INCLUSIONARY HOUSING ORDINANCE

City Council
Regular Meeting | October 27, 2026

Why inclusionary housing is being considered

- Requires or incentivizes a share of new housing to be affordable
- Can produce deed-restricted units within mixed-income development projects
- Can generate local funding for affordable housing when a fee is paid
- Implements Housing Element Program B 2.1.1

1,554 units

Vallejo's 2023-2031 RHNA assigned to moderate-income households or below

1,446 units

Remaining need in the very-low-, low-, and moderate-income categories through 2025

The ordinance is one tool; actual results will depend on future development and the compliance options selected.

The proposed ordinance reflects prior direction

Dec. 2024

Housing Element

Program B 2.1.1 directs the City to consider an ordinance.

July 2025

1st Joint Study Session

EPS shared initial market and feasibility findings.

Nov. 2025

2nd Joint Study Session

Direction: develop a modest, flexible program.

May 2026

Public Review Draft

20-day review; ten substantive submissions received.

Current market conditions support a modest starting point

EPS tested five development prototypes against industry return thresholds. Most prototypes were **below feasibility thresholds** even before an inclusionary requirement was applied.

Rental Prototype	Estimated Yield on Cost	5.5% Threshold
Lower-Density Apartments	4.97%	Below
Higher-Density Apartments	4.70%	Below
Ownership Prototype	**Estimated Profit Margin**	**15% Threshold**
Single-Family Detached	15.13%	**Meets – marginally**
Single-Family Small-Lot Detached	5.73%	Below
Multifamily Condominium	-36.50%	Below

Applicability to residential projects with 20 or more units

Project Type	Total Affordability	Income Mix
Rental – 20+ Units	5%	1% VLI + 4% LI
Ownership – 20-100 units	5%	3% LI + 2% MOD
Ownership – more than 100 units	8%	5% LI + 3% MOD

Notes: VLI = Very Low Income; LI = Low Income; MOD = Moderate Income

- The following **project types are exempt** from the ordinance: reconstruction of units destroyed by disaster, ADUs, residential care facilities, and applications accepted as complete before the effective date of the ordinance

- **Fractional requirements** are calculated separately by income category. A fraction of 0.50 or greater is rounded up. For a fraction below 0.50, the developer may either provide the additional affordable unit or pay the applicable fractional in-lieu fee.

- The ordinance would take effect **180 days after final passage** to allow an implementation transition.

Covered projects would have multiple ways to comply

Provide Units on Site	Pay the In-Lieu Fee	Request Another Option
The standard path integrates affordable units into the residential project.	A developer may pay a fee for some or all the required units instead.	Off-site units in the same census tract; ownership projects may provide on-site rental units.

The ordinance also includes a waiver or adjustment process if a developer demonstrates that the requirements lack a reasonable relationship to the project's impacts or would result in an unconstitutional taking.

Affordable unit standards

Comparable	Integrated	Timely	Long-Term Affordability
Proportional bedroom mix and size; comparable construction quality and exterior design	Dispersed where feasible, with equal access to on-site amenities	Constructed and occupied before or concurrently with market-rate units, unless approved otherwise	Restricted as affordable for at least 55 years

Each project would submit an Affordable Housing Plan and execute a recorded Affordable Housing Agreement.

Planning Commission Recommendation

Project Type	Total Affordability	Income Mix
Rental – 10+ Units	4%	2% VLI + 2% LI
Ownership – 10-100 units	7%	4% LI + 3% MOD
Ownership – more than 100 units	10%	6% LI + 4% MOD

Notes: VLI = Very Low Income; LI = Low Income; MOD = Moderate Income

- **Reduce the applicability threshold** from 20 to 10 units.
- **Report annually** to the Commission on the ordinance's effectiveness.
- Recommend a **new feasibility analysis** approximately two years after enactment.

Staff continues to recommend the 20-unit threshold and affordability requirements presented earlier because of the feasibility constraints identified by EPS

Public comments emphasized competing policy priorities

Proceed cautiously or do not adopt

- Most development prototypes are currently infeasible
- Requirements and fees could further constrain housing production
- Use incentives, streamlining, phasing, or market triggers

Strengthen the requirements

- Lower the applicability threshold to 10 units
- Require a 15% to 20% affordable set-aside
- Prioritize on-site units and expand reporting and enforcement

Staff Recommendation

Hold a public hearing and introduce an ordinance adding Chapter 16.216, Affordable Housing Requirements, to Title 16 of the Vallejo Municipal Code and find the action exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3).

