

“AFFORDABLE HOUSING”

AN URGENT PROBLEM FOR OUR COMMUNITY

The lack of housing and the inability to afford housing has become a national crisis. The crisis is being discussed by all levels of government, the non-profit community, and in the media throughout the country. Every month families struggle to pay the rent, buy groceries, or pay medical bills. This crisis is normally discussed using just one term: affordable housing. However, “affordable” is a relative term and often misused. The majority of homes in San Luis Obispo County are affordable to someone, but certainly not by those supporting our service economy, driving a bus, or teaching in a public school.

There are official terms defining the various levels of “affordable,” but we seldom see them used, making them unfamiliar, confusing, and even misleading. For example, “workforce housing” does not refer to housing for most workers who are the backbone of our economy. Instead, as defined by the government, “workforce” refers to much higher income-earners, those making above the moderate-income level. Affordable housing according to government standards, is housing that costs the occupant no more than 30% of their income, including utilities. But affordable housing in today’s market is often applied to housing that is affordable to the workforce, as defined above. In order to adequately address the housing crisis, these official terms all need to be clarified and consistently used so that everyone is speaking the same language.

SUMMARY

We are very fortunate to be able to live in San Luis Obispo County, one of the most beautiful areas in California. Our economy is driven by agriculture and tourism, and our natural beauty draws hundreds of thousands each year to visit and enjoy all that our communities have to offer. However, the very people who support this economy are struggling to survive. The cost of housing has made San Luis Obispo County one of the least affordable places to live in California. Wages paid to workers in our county have not kept pace with the cost of living, much less the cost of housing. Many minimum wage and

lower wage employees are living paycheck to paycheck, often just one paycheck away from homelessness.

There is an emphasis on housing to meet the needs of those making above the median income in our county and an embarrassing shortage of housing to meet the needs of those making extremely low and low-income wages, the very people we depend on to keep our economy thriving and growing. Developers cite the cost of land, the extreme length of time needed for the permit process, and profitability as reasons for this discrepancy. Local governments most often cite that they cannot force building to happen and can only provide capacity to build. Local developers are allowed to pay nominal fees to avoid building affordable units that are not as profitable.

In this report the 2018-2019 Grand Jury highlights who is in the most need of affordable housing and review what the county and cities are doing about it. We define affordable housing terms as we use them and provide a glossary of the important terms that are used in conjunction with the discussion of this topic (see the Glossary in Attachments). We discuss the disproportionate construction of market-rate housing and recommend alternatives to be considered.

PURPOSE

In exploring the problem of inadequate housing, the 2018-2019 Grand Jury believes it is critical to share a common understanding of the subject, including the vocabulary and data. It is too easy for governments to claim action on “affordable” housing when little is being done to provide lower income housing.

ORIGIN

This investigation/review was self-generated in accordance with government guidelines for the Grand Jury. Early in the term of the 2018-2019 Grand Jury, many officials were invited to discuss their various roles, successes, and challenges. The subject of affordable housing often came up in these briefings. Perhaps not surprisingly, we were presented with an abundance of new and confusing terms. These terms do not help explain the housing

crisis, how we got into it, or what officials are doing to attempt solutions. We therefore decided to shine a light on the crisis and to provide some clarity to the conversation.

PROCEDURE

We chose to focus our investigation on the three lower levels of income-earners where there is the most need. These groups are defined later. We researched a number of aspects of the problem by looking at:

- how the various arms of government create housing projections and report them,
- how these entities actually perform against their projections, and
- how the local and county governments deliver this information to the public.

We interviewed officials from the county and city governments as well as private entities. Additional research was undertaken through Internet resources.

BACKGROUND

Since 1969, California's Housing Element Act has required that the General Plan of all local governments must include a component to meet the housing needs of everyone in their community, at all income levels. This is also known as the Housing Element Law. Housing policy in California rests largely on the effective implementation of local housing elements, which are intended to adequately address the housing needs of each local community. Local governments are required to report to the state on an annual basis how they are providing opportunities for housing development by removing barriers and increasing building capacity.

California law requires the Department of Housing and Community Development (HCD) to project statewide housing needs and allocate these needs to each region. In consultation with the San Luis Obispo Council of Governments (SLOCOG), HCD develops the Regional Housing Needs Allocation (RHNA). SLOCOG then distributes the RHNA to the County and incorporated cities. This process allocates the number of units needed to be built for each income level in each jurisdiction and requires a report on their progress each year. What this means in common language is that the members of SLOCOG work together

to determine how the regional housing needs will be distributed among our communities, allocating the number of housing units needed at each income level for each community.

