County of Santa Cruz

Department of Community Development and Infrastructure

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DATE: October 29, 2026

TO: Housing Advisory Commission (HAC)

FROM: Stephanie Hansen, Assistant Director for Policy, Housing and Code Compliance

SUBJECT: Continued Consideration of Inclusionary Housing Feasibility and Affordable Housing 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 that don't include affordable housing. The text of Programs H-3H and H-3J are provided in Exhibit A 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 any changes to the County's current AHIF rates for 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 residential and non-residential nexus studies identify legally supportable AHIF rates, while the inclusionary feasibility study evaluates the feasibility of developing affordable units on-site in new market-rate developments. The September 10 staff report, now included as a historical exhibit in Part B, provides the detailed study findings and prior staff analysis. The discussion below addresses the September 16 Commission actions and the revised residential fee proposal.

SEPTEMBER 16, 2026 HAC ACTION AND CONTINUED DISCUSSION

The Commission approved staff recommendation 2(c) on non-residential AHIF, modified to exempt projects with less than 5,000 square feet of net new non-residential floor area rather than the proposed 10,000-square-foot threshold. The recommendation retains the proposed $5-per-square-foot rate for covered non-residential projects, agricultural exemptions, and existing public-facility exemption. The motion passed 8–0 and is not presented for a second vote.

No residential fee recommendation was adopted. Further consideration was continued to November 4.

The September staff recommendation proposed increasing the rental AHIF from $2 to $5 per square foot for market-rate rental projects that do not provide deed-restricted affordable units, with potential affordable-by-design exemptions. The HAC did not reach a recommendation on this proposal.

The September recommendation was to maintain the existing 15% inclusionary requirement for for-sale developments of seven or more net new units, the existing rental compliance framework, and the enhanced density bonus policies. These matters remain for HAC recommendation; no change to the mandatory ownership percentage is proposed.

Exemptions and implementation. The September proposal contemplated narrowly defined affordable-by-design exemptions. Staff should identify any specific exemptions it recommends carrying forward and ensure that the Unified Fee Schedule, Affordable Housing Guidelines, and any necessary Chapter 17.10 amendments implement the final policy consistently.

REVISED AHIF RECOMMENDATIONS

In response to the September discussion and following the Board’s direction, staff proposes retaining a size-based ownership fee structure rather than the previously proposed uniform $15-per-square-foot rate. The revised approach consolidates the existing one-unit, 2–4-unit, 5–6-unit, and 7+-unit categories into three: one unit, 2–6 units, and seven or more units. The proposed schedule changes rates in each category, including graduated rates for single-unit projects, a common schedule for 2–6-unit projects, and a flat $30-per-square-foot rate for projects of seven or more units where an AHIF is applicable.

Proposed For Sale AHIF Schedule

Floor area per unit	1 unit ($/SF)	2–6 units ($/SF)	7+ units ($/SF)
Up to 2,000 SF	$4	$10	$30
2,001–2,500 SF	$6	$10	$30
2,501–3,000 SF	$8	$10	$30
3,001–4,000 SF	$10	$15	$30
4,000+ SF	$15	$15	$30

For single-unit projects, staff recommends graduated rates of $4 to $15 per square foot based on unit size. The proposed lower rates for smaller homes recognize their generally lower overall cost and seek to reduce the fee burden on housing that may be more affordable by design, while retaining higher fees for larger homes.

For projects of two to six units, staff recommends consolidating the existing 2–4-unit and 5–6-unit categories into a single category, with a $10-per-square-foot rate for units up to 3,000 square feet and $15 per square foot for larger units. This is a change from the current structure: the existing 2–4-unit rates include $7, $8, and $10 per square foot depending on unit size, while 5–6-unit projects are subject to $15 per square foot. Accordingly, some 2–4-unit projects would see increases, while certain 5–6-unit projects would see decreases.

For projects of seven or more units, staff recommends a flat $30-per-square-foot rate, twice the $15 rate proposed in September. Under Chapter 17.10, for-sale developments of seven or more net new homes generally must provide 15% of their units as deed-restricted affordable housing. The higher fee is intended to strengthen the incentive to provide affordable homes on site rather than seek fee payment where that alternative is authorized. The proposal does not independently create a fee-payment alternative to mandatory inclusionary compliance. The $30 rate remains below the ownership AHIF maximums identified in the Residential Nexus Study.

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[1.] and adjust rates as follows, and update the UFS and Affordable Housing Guidelines accordingly:

   a) Adopt the revised three-category ownership AHIF schedule presented above: graduated $4–$15-per-square-foot rates for single-unit projects; $10 or $15 per square foot for 2–6-unit projects depending on unit size; and $30 per square foot for projects of seven or more units where an AHIF is applicable, subject to clarification of floor-area boundaries, exemptions, and applicability.

   b) Increase the AHIF applicable to market-rate rental projects that do not include any deed-restricted affordable units from the current $2 per square foot to $5 per square foot, or recommend an alternative rate, with any applicable "affordable by design" exemptions (see Exhibit F for examples);

RECOMMENDED MEETING PROCEDURES:

a) Receive and consider staff presentation;
b) Open the floor for public comment;
c) Close the public comment section 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 changes to AHIF and affordable housing inclusionary rates.

1. 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).

At its September 16, 2026, meeting, the HAC unanimously approved staff recommendation 2(c), modifying the proposed exemption threshold for non-residential projects from 10,000 to 5,000 square feet. The recommendation will be included in the report to the Board of Supervisors and is not being presented for reconsideration at this meeting.[1]

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. Revised Staff Recommended Affordable Housing Impact Fee Schedule (November 4, 2026)

G. Item 6 Attachment II (Part A) on September 16, 2026 Housing Advisory Commission Agenda