

## STAFF REPORT

**DATE:** January 17, 2023  
**TO:** City Council  
**FROM:** Sherri Metzker, Community Development Director  
Kelly Stachowicz, Assistant City Manager  
**SUBJECT:** Inclusionary Multifamily Rental Housing Ordinance Review

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### **Recommendation**

1. Receive presentation from Cascadia Partners regarding rental inclusionary housing requirements.
2. Provide feedback to staff and consultants regarding priorities for the permanent inclusionary housing ordinance.

### **Fiscal Impact**

The cost for Cascadia Partners to complete their study is \$65,000 and is paid through a Regional Early Action Planning (REAP) grant from SACOG. There are also budgeted staff costs to work on the project. There are no other direct costs to the City to review the ordinance, although there are indirect costs/revenues associated with development of multifamily housing.

### **Council Goals**

Ensure a safe, healthy, equitable community.

### **Commission Input**

Cascadia Partners presented their initial findings to the Social Services Commission on September 19, 2022. Both commission members and members of the public were able to ask questions and provide preliminary thoughts to Cascadia and City staff. (The Commission did not have benefit of a preview of the presentation prior to the meeting, so staff has summarized their general conversation in the bullets below.)

The Social Services Commission and members of the public commenting at the meeting shared their interest in the following:

- Better understanding the data sources referenced in the presentation and looking further into the Economic Impact Analysis
- Ways to increase development of affordable units by revisiting the cap on low income units, fee structures, building heights and public housing options or alternative housing development options (manufactured housing, etc.)
- Question as to whether the study shows the impact of larger scale developments vs. smaller infill projects and options to create mixed use spaces.
- Comparisons with other college towns and their successes/challenges

- Impact of parking on those with limited mobility
- Ability of UC Davis to donate property for affordable housing

To conclude their discussion, the Commission passed a motion that included a recommendation for the City Council to explore additional options to incentivize non-profit and public housing development.

### **Background**

The City has required a component of affordable housing in multi-family developments for decades, beginning with the 1987 General Plan. Officially codified in 1990, the City's initial affordable housing program established a 10% very-low income and 25% low-income inclusionary requirement on development projects containing 20 or more units. Despite minor amendments through the years, the City's requirements remained largely unchanged until 2009. In 2009, a court ruling known as the "Palmer decision," prohibited local jurisdictions from imposing affordable housing requirements on residential and mixed-use projects of more than 10 dwelling units per lot. Despite this, the City continued to consider affordability as part of its legislative review of applications and through Development Agreements when mutually beneficial.

In 2017, then-Governor Brown signed a 15-bill housing package into law. Among the bills was Assembly Bill (AB) 1505, which overturned the 2009 Palmer decision and thereby restored the legal authority of cities and counties to require affordable housing in rental development projects. Along with restoring local authority, however, the State imposed parameters to ensure affordable requirements will not constrain housing production. Of particular note is a provision allowing the State to review and potentially require an economic feasibility study for any local jurisdiction that includes more than a 15% inclusionary housing requirement.

In response to AB 1505, and in consideration of applications for development projects that had been submitted while the Palmer decision was in effect, the City Council temporarily amended its rental inclusionary requirements on February 6, 2018. Meant to serve as a bridge until the City could complete a comprehensive update, the change added Municipal Code Section 18.05.060 (b). The current ordinance temporarily establishes an alternative affordable housing target of 15% by the bed, bedroom, or unit with a 5% extremely-low, 5% very-low, and 5% low-income mix. The current ordinance also temporarily allows the City Council to consider a myriad of factors in determining whether to approve an alternative affordable housing proposal, such as whether the developer makes a large infrastructure or transportation contribution.

In considering a project-specific affordable housing plan, the current ordinance states that the City Council will consider the following factors in determining whether to approve alternative requirements:

- (1) Whether the market rate component and/or the affordable component of the proposed development is anticipated to meet a specific housing need as identified in the City's housing element or general plan policies; and
- (2) Whether the market rate units are anticipated to provide housing to low or moderate-income households through the incorporation of design components

- that will encourage greater affordability including reduced units sizes and reduced utility costs; and in the need for private vehicles and the encouragement of development consistent with the Metropolitan Transportation Plan/Sustainable Communities Strategy adopted for the Sacramento Region by the Sacramento Area Council of Governments (SACOG); and
- (4) Whether the proposed market rate development includes unusually high infrastructure costs or other cost burdens as conditions to the development of the project; and
  - (5) Whether the proposed affordable housing component may be partially funded by public subsidy or other public financing from a source other than the City; and
  - (6) Whether the affordable component is provided on a bed or bedroom basis, that encourages greater integration of the affordable and market rate components of the project; and
  - (7) Whether any or all of the affordable housing is provided at a deeper level of affordability (such as Extremely Low Income housing, as defined in California Health & Safety Code Section 50106); and
  - (8) Whether the application for the proposed development was submitted to the City for consideration prior to the adoption of AB 1505; and
  - (9) Whether the developer is proposing to pledge to the City a continuing revenue source that will assist the City in satisfying one or more specific affordable housing goals of the City, in an amount that the City Council deems is sufficient to provide a significant benefit in furtherance of the City's affordable housing goals; and
  - (10) The total percentage of affordable units provided under these alternative rental-housing requirements may be adjusted up or down based on the income and rent levels provided or the size of the overall project. The Council therefore may, at its discretion, approve alternative affordable housing requirements under this subsection that provides less than fifteen percent affordable units if the project provides a higher percentage of units to the lowest income levels (extremely low and very low). Further, the Council may, at its discretion, require a higher total percentage for larger market rate projects that have greater economies of scale, or require a lesser percentage for smaller projects that have lesser economies of scale.

On November 27, 2018, staff presented an update to the City Council regarding the comprehensive affordable housing update inclusive of the results of a financial analysis that was done for various development prototypes. City Council provided feedback on the analysis and extended the current ordinance's sunset date from December 30, 2018 to June 30, 2019. The sunset date has since been extended by City Council multiple times making the current expiration date June 30, 2023. In addition to extending the date of the interim ordinance, Council has also modified the affordable housing requirements since the November 27, 2018 meeting, in the following ways:

- 1) Current interim ordinance adopted following the Palmer decision (February 2018)
- 2) Ordinance modified to include inclusionary requirements for stacked flat condominiums and vertical mixed-use development (November 2018)

- 3) Allowable alternative for consideration added that would provide for a continuing revenue stream in furtherance of affordable housing efforts as a mechanism to satisfy affordable housing requirements (March 2019)
- 6) Ordinance modified to provide for transitional and supportive housing to assist low income families with housing insecurities (November 2020)

### **Analysis**

The City has contracted with Cascadia Partners to review multifamily developments to understand the feasibility of different inclusionary housing policies for rental housing projects, with the ultimate goal to recommend an updated inclusionary housing ordinance for the City. Cascadia has undertaken a pro-forma based analysis of two hypothetical development types to provide foundational information for Council review, discussion and feedback in order to develop the draft ordinance for future review. Cascadia representatives will present their findings to the City Council during the meeting.

In December, the City Council approved the Downtown Davis Specific Plan, which will serve as a significant future housing opportunity area. Having the project description that establishes the potential development patterns and future housing opportunities in the downtown area will be of benefit for purposes of considering a future permanent ordinance.

The City anticipates completing and certifying the final version of the Housing Element for the 2021-2029 period within the next two to three months. The Housing Element update will provide a baseline for targeted and strategic planning efforts relative to affordable housing requirements. Additional information may continue to be provided based on feedback from the Council Subcommittee on Long Range Growth, the formation of which is elsewhere on the Council agenda.

### **Next Steps**

Cascadia and staff will take the feedback received by and from the Council at the meeting and use it to craft a draft inclusionary ordinance to take first to the Social Services Commission and then to the City Council this spring, for review and approval prior to the June 30 extension deadline. (Note: staff will also wrap in the revised definition of first-time homebuyer, as per previous Council direction, into these affordable housing ordinance revisions, since the changes are also in Chapter 18 of the Municipal Code.)

### **Attachments**

1. Cascadia Presentation Slides
2. Cascadia Memo (Methodology for Financial Modeling of Inclusionary Zoning Policy)
3. Chapter 18.05 Davis Municipal Code – Affordable Housing

# Davis Inclusionary Zoning Feasibility Analysis

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Results and Findings

January 17, 2022



# SUMMARY

What is Inclusionary Zoning?

01

Goal of Analysis

02

Analysis Approach

03

Analysis Findings

04

Conclusions

05

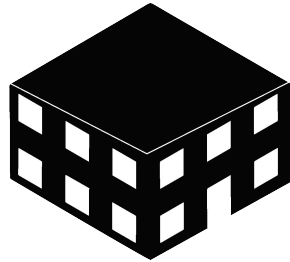
Appendix  
Market Assumptions

06

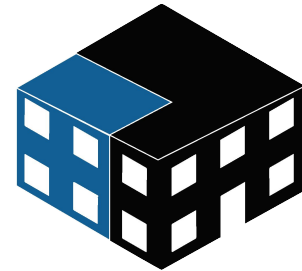
## What is an inclusionary zoning (IZ) policy?

An IZ policy is a housing policy that requires new market rate residential buildings to provide a percentage of the new units at rents affordable to households with incomes below the area's median income (AMI).

*Example: Policy requires  
15% new units are  
affordable to households  
making 50% of the AMI*



20 market rate units



17 market rate units  
+ 3 units affordable  
to households  
making 50% AMI

# What are the policy parameters that shape an inclusionary zoning policy?

IZ policies typically include three major policy parameters that, when 'dialed' differently, can change the outcomes of the policy.



## DEVELOPMENT INCENTIVES

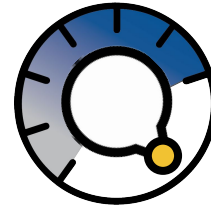
ie. density bonuses, height bonuses, waiving

fees...



## % SET-ASIDE

5% to 20%



## DEPTH OF AFFORDABILITY

Affordable relative to AMI



# What are the parameters currently dialed to with the existing interim policy?

## Interim IZ policy

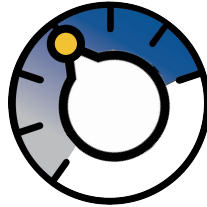
No development incentives

15% of units are set-aside as affordable units.

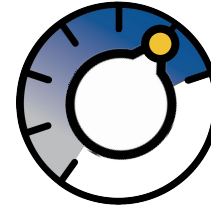
Recommends an even share of units affordable to households making 30%, 50% and 80% AMI



**DEVELOPMENT INCENTIVES**



**% SET-ASIDE**



**DEPTH OF AFFORDABILITY**

## 02. Goal of Analysis

**Interim IZ  
policy**

No develop  
incentives

**1. Does the interim IZ policy provide effective opportunities to produce affordable housing?**

ds an even  
ts affordable  
ds making  
30%, 50% and 80% AMI

**2. What incentives could the City offer to help support inclusionary units?**

**DEVELOPMENT  
INCENTIVES**

**3. What is an appropriate set-aside percentage of affordable units?**

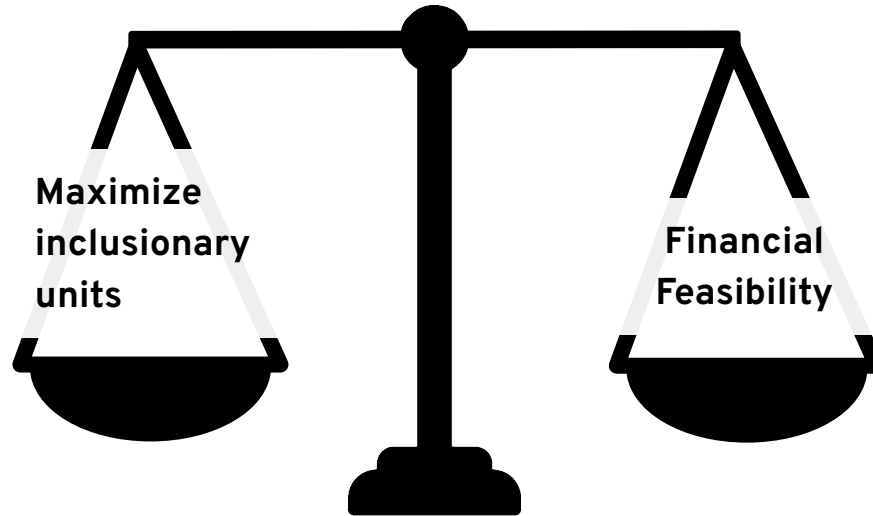
**% SET-ASIDE**

**4. What is the preferred income target of affordable units?**

**DEPTH OF  
AFFORDABILITY**

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To understand and identify what inclusionary zoning policy parameters would be the **most effective** in producing inclusionary units and ensuring a diverse housing stock, with various types, sizes, and affordability levels.



## **03. Analysis Approach**

- 1. Create two building types to test**
- 2. Collect market assumptions and confirm financial targets**
- 3. Establish the baseline market rate scenario**
- 4. Explore incentives**
- 5. Test inclusionary zoning scenario**
- 6. Compare financial performances**

## 03. Analysis Approach

### 1. Create two building types to test

#### Downtown

##### **5-story Multi-Family Rental Apartment**

**Main Street Medium Zone** from the Draft  
Downtown Form Based Code

**30,500 SF** | 0.7 Acre Site

**100% Residential Use**, vertical mixed use  
developments are exempt from inclusionary  
zoning requirements

#### Suburban

##### **4-story Multi-Family Rental Apartment**

**Residential High Density (R-HD)**  
**Base Zone**

**322,300 SF** | 7.4 Acre Site

**100% Residential Use**, vertical mixed use  
developments are exempt from inclusionary  
zoning requirements

## 2. Collect market assumptions and confirm financial targets

### Downtown

#### Costs

Land Costs	\$80 / SF
Hard Construction Costs <i>(Type III Construction)</i>	\$250 / Gross SF
Hard + Soft Costs	\$290 / Gross SF

#### Revenue

Rent per SF	\$3.19 per SF
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#### Financial Target

Internal Rate of Return <i>(IRR) Target</i>	12%
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01/11/2013 Council Meeting

### Suburban

#### Costs

Land Costs	\$20 / SF
Hard Construction Costs <i>(Type V Construction)</i>	\$220 / Gross SF
Hard + Soft Costs	\$280 / Gross SF

#### Revenue

Rent per SF	\$2.73 per SF
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#### Financial Target

Internal Rate of Return <i>(IRR) Target</i>	12%
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**3. Establish the baseline market rate scenario**

Evaluate the financial performance of each building prototype as a 100% market rate project.

**4. Explore incentives**

Explore the potential development incentives for each building prototype.

