



# County of Santa Cruz

## PLANNING DEPARTMENT

701 OCEAN STREET, 4<sup>TH</sup> FLOOR, SANTA CRUZ, CA 95060  
 (831) 454-2580 FAX: (831) 454-2131 TDD: (831) 454-2123

ALVIN D. JAMES, DIRECTOR

September 11, 2001

AGENDA: September 18, 2001

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

### HOUSING IN-LIEU FEES

Members of the Board:

On February 27, 2001, your Board considered a report regarding the status of the current housing in-lieu fee program. Following consideration of the report, your Board directed Planning staff to work with the Housing Advisory Commission (HAC) to develop recommendations regarding changes to the housing in-lieu program. The Housing Advisory Commission's recommendations are included as Attachment 1 to this letter.

As you can see, the HAC's recommendations include not only changes to the in lieu fee structure but also address other issues of much wider application. Due to the complexity and range of the HAC's recommendations, staff has not completed their analysis of the implications of the Commission's recommendations and additional time is necessary to complete this work. In addition, the upcoming housing workshop may help guide staff in the analysis of these issues.

It is, therefore, RECOMMENDED that your Board:

1. Accept and file the recommendations of the Housing Advisory Commission regarding the in lieu fee program, and
2. Direct the Planning Department to return on November 6, 2001, with an analysis and recommendations regarding the Housing Advisory Commission's recommendations.

Sincerely,

*Alvin D. James*  
 Alvin D. James  
 Planning Director

Approved: \_\_\_\_\_

*Susan A. Mauriello*  
 Susan A. Mauriello, CAO

Attachment: 1. Letter of the Housing Advisory Commission, dated September 6, 2001

c.c: Housing Advisory Commission



# COUNTY OF SANTA CRUZ

## HOUSING ADVISORY COMMISSION

701 OCEAN ST, 4<sup>TH</sup> FLOOR, SANTA CRUZ, CA 95060  
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September 5, 2001

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

### ACCEPT REPORT AND RECOMMENDATIONS FROM THE HOUSING ADVISORY COMMISSION REGARDING INCLUSIONARY HOUSING IN-LIEU FEES

Members of the Board:

As directed by your Board on February 27, 2001, the Housing Advisory Commission has evaluated the In-Lieu Fee option of the Inclusionary Housing Requirements in Chapter 17.10 of the County Code.

Our evaluation of this option was influenced greatly by the context of the current housing crisis in this County. The Commission is well aware that the residents of Santa Cruz County are experiencing a severe housing shortage and a housing affordability crisis. Local home prices are not affordable to the majority of local households, and local rents are not affordable to most of the local workforce. Furthermore, the amount of land in the County available and suitable for housing construction is increasingly scarce.

The Commission commends the commitment the County has made since 1978 to provide residents with affordable housing through the 15% inclusionary requirement of the Measure J Program. However, due to changes in the real estate market, lack of developer incentives, construction trends, and land availability, the current inclusionary program is not producing enough affordable units to meet the current level of need.

In light of this context, our evaluation of the In-Lieu Fee option has led us to the following conclusions:

1. The current In-Lieu Fee is not high enough to encourage developers of units in the upper end of the price range to construct units rather than pay the fee. Furthermore, it will always lag behind current home prices unless it is calculated as a percentage of the actual sales price of the units.
2. The bulk of new market-rate units constructed and sold within the unincorporated areas over the previous 12 months were in the very high price range, with a median price of \$740,000 and an average price of \$899,000, according to available construction and sales data.<sup>1</sup>
3. A large portion of new housing development is not subject to the Inclusionary Requirements at all because of the current threshold of 5 new units. Forty-three percent of all new homes built

<sup>1</sup> Sales figures based on new home sales which occurred between July 1, 2000 and August 2001. This data includes newly built homes in unincorporated areas only. Data from Assessor's database and ALUS building permit records.

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and sold during 2000 or 2001 did not meet this threshold and therefore were not subject to the inclusionary requirements.<sup>2</sup>

4. The current method for calculating the inclusionary requirement on which the in-lieu fee amount is based solely on whole numbers of units, with fractional unit obligations rounded up or down. This practice leads to an unequal inclusionary percentage requirement (i.e., higher or lower than 15%) for developments of different sizes.
5. The system of rounding to the nearest whole units also encourages developers to avoid or minimize their inclusionary obligation by building fewer units than they would otherwise, if their decision were based solely on parcel size and zoning requirements.
6. Because so few residential development projects are proposed each year, incremental improvements to the current inclusionary program will provide a small number of families with decent and affordable housing, but these incremental improvements will not make a significant contribution toward meeting the overall current housing need in the County.

Based on the above conclusions, the Commission offers the following recommendations to your Board:

1. Direct staff to prepare amendments to Chapter 17.10 to:
  - a) Lower the Inclusionary Requirement threshold to 2 new units with an exemption for the first new unit (including minor land divisions);
  - b) Calculate the number of affordable housing units required based on exactly 15% of the number of units subject to the Inclusionary Requirement, without rounding up or down;
  - c) Implement a revised In-Lieu Fee schedule that is based on the sales price of the unit and is proportionally progressive as sales price increases;
  - d) Require the construction of all affordable units required as a result of Item a) above, either on or off site, and require the payment of an in-lieu fee for any fraction less than a whole unit or more than a whole unit.

Furthermore, the Commission believes that additional changes to the General Plan and Zoning Ordinance, supported by your Board, are necessary to maximize the construction of housing that meets the needs of residents at all income levels and of all household types. We, therefore, recommend that you direct the Planning Department, in conjunction with the Housing Advisory Commission, to develop General Plan and Zoning Ordinance amendments to address the housing needs of the County.

Sincerely,



Carl Sprague, Chairperson  
Housing Advisory Commission

<sup>2</sup> Figures based on all residential building permits for new unit construction which passed final inspection and were sold during 2000 or 2001. Data provided by County Information Services and Planning Department staff.