



City Council Staff Report

Subject: Inclusionary Housing Report and In-Lieu Fee Discussion

Date: April 28, 2026

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Department: City Manager's Office

Recommendation:

Provide Direction to Staff for the Adoption of an Inclusionary Housing In-lieu Fee and Revisions to the Inclusionary Housing Ordinance.

Background:

March 24, 2026 City Council Meeting Summary

On March 24, 2026 staff presented the draft Affordable Housing Inclusionary Program and Commercial Linkage Fee Analysis (the "report") prepared by Keyser Marston Associates (KMA). The report, included as Attachment 2, marks the summary of a year-long effort to evaluate the impact of residential and commercial development on affordable housing demand and Rocklin's state-mandated obligations to create affordable housing in Rocklin's current development market. The report recommends the City adopt a long-term inclusionary housing ordinance and a by-right in-lieu fee. The report also provides recommended fee levels for a commercial linkage fee if the City Council directs staff to establish a commercial linkage fee. The report demonstrates that market rate housing and commercial development in the City drive the affordable housing demand. The report also contains a feasibility analysis that tests different fee amounts and on site unit requirements.

The report recommends the following:

Residential Development

- The City establish an inclusionary housing program including an onsite obligation and an in-lieu fee option
- All residential projects should be subject to an onsite obligation equal to 5% of units at Low Income
- Developments should be allowed to pay an in lieu fee by right at \$5 per square foot of living area.
- Projects with nine or fewer units should be exempt from the affordable housing requirements

The report includes additional considerations for implementation, including considering a lower fee for multi family developments and annual indexing of the fee using the California Construction Cost Index.

Nonresidential Development

If the City Council directs staff to establish a commercial linkage fee program on non-residential development, then KMA recommends the following:

- The City establish fees for affordable housing consistent with the Nexus Study's conclusion that demand for affordable housing is created by nonresidential development.
- Fees should be comparable to other similar fees in the market.
- New office, hotel, and commercial development fees in the market are approximately \$2.75 to \$3.00.

The report also mentions that the City could consider reducing the fee in certain areas to incentivize development, like downtown.

At the conclusion of the March 24 discussion, the City Council directed staff to return with additional information about the following items:

- How much vacant land for residential development is left in Rocklin, and how much fee revenue could be expected to be generated from that land if it was all developed at market rate?
- Is it possible to charge a different fee depending on the square footage of each dwelling unit and exempt smaller units from fees?
- Can developers opt to construct an ADU as their on-site obligation instead of paying the in-lieu fee?
- How many affordable units could be constructed with in-lieu fee revenue?

In the next section, staff is presenting material designed to provide the City Council with sufficient information to continue discussion. At the conclusion of the report, staff summarizes **next steps** for City Council consideration.

Responses to March 24, 2026 Information Requests

Vacant Residential Land and Possible Fee Revenue

The City has approximately 372 acres of vacant parcels zoned for residential development with over half of that acreage as Low Density Residential (LDR). As the City continues to build out, the majority of the residential growth will happen in areas that are LDR. The General Plan defines LDR as 1-3.4 units per acre, generally producing large single-family homes. The next highest available land is on Medium Density Residential (MDR). The General Plan defines MDR as 3.5-8.4 units per acre. These are typically medium to large single-family homes. Attachment 1 - Table 1 shows the summary of acreage based on General Plan Designation and Density for all residential zoning types: RR: Rural Residential; LDR: Low Density Residential; MDR: Medium Density Residential; MHDR: Medium High Density Residential; HDR: High Density Residential.

These sites would generate approximately 1,072 units at the lowest density, up to 2,910 at the highest density. The potential number of units generated is based on density alone and does not differentiate between single family or multifamily developments.

KMA's Draft Inclusionary Analysis identified five prototype residential developments based on information from prior developments in Rocklin, the greater Sacramento region, and industry trends. These prototype developments are:

Low-Density Single-Family Development – 3,400+ sf

Medium Density Single Family Development – 2,500 sf

Medium High-Density Single-Family Development – 1,800 sf

Townhomes – 1,600 sf

Apartments – 975 sf

Staff used these prototypes to analyze the potential square footage of homes that could be produced on vacant residential parcels based on the allowable density of each parcel. If all vacant acres were developed with housing, at the lowest density this would result in approximately 1.9 million square feet of housing; at the highest density it would result in 5.5 million square feet of housing (see Attachment 1 – Table 1).

Based on feedback from City Council, staff developed three possible fee scenarios and the potential revenue that could be generated to support affordable housing. All scenarios assume that the sites would be developed at market rate and the applicant would pay the in-lieu fee instead of building housing on site. This fee analysis is included in Attachment 1 - Tables 2-4.

The first scenario is a \$5 per square foot in lieu fee on all residential development (Attachment 1 – Table 2). This fee could generate between \$9.8 million to \$27.6 million in fees.

