

Fort Bragg, California
January 24, 2007 (Special Joint Meeting)
Town Hall

The City Council of the City of Fort Bragg, Agency Board of the Fort Bragg Redevelopment Agency (RDA), and the Fort Bragg Planning Commission met in special session on the above date at the hour of 6:07 p.m. in the Town Hall, southwest corner of N. Main and Laurel Streets (363 N. Main Street), Fort Bragg, with Mayor/Chair Doug Hammerstrom presiding.

ROLL CALL as acknowledged by Mayor/Chair Hammerstrom.

Present: Council/Agency members Meg Courtney, Dan Gjerde, Jere Melo, Dave Turner, and Mayor/Chair Doug Hammerstrom, Commissioners Burley Cox, Becky Ellis, Georgia Lucas, and Chair Mark Hannon.

1. CONDUCT OF BUSINESS

A. Conduct Workshop to Review Draft Inclusionary Housing Report and Provide Direction to Staff

Community Development Director Jones began by saying that the City currently has an ordinance for Inclusionary Housing. Council directed staff to take a more acute look at the ordinance to better meet affordable housing needs. She introduced Libby Seifel and Abbie Conlee of Seifel Consulting, whom the City hired to assist with this process. Jones reviewed the existing program which requires developers with five or more units to provide Inclusionary Housing or pay an in-lieu fee. The in-lieu fee can go toward the City purchasing land or helping in other ways with affordable housing. At least 15% of all new dwelling units in a residential development must be affordable. Income levels are defined based on the City's median income. Very low income is 50% of median, low income is 80% of median, and moderate income is 120% of median income. State law requires jurisdictions to offer a density bonus of 20% more units than the zoning designation would otherwise allow. Fort Bragg's ordinance offers 25%. The State's law requires at least two planning incentives such as reduced parking for the affordable unit or an increase to the floor area ratio. The current policy further requires that inclusionary units be identical to market rate homes in the development and that the affordability be maintained for 40 years for rental units and 30 years for units for sale.

Consultant Libby Seifel reviewed the affordability gap analysis that her firm prepared. The State assigns affordable housing allocations based on regional housing needs. In Fort Bragg, 22% of housing should be affordable for very low income households, 19% for low income, and 17% for moderate income. The affordability gap is the difference between actual housing costs and the amount that people of different income levels are able to pay. The median income in Fort Bragg is \$45,000 to \$50,000 for a family of four. Very low and low income households have a greater need for affordable rents in the City. Moderate income households can afford local rents, but there is a gap of \$235,000 to \$256,000 between what they can afford to buy and market prices.

Jones explained that feasibility is affected by a wide range of things. Floor area ratio, number of units per acre, setbacks, fluctuation in market rates, interest rates, and constructions costs. Parking requirements also use land and cost money. Fort Bragg produces about ten units per year. She distributed a table that calculated developer expenses and return for different condo/townhouse housing projects saying that we want to make sure we are grounded in the reality of the market. We do not want to prohibit development. By changing the affordability requirement from 15% of units to 15% of total square footage and setting a minimum unit size, developers may have added costs associated with building an affordable unit, but the costs are offset by their ability to build and sell more units overall. We could get more affordable units with the same impact to the developer. Jones noted that it is difficult for developers to build low income rentals in Fort Bragg because property values are greater than what the rental market will bear.

Jones went on to say that the current policy is the minimum project to trigger inclusionary housing is five units. Fifteen percent of five units does not yield a unit. We want to put in a rationale for builders

to put in a unit, so staff recommends that seven be the threshold. Another suggestion is that 1,100 square foot single family homes be exempt from inclusionary requirements. They would already meet an affordable need, so they should not be burdened with an in-lieu fee.

Seifel said that the current in-lieu fee does not include land costs. The fee should be increased to be as equal to the affordability gap as is possible. She also recommended that the fee be subject to annual inflationary adjustments to keep pace with construction and land costs.

Council/Agency Member Gjerde stated that fees in Santa Rosa and Sonoma County are based on square footage. Having a sliding scale exempts some projects, but larger homes spur higher fees. He said that he supported a sliding scale commensurate with square footage.

