# ACCELERATING INFILL IN SANTA ROSA & SONOMA COUNTY

## OPTIONS TO ADDRESS THE HOUSING SHORTAGE & WILDFIRE REBUILDING EFFORT

NOVEMBER 2018

COUNCIL OF
INFILL
BUILDERS

# ABOUT THE COUNCIL OF INFILL BUILDERS

The Council of Infill Builders is a 501(c)(3) nonprofit corporation of real estate professionals committed to improving California through infill development. Infill development revitalizes neighborhoods and communities, provides transportation choices, creates viable close-knit mixed-use areas, reduces greenhouse gas emissions and improves the overall economy. The Infill Builders seek to educate the public about these benefits through research and outreach.

# ACKNOWLEDGMENTS

This report and its recommendations are solely a product of the Council of Infill Builders and do not necessarily reflect the views of all individual convening participants, reviewers, or observers.

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# EXECUTIVE SUMMARY

On October 8, 2017, wildfires swept through Sonoma County and destroyed about 6,000 homes. The City of Santa Rosa alone lost over 3,000 homes (at least five percent of its housing stock), many of which housed multiple families, core workforce members, and long-term residents on fixed incomes. In addition to the physical, human, and ecological damage, the fires exacerbated an already dire regional housing shortage and need for more sustainable, downtown-oriented development throughout the county.

This report focuses on solutions to accelerate the construction and rebuild of more infill housing in Santa Rosa and other cities and urban areas throughout Sonoma County. "Infill" refers to building on unused and underutilized lands within existing development patterns. Infill is critical to accommodating growth and redesigning our cities to be environmentally and socially sustainable.

To identify promising solutions to boost infill in Sonoma County and key cities like Santa Rosa, the Council of Infill Builders convened builders, public officials, financial leaders, affordable housing developers, architects and consultants in Santa Rosa in May 2018. The group identified key barriers to infill development and recommended solutions to encourage and expedite infill development in Santa Rosa and throughout Sonoma County. This report discusses these priority solutions, challenges, and next steps.

**ACCELERATING INFILL IN SANTA ROSA & SONOMA COUNTY**
**Options to Address the Housing Shortage & Wildfire Rebuilding Effort**

Participants first described a **vision** for the ideal development patterns in Santa Rosa and Sonoma County. They envisioned a region that could:

- Build at least **30,000 new housing units** in the next five years to meet demand
- **Focus new development in existing urbanized areas** and areas devastated by the fires
- **Reduce the need for car travel**
- **Reduce inequities** in housing
- **Shorten permitting time and expense** for infill housing
- Create **"24-hour" downtowns**, with downtown residents and amenities that create activity beyond standard business hours
- Make it easier for employers to **recruit and retain workers** through a more affordable housing stock and exciting infill neighborhoods
- **Rebuild from the fires** with a more resilient, infill-focused housing stock, not sprawling into fire-prone areas

The group described **four key barriers** that generally limit infill opportunities in Santa Rosa and Sonoma County:

1. **Market uncertainty** due to unknown demand for infill in key cities and urban areas in Sonoma County
2. **Lack of demonstrated viability** and financing for infill and car-free living
3. **Lack of policy and process commitment** to support infill development
4. **High costs** and fees to build infill

While additional barriers exist, participants agreed that these four represent the most common barriers that render infill difficult to accomplish in cities like Santa Rosa and Sonoma County in general.

> **"Following the fires, we've had an interest in rebuilding with more infill. Downtown Santa Rosa in particular is ripe for more infill development, with a lot of underutilized sites and many people who have lost their homes."**
>
> -  Geof Syphers, Sonoma Clean Power

To help overcome these barriers, the group recommended **seven near-term, priority solutions**:

1. **Pilot projects with public partnership** with possible concessions regarding fees, land purchase, and streamlined entitlements.
2. **Rent guarantees** for employees from employers to boost demand for infill.
3. A Joint Powers Agency (JPA)/Renewal Enterprise District (RED) to **guide and fund infill development**.
4. **Zoning, parking requirement, and development fee reforms** to encourage rather than stymie infill development.
5. **Improved availability of public sector infill financing** and enhanced access to sales and use taxes.
6. **CEQA streamlining for qualifying infill**, as contemplated by legislation like AB 2267 (Wood).
7. A **market study and project development** navigator to help streamline infill investment and deployment.

These and other solutions are discussed in more detail in this report. Ultimately, Santa Rosa and Sonoma County leaders should consider adopting these recommendations to achieve a more affordable, sustainable, and resilient future for its residents.

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# INTRODUCTION: WILDFIRES & HOUSING SHORTAGE IN SONOMA COUNTY

**Santa Rosa and Sonoma County's housing supply was deficient and unaffordable even before the fires.**

The October 8, 2017, wildfires in Sonoma County destroyed about 6,000 homes, including 3000 in the City of Santa Rosa alone (constituting at least five percent of Santa Rosa's housing stock). Many of these structures housed multiple families, core workforce members, and long-term residents on fixed incomes.