The second scenario is a \$5 per square foot fee for large homes greater than 3,000 square feet (Attachment 1 – Table 3). This fee could generate between \$3.8 million and \$ 12.8 million.

The third scenario is a graduated fee based on the square footage of the development (Attachment 1 – Table 4). For units with 1,000 square feet or fewer, no fee would be applied. As the square footage increases, the fee increases as well. Since housing costs are generally driven by the size of the units, the assumption is that the lower square footage units would be more affordable by default. This graduated approach could generate between \$5.2 million and \$15.4 million in revenue.

Accessory Dwelling Units

Accessory Dwelling Units (ADUs) are smaller residential units that are built on existing single family lots. In Rocklin, ADUs can be constructed as attached units or detached units. For the purpose of the City's Regional Housing Needs Allocation (RHNA), the City can claim up to 40 ADUs for the total RHNA cycle, 30 in the Very Low/Low category and 10 in the Moderate category. This restriction is set in the City's Adopted Housing Element. The existing inclusionary housing ordinance requires projects constructing ten or more units to provide a minimum of:

- 15% of units to be sold or rented to low-income housings or;
- 10% of units to be sold or rented to very low-income households or;
- 5% or units to be sold or rented to extremely low-income households

If the City were to allow a project to construct ADUs to meet these obligations, there would be restrictions. In order for them to count toward the City's RHNA obligation, the units would need to be:

- Deed restricted. A deed would need to be recorded on the property stating that the units would only be rented to households who are income-qualified.
- Annual reporting. The City would need to receive a report annually from every deed restricted property that they are complying with the regulations in the deed restriction.

Some jurisdictions allow the construction of ADUs to meet inclusionary obligations; however, they do not have the same reporting limitations that Rocklin has. Placer County recently approved a 322-unit single family subdivision in November of 2025. Below is a summary of the process they undertook to approve the construction of ADUs to meet RHNA obligations:

- An affordable housing agreement was executed at the recording of a final map.
- The agreement allows developer to satisfy the 10% on-site requirement with the development of 33 homes with ADUs that do not exceed 750 square feet.
- The affordable housing agreement cites the Housing Element policy, which allows the county to consider ADUs of less than 750 SF to be affordable by design and eligible to satisfy the low-income requirements in specific plans and new developments.
- The project will record deed restrictions on 32 homes with ADUs which do not restrict income or rents but do prohibit: short term rental, no separate sale of ADU, and limit size to 750 SF. The County may enforce the deed restrictions.
- The deed restrictions have to be recorded before a building permit is issued.
- The property owner is also required to submit an annual self-certification form to verify compliance.
- In the event of non-compliance, the County has the right to enforce the restrictions.

If the City allowed the construction of ADUs to meet inclusionary requirements, the City could not report more than five units per year to meet RHNA obligations under the current adopted Housing Element. If the direction of the City Council is to move forward with allowing ADUs to meet RHNA obligations, then staff recommends taking an amendment to the Housing Element to claim more units per year. This would require the Department of Housing and Community Development (HCD) to approve the amendments as well, which is an approximately four to six month process.

The Sacramento Area Council of Governments has begun preparations for the seventh RHNA cycle, which will update the City's required housing units under RHNA. The City is actively participating in the regional planning for the seventh cycle allocation and distribution of RHNA obligations by jurisdiction. Ultimately, this process will require the City to adopt a new Housing Element. During the creation of a new Housing Element, staff can also make changes to the reportable ADUs to be in line with the expected construction of new ADUs.

Affordable Housing Incentive Program and Uses of Fee Revenue

On January 23, 2024, the City Council adopted the Affordable Housing Incentive Program (AHIP). The AHIP offers three different incentives for developers to take advantage of if they construct affordable housing:

1. Fee Reductions. Affordable developments proposing units at 60% or less AMI can receive a 40% reduction in certain development impact fees (Park Improvement, Trail, Community and Recreation Facility, and Public Facility).
2. Fee Deferrals. The payment of certain fees as defined by Government Code section 66007 are deferred until the issuance of a certificate of occupancy.
3. Low/Mod Income Housing Asset Fund Contribution. The City may contribute up to \$40,000 toward the construction of each extremely low or very low income unit in the form of a City loan, memorialized in an affordable housing agreement. The loan would be a residual receipts loan with an interest rate of 3% per year.

Affordable housing projects usually require a combination of private equity, tax credits, affordable housing bond proceeds, and any other funds available to make the projects buildable. Typically, these funding sources are very competitive with no guarantee of funding, and projects often fall short of the necessary financing. The financing gap varies with each project, but the City has been approached to provide anywhere from \$2 million to \$4.5 million in gap financing, depending on the size and financing structure of the project.

Currently the City's only source of funding to provide gap financing for affordable housing is the Low- and Moderate-Income Housing Asset Fund (LMIHAF).