Jones noted that the percentage of affordable units required, by income level, could also vary. For instance, if a developer is building ten units, one unit would have to be very low income. Moderate income would require two units. The rationale is that moderate would support more of the cost while very low income would be a much bigger burden. For rental units, half the 15% requirement would be low and half very low income. The ratio would be 7½% median and 7½% moderate for new units to be sold. Courtney suggested that the conversion or construction of alley houses be considered.

Mayor/Chair Hammerstrom recessed the meeting at 6:52 p.m.; the meeting reconvened at 6:57 p.m.

Seifel said that the current policy requires inclusionary units to be proportional in bedroom numbers and size (like for like housing must be built). Smaller units would have less impact on the developer because they cost less to build. We should allow developers to substitute a rental unit for a for sale unit. Units could be of comparable design, but a different size. It is possible to require a percentage based on square footage rather than number of units. Jones added that, if the inclusionary requirement were based on square footage instead of the number of units, it could yield more affordable units.

Seifel stated that affordability retention requirements must be consistent with California Redevelopment law which is 55 years for rentals and 45 years for ownership. A housing trust fund or community land trust could be a way to provide affordable housing, but it may not be viable in Fort Bragg unless it is married with a broader geographic area.

Jones proposed that a project of less than 1,100 square feet be exempt from the inclusionary requirement. If over seven units, 15% would be required. Melo declared that he opposed the idea of having one-unit single family homes subject to inclusionary fees.

Seifel noted that the current ordinance allows up to a 25% density bonus which exceeds the minimum of 20% set by State law. Other incentives could be offered such as reducing parking requirements for an affordable unit, reducing or deferring development fees, and reducing setbacks. Jones stated that inclusionary fees could be used to provide grants or low income loans. One of the things that we are trying to do is bring the City into compliance with redevelopment law. When that occurs, we could use funding from the redevelopment housing fund.

Council/Agency Members supported looking at dispersing affordable housing through additional alley units. Gjerde voted that if someone is building a single family home at market rate they could be required to build a small second unit studio or one bedroom or pay a fee. One third of Fort Bragg's population is comprised of one-person households, another third are two-people. If the second unit were restricted to 500 square feet it would always be affordable because of its size. For every three market rate homes, two alley units could be required. This would allow for diversity in the

neighborhood and goes back to the old model of Fort Bragg. If square footage were deed restricted it would be easier for the City to enforce than if it were income restricted. Vice Mayor/Chair Turner noted that a builder might get credit for building the small unit, but it might be used as an office or a living area for their child. Gjerde responded that a developer in Santa Rosa offered second units as an option over garages. It could be furnished as an apartment or office. The added cost of the second floor was not that significant because they were building the garage anyway. People were willing to pay more for the second unit because they could rent it to supplement their mortgage expense. Mayor/Chair Hammerstrom noted that without restriction of what rents are charged, the State does not qualify units as low income housing.

George Reinhardt inquired whether incentives such as density bonuses are offered for meeting green building standards. Hammerstrom responded that the intent of today's discussion is to encourage low income housing. Green building could be part of a discussion for another day.

Melo suggested a point-by-point discussion of each of the options in the table provided by staff.

Minimum project size: Seifel said that the proposed minimum project size of seven would trigger the requirement to build one low income unit on site. City Manager/Executive Director Ruffing clarified that the current threshold of five units allows a builder the option of paying an in-lieu fee. The threshold of seven would require a developer to build an affordable unit on site.

Roy Mitchell, Origin Homes, stated that the City determined their six house subdivision on Dennison Lane must meet inclusionary housing requirements. The fee had not been determined two years ago when they started the project. In other jurisdictions, projects have been exempted that had begun prior to the determination of the fee. Hammerstrom noted that the ordinance was in place at the time the project began and inquired whether Origin would have considered building an affordable unit on site if the City had funds available instead of paying an in-lieu fee. Mitchell responded that, if the cost were equivalent, most developers would not care.

Seifel said that in communities like Fort Bragg where there are different income targets it can affect whether fractional units are rounded up or down. A seven unit development would trigger one affordable unit. Additional units require a fraction for the income targeting. How affordable a unit is affects developers' costs. Ruffing suggested that the agency continue to require that a fractional percentage is subject to in-lieu fees.

