



County of Monterey

Item No.4

Board Report

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

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- a. Receive a report on the Inclusionary Housing Ordinance update progress;
- b. Provide direction to staff on potential amendments to the Inclusionary Housing Ordinance (IHO) and General Plan (GP) Land Use Policies LU-1.19, LU-2.11 and LU-2.13 including:
- c. The applicability of the IHO based on the appropriate number of lots/units proposed in a development;
- d. The appropriate percentage of for sale lots/units and for rent units that should be required at very-low, low, and moderate incomes; and
- e. The need and feasibility for the provision of work force I and II housing and the extent to which this requirement creates a constraint on overall housing development;
- f. Provide direction to staff to develop a new Inclusionary In-Lieu fee; and
- g. Direct staff to report the findings of the required analysis and recommended changes to the Inclusionary Housing Ordinance and 2010 Inland General Plan to the full Board of Supervisors by February 28, 2026.

It is recommended that the Housing Advisory Committee::

- a. Receive a report on the Inclusionary Housing Ordinance update progress;
- b. Provide direction to staff on potential amendments to the Inclusionary Housing Ordinance (IHO) and General Plan (GP) Land Use Policies LU-1.19, LU-2.11 and LU-2.13 including:
- c. The applicability of the IHO based on the appropriate number of lots/units proposed in a development;
- d. The appropriate percentage of for sale lots/units and for rent units that should be required at very-low, low, and moderate incomes; and
- e. The need and feasibility for the provision of work force I and II housing and the extent to which this requirement creates a constraint on overall housing development;
- f. Provide direction to staff to develop a new Inclusionary In-Lieu; and
- g. Direct staff to report the findings of the required analysis and recommended changes to the Inclusionary Housing Ordinance and 2010 Inland General Plan to the full Board of Supervisors by February 28, 2026.

SUMMARY:

During the Board of Supervisors consideration of the Annual Housing Report in June 2025, the Board directed staff to return with a plan for updating the Inclusionary Housing Ordinance (IHO) by the end of October 2025. Staff began the process by identifying the following objectives:

- Promote housing development in the planned growth areas;
- Increase and incentivize the development of affordable housing;
- Identify requirements and thresholds at which the IHO would accomplish the two objectives

above.

Staff reviewed local and regional inclusionary housing policies, the trends and history within the County under the current rules, the relevant policies of the General Plan including draft Housing Element implementation strategies, discussed inclusionary housing provisions with developers, and affordable housing experts in the financial and legal arenas to better understand the economic and market considerations associated with affordable housing requirements. The data and information gathered in these efforts reflect a range of considerations, geographic social and economic conditions, financial interests, and these varying considerations are also reflected in a range of policies adopted by other jurisdictions. The complexity of the information and varying geographic considerations make it difficult to pinpoint precise policies that will spur development of the desired housing.

As reflected in the recommendation, there are several policy questions, all of which are inter-related. Policy questions included, but were not limited to:

- The number of units in a development that triggers the requirement to provide affordable housing;
- The percentage of units within a development that must be dedicated as affordable;
- The percentage of affordable units by income category (very low, low, moderate, and workforce) * and by type (for sale or for rent)
- When and how to collect a fee or land dedication in lieu of constructing affordable units;
- The length of time affordability restrictions remains in place.

Staff's recommendation has been informed by our outreach and review of available data. The recommended actions will bring the County's Inclusionary Housing Ordinance (IHO) more in line with the requirements of other jurisdictions on the Central Coast and continue to require developers to construct, or fund the construction of, affordable housing in the unincorporated areas of the County.

The recommendation does decrease the percentage of units within a development that must be dedicated to affordable housing from 20% currently to 15% recommended. This change would necessitate revisions to the General Plan that currently call for 25%; 6% very low; 6% low, 8% moderate, and 5% workforce. The recommendations also increase the number of units in a development that trigger the affordable housing requirements from 5 units to 7 units.

It cannot be seen with any certainty that the suggested changes will accomplish the intended goals. We know that the current 20% system has not resulted in development of housing that meets the needs of lower income households or keeps pace with market demand; thus, some change is warranted. The economic analysis, lived experiences with developers, review of other jurisdictions policies, and some data points point toward decreasing the exactions for affordable housing that are currently in place (20%) rather than increasing them. It is thought that decreasing the percentage of affordable units will decrease the costs a housing development must absorb to comply with affordability requirements, leading to an increase in development of housing overall.

The recommendation presented is not set in stone. Staff suggests that specific economic analysis and targeted outreach be conducted on the recommendation/direction to provide greater clarity on the likely outcomes of the direction. Of particular importance is the balance between for sale moderate income housing requirements and for rent low and very low-income requirements. Using the County's Regional Housing Needs Assessment (RHNA) as a benchmark, the largest need is in the very low

income category (1,072 units in the next 6 years).

