



PLANNING COMMISSION STAFF REPORT

DATE: June 8, 2022

TO: Members of the Planning Commission

FROM: Christie Alarcon, Community Development Director
Brian Halvorson, Planning Manager
Jeff M. Malawy, City Attorney

RE: Consideration Of Planning Commission Recommendations to The City Council to Amend the City's Inclusionary Housing Ordinance, Including Adopting a New Mechanism for Calculating the In-Lieu Fee (TA 22-01)

AGENDA ITEM NO 1.

Planning Commission consideration of amendments to Chapter 17.324 (Inclusionary Housing) of the Lompoc Municipal Code to revise the mechanism for calculating the fee which may be paid in-lieu of constructing on-site affordable housing and amending the findings required to allow payment of a fee in lieu of on-site construction. The adoption of the proposed ordinance is not subject to environmental review under the California Environmental Quality Act because it can be seen with certainty that the adoption of this ordinance does not have the potential for causing a significant effect on the environment (CEQA Guidelines Section 15061(b)(3).)

Scope of Review

The Planning Commission is being asked to consider recommendations to the City Council regarding:

- Proposed amendments to Chapter 17.324 (Inclusionary Housing) of the Lompoc Municipal Code to revise the mechanism for calculating the fee which may be paid in-lieu of constructing on-site affordable housing units and amending the findings required to allow payment of a fee in lieu of on-site construction;
- Whether the proposed changes are consistent with the 2030 General Plan and Zoning Code; and
- Whether the required findings in the Resolution can be made.

Staff Recommendation

1. Adopt Resolution No. 965 (22) recommending that the City Council adopt TA 22-01; or
2. Provide other direction.

Background

Current Inclusionary Housing Ordinance

Chapter 17.324 of the Lompoc Municipal Code (“Inclusionary Housing Ordinance”) requires that a percentage of the units in certain housing developments be affordable to very-low, low, or moderate-income households. Specifically, for residential developments of 10 units or more, that are located outside of Old Town Redevelopment Project, Amendment No. 2 Area, a minimum of 10% of the units must be affordable. For all residential developments located within the Old Town Redevelopment Project, Amendment No. 2 Area, a minimum of 15% of the units must be affordable.

The default method of providing the affordable units is to build the units on the project site and then record covenants on the project site requiring that the units may only be sold or rented for an affordable purchase price or rental amount, as defined by state law and based on income levels in Santa Barbara County.

However, the Inclusionary Housing Ordinance allows developers to request alternative means of satisfying the affordable unit requirement, including constructing affordable units outside of the project site, dedicating land to the City that can be used for affordable housing, or paying a fee to the City that can be used by the City to provide affordable housing through other means, such as providing loans to developers of low-income housing or providing loans and down-payment grants to low-income homebuyers. These fees paid in lieu of building on-site units are called “in-lieu fees.”

Current In-Lieu Fee

Under the current Inclusionary Housing Ordinance, the in-lieu fee for a single-family for-sale unit is “calculated on the basis of the difference between the estimated total construction cost of a market rate single-family unit and the affordable purchase price of a unit for which a low-income household unit can qualify.” In 2008, based on this methodology, the City Council adopted Resolution 5457(08) shown in Attachment 2, which established an in-lieu fee amount of \$113,998 per required affordable unit. This remains the amount of the in-lieu fee today.

Residential developments that do not include single-family for-sale units (for example, apartment projects) are also allowed to pay in-lieu fees. The Ordinance empowers the City Council to adopt a separate in-lieu fee for non-single-family-for-sale units, but it has never done so.

The Ordinance states that if the City Council does not adopt a separate fee for these units, then they must pay the in-lieu fee established for single-family for-sale units.

Affordable Housing Trust Fund and Homebuyer Assistance Program (HAP)

The Inclusionary Housing Ordinance requires that all in-lieu fees collected by the City must be deposited into an affordable housing fund called the Lompoc Affordable Housing Trust Fund (“Trust Fund”). The Trust Fund is administered by the City Manager or a designee and it must be administered in accordance with the Lompoc Affordable Housing Trust Fund Program Implementation Plan, which was adopted by the City Council on April 5, 2005.

On June 7, 2016, through Resolution No. 6054(16), the City Council created the Homebuyer Assistance Program (“HAP”), originally called the Homebuyer Assistance Downpayment Loan Program, which is funded through the Trust Fund and provides second loans and down payment grants to low-income homebuyers, with the aim of helping people buy homes in Lompoc when they would not otherwise be affordable.

The HAP currently has a remaining balance of \$377,191. Since its inception, the City has provided 56 households with second mortgage loans and closing cost grants totaling \$3,622,479 in the aggregate and averaging \$64,581 per household in assistance. Assistance through the HAP is only available to lower-income households, as defined under state law. In order to qualify for assistance through the HAP, the applicant must be income certified, complete a homebuyer education course, and qualify for a home purchase loan within the City of Lompoc. The total amount of aid (loan plus downpayment grant) available to a single applicant is set by City Council resolution. The most recent resolution Resolution No. 6177(18) was adopted by the City Council on May 1, 2018, and established the total amount of assistance available to a single applicant at \$72,500. This amount was determined by considering housing market increases and reduction of the homebuyer contribution previously 4% down to 2.5% and increased closing costs to improve competitiveness of a homebuyers’ offer when competing with market rate buyers. This amount is updated periodically to ensure that it matches current market conditions and particularly that the amount is sufficient to help an applicant purchase a home in the Lompoc housing market.

April 13, 2022 Planning Commission Hearing

At the April 13, 2022 hearing the Commission continued this item to the May 25, 2022 meeting so that staff could provide additional information requested by the Commission regarding other cities’ in-lieu fees that may allow a comparative analysis to Lompoc’s proposed in-lieu fee amendments. Therefore, staff contacted and researched six different jurisdictions within Santa Barbara County in order to provide additional data for the Commission to consider before making a recommendation to the City Council. Specifically, staff researched inclusionary housing in-lieu fees for Santa Maria, Buellton, Solvang, Goleta, Santa Barbara (City), and the County of Santa Babara. Below is a summary of staff’s research for the following neighboring jurisdictions:

Comparison of In-Lieu Fees and Calculation Methods

Jurisdiction	Inclusionary Housing Requirement	In-Lieu Fee Amount	Calculation Method	Ordinance Date
Santa Maria	None	N/A	N/A	N/A
Buellton	15% 20% (within affordable housing overlay zone) Development of 10 or more units	\$110,500 (very low/low income units) \$55,250 (moderate income units)	Very Low and Low Income Fees, County of Santa Barbara Santa Ynez Housing Market Area	2017
Solvang	None	N/A	N/A	N/A
Goleta	20% Development of 5 or more units	Varies	\$2.60 – 5.60 per square foot depending on income level (Ownership Unit) \$0.00 – 10.00 (Rental Unit) No In-Lieu Fee for “Above Moderate” Income Level 2-4 Unit Projects: \$16.00 per square foot	2021
Santa Babara (City)	10% Development of 10 or more rental units 15% Development of 10 or more ownership units	Varies	Production Cost/Area Median Income/Median Sale Price (Ownership Unit) \$25 per square foot, net floor area, average unit size <u>but only applies to 4-9 unit developments</u> (Rental Unit)	2008 (Ownership Rate) 2019 (Rental Rate)
Santa Barbara County	2.5-5% (Development of 20 or more for-sale units) Rentals are exempt from Inclusionary Housing Requirements	Varies (\$239,200 and up to \$685,800)	Median Sales Price of a Condominium and Housing Market Area (previous fiscal year)	2021
City of Lompoc	10-15% Development of 10 or more units	\$72,500 (Proposed) \$113,998 (Existing)	Home Buyer Assistance Program Cap Construction Cost, Purchase Price & Affordability Gap	Proposed 2008

The above table shows a comparison of various inclusionary housing requirements, associated in-lieu fees, and the date associated with an ordinance that established said requirements for each jurisdiction. Based on this summary, each jurisdiction's in-lieu fee and calculation method varies considerably. Therefore, the Commission can use this as information only but unfortunately it does not provide a "like-for-like" comparison to Lompoc's proposed amendments.

May 25, 2022 Special Planning Commission Hearing

Due to a lack of a quorum (only two Planning Commissioners were present), this item was not considered at the May 25, 2022 hearing and was therefore continued to June 8, 2022.

Discussion

The City's Community Development Department has undertaken a review of the City's housing and development policies in an effort to craft policies that will both incentivize the construction of market-rate residential units and also promote affordable housing options. For this purpose, staff are recommending a revision to the calculation method for the in-lieu fee.

As discussed above, the current in-lieu fee is **\$113,998** and is based on "the difference between the estimated total construction cost of a market rate single-family unit and the affordable purchase price of a unit for which a low-income household unit can qualify." The proposed ordinance would change the basis for the in-lieu fee to the maximum amount of financial assistance available to a single applicant under the Homebuyer Assistance Program (shown as Attachment 3 for reference), as established by a resolution of the City Council. That amount is currently **\$72,500**. This in-lieu fee calculation method would apply to both for-sale and rental housing developments. There would not be a separate in-lieu fee for rental projects.

This decrease in the in-lieu fee would lower the cost to developers of constructing market-rate housing if the developer chooses to pay the in-lieu fee rather than building on-site affordable units. However, the amount of the proposed in-lieu fee is still sufficient to assist lower-income households to obtain affordable housing, as demonstrated through the success of the Homebuyer Assistance Program, and has built-in flexibility to adapt to market conditions.

The proposed ordinance also provides that if the City terminates or temporarily suspends the Homebuyer Assistance Program, then, as part of that action or any time thereafter, the City Council may adopt a resolution stating the new basis for calculating the per-unit housing in-lieu fee. If a new basis for calculating the per-unit housing in-lieu fee is not adopted by the City Council, then the option of paying a housing in-lieu fee to satisfy the affordable unit requirement would not be available until a new basis for calculating the per-unit housing in-lieu fee is established.

The right to pay in-lieu fees instead of building on-site affordable units is not automatic. The alternative compliance option(s) must be requested by the developer and approved by the Planning Commission as part of its review of the proposed project.

The current Inclusionary Housing Ordinance (Chapter 17.324.040.B) requires the Planning Commission to make certain findings in order to allow alternative compliance options, including payment of in-lieu fees:

“Any approval or conditional approval shall be based on a finding that the purpose of this Chapter would be better served by implementation of the proposed alternative(s). In determining whether the purpose of this Chapter would be better served under the proposed alternative, the review authority shall make the following findings”:

1. Implementation of the proposed alternative shall not overly concentrate inclusionary units within any specific area, unless the undesirable concentration of inclusionary units is offset by other identified benefits that result from implementation of the alternative.
2. When compared to the prompt construction of the inclusionary units on-site, implementation of the proposed alternatives will significantly reduce costs and delays relating to appraisal, site design, zoning, infrastructure, clear title, grading, and environmental review.”

The proposed ordinance would replace these required findings with a required finding that the proposed alternative is consistent with the City’s General Plan:

“Any approval or conditional approval shall be based on a finding that the proposed alternative is consistent with City’s General Plan and shall be based on a consideration of market conditions, development proformas, land economics and other substantial evidence.”

Finally, the proposed ordinance removes some of the current options for when the in-lieu fees must be paid. The proposed ordinance only includes two options: (1) all fees must be paid in a lump sum prior to issuance of the first building permit for the project, or (2) fees must be paid on a scheduled pro-rata basis such that the developer can only receive building permits when the amount of the in-lieu fees paid is proportional to the amount of market-rate-unit building permits granted (This is more fully explained in Section 3 of the proposed ordinance under “Calculation of fee and timing of payment.”).

Conformance with 2030 General Plan

The City's General Plan Housing Element also establishes inclusionary housing requirements. Policies 1.11 and 1.12 state as follows:

Policy 1.11 With the exception of areas within the Old Town Redevelopment Project, Amendment No. 2 area, in all residential developments of ten units or more, at least 10% of all the units shall be affordable to target income groups. As an alternative to providing affordable housing on-site, the inclusionary requirement may be satisfied through other equivalent measures (e.g., production based on units with a similar number of bedrooms and bathrooms) including off-site construction, acquisition of affordability covenants on existing dwelling units, donation of land or payment of in-lieu fees. In accordance with State law, residential development projects within the Old Town Redevelopment Project, Amendment No. 2 area shall provide 15% of new housing affordable to low- and moderate-income households with at least 40% of those units to be used by very low income households.

Policy 1.12 In implementing Policy 1.11: (i) the City may waive any or all of the affordable housing requirements or accept equivalent measures in lieu of on-site construction taking into account market conditions, development proformas, land economics and other substantial evidence; (ii) inclusionary fee collection may be deferred until prior to issuance of Certificate of Occupancy.

These policies establish the requirement that a certain percentage of units must be affordable. However, they also provide that the City may “*accept equivalent measures in lieu of on-site construction taking into account market conditions, development proformas, land economics and other substantial evidence.*” These policies further explicitly allow the payment of fees in-lieu of construction of affordable units. Although the proposed ordinance would change the basis for calculating the in-lieu fee, the proposed basis is still tied directly to the cost of providing an affordable unit to a lower-income family and is thus an equivalent measure to the construction of a new affordable unit.

Conformance with Zoning Code

The proposed amendments to the Inclusionary Housing Ordinance are internally consistent with the existing Inclusionary Housing Ordinance and the Zoning Code as a whole.

Public Comments

Two public comments were received on this item. Based on a comment letter submitted by Jon Martin (Urban Planning Concepts) to the Planning Commission prior to the May 25, 2022 meeting, staff recommends the revisions (shown in red) to the ordinance as shown on Attachment 5.

Environmental Determination

The adoption of the proposed ordinance is not subject to environmental review under the California Environmental Quality Act because it can be seen with certainty that the adoption of this ordinance does not have the potential for causing a significant effect on the environment. (CEQA Guidelines Section 15061(b)(3).)

Noticing

On March 30, 2022, a notice of the Public Hearing was published in the Santa Maria Times newspaper. Additional notification of the public hearing and associated reports were also posted at Lompoc City Hall and on the City's website on June 3, 2022.

Attachments

1. Planning Commission Resolution No. 965 (22)
2. City Council Resolution No. 5457 (08)
3. Homebuyer Assistance Program
4. Public Comments
5. Revisions to Ordinance

Respectfully submitted,



Brian Halvorson
Planning Manager

APPROVED FOR SUBMITTAL TO THE PLANNING COMMISSION:



Christie Alarcon
Community Development Director