The tragic fires exacerbated an already dire regional housing shortage. Even before the fires, Sonoma County and Santa Rosa had housing supply and affordability problems. In the City of Santa Rosa, the majority of the housing stock consists of single-family subdivisions. As a result, the Great Recession of 2008 hit the city's housing market hard. The subsequent rise in foreclosures flooded the market with single-family homes, depressing demand for Santa Rosa's new market-rate houses. Because construction costs remained high (consistent with the rest of the San Francisco region), developers were wary of building multi-family product that was priced at or above existing detached single homes. Yet while sales of houses declined for a number of years, rental-housing construction was not as negatively affected. A few infill housing developments (mostly rentals) proceeded during the economic downturn, while other large infill housing projects faced significant obstacles.[1]

As with Santa Rosa, Sonoma County's housing market had not recovered from the Great Recession before the 2017 fires. The housing supply had not yet matched pre-recession levels. For example, in 2016, the county issued 581 building permits for single-family homes, with 296 of

those homes in Santa Rosa, compared to an annual average before the recession of 904 permits. In the long term, the state's regional housing needs allocation (RHNA) for Sonoma County through January 31, 2023 was 8,444 units, which the region was not on pace to meet (*See* Table 1).

| Table 1: Housing Production in Sonoma County and City of Santa Rosa | | |
|---|---|---|
| | **COUNTY** | **SANTA ROSA** |
| **Total Housing Units 2017** | 207,058 | 67,526[2] |
| **Total New Single-Family Permits issued in 2016** | 581 (includes unincorporated areas and cities) | 296[3] |
| **Regional Housing Needs Assessment (RHNA)** | 8,444 (includes unincorporated areas and cities) | 4,662[4] |

Housing affordability has also been a major problem for all of Sonoma County, including Santa Rosa. The median single-family home price for Sonoma County was approximately $620,000 in September 2017, with the annual minimum income necessary to afford that price at approximately $120,000. Yet the median income in Sonoma County that month was $83,600. Meanwhile, the median rent in September 2017 was approximately $2,364 per month, with the annual minimum income needed to afford that rent at $94,560 (*See* Table 2).

| Table 2: Housing Affordability in Sonoma County and City of Santa Rosa | | |
|---|---|---|
| | **September 2017** | **February 2018** |
| Median Single-Family Home Price (for the Entire County) | $620,000 | $689,000 (11 percent increase from September)[5] |
| Median Asking Rent Per Month | $2,651 | $2,746 |
| Median Asking Rent for Complexes Over 5 Units | $2,028 | $2,127 |
| Minimum Income Needed to Purchase | $120,000 | $133,354 |
| Median Income (4-person household) | $83,600 | "$83,600 (estimated, with the fastest-growing income group between $100,000 to $149,000 per year) |

"We really have momentum, and the political will is there. The city council majority supports more resources for planning, and downtown housing and homelessness are part of the City Council's top five priorities. Downtown is now a test case for the city."

- David Guhin, City of Santa Rosa

### Santa Rosa and Sonoma County's commitment to more infill development predated the fires but requires more action

Santa Rosa's regulations had historically made infill development difficult, in part due to high parking requirements, height restrictions, and setback requirements, among others. Besides the market conditions and parking and permitting constraints, the city's development fees have risen steadily for decades. Many developers noted that the fees became prohibitive for infill housing because the existing house prices had declined while construction costs remained high. Additionally, funds for affordable housing declined with the demise of redevelopment agencies earlier in the decade and funding for older infrastructure improvements in infill areas dwindled.[7]

Prior to the fires, Sonoma County and Santa Rosa made a commitment to encourage sustainable development. Starting in 1990, Santa Rosa voters adopted and then re-adopted an urban growth boundary (UGB), which has since been renewed through 2035.  The eight other incorporated cities in Sonoma County also have these growth boundaries, which are complemented in the county by designated "community separators." While these policies have been nominally successful in focusing development within city limits, the *types* of development that local leaders have permitted continue to be largely of the suburban sprawl variety. When voters approved the urban growth boundaries, Santa Rosa's land use policies were not immediately changed to encourage infill development within the boundary. Most policies continued to favor low-density development, until recently (as discussed below).[8]

With the adoption of Senate Bill 375 (Steinberg, Chapter 728, Statutes of 2008), community leaders around the state and within Sonoma County began planning for more housing near transit and encouraging infill. SB 375 required regional planning entities such as the Association of Bay Area Governments (ABAG) and the Metropolitan Transportation

Commission (MTC) to adopt transportation plans that would serve more housing near transit in order to reduce vehicles miles traveled (VMT) and limit associated greenhouse gas emission from cars and light trucks. The resulting *Plan Bay Area* provided a strategy for meeting 80% of the region's future housing needs in "Priority Development Areas" (PDAs), which are neighborhoods within walking distance of frequent transit service. Five of Sonoma County's twelve PDAs are located in Santa Rosa, including several areas near rail stations operated by Sonoma-Marin Area Regional Transit (SMART). The City of Santa Rosa has since enacted plans and policies for higher density mixed-use development in these PDAs, particularly around SMART stations.

After the fires, Sonoma County commissioned a housing and fiscal impact report by Beacon Economics in February 2018, which found that:

1) even before the fires occurred, Sonoma County faced a housing market characterized by rising home prices and rents, declining vacancy rates and insufficient new supply of units; and
2) in total, when accounting for employment growth, fire losses and overcrowding, Sonoma County needs an additional 26,000 housing units by 2020, which is equivalent to 6,500 units per year.

By comparison, the county had only permitted 730 units in 2016 and 609 in the first three quarters of 2017.[9] The Sonoma County Community Development Commission estimated that Sonoma County needs 30,000 units by 2023. This total translated to 7,000 units per year. Yet from 2013 to 2017, the county averaged only 716 permitted units per year. At this rate from 2018-2020, the county would see only 3,754 new units constructed, well below the number needed, as cited above (*see* Table 1).

