



Date: November 14, 2023

Honorable Mayor and Council Members:

Author and title: Yumie Dahn, Senior Planner

Title: **2023 Affordable Housing In-Lieu Fee and Workforce Housing Ordinance Review**

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. 2023-63 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.

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 ordinances 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 full cost to construct a residential unit at that time was \$438,591. The Town Council determined that a 20% subsidy of the average cost of construction of each unit (both for-sale and for-rent prototypes) was 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.

Since the creation of the interim process, the following updates have occurred:

2018	The Town Council applied the short-term update process and adopted an in-lieu fee of \$93,783.
2019	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.
2020	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.
2021	<p>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.</p> <p>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 was 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</p>

	more closely aligns with the changes in the real estate and construction market that are impacting our community's ability to obtain housing.
2022	The Town saw 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. With the increases in the median home price, the construction cost index, and Nevada County Income Limits, the Town's adopted calculation process resulted in an increase of the in-lieu fee to \$134,413, a 7% increase from the 2021 adopted amount.

Proposed Update

In 2023, the Town has seen a 9.8% decrease in the median price of a single-family home and a 2.5% increase in the construction cost index. The Nevada County Income Limits also increased from \$98,400 to \$112,500, a 14.3% increase.

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

Year	Average	Change
2023	\$ 1,183,516	-9.8%
2022	\$ 1,312,056	16.1%
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
2023	13334.13	2.5%
2022	13006.84	7.2%
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
2023	\$ 112,500	14.3%
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
2023	-3.64%	\$134,838	14.3%	\$ 115,517	-14.06%	Under Review
2022	14.67%	\$143,747	6.5%	\$ 134,413	8.37%	Adopted
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

*Numbers reflected here are the fees considered by the Council. Numbers may be different than those shown in Attachment 2 due to additional information inputted from November and December of each year

With the decrease in the median home price and the increase in the Nevada County Income Limits, regardless of the increase in the construction cost index, the Town's adopted calculation process results in a decrease of the in-lieu fee to \$115,517, a 14.1% decrease (See Table 4; Attachment #2 provides the calculation worksheet) from the 2022 adopted amount. Staff recommends adopting the new amount, based on the calculation method adopted by Council. Draft Resolution 2023-63 (Attachment #1) includes the recommended \$115,517 amount and information on the administration of the fee. Alternatively, the Council can consider other options and amounts for the 2023 affordable housing in-lieu fee, including keeping the current 2022 amount (similar to the Council's actions in 2019 and 2020), which would not require adoption of a new resolution.

Future Update Process

As part of the short-term calculation process, a check-in was required in 2022. In 2021 Council directed staff to defer the discussion on 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 discussed within the larger framework of the Housing Element. This direction was confirmed by the Council in 2022.

Based on Council's direction, staff is not recommending an updated affordable housing in-lieu study at this time because of the prioritization of General Plan implementation actions and the relatively small impact that the study would likely have on the current 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. Future analysis or policy updates may be recommended through the Housing Element process, which would be aligned with the previous direction for a comprehensive update in 2027.

In the past year, affordable housing in-lieu fees were collected for the Martis Outlook Project (a mixed use commercial and residential mixed use project approved in 2008) in the amount of \$37,208. 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 2021, Crestwood Construction, a construction contractor's yard was approved with 31% of an in-lieu fee. In 2023, Friends of Tahoe Truckee Waldorf School was approved with a 58% of an in-lieu fee and the Planning Commission reviewed the Tahoe Donner Association Downhill Ski Lodge and required either payment of 61% of an in-lieu fee or deed restriction of one existing market rate unit for workforce housing. The Tahoe Donner project approval was appealed and is under consideration by the Council at this meeting. No other projects were required to provide workforce housing units under the updated ordinance.

Prior 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 applicable Specific Plan. The Artist Lofts has provided inclusionary and workforce housing for the Railyard and there are eight workforce housing units within Coldstream Commons. In 2022, Joerger Ranch Parcel 2 was required to provide eight workforce housing requirements consistent with the requirements of the Joerger Ranch Specific Plan.

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 as part of the Housing Element update. This is consistent with the 2021 and 2022 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. A legal notice was published in the November 3, 2023 edition of the *Sierra Sun*. As of the publication of this staff report, no public comments have been received.

Attachments:

1. Draft Resolution 2023-63
2. Affordable Housing In-Lieu Fee Calculation Worksheet