

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

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 11/25/2014	(3) CONTACT/PHONE Ted Bench, Housing and Economic Dev./(805)781-5701	
(4) SUBJECT Introduction of proposed amendments to the Affordable Housing Fund Ordinance, Title 29 of the San Luis Obispo County Code relating to fee schedules. Hearing date set for December 2, 2014. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board introduce the ordinance in Attachment 1 and direct the Clerk to set for public hearing and action on December 2, 2014.			
(6) FUNDING SOURCE(S) Current Budget	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ____ ) <input type="checkbox"/> Board Business (Time Est. ____ )			
(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"/> 4/5 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 Lisa M. Howe			
(18) SUPERVISOR DISTRICT(S) All Districts			



## County of San Luis Obispo

TO: Board of Supervisors

FROM: Planning and Building / Ted Bench, Housing and Economic Development

VIA: Dana Lilley, Supervising Planner

DATE: 11/25/2014

SUBJECT: Introduction of proposed amendments to the Affordable Housing Fund Ordinance, Title 29 of the San Luis Obispo County Code relating to fee schedules. Hearing date set for December 2, 2014. All Districts.

### **RECOMMENDATION**

It is recommended that the Board introduce the ordinance in Attachment 1 and direct the Clerk to set for public hearing and action on December 2, 2014.

### **DISCUSSION**

#### Annual Fee Adjustment

The Title 29 fees are better known as the affordable housing “in-lieu” fees. These fees are collected when construction permits are issued by the Planning & Building Department. The full name of Title 29 is “Title 29 - the Affordable Housing Fund of the San Luis Obispo County.”

Pursuant to Title 29, the Board considers making adjustments each year to the Title 29 fee schedules. The Board also adopts a resolution reflecting any adjustments to the fee schedules.

The fees may be adjusted for any of the following reasons:

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

All of the collected fees are used to support affordable housing projects. But developers can meet their affordable housing requirements by paying fees, or providing affordable dwellings or donating land. These options are describe in the County’s inclusionary housing ordinance. “In-lieu” fees are applied to residential projects, and “housing impact” fees are applied to commercial projects.

#### Annual Construction Cost Changes

Title 29 fees are used to construct affordable housing, so the fees should be kept current with construction costs. Title 29 requires that fees to be adjusted each year to reflect the changes shown in the Engineering News Record – Construction Cost Index for San Francisco. This index shows that construction costs have increased by 4.9% for the period between August 1, 2013 and August 1, 2014. Staff recommends that the Title 29 fee schedules be adjusted to reflect the 4.9% increase in construction costs.

### Five-Year Phase-In Period

In 2008, both Title 29 and the inclusionary housing ordinance were adopted with a five-year phase-in schedule. The intent of the phase-in period was to allow time for the housing market to adjust to the ordinance and recover from the recession. However, both the ordinance and the fee schedules have remained at “Year 1” since 2008.

At Year 1, only 20% of the Title 29 fees are being 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 \$3.26/SF but only \$0.65/SF is collected (20%).

The developer may choose to pay the Title 29 fees or build inclusionary (affordable) housing units. These options are allowed by the inclusionary housing ordinance. For every five market rate houses built, one of the five houses must be affordable (20% of the project’s units). But in “Year 1” just 4% of the project’s units must be affordable (20% of 20% = 4%). In practice, most developers have chosen to pay the fees because the fees are currently much less than the cost of providing affordable units.

### Periodic Update Caused Substantial Fee Adjustments in 2012

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

The original fee formulas for Title 29 were established in 2007, near the high point of the real estate boom. High housing costs can generate high in-lieu fees. In 2012 the fee formulas were revised to reflect the post-recession real estate market. The fees for residential development were reduced substantially, by more than 60%. However, the fees for commercial development were increased by 30% to 50%. These fee adjustments reflected post-recession housing costs and also a more accurate picture of the housing needs of employees working in new commercial projects.