Santa Rosa and Sonoma County also need more infill development as a resiliency strategy to limit damage from future wildfires. To the extent practicable, the city seeks to direct new housing to areas less prone to fire and encourage housing types that are denser, more compact, less dependent on the automobile, and closer to transit. To that end, the Santa Rosa City Council adopted the *Resilient City Measures Ordinance* in June 2018, which is a set of rules intended to fast-track building of housing, child care centers, and farmworker housing in downtown and the SB 375-identified PDAs. Infill advocates and city officials seek to narrow the fast-tracking to downtown Santa Rosa and other areas of the city already prioritized for housing to ensure that homes are built near transit, services, and jobs to revitalize the city's core, benefit the environment, reduce fire risk, and avoid sprawl on the edge of the city.[10]

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## California's climate goals require land use patterns that reduce the need for driving

As California continues its efforts to reduce the greenhouse gas emissions that cause climate change, the state will need to see more progress on sustainable land use patterns that discourage driving, with the rebuilding effort in Sonoma County presenting a prime opportunity. Specifically, California seeks to reduce greenhouse gas emissions to 1990 levels by 2020 per Assembly Bill 32 (Nuñez, Chapter 488, Statutes of 2006), representing a 15 percent reduction over business-as-usual "(achieved four years early in 2016), with an additional goal for 2030 to achieve reductions of 40 percent below 1990 levels per Senate Bill 32 (Pavley, Chapter 249, Statutes of 2016). Governor Brown's 2015 Executive Order B-30-15 further sets a target of 80 percent below 1990 levels by 2050.

Given that more than 40 percent of greenhouse gas emissions in the state come from the transportation sector (including from excessive per capita vehicle miles traveled), building walkable, bike-able housing near transit is essential to meeting these long-term targets, even with greater adoption of zero-emission vehicles and use of improved low-carbon fuels (*see* Figures 1 and 2). As a result, the state's scoping plan to achieve these greenhouse gas goals through improvements in the transportation sector stated, "plan and build communities to reduce vehicular [greenhouse gas] emissions and provide more transportation options," as one of four strategies to be employed.[11]

As an additional climate benefit, infill housing also often requires less water and energy usage due to the smaller lot sizes and reduced square footage. New housing construction in Sonoma and Santa Rosa can therefore help all of the state's residents meet long-term climate goals and achieve improved quality of life through reduced driving miles.

**Figure 1: California's Greenhouse Gas Emission Sources (Source: California Air Resources Board)**
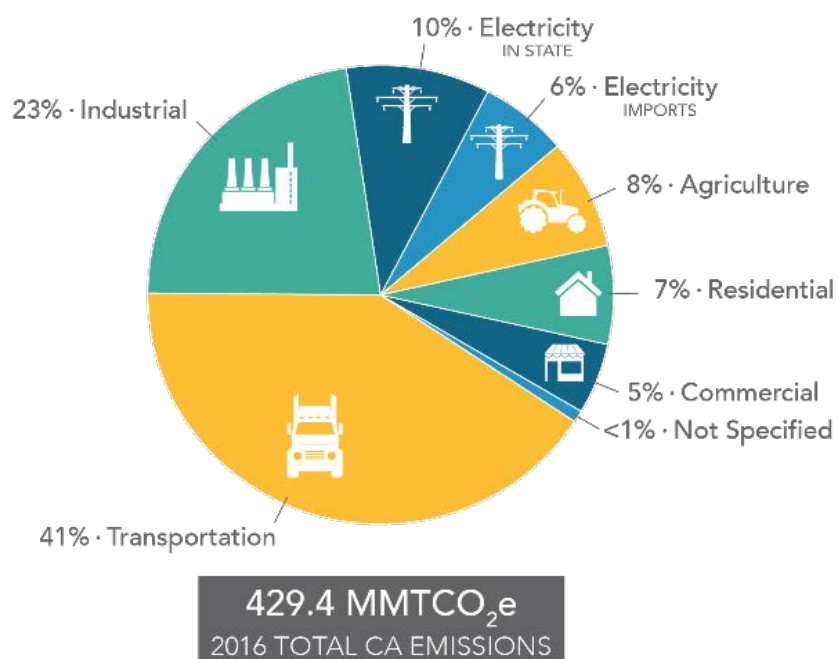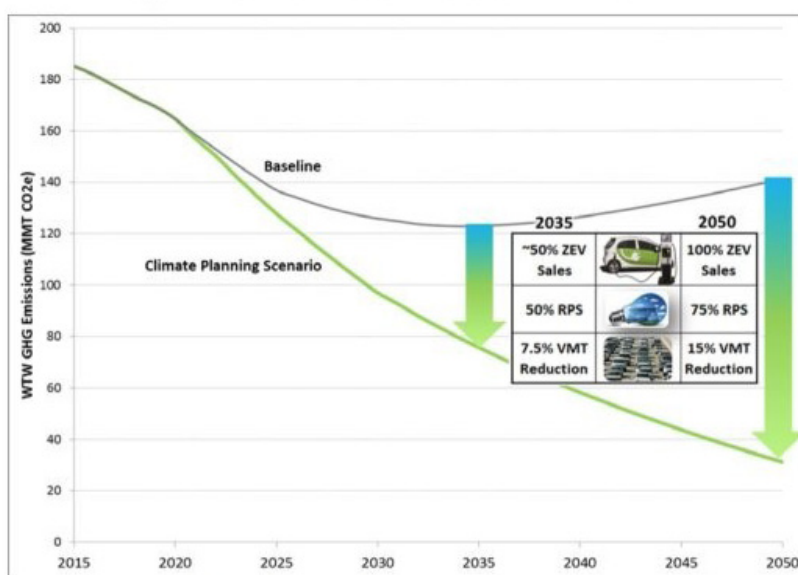