Allan Carlson stated that he has been involved in the building of 60-80 homes in Fort Bragg over the last 40 years. There is a lot of difference between low or moderate income. It is not a problem to integrate moderate income into a development, but with low income we are talking about Section 8, someone who is subsidized. It is not easy to integrate that into development. The County Housing Authority practically has a covenant for individuals to live up to requirements or they are out in 30 days. With private individuals it could drag on for 90 days. What happens to the unit in the meantime? Residential land value in Fort Bragg is \$30/square foot. That is more than commercial property. The City has not provided opportunities to have the land or development potential where we could build. Aside from a few properties like Todd's Point and the Mill Site, there is no place to even consider building five or seven units.

Gjerde said that seven-unit developments should be required to provide an affordable unit on site instead of having the option to pay an in-lieu fee. The minimum project size subject to a fee should be changed to one unit if over 1,100 square feet, and it should be modified with a sliding scale. Turner inquired what dollar figure would be charged on houses of 1,200; 2,000; or 3,000 square feet. What is the affordability gap to get that 15%? Seifel replied that for median/moderate income for sale units the

gap would be \$250,000 - \$256,000 for a 1,500 square foot house. The gap for a subdivision of seven units would be spread out which would make it about \$40,000 per unit. We are looking for direction of a sliding scale fee based on square footage. If you build smaller units the gap would not be so high. Jones said that many communities exempt smaller projects from inclusionary requirements. We do not have many projects, but we do not want to stop single family houses from being built either. Ruffing reminded the agency that the City is currently reviewing capital and development fees which will add to the cost of housing. Keep in context that the City charges other fees as well. Commissioner Cox noted that a 2,000 square foot home is currently charged \$15,000 for City fees. That figure could rise another \$40,000 if it is not exempt from inclusionary fees.

Hammerstrom proposed that a graduated nominal fee be set for 1,100 to 1,700 square feet single family houses. Multi-family projects up to six units would have a sliding scale. With seven units the cost of affordable housing would be built into the price anyway. Turner summarized that exempt single unit projects would be up to 1,100 square feet/for sale units and 500 square feet/rental units. **Jones suggested that staff come back with some feasibility figures. She said that she is hearing that small home owners should be exempt. Small units may offset affordability requirements for multi-family projects up to six units. If someone builds a main and a small secondary unit they would be exempt. Staff will look at numbers, and make recommendations.**

In-lieu calculation: Jones inquired whether the in-lieu fee should cover the cost of the land. **No one replied except Hammerstrom, who noted that lack of comments indicates that there is agreement to include the cost of the land.**

Affordable for-sale units: Jones reminded everyone that the City Attorney determined that the option to eliminate for sale units and allow only rentals was not legal.

Level of affordability: Seifel expressed her concern that, while there is need for very low income housing, the affordability gap is greater than that for low income housing which is also needed. She suggested increasing the set aside fund so a developer could qualify for additional money. Modifying to 15% for low income would also make it easier for the City to implement. Under redevelopment law, redevelopment funds can be spent on very low, low, and moderate units. That said, you would need to have more resources for targeting very low income. You would not need so much to target moderate income for sale units.

Hammerstrom said that if we target low instead of very low we will never meet very low targets. Jones stated that the current housing market is not strong enough to support very low income rentals. Turner said that that brings us to our dilemma; the economy requires a labor force that is very low income, and we acknowledge very low income housing is not going to be built. Maybe we should make it easier for builders to build very low income rentals otherwise they will never get built. Maybe we can subsidize it in some direction or partner with someone like Rural Communities Housing Development Corporation. Ruffing suggested that we keep the half very low and half low income requirements but allow a provision that, if infeasible to develop very low income units, they can be converted to low income. If the Fort Bragg Redevelopment Agency has the funds available it can offset the difference. This way you accomplish the objective of not getting rid of the potential for very low income housing and also address market constraints. Hammerstrom lamented that the core issue of the other side of the affordability gap is the wage level. We are not really addressing the gap of wages versus the cost of housing. Commissioner Ellis agreed that Hammerstrom hit the root of the problem and added that she wanted to be realistic. Can we attract a developer to build low income housing on the Mill Site without assistance from other sources? Hammerstrom said that he focused on big developers because their return on investment can be huge. Some of that money can be funneled to build affordable housing and still allow them the revenue to create their project. **Jones summarized that the requirement**

remain at half very low and half low, but if a developer can prove it is not feasible to build very low then Redevelopment housing funds could kick in to make up the difference.

