



County of Santa Cruz

Department of Community Development and Infrastructure

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DATE: September 10, 2026
TO: Housing Advisory Commission (HAC)
FROM: Stephanie Hansen, Assistant Director for Policy, Housing and Code Compliance; Suzanne Isé, Principal Planner
SUBJECT: Inclusionary Housing Feasibility and Impact Fee Nexus Studies (Housing Element Programs H-3H and H-3J)

BACKGROUND

The [2023 Housing Element](#) of the County's General Plan includes implementation programs H-3H and H-3J related to the County's inclusionary housing program, also known as "Measure J," and relevant state laws, including the Mitigation Fee Act and Housing Element law. The Measure J program, as currently codified in [County Code Chapter 17.10](#), requires 15% of net new homes in new housing developments of seven or more homes to be deed-restricted affordable units, and also requires affordable housing impact fees (AHIF) to be paid on net new floor area in certain types of development projects which don't include affordable housing. The text of Programs H-3H and H-3J are provided in Exhibit C to this Memorandum. Program H-3H required commissioning of several studies to analyze the feasibility of the existing Measure J program and certain policy changes recommended in Program H-3J; and to update the nexus studies supporting the County's current AHIF rates on residential and non-residential developments. These studies were completed earlier this year and published on CDI's website. Links to these studies are provided in Exhibit B, below.

ANALYSIS

The study findings are summarized briefly below. Please review the Exhibits to this Memorandum for more information and analysis of the Studies.

Inclusionary Housing Feasibility Study:

- The current inclusionary rate of 15% for ownership projects of 7 or more net new units was found to be feasible, supported by the County's local Enhanced Density Bonus which provides a 40% bonus for such projects.
- The maximum feasible inclusionary rate for rental projects was determined to be between 10% – 12% (11% on average). However, given the lack of multifamily rental development over multiple real estate cycles, KMA concluded that:

- Market-rate rental development will continue to be financially challenging.
- Imposing inclusionary unit production requirements on rental development creates additional constraints on future rental housing development.
- Developers should continue to be allowed to pay the AHIF, with an option to provide onsite affordable units as an alternative (e.g., continue the current policies for rental projects currently codified in SCCC 17.10).

Nexus Studies

The nexus studies found that a range of AHIF rates were supportable, as shown below. The current AHIF rates are also shown for context.

Project Type	Maximum Supportable AHIF per SF	Current AHIF per SF
Residential For-Sale	\$43 - \$60.80	\$2 - \$15
Residential Rental	\$52.50	\$2
Agricultural	\$7.40	\$1
All other non-residential	\$55 - \$243.50	\$3

Recent Board Action

On August 11, 2026, after a public hearing and deliberation, the Board of Supervisors took the following actions:

- 1) Accepted and filed the following reports from Keyser Marston Associates (KMA) (collectively, "Housing Studies"):
 - a. Inclusionary Housing Feasibility Study; and
 - b. Affordable Housing Impact Fees Nexus Studies on feasible impact fee rates for residential and non-residential development;
- 2) Provided the Department of Community Development and Infrastructure (CDI) with direction on potential revisions to Santa Cruz County Code (SCCC) Chapter 17.10 and/or updates to the Unified Fee Schedule (UFS) to implement Housing Element Programs H-3H and H-3J, consistent with the findings and recommendations of the Housing Studies;
- 3) Directed staff to complete the community engagement process on this workplan, including stakeholder and HAC meetings to consider the findings of the

Housing Studies and Board-directed changes to the affordable housing impact fee rates and/or inclusionary housing program, and report back to the Board by March 2027 with the results of the community engagement process and HAC recommendations, and a draft ordinance amending SCCC Chapter 17.10 and/or the UFS accordingly;

4) Directed staff to consider potential revisions to reduce or eliminate inclusionary housing rates and impact fees to encourage business development and housing production, particularly affordable-by-design housing units; and

5) Directed staff to maintain the 15% inclusionary requirement for for-sale housing.

Stakeholder Meeting

Part of this policy project involved forming a group of stakeholders who work or participate in housing advocacy, development, and policy. Staff and KMA held an initial meeting with the stakeholders in 2025 to get their input on the two Housing Element Programs before the Studies were completed. Staff and KMA held a second stakeholder meeting on August 27, 2026, to get their reaction to the findings presented in the Studies and the Board direction provided on August 11th. Nine stakeholders attended the meeting, including housing advocates, affordable and market-rate housing developers, and housing agency staff. Stakeholders generally emphasized the need to balance affordable housing requirements with maintaining the financial feasibility of new housing development. Several participants cautioned against increasing impact fees or other requirements in ways that could discourage investment or further challenge project feasibility.