**Figure 2: The Need for Reduced Vehicles Miles Traveled to Achieve California's Climate Goals (Source: California Air Resources Board)[12]**



WTW = well-to-wheel emissions
MMT CO2e = million metric tons carbon dioxide equivalent
RPS = renewable portfolio standard

# VISION FOR INFILL DEVELOPMENT IN SANTA ROSA AND SONOMA COUNTY

Participants at the May 31, 2018 convening first described a **vision** for the ideal development patterns in Santa Rosa and Sonoma County. They envisioned a region that could:

- Build at least **30,000 new housing units** in the next five years to meet demand
- **Focus new development in existing urbanized areas** and areas devastated by the fires
- **Reduce the need for car travel**
- **Reduce inequities** in housing
- **Shorten permitting time and expense** for infill housing
- Create **"24-hour" downtowns**, with downtown residents and amenities that create activity beyond standard business hours
- Make it easier for employers to **recruit and retain workers** through a more affordable housing stock and exciting infill neighborhoods
- **Rebuild from the fires** with a more resilient, infill-focused housing stock, not sprawling into fire-prone areas

Achieving this vision requires identifying and overcoming the obstacles that make it unlikely otherwise to be realized. The following section describes those obstacles and offers solutions for state and local leaders as well as industry actors.

**"Every great city has had this dilemma about how to reinvent itself, and it takes a long-term commitment. Look at Freiberg, Germany, as an example. But if civic leaders make a commitment, it will happen."**

- Curt Johansen, TerraVerde Ventures

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# BARRIERS AND SOLUTIONS FOR INFILL DEVELOPMENT IN SANTA ROSA AND SONOMA COUNTY

Common barriers often prevent infill development from getting built in optimum locations, such as in downtowns and near regular transit. For the May 31, 2018 convening, the Council of Infill Builders surveyed participants in advance and discussed the most common barriers to infill in Santa Rosa and Sonoma County more generally. Participants identified the following four priority barriers to infill development and offered numerous solutions to overcome them, discussed below.

## Barrier # 1: Market Uncertainty Due to Unknown Demand for Infill in Key Cities and Urban Areas in Sonoma County

Multi-story infill projects usually cost more to build per square foot than low-rise suburban housing (as discussed below). As a result, in order to achieve financial feasibility, infill projects must be able to attract buyers from specific market segments, including young professionals, seniors, and singles who are willing to live in smaller spaces, as well as higher-income individuals, couples and families. [13]

Participants noted that Santa Rosa and Sonoma County in general do not have high-rise infill projects, so project developers cannot yet determine the level of demand for this type of housing and associated lifestyle. They also questioned the marketability of a high-rise infill project compared to building single-family homes in other suburban locations such as Petaluma. Participants

described price point limitations: can the market afford this type of product, given the demographics and incomes of potential local buyers and renters? Some participants noted that if the average sales price is approximately $700,000, they would need to know the number of households with incomes over $150,000 to support the associated monthly housing costs of $3,500 to $4,000.

In addition, because cities like Santa Rosa still lack a mature public transit system downtown, these cities do not have market data to determine the demand for car-free urban living (the Sonoma-Marin Area Rapid Transit [SMART] station in downtown Santa Rosa only recently opened in August 2017). Additionally, a lack of amenities, concerns about personal safety, and branding for downtowns like in Santa Rosa add to the uncertainty about whether demand exists for infill housing in the downtown area.

## Solutions for Barrier #1: Improve Downtown Amenities & Undertake a Comprehensive Market Study

To address the market uncertainty, Santa Rosa and Sonoma County could seek to make downtown a neighborhood where people want to live and work, identify promising infill sites, and produce a market study for high-potential infill areas, such as the SMART corridor, which developers could then rely upon to make financial decisions.

**SPECIFIC SOLUTIONS:**

**City and county leaders could accelerate improvements to downtown amenities, creating an appealing "24-hour" downtown atmosphere to attract full-time residents.** They could continue to promote land uses in Santa Rosa and other Sonoma County downtown areas that create foot traffic, such as grocery stores and new restaurants. City leaders could also bring in more events such as the Iron Man, which provide good exposure and identity for downtown. In addition, civic leaders could improve the branding and marketing for downtown. The brand should be linked to clear policy to develop downtown as an infill community. Once civic leaders have established the brand, the city could market infill sites as a portfolio, in order to spread the risk and attract funding for infrastructure and affordable housing. To assist with creating

"The threat is economics. The price of a house now in Sonoma County is over $600,000, which requires an income of at least $130,000 per year."

- Jeff Roberts, Granville Homes

a successful market, participants proposed that employers encourage their employees (via rent guarantees) to consider renting or buying in infill projects (this solution is described in more detail below). Finally, the involvement of downtown associations, increased police presence, improved lighting, and visible security measures such as emergency call boxes could address any concerns about personal security.

**City and county leaders could conduct a market study and generate a project development navigator for market-rate housing and other housing types in infill areas.** Such a study and project development navigator would help developers make more strategic decisions about investment and redevelopment, identify any ongoing policy needs, and potentially attract more infill developers to the region. The study and guide should at a minimum consider the SMART corridor's potential for residential uses. Some of the other PDAs, enterprise areas, and opportunity zones (among other similar areas) may be candidate geographies for the study. The study could also assess the demographics of groups that could pay market rates to live in downtown housing and encourage a downtown marketing campaign targeting these potential residents. Participants recommended that the market study effort also include an open-sourced feasibility analysis available to the public.

