



Council Agenda Correspondence

DATE: July 19, 2022

TO: Mayor and Council

FROM: Michael Codron, Director of Community Development
Tyler Corey, Deputy Director of Community Development
Rachel Cohen, Senior Planner

VIA: Derek Johnson, City Manager

SUBJECT: Item # 7b – REPEAL AND REPLACE THE CITY OF SAN LUIS OBISPO'S MUNICIPAL CODE CHAPTER 17.138 (INCLUSIONARY HOUSING REQUIREMENTS) TO UPDATE REGULATIONS FOR CONSISTENCY WITH THE 6TH CYCLE HOUSING ELEMENT, AMEND TITLE 4 OF THE CITY OF SAN LUIS OBISPO MUNICIPAL CODE TO ADD CHAPTER 4.60 TO ESTABLISH A COMMERCIAL LINKAGE FEE, AMEND INCLUSIONARY HOUSING IN-LIEU FEES IN ACCORDANCE WITH CHAPTER 17.138 OF TITLE 17, ESTABLISH THE AMOUNTS OF COMMERCIAL LINKAGE FEES IN ACCORDANCE WITH CHAPTER 4.60 OF TITLE 4 OF THE SAN LUIS OBISPO MUNICIPAL CODE, AND AMEND THE COMPREHENSIVE FEE SCHEDULE

A Council Member has asked staff to respond to the following questions and proposed changes provided by community members. The questions are below with staff's response shown in *italics*:

- 1) Tiered in lieu fees, by reducing cost/SF for smaller units and increasing for larger units, rather than the flat \$25/SF. Consider tiered fees for commercial development as well.**

The affordable housing requirements and in-lieu fee amounts are based on a detailed analysis prepared by the City's consultant, EPS. There is alignment between the affordable housing percentage requirements and the corresponding in-lieu fees. If an adjustment is made to the in-lieu fees then an adjustment would need to be made to the affordable housing percentage requirements. It should be noted that the in-lieu fees are assessed on a per square foot basis, so the fees are already tiered in a way that results in lower fees for smaller units and higher fees for larger units.

Tiered in-lieu fees and commercial linkage fees are not recommended because tiering of these fees would result in applicants paying the fees in almost every circumstance. In-lieu fees and the Inclusionary Housing percentage requirements are designed to be commensurate with one another. Therefore, lowering or tiering of fees would result in the City under-realizing affordable housing units, which is similar to the current situation with Table 2A.

- 2) An alternative to the current Fractional Numbers proposal (17.138.080–Procedures) to provide more parity with projects that are greater than 10 units (and/or further explanation and examples of the current proposal achieving IHO goals).**

If a majority of City Council would like parity for projects larger than 10 units then the proposal to allow fractional units to pay in-lieu fees for projects less than 10 units could be expanded to all projects, regardless of size. This alternative would ensure that all projects are meeting the Inclusionary Housing Requirement at the same rate, whereas rounding up can skew a project's requirement. By allowing all projects to blend the provision of affordable housing units and in-lieu fees to meet the Inclusionary Housing Requirement, the City would ensure parity across all project types.

For example, under the alternative an 11-unit for-sale project would have an Inclusionary Housing Requirement of 10% or 1.1 units. This requirement could be met by providing one affordable housing unit at the Moderate-Income level, and paying a fractional in-lieu fee for the .1-unit remainder. This would equate to a \$2.50 per square foot fee, instead of a \$25 per square foot fee, for the 11th unit.

A 19-unit for-rent project would have an inclusionary housing requirement of 6% or 1.14 units. To meet the requirement, the project could include one affordable housing unit at the Low-Income level and pay a fractional in-lieu fee for the .14-unit remainder. This would equate to a \$2.80 per square foot fee, instead of a \$20 per square foot fee.

- 3) Allow flexibility in style and location of inclusionary units (17.138.050 – Standards for Inclusionary Units) to emphasize equitable access and amenities but more options if delivering more units.**

If a majority of the City Council would like more flexibility in the application of these standards, changes can be proposed or direction can be provided to the Community Development Director to approve proposals that meet the intent of this section. The Director's authority to interpret the code is provided in Zoning Regulations Section 17.04.020.A.

- 4) Expand the exemptions in Sec. 17.138.020 to encourage ADU's, JADU's and Missing Middle housing on lots with existing housing to remain, (and/or clarify the timing and goals of the Missing Middle housing program).**

Draft Ordinance Section 17.138.020.A(2) includes an exemption for ADUs and this exemption can be expanded to include JADUs (see proposed revision below). As part of the agenda report (PDF packet page 598) staff has asked for Council direction regarding the missing middle and flexible density programs and whether staff should consider exemptions or adjustments from the IHO as part of these programs as they move forward for consideration.

Section 17.138.020.A

2. The addition or inclusion of Accessory Dwelling Units (ADUs) or Junior Accessory Dwelling Units (JADUs) associated with an existing or proposed residential or mixed-use development;