



Date: December 13, 2022

Honorable Mayor and Council Members:

Author and title: Yumie Dahn, Senior Planner

Title: **Affordable Housing In-Lieu Fee and Workforce Housing Ordinance Review**

Approved By: _____ Jen Callaway, Town Manager

Recommended Action: Conduct a public hearing and accept public comment on the affordable housing in-lieu fee program update and adopt Resolution No. 2022-77 to approve an updated affordable housing in-lieu fee based on the affordable housing in-lieu fee short-term calculation adopted in 2017 and defer review of the Workforce Housing Ordinance.

Discussion:

Background

The Town Council has adopted affordable housing requirements for residential projects (inclusionary housing) and non-residential projects (workforce housing). Currently, the inclusionary housing ordinance requires that 15% of all new dwelling units in a market-rate residential development project be restricted as affordable units. The workforce housing ordinance requires that all non-residential projects provide workforce housing based on a portion of the number of full-time equivalent employees generated. The purpose of the inclusionary and workforce housing ordinances is to require development projects to mitigate the additional demand for more affordable housing and rising land prices for the limited supply of available residential land.

Both ordinances allow payment of fees in lieu of constructing the required affordable housing; payment of the fee is at the discretion of the Town for large projects and at the discretion of the developer for small projects. The purpose of the affordable housing in-lieu fee is to provide an alternative avenue for smaller development projects to fulfill their inclusionary and workforce housing requirements. The in-lieu fee amount assumes that small development projects carry a higher burden with the full cost of building an affordable unit if only a portion of an affordable housing unit is required. For larger projects, the inclusionary and workforce housing ordinance support the actual construction of the units. Fractions of units can always be addressed through payment of an in-lieu fee at the discretion of the developer.

Collected affordable housing in-lieu fees are deposited into the Housing Fund which is used for housing-related programs including private-public partnerships to support infrastructure for housing projects (examples include Frishman Hollow and Henness Flats) and loans such as with the Truckee Artist Lofts. Because local and affordable housing was identified as a Town Council goal, the Council has allocated additional money from the General Fund to support the construction of housing which has been to support the 76 affordable units in the Truckee Artist Lofts and 138 market-rate units in Coburn Crossing. Funds available in the Housing Fund can be used as matching funds to leverage larger sources from outside funding programs. These funds are separate from the Measure K funds collected as part of the transient occupancy program but can be used together to further housing goals.

Update Process History

The Town has previously adopted in-lieu fees based on the subsidy required to bridge the gap of the development costs less the supportable value (rent/sale price) for market rate and affordable housing units. In 2017, the gap (\$265,281) was found to be a substantial burden to project feasibility and the Town Council opted to adopt a lesser in-lieu fee based on an amount that would adequately cover the subsidy for a portion of a future affordable housing project (\$87,718). The Town Council determined that a 20% subsidy of the average cost of construction of each unit (both for-sale and for-rent prototypes) is an appropriate in-lieu fee that would not over-burden new projects and would potentially allow the Town to support future projects (20% of \$438,591 = \$87,718). This was based on BAE's (Bay Area Economics, the Town's consultant) analysis that found that the local percentage subsidy for affordable housing averages to be 16% among five projects with local funding in Placer, El Dorado, and Nevada counties that applied for funding through the California Tax Credit Allocation Committee.

In order to streamline the update process, the Town Council adopted an interim calculation process using the 2017 amount (\$87,718) as the baseline with increases or decreases based on the median home sales price and Construction Cost Index to reflect the current market. The Nevada County Income Limit was also applied to provide an adjustment to reflect local buying power. As part of the process, the Town Council determined that a check-in for this process should occur in 2022 with the Town Council to determine if the interim calculation continues to be appropriate or if a comprehensive analysis should occur. The Town Council also determined that a comprehensive update should occur at the ten-year mark (2027) to ensure that the in-lieu fee is appropriate. At any time, the Town Council may direct staff to initiate a comprehensive update of the affordable housing in-lieu fee to ensure that it accurately reflects the current market conditions.

In November 2018, the Town Council applied the short-term update process and adopted an in-lieu fee of \$93,783. At the November 12, 2019 Town Council meeting, the Town Council reviewed a proposed affordable housing in-lieu fee (\$81,161) based on the 2017 adopted short-term calculation process. The proposed 2019 in-lieu fee was 13.2% less than the 2018 in-lieu fee. The decrease was due to a significant increase of the Nevada County Income Limits from \$73,500 to \$85,100, a 15.8% increase. The Town Council found the increase in the Nevada County Income Limits did not accurately reflect the community's ability to obtain housing and that a decrease in the affordable housing in-lieu fee was not appropriate given the increasing housing costs. Therefore, the Town Council determined that the 2018 approved affordable housing in-lieu fee of \$93,783 should remain in effect.

The same circumstances occurred in 2020 and the Nevada County Income Limits increased to \$92,400, which was an 8.6% increase from 2019 and a 25.7% increase from 2018. Due to the circumstances that were similar to the previous year and the potential decrease in the in-lieu fee, the Town Council chose to continue the 2018 affordable housing in-lieu fee based on the finding that the community's ability to obtain housing has not substantially changed in the last year and that the COVID-19 health crisis has resulted in additional housing challenges, including rapidly increasing home prices and record low levels of housing availability.

