Workshop #1: May 19: A Historical Look at the Affordable Housing Program
Workshop #2: June 9: Housing Production and Constraints
Workshop #3: June 23: Inventory and Planning of Affordable Housing Resources
At Council’s direction, City staff and the Social Services Commission held a series of workshops on the Affordable Housing Program in the City of Davis. These workshops have been focused on an overall review of the history of the program and planning for the future.

Affordable Housing in Davis

Affordable housing in Davis, like most affordable housing is constantly evolving. With the loss of Redevelopment funds statewide in 2012, changes to the city’s long-standing Affordable Housing Ordinance in 2013, and the required updates to the Housing Element this year, local housing needs coupled with the constraints of the program’s policies and resources necessitated further community discussion.

Presented here is the summary of that three-part workshop discussion on the Affordable Housing Program; its history, accomplishments, constraints, current inventory, potential projects, and perhaps most importantly, local priorities as the program moves forward.

What was Redevelopment?

California was hit hard by the recession that began in 2008. In need of revenue, the State started looking at programs they felt were no longer fiscally sustainable. One of those included repeal of Redevelopment Law and the 400+ Redevelopment Agencies, who had been using targeted property tax monies to develop affordable housing and reduce blight. Loss of the Davis agency and its funding meant a reduction of approximately two million dollars per year of funding previously used on affordable housing projects and programs (including administration). This money was the primary source of funding for the Davis affordable housing program.

Ok, What’s the Housing Element?

Under state law, Davis must provide a Housing Element with its General Plan to the State HCD every 8 years. The Housing Element is a report to show the City is meeting its Regional Housing Needs Allocation (RHNA), or, proof that the city has land to build housing for all income levels. Housing units don’t have to be built within the 8 year term of the element, but the report has to show land capacity for development. Why do we do this? Without it the city would not have access to some state grants funding.
As of 2010, approximately 46% of all Davis households (7,779) experienced some level of excessive housing cost burden, with renter households experiencing a disproportionate share of housing affordability problems.

Of this, 5,565 households (71.5%) were very-low (defined as 50% of AMI, currently at $38,450 for a family of 4) income households.

In 2013, one- and two- bedroom apartment units averaged monthly rental rates between $1,005 and $1,275 and the overall vacancy rate was 1.9%.

Affordable rents for these sized units that would serve low-income households would range from $670 ($355 less) to $750 ($525 less) per month.

Also, with a median home price of $524,800, the Davis for-sale housing market is affordable only to households with above-moderate income levels. Few for-sale housing options exist for households earning less than $100,000 annually, outside of City inclusionary programs.

Yolo County Housing (YCH) has a wide reach across all affordable housing in Yolo County, as the county housing authority. The units rented by YCH and the rental assistance vouchers through the Housing Choice program subsidize 602 families in Davis. Of those families, 49% include children under the age of 18, 33% have members who are seniors or have a disability, and the rest are workers, students and the self-employed.

So what’s the take home message here? A good chunk of the folks living in Davis, roughly a quarter, can barely afford to live here. Apartment complexes that offer housing for very-low income households (that is, at or below 50% of AMI) report that waitlists for these units are long (in some cases, months or years long). What that tells us is that the supply of homes targeted to very low income households is short of the demand.

Why can’t the market take care of this? With such a low vacancy rate, (5%-10% is considered healthy), landlords can charge higher and higher rents and find tenants willing to pay.

And what is an “affordable housing cost?” — when no more than 30% (or a third) of gross household income is spent on housing costs. This includes rent and utilities, or a monthly mortgage payment.
The types of folks looking for affordable housing generally follow predictable patterns: seniors, persons with disabilities (especially those living on Supplemental Security Income (SSI)), families, and students.

Now, a note about students: Davis has a high number of university students who will not (or cannot, depending on their year in school) find housing on campus. If a student is working their way through college they may not be in a position to be able to afford market rate housing. However, if these same students are single and without dependent children, they cannot apply for rental assistance through YCH. This limits the places the student can live to complexes that offer affordable units without state or federal funding that excludes availability to students.

In addition to the high student population, Davis, with its quiet, small town charm, is attracting area seniors looking to retire. The nature of retirement has changed, however, as more and more seniors are looking to “age in place,” that is, live independently in their own homes for as long as their health will allow. Given the low availability of affordable homes for purchase, however, seniors living on a fixed income often find that they are unable to afford to purchase a home, and then discover that area rental rates can also be prohibitively high. For seniors in need of supportive services, for assistance with issues relating to Medicare or Social Security for example, the high fees at market-rate retirement communities may also make them out of reach.

