SALINAS PLANNING COMMISSION

Staff Report

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Planning Manager Approval	Agenda Item
	ID#17-142

DATE: March 15, 2017

TO: Planning Commission

FROM: Courtney Grossman, Planning Manager

BY: Anastacia Wyatt, Planning Manager

SUBJECT: INCLUSIONARY HOUSING ORDINANCE UPDATE

RECOMMENDATION

It is recommended that the Planning Commission take action on the following three Resolutions:

1) Approve the draft Resolution recommending approval of amendments to Article 3 (Housing) of Chapter 17 (Housing) of the Salinas Municipal Code related to the provision of Inclusionary Housing.
2) Approve the draft Resolution recommending approval of for-sale housing in-lieu fees and rental housing impact fees.
3) Approve the draft Resolution recommending approval of amendments to the Inclusionary Housing Guidelines.

DISCUSSION

This public hearing meeting provides the Planning Commission and members of the public with an opportunity to comment regarding the draft Inclusionary Housing Ordinance (Ordinance) update. The Planning Commission will take formal action by making a recommendation regarding the draft Ordinance, draft Inclusionary Housing Guidelines (Guidelines) and proposed residential ownership in-lieu and rental housing impact fees to the City Council for final adoption.

PUBLIC HEARING AND CITIZEN PARTICIPATION

The Planning Commission meeting allows for input from the public regarding the update of the draft Ordinance, draft Guidelines and proposed residential ownership in-lieu and rental housing impact fees. A notice was published in The Salinas Californian on March 3, 2017 and in the El Sol on March 4, 2017.

ENVIRONMENTAL REVIEW

Adoption of the Ordinance is exempt from the California Environmental Quality Act (CEQA) because it can be seen with certainty that there is no possibility that the Ordinance amendments may have a significant effect on the environment, in that the Ordinance contains no provisions modifying the physical design, development, or construction of residences (CEQA Guidelines Section 15061(b)(3)). Any modification of affordable housing impact fees is not a project under CEQA because the fee modifications would create a governmental funding mechanism, which does not involve any commitment to a specific project that may result in a potentially significant effect on the environment (CEQA Guidelines Section 15378(b)(4). Amendments to the Inclusionary Housing Guidelines are not a project because the adoption of the amendments to the Guidelines is an administrative activity that will not result in direct or indirect physical changes in the environment (CEQA Guidelines Section 15378(b)(5)).

INCLUSIONARY HOUSING ORDINANCE

Inclusionary housing is one of several tools used by the City to help produce housing that is affordable to low and moderate-income households. The City currently has over 700 inclusionary housing units (rental and ownership) in its existing housing portfolio. The City's original Ordinance was adopted in 1992 (Ordinance No. 2178). Since 1992, the City updated and adopted its existing Ordinance (Ordinance No. 2451) in 2005 which currently requires housing developers (that build ownership units) to include a specified percentage of low and moderate-income housing in new residential developments of ten units or greater. However, due to a California court case known as [1]*Palmer/Sixth Street Properties, L.P. v. City of Los Angeles* (Palmer) which is in reference to the Costa-Hawkins Residential Rent Control Act, the existing Ordinance inclusionary on-site requirements do not currently apply to rental housing. As part of the City's 2015-23 General Plan Housing Element update, the City Council authorized direction under "*Action H-8: Inclusionary Housing*" to update the existing Ordinance along with a nexus study. Furthermore, the City Council approved the selection of the Technical Advisory Committee (TAC) to serve as the recommendation committee regarding the Ordinance update. The TAC is made up of various members from the development community, attorneys and community stakeholders. In addition, the City contracted with Baird and Driskell Community Planning

1 In Palmer/Sixth Street Properties, L.P. vs. the City of Los Angeles, a California appellate court found that an inclusionary requirement requiring affordable rental units in Los Angeles was inconsistent with state law prohibiting rent control in new rental units and upon vacancy. This means that cities may only require affordable housing for projects in which it provides financial or other regulatory incentives.

to assist with drafting the Ordinance update. The TAC worked with city staff, inclusionary housing consultant and members of the public during the draft Ordinance update process. The CDBG/Housing Subcommittee also serves as a recommendation committee regarding general housing policies to the City Council. The CDBG/Housing Subcommittee is a three-member committee consisting of current City Council members. Below is a list of prior TAC, CDBG/Housing Subcommittee and City Council meetings that were conducted throughout the draft Ordinance update process.

- December 8, 2014 (TAC Introduction Meeting)
- July 1, 2015 (TAC)
- March 9, 2016 (TAC)
- March 22, 2016 (TAC)
- April 18, 2016 (TAC)
- May 19. 2016 (TAC)
- June 22, 2016 (TAC)
- July 20, 2016 (TAC)
- August 2, 2016 (TAC)
- August 16, 2016 (TAC)
- September 1, 2016 (CDBG/Housing Subcommittee)
- November 1, 2016 (City Council Housing Study Session)
- December 12, 2016 (TAC)
- January 19, 2017 (TAC)
- March 2, 2017 (TAC)

After an extensive process, the TAC has established proposed recommendations regarding the draft Ordinance update. Staff is forwarding the TAC's proposed recommendations to the Planning Commission for review, comment and a formal recommendation to the City Council. After the Planning Commission meeting, the draft Ordinance, draft Guidelines and proposed residential ownership in-lieu and rental housing impact fees are scheduled to be presented to the CDBG/Housing Subcommittee. Proposed dates for the CDBG/Housing Subcommittee meeting has not yet been determined. Staff has circulated the draft Ordinance, draft Guidelines and residential housing impact fee nexus study regarding proposed residential ownership in-lieu and rental housing impact fees in advance of this meeting to the TAC, Planning Commission, CDBG/Housing Subcommittee and community stakeholder list. Table 1 below provides a summary of the proposed recommendations regarding the draft Ordinance update.

Table 1
Summary of Proposed
Inclusionary Housing Ordinance Recommendations

Residential Requirements	Option #1 Mixed Ownership/Rental	Option #2 Ownership	Option #3: Rental
1-9 Units On-Site/Fee Requirements	Exempt		
10+ Units On-Site Requirements	*20%	15%	*12%
Very Low-Income (50% of Median)	*4% (Rental/Ownership)	Not Required	*8% (Rental)
Low-Income (80% of Median)	*8% (Rental/Ownership)	Not Required	*4% (Rental)
Median-Income (100% of Median)	Not Required	6% (Ownership)	Not Required
Moderate-Income (120% of Median)	4% (Ownership)	6% (Ownership)	Not Required
Workforce-Income (160% of Median)	4% (Ownership)	3% (Ownership)	Not Required
Ownership In-Lieu Fee	$12.00/sq. ft.	$12.00/sq. ft.	Not Required
Rental Housing Impact Fee	*$2.00/sq. ft.	Not Required	*$2.00/sq. ft.
Exemptions	• One-hundred percent (100%) affordable low-income housing developments. • Projects that are not residential developments, including residential developments creating fewer than ten additional dwellings or lots. • Residential developments, which are developed pursuant to the terms of a development agreement, executed prior to the effective date of this Ordinance. • Residential developments located in the Downtown Area (as defined by the Downtown Salinas Community Benefit District Boundaries). • Residential developments that have submitted a complete application to the City prior to the effective date of this Ordinance (pipeline projects). • If a comparable market-rate ownership unit (unit type, size, bedroom count) would sell at or below the affordable ownership price, it does not need to have a deed restriction.		
Timing of Production	• City may issue building permits for 50% of market-rate units within a residential development before issuing building permits for inclusionary units. • City may issue building permits for 75% of market-rate units within a residential development before issuing building permits for inclusionary units if the developer collaborates with an experienced non-profit affordable housing provider.		

Type of Units	• Inclusionary workforce-income units may have smaller lots than market-rate units. • Inclusionary moderate and median-income units can be built as townhomes or small-attached developments. • Rental inclusionary units may be clustered as needed in multifamily or other housing types to provide eligibility for tax credits.
Offsite Construction	• Must be built within the Future Growth Area. • Access to public transportation shall be equal or greater. • Has a General Plan and zoning designation to accommodate at least the required number of inclusionary units. • Must be suitable for development of the inclusionary units in regards to physical characteristics, location, access, adjacent uses, and other relevant and development criteria. • Any hazardous materials or geological hazards shall be mitigated and site shall not be located in a 100-year flood plain. • Construction schedule for the off-site inclusionary units shall be included in the affordable housing plan.
Partnerships	• Applicant may elect to contract with another experienced developer (market-rate or non-profit). • City Council must approve all partnerships.
Land Dedication	• Marketable title. • Access to public transportation shall be equal or greater. • Has a General Plan and zoning designation to accommodate at least the required number of inclusionary units. • Must be suitable for development of the inclusionary units in regards to physical characteristics, location, access, adjacent uses, and other relevant and development criteria. • Any hazardous materials or geological hazards shall be mitigated and the site shall not be located in a 100-year flood plain. • Adequate infrastructure to serve the dedicated site.
Credit/Transfer Program	• Developments that produce and use credits must be located within the Future Growth Area. • Initial 5 yr. credit term, with a possible 5 yr. extension for a maximum of 10 yrs. • Must have the same tenure (rental or ownership) and at least as many bedrooms. • Producing and using credits must be approved by City Council.
Resale Formula	• Shared appreciation, 30 yr. term.
Rehabilitation of Existing Units	• Not allowed.
Alternative Proposals	• Developer may submit an alternative proposal, which must be approved by City Council.

*Affordable on-site rental requirements currently not required due to State Costa-Hawkins Act, Palmer/Sixth Street Properties L.P. v City of Los Angeles Court Case. If the legal environment changes regarding affordable on-site rental requirements, the above percentages would apply. Residential rental housing impact fees are being proposed as part of the Ordinance update.

The TAC discussed many issues at their meetings and generally were able to compromise on most of the items. Throughout the process, stakeholders may not have achieved all of their policy goals, but they found solutions that achieved a balance. However, there were differences of opinions among the TAC members that were not unanimously agreed upon.

Below is a list of items that were not unanimously agreed upon by the TAC.

- Rental Restriction Affordability Term: Housing advocates wanted a 55-year rental restriction term, as their goal was to ensure long-term affordability of inclusionary units. However, market-rate developers wanted to keep the existing 30-year rental restriction term as they reported that rental restrictions might affect their ability to qualify for a refinance of their development in the future. After a vote by the TAC, the majority decided to keep the rental restriction term at 30 yrs.
- Ownership Resale/Equity Share Formula: As the TAC discussed a resale/equity share formula for inclusionary ownership homes, there was considerable discussion about the benefits of long-term affordability versus the importance of allowing homeowners to build wealth. Some TAC members wanted a more aggressive resale/equity share formula, which benefited the homeowner in the short-term. Other TAC members wanted a less aggressive resale/equity share formula that encouraged the homeowner to stay in the unit longer. After further discussion and analysis, the majority of the TAC recommended the resale/equity share formula that encouraged the homeowner to stay in the unit longer.
- Calculation of Affordable Rental Housing Costs: There was discussion about how to calculate affordable rental prices. The proposed language in the draft Ordinance used industry standard language such as the California Health & Safety Code. Developers suggested edits to the affordable rental housing costs formula that would raise the rental prices of the affordable units. This would make development more profitable, but would make the inclusionary rental units less affordable. The TAC ultimately decided not to make those edits and stay with the industry standard language.
- Downtown Inclusionary Housing Exemption: The intent of the exemption is to encourage market-rate development including mixed-income development in the Downtown (as defined by the Downtown Salinas Community Benefit District Boundaries). The proposed Downtown exemption also takes into account other City studies and policies such as the Downtown Vibrancy Plan, Downtown Housing Target Market Assessment (HTMA), Economic Development Element (EDE) and the United States Department of Housing and Urban Development (HUD) Affirmatively Furthering Fair Housing (AFFH) Rule. Market-rate developers wanted an opportunity to build housing in the Downtown without having additional affordable housing requirements. Housing advocates wanted to ensure that mixed-income and one-hundred percent (100%) affordable housing developments could be built in the Downtown. After further discussion and analysis the proposed recommendation is that residential developments located in the Downtown will be exempt. The

exemption would apply to market-rate, mixed-income and one-hundred percent (100%) affordable housing developments. The proposed recommended language strikes to achieve a balance for all housing types to be constructed in the Downtown.

- Residential Rental Housing Impact Fees: There was a preference for generating affordable housing units rather than collecting payments of residential rental housing impact fees. The TAC wanted to preserve the option for paying a residential rental housing impact fee if it was not feasible for developers to build inclusionary rental units on-site. The initial recommend residential rental housing impact fee was $12 per square foot. Initial economic analysis showed that generally, the breakeven point for developers was around $10-$11 per square foot. Above this level, it was in a developer's interest to build the inclusionary units and below this level, it was in their interest to pay the fee. However, members of the TAC requested that the fee level be revisited as they felt that the initial economic analysis showed that the residential rental housing impact fee was too expensive and not financially feasible. Per the TAC's request, staff requested that the consultant conduct an updated residential rental housing impact fee analysis to confirm what the maximum supportable rental housing impact fee could be with new updated information. After receiving the updated residential rental housing impact fee analysis the proposed recommendation dollar amount went from $12 per square foot down to $2 per square foot.

NEXUS STUDY UPDATE

The underlying concept of the residential nexus analysis is that the newly constructed units represent net new households in Salinas, resulting in new local spending. New local spending generates new local jobs, a portion of which are at lower compensation levels. Low compensation jobs result in lower income households that cannot afford market-rate units in Salinas and therefore, need affordable housing. The purpose of the residential component is to mitigate the impact of new residential development on the need for affordable housing, to ensure that housing constructed in Salinas meets the needs of all income groups, and to provide the City with a supply of affordable housing for households working and residing in Salinas.

RESIDENTIAL OWNERSHIP IN-LIEU AND RENTAL HOUSING IMPACT FEES

To be consistent with the existing legal environment which includes the Palmer court case, the Ordinance update will include language regarding residential rental development, so that developers of market-rate rental units, where the units cannot be sold individually, have an option to pay a residential rental housing impact fee that will be deposited in the City's Inclusionary Housing Trust Fund. As an alternative option within the draft Ordinance, market-rate developers could propose on-site inclusionary rental units. However, to ensure compliance with the Costa-Hawkins Residential Rent Control Act (Civil Code Section 1954.50 et seq.), the City may approve on-site rental inclusionary units only if the applicant agrees in a rent regulatory agreement with the City to limit rents in consideration for a direct financial contribution or a form of assistance specified in Density Bonus Law (Government Code Section 65915 et seq.).

There will also be an option for residential for-sale developments to pay an ownership in-lieu fee rather than providing ownership inclusionary units on-site. Both residential ownership in-lieu and rental housing impact fees will not require additional City Council approval in order for a developer to satisfy their inclusionary obligation. The proposed residential ownership in-lieu fee amount is $12 per square foot. The proposed residential rental housing impact fee amount is $2 per square foot. Residential ownership in-lieu and rental housing impact fees will be due and payable at the issuance of building permits and calculated based on the fee schedule in effect at the time the building permit is issued. Specific details regarding annual fee adjustments, dollar amounts, and applicability of the fee to gross square footage are included in the attached fee resolution. The goal is to adopt fee levels that are high enough to mitigate the impact of projects on the need for affordable housing without discouraging development. In the past, prior to the Palmer court case the City imposed on-site affordable housing rental requirements. This option is not currently available after publication of the Palmer decision. Cities cannot currently require developers to provide affordable rental housing as part of their projects. Revenue from residential ownership in-lieu and rental housing impact fees would provide the City with an important tool for the creation of affordable housing. The fees would be deposited in the City's Inclusionary Housing Trust Fund to be utilized primarily for the creation of new affordable housing. The housing impact fee nexus study analysis establishes the maximum supportable residential ownership in-lieu and rental housing impact fee levels that the City can legally require.

Fee recommendations are based on the following factors:

- Findings of the nexus analysis – the housing impact fee nexus study establishes the maximum fee that may be charged to mitigate the impacts of new development on the need for affordable housing.
- Policy objectives of the General Plan Housing Element.
- Requirements in neighboring jurisdictions – staying competitive with neighboring cities.
- Setting a fee high enough to support meaningful affordable housing projects.
    - For residential rental projects, since the Palmer case precludes the City from requiring on-site units, the fee is proposed to be high enough to mitigate the impact of rental development and support the construction of affordable units.
- Setting a fee low enough not to discourage development.

INCLUSIONARY HOUSING GUIDELINES

The Guidelines clarify and outline the procedures and requirements for the Ordinance. The Guidelines also establish the procedures for on-going administration of existing and newly constructed inclusionary housing units. The Guidelines include procedures for prioritizing applicants, evaluating the eligibility of applicants, setting maximum affordable rents and sales prices and monitoring compliance of tenants and homeowners with recorded affordability covenants. The Guidelines provide overall guidance and clarification of the Ordinance requirements for City staff, general public, inclusionary homeowners and renters, and property managers of rental complexes. The draft Guidelines are also being revised as part of the overall Ordinance update.

PROPOSED TIMING

- CDBG/Housing Subcommittee meeting for recommendation of the draft Ordinance, draft Guidelines and proposed residential ownership in-lieu and rental housing impact fees to be determined.
- City Council meeting for final adoption of the draft Ordinance, draft Guidelines and proposed residential ownership in-lieu and rental housing impact fees to be determined.
- If adopted, the draft Ordinance will not go in effect until 30 days after City Council adoption.
- If adopted, proposed residential ownership in-lieu and rental housing impact fees will not go in effect until 60 days after City Council adoption.

ALTERNATIVES AVAILABLE TO THE COMMISSION

The Planning Commission has the following alternatives:

1. Recommend approval with modifications to the draft Ordinance, draft Guidelines and proposed residential ownership in-lieu and rental housing impact fees.

CONCLUSION

The update of the draft Ordinance, draft Guidelines and proposed residential ownership in-lieu and rental housing impact fees are in concurrence with goals and policies identified by the City Council in the General Plan Housing Element and other City and HUD planning and policy documents.

COURTNEY GROSSMAN
Planning Manager

BY:
Anastacia Wyatt
Planning Manager

Attachments: Draft Inclusionary Housing Ordinance Resolution
Draft For-Sale In-Lieu and Rental Housing Impact Fee Resolution
Draft Inclusionary Housing Guidelines Resolution
Housing Impact Fee Nexus Study

SALINAS PLANNING COMMISSION
RESOLUTION NO. 2017-___

Resolution Recommending Approval of Amendments to Article 3 (Housing) of Chapter 17 (Housing) of the Salinas Municipal Code Related to the Provision of Inclusionary Housing

WHEREAS, on March 15, 2017 the Salinas Planning Commission held a duly noticed public hearing to consider amendments to Article 3 (Housing) of Chapter 17 (Housing) of the Salinas Municipal Code related to the provision of inclusionary housing; and

WHEREAS, the Planning Commission weighed the evidence presented at said hearing, including the Staff Report which is on file at the Community Development Department, together with the record of environmental review; and

WHEREAS, the Planning Commission finds that adoption of the proposed Ordinance will help achieve General Plan Housing Element Goal H-1 and Housing Element Policies H-1.1, H-1.6, H-3.7, and H-3.8; that adoption will implement Action H-8 as set forth in the General Plan Housing Element; and that adoption would otherwise further the public welfare as set forth in Section One of the proposed ordinance amendments.

NOW, THEREFORE, BE IT RESOLVED that the Salinas Planning Commission hereby recommends that the City Council adopt the proposed amendments to Article 3 (Housing) of Chapter 17 (Housing) of the Salinas Municipal Code related to the provision of inclusionary housing attached as Exhibit A, and that the foregoing recitations are true and correct, and are included herein by reference as findings; and

BE IT FURTHER RESOLVED that the adoption of the ordinance is exempt from the California Environmental Quality Act because it can be seen with certainty that there is no possibility that the ordinance amendments may have a significant effect on the environment, in that the ordinance contains no provisions modifying the physical design, development, or construction of residences otherwise required by the Salinas Municipal Code (CEQA Guidelines Section 15061(b)(3)).

PASSED AND ADOPTED this 15th day of March 2017 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

THIS IS TO CERTIFY that the foregoing is a full, true, and correct copy of a resolution of the Planning Commission of the City of Salinas, that said resolution was passed and adopted by the affirmative and majority vote of said Planning Commission at a meeting held on March 15, 2017, and that said resolution has not been modified, amended, or rescinded, and is now in full force and effect.

SALINAS PLANNING COMMISSION

Date: ___________________ ______________________________

Courtney Grossman
Secretary

Attach:

Exhibit A: Draft Inclusionary Housing Ordinance

EXHIBIT A

ORDINANCE NO. _____ (N.C.S.)

AN ORDINANCE OF THE CITY OF SALINAS AMENDING ARTICLE III OF ARTICLE 17 (HOUSING) OF THE SALINAS MUNICIPAL CODE RELATING TO THE PROVISION OF INCLUSIONARY HOUSING

BE IT ORDAINED BY THE COUNCIL OF SALINAS:

SECTION ONE: Finding and Declarations.