**5. Test inclusionary zoning scenario**

Evaluate the financial performance of each building prototype under various levels of incentive, % set aside and affordability requirements.

**6. Compare financial performances**

Compare the financial performances of the inclusionary scenarios to the market rate scenario to understand the impact IZ requirements have on financial feasibility.

## 04. Analysis Findings

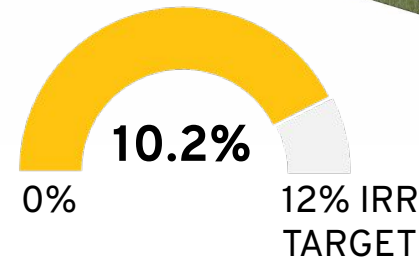
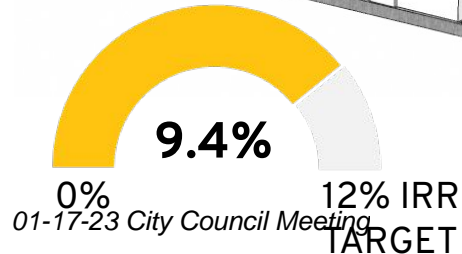
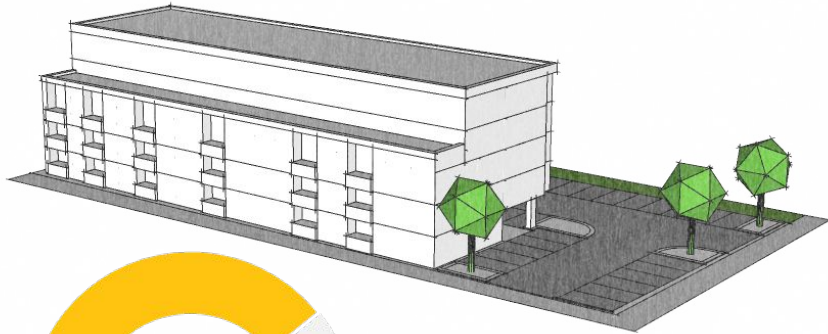
Market rate development scenarios do not meet target internal rate of returns (IRR)

Downtown

58 UNITS

Suburban

294 UNITS



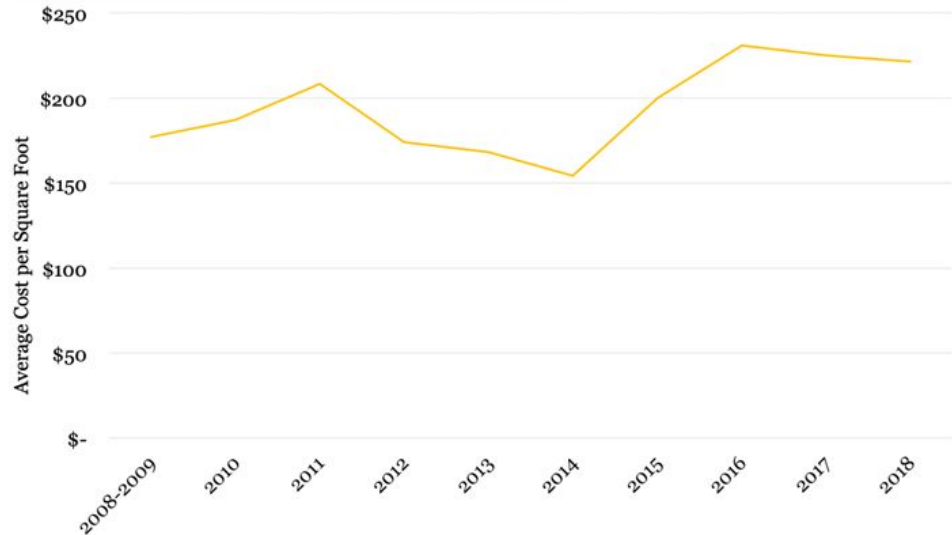


# With historically high construction costs, today's development environment is challenging.

Hard construction costs in California were averaging at \$222 per square foot in 2018.

Costs have increased significantly since then. Between 2020 and 2021, costs increased over 10%, exceeding the historical annual average increase of 2-4%.

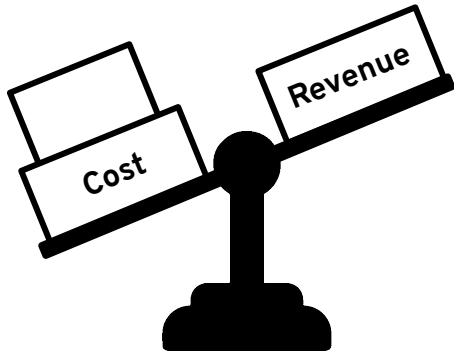
Figure 4: Hard Construction Cost Per Square Foot, California (2018 \$)



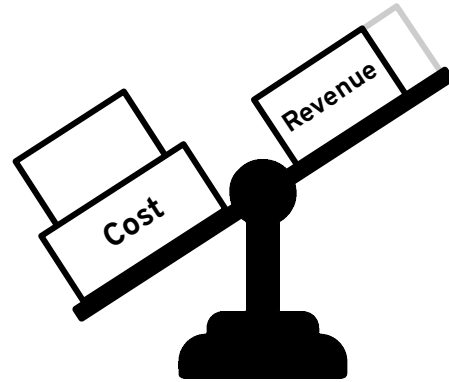
Source: Turner Center for Housing Innovation, UC Berkeley

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Given today's realities, project costs are outweighing project revenue. Making it even more challenging for inclusionary zoning policies to be effective.



**Market Rate  
Scenario**



**Inclusionary Zoning  
Scenario**

Development incentives that grow the revenue or reduce the cost of development can make it more feasible for developers to provide on-site affordable housing.

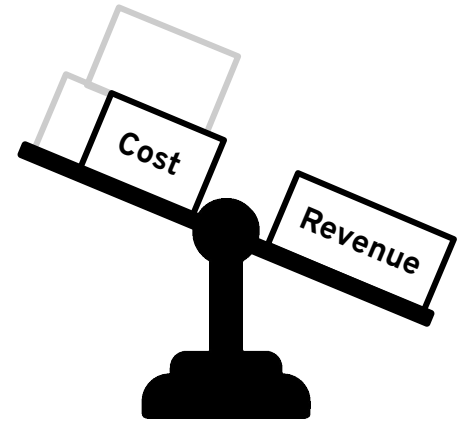


**DEVELOPMENT  
INCENTIVES**

- **Grow Revenue**
- **Reduce Cost**



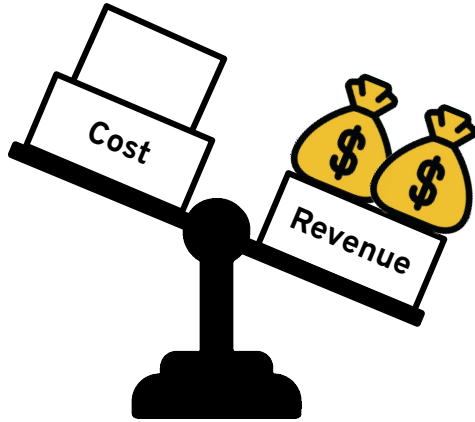
**Grow Revenue**



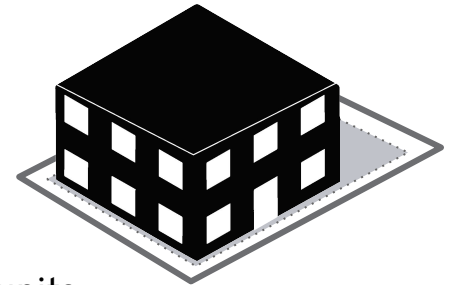
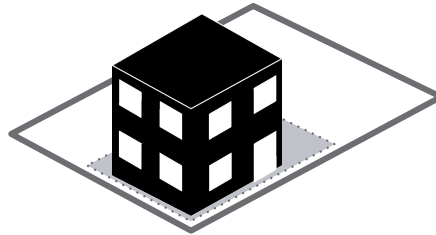
**Reduce Cost**

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Most efficient way of growing revenue is by removing or relaxing land-use regulations that limit development potential.



**Grow Revenue**



Building more units  
= more revenue

## Incentives to grow revenue are limited

Downtown's new form based code does a great job at removing barriers to development. Unfortunately, this limits our options to offer development incentives as part of the policy.

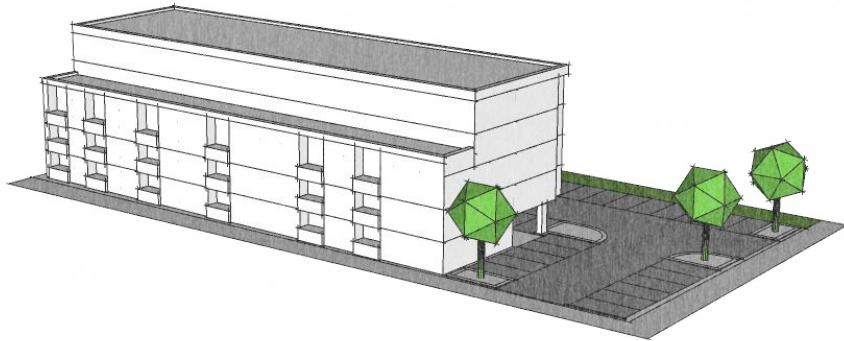
Existing Standards		
<input checked="" type="checkbox"/>	Max Density	None
<input checked="" type="checkbox"/>	Height	Up to 5 Stories
<input checked="" type="checkbox"/>	Max Lot Coverage	95%
<input type="checkbox"/>	Min Parking Ratio	None
<input checked="" type="checkbox"/>	Min Setbacks	10' rear only
<input type="checkbox"/>	Min Stepbacks	15' after 3rd floor

# Downtown

## Reducing parking ratios have a sizeable impact on financial feasibility of development

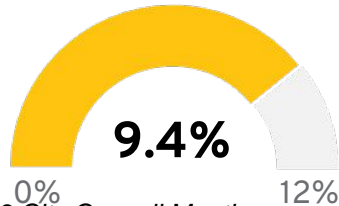
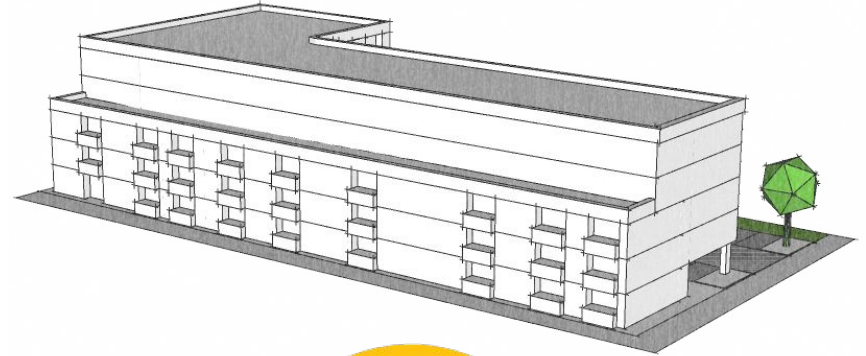
58 units

0.8 spaces / unit



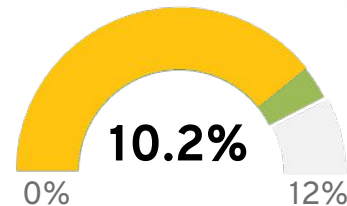
82 units

0.5 spaces / unit



01-17-23 City Council Meeting

+8.5% change in IRR



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## Incentives to grow revenue are very limited

Residential high density zone encourages development that is denser than what is typically seen in areas outside of Downtown Davis and already removes commonly known barriers to multifamily development.

Existing Standards	
<input checked="" type="checkbox"/>	Max Density Up to 50 units per acre
<input checked="" type="checkbox"/>	Height Up to 100 ft
<input checked="" type="checkbox"/>	Max Lot Coverage 50% (does not include surface parking)
<input type="checkbox"/>	Min Parking Ratio 1.4 spaces per unit
<input type="checkbox"/>	Min Setbacks <ul style="list-style-type: none"><li>• Front, rear, and interior side: 21.3'</li><li>• Street side: 16.3'</li></ul>
<input type="checkbox"/>	Min Open Space <ul style="list-style-type: none"><li>• Studio: 200 SF</li><li>• 1-bed: 250 SF</li><li>• 2-bed+: 300 SF</li></ul>

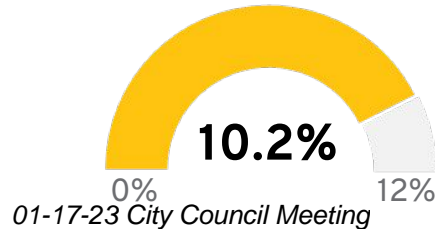
# Suburban

Reducing minimum parking and open space requirements to reach maximum density improves project feasibility but not by much.

294 units  
39.7 units per acre  
1.4 spaces / unit  
Avg. 230 SF of open space



370 units  
50 units per acre  
1 spaces / unit  
Avg. 180 SF of open space



+3.9% change in IRR





# Most efficient way of reducing costs is waiving permit and impact fees.



**Reduce Cost**

<b>Fees</b>	<b>Total</b>
Sewer and Water	\$ 1,096,963
Development Impact Fees	\$ 3,555,342
Site Permit Fee	\$ 123,952
Building Permit Fees	\$ 455,168
Long Range Planing Fee	\$ 138,228
Strong Motion	\$ 19,352
Building Standards Fee	\$ 2,765
Yolo County Impact Fees	\$ 934,920
School District Impact Fees	\$ 888,589
CalGreen Fee	\$ 53,237
Construction Tax	\$ 1,235,647
Miscellaneous	\$ 4,000
<b>Total Permit &amp; Impact Fees</b>	<b>\$8,508,163</b>
<b>Total Permit &amp; Impact Fees / Unit</b>	<b>\$28,939</b>

# Waiving fees have a bigger impact on financial feasibility, improving IRR by about 16%

## *Downtown*

Total Fees: \$1,662,800

Total Fees / unit: \$28,700



## *Suburban*

Total Fees: \$8,508,200

Total Fees / unit: \$29,000



# Waiving fees is considered a public subsidy, triggering prevailing wages that increase construction costs by 30%

## Downtown

Total Fees: \$1,662,800

Total Fees / unit: \$28,700



## Suburban

Total Fees: \$8,508,200

Total Fees / unit: \$29,000



# Even with incentives, our market rate building prototypes struggle to reach 12% IRR financial target.

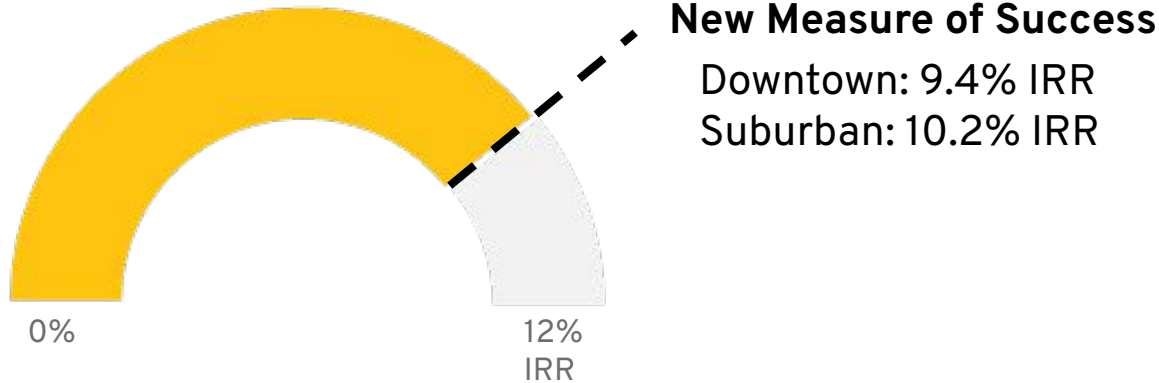
There are too few impactful or feasible development incentives that can help support an inclusionary zoning policy.