The median income for a family of three in SLO County is \$74,900. The California Health and Safety Code defines these income levels as follows:

- Extremely Low – up to 30% of the county’s median income, or up to \$22,500 for a household of three
- Very Low – up to 50% of the county’s median income, or up to \$37,450 for a household of three
- Low – up to 80% of the county’s median income, or up to \$59,900 for a household of three
- Moderate – up to 120% of the county’s median income, or up to \$89,850 for a household of three
- Workforce – up to 160% of the county’s median income, or up to \$119,840 for a household of three¹

NARRATIVE

When we think of people who can’t afford housing, we often think of people receiving public assistance and those working at minimum wage or entry level jobs. Yet, in this county, some of the people who cannot afford housing includes elementary school teachers, bank tellers, and many government workers. It includes most of the people working in our largely agriculture and tourist-driven economy. Failure to ensure adequate housing for these groups of people greatly impacts the quality of life and economic future of the county. Yet, there continues to be inaction and resistance to efforts to provide housing for the very workers who enable communities to thrive.

¹ Workforce is not defined by the Health and Safety Code. Title 22 of the County Code defines “Workforce” as up to 160% of the county’s median income. Our research shows that most cities default to the Title 22 definition when planning for workforce housing.

What does “affordable housing” actually mean? Generally speaking, housing is considered “affordable” when the cost (including utilities) of either the mortgage or rent payment is 30% or less of the total household income. For specifics on affordability based on income and numbers of people in the household, see Attachment Affordable Housing Standards.

Any meaningful discussion on affordability of housing must recognize the basic fact that affordability depends on the amount of income. The 2018 report from the National Low Income Housing Coalition shows that housing is out of reach for many in California. A worker making minimum wage in San Luis Obispo County, earning \$11 an hour, must work 100 hours each week to be able to afford a modest one-bedroom rental at the current fair market rental rate. A very low income wage earner in San Luis Obispo County, one who makes 30% of the area median income, can only afford a rent of \$605 per month, which is way below the current \$1100 fair market rental rate. The report also shows that in order to afford a two-bedroom apartment at market rate, a worker must earn \$27.44 an hour.² A complete picture of the housing and wage discrepancy in San Luis Obispo County can be seen in the 2018 report linked here: <https://reports.nlihc.org/oor/california>

Buyers and Renters

San Luis Obispo County is one of the most attractive regions in the entire United States. Yet, as we have established above, renting, much less owning, a home is out of reach for most. In June 2018, according to the California Association of Realtors, the median cost of a home in the County was \$638,660. According to Zillow, the median rental price in 2019 is \$2,580 per month. Yet, the median income for a family of three is \$ 74,900, which means they may be able to afford a home around \$300,000 or pay rent under \$2000 a month. According to these numbers, less than ¼ of the county’s residents can afford to purchase a median-priced home. The current emphasis is on building homes that are unaffordable to ¾ of the county’s residents, and which only addresses the needs of those with an annual income of \$120,000 and above.

² National Low Income Housing Coalition Report, 2018

According to the July, 2018 edition of the county's Community Health Assessment, 59% of the county's residents reported spending 1/3 or more of their income on housing costs in 2016. Seventy-six percent of Spanish-speaking renters reported spending over 1/3 of their household income on rent. The October 9, 2018 edition of the San Luis Obispo Tribune reported that 52% of renters were cost-burdened, i.e. paid over 30% of their income on rent in 2017.

The high cost of housing in the City of San Luis Obispo, where a significant number of the County's jobs are located, results in a work/housing imbalance. Many of the employees commute to the city from North or South County (or Santa Maria in Santa Barbara County), where housing is less expensive. The result is an overloaded Highway 101 during peak hours.

To put this in perspective, we created this likely scenario that illustrates the difficulties hard working people face. "Evelyn" is a young single mom with two small children. She works full-time at a local grocery store where she earns \$16/hr. (\$33,280 gross), which puts her in the middle of the Very Low Income category for a household of three. Affordable rent for her at 30% of her income is under \$900 for a two-bedroom apartment. At the 40% level she would have to pay over \$1100 per month. She contacts the Housing Authority of San Luis Obispo (HASLO) to apply for subsidized housing. She is told that the waiting list for the voucher program is currently closed. She is advised that the waiting list for this program can be from one to two years long. She is provided with a list of affordable rental properties and is told she will need to call the manager of each property to see if there is a vacancy or to put her name on the waiting list. She does this, but finds nothing is available.

Because this is the reality for many, families who can't find housing often double up, living with more than one family in a single-family unit.

Providing Housing and the Role of Government

Developers are not motivated to build low income housing. The challenge for all builders is the cost and availability of land and the length of the permitting process, which can be anywhere from three to five years. Labor and materials continually increase in cost.

There are several variables that affect the “affordability” of housing whether it is directed at the rental or home-buying market:

- Availability and cost of land
- Holding costs while development is approved and construction completed
- Cost of construction, and
- Profit margin.

The reality is that building for the lower income groups is less profitable. Government entities recognize the need for low income housing, but in our discussions we were often reminded that they are not in the business of construction. The local government role is to provide the capacity and the incentives to encourage development for all levels of housing. However, the capacity is very limited and the current incentives do not appear to work to accommodate the need of housing for all levels.

Non-profit builders have the ability to tap into affordable housing trust funds held by the County and in each of our seven cities in order to develop low income housing. The money from these funds can then be used as seed money by non-profits, such as Peoples Self Help Housing (PSHH) and Habitat for Humanity, to obtain additional funding through grants.