In 2021, the income limit remained at \$92,400 but the median housing price increased 39.4% and the construction cost index increased 5.2%. These were significant increases in housing prices and construction cost index, compared to past years. With the increases in the median home price and construction cost index, the Town Council adopted an in-lieu fee of \$124,026, a 34% increase to the previously adopted in-lieu fee. This calculation was based on the previously approved short-term calculation process.

The Council believed that the proposed increase in the in-lieu fee was reflective of the challenges of the housing market and returning to the original method adopted by the Council is appropriate in this context. The adopted amount was 47% of the gap identified in the 2017 study, which has likely increased in the past four years. While the \$124,026 does not reflect the actual gap between affordable and market rate housing, it was an increase that more closely aligns with the changes in the real estate and construction market that are impacting our community's ability to obtain housing.

Proposed Update

In 2022, the Town has seen a 22.4% increase in the median price of a single-family home and a 6.9% increase in the construction cost index. The Nevada County Income Limits also increased from \$92,400 to \$98,400, a 6.5% increase.

Table 1: Single-family Median Home price for Truckee and Tahoe Donner

Year	Average	Change
2022	\$ 1,384,006	22.4%
2021	\$ 1,130,568	41.4%
2020	\$ 799,613	8.8%
2019	\$ 734,669	1.1%
2018	\$ 726,763	9.3%
2017	\$ 664,883	10.0%
2016	\$ 604,210	7.2%
2015	\$ 563,417	0.7%
2014	\$ 559,759	14.0%
2013	\$ 490,888	19.7%
2012	\$ 410,001	-5.2%
2011	\$ 432,287	-7.2%
2010	\$ 466,072	-8.1%
2009	\$ 506,933	-14.7%
2008	\$ 594,054	-5.5%
2007	\$ 628,380	-1.2%
2006	\$ 636,165	-4.3%
2005	\$ 664,967	30.7%

Table 2: Construction Cost Index

Year	Average	Change
2022	12973.21	6.9%
2021	12133.33	5.8%
2020	11465.67	1.6%
2019	11281.33	2.0%
2018	11061.83	3.0%
2017	10736.58	3.9%
2016	10338.25	2.9%
2015	10049.33	2.5%
2014	9806.50	2.7%
2013	9546.67	2.6%
2012	9308.17	2.6%
2011	9069.83	3.1%
2010	8798.92	2.7%
2009	8570.08	3.1%
2008	8309.92	4.3%
2007	7967.00	2.8%
2006	7751.25	4.1%
2005	7446.08	4.7%

Table 3: Nevada County AMI

Year	Area Median Income	Percentage Change
2022	\$ 98,400	6.5%
2021	\$ 92,400	0.0%
2020	\$ 92,400	8.6%
2019	\$ 85,100	15.8%
2018	\$ 73,500	0.0%
2017	\$ 73,500	0.0%
2016	\$ 73,500	0.0%
2015	\$ 73,500	0.0%
2014	\$ 73,500	1.2%
2013	\$ 72,600	0.0%
2012	\$ 72,600	1.4%
2011	\$ 71,600	3.5%
2010	\$ 69,200	0.1%
2009	\$ 69,100	6.1%
2008	\$ 65,100	0.0%
2007	\$ 65,100	1.4%
2006	\$ 64,200	0.9%
2005	\$ 63,600	0.0%
2004	\$ 63,600	7.8%
2003	\$ 59,000	15.5%
2002	\$ 51,100	3.0%
2001	\$ 49,600	1.6%
2000	\$ 48,800	-

Table 4

Affordable Housing In-Lieu Fee Based on the Adopted Short-Term Calculation Process

	Index	In-Lieu Fee to Prior Income Adjustment	Income Change	In-Lieu Fee (with Income Adjustment)	Change	Status
2022	14.67%	\$ 143,747	6.5%	\$ 134,413	7.22%	Under Review
2021	22.29%	\$ 124,026	0.0%	\$ 124,026	33.77%	Adopted
2020	5.24%	\$ 101,417	8.6%	\$ 92,717	14.24%	Not Adopted (\$93,490 kept)
2019	3.08%	\$ 96,370	15.8%	\$ 81,161	-13.19%	Not Adopted (\$93,490 kept)
2018	6.58%	\$ 93,490	0.0%	\$ 93,490	6.58%	Adopted
2017	Base fee	\$ 87,718	-	\$ 87,718	Base fee	Adopted

With the increases in the median home price, the construction cost index, and Nevada County Income Limits, the Town's adopted calculation process results in an increase of the in-lieu fee to \$134,413, a 7% increase (See Table 4; Attachment #2 provides the calculation worksheet) from the 2021 adopted amount. Staff recommends adopting the new amount, based on the calculation method adopted by Council. Draft Resolution 2022-77 (Attachment #1) includes the recommended \$134,413 amount and information on the administration of the fee. Staff notes that the administration fee is proposed to be changed from \$60 per payment (originally adopted in 2011) to one hour of Planning staff time. Payments

require processing and record keeping by various staff members of the Planning and Finance Divisions. The increase in fee will help cover the overall cost of managing these payments.