The purpose of the LMIHAF gap financing investment is to leverage private investment to deliver the maximum amount of affordable housing units with the City's limited resources. It is not intended to provide the full capital costs to construct the units. Affordable housing projects cost in the range of \$450,000 to \$550,000 per unit to develop. Previously requested City assistance averages to approximately 4% of the total development cost. Developers are only able to access the LMIHAF loan after they have presented a full financing plan to the City including a combination of tax credits, bonds, and other financing that shows a gap remaining to get to project completion. If the City Council adopts an in-lieu fee, that fee would be used to supplement the decreasing LMIHAF and continue to leverage limited City funds to provide the needed gap financing to increase the construction of affordable units in the City.

Rocklin's AHIP financing program has been successfully utilized by the Pacific Street Apartments project where the City invested \$2.6 million in gap financing and contributed a development site valued at \$4.4 million. Pacific Street Apartments will bring 109 units of affordable housing to those making 60% or less of the area median income (AMI). The City has also committed \$2.23 million to the College Park Senior development, The Steven, which will bring 178 units of affordable housing to seniors in Rocklin.

The LMIHAF is also used to pay for administrative costs (legal costs incurred to complete affordable housing transactions) and to provide homeless prevention and rapid rehousing grant funding to regional nonprofits. There are approximately 130 outstanding loans amounting to \$3 million in future revenue. However, 90% of those loans are from first time homebuyer programs and under \$25,000 each. The repayment of these loans is slow and unpredictable. The City receives approximately 1 - 2 repayments per year. There is very little funding anticipated to return to the LMIHAF, and currently the number of projects the City can support with gap financing is limited. Unless a new revenue source is established, there is no new revenue coming into the LMIHAF, meaning once funds are exhausted the City will have no resources for affordable housing unless another solution is adopted.

Number of Affordable Units Supported with Affordable Housing In-lieu Fee Revenue

Staff have estimated the number of new affordable housing units that could potentially be created if an In-Lieu Fee program is adopted and the funds are used to provide gap financing for the development of affordable units. The potential count of affordable housing units has been estimated based on the range of in-lieu fee revenue projections described in this staff report and a range of assumptions regarding the amount of gap financing to be provided by the City. Gap financing scenarios are calculated based on the City's AHIP at \$40,000 per unit.

Based on the In-Lieu Fee revenue projections and the range of required gap financing, it is estimated that the In-Lieu Fees could support the following number of Extremely Low to Very Low-Income affordable units:

- Scenario 1 \$5/sqf for all residential development: 246 to 689 units
- Scenario 2 \$5/sqf for residential over 3000 square foot: 95 to 319 units
- Scenario 3 Graduated fee based on square footage: 130 to 385 units

Next Steps

Staff is seeking direction from City Council on the following items:

- **Inclusionary Policy - Affordability Levels.** The current inclusionary housing ordinance requires the construction of 15% of units on site to be low; 10% of units on site to be very low; or 5% of units on site to be extremely low. City Council is asked to confirm the current levels or propose changes to the affordability levels or percentages based on KMA's report.
- **In Lieu Fee.** If the City Council continues to maintain an inclusionary policy, adoption of an in-lieu fee provides developers an option to pay a fee in lieu of constructing units. Developers have been supportive of the in-lieu approach as opposed to a strict inclusionary only approach. The following direction is needed on in-lieu fees:
 - Should the City adopt an in-lieu fee on residential development?
 - If so, what level of fee should be adopted and how should it be structured?
 - Should the City adopt a Nexus study establishing the connection between nonresidential development and affordable housing demand?
 - If so, what level of fee should be adopted and should lower fees be charged to certain development categories or areas of the City?
- **ADUs.** ADUs may be used in certain circumstances to meet inclusionary requirements. Should projects be allowed to meet their inclusionary obligation with the construction of ADUs?
 - If the City Council desires ADUs to be an option for residential developers to meet inclusionary requirements, the City's Housing Element would need to be updated. Staff needs further direction to initiate the request to HCD to allow more ADUs to count toward RHNA numbers. This would require additional allocation of staff time to this project as well as additional budget for consulting services necessary to prepare the amendment.
 - How should the City enforce affordability requirements on the ADUs? Staff recommends adopting a model similar to the Placer County model described in this report and would need to prepare a secondary item to formalize this program.

If directed, staff will revise the existing inclusionary housing ordinance, which would go before the Planning Commission and City Council at a later date if changes are directed to the Inclusionary Policy. Staff is also prepared to create a resolution which adopts the in-lieu fees, which would come before City Council at a later date. The fee can be adopted by the City Council prior to revisions to the inclusionary housing ordinance.

Fiscal Impact:

There is no direct fiscal impact to provide direction to staff. Future actions to adopt an in-lieu fee or make revisions to the inclusionary housing ordinance may result in fiscal impacts, but those will be brought forward at a future City Council meeting.

ATTACHMENTS:

1. [Fee Scenarios](#)
2. [Draft Affordable Housing Inclusionary Program and Commercial Linkage Fee Analysis](#)