

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 11/5/2013	(3) CONTACT/PHONE Ted Bench, Planner 3 / 805-781-5701	
(4) SUBJECT Hearing to consider resolutions on the annual adjustment of the in-lieu and housing impact fee schedules of Title 29, along with the Title 29 Annual Report and Action Plan.			
(5) RECOMMENDED ACTION That the Board of Supervisors: <ol style="list-style-type: none"> 1. Adopt and instruct the chairman to sign the attached resolution to adopt the annual adjustment to the in-lieu and housing impact fee schedules of Title 29. 2. Adopt and instruct the chairman to sign the attached resolution to approve the Title 29 Annual Report and Action Plan. 			
(6) FUNDING SOURCE(S) Current Budget	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT <input type="checkbox"/> Consent <input type="checkbox"/> Presentation <input checked="" type="checkbox"/> Hearing (Time Est. <u>45 min</u>) <input type="checkbox"/> Board Business (Time Est. <u> </u>)			
(11) EXECUTED DOCUMENTS <input checked="" type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(14) LOCATION MAP N/A	(15) BUSINESS IMPACT STATEMENT? Yes	(16) AGENDA ITEM HISTORY <input checked="" type="checkbox"/> N/A Date: _____	
(17) ADMINISTRATIVE OFFICE REVIEW			
(18) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Planning and Building / Ted Bench, Planner III

DATE: 11/5/2013

SUBJECT: Hearing to consider resolutions on the annual adjustment of the in-lieu and housing impact fee schedules of Title 29, along with the Title 29 Annual Report and Action Plan.

RECOMMENDATION

That the Board of Supervisors:

1. Adopt and instruct the chairman to sign the attached resolution to adopt the annual adjustment to the in-lieu and housing impact fee schedules of Title 29.
2. Adopt and instruct the chairman to sign the attached resolution to approve the Title 29 Annual Report and Action Plan.

DISCUSSION

The County has an inclusionary housing ordinance and also Title 29 - Affordable Housing Fund. These County Codes allow a developer to pay an in-lieu fee or housing impact fee instead of providing affordable housing units. The fees are deposited into the Affordable Housing Fund.

Title 29 requires full public disclosure of how the fees are collected and spent. These funding activities are described in the attached Annual Report and Action Plan. Title 29 also authorizes an annual review and adjustment of the fee schedules. Any fee adjustments will become effective within 180 days after Board action, by July 2014.

Additional time is reserved on the Board of Supervisors meeting of December 3, 2013, in case the Board directs staff to return with changes to the Annual Report, the Action Plan, and/or the Title 29 fee adjustments.

Part 1: Annual Fee Adjustment

Title 29 – the Affordable Housing Fund of the San Luis Obispo County Code – requires the Board to consider annual adjustments to the affordable housing fee schedules. The Board shall adopt a resolution describing any changes to the fee schedules.

The fees may be adjusted for the following reasons:

- Periodic update of the fee formulas
- Annual construction cost increases
- Five-year phase-in period

Last Year – Periodic Update Leads to Substantial Fee Changes

Title 29 requires a periodic update of the fee formulas. The previous review of the fee formulas was done in 2007 when high housing costs made it difficult for working families to purchase a home. Last year the fee formulas were updated to reflect the current housing market and construction costs. The in-lieu fee for residential development was reduced substantially, by more than 60%. However the housing impact fee for commercial development was increased by 30% to 50%. The commercial fee increase reflects improved data on the number and income levels of employees that come to work in new commercial development.

The County hired consultants to prepare the nexus studies that evaluate the Title 29 fee formulas. The studies noted significant changes between 2007 and 2012 in the housing market prices, construction costs, and the affordable housing needs in the County. The studies documented the volume of new construction in the unincorporated areas, the increase in the service population needed to support the new homes and businesses, and the affordability gap between current housing prices and what the support population can afford. The support populations are the people that serve the new homeowners and that work in the new commercial / industrial projects. They are the plumbers, retail clerks, and teachers who serve new neighborhoods, and also the employees who will work in the new commercial projects.

Title 29 requires the fee formulas to be updated every five years, with the next update to occur in 2017.

Annual Construction Cost Changes

Title 29 fees are used to support the construction of affordable housing, so the fees must keep current with construction costs. Title 29 requires the County to adjust the fees each year to reflect the changes that are tracked in the Engineering News Record – Construction Cost Index for San Francisco. Construction costs have increased by less than 1.0% for the period between September 1, 2012 and September 1, 2013. The increase was 0.7%.

Your Board may consider increasing the Title 29 fees by 0.7% to reflect the effects of inflation on construction costs.