In the past, PSHH and Habitat for Humanity have specialized in “sweat-equity” homes, i.e. homes where the potential owners work a required number of hours helping to build the home in exchange for the down payment. While PSHH still builds a small number of these homes, their emphasis in today’s market is on rentals. This includes provision of a wide array of ongoing family services. To supplement their income, PSHH partners with other developers to manage rental units. In addition, they provide consulting services and business services to groups and organizations around the country. Organizations such as

Habitat for Humanity and San Luis Obispo County Housing Trust Fund³ contribute to efforts to provide low-income housing through financing and rehabilitation of existing homes.

As part of their General Plan, the cities and County must file an annual report on their progress in building housing across the five income levels. In this report on their five-year Housing Element they outline their goals and describe the policies and specific programs utilized to accomplish them. It is very difficult to find all of these annual reports on the city and county websites. This difficulty identified a problem with both availability and transparency of policy and reporting.

In reviewing these reports, we found that local governments have a number of incentives in common to encourage the development of low income units. These incentives increase significantly depending on the percentage of lower income housing in the project, including:

- Reducing and deferring permitting fees
- Providing density bonuses, relaxed parking restrictions, setback reductions, and waivers for required off-site improvements
- Providing direct financial assistance for housing from their affordable housing trust funds
- Promoting the construction of second residential units on single-family zoned parcels (referred to as Accessory Dwelling Units or ADU's), which is a more recent incentive

A common method used by jurisdictions to encourage affordable housing is to institute an inclusionary housing ordinance. An inclusionary housing ordinance requires developers to build a set number of affordable units within a market rate project. Developers are often allowed to pay a fee instead of building the required affordable units. These fees are called “in-lieu fees,” and payment of these fees allows the developer to build all units at the

³ All jurisdictions are members of the San Luis Obispo County Housing Trust Fund (HTF), which operates as a revolving loan fund to finance affordable housing projects.

market rate. In-lieu fees are deposited into a local housing trust fund to help finance low income housing.

In-lieu fees are controversial and can be seen as a loophole for developers. By paying the fee, which is often well below the cost to build the unit, developers are able to avoid building any required inclusionary units and maximize their profit by building at market rate.

Any discussion about encouraging the development or rehabilitation of existing property for low income housing should include the need to revisit the payment of in-lieu fees. If utilized as an incentive, in-lieu fees should be set at a level that is realistic to the production of housing. San Luis Obispo County has instituted a new housing policy which will adjust in-lieu fees and is described in more detail later in the report.

Unfortunately, the figures reported on the yearly Housing Element reports for 2014 - 2018 indicate that these incentives are not successful in meeting the housing targets for the three lowest income groups. New construction for these groups for this five-year period is:

- 0% of their targets in Morro Bay,
- 13.4% in Grover Beach,
- 19.4% in Pismo Beach,
- 25.8% in the County's unincorporated area,
- 31.6% in Arroyo Grande,
- 42.5% in San Luis Obispo,
- 46.25% in Atascadero, and
- 75.0% in Paso Robles.

In contrast, the new housing numbers for the highest income group are:

- 379.9% for Pismo Beach,
- 278.3% of the county's unincorporated area target,
- 167.6% for San Luis Obispo,
- 166.2% for Morro Bay,
- 152.2% for Grover Beach,
- 150.5% for Arroyo Grande,

- 149.8% for Atascadero, and
- 75.1% for Paso Robles.

Five times more housing was produced for the highest income group than for lower income groups.

There are some positive signs...it's not all negative

Working with a broad-based coalition, including contractors, non-profit builders, the Housing Authority of San Luis Obispo (HASLO), the Chamber of Commerce, and others, the County has revamped its long-established "Title 29 Affordable Housing Fund." Beginning in 2019, new single-family construction in excess of 2200 square feet will be assessed a surcharge. The intent is to grow the Fund from .4 million to 4 million dollars within three years. These funds will then be awarded to qualified housing projects. The County is also reviewing a number of options for additional funding revenue, including a Vacation Rental Impact Fee and increases in sales tax and the Transient Occupancy Tax.

The City of San Luis Obispo (SLO City) has indicated that it is exploring the possibility of partnering with San Luis Coastal Unified School District to build housing projects on an unused school site. It has also re-zoned some of its major commercial streets to allow for increased density and mixed-use structures. These are typically ground floor commercial and second/third floors residential buildings. This includes the waiving of parking requirements.

Other programs from SLO City include encouraging the building of smaller residential units (200-250sq. ft.) as well as the use of tiny homes. SLO City has reported that it is also working with Cal-Poly to support the university's completion of its Master Plan for student/faculty housing by 2035. This could result in moving a large number of students and faculty from city housing to campus housing.

Grover Beach and Paso Robles have waived ADU Development Impact Fees for FY 2018-2019. According to the City's sample fee schedule this means more than a two-thirds

reduction in fees paid for securing a building permit for the construction of a second residential unit on a single-family zoned parcel.

