



City Council AGENDA REPORT

DATE: 08/03/2023

AGENDA OF: 08/22/2023

DEPARTMENT: Planning and Community Development

SUBJECT: Regional Early Action Planning (REAP) 2.0 Regional Funding Grant Application for Promoting Inclusive Residential Infill Development through Objective Standards for Properties with R-1 Single Family Residence Zoning (PL)

RECOMMENDATION: Resolution authorizing staff to apply for State of California REAP 2.0 competitive funding in the amount of \$750,000 to plan for more inclusive residential infill housing options in neighborhoods.

BACKGROUND: The adopted FY 2022 California Budget established a second Regional Early Action Planning grant program (REAP 2.0). The City previously received a REAP 1.0 grant to help fund the Downtown Plan Expansion planning efforts. The REAP 2.0 grant has three key objectives: 1) accelerate infill development that facilitates housing supply, choice, and affordability; 2) affirmatively furthering fair housing (AFFH); and 3) reduce vehicle miles traveled (VMT). REAP 2.0 is administered by the California Department of Housing and Community Development (HCD), and the funding is then managed at the regional level by the Association of Monterey Bay Area Governments (AMBAG).

Two types of REAP 2.0 grants are available: local, non-competitive funding based on jurisdiction size (\$180,000 for the City of Santa Cruz) and regional, competitive funding (\$6 million total available with a minimum project award of \$500,000). This item is for regional competitive funding and applications are due on August 31, 2023.

Senate Bill 9 (SB 9) was signed on September 16, 2021, and went into effect on January 1, 2022. SB 9 allows single-family homeowners in most areas of the state to build two primary dwelling units on their lot or subdivide their property into two lots to allow for the sale of the other lot. SB 9 development can be combined with existing Accessory Dwelling Unit (ADU) law to allow for up to four units on a current single-family lot in Santa Cruz.

The City follows SB 9 requirements per state law and provides guidance documents to interested homeowners, but the State wants jurisdictions to formally bring state law into the Municipal Code by passing an SB 9 Ordinance. Creating a formal ordinance would allow the City to develop additional objective design standards to better control the look and feel of SB 9 development in neighborhoods.

SB 9 is part of a broader push for more “Missing Middle” housing opportunities in cities. Missing Middle gets its name because most cities, like Santa Cruz, do not have many housing options between single-family houses and larger apartment/condo complexes. Housing types like duplexes, triplexes, and fourplexes were once far more common across the United States, and this housing variety helped cities be more affordable, diverse, and inclusive.

In 2018, the California State Legislature passed AB 686 which introduced AFFH requirements statewide. Per California Department of Housing and Community Development (HCD), AFFH requires that all state and local public agencies “facilitate deliberate action to explicitly address, combat, and relieve disparities resulting from past patterns of segregation to foster more inclusive communities.” Since 2021, all Housing Elements must include AFFH policies and programs to make proactive changes to promote more inclusive communities.

Staff proposes to apply the REAP 2.0 competitive grant funding in the amount of \$750,000 for the development of objective standards for R-1 zoning. These objective standards would apply to new single-family homes, duplexes, and SB 9 development, and create new avenues to build inclusive neighborhood infill housing types such as triplexes and fourplexes in alternative ways to those already allowed by SB 9. Doing so would meet the REAP 2.0 grant funding goals, AFFH goals, VMT reduction goals, and various Housing Element goals, as discussed below in greater detail.

DISCUSSION:

The three key drivers of this proposed infill planning work include neighborhood compatibility, housing affordability, and equity. The City is in need of more design controls to support neighborhood compatibility. With SB 9, four units can already be built on most single-family, R-1 Zoning lots. However, the City currently has few objective development standards specifically tailored to this type of development in single-family neighborhoods. The City would like more design standards for this legislation, especially as it relates to combining SB 9 development with ADUs.

Achieving four units on a lot through SB 9 currently requires at least two detached structures, which typically takes up more land, requires more utility connections, and requires more exterior construction, all adding to housing cost. Through the REAP 2.0 grant, the City will explore how best to allow housing types such as fourplexes in R-1 Zoning. One way to achieve this could simply be allow three attached ADUs to function like a fourplex. Currently, the City’s Code and State ADU law allow for a single-family home to have one attached (or detached) ADU and one attached Junior ADU for a maximum of three attached units. Fourplex-style development would allow four units to be attached, rather than in at least two separate structures, as would be the case if four units were proposed under SB 9. The City can control the size and feel of this housing type to help ensure the construction is compatible with single-family housing. Fourplexes with objective design standards could also potentially have larger side and rear setbacks that are not currently possible with detached ADUs or SB 9 units under the current regulations.