The city council of Salinas finds and declares as follows:

a) Although Salinas has historically included much of the housing affordable to Monterey County's workforce, housing costs have escalated sharply, increasing faster than incomes for most groups in the community. In 2014, the Salinas Metropolitan Statistical Area (MSA) ranked as the fifth least affordable region in the United States. There is a severe shortage of adequate, affordable housing for extremely low, very low, lower, median, moderate, and workforce income households, as evidenced by the following:

(1) According to the Salinas housing element, 12.7 percent of Salinas households are extremely low income households; 15.6 percent of Salinas households are very low income households; and 19.1 percent are lower income households. In 2014 only 16.7 percent of the homes sold in the Salinas MSA were affordable to a household earning the area's median income, and prices have risen rapidly since then. Median rents are not affordable to extremely low, very low, and lower income households, which together comprise almost half the city's population.

(2) Because of the shortage of affordable housing in Salinas, half of the households in the city overpay for housing. The housing element found that forty-nine percent of Salinas households who own their homes pay more than thirty percent of income for housing, and twenty-four percent pay more than fifty percent of their income for housing. Fifty-two percent of renter households pay more than thirty percent of income for housing, and twenty-four percent of renter households pay more than fifty percent of their income for housing. These households are overpaying for their housing, according to standards of the United States Department of Housing and Urban Development, and the percentage of those overpaying has substantially increased since 2000, when thirty-one percent of Salinas owners and forty percent of Salinas renters paid more than thirty percent of their income for housing. Nearly three-quarters of lower income households are overpaying for housing. Providing decent housing at affordable costs allows households to utilize their resources for other necessary pursuits, such as education, food, investment, and saving for retirement. Providing decent rental housing at affordable costs allows households to save money to purchase a home.

(3) Many households are overcrowded. According to the housing element, Salinas households are much larger than the state average. The average household size in Salinas is 3.66, while in California the average household size is 2.90. Over seventeen percent of all households in Salinas are overcrowded. Five percent of households in the city are severely overcrowded.

b) The 2015-2023 regional housing needs allocation for the city, mandated by California Government Code Section 65584 and prepared by the Association of Monterey Bay Area Governments, states that fifty-eight percent of new housing in Salinas should be affordable to very low, lower, and moderate income families. Federal and state government programs do not provide nearly enough affordable housing or subsidies to provide the required percentage of moderate, lower, or very low income households.

c) Goal H-1 in the city's housing element is to provide a variety of affordability levels to address existing and projected housing needs in Salinas. It is the city's policy to enhance the public welfare by encouraging a variety of housing types to give households of all types and income levels the opportunity to find suitable housing. (Policy H-1.1) It is also the city's policy to encourage the geographic dispersal of affordable housing throughout the city. (Policy H-1.6). The housing element further encourages the development of affordable housing with a focus on the needs of the local workforce (Policy H-3.1), through inclusionary housing (Policy H-3.7), and through collaborative partnerships with market-rate housing developers (Policy H-3.8). The city can achieve its goals of providing more affordable housing and achieving an economically balanced community only if part of the new housing built in the city is affordable to households with limited incomes.

d) Action H-8, "Inclusionary Housing" in the city's housing element states that the city will continue to implement its inclusionary housing program and is in the process of updating the inclusionary ordinance, including reviewing the in-lieu fee. The city intends to update its inclusionary ordinance every five years. The proposed amendments to the inclusionary ordinance are intended to implement housing element action H-8. In particular, to ensure economic feasibility, the proposed amendments reduce the amount of affordable housing required in for-sale projects to 12 to 20 percent (compared with 20 to 35 percent in the city's existing ordinance), allow developers to pay an in-lieu fee as an alternative to providing the required on-site affordable units, and provide additional options that a developer may elect to meet its affordable housing requirements.

e) The amended inclusionary ordinance codified in this article will substantially advance the city's legitimate interest in providing additional housing affordable to all income levels and dispersed in residential developments in the city because all inclusionary units required by the ordinance codified in this article, including both rental and ownership units, must be affordable to very low, lower, median, moderate, and workforce income households.

f) New market-rate rental residential developments will create local-serving jobs, of whom a quantifiable number will have very low, low, or moderate incomes, and so will increase the demand for and exacerbate the shortage of housing available for households at these income levels, as demonstrated in the Housing Impact Fee Nexus Study prepared by Vernazza Wolfe Associates, Inc. in January 2016. An additional residential rental housing impact fee analysis was conducted by Vernazza Wolfe Associates, Inc. in March 2017. The amendments included in this ordinance allow the city to adopt a rental housing impact fee.

g) Based on the findings above, the city desires to further the public health, safety, and welfare by adopting the requirements contained in this article. Affordable units provided within a development further the community's housing element goals of maintaining both economic diversity and geographically dispersed affordable housing. Requiring builders of new market rate housing to include some housing affordable to very low, lower, median, moderate, and workforce income households is also reasonably related to the impacts of their projects, as demonstrated in the Nexus Study. Providing additional alternatives to for-sale developers, including payment of an in-lieu fee, ensures that developers can construct economically viable projects without public subsidies while incorporating affordable housing into their projects or assisting in providing affordable housing elsewhere in the city.

SECTION TWO: Article 3 (Housing) of Chapter 17 (Housing) of the Salinas Municipal Code is amended to read as follows:

17-6. Purpose

The purpose of this article is to:

a) Enhance the public welfare by establishing policies which require the development of housing affordable to households of very low, lower, median, moderate, and workforce incomes.

b) Assist in meeting the city's share of regional housing needs as mandated by State law.

c) Offset the demand for affordable housing that is created by new market-rate housing development.

d) Implement the housing element's goals and objectives.

17-7. Definitions

Unless specifically defined in this section, words or phrases used in this article shall be interpreted so as to give this article its most reasonable application.

a) "Affordable housing plan" means a plan submitted in conformance with Section 17-16 specifying the manner in which inclusionary units will be provided in conformance with this article and consistent with the Salinas General Plan and Chapter 37 of the Salinas Municipal Code.

b) "Affordable ownership cost" means a reasonable down payment and an average monthly housing cost during the first calendar year of occupancy, including mortgage loan principal and interest, mortgage insurance, property taxes and property assessments, homeowners insurance, homeowners association dues, if any, and all other dues and fees assessed as a condition of property ownership, which does not exceed: (1) 30 percent of 50 percent of area median income for very low income households; (2) 30 percent of 70 percent of area median income for lower income households; (3) 30 percent of 90 percent of area median income for median-income households; (4) 30 percent of 110 percent of area median income for moderate-income households; (5) 30 percent of 150 percent of area median income for workforce-income households. Area median income shall be adjusted for assumed household size based on unit size as follows: one person in a studio unit, two persons in a one-bedroom unit, three persons in a two-bedroom unit, four persons in a three-bedroom unit, five persons in a four-bedroom unit, and six persons in a five-bedroom unit. The inclusionary housing guidelines may incorporate procedures for determining affordable ownership cost in accordance with this section.

c) "Affordable rent" means monthly rent, including a reasonable utility allowance and all mandatory fees charged for use of the property, which does not exceed: (1) 30 percent of 50 percent of area median income for very low income households; and (2) 30 percent of 60 percent of area median income for lower income households. Area median income shall be adjusted for assumed household size based on unit size as follows: one person in a studio unit, two persons in a one-bedroom unit, three persons in a two-bedroom unit, four persons in a three-bedroom unit, and five persons in a four-bedroom unit. The inclusionary housing guidelines may incorporate procedures for determining affordable rent in accordance with this section.

d) "Applicant" or "developer" means a person, persons, or entity that applies for a residential development and also includes the owner or owners of the property if the applicant does not own the property on which the development is proposed.

e) "Area median income" means the annual median income for Monterey County, adjusted for household size, as published periodically in the California Code of Regulations, Title 25, Section 6932, or its successor provision.

f) "Building permit" includes full structural building permits as well as partial permits such as foundation-only permits.

g) "City Manager" means the city manager of the city or his or her designee.

h) "Common ownership or control" refers to property owned or controlled (including by an option to purchase or a purchase agreement) by the same person, persons, or entity, or by separate entities in which any shareholder, partner, member, or family member of an investor of the entity owns ten percent (10%) or more of the interest in the property.

i) "Contiguous property" means any parcel of land that is: (1) touching another parcel at any point; (2) separated from another parcel at any point only by a public right of way, private street or way, or public or private utility, service, or access easement; or (3) separated from another parcel only by other real property under common ownership or control of the applicant.

j) "Density bonus units" means dwelling units approved in a residential development under California Government Code section 65915 et seq. that are in excess of the maximum residential density otherwise permitted by the Salinas General Plan or zoning ordinance.

k) “Downtown Area” means the area within the boundaries of the Downtown Salinas Community Benefit District.

l) "First approval" means the first of the following approvals to occur with respect to a residential development: development agreement, general plan amendment, specific or area plan adoption or amendment, zoning, rezoning, pre-zoning, planned development permit, tentative map, parcel map, conditional use permit, special use permit, or building permit.

m) "For-sale residential development" means any residential development or portion of a residential development that involves the creation of one or more additional dwelling units or lots that may lawfully be sold individually. A for-sale residential development also includes a condominium conversion as described in Article VII of Chapter 31.

n) “Future Growth Area” is that incorporated area designated by the 2002 General Plan, located north of Boronda Road, and bounded by San Juan Grade Road to the west, Williams Road to the east, and Rogge Road and the future extensions of Russell Road and Old Stage Road to the north.

o) "lnclusionary housing agreement" means an agreement in conformance with Section 17.16 of this article between the city and an applicant, governing how the residential development shall comply with this article.

p) "lnclusionary housing guidelines" means the requirements for implementation and administration of this article adopted by city council.

q) "lnclusionary unit" means a dwelling unit required by this article to be affordable to very low, lower, median, moderate, or workforce income households.

r) "Lower income households" means those households whose annual income, adjusted for household size, does not exceed the low income limits, adjusted for household size, applicable to Monterey County as defined in California Health and Safety Code Section 50079.5 and published annually in Title 25 of the California Code of Regulations, Section 6932 (or its successor provision).

s) "Market rate unit" means a new dwelling unit in a residential development that is not an inclusionary unit.

t) "Median income households" means households whose annual income, adjusted for household size, does not exceed area median income.

u) "Moderate income households" means households whose annual income, adjusted for household size, does not exceed the moderate income limits applicable to Monterey County as defined in California Health and Safety Code Section 50093 and published annually in Title 25 of the California Code of Regulations, Section 6932 (or its successor provision).

v) “Planning permit” means any discretionary approval of a residential development, including but not limited to a development agreement, general plan amendment, specific or area plan adoption or amendment, zoning, rezoning, pre-zoning, planned development permit, tentative map, parcel map, conditional use permit, or special use permit.

w) "Rental residential development" means any residential development or portion of a residential development that creates one or more additional dwelling units that cannot lawfully be sold individually.

x) "Residential development" means any development project requiring a planning permit or a building permit, if no planning permit is needed, for which an application has been submitted to the city, and where the residential development would either (1) create ten or more additional dwelling units or lots; (2) convert ten or more existing rental dwelling units to condominiums; or (3) is contiguous to property under common ownership or control of the applicant where the combined residential capacity of all of the applicant's property under the General Plan designation or zoning is ten or more additional residential units or lots.

y) “Small attached development” means townhomes or condominiums with no more than twelve units.

z) "Surplus inclusionary unit" means any inclusionary unit constructed as part of a residential development without city funds or nine percent low income housing tax credits, and which is excess of the numerical requirement for inclusionary units for that residential development. “City funds” include both money which originates directly from the city, such as general fund monies, and that which originates from other sources, such federal and state funds, but that the city allocates. “City funds” also include any waiver of city fees.

aa) "Unit type" means detached single-family home, duplex, triplex, townhome, or multifamily construction.

bb) "Very low-income households" means households whose annual income, adjusted for household size, does not exceed the very low income limits applicable to Monterey County as defined in California Health and Safety Code Section 50105 and published annually in Title 25 of the California Code of Regulations, Section 6932 (or its successor provision).

cc) "Workforce income households" means households whose annual income, adjusted for household size, does not exceed 160 percent of area median income.

17-8. Exemptions

This article shall not apply to any of the following:

a) Projects that are not residential developments as defined in Section 17-7(x), including but not limited to those residential developments creating fewer than ten additional dwelling units or lots.

b) Residential developments which are developed pursuant to the terms of a development agreement executed prior to the effective date of this ordinance or which have otherwise received a vested right to proceed without conforming to this article under state law, provided that such residential developments shall comply with any affordable housing requirements consistent with the development agreement.

c) Residential developments exempted by Government Code section 66474.2 or 66498.1, provided that such residential developments shall comply with any predecessor ordinance in effect on the date the application for the development was deemed complete.

d) Residential developments located in the Downtown Area, unless the city council by resolution determines that, based on market conditions, the provisions of this article will be applied in the Downtown Area.

e) Residential developments that have submitted a complete application to the city prior to the effective date of this ordinance, provided that such residential developments shall comply with any approved affordable housing plan and any predecessor ordinance applicable to the development.

f) One-hundred percent affordable low-income housing projects with either a recorded deed restriction, restrictive covenant or regulatory agreement of no less than thirty years.

17-9. Basic Inclusionary Housing Options – For-Sale Residential Developments

An applicant for a for-sale residential development may elect to provide one of the basic options described in this section or elect to propose one of the options described in Section 17-13. The requirements of this section are minimum requirements and do not preclude a residential development from providing additional affordable units or affordable units with lower rents or sales prices than required by this section.

Calculations of the number of required inclusionary units shall exclude any density bonus units that are part of the residential development. Fractions of one-half or greater shall be rounded up to the next highest whole number, and fractions of less than one-half shall be rounded down to the next lowest whole number.

a) **On-Site For-Sale Inclusionary Units.** An applicant for a for-sale residential development may elect to provide on-site for-sale inclusionary units at affordable ownership cost as follows:

   (1) Option One: A minimum of four percent of the dwelling units in the residential development shall be affordable to very low income households, eight percent shall be affordable to lower income households, four percent shall be affordable to moderate income households, and four percent shall be affordable to workforce income households, for a minimum twenty percent inclusionary units total.

   (2) Option Two: A minimum of six percent of the dwelling units in the residential development shall be affordable to median income households, six percent to moderate income households, and three percent to workforce income households, for a minimum fifteen percent inclusionary units total.

b) **On-Site Rental Inclusionary Units.** An applicant for a for-sale residential development may elect to provide on-site rental inclusionary units at affordable rent as follows:

   (1) Option One: A minimum of eight percent of the dwelling units in the residential development shall be affordable to very low income households and four percent shall be affordable to lower income households, for a minimum twelve percent inclusionary units total.

   (2) Option Two: If an applicant elects Option One under Section 17-9(a) above, the applicant may elect to provide the very low income units and the lower income units as rental units rather than for-sale unit, so that a minimum of four percent of the dwelling units in the residential development shall be available to very low income households at affordable rent, eight percent shall be available to lower income households at affordable rent, four percent shall be available to moderate income households at affordable ownership cost, and four percent shall be affordable to workforce income households at affordable ownership cost, for a minimum twenty percent inclusionary units total.

   (3) To ensure compliance with the Costa-Hawkins Residential Rent Control Act (Civil Code Section 1954.50 *et seq.*), the city may approve on-site rental inclusionary units only if the applicant agrees in a rent regulatory agreement with the city to limit rents in consideration for a direct financial contribution or a form of assistance specified in Density Bonus Law (Government Code Section 65915 *et seq.*).

   (4) Any rent regulatory agreement for rental units in a for-sale residential development shall include provisions for sale of the inclusionary units and relocation benefits for tenants of the inclusionary units if the owner of the residential development later determines to offer the inclusionary units in the residential development for sale at affordable ownership cost.

c) **Payment of In-Lieu Fees.** An applicant for a for-sale residential development may elect to pay in-lieu fees as described in Section 17-14 and adopted from time to time by resolution of the city council.

17-10. Basic Inclusionary Housing Options – Rental Residential Developments

An applicant for a rental residential development may elect to provide one of the basic options described in this section or elect to propose one of the options described in Section 17-13. The requirements of this section are minimum requirements and do not preclude a residential development from providing additional affordable units or affordable units with lower rents or sales prices than required by this section.

a) **Payment of Rental Housing Impact Fees.** An applicant for a rental residential development may elect to pay rental housing impact fees as described in Section 17-14 and adopted from time to time by resolution of the city council.

b) **On-Site Rental Inclusionary Units.** An applicant for a rental residential development may elect to provide on-site rental inclusionary units at affordable rent as follows:

(1) A minimum of eight percent of the dwelling units in the residential development shall be affordable to very low income households and four percent shall be affordable to lower income households, for a minimum twelve percent inclusionary units total.

(2) Calculations of the required number of inclusionary units shall exclude any density bonus units that are part of the residential development. Fractions of one-half or greater shall be rounded up to the next highest whole number, and fractions of less than one-half shall be rounded down to the next lowest whole number.

(3) To ensure compliance with the Costa-Hawkins Act (Chapter 2.7 of Title 5 of Part 4 of Division 3 of the Civil Code), the city may approve on-site rental inclusionary units only if the applicant agrees in a rent regulatory agreement with the city to limit rents in consideration for a direct financial contribution or a form of assistance specified in Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code.

c) The city may require on-site rental inclusionary units at such time as current appellate case law in Palmer/Sixth Street Properties, L.P. v. City of Los Angeles (2nd Dist. 2009) 175 Cal.App.4th 1396, is overturned, disapproved, or depublished by a court of competent jurisdiction or modified by the state legislature to authorize control of rents of inclusionary units

17-11. Timing of Construction of Inclusionary Units

a) The city may issue building permits for fifty percent of the market rate units within a residential development before issuing building permits for any inclusionary units. Following issuance of fifty percent of building permits for the market rate units, the inclusionary units shall be constructed in proportion to construction of the market rate units. No building permit shall be issued for any additional market rate unit unless a proportional number of building permits have been issued for inclusionary units, and no certificates of occupancy or final inspections shall be issued for any additional market rate units unless a proportional number of certificates of occupancy or final inspections have been issued for inclusionary units. For example, if inclusionary units constitute twenty percent of the remaining units to be built in the development after fifty percent of the market-rate units are issued building permits, inclusionary units must constitute twenty percent of the remaining building permits issued.

b) Notwithstanding Section 17-11 (a), the city, at its sole discretion, may issue building permits for 75 percent of market rate units within a residential development before issuing building permits for any inclusionary units if the developer is partnering with an experienced non-profit affordable housing provider. If the applicant elects to propose one of the alternatives described in Section 17-13, the applicant shall propose a phasing plan for construction of inclusionary and market rate units as part of the affordable housing plan.

c) Specific proposed timing of construction of inclusionary and market rate units shall be included in all affordable housing plans.

17-12. Standards for Inclusionary Units

a) Inclusionary units shall be dispersed throughout the residential development, with the same unit types as the market rate units, except for the following:

(1) Inclusionary units affordable to workforce income households may have smaller lots than market rate units.

(2) Inclusionary units affordable to moderate and median income households may be clustered in small attached developments. However, at least fifty percent of the units in the small attached development must be market rate units.

(3) Rental inclusionary units may be clustered as needed in multifamily or other housing types to provide eligibility for state and federal funding, including housing tax credits, if the affordable housing plan includes a management plan satisfactory to the city, and if approved by the city council.

b) At a minimum, the inclusionary units shall have the same proportion of units with each number of bedrooms as the market rate units (the same proportion of one-bedroom units, of two-bedroom units, etc.).This does not preclude a developer from providing inclusionary units with more bedrooms than is required by this ordinance.

c) Inclusionary units must meet the following minimum standards:

(1) Single Room Occupancy: 250 sf, ¾ bath

(2) Studio: 500 sq. ft., 1 bath

(3) 1 bedroom: 650 sq. ft., 1 bath

(4) 2 bedroom: 900 sq. ft., 1 bath

(5) 3 bedroom: 1100 sq. ft., 1.75 baths

(6) 4 bedroom: 1275 sq. ft., 1.75 baths

A full bathroom includes sink, toilet, and tub with shower. A 0.75 bath includes a sink, toilet, and tub or shower.

d) The quality of exterior design and overall quality of construction of the inclusionary units shall be consistent with the exterior design of the market rate units in the residential development and shall meet all site, design, and construction standards included in Title 17 (Buildings and Construction), Title 19 (Subdivisions), and Title 20 (Zoning) of this Code, including but not limited to compliance with all design guidelines included in applicable specific plans or otherwise adopted by the city council, and the inclusionary housing guidelines.

e) Inclusionary units may have different interior finishes and features than market rate units in the same residential development, as long as the finishes and features are functionally equivalent to the market rate units and are durable and of good quality and comply with the inclusionary housing guidelines. The city may adopt more detailed interior finish or construction standards in the inclusionary housing guidelines.

f) The inclusionary units shall have the same access to and enjoyment of common open space and facilities in the residential development as the market rate units.