Two major long-term planning efforts are in the works: the next HEU for 2020-2028, as well as the County initiative to create a Regional Infrastructure and Housing Plan. In terms of planning for, and actually building housing for lower income residents, this is an opportunity for the public to become involved in the development of these plans. In addition to local efforts, the State is increasing pressure on cities and counties to facilitate the building of more housing by passing legislation with consequences for non-compliance.

Alternatives to consider:

Other options that could bring down the cost of housing are tiny homes, manufactured homes (mobile homes or trailers), modular homes and pre-fabricated homes. These types of homes cost less to build than their site-built counterparts and can be built faster, making them a viable option for low-income families. However, the purchase and costs associated with holding land during permitting processes remains an impediment to the development of low income housing.

Across the United States, various companies are taking the lead in building housing projects as a means of supporting employee retention. We feel that employers in the County can learn from this example. We recognize that this does not address the issue of low-income rentals.

CONCLUSIONS

Providing affordable housing has been identified as a very complex problem. California and local governments have been trying to address the state's housing crisis since 1969. The crisis worsens each year, making home ownership unrealistic for the majority of our residents and rental units unaffordable. With the exception of Paso Robles, all cities and the County underperformed in the production of low-income housing. In addition, they significantly overproduced market-rate housing.

A May 9, 2019 article in the Tribune, authored by its editorial board, outlined the most recent calculations from the State for San Luis Obispo County's housing goals, assigning a new goal of 10,810 houses for our county.⁴ The State also provided a breakdown of the percentage of housing units that should be added, by category:

- Very Low Income: 24.6% (for households of 3, maximum income \$37,450/year)
- Low Income: 15.5% (for households of 3, maximum income \$59,900/year)
- Moderate Income: 18% (for households of 3, maximum income \$89,850/year)
- Above Moderate: 41.9% (no restrictions on income above moderate)

SLOCOG has the responsibility to distribute the number allotted by the State to our County. The largest allocation is to San Luis Obispo City because it has the largest number of jobs. It would appear, however, that these new goals continue to reflect the type of building that occurs in our county, that of overbuilding for those making a great deal of money.

The State's assignment of the housing goals for our county only requires that counties plan for this growth, not that they actually build the numbers cited. We question how the State arrives at these numbers, given that California, and specifically our county, continues to be the least affordable area in which to live. We encourage the county to examine what our real needs are: housing for the low and very-low income families that we rely on to support our economy.

The incentives used by the government have proven to be largely unsuccessful in providing housing for those most in need. Our tourist, service, and agricultural economies depend on these workers and support our way of life. It is time to invest in new and innovative solutions to this crisis. No community can thrive if its workers can't afford to live there.

⁴ "SLO County must plan for 10,810 more homes in 8 years. And they can't all be mansions.", Tribune Editorial Board, May 9, 2019

FINDINGS

- F1. The unaffordable costs of renting and buying homes on the Central Coast is of crisis proportions for those defined in the extremely low, very low, and low-income categories.
- F2. The lack of “affordable housing” for the three lower categories presents a long-term threat to the economic vitality and social fabric of the county.
- F3. The range of terms being used in the “affordable housing” debate creates confusion and perhaps misdirection for renters, home buyers and builders.
- F4. The supply of rental units available to lower income families is insufficient.
- F5. The jobs/housing imbalance places a burden on the transportation infrastructure and is costly for those who can least afford it.
- F6. Most of the required annual housing element updates are difficult to access by the public.
- F7. The length and cost of the building permitting process is a major barrier to the construction of all housing, especially low income housing.
- F8. The overwhelming majority of new housing units in the Housing Element cycle (2014-2019) have been built for families earning in excess of \$89,850 per year for a family of three.
- F9. All cities and the County have “affordable housing” funds which collect and hold the in-lieu fees, but the fees are not achieving the desired outcome.
- F10. All cities and the County have the ability to maximize their “affordable housing” funds by partnering with non-profit builders.
- F11. Housing that costs less, such as tiny homes, pre-fabricated, modular, and manufactured homes, are underutilized in this county.

RECOMMENDATIONS

- R1. Reassess and improve processes to fast-track building and planning permit approvals within 12 months from date of application. This should be implemented within FY 2019-2020.

- R2. Create, file, and publish the required housing element documents and reports on time and in a form easily accessible to the public. This should be done by the next report cycle.
- R3. Either increase in-lieu fees to realistically support the construction cost of inclusionary housing units or eliminate the fees altogether and require low-income housing construction. This should be accomplished within FY 2019-2020.
- R4. The cities and County should concentrate on promoting rentals for families earning below moderate incomes by increasing the percentage of required inclusionary housing units.
- R5. Increase the opportunities through re-zoning for non-traditional housing options, such as modular homes, pre-fabricated homes, and mobile home parks. This should be accomplished within FY 2020-2021.
- R6. The cities and County should detail their specific plans to engage the public in the formulation of the 2020-2028 Housing Plan Update.

