

..Title

- a. Receive a developer variance request for compliance with the Inclusionary Housing Ordinance and 2010 General Plan Land Use Policy LU-2.13, and
- b. Make a recommendation to the Monterey County Planning Commission on the applicant's request.

RECOMMENDATION:

It is recommended that the Housing Advisory Committee:

- a. Receive a developer variance request for compliance with the Inclusionary Housing Ordinance and 2010 General Plan Land Use Policy LU-2.13, and
- b. Make a recommendation to the Monterey County Planning Commission on the applicant's request.

SUMMARY:

County planning staff is processing an application for a new subdivision in Boronda, Greater Salinas Area. The subdivision involves dividing a 4-acre parcel into 17 new residential lots and one remainder lot. The subdivision is required to comply with the County's Inclusionary Housing Ordinance and the 2010 General Plan Land Use Policy LU-2.13, which collectively require 20% of the units be Inclusionary and 5% be workforce, or 1 low-income, 2 moderate-income, and 0.75 workforce units, based on 15 net new developable lots being created. The applicant has requested that all three units be moderate-income.

The Housing Advisory Committee is being asked to review the applicant's request and recommend the appropriate Condition of Approval for this project to comply with the intent and letter of the County's Inclusionary Housing Ordinance and General Plan Land Use Policy LU-2.13.

Staff recommends that the applicant be allowed to provide 3 moderate-income units as part of the subdivision and pay an in-lieu fee of \$35,266 for the 0.75 workforce unit required.

DISCUSSION:

The proposed project to subdivide an existing lot, with an existing home, in to 17 residential lots will create 16 new residential lots. The inclusionary calculation results in fractional very low- and low-income units. Fractional units are added to the next highest affordability level to result in a whole unit. The process is repeated until either all fractional units have been converted to whole units or there is a remaining fractional unit that the applicant may either build at the highest affordability level or pay a fractional unit in-lieu fee. The inclusionary calculation and "waterfall" are shown in Attachment A. The applicant has proposed constructing three moderate-income homes instead of the calculated 0-1-2-1 units as required. The applicant believes that the County's affordable housing model shows that building very low- and low-income for sale homes is not economically viable.

As part of the Inclusionary Housing Ordinance update, the County is evaluating its affordable housing cost model. The most significant difference between the models are the inclusion of utility allowances and property taxes; increased allowances for homeowner associations, insurance, and maintenance; and, mortgage rates that are adjusted based on current rates, as part

of the monthly income available for housing. The inclusion of the homeownership costs significantly reduces the amount a household has available to support a mortgage. Attachment A shows the housing cost calculations for a hypothetical 900 square foot unit under the current and proposed methodologies and with different rates based on HOA costs. Attachment B shows the calculations for the affordable sale prices for various sized bedroom units at the very low-, low-, and moderate-income affordability levels and interest rates. As shown in Attachment B, under the current and proposed affordability models, the applicant will probably have a profit on most low-income units, if interest rates do not exceed 4%, but lose money on very low-income units.

Assuming the applicant built a 2-bedroom low-income unit, a subsidy of \$95,600 would be required to cover the difference between the cost of construction and the affordable sales price. This subsidy could be considered an impediment to housing development. Staff concurs with the applicant that the construction of very low- and low-income for sale inclusionary units is not financially viable that that they should be allowed to construct three moderate-income for sale units to meet the inclusionary housing requirements for this project.

At the time this staff report was prepared, the applicant had not indicated how they would meet this requirement the applicant had not indicated that they would construct the workforce unit. However, the applicant's representative has challenged the validity of the County's 25% affordability requirement in two previous development applications. Their argument is that the requirement constitutes an, unanalyzed, impediment to housing development. The applicant has referred to a letter from the State of California, Department of Housing and Community Development, which specifically addresses the requirements of LU-1.19 and does not apply directly to this application, in which HCD opines that the County has not sufficiently analyzed the potential impacts of requiring developers to provide more than 20% affordability.

Currently staff believes that HCD has misinterpreted the intent of LU-1.19 and LU-2.13. The technical assistance that HCD provided the applicant indicated a 35% inclusionary requirement. Staff believes that HCD will revise their technical assistance to reflect the correct 20% inclusionary requirement, which has been analyzed, is not an impediment to housing development. Staff further believes that because the workforce requirement is for above moderate-income housing, the Regional Housing Needs Allocation (RHNA) affordability level, and the County has consistently issued the required number of permits for this affordability level, it does not need to be separately analyzed and does not constitute an impediment to the development of housing.

Prepared by: Darby Marshall, Housing Program Manager, (831) 755-5391

Attachment: A: Inclusionary Housing & LU-2.13 Affordability Calculation
B: Inclusionary Housing Affordability Calculation
C: Inclusionary Housing Affordability Calculation at Various Interest Rates