RESOLUTION NO. 25-002, SERIES 2025

RESOLUTION ADOPTING RENTAL HOUSING INCLUSIONARY GUIDELINES PURSUANT TO MUNICIPAL CODE 18.05.060

WHEREAS, the City of Davis takes pride in being an inclusive and progressive community, and has long recognized the provision of a diverse range of housing opportunities as a key priority and obligation; and

WHEREAS, between 2013 and 2021, the City accomplished significant achievements in facilitating housing production and encouraging a range of housing but nonetheless fell more than 40% short of its goal for the production of housing affordable to very low-income households; and

WHEREAS, the City's approved allocation from the Regional Housing Needs Analysis for the 2021-2029 period sets more ambitious targets for housing production including 580 units for very low-income households and 350 units for low-income households; and

WHEREAS, Article 18.05 of the City of Davis Municipal Code (the "Affordable Housing Ordinance") establishes requirements that rental and for-sale residential development within the City create affordable housing opportunities, either through the development of on-site affordable units, payments of affordable housing in-lieu fees, dedication of land for affordable housing development or other alternative means; and

WHEREAS, in 2021, the economic feasibility analysis commissioned by the City Council found that a combination of high construction costs and having few development incentives to offer can make it challenging for some developers to deliver affordable units, that family-sized affordable units are more expensive to develop compared to smaller workforce units, such as studios and one-bedrooms, and, finally, that it is in many instances more costly to provide a smaller amount of deeply affordable units (i.e., affordable to households making at or below 50% AMI) compared to a larger amount of less deeply affordable units (i.e., affordable to workforce); and

WHEREAS, on July 18, 2023, City Council adopted Ordinance 2646 amending the City of Davis Municipal Code Article 18.05 to Update Affordable Rental Housing Requirements, which establishes a baseline requirement of 15% affordable units for projects with seven units or more, with half of the affordable units at low income and half at very low income; and

WHEREAS, Ordinance 2646 allows the Council to set alternative compliance options for legislative projects and for non-discretionary projects via Rental Housing Inclusionary Guidelines approved by resolution.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the City of Davis does hereby adopt the Rental Housing Inclusionary Guidelines attached hereto as Exhibit A to provide alternatives to the straight provision of 15% affordable units within a proposed

project, to set in-lieu fee amounts and options and to address payment for fractional units required by the ordinance.

PASSED AND ADOPTED by the City Council of the City of Davis on this 7th day of January, 2025, by the following vote:

AYES: Deos, Neville, Partida, Vaitla, Chapman

NOES: None

Josh Chapman
Mayor

ATTEST:

Zoe S. Mirabile, CMC
City Clerk

City of Davis
RENTAL HOUSING INCLUSIONARY GUIDELINES

Authorized by Ordinance No. 2646

Adopted by Resolution No. 25-002

Adopted by City Council:

January 7, 2025

SECTION 1: BACKGROUND

On July 18, 2023, the City Council adopted Ordinance No. 2646, which established an inclusionary housing requirement for rental projects in the City of Davis. The Inclusionary Housing Ordinance (IHO) generally requires the inclusion of affordable housing units when Market Rate Rental Units are constructed. The IHO is codified in Article 18.05 of the Davis Municipal Code. The operative date of the IHO for rental projects within the City of Davis is August 25, 2023.

Davis Municipal Code Section 18.05.060 states that,
"A developer of rental housing developments containing seven or more units shall provide at least fifteen percent of the total number of units as affordable housing units on-site. Of the total number of affordable housing units provided fifty percent shall be made affordable to low-income households and the other fifty percent shall be made affordable to very low-income households. Alternatively, the project may fulfill an alternative means of compliance as provided for in the Rental Housing Inclusionary Guidelines, which shall be adopted by resolution of City Council."

To that end, these Guidelines and subsequent updates approved by the Davis City Council are intended to provide the alternative means to implement the inclusionary housing ordinance.

SECTION 2: APPLICABILITY

All rental residential development containing seven or more dwelling units must comply with the inclusionary housing ordinance. Any rental residential development project with an application that was deemed complete, prior to the operative date of the inclusionary housing ordinance is exempt from these requirements.

For purposes of these Guidelines, "Rental Residential Development" means any multiple dwelling structure consisting of seven or more attached, but separate, dwelling units offered for rent. Accessory Dwelling Units shall not be included in the total number of dwelling units.