**Civic leaders could communicate a sense of urgency about downtown development.** The community now has a window of opportunity to revitalize downtown and create transit-friendly environments because people are leaving the region due to the fires and lack of affordable housing. The community will need ideas that are actionable in the near future, given the urgency. In pre- and post-fire interviews conducted by the City of Santa Rosa Economic Development Division, the primary reason interviewees gave for the region's major employers' inability to expand, retain, or attract new workers is housing – specifically housing availability, followed by housing affordability, as well as a lack of housing option diversity. On the last point, medical and technology-related companies in particular have identified the need for downtown urban density-type housing in order to attract a younger workforce that desires housing with easy access to urban amenities and transportation (*see* the discussion below on employer-assisted housing for suggestions about how employers could encourage infill).[14]

**"Santa Rosa lacks a 24-hour downtown. The downtown area needs activity-generating land uses that extend beyond standard business hours."**

– Patrick Streeter, City of Santa Rosa

## Barrier #2: Lack of Demonstrated Viability and Financing for Infill and Car-Free Living

Lenders tend to be cautious about financing new housing types in places like Santa Rosa and other key cities in Sonoma County. Infill developers often face challenges securing financing for otherwise meritorious projects, particularly for the missing "gap" that redevelopment agencies used to cover. Financial institutions may be unlikely to help finance pioneer projects in untested markets without comparable projects to assess risk. Meanwhile, public sector budgets are strapped, and the state has so far been unable to replace redevelopment funds with alternative sources.[15] As a result, pioneer infill developers often are unable to finance meritorious projects that could otherwise be catalytic in stimulating more infill development.

## Solutions for Barrier #2: Boost Infill Pilot Projects with the Capacity to Scale

Local government leaders can address concerns about the viability of infill by launching select pilot projects, with associated policy assistance. They can also address the financing challenge with solutions ranging from encouraging local banks and other lenders to invest in infill housing and leveraging public sector funds. Local government leaders could also facilitate the stacking of funds from a variety of investors, such as traditional lenders, government, foundations, pension funds and others (all with different levels of risk).

**SPECIFIC SOLUTIONS:**

**City and county leaders could study and act upon lessons learned in the near term from proposed infill projects currently seeking permits from the city.** As an example, a developer proposed construction of a 135-apartment infill building at 404 Mendocino Avenue in Santa Rosa. To expedite the permitting for this project, the city shortened the design review board process from 10 months to 3 and implemented or is considering a raft of other incentives for developers of similar projects.[16] The city and other interested parties could learn important lessons

from this developer's experiences securing financing, marketing to potential tenants, and observing operation of the project over time. This and other similar projects present opportunities to study the influence of expedited processing and other city efforts on the ultimate success of an infill project.

**City and county leaders could launch and support pilot infill projects that meet certain criteria with expedited processing and other incentives.** Once a project has met the criteria, the city or county could waive or reduce fees and provide other incentives, such as donated land, expedited processing for entitlements, reduction in parking requirements, and waivers or reductions of affordability requirements in the longer term. The goal would be to demonstrate the viability of meritorious infill projects and stimulate revitalization of prime infill, transit-rich neighborhoods. Participants identified potential areas for pilot projects, such as the Press Democrat site, Railroad Square, the Cannery, Roseland Village and Coddingtown. In conjunction with the pilot projects, city and county leaders could leverage the benefits associated with the status of downtown Santa Rosa as an enterprise district and Roseland as a federal opportunity zone.

**Local officials, infill advocates, and developers should research and contact institutional investors to support infill pilot projects.** Infill advocates can confer with local and other institutional investors and determine those interested and willing to invest in Sonoma County infill and actively work with them on pilot projects. Financial models used by banks and other lenders can act as a barrier to

securing capital investment, and infill development in cities and older suburbs that have experienced neglect and disinvestment can be more difficult to finance. Such areas are also more likely to have contaminated sites, which can present additional financing challenges. For these sites, lenders can have high underwriting costs associated with evaluating site conditions, require higher rates of return, request developers to contribute more equity, and be reluctant to accept the underlying real estate as collateral for a loan. At the same time, these sites are eligible for a host of local, state, and federal assistance programs, which can close the financing gap and make infill a financially viable proposition.

Despite the challenges, many developers have successfully financed infill projects in these types of areas. Although investors might perceive the risk of infill development to be high, developers with experience working on infill projects related that no real risk premium exists relative to comparable mixed-use projects in undeveloped areas. As more developers and lenders become involved with infill projects, perceptions may start to better match reality. To that end, some specialized firms have opened to serve developers that need help with financing for mixed-use developments. Certain real estate investment funds and trusts are also focusing on infill markets for investment of their large pools of capital.[17] Sonoma County infill advocates, developers and officials could therefore work to attract these investors to the region.