17-13. Developers' Compliance Options

As an alternative to the basic inclusionary housing options described in Sections 17-9 and 17-10 of this article, a developer may elect to propose one of the options included in this section. The city at its sole discretion may offer additional incentives or subsidies to achieve more inclusionary units, greater affordability, or more rental units. All options included in this section must be approved by the city council.

a) **Off-Site Construction**. For residential developments within the Future Growth Area, the inclusionary housing requirements of this article may be satisfied by the construction of inclusionary units on a site different from the site of the residential development if the proposal meets all of the following criteria:

   (1) The inclusionary units must be built within the Future Growth Area.

   (2) The off-site location will not tend to cause racial segregation.

   (3) Access to public transportation shall be equal to or better than that available to the residential development.

   (4) The proposed site has a General Plan and zoning designation that authorizes residential uses and is zoned at a density to accommodate at least the required number of inclusionary units.

   (5) The proposed site is suitable for development of the inclusionary units in regard to configuration, physical characteristics, location, access, adjacent uses, and other relevant planning and development criteria.

   (6) Any hazardous materials and geological hazards shall be mitigated to the satisfaction of the city. The site shall not be located in a 100 year flood plain. If federal or state funds are proposed to finance the off-site development, the site must meet all required federal or state, as applicable, environmental standards.

   (7) The construction schedule for the off-site inclusionary units shall be included in the affordable housing plan and the inclusionary housing agreement. The off-site inclusionary units shall be constructed prior to or concurrently with the market rate units in the residential development consistent with the proposed construction schedule.

b) **Partnership**. An applicant may elect to contract with another developer with experience in building and managing affordable housing to construct all or some of the required inclusionary units. The inclusionary housing agreement shall contain specific assurances guaranteeing the timely completion of the required inclusionary units, including satisfactory assurances that construction and permanent financing will be secured for the construction of the units within the schedule shown in the affordable housing plan.

c) **Dedication of Land**. The inclusionary housing requirements of this article may be satisfied by the dedication of land in lieu of constructing inclusionary units within the residential development if the proposal meets all of the following criteria:

   (1) Marketable title to the site is transferred to the city, or an affordable housing developer approved by the city, prior to the commencement of construction of the residential development.

   (2) The location will not tend to cause racial segregation.

(3) Access to public transportation shall be equal to or better than that available to the residential development.

(4) The proposed site has a General Plan and zoning designation that authorizes residential uses and is zoned at a density to accommodate at least the required number of inclusionary units.

(5) The proposed site is suitable for development of the inclusionary units in regard to configuration, physical characteristics, location, access, adjacent uses, and other relevant planning and development criteria, including, but not limited to, the cost of construction arising from the nature, condition, or location of the site.

(6) Any hazardous materials have been mitigated to the satisfaction of the city prior to transfer of title. The site is not located in a 100 year flood plain. The site meets all required federal and state environmental standards.

(7) Infrastructure to serve the dedicated site, including but not limited to streets and public utilities, is available at the property line and has adequate capacity to serve the maximum allowable residential development.

(8) If the property is to be transferred to the city, the deed transferring title does not require the city to construct affordable housing on the site, but allows the city to sell, transfer, lease, or otherwise dispose of the dedicated site at the city's sole discretion. Any funds collected as the result of a sale, transfer, lease, or other disposition of sites dedicated to the city shall be deposited into the inclusionary housing trust fund described in Section 17-17. However generally, it is the city's policy to use the dedicated land for affordable housing.

(9) If the site is to be transferred to an affordable housing developer, the construction schedule for the inclusionary units shall be included in the affordable housing plan and the inclusionary housing agreement.

d) **Transfers of Surplus Inclusionary Units**. For residential developments within the Future Growth Area, the inclusionary housing requirement of this article may be satisfied by the use of surplus inclusionary units if the proposal meets all of the following criteria:

(1) A developer who completes construction and makes available one or more surplus inclusionary units at an affordable rent or affordable ownership cost may utilize those surplus inclusionary units to satisfy the developer's future inclusionary housing requirements within the Future Growth Area for a period of five years after approval of occupancy for the surplus inclusionary unit. During the last year of the first five year period, developers may apply for one five-year extension which may be granted at the sole discretion of the city council.

(2) A developer who completes construction and makes available one or more surplus inclusionary units at an affordable rent or affordable ownership cost may alternatively sell or otherwise transfer the surplus inclusionary credit to another developer within the Future Growth Area in order to satisfy, or partially satisfy, the transferee's inclusionary housing requirements.

(3) Any surplus inclusionary unit proposed to meet the inclusionary housing requirements of another residential development must have the same tenure (rental or ownership) and at least as many bedrooms as the required inclusionary unit and otherwise meets all requirements of Section 17-12.

(4) The city may develop more detailed implementation standards and requirements for credits and transfers as part of the inclusionary housing guidelines.

e) **Other Options.** A developer may propose an option not listed above to comply with inclusionary housing requirements. Such proposals shall be made in the affordable housing plan, shall be considered by the city in accordance with this article and the inclusionary housing guidelines, and may be approved by the city if the alternative method of compliance either provides substantially the same or greater level of affordability or the amount of affordable housing as would be required by the basic options listed in Sections 17-9 and 17-10, or provides fewer units with deeper affordability.

17-14. In-Lieu Fees and Rental Housing Impact Fees

a) The city council may from time to time adopt by resolution housing in-lieu fees for for-sale residential developments and rental housing impact fees for rental residential developments.

b) Payment of in-lieu fees and rental housing impact fees shall be due at the issuance of building permits for the residential development. The fees shall be calculated based on the fee schedule in effect at the time the building permit is issued.

c) All in-lieu fees and rental housing impact fees shall be deposited in the inclusionary housing trust fund.

17-15. Continuing Affordability and Initial Occupancy

a) The city council, by resolution, shall approve standard documents to ensure the continued affordability of the inclusionary units approved in each residential development. Prior to approval of the final or parcel map for any residential development, or issuance of any building permit, the inclusionary housing agreement shall be recorded.

b) Rental regulatory agreements shall be recorded against all rental inclusionary units prior to occupancy. For for-sale inclusionary units, shared appreciation documents or other documents approved by the city council shall be recorded against each inclusionary unit prior to sale. However, if the price of the market rate units in that phase of the residential development is equal to or below the affordable ownership cost for a median, moderate, or workforce income household, then no documents need be recorded against the inclusionary units in the relevant income category.

c) The term of affordability for all inclusionary units shall be thirty years. A longer term of affordability may be required if the residential development receives a subsidy of any type, including but not limited to loan, grant, mortgage financing, mortgage insurance, or rental subsidy, and the subsidy program requires a longer term of affordability.

d) All promissory note repayments, shared appreciation payments, or other payments collected under this section shall be deposited in the city's inclusionary housing trust fund.

e) Any household that occupies an inclusionary unit must occupy that unit as its principal residence.

f) No household may begin occupancy of an inclusionary unit until the household has been determined to be eligible to occupy that unit. The city council, by resolution, may establish guidelines for determining household income, affordable ownership cost, affordable rent, provisions for continued monitoring of tenant eligibility, and other eligibility criteria.

g) Any person who is a member of the city council or the planning commission, and their immediate family members, and any person having any equity interest in the residential development, including but not limited to a developer, partner, investor, or applicant, and their immediate family members, is ineligible to rent, lease, occupy, or purchase an inclusionary unit. The city council, by resolution, may establish guidelines for determination of "immediate family members."

17-16. Affordable Housing Plan Submittal and Inclusionary Housing Agreement.

a) An affordable housing plan shall be submitted as part of the application for first approval of any residential development. No application for a first approval for a residential development may be deemed complete unless a complete affordable housing plan is submitted. If the residential development includes fewer than 10 units, the affordable housing plan shall include all contiguous property under common ownership and control. However, the applicant shall not be required to construct any dwelling units upon the contiguous property until an application is proposed for that property. No affordable housing plan shall be required if the applicant proposes to pay in-lieu fees or rental housing impact fees to satisfy the requirements of this article.

b) For each construction phase, the affordable housing plan shall specify, at the same level of detail as the application for the residential development: the inclusionary housing option selected, the number, unit type, tenure, number of bedrooms and baths, approximate location, construction and completion schedule of all inclusionary units, and phasing of inclusionary units in relation to market rate units. If an option listed in Section 17-13 is selected, additional information shall be submitted to verify that the proposal meets the requirements of that section.

c) The affordable housing plan shall be reviewed as part of the first approval of any residential development. The affordable housing plan shall be approved if it conforms to the provisions of this article. A condition shall be attached to the first approval of any residential development to require recordation of the inclusionary housing agreement described in subsection (e) of this section prior to the approval of any final or parcel map or building permit for the residential development.

d) A minor modification of an approved affordable housing plan may be granted by the city manager if the modification is substantially in compliance with the original affordable housing plan and conditions of approval. Other modifications to the affordable housing plan shall be processed in the same manner as the original plan.

e) Following the first approval of a residential development, the city shall prepare an inclusionary housing agreement providing for implementation of the affordable housing plan and consistent with the inclusionary housing guidelines. Prior to the approval of any final or parcel map or issuance of any building permit for a residential development subject to this article, the inclusionary housing agreement shall be executed by the city and the applicant and recorded against the entire residential development property to ensure that the agreement will be enforceable upon any successor in interest. If the affordable housing plan included contiguous property under common ownership or control, and affordable housing will be required on the property under common ownership or control when that contiguous property is developed, the inclusionary housing agreement shall also be recorded against that contiguous property under common ownership or control and shall require compliance with this article upon development of that contiguous property at such time as there are planning permit applications that would authorize a total of ten or more residential units for the residential development and the contiguous property under common ownership or control.

f) The city council, by resolution, may establish fees for the ongoing administration and monitoring of the inclusionary units, which fees may be updated periodically, as required.

17-17. Inclusionary Housing Trust Fund.

a) All in-lieu fees, rental housing impact fees, monitoring and other fees, promissory note repayments, shared appreciation payments, or other funds collected under this article shall be deposited into a separate account to be designated as the inclusionary housing trust fund.

b) The monies in the inclusionary housing trust fund and all earnings from investment of the monies in the inclusionary housing trust fund shall be expended exclusively to provide housing affordable to very low income, lower income, median income, moderate income, and workforce income households in the city of Salinas.

17-18. Waiver

a) Notwithstanding any other provision of this article, the requirements of this article may be waived, adjusted, or reduced if an applicant shows, based on substantial evidence, that applying the requirements of this article to the proposed residential development would take property in violation of the United States or California Constitutions.

b) Any request for a waiver, adjustment, or reduction under this section shall be submitted to the city concurrently with the affordable housing plan. The request for a waiver, adjustment, or reduction shall set forth in detail the factual and legal basis for the claim.

c) The request for a waiver, adjustment, or reduction shall be reviewed and considered in the same manner and at the same time as the affordable housing plan. In making a determination on an application for waiver, adjustment, or reduction, the applicant shall bear the burden of presenting substantial evidence to support the claim. The city may assume each of the following when applicable:

   (1) That the applicant will provide the most economical inclusionary units feasible, meeting the requirements of this article and the inclusionary housing guidelines.

   (2) That the applicant is likely to obtain housing subsidies when such funds are reasonably available.

d) The waiver, adjustment or reduction may be approved only to the extent necessary to avoid an unconstitutional result, after adoption of written findings based upon the advice of the city attorney and based on substantial evidence.

17-19. Implementation and Enforcement

a) The city council may adopt inclusionary housing guidelines, by resolution, to assist in the implementation of all aspects of this article.

b) The city attorney shall be authorized to enforce the provisions of this article and all inclusionary housing agreements, regulatory agreements, covenants, resale restrictions, promissory notes, deed of trust, and other requirements placed on inclusionary units by civil action and any other proceeding or method permitted by law. The city may, at its discretion, take such enforcement action as is authorized under this code and/or any other action authorized by law or by any regulatory document, restriction, or agreement executed under this article.

c) Failure of any official or agency to fulfill the requirements of this article shall not excuse any applicant or owner from the requirements of this article. No permit, license, map, or other approval or entitlement for a residential development shall be issued, including without limitation a final inspection or certificate of occupancy, until all applicable requirements of this article have been satisfied.

d) The remedies provided for herein shall be cumulative and not exclusive and shall not preclude the city from any other remedy or relief to which it otherwise would be entitled under law or equity.

SECTION THREE: SEVERABILITY

If any clause, sentence, section, or part of this article, or any fee or requirement imposed upon any person or entity, is found to be unconstitutional, illegal, or invalid, such unconstitutionality, illegality, or invalidity shall affect only such clause, sentence, section or part, or such person or entity, and shall not affect or impair any of the remaining provisions, clauses, sentences, sections, or parts or the effect of this article on other persons or entities. It is hereby declared to be the intention of the city council that this article would have been adopted had such unconstitutional, illegal, or invalid clause, sentence, section, or part not been included herein, or had such person or entity been expressly exempted from the application from the application of this article.

SECTION FOUR: EFFECTIVE DATE.

This ordinance shall take effect and be in force thirty (30) days after its adoption by the city council.

SECTION FIVE: PUBLICATION.

The Clerk of the City of Salinas published a notice in The Californian, a newspaper of general circulation printed and published in Monterey County and published and circulated in the City of Salinas, within ten (10) days from its adoption.

The foregoing ordinance was duly introduced and read before the City Council of the City of Salinas, County of Monterey, at the regular meeting of the City Council held on ____, day of ____, 2017, and adopted at a regular meeting of said Council held on the _____, day of _____, 2017, by the following vote:

AYES:
NOES:
ABSTAINED:
ABSENT:

____
Joe Gunter, Mayor

ATTEST: APPROVED AS TO FORM:

____
Patricia M. Barajas, City Clerk

____
Christopher A. Callihan, City Attorney

SALINAS PLANNING COMMISSION
RESOLUTION NO. 2017-___

Resolution Recommending Approval of For-Sale Housing In-Lieu Fees and Rental Housing Impact Fees

WHEREAS, on March 15, 2017 the Salinas Planning Commission held a duly noticed public hearing to consider proposed for-sale housing in-lieu fees and rental housing impact fees; and

WHEREAS, the Planning Commission weighed the evidence presented at said hearing, including the Staff Report which is on file at the Community Development Department, together with the record of environmental review; and

WHEREAS, Action H-8 in the City's General Plan Housing Element states that the City will review its in-lieu fees; and

WHEREAS, amendments to the City's Inclusionary Housing Ordinance (Article 3 of Chapter 17 of the Salinas Municipal Code) authorize the City Council to adopt by resolution for-sale housing in-lieu fees and rental housing impact fees; and

WHEREAS, to ensure that future rental residential projects mitigate their impact on the need for affordable housing in Salinas, and to ensure that any adopted housing fees do not exceed the actual affordable housing impacts attributable to the residential developments, the City has received and considered a report from Vernazza Wolfe Associates, Inc. dated January 2016 and entitled "Housing Impact Fee Nexus Study (the "Nexus Study"); and

WHEREAS, the Nexus Study uses widely used, appropriate methodology to determine the maximum amount needed to fully mitigate the burdens created by residential development on the need for affordable housing; and

WHEREAS, the facts and substantial evidence in the record establish that there is a reasonable relationship between the need for affordable housing and the impacts of the development described in the Nexus Study for which the corresponding fee is charged; that there is also a reasonable relationship between the housing impact fee's use and the type of development for which the fee is charged, as is described in more detail in the Nexus Study; and

WHEREAS, the Planning Commission has considered proposed for-sale housing in-lieu fees and rental housing impact fees as authorized by amendments to the Inclusionary Housing Ordinance, which fees do not exceed the justified fees needed to mitigate the actual affordable housing impacts attributable to the development projects to which the fees relate, as determined by the Nexus Study.

NOW, THEREFORE, BE IT RESOLVED that the Salinas Planning Commission hereby recommends that the City Council adopt the for-sale housing in-lieu fees and rental housing impact fees attached as Exhibit A, and that the foregoing recitations are true and correct, and are included herein by reference as findings; and

BE IT FURTHER RESOLVED that adoption of the proposed fees is not a project as defined by the California Environmental Quality Act because it is a government funding mechanism which does not involve any commitment to any specific project (CEQA Guidelines Section 15378(b)(4)).

PASSED AND ADOPTED this 15th day of March 2017 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

THIS IS TO CERTIFY that the foregoing is a full, true, and correct copy of a resolution of the Planning Commission of the City of Salinas, that said resolution was passed and adopted by the affirmative and majority vote of said Planning Commission at a meeting held on March 15, 2017, and that said resolution has not been modified, amended, or rescinded, and is now in full force and effect.

SALINAS PLANNING COMMISSION

Date: ________________ ____________________________

Courtney Grossman
Secretary

Attach:

Exhibit A: For-Sale Housing In-Lieu Fees and Rental Housing Impact Fees

EXHIBIT A
FOR-SALE HOUSING IN-LIEU FEES AND RENTAL HOUSING IMPACT FEES

The fees below are applicable to residential developments subject to the Inclusionary Housing Ordinance (Article 3 of Chapter 17 of the Salinas Municipal Code) which elect to pay for-sale housing in-lieu fees or rental housing impact fees. No fee is required for residential developments that are exempt under Section 3.17.8.

For-Sale Housing In-Lieu Fee: $12.00 per square foot of gross floor area*

Rental Housing Impact Fee:** $2.00 per square foot of gross floor area*

*"Gross floor area" is as defined in Municipal Code Section 37.10.300 under "Floor area, gross."

**If fewer than twelve percent of units in a rental residential development are affordable to lower income households, the applicant shall be given an impact fee credit equal to the percentage of lower income units provided, divided by 12. (For instance, if 10 percent of the units are affordable to lower income households, the applicant shall receive a credit equal to 10/12 of the rental housing impact fee otherwise required.)

Fees shall be paid at the time specified in Municipal Code Section 3.17.14.

For any annual period during which the City Council does not review these fees, the fee amounts shall be adjusted once annually based on the percentage increase in the Engineering News-Record Construction Cost Index for San Francisco, California.

SALINAS PLANNING COMMISSION
RESOLUTION NO. 2017-___

Resolution Recommending Approval of Amendments to
Inclusionary Housing Guidelines

WHEREAS, on March 15, 2017 the Salinas Planning Commission held a duly noticed public hearing to consider amendments to the City of Salinas Inclusionary Housing Guidelines; and

WHEREAS, the Planning Commission weighed the evidence presented at said hearing, including the Staff Report which is on file at the Community Development Department, together with the record of environmental review; and

WHEREAS, the City's Inclusionary Housing Ordinance (Article 3 of Chapter 17 of the Salinas Municipal Code) authorizes the City Council to adopt by resolution Inclusionary Housing Guidelines for implementation and administration of the Inclusionary Housing Ordinance; and

WHEREAS, the City now desires to amend the Inclusionary Housing Guidelines to reflect amendments to the Inclusionary Housing Ordinance and otherwise for clarity and to ensure compliance with state and federal law.

NOW, THEREFORE, BE IT RESOLVED that the Salinas Planning Commission hereby recommends that the City Council adopt the proposed amendments to the Inclusionary Housing Guidelines attached as Exhibit A, and that the foregoing recitations are true and correct, and are included herein by reference as findings; and

BE IT FURTHER RESOLVED that the amendments to the Inclusionary Housing Guidelines are not a project because the adoption of the amendments to the Guidelines is an administrative activity that will not result in direct or indirect physical changes in the environment (CEQA Guidelines Section 15378(b)(5)).

PASSED AND ADOPTED this 15 day of March 2017 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

THIS IS TO CERTIFY that the foregoing is a full, true, and correct copy of a resolution of the Planning Commission of the City of Salinas, that said resolution was passed and adopted by the affirmative and majority vote of said Planning Commission at a meeting held on March 15, 2017, and that said resolution has not been modified, amended, or rescinded, and is now in full force and effect.

SALINAS PLANNING COMMISSION

Date: ___________________ ______________________________
Courtney Grossman
Secretary

Attach:

Exhibit A: Draft Inclusionary Housing Guidelines

EXHIBIT A

SALINAS
RICH IN LAND | RICH IN VALUES

CITY OF SALINAS
INCLUSIONARY HOUSING GUIDELINES

Adopted _________, 2017
City Council Resolution No. ________

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EXHIBITS

INTRODUCTION

A. PURPOSE

Since 1992, the City of Salinas has had an Inclusionary Housing Ordinance (Ordinance) to ensure that new development in the City would provide housing affordable to a range of income levels consistent with the City's General Plan Housing Element (Housing Element) goals and policies. As part of the City's 2015-23 Housing Element update, the City Council authorized direction under "*Action H-8: Inclusionary Housing*" to update the Ordinance along with a nexus study. These Inclusionary Housing Guidelines (Guidelines) incorporate provisions of the most recently adopted 2017 Ordinance.

The Ordinance prescribes City policy for affordable housing. However, it does not include fully detailed instructions for administration, which allows more flexibility in implementing the Ordinance. Instead, the Ordinance called for the City Council to adopt updated Guidelines.

