

READ AND CONSIDERED
DATE 8/24/22 BY gp

Response to Grand Jury Report Form

Report Title: Affordable Housing: Past, Present and Future
Report Date: June 14, 2022
Response by: Teresa Barrett Title: Mayor
Agency/Department Name: City of Petaluma

FINDINGS: F1, F2, F3, F4, F5, F7, F10, F11, F12, F13, F14, F16, F17, F19, F20, F21, F22

I (we) agree with the findings numbered: F1, F2, F5, F6, F8, F9, F11, F13, F14, F16, F18, F20, F21, F23

I (we) disagree wholly or partially with the findings numbered: F3, F4, F7, F10, F12, F15, F17, F19, F22, F24

(Attach a statement specifying any portions of the findings that are disputed with an explanation of the reasons.)

RECOMMENDATIONS: R1, R2, R3, R4, R5, R6, R7, R8

- Recommendations numbered: R1, R4, R6, R7 have been implemented.
(Attach a summary describing the implemented actions.)
- Recommendations numbered: R2, R3, R5, R8 have not yet been implemented, but will be implemented in the future.
(Attach a timeframe for the implementation.)
- Recommendations numbered: _____ require(s) further analysis.
(Attach an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. ***This timeframe shall not exceed six months from the date of publication of the Grand Jury report.***)
- Recommendations numbered: will not be implemented because they are not warranted or are not reasonable.
(Attach an explanation.)

Date: August 17, 2022 Signed: Teresa Barrett

Number of pages attached: 11 pages attached

(See attached Civil Grand Jury Response Requirements)

SONOMA COUNTY GRAND JURY REPORT 2022
Affordable Housing: Past, Present and Future

City of Petaluma Responses to Findings

F1. Increased Affordable Housing has been mandated by the State of California and officially accepted by Sonoma County and its nine Cities.

The City of Petaluma agrees with the finding that the State of California has passed increased legislation to mandate the planning for, production of, and preservation of affordable housing to meet the needs of California residents. These mandates have increasingly been pushed to the local jurisdictions to implement proactively and reactively as applicable. The City Council has supported increased strategies to implement affordable housing in Petaluma in an effort to meet state requirements, as well as supported the implementation of state mandates such as SB 35 and AB 2162 to facilitate the production of much-needed affordable housing units, particularly to lower income households and special needs housing.

F2. Housing jurisdictions must show sufficient progress in meeting 6th cycle Regional Housing Needs Allocation mandates or they risk being fined or losing local authority over their housing programs.

The City of Petaluma agrees that there are state requirements to demonstrate progress toward meeting each cycles Regional Housing Needs Allocation (RHNA). Typically this reporting is through the preparation and submission of an Annual Progress Report demonstrating both production of housing units toward meeting RHNA but also implementation of key programs adopted to facilitate compliance with state mandates RHNA. The City of Petaluma has a good track record of submitting the annual reporting requirements to maintain the certification of its Housing Elements. Petaluma has seen consequences of not adequately producing housing units at the lower income level during the 5th cycle, resulting in the mandated ministerial processing of housing projects under SB 35 and is aware that similar consequences are outlined by the State of California for jurisdictions failing to demonstrate sufficient progress in meeting local RHNA during the upcoming 6th cycle.

F3. Sonoma County and its nine Cities have officially recognized the need for Affordable Housing but not all have fully endorsed the Regional Housing Needs Allocation or met earlier goals.

The City of Petaluma disagrees partially with the finding. The City of Petaluma and other jurisdictions in Sonoma County have recognized the need for affordable housing and taken strides to facilitate affordable housing to meet the needs of Sonoma County residents and implement state mandated RHNA across all income categories. While the City of Petaluma and other Sonoma County jurisdictions have been actively promoting needed resources and tools to facilitate the planning for, production of, and preservation of housing, not all jurisdictions have been successful in meeting the 5th cycle RHNA. The failure to produce housing units across all income categories to meet 5th cycle RHNA does not represent an unwillingness to “fully endorse” the RHNA.

F4. Some cities hinder the development of Affordable Housing through designation of new historic districts, increased landscaping requirements, highly restrictive zoning, and exploitation of environmental concerns.