Next Steps

- Return for a second reading and adoption of the ordinance.
- If adopted, return with an in-lieu fee resolution for Council consideration before the ordinance takes effect, 180 days after final passage.

QUESTIONS

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REFERENCE TABLES

Staff Recommendation

Planning Commission Recommended Percentages*

Table 1: Inclusionary Requirements Evaluated by EPS

Project Type	Option A	Option B	Option C
Rental, 20 or more units	5% total 1% VLI + 4% LI	4% total 2% VLI + 2% LI	6% total 2% VLI + 4% LI
Ownership, 20-100 units	5% total 3% LI + 2% MOD	7% total 4% LI + 3% MOD	10% total 5% LI + 5% MOD
Ownership, more than 100 units	8% total 5% LI + 3% MOD	10% total 6% LI + 4% MOD	15% total 7.5% LI + 7.5% MOD
Source: *EPS Feasibility Analysis, Tables 9 and 10. Notes: VLI = Very Low Income; LI = Low Income; MOD = Moderate Income.*			

***The Planning Commission also recommended lowering the project applicability threshold from 20 to 10 units.**

Table 2: Progress Toward Meeting Vallejo's 2023-2031 RHNA

Income Level	Vallejo's RHNA Allocation	Projection Period (6/30/22 – 1/30/23)	2023	2024	2025	Total Units to Date	Remaining
VLI	690	4	6	10	7	27	663
LI	369	0	12	10	33	55	314
MOD	495	0	9	7	10	26	469
AMOD	1,346	144	94	41	143	422	924
Total Units:	2,900	148	121	68	193	530	2,370

Source: *City of Vallejo CY2025 General Plan Annual Progress Report. Notes: VLI = Very Low Income; LI = Low Income; MOD = Moderate Income; AMOD = Above Moderate Income*

Table 3: Income Categories and Illustrative Maximum Housing Costs

Income Category	Maximum Annual Income	Illustrative Maximum Monthly Housing Cost
VLI	$61,850	$1,546
LI	$98,950	$2,474
MOD	$134,550	$3,364
Source: *California HCD 2026 State Income Limits for Solano County, effective June 23, 2026.* ***Notes:*** *VLI = Very Low Income; LI = Low Income; MOD = Moderate Income.*		

Table 4: Illustrative Application of Rental Requirements by Project Size

Example Rental Project	VLI Requirement	LI Requirement	Illustrative On-Site Unit Mix
20-Unit Project	20 units × 1% = 0.2 units (1 unit, if rounded up)	20 units × 4% = 0.8 units (1 unit, rounded up)	18 market-rate units 1 VLI units 1 LI unit
50-Unit Project	50 units × 1% = 0.5 units (1 unit, rounded up)	50 units × 4% = 2 units	47 market-rate units 1 VLI unit 2 LI units
120-Unit Project	120 units × 1% = 1.2 units (2 units, if rounded up)	120 units × 4% = 4.8 units (5 units, rounded up)	113 market-rate units 2 VLI units 5 LI units
300-Unit Project	300 units × 1% = 3 units	300 units × 4% = 12 units	285 market-rate units 3 VLI units 12 LI units

Notes: *Examples assume that all fractional requirements are rounded up and satisfied on site. For a fraction below 0.50, the developer may instead pay an in-lieu fee rather than provide the additional affordable unit. VLI = Very Low Income; LI = Low Income.*

Table 5: Illustrative Application of Ownership Requirements by Project Size

Example Ownership Project	LI Requirement	MOD Requirement	Illustrative On-Site Unit Mix
20-Unit Project	20 units × 3% = 0.6 units (1 unit, rounded up)	20 units × 2% = 0.4 units (1 unit, if rounded up)	18 market-rate units 1 LI unit 1 MOD unit
50-Unit Project	50 units × 3% = 1.5 units (2 units, rounded up)	50 units × 2% = 1 unit	47 market-rate units 2 LI units 1 MOD unit
120-Unit Project	120 units × 5% = 6 units	120 units × 3% = 3.6 units (4 units, rounded up)	110 market-rate units 6 LI units 4 MOD units
300-Unit Project	300 units × 5% = 15 units	300 units × 3% = 9 units	276 market-rate units 15 LI units 9 MOD units
Notes: *Examples assume that all fractional requirements are rounded up and satisfied on site. For a fraction below 0.50, the developer may instead pay an in-lieu fee rather than provide the additional affordable unit. LI = Low Income; MOD = Moderate Income.*			