



DATE: November 24, 2025
TO: Mayor and Members of the City Council
Chair and Members of the Planning Commission
FROM: Kristin Pollot, AICP, Planning and Development Services Director
Hector Rojas, Long Range Planning Manager
SUBJECT: RECEIVE A FOLLOW-UP PRESENTATION FROM ECONOMIC & PLANNING SYSTEMS, INC. REGARDING THE INCLUSIONARY HOUSING AND COMMERCIAL LINKAGE FEE STUDY AND PROVIDE DIRECTION TO STAFF

RECOMMENDATION

Receive a follow-up presentation from Economic & Planning Systems, Inc. regarding the Inclusionary Housing and Commercial Linkage Fee Study and provide direction to staff.

REASONS FOR RECOMMENDATION

Programs B 2.1.1 and B 2.1.2 of the City's 6th Cycle Housing Element (2023–2031), adopted in December 2024, direct the City to seek developer input, conduct a nexus study, and explore the adoption of an Inclusionary Housing Ordinance and a Commercial Linkage Fee to help expand affordable housing opportunities for low- and moderate-income households in Vallejo. To implement these Housing Element programs, the City retained Economic & Planning Systems, Inc. (EPS) to conduct the required developer outreach and nexus study.

EPS presented its preliminary inclusionary zoning findings at a joint study session of the City Council and Planning Commission held on July 7, 2025. At that meeting, Councilmembers, Commissioners, and members of the public provided input on Vallejo's development conditions, challenges associated with new housing construction, and the feasibility of applying local affordability requirements in the current market. Because the July discussion focused entirely on inclusionary zoning and time did not allow for the commercial linkage fee analysis to be presented, the November 24th meeting serves as a continuation of that study session. EPS will provide additional explanation of how an inclusionary housing ordinance operates in practice and introduce the commercial linkage fee analysis so that both tools may be considered together.

An inclusionary housing ordinance and commercial linkage fee would not replace state-level housing laws that already incentivize or require the production of affordable housing in Vallejo, such as the Density Bonus Law, ADU laws, CEQA and parking reforms, SB 4, SB 35, and SB 330. The question before the City Council and Planning Commission is whether either, or both, of these strictly local tools should be advanced as additional strategies within the City's broader affordable housing toolkit.

BACKGROUND AND DISCUSSION

Inclusionary housing ordinances are intended to help cities fund and create more affordable housing units, as well as encourage the disbursement of affordable units throughout the city instead of concentrating it in certain geographic areas. Inclusionary housing ordinances require residential developers to provide a percentage of units on-site of a project as affordable to low- and moderate-income households, or to pay an in-lieu fee that supports local affordable housing production. Cities throughout California use these ordinances to expand affordable housing opportunities, create mixed-income communities, and establish local funding sources for below-market-rate housing. Program B 2.1.1 of the Housing Element directs the City to evaluate such an

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ordinance through stakeholder outreach and a nexus study.

Commercial linkage fees are fees charged to new non-residential development to mitigate the increased demand for affordable housing generated by the new employer. Fee revenues are used for the construction or preservation of affordable housing for the local workforce. Program B 2.1.2 of the Housing Element requires the City to conduct a nexus study to determine whether adoption of such a fee is appropriate.

To fulfill these requirements, the City retained Economic & Planning Systems, Inc. (EPS) to conduct both studies. The inclusionary housing study evaluates market conditions, peer policies, potential requirement levels, financial feasibility across several representative development prototypes, and alternative compliance options. The commercial linkage fee nexus study quantifies the relationship between new jobs and increased demand for affordable housing and identifies the maximum fee levels supported by that impact analysis.

At the July 7, 2025 study session, EPS reported that under current market conditions, most of the development prototypes evaluated for Vallejo (including for-sale small-lot homes, condominiums, and both low- and high-density multifamily rental projects) are not currently financially feasible, even before adding any affordability requirements. Rising construction costs, modest achievable rents and sales prices, and broader market slowdowns contributed to these conditions. Regional data shows that new housing permits across the Bay Area recently reached its second-lowest level since 1967, reflecting a market-wide slowdown.

During the July study session, Councilmembers, Commissioners, and members of the public sought clarity about how inclusionary programs function in practice, including the design and placement of units, income targeting, and in-lieu fee administration. Questions were also raised about potential phased implementation, the City's administrative capacity, and how inclusionary requirements might affect market-rate housing production. In response, EPS has since conducted additional conversations with developers who have projects in Vallejo's pipeline. Those developers expressed that a mandatory on-site inclusionary requirement might push some to leave the Vallejo market for stronger, higher-value areas; that modest in-lieu fees or land dedication would be more feasible than constructing on-site units; and that developers are generally pessimistic about near-term market improvement.

Because the commercial linkage fee analysis was not presented in July, the November 24th meeting presentation will introduce those findings. During the presentation, EPS will describe how new nonresidential development generates demand for affordable housing and how the maximum fee (approximately \$90 per square foot in Vallejo) was calculated. The presentation will explain why most jurisdictions who do adopt fees generally adopt them in amounts significantly below the maximum to avoid inhibiting economic development. EPS will also provide a hypothetical example to illustrate what this could look like in Vallejo when compared against the current development pipeline.

During the presentation, EPS will also revisit the overall feasibility findings (for both programs), discuss implementation opportunities and challenges, and share examples illustrating how other cities have utilized/modified these tools over time to align with current market realities and production goals.

Finally, the purpose of the November 24 study session is not to adopt or finalize any specific policy, but to provide the Council and Commission with the complete findings from both studies and to respond to the various questions raised in July. In addition, staff seeks direction on whether to proceed with developing either or both of the associated programs. This guidance will help determine next steps, which might include: 1) refining study recommendations, 2) beginning drafting policy language, 3) exploring phased or conditional implementation, or 4) revisiting these tools at a later date when market conditions improve.

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FISCAL IMPACT

There is no immediate fiscal impact associated with receiving the presentation or providing direction. If the Council and Commission direct staff to continue developing one or both policy tools, staff will return at a future date with information regarding administrative costs, staffing needs, and any future budget implications associated with implementing or managing the programs.

ENVIRONMENTAL REVIEW

This action does not constitute a project under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378, because it does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

ATTACHMENTS

None

CONTACT

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