Five-Year Phase-In Period

The County is in “Year 1” of a five-year phase-in period for the Title 29 fee schedules. Only 20% of the Title 29 fees are collected. For example, the in-lieu fee for residential development is \$3.55/SF, but only \$0.71/SF is collected (20%). The housing impact fee for commercial retail development is \$3.24/SF but only \$0.65/SF is collected (20%). When the County implemented the inclusionary housing ordinance in 2009, it also adopted a five-year phase-in period. This was done to give the local housing and commercial markets some time to adjust to the ordinance.

The County’s affordable housing requirement is also tied into the five-year phase-in period. A developer may choose to produce affordable housing units instead of paying the fee. For every five market rate houses built, one of the five houses shall be affordable (20% of the project’s units). But in “Year 1” of the five year period, just 4% of the project’s units shall be affordable (20% of 20% = 4% of the housing units for Year 1). Moving to Year 2 of the phase-in period will increase both the fee and housing requirements. In practice, most developers have chosen to pay the fees because the fees are much less than the cost of providing affordable units.

Recommendation for Split Fee Adjustment

The Planning and Building Department suggests that the Title 29 fee schedules be adjusted in a split manner, allowing the residential “in-lieu fees” to go to “Year 2” or “Year 3” and leaving the commercial “housing impact fees” at “Year 1.” Also, the 0.7% construction cost increase should be added. Last year most of the commercial fees were increased by 30% to 50%, and the residential fee was reduced by over 60%. Pursuant to the nexus study, the full “in-lieu” fee was reduced from \$10.00/SF to \$3.55/SF. And the Year 1 amount of the in-lieu fee that is collect was dropped from \$2.00/SF to \$0.71/SF. The in-lieu fee could be adjusted to “Year 2” or “Year 3” and remain comparable to the earlier fee amount. The current “in-lieu” fee amount for “Year 1” is \$0.71/SF, for “Year 2” it is \$1.42/SF, and for “Year 3” it is \$2.13/SF.

The attached resolution reflects moving the residential “in-lieu” fee and affordable housing requirements to “Year 2,” and leaving the commercial “housing impact” fees at “Year 1.” Residential and commercial development is still recovering from the 2007-2009 economic recession. The fee adjustments will go into effect July 1, 2014.

Options to Consider

Your Board may wish to consider the following options when adjusting the fee schedules:

1. Stay at “Year 1” = no change
2. Stay at “Year 1” and add the 0.7% construction cost adjustment
3. Stay at “Year 1” with the commercial fees and go to “Year 2 or 3” with the residential fees.
4. Same as option 3 above, and add the 0.7% construction cost increase.

NOTE: The attached resolution reflects Option 4, and goes to “Year 2” for the residential fee.

Part 2: Annual Report

The attached Annual Report follows the requirements of Title 29 Section 29.05.010. The report describes several things: 1) the amount of Title 29 fees that were collected and spent, 2) the affordable housing projects that were funded, and 3) the number of housing units produced.

The following table shows the amount of revenues received and spent since October 1, 2012:

**Summary of all Title 29 Accounts
Between October, 2012 and October, 2013**

Account	Starting Amount	Income (+)	Disbursements (-)	Amount Available
In-Lieu Fees	\$20,558.61	\$4,984.00	\$20,558.61	\$4,984.00
Housing Impact Fees	\$51,354.36	\$59,606.86	\$51,354.36	\$59,606.86
Total	\$71,912.97	\$64,590.86	\$71,912.97	\$64,590.86

At the end of 2012, there was \$71,912.97 available in the Fund. Pursuant to the 2013 Action Plan, the County used the \$71,912.97 to help pay for the construction costs for 89 affordable housing units in three projects in Paso Robles, San Luis Obispo, and Oceano. The following table shows the status of the funded projects:

Projects Supported by the Title 29 Fund during the Previous Year (2013 Action Plan)

Project Name	Amount Allocated	Amount Drawn	Remaining Amount	Was Project Completed?
Oak Park – Phase 1 Paso Robles (80 units)	\$11,016.17	\$11,016.17	\$0	No – Estimate completion by February, 2014
Habitat for Humanity Rockview Place – SLO City (3 units)	\$26,515.18	\$26,515.18	\$0	Yes – completed October, 2013
People’s Self Help Oceano (6 units)	\$34,381.62	\$34,381.62	\$0	No - Estimate completion by June, 2014

Part 3: Action Plan

The Action Plan for 2014 will guide the use of the Title 29 funds for the coming year. Title 29 directs the County to allocate the funds to affordable housing projects within the same housing market area as where the projects that paid the Title 29 fees are located.

The following table summarizes the funding amounts available for each area of the County.