These Guidelines implement the Ordinance adopted by the Salinas City Council (Article 3 of Chapter 17 of the Salinas Municipal Code (Sections 17-6 through 17-19). They constitute the Guidelines referred to from time to time in the Ordinance.

All of the terms of the Ordinance are not repeated in these Guidelines, which supplement but do not reiterate the entire Ordinance. Applicants must also refer to the Ordinance when submitting an application. If there is any conflict between these Guidelines and the Ordinance, the Ordinance shall control.

These Guidelines are not adopted as an Ordinance. While they give direction, administration of the Ordinance will necessarily need to occur in a reasonably flexible fashion consistent with the Ordinance's purpose and provisions. The Guidelines provide this flexibility while assuring conformance to the City's vision and goals for affordable housing.

B. RELATION TO OTHER AFFORDABLE HOUSING PROGRAMS

The Ordinance is designed to work together with other programs that provide affordable housing in the City of Salinas. Numerous developers since the inception of the first Ordinance, which was adopted in 1992, have created affordable housing when they have obtained federal, state, and local government grants and other assistance. Developers may also provide affordable housing to obtain a density bonus. As required by state density bonus law, developers may receive a density bonus for providing affordable units required by the Ordinance.

When the City implements other affordable housing programs, it will attempt to utilize the same administrative procedures as specified in these Guidelines, to the extent reasonable and consistent with the legal requirements of the other programs. It may also modify the practices authorized in these Guidelines when inclusionary units receive other sources of assistance subject to different regulations and statutes.

C. DEFINITIONS

The terms used in these Guidelines have the same meaning as in the Ordinance.

D. RESPONSIBLE CITY STAFF

The Ordinance is administered by the City of Salinas Community Development Department Housing Division, located at:

City of Salinas Permit Center
65 W. Alisal Street, 2nd Floor
Salinas, CA. 93901

Phone: (831) 758-7334
Fax: (831) 775-4258
E-mail: housingwebmail@ci.salinas.ca.us

SECTION ONE
PROVIDING INCLUSIONARY HOUSING IN RESIDENTIAL PROJECTS

This section of the Guidelines describes how developers and applicants comply with the Ordinance. Part A describes the projects subject to the Ordinance. Part B describes the basic requirements. The Ordinance is implemented primarily through two documents: the Affordable Housing Plan and the Inclusionary Housing Agreement. The Affordable Housing Plan, described in Part C, is submitted with a planning application and describes how the project will comply with the Ordinance. The Inclusionary Housing Agreement, described in Part D, is a contract between the City and the developer that is recorded against the property to ensure that the inclusionary housing is built as proposed in the Affordable Housing Plan. Part E describes how the City will ensure that the inclusionary housing is built.

A. PROJECTS SUBJECT TO THE INCLUSIONARY HOUSING ORDINANCE

The Ordinance applies to any project that requires any development permit and will create ten or more dwelling units or lots through either new construction or additions or alterations to existing structures. This includes:

(1) New construction of at least ten units of for-sale housing;

(2) Subdivision of property into ten or more lots; and

(3) Additions or alterations to existing structures to create ten or more new dwelling units.

A "dwelling unit" for purposes of the Ordinance includes a "dwelling unit" and "single room occupancy housing" as defined in the Salinas Zoning Ordinance (Chapter 37 of the Salinas Municipal Code).[1] If buildings that are not considered to be "dwelling units," such as motels and hotels, are remodeled to create ten or more dwelling units, then they are subject to the Ordinance. However, the Ordinance only applies to newly created units or lots. For example, if five units are added to an existing five-unit building, for a total of ten units, the Ordinance will not apply, because only five units are being newly created.

The City considers concurrent applications on contiguous parcels under the same ownership or submitted by the same applicant (or controlled by the same applicant or owner) to be one residential development for purposes of the Ordinance.

<u>Exemptions</u>

The following projects are exempt from the Ordinance:

- Projects creating fewer than ten additional dwelling units or lots.

Note: “Dwelling unit” means a room or suite of two or more rooms with internal circulation, designed for use by one family for living or sleeping purposes, and having only one kitchen or kitchenette. (Salinas Municipal Code Section 37-10.280).
“Single room occupancy housing” means a residential facility with individual secure rooms, of a smaller size than normally found in multi-family dwellings, which may have kitchen and bathroom facilities, and which are rented to a one- or two-person household on a long-term basis. (Salinas Municipal Code Section 37-10.430).

- Projects in the Downtown Area, although this exemption will be reevaluated based on market conditions. When the downtown market has a healthy balance of affordable and market rate units, and the economics of development can support affordable housing requirements, the City Council by resolution may determine that the provisions of the inclusionary housing Ordinance will be applied in the Downtown Area. The Downtown Area exemption applies to adaptive reuse and new construction developments.
- Projects exempt under provisions of the Subdivision Map Act, except that those projects must comply with the Ordinance in effect on the date that they were deemed complete.
- One-hundred percent (100%) affordable low-income housing projects with either a deed restriction, restrictive covenant or regulatory agreement no less than 30 years.
- Proposed developments that have met certain milestones and comply with the requirements of the predecessor Ordinance. See the Ordinance for more information. These include:
    - Projects exempt under the terms of a development agreement
    - Residential developments exempted by Government Code section 66474.2 or 66498.1
    - Residential developments that have submitted complete applications to the City prior to the effective date of the Ordinance.

B. OPTIONS FOR PROVIDING INCLUSIONARY UNITS

On-site inclusionary housing requirements apply only to ownership (for-sale) housing developments of ten units or greater. Rental developments instead pay an affordable rental housing impact fee. A developer of rental housing may opt to voluntarily provide affordable rental housing in exchange for a City-provided benefit, as described in the Ordinance, and a developer of for-sale housing may opt to pay in-lieu fees.

<u>Basic Options</u>

The Ordinance in Section 17-9 and 17-10 provides three standard on-site inclusionary options for developers who elect to provide housing on site. A key part of any application for a residential development is for the applicant to select the appropriate inclusionary option. The table below summarizes the three standard on-site options.

Applicants may also choose alternatives to the standard on-site options as described in Section 17-13 of the Ordinance. These alternatives must be reviewed and approved by the City Council.

TABLE 1: SUMMARY OF STANDARD ON-SITE INCLUSIONARY OPTIONS

	Option 1	**Option 2**	**Option 3**
	20%	**15%**	**12%**
Very low Income (50% of median)	4% Ownership or rental	Not Required	8% Rental

	Option 1	Option 2	Option 3
Lower Income (80% of median)	8% Ownership or rental	Not Required	4% Rental
Median Income (100% of median)	Not Required	6% All must be ownership	Not Required
Moderate Income (120% of median)	4% All must be ownership	6% All must be ownership	Not Required
Workforce Income (160% of median)	4% All must be ownership	3% All must be ownership	Not Required

To use one of the options that has a rental housing component, developers must meet certain conditions, as described in Section C describing the Affordable Housing Plan.

<u>Number of Units Required</u>

In computing the total number of inclusionary units required on-site in a residential development, fractions of one-half (1/2) or greater are rounded up to the next highest whole number, and fractions of less than one-half (1/2) are rounded down. For example, a 53-unit development choosing option three would provide 47 market-rate units and 6 affordable units (53 x .12 = 6.36, rounded down to 6). A 55-unit development would provide 48 market-rate units and 7 affordable units (55 x .12 = 6.60, rounded up to 7).

<u>In-Lieu Fees and Rental Housing Impact Fees</u>

Developers of rental housing are required to pay a rental housing impact fee unless they voluntarily elect to mitigate the impact by providing affordable rental housing. Developers of for-sale housing may elect to satisfy their affordable housing obligation by paying an in-lieu fee. All housing fees are deposited into the City's inclusionary housing trust fund. The City Council from time to time will adopt in-lieu fees and rental housing impact fees, which may be increased annually based on increases of an established index. Full details regarding the dollar amounts and calculation of the in-lieu fees and rental housing impact fees are included in the City's adopted fee resolution. The fee is charged per square foot of residential development. In-lieu fees are due when building permits are issued.

Generally, the fee is based on the square footage of the buildings, not counting parking. For apartments, hallways, elevators and stairs are excluded from the calculations.

Specifically, for Single-Family Detached Homes, Townhomes, and Condominiums, Residential Floor Area includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for parking. For Apartments, Residential Floor Area includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for covered porches, patios, or other outdoor space, amenities and common space, parking, elevators, stairwells or stairs between floors, hallways, and between- unit circulation.

Other Alternatives

There are a number of alternatives available for developers that require City Council review and approval. These alternatives are described in the Ordinance in Section 17-13. Below is a list of alternatives:

1. Land Dedication
2. Partnerships
3. Off-Site Construction
4. Transfers of Surplus Inclusionary Units
5. Other Options

Land Dedication

Developers may dedicate land instead of providing affordable units. Among other conditions, the land must be appropriate for and zoned to allow development of the required inclusionary units. The land must have the infrastructure to serve the development and no unmitigated environmental hazards. The site must also comply with the City's fair housing goals by not tending to cause racial segregation.

Additionally, if the land is transferred to the City rather than to an affordable housing developer, the City must be allowed to sell or lease the property with the proceeds from the sale of the land deposited into the affordable housing trust fund. (The City's preference is not to sell the land, but rather to see affordable housing built on it.)

Off Site Production

Within the Future Growth Area, the affordable units may be built on a site different from the site of the Residential Development. Among other conditions, the alternative site must be located in the Future Growth Area and zoned appropriately for the proposed number of units. The units must be completed prior to or concurrently with the market-rate development. The land must have the infrastructure to serve the development and no unmitigated environmental hazards. The site must also comply with the City's fair housing goals and not increase racial segregation.

Partnerships

Developers may contract with an experienced affordable developer to construct all or part of the inclusionary units. Per the Ordinance, the City Council must be assured that the required inclusionary units will be built in a timely fashion, that the affordable housing developer has the capability to develop the project, that the construction and permanent financing will be secured for the construction of the units within a reasonable time, and that the proposal otherwise meets the conditions described in Section 17-11 of the Ordinance.

Surplus Unit Transfers

Developers within the Future Growth Area may elect to produce more affordable housing than otherwise required and generate credits that can be used to offset future affordable housing obligations within the Future Growth Area. The credits may be used by the developer that produced them or sold to other developers. Credits expire after five years, but developers may request one five-year extension. All the affordable units must be located in the Future Growth Area.

Affordable units used for credits must match the tenure, affordability level and bedroom count of the units that would otherwise be required. However, deeper affordability or larger units are permitted. For example, if a developer produced four surplus for-sale, affordable housing units at 120% of the Area Median Income, the credits could not be used to meet a rental obligation nor could they be used to satisfy an obligation for units at a lower affordability level (e.g. 100% of AMI). However, they could be used to satisfy an obligation for units at a higher affordability level (e.g. 160% of AMI).

Developers must notify the City using the appropriate City-supplied form when selling Credits.

Other Options

A developer may propose an option not listed in the Ordinance as part of the Affordable Housing Plan. It may be approved by the City Council if it provides substantially the same or a greater level of affordability and the same number of units as required by the basic options. Alternatively, a developer may propose to provide fewer units with deeper affordability.

Nondiscrimination

The City of Salinas, through its Inclusionary Housing Ordinance upholds the purposes and policies of the Fair Housing Act, Title VIII of the Civil Rights Act of 1968. The City adheres to HUD's program requirements to take steps to proactively overcome historic patterns of segregation, promote fair housing choice and foster inclusive communities for all. The City is purposefully incorporating the same policies within its Inclusionary Housing Ordinance. Inclusionary Housing will meet the goals, wherever possible, to reduce segregation and increase integration; deter racially and ethnically concentrated areas of poverty; increase access to education, employment, low-poverty, transportation, and environmental health, among other critical assets.

Standards for Inclusionary Units

Section 17-12 of the Ordinance describes the standards for the inclusionary housing units. In addition, the following standards apply.

Interior Design Standards – Inclusionary units may have different interior finishes (i.e. the finishes do not need to be like-for-like) and features than market-rate units in the same residential development, as long as the finishes and features are functionally equivalent to the market-rate units and are durable and of good quality. For example, if the market units include a refrigerator and dishwasher, similarly sized appliances must be provided in the affordable units. All material and appliances must be new.

Exterior Design Standards - The exterior finishes of the inclusionary units must be consistent with the exterior design of all market-rate units. An observer should not be able to differentiate the inclusionary units from market-rate units by looking at the exterior of the building.

Affordable units must meet the same parking standards as market-rate units, unless a parking incentive is requested under state density bonus law.

The inclusionary units must have the same amenities as the market-rate units, including the same access to and enjoyment of common open space and facilities in the residential development.

Generally, inclusionary units should be of the same construction type and have the same proportion of units with each number of bedrooms as the market-rate units. For example, if the market-rate units are single-family, three-bedroom homes, the affordable units must be three-bedroom, single-family homes. However, the Ordinance provides some flexibility. Developers may satisfy their obligation for moderate income units through duplexes, townhomes, or small (12 unit or less) multifamily buildings, so long as at least 50 percent of the units in the multifamily development must be market-rate. Developers may satisfy their workforce housing obligation through small lot single-family homes, even if the market-rate units are on large lots.

The City Council may allow rental units to be grouped as necessary so that state and federal financing sources, including low income housing tax credits, may be used, so long as the Affordable Housing Plan contains a management plan that ensures to the satisfaction of the City that the units will be well managed.

The City Manager or designee may choose to develop more detailed interior finish or exterior design standards.

All inclusionary units must also meet the standards in Table 2 below.

TABLE 2: Minimum Standards for All Inclusionary Units

	Single-Room Occupancy	**Studio**	**One Bedroom**	**Two Bedrooms**	**Three Bedrooms**	**Four Bedrooms**
Minimum Size (sq. ft.)	250	500	650	900	1,100	1,275
Minimum No. Bathrooms*	¾	1	1	1	1 ¾	1 ¾

*A full bathroom includes sink, toilet, and tub with shower. A ¾ bath includes a sink, toilet, and tub or shower.

C. AFFORDABLE HOUSING PLAN

Preparation of an Affordable Housing Plan is the first step in complying with the Ordinance.

Timing of Submittal of Affordable Housing Plan

The City's goal is to ensure that inclusionary housing is considered early in the planning process and included as part of any master planning. An Affordable Housing Plan must be submitted with the first application for a planning approval of any residential development with ten or more units or lots. The first application may include an application for a specific plan, general plan amendment, zoning, prezoning, development agreement, planned unit development permit, tentative map or minor subdivision, conditional use permit, site plan review, or building permit.

No application for a residential development will be deemed complete unless accompanied by an Affordable Housing Plan, or unless an Affordable Housing Plan has been previously approved for the development. The application for an Affordable Housing Plan must be accompanied by any processing fee adopted by resolution of the City Council. If a project requires no planning approval, the Affordable Housing Plan must be submitted with an application for a building permit.

No Affordable Housing Plan is required if the applicant, as part of its first application, states that it has opted to pay rental housing impact fees or for-sale housing in-lieu fees to meet the requirements of the Ordinance

Contents of Affordable Housing Plan

The required contents of the Affordable Housing Plan are specified in Exhibit A and in the Ordinance Section 17-16. The City Manager or designee is authorized to make changes in Exhibit A from time to time when necessary to ensure that residential developments comply with the Ordinance. When the City accepts a proposal from a developer to build affordable rental units, the Plan must include certain provisions, as described in Exhibit A, to ensure compliance with the Costa-Hawkins Act. The Affordable Housing Plan need be only at the same level of detail as the application for a residential development. For instance, an Affordable Housing Plan that is submitted as part of a specific plan application would generally describe the construction phases for the specific plan, describe the City's inclusionary requirements, and explain how the requirements would be met in each phase of design and construction. An Affordable Housing Plan for a tentative map would indicate which inclusionary option (Option 1, 2, 3 or alternative) the developer is selecting, the location and type of the affordable units, tenure and level of affordability, and phasing, but might not include design details or specify number of bedrooms and unit size if they had not yet been determined for the rest of the development. Where the initial Affordable Housing Plan is not at sufficient detail to determine compliance with the Ordinance, the City may require additions to the Plan as part of later planning approvals, or as part of the Inclusionary Housing Agreement.

If the residential development includes fewer than 10 units, the Affordable Housing Plan must include all contiguous property under common ownership or control. “Common ownership or control” means that the contiguous property is owned or controlled (including by an option to purchase or a purchase agreement) by the same person, persons, or entity, or by separate entities in which any shareholder, partner, member, or family member of an investor of the entity owns ten percent (10%) or more of the interest in the property, as the property that is proposed for the residential development.

One of the most critical parts of the Affordable Housing Plan is the phasing of the inclusionary units in relation to the construction of market-rate units. Normally, each construction phase designated by the developer will contain the required inclusionary units for that construction phase, although different phasing may be approved if there is adequate security to ensure that the required inclusionary units will be built. For instance, a developer may choose to build extra inclusionary units in an early phase so that there may be a smaller number of inclusionary units for the other phases of construction.

Approval of Affordable Housing Plan

The Affordable Housing Plan is usually reviewed along with the required planning application and approved at the same time and by the same approval body that has authority to approve the planning application. For instance, if the project can be approved by the Planning Commission, the Affordable Housing Plan can also be approved by the Planning Commission. The Affordable Housing Plan will be approved if it conforms to the provisions of the Ordinance.

City Council approval is required if the applicant requests approval of any alternative listed in Section 17-13, including any of the following:

1. Land Dedication
2. Partnerships
3. Off-Site Construction
4. Transfers of Surplus Inclusionary Units
5. Other Options

After an applicant submits an Affordable Housing Plan to the City, the City will review it and notify the applicant within 30 days whether or not it is complete. The Department's decision regarding completeness and conformance may be appealed directly to the City Council within 10 days of the Department's decision by following the procedures for notice and hearing of an appeal specified in Sections 37-60.1270 – 37.60.1310 of the City's Zoning Ordinance.

Minor modifications to an approved Affordable Housing Plan may be approved by the City manager as provided in Section 17-16(d), if the modification is consistent with the original Affordable Housing Plan and conditions of approval. Other modifications must be processed as an amendment to the project approval.

D. INCLUSIONARY HOUSING AGREEMENT

The City will attach a condition of approval to all projects subject to the Ordinance requiring that an Inclusionary Housing Agreement be recorded prior to the approval of any final or parcel map, or issuance of any building permit (see Ordinance Section 17-16).

The Inclusionary Housing Agreement is a recorded contract between the City and the property owner describing the inclusionary units and income categories and explaining in detail how the units will be marketed and sold or rented. Its purposes are to ensure that the developer is aware of the implementation requirements and that the requirements are enforceable. The Inclusionary

Housing Agreement is recorded against all of the property that is part of the residential development and provides notice of the Agreement to future owners of the property.

Contents

Exhibit B lists the items that will be included in an Inclusionary Housing Agreement. The City Council, by resolution, will approve standard forms to be used. The City Manager or designee is authorized to vary the form of the Agreement to ensure that it is consistent with the Affordable Housing Plan approved by the City for the residential development. All property included in the project and, for projects with fewer than 10 units, all contiguous property under common ownership or control must be included in the Plan.

In some cases, where a project consists of rental units that are to be built in a single phase, the City and the developer may be able to agree on the terms of a rent regulatory agreement (discussed in Section Five) applying to the inclusionary rental units before any building permit is issued or a final or parcel map is recorded. In those cases, a rent regulatory agreement may be recorded in place of an Inclusionary Housing Agreement, so long as the rent regulatory agreement includes provisions for the timing of construction of the inclusionary units in relation to the construction of the market-rate units.

Covenant Running With the Land; Superior Position

The Inclusionary Housing Agreement must be executed and recorded against the entire residential property included in the project and, if included in the Affordable Housing Plan, any contiguous property under common ownership or control prior to or concurrently with the approval of any final or parcel map or issuance of any building permit for the residential development. The Agreement shall be recorded as a covenant running with the land and shall be recorded in first position, superior to other liens and encumbrances, except for:

(1) Liens to secure payment of real estate taxes and assessment, not delinquent;

(2) Non-monetary matters affecting the title which do not unreasonably impact the security of the Inclusionary Housing Agreement;

(3) A lien or regulatory agreement of a local, federal, or state governmental agency, provided that both of the following conditions are met:

  a. The public agency is providing financing or other assistance for the housing development; and

  b. The statute or regulation governing the financing or assistance from that agency does not permit the City's Inclusionary Housing Agreement to be senior to the agency's agreements; and

(4) Short-term financing (such as construction loans) when approved on a case-by-case basis by the City Manager and provided that subordination of the Inclusionary Housing Agreement serves the City's interest in creating affordable housing.

By City Council resolution, the City Manager or designee is authorized to implement this section and to execute Inclusionary Housing Agreements on behalf of the City.

Termination

The Inclusionary Housing Agreement may only be terminated as follows:

(1) *For-sale units:* The Inclusionary Housing Agreement may be terminated against the market-rate units as the inclusionary units in the construction phase are completed, or as otherwise approved by the City in the Affordable Housing Plan.

