September 15, 2026

Santa Cruz County Housing Advisory Commission
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Re: September 16, 2026 Hearing — Inclusionary Housing and Affordable Housing Impact Fee Recommendations

Dear Chair and Members of the Housing Advisory Commission:

Santa Cruz YIMBY appreciates the opportunity to comment on the proposed changes to the County's inclusionary housing and Affordable Housing Impact Fee programs.

Our starting principle is straightforward: **Santa Cruz County should be working to make housing development more financially feasible, regardless of the income level of the eventual residents.** We need substantially more deed-restricted affordable housing, more workforce housing, more rental housing, more starter homes, and more market-rate housing. Policies that increase the cost of producing housing make it harder to achieve all of those goals.

For that reason, we support parts of the staff proposal, but we do not support recommendations that would increase the financial burden on new residential development. In summary, Santa Cruz YIMBY recommends

- **Maintain a 0% mandatory inclusionary requirement for rental development and exempt for-sale projects of ten units or fewer from mandatory inclusionary requirements;**
- **Retain and expand voluntary affordable-housing incentives, including the Enhanced Density Bonus program, and allow local incentives to complement State Density Bonus Law wherever possible;**
- **Eliminate the residential AHIF, or at minimum establish a simplified for-sale fee near the existing low-end rate of $2 per square foot rather than $15 per square foot;**
- **Do not increase the rental AHIF from $2 to $5 per square foot, and instead eliminate the fee for rental housing; and**
- **Adopt staff Recommendation 2C for non-residential development, while ensuring residential housing is not subjected to a higher AHIF rate than commercial development.**

The County's consultant found that market-rate rental development has been financially challenging over multiple real-estate cycles and cautioned in their report that imposing additional inclusionary requirements would create further constraints on future rental development. The stakeholder process likewise produced repeated concerns that increased impact fees could further undermine project feasibility.

The Board of Supervisors has also already directed staff to consider revisions that would **"reduce or eliminate inclusionary housing rates and impact fees"** in order to encourage housing production, particularly affordable-by-design housing. We believe the Commission's recommendations should follow that direction.

Recommendation 1 — Inclusionary Requirements

Staff recommends retaining the existing requirement that 15% of units in new for-sale developments of seven or more units be deed restricted as affordable, maintaining a 0% inclusionary requirement for rental projects, and retaining the County's Enhanced Density Bonus program.

Santa Cruz YIMBY supports retaining the 0% mandatory inclusionary requirement for rental housing, but we encourage the County to reduce the requirements imposed on for-sale housing as well. In particular, projects of ten units or fewer should be exempt from mandatory inclusionary requirements.

Smaller ownership projects can be particularly sensitive to added costs. A requirement that causes even one otherwise feasible small project not to move forward does not merely reduce market-rate production; it also produces zero inclusionary homes from that project.

We support retaining and strengthening the County's Enhanced Density Bonus program. More broadly, we encourage the County to move toward an incentive-based approach in which developers can voluntarily provide deed-restricted affordable units in return for meaningful additional density, development-standard flexibility, fee reductions, or other benefits. Those incentives should, where legally permissible, be structured so they can complement and stack with State Density Bonus Law.

The goal should be to make affordability incentives valuable enough that developers voluntarily use them, not to make the underlying project less feasible in order to generate an affordability obligation.

Recent research from UC Irvine[1] underscores why this distinction matters. In a June

[1] Noah Kouchekinia, *Inclusionary Zoning and Housing Supply:*

2026 working paper using statewide California data, economist Noah Kouchekinia estimates that **the typical rental inclusionary zoning ordinance studied reduced annual new residential construction by approximately 32%**.

The study also estimates the broader cost of producing affordable units through inclusionary zoning. It calculates approximately **$775,000 in additional rents paid by market-rate renters for every affordable unit generated by mandatory inclusionary zoning**, compared with an estimated marginal cost of approximately **$441,000** to directly subsidize a low-income unit through the Low-Income Housing Tax Credit program. The author concludes that the hidden costs of mandatory inclusionary zoning compare poorly with alternative methods of creating affordable housing.

That is an important reminder that an affordable housing policy should be evaluated not simply by the number of deed-restricted units it requires *within projects that get built*, but by its effect on the number of projects and homes that get built at all.

Recommendation 2A — AHIF on For-Sale Housing

Staff recommends replacing the existing graduated fee structure with a uniform $15 per square foot AHIF for for-sale projects that do not provide deed-restricted affordable homes, subject to certain affordable-by-design exemptions. The County's existing residential for-sale rates range from approximately $2 to $15 per square foot.