		Downtown	Suburban
	No Incentives	9.4%	10.2%
Incentives	<b>Relax Regulations</b>	10.2%	10.6%
	<b>Waive All Fees (without triggering prevailing wages)</b>	10.9%	11.8%
	<b>Waive All Fees (triggering prevailing wages)</b>	6.1%	6.7%

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# Matching or outperforming the market rate scenario is our best measure of success in the face of a challenging development environment.

Housing markets change, construction costs fluctuate. Rather than focusing on meeting target returns, it's more productive to look at the directional impact that different inclusionary zoning scenarios have on project feasibility.



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# What combination of parameters does it take for the inclusionary zoning scenario to match or outperform the market rate scenario?



## DEVELOPMENT INCENTIVES

- No Incentives
- Relax Regulations
- Waiving Fees



## % SET-ASIDE

- 20%
- 15%
- 10%
- 5%



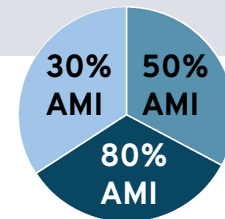
## DEPTH OF AFFORDABILITY

- 80% AMI: low income
- 50% AMI: very low income
- 30% AMI: extremely low income

# Downtown

## Which inclusionary zoning scenario matches or outperforms the market rate scenario?

Affordability  
of set-aside



Avg. 53% AMI

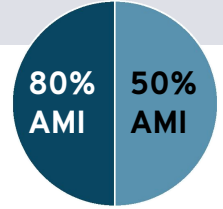
% Set-asides	20%	15%	10%	5%
No Incentives	7.4%	7.9%	8.4%	8.9%
Relax Regulations	8.2%	8.7%	9.3%	9.7%
Waive All Fees (w/o triggering prevailing wages)	9%	9.4%	10%	10.5%
Waive All Fees (triggering prevailing wages) <i>01-17-23 City Council Meeting</i>	4.2%	4.7%	5.1%	5.6%

Interim policy  
return

# Downtown

## Which inclusionary zoning scenario matches or outperforms the market rate scenario?

Affordability  
of set-aside



Avg. 65% AMI

% Set-asides	20%	15%	10%	5%
No Incentives	7.9%	8.2%	8.7%	9.0%
Relax Regulations	8.7%	9.0%	9.5%	9.8%
Waive All Fees (w/o triggering prevailing wages)	9.4%	9.8%	10.2%	10.6%
Waive All Fees (triggering prevailing wages) <i>01-17-23 City Council Meeting</i>	4.7%	5.0%	5.4%	5.7%

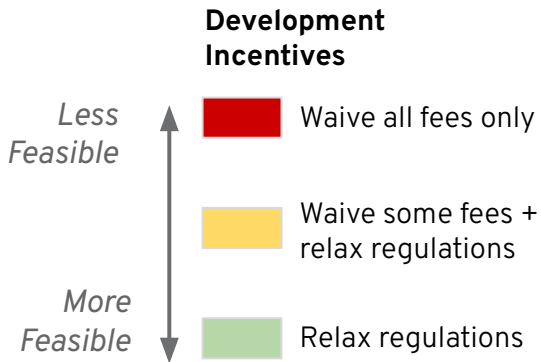


## Which inclusionary zoning scenario matches or outperforms the market rate scenario?

% Set-asides	20%	15%	10%	5%
No Incentives	8.5%	8.6%	8.9%	9.2%
Relax Regulations	9.3%	9.5%	9.8%	10%
Waive All Fees <i>(w/o triggering prevailing wages)</i>	10%	10.2%	10.5%	10.7%
Waive All Fees <i>(triggering prevailing wages)</i> <i>01-17-23 City Council Meeting</i>	5.2%	5.3%	5.6%	5.9%

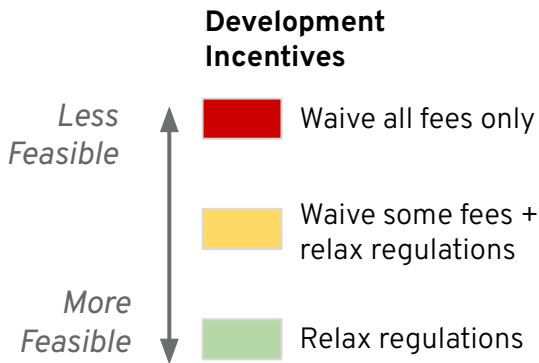
# Downtown

What amount of incentives is needed for each inclusionary zoning scenario to match or outperform the market rate scenario?



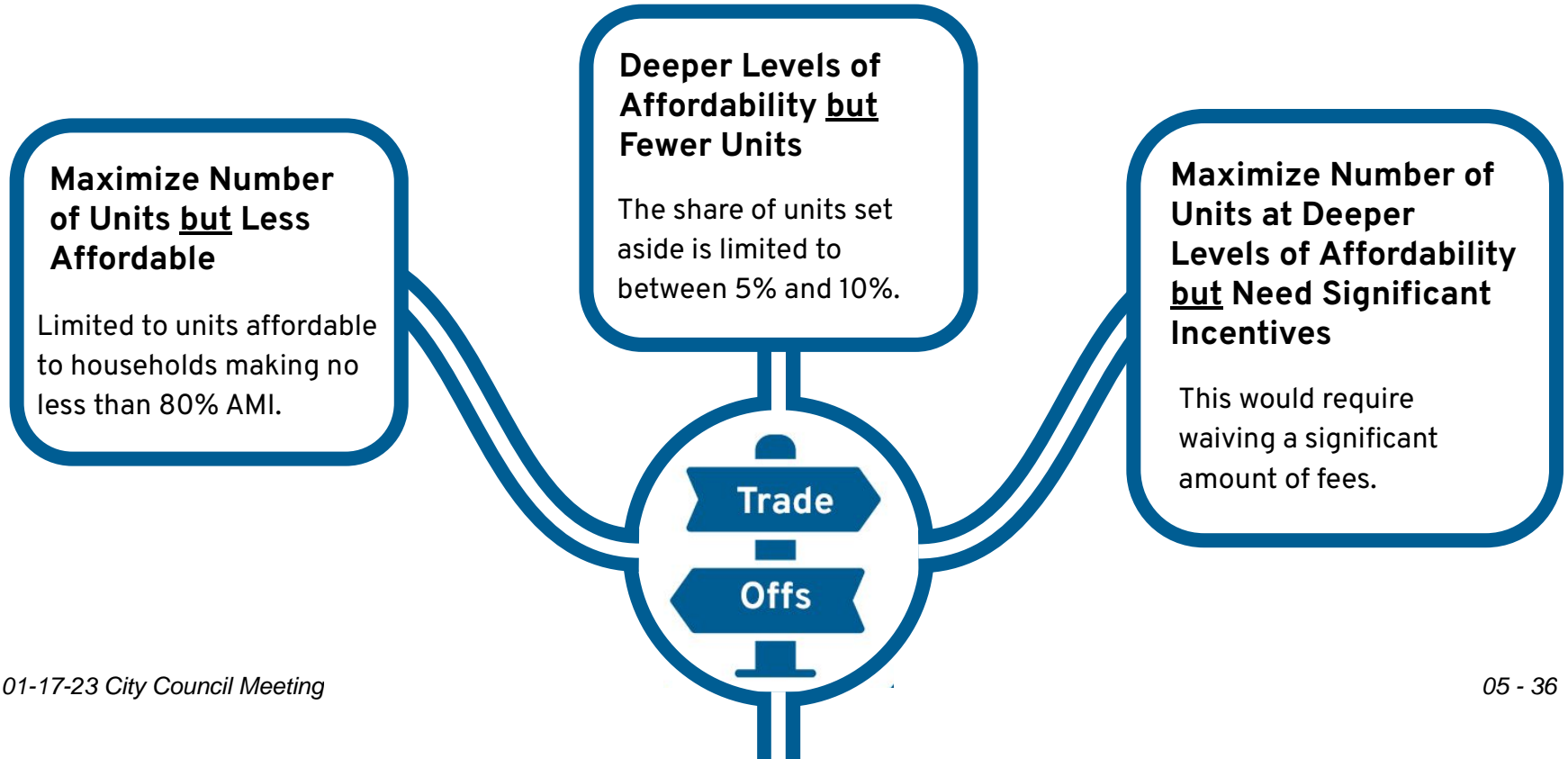
% Set-asides		20%	15%	10%	5%
Depth of Affordability	30% 50% 80%	<i>Not feasible</i>			
	50% 80%				
	80%				

## What amount of incentives is needed for each inclusionary zoning scenario to match or outperform the market rate scenario?



% Set-asides		20%	15%	10%	5%
Depth of Affordability	30% 50% 80%	Not feasible	Red	Yellow	Yellow
	50% 80%	Red	Yellow	Yellow	Green
	80%	Yellow	Yellow	Green	Green

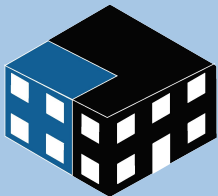
# Trade-offs are inevitable with inclusionary zoning policies



# Recommendation Option 1

"Maximize Number of Units but less affordable"

10% Set-aside  
80% AMI



*% Set-aside*

10% of total units are affordable

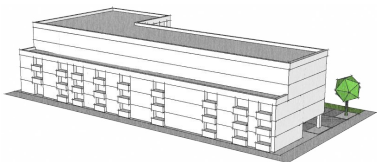
*Affordability*

Affordable to households making no more than 80% AMI

*Incentives*

Incentives for development outside the Downtown Specific Plan

## Downtown Prototype



Total Units: 82 units

**8 Affordable Units**  
78 Market Rate Units

80% AMI is equivalent to:

- **\$74,000 / year**  
*4-person household*
- **\$59,200 / year**  
*2-person household*

**None\***

\*assumes 0.5 parking spaces per unit

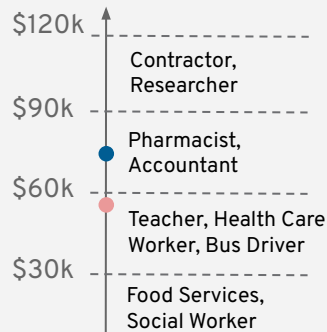
## Suburban Prototype



Total Units: 370 units

**37 Affordable Units**  
352 Market Rate Units

*Salary range by employment in Yolo County, 2021*



**1. Reduce open space requirements by 100 SF per unit**

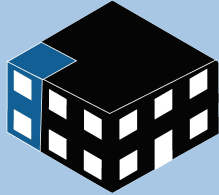
**2. Reduce parking requirements to 1 space per unit**      *05 - 37*

01-17-23 City Council Meeting

# Recommendation Option 2

“Deeper Levels of Affordability but fewer units”

5% Set-aside  
65% AMI



*% Set-aside*

*5% of total units are affordable*

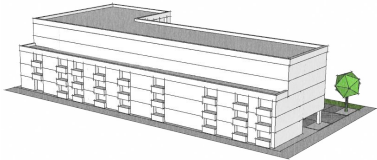
*Affordability*

*Affordable to households making no more than 65% AMI*

*Incentives*

*Incentives for development outside the Downtown Specific Plan*

## Downtown Prototype



Total Units: 82 units  
**4 Affordable Units**  
78 Market Rate Units

65% AMI is equivalent to:

- **\$60,125 / year**  
*4-person household*
- **\$48,100 / year**  
*2-person household*

**None\***

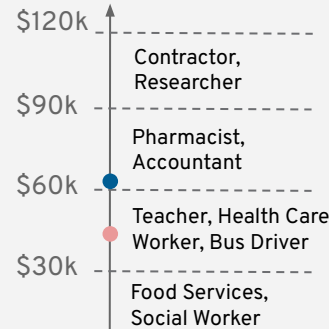
\*assumes 0.5 parking spaces per unit

## Suburban Prototype



Total Units: 370 units  
**16 Affordable Units**  
352 Market Rate Units

*Salary range by employment in Yolo County, 2021*

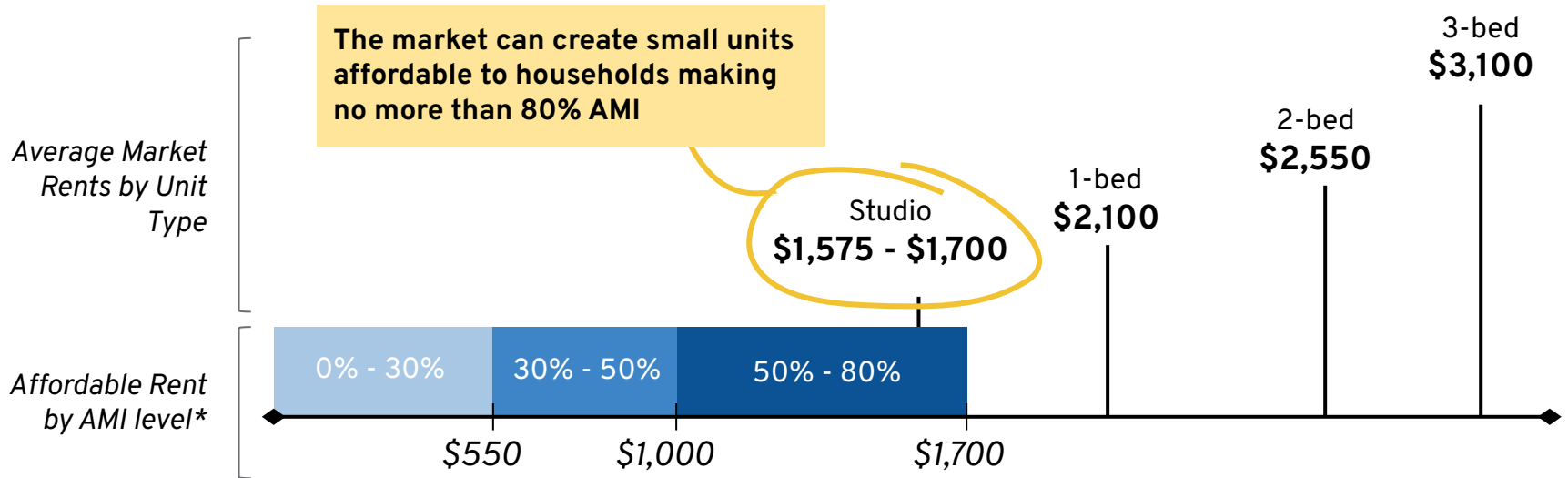


**1. Reduce open space requirements by 100 SF per unit**

**2. Reduce parking requirements to 1 space per unit**      *05 - 38*

01-17-23 City Council Meeting

# No incentives are needed in a policy that requires 15% - 25% of small, workforce units



\*Affordable rents for 2-person households. Rent limits are reduced for utility allowance.

