



County of Santa Cruz

PLANNING DEPARTMENT

701 OCEAN STREET, 4TH FLOOR, SANTA CRUZ, CA 95060-4000

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ALVIN D. JAMES, DIRECTOR

February 15, 2001

Agenda: February 27, 2001

Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, California 95060

Accept Report on Housing In-Lieu Fees and Consider Directing the Housing Advisory Commission to Evaluate the In-Lieu Fee Option

Members of the Board:

On September 26, 2000, your Board increased the in-lieu Fees for developers who choose to pay a fee rather than build affordable units. This was accomplished through an amendment of Subdivision (b) of Section 17.10.034 of the Santa Cruz County Code. The In-Lieu Fee schedule in the Code was increased to reflect the increase in housing costs since the schedule was last updated. The fee increase took effect on October 27, 2000.

When your Board increased the In-Lieu Fees, you directed staff to report back on the impact of the change and whether further changes are needed to ensure that most developers choose to build affordable units rather than pay fees. Members of the Housing Advisory Commission (HAC) have also expressed an interest in reviewing the In-Lieu Fee option of the Measure J Affordable Housing Program. At it's February 7, 2001 meeting the HAC passed a resolution requesting your Board to direct the Commission to evaluate the In-Lieu Fee option and to recommend whether and how it should be changed to best meet the housing needs of the County.

Impact of Increased In-Lieu Fees

The current In-Lieu Fee Option was adopted by your Board on August 25, 1998. The In-Lieu Fee Schedule that was adopted at that time was designed to be sufficiently high that the developers of all but the most exclusive housing units would choose to build affordable housing rather than pay fees. In addition, the fees needed to be high enough to subsidize the production of needed affordable housing by others. These objectives were met until the Summer of 2000, when local home values skyrocketed.

In the months prior to your Board increasing the In-Lieu Fee Structure, the developers of all recently approved subdivisions choose to pay In-Lieu Fees rather than produce

affordable housing units. In addition, some developers who had previously agreed to build affordable units amended their Participation Agreements so that they could pay fees instead.

Since the change in the fee schedule, the one newly approved subdivision that entered into a Participation Agreement chose to pay In-Lieu Fees. However, since the change no developer who had entered into a Participation Agreement has formally asked to amend their Agreement to pay In-Lieu Fees rather than build affordable units. At this time, a number of developers are either building or planning to build affordable housing units. (Attachment 1 is a table that shows how the County's affordable housing requirement is being satisfied by developments that have been approved and/or under construction since mid-2000.)

Future Considerations

While staff believes that the increase in In-Lieu Fees has largely met its objectives, staff also believes that the County should consider additional changes to the In-Lieu Fee option. The Housing Advisory Commission (HAC) concurs with staff's assessment and at its February 7, 2001 meeting formally requested that your Board refer this matter to them for further consideration.

There are a variety of both policy and administrative issues related to the In-Lieu Fee option that the HAC should review and evaluate. By learning more about how other jurisdictions have structured their programs, the HAC's efforts could result in significant improvements to the program, which could help the County address local housing needs. Some of these issues include:

1. Should the availability of the In-Lieu Fee option be limited to projects that can demonstrate that it is impractical or infeasible to satisfy the affordable housing requirement by other means?
2. Can and should the In-Lieu Fees be indexed to home sales prices so that they will float with the market. This would eliminate the time lags inherent to having your Board formally adopt new In-Lieu Fee Schedules as the need arises.
3. Should the same In-Lieu Fees be charged for projects with 5 to 9 units or should the fees be charged on a per unit basis? This would equalize the impact of the fees on smaller and larger developments. It would also be easier to administer.
4. Should the selection of the method for satisfying the County's affordable housing requirements¹ be part of the formal project approval process?

¹ Developers currently have four options: 1) building the units on-site, 2) pay In-Lieu Fees, 3) dedicate land for housing or 4) partnering with a nonprofit to produce the units off-site.

5. Should developers continue to be allowed to switch from building units to paying In-Lieu Fees after the project is approved?

Staff will work with the HAC to research these and other issues related to the In-Lieu Fee program and return to your Board within six months with recommendations for your consideration. (See Attachment 3 for a summary of characteristics of the inclusionary and In-Lieu Fee programs of selected high cost areas in California.)

RECOMMENDATION

It is RECOMMENDED that your Board:

Direct the Housing Advisory Commission to:

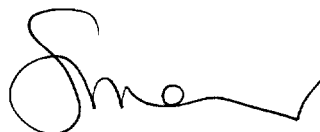
1. evaluate the In-Lieu Fee option including how it is structured and implemented plus the level of fees charged,
2. identify any changes that the Commission believes should be made to the In-Lieu Fee option, and
3. report back to the Board of Supervisors by August 28, 2001 with recommendations.

Respectfully Submitted,

RECOMMENDED



ALVIN D. JAMES
Planning Director



SUSAN A. MAURIELLO
County Administrative Officer

Attachments

1. Method Chosen to Satisfy Affordable Housing Requirements
2. Characteristics of Inclusionary Programs in Other High Cost Communities

Resolution of the Housing Advisory Commission

The following resolution was passed unanimously by the Housing Advisory Commission at its February 7, 2001 meeting:

“The Housing Advisory Commission requests that the Board of Supervisors direct the Commission to 1) evaluate the In-Lieu Fee option, 2) identify any additional changes that the Commission believes should be made to the In-Lieu Fee option and 3) recommend the appropriate amendments to Chapter 17.10 of the County Code to the Board.”