Some notable comments:

- A representative of Santa Cruz YIMBY opposed increasing impact fees on rental or ownership housing and recommended maintaining the current 0% inclusionary requirement for rental projects. He instead encouraged expanding the County's Density Bonus program and allowing it to "stack" with State Density Bonus Law. He also recommended moving the mandatory inclusionary requirement for ownership projects to 11 or more units, allowing projects of 10 units or fewer to pay an in-lieu fee. He emphasized that density bonus incentives are only effective when projects are financially feasible. He also mentioned that San Francisco had a 20% inclusionary requirement which he said crashed their market-rate production. In response, San Francisco recently reduced its requirement to 5%.

- A member of the local housing development industry raised concerns about the financial burden of inclusionary requirements, and additional or increased impact fees on housing development. He questioned the underlying inclusionary housing model, and the requirement that market-rate development subsidize affordable units. He felt that the inclusionary requirements pose a major obstacle to housing production, and impact fees also disincentivize development. He compared the situation to requiring the auto industry to sell a certain percentage of their vehicles below cost. He encouraged the County to provide incentives to encourage developers to provide affordable units on an optional basis.
- A local housing advocate encouraged the County to focus on providing incentives for rental developments, and to use the AHIF revenues to support 100% affordable housing projects rather than downpayment assistance programs.
- Another housing advocate asked questions about what comparable jurisdictions are doing, and how much revenue the AHIF has generated in recent years.
- Another stakeholder suggested eliminating impact fees as they add a lot of cost to housing projects, and she felt they were not going to generate enough revenue to subsidize housing projects.
- A representative of an affordable housing developer supported the County requiring a certain percentage of affordable units in market-rate projects, since developers were not building market-rate projects when the requirement was 0%, so perhaps it will not make any difference if the rates are increased above 0%. She felt that the AHIF revenues are not making much impact.
- A representative of a developer that has done market-rate and 100% affordable projects, but is now focused more on 100% affordable, agreed with the comments of the market-rate developer, and noted that even for affordable projects, they still need to seek a lot of incentives to make projects pencil.

STAFF RECOMMENDATION

Staff recommend that the HAC recommend that the Board of Supervisors:

1. Make no changes to the inclusionary requirements currently set forth in Chapter 17.10 (which currently require 15% of units in new for-sale developments of seven or more units, and 0% of units in rental developments to be affordable); and retain the current Enhanced Density Bonus policies in SCCC Chapter 17.12.065, which incentivizes for-sale projects that provide 15% affordable units with a 40% density bonus, and rental projects that include deed-restricted affordable units in exchange

for a density bonus or other incentives available through state law and/or local code;

2. Simplify the AHIF fee structure and adjust rates as follows, and update the UFS and Affordable Housing Guidelines accordingly:
 - a) Simplify the fee structure for the AHIF that applies to for-sale units (shown in Exhibit F) so that it is \$15 per square foot for all types of for-sale projects that don't include any deed-restricted affordable homes for sale, with exemptions for certain types of "affordable by design" units (see Exhibit F for examples);
 - b) Increase the AHIF applicable to market-rate rental projects that do not include any deed-restricted affordable units to \$5 per square foot, with exemptions for certain types of "affordable by design" units (see Exhibit F for examples);
 - c) Adjust the AHIF fee structure for non-residential projects to exempt projects of less than 10,000 square feet of net new non-residential floor area, and all agricultural structures (e.g., barns, agricultural equipment storage and/or produce processing facilities), maintain the current exemption for public facilities; and set the fee rate at \$5 per square foot for those non-residential projects subject to the AHIF (see Exhibit F for details).

RECOMMENDED MEETING PROCEDURES:

- a) Hear staff presentation;
- b) Open the floor for public comment;
- c) Close the floor and return it to the Commissioners for deliberation and/or questions of staff; and
- d) Formulate and vote on recommendations to the Board of Supervisors regarding implementation of these Housing Element Implementation Programs.

Exhibits:

- A. Programs H-3H and H-3J
- B. Links to Final Published Reports on CDI Website:
 - i. [Inclusionary Feasibility Study](#) dated May 21, 2026
 - ii. [Residential AHIF Nexus Study](#) dated Sept. 1, 2026
 - iii. [Non-Residential AHIF Nexus Study](#) dated Sept. 1, 2026
- C. [Item 9](#) on August 11, 2026 Board of Supervisors Meeting Agenda

- D. Minutes of August 11, 2026 Board of Supervisors Meeting (Item 9 only)
- E. Current AHIF Fee Structure for Residential Projects
- F. Example of Simplified AHIF Fee Structure