---

## Summary of Conclusions

1. Given today's high land and construction costs, the existing and interim inclusionary housing policies are not financially feasible.
2. A feasible inclusionary housing policy needs to offer some level of incentives.
3. Fee waivers can be impactful incentives, but they lose their impact when tied to prevailing wages.
4. With few regulatory incentives to offer, a feasible inclusionary housing policy is limited in its ability to offer deeply affordable units.
5. Inclusionary housing is not a stand-alone affordable housing strategy. There are other strategies to consider.



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## Next Steps

1. Refine the policy recommendation(s) based on today's conversation
2. Draft inclusionary zoning ordinance
3. Present draft ordinance to Social Services Commission and City Council
4. Finalize inclusionary zoning ordinance and return to City Council (as needed)

## 06. Appendix: Market Assumptions

### Downtown Prototype

Costs	
Hard Costs	\$250 / Gross Square Foot (Type III construction)
Soft Costs (includes fees)	~20 to 25% of hard costs
Land Costs	\$80 / Square Foot

Financial Targets	
Internal Rate of Return Target	12%

Unit Type	Unit Mix	Avg. Size	\$ / SF	Rent Estimate
Studio	25%	450 SF	\$3.50	\$1,575
1-Bed	30%	650 SF	\$3.20	\$2,100
2-Bed	30%	850 SF	\$3.00	\$2,550
3-Bed	15%	1,100 SF	\$2.75	\$3,000
<b>Avg. Size &amp; Rental Rate</b>		<b>730 SF</b>	<b>\$3.19</b>	<b>\$2,320</b>

<b>Affordable Unit Size</b>	650 SF (even mix of studio, 1-bed, 2-bed)
-----------------------------	---

## 06. Appendix: Market Assumptions

### Suburban Prototype

Costs	
Hard Costs	\$220 / Gross Square Foot (Type V construction)
Soft Costs (includes fees)	~20 to 23% of hard costs
Land Costs	\$20 / Square Foot

Financial Targets	
Internal Rate of Return Target	12%

Unit Type	Unit Mix	Avg. Size	\$ / SF	Rent Estimate
Studio	15%	550 SF	\$2.95	\$1,625
1-Bed	35%	725 SF	\$2.85	\$2,065
2-Bed	35%	975 SF	\$2.60	\$2,535
3-Bed	15%	1,250 SF	\$2.50	\$3,125
<b>Avg. Size &amp; Rental Rate</b>		<b>865 SF</b>	<b>\$2.73</b>	<b>\$2,360</b>

<b>Affordable Unit Size</b>	750 SF (even mix of studio, 1-bed, 2-bed)
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## MEMORANDUM

TO: City of Davis City Council Members

FROM: Julia Michel and Alex Joyce, Cascadia Partners

DATE: January 11, 2023

PROJECT: Davis Inclusionary Zoning Financial Feasibility Analysis

SUBJECT: **Methodology for Financial Modeling of Inclusionary Zoning Policy**

The purpose of this memo is to provide background information on the financial modeling that informed the Inclusionary Zoning Financial Feasibility Analysis prepared by for the City of Davis. The memo provides an overview of the pro-forma modeling process, outlines data sources used, and provides a summary of all key assumptions.

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### Overview

#### **What is a pro-forma?**

Cascadia Partners applied a real estate pro forma modeling process to assess the market feasibility of two multifamily housing prototypes in two zone districts: Main Street Medium (MS-M) from the Downtown Davis Specific Plan and Residential High Density Apartment (R-HD) District from Davis Municipal Code.

A real estate pro-forma is a financial model that estimates the return-on-investment of a hypothetical development project given a set of inputs. These inputs include the physical development program (number of units or square footage, unit sizes) as well as financial inputs for the costs and revenues associated with the project, including assumptions about revenue from affordable units. The output of the model can be an estimate of the profitability of the project, the minimum rent rate needed to meet a target level of profitability, or the maximum cost of land acquisition to meet a target level of profitability.

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Portland, OR 97209

[www.cascadia-partners.com](http://www.cascadia-partners.com)

## **What is a prototype?**

Each pro-forma is built around a housing prototype. The prototype is intended to represent a typical development that would be permitted in the zone district under current standards. The prototypes were calibrated to comply with the applicable requirements of the Land Use Code in each zone district, including minimum lot size, minimum setbacks, maximum height, maximum density, and minimum parking requirements.

The lot sizes assumed for each prototype were modeled after lot sizes of existing residential projects and opportunity sites in Davis. The pro-formas also incorporate local market prices, rents, impact and permitting fees, taxes, and construction costs.

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## **Data Sources**

The data sources, both qualitative and quantitative, provided an understanding of the market conditions, development costs, and rent and sales prices for various residential development types in Davis.

## **Developer/Development Professional interviews**

Three local developers and development professionals listed below were interviewed to understand development costs, market rents and prices, and local rate of return targets, as well as barriers to development. Our team chose to interview them because they have experience developing various housing types including multi-family and residential mixed-use projects in Davis and across the region.

- Lakeshore Partners
- Hallmark Properties
- Cunningham Engineering

## **Peer City Comparable**

Construction costs do not significantly vary between projects in comparable and neighboring cities. At the time of this analysis, Cascadia Partners was also conducting market studies in other cities of the Sacramento region including Yuba City, Lincoln and Elk Grove. Construction cost estimates our team collected in Davis were compared to construction costs collected from neighboring cities to ensure that our estimated costs were within close range of costs gathered around the region.

## **Online data sources**

Online data sources were also used to estimate various market conditions and development costs. CoStar, a real estate database, was used to determine land costs, average rents, rent per square foot, and typical multifamily unit sizes in both zones.

Redfin and Zillow data were used to determine average rent per sq ft and average unit size for multifamily buildings built after 2015 in zones that allow multifamily inside and outside Downtown Davis. The data was also used to determine average sale prices for vacant lots in these same zones.

**Key Assumptions** *(reflect costs and market conditions in 2022)*

<b>Hard Construction Costs</b>	<b>Cost (per sf)</b>
Multi-Family (Type V Construction)	\$220
Multi-Family (Type III Construction)	\$250

<b>Soft Construction Costs</b>	~20 to 25% of hard costs
--------------------------------	--------------------------

<b>Land Costs</b>	<b>Land Cost (per sf)</b>
Suburban Vacant Lots	\$20
Downtown Infill Lots	\$80

<b>Market Rents &amp; Unit Sizes</b>	<b>Urban</b>			<b>Suburban</b>		
	<b>Rent Price (per sf)</b>	<b>Unit Size (sf)</b>	<b>Mix</b>	<b>Rent Price (per sf)</b>	<b>Unit Size (sf)</b>	<b>Mix</b>
3-Bedroom	\$2.75	1,100	15%	\$2.50	1,250	15%
2-Bedroom	\$3.00	850	30%	\$2.60	975	35%
1-Bedroom	\$3.20	650	30%	\$2.85	725	35%
Studio	\$3.50	450	25%	\$2.95	550	15%
<i>Average</i>	<i>\$3.19</i>	<i>725</i>	<i>-</i>	<i>\$2.73</i>	<i>865</i>	<i>-</i>

<b>Property Tax</b>	<b>Residential</b>
Tax Rate	1.00%
Assessment Ratio	100%

Target Returns	
Internal Rate of Return	12%

## Permitting and Impact Fees

Fees below are calculated based on the number of units or floor area of each prototype. Note that these fees were collected and calculated in May 2022 and may have been updated since.

Fee	Link to Fee Information	Fee Formula
Sewer & Water	Davis Municipal Code: <ul style="list-style-type: none"> <li>• <a href="#">Service Connection Charge 39.03.120</a></li> <li>• <a href="#">Sewer Connection Fees 33.02.040</a></li> </ul>	<b>Water:</b> Based on meter size – see link <ul style="list-style-type: none"> <li>• 2” meter for 100 units or less = \$55,254</li> <li>• 3” meter for more than 100 units =\$103,612</li> </ul> <b>Irrigation:</b> Based on meter size <ul style="list-style-type: none"> <li>• 1” meter = \$17,271</li> </ul> <b>Sewer:</b> \$3,320 per unit (for multi-family) – see link
Development Impact Fees	<a href="#">Development Impact Fee Summary</a>	<b>Multifamily DIFs Per Unit:</b> Roadways: \$4,942 Storm Sewer: \$85 Parks: \$3,827 Open Space: \$659 Public Safety: \$757 General Facilities: \$1,823
Site Permit Fee		Calculated by city staff, fee formula based on site valuation.
Site Plan Check Fee	Apartment Buildings and Site Permits: <i>Building Permit Fee Schedule</i> (Appendix A)	65% of Site Permit Fee
Building Permit Fee	Final Fee Schedule Book 2021 -2022 (Appendix B)	See Appendix X, fee formula was provided by city staff
Building Plan Check Fee	Appendix A	65% of Building Permit Fee
Fire Plan Check Review	Appendix A	25% of Building Plan Check Fee
Public Works Plan Check	Appendix A	25% of Building Plan Check Fee
Long Range Planning Fee	Appendix A	0.2% of building valuation
Strong Motion	Appendix A	\$28 / \$100,000 and \$.28 for each additional thousand or fraction
Building Standards Fee	Appendix A	\$1 per \$25,000 valuation

<b>Fee</b>	<b>Link to Fee Information</b>	<b>Fee Formula</b>
Yolo County Impact Fees	<u><a href="#">Yolo County Master Fee Schedule</a></u> , page 39	\$3,180 / unit
School Impact Fees	Appendix A	\$2.97 / SF
CalGreen Fee	Appendix A	14% of the building permit and the plan check fee
Construction Tax	Appendix A	\$4.13 / SF
Miscellaneous	To capture small hourly fees that incur throughout the permitting process.	\$4,000 flat fee





**Community Development and Sustainability Department**

23 Russell Boulevard, Suite 2 Davis, California 95616

Phone: (530)757-5610 TDD: (530)757-5666

Website: [www.cityofdavis.org/CDD](http://www.cityofdavis.org/CDD)

Email: [Cddweb@cityofdavis.org](mailto:Cddweb@cityofdavis.org)

# APARTMENT BUILDINGS & SITE PERMITS

## BUILDING PERMIT FEE SCHEDULE

The following fees are collected by the Davis Building Inspection Division at the time of permit application:

1. **Building Plan Review Fee** (collected upon initial submittal and includes original plan review and one recheck)  
 Commercial or Industrial occupancies = (insert permit fee – see below) \_\_\_\_\_ X .65 = \_\_\_\_\_  
  
 Additional Plan Reviews (for revisions or additions to plans – there is a minimum charge of ½ hour)=Hourly Rate
  - Plans Examiner = \$173.00 per hour
  - Plan Check by outside consultants = Actual cost plus overhead

2. **Fire Plan Check Review** 25% of building plan check fee

The following fees are collected by the Davis Building Inspection Division at the time of permit issuance:

3. **Building Permit Fee** To estimate your Building Permit Fee complete the calculation to the right of the valuation column that matches the approximate valuation of your project.
4. **Planning Plan Review Fee** (Varies by project, contact Planning) \$46.00 per ¼ hour
5. **Long Range Planning Fee** .002 of building permit valuation
6. **Building Records Management/Archive fee** Per sheet charge for all paperwork to be archived. Collected at issuance. Fee is \$0.50 for 8 ½ x 11 sheet and \$2.00 for any larger sheet.
7. **Strong Motion (State mandated tax for seismic monitoring)** \$28 / \$100,000 and \$.28 for each additional thousand or fraction thereof.
8. **Building Standards Fee:** \$1.00 per \$25,000.00 valuation
9. **School Impact Fees** \$2.97 per sq ft. (If the property in question is in a Mello Roos District, the fee is collected with your taxes. To verify, contact the School District at (530) 757-5310).
10. **Yolo County Impact Fee** Commercial and Industrial rates vary and must be paid at Yolo County Planning Department in Woodland prior to issuance of building permit (call Yolo County for amount (530) 666-8775). A receipt will be required at time of permit pickup.
11. **Water Meter Fee and Backflow Device** Contact Public Works (530) 757-5686
12. **Sewer Connection** Contact Public Works (530) 757-5686
13. **Water Connection** Contact Public Works (530) 757-5686

14. **Construction Tax** Multi-family \$4.13 per square foot

15. **Construction Water** (applies unless applicant obtains hydrant use permit from Public Works Department)

16. **Development Impact Fees** Contact Community Development for the specific lot Development Impact fees must be paid prior to occupancy (Final).