Future Update Process

Council previously directed staff to check in on the short-term calculation in 2022. It is now 2022 and staff notes that we are in the 2040 General Plan update process. In 2021 Council directed staff to defer the larger discussion on housing policies, including the applicability and effectiveness of the affordable housing in-lieu fee, as part of a future housing work plan after adoption of the 2040 General Plan. With the potential kick-off of the Housing Element update in 2025 or 2026, the housing policy discussion can be framed within the larger framework of the Housing Element. This timeframe will allow staff to focus on completing and implementing the 2040 General Plan.

Based on previous direction, staff is not recommending an updated affordable housing in-lieu study because of the time and staffing that is needed to manage the update process, the prioritization of the General Plan update process, and the relatively small impact that the study would likely have on the housing landscape. Staff believes that an update to the 2017 study, which found that the actual gap between the cost of construction of the affordable units and the rental/mortgage returns for the restricted units, would find a similar or larger gap. An updated study would only be useful if the Town Council wished to adopt the gap amount as the in-lieu fee, which was determined to be \$265,281 in 2017.

In the past year, affordable housing in-lieu fees were collected for the Piping Rock subdivision (a four-lot subdivision) in the amount of \$39,473 and the Industrial Way Mixed Use Project (two industrial shell buildings with 28,336 s.f. and a nine-unit multi-family residential building) for \$32,824, for a total of \$72,297. The following approved but not constructed projects require payment of affordable housing in-lieu fees:

- The Crestwood Construction project (8,800 s.f. industrial shell building) was approved in 2021 with a requirement to pay 66% of an in-lieu fee to meet their inclusionary (35%) and workforce housing (31%) requirements.
- The Zurich Place Office project (10,467 s.f. three-story office) was approved in 2021 which also requires payment of 69% of an in-lieu fee to meet the workforce housing requirements.
- 16665 Skislope Townhomes (four-unit townhome project) was approved in 2022 and a portion of the inclusionary housing requirement will be met through payment of 20% of the in-lieu fee requirement. Two units will also be deed restricted for affordable housing.

Workforce Housing Ordinance

Chapter 18.216 (Workforce Housing) of the Development Code requires annual review of the Workforce Housing Ordinance. Generally, the Town Council reviews the Workforce Housing Ordinance at the same time as the affordable housing in-lieu fee update. The Workforce Housing Ordinance was updated in June 2018 to create a menu of alternative equivalents options (land donation, housing credit, second unit partnerships, etc.) and clarify that these units shall not be short-term rented and require the unit to be a primary residence with a six-month initial lease and annual monitoring.

In 2020, the Industrial Mixed-Use Project, which includes two industrial shell buildings (28,336 s.f. of general manufacturing space) and a nine-unit multi-family residential building, was approved with two workforce housing units. The building permit for this project was issued in 2022. In 2021, Crestwood Construction, a construction contractor's yard was approved with 31% of an in-lieu fee. No other projects were required to provide workforce housing units under the updated ordinance. Recent projects that have been subject to workforce housing requirements include Coburn Crossing (six units), Grocery Outlet (three units), Quality Automotive (28% of an in-lieu fee), and High Altitude Fitness (62% of an in-lieu fee). Projects within Master or Specific Plan areas, such as the Railyard, Coldstream, and Joerger Ranch, are subject to the workforce housing requirements outlined in the Specific Plan. The Artist Lofts has provided inclusionary and workforce housing for the Railyard and there are eight workforce housing units within the Coldstream Commons.

Since the number of projects subject to the Workforce Housing ordinance is minimal, staff believes that the Workforce Housing Ordinance update can be deferred to the larger housing policy discussion staff expects to initiate after the 2040 General Plan is adopted. This is consistent with the 2021 Council direction on this ordinance review.

Priority:

<input type="checkbox"/> Enhanced Communication	<input type="checkbox"/> Climate and Greenhouse Gas Reduction	<input checked="" type="checkbox"/> Housing
<input type="checkbox"/> Infrastructure Investment	<input type="checkbox"/> Emergency and Wildfire Preparedness	<input type="checkbox"/> Core Service

Fiscal Impact: Implementation of the affordable housing in-lieu fee and Workforce Housing Ordinance will not have any direct fiscal impacts on the Town. The costs of applying the resolution to individual projects will be borne by the project applicants, and the Town will collect an administration fee of one hour of Planning staff time per payment to recover Town costs associated with assessment, payment, and collection of an in-lieu fee

Public Communication: The Town Council agenda has been posted on the Town's website, as well as at Town Hall, the library, and post offices. A legal notice was published in the December 2, 2022 edition of the *Sierra Sun*. As of the publication of this staff report, no public comments have been received.

Attachments:

1. Draft Resolution 2022-77
2. Affordable Housing In-Lieu Fee Calculation Worksheet