New, larger single-family homes in Santa Cruz also need more objective standards to improve compatibility with the nearby neighborhood. Portland instituted a similar program, called the Residential Infill Project, which created a maximum size for single-family development but allowed for additional square footage in a tapered manner for each additional unit. Since this

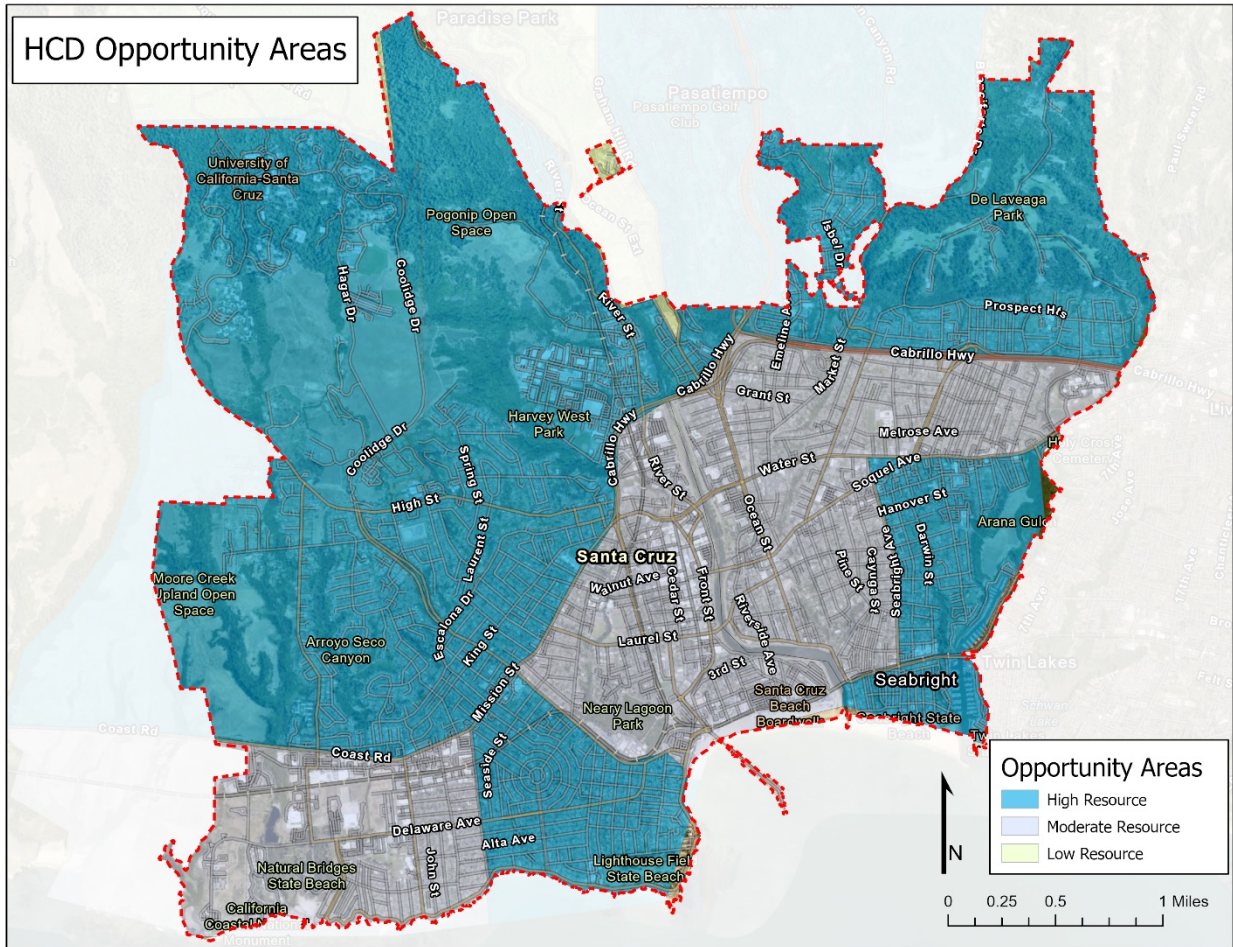
program was adopted in 2021, the cost of an average new single-family house has gone down (due to their relatively smaller size), while the City has seen 271 new Missing Middle units (duplex/triplex/fourplex) in just one year.