The City of Petaluma disagrees wholly with the finding as it relates to Petaluma. The City of Petaluma has consistently supported affordable housing development and sought new strategies and innovative approaches to increase and facilitate affordable housing. While unable to respond for all cities within the State of California, the City of Petaluma has unequivocally not sought to hinder the production of affordable housing through adoption of new zoning regulations.

F5. Public acceptance of the need for Affordable Housing is not universal; NIMBYism and misinformation can negatively impact the planning and development process.

The City of Petaluma agrees with the finding. The term “universal” is general and there have been publicized reporting of examples of public objection to affordable housing in California cities. That said, the City of Petaluma generally has a record of strong public acceptance of the need for affordable housing to meet the housing needs of Petalumans. While NIMBYism has been an obstacle in the entitlement process for some housing development in Petaluma the issue has rarely been rooted in the affordability of the proposed housing.

F6. In Sonoma County, costs and availability of land, building supplies, and labor impede development and construction of Affordable Housing.

The City of Petaluma agrees with the finding. Sonoma County has a strong commitment to urban growth boundaries and community separators to ensure preservation of open spaces and avoid urban sprawl. One result of that commitment is a defined and limited boundary for development. Additionally, the cost of building supplies and limited availability of labor has significantly increased cost to the construction of affordable housing in the region.

F7. There is great variability in the planning and approval processes and procedures for developing Affordable Housing in the County and its Cities, thus complicating and slowing development.

The City of Petaluma disagrees partially with the finding. While acknowledging that there is variability in the planning and approval processes in each Sonoma County jurisdiction, that does not necessarily complicate or slow down development of housing. Each jurisdiction is responsible for ensuring that the development within its local boundaries is responsive to the community's housing needs balanced with the community's vision. One size does not fit all communities and it is vital that local jurisdictions retain local discretion to ensure that the uniqueness and individuality of their community is preserved, enhanced, and evolves consistent with the community's vision. The local discretion should not intentionally complicate or obstruct the production of needed affordable housing in each jurisdiction and it is up to the individual city/county to develop tools to facilitate much needed housing while respecting community character, desired engagement, etc.

F8. Financing of Affordable Housing projects is unusually complex, slow, and uncertain.

The City of Petaluma agrees with the finding. The City of Petaluma has a strong history of working in partnership with our affordable housing providers to gain funding to finance affordable housing projects. The City of Petaluma has a good track record of awarding local funding to help make other funding applications more competitive for our affordable housing providers. When appropriate the City of Petaluma has partnered with affordable housing providers for funding awards to cover ancillary aspects such as pedestrian network improvements, enhanced transit opportunities, and infrastructure investment. City staff regularly prioritizes production of necessary local reporting, letters of support, and other documents for grant applications as requested by affordable housing providers.

F9. Funding of Affordable Housing is often directed to specific groups such as seniors, veterans, or agricultural workers.

The City of Petaluma agrees with the finding. However, the use of the term “often” is general and not defined. Therefore, the City does not have a way, other than via anecdotal observation, to confirm that funding is “often” directed to specific groups. The city funding is generally targeted based on Area Median Income (AMI) levels, and additional project funding is usually obtained with targeted funding/grant opportunities.

F10. Design review and project approval are often slow and very complex, and hinder the development of Affordable Housing.

The City of Petaluma disagrees partially with the finding. While an onerous design review can hinder development, the City of Petaluma has worked closely with affordable housing providers to expedite processing of applications for affordable housing projects. Both through the use of state ministerial review to reduce processing times and through the use of applicable environmental exemptions staff has looked for ways to efficiently reduce the complexity and increase the efficiency in order to permit affordable housing projects. However, the terms “slow” and “very complex” are un-defined and subjective, so it is unclear at what point the Grand Jury would consider this issue to have been solved.

F11. The permitting regulations, processes, and fees differ by jurisdiction.

The City of Petaluma agrees with the finding. There are nuanced differences in entitlement review, internal processes, and adopted fees structures between nine Sonoma County cities. However, it is common to consult with our neighboring jurisdictions when looking to update fees or consider process revisions to learn from what other cities are doing and whether adopting something similar would be beneficial to the City of Petaluma.

F12. Mitigation fees vary by individual projects and jurisdictions, complicating the building of Affordable Housing.

