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Current Status: Agenda Ready
Matter Type: General Agenda Item

a. Conduct a workshop to receive community feedback staff's recommended changes to the County's Inclusionary Housing Ordinance; and,
b. Provide direction to staff.

RECOMMENDATION:
It is recommended that the Housing Advisory Committee
a. Conduct a workshop to receive community feedback on staff's recommended changes to the County's Inclusionary Housing Ordinance (IHO); and,
b. Provide direction to staff.

SUMMARY:
The Housing Advisory Committee (HAC) will hold a workshop to develop recommendations for the Board of Supervisors regarding amendments to the County's Inclusionary Housing Ordinance (IHO). Staff recommend transitioning the Ordinance to a fee-based structure, with fees assessed at the time of building permit issuance. The purpose of the workshop is to collect community input on three policy areas related to the applicability of the Ordinance and to review the Inclusionary Housing In-Lieu Fee Analysis prepared to update the In-Lieu Fee Schedule.

DISCUSSION:
In 1980, the Board of Supervisors adopted Monterey County's first Inclusionary Housing Ordinance. The IHO was designed to ensure that affordable housing is included in all future residential subdivisions and developments and to create a funding source for deeply affordable housing opportunities.
Over time, the IHO has had limited effectiveness. The Ordinance relies on private landowners to initiate development, resulting in a largely passive approach to affordable housing production. Additionally, most residential projects in the unincorporated County are small-generally around 30 lots or units-producing roughly five affordable units per project, often over many years. As a result, while the IHO has generated some units, its overall contribution to meeting Countywide housing needs has been modest.

On the question about how the County should update the IHO, based on research conducted by staff with numerous discussions that followed, there has been a significant degree of uncertainty. Unfortunately, staff have found no clear line or number that balances the need for lower-income housing with the desire to reduce costs of housing production. To the contrary, it seems evident that there is an inverse relationship (e.g. affordable housing increases development costs, but without it there will be lower numbers of affordably restricted units created). With the complicated and complex

social and economic questions involved, staff are putting forward a recommendation for input and discussion. We believe the recommendation provided below reflects the input provided we have received thus far and is a potential solution to the question. recommendation is:

That the HAC advise the Board of Supervisors to amend the IHO in the following ways:

- Transition to an entirely fee-based program, with fees assessed at the time of building permit issuance, for projects with less than 250 units
- Projects with 250 or more units will be encouraged to make a land donation for a non-profit to construct of 20% affordable units as part of the project.
- Base the In-Lieu Fee on the habitable square footage of new residential construction.
- Exempt the first 1,500 square feet of habitable space, or the square footage of a demolished home when constructing a new home, whichever is greater.
- Exempt all multifamily housing, including duplexes, triplexes, fourplexes, and Accessory Dwelling Units under 1,200 square feet.
- Adopt a new In-Lieu Fee schedule and establish an annual adjustment formula using the California Department of General Services California Construction Cost Index.
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This workshop is intended to gather community feedback on these recommendations and on the Keyser Marston Inclusionary Housing Ordinance: 2026 In-Lieu Fee Analysis. The Analysis will inform the per-square-foot fee assessed on single-family residential building permits.

STAFF ANALYSIS:
The County began updating the IHO in 2018 and has since conducted multiple workshops and hearings to gather community input. The affordable housing landscape has evolved significantly over this period, prompting both the Board and the public to question the effectiveness of the current Ordinance.

Monterey County must plan for 2,210 affordable units during the 6th Housing Element Cycle. If the County relied exclusively on the IHO, more than 17,800 total housing units would be required to permit the required number of affordable units. As currently structured, the IHO will produce only a small share of the affordable units needed. The central question is how the IHO can best support and expand affordable housing development.

Based on historical and current trends, staff believe the IHO can be most effective as a source of reliable, flexible funding. Dedicated funding enables the County to leverage state and federal programs, acquire land, secure entitlements for housing projects, and provide financial support for affordable housing development and homebuyers.

To evaluate appropriate fee levels, the County commissioned the IHO In-Lieu Fee Analysis (Attachment A). The study calculated the affordability gap between market-rate home prices and the price of affordable homes. Affordability gaps ranged from $639,000 for moderate-income households in the North County Local Coastal Plan area to $4,771,400 for extremely low-income households in the Big Sur-Carmel planning areas. This equates to a required subsidy of approximately $161,400 to $923,000 per market-rate unit in future affordable housing projects.

The Analysis also reviewed home sales by size to develop a per-square-foot fee. Maximum supportable fees ranged from $73.90 to $305.60 per square foot. These figures represent the highest fees that could be supported based on the affordability gaps associated with the County's existing Inclusionary Housing production requirements; KMA was not engaged to evaluate the financial impact associated with the underlying production requirements.