Additionally, an average triplex or fourplex unit can be cheaper to rent than an ADU of comparable size. When it comes to adding housing variety to support affordability, this housing type is important. The City has the opportunity get grant funding to study how these housing types will successfully fit into neighborhoods and provide for greater housing options and improved natural affordability. Not only is the cost of the unit important, but where the unit is located is important as well. More units in established neighborhoods near amenities and services to meet daily needs is a great way to reduce vehicles miles traveled, minimizing traffic and greenhouse gas impacts. And compared to the region, the City has a relatively lower average VMT, so promoting growth in the City reduces regionwide per capita VMT. Situating additional units in historically single-family only neighborhoods is also vital to addressing long-standing inequity in the community. Portland's Residential Infill Project report states:

A history of racially discriminatory decision-making and public policies have contributed to many of today's inequitable outcomes for communities of color. While some groups and neighborhoods prospered, Black, Latino, Native American and immigrant households have faced structural barriers to housing stability and economic mobility. The historic use of racially restrictive covenants and redlining by both public and private entities directly contributed to today's racial disparities in homeownership rates and wealth attainment. It also contributed greatly to the geographic racial segregation that still exists.

The City of Santa Cruz is currently drafting policies in its Housing Element update to help address equity, prevent displacement, and provide for ongoing affordability. Planning for additional types of housing in historically single-family neighborhoods is consistent with these policies and is also an important way to meet AFFH goals.

The California Tax Credit Allocation Committee and HCD developed a statewide Opportunity Map to identify areas of low to highest opportunity. Per HCD, this map: "identifies areas in every region of the state whose characteristics have been shown by research to be most strongly associated with positive economic, educational, and health outcomes for low-income families – particularly long-term outcomes for children – when compared to other neighborhoods in the same region. The map also identifies areas in California that are both high poverty and racially segregated." The Opportunity Map for Santa Cruz is below. Note that many historically single-family neighborhoods are in "high resource" areas. Providing more flexibility to build a greater variety of housing in these neighborhoods is a prime way to affirmatively further fair housing.



The Portland model also included opportunities to add two additional units beyond a fourplex if the project includes affordable units. A similar model could be studied for Santa Cruz as part of this project. Staff envisions that rather than this be citywide, additional density in exchange for affordable housing might be located only near high quality transit. This would follow the State’s Senate Bill 10 (SB 10, also passed in 2021) that allows for a streamlined process to rezone properties near high quality transit to allow up to ten units if a City so chooses. This is an example of the kind of work that could be done in conjunction with the project to develop new objective standards and create more compatible infill development in neighborhoods.

To summarize the project, the City will apply for a competitive REAP 2.0 grant in the amount of \$750,000 to create the following:

- Additional objective standards for single-family homes and duplexes
- Additional objective standards for Accessory Dwelling Units
- New objective standards for SB 9 development
- R-1 Zoning to allow triplexes and fourplexes (as alternate ways to achieve up to the four units in R-1 Zoning already allowed under SB 9)
- New objective standards for triplexes and fourplexes
- Explore and potentially prepare new objective standards for additional units, beyond four units, in select areas of the City where SB 10 and AFFH objectives are met

The project seeks to:

1. Address existing neighborhood compatibility concerns.
2. Provide for a greater variety of housing to improve housing affordability.
3. Support greater inclusion and equity in Santa Cruz.

Health in All Policies

The goal of Health in All Policies (HiAP) is to ensure that decision-makers are informed about the impacts on the three HiAP pillars of health, equity, and sustainability when reviewing projects and policy options. REAP 2.0 grant funding for neighborhood infill planning supports all three pillars. The grant funding would support an innovative project that would seek to create a greater variety of housing, lower housing costs, affirmatively further fair housing, and reduce regionwide VMT. This project would significantly achieve the HiAP's health, equity, and sustainability goals.

ENVIRONMENTAL REVIEW: An application for a grant does not constitute a project under CEQA. Should the grant be approved, a necessary CEQA determination will be made as part of the project. However, staff does not envision this project creating impacts under CEQA. The project would allow the same number of units and in the same locations that SB 9 already allows, and those projects are exempt from CEQA. Density beyond SB 9 development would also be exempt from CEQA should it be eligible for SB 10 streamlining.

FISCAL IMPACT: The REAP 2.0 grant will provide funding in the amount of \$750,000 to plan for Missing Middle infill housing throughout the City. Over time, housing generally has a negative fiscal impact for the City, as the cost of providing services tends to exceed the property tax and sales tax increases resulting from the new construction and resident spending. Increased project density reduces the possible negative fiscal impact of residential development due to economies of scale. A project developer is required to pay City application fees to cover staff time in processing applications and conducting inspections, and impact fees will be paid to help offset the costs of planned improvements associated with various City service areas, such as parks and transportation.

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ATTACHMENTS:

1. RESOLUTION.DOC