The City of Petaluma disagrees partially with the finding. It is true that mitigation fees vary by individual projects and jurisdictions. The City is unclear what the nexus is between that fact and the “complicating the building of Affordable Housing” that is referenced in the finding.

F13. The speed of issuing permits has improved in some jurisdictions, but greater efficiency would help meet the building needs of Sonoma County.

The City of Petaluma agrees with the finding. The City of Petaluma recognizes that increased efficiency in review and issuance of permits is vital to projects moving forward. This is especially true with affordable housing projects often with tight timelines related to grant funding or limited resources to go through multiple rounds of review. While there is recognition and steps have been taken to increase processing times, faster more streamlined review is always the objective and assumed to always assist in furthering construction of housing in Sonoma County.

F14. Payment of in-lieu fees to the housing jurisdiction results in fewer inclusionary Affordable Housing units and houses being built.

The City of Petaluma agrees with this finding. The cost of residential development continues to increase with minimal if any discount for an affordable versus market rate unit. Despite local increases in in-lieu fees by individual jurisdictions, the fees do not recoup the increasing construction costs. For this reason, in 2018 the City of Petaluma updated their local inclusionary housing ordinance to eliminate the option of payment of housing in-lieu fees and requiring onsite inclusionary housing equal to 15% of market rate units. Under the current ordinance, a 100-unit market rate apartment development is required to include 15 affordable units split between the low and very low income categories. Based on the average per unit construction cost of \$700,000 the City would need to charge \$10,500,000 in in lieu fees to construct 15 units of affordable housing.

However, the City of Petaluma recognizes that in lieu fees play an important role in a holistic local housing program in that the City needs housing funds to award to affordable housing providers to demonstrate local match and help affordable housing projects be more competitive for outside funding. It is thought that a local match can be leveraged to multiply each dollar by four.

F15. Development of commercial projects such as hotels and big box stores is often favored over housing due to lesser demand on public services and increased sales or occupancy tax revenue.

The City of Petaluma disagrees with the finding. While it is true that hotel and retail projects can generate significant tax revenues for cities, there is not a track record of commercial projects being favored through the development review process in Petaluma. As previously stated, the City of Petaluma is not averse to affordable housing development at the community level nor at the political level.

F16. Recent legislation encourages construction of transit-oriented infill housing but has yet to show a large effect.

The City of Petaluma agrees with the finding. Sonoma County has not historically had a particularly dense development pattern which has made creation of a transit system more difficult. The commencement of SMART service along the Highway 101 corridor along with various bus service in the County has begun to provide transit options for Sonoma County residents. However, there is great room to expand and augment existing service to make transit a more viable option for residents.

Additionally, much of the funding opportunities from the State to facilitate the development of TOD infill housing has been structured in such a way that Sonoma County often does score competitively. For instance, there are often locational requirements that a development must be located near "high quality transit" to qualify for funding, but the design of SMART on the single rail corridor does not provide the option of service with 15 minute headways.

F17. Changes to city boundaries by annexation of land within their Spheres of Influence could allow the development of more Affordable Housing but is resisted due to the high costs of additional infrastructure.

The City of Petaluma disagrees partially with the finding. The City acknowledges that there are parcels that lie outside of Petaluma City Limits but within the Urban Growth Boundary that could be developed for housing. However, many if not all of these parcels present site-specific challenges to development of affordable housing. Most of the parcels available for annexation are not proximate to transit or services and are often within areas of high VMT ("vehicle miles travelled"). Additionally, many of the available parcels have environmental challenges such as steep topography or within flood prone areas that further challenge development of affordable housing. The cost of infrastructure may be an added challenge for development of these parcels, but it is not clear that is the primary reason for postponing annexation requests.

F18. The time periods for which new Affordable Housing units cannot convert to market-rate prices have been lengthened to preserve the units as Affordable.

The City of Petaluma agrees with the finding. There have not been significant changes to the City of Petaluma's required affordability term for deed restricted affordable housing. However, it is relatively common for the City of Petaluma to partner with the Sonoma County Housing Land Trust for oversight and management of inclusionary housing units as part of market rate housing development. The standard term of the SCHLT model is 99-year ground lease which is significantly longer than the City's required affordability term of 45 years for rental and 55 years for ownership. Obviously a longer affordability term ensures that the units are kept affordable for a longer period of time which is a plus for ensuring available units to those in need.