The Agreement will not be terminated against an individual inclusionary unit until close of escrow, when the City's equity-sharing agreement and deed of trust are recorded against the individual unit.

(2) *Rentals (for developments that choose to provide units):* Normally the Inclusionary Housing Agreement is replaced by a rent regulatory agreement when the property is ready for occupancy, and the Agreement is terminated after the rent regulatory agreement is recorded against the property. The rent regulatory agreement applies to the entire property, because the location of the inclusionary units within the complex may change over time. Where specific apartments are designated as inclusionary rental units, however, the appropriate conditions for termination of the Agreement will be determined as part of the approval of the Affordable Housing Plan for the project.

If, before construction begins, a rent regulatory agreement is recorded in place of an Inclusionary Housing Agreement, the rent regulatory agreement will not be terminated after construction is completed and will continue to restrict the property for the term of the agreement.

The City will record a release of the Inclusionary Housing Agreement at the time it is terminated.

E. COORDINATION WITH PERMIT CENTER FOR ISSUANCE OF BUILDING PERMITS AND APPROVAL OF FINAL INSPECTIONS

The Ordinance includes "concurrency requirements." These specify that a certain number of building permits must be issued for inclusionary units before the developer can be issued building permits or final inspection approvals for market-rate units.

Based upon the inclusionary option selected by the developer and the terms of the Inclusionary Housing Agreement, City Building Permit Center staff will maintain records sufficient to monitor both building permit issuance and final inspection approvals to ensure compliance with the Ordinance. Following receipt by the developer of required land use entitlements, the City Planning Division will advise the City’s Permit Center staff of the pending project and work with them to coordinate the issuance of building permits.

Payment of Rental Housing Impact Fees and In-Lieu Fees

Where the developer has elected to pay rental housing impact fees or in-lieu fees rather than construct affordable units, the fees will be collected by the Building Permit Center staff prior to issuance of each building permit for the project based on the fees in effect at the time the building permit is issued.

Building Permits and Occupancy – Concurrent Construction Requirements

A Building Permit Specialist will track the issuance of building permits by construction phase, noting the number of both inclusionary and market-rate unit permits. Building permits will only be issued for market-rate units according to the terms of the recorded Inclusionary Housing Agreement. However, the City may issue permits for inclusionary units earlier than specified in the plan.

The concurrency requirements are as follows:

The City may issue building permits for 50 percent of the market-rate units within a residential development before issuing any building permits for inclusionary units, and may approve certificates of occupancy or final inspections for 50 percent of market-rate units before approving any final inspections for inclusionary units. After this point, a developer may be issued building permits and receive final inspections for market-rate units after a proportional number of inclusionary units have been issued building permits or have received a final inspection.

For example, if a developer proposes a 100-unit development, and uses option 1, they are obligated to provide 20 inclusionary units, which means there will be 80 market-rate units. The City may issue building permits for 40 market-rate units (50% x 80) before issuing any building permits for inclusionary units, and may approve occupancy of 40 market-rate units before approving occupancy of any inclusionary units. If the City then issues building permits for 5 inclusionary units, the developer can receive a building permit for 10 additional market-rate units. In this example:

- 40 market-rate units receive building permits before any inclusionary unit receives a permit;
- 50 market-rate units may be issued building permits when 5 inclusionary units have received building permits;
- 60 market-rate units may be issued building permits when 10 inclusionary units have received building permits;
- 70 market-rate units may be issued building permits when 15 inclusionary units have received building permits;
- 80 market-rate units (all of the market-rate units) may be issued building permits when 20 inclusionary units (all of the inclusionary units) have received building permits.

The exact pattern of the concurrent production requirement will vary slightly because of rounding and fractions. However generally, after receiving permits for half the market-rate units, the following applies:

- Option 1 (20% of units are affordable) - Approximately two market-rate units issued permits for every affordable unit issued a permit.
- Option 2 (12% of units are affordable) – Approximately 3.6 market-rate units issued permits for every affordable unit issued a permit.
- Option 3 (15% of units are affordable) – Approximately 2.8 market-rate units issued permits for every affordable unit issued a permit.

The City has the option to grant additional flexibility for timing when developers partner with an experienced non-profit affordable housing provider. At its sole discretion, the City may issue building permits for 75 percent of market rate units within a residential development before issuing building permits for any inclusionary units if the developer is partnering with an experienced non-profit affordable housing provider.

At times, the required affordable housing units may not be equally divisible into the income categories as specified in the Ordinance. In this case, the affordability levels are described below:

Option 1 (20% mixed ownership and rental)	**Option 2 (15% all ownership)**	**Option 3 (12% all rental)**
The first two required inclusionary units shall be affordable to lower income households.	The first required inclusionary units shall be affordable to median income households.	The first required inclusionary units shall be affordable to very low income households.
The third required inclusionary unit shall be affordable to very low income households.	The second and third required inclusionary unit shall be affordable to moderate income households.	The second required inclusionary unit shall be affordable to low income households.
The fourth required inclusionary unit shall be affordable to moderate income households.	The fourth required inclusionary unit shall be affordable to median income households.	The third required inclusionary unit shall be affordable to very low income households.
The fifth inclusionary unit shall be affordable to workforce income households.	The fifth required inclusionary unit shall be affordable to workforce income households.	All additional required inclusionary units shall be provided in the same order as above.
All additional required inclusionary units shall be provided in the same order as above.	All additional required inclusionary units shall be provided in the same order as above.	

This table refers to the overall obligation, but not the timing of unit production, which will be specified in the affordable housing plan. Additionally, developers may substitute a lower income unit for a higher income unit requirement at any time.

Development in Phases

The City shall not be obligated to issue building permits or approve final building inspections requested by a developer if inclusionary units are not being issued building permits or final inspections in accordance with the recorded Inclusionary Housing Agreement.

SECTION TWO
ESTABLISHING AFFORDABLE PRICES AND RENTS

This section describes how to calculate affordable prices and rents (for rental developments that choose to participate).

A. AFFORDABLE PRICES AND AFFORDABLE RENTS

The City uses the State Department of Housing and Community Development (HCD) income limits as published annual for Monterey County based on household size for its inclusionary housing units. In calculating affordable rents, the City uses Section 8 Housing Voucher utility allowances as published by the Housing Authority of the County of Monterey (HACM).

Affordable sales prices for inclusionary units in residential projects will be determined by the City when the marketing plan is submitted for the inclusionary units in a construction phase. The City will determine property taxes, homeowner’s insurance, and other factors using available market information. The interest rate used will be the rate published by the Federal National Mortgage Association (FNMA) for a 30-year fixed rate first mortgage, unless the developer has obtained a commitment for permanent financing for the inclusionary units at another rate. The permanent financing must meet the standards for purchase money loans included in Section Three.

Exhibit C shows the methodology that will be used by the City to calculate affordable sales prices. Exhibit D shows the methodology that will be used by the City to calculate affordable rents. Exhibits C and D are designed to be consistent with the Ordinance.

SECTION THREE
MARKETING AND SELECTION OF BUYERS AND RENTERS

This section describes which households are eligible for inclusionary housing, explains City preferences for homebuyers and renters, and contains standards for marketing inclusionary units and for selecting eligible households to purchase or rent the inclusionary units.

A. ELIGIBLE HOMEBUYERS AND RENTERS

Inclusionary units are reserved for very low, low, median, moderate, or workforce-income households who meet the eligibility criteria in this section when the inclusionary units are rented or sold. Applicants for inclusionary ownership and rental units shall be solicited as necessary to maintain an adequate number of applications in each of the following applicant pools:

Very low income and lower income households occupy for-sale or rental inclusionary units, while for-sale inclusionary units are occupied by median income, moderate income, and workforce income households.

Definition of a Household or Family

A household, or family, is a group of individuals living together based on personal relationships. A person is not eligible to buy or rent an inclusionary unit if they are listed as a dependent on the tax return of a person who is not part of the household occupying the inclusionary unit. For instance, students claimed as dependents by their parents cannot purchase or rent an inclusionary unit.

Calculating Household Size

A household is comprised of one or more persons who may or may not be related based on personal relationships. An unborn child can be counted in family size once there is medical confirmation of pregnancy. An adoption process will be counted in family size with verification of the adoption process being underway. A child will be considered part of the household when the child lives with a single parent at least 75 percent of the time or, where there is joint custody, at least 50 percent of the time. The applicant will need to submit a copy of the divorce decree or child custody agreement as verifiable documentation. If a divorce is in process, it may not be possible to qualify an applicant because family size and financial status are unclear.

If a family member is permanently absent from the household (for instance, a spouse who is in a nursing home or legally separated), that the person is no longer a member of the household for purposes of the Ordinance.

Documentation acceptable to the City's Planning Manager will be required to substantiate that the household member is no longer residing with the rest of the household.

Income Limits

Income limits for very low, lower, median and moderate-income households, adjusted for household size, are as shown for Monterey County and published periodically in the California Code of Regulations, Title 25, Section 6932, or its successor provision. In the event that these income limits are no longer published periodically in the California Code of Regulations, the City Manager or designee will determine an alternate method of computing income limits for very low, lower, median, and moderate-income households.

Income limits for workforce-income households are computed by multiplying by two the income limits for lower income households in Monterey County, adjusted for household size, as published periodically in the California Code of Regulations, Title 25, Section 6932, or its successor provision, or as determined by the City if income limits are no longer published periodically.

Determining Household Income

Applicants' household annual gross income shall be calculated in accordance with the Technical Guide for Determining Income and Allowances for the HOME Program published by the U.S. Department of Housing and Urban Development (HUD), as it may be amended (the HOME Guide), and 24 CFR 5.609.

A copy of the HOME Guide is available for download here:

http://portal.hud.gov/hudportal/documents/huddoc?id=19754_1780.pdf

24 CFR 5.609 is available to be viewed here:

https://www.gpo.gov/fdsys/pkg/CFR-2016-title24-vol1/xml/CFR-2016-title24-vol1-sec5-609.xml

Exhibit E provides the definitions of what is included and excluded from the determination of annual gross income in accordance with the U.S. Code of Regulations. In summary, gross household income is the sum of all the income for every adult, 18 years or older, living in the unit. Sources of income include all wages, salaries, overtime pay, commissions, fees, tips, bonuses and other compensation, net income from a business or profession or from the rental of real or personal property, interest and dividends, payments received from social security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, payments in lieu of earnings, public assistance, alimony and child support received, and any other sources of income.

Documentation to Verify Sources of Income

The gross annual incomes of all household members age 18 or older are considered when determining eligibility. The types of income to be verified and the type of documentation that will be requested will include:

- 2 months most recent pay stubs

- Signed copies of federal tax returns for the three most recent years
- W2 forms for the most recent year
- 1099 forms for the most recent year 2 mos. most recent pay stubs
- Self-employed, the net income from the operation of the business
- 3rd party verification of employment
- Bank statements for the last two consecutive months (used to verify that the applicant has enough assets for the down payment and closing costs, but does not exceed the maximum asset limit of $75,000)
- Other sources of earnings such as child support, alimony, social security, etc.

All income documentations is based primarily on the applicant's income for the past year as evidenced by the documents listed above and additional verification, if requested, as listed below. Income calculations will not factor in any speculative or uncertain projection of lower or higher future earnings, such as calculations of bonuses and overtime, than was earned in the previous year. Where major changes have occurred in life circumstances since the applicant's last year of employment, including only such major changes as retirement, job loss, or disability or death of a wage earner, the City may deduct the projected income losses from the applicant's income for the past year.

Additional income verification may also be requested as follows:

Source of Income	**Documentation**
Salaries and wages	Verification from employer
Business income	Verification of income by a certified public accountant or bookkeeper including most recent quarterly profit/loss statement. For self-employed individuals or sole proprietor's, the City may use the most recent 1099 and tax returns.
Interest and dividend income	Current bank statements or dividend statements
Retirement and insurance income	Verification from source
Unemployment and disability income	Verification from source
Welfare assistance	Verification from source
Alimony, child support, gift income	Verification from source
Armed forces income	Verification from source
Other	Verification from source

Household income includes all payments from all sources received by all adult members of the household. The income of minors (household members less than 18 years old) and live-in aides is excluded.

For self-employed persons, the *net* income from the operation of the business is considered as the annual income, excluding deductions for capital expenditures and depreciation. Similarly, *net* income from property rental is considered as annual income, also excluding deductions for capital expenditures and depreciation.

Assets

There are limits to the amount of net assets that are used for eligibility for inclusionary for-sale and rental units. For households applying for inclusionary rental units, the limit is equal to the maximum household income limit adjusted for household size. For households applying to be an owner of an inclusionary unit, the maximum household asset limit is $75,000. Net assets only include liquid assets that do not incur a drawdown fee or penalty. Retirement accounts such as 401K and IRA accounts are not included as part of net assets.

The following chart contains the types of assets to be verified and the type of documentation that will be requested.

Assets	Documentation
Checking account, savings account, mutual fund, money market fund, certificates of deposit (C.D.)	Copies of two most recent statements
Stocks, including options	Copy of most recent stock certificate or proof of purchase and statement of current value; for stock prices attach a copy of recent dated newspaper or online source that shows the value of each company's stocks
Bonds, including savings bonds	Copies of most recent document
Trust	Copies of most recent document
Gift	Signed gift letter by all parties
Personal Loan	Letter or loan agreement
Down payment assistance	Copy of agreement
Other	Verification from source

Co-Applicants

The City or its designee will accept one application per household. A co-applicant is defined as an adult member of the household whether related or unrelated who intends to be a co-owner of the inclusionary unit. The combined income and assets of all adult members of the household (including co-applicants) to purchase or rent an inclusionary unit must not exceed the maximum income limits per household size and asset limitation for the program. All co-applicants must go through the same process as the applicant and must agree to comply with the program requirements.

Lender Preapproval

All prospective purchasers of inclusionary units must receive a preapproval letter from a residential lender for a loan that meets the City's standards for purchase money loans, which are described in Part E (Process for Sale of Inclusionary Units).

Homebuyer Education

Before purchasing an inclusionary home, all homebuyers must attend a City-approved homebuyer education class. These classes must cover the home buying process, terms of the City agreements, property maintenance, good neighbor practices, available financing, occupancy standards, loan closing, refinancing, predatory lending, credit and budgeting, and homeowner responsibilities. Prospective homebuyers may be found eligible before attending a homebuyer education class, but must present proof of attendance before closing escrow on their home.

Purchase of Inclusionary Units by Nonprofit Sponsors

In some instances, a nonprofit affordable housing sponsor may wish to purchase an inclusionary unit for occupancy by eligible persons who may require enhanced services. Examples may include use of a home for disabled persons or persons transitioning from homelessness. At any time prior to the marketing of the inclusionary units for sale, a nonprofit sponsor may request approval from the developer to purchase an inclusionary unit for affordable housing purposes. If the request is approved by the developer, at the developer's sole discretion, the nonprofit sponsor shall provide to the City Manager or designee written approval from the developer and information as may be required by the City to ensure that the unit will be used for affordable housing purposes, such as evidence of the sponsor's 501(c)(3) status, residents to be served, funding of operations, and similar information. Appropriate recorded agreements will be applied to the property at the time of sale to ensure that the occupants are income-eligible and that the home continues to be used for affordable housing purposes. No more than two inclusionary units may be purchased by nonprofit sponsors per development phase. The City will not subsidize the purchase of these units with federal or other funds unless specifically authorized by action of the City Council.

Ineligible Applicants - Conflicts of Interest

The following individuals are not eligible to purchase or rent inclusionary housing units in Salinas.

Planning Commissioners, City Councilmembers, and Certain City Staff

- Any member of the Salinas Planning Commission or City Council.

- Employees, other officials (not including City Council Members or Planning Commissioners), consultants and employees of consultants who have policy making authority or influence regarding City housing programs, administer City housing programs, or whose salary is paid in any part from a City housing program.

- Any person having any equity interest in a project that includes inclusionary units, or who is the applicant, including but not limited to a developer, partner, landowner, investor, or applicant (together the "Developer"). Officers and employees of the Developer are also ineligible.

- Any person considered to have a conflict of interest by the California Government Code, the regulations of the Fair Political Practices Commission, or Chapter 2A of the Salinas Municipal Code is ineligible to rent or purchase an inclusionary unit.

- Relatives of Planning Commissioners, City Council Members, Certain City Staff and Persons with an Equity Interest are also ineligible. For the purposes of eligibility, relatives are defined as spouses, children, parents, grandparents, brother, or sister, or a person in an equivalent position due to marriage (for instance, son-in-law and daughter-in-law), or anyone who may be claimed as a dependent.

Ineligible individuals shall not be added to any wait lists for affordable housing maintained by the City.

B. OCCUPANCY STANDARDS

To ensure the City's limited inclusionary units are used efficiently, a household must be of a size equal to the number of bedrooms in the inclusionary unit. Any household found eligible to purchase or rent an inclusionary unit must have the following minimum household size:

Number of Bedrooms	Minimum Household Size
SRO	1
One	1
Two	2
Three	3
Four	4

Disabled persons who require additional bedrooms may submit a request to the City for a larger home as a reasonable accommodation from these occupancy standards. (Disabled persons may also be entitled to other accommodations unrelated to the City's inclusionary housing policies.)

C. PREFERENCES FOR SALE AND RENTAL OF INCLUSIONARY UNITS

The City of Salinas has established preferences for rental or purchase of inclusionary units. First priority is given to those displaced by City actions. Second priority is given to those displaced by private market actions, while third priority is given to those who live or work in Salinas when they submit an application. Any other eligible household may purchase or rent an inclusionary unit if there are no households with priority.

If a residential development is receiving governmental financial assistance that does not permit these preferences, or requires different preferences, then the City's preferences will be modified as needed to conform to the terms of the other program.

The City will periodically review its preferences to ensure they are compliant with fair housing laws.

Households Displaced by City of Salinas Actions

First priority for an inclusionary unit must be given to a household displaced from a residence in the City by action of the City of Salinas. Proof of this priority can be established by submittal of a letter from the City of Salinas stating that the household will be or has been displaced due to the actions of the City. Owner-occupants displaced by the City through the enforcement of health and safety or other codes shall not qualify for this priority. This priority expires 12 months from the date of the displacement.

Renter Households Displaced by Private Sector Actions

Second priority for an inclusionary unit must be given to a renter household displaced from a residence in the City of Salinas due to either:

a. Conversion of renter-occupied units to condominiums; or

b. Demolition of an existing dwelling.

Proof of this priority can be established by a letter from the City of Salinas stating either that the City has approved conversion of the residence to a condominium; or that the City has approved a demolition permit for the residence. This priority expires 12 months from the date the tenant is required to move out of the dwelling unit.

Salinas Residents and Employees

Third priority is given to households that reside in, or are employed within, the City of Salinas when they submit an application.

Residency in the City may be established by a driver's license, utility bill showing residency in the City, income tax returns, voter registration, or other written documentation of residency.

Employment in the City requires paid labor in the City of Salinas or work for an employer located in the City of Salinas of at least 20 hours/week. Employment may be part time, seasonal, contractual, self-employment, temporary, or household employment. Employment may be established by a W-2 form from a business located in the City; income tax returns; 2 mos. pay stubs; cancelled check from employer; or employment verification form.

First-Time Homebuyers

For ownership units, within each of the above three preference categories, preference will be given to households that qualify as first-time homebuyers. A first-time homebuyer is a person who has not owned a home during the three-year period prior to the purchase of the inclusionary unit. A mobile home not on a permanent foundation is not considered a “home” for the purpose of this subsection.

A first-time homebuyer also includes a displaced homemaker. A displaced homemaker is an adult who has been legally separated from his or her spouse or domestic partner in the last three years, has no current ownership interest in a home, and has not had an ownership interest in his or her primary residence during the past three (3) years, except with his or her spouse or domestic partner. First-time homebuyer status is verified by a review of three years of federal income tax returns.

D. MARKETING OF INCLUSIONARY UNITS

All developers of inclusionary units must undertake a marketing effort targeted at eligible households.

Nondiscrimination

All inclusionary units must be marketed in a manner consistent with the federal Fair Housing Act, the California Fair Employment and Housing Act, the Unruh Act, and the Equal Credit Opportunity Act, and all materials must have a fair housing statement or logo. No person may be excluded from participation in, or denied the benefit of, or be subject to discrimination under any activity related to the sale or rental of the inclusionary units on the basis of his or her religion, age, race, color, creed, gender, sexual orientation, marital status, familial status, physical or mental disability, national origin, ancestry, source of income, or participation in Section 8.

Marketing Plan

The City must approve a marketing plan before it will issue any occupancy permits for either the inclusionary units or the market-rate units subject to the concurrency requirement in a building phase. Developers are urged to submit a marketing plan at least 90 days prior to their estimated completion date for their first phase of development and at least 60 days prior to their estimated completion date for subsequent phases. All marketing plans must contain the following:

(1) A description of the marketing that will be done for the inclusionary units, such as press releases, direct mailing, and advertising (including internet advertising). The City requires that all inclusionary units be advertised in The Californian and El Sol. The City will provide a list of organizations that must be notified and informational flyers must be available at City Hall and at the offices of the Housing Authority of the County of Monterey (or of a similar organization acceptable to City). The Fair Housing logo must be used on all marketing material.

