ATTACHMENT 3

County of Santa Cruz

HOUSING ADVISORY COMMISSION

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July 10, 2014

TO: HOUSING ADVISORY COMMISION

FROM: Julie Conway, Housing Coordinator

SUBJECT: Update of Affordable Housing Regulations

As you know, the County of Santa Cruz Planning Department retained the services of Keyser Marston Associates (KMA) in order to conduct an analysis of the County's Affordable Housing Program. The Housing Advisory Commission (HAC) received a presentation about preliminary findings at its May 14, 2014 meeting. The July 16, 2014 Housing Advisory Commission meeting will include a discussion of the consultant recommendations put forward in the report. It is recommended that the Commission discuss each of the seven recommendations and then take an action to recommend that the Board of Supervisors move forward with the complete package of recommendations.

The Executive Summary of the report is attached. The detailed report and the analysis supporting the recommendations is available on the County's website using the following link: http://www.sccoplanning.com/PlanningHome/Housing/

If you have difficulty with the link or would like a hard copy of the report mailed to you please contact Micaela Lopez at 454-2336 or by email at Micaela.Lopez@santacruzcounty.us

The actions recommended by KMA are briefly summarized as follows.

1. ***Ordinance amendments needed to respond to legal issues***

   There are two amendments necessary to the County's ordinance due to recent court cases. The first is due to the "Palmer" case, with the result that rental housing projects cannot be required to provide on-site affordable housing (inclusionary units). The second relates to how State density bonus provisions must be implemented by the County, which for example will result in a project including 15% affordable units being eligible for a 10% density bonus.

2. ***Requirements for Ownership Units***

   - Currently the County's program applies to residential projects with more than two units. It is proposed that all new residential development be required to contribute to the development of affordable housing.

   - Measure J states that it is the County's policy that at least 15 percent of new housing in the County be affordable to average income households and below. This percentage is supported by findings of a nexus analysis, which indicates a legal maximum inclusionary range of 15 % to 28% to fully mitigate affordable housing impacts.

- The financial feasibility analysis concluded that under some circumstances an on-site inclusionary obligation yields substandard profit margins and therefore acts as a disincentive to the creation of housing. It is recommended that the pricing of Measure J units be based on affordability at 110% of AMI rather than the current pricing of 100% of AMI.

- KMA recommends that all new developments have the option of paying an in lieu fee based on $15 per square foot of building area including both newly constructed ownership homes and additions.

3. ***Requirements for Rental Units***

Recent court cases indicate the County's program needs to be modified to exempt rental units from on-site inclusionary requirements. An impact fee on rental units is legal, and is supported by the nexus analysis. It is recommended that an impact fee on rental apartments initially be set at $2.00 per square foot of building area, in order not to impact the financial feasibility of market rate rental housing projects.

4. ***Requirements for Non-residential Development***

The nexus analysis on four types of commercial and industrial buildings supports the establishment of affordable housing impact fees that would be paid by non-residential developments. However, given the County's desire to encourage job growth it is recommended that the initial fee be set at a modest level of $2.00 per square foot of building area.

5. ***Affordable housing obligations for properties that are rezoned from commercial to residential***

It is recommended that properties rezoned from non-residential to residential uses be subject to the standard 15% inclusionary obligation unless there are sources of subsidy made available so that it is financially viable to exceed a 15% inclusionary requirement. In addition, it is recommended that the County identify a set of "public benefits" criteria on which to evaluate rezoning applications.

6. ***Affordable housing obligations for Regional Housing Need R Combining Districts***

The findings of the nexus analysis do not support the 40% obligation currently required for properties within the R-Combining Districts and, in addition, this level of a requirement would renders projects financially infeasible without County subsidies. Because of this, it is recommended that these properties be subject to the standard affordable housing requirement unless there are resources available to help create additional affordable units.

7. *Effective structure for ensuring the long-term maintenance of affordable housing stock*

The County's current program enables homeowners to recapture the cost of improvements made to their property upon resale, recapturing the cost of certain improvements. While there has been concern for the long term maintenance of Measure J homes, the current County policy is consistent other inclusionary programs throughout the State and is workable. Because of this, it is recommended that the County retain the provisions of its current program.

8. *Considerations Regarding the Magnitude and Use of Fee Revenue*

Adoption of the proposed optional-in lieu fee program could generate substantial affordable housing fee revenue to the County that could help to leverage other funds to meet its affordable housing needs. Because the basis for collecting the fee is the demand for housing resulting from job creation, the fee revenue should be primarily used to support the development of new housing for the working population. It is estimated that the County could receive from $2.1 to $3.8 million annually from an affordable housing impact fee. This is less than the $8 million of annual revenues the County received through redevelopment.

Use of impact fees would likely be oriented to assist with creation of extremely low, very low and low income rental affordable housing. This is different from the outcome of the current inclusionary program, which assists moderate income buyers with home purchases and ownership, which generally is at a higher per-household assistance level.

Conclusion/Recommendation

The recommendations and analysis provided by KMA provide the County with the opportunity to update its housing policies to be consistent within the current legal framework and will ensure that the County's need for affordable housing is addressed through the creation of badly needed housing units. Staff recommends that the consultant recommendations and supporting analysis be discussed and recommended to the Board of Supervisors.

Attachment 1: Executive Summary of Recommendations