



# COUNTY OF SANTA CRUZ

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## PLANNING DEPARTMENT

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KATHLEEN MOLLOY PREVISICH, PLANNING DIRECTOR

April 6, 2015

AGENDA: April 21, 2015

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

Subject: AFFORDABLE HOUSING IMPACT FEE EXPENDITURE PLAN

Members of the Board:

On February 24, 2015 your Board approved an update to the Affordable Housing Program, including adoption of an Affordable Housing Impact Fee (AHIF). At that time your Board directed staff to return today with a proposed Affordable Housing Impact Fee Expenditure Plan. Today's letter is intended to set initial parameters on expenditures from the AHIF.

### Summary of Affordable Housing Impact Fee Program

As your Board will recall, the adoption of the AHIF concluded a 15 month process that included a nexus study and feasibility analysis led by Keyser Marston Associates. The result is a County housing policy that represents a significant change from the past 35 years during which the primary focus of the program was the building of deed restricted for sale homes in projects of five or more units for Moderate Income households at or below 120% of the Area Median Income (AMI). The nexus study demonstrated that all development creates the need for affordable housing and as a result, the new program takes an "everyone pays" approach and includes both residential and commercial development in the AHIF program. The AHIF includes the following fees:

- 1) Rental housing projects are subject to an affordable housing impact fee of \$2 per habitable square foot, including ADUs constructed as market rate rental units;
- 2) Non-residential projects are subject to a \$2 per square foot affordable housing impact fee;
- 3) Residential projects of from 1 to 4 units are subject to a fee based on size as follows:

Size of Home:	Fee per Square Foot
Up to 2,000 square feet	\$2
2,001-2,500 square feet	\$3
2,501-3,000	\$5
3,001-4,000	\$10
4,001 and up	\$15

Note that additions to residential projects and any deed-restricted affordable housing units, are exempt from affordable housing requirements.

In addition to the AHIF your Board approved an approach in which developers of projects with 5 or more for-sale units would have the ability to choose whether they pay a \$15 per habitable square foot impact fee for all units in the project, or provide 15% of the units as on-site deed-restricted units to be sold to qualifying moderate income households. Staff will return in the summer of 2017 with a report on the outcomes of this policy. Finally, the Planning Department is currently in the process of analyzing and updating the County's ADU program and your Board directed staff to consider whether residential projects built with a deed restricted ADU could have all permit and impact fees waived for the project.

### **Affordable Housing Impact Fee Expenditure Plan Principles**

Staff recommends that the focus of the AHIF Program should be on creating new affordable rental units and supporting the existing Measure J portfolio.

The generation of local fee revenue from the AHIF was a key part of the policy discussion for update of the County's affordable housing program. The 2011 elimination of redevelopment as a source of local affordable housing funds has resulted in the County having limited resources available to address a growing housing affordability shortfall. Local government can alleviate this housing shortage through land use and other policies that support the market's ability to create housing. The market has not been able to create an adequate supply of rental housing, however, and this need can and should be a priority for local jurisdictions.<sup>1</sup> For this reason, a key goal of the AHIF is to generate funds that can be used to compete for other state and federal resources, including low income housing tax credits in which local investment is the "tie-breaker" based on which funding is awarded.

The nexus study indicated that all development creates a need for affordable workforce housing, defined as housing affordable to households earning between 30% and 80% of Area Median Income. While workforce housing is a dominant need in the community there is also a compelling need for housing affordable to extremely low-income households earning below 30% AMI, generally these households are seniors, disabled adults and youth. It is recommended that, to the extent possible, the projects in which the County invests should strive to include some percentage of units for this income group. This will allow for integration and more balanced communities.

As stated above, for many years the County's "Measure J" program has focused on the affordable deed restricted homes that have been required for projects of five or more units. Currently there are 489 homes in the Measure J program. Administration of the County's successful program includes project review, income qualification, underwriting for both purchase and refinance, recording restrictions, and preservation activities (including purchase of at-risk homes when necessary and subsequent rental and/or sale of preserved units). Annual staffing costs for these activities range from approximately \$160,000 to \$200,000 per year.