(2) A one-page informational flyer in both English and Spanish suitable for advertising the availability of the inclusionary units, including a telephone number, fax number and e-mail address for interested applicants to contact for additional information.

(3) A copy of all marketing materials and materials to be given applicants (see list below). The City encourages the preparation of Spanish-language materials where appropriate.

(4) The process for accepting applications, including the number of phases and deadline for applications in the current phase of the project. Developers should allow a generous amount of time (at least 45 days) for applicants to submit complete applications, given the complexity of the process.

(5) For projects with more than 10 inclusionary ownership units in the current phase, the developer must arrange for at least two informational workshops for potential applicants, one in the evening during the week and one on a weekend. At least

one workshop must be conducted in Spanish, or in both Spanish and English.

For projects with fewer than 10 inclusionary ownership units in the current phase, the developer must arrange for information to be distributed in an appropriate forum, based on the developer's agreement with the City.

(6) The method to be used to verify City preferences (unless the preferences are modified by the developer's use of another source of financing) and to determine applicant eligibility (income and, for ownership units, lender preapproval letter).

(7) For projects with rental inclusionary units, a copy of the proposed lease or rental agreement and an explanation of any other criteria to be used by the manager to select tenants. For instance, the manager may require a minimum credit score. The marketing plan also describes the utilities to be paid by the tenant so that the maximum affordable rent can be determined. (See further description in Part F below).

(8) For projects with for-sale inclusionary units, a description of any financing to be made available to applicants, down payment assistance programs available, information needed to calculate the maximum sales price, and the unrestricted fair market value of the inclusionary units. (See further description in Part E below).

(9) A requirement that the developer's sales staff meet with the City's Housing Staff to receive training on the selection process and, for ownership units, the City homebuyer documents.

It is important that the developer's sales or management staff understand the application process and the restrictions placed on the inclusionary units by the City. In the case of for-sale inclusionary units, before entering into any purchase and sale agreement for the units, the developer's sales staff must receive training so that they understand and can explain the City's equity-sharing program, option to purchase, and other City restrictions such as the owner-occupancy requirement (further described in Section Four).

In the case of rental inclusionary units, it is important that the developer's management staff understand the consequences of future increases in income. Before entering into any lease or rental agreement for the inclusionary units, the developer's rental staff must receive training so that they can understand and explain the City's requirements and the consequences of future increases in income (further described in Section Five).

Each applicant for an inclusionary unit will receive a packet of information that includes:

- Developer application form approved by the City. The form will include such information as residency or employment certification; household composition; household income and assets; and, for homebuyers, form pre-approval lender letter;

- Explanation of the process used to select homebuyers or renters, as applicable;
- Eligibility requirements;
- The income level(s) and occupancy standards for the various units;
- Description of City preferences;
- Description of inclusionary units available, including number of bedrooms and general location;
- Price or rent of inclusionary units;
- Contact information for sales or rental office; and
- (For homebuyer units) the borrower's disclosure supplied by the City.

E. PROCESS FOR INITIAL SALE OF INCLUSIONARY UNITS

***Step* 1.** The developer submits a marketing plan with the information described in Part D above to the City for approval either 90 days prior to completion of the first inclusionary unit, in the first phase of a project, or 60 days before completion of the first inclusionary unit, in subsequent project phases. In addition to the information described in Part D, the marketing plan includes the following:

(1) A description of the financing terms to be made available to applicants for inclusionary units. If applicable, the developer identifies a lender or lenders willing to provide competitively priced purchase money mortgages meeting the City's standards explained below. However, the developer cannot require prospective buyers of inclusionary units to use the identified lender for permanent financing.

(2) A request that the City calculate the maximum initial sales prices for the for sale inclusionary units. To enable the City to calculate the prices, the developer must describe expected homeowners' association fees plus any special assessments, such as Mello-Roos payments. The developer may also provide additional information on costs that may affect the purchase price, such as the cost of private mortgage insurance or homeowners' insurance.

If all of the inclusionary units within a phase of the project are not sold within one year, the developer may request that the City re-calculate the permitted sales prices.

(3) The process for establishing the unrestricted fair market value of the inclusionary units, in order to determine the value of the initial subsidy to the buyer. The plan should indicate when appraisals of unrestricted fair market value will be completed for the inclusionary units. Individual appraisals may not be needed where inclusionary units are reasonably similar and the appraisal to be used was completed within six months of the initial sale of the reasonably similar unit. The City may elect to complete its own appraisal of the units' unrestricted fair market value. If the City and the developer cannot agree on the property's unrestricted fair market value, the parties will select a third appraiser to determine the unrestricted fair market value, with the City and the developer sharing equally in the cost of the appraisal.

***Step* 2.** After approval of the marketing plan and determination of the sales prices by the City, the developer markets the inclusionary units consistent with the marketing plan and makes application packets available to all who request them.

***Step* 3.** After the deadline for submitting applications, the developer reviews all applications and determines if the applicant is eligible to purchase a unit, based on income and preapproval letter. The developer must verify income as described in the developer's marketing plan. The developer then groups all apparently eligible applicants by the City's preference categories (residents displaced by public action, renters displaced by private action, those who live or work in the City, all others, and within each category, first-time homebuyers), unless another financing source requires changes in these preferences.

***Step* 4.** The developer submits to the City: a) a complete listing of developer pre-screened applicants, sorted by preference group, and indicating the developer's determination of eligibility (in hard copy and in an electronic format, either in Excel or Word and also in PDF format); b) the complete file for each applicant, numbered to correspond to the list of applicants; c) the form of purchase and sale agreement; and d) preliminary DRE public report, if applicable.

***Step* 5.** The City reviews and either approves or requests changes in the developer's submittals within 30 business days. Once the list of eligible applicants is approved, the City ranks all eligible applicants by preference group on a random basis, such as by a lottery. The developer must send written notice to applicants determined to be ineligible by the City.

***Step* 6.** The developer offers units to applicants beginning at the top of the list established by the City. The developer may not pass over an applicant higher on a list in favor of another because of a higher income. Applicants are to be taken in the order ranked and given a reasonable period of time to close escrow, normally 60 days after the unit's final inspection is approved, or after the applicant is selected to purchase a unit, whichever is later. The developer may only exclude ranked applicants because the applicants were not successful in obtaining financing, were not able to demonstrate the qualifying household income included in their application, or otherwise were not eligible. The developer must send written notice to any excluded applicant within 15 days of the decision to exclude the applicant; copies of such correspondence must be provided to the City. However, developers may close escrow on inclusionary units in any order as homebuyers are able to do so.

***Step* 7.** If the applicant enters into a purchase agreement for the unit, the developer provides to the City for review: a) the copy of the loan underwriting form (Form 1008); b) estimated HUD-1 Settlement Statement; c) legal description of the inclusionary unit; and d) appraised value of the inclusionary unit at unrestricted fair market value. Provided that the documents are consistent with previous representations, the City will provide to escrow, within fourteen working days of receipt of the required documentation, executed copies of its homebuyer documents, an executed release of the Affordable Housing Agreement to be recorded with the sale of the unit, and standard escrow instructions. The City will subordinate its deed of trust and option to purchase/equity-sharing agreement to acceptable purchase money loans listed after Step 8.

However, if the market price of the unit is equal to or below the affordable housing cost for a median, moderate, or workforce income household, no documents will need be recorded against the inclusionary units in the relevant income category. For example, if a developer is required to build two workforce housing units and the fair market value of the units is equal to or lower than the affordable price, the developer may sell the two units for fair market value and at resale, the owners will not be required to share any equity with the City. The City will, however, require verification that the unit was, in fact, sold at the affordable price.

The City may require more than fourteen working days to review the application if the documents provided show a significant change in the homebuyer's situation since the City's initial review of the file or if the City desires to obtain its own appraisal of unrestricted fair market value. IF THE PACKET IS INCOMPLETE, THE SALE CANNOT PROCEED UNTIL ALL NEEDED DOCUMENTS ARE PROVIDED.

***Step* 8.** If required to be recorded, the title company returns to the City a copy of the executed and recorded option to purchase and equity-sharing agreement, deed of trust, and request(s) for notice of default and the original executed copy of the City's promissory note and buyer's disclosure.

***Step* 9.** Within 21 days of completing the sale or rent of all inclusionary units, the developer shall notify all remaining applicants on the waiting list that they were not selected. Applicants shall be informed that they are welcome to reapply for later phases of development or for other projects. The developer shall notify the City once completing the notification.

Acceptable Purchase Money Loans. The following are acceptable purchase money loans for inclusionary units.

(1) Fully documented 30-year fixed rate fully amortized loans.
(2) Down payment/closing cost assistance programs provided by the state, federal or other community programs may be allowed upon review and approval by the City.
(3) Fees and charges to the borrower for the purchase money loan(s) must be reasonable and consistent with industry standards.

Homebuyers may have one or more purchase money loans, but each loan must meet the standards listed in (1) – (3).

Not Acceptable Purchase Money Loans. The following loans are *not* acceptable purchase money loans for inclusionary units:

(1) Loans permitting negative amortization (such as so-called "option ARM" loans).

(2) Loans requiring a balloon payment.

(3) Interest only loans.

(4) So-called "no documentation" loans.

(5) Loans otherwise not meeting the standards specified under "Acceptable Purchase Money Loans."

F. PROCESS FOR INITIAL RENT-UP OF INCLUSIONARY UNITS

In rental developments, the management firm is the entity that is responsible for occupant selection and documentation.

***Step* 1.** The developer submits a marketing plan with the information described in Part D above to the City for approval either 90 days prior to completion of the first inclusionary unit, in the first phase of a project, or 60 days before completion of the first inclusionary unit, in subsequent project phases.

In addition to the information described in Part D, the marketing plan includes the form of the rental agreement or lease to be used for the inclusionary units. The rental agreement or lease must incorporate provisions conforming with Section Five regarding periodic recertification of tenant incomes and the effect of increased income on the tenant's rent and ability to remain in the unit.

The marketing plan also includes proposed maximum rents for the inclusionary units; lists all utilities to be paid by the tenant; and explains any other criteria to be used by the manager to select tenants. For instance, the manager may require a minimum credit score.

***Step* 2.** After approval of the marketing plan and rents by the City, the developer markets the inclusionary units consistent with the marketing plan and makes application packets available to all who request them.

***Step* 3.** After the deadline for submitting applications, the developer reviews all applications and determines if the applicant is eligible to rent a unit, based on income, household size, and any other criteria approved by the City as part of the project's marketing plan. The developer must verify income as described in the developer's marketing plan. The developer then groups all apparently eligible applicants by the City's preference categories (residents displaced by public action, renters displaced by private action, those who live or work in the City, all others), unless the preferences are modified by the developer's use of another source of financing.

***Step* 4.** The developer submits to the City: a) a complete listing of all pre-screened applicants, sorted by preference group (if applicable), and indicating the developer's determination of eligibility (in hard copy and in an electronic format, either in Excel or Word); and b) the complete file for each applicant, numbered to correspond to the list of applicants.

***Step* 5.** The City reviews and either approves or requests changes in the developer's submittals within 30 business days.

***Step* 6.** The developer offers units to eligible applicants beginning with the first preference group, unless the City's preferences have been modified by the developer's use of another source of financing. Within each preference group, the developer may determine the order in which units are offered to eligible applicants. Applicants selected to rent an inclusionary unit must agree to sign the rental agreement or lease. Should the initial lease-up progress slowly, the developer may suggest alternate methods for consideration by City to avoid protracted vacancies in the inclusionary units.

***Step* 7.** After all of the inclusionary units are initially rented, or within 120 days of occupancy approval, whichever is earlier, the owner submits a monitoring report to the City as described in Section Five. If all of the inclusionary units have not been rented when the first report is submitted to the City, an additional monitoring report shall be submitted after all of the inclusionary units have been rented.

Exception for Projects with Other Financing. If a rental project is financed through a program that has occupant selection and income verification requirements stricter than those of the City, the developer may ask the City to defer to those requirements and not require additional documentation. If approved by the City, the developer may send to the City copies of documentation required for other monitoring agencies in place of the documentation required by these Guidelines.

SECTION FOUR
HOMEBUYER POLICIES

This section discusses the obligations of the buyers of the inclusionary units.

A. HOMEBUYER REQUIREMENTS

Unless the fair market value of the home is equal to or below the affordable ownership cost for a median, moderate, or workforce income household, the City will require all buyers of inclusionary homes to sign the following when they purchase their home:

(1) An option to purchase and equity-sharing agreement that will place certain restrictions on the homebuyers' use of their property and provide an option to purchase to the City in the event of default or desire to sell.

(2) A promissory note in favor of the City, secured by a deed of trust, to ensure repayment at the time of resale of the initial subsidy, which is equal to the difference between the affordable price and the unrestricted fair market value of the home at the time of initial sale. On resale, the homeowner must also pay the City interest on the initial subsidy and a share of any appreciation.

(3) A disclosure to the borrower.

At the time of the sale of the home, the City will also record a request for notice of default for all other financing recorded against the property at the time of sale.

The City keeps approved standard homebuyer documents to implement the City's policies on file. The City will subordinate its deed of trust and option to purchase/equity-sharing agreement to acceptable purchase money loans listed in Section Three (E) of these Guidelines.

Documents not in substantial conformance with the standard documents, including those designed for special situations, must be submitted to the City Council for review and approval. Minor modifications to the standard documents may be approved by the City Manager or designee if the City Manager or designee finds that the modifications are consistent with the Ordinance, Guidelines, and the Affordable Housing Plan and substantially in conformance with the standard documents.

Minimum Cash Available

The applicant(s) should have sufficient readily available assets for a minimum of 5% of the purchase price for down payment, plus closing costs and other associated fees. Gift funds can be applied toward the applicants 5% down payment assistance, a signed gift letter is required by all parties.

B. EQUITY SHARING AND INTEREST PAYMENT AT RESALE

If the documents listed in Section A above are recorded against the home, then, rather than restricting the price of homes on resale, the City allows homebuyers to sell their homes at unrestricted fair market value, but to repay the City the initial subsidy, plus interest on the initial subsidy, and a share of the home's appreciation. The repayments to the City are summarized in this section and described in detail in the option to purchase/equity-sharing agreement and borrower's disclosure. The term of the equity-sharing agreement is 30 years. At the end of the thirty-year term, the homeowner will owe the City only the difference between the initial affordable price and the unrestricted fair market value of the unit at the time of initial sale, plus interest on that amount.

Equity-Sharing Formula and Interest Payment

Upon resale, the home is sold at unrestricted fair market value, and the homeowner pays the City the following:

(1) Initial subsidy (difference between the initial unrestricted fair market value and the purchase price paid by the homebuyer);

(2) 3% simple interest on initial subsidy; and

(3) Share of appreciation (the difference between the initial unrestricted fair market value and the sales price of the home upon resale). The share of the appreciation retained by the homeowner is 3% times the number of years of occupancy. At 30 years, a homeowner will receive 100% of the share of appreciation.

TABLE 3: SHARING OF APPRECIATION AT RESALE EXAMPLES

Share of Appreciation	Year 1	Year 5	Year 10	Year 15	Year 20	Year 25	Year 30+
City Share	97%	85%	70%	55%	40%	25%	0%
Homeowner Share	3%	15%	30%	45%	60%	75%	100%

If the sales price of the home at resale is less than its unrestricted fair market value when it was initially purchased, then the initial subsidy to be repaid to the City will be equal to the difference between the purchase price paid by the homebuyer and the home's actual sales price. However, the City may conduct its own appraisal to verify that the home is actually being sold at unrestricted fair market value.

<u>Valuation of Improvements</u>

The homeowner is entitled up to a maximum of $14,000 for rehabilitation and other capital improvements that have an initial cost of $2,000 or more. The credit will be based on the valuation shown on the building permit issued for the capital improvements and will be added to the homeowner's share of appreciation at resale.

To be eligible for the credit, the capital improvements must be constructed with a building permit and be pre-approved by the City as an eligible capital expense. At resale, the building permit valuation of all pre-approved capital improvements will be added together to determine the homeowner's credit (up to the $14,000 maximum).

C. OCCUPANCY AS PRINCIPAL RESIDENCE

The inclusionary home must be the homebuyer's principal place of residence, and each homeowner must live in the home for at least ten months out of each calendar year. Annually, all homebuyers must certify to the City in writing that they are meeting this requirement.

However, if the homebuyer is required to relocate for employment or medical reasons for less than six months, the homebuyer may rent or lease the home with the approval of the City. The tenant's income cannot exceed the affordability level established for the home (very low, lower, median, moderate, or workforce), and the maximum rent that can be charged is the **lower** of: (i) rent affordable to a household at the income level of the home; or (ii) actual costs to the homeowner of principal, interest, homeowners' dues, property taxes, and insurance. The City may charge a fee for monitoring any rentals.

If a home is rented without permission, the City may sue to prevent the owner from renting out the home, and the homeowner will owe excess rents, if any, equal to the difference between the permitted rent and that charged the tenant. In addition, rental without permission or failure to occupy the home for at least 10 months out of every year constitutes a default, and the City may exercise its option to purchase the home or take any other enforcement action authorized by its agreement with the homeowner.

D. REFINANCE OF FIRST MORTGAGE

The City will subordinate its deed of trust and option to purchase/equity-sharing agreement to a refinanced first mortgage under the following conditions:

(1) Following the refinance, the principal amount of all debt secured by the home, including the principal, accrued interest, and appreciation share on the City's note, cannot exceed either (a) 90 percent of the unrestricted fair market value of the property, or (b) the existing balance of the original first lender loan, whichever is greater.

(2) The refinanced first lender loan must meet the same standards established in Section Three for a purchase money loan.

(3) If the existing balance of the original first lender loan plus the principal, accrued interest, and appreciation share on the City's note exceeds 90 percent of the unrestricted fair market value of the property, then the new first lender loan must reduce the owner's principal and interest payments.

(4) Borrower(s) pay the City a $500 refinance fee in escrow.

So that the City may verify compliance with the conditions listed above, a request for subordination should be accompanied by the following:

(1) Preliminary title report.

(2) Signed loan application for new loan.

(3) Preliminary loan approval document from new lender that describes new loan terms and conditions.

(4) Lender's appraisal.

(5) Estimated HUD-1 Settlement Statement.

(6) Prepared subordination agreement, in a form acceptable to the City Attorney.

(7) Prepared Request for Notice of Default, in a form acceptable to the City Attorney.

The City may require that an appraisal be completed at the homebuyer's expense by an appraiser approved by the City to verify the loan-to-value ratio.

E. SUBORDINATE FINANCING

The City will not allow owners of inclusionary homes to borrow additional funds in a position junior to the City's loan (which means a third or fourth mortgage, or an equity line of credit).

F. CITY OPTION TO PURCHASE; PROPERTY TRANSFERS

The City's agreement with buyers of inclusionary homes grants the City an option to purchase the home at unrestricted fair market value if it is sold during the 30-year term of the agreement. The City may assign its option to purchase the home to another public agency, a nonprofit organization, or a household meeting income and other requirements. If the City chooses not to exercise its option, it will normally use any funds it receives from the sale (repayment of initial subsidy, equity share, and interest payments) to subsidize a resale of the home to another eligible homebuyer at an affordable price, but may choose to use the proceeds for other affordable housing purposes.

Resale Procedures

The owner of an inclusionary unit must give the City thirty days notice of the owner's intent to sell or transfer the property. The owner must complete a pest control report and allow the City to inspect the property. The City will complete an appraisal to determine the unrestricted fair market value and decide within that 30-day period whether or not to exercise its option to purchase the property at unrestricted fair market value. If the City decides to exercise its option, or to assign the option to another person, it will close escrow within 45 days after deciding to exercise its option (assuming that the seller has met the terms of the purchase agreement). The seller will pay two and half percent (2.5%) of the sales price to the City rather than a real estate commission if the City exercises its option.

If the City exercises its option, and the seller desires to dispute the property's unrestricted fair market value, the seller must complete an appraisal at the seller's expense. If the City and the seller cannot agree on the property's unrestricted fair market value, the parties will select a third appraiser to determine the purchase price, with the City and seller sharing equally in the cost of the appraisal.

If the City decides not to exercise its option, then the homeowner may sell the property on the open market at unrestricted fair market value. The seller will pay a one percent (1%) sales price to the City at close of escrow to offset the administrative expenses relating to the inclusionary program. At least 15 days but not more than 45 days before the close of escrow, the seller must give the City the following documentation to ensure that the unit is being sold at unrestricted fair market value:

(1) Final sales contract.

(2) A declaration from the seller and buyer stating that the sales contract represents all consideration for the home.

(3) Name of title company and escrow holder.

