



Date: November 12, 2024

Honorable Mayor and Council Members:

Author and title: Yumie Dahn, Principal Planner

Title: **2024 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. 2024-65 to approve an updated affordable housing in-lieu fee based on the affordable housing in-lieu fee short-term calculation adopted in 2017 and accept an update on 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 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 and loans. 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 tax program but can be used together to further housing goals. Over the past decade, the Town has allocated in-lieu fees in support of a number of housing projects, including the Artist Lofts, Coburn Crossing, Pacific Crest Commons, and the new Edmunds Lofts project.

In 2024, the State adopted AB2663 requiring the Town to annually post on its website the amount of affordable housing in-lieu fees collected in the previous year and whether the fees are intended for a project, if any. Every five years, the Town is required to post the amount that was collected for the past five years and the projects that the in-lieu fees were spent on. These website postings are required

beginning in January 2026. In the coming year, staff will be working on updating our website to address this requirement.

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 overburden 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.

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 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 and the forthcoming Housing Element. With the potential kick-off of the Housing Element update in 2025 or 2026 and anticipated adoption in 2027, the housing policy needs can be discussed within the larger framework of the Housing Element. 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. This direction was confirmed by the Council in 2022 and 2023.

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 more closely aligns with the changes in the real estate and construction market that are impacting our community's ability to obtain housing.</p>
2022	<p>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.</p>
2023	<p>The Town saw 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. The short-term calculation resulted in a proposed fee of \$115,517, a decrease of 12%. The Town Council chose not to adopt the reduced fee finding that it did not reflect the actual housing conditions and maintained the 2022 fee.</p>

Proposed Update

In 2024, the Town has seen a 12.4% increase in the median price of a single-family home and a 7.7% decrease in the construction cost index. The Nevada County Income Limits remained consistent to the 2023 amount of \$112,500. See Table 1 for the single-family median home price, Table 2 for the Construction Cost Index, and Table 3 for the Nevada County AMI.

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

Year	Average	Change
2024	\$ 1,302,732	12.4%
2023	\$ 1,159,323	-11.6%
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
2024	12339.07	-7.7%
2023	13363.88	2.7%
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
2024	\$ 112,500	0%
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 from Previous Year	Status
2024	2.35%	\$136,851	0.0%	\$ 136,851	19.47%	Under Review
2023	-3.64%	\$134,838	14.3%	\$ 115,517	-14.06%	Not Adopted (\$134,413 kept)
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

The Town's adopted calculation process results in an increase to \$136,851, which is a 19.5% increase from the unadopted 2023 fee amount and a 4.6% increase from the 2022 fee that is currently in place (See Table 4; Attachment #2 provides the calculation worksheet). Staff recommends adopting the new amount, based on the calculation method adopted by Council. Draft Resolution 2024-65 (Attachment #1) includes the recommended \$136,851 amount and information on the administration of the fee.

Alternatively, the Council can consider other options and amounts for the 2024 affordable housing in-lieu fee, including keeping the current 2022 amount, which would not require adoption of a new resolution, or applying the 19.5% increase to the currently adopted 2022 amount, resulting in \$156,320.

Staff also requests that the Council confirm the previous direction that a comprehensive review of the in-lieu fee should be deferred until completion of the forthcoming Housing Element and a comprehensive review of the Town's housing policies and programs.

Collected Fees

In the past year, affordable housing in-lieu fees in the amount of \$107,101.68 were collected for the following projects:

- Boulders (One single-family residential unit and five multifamily units): \$13,953.48
- Crestwood Construction project (8,800 s.f. industrial shell building): \$41,399.20
- Start Haus (5,621 square foot commercial structure for general retail): \$51,749.00

The following approved but not constructed projects require payment of affordable housing in-lieu fees (percentages are provided since the actual fee amount will be based on the in-lieu fee in effect at the time of building permit issuance):

- Zurich Place Office project (10,467 s.f. three-story office, approved in 2021): 69% of an in-lieu fee to meet the workforce housing requirements.
- 16665 Skislope Townhomes (four-unit townhome project, approved in 2022): 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.
- Joerger Ranch Parcel 2 (mixed use project with five manufacturing shell buildings totaling 49,739 s.f., 12 multifamily residential units, approved in 2022): 60% of an in-lieu fee
- Friends of Tahoe Truckee Waldorf School FKA Golden Valley (7,000 s.f. classrooms for 240 students, approved in 2023): 58% of an in-lieu fee.
- Trailside Townhomes (six multifamily residential units, approved in 2024): 90% of an in-lieu fee.
- Silver Creek Estates (40 multifamily units, approved in 2024): 40% of an in-lieu fee in addition to deed restriction of five housing units to affordable incomes.
- Benna Multifamily Residential (three-unit multifamily residential project, Time Extension approved in 2024): 30% of an in-lieu fee.

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.

The following approved but not constructed projects have workforce housing requirements (percentages are provided since the actual fee amount will be based on the in-lieu fee in effect at the time of building permit issuance):

- Zurich Place Office project (10,467 s.f. three-story office, approved in 2021): 69% of an in-lieu fee
- Friends of Tahoe Truckee Waldorf School (7,000 s.f. classrooms for 240 students, approved in 2023): 58% of an in-lieu fee
- Tahoe Donner Association Downhill Ski Lodge (24,490 s.f. lodge building, approved in 2023): Either payment of 61% of an in-lieu fee or deed restriction of one existing market rate unit for workforce housing.

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), High Altitude Fitness (62% of an in-lieu fee), Crestwood Construction (31% of an in-lieu fee), and Start Haus (39%). 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 the 40 unit Coldstream Commons project satisfied both the inclusion and workforce housing obligations of the Coldstream Specific Plan. In 2022, Joerger Ranch Parcel 2 (mixed use project with five manufacturing shell buildings totaling 49,739 s.f., 12 multifamily residential units, approved in 2022) was required to provide eight workforce housing requirements consistent with the requirements of the Joerger Ranch Specific Plan.

Staff does not recommend any changes to the ordinance at this time. The Workforce Housing Ordinance will be revisited as part of the larger housing policy discussion staff expects to initiate as part of the upcoming Housing Element update.

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. The ongoing update reports, such as this one, are funded by the General Fund through the Planning Division budget.

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 1, 2024 edition of the *Sierra Sun*. As of the publication of this staff report, no public comments have been received.

Attachments:

- 1. Draft Resolution 2024-65
- 2. Affordable Housing In-Lieu Fee Calculation Worksheet