Housing with supportive services has also seen an increase in demand, as programs become more and more successful assisting individuals with mental or physical disabilities to live in the community at large, and as independently as possible. However, the success of these programs is dependent on having the income to pay for them, and these units, deeply subsidized in many cases, do not generate the kind of income needed to pay for the staff to provide those services.

There are many reasons why housing at 20-35% of area median income is in high demand, and expensive to provide. Foster youth transitioning out of the program, individuals escaping from domestic abuse, and the recently homeless enter the housing market in need of both subsidized rent and supportive services.

Housing responsibilities, such as how to pay rent and when, keeping your apartment clean and managing household expenses might be unclear or frustrating to someone new to the process.

This is another challenge to the affordable housing program – how to provide extremely-low rent units, and transitional housing to groups in need of supportive services, without which individuals can (and do) lose their homes or find themselves in significant financial trouble.
The City of Davis has had a long-standing commitment to affordable housing. Since the late 1980s, Davis has had inclusionary requirements in its General Plan policies, and in 1990 adopted an ordinance requiring affordable housing (both rental and ownership) for households from very low (50% AMI) to moderate (120% AMI) income levels. Since the adoption of this ordinance, 1,800 affordable units have been developed, with 1,100 of those units remaining permanently affordable.

In compliance with, and ahead of state law, the City provides a density bonus (see sidebar) to affordable housing as a part of its ordinance at a rate of 1:1, allowing an additional market rate unit for each affordable unit, and includes other project incentives like parking requirement reductions and reduced setback requirements. These modifications to zoning requirements can reduce per unit development costs (greater number of units with less land) and give extra incentive for the builder to provide more affordable units.

Since the original adoption of the ordinance, there have been two notable updates to it, in 2005 and 2013, in an effort to keep up with the always-evolving housing market and changes in available funding sources. Major changes have included: instituting an appreciation cap on affordable ownership, updating the pricing calculation, and with the most recent update the ordinance provided varying affordability requirements, expanded the use of the in-lieu fee option, and included Accessory Dwelling units as an option.

One of the biggest accomplishments of the city’s affordable housing program, is its variety of development types to meet the needs of the community. There are affordable homes and apartments, for rent and for purchase, spread throughout the city, in mixed income developments, and solely affordable developments (such as New Harmony Apartments). There are cooperative housing projects (such as the Cornucopia Cooperative and Pacifico), senior-specific housing (such as Eleanor Roosevelt Circle or Olympic Cottages), and supportive housing for individuals with special needs (Homestead Cooperative and Cesar Chavez Plaza).

What is a Density Bonus?
Even before the state required a density bonus to developers, the City of Davis was offering the incentive for affordable units. The planning process for a new development is complicated, but in brief terms, the density bonus is this: based on the size of the project (the number of acres), the density limits how many units can be built on each acre, as set by the city. When the developer includes affordable housing in a new development, he/she will get a credit for each affordable unit provided (house or apartment). For example, if the general plan density limit on your land is, say, 20 homes, and you include 5 affordable homes, you get a “density bonus” of 5 additional market rate homes over the per acre unit limit, for an increased total limit of 25 homes.

Affordable in Perpetuity
1,100 of the city’s affordable units (both rental and ownership) are affordable in perpetuity. What does this mean? For each unit built that is designated affordable, there is a recorded document on the deed requiring the unit to remain affordable. This doesn’t mean rent won’t change, since the program is linked to AMI calculations, but it will never be higher than 30% of the unit’s targeted household income.
The affordable housing program faces several challenges on the provision of affordable housing, the largest of which are: funding, and the availability of land.

**Funding**

The $2 million loss of annual Redevelopment funding was one of the more significant hits to the city’s affordable housing program, in recent years, but a general, steady reduction in Federal HOME funds (Home Investment Partnerships Program) from $500,000 to $300,000 per year, the economic downturn, and reduction of city administrative budget support of the program have also slowed the acquisition, development and construction of affordable housing units. The rental revenue of the city-owned GAMAT rental units has offset some of the losses of revenue, but the very nature of affordable units, which require financing subsidies to make the rent affordable, can make it difficult to secure the necessary development sources, since the rate of return is not as high as market rate housing. (Discussion of the city’s role as a manager of affordable housing is found on page 9.)