### Recommendation - Stay at “Year 1” of Fee Schedule

The Planning and Building Department suggests that the Title 29 fee schedules remain at “Year 1” of the five-year phase-in period. The fee schedules should still be adjusted to reflect the 4.9% construction cost increase. The attached resolution incorporates these recommendations.

While the housing market shows strong signs of recovery, it is unclear whether the level of construction activities has stabilized. Any significant fee schedule adjustments should be deferred until both the housing market and construction activities show steady signs of recovery. Moving to “Year 2” of the phase-in period would double the Title 29 fee amounts. At “Year 1” the fee amounts are 20% of what the full fee would be. At “Year 2” they would be 40%. The full fee amounts are supported by the nexus studies completed in 2012 in conformance with the Mitigation Fee Act (AB 1600 and Government Code 66001). However, the County has chosen to adopt lower fee and affordable housing requirements.

- The housing market shows signs of recovery. Market prices are up. But salaries have not kept up.

The following information comes from the National Association of Home Builders / Wells Fargo - Housing Opportunity Index:

San Luis Obispo-Paso Robles, CA			
Time Period	2 <sup>nd</sup> Qtr. 2006	2 <sup>nd</sup> Qtr. 2011	2 <sup>nd</sup> Qtr. 2014
Median Price	\$550,000	\$320,000	\$440,000
Median Income	\$63,800	\$74,400	\$77,000
Housing Opportunity Index	5.9%	49.4%	28.2%

1. Website Address: [http://www.nahb.org/reference\\_list.aspx?sectionID=135](http://www.nahb.org/reference_list.aspx?sectionID=135)
2. Document Name: The NAHB/Wells Fargo Housing Opportunity Index: Complete History by Metropolitan Area (1991-Current)
3. Housing Opportunity Index is based on variables such as median house prices, median incomes and mortgage interest rates.

Between 2011 and 2014, the median house prices increased by 37.5%. But the median salaries increased by only 3.5%. At this time (Year 2014) only 28% of the median income families that can afford a median priced home.

- FY 2011/2012 marked the lowest level for construction activities. Recovery has begun.

***Number of Completed Dwelling Units in Unincorporated County Areas***

Fiscal Year	Single Family Residential units	Residential Multi-Family units	Total Units
FY 05/06	979	53	1032
FY 06/07	695	62	757
FY 07/08	741	82	823
FY 08/09	519	69	588
FY 09/10	362	113	475
FY 10/11	364	29	393
FY 11/12	200	21	221
FY 12/13	252	0	252
FY 13/14	311	19	330

Source: Monthly Permit Reports – County of San Luis Obispo Department of Planning & Building

Fiscal year 2011/2012 had the lowest number of completed dwelling units. It was also the year with the lowest number of completed commercial business units (67 units). By 2015 it should be clear whether the recovery trend will stabilize or continue to go up.

Action Plan and Annual Report

Title 29 also requires the Department of Planning and Building to prepare an annual report and action plan. Staff will present these documents to the Board for consideration along with the Title 29 fee adjustments at the December 2, 2014 hearing.

Options to Consider

The attached resolution reflects keeping the Title 29 fee schedules at “Year1” but also adjusted to add the 4.9% increase of construction costs. In addition, the inclusionary (affordable) housing requirement would remain at “Year 1.” The fee adjustments will go into effect July 1, 2015.

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 4.9% construction cost adjustment
3. Go to “Year 2” and add the 4.9% construction cost adjustment

The attached ordinance reflects Option 2.

**OTHER AGENCY INVOLVEMENT/IMPACT**

The attached ordinance has been reviewed by County Counsel. County Counsel has approved the resolution as to form and codification.

**BUSINESS IMPACT STATEMENT**

There would be minimal business impact if the existing Title 29 fee schedules remain at the “Year 1” level with the added 4.9% construction cost adjustment.

## **FINANCIAL CONSIDERATIONS**

The Board's action will determine the level of adjustment to the Title 29 fee schedules for FY 2015/2016. Fee changes will go into effect in July 1, 2015.

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 1 – Ordinance to be introduced

Attachment 2 – Ordinance showing deletions and additions