**Local leaders and infill developers could seek to harness financing for projects from various public and private sources, such as pension funds, employers and crowd sourcing.** Pension funds invest in real estate and infrastructure projects. Civic leaders can therefore highlight the benefits of investing in Sonoma County projects and work with a targeted group of pensions funds on investing in infill and infrastructure in the County. Employer support for infill could also help. Kaiser Permanente, for example, pledged $200 million to invest in homelessness and affordable housing in 10 states, including California and the District of Columbia. Sonoma County and Santa Rosa leaders could work closely with Kaiser Permanente and other employers to providing financing for infill.[18] Employers could also guarantee employee rents, which could reduce perceived risk for some lenders (discussed in more

## "Pilot projects are really key. You can justify a lot when it's a pilot."

- Meea Kang, Related California

detail below). Finally, more unusual methods of financing, such as crowdsourcing, could be an option. Though a relatively new and successful method for financing housing, it has been used successfully in Los Angeles and Washington D.C. Local officials and other infill advocates could contact these crowdsourcing funds and encourage them to become active in infill projects within Sonoma County.[19]

**City and county leaders could establish a housing bond fund for infill areas.** Santa Rosa has placed Measure N, the $124 million Housing Recovery Bond Measure, on the November 2018 ballot. If passed, the measure will establish a housing bond fund to help with rebuilding efforts from the 2017 wildfires, build affordable housing for low- and moderate- income persons, and support infill development. The amount of the bond is estimated to be $80 to $180 million. The bond would be paid for by Santa Rosa property taxes over 30 years and would cost $29 per $100,000 in assessed value, which would be about $110 per year for the typical Santa Rosa home. When leveraged with other state and federal funds, the City anticipates that Measure N would allow the City and its partners to build about 1,200 affordable units. Santa Rosa lost over 3,000 homes in the fire, so Measure N would have a significant impact on the amount of affordable units and housing overall.[20] These funds could be used to fill gaps in other funding for infill projects and to stack with financing (with different levels of risk) from institutional investors, pension funds, and other lenders.

**City and county leaders could establish a joint powers agreement (JPA)/Renewal Enterprise District (RED) to coordinate and promote financing for infill housing.** Sonoma County and Santa Rosa officials are considering developing a Renewal Enterprise District (RED) that could bring together panoply of other private, public and non-profit financing solutions. Advocates for the proposed RED envision it as a City/County Joint Powers Agency (JPA) that would regionalize housing production and pool and leverage financing from sources such as banks, pension funds and other lenders and funding from sources such as government, employers, foundations and non-profit organizations. It would also prepare county-owned land for development, facilitate sharing of risks and benefits of development in new ways, streamline environmental review and put equity, affordability and climate solutions at the center of the local economic strategy.[21] The RED could provide multiple benefits for infill development, such as coordinating a real estate insurance pool, identifying investment of housing bond funds, identifying prime infill sites, and organizing private and public funding for infill projects and associated infrastructure (particularly since public entities can often take more risks than market actors are willing to

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take). Local officials will have to develop criteria for membership, determine representation by non-elected versus elected officials, and delineate the extent of the JPA's land use authority, if any, before establishing the RED.

**City and county leaders could create a regional fund or pool of capital similar to the Bay Area Transit Oriented Affordable Housing (TOAH) fund.** Launched in 2011, the TOAH fund was made possible through a $10 million initial investment from the Metropolitan Transportation Commission. The Low Income Investment Fund served as the fund manager and an originating lender, along with five other leading community development financial institutions (Corporation for Supportive Housing, Enterprise Community Loan Fund, LISC, Northern California Community Loan Fund, and Opportunity Fund). Additional capital for the fund was provided by Citi Community Capital, Morgan Stanley, the Ford Foundation, Living Cities, and the San Francisco Foundation. The resulting $50 million TOAH fund provides financing for the development of affordable housing and other vital community services near transit lines throughout the Bay Area. Through a similar fund in Sonoma County (or expansion of the existing Bay Area TOAH fund to the region), developers could access flexible, affordable capital to purchase or improve available property near transit lines for the development of affordable housing, retail space and other critical services, such as child care centers, fresh food outlets, and health clinics. The fund could also participate in stacked multi-layered financing pack-

ages including foundations, pension funds, government and lenders.

**State and local leaders could develop and use taxing and bond authority to generate funds for infill and infrastructure.** In addition to proposing Measure N, which is a property tax for affordable housing (discussed above), the City of Santa Rosa placed Measure O, the Vital City Services Measure, on the November 2018 ballot. Measure O is a temporary one-quarter cent sales tax measure that would provide $9 million annually to help Santa Rosa recover from the fires, rebuild infrastructure, preserve emergency services and address other critical City needs. The tax would expire after six years.[22] Other taxes could be increased to generate financial incentives for housing, such as the sales tax and the transient occupancy (hotel) tax. Participants also suggested that cities like Santa Rosa consider property tax breaks for infill projects and simultaneously tax vacant land to encourage owners to transition them into productive uses. Bond programs the city could use for housing include Statewide Community Infrastructure Project (SCIP) bonds and Mello Roos Community Facilities District (CFD) bonds. In the long term, participants suggested that state leaders create a new version of block grants for infill housing.

**Employers could develop housing assistance programs to boost demand for infill.** Participants recommended that employers guarantee employee rents as a method to incentivize financing and create more demand for infill housing in Sonoma County. Rent guarantees are a form of employer-assisted housing (EAH), which is a term used to describe a variety of housing benefits employers can offer to help their workforce afford homes. An EAH program can be a cost-effective way to help improve employee recruitment, retention, productivity, and morale, thereby improving the employer's bottom line. Originally conceived as a tool for recruiting senior executives, many companies and other types of employers now offer some type of housing assistance across their pool of employees. This trend is driven by factors affecting employees such as the persistent disparity between home costs and wages, long and costly commutes, employee preference to live near their workplace, and general employer and employee desire to achieve an improved work-life balance. For employers, ongoing and anticipated challenges in hiring and retaining workers and the desire to increase employee productivity and morale make EAH programs attractive. These programs can create broader benefits such as safer neighborhoods, increased investment in the local area, and community stabilization. In many cases, employers partner with third-party organizations to help design and manage EAH programs. These outsourced arrangements help ensure that EAH programs are easy to administer and cost-effective for employers. [23]

*"You need strong leadership and relationships. We lost past in-fill opportunities due to wavering and lack of focus."*

*- Kirstie Franceschi, Codding Enterprise*

## Barrier # 3:  Lack of Policy and Process Commitment to Support Infill Development

Uncertain or deficient commitments and directives from civic leaders on infill in their communities can be detrimental to the deployment of these often-challenging pioneering projects. Local politics and policies that can discourage infill development include political hostility toward infill for a variety of reasons, land use and fee policies that adversely affect infill, and excessive parking requirements that place high costs on infill developers.