**Land Availability**

Land available for development of affordable housing is another significant challenge to the program. Landowners can often sell their properties to the highest bidder – not, in most cases, to the nonprofit with limited resources that wants to develop an affordable senior housing complex, or a supportive housing program for recently graduated foster youth. To have access to land for the development of affordable housing projects, cities often have to rely on the receipt of land dedication sites provided by developers. With fewer projects being developed, and the changes in the most recent Housing Element to allow for a variety of ways to meet affordable housing requirements (including in-lieu fees and second units or accessory dwelling units – more on these later), developers may find less incentives to provide land dedication sites for affordable housing projects. Also, given the reduction in housing projects size, there is less feasibility of land dedication sites.
Density Versus Universal Design

Often the most efficient way to build a new project, especially a project with funding constraints, is through infill, that is, building on and in existing neighborhoods within developed areas of the city. Proximity to services, transportation and retail, and local commitment to smart growth and development principles make it highly desirable for developers and planners to support infill projects.

However....

Recent affordable housing projects (both rental and ownership) have also focused on building units that are fully accessible, or have the capacity to be adapted to provide accessible features. The goal of this policy is to provide affordable housing options for as many local needs groups as possible (seniors, persons with disabilities, etc.) and to promote housing that anyone can visit and/or purchase. But this move towards universal design does not always lend itself to high density living. It can be challenging to have an apartment, even if it is on a single level, on the 4th floor of an apartment complex if the resident has significant physical impairments. As projects move toward universal design features as the standard, issues have and will continue to arise, which require creative thinking to balance the goals between the push to build up, and the push to build accessible.

With Change Comes Developer Uncertainty

During the workshops, local developers voiced some frustration regarding the recent changes to city Affordable Housing requirements. They stated that multiple options on ways to meet the requirement leads to uncertainty and delay as to how the project will be planned and provide the required affordable housing. When securing financing for a project, it can be helpful (and in some cases critical) to have the overall design of the development and sample floorplans in place. Since the multiple options for meeting the affordable housing requirements are at the discretion of the City Council, uncertainty of project design can last until the final step of a project’s review process. The concerns about how affordable housing requirements are met now add an additional step and increased developer uncertainty in the already complicated project planning process.
Use of Second Units/Accessory Dwelling Units as Affordable Housing

Arguably the most popular topic of the workshops, after land dedication sites, was the new allowance for Second Units/Accessory Dwelling Units (ADU) to satisfy up to half of an affordable housing unit requirement on a 50% ratio. Developers of ownership market rate units are required to provide a certain number of affordable units (ownership, in-lieu fees or land dedication for rental) based on the size of development they propose. The new option allows for provision of an ADU or a second unit to a new market-rate home, qualifying for half of an affordable unit requirement. Back to that developer who is developing a 20 unit project. His requirement is 5 affordable units. So he decides to pay for 3 units via in-lieu fees (more on that later) and adds four second units to four homes in the development for the last 2 affordable units required, in order to meet the total of 5 affordable units.

The concern of affordable housing developers and advocates is that there’s no rule that says these units have to be regulated. There are no recorded documents on the deed that keep the ADU affordable, no requirement that they be rented at all, and even if they are rented, no requirement on who can qualify for the rental. Surveys of existing ADUs do show that about half of these units are rented and that they tend to provide greater affordability than market rate apartment units, with ADUs providing rents affordable to low and very low income households. However, units that qualify to meet an affordable housing requirement are not guaranteed to be affordable, or guaranteed to serve an income group in need of affordability.

But there may not be a simple solution. Adding affordability regulations onto the units, the deed restrictions, affordable rent limits and monitoring, would take proportionately greater amounts of staffing and administrative time, and would rely on the homeowner being a landlord. A study was completed as part of the initial discussion on the topic and another one will be completed to assess the current state of ADU policy, and whether or not these units meet local needs for housing affordability. This issue will be revisited no later than 2015 by the City Council, when the current policy sunsets.

A Home, An Office, Storage?

Although this latest change in the Housing Element is new, development of accessory dwelling units/second units is not. Sometimes referred to as “granny flats” or “mother-in-law suites,” there are many throughout the city that homeowners have chosen to build. Rented units tend to provide very low and low-income affordable rental rates, like in Aggie Village, but there’s no way of knowing who rents them and their household income.
In-Lieu Fees

Another aspect of the city’s updated affordable housing requirements that was discussed during the workshops was the use and amount of affordable housing In-Lieu Fees. The term *in-lieu* means in place of, or substitute, and the fee is meant to be in place of developing an affordable housing unit. For an example of this we go back to the developer with a 20 unit project. If he has the option (decided by council based on a number of factors – the project’s size, whether or not affordable housing can be provided realistically, projected housing costs of the development, and other factors) he can pay a fee for all or some of the 5 required affordable units. Generally speaking, the small, infill developments will be the projects most likely to use this option, when developing an affordable unit isn’t feasible, or there isn’t enough land for a dedication site.