17. **CALGreen Fee** 14% of the building permit and the plan check fee

**Add Total Building Permit fees**

- |     |   |       |
|-----|---|-------|
| 1.  | Building Permit Fee =                       | _____ |
| 2.  | Building Plan Review Fee =                  | _____ |
| 3.  | Planning Plan Review Fee =                  | _____ |
| 4.  | Fire Plan Review Fee =                      | _____ |
| 5.  | Long Range Planning Fee =                   | _____ |
| 6.  | Building Records Management / Archive Fee = | _____ |
| 7.  | Strong Motion =                             | _____ |
| 8.  | Building Standards Fee=                     | _____ |
| 9.  | School Impact Fees =                        | _____ |
| 10. | Yolo County Impact Fee =                    | _____ |
| 11. | Water Meter Fee and Backflow Device =       | _____ |
| 12. | Sewer Connection =                          | _____ |
| 13. | Water Connection =                          | _____ |
| 14. | Construction Tax =                          | _____ |
| 15. | Construction Water =                        | _____ |
| 16. | Development Impact Fees =                   | _____ |
| 17. | CALGreen Fees =                             | _____ |
|     | <b>Total Fees =</b>                         | _____ |

## APPENDIX B

### Building Permit and Plan Check fees

Valuation	Basic Fee	New Residential		All Other Occupancies & all		Strong Motion	Construction Water
		Plan Review Fee	Permit	Plan Review Fee	Permit	Residential/ Commerical	
1 - 1000	34.75	25.97	39.96	39.53	60.81	.50 / .50	N/A
1,001 - 2000	62.25	46.53	71.59	70.81	108.94	.50 / .50	2.77
3,000	74.75	55.88	85.97	85.03	130.82	.50 / .63	2.77
4,000	87.25	65.22	100.34	99.25	152.69	.50 / .84	2.77
5,000	99.75	74.57	114.72	113.47	174.57	.50 / 1.05	2.77
6,000	112.25	83.91	129.09	127.69	196.44	.60 / 1.26	27.25
7,000	124.75	93.26	143.47	141.91	218.32	.70 / 1.47	27.25
8,000	137.25	102.60	157.84	156.12	240.19	.80 / 1.68	27.25
9,000	149.75	111.94	172.22	170.35	262.07	.90 / 1.89	27.25
10,000	162.25	121.28	186.59	184.56	283.94	1.00 / 2.10	27.25
11,000	174.75	130.63	200.97	198.78	305.82	1.10 / 2.31	27.25
12,000	187.25	139.97	215.34	213.00	327.69	1.20 / 2.52	27.25
13,000	199.75	149.32	229.72	227.22	349.57	1.30 / 2.73	27.25
14,000	212.25	158.66	244.09	241.44	371.44	1.40 / 2.94	27.25
15,000	224.75	168.01	258.47	255.66	393.32	1.50 / 3.15	27.25
16,000	237.25	177.35	272.84	269.87	415.19	1.60 / 3.36	27.25
17,000	249.75	186.69	287.22	284.10	437.07	1.70 / 3.57	27.25
18,000	262.25	196.03	301.59	298.31	458.94	1.80 / 3.78	27.25
19,000	274.75	205.38	315.97	312.53	480.82	1.90 / 3.99	27.25
20,000	287.25	214.72	330.34	326.75	502.69	2.00 / 4.20	27.25
21,000	299.75	224.07	344.72	340.97	524.57	2.10 / 4.41	54.50
22,000	312.25	233.41	359.09	355.19	546.44	2.20 / 4.62	54.50
23,000	324.75	242.76	373.47	369.41	568.32	2.30 / 4.83	54.50
24,000	337.25	252.10	387.84	383.62	590.19	2.40 / 5.05	54.50
25,000	349.75	261.44	402.22	397.85	612.07	2.50 / 5.25	54.50
26,000	358.75	268.16	412.56	408.08	627.81	2.60 / 5.46	54.50
27,000	367.75	274.89	422.91	418.31	643.56	2.70 / 5.67	54.50
28,000	376.75	281.62	433.26	428.55	659.31	2.80 / 5.88	54.50
29,000	385.75	288.35	443.61	438.79	675.06	2.90 / 6.09	54.50
30,000	394.75	295.07	453.96	449.03	690.81	3.00 / 6.30	54.50
31,000	403.75	301.80	464.31	459.26	706.56	3.10 / 6.51	54.50
32,000	412.75	308.53	474.66	469.50	722.31	3.20 / 6.72	54.50
33,000	421.75	315.26	485.01	479.74	738.06	3.30 / 6.93	54.50
34,000	430.75	321.98	495.36	489.98	753.81	3.40 / 7.14	54.50
35,000	439.75	328.71	505.71	500.21	769.56	3.50 / 7.77	54.50
36,000	448.75	335.44	516.06	510.45	785.31	3.60 / 7.60	54.50
37,000	457.75	342.17	526.41	520.69	801.06	3.70 / 7.77	54.50
38,000	466.75	348.89	536.76	530.93	816.81	3.80 / 7.98	54.50
39,000	475.75	355.62	547.11	541.16	832.56	3.90 / 8.19	54.50
40,000	484.75	362.35	557.46	551.40	848.31	4.00 / 8.40	54.50
41,000	493.75	369.08	567.81	561.64	864.06	4.10 / 8.61	54.50
42,000	502.75	375.80	578.16	571.88	879.81	4.20 / 8.82	54.50
43,000	511.75	382.53	588.51	582.11	895.56	4.30 / 9.03	54.50
44,000	520.75	389.26	598.86	592.35	911.31	4.40 / 9.24	54.50
45,000	529.75	395.99	609.21	602.59	927.06	4.50 / 9.45	54.50
46,000	538.75	402.71	619.56	612.83	942.81	4.60 / 9.66	54.50
47,000	547.75	409.44	629.91	623.06	958.56	4.70 / 9.87	54.50
48,000	556.75	416.17	640.26	633.30	974.31	4.80 / 10.08	54.50
49,000	565.75	422.90	650.61	643.54	990.06	4.90 / 10.29	54.50
50,000	574.75	429.62	660.96	653.78	1,005.81	5.00 / 10.50	54.50
51,000	581.00	434.30	668.15	660.89	1,016.75	5.10 / 10.71	81.75
52,000	587.25	438.97	675.34	668.00	1,027.69	5.20 / 10.92	81.75
53,000	593.50	443.64	682.52	675.10	1,038.62	5.30 / 11.13	81.75
54,000	599.75	448.31	689.71	682.21	1,049.56	5.40 / 11.34	81.75
55,000	606.00	452.99	696.90	689.33	1,060.50	5.50 / 11.55	81.75
56,000	612.25	457.66	704.09	696.44	1,071.44	5.60 / 11.76	81.75

**Building Permit and Plan Check fees**

Valuation	Basic Fee	New Residential		All Other Occupancies & all		Strong Motion	Construction Water
		Plan Review Fee	Permit	Plan Review Fee	Permit	Residential/ Commerical	
57,000	618.50	462.33	711.27	703.54	1,082.37	5.70 / 11.97	81.75
58,000	624.75	467.00	718.46	710.65	1,093.31	5.80 / 12.18	81.75
59,000	631.00	471.67	725.65	717.76	1,104.25	5.90 / 12.39	81.75
60,000	637.25	476.35	732.84	724.87	1,115.19	6.00 / 12.60	81.75
61,000	643.50	481.01	740.02	731.98	1,126.12	6.10 / 12.81	81.75
62,000	649.75	485.69	747.21	739.09	1,137.06	6.20 / 13.02	81.75
63,000	656.00	490.36	754.40	746.20	1,148.00	6.30 / 13.23	81.75
64,000	662.25	495.03	761.59	753.31	1,158.94	6.40 / 13.44	81.75
65,000	668.50	499.70	768.77	760.42	1,169.87	6.50 / 13.65	81.75
66,000	674.75	504.37	775.96	767.53	1,180.81	6.60 / 13.86	81.75
67,000	681.00	509.05	783.15	774.64	1,191.75	6.70 / 14.07	81.75
68,000	687.25	513.72	790.34	781.75	1,202.69	6.80 / 14.28	81.75
69,000	693.50	518.39	797.52	788.85	1,213.62	6.90 / 14.49	81.75
70,000	699.75	523.06	804.71	795.96	1,224.56	7.00 / 14.70	81.75
71,000	706.00	527.74	811.90	803.08	1,235.50	7.10 / 14.91	81.75
72,000	712.25	532.41	819.09	810.19	1,246.44	7.20 / 15.12	81.75
73,000	718.50	537.08	826.27	817.29	1,257.37	7.30 / 15.33	81.75
74,000	724.75	541.75	833.46	824.40	1,268.31	7.40 / 15.54	81.75
75,000	731.00	546.42	840.65	831.51	1,279.25	7.50 / 15.75	81.75
76,000	737.25	551.10	847.84	838.62	1,290.19	7.60 / 15.96	81.75
77,000	743.50	555.76	855.02	845.73	1,301.12	7.70 / 16.17	81.75
78,000	749.75	560.44	862.21	852.84	1,312.06	7.80 / 16.38	81.75
79,000	756.00	565.11	869.40	861.90	1,326.00	7.90 / 16.59	81.75
80,000	762.25	569.78	876.59	867.06	1,333.94	8.00 / 16.80	81.75
81,000	768.50	574.45	883.77	874.17	1,344.87	8.10 / 17.01	81.75
82,000	774.75	579.12	890.96	881.28	1,355.81	8.20 / 17.22	81.75
83,000	781.00	583.80	898.15	888.39	1,366.75	8.30 / 17.43	81.75
84,000	787.25	588.47	905.34	895.50	1,377.69	8.40 / 17.64	81.75
85,000	793.50	593.14	912.52	902.60	1,388.62	8.50 / 17.85	81.75
86,000	799.75	597.81	919.71	909.71	1,399.56	8.60 / 18.06	81.75
87,000	806.00	602.49	926.90	916.83	1,410.50	8.70 / 18.27	81.75
88,000	812.25	607.16	934.09	923.94	1,421.44	8.80 / 18.48	81.75
89,000	818.50	611.83	941.27	931.04	1,432.37	8.90 / 18.69	81.75
90,000	824.75	616.50	948.46	938.15	1,443.31	9.00 / 18.90	81.75
91,000	831.00	621.17	955.65	945.26	1,454.25	9.10 / 19.11	81.75
92,000	837.25	625.85	962.84	952.37	1,465.19	9.20 / 19.32	81.75
93,000	843.50	630.51	970.02	959.48	1,476.12	9.30 / 19.53	81.75
94,000	849.75	635.19	977.21	966.59	1,487.06	9.40 / 19.74	81.75
95,000	856.00	639.86	984.40	973.70	1,498.00	9.50 / 19.95	81.75
96,000	862.25	644.53	991.59	980.81	1,508.94	9.60 / 20.16	81.75
97,000	868.50	649.20	998.77	987.92	1,519.87	9.70 / 20.37	81.75
98,000	874.75	653.87	1,005.96	995.03	1,530.81	9.80 / 20.58	81.75
99,000	881.00	658.55	1,013.15	1,002.14	1,541.75	9.90 / 20.79	81.75
100,000	887.25	663.22	1,020.34	1,009.25	1,552.69	10.00 / 21.00	81.75

## Davis, California Municipal Code

### Chapter 18 HOUSING

#### **Article 18.05 AFFORDABLE HOUSING**

18.05.010 Purposes of article—Findings.

18.05.020 Definitions.

18.05.030 Applicability of article.

18.05.040 Provision of affordable housing.

18.05.050 Ownership development affordable housing standards.

18.05.060 Rental development affordable housing standards.

18.05.070 Fees.

18.05.080 Exemptions from affordable housing requirements.

#### **18.05.010 Purposes of article—Findings.**

The city council finds and determines:

- (a) The city has a goal to provide a range of housing for its local workers and has chosen to take action to ensure that affordable housing is constructed and maintained within the City of Davis.
- (b) Housing purchase prices in Davis are generally higher than the rest of the region, particularly Woodland and West Sacramento.
- (c) Rents in Davis have been rising and the majority of new apartments are four-bedroom units which are not suitable for most families. Small, very low income households have trouble finding affordable unassisted housing, and larger households of any income level have difficulty finding affordable units.
- (d) Federal and state funds for the construction of new affordable housing are limited.
- (e) In order to meet the city's fair share of the regional housing need for very low, low and moderate income households, the city included implementing policies within the housing element of the general plan to provide for such housing.

(f) General plan implementing policies require that, to the extent feasible, for sale residential developments should provide for housing units that are affordable to very low income households, low income households and moderate income households as part of the development, with tiered requirements that are reduced or eliminated for housing products that are more affordable by design. General plan policies also require that affordable ownership units include a means for sustained affordability, maintaining them as affordable units into the unforeseeable future.

(g) General plan implementing policies also require that, to the extent feasible and subject to existing law, rental housing developments with five to nineteen units shall provide fifteen percent of the units to low income households and ten percent to very low income households; and in rental housing developments with twenty or more units that twenty-five percent of the units be affordable to low income households and ten percent of the units be affordable to very low income households. General plan policies also require that affordable rental units remain affordable in perpetuity. (Ord. 2418 § 1, 2013)

### **18.05.020 Definitions.**

For the purposes of this article, the following words and phrases shall have the meanings respectively ascribed to them by this section:

**Affordable housing** means affordable ownership housing or affordable rental housing.

**Affordable ownership housing** is housing affordable, based upon mortgage payments or carrying charges paid by a member of a limited equity housing cooperative, to low, very low or moderate income households. No more than thirty-five percent of the targeted household income shall be applied to housing expenses, which shall include mortgage principal and interest, taxes, insurance, assessments, and homeowner fees, as applicable and adjusted for household size. In the case of the limited equity cooperative, the total monthly carrying charges for its members shall not exceed thirty-five percent, and the carrying charges shall include all monthly housing costs minus utilities.

**Affordable rental housing** is housing affordable, based upon monthly rent, to low, very low or moderate income households, adjusted for household size. Affordable rental housing payments are approximately thirty percent of gross monthly target income less utilities.

**Community based mutual housing association** means a nonprofit tax exempt corporation that may develop, own or manage housing units. Association membership includes nonresident and community members. Resident members shall constitute a majority of the shareholders of the corporation. Each member has one shareholder vote. The corporation is governed by an elected volunteer board of directors representative of the association membership. Members shall have no equity interest in the project. Residents pay a one-time membership fee to be used to defray the cost of constructing the housing units. This fee is refundable with nominal interest when residents leave the association. Residents must be members of the association, pay the membership fee and meet resident selection criteria established by the association.

**Community based nonprofit-controlled rental housing** means rental housing owned and operated by an organization with 501(c)(3) status, that is either based in Yolo County, or has a board of directors that includes a minimum of thirty percent representation of Yolo County residents.

**Complete environmental review** means that the land has had all environmental reviews completed on the site to satisfy local requirements, state CEQA requirements, and the national NEPA requirements; resulting in no significant findings that could inhibit development on the site. Any reported findings on the site must be cleared prior to deeding the site for land dedication to the city.