If the City's appraisal was completed more than six months before the close of escrow or if the sales price is less than 95% of the City's appraisal of unrestricted fair market value, the City may complete another appraisal to verify that unit is being sold at unrestricted fair market value.

After close of escrow, the seller must give the City a copy of the HUD-1 settlement statement showing all payments made from escrow.

On any sale of the property, whether through exercise of the City's option or sale on the open market, the homeowner must repay the initial subsidy, accrued interest, and the City's share of appreciation.

Permitted Transfers

No permission from the City is required for the following transfers, but all owners of the inclusionary unit remain bound by the resale agreement and City note:

(1) a good faith transfer by an owner to a spouse or domestic partner where the spouse or domestic partner becomes the co-owner of the property;

(2) a transfer between spouses as part of a dissolution proceeding, or between domestic partners as part of the dissolution of a domestic partnership;

(3) a transfer by an owner into an inter vivos trust in which owner is the beneficiary;

(4) transfers by will or inheritance to an existing spouse, child, or domestic partner of the owner following the death of owner, providing that any inheriting child executes a new option to purchase and equity-sharing agreement, promissory note, and deed of trust with a 30-year term; and

(5) a transfer by operation of law on the death of a joint tenant.

A "domestic partner" is defined in Section 297 of the California Family Code. An individual is considered a domestic partner of the owner by presenting the Declaration of Domestic Partnership filed with the California Secretary of State.

The homeowner must provide the City with notice of these permitted transfers at least fifteen days before they occur, except that if a transfer occurs due to inheritance or to the death of an owner, the City must be notified within 30 days.

G. DEFAULT

The City's option to purchase the inclusionary unit may also be exercised if the homebuyer is in default for any reason. The most common reasons for default include:

(1) Failure to occupy the property as the principal residence of the owner, or renting the property without the City's permission.

(2) Non-permitted transfer of the property without notification to the City.

(3) Foreclosure on another deed of trust or mortgage.

(4) Bankruptcy.

(5) Misrepresentation when acquiring the home.

(6) Placing an additional encumbrance on the property without City approval.

If the homeowner is in default, the City will normally give the homeowner the opportunity to cure the default, unless there is a need to act immediately, such as in the case of foreclosure. The City may exercise its option to buy the home at an affordable price, or may choose to cure the default or utilize other legal remedies. These include foreclosure, injunction, or any other available legal action to enforce the affordability agreements.

SECTION FIVE
RENTAL POLICIES
(FOR DEVELOPMENTS THAT CHOOSE TO PARTICIPATE IN THE INCLUSIONARY PROGRAM)

This section discusses the continuing obligations of the developer and property manager in renting, monitoring and managing the inclusionary units.

A. RENT REGULATORY AGREEMENT

After the inclusionary rental units are built, the owner and the City enter into a Rent Regulatory Agreement, which is recorded against the property in place of the Inclusionary Housing Agreement. A deed of trust may also be recorded to secure the Rent Regulatory Agreement. A Rent Regulatory Agreement will have a term of 30 years and includes the following:

(1) Identification of inclusionary units.

(2) Occupancy requirements for inclusionary units.

(3) Allowable rents; procedure for setting initial rents, annual monitoring, and increasing rents.

(4) Provisions for initial verification and annual monitoring of tenant incomes.

(5) Procedures for initial marketing and rental of vacant inclusionary units.

(6) Management and maintenance procedures.

(7) Definitions of default and remedies for default, including default for inadequate maintenance and nuisances on the property.

(8) Provisions for a monitoring fee to be paid to the City.

The Rent Regulatory Agreement may be subordinated *only* to:

(1) Liens to secure payment of real estate taxes and assessments, not delinquent;

(2) Non-monetary matters affecting the title which, at the discretion of the City Manager or designee, do not unreasonably impact the security of the Rent Regulatory Agreement; and

(3) A lien or regulatory agreement of a local, federal, or state governmental agency, provided that both of the following conditions are met:

   a. The public agency is providing financing or other assistance for the housing development; and

   b. The statute or regulation governing the financing or assistance from that agency does not permit the City's Rent Regulatory Agreement to be senior to the agency's agreements.

B. MANAGEMENT PLAN

In addition to the Rent Regulatory Agreement, each project that has inclusionary units must prepare a Management Plan. While the Rent Regulatory Agreement is recorded against the property, the Management Plan is not and is intended to provide a greater level of detail than the Rent Regulatory Agreement. It must include the information specified for the rental marketing plan described in Section Three above, plus the following information:

(1) A brief history of the management entity and its previous experience managing other affordable rental complexes.

(2) Plan for maintaining occupancy of and marketing vacant inclusionary units.

(3) Means to select and verify the eligibility of applicants for vacant inclusionary units and to verify the City's preference categories (unless another government subsidy program modifies the preferences).

(4) Means to recertify annually the incomes of tenants in inclusionary units.

(5) Means to maintain a waiting list for vacancies.

(6) Provisions for annual reporting to the City of rents and tenant incomes.

(7) Non-discrimination and fair housing/non-discrimination provisions.

(8) Maintenance standards and house rules to be included in tenant leases.

(9) Contact information for use by the City, including a telephone number, e-mail address, and list of persons responsible for communication with the City.

(10) Form of the rental agreement or lease to be used for the inclusionary units. The owner shall apply the same rental terms and conditions to tenants of inclusionary units as are applied to all other tenants, except as otherwise required by the inclusionary Ordinance and these guidelines and/or other government subsidy programs. In particular, the rental agreement or lease must incorporate provisions required by this Section Five regarding periodic recertification of tenant incomes, the effect of increased income on the tenant's rent and ability to remain in the unit, and the tenant's obligation to comply with all monitoring requirements. A rental agreement or lease for inclusionary units will normally have at least a 12-month term.

The Management Plan must also provide that apartments be leased or rented in compliance with all federal, state, and City fair housing laws and regulations. Eligible applicants for inclusionary units shall not be discriminated against based on participation in rent subsidy programs, such as Section 8, or based on source of income.

If a project is financed through a program that requires a management plan that includes the above information, the City may elect to receive a copy of that management plan and not require an additional plan. If the other management plan contains some but not all of the above information, the City may limit its requirements to the information it needs.

C. RENTAL OF VACANT INCLUSIONARY UNITS

Whenever an inclusionary unit becomes available, the manager shall immediately notify the City. The owner of rental inclusionary units may fill vacant units in one of two ways:

(1) Selecting households that are qualified based on income and household size, so long as the owner complies with the marketing requirements included in the project's approved Management Plan, if any; or

(2) Selecting income-eligible households from the Section 8 voucher waiting list available from the Housing Authority of the County of Monterey.

D. CHANGES AND ADJUSTMENTS TO RENTS

Rents may be raised only once every twelve months based on increases in area median income, adjusted for assumed household size, as published periodically by the California Housing and Community Development Department in the California Code of Regulations, Title 25, Section 6932, or successor provision. Notices of rent increases must be provided to the City and to the tenants of the rental inclusionary units at least 30 days before the effective date of the rent increase, or as otherwise required by any law or subsidy program.

Rental Rate Determination

The City or its agent will determine the rental rate for inclusionary units by income level and household size. The rents will be determined based on the annual HCD published income limits and section 50053 of the California Health and Safety Code.

Annual rent (inclusive of fees and utilities) for very low-income units cannot exceed 30% of 50% of the area median income adjusted for the size of the household appropriate for the unit. Annual rent (inclusive of fees and utilities) for low-income units cannot exceed 30% of 60% of the area median income adjusted for household size appropriate for the unit.

Rent includes all charges related to occupancy of the unit including utilities, parking fees, fees for use of common facilities and other fees and charges. If utilities are not paid by the property owner, the rent for the inclusionary units must be adjusted downward to allow for a utility allowance calculated in accordance with the utility allowances published by the Housing Authority of the County of Monterey.

E. ON-GOING MONITORING

The manager of all inclusionary rental units must provide an annual report to the City by March 1 of each year. The annual report includes the following information:

(1) Income and household size of all households residing in inclusionary units;

(2) Identification of all inclusionary units by income category (very low, low, or moderate) and number of bedrooms within the development;

(3) Monthly rent charged for each inclusionary unit and any additional charges, including utilities, parking, and any other costs; and

(4) Percentage vacancy of inclusionary units during the previous year.

If a project is financed through an affordable housing program requiring annual reports that include the above information, the City may elect to defer to those requirements and not require additional monitoring reports. If approved by the City, the management firm may send to the City copies of the annual report required for other monitoring agencies.

The City may at its option perform additional monitoring of the inclusionary rental units, including review of management records, performance of an audit, contacts with tenants, and other reasonable monitoring to ensure compliance with the Inclusionary Housing Ordinance. For residential multi-family projects that include inclusionary rental units in their development the City will charge the owners an annual monitoring fee of $200/per unit for the duration of their regulatory term.

Occupancy Conditions

The approved tenant(s) must occupy the inclusionary rental unit during the entire term of the lease. If an additional occupant (roommate, family member, etc.) moves into the inclusionary unit, he/she will be considered part of the existing household. In such cases, the inclusionary tenant must notify the City or its agent prior to the move in date, and the entire household (including the new occupant) will be reevaluated to determine eligibility, include household income requirements. If the tenant(s) fail to receive approval from the City for any changes in occupancy or if the tenant(s) subleases the property, the tenant household will no longer be eligible to occupy the inclusionary unit.

Owning Property

The applicant(s) cannot own a home and/or be on title of a property in order to qualify for a inclusionary rental unit.

Annual Re-Certification of Income

At least once a year, the property owner shall requalify BMR tenants to verify that they are eligible to remain in inclusionary rental units. On an annual basis, requalification shall be based upon the inclusionary tenant's household income, as determined by HOME Part 5 income standards.

F. EFFECT OF INCREASED TENANT INCOMES

The manager must annually monitor the income of tenants in inclusionary units.

If annual monitoring shows that the income of a tenant household occupying a very low income inclusionary unit exceeds fifty percent (50%) of area median income, but not eighty percent (80%) of area median income, as adjusted for household size, the tenant household may remain in the unit at a rent that is affordable to lower income households. After that tenant household vacates the unit, it must again be rented to an eligible very low income tenant household at a rent that is affordable to very low income households.

If the income of a tenant household occupying either a very low income or a lower income inclusionary unit exceeds eighty percent (80%) of area median income, but does not exceed one hundred percent (100%) of area median income, adjusted for household size, then the tenant's rent may be raised to an affordable rent based on thirty percent (30%) of the household's actual income.

If the income of a tenant household occupying either a very low income or a lower income inclusionary unit exceeds one hundred percent (100%) of area median income, then the tenant household must be given six months' notice to vacate the unit. To avoid displacing these households, the owner may, at the owner's option and with the City's approval, allow the tenant to remain in the original unit at a market rent and designate the next newly vacated unit as the replacement inclusionary unit within the appropriate income category.

If the terms of another governmental subsidy restrict the owner's ability to raise the tenant's rent or to require the tenant to vacate the unit (for instance, for a tax credit project), then the City will modify its rent regulatory agreement so that these provisions are consistent among the various programs.

Unit Affordability	**Homeowner Income**	**Pricing**
Very Low Income	Below 50% of the area median income	Very Low Income pricing
Very Low Income	Between 50 and 80% of the area median income	Low Income pricing
Very Low Income	Between 80% and 100% of the area median income	30% of actual income
Very Low Income	Above 100% of area median income	Must vacate unit within 6 months or pay market prices
Low Income	Below 80% of the area median income	Low Income pricing
Low Income	Between 80% and 100% of the area median income	30% of actual income
Low Income	Above 100% of the area median income	Must vacate unit within 6 months or pay market prices

G. SALE OF INCLUSIONARY RENTAL UNITS AND CONVERSION TO CONDOMINIUMS

Any inclusionary rental units to be converted to condominiums, or which are initially rented despite a recorded condominium map, must be sold to households within the same affordability range as required for the inclusionary rental unit. In other words, a lower income rental unit must be sold at a price affordable to lower income households. Homebuyer documents ensuring the continued affordability of the unit must be recorded at the time of sale, and converted units must otherwise comply with all requirements applicable to owner-occupied inclusionary units.

Approval of Marketing Plans and sales are required prior to the sale of any rental inclusionary unit in the same manner as specified in Section Three above for sales of new inclusionary units to homebuyers.

State law (Government Code Section 66427.1) and Article VII, Chapter 31, of the Salinas City Code require that existing tenants be given the right of first refusal to purchase their apartment on the terms available to other tenants if it is converted to a condominium. An existing tenant in an inclusionary unit should be given the choice of purchasing their apartment at the restricted price, subject to all the requirements of the homebuyer program; or purchasing a market-rate unit in the condominium on the same market-rate terms available to other buyers. All condominium conversions and sales must comply with all other applicable State statutes and City Ordinances and policies.

SECTION SIX
SALINAS INCLUSIONARY HOUSING TRUST FUND

The Inclusionary Housing Trust Fund is a separate City fund established for the specific purpose of providing the City with funds to assist in the development, rehabilitation, or preservation of housing that is affordable to very low income, lower income, median-income, moderate income, and workforce income households in the City of Salinas. All in lieu fees, rental housing impact fees, promissory note repayments, shared appreciation payments, monitoring fees, penalties, and interest generated by inclusionary units or by monies in the Fund shall remain in the Fund. Monies in the Fund may be used for property acquisition, development assistance, construction, financing, rent subsidies, and other uses, and for other activities required to provide affordable housing, such as homebuyer education and the costs of administering programs to develop, rehabilitate, or preserve affordable housing.

In expending monies from the Fund, priority shall be given to affordable housing that is of a type, or made affordable at a cost or rent, for which there is a need in the City and which is not adequately supplied in the City by private housing development in the absence of public assistance.

EXHIBIT A
AFFORDABLE HOUSING PLAN CONTENTS

The Affordable Housing Plan need be only at the same level of detail as the application for a residential development. However, in every case except Specific Plans, the Affordable Housing Plan must indicate which inclusionary option (either Option 1, 2, 3 or alternative) the developer is selecting. No Affordable Housing Plan is required if the developer indicates in the initial application the developer's intent to pay rental housing impact fees or in-lieu fees.

Where the initial Affordable Housing Plan is not at sufficient detail to determine compliance with the Ordinance, the City may require additions to the Affordable Housing Plan as part of later planning approvals, or as part of the Affordable Housing Agreement. The Affordable Housing Plan must include:

1. Total number of dwelling units in the residential development: _______
2. Inclusionary option selected (One, Two, Three or Alternative): _______
3. Total number of inclusionary units provided: _______
4. Preliminary financial pro forma or other feasibility analysis, if an alternative is selected
5. Project Schedule and Timelines; phasing of construction of inclusionary units in relation to market-rate units
6. For each unit type or model home type, show the number of units, number of bedrooms, square footage, and tenure. This table may be expanded and duplicated for large and/or complex projects. If the project will be phased, complete a separate table for each phase of the project.
7. Site plan showing location of inclusionary units in the development. If the project will be phased, show the location of each phase. If the project consists of a multifamily building or buildings, provide a floor plan showing the location of the units in the structure, or, provide a narrative description sufficient for City to evaluate compliance with dispersal and other requirements.
8. If the project will be phased, describe the construction and completion schedule for the inclusionary units in relation to the market-rate units.
9. Describe the proposed design of the inclusionary units. (If designs are not being provided for the market-rate units as part of this planning application, designs for the inclusionary units may be submitted when they are submitted for the market-rate units.)
10. List any public subsidies or public financing that will be used for the inclusionary units. If public subsidies or public financing will be used, please provide a description of the financing type, the required length of affordability, and means to keep units affordable if different from the standard City affordability provisions.
11. If rental inclusionary units are proposed, complete the attached form.
12. For rental inclusionary units, describe:
    a. Means to be used to verify tenant incomes both at occupancy and annually.

b. Financing mechanism for on-going administration and monitoring.

13. Is the project requesting a density bonus, incentives, concessions or waivers? If so, please provide information as required by section 37-50.060 of the Zoning Ordinance.

14. If the project is requesting an alternative, provide a description of the alternative explaining how the alternative complies with each of the requirements for that alternative contained in Section 17-13.

SAMPLE AFFORDABLE HOUSING PLAN UNIT SUMMARY TABLE

INCOME LEVEL OF BUYERS	TYPE OF UNIT (single-family detached, townhouse or other attached, multifamily)	TENURE (rental or for-sale)	NUMBER OF UNITS	NUMBER OF BEDROOMS	SQUARE FOOTAGE	NUMBER OF BATHROOMS (Describe fixtures)	LAUNDRY FACILITIES (Unit hookups, or total number on-site)
Market-Rate Units							
Workforce Income							
Moderate Income							
Lower Income							
Very Low Income							

REQUEST TO PROVIDE AFFORDABLE RENTAL HOUSING

____
Date

(a) I have proposed a project for _____ residential units located at (address and assessor's parcel number):

____________________________________ ____________________________________
Address *Assessor's Parcel Number*

(b) The proposed project at the above address is subject Article 3, Chapter 17 of the Salinas Municipal Code related to affordable housing.

(c) To comply with Chapter 17, the project proposes to provide ____ units of rental housing affordable to ____ very low ___ lower income households by providing:

___ Affordable rental units in a rental residential development in conformance with Section 17-10.

___ Affordable rental units in a for-sale residential development in conformance with Section 17-9.

___ Affordable rental units in off-site affordable housing in conformance with Section 17-13(a).

(d) To comply with Chapter 17, the development proposes that each rental affordable unit will be subject to a rent regulatory agreement with a term of 30 years and will be rented to very low or low income households, as proposed in item (c) above, at affordable rents consistent with Health and Safety Code Section 50053 and regulations adopted by the California Department of Housing and Community Development (California Code of Regulations Title 25, Sections 6910 through 6924) or successor provisions.

(e) All proposed rental affordable units will not be subject to Civil Code Section 1954.52(a) nor any other provision of the Costa Hawkins Rental Housing Act (Civil Code Sections 1954.51 et seq.) inconsistent with controls on rents, because, pursuant to Civil Code Sections 1954.52(b) and 1954.53(a)(2), I hereby agree to the limitations on rents contained in subsection (d) above of this affidavit in consideration for the following direct financial contribution or any form of assistance specified in Chapter 4.3 (commencing with Section 65915) of Division 1 of Title 7 of the Government Code):

___ Waiver of Salinas rental housing impact fee in the amount of $________________;

___ Other direct financial contribution (please specify amount and source of funds: ____________________);

___ Density bonus, incentive, waiver, or other regulatory incentive of a form specified in Government Code §65915 *et, seq.* (please specify: ________________________);

___ Development agreement with City.

(f) I will enter into an agreement with the City to be recorded against the affordable rental property providing for the limitations on rents contained in subsection (d) above of this affidavit.

(g) I am a duly authorized officer, agent, or owner of the subject property.

____
Date

____
Signature

____
Name (Print), Title

EXHIBIT B
INCLUSIONARY HOUSING AGREEMENT CONTENTS

All Inclusionary Housing Agreements should include the following:

A. Legal description of the entire property

B. Location of the inclusionary units

C. Development schedule in relation to the market-rate units; implementation of concurrency requirements

D. Type and tenure of units (single-family, condominium, townhouse, etc.; rental or ownership)

E. Number of bedrooms, bathrooms, and square footage of inclusionary units

F. Unit design and appearance

G. Level of affordability and length of affordability

H. Procedures for marketing the units

I. If for-sale units:

1. Provisions for recording restrictions against individual units as the inclusionary units are sold, if required
2. Use of City Council resolution to set initial affordable sales prices when units are ready for occupancy
3. Procedures for selecting initial buyers and verifying incomes and preferences, including first-time homebuyer status.
4. Mechanism for terminating the Inclusionary Housing Agreement once homebuyer restrictions are recorded against title.

J. If rentals:

1. Provisions for recording permanent rent regulatory agreement
2. Use of City Council resolution to set initial affordable rentals when units are ready for occupancy
3. Procedures for selecting initial renters and verifying incomes and preferences
4. Mechanism for terminating the Inclusionary Housing Agreement once the rent regulatory agreement is recorded against title
5. Provisions for ongoing monitoring.

K. If approved as part of Option 3, timing of payment of in-lieu fees, dedication of land, or construction by a non-profit sponsor. Mechanism for terminating or modifying the Inclusionary Housing Agreement once the fees have been paid and the land has been dedicated; or inclusionary units constructed by the non-profit sponsor.

L. Provisions for payment of City fees

M. Provisions for minor and substantive amendments

N. Remedies in the event of default.

EXHIBIT C
CALCULATION OF AFFORDABLE RENTS

ASSUMED HOUSEHOLD SIZE:

	0-BR	1-BR	2-BR	3-BR	4-BR	5-BR +
Number of Persons	1	2	3	4	5	1 additional person for each additional bedroom

AFFORDABLE RENTAL HOUSING COSTS:

Very Low Income: 30% times 50% of the monthly area median income adjusted for family size appropriate to the unit

Lower Income: 30% times 60% of the monthly area median income adjusted for family size appropriate to the unit

UTILITY ALLOWANCES:

Utility allowances will be the Section 8 utility allowances published annually by the Housing Authority of the County of Monterey. To determine the rent that may be charged to tenants of inclusionary units, the monthly utility allowance is deducted from the affordable rent if the tenant pays for utilities. Any mandatory fees charged for use of the property must also be deducted from the affordable rent.