Proportionality and design: Jones said that there are standards for lot coverage, parking, and floor area ratio. Essentially, a development must be two stories for developers to make it pencil out. Hammerstrom said that in-lieu fees for small development could be lower. He would like to see an analysis of what actually exists in town. Turner asked for clarification in his interpretation that if zoning allowed ten units, a density bonus would allow 12 units. Jones replied that the additional market rate unit would help pay for the subsidized unit. Gjerde said that zoning designations were done throughout the city because we wanted to know the density range. It is hard to predict how many units would be built throughout the City with a 25% density bonus. Jones noted that State law requires that if you have inclusionary housing you have a density bonus of at least 20%. You can have a high unit project that is beautiful and is an asset to the community. Courtney inquired why the City is 5% higher than State law requires. Ruffing said that the decision was made by Council at the time the ordinance was passed.

Roy Mitchell said that he has listened to a lot of Council discussions in the past. Theoretically, everyone agrees. In the future, the market might support a rental project, but it will not happen unless there are three Councilmembers who have the intestinal fortitude to stand up to the community who does not want it. Until a Council wants to stand up to people who want less density you are fooling yourselves.

Hammerstrom said that proportionality and design would affect a project's approval. Also, smaller units would be more affordable, and their utilities would be less.

Miles Everett stated that he was reminded of the White Property proposal. A portion of the proposed units would be affordable, but they were all put in a corner of the lot facing the road. Market units had views of the ocean. It is important that very low income housing be disbursed throughout a development. There are a lot of problems when low income housing tends to be off by itself and separate from the community. Low income does not have to have the same footprint as market rate.

Terms of affordability: Seifel noted that the list of options had an error in the minimum number of years a property must remain affordable. The City already states 55 years for rentals and 45 for ownership.

Housing Trust Fund/Community Land Trust: Ruffing stated that the Community Development Committee recommended that a Community Land Trust buy property. Implementing this may take a while.

Density Bonus: Following up on earlier discussion, Hammerstrom said that the question is whether the City should change the 25% bonus to 20%; State law requires a 20% minimum. Council/Agency Members supported changing it from 25% to 20%. Seifel recommended that, since there is already a disincentive for very low income, 25% be retained to offset costs. Jones offered for staff to do more analysis and come back. Gjerde said that 25% would be appropriate if there is excellence in the design. Hammerstrom agreed. Courtney said that green building practices could be considered.

Conditional Incentives: Jones explained that State law requires two additional incentives be offered. One option given is to allow reduced parking for the affordable unit. The next is to waive or defer permit fees or taxes. Melo stated that he would object to additional development fees. He added that he does not know if they can affect taxes as a City Council. Ruffing reflected that Council has had a policy of not reducing fees, but suggested that redevelopment funds could be used to offset developer expenses. In adding incentives it may be useful to remember that the flip side of being specific is that there is less room for flexibility. Developers will come to us with their suggestions of what would be

useful to them. Consider allowing flexibility on a case-by-case basis. Turner speculated that if we defined an option of waiving fees it would be a standard request with every application. Gogna added that the purpose of the redevelopment housing fund is to create houses, not pay fees. Ellis expressed concern that parking is limited in some residential areas and said that parking incentives should be considered on a project-by-project basis.

Percentage required to be affordable: Ruffing advised that the requirement that 15% be affordable is set forth in the City's certified Housing Element. It could be changed in the next Housing Element update which is scheduled to occur in three years. If it is changed right now it would jeopardize Community Development Block Grant funds.

Seifel asked for clarification. If a developer has a seven unit project, and one house must be affordable, would they be allowed to build one offsite if they had an agreement with the property owner? Turner said that a couple of alley units may be required to allow the property owner more income; it would be a win-win situation all the way around. Gjerde said that the square footage of the second unit would have to be deed restricted. In addition, for every three single family houses, two on-site small one bedroom or studio apartments should be required. Ruffing recapped that alley or second units would be an alternative to payment of in-lieu fees for developments of two to six units.

2. COMMENTS ON NON-AGENDA ITEMS

A. Staff Comments

3. MATTERS FROM COUNCILMEMBERS AND COMMISSIONERS

Mayor/Chair Hammerstrom adjourned the meeting at 8:55 p.m.

DOUG HAMMERSTROM, Mayor/Chair

ATTEST:

Nancy Philips
Administrative Secretary

INDEXED: _____(____)

IMAGED: _____(____)