SECTION 3: INCLUSIONARY HOUSING ALTERNATIVES

Inclusionary Housing On-Site Construction Requirement

As set forth in Davis Municipal Code Section 18.05.060, a developer of rental housing developments containing seven or more units shall provide at least fifteen percent of the total number of units as affordable housing units on-site. Of the total number of affordable housing units provided fifty percent shall be made affordable to low-income households and the other fifty percent shall be made affordable to very low-income households.

In lieu of satisfying the inclusionary housing requirement by constructing affordable housing units on site, a project may comply with one of the following alternative means of compliance, as applicable.

Alternative for Non-Discretionary Projects – Financial Contributions to Affordable Housing Fund

Non-discretionary projects include those processed under state housing laws that limit City discretion, including but not limited to projects eligible for review under Government Code Section 65589.5.

Developers of a Non-Discretionary project may choose to incorporate the affordable dwelling units within the proposed project or choose the alternative of paying an in-lieu fee.

The City will calculate the adopted in-lieu fee for a single unit annually, pursuant to the official fee schedule adopted by the City Council. The fee will be calculated based on the full cost to build a unit. The total cost to build an affordable unit is set at **$250,000** per unit in 2025. The City will adjust the fee annually on July 1 using on the California Construction Code Index (CCCI) to account for changes in inflation and costs.

Developers choosing the in-lieu fee must select one of the following two payment options:

- One-time fee: Pay the full in-lieu fee to the City of Davis prior to receiving a certificate of occupancy for the project. The total in-lieu fee will be determined by multiplying the base fee by the total number of units necessary to meet the inclusionary requirements, including any fractional units.

  Or

- Multi-Year Fee: Enter into a regulatory agreement with the City to provide ongoing inclusionary housing fee payments to the City of Davis Affordable Housing Fund over a 10-year period. The agreement shall state how and when the funding shall be calculated, shall outline reporting and payment methods and schedule, and shall provide for remedies to the City for failure to comply with the program. The in-lieu fee will be determined in the same manner as a one-time fee, but the annual payment amount will be determined by taking the total in-lieu fee owed and calculating the net-present value of the fee over a 10-year period using the Local Agency Investment Fund (LAIF) investment rate at the time of project approval.

Alternatives for Discretionary Projects

A Discretionary project includes a project that requires a General Plan amendment, zoning change, or is otherwise subject to Planning Commission or Council discretion.

Developers of a Discretionary project may propose an alternative plan to meet the objectives of the inclusionary requirement. Potential alternatives include the payment of in-lieu fees (in the same amount and manner as outlined above for Non-Discretionary projects), the equivalent dedication of land to the City in lieu of provision of units, an agreement to share in revenue generated by the project, or a combination of methods.

A developer proposing such an alternative should make a strong financial case for requesting an alternative plan, providing evidence that meeting the full 15% inclusionary requirement on-site is infeasible, or that the developer's proposed alternative provides greater value to the City. The City may require the developer to provide pro forma and other related financial documentation for the proposed project for City review.

The proposed alternative plan will be analyzed by City staff and shared with the City of Davis Social Services Commission, which will make a recommendation to the Planning Commission and/or City Council, as required by the overall project. Approval of the alternative plan shall be at the City's sole discretion. The City may consider the following metrics in its review:

- Unit mix
- Operating budget
- Debt service coverage ratio
- Development cost
- Development sources
- Other funding agency requirements
- Review of comparable data to estimate development costs

SECTION 4: FRACTIONAL UNITS

A "fractional unit" shall be any portion of a unit less than one (1) whole unit.

- For a Non-Discretionary or Discretionary project meeting the inclusionary requirement by providing units on-site, a fractional unit obligation may be met by paying the application fractional portion of 50% of the approved in-lieu fee, in a one-time payment that shall be made prior to issuance of a building permit. (For example: If in-lieu fee is $250,000, then a project required to build 11.25 units and building 11 units onsite would pay 250,000*0.5*0.25 = $31,250 in in-lieu fees.)
- A Discretionary project may also propose alternative means to addressing any fractional unit in its alternative plan, subject to approval by the City in its sole discretion.

- For a Non-Discretionary project that is choosing to pay an in-lieu fee rather than provide all on-site units, the fractional portion of the in-lieu fee shall be included in amount for the one-time payment or in the 10-year calculation and regulatory agreement. (For example: If in-lieu fee is $250,000, then a project required to build 11.25 units would calculate the amount owed by multiplying $250,000 by 11.25 for a total of $2,812,500. This amount will either be paid in a one-time payment or used to determine the multi-year fee.)