F19. Rehabilitation and the repurposing of existing properties both preserve and increase the supply of Affordable Housing.

The City of Petaluma agrees with the finding. The city has an active program that is focused on rehabilitation of existing properties. The city works in partnership with Rebuilding Together Petaluma. An organization focused on providing health, safety and accessibility improvements for low-income homeowners. A second example is the city recently partnered with Burbank Housing and provided funding for a substantial rehab of the 89-unit low-income rental community, Old Elm Village. The city is currently working on a project that will repurpose an existing 60-unit hotel to 60 units of permanent supportive housing for chronically homeless members of the community.

F20. Inclusive Affordable Housing must be equivalent to market rate units and be dispersed throughout a project making it harder to identify and stigmatize them.

The City of Petaluma agrees with the finding. The City of Petaluma's inclusionary ordinance (Implementing Zoning Ordinance Section 3.040) specifies that inclusionary units must be: Constructed and occupied concurrently with or prior to the construction and occupancy of the market rate residential units in the project, unless an alternative schedule based on extenuating circumstances is adopted as part of the project approval. In phased projects inclusionary units shall be constructed and occupied in proportion to the number of units in each phase of the project; distributed throughout the residential project site, to the fullest extent practicable; and have comparable and compatible design, appearance and general quality to the design of the market rate units as determined through the Site Plan and Architectural Review process, provided that all other zoning and building codes are met.

F21. Manufactured and factory-built home construction provide less expensive routes to Affordable Housing without necessarily reducing its quality.

The City of Petaluma agrees with the finding. There have been great strides in the design and quality of pre-fabricated construction in the last decade. Additionally, there is often an economic efficiency in their production which could make them attractive for affordable housing production. However, given the constraints on available land and indisputable climate crisis that all Sonoma County jurisdictions are faced, with the focus has been on denser multi-family development in proximity to transit and services. This housing product does not readily lend itself to prefabricated housing units.

F22. Design modifications can help make Affordable Housing projects economically viable.

The City of Petaluma disagrees with the finding. The City does not understand to what this finding is referring.

F23. Contrary to commonly expressed fears, Affordable Housing does not usually affect local property values.

The City of Petaluma agrees with the finding. The City of Petaluma is not aware of any reduction in property values near any existing affordable housing development in the City. Additionally, consistent with the City's inclusionary housing ordinance, outside of 100%

affordable housing project, the affordable housing units are scattered in market rate housing development and are indistinguishable from market rate units.

F24. Vacation homes, time shares, Airbnb, Pacaso houses, and vacant houses reduce the number of units available to permanent residents and, by reducing supply, increase the cost of housing.

The City of Petaluma agrees with the finding. A proliferation of conversions can reduce housing supply which in turn can increase the cost of housing. The City of Petaluma has limited the ability of accessory dwelling units to be used for short term rentals to ensure that new ADUs developed under newer regulations are in fact added to the City's housing supply and not built to facilitate vacation rentals. The City of Petaluma has not seen an undue concentration of vacation rentals to believe that they have caused an acute reduction in housing supply in the City.

City of Petaluma Responses to Recommendations

R1. By December 31, 2022, Permit Sonoma and the nine Cities should begin to streamline their procedures, from preliminary review through the permitting process, related to the development of Affordable Housing. (F7, F10, F11, F13)

The recommendation has been implemented. The City of Petaluma has done a number of things to streamline procedures to facilitate the development of affordable housing over the last couple of years and in collaboration with local affordable housing providers. The City has utilized several of the recent state bills to encourage and facilitate the review and approval of affordable housing projects, including two projects under the provisions of SB 35 and one additional project under AB 2162. Those three projects streamlined the approval of over 230 lower income units, including 30 permanent supportive housing units. Additionally, the City of Petaluma adopted a shelter crisis resolution in 2021 and relied on the flexibility that declaration provided through state regulation to develop a 25 non-congregate units to expand the City's existing homeless shelter to quickly respond to the acute need as a result of covid impacts to the City's unsheltered population.

The City of Petaluma is currently streamlining the review and permitting process for a 60 unit motel conversion to permanent supportive housing funded through the City's HomeKey award and in partnership with Burbank Housing. Use of the City's weekly Development Review Committee to collaborate as a cohesive City team along side Burbank Housing has allowed real time identification and resolution of issues to keep the project moving forward on an aggressive timeline.