**Density bonus** means entitlement to build additional residential units above the maximum number of units permitted pursuant to existing general plan, applicable specific plan and zoning designations. Density bonus units may be constructed only in the development where the units of affordable housing are located. "City density bonus" means a bonus of units awarded to a developer pursuant to this article. "State density bonus" means a bonus of units awarded to a developer pursuant to [Government Code Section 65915 et seq.](#)

**Developer** means the owner of record and his or her successors in interest.

**Development** means one or more projects or groups of projects of residential units constructed in a contiguous area. A development need not be limited to an area within an individual parcel, or subdivision plat.

**Exempt condominiums** are residential ownership units in a condominium development that is predominantly composed of stacked air space units not having separate ownership parcels. Townhouse or single-family developments are not considered "exempt condominiums" under this definition, even if they are subdivided as condominium units.

**Family** means an individual or group of two or more persons occupying a dwelling unit and living together as a single housekeeping unit in which each resident has access to all parts of the dwelling and where the adult residents share expenses for food or rent.

**Feasible** means capable of being financed, demonstrating the required financing (if any) meets lenders investment standards with respect to the project's loan to value (LTV), debt coverage ratio (DCR), and return on asset (ROA), based on the prevailing interest and discount rates supported in the required appraisal for a like property. Feasible projects should be sustainable projects, taking into account the cost of construction and ongoing maintenance of the project, in addition to the site's essential services.

**Household** means "family" as defined in this section. This article shall not apply to households in which any member is claimed as a dependent for federal income tax purposes by a person or persons residing outside of the household unit unless such person or persons who reside outside the household qualify as very low, low or moderate income persons or families.

**Limited equity housing cooperative** means a housing cooperative organized pursuant to California [Health and Safety Code](#) Section 33007.6 and Business and Professional Code Section 11003.4. A limited equity housing cooperative is owned by a nonprofit corporation or nonprofit housing sponsor. Resident-owners own the cooperative as an undivided whole, rather than individual units, but each has the exclusive right to occupy a specific unit within the cooperative.

**Low income** means a household earning a gross income of no greater than eighty percent of the median income for Yolo County, adjusted for household size, as determined by the U.S. Department of Housing and Urban Development and affirmed by the Davis city council annually.

**Low target income** means that the average income of residents of low income units will be sixty-five percent of median income for Yolo County, adjusted for household size, as determined by the U.S. Department of Housing and Urban Development and affirmed by the Davis city council annually.

**Moderate income** means a household earning a gross income of no greater than one hundred twenty percent of the median income for Yolo County, adjusted for household size, as determined by the U.S. Department of Housing and Urban Development and affirmed by the Davis city council annually.

**Moderate target income** means that the average income of residents of moderate income units will be one hundred percent of median income for Yolo County, adjusted for household size, as determined by the U.S. Department of Housing and Urban Development and affirmed by the Davis city council annually.

**Ownership units** means housing units which provide an ownership opportunity including, but not limited to, single-family units, condominiums, land trusts, and cooperatives, except in circumstances where the unit is converted to rental use.

**Permanently affordable** means affordable in perpetuity and subject to an agreement between the developer and the city to maintain affordability. Such agreement shall be recorded to the property.

**Rental units** means housing units which provide a rental opportunity including, but not limited to, multifamily units (excluding condominiums and cooperatives), duplexes (two units on one lot), triplexes, or four-plexes on single-family residential zoned property. Single-family units may be converted to rental units for the purposes of this article.

**Resident controlled nonprofit housing corporation** means a housing corporation established to manage for-sale or rental housing projects designated for very low, low or moderate income households in which the majority of households have formed a nonprofit housing corporation. Residents need not have equity interest in such projects.

**Self-help housing** means mutual self-help housing constructed for very low, low, and moderate income families in which a group of prospective homebuyers shall provide labor to assist in the construction of their units. The intent of this program is to transform the hours of labor into equity ("sweat equity") to reduce the purchase price of the unit.

**Stacked condominiums** are residential ownership units in a condominium development that is predominantly composed of stacked air space units not having separate ownership parcels. Townhouse or single-family developments are not considered "stacked condominiums" under this definition, even if they are subdivided as condominium units.

**Student housing cooperative** means a nonprofit housing organization owned and/or controlled by students.

**Sustained affordability** means that the affordable housing obligation being produced to meet the requirements of this ordinance is done so in a manner that maintains the affordability provided into the unforeseeable future, with minimal loss in affordability.



**Vertical mixed use development** means mixed-use structures that vertically integrate residential dwelling units above the ground floor with unrelated non-residential uses on the ground floor, including office, restaurant, retail, and other nonresidential uses. For purposes of this article, vertical mixed use does not include structures that vertically integrate uses ancillary to residential units, such as resident parking, laundry rooms, community rooms, or common space on the ground floor with the residential units above.

**Very low income** means a household earning a gross income of no greater than fifty percent of the median income for Yolo County, adjusted for household size, as determined by the U.S. Department of Housing and Urban Development and affirmed by the Davis city council annually.

**Very low target income** means that the average income for residents of very low income units will be forty percent of median income for Yolo County, adjusted for household size, as determined by the U.S. Department of Housing and Urban Development and affirmed by the Davis city council annually. (Ord. 2418 § 1, 2013; Ord. 2443 § 1, 2015; Ord. 2545 § 2, 2019)

### **18.05.030 Applicability of article.**

This article is enacted pursuant to the general police power of the city and is for the purpose of providing affordable housing in Davis consistent with the general plan. (Ord. 2418 § 1, 2013)

### **18.05.040 Provision of affordable housing.**

(a) **Affordable housing plan.** The developer shall submit, concurrently with or prior to the submission of an application for the first discretionary approval for a development, an application as provided by the city describing a proposed affordable housing plan, which shall provide a program to provide affordable housing in accordance with this article and the intended method for implementing such a program. The developer may submit an application under this article at any time subject to staff's, the planning commission's, or the city council's discretion to deny the application on the sole basis of lack of timeliness. Any application resubmitted by a developer to amend an affordable housing plan after it has been approved by the city shall be deemed a new application for the development. Before any agreements between parties or transfer of land is made, all agreements, the affordable housing plan and budget for the provision of affordable housing pursuant to this article shall be approved by the city, in order to ensure that the affordable housing to be developed pursuant to the affordable housing plan will be economically sustainable over time, in accordance with the required duration of affordability for the affordable housing. Projects not requesting financial assistance from the city are not subject to a budget review. This review will allow for updated construction cost changes at the time of construction, which will again require review and approval by staff. These reviews also provide the city opportunity to act as an active partner to projects where local funds are requested.

(b) **Approval process of affordable housing plans.** The approval process for affordable housing plans will include the following steps:

(1) Submission of the affordable housing plan as part of the project application submitted to the community development and sustainability department. Staff shall then refer the affordable housing plan to the social services commission. All plans, including proposals for payment of in-lieu fees, will be heard before the commission. Substantial amendments to affordable housing plans should also be considered by the commission.

(2) The social services commission will hold a duly noticed public hearing, where the plan shall be considered, if the application for the development is not going to be scheduled for a public hearing at the planning commission and/or city council. If the application for the development will be scheduled for a public hearing at the planning commission and/or city council, the social services commission will consider the affordable housing plan at a regular or special meeting of the commission. The commission will review the plan for compatibility with this article, adopted city affordable housing goals, and currently identified city housing needs.

(3) After motion for approval or denial is given by the social services commission regarding the proposed affordable housing plan, it is then heard publicly before the planning commission and reviewed for their motion on the plan, if the planning entitlements requested by the project require this step. If the planning entitlements being requested do not require this step, then the social services commission's decision on the affordable housing plan is final, but, as is true with decisions of the planning commission, can be appealed to the city council through the city's appeal process as outlined in Article 40.35 of the Davis Municipal Code.

(4) If the project is requesting planning approvals that require a city council hearing, the recommendations of both the social services commission, as well as the planning commission shall be included in the report to the city council.

(c) **Building permit issuance.** No building permit shall be issued for any new residential unit unless the development containing such unit has received all approvals required with the standards and procedures provided for by this article. The location and type of proposed affordable housing in a development shall be disclosed in writing by each seller to each subsequent purchaser of lots or units within the development, until all the affordable housing units are completed.

(d) **Competitive contracting.** In circumstances where local, state, or federal funds are being used to assist in the development of the project, an open bidding process shall be carried out that adequately addresses the requirements of all funding sources involved. In agreement with this requirement, the developer shall be aware of regulations accompanying all funding sources used for the development, and shall comply with the regulations from pre-construction and throughout the life of the development. Copies of all contracts that are requested for viewing by the city shall be submitted in a timely manner. The city may request evidence of open procurement and compliance with any and all government funding regulations on a project at any time. If the city believes the project to be out of compliance with the intent of this article and/or the regulations of the project's funding sources, the city has the ability to sanction the project developers for their conduct, including fining the project or withdrawing funding.

(e) **Development agreement.** The city shall use the development agreement of the development to ensure that the developer adheres to the requirements and intent of this article by detailing within the agreement the sanctions involved if the developer does not comply with the requirements of this article during the construction process.

(f) **Rounding provisions.** Where the total affordable units required by this article call for a one-half affordable unit or greater portion, it shall require the provision of one full affordable unit (for example, a requirement of one and one-half shall actually require two units). The results of such rounding shall also be used in the calculation for in-lieu fee payments, where provided as an option.

(g) **Buyer/tenant selection and screening.** Buyer/tenant selection and screening shall be carried out by the developer, owner, city, or by the designated responsible party, at the sole expense of the developer. Included in the affordable housing plan submitted by the developer, shall be a proposed marketing plan with an estimated timeline of events, which must be approved by the city and shall adhere to the city's buyer/tenant selection and screening guidelines.

The City of Davis will monitor the buyer selection and screening process through required monthly reports, and through the ability to review any and all files regarding the process at any time that city staff requests to do so. The City of Davis will possess the ability to halt any sale or break any lease of an affordable unit at its discretion, for reasons to include, but not restricted to, the following: if the buyer selection and screening process was not strictly adhered to, or if the buying household is found not to meet the guidelines of qualification, as specified in the guidelines. (Ord. 2418 § 1, 2013)

### **18.05.050 Ownership development affordable housing standards.**

A developer of residential ownership developments consisting of five or more units shall provide in each development, to the extent feasible, affordable housing for very low, low and moderate income households, as set forth in an affordable housing plan approved by the city, in accordance with the requirements of this section.

The approval process for affordable housing plans will adhere to that which is required by Section [18.05.040\(b\)](#).

The price of all affordable ownership housing units will be calculated based on payments to be made by the buyer that make up no more than thirty-five percent of the gross monthly target income level designated for a specific unit and shall include mortgage principal and interest, taxes, insurance, assessments, and homeowner fees, as applicable and adjusted for household size. Percentages allowed for the qualifying of the mortgage loan shall be determined by the lender or lenders involved with the income-qualified household.

A developer may, at his or her option, provide affordable rental units to meet the requirements of this section, pursuant to state law, provided that such rental units must comply with the affordable housing standards for rental units in Section [18.05.060](#) of this article, and as adopted by the city.

To the maximum extent feasible, each developer must meet the ownership affordable unit requirement as it pertains to the project, as set forth below:

(a) **Standard ownership affordable housing requirements.** Any development that is comprised in whole or in part of ownership units shall comply with the following requirements, which shall be included in the development's affordable housing plan.

(1) Affordable Housing Requirements, by Residential Product Type.

(A) For projects comprised of market rate single-family detached ownership units on lots larger than five thousand square feet in area, the developer must provide for a number of affordable housing units equivalent to twenty-five percent of the total units being developed, including the affordable units, by means of one of the methods set forth in this section.

(B) For projects comprised of market rate single-family detached ownership units on lots smaller than five thousand square feet in area, the developer must provide for a number of affordable housing units equivalent to fifteen percent of the total units being developed, including the affordable units, by means of one of the methods set forth in this section.

(C) For projects comprised of market rate single-family attached ownership units, the developer must provide for a number of affordable housing units equivalent to ten percent of the total units being developed including the affordable units, by means of one of the methods set forth in this section.

(D) For projects comprised of market rate stacked condominiums or ownership units within vertical mixed-use development, the developer must provide for a number of affordable housing units equivalent to five percent of the total units being developed including the affordable units, by means of one of the methods set forth in this section.

(E) Exempt projects as identified in Section [18.05.080](#) have no affordability requirements except as provided therein.

(F) For developments that are comprised of more than one residential product type, the affordable housing obligation shall be calculated for each product type separately and then aggregated, before rounding, provided, however, if a development is comprised of ownership and rental product types, the affordable housing obligations for the ownership and rental units shall be calculated and applied separately.

(2) Affordable Housing Requirements, by Project Size.

(A) Exempt projects pursuant to Section [18.05.080](#).

(B) Projects Totaling Five or Greater Units for Purchase.

(i) The required affordable units must be provided through: on-site construction of affordable ownership or rental units, acquisition and recordation of permanent affordability restrictions on existing housing units within the city, provision of a land dedication site, and/or through payment of in-lieu fees, as further defined in subsections (b) through (f).

(ii) The on-site construction of affordable ownership or rental units may be fulfilled through the on-site development of affordable units for purchase or rental, in conformance with all that is stated in subsection (b).

(iii) The land dedication option shall be fulfilled by the developer by making an irrevocable offer to the city of sufficient land, without abnormalities (shape and terrain) and with complete environmental review that can accommodate the affordable housing requirement for the project. The land dedication shall be in conformance with all that is stated in subsection (c), entitled land dedication.

(iv) The option of purchase and placement of permanent affordability restrictions on existing housing units within the city is only available when determined to be appropriate by the city council in its sole discretion, and must be in conformance with all that is stated in subsection (e).

(v) The payment of in-lieu fees to fulfill part or a project's entire affordable housing requirement is subject to city council review and must be in conformance with all that is stated in subsection (f), entitled in-lieu fees.

(C) Projects Totaling Two Hundred One Ownership Units or More. The required affordable units shall be provided through the following methods, as more specifically described in subsections (b) through (f):

(i) On-site construction of affordable ownership units;

(ii) On-site construction of accessory dwelling units for rental to fulfill up to half of the requirement;

(iii) Through payment of in-lieu fees for no more than fifty percent of the affordable housing obligation of the project, if approved by the city council;

(iv) Provision of a land dedication site; and/or

(v) On-site construction of affordable rental units, if the developer voluntarily requests to satisfy its requirements through this alternative.

(3) Project Individualized Program.

(A) The developer may meet the city's affordable housing requirement with a project individualized program that is determined to generate an amount of affordability equal to or greater than the amount that would be generated under the standard affordability requirements. The affordable units must, at a minimum, meet the same income targets specified in the standard ownership affordable housing provisions.

(i) A project individualized program shall be developed by the developer and city staff, taken action on by the social services commission, and if the main project application requires, heard before the planning commission for decision.