### Solutions for Barrier #3: Reform Local Land Use Policies to Encourage Infill

Successful downtowns often benefit from strong political will and a commitment to stay with a strategy to revitalize the area. Participants called for political and management actions to reform the land use permitting process, fee structures, and parking policies. Additional solutions recommended that civic leaders identify available infill sites, launch pilot projects and make downtown housing and elimination of homelessness top priorities (also discussed above).

### SPECIFIC SOLUTIONS:

**City and county leaders could reform land use policies that discourage infill development.** These policies include (but are not necessarily limited to):

   (a) unreasonable zoning limitations on density;
   (b) overly restrictive zoning overlays that discourage redevelopment of underutilized infill properties;
   (c) inclusionary housing requirements without financial support from the city or county;
   (d) restrictive zoning that does not support or promote mixing of land uses;
   (e) overly cumbersome entitlement processes that provide advantages to sprawl projects while burdening infill; and
   (f) inflexible staff members that do not embrace change.

The City of Santa Rosa and other jurisdictions within the county are currently working on solutions to some of these challenges – specifically an expedited permit process for quality projects where the developer and the city both agree to move forward on a specific timeline.[24]

**City and county leaders could reform fee policies that discourage infill development.** These policies include fees that are overly burdensome for infill projects and/or provide advantages to sprawl projects. For example, the city could cap certain development fees for five years to encourage taller buildings. Many development fees are paid on a per-unit basis, which otherwise creates a disincentive for developers to build more units. According to David Guhin, Santa Rosa's director of Economic Development and Housing and a participant at the convening, "Our current fee structure doesn't encourage people to build more floors." In a recent article, he said that one idea the city was exploring was to charge fees up to a certain number of stories and then waive them for anything higher.[25]

**City and county leaders could reform excessive parking requirements that discourage infill development.** Examples of burdensome local parking policies and practices include:

  (a)  requiring too much parking (over-parking) and lack of political understanding that the high cost of free and too much parking is a significant barrier to infill housing;
  (b)  requiring expensive replacement parking when a developer builds on a city-owned parking lot; and
  (c)  parking minimums and a rigid parking ordinance in Santa Rosa that currently do not allow for flexibility or creativity regarding provision of parking.

City and county leaders could address some of these challenges by reducing or eliminating minimum parking requirements, unbundling parking from housing (charging the cost of a parking space separately from the cost of renting or purchasing a home) and allowing developers to use more shared parking. They could also reform the rules governing the downtown-parking district in Santa Rosa. Currently, elimination of parking spaces or facilities to accommodate

**"City- and County-owned land helps. A patient landowner also helps. Otherwise, developers can burn through all their money just paying for land while waiting for entitlements."**

- Ali Gaylord, MidPen Housing Corporation

development may conflict with district requirements, which require the district to be made whole if there is a reduction in parking. In other words, the developer must provide replacement parking, which can be expensive. Parking spaces add a disproportionate cost to developing infill housing; the average cost of a parking space in a parking structure ranges from $15,000 to $30,000.[26] For example, parking costs per unit in San Francisco can range from $17,500 to $35,000 per unit.[27] Not only are parking construction costs high, but ongoing operation and maintenance of parking structures can be costly for rental properties.[28] As a result, restructuring the City's parking district and alleviating the high-cost requirements of replacing parking spaces could be part of the solution.

**City and county leaders could continue to make development of more downtown housing and alleviation of homelessness top priorities**. Promotion of downtown and reducing homelessness are two of the top five 2018 priorities for the Santa Rosa City Council. To expedite the permitting process for infill, local governments could dedicate staff to shepherd projects through the process so that projects do not fall off track. Politicians and high-level government officials can help by involving themselves to move catalytic projects forward. Additionally, participants suggested that local leaders support initially proposed densities for new projects and not allow projects to get "watered down" during the approval process. City and county leaders could also work with downtown commercial property owners to assess their willingness to redevelop and connect them with infill builders that have the financial resources and expertise to complete infill development on these sites.

**City and county leaders could identify publicly owned properties that can be developed for infill housing**. As discussed above, they could launch pilot projects on these properties where more flexible fees and land use regulations are applied in order to test the effectiveness of various approaches and to jump-start development of more infill projects. Santa Rosa could also consider reducing fees in all infill areas and/or downtown for a certain period of time.