REQUIRED RESPONSES

The following people are required to respond to the findings and recommendations within the timeframe shown and in accordance with the California Penal Code Section 933.05:

All San Luis Obispo County City Managers are required to respond to F6, F7, R1, R2, R4, R5, R6

The County Administrative Officer is required to respond to F6, F7, R2, R4, R5, R6

San Luis Obispo County Director of Planning and Building is required to respond to F6, F7, R1, R2, R3, R5, R6

San Luis Obispo County Board of Supervisors are required to respond to F6, F7, R1, R2, R5, R6

The responses shall be submitted to the Presiding Judge of the San Luis Obispo County Superior Court by August 20, 2019. Please provide a paper copy and electronic version of all responses to the Grand Jury.

AGENCY RESPONSE REQUIREMENTS

The Penal Code Section 933.05 that specifies the format and methodology for agency responses is listed below. All agency respondents are required to respond to all findings and recommendations in the following manner:

- If the respondent disagrees wholly or partially with an item, the respondent must elaborate on the portion of the item that they disagree with, and provide an explanation.
- If a respondent notes that an item will be implemented in the future, the response must include a timeframe for implementation.
- If a respondent notes that an item requires further analysis, the agency must include in the response an explanation of and the scope of what will be studied and the timeframe needed for the study. The timeframe for follow-up from the agency cannot exceed six months.
- If the item will not be implemented or is not reasonable, the respondent is required to provide a detailed explanation.

933.05. Findings and Recommendations

- (a) For purposes of subdivision (b) of Section 933, as to each grand jury finding, the responding person or entity shall indicate one of the following:
- (1) The respondent agrees with the finding.
 - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.
- (b) For purposes of subdivision (b) of Section 933, as to each grand jury recommendation, the responding person or entity shall report one of the following actions:
- (1) The recommendation has been implemented, with a summary regarding the implemented action.

- (2) The recommendation has not yet been implemented, but will be implemented in the future, with a timeframe for implementation.
- (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This timeframe shall not exceed six months from the date of publication of the grand jury report.
- (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefore.

Presiding Judge	Grand Jury
Presiding Judge Ginger Garrett Superior Court of California 1035 Palm Street Room 355 San Luis Obispo, CA 93408	San Luis Obispo County Grand Jury P.O. Box 4910 San Luis Obispo, CA 93403

ATTACHMENTS

GLOSSARY

Accessory Dwelling Unit (ADU): A secondary house or apartment that shares the building lot of a larger, primary house.

Affordable Housing: Housing which is deemed affordable to those whose income is below the median household income. Generally understood as housing in which the rent or mortgage payment is no more than 30% of their income, including utilities.

Affordable Housing Standards: Housing standards set by cities or counties to summarize the income levels and housing affordability levels. These standards are used to define the extremely low, very low, low, median, moderate, and workforce levels of income in the area.

Affordable Housing Trust Funds (AHTF): An affordable housing production program that complements existing Federal, state and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including the homeless. The funds are distributed by HUD annually according to a formula.

California Department of Housing and Community Development (HCD): By administering programs that provide grants and loans from both state and federal housing programs, HCD creates rental and home ownership opportunities for Californians, including veterans, seniors, young families, the disabled, farmworkers, and the homeless. Through long-term monitoring, HCD ensures the developments continue to be safe, well maintained and financially sound.

Community Reinvestment Act (CRA): A federal law designed to encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of the communities, including low- and moderate-income neighborhoods.

Commercial Development: Any development or property used solely for business purposes.

Community Development Block Grant Program (CDBG): An entitlement programs that provides annual grants on a formula basis to entitled cities and counties to develop viable urban communities, by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons.

Deed restricted affordable housing: A long-term restriction placed on the deed to a property, to preserve it as a low- and moderate-income housing unit. The property can only be sold to a buyer whose household meets certain income requirements and at a price that is affordable to that household.

Density bonus: An incentive-based tool that permits a developer to increase the maximum allowable development on a site in exchange for setting aside a percentage of units as affordable housing.

Habitat for Humanity: A global non-profit housing organization that partners with families and communities to build or improve affordable housing, often through owner-builds that allow a family to assist with construction in exchange for an affordable home.

Housing Authority of San Luis Obispo (HASLO): A public housing agency in San Luis Obispo which provides assistance to the county's lower income citizens to secure and maintain long-term housing. Housing Authorities are funded primarily by the U.S. Department of Housing and Urban Development (HUD), along with rents from housing, county development block grants, and other grants, tax-credit loans, and local funding.

Housing Cost Burdened: A situation caused when over 30% of a household's income is spent on housing costs. Severe housing cost over-burdened occurs when a household pays over 50% of their income to housing costs.

Housing Allocation: The total number of housing units (by affordability level) that each jurisdiction must accommodate in their Housing Element, generally referred to as Regional Housing Need Allocation.

Housing Element Report: An annual report required by each jurisdiction to report on the status and progress of its general plan using forms and definitions adopted by HUD.

Impact fees: A fee that is imposed by a local government on a new or proposed development project to pay for all or a portion of the costs of providing public services to the new development.

Inclusionary Housing: Municipal and county planning ordinances that require a given share of new construction to be affordable by people with low and moderate incomes.

Infill Housing: The insertion of additional housing units into an already approved subdivision or neighborhood as a strategy to accommodate growth.