DISCUSSION:

Updating the IHO has four primary goals:

- Require the private sector develop or support the development of affordable housing.
- Support private sector development of affordable housing consistent with assumptions made in drafting the 6th Cycle Housing Element.
- Demonstrate that the IHO does not constitute a constraint to development of housing for any income level by the private sector.
- Aligning the 2010 Inland General Plan and IHO affordability requirements.

The County of Monterey first adopted an Inclusionary Housing Ordinance in October 1980. Since then, the Ordinance has resulted in the construction of more than 800 units of affordable housing and used more than \$6 million in in-lieu fees to support the development of almost 200 supportive housing units or emergency shelter beds. Over the last 44-years, approximately 430 projects, with the potential to create almost 13,000-units, have been assessed for compliance with the IHO. Depending on the affordable percentage (15% or 20%) required, these projects could have created between 1,921 and 2,562-affordable units, over 44-years. The County's 6th Cycle Regional Housing Needs Allocation for affordable units is 2,190. Given that the IHO has permitted or financed less than half that number of units over the last 44-years, it is unlikely that the IHO will have a significant impact on the number of affordable units permitted over the next seven-years.

As part of considering amendments or updating the IHO, the County is obligated to "provide an analysis of potential or actual governmental constraints up the maintenance, improvement, or development of housing for all income levels (Government Code Section 65583). To meet this requirement, the County needs to update the financial analysis of the IHO with the recommended affordability levels. Additionally, the County has never analyzed the workforce-income level requirements contained in the 2010 Inland General Plan to determine if they constitute a constraint to the development of housing.

The staff recommendation addresses six interrelated elements for how the IHO could be amended to balance the need to compel the private market to develop or contribute to the development of affordable housing without being an impediment to housing development. These elements are explored individually in attachments to this staff report.

OTHER AGENCY INVOLVEMENT/COMMITTEE ACTIONS:

On June 28, 2025, the Board of Supervisors received the Housing Report. The Board directed staff to deemphasize a regional approach to affordable housing and focus efforts on getting more affordable housing built in the unincorporated areas. This report was considered by the Housing Advisory Committee on October 22, 2025, and will be presented to the Board of Supervisors on November 4, 2025. Comments received during these meetings will be incorporated into the presentation to the Board of Supervisors.

HOUSING IMPACTS:

___ Reduces constraints on Housing Development

- ☐ Increases constraints on Housing Development
☒ Neutral
☐ Not applicable [N/A]

QUALITATIVE SUMMARY of potential impacts of the policy/program on Housing:

It is challenging to evaluate the qualitative impacts the Inclusionary Housing Ordinance has had on the production of housing. Since 1980, at least 1,200 affordable housing units have been constructed or rehabilitated to comply with the Ordinance. Additionally, the Ordinance has generated in-lieu fees that have allowed the County to support development of shared permanent supportive housing units. What has not been quantified is the impact the Ordinance, is whether the Ordinance has led to housing development not occurring.

HOUSING CONSTRAINTS:

PAR 25-003 specifically calls out the County's affordable housing requirement as a potential constraint on development of housing. However, it also states that the requirement can increase the availability of affordable housing. Reducing the percentage of units dedicated to affordable housing will increase the number of market rate units available to subsidize the affordable units.

FINANCING:

Implementing the recommended actions are outside the scope of work of the County's current agreement with LeSar Development Consultants and will require a contract amendment and increase in the contract amount. Staff needs to work with LeSar to determine the potential budget increase required and available funding.

Updating the Inclusionary In-Lieu Fee will potentially increase revenue available for the County to support development of affordable and permanent supportive housing. The amount of revenue generated will depend on the number of projects subject to the fee and how the fee is calculated. The recommended fee is based on the cost to construct 15% of proposed units as affordable units evenly divided between very low- (7.5%) and low-income households (7.5%).

BOARD OF SUPERVISORS STRATEGIC PLAN GOALS:

Completing an analysis of the Inclusionary Housing Ordinance's impact on housing production and developing appropriate recommendations to either repeal to the Ordinance or make revisions is key to achieving the Board's objective around housing.

Mark a check to the related Board of Supervisors Strategic Plan Goals:

- ☒ Well-Being and Quality of Life
☐ Sustainable Infrastructure for the Present and Future
☐ Safe and Resilient Communities
☐ Diverse and Thriving Economy
☐ Dynamic Organization and Employer of Choice

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Attachments:

Attachment A - Overview of Affordable/Inclusionary Requirements in California

Attachment B - Discussion of Recommendations B. and C.

Attachment C - Discussion of Recommendation D.

Attachment D - Discussion of Recommendation E.