**"A big barrier is finding the sites. Owners often have a high expectation for land value, and it's depressing for them when they find out the costs of construction and how that lowers the value of their land."**

*- Keith McCoy, Urban Mix Development*

## Barrier #4: High Costs and Fees to Build Infill

Numerous factors increase the cost of all types of housing, such as the cost of labor, materials, local fees, and permitting requirements. But infill development is by its nature more expensive to build, given the regulatory process, construction materials, and high-wage labor required for multistory building, as well as the challenge of building in developed neighborhoods and the attendant cost of upgrading older infrastructure.[29] Permitting for infill projects can also be complicated, time consuming, and expensive. For example, the costs of compliance with the California Environmental Quality Act (CEQA) can add to the expense of processing permits and entitlements for infill projects. The high price of infill sites presents another barrier. Other factors such as onerous parking requirements and land use restrictions also contribute to high costs (as discussed above). In Sonoma County, the post-wildfire period has seen particularly high construction costs and labor shortages, exacerbating already existing high costs. These costs present a barrier to development unless consumers are willing to pay a higher price per square foot than they would for a competing low-rise, suburban-type product.[30]

## Solutions for Barrier #4: Improve and Streamline Local Permitting Processes for Infill

To reduce the high costs of building sustainable infill development, most solutions involve local reforms to fee structures, permit processing times, and environmental review.

**SPECIFIC SOLUTIONS:**

**Local leaders could reform fee structures to recognize the benefits of infill.** City and county leaders could apply a fee structure with one fee schedule for infill projects and higher fees for projects outside infill areas, in order to incorporate the benefits of infill and externalities of sprawl. Along these lines, the price of vehicle miles traveled (VMT) could be factored into the various tiers of fees, and local leaders could codify these differentiated fees. Local leaders could also defer, waive, or reduce fees for infill projects. Cities could also consider creating a "Downtown Fee District," in which all fees would be

> ## "Local governments should consider a two-tier fee system and look at real externalities based on data, including the cost of VMT. The key is having higher fees outside a certain infill line, compared to inside the line."
>
> — David Mogavero, Mogavero Architects

### Reducing Costs Per Door Through Building Electrification and Reduced Parking

Local governments can save infill units significant "costs per door" by offering developers the flexibility to avoid building expensive on-site parking and eliminate natural gas connections in favor of all-electrical appliances.

**Natural gas connection costs:** **$18,000 per unit**[33]

**Parking stall requirement costs:** **$30,000 (estimated)**[34] In general, one parking space per unit increases costs by approximately 12.5%, while two parking spaces can increase costs by up to 25%.[34]

**Total Savings "Per Door" From Eliminating Natural Gas and Parking:** **$48,000**

discounted for a certain time period. The City of Stockton's Downtown Financial Incentive Program presents a model for this approach.[31]

**State and local leaders could expedite the environmental review time for meritorious infill projects**. They could accomplish streamlining through assignment of specific staff persons to "shepherd" projects through the process and by reducing the levels of review required for certain projects. The City of Santa Rosa recently took a major step to expedite review of infill projects with the adoption of the *Resilient City Development Measures*, which was added to the City's Zoning Code, effective May 11, 2018. Its effectiveness will depend on the implementation effort by city staff. The city also supported passage of reforms and/or exemptions in the California Environmental Quality Act (CEQA) for projects in Santa Rosa. Specifically, the proposed Assembly Bill 2267 (Wood) would exempt residential projects consistent with Santa Rosa's downtown specific plan from CEQA review.[32] The city has already expedited the review time for the proposed infill apartment project in downtown at 404 Mendocino Avenue (discussed above).

**Industry leaders and other interested parties could host a "Lower Cost Building Technology Summit" to explore ways to reduce the cost of construction**. Information at the summit could be exchanged about how to lower the cost of construction and materials. Additionally, civic leaders could confer with local trade unions about labor rates and explore revisions to Santa Rosa's charter to relax prevailing wage and/or open shop requirements for infill projects. Some participants mentioned that lowering seismic insurance costs would reduce the overall cost of building and operating infill projects.

> ## "In San Francisco and Sacramento, we had persons from the city who were really dedicated to shepherding the projects through the city process. To the extent Santa Rosa can think about shepherds, that's really helpful."
>
> — Galen Wilson, Goldman Sachs

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# CONCLUSION & NEXT STEPS: THE FUTURE OF INFILL IN SONOMA COUNTY

With the rebuild from 2017's devastating wildfires in Sonoma County underway, state and local decision-makers face urgent decisions about the character of the new Sonoma County and its major cities like Santa Rosa. Economic, environmental, and quality-of-life concerns require this development to be sustainable and infill-focused. Unless policy makers act quickly to promote this development and take advantage of underutilized space and transit infrastructure, the opportunity may quickly fade. Given the urgent pressures to address the extreme housing shortage and need for more broad-based and equitable economic development, state and local leaders should consider acting on solutions such as those identified in this report by expert land use participants. Infill advocates should harness the experience, data, and supportive partnerships in the region to help rebuild Sonoma County into a more convenient, thriving, and environmentally sustainable place for residents of the county and beyond.

"Due to the fires, there has been a real loss of the bonds and sense of community. We should not lose sight of those who lost their homes."

- Caroline Judy, Sonoma County

# CONVENING ATTENDEES

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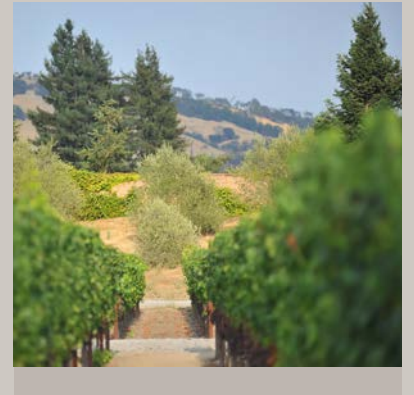Scott Ward, Urban Mix Development
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