(ii) If the main project is requesting planning entitlements that require city council approval, it shall then be heard before the city council for final decision.

(iii) If the main project does not require a city council hearing, the planning commission's or the social services commission's determination may be appealed to the city council by any member of the public.

(B) The project individualized program is not intended to allow exception to a public input and review process. The project individualized program is intended to be viewed thoroughly and scrutinized in public forums, allowing for input and competition from the public, other community-based nonprofits, staff, and at a minimum, the social services commission. The public hearing at the social services commission shall be noticed to all community-based housing nonprofits in the area, to the greatest extent possible, regardless of their involvement in the project. This public hearing shall scrutinize the project based on the following criteria:

- (i) Need for government subsidy;
- (ii) Sustainability of the project and its services;
- (iii) Community need of the project type based on recent needs assessments and recent projects completed;
- (iv) Uniqueness/innovation of the proposed project;
- (v) Overall benefits and drawbacks of the project;
- (vi) Project's compliance with the standards as outlined within the affordable housing Sections 18.05.010 through 18.05.070 of the Davis Municipal Code.

These meetings shall be carried out without any finite contracts in place between the parties involved, allowing for the potential direction to the developer to change the project. If the social services commission finds that the proposed project does not satisfy one or all of the criteria listed above, it may choose to direct the developer to fulfill his or her affordable housing requirement through a land dedication process. This decision may be altered at either the planning commission or city council public hearing, if the project requires review by either of these deciding bodies. Decision of either the social services commission or the planning commission to direct the developer to do a land dedication to meet his or her affordability requirement, may be appealed to the city council.

(b) **On-site construction of affordable units for ownership developments.** When a developer constructs on-site affordable ownership or rental units to satisfy its obligations under this article, the units shall be constructed in conformance with the requirements of this subsection (b).

(1) **Density Bonus.** A one-for-one city density bonus shall be awarded for construction of on-site affordable units meeting the requirements for a state density bonus.

(2) **Housing Mix.** The developer must provide a mix of two- and three-bedroom units, with a minimum of fifty percent of the units as three-bedroom units and in a combination of unit types as approved within the affordable housing plan through the appropriate review process. Smaller and larger unit sizes shall be provided as an option, based on local housing needs and project character, as approved during the affordable housing plan review process.

(3) **Price of Affordable Ownership Units.** The affordable ownership units will be affordable to moderate income households, households with incomes ranging from eighty percent of area median income to one hundred twenty percent of area median income, with the average affordability targeted at households with incomes at one hundred percent of area median income, the moderate target income.

The community development and sustainability director shall determine the maximum sales price for these units on an annual basis. The community development and sustainability director shall propose annual adjustments to the maximum purchase prices based on changes in the area median income, as determined by the U.S. Department of Housing and Urban Development. This price shall be reviewed annually for adoption by the city council.

(4) **Rent for Affordable Rental Units.** The affordable rental units will be leased at an affordable rent to low and very low income households. The average affordable price for each size category of affordable rental units, based on number of bedrooms, shall not exceed the low target income, sixty-five percent of median income. The maximum income level served shall not be greater than eighty percent of area median income. The developer shall offer affordable rental units in each size categories to multiple income levels to ensure that the rental units achieve the required average target income. For example, if three-bedroom units are offered to families at eighty percent of median income, the same number of three-bedroom units must be offered to households at fifty percent of area median income, making the average rent for the unit type sixty-five percent of area median income. Lower rents or an average that meets the same affordability target can be approved through the affordable housing plan review process.

(5) **Buyer/Tenant Selection and Screening.** Please refer to Section [18.05.040\(g\)](#) for the selection and screening requirements applicable to affordable units.

(6) **Owner-Occupancy Restrictions.** Any person who purchases a designated ownership affordable unit pursuant to this article shall occupy that unit as his or her principal personal residence for as long as he or she owns the affordable unit. Such occupancy shall commence within six months following completion of the purchase. The purchases shall comply with the provisions of Sections [18.04.020](#) through [18.04.060](#), inclusive, of this Code.

(7) **Sustained Affordability.** Restrictions shall be placed on the affordable housing units produced, in order to ensure a measure of sustained affordability. In an effort to maintain the greatest number of units as affordable for the greatest period of time, one of the following restrictions shall be adhered to:

(A) **Appreciation Capped at Three Percent per Year plus a Three-Quarters of a Percent Maintenance Credit for Necessary Maintenance Costs of the Unit.** The unit appreciates based on the average annual increase in Yolo County Area Median Income—Three percent, plus an additional three-quarters percent as a credit for maintenance costs of the unit. This restricts the total appreciation of an ownership unit to a maximum of three and three-quarters percent, compounded annually.

(B) **Affordability Covenant.** In order to qualify as affordable rental units pursuant to this subsection, such units shall be maintained in perpetuity as affordable units. The owner of the rental units shall enter into an agreement with the city to ensure the continued affordability of these affordable rental housing units in perpetuity. This agreement shall be recorded.

(C) **Alternative Proposal.** Any other program that proves its ability to provide for sustainable affordability, as approved by staff, the social services commission, and other public governing bodies as required by the individual project. Proposing an alternative method for sustained affordability must be justified based on current market trends and/or other prevailing circumstances.

(8) **Right of First Refusal.** All affordable ownership units constructed after January 1, 2005, shall deed to the City of Davis a permanent right of first refusal on the property, allowing the city the ability to either purchase the unit, or designate an appropriate buyer for the unit at its resale. The deed restriction shall allow the city to designate a third party to carry out its right of first refusal, and shall also allow for a one percent fee to be taken from the real estate transaction in order to pay for the costs of carrying out the right of first refusal.

(9) **Resale Report.** The owners of all affordable for-sale units that include a resale restriction or were constructed after January 1, 2005, shall be required to clear all resale reports completed on these units prior to the close of escrow on the resale of each unit. The findings of the resale inspection that are required to be addressed cannot be transferred to the household purchasing the affordable unit.

(c) **Land dedication.** When a developer makes a land dedication in order to satisfy the requirements of this article, it shall comply with the following requirements:

The developer shall make an irrevocable offer to the city of sufficient land, without abnormalities (shape and terrain) and with complete environmental review, which can accommodate the land dedication requirement for the project in its entirety. The land dedicated shall be of sufficient size to make the development of the required affordable units economically feasible, no less than two acres. The density of development for the purpose of calculating the acreage to be dedicated under this section shall be fifteen units per acre. The proposed use of such land must be consistent with the general plan. The city may approve, conditionally approve, or reject such an offer of dedication. If the city rejects such an offer of dedication, the developer shall be required to meet the affordable housing obligation by other means set forth in this article and approved by the city.



The dedicated site shall be economically feasible to develop, of sufficient size to build the required number of affordable units, and physically suitable for development of the required affordable units prior to dedication of the land. The dedicated site shall also have appropriate general plan designation and zoning to accommodate the required units, be fully improved with infrastructure, frontage improvements (i.e., curb, gutter, walk), paved street access, utility (i.e., water, gas, sewer, and electric) service connections stubbed to the property lines, and other such off-site improvements as may be necessary for development of the required affordable units or required by the city.

The developer must identify the land to be dedicated at the time the developer applies for a pre-zoning or zoning amendment, but in no event later than the application for the tentative subdivision map. Building permits shall not be issued prior to identification of land to be dedicated under this section.

- (1) Density Bonus. A one-for-one city density bonus shall be awarded for land dedication on the basis of fifteen units per net acre.
- (2) Housing Types on Dedicated Land. Housing built on land provided by dedication for affordable housing shall be permanently affordable. The city shall adopt a resolution establishing a process whereby property dedicated to the city pursuant to this section may be conveyed to third parties who shall enter into an agreement with the city to produce affordable housing within a specified period of time. The city shall consult with the social services commission, nonprofit corporations, affordable housing organizations, and developers in designing this process. Housing on land dedicated pursuant to this section may consist of any of the following:
  - (A) Resident controlled nonprofit housing corporation;
  - (B) Community based mutual housing association;
  - (C) Community based nonprofit controlled rental housing;
  - (D) Student housing cooperative;
  - (E) Limited equity housing cooperative;
  - (F) Public housing;
  - (G) Land trust;
  - (H) Self-help housing;
  - (I) Other forms of nonprofit housing containing a permanent affordability provision.

(3) **Price of Units.** The average affordable price for each size category of units on land dedication sites shall not exceed the low target income, sixty-five percent of median income. The maximum income level served by any of the units located on a land dedication site shall not be greater than eighty percent of area median income. The developer shall offer affordable rental units in each size categories to multiple income levels to ensure that the rental units achieve the required average target income. For example, if three-bedroom units are offered to families at eighty percent of median income, the same number of three-bedroom units must be offered to households at fifty percent of area median income, making the average rent for the unit type sixty-five percent of area median income. Lower rents or an average that meets the same affordability target can be approved through the plan review process.

(4) **Buyer/Tenant Selection and Screening.** Please refer to Section 18.05.040(g) for the selection and screening requirements applicable to affordable units.

(5) **Owner-Occupancy Restrictions.** Any person who purchases a designated affordable unit pursuant to this article shall occupy that unit as his or her principal personal residence for as long as he or she owns the affordable unit. Such occupancy shall commence within six months following completion of the purchase. The purchases shall comply with the provisions of Sections 18.04.020 through 18.04.060, inclusive, of this Code.

(d) **Options for small developments.** Small developments of fifteen ownership units or fewer, and totaling no greater than thirty-eight bedrooms in the development, that are not otherwise exempt pursuant to Section 18.05.080, that are located within the core area and are found to meet a specified community goal, can request to fulfill the affordable housing requirement through one of the following options, which shall be considered during the review process of the development's affordable housing plan:

(1) **Construction Subsidy.** City staff will work with the developer to provide financial assistance to be used in the construction of the affordable unit(s) required on-site, in order to assist in ensuring the project's feasibility. The developer shall present a pro forma (for the affordable units) to staff showing the necessary amount of construction assistance needed through supplemental city funds, in order to make the project economically feasible. The project will require the standard review process, and the necessary funding approval from the city council.

(2) **Combination of On-Site Construction and In-Lieu Fees.** The affordability requirement may be fulfilled through a combination that includes the on-site development of a portion of the required affordable units, with the remaining amount of the affordability requirement fulfilled through in-lieu fees paid in accordance with subsection (f) of this section. The exact split of the combination shall be determined during the review of the project's affordable housing plan, based on the developer's stated ability to provide affordable units on-site.

(e) **Acquisition and recordation of permanent affordability restrictions on existing housing units.** As an alternative to constructing affordable housing within a development project or providing for affordable housing through the payment of in-lieu fees, the affordability requirement may be fulfilled through the provision of off-site units being purchased/acquired and placed permanently into the city's affordable housing program through the recordation of affordability deed restrictions, subject to discretionary approval by the city council following review of the project's affordable housing plan. The city council may determine in its sole discretion whether this alternative is appropriate on a case-by-case basis. These units are required to have recorded permanent affordability deed restrictions recorded against them, in a form consistent with the affordability restrictions that are recorded against on-site affordable units constructed pursuant to the requirements of this affordable housing ordinance. In its review of an affordable housing plan that provides affordable housing pursuant to this option, the city council will consider the following:

- (1) The condition and usable life of the units;
- (2) Potential displacement of existing residents;
- (3) The location and size of the proposed affordable units relative to disbursement of units throughout the city and local housing needs;
- (4) Long-term ownership and maintenance of the units; and
- (5) The level of affordability offered by the proposed alternative.

Any units provided under this option must ensure a unit life of no less than thirty years and may require rehabilitation prior to qualifying. Sale or long-term rental of these units would be at the sole expense and responsibility of the project developer, unless otherwise approved by the city council.

(f) **In-lieu fees.** As an alternative to constructing on-site affordable housing within a development as required by this article, the affordability requirement may be fulfilled through the payment of in-lieu fees pursuant to an adopted fee schedule to be revised on an annual basis, provided that the payment of in-lieu fees has been approved by the city council following review of the project's affordable housing plan. The city council will review a request for payment of in-lieu fees taking into consideration the following:

- (1) Project gross and net density;
- (2) Project size;
- (3) Economic or planning feasibility of affordable unit provision by another means within the development;
- (4) Projected housing costs of the project's market rate housing/overall housing affordability of the project; and
- (5) Accomplishment and tradeoffs of other local policy objectives, including smart growth principles, accessibility, energy efficiency, etc.

A payment plan may be approved by the city council in the event that the developer does not have the necessary funds available for payment; however, the majority of in-lieu fees shall be paid prior to the issuance of the certificate of occupancy on any of the market rate units. In addition to the standard in-lieu fee, the city maintains the right to adopt an in-lieu fee for use in future resource-pooled projects. This special in-lieu fee would apply to projects within a specific project area where the fee is intended to be used towards a planned resource-pooled project. (Ord. 2418 § 1, 2013; Ord. 2443 §§ 2, 3, 2015; Ord. 2545 § 3, 2019)

### **18.05.060 Rental development affordable housing standards.**

A developer of rental housing developments containing twenty or more units shall provide, to the maximum extent feasible, at least twenty-five percent of the units as affordable housing for low income households and at least ten percent of the units as affordable housing for very low income households. A developer of rental housing developments containing between five and nineteen units, inclusive, shall provide, to the maximum extent feasible, fifteen percent of the units to low income households and ten percent to very low income households. Residential projects consisting of fewer than five market rate units will not be required to produce affordable units. Such housing shall be provided either by the construction of units on-site or by land dedication.

The approval process for affordable housing plans will adhere to that which is required by Section [18.05.040\(b\)](#). Affordable rental units shall rent to low income households at not more than thirty percent of eighty percent (thirty percent of eighty percent is twenty-four percent) of area median income, and to very low income households at not more than thirty percent of fifty percent of area median income, adjusted for family size.

To the maximum extent feasible, each developer must meet the affordability requirement as it pertains to the project, as set forth below:

(a) **Standard rental affordable housing requirements.** Except as set forth in subsection (b) of this section, all requirements listed under the respective category must be adhered to and included within the project's affordable housing plan.

(1) Exempt Projects Pursuant to Section [18.05.080](#). No affordability requirements except as provided therein.

(2) Projects Totaling Five to Nineteen Units for Rent.

(A) A number equivalent to fifteen percent of the total units being developed, after the inclusion of the density bonus for the project, shall be developed and made affordable to low income households, households with gross incomes at or below eighty percent of area median income for Yolo County.

(B) A number equivalent to ten percent of the total units being developed, after the inclusion of the density bonus for the project, shall be developed and made affordable to very low income households, households with gross incomes at or below fifty percent of area median income for Yolo County.