Moved by Commissioner Foster, Seconded by Commissioner Bernard,
Unanimously Approved (Commissioner's Sweet and Silvera absent)

Characteristics of Inclusionary Programs in Other High Cost Communities

Jurisdiction	Inclusionary Percentage²	Threshold Units³	In Lieu Fee Calculation
Marin County	15%	10	sales price less affordable price
Santa Barbara County	20% moderate; 15% low-mod; 10% lower; or 5% very low	5	development cost less affordable price
Portola Valley	15%	None	based on land value plus improvement costs times the inclusionary percentage
City of Santa Cruz	15%	5	80% of sales price less affordable price
Berkeley	20%	5 ⁴	sales price less development cost; or sales price less affordable price if density bonus/incentive were provided
San Luis Obispo	5% moderate; or 3% low	5	5% of building valuation
Expansion Area:	10% moderate; or 5% low	5	10% of building valuation
Los Gatos	10-20% based on #of units	5 - 10 units PUDs only	6% of building permit valuation
Palo Alto	10%	3	5% of sales price
Menlo Park	10% onsite; or 11% offsite	10	3% of sales price

² The percentage of units that must be affordable and the income targeting level if the inclusionary percentage changes based on income level.

³ The minimum number of units the project must have to be subject to the ordinance.

⁴ Berkeley's threshold is based on the number of units allowed by the zoning if higher than the number actually constructed.

Method Chosen to Satisfy Affordable Housing Requirements

Recently Approved Subdivisions and Subdivisions Currently Under Development

Project Information				Participation Agreement		Number of Units		In-Lieu Fee or Units?
Date Approved	Tract	Name	Area	Date Recorded	Original or Amended	Total	Affordable	
Projects Subject to the Old In-Lieu Fees								
10128198	1408	Dover Estates	Live Oak	8/9/00	Original	7	1	Fee
5112199	1417	Casa Bianchi	Aptos	7/11/00	Amended	10	1	Fee
5126199	1416	Calabria Heights	Aptos	7/11/00	Amended	10	1	Fee
918199	1421	Chanticleer Terrace	Live Oak	7/20/00	Original	9	1	Fee
Projects Subject to the Increased In-Lieu Fees ¹								
10/19/94	1288	Gera subdivision	Watsonville	1/28/98	Original	7	1	Unit ²
6/9/99	1328	Capitola Gardens	Live Oak	9/12/00	Amended	17	3	Units
6/9/99	1413	Grey Seal Manor	Live Oak	2/7/00	Original	7	1	Unit
2/23/00	none	Rodeo Creek	Soquel	pending	Original	10	1	Unit ³
3/22/00	1423	Santos subdivision	Live Oak	pending	Original	16	2	Units ⁴
5/24/00	1427	Findlay Property	Live Oak	2/14/01	Original	15	2	Fee
5/24/00	1348	Harbor Vista	Live Oak	10/14/94	Original	11	1	Unit
pending	1424	Harbor Beach	Live Oak	pending	Original	10	1	Unit ⁴

¹ Until they start construction, developers may request an amendment to their Participation Agreement to allow them to pay In-Lieu fee.

² Applications for the first units in the subdivision are currently in being reviewed.

³ Developer has indicated that he will build, but has not entered into Participation Agreement.

⁴ The developer plans to sell three lots in the Santos subdivision to Habitat for Humanity for \$50,000 (i.e., \$16,667 each). Habitat will then build the affordable units that will satisfy the Measure J obligation for both the Santos and Harbor Beach subdivisions. The RDA helped to negotiate this arrangement, which is subject to the Planning Commission's approval.

Method Chosen to Satisfy Affordable Housing Requirements
Recently Approved Subdivisions and Subdivisions Currently Under Development

Project Information				Participation Agreement		Number of Units		In-Lieu Fee or Units?
Date Approved	Tract	Name	Area	Date Recorded	Original or Amended	Total	Affordable	
2/3/89	1236	Woodrose I	Live Oak	2/7/92	Original	14	2	Units ¹
10/19/94	1288	Gera subdivision	Watsonville	1/28/98	Original	7	1	Unit ²
10/28/98	1408	Dover Estates	Live Oak	8/9/00	Original	7	1	Fee
5/12/99	1417	Casa Bianchi	Aptos	7/11/00	Amended	10	1	Fee
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5/24/00	1348	Harbor Vista	Live Oak	10/14/94	Original	11	1	Unit
pending	1424	Harbor Beach	Live Oak	pending	Original	10	1	Unit ⁴

¹ Applications for the first units in the subdivision are currently in being reviewed.

² The building permit for the last market and affordable units are currently being processed.

³ Developer has indicated that he will build, but has not entered into Participation Agreement.

⁴ The developer plans to sell three lots in the Santos/Jose subdivision to Habitat for Humanity for \$50,000. Habitat will then build the affordable units that will satisfy the Measure J obligation for both subdivisions, The RDA helped to negotiate this arrangement, which is subject to the Planning Commission's approval.

Attachment 2

Resolution of the Housing Advisory Commission

The following resolution was passed unanimously by the Housing Advisory Commission at its February 7, 2001 meeting:

*“The Housing Advisory Commission requests that the Board of Supervisors direct the Commission to 7) evaluate the In-Lieu Fee option, 2) identify **any** additional changes that the Commission believes should be **made** to the In-Lieu Fee option and 3) recommend the appropriate amendments to Chapter 17.10 of the County Code to the Board.”*

Moved by Commissioner Foster, Seconded by Commissioner Bernard,
Unanimously Approved (Commissioner's Sweet and Silvera absent)

Attachment 3

Characteristics of Inclusionary Programs in Other High Cost Communities

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