



# City Council Staff Report

**Subject:** Affordable Housing Incentive Program

**Date:** January 23, 2024

**Submitted By:** Sherri Conway

**Department:** City Manager's Office

**Recommendation:**

Adopt a Resolution of the City Council of the City of Rocklin establishing an Affordable Housing Incentive Program for Qualified Affordable Housing Developments.

**Background:**

Affordable housing projects require a combination of private equity, tax credits, affordable housing bond proceeds, and any other funds available necessary to make the projects buildable. Typically, these funding sources are very competitive with no guarantee of funding. Because of this, affordable housing projects often fall short of the necessary financing.

The City of Rocklin is committed to work with housing developers to expand opportunities for affordable lower-income and workforce housing by creating partnerships, providing incentives, and pursuing funding opportunities.

The City's Regional Housing Needs Allocation (RHNA), which is a minimum projection of additional housing units needed to accommodate projected household growth at all income levels by the end of the housing element's statutory planning period, is the following for the 2021-2029 Housing Element period:

Income Category (% of AMI)	Number of Units	Percent
Very Low (31%- 50%)	1,911	33.8
Low (51% - 80%)	1,151	20.3
Moderate (81% - 120%)	771	13.6%
Above Moderate (Over 120%)	1,828	32.3%
TOTAL	5,661	100

Additionally, the Rocklin 2021-2029 Housing Element sets forth several goals and policies related to the development of affordable housing. Of note is Goal 4 and policies 4.1 and 4.2:

Goal 4 - Mitigate or remove potential government constraints to housing production and affordability.

- Policy 4.1 Provide regulatory and/or financial incentives, where appropriate, to offset or reduce the costs of affordable housing development, including density bonuses and flexibility in site development standards.
- Policy 4.2 Periodically review City regulations, ordinances, departmental processing procedures, and residential fees related to rehabilitation and/or construction to assess their impact on housing costs and revise as appropriate.

In order to achieve the above stated goals in the development of affordable, workforce housing, staff recommends consolidating two existing items and one new proposed item into a consolidated Affordable Housing Incentive Program.

### **Fee Reduction (Existing Item)**

On January 10, 2023, the Rocklin City Council adopted Ordinance Number 1159, which established a program for development projects to receive a reduction in development impact fees for deed restrict affordable units in the project. The reduction in fees would only be available for those units for sale or lease for people at 60% or less of the area median income. At that same meeting, the City Council also adopted a resolution that established the fee reduction rate of 40% calculated on an individual basis.

### **Use of Low- and Moderate-Income Housing Asset Fund (LMIHAF) (Existing Item)**

At the March 28, 2023, City Council meeting, the City Council directed staff to prioritize the use of funds as follows:

1. Invest LMIHA Funds for City-owned affordable housing projects.
2. Invest LMIHA Funds for qualified private affordable development projects.
3. Purchase of affordability covenants on existing at risk or market rate projects.
4. Housing Rehabilitation.

Funds supporting private projects should solely be used to incentivize Extremely Low (EL) and Very Low Income (VL) units. This will further the City's goals to achieve 1,911 units in the Very Low Category (includes Extremely low). Additionally, per the CA Health and Safety Code, at least 30% of the LMIHAF are required to be used to support households at the Extremely Low (EL) Income and/or Very Low (VL)-Income level.

If LMIHAF dollars are available, private projects requesting a commitment of funding must first demonstrate a gap in funding by submitting pro-forma that is then verified by an independent third party selected by the City. Based on the analysis of the pro-forma, staff would recommend a dollar amount of \$40,000 per EL or VL unit to be developed. Any investment of the City's Low-Mod Fund would be in the form of a city loan, memorialized in an Affordable Housing Agreement between the developer and the City. The loan would be a residual receipts loan, which would carry an interest rate of 3% per year and would be repaid from 50% of the project's net annual cash flow, with any remaining balance due and payable at the end of 30-year term.

### **Fee Deferral (proposed new Item)**

A proposed third component of the City's Affordable Housing Incentive Program is the establishment of an Affordable Housing Fee Deferral and Program. This program would allow

for the deferral of residential development fees for eligible low and very low-income housing projects constructed in the City of Rocklin. Fee deferral could be considered whether or not a project is also requesting LMIHAF dollars from the City. The housing development for which fee deferrals are requested under this program must be a “Qualified Residential Development Project”, including: (1) at least 10% of units with Affordable Rents or Affordable Housing Costs for Very Low-Income Households; or (2) at least 49% of units with Affordable Rents or Affordable Housing Costs for Low Income Households. Any request for a Fee Deferral would require completing an application, preliminary title report, and execution of agreement, promissory note and deed of trust which may be subordinated to construction and acquisition financing. Fees become payable and interest penalties apply if the project does not provide the affordable housing units promised by Certificate of Occupancy, approximately 24-30 months after construction begins. This assumes the impact fee rates will be locked in at time of permit and not increase during the fee defer. The City may also consider imposing an Application Fee to cover staff and legal processing costs. To ensure compliance and payment of deferred fees, a deed of trust would be recorded against the property to secure the fee amount. Deferring payment of fees to allow for occupancy is a valuable incentive that offers significant savings, as developers would otherwise have to finance this expense, generally from equity, which requires a return once it is funded.

**Fiscal Impact:**

There is no direct fiscal impact to the City relative to the use of the Low-Mod Fund other than the infusion of the City Loan Amount upon satisfaction of conditions precedent to its funding.

There is no direct fiscal impact to the General Fund as a result of Fee Reduction and Fee Deferrals. However, these actions may cause a delay and/or reduction in the amount of fees collected on future affordable housing developed as defined.

**ATTACHMENTS:**

1. [Resolution with Exhibit A](#)