Santa Cruz YIMBY supports simplification of the fee structure, but **we do not support simplifying it by raising lower existing fees to the highest existing rate.**

A uniform $15-per-square-foot charge would substantially increase costs for housing that currently falls toward the lower end of the County's fee schedule. For a 2,000-square-foot home, an AHIF of $15 per square foot represents $30,000 before including additional development fees and construction costs associated with producing the home. **The proposed $15/sf fee structure would result in an increase of as much as $26,000 for a 2000sf single family home, and as much as a $64,000 fee increase for a four-unit, 8,000sf project (from $56,000 to $120,000), more than double the current rate.**

Our preference is that the County eliminate the AHIF on new housing altogether. At a minimum, if the Commission recommends a simplified uniform rate, we recommend setting that rate at $2 per square foot, the low end of the existing fee structure, rather than $15 per square foot.

Evidence from California's Palmer Fix, UC Irvine Department of Economics, June 11, 2026.

Exempting particular forms of "affordable by design" housing is helpful, but the County should not create an incentive for smaller homes by making other types of homes significantly more expensive to build. The objective should be to lower the cost of producing *all* housing while providing additional incentives for housing forms the County particularly wants to encourage.

Recommendation 2B — AHIF on Rental Housing

Staff recommends increasing the AHIF on market-rate rental projects without deed-restricted affordable units from the current **$2 per square foot to $5 per square foot**, while exempting certain affordable-by-design units.

Santa Cruz YIMBY opposes this increase and recommends eliminating the AHIF for rental housing altogether.

The County's own feasibility work provides perhaps the strongest reason not to increase this fee: market-rate multifamily rental development has struggled to occur in unincorporated Santa Cruz County over multiple real-estate cycles, and the County's consultant expressly concludes that such development will continue to be financially challenging.

We should be reducing burdens on market rate construction, not increasing them. Constructing market-rate developments absorb demand from higher-income residents, easing pressure on current rental inventory and mitigating displacement risks in surrounding communities. Empirical evidence demonstrates that **producing 100 new market-rate units frees up between 45 and 70 homes** within lower-income areas through residential filtering.[2] This supply effect results in far more affordable housing than that which can be generated via impact fees subsidizing new construction of deed-restricted affordable housing.

We agree that affordable-by-design housing deserves encouragement. But we believe **all rental housing should receive relief from the AHIF**, with additional incentives available for smaller or otherwise naturally lower-cost units.

Recommendation 2C — Non-Residential AHIF

Staff recommends exempting non-residential projects with less than 10,000 square feet of net new floor area, exempting agricultural structures, retaining the exemption for public facilities, and establishing a **$5-per-square-foot fee** for non-residential projects that remain subject to the AHIF.

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[2] Evan Mast, *The Effect of New Market-Rate Housing Construction on the Low-Income Housing Market*, Journal of Urban Economics, Vol. 133 (2023).

Santa Cruz YIMBY supports this recommendation.

Unlike Recommendations 2A and 2B, this proposal does not directly increase the cost of producing housing. We support limiting burdens on smaller businesses, agricultural uses, and other development as well.

There is no policy basis for charging substantially more per square foot in fees for new housing than for non-residential development. If the County establishes a $5-per-square-foot AHIF for commercial development, **the AHIF on for-sale housing should be no greater than $2 per square foot, and preferably eliminated altogether.**

A Better Direction

Santa Cruz County has ambitious housing obligations and an acute affordability problem. Those circumstances necessitate making housing easier to finance and build, not extracting the maximum theoretically supportable contribution from each project.

A nexus study showing that a higher fee may be supportable does not mean that charging that fee is sound housing policy. Multi-family market-rate rental projects have been virtually non-existent in the unincorporated areas of the county since the 1980s, and the few projects moving forward today rely on state Builder's Remedy exceptions. When local rules make market-rate development unfeasible, the result is higher housing costs across the entire county.

Santa Cruz YIMBY shares the County's goal of creating housing that people at all income levels can afford. We believe the most durable way to accomplish that goal is to **lower the barriers to housing production while using incentives and public resources to generate deed-restricted affordability**, rather than imposing additional costs on the housing we desperately need to build.

Thank you for your consideration.

Sincerely,

Rafa Sonnenfeld
Janine Roeth
Santa Cruz YIMBY