How is this fee calculated? Also complicated. When the current fee was developed, it was limited to use by small infill projects, in the downtown area. The fee was calculated at about half the cost average cost of city subsidy/assistance provided (at the time) to the development of one affordable housing unit on a land dedication site. Different cities calculate their fees in different ways, there is not a set standard. Some calculate the fee on a square footage basis of market rate housing, some per market rate unit, some based on the difference between the cost to build a unit, and the price it would be sold at in order to serve low to moderate income buyers. A study commissioned by the city last year determined a fee of $50,000-$55,000 per unit would be best for current costs, and that fee, while not formally adopted or agreed on at this point, has been used in the negotiations for recent development projects.

Why isn’t it as simple as 1:1 (one fee for one unit)? While the end goal (and requirement) of this fee is, of course, the creation of an affordable housing unit, the most direct path isn’t always to build one. This fee can be used to rehabilitate existing affordable housing, purchase new units or build units.
So now that we have an idea of the program, it’s history and current challenges, we’re going to look at the discussion of what local resources exist, and what our priorities should be moving forward.

What We Have

There are currently 39 apartment complexes and housing cooperatives in Davis with units that are designated as affordable, and are subject to city monitoring. There are 101 homes that have been sold through the affordable ownership program, with deed restrictions requiring them to remain affordable if/when they are resold. Management of these programs is left to either the apartment complex providing the units, or to outside agencies that manage waitlists and income qualifications for affordable ownership properties and get paid through the sale of the units. The city also owns and manages (with a contracted property management company) the 20 single-family GAMAT rental homes and Pacifico, a dorm-style complex with cooperative principles mostly geared towards students. There are also two land dedication sites the city currently owns but has not developed – in the Mace Ranch and Woodbridge subdivisions.

Funding Sources

Current funding sources used by the city for affordable housing are the HOME (Housing Investment Partnerships) Program, the Housing Trust Fund, and to a lesser extent the CDBG Program. HOME and CDBG are federal programs the city administers as an entitlement agency (fancy language for we get an annual award without an application each year, that we distribute for local projects and to non-profit agencies in the community) that have provided funding in the past for the production and rehabilitation of affordable housing units. The Housing Trust Fund is managed by the city and is used for the rehabilitation, preservation and production of affordable housing, with the revenue for this fund coming from loan repayments and in-lieu fees.

Should the City be a Landlord?

One of the many limitations of funding for the affordable housing program is that most of the funding sources (CDBG, HOME, or the Housing Trust Fund) have restrictions on how much money can be used to cover program administrative costs. CDBG and HOME allocate 10-20% of the total funding awarded to administrative costs, percentages that haven’t changed since established, and an amount that has been shrinking over the years as total funding has decreased. The Housing Trust Fund cannot cover any administrative costs, due to its revenue source.

Currently a large source of income for Affordable Housing Program staffing, the rental income from GAMAT homes brings reliable revenue into the city, even after setting aside funding for repairs and reserves. While owning and operating affordable units has been awkward at times, due to the public nature of city business, use of a professional management company has addressed this issue to a great extent. Though sale of these units on the open market would produce a large flux of cash, it would be a one-time funding source, instead of a consistent source of annual revenue. Sold units would also need to be replaced in the affordable housing stock, requiring resources to either buy existing units, or build new units.
Several upcoming potential funding sources were discussed during the course of the community workshops:

**Cap & Trade: Transit Oriented Development**

In an effort to reduce greenhouse gas emissions in California, the state is looking to fund the development of quality low-income housing adjacent to transit hubs (transit oriented development). Studies have shown that a majority of greenhouse gas emissions are transportation related, and low-income families are more likely to own an older, potentially highly pollutant vehicle to drive to and from work. Housing adjacent to transit (light rail, bus, or train etc.) would increase ridership on more energy efficient modes of travel and thus cut down greenhouse gas emissions. The 2014-2015 State budget has $135 million dedicated to funding affordable housing and sustainable amenities, with another 10% of cap and trade revenue planned to be contributed to the program annually. However, Davis may not qualify for the program under the traditional definitions of high-transit areas. Further review and input as the program is created, is needed to see how the goals of this program can be tailored and carried out in Davis.