The City of Petaluma is currently working on a significant effort to increase transparency and education related to the ADU permitting process to respond to community feedback and to facilitate ADU construction as a component of a holistic affordable housing program. This includes partnership and funding for the Sonoma Napa ADU Accelerator program as well as public facing information about resources and the local permitting process.

While the City of Petaluma has been focused on improving our internal processes specifically to facilitate affordable housing production, the City is committed to continuing to find ways to improve efficiency. The City is currently in the process of developing our 6th cycle Housing Element which in part identifies governmental constraints and develops programs to address those constraints. Once adopted the City is committed to implementing those programs and providing annual reporting of the status and resulting affordable housing production toward the increased 6th cycle Regional Housing Needs Allocation.

R2.By December 31, 2022, Permit Sonoma and the nine Cities should meet to consider standardizing their procedures related to the development of Affordable Housing. (F7, F10, F11, F13)

The recommendation has not yet been implemented, but will be implemented in the future, within the recommended timeframe to the extent possible with the regional partners. The City of Petaluma has an ongoing practice of meeting with our Sonoma County partners to discuss issues of regional importance and to keep apprised of the challenges and policy initiatives that all jurisdictions are facing. This communication and collaboration happens at a variety of level and on a regular schedule, including monthly City Manager meetings, monthly Planning Advisory Committee meetings, quarterly City Attorney meetings, and similar across a variety of departments. Of relevance, the Sonoma County jurisdictions have established a housing ad hoc that meets regularly to discuss specific housing issues and share approaches among jurisdictions. The City of Petaluma remains committed to the collaboration and partnership with our regional partners as it assists in creating efficiencies and learning from the relevant experiences of other Sonoma County jurisdictions. The City of Petaluma will participate in any subsequent meeting with Permit Sonoma and the nine Sonoma County cities to discuss the findings and recommendations of the Grand Jury Report. However, the level or appropriateness of standardizing procedures related to the development of affordable housing remains unknown given the localized needs of each jurisdiction.

R3.By December 31, 2022, Permit Sonoma and the nine Cities should meet to discuss the coordination of fee reduction standards for Affordable Housing throughout the County. (F11, F12, F14)

The recommendation has not yet been implemented, but will be implemented in the future, within the recommended timeframe to the extent possible with the regional partners. The City of Petaluma has an ongoing practice of meeting with our Sonoma County partners to discuss issues of regional importance and to keep apprised of the challenges and policy initiatives that all jurisdictions are facing. This communication and collaboration happens at a variety of level and on a regular schedule, including monthly City Manager meetings, monthly Planning Advisory Committee meetings, quarterly City Attorney meetings, and similar across a variety of departments. Of relevance, the Sonoma County jurisdictions have established a housing ad hoc that meets regularly to discuss specific housing issues and share approaches among jurisdictions. The City of Petaluma remains committed to the collaboration and partnership with our regional partners as it assists in creating efficiencies and learning from the relevant experiences of other Sonoma County jurisdictions. The City of Petaluma will participate in any subsequent meeting with Permit Sonoma and the nine Sonoma County cities to discuss the

findings and recommendations of the Grand Jury Report. However, the level or appropriateness of coordinating fee reduction standards for affordable housing remains unknown given the localized needs of each jurisdiction and the parameters of the City of Petaluma's existing impact fee programs.

As part of the City of Petaluma's current Housing Element update the City has included a program in the draft Housing Element to reevaluate the City's development impact fee schedule to look for ways to incentivize housing and particularly affordable housing. Following adoption of the Housing Element and updated General Plan the City will initiate a fee study to identify efficiencies as applicable.

R4. By December 31, 2022, Permit Sonoma and the nine Cities should identify properties within their jurisdictions and Spheres of Influence that could support the construction of infill housing and accessory dwelling units. (F1, F2, F3, F4, F16, F17)

The recommendation has been implemented. The City of Petaluma and all of the nine Sonoma County cities have General Plans that include land use designations for all properties within each cities' Urban Growth Boundaries. A residential land use designation indicates that the City of Petaluma has previously analyzed and identified the property as appropriate to support the construction of residential development. Additionally, the City of Petaluma has adopted ADU regulations consistent with mandates from the State of California that allow ministerial review and permitting of ADUs on all single family and multi-family parcels. The City's ADU ordinance minimizes setbacks and doesn't require any parking for the new ADU or replacement parking for garage conversions for the main dwelling. Additionally, the City of Petaluma's impact fee structure is set up as a sliding scale based on the size of the main dwelling for ADUs greater than 750 square feet. No impact fees are collected for ADUs that are 750 square feet or less in size.