The focus of both local and state affordable housing resources is turning from assisting with creation of new ownership affordable housing, to new rental affordable housing. For this reason, preserving and maintaining the existing stock of affordable ownership units, including the Measure J portfolio, is ever more important. The AHIF program can appropriately be used to administer the county's affordable

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<sup>1</sup> It is hoped that the State will eventually come up with a broader program replacing the redevelopment tools that were eliminated. More flexible local dollars will continue to play an important role in affordable housing.

housing program, including both existing and future affordable units. Therefore, the AHIF is a new local resource that should be focused on the creation of rental housing opportunities and maintenance of the Measure J portfolio.

### **Project Approval Process**

As your Board is aware, financial structuring of affordable projects is undergoing a change and it is difficult to predict the level of local funding, or the "per-unit subsidy", that will be required to successfully compete for low income housing tax credits, bond financing and other financing tools. It is also difficult to predict the rate at which the AHIF will accrue funds. Because of this, staff recommends that the process for committing funds will be opportunity driven, similar to that of the former redevelopment agency. Potential projects will be presented to your Board to authorize financing for predevelopment, acquisition or development activities based on the merits of the project, including readiness, feasibility and consistency with County goals.

### **RECOMMENDATION**

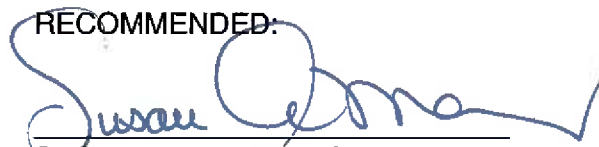
It is therefore recommended that your Board accept and file this report on the Affordable Housing Impact Fee program, and direct staff to utilize the Affordable Housing Impact Fee Expenditure Plan Principles (Attachment 1) in developing future budget recommendations for consideration by the Board of Supervisors.

Sincerely,



Kathy Molloy Previsich  
Planning Director

RECOMMENDED:



SUSAN A. MAURIELLO  
County Administrative Officer

### **ATTACHMENT 1: Affordable Housing Impact Fee Expenditure Plan Principles**

Link to Nexus Study: <http://www.sccoplanning.com/PlanningHome/Housing/>

## COUNTY OF SANTA CRUZ HOUSING PROGRAM

0188

## Affordable Housing Impact Fee Expenditure Plan Principles

The Affordable Housing Impact Fee (AHIF) program will be used to create new deed restricted affordable rental projects and to support the administration of the Measure J Program. The Expenditure Plan is supported by the nexus study and feasibility analysis entitled "*Summary and Recommendations—Update of Affordable Housing Regulations*"<sup>1</sup> and accepted by the Board of Supervisors on August 19, 2014.

## 1. Affordable Rental Housing

The underlying concept of the residential nexus analysis is that new residential development represents net new households in Santa Cruz County which leads to increased consumption of goods and services; new consumption generates new jobs and a portion of those jobs are at lower compensation levels, generating the need for affordable housing. Housing demand is distributed across lower income tiers. Housing production funded through the AHIF program will be characterized as follows:

- A. The focus of the AHIF will be investments in rental housing affordable to households earning between 30 and 80 % of the Area Median Income. Affordability will be defined through the Affordable Housing Guidelines.
- B. Funds may be used for pre-development, acquisition and development purposes, as approved by the Board of Supervisors.
- C. Because the County is experiencing an overall shortage of housing units, priority will be placed on the creation of new units, however projects proposing to acquire and rehabilitate existing units to rent to qualifying households at affordable rents will be considered.
- D. The purpose of County funding is to leverage additional funding necessary to develop multi-family housing; County funding will be structured as subordinate financing with a minimum of 55 years of affordability.
- E. The County recognizes that along with affordable workforce housing the community needs housing affordable to extremely low income households defined as those with incomes below 30% AMI; potential projects will be asked to consider including units affordable to this income group.

## 2. Administration of Measure J Program

Administration of the County's Measure J program includes project review, income qualification, underwriting for both purchase and refinance, recording restrictions, and preservation activities. Annual staffing costs for these activities will be proposed annually through the Planning Department's budget and approved by the Board of Supervisors.

<sup>1</sup> Keyser Marston Associates, Inc., *Summary and Recommendations—Update of Affordable Housing Regulations* Prepared for County of Santa Cruz August 2014