**Proposition 41: Housing for Veterans**

Voter-approved state bond funding previously designated to provide affordable ownership opportunities for veterans has, since the passage of Proposition 41 in June 2014, begun the process of being reallocated to the development of affordable rental housing for veterans. This new policy is currently being developed with input from stakeholders and local governments. The city would need to assess how many veterans currently live in Davis to determine if this funding source could be applied to local housing projects.

**National Housing Trust Tax Reform**

Advocates for a National Housing Trust suggest that capping the federal tax deduction amount allowed for the payment of could redirect that subsidy of more than a hundred billion dollars to affordable housing over the next 9 years. Affordable housing advocates are lobbying for this change; however, this reform would have to be in conjunction with an overhaul of the federal tax system, which is highly unlikely to happen soon. This proposal is not a formal bill at this point.

**Senate Bill 391: California Homes and Jobs Act**

There is a current proposal at the state level that each time a home is sold, there would be a fee for the many documents (the deed, mortgage etc.) which need to be recorded. Recording a document is putting the document into official records at the recorder’s office of the County in which the home is located. By adding a $75 fee to each of these documents that need to be recorded, the creators of this bill want to generate revenue for the development of affordable housing. Benefits and drawbacks of this proposal are still being considered.

**Better Materials Last Longer: An Expense of Building Housing**

An existing and future resource, new building materials developed over the years have cost more, but also have increased the longevity of new homes and the durability of repairs to existing homes. Though funding will still have to be set-aside for repairs and replacements to affordable units, the new building materials and the elimination of unsafe materials such as lead-based paint or asbestos for insulation has cut down on the amounts of funding needed for future replacement reserves.
To close the workshops, the discussion turned to priorities for future planning and direction of the affordable housing program. These suggestions, in conjunction with Social Services Commissioner feedback and ideas, will be used to formulate recommendations to take to the Davis City Council.

Where Do We Go From Here?

The majority of the discussion from the workshops focused on serving extremely low and very low income households, particularly those with special needs that require supportive services. The most efficient way to serve extremely low income households tends to be through the development of rental housing, due to the subsidies required and the state and federal programs in place to support these activities. As some of the program’s initial units age, and in the interest of preservation, rehabilitation of existing housing was also seen as an important use of limited funds. In addition to funding rental housing, the panelists suggested the city revisit the Affordable Housing Ordinance, to put more focus on the provision of land dedication sites for developers to meet affordable housing requirements, and to use in-lieu fees as an option only when those land dedication sites would be infeasible and too small, based on the size of the development.

The panelists emphasized the importance of having an accurate in-lieu fee that could cover the city’s obligation of providing the affordable unit. One idea was to consider the per unit cost of land in assessing an in-lieu fee. The panelists were generally skeptical of the ADU option, and thought that the city should consider its feasibility further.

The panelists also encouraged the city to look at existing properties (city-owned land or private apartment complexes) and assess them for potential housing developments, specifically those properties that may be underutilized near transportation centers or existing apartments that could be acquired, rehabilitated as needed, and rented as affordable housing units. Some sites recommended for consideration were the Amtrak Train Depot, Civic Center Field, and the DJUSD office site. Some members of the group noted the importance of providing a variety of housing options for members of the local workforce in an effort to support city diversity and reduced commute pollution, while also providing greater housing and family stability, community involvement, and economic achievement amongst low and moderate first-time homebuyers.

Going forward, there are many obstacles to overcome with the provision of affordable housing to serve local needs. The three workshops outlined needs and options that relate to development, purchase, presentation and the acquisition and rehabilitation of housing to provide affordable housing options. As the City, its Social Services Commission and City Council continue the deliberations on next steps for the affordable housing program, it has been reassuring and refreshing to see the collaboration and participation of local stakeholders in this important community matter.
Many thanks to the Social Services Commission and to three affordable housing sites for hosting the three workshops outside of the City Chambers: New Harmony Apartments, Shasta Point Retirement Community, and Windmere Apartments, along with the helpful staff at each location who assisted in the success of each workshop. In addition, each panelist contributed thoughtful, insightful, and valuable comments to the discussion. Thank you to Lisa Baker, Vanessa Guerra, Rachel Iskow, Angie López, Ben Pearl, Jason Taormino, and Luke Watkins for participating and bringing knowledge of the many complicated areas of the program. Thank you also to Danielle Foster, who represented the City of Davis and moderated the discussions, and Adrienne Heinig who assisted on behalf of the City. Lastly, thank you to the members of the public who attended the workshops, contributed their ideas and provided suggestions about the program.

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