In-Lieu Fees: Optional fees paid by developers into a housing trust fund, to be used along with other local funding, to finance low income housing. This is paid as an alternative to building fundamental facilities and systems needed to serve a city or alternative to building inclusionary housing units.

Infrastructure: The government, such as roads, buildings, sewer systems and power supplies.

Low-Income Housing Tax Credit (LIHTC): A tax credit created under the Tax Reform Act of 1986 to encourage housing investment in affordable housing for low income households. Commonly called Section 42 credits, which references the IRS tax code, the tax credit allows for a dollar for dollar reduction in a taxpayer's income tax based on the investment.

Manufactured home: Manufactured housing is a type of prefabricated housing that is built under HUD Title 6 construction standards, assembled in a factory and then transported to the site of use.

Market Rate Housing: Housing built by for-profit developers for households generally above 120% area median income. The rate charged for the housing is generally the same rate as that charged for surrounding properties.

Median Income: An income level in a given area, where half of the households earn income above that level and half earn income below; the middle-income level in an area.

Mixed-use development: A pedestrian friendly development strategy that blends residential use with commercial, cultural, and or industrial uses to assist with community design and development, to encourage a live-work relationship, and to strengthen community relationships.

Mobile home: A large trailer or prefabricated structure that is situated in one particular place and used as a permanent living accommodation; not built to uniform construction standards.

Modular home: Prefabricated buildings or houses built to the local state code standards, constructed in sections or modules in a factory, and then transported to the intended site and attached permanently to the land.

Off-site improvements: Access roads, sidewalks, curbs, sewers, and utility lines that are off the land being developed, that add value to the entire development.

National Housing Trust Fund: An affordable housing production program that complements existing Federal, state and local efforts to increase and preserve the supply of decent, safe, and sanitary affordable housing for extremely low- and very low-income households, including homeless.

People's Self-Help Housing (PSHH): This is a private, non-profit agency that builds supportive housing for lower income people, which includes site-based services that offer the opportunity to change lives and strengthen communities.

Pre-fab home: A prefabricated home, built offsite in a factory and then shipped to a building site in pieces to be assembled on the home lot.

Regional Housing Needs Allocation (RHNA): The state-mandated process to identify the total number of housing units (by affordability level) that each jurisdiction must accommodate in its Housing Element.

San Luis Obispo Council of Governments (SLOCOG): An association of local governments made up of the seven cities and the County of San Luis Obispo. Its prime responsibilities include transportation planning and funding for the region. It prepares the Regional Housing Needs Allocation (RHNA) and the Sustainable Communities Strategy as part of the Regional Transportation Plan

Subsidized Section 8 Housing: The Federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. Participants are free to choose any housing that meets the requirements of the program, through housing vouchers administered by the local public housing agency.

Tax Credits: See Low-Income Housing Tax Credit (LIHTC)

Tiny home: With no real definition established but based on a social movement that advocates living simply in smaller homes, a tiny home is a residential structure under 400 square feet.

US Department of Housing and Urban Development (HUD): A federal housing agency created to help Americans meet their housing needs, by increasing home ownership, supporting community development, and increasing access to affordable housing free of discrimination through federal housing laws.

Workforce Housing: Housing that can be afforded by those with an income above 160% of the median income, and located close to their jobs.

TABLE 1

Table 1: How the Cities and the County are Incentivizing the Construction of Lower Income Housing Units¹

	Arroyo Grande	Atascadero	Grover Beach	Morro Bay	Paso Robles	SLO City	SLO County	Pismo Beach
Inclusionary Housing Ordinance requiring Low/ Moderate Income Construction	Policy	Policy	Policy	Ordinance	No Ordinance or Policy	Ordinance	Ordinance	Policy ²
<i>Applies at....</i>	5 units		5 units	5 units		5 units ³	12 units	5 units
<i>Option to pay in lieu fee (with conditions)</i>	Yes	Yes	Yes	Yes		Yes	Yes (All individual units pay over 2200 sf)	Yes
If Policy only, allows paying in-lieu fee	Yes	Yes	Yes					Yes
Project Incentives (typically 5 units or more) ⁴								
• Density Bonus	Yes	Yes	Yes	Yes	Yes	>35%	Yes	Yes
• Relaxed parking requirements	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
• Setback reductions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
• Impact fee waivers			Yes	Yes	Yes	Yes	Yes	
• Financial assistance	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Second residential units (ADU's) ⁵	26 ADU's permitted in 2018	8 ADU's permitted in 2018	See Note 5	9 ADU's permitted in 2018 See Note 5	See Note 5	Main incentive: no additional on site parking required	28 ADU's permitted in 2018	2 ADU's permitted in 2018
<i>Observations:</i>	<i>5 PUD's permitted in 2018</i>	<i>See Note 5</i>	<i>Two parcels assembled for 19 unit project (3 for low income) in 2018</i>	<i>4 PUD's permitted in 2018</i>	<i>Has active "Housing Constraints & Opportunities Committee"</i>	<i>See Notes 6 and 7</i>	<i>Completed map that identified five large areas suitable for housing⁸</i>	<i>Appears that City will participate in next 2020-2028 HEU</i>

¹ Based on a review of websites of each jurisdiction. The information recorded derives from published data.

