Inclusionary Housing Ordinance and Affordable Housing Fund Update

Summary and Frequently Asked Questions

Summary of Recommended Changes

On December 4, 2018, the County Board of Supervisors directed Planning and Building staff to work on a 3-year pilot program that would raise $2- 4 million per year in local funding for affordable housing.

As part of the pilot program, the Board authorized the Department of Planning and Building to make the following changes to the Inclusionary Housing Ordinance (Land Use Ordinance Section 22.12.080 / Coastal Zone Land Use Ordinance 23.04.096) and Affordable Housing Fund (Title 29):

- Replace the current fee structure with a tiered rate structure that applies higher fees to larger homes.
- Apply the tiered rate structure (see Table 1, below) to all new homes over 2,200 square feet in size.

Table 1: Recommended Tiered Rate Structure

Square Feet	Fee Amount	Example: 3,000 SF home
0 – 2,200	Exempt	$0
2,200 – 2,500	$8 / square foot	$2,400 ($8 x 300 square feet)
2,500 – 3,500	$12 / square foot	$6,000 ($12 x 500 square feet)
Over 3,500	$16 / square foot	
Maximum (total fee / total square feet)	$7 / square foot	
Total		$8,400

As shown in Table 2, staff is also recommending changing the affordable housing requirement and timing of the annual Title 29 Action Plan.

Table 2: Summary of Inclusionary Housing and Affordable Housing Fund Modifications

Topic	Existing	Proposed
Applicability	Projects with two or more single family homes	All new single family homes
Size of Exempt Single Family Homes	900 square feet	2,200 square feet
Fee Structure	5-year phase-in schedule; up to $3.75 / square feet	Tiered rate structure
Affordable Housing Requirement	5-year phase-in schedule; up to 20 percent	8 percent
Action Plan Timing	Within 180 days of the end of County fiscal year	Concurrently with federal Action Plan (spring)

How to Comment on the Proposed Ordinance Amendments

All public comments are welcome on the proposed amendments during the scheduled Planning Commission hearing on January 24, 2019. The hearing will be held at 9 AM at the San Luis Obispo County Board of Supervisors Chambers, 1055 Monterey St., Room #D170, County Government Center, San Luis Obispo.

Prior to the Planning Commission hearing, you may submit written comments to the attention of Airlin M. Singewald, Supervising Planner, via email asingewald@co.slo.ca.us. Hard copy correspondence can be sent to the following address:

Department of Planning and Building
976 Osos Street, Room 300
San Luis Obispo, CA 93408
Attn: Airlin M. Singewald

Frequently Asked Questions

Q: What is the Inclusionary Housing Ordinance and Affordable Housing Fund?

A: The Inclusionary Housing Ordinance (Section 22.12.080 of the Land Use Ordinance / Section 23.04.096 of the Coastal Zone Land Use Ordinance) requires certain development projects to set aside a percentage of the proposed housing units at affordable prices. The Inclusionary Housing Ordinance gives builders the option to pay "in-lieu" fees rather than including affordable housing units in their project. Each year the County awards in-lieu fees to non-profit builders for the construction of affordable housing. The Affordable Housing Fund (Title 29) describes how in-lieu funds shall be collected, administered, accounted for, and allocated to affordable housing projects.

Q: What is the 5-year phase-in schedule?

A: The Board adopted the Inclusionary Housing Ordinance and Affordable Housing Fund in 2008. To give the market time to adjust to this new requirement, the Board phased-in the full requirement over five years. Each year the Board decides whether to advance the fee to the next year in the five-year schedule. As of December 2018, we are in year two, which requires eight percent of units to be affordable or a payment of $1.50 / square foot in-lieu fee will be required. Once the full year five requirement is in place, the in-lieu feel would be 20 percent or $3.75 / square foot.

Q: Where did the idea for a tiered rate structure come from and why is it recommended?

A: Title 29 requires the County to conduct a Nexus Study every five years to verify the in-lieu fee is in alignment with the housing market. The last Nexus Study took place in 2017 and determined a maximum supportable fee of $7 / square foot and recommended a tiered rate structure. The purpose of the tiered rate structure is to eliminate fees for smaller homes (less than 2,200 square feet as currently proposed) while applying gradually higher fees to larger homes. The Nexus Study found that a tiered rate structure is warranted because smaller homes tend to be more affordable while larger homes create a greater need for affordable housing.

Q: What is the rationale for requiring new development to build affordable units or pay in-lieu fees?

A: The County hired a consultant to perform a Nexus Study to determine whether the Inclusionary Housing requirements are justified. The Nexus Study found:

- New market rate housing leads to population growth and increased economic activity.
- This new population and increased economic activity create a demand for service and retail sector employees. This includes employees directly serving residences (e.g. housekeepers and landscapers) and employees providing services in the community, such as waiters, cooks, childcare providers, retail store employees, etc.
- On average, these jobs do not pay sufficient wages for employees to afford market rate rental or ownership housing.

- Given current market conditions, including land and labor costs, subsidies are required to build housing that is attainable to these employees and their families.
- To offset its impact, new development is required to either provide some units that are affordable to lower wage workers or pay in-lieu fees that the County can use to help subsidize affordable housing construction.

Q: How is Affordable Housing defined?

A: The term Affordable Housing means housing that is affordable to households earning a percentage of the County's Median Household Income. The County and State define the following affordability levels:

- Extremely Low Income (less than 30 percent of median income)
- Very Low Income (30 to 50 percent of median income)
- Low Income (50 to 80 percent of median income)
- Moderate Income (80 to 120 percent of median income)
- Workforce (120 to 160 percent of median income)

A 3-bedroom house affordable at the Moderate Income level would have a maximum sales price of $363,000 or monthly rent of $2,288.

The County's latest Affordability Standards are available here:

https://www.slocounty.ca.gov/Departments/Planning-Building/Housing/Housing-Forms-Documents/Informational-Documents/Affordable-Housing-Standards.aspx