R5. By December 31, 2022, Permit Sonoma and the nine Cities should identify properties within their jurisdictions and Spheres of Influence that are likely opportunities for rehabilitation or repurposing to increase the availability of Affordable Housing. (F16, F19, F22)

This recommendation has been partially implemented. The city does not have an active program or dedicated funding source currently, but as state and federal funding for this type of program becomes available, the city works with community partners to secure funding and pursue opportunities. An example is the current HCD Homekey Program. The City is working in partnership with Burbank Housing and has secured \$15 million in grant funding to purchase and rehab an existing underutilized hotel, and convert the property in to 60 units of permanent supportive housing for chronically homeless members of our community,

R6. By June 1, 2023, Permit Sonoma and the nine Cities should develop permit ready accessory dwelling unit and junior accessory dwelling unit plans. (F1, F2, F3, F4, F5, F7, F10, F11, F13, F21, F22)

This recommendation has been partially implemented and the City of Petaluma will continue to work to implement this recommendation in partnership with the Napa Sonoma ADU Accelerator Program. The Napa Sonoma ADU Accelerator Program has collaborated with all nine Sonoma County cities and Permit Sonoma to compile each jurisdiction's ADU regulations, fee structure, and permitting process. Additionally, the organization is compiling a wide range of ADU plans that are offered for a reduced cost through licensing with the architect in order to facilitate ADU development in the County. The City of Petaluma is contributing financially through SB 2 grant funds, as many Sonoma County cities also contributed, to the ongoing operation of the organization. The City of Petaluma is currently updating its website to more fully provide educational information and resources for residents to assist in exploring the possibility of building ADUs as a integral part to Petaluma's overall housing program.

R7. By December 31, 2022, Permit Sonoma and the nine Cities should discuss integration of preliminary design review committees with their planning commissions to help expedite the construction of Affordable Housing. (F1, F2, F3, F4, F5, F7, F10, F11, F13, F19, F20, F21, F22)

The recommendation has been partially implemented and the City of Petaluma will continue to look for ways that the existing Development Review Committee can help expedite the construction of affordable housing. The City of Petaluma has a weekly Development Review Committee that provides opportunity for potential applicants to meet with staff representatives from all internal departments to gather initial feedback on projects prior to formal application and during the review period as helpful to further the City's review and to identify potential issues early and often. This forum is particularly helpful to affordable housing projects by increasing dialogue between the developer and the City. This dialogue and collaboration then informs the analysis presented to the Planning Commission as applicable. The City has received positive feedback that the current DRC process is helpful in addressing issues early in the review process which in turn helps to expedite the review and permitting of housing projects. The City of Petaluma is committed to continuing to look for innovation and creativity to streamline affordable housing production, including objective design standards, fee reductions, zoning code updates, etc. all of which are being discussed in the development of the 6th cycle housing element to identify and address development constraints to housing development.

R8. By December 31, 2022, Permit Sonoma and the nine Cities should review their permitting requirements to allow nontraditional options such as manufactured homes, factory built homes, and tiny houses to increase housing supply. (F1, F2, F3, F4, F5, F10, F11, F13, F21, F22)

The recommendation has not yet been implemented but will be implemented as part of the City of Petaluma's updated Housing Element, General Plan, and concurrent Zoning Code Update. While the City of Petaluma's current planning regulations do not prohibit manufactured homes, factory built homes, or tiny homes, staff recognizes that ancillary regulations may create obstacles to the use of these housing products, such as parking regulations and setbacks. The City of Petaluma is currently in the process of a comprehensive update to its General Plan and the subsequent/concurrent step of updating the Zoning Code to implement new General Plan

policy. As part of this effort the City will look at regulations and associated permitting processes to ensure that there are not unnecessary obstacles to use of nontraditional housing options.