To estimate potential revenue from assessing fees at building permit issuance, staff analyzed five years of building permit data and average home sizes. Staff also evaluated revenue projections based on charging a portion of the maximum supportable fee (Attachment B). Based on this analysis, staff conclude that charging 33-35 percent of the maximum justifiable fee is feasible and would generate approximately $4.5 million annually.

Staff believe the recommended fee structure-exempting the first 1,500 square feet of a home, charging less than the maximum supportable fee, and exempting all multifamily development-strikes an appropriate balance. The structure encourages smaller homes and multifamily housing while ensuring that larger, higher-value homes contribute proportionally to affordable housing funding.

Staff also believe the County must take a more active role in developing affordable housing. Achieving this requires predictable, flexible funding. Revenue generated through the updated IHO can assist in several ways. First, funds can be used to acquire land for affordable housing in locations with appropriate infrastructure. Second, securing land use entitlements can reduce developer risk and holding costs, improving project feasibility. Third, dedicated local revenue enables the County to leverage state and federal funding sources through matching funds, gap financing, and support for predevelopment activities.

Staff further recommend that in-lieu fee revenue not be restricted to the planning area where it was generated or solely to unincorporated Monterey County. Allowing funds to support affordable housing anywhere in the County increases flexibility and ensures resources can be directed where they are most needed.

Collectively, these strategies would allow the County to take a more proactive role in guiding affordable housing development, increasing the likelihood that required units are produced.

OTHER AGENCY INVOLVEMENT:
The HAC is the first committee to review and comment on the staff recommendation. HAC input will be incorporated into a report to the Board's Health, Housing, Homelessness, and Human Services Subcommittee prior to consideration by the full Board of Supervisors.

HOUSING IMPACTS:
___Reduces constraints on Housing Development
___Increases constraints on Housing Development
_X_Neutral
___Not applicable [N/A]

Permitting costs for residential development of more than 1,500 square feet would increase slightly but

staff do not believe that moving to an in-lieu fee methodology based on the square footage of the new unit will be a significant constraint on this type of housing development. The recommended change may influence the size of homes constructed but is not likely to significantly influence the number of homes constructed.

The recommended changes could significantly affect the availability of affordable housing throughout the County. A dedicated, ongoing revenue source will allow the County to take a more active role in determining where affordable housing is built and at what levels of affordability. While the current IHO is not the sole constraint on multifamily housing development, it can be considered one contributing factor.

FINANCING:
There is no impact on the General or Inclusionary Housing Funds by conducting this workshop. If the Board ultimately adopts the recommendations, it is estimated that the County could collect $4.5 million annually and leverage the same amount through the state Local Housing Trust Fund grant program.

BOARD OF SUPERVISORS STRATEGIC PLAN GOALS:
_X_ Well-Being and Quality of Life
_X_ Sustainable Infrastructure for the Present and Future
____ Safe and Resilient Communities
____ Diverse and Thriving Economy
____ Dynamic Organization and Employer of Choice

Access to affordable housing is a foundational component of individual and community well-being. Stable, reasonably priced housing directly supports household stability and allows residents to meet basic needs more reliably. When housing costs are manageable, households are better able to afford food, healthcare, transportation, childcare, and other essential expenses, contributing to long-term financial security.

Affordable housing also supports improved physical and mental health. Stable living conditions reduce stress, limit exposure to overcrowded or substandard housing, and support healthier daily routines. Research consistently shows that individuals living in stable, affordable homes experience better health outcomes and reduced reliance on emergency services.

For households with children, affordable housing enhances educational outcomes. Reduced housing instability leads to fewer school disruptions, more consistent attendance, and improved academic performance, all of which contribute to long-term success.

Access to affordable housing also strengthens workforce stability. When residents are not overburdened by housing costs or forced to relocate frequently, they are better positioned to maintain employment and pursue job opportunities that align with their skills.

At the community level, affordable housing contributes to neighborhood stability, stronger social networks, and increased civic engagement. It also plays a critical role in preventing homelessness and housing insecurity, reducing demand on crisis services and improving overall community health and

safety.

In combination, these impacts demonstrate that increasing access to affordable housing is essential to improving quality of life, supporting economic stability, and promoting healthy,

Link to the Strategic Plan:
<https://www.countyofmonterey.gov/home/showdocument?id=139569>

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Attachments:
Attachment A: KMA IHO 2026 In-Lieu Fee Analysis
Attachment B: In-Lieu Fees Assessed at Building Permit Issue 2021-2025