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Attachment C
Applicability & Affordability Requirements

Staff Recommendations:

d. Recommend the Board of Supervisors direct staff to develop a new Inclusionary In-Lieu Fee that is based on meeting a 15% affordability target divided 7.5% very low-income and 7.5% low-income to finance deeper affordability than required for units constructed on-site.

Staff Rational:

1. The County currently is using an In-Lieu Fee Scheduled adopted in 2011 that has not been updated since 2000.
2. Basing the fee on the cost to construct very low- and low-income units will result in a higher fee than one based on a blended rate to construct very low-, low- and moderate-income units.
3. The higher fee may act to incentivize construction of affordable units by developers.

Discussion:

Since 2018, state law has required all jurisdictions with affordable or inclusionary housing ordinances to allow developers alternative means to comply beyond just constructing units on-site as part of the larger project. The assessment of in-lieu fees is the most common alternative compliance method used statewide, and this has been allowed by the County since it adopted its first Inclusionary Housing Ordinance in 1980.

State law requires jurisdictions adopting in-lieu fees to prepare a nexus study at least once every five-years. The purpose of the study is to assess the accuracy of the in-lieu fees and whether they constitute an impediment to housing development. The County has not adopted an in-lieu fee schedule supported by the required nexus study since 2000.

In 2018, the County entered an agreement with LeSar Development Consultants, and their subcontractors Goldfarb-Lipman and Keyser Marsten Associates (KMA), to update the County's Inclusionary Housing Ordinance. Part of this effort included preparation of the required in-lieu fee nexus study and proposing a mechanism for updating the in-lieu fee schedule annually.

In-lieu fees are calculated to fill the gap between the median sales price of a 3-bedroom home less the affordable purchase price for that home. Tables 1 through 4 are extracted from KMA's March 22, 2023, Inclusionary Housing Ordinance: Updated Fee Analysis and demonstrate the steps to determine the appropriate in-lieu fee. KMA also recommends adjusting the fee annually by the California Department of General Services California Construction Price Index (CCPI). The tables have not been updated to reflect the 2.3% increase in the CCPI between 2023 and 2024.

Table 1

Planning Area	Year Built (Average)	Average Home Size (Sq. Ft.)	Average Market Rate Sales Price	Average Market Rate Price per Square Foot
Bug Sur Submarket: Homes Constructed after 1980	1995	2,947	$5,380,900	$1,899
Greater Carmel Valley Submarket (Homes Constructed After 2000)	2006	3,102	$2,499,600	$799

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Greater Monterey Peninsula: Homes Constructed After 2005	2008	3,470	$2,644,200	$767
North County Submarket: Home Constructed After 1980	1990	1,803	$805,300	$460
Fort Ord / East Garrison Submarket: Homes Constructed After 2012	2017	1,809	$875,800	$487
Central / Greater Salinas Valley Submarket: Homes Constructed After 2000	2004	1,804	$739,300	$426
South County Submarket: No Age Limit on Homes	1974	1,395	$403,300	$301

Table 2

	Moderate-Income	**Low-Income**	**Very Low-Income**
Income Information			
Median Income: 4-Person Household	$90,100	$90,100	$90,100
Household Income as a % of AMI	110%	70%	50%
Income Allotted to Housing	35%	30%	30%
Income Available for Housing Costs	$34,689	$18,921	$135,515
Expenses			
Annual Utility Allowance	$4,968	$4,968	$4,968
Maintenance & Insurance	$3,600	$3,600	$3,600
Property Taxes @ 1.25% of Affordable Sales Price	$3,916	$3,916	$3,916
Total Expenses	$12,484	$12,484	$12,484
Income Available for Mortgage Debt Service	$22,205	$6,437	$123,031
Affordable Sales Price			
Supportable Mortgage @ 6.86% Interest	$282,000	$111,800	$53,400
Downpayment @ 10% of Affordable Sales Price	$31,300	$12,400	$5,900
Total Affordable Sales Price	$313,300	$124,200	$59,300

Table 4
Estimated Affordability Gaps
(Table 1 Market Price Minus Table 2 Afford Sale Price)

Planning Area	Moderate-Income	Low-Income	Very Low-Income
Big Sur	$5,067,600	$5,256,700	$5,321,600
Greater Carmel Valley	$2,186,300	$2,375,400	$2,440,300
Greater Monterey Peninsula	$2,330,900	$2,520,000	$2,584,900
North County	$492,000	$681,000	$746,000
Fort Ord / East Garrison	$562,500	$751,600	$816,500
Greater Salinas Valley	$426,000	$615,100	$680,000
South County	$90,000	$279,100	$344,000

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The actual in-lieu fee varies not only based on the planning area, but also how the fee is weighted. Table 5 illustrates how using the affordability gaps of different incomes can change the amount of the in-lieu fee per affordable unit as shown in the following table.

Planning Area	Moderate-, Low-, & Very Low-Income	Moderate- & Low-Income	Low- & Very Low-Income
Big Sur	$5,215,300	$5,162,150	$5,289,150
Greater Carmel Valley	$2,334,000	$2,280,850	$2,407,850
Greater Monterey Peninsula	$2,478,600	$2,425,450	$2,552,450
North County	$639,667	$586,500	$713,500
Fort Ord / East Garrison	$710,200	$657,050	$784,050
Greater Salinas Valley	$573,700	$520,550	$647,550
South County	$237,700	$184,550	$311,550

Table 6 illustrates the impact of applying the various weights to market rate units. The cost per market rate unit is calculated by dividing the weighted affordable unit cost by the number of market rate units triggering compliance with the IHO. Fifteen percent affordability translates to 7.05 market rate units, and 20% affordability translates to 5 market rate units.

	Moderate-, Low-, & Very Low-Incomes		Moderate & Low		Low- & Very Low-Incomes	
Geographic Area	15% Affordability	20% Affordability	15% Affordability	20% Affordability	15% Affordability	20% Affordability
Big Sur/Carmel Highlands	$782,295	$1,043,060	$774,323	$1,032,430	$793,373	$1,057,830
Greater Carmel Valley	$350,100	$466,800	$342,128	$456,170	$361,178	$481,570
Greater Monterey Peninsula	$371,790	$495,720	$363,818	$485,090	$382,868	$510,490
North County	$95,950	$127,933	$87,975	$117,300	$107,025	$142,700
Fort Ord / East Garrison	$106,530	$142,040	$98,558	$131,410	$117,608	$156,810
Greater Salinas Valley	$86,055	$114,740	$78,083	$104,110	$97,133	$129,510
South County	$35,655	$47,540	$27,683	$36,910	$46,733	$62,310

Note on the Geographic Areas:

The listed geographic areas do not correspond to County Planning Areas or documents. Rather, they were an attempt to group real estate transactions within a specific time period and construction date, into meaningful geographies. The recommended update to the in-lieu fee analysis will match properties to specific County Planning Areas so that in-lieu fees are consistent with other County planning materials.