

In



AGENDA REPORT SUMMARY

Meeting Date: January 23, 2024

Subject Establishment of an Inclusionary Housing In-Lieu Fee

Prepared by: Nick Zornes, Development Services Director

Reviewed by: Jolie Houston, City Attorney

Approved by: Gabriel Engeland, City Manager

Attachment(s):

1. Draft Resolution
2. Final Inclusionary Housing and In-Lieu Fee Financial Feasibility Study
3. AB 1505
4. AB 602
5. Bae Urban Economics December 12, 2023 PowerPoint

Initiated by:

Adopted 6th Cycle Housing Element, Program 2.B

Fiscal Impact:

Approximately \$65,000 was expended to prepare the Inclusionary Housing and In-Lieu Fee Financial Feasibility Study. No fiscal impact is associated with the implementation and collection of an Inclusionary Housing In-Lieu Fee. Future fiscal impact associated with the expenditure of collected Inclusionary Housing In-Lieu Fee will be discussed at that time.

Environmental Review:

Pursuant to CEQA Guidelines Section 15273 this item is exempt from environmental review. CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies.

Summary:

- The City's inclusionary housing ordinance has been codified since 2009 and amended twice; once in September 2018 and again in March 2022.
- The City must adopt an inclusionary housing in-lieu fee that is consistent with AB 602 (per square foot).
- The City is currently determining the Commercial Linkage Fee under a separate study to be completed in Spring 2024 by another third-party consultant.

Reviewed By:

City Manager

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Subject: Inclusionary Housing Study Session

- The City has conducted outreach regarding the inclusionary housing in-lieu fee with property owners, and housing and commercial developers who are directly affected by the deployment of such fee. Residential outreach is facilitated by this study session and future outreach and education on city programs.

Staff Recommendation:

Adopt a Resolution of the City Council of the City of Los Altos establishing an Inclusionary Housing In-Lieu Fee and Integrating the fees into the Municipal Fee Schedule and fin this action is exempt from CEQA pursuant to Section 15273 of State Guidelines.

Purpose

The establishment of an In-Lieu Fee is required pursuant to AB 1505 which was signed into law in 2017. The legislation requires that local jurisdictions with inclusionary ordinances provide developers with at least one alternative for complying with the ordinance, such as an in-lieu fee payment, land dedication, or off-site construction of affordable units. To modify or establish a new inclusionary housing in-lieu fee a jurisdiction shall provide a comprehensive economic feasibility study; this study shall satisfy those requirements.

As required in the Adopted 6th Cycle Housing Element, Program 2.B also required the Economic Feasibility Study being discussed tonight.

Program 2.B: Establish an affordable housing in-lieu fee and commercial linkage fee.
The City will conduct a feasibility analysis to support the establishment of an affordable housing in-lieu fee for residential developments and a commercial linkage fee for affordable housing. Based on this analysis, the City will adopt such fees. Said analysis will also ensure that the in-lieu fees adopted are not a constraint to housing development. As a part of the establishment of an affordable housing in-lieu fee and commercial linkage fee the City will conduct outreach to all stakeholders including residents, property owners, and housing and commercial developers.

Responsible Body: Development Services Department, City Council, Planning Commission

Funding Source: General Fund

Time Frame: Adopt housing in-lieu fee by the end of 2023; begin commercial linkage fee for affordable housing by end of year 2025.

As required in the adopted 6th Cycle Housing Element the In-Lieu Fee shall be adopted by the end of 2023 in December. Until December 12, 2023, the Inclusionary Housing Economic Feasibility



Subject: Inclusionary Housing Study Session

Study was not ready for review and discussion of the City Council and meeting all statutory requirements.

December 12, 2023 – Study Session

On December 12, 2023, the City Council held a Study Session to review the results of Inclusionary Housing Economic Feasibility Study completed by Bae Urban Economics. At the Study Session the City Council provided general direction and support for the Development Services Director to return with an Inclusionary In-Lieu Fee that was more than the Point of Indifference but less or more conservative than the Construction Cost methodology.

Discussion/Analysis

To implement the affordable housing goals, objectives, policies and programs of the City’s Sixth Cycle Housing Element, the City Council should adopt the Inclusionary Housing and In-Lieu Fee Financial Feasibility Study and implement the Inclusionary Housing In-Lieu Fee applicable to residential development. As contained in the final report as well as discussed at the December 12, 2023, Study Session there are various methods which could be deployed when considering the final fee for adoption. There were two outcomes of the final report provided by Bae Urban Economics which included the calculation of the Point of Indifference and the Construction Cost method. The following figures were presented:

	Multifamily Rental		Multifamily Ownership		Townhouse
	Higher-Density	Current Standards	Higher-Density	Current Standards	
Construction Cost	\$120	\$146	\$139	\$148	\$211
Point of Indifference	\$32	\$28	\$74	\$74	\$19

The Construction Cost Methodology was utilized to structure the final proposed Inclusionary Housing In-Lieu Fee.

Multifamily Rental	Multifamily Ownership	Townhouse
$\$146 + \$120 = \$266$	$\$139 + \$148 = \$287$	\$211
$\$266 / 2 = \133	$\$287 / 2 = \143.50	$\$211 / 1 = \211
$\$133 \times 80\% = \mathbf{\$106.40}$	$\$143.50 \times 80\% = \mathbf{\$114.80}$	$\$211 \times 80\% = \mathbf{\$168.80}$

Multifamily-Rental Projects

The Inclusionary Housing In-Lieu Fee established by this resolution create a blended rate based on the findings of the Inclusionary Housing and In-Lieu Fee Financial Feasibility Study by adding the findings of the Construction Cost methodology for Prototype #1 Higher-Density Multifamily



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Rental (\$120 per sqft.) and Prototype #2 Lower-Density Multifamily Rental (\$146 per sqft.) together and then divided by two which equates to \$133 per sqft for Multifamily Rental projects.

Multifamily/Condominium-For Sale Projects

The Inclusionary Housing In-Lieu Fee established by this resolution create a blended rate based on the findings of the Inclusionary Housing and In-Lieu Fee Financial Feasibility Study by adding the findings of the Construction Cost methodology for Prototype #3 Higher-Density Condominium (\$139 per sqft.) and Prototype #4 Lower-Density Condominium (\$148 per sqft.) together and then divided by two which equates to \$144 per sqft for Condominium projects.

Townhouse-For Sale Projects

The Inclusionary Housing In-Lieu Fee established by this resolution utilizes the findings of the Inclusionary Housing and In-Lieu Fee Financial Feasibility Study of the Construction Cost methodology for Prototype #5 Townhouse (\$211 per sqft.).

80% Threshold

The Inclusionary Housing In-Lieu Fee established by this resolution are set at eighty (80) percent of the maximum feasible fee computed utilizing the Construction Cost Methodology contained within the Inclusionary Housing and In-Lieu Fee Financial Feasibility Study and the blended rates established by this resolution for Multifamily Rental and Condominium projects. The Inclusionary Housing In-Lieu Fee established by this resolution utilizing an eighty (80) percent threshold of the maximum feasible fee helps to account for the change in the market conditions.

Consumer Price Index (CPI)

Future amendments to the established inclusionary housing in-lieu fee shall be reviewed annually and will be increased if appropriate based on Consumer Price Index (CPI). The reason why a commonly accepted fee or cost escalator is included is to insure that the established fee is reflective of inflation and other market conditions.