordinance Amendment if it finds the proposal meritorious.

Objective 8: *Consider a “point system” to be used to meter future AUD projects.*

Related Council Directive: (August 15, 2017) *Initiate an annual limitation on AUD Program projects to 125 units per year, excluding Affordable units.*

HTF Action: *Recommend to City Council that applications submitted to, and accepted by, the City as of September 13, 2017 are not subject to a future limit on the number of units developed under the AUD Program.*

HTF Action: *Recommend to City Council that projects submitted to, and accepted by, the City as of September 13, 2017 be exempted from any AUD Program revisions.*

Subsequent to the City Council's consideration of this issue, state legislation that directly relates to the above directive and recommendations has been enacted. More specifically, there are several state planning statutes that affect how a point system can be established and operated. The state's No Net Loss Zoning statute (Government Code § 65863) requires the City to ensure that its housing element inventory can accommodate the City's remaining unmet share of the regional housing need allocation (RHNA) at all times throughout the planning period. If a point system limits the number of building permits issued annually to a point below the number necessary to accommodate the City's remaining unmet share of the RHNA, the City would no longer be able to ensure that its housing element inventory can accommodate the City's remaining unmet share of RHNA - in violation of the No Net Loss Zoning statute.

The Housing Accountability Act (Government Code § 65589.5) limits the City's ability to deny or reduce the size of housing developments (affordable or market-rate) by requiring findings supported by a preponderance of the evidence. In general, the statute requires the City to find the project will cause a specific, adverse impact upon public health and safety in order to reduce the size or deny a housing project; aesthetic or affordability concerns will not suffice. A point system that favors projects with reduced densities could implicate the findings requirement under the Housing Accountability Act. The City bears the burden of supporting its findings. A point system that favors projects with densities below the densities specified in the City's housing element inventory in order to achieve aesthetic improvements or promoting neighborhood character does not meet the finding burden of a "specific, adverse impact upon public health and safety" under the Housing Accountability Act. In addition, the Housing Accountability Act also prohibits the application of standards or policies that become effective after the project is deemed complete to justify the denial or reduction of housing development. This prohibition would prevent the application of a point system to projects that are already within the system where the application has been deemed complete.

AB 72 amended Government Code § 65585 to authorize the state Department of Housing and Community Development (HCD) to review the City's actions or failures to act that HCD determines are inconsistent with the City's certified housing element. If HCD finds that the action or failure to act does not substantially comply with the City's housing element or state housing element law, HCD may revoke its certification of the City's housing element until HCD determines that the City has come into compliance. Violations of the No Net Loss Housing statute or the Housing Accountability Act could lead HCD to revoke its certification of the City's Housing Element under Government Code § 65585.

In summary, staff believes that implementing an annual limitation on AUD Program projects could be problematic. Recent state legislation will require the City to report in greater detail to HCD housing gains and losses in a calendar year, and analyze any governmental constraints that could impact the cost and supply of residential development. An annual limitation on AUD Program projects would artificially set a limit on the number of units permitted each year, rather than allow for natural increases and decreases in housing production that closely follow economic cycles. Furthermore, staff believes the above HTF actions and Council direction go a long way toward addressing the initial concerns with the AUD Program that prompted the Council decision in August 2017 to limit the number of permitted AUD units each year based on a ranking system.

DISCUSSION:

As part of the General Plan's Adaptive Management Program, the HTF has substantially completed its review of the AUD Program. By definition, a task force is temporary. After one year and eleven constructive meetings, staff believes that the HTF has performed excellent work as evidenced by the action items above. Several of those action items have already resulted in City Council initiating ordinance amendments. Due to other workload priorities, Planning staff has not yet begun work on those ordinance amendments. Those, along with any other ordinance revisions initiated by City Council, will require hearings at the Planning Commission and Ordinance Committee, prior to returning to City Council, in order to effectuate the changes.

The following objectives remain to be addressed by the HTF or its successor:

- Objective 6 regarding the CBD covers a broad range of considerations. Addressing this objective will require continued participation by the Planning Division and the Public Works Department, and it would typically involve collaboration with other City boards and commissions, Downtown Santa Barbara, the Chamber of Commerce, property and business owners, and other stakeholders.
- Objective 7 pertains to amending the AUD Program map, specifically to consider allowing increased residential density (more than the 27 units per acre currently allowed) along the State Street corridor. Although addressed in part through Council's actions to exclude mobile home parks from the map and by the Economic Feasibility Study in regard to increasing density in the CBD, further changes to the AUD Program map will require participation by the Planning Division, Planning Commission, Historic Landmarks Commission, Downtown Santa Barbara, property owners, and other stakeholders.
- As described above, staff believes that, if implemented, Objective 8 would likely be found to run contrary to recently adopted legislation. Therefore, staff recommends that work stop on this objective.

Current and near future work efforts in the Planning Division include work on the Accessory Dwelling Unit Ordinance, Local Coastal Program Update, Sea Level Rise Adaptation Plan, Lower-Cost Visitor-Serving Accommodation Study, Historic Districts Ordinance, and continued implementation of the New Zoning Ordinance including submittal to the California Coastal Commission for certification. Work on Objectives 6 and 7 can be accommodated within the Division's current budget through shifting priorities and staff assignments. However, given the existing volume and the complexities of this new work, the pace at which tasks are completed would be relatively slow and some of the above work efforts would be further delayed. Alternatively, if Council seeks work to be performed at a more brisk pace, assistance from a contract planner will be necessary. Staff estimates that a consultant at the Project Planner level would charge \$140 per hour.

The City Attorney's Office would likewise need additional resources to replace the time that legal staff would need to address these issues as a priority. Community Development is understaffed by the City Attorney's Office currently.

BUDGET/FINANCIAL:

As described above, due to existing workload, if the City Council desires expedited work on the remaining Objectives, the assistance of a contract planner will be needed. It is estimated that an appropriation of \$179,200 from the General Fund will be required to pay for eight months of work, and funding for legal support may be needed. Staff will return to Council if needed for the necessary budget adjustments.

ATTACHMENTS:

1. Summary of Housing Task Force Recommendations by Topic
2. Keyser Marston Associates, Inc.
Summary, Context Materials and Recommendations
3. August 15, 2017 Council Agenda Report
4. Parking Memo to Housing Task Force

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