Funds Available for Each Area of the County**

Account	North County	South County	Central County	North Coast	Total
In-Lieu Fees	\$4,984.00	\$0	\$0	\$0	\$4,984.00
Housing Impact Fees	\$11,378.27	\$5,274.42	\$35,974.78	\$6,979.39	\$59,606.86
Total	\$16,362.27	\$5,274.42	\$35,974.78	\$6,979.39	\$64,590.86

**See Action Plan Appendix - Housing Market Area Map. The County is divided into four Housing Market Areas.

Title 29 requires the Action Plan to identify specific projects that will receive the affordable housing funds. Title 29 funds shall be spent primarily on the direct construction costs of affordable housing.

Recommended Projects to be Funded in 2014

Project Name	Amount Allocated
Oak Park – Phase 1 Paso Robles (80 units)	\$16,362.27
Moylan Terrace - Phase 2 San Luis Obispo (7 units)	\$35,974.78
People’s Self Help Oceano (6 units)	\$5,274.42
Not Allocated: \$6,979.39 from North Coast area	\$0
Total amount allocated	\$57,611.47

The Planning and Building Department recommends allocating the Title 29 funds to three projects in 2014. The Paso Robles and Monterey County Housing Authorities began the construction of Oak Park – Phase 1 in February, 2013. The anticipated completion date is March, 2014. Oak Park – Phase 1 includes the demolition of 40 old apartment units and the construction of 80 new affordable apartment units. The San Luis Obispo Housing Authority started the construction of Moylan Terrace – Phase 2 in the spring of 2013, and the anticipated completion date is June, 2014. Moylan Terrace – Phase 2 will have 7 affordable condominium units. People’s Self-Help Housing Corporation started the construction on the Oceano project in the summer of 2013 and the anticipated completion date is February, 2014.

This is a “sweat equity” subdivision that will provide six townhouse units in Oceano. All of the Oceano units are being built by low and very low income homeowners who also qualify as farmworker households. The North Coast area has no affordable housing projects currently under construction. Staff recommends that the County hold the North Coast area fund until such project(s) are started. The fund may be held for up to five years before it must be returned to the developer or allocated to eligible projects in a neighboring area.

The attached Action Plan and resolution reflect these recommendations.

OTHER AGENCY INVOLVEMENT/IMPACT

The attached resolutions have been reviewed by County Counsel. County Counsel has approved the resolutions as to form and legal effect.

Referral notices were sent to both the Economic Vitality Corporation and the Home Builders Association of the Central Coast. A presentation was made to the Workforce Housing Coalition (WHC). The WHC recommends a split fee adjustment, by moving the residential in-lieu fee schedule to “Year 3,” and leaving the commercial housing impact fee schedule at “Year 1”, but adding the 0.7% construction cost increase to the commercial fee schedule.

BUSINESS IMPACT STATEMENT

New development cannot function without water, utilities and other services. The Title 29 nexus studies have documented how new development also creates a need for more affordable housing. This is housing for the plumbers, retail clerks, and teachers who come to serve new neighborhoods, and also the employees who work in the new commercial projects. The nexus studies show that the fee amounts for “Year 5” of the five-year phase-in period are justified and will help off-set the impact (the housing need) caused by new development.

The County determines the fee amounts that will be charged to new development. Last year the County implemented the new fee schedules of the 2012 nexus studies, but left the fee amounts at the “Year 1” fee level. This resulted in more than a 60% reduction for residential in-lieu fees, and a 30% to 50% increase in commercial – housing impact fees. The development industry is still recovering from the economic recession. This year the impact of fee increases can be minimized by moving to “Year 2 or 3” of the in-lieu fee schedule and remaining at “Year 1” of the housing impact fee schedule (and adding the 0.7% construction cost increase). Such a move would return the in-lieu fees to the level of previous years, and allow the recently increased housing impact fees to remain where they are.

FINANCIAL CONSIDERATIONS

The Board’s action will determine the level of adjustment to the Title 29 fee schedules for FY 2014/2015. Fee changes will go into effect in July, 2014. The Board’s action will also determine the allocation of the available Title 29 funds in 2014.

These actions do not affect the cost to the County for administering the ordinances. All County staff costs for administering Title 29 and the inclusionary housing ordinance are contained within the Planning and Building Department budget.

RESULTS

The intended result is to protect the viability of the building industry and to require a fair contribution to address the affordable housing needs caused by new development. Encouraging the provision of affordable housing helps the County to meet many of its county-wide goals, including the goal of creating more livable communities.

ATTACHMENTS

Attachment A: Title 29 Annual Report and Action Plan for Year 2014

Attachment B: Resolution to Adopt the Action Plan for Year 2014

Attachment C: Resolution to Adopt the Annual Adjustment to the Fee Schedules of Title 29