

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

(1) DEPARTMENT Planning and Building	(2) MEETING DATE 11/17/2015	(3) CONTACT/PHONE Ted Bench, Planner / (805) 781-5701	
(4) SUBJECT Hearing to consider a request by the County of San Luis Obispo for amendments to Title 29 – Affordable Housing Fund, to consider resolutions adopting an annual adjustment of the residential in-lieu fee and commercial housing impact fee schedules, and approve the Annual Report and Action Plan for Year 2016 pursuant to Title 29. All Districts.			
(5) RECOMMENDED ACTION It is recommended that the Board: 1. Adopt and instruct the chairperson 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 chairperson to sign the attached resolution to approve the Title 29 Annual Report and Action Plan. 3. Adopt and instruct the chairperson to sign the attached ordinance amending Title 29.			
(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 type="checkbox"/> Consent <input type="checkbox"/> Presentation <input checked="" type="checkbox"/> Hearing (Time Est. <u>20 minutes</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"/> 4/5 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, Planner

VIA Matt Janssen, Division Manager, Policy and Programs

DATE: 11/17/2015

SUBJECT: Hearing to consider a request by the County of San Luis Obispo for amendments to Title 29 – Affordable Housing Fund, to consider resolutions adopting an annual adjustment of the residential in-lieu fee and commercial housing impact fee schedules, and approve the Annual Report and Action Plan for Year 2016 pursuant to Title 29. All Districts.

RECOMMENDATION

It is recommended that the Board:

1. Adopt and instruct the chairperson 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 chairperson to sign the attached resolution to approve the Title 29 Annual Report and Action Plan.
3. Adopt and instruct the chairperson to sign the attached ordinance amending Title 29.

DISCUSSION

Part 1: 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 fees are used to support affordable housing projects. 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

Developers can meet their affordable housing requirements by paying in-lieu fees, or providing affordable dwellings or donating land. These options are described 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 did not increase at all (0.00% increase) for the period between October 2014 and October 2015. Therefore, construction costs changes cannot be used this year as the

grounds for supporting an increase to the Title 29 fee schedules.

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 \$3.75/SF, but only \$0.75/SF is collected (20%). The housing impact fee for commercial retail development is \$3.42/SF but only \$0.68/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. Also, the fee schedules should remain unchanged because there were no construction cost increases in FY 2014-2015. 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). So the County will be able to use the fee schedules from the nexus studies whenever it initiates the five-year phase-in period.

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

Between 2011 and 2015, the median house prices increased by 48%. But the median salaries increased by only 3.6%. At this time (Year 2015) only 26% of the median income families can afford a median priced home

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

San Luis Obispo-Paso Robles, CA			
Time Period	2nd Qtr. 2006	2nd Qtr. 2011	2nd Qtr. 2015
Median Price	\$550,000	\$320,000	\$475,000
Median Income	\$63,800	\$74,400	\$77,100
Housing Opportunity Index	5.9%	49.4%	26.2%

1. Website Address:
www.nahb.org/en/research/housing-economics/housing-indexes/housing-opportunity-index.aspx
 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.
- 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
FY 14/15	300	19	319

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 2016 or 2017 it should be clear whether the recovery trend will stabilize or continue to go up.

Part 2: Annual Report

The attached Annual Report follows the requirements of Title 29 Section 29.05.010. The report describes several things:

- a. The amount of Title 29 funds that were spent and that are available,
- b. The affordable housing projects that were funded, and
- c. The number of housing units produced.

The following table shows the amount of revenues received and spent since October 2014:

Summary of all Title 29 Accounts - Between October 2014 and October 2015

Amount of Funds Spent			Amount of Funds Available		
Account	Starting Amount	Disbursements (-)	Remainder	New Income** (+)	New Amount Available
In-Lieu Fees	\$12,484.37	(\$509.14)	\$11,975.23	\$35,253.70	\$47,228.93
Housing Impact Fees	\$53,856.20	(\$63,195.48)	(\$9,339.29)	\$38,344.58	\$29,005.29
Loan Pay-off	\$40,000	(\$40,000)	-	-	-
Unused 2014 Loan Pay-off	-	-	\$42,783.32	-	\$42,783.32
Unused 2014 T-29 funds	-	-	\$6,250.45	-	6,250.45
Total Amount	\$106,340.57	(\$103,704.62)	\$51,669.71	\$73,598.28	\$125,268.00

At the start of 2015, there was \$106,340.57 available in the Fund. Pursuant to the 2015 Action Plan, the County used \$100,090.12 to help pay for the construction costs for 85 affordable housing units in four projects in Atascadero, San Luis Obispo, and Morro Bay. The following table shows the status of the funded projects:

Projects Supported by the Title 29 Fund during the Previous Year (2015 Action Plan)

Project Name	Amount Allocated	Amount Drawn	Remaining Amount	Was Project Completed?
Atascadero Triangle Atascadero (11 units)	\$1,000.00	\$1,000.00	\$0	No – Complete by December, 2016
El Camino Oaks Tract 2640 - Atascadero (12 units)	\$18,337.50	\$18,337.50	\$0	Yes – Completed April, 2015
South Street Family Apt's San Luis Obispo (42 units)	\$33,773.23	\$33,773.23	\$0	No – Complete by July, 2016
Morro del Mar Senior Apt's Morro Bay (20 units)	\$46,979.39	\$46,979.39	\$0	Yes – Completed October, 2015

Part 3: Action Plan

The Action Plan for 2016 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	Remainder 2015 Funds	North County	South County	Central County	North Coast	Total
In-Lieu Fees	\$11,975.23	\$23,282.27	\$0	\$11,971.43	\$0	\$47,228.93
Housing Impact Fees	(\$9,339.29)	\$29,098.37	\$979.48	\$8,266.73	\$0	\$29,005.29
Unused 2014 Loan Pay-off	\$42,783.32	-	-	-	-	\$42,783.32
Unused 2014 T-29 funds	\$6,250.45	-	\$6,250.45	-	-	\$6,250.45
Total	\$51,669.71	\$52,380.64	\$7,229.93	\$20,238.16	\$0	\$125,268.00

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

Additional Funds – Loan Pay-off

In 2014, two affordable housing units were sold and the County loans were paid off. The loan pay-offs were deposited into the Title 29 Fund even though they are not in-lieu fees. This money is not subject to the Title 29 requirements and it may be spent on affordable housing projects in any area of the County.

In 2015, the County spent \$40,000 of the pay-off funds on the Morro del Mar Senior Apartment project in Morro Bay. The remainder of the pay-off funds - \$42,783.32, has been saved in the Title 29 Fund for use on future projects.

NOTE: The County has amended its affordable housing ordinance and no longer captures a loan (i.e. a "silent second" deed of trust) on affordable housing units.

Title 29 Funds – South County

Currently there are no affordable housing projects under construction in the South County area. However, in 2015, Habitat for Humanities for San Luis Obispo County started its Home Rehabilitation Program. Habitat will repair the homes of individual low income homeowners. The homeowners must help with the work (sweat equity). Habitat estimates that the cost will be \$45,000 per house, and Habitat is able to find eligible homeowners in South County that would benefit from the program. Habitat has asked if the County would consider providing \$30,000 for this program. There is \$7,229.93 in Title 29 funds available for South County at this time. Staff recommends supporting the repair work for one house in the South County area by combining the \$7,229.93 with an additional \$30,000 in Title 29 funds to make a \$37,229.93 contribution to Habitat's Home Rehabilitation Program.

Recommended Projects to be Funded in 2016

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 2016

Project Name	Amount Allocated
Rolling Hills 2 Apt's Templeton (30 units)	\$52,380.64
Humbert Avenue Apt's San Luis Obispo (20 units)	\$20,238.16
Habitat for Humanity Home Rehab Program South County (1 unit)	\$37,229.93
Not Allocated: \$0 from North Coast area	\$0
Total amount allocated	\$109,848.73

The Planning and Building Department recommends allocating the Title 29 funds to three projects in 2016. People's Self-Help Housing Corporation will start the construction of the Rolling Hills 2 Family Apartments in December 2016, and the anticipated completion date is December 2018. Rolling Hills 2 Family Apartments will have 30 affordable apartment units. The San Luis Obispo Housing Authority will start the construction of the Humbert Avenue Family Apartments in March 2016, and the anticipated completion date is December 2017. Humbert Avenue Family Apartments will have 20 affordable apartment units. This will include 10 studio units for homeless veterans. The South County area has no affordable housing projects currently under construction. However, staff recommends that available Title 29 funds be used to support the Home Rehabilitation Program of Habitat for Humanity by contributing to the repair of one low income family house in the South County area.

The attached Action Plan and resolution reflect these recommendations.

OTHER AGENCY INVOLVEMENT/IMPACT

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

BUSINESS IMPACT STATEMENT

There would be minimal business impact if the existing Title 29 fee schedules remain at the "Year 1" level with the 0.0% construction cost adjustment (no fee increase).

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 2016.

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

1. Attachment 1 - Title 29 Affordable Housing Fund Adjustment Resolution
2. Attachment 2 - Title 29 Action Plan Resolution
3. Attachment 3 - Title 29 Ordinance Amendment
4. Attachment 4 - Title 29 Ordinance Amendment (strike-out copy)
5. Attachment 5 - Annual Report and Action Plan