EXHIBIT D
CALCULATION OF AFFORDABLE SALES PRICES

ASSUMED HOUSEHOLD SIZE:

	0-BR	1-BR	2-BR	3-BR	4-BR	5-BR +
Number of Persons	1	2	3	4	5	1 additional person for each additional bedroom

AFFORDABLE OWNERSHIP HOUSING COSTS:

Median Income: 30% of 90% of the area median income, adjusted for family size appropriate to the unit.

Moderate Income: 30% of 110% of the area median income, adjusted for family size appropriate to the unit.

Workforce Income: 30% of 150% of the area median income, adjusted for family size appropriate to the unit.

AFFORDABLE OWNERSHIP SALES PRICE ASSUMPTIONS:

Homeowners' Insurance	0.25% of Appraised Value
Homeowners' Association Fees	Project Specific (if required)
Private Mortgage Insurance (PMI)	0.5% of Mortgage (if required)
Property Taxes and Property Assessments	1.25% of Sales Price
Loan Terms	30 yr. Fully Amortized Principal + Interest, FNMA Interest Rate %
Downpayment	5.0% of Sales Price

EXHIBIT E
HOME PART 5 INCOME INCLUSIONS AND EXCLUSIONS

Part 5 Inclusions

This table presents the Part 5 income inclusions as stated in the Code of Federal Regulations

General Category	Statement from 24 CFR 5.609 paragraph (b) (April 1, 2004)
1. Income from wages, salaries, tips, etc.	The full amount, before any payroll deductions, of wages and salaries, overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services.
2. Business Income	The net income from the operation of a business or profession. Expenditures for business expansion or amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation of assets used in a business or profession may be deducted, based on straight-line depreciation, as provided in Internal Revenue Service regulations. Any withdrawal of cash or assets from the operation of a business or profession will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested in the operation by the family.
3. Interest & Dividend Income	Interest, dividends, and other net income of any kind from real or personal property. Expenditures for amortization of capital indebtedness shall not be used as deductions in determining net income. An allowance for depreciation is permitted only as authorized in number 2 (above). Any withdrawal of cash or assets from an investment will be included in income, except to the extent the withdrawal is reimbursement of cash or assets invested by the family. Where the family has net family assets in excess of $5,000, annual income shall include the greater of the actual income derived from all net family assets or a percentage of the value of such assets based on the current passbook savings rate, as determined by HUD.
4. Retirement & Insurance Income	The full amount of periodic amounts received from Social Security, annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts, including a lump-sum amount or prospective monthly amounts for the delayed start of a periodic amount (except as provided in number 14 of Income Exclusions).
5. Unemployment & Disability Income	Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation, and severance pay (except as provided in number 3 of Income Exclusions).
6. Welfare Assistance	Welfare Assistance. Welfare assistance payments made under the Temporary Assistance for Needy Families (TANF) program are included in annual income: Qualify as assistance under the TANF program definition at 45 CFR 260.31; and Are otherwise excluded from the calculation of annual income per 24 CFR 5.609(c). If the welfare assistance payment includes an amount specifically designated for shelter and utilities that is subject to adjustment by the welfare assistance agency in accordance with the actual cost of shelter and utilities, the amount of welfare assistance income to be included as income shall consist of: the amount of the allowance or grant exclusive of the amount specifically designated for shelter or utilities; *plus* the maximum amount that the welfare assistance agency could in fact allow the family for shelter and utilities. If the family's welfare assistance is reduced from the standard of need by applying a percentage, the amount calculated under 24 CFR 5.609 shall be the amount resulting from one application of the percentage.
7. Alimony, Child Support, & Gift Income	Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from organizations or from persons not residing in the dwelling.
8. Armed Forces Income	All regular pay, special day and allowances of a member of the Armed Forces (except as provided in number 7 of Income Exclusions).

EXHIBIT E
HOME PART 5 INCOME INCLUSIONS AND EXCLUSIONS

Part 5 Exclusions

This table presents the Part 5 income exclusions as stated in the Code of Federal Regulations

General Category	Statement from 24 CFR 5.609 paragraph (c) (April 1, 2004)
1. Income of Children	Income from employment of children (including foster children) under the age of 18 years.
2. Foster Care Payments	Payments received for the care of foster children or foster adults (usually persons with disabilities, unrelated to the tenant family, who are unable to live alone).
3. Inheritance and Insurance Income	Lump-sum additions to family assets, such as inheritances, insurance payments (including payments under health and accident insurance and worker's compensation), capital gains and settlement for personal or property losses (except as provided in number 5 of Income Inclusions).
4. Medical Expense Reimbursements	Amounts received by the family that are specifically for, or in reimbursement of, the cost of medical expenses for any family member.
5. Income of Live-in Aides	Income of a live-in aide (as defined in 24 CFR 5.403).
6. Disabled Persons	Certain increases in income of a disabled member of qualified families residing in HOME-assisted housing or receiving HOME tenant-basedrental assistance (24 CFR 5.671(a)).
7. Student Financial Aid	The full amount of student financial assistance paid directly to the student or to the educational institution.
8. Armed Forces Hostile Fire Pay	The special pay to a family member serving in the Armed Forces who is exposed to hostile fire.
9. Self-Sufficiency Program Income	a. Amounts received under training programs funded by HUD. b. Amounts received by a person with a disability that are disregarded for a limited time for purposes of Supplemental Security Income eligibility and benefits because they are set side for use under a Plan to Attain Self-Sufficiency (PASS). c. Amounts received by a participant in other publicly assisted programs that are specifically for, or in reimbursement of, out-of-pocket expenses incurred (special equipment, clothing, transportation, childcare, etc.) and which are made solely to allow participation in a specific program. d. Amounts received under a resident service stipend. A resident service stipend is a modest amount (not to exceed $200 per month) received by a resident for performing a service for the PHA or owner, on a part-time basis, that enhances the quality of life in the development. Such services may include, but are not limited to, fire patrol, hall monitoring, lawn maintenance, resident initiatives coordination, and serving as a member of the PHA's governing board. No resident may receive more than one such stipend during the same period of time. e. Incremental earnings and benefits resulting to any family member from participation in qualifying state or local employment training programs (including training not affiliated with a local government) and training of a family member as resident management staff. Amounts excluded by this provision must be received under employment training programs with clearly defined goals and objectives, and are excluded only for the period during which the family member participates in the employment training program.
10. Gifts	Temporary, nonrecurring, or sporadic income (including gifts).
11. Reparations	Reparation payments paid by a foreign government pursuant to claims filed under the laws of that government by persons who were persecuted during the Nazi era.
12. Income from Full-time Students	Earnings in excess of $480 for each full-time student 18 years old or older (excluding the head of household or spouse).
13. Adoption Assistance Payments	Adoption assistance payments in excess of $480 per adopted child.
14. Social Security & SSI Income	Deferred periodic amounts from SSI and Social Security benefits that are received in a lump sum amount or in prospective monthly amounts.
15. Property Tax Refunds	Amounts received by the family in the form of refunds or rebates under state or local law for property taxes paid on the dwelling unit.
16. Home Care Assistance	Amounts paid by a state agency to a family with a member who has a developmental disability and is living at home to offset the cost of services and equipment needed to keep this developmentally disabled family member at home.

EXHIBIT E
HOME PART 5 INCOME INCLUSIONS AND EXCLUSIONS

Part 5 Exclusions

This table presents the Part 5 income exclusions as stated in the Code of Federal Regulations

17. Other Federal Exclusions	Amounts specifically excluded by any other federal statute from consideration as income for purposes of determining eligibility or benefits under a category of assistance programs that includes assistance under any program to which the exclusions of 24 CFR 5.609(c) apply, including: • The value of the allotment made under the Food Stamp Act of 1977; • Payments received under the Domestic Volunteer Service Act of 1973 (employment through VISTA, Retired Senior Volunteer Program, Foster Grandparents Program, youthful offender incarceration alternatives, senior companions); • Payments received under the Alaskan Native Claims Settlement Act; • Income derived from the disposition of funds to the Grand River Band of Ottawa Indians; • Income derived from certain submarginal land of the United States that is held in trust for certain Indian tribes; • Payments or allowances made under the Department of Health and Human Services' Low-Income Home Energy Assistance Program; • Payments received under the Maine Indian Claims Settlement Act of 1980 (25 U.S.C. 1721); • The first $2,000 of per capita shares received from judgment funds awarded by the Indian Claims Commission or the U.S. Claims Court and the interests of individual Indians in trust or restricted lands, including the first $2,000 per year of income received by individual Indians from funds derived from interests held in such trust or restricted lands; • Amounts of scholarships funded under Title IV of the Higher Education Act of 1965, including awards under the Federal workstudy program or under the Bureau of Indian Affairs student assistance programs; • Payments received from programs funded under Title V of the Older Americans Act of 1985 (Green Thumb, Senior Aides, OlderAmerican Community Service Employment Program); • Payments received on or after January 1, 1989, from the Agent Orange Settlement Fund or any other fund established pursuant to the settlement in the In Re Agent Orange product liability litigation,M.D.L. No. 381 (E.D.N.Y.); • Earned income tax credit refund payments received on or after January 1, 1991, including advanced earned income credit payments; • The value of any child care provided or arranged (or any amount received as payment for such care or reimbursement for costs incurred for such care) under the Child Care and Development Block Grant Act of 1990; • Payments received under programs funded in whole or in part under the Job Training Partnership Act (employment and training programs for Native Americans and migrant and seasonal farm workers, Job Corps, state job training programs and career intern programs, AmeriCorps); • Payments by the Indian Claims Commission to the Confederated Tribes and Bands of Yakima Indian Nation or the Apache Tribe of Mescalero Reservation; • Allowances, earnings, and payments to AmeriCorps participants under the National and Community Service Act of 1990; • Any allowance paid under the provisions of 38 U.S.C. 1805 to a child suffering from spina bifida who is the child of a Vietnam veteran; • Any amount of crime victim compensation (under the Victims of Crime Act) received through crime victim assistance (or payment or reimbursement of the cost of such assistance) as determined under the Victims of Crime Act because of the commission of a crime against the applicant under the Victims of Crime Act; and • Allowances, earnings, and payments to individuals participating in programs under the Workforce Investment Act of 1998.

HOUSING
IMPACT FEE
NEXUS STUDY

SUBMITTED TO

City of Salinas

January 2016

Prepared by

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HOUSING IMPACT FEE NEXUS STUDY
CITY OF SALINAS

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HOUSING IMPACT FEE NEXUS STUDY
CITY OF SALINAS

EXECUTIVE SUMMARY

As part of the review and update of the City's Inclusionary Ordinance, the City is looking at the possibilities of enacting a housing impact fee (discussed in this report) and a Commercial Linkage Fee (discussed in another nexus study report). The City of Salinas does not currently have a Housing Impact Fee. A Housing Impact Fee would be charged on new residential developments in order to help pay for an increase in affordable housing demand associated with the hiring of new workers who are employed to provide the goods and services needed by renters and buyers living in newly built residential developments. (In comparison, a Commercial Linkage Fee is charged on new commercial developments to offset affordable housing impacts from new employees working in these new commercial spaces.) In order to demonstrate an essential nexus (connection) between new housing development and the impact to affordable housing to justify a new fee on residential development, it is necessary to undertake a Housing Impact Fee Nexus Study. This Nexus Study provides this analysis and is a companion study to the *Commercial Linkage Fee Nexus Study* also prepared as part of the update to the Inclusionary Housing Program.

The purpose of this nexus analysis is to quantify the increase in demand for affordable housing that accompanies new residential development. It is assumed that there will be a net gain in employment when new residential units are built. (For example, child care, food service jobs and landscaping work will all be needed because of the new residential units.) Unlike other types of impact fee studies, the affordable housing impacts are not direct. Instead, they are derived from the expenditures of residents moving into newly constructed residential units.

The ability of new employees generated by the net gain in employment when new residential units are built to pay for housing costs is linked to their occupations (and hence salaries). Additional housing units will be needed for those employees who will work in Salinas and who want to live in Salinas as well. Housing units at all price levels are needed. Given anticipated incomes, there is an affordability *gap* between what some households can afford to pay (to rent or to buy) and the actual costs of new residential development. This gap provides the basis for a fee calculation.

Based on current and potential residential developments in the future growth areas, this Nexus Study examines three residential prototypes. These include (1) Single Family Low Density Units, (2) Single Family/Townhome Units on Small Lots, and (3) Apartment Units.

The per unit fee amounts calculated for this study are directly related to potential sales prices and potential market rents. However, the square foot fee amounts are related not only to these potential prices and rents, but also to the average sizes of units in each of the prototypes. Consequently, although the per unit fee calculated for the single family low density prototype is the highest of the three prototypes, the square foot fee calculated for the apartment units (that are less than half the size of the single family low density units) are the highest of the three prototypes.

Table ES-1 below presents the maximum fee amounts for each residential prototype, as well as three reduced fee scenarios, assuming the same fee per square foot for all residential prototypes. While a Nexus Study establishes a maximum fee level for the City's consideration, the City can select a lower fee amount.

Table ES-1: City of Salinas Potential Housing Impact Fees per Unit and Square Foot (Rounded Values)

	Low Density Single Family Homes	Small Lot Single Family/Townhomes	Apartments
Average Unit Size (Square Feet)	2,600	1,750	1,060
Maximum Fee Amount Per Unit (1)	$34,000	$22,000	$21,000
Maximum Fee per Square Foot	$13	$13	$20
Fee Scenarios (2)			
Scenario #1: Fee/Unit	$26, 000	$17,500	$10,600
Scenario #1: Fee per Square Foot	$10	$10	$10
Scenario #2: Fee Per Unit	$13,000	$8,750	$5,300
Scenario #2: Fee per Square Foot	$5	$5	$5
Scenario #3: Fee Per Unit	$5,200	$3,500	$2,120
Scenario #3: Fee per Square Foot	$2	$2	$2

(1) The full fee represents a fee if all affordable housing impacts are considered within Monterey County.
(2) The fee scenarios are fixed dollar amounts below the maximum fee level.
Sources: Tables 3 and 8.

The study process was guided by a seven member Technical Advisory Committee (TAC), with additional input from a Resource Group. The TAC was made up of a broad set of stakeholders including developers, affordable housing advocates, land use law experts and others. The TAC, which met throughout the process, helped finalize key decisions, such as which prototypes to study. The Resource Group was made up mostly of developers with technical expertise. The next step in the study process is for public officials in the City to consider whether to adopt a Housing Impact Fee, and if so, at what level. In making this decision, the City will take into consideration many factors that could affect the proposed fee's impact on residential development feasibility, such as whether it will also be adopting a Commercial Linkage Fee on new commercial developments, housing impact fees in neighboring jurisdictions, financial feasibility, as well as the overall existing City fees already charged on residential developments, as well as other affordable housing requirements.

INTRODUCTION

The City of Salinas is potentially interested in adopting a housing impact fee on new housing developments. The purpose of this fee would be to mitigate the impact of an increase in demand for affordable housing due to employment growth associated with potential new housing development. The City has also commissioned a Commercial Linkage Fee Study which calculated the demand for affordable housing due to direct employment growth associated with new commercial developments. In this way, the City could distribute the responsibility for affordable housing associated with real estate development across both commercial and residential developments.

The City authorized a Housing Impact Fee Study as part of an evaluation of its inclusionary program. While it is possible for the City to continue to operate an inclusionary program for ownership units, it cannot include rental units in its Inclusionary Program. Due to a state court decision (referred to as the Palmer Decision), it is no longer possible to apply inclusionary zoning requirements on new rental developments, unless the developer receives assistance from the City and the developer agrees by contract to limit rents. The assistance can take many forms including increased density.

However, a rental housing impact fee established through a nexus study will allow the City to collect housing impact fees from the developers of new rental housing. This Nexus Study also undertakes the calculations for an ownership housing impact fee. Finally, information provided by this Study (housing affordability gap) can also be used to update the City's in-lieu fee for the City's Inclusionary Housing Program.

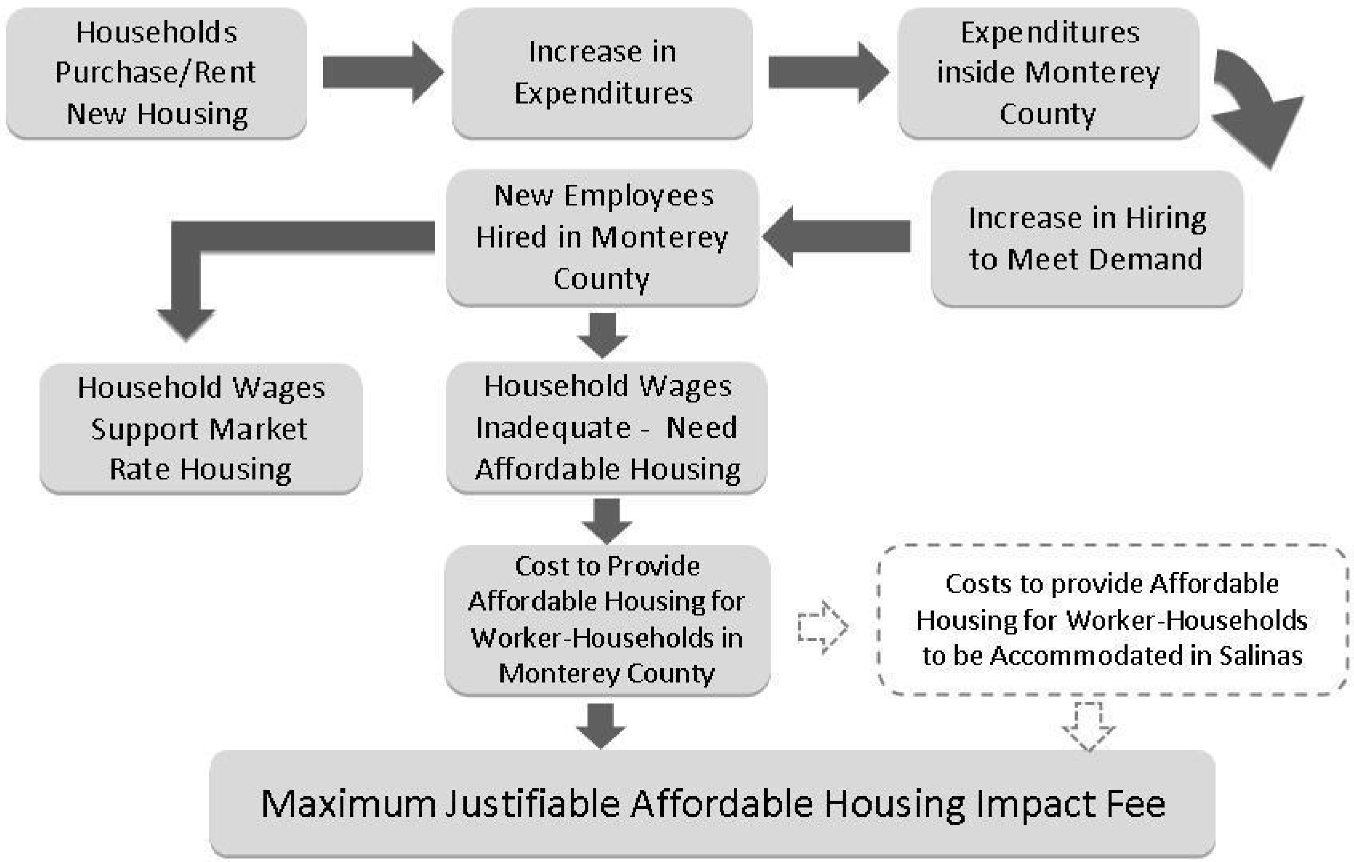
In order to establish these fees, nexus studies are required under California law. In the case of residential development, a nexus study establishes and quantifies a link or nexus between new residential development and the need for additional housing affordable to new workers. Nexus studies for school impact fees, traffic mitigation fees, and park fees are common. Although nexus studies for housing impact fees are less common, a peer-validated methodology exists that establishes a connection between the development of market rate housing and the need to expand the supply of affordable housing. This study is based on this methodology.

The approach for this Nexus Study is to quantify the number of new employees that need to be accommodated in the City of Salinas in order to provide goods and services to the market rate households that are moving into Salinas and renting or purchasing new housing. Although growth in employment will provide jobs at various wage rates, many of the new jobs will be at low-wage rates in retail trade and services. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Salinas, a housing impact fee can be justified to bridge the difference between what these new households can afford to pay and the costs of developing new, modest housing units for them.

This approach assumes that the development of new market rate housing units creates a situation in which low-wage households need to move to the City of Salinas in order to provide goods and services to the residents of new market rate housing. In the absence of market rate residential growth, new employees