- (C) The complete number of required affordable units must be constructed on-site.
- (D) The on-site construction shall be in conformance with all that is stated in subsection (c), entitled on-site construction of affordable units for rent.
- (3) Projects Totaling Twenty or Greater Units for Rent.
- (A) A number equivalent to twenty-five percent of the total units being developed, after the inclusion of the density bonus for the project, shall be developed and made affordable to low income households, households with gross incomes at or below eighty percent of area median income for Yolo County.
- (B) A number equivalent to ten percent of the total units being developed, after the inclusion of the density bonus for the project, shall be developed and made affordable to very low income households, households with gross incomes at or below fifty percent of area median income for Yolo County.
- (C) This requirement may be fulfilled through either on-site construction as stated in subsection (c) of this section or land dedication detailed in subsection (d), as long as the minimum amount of land is provided to make the site economically feasible.
- (4) Vertical Mixed-Use Development. Unless exempt under Section 18.05.080, in projects comprised of vertical mixed-use units, a number equivalent to five percent of the total units, bedrooms, or beds being developed including the affordable units, bedrooms, or beds, shall be developed and made affordable to low income households, households with gross incomes at or below eighty percent of area median income for Yolo County.
- (5) Project Individualized Programs for Rental Housing.
- (A) The developer may meet the city's affordable housing requirement with a project individualized program that is determined to generate an amount of affordability equal to or greater than the amount that would be generated under the standard affordability requirements. The affordable units must, at a minimum, meet the same income targets specified in the standard rental affordable housing requirements as set forth in subsection (a) (2) and (3).
- (i) A project individualized program shall be developed by the developer and city staff, taken action on by the social services commission, and, if the main project application requires, heard before the planning commission for decision.
- (ii) If the main project is requesting planning entitlements that require city council approval, the project individualized program shall then be heard before the city council for final decision.
- (iii) If the main project does not require a city council hearing, the planning commission's or the social services commission's determination may be appealed to the city council by any member of the public.

(B) The project individualized program is not intended to allow exception to a public input and review process. The project individualized program is intended to be viewed thoroughly and scrutinized in public forums, allowing for input and competition from the public, other community-based nonprofits, staff, and, at a minimum, the social services commission. The public hearing at the social services commission shall be noticed to all community-based housing nonprofits in the area, to the greatest extent possible, regardless of their involvement in the project. This public hearing shall scrutinize the project based on the following criteria:

- (i) Need for government subsidy; and
- (ii) Sustainability of the development and its services; and
- (iii) Community need of the project type based on recent needs assessments and recent projects completed; and
- (iv) Uniqueness/innovation of the proposed project; and
- (v) Overall benefits and drawbacks of the project; and
- (vi) Development's compliance with the standards as outlined within this article.

These meetings shall be carried out without any finite contracts in place between the parties involved, allowing for the potential direction to the developer to change the project. If the social services commission finds that the proposed project does not satisfy one or all of the criteria listed above, it may choose to direct the developer to fulfill his or her affordable housing requirement through a land dedication process. This decision may be altered at either the planning commission or city council public hearing, if the project requires review by either of these deciding bodies. Decision of either the social services commission or the planning commission to direct the developer to do a land dedication to meet his or her affordability requirement, may be appealed to the city council.

(b) **Alternative rental affordable housing requirements.** Until June 30, 2023, the city council may, at its discretion, approve alternative affordable housing requirements on a project specific basis that provide for a lesser percentage of the total units to be provided as affordable housing, or provide for affordable housing in an alternative manner, including, but not limited to, providing affordable housing by bedroom or individual bed, or pledging to the city a continuing payment of funds to be submitted to the city at least annually for the purpose of furthering the city's affordable housing goals and objectives, in an amount as deemed appropriate by the city council. Except as provided below, if the affordable housing is provided by generating units, bedrooms or beds, there shall be a requirement of fifteen percent affordable units, bedrooms or beds. The affordability mix shall have a target of five percent low, five percent very low and five percent extremely low recognizing that the number of units, bedrooms, or beds may be adjusted up or down based on the income and rent levels proposed. In considering whether to approve alternative affordable housing requirements pursuant to this subdivision (b), the city council will consider the following factors in determining whether to approve such alternative requirements:

- (1) Whether the market rate component and/or the affordable component of the proposed development is anticipated to meet a specific housing need as identified in the city's housing element or general plan policies; and
- (2) Whether the market rate units are anticipated to provide housing to low or moderate-income households through the incorporation of design components that will encourage greater affordability including reduced units sizes and reduced utility costs; and
- (3) The extent to which the proposed development furthers other land use goals of the city, including, but not limited to, reductions in the need for private vehicles and the encouragement of development consistent with the Metropolitan Transportation Plan/Sustainable Communities Strategy adopted for the Sacramento Region by the Sacramento Area Council of Governments; and
- (4) Whether the proposed market rate development includes unusually high infrastructure costs or other cost burdens as conditions to the development of the project; and
- (5) Whether the proposed affordable housing component may be partially funded by public subsidy or other public financing from a source other than the city; and
- (6) Whether the affordable component is provided on a bed or bedroom basis, that encourages greater integration of the affordable and market rate components of the project; and
- (7) Whether any or all of the affordable housing is provided at a deeper level of affordability (such as extremely low income housing, as defined in California [Health and Safety Code](#) Section 50106); and
- (8) Whether the application for the proposed development was submitted to the city for consideration prior to the adoption of AB 1505; and
- (9) Whether the developer is proposing to pledge to the city a continuing revenue source that will assist the city in satisfying one or more specific affordable housing goals of the city, in an amount that the city council deems is sufficient to provide a significant benefit in furtherance of the city's affordable housing goals; and
- (10) The total percentage of affordable units provided under these alternative rental-housing requirements may be adjusted up or down based on the income and rent levels provided or the size of the overall project. The council therefore may, at its discretion, approve alternative affordable housing requirements under this subsection that provides less than fifteen percent affordable units if the project provides a higher percentage of units to the lowest income levels (extremely low and very low). Further, the council may, at its discretion, require a higher total percentage for larger market rate projects that have greater economies of scale, or require a lesser percentage for smaller projects that have lesser economies of scale.

(c) **On-site construction of affordable units for rent.** A developer of a development containing twenty or more units may meet the rental affordable housing requirement by constructing twenty-five percent of the total number of units on site to be permanently affordable to low income households and ten percent of the total number of units on site to be permanently affordable to very low income households. A developer of a development containing between five and nineteen units, inclusive, may meet the rental affordable housing requirement by constructing fifteen percent of the total number of units on site to be permanently affordable to low income households and ten percent of the total number of units on site to be permanently affordable to very low income households.

(1) **Criteria for On-Site Construction.** Affordable housing units constructed on site shall include a mix of unit sizes, dispersed throughout the entire development, as approved by the director of the department of community development, based on the local housing needs of unit sizes. Affordable housing units shall not be clustered together in any building, complex or area of the development. Affordable housing units constructed on site shall be constructed using the same building materials and including equivalent amenities as the market rate units.

(2) **Affordability Agreement.** In order to qualify as affordable units pursuant to this section, such units shall be maintained in perpetuity as affordable units. The developer shall enter into an agreement with the city to ensure the continued affordability of all affordable rental housing units in perpetuity. This agreement shall be recorded.

(3) **Density Bonus.** A one-for-one city density bonus shall be awarded for the construction of on-site affordable units.

(4) **Annual Monitoring.** Affordable units must be managed by the developer or his or her agent. Each developer shall submit an annual report to the city identifying which units are affordable units, the monthly rent, vacancy information for each affordable unit for the prior year, gross annual incomes for the households of each affordable unit during the prior year, and other information as required by city staff. This annual monitoring shall include the inspection of ten percent of the on-site affordable units. Inspection reports created by an acceptable third party and completed within the same city fiscal year will be accepted in-lieu of city staff performing the on-site inspection, for that given monitoring year.

(5) **Affordable Rents.** Affordable rents shall be determined annually on a city-wide basis by city staff based upon the area median income and utility allowances for Yolo County, as determined by the Federal Department of Housing and Urban Development, the State Department of Housing and Community Development, and the Yolo County housing authority. If these agencies do not provide the information, the City of Davis will determine monthly rent amounts based on thirty percent of the targeted household's gross monthly income.

(6) **Tenant Selection and Screening.** Please refer to Section [18.05.040\(g\)](#) for the guidelines of this section.

(d) **Land dedication.** A developer may, as an alternative to constructing the affordable rental units on site, make an irrevocable offer of dedication to the city of sufficient land to meet the total affordable rental housing units required pursuant to this section.



- (1) **Credit.** The density of development for the purpose of calculating the acreage to be dedicated under this section shall be twenty units per net acre for multifamily residential use.
  - (2) **Procedure—General Plan Consistency.** The developer shall identify the land to be dedicated at the time the developer applies for a pre-zone or zoning amendment, but in no event later than the application for tentative subdivision map. Building permits shall not be issued prior to identification of land to be dedicated under this section. The proposed land use of such land must be consistent with the general plan. The city may approve, conditionally approve or reject such offer of dedication. If the city rejects such offer of dedication, the developer shall be required to meet the affordable housing obligation by other means set forth in this section and identified by the city.
  - (3) **Characteristics and Minimum Size.** The developer shall make an irrevocable offer to the city of sufficient land, without abnormalities (shape and terrain) and with complete environmental review, which can accommodate the land dedication requirement for the development in its entirety. The land dedicated shall be of sufficient size to make the development of the required affordable units economically feasible, no less than two acres.
  - (4) **Density Bonus.** A one-for-one city density bonus shall be awarded for dedication under this section on the basis of twenty units per net acre.
  - (5) **Housing on Dedicated Land.** Housing built on land dedicated for affordable housing shall be permanently affordable. The city shall adopt a resolution establishing a process whereby property dedicated to the city pursuant to this section may be conveyed to third parties who shall enter into an agreement with the city to produce affordable housing within a specified period of time. The city shall consult with the social services commission, nonprofit corporations, affordable housing organizations and developers in designing this process. Housing on land dedicated pursuant to this section may consist of any of the housing types listed in Section 18.05.050(b)(2) of this article.
- (e) **Options for small developments.** Small developments of fifteen rental units or fewer, and totaling no greater than thirty-eight bedrooms in the project, that are located within the core area, that are not otherwise exempt pursuant to Section 18.05.050, and are found to meet a specified community goal, can request to fulfill the twenty-five percent affordable housing requirement through one of the following options, as approved during the review process of the project's affordable housing plan.
- (1) **Construction Subsidy.** City staff will work with the developer to provide financial assistance to be used in the construction of the affordable unit(s) required on site, in order to assist in ensuring the project's feasibility. The developer shall present a pro forma (for the affordable units) to staff showing the necessary amount of construction assistance needed through supplemental city funds, in order to make the project economically feasible. The project will require the standard review process, and the necessary funding approval from the city council.

(2) **Combination of On-Site Construction and In-Lieu Fees.** The affordability requirement may be fulfilled through a combination that includes the on-site development of a portion of the required affordable units, with the remaining amount of the affordability requirement fulfilled through in-lieu fees pursuant to an adopted fee schedule to be revised on an annual basis. The exact split of the combination shall be determined during the review process for the project's affordable housing plan, based on the developer's stated ability to provide affordable units on site.

(3) **In-Lieu Fees.** In the event that the developer cannot accommodate options (1) and (2) within the proposed project, the affordability requirement may be fulfilled through the payment of in-lieu fees pursuant to an adopted fee schedule to be revised on an annual basis. A payment plan may be approved by the social services commission in the event that the developer does not have the necessary funds available for payment; however, the majority of in-lieu fees shall be paid prior to the issuance of the certificate of occupancy on any of the market rate units. In addition to the standard in-lieu fee, the city maintains the right to adopt an in-lieu fee for use in future resource-pooled projects. This special in-lieu fee would apply to projects within a specific project area where the fee is intended to be used towards a planned resource-pooled project. (Ord. 2418 § 1, 2013; Ord. 2525 § 2, 2018; Ord. 2544 § 2, 2018; Ord. 2545 §§ 4, 5, 2019; Ord. 2550 § 2, 2019; Ord. 2561 § 2, 2019; Ord. 2578 § 2, 2020; Ord. 2594 § 2, 2020; Ord. 2612 § 2, 2021; Ord. 2632 § 2, 2022)

### **18.05.070 Fees.**

The city council may, by resolution, establish fees and deposits for processing of applications as required by this article. (Ord. 2418 § 1, 2013)

### **18.05.080 Exemptions from affordable housing requirements.**

(a) Residential developments consisting of fewer than five units are exempt from the requirements of this article.

(b) The city council may, at its discretion, exempt residential developments that are located within the boundaries of the city's core area specific plan and constructed as stacked condominiums or as part of a vertical mixed-use development from the requirements of this article, provided that in order to receive such exemption the developer shall submit to the city an individualized affordable housing plan that provides a commitment to the creation of affordable housing in the city, either through development of on-site affordable units, payment of in-lieu fees, or another mechanism deemed appropriate by the city council. The individualized affordable housing plan that may be approved under this subsection is not required to provide affordable housing at a specific percentage or level, but shall provide affordable housing at a level as deemed appropriate by the city council, taking into account the desire to ensure that all residential development contribute to the creation of affordable housing as well as the desire to encourage and help to ensure the feasibility of vertical mixed-use and stacked condominium development within the boundaries of the city's core area specific plan.

(c) The requirements of this article may be adjusted or waived if the developer demonstrates to the satisfaction of the city council that there is not a reasonable relationship between the impact of a proposed residential project and the requirements of this article, or that applying the requirement of this article would take property in violation of the United States or California Constitutions.

To receive an adjustment or waiver, the developer must request it when applying for first approval of the residential development, or through submittal of a draft affordable housing plan to the city. The matter shall be considered before the city council within thirty days. In making the finding or determination, the city council may assume the following: (1) the developer is subject to the inclusionary housing requirements in this article; (2) availability of any incentives, affordable financing, or subsidies; and (3) the most economical affordable housing product in terms of construction, design, location, and tenure. For purposes of a taking determination, the developer has the burden of providing economic and financial documentation and other evidence necessary to establish that application of this article would constitute a taking of the property without just compensation.

If it is determined that the application of the provisions in this article would constitute a taking, the inclusionary requirements for the residential development shall be modified to reduce the inclusionary housing obligations to the extent and only to the extent necessary to avoid a taking. If it is determined that no taking would occur by application of this article, the requirements of the article remain applicable and no approvals for the residential project shall be issued unless the developer has executed an affordable housing plan pursuant to the requirements of this article. (Ord. 2418 § 1, 2013; Ord. 2545 § 6, 2019)

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## Contact:

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