² Pismo Beach's Inclusionary Housing Policy has not been amended since 1998.

³ Program Policy 4.6 states: "Consider amending the City's Inclusionary Housing Ordinance and Affordable Housing Incentives to require that affordable units in a development be of similar number of bedrooms, character, and basic quality." The time frame recorded in the HEU to complete this review was "July 2016." The 2018 report on the "Status of Program Implementation" indicated: "Not Complete."

⁴ Similar incentives apply for smaller projects 2-4 units (typically "PUD's"), but on a scaled back formula depending on project size.

⁵ All jurisdictions allow for ADU's, attached or detached, typically to maximum 1200 sf. Grover Beach and Paso Robles provide for a 2/3 reduction in development fees. Morro Bay and Paso Robles waive any additional fees for water/sewer connection.

⁶ 2018 Implementation Status for Program 1.1-9 states: "The City is reviewing the Inclusionary Housing Policy and looking at ways to encourage the development of residential units that are affordable-by-design, including reducing impact fees for smaller units and capping unit sizes for high density residential projects." Also noted re Program 1.1-3 is that "14 modular homes have been installed since 2014."

⁷ 2018 Implementation Status for Program 6.23 notes that the City has completed a Study that identified vacant/under- utilized City land to assist in the production of affordable housing

⁸ Drawn from larger 2018 Study "Constraints and Opportunities Analysis for Residential Development." The initial study identified eight large land areas around the County. Additionally, for purposes of increasing "Infill Capacity," this Study identified 3,032 vacant single-family parcels and a cumulative 113 acres of vacant multi-family parcels in the unincorporated areas.

TABLE 2

Table 2: Performance of Housing Element Updates (HEU) projections against actual builds 1/1/2014 – 12/31/18¹

Projected number of starts by income groups ²	Arroyo Grande		Atascadero		Grover Beach		Morro Bay		Paso Robles ³		SLO City		SLO County		Pismo Beach ⁴		<u>Combined Five Year Totals</u>	
	T	P	T	P	T	P	T	P	T	P	T	P	T	P	T	P	T	P
Group 1 Low Income	98	31	160	74	67	9	63	0	200	150	464	197	547	141	62	12	1661	614
Group 2 Moderate Income	43	0	69	171	29	0	27	0	87	114	202	13	237	156	27	3	721	457
Group 3 Above Moderate Income	101	152	164	244	69	108	65	108	205	154	478	801	563	1567	64	243	1709	3377
Grand Total	242	183	393	489	165	117	155	108	492	418	1144	1011	1347	1864	153	258	4091	4448
Percentage of total built	75.6%		124.4%		70.9%		69.6%		85.0%		88.4%		138.4%		168.6%		108.7%	
Percentage of actual builds against projected builds Group 1	31.6%		46.25%		13.4%		0%		75.0%		42.5%		25.8%		19.4%		36.9%	
Percentage of actual builds against projected builds Group 2	0%		247.8%		0%		0%		131.0%		6.4%		65.8%		11.1%		63.3%	
Percentage of actual builds against projected builds Group 3	150.5%		149.8%		152.2%		166.2%		75.1%		167.6%		278.3%		379.9%		197.6%	

¹ Source: Extracted from HEU Annual Report(s) or General Plan Annual Report(s) published by each jurisdiction on its website. For Morro Bay: supplemented with material published in the SLO “Tribune” of 3/31/19.

² “Extremely Low,” “Very Low” and “Low Income” categories as Group 1. Group’s 2 and 3 record “Moderate Income” and “Above Moderate” (or “Workforce”) Income categories, respectively. Per “Affordable Housing Standards” established by the County of San Luis Obispo (updated May 1, 2019) annual household income for a family of three for these categories are: up to \$59,900 for Group 1, up to \$89,850 for Group 2, and above \$89,850 for Group 3.

³ Paso Robles percentages reflect final RHNA allocation.

⁴ Pismo Beach is not in compliance with State mandated filing of Housing Element Update (2014-2019). Nevertheless, Pismo Beach has filed annual reports with the State for each of the five years per its RHNA allocation.

TABLE 3

Table 3: Review of Monies Held by Local Jurisdictions for Funding Lower Income Housing Projects; includes “Special” Funds and from Federal Sources, also Other Local Funds for Affordable Housing¹

	Arroyo Grande	Atascadero	Grover Beach²	Morro Bay	Paso Robles	SLO City	SLO County	Pismo Beach
Title of Special Fund Account	In-Lieu Affordable Housing	In-Lieu Low/Moderate Housing Fund	<i>Unable to obtain information on City's Website</i>	Affordable In-Housing In-Lieu Fund	<i>Unable to obtain information on City's Website</i>	Affordable Housing Fund	Title 29 (Inclusionary Housing) Fund	<i>Unable to obtain information on City's Website</i>
Fund Designation	232	232		941			Title 29	
Funds Available	\$625,684 (projected 6/30/19)	\$4,610 (projected as of 6/30/19)		\$216,701 (projected 6/30/19)		\$1.75 million (as of 1/2018)	\$302,154 (as of 9/4/18)	\$3.5 million ³
SLO CO Title 29 Funded Projects (typically in partnership with Federal grants)	\$48,000 (2018) \$165,286 (2019)		\$100,000 (2019)		\$30,198 (2018)	\$56,319 (2018)	\$35,012 (2019)	
Federal Grants:								
• CDBG (Housing projects) ⁴			\$465,116			\$294,899	\$82,000	\$23,112
• HOME	\$165,286		\$100,000		\$250,000		\$340,000	

¹ Based on a review of websites of all eight jurisdictions. The information recorded derives from published data.

² Grover Beach is a “non-entitlement” jurisdiction. It is not a participant in the SLO CO managed Consolidated Plan, but is eligible to complete for other Federal housing funds on its own through the State directly. In July 2018, \$2.5 million in CDBG grants was awarded to Grover Beach, \$465,116 of which is for low income housing programs. The \$100,000 HOME grant is administered directly by SLO CO.

³ SLO “Tribune” of February 1, 2019: “City Manager Jim Lewis....Every time I meet with developers, I let them know I’m sitting on \$3.5 million in affordable housing funding....And nobody is taking me up on it.”

⁴ “Draft numbers as of 1/8/2019” as prepared by SLO CO and included in their “2019 Action Plan ‘Draft.’” On behalf of the County and six participating jurisdictions, SLO CO prepares a five-year Consolidated Plan as the basis and justification of follow on CDBG and HOME grants. As indicated, Grover Beach does not participate.

AFFORDABLE HOUSING STANDARDS



Affordable Housing Standards

SAN LUIS OBISPO COUNTY DEPARTMENT OF PLANNING AND BUILDING

County Government Center San Luis Obispo, California 93408 Telephone (805) 781-5600

This bulletin summarizes the county's affordable housing standards including maximum household incomes, home purchase prices and rents. It applies to new projects in both the Coastal and Inland portions of the County.

Income limits:

The state defines family income groups as follows: **"Extremely Low Income"** is defined by Health and Safety Code Section 50106 as 30% of county median income; **"Very Low Income"** is defined by Health and Safety Code Section 50105 as 50% of county median income; **"Lower Income"** is defined by Health and Safety Code Section 50079.5 as 80% of county median income; **"Moderate Income"** is defined by Health and Safety Code Section 50093 as 120% of county median income; **"Workforce"** is defined by Title 22 of the County Code as 160% of county median income. The following income limits are effective as of April 26, 2018.

Persons in Household	Extremely Low Income	Very Low Income	Low Income	Median Income	Moderate Income	Workforce
1	\$17,500	\$29,150	\$46,600	\$58,250	\$69,900	\$93,200
2	\$20,000	\$33,300	\$53,250	\$66,550	\$79,900	\$106,480
3	\$22,500	\$37,450	\$59,900	\$74,900	\$89,850	\$119,840
4	\$25,100	\$41,600	\$66,550	\$83,200	\$99,850	\$133,120
5	\$29,420	\$44,950	\$71,900	\$89,850	\$107,850	\$143,760
6	\$33,740	\$48,300	\$77,200	\$96,500	\$115,850	\$154,400
7	\$38,060	\$51,600	\$82,550	\$103,150	\$123,800	\$165,040
8	\$42,380	\$54,950	\$87,850	\$109,800	\$131,800	\$175,680

Sample maximum sales prices: (see footnotes)

Unit Size (Bedrooms)	Extremely Low Income	Very Low Income	Low Income	Moderate Income	Workforce
Studio	\$44,000	\$89,000	\$133,000	\$263,000	\$367,000
1	\$53,000	\$100,000	\$155,000	\$304,000	\$423,000
2	\$63,000	\$120,000	\$178,000	\$345,000	\$479,000
3	\$73,000	\$136,000	\$200,000	\$386,000	\$535,000
4	\$80,000	\$149,000	\$218,000	\$419,000	\$579,000

Note 1: Homeowner association due (HOA) assumption per month is 150.00

Note 2: Mortgage financing assumed at a fixed rate for 30 years (per HSH Associates) is 4.14%

Note 3: Prices shown are preliminary estimates and may be revised. Round to the nearest 1000th.

Note 4: Actual sales price limits will be determined by the County on a case-by-case basis.

Updated: 5/1/2019

Maximum rents: (see footnotes)

Unit Size (Bedrooms)	Extremely Low Income	Very Low Income	Low Income	Moderate Income	Workforce
Studio	\$437	\$728	\$874	\$1,602	\$2,184
1	\$499	\$832	\$998	\$1,830	\$2,496
2	\$562	\$936	\$1,124	\$2,060	\$2,809
3	\$624	\$1,040	\$1,248	\$2,288	\$3,120
4	\$674	\$1,123	\$1,348	\$2,471	\$3,369

Note 1: These rent limits include allowances for utilities as determined by the Housing Authority of the City of San Luis Obispo (805-543-4478).

Note 2: Rent limits are updated when the State issues its annual update to median incomes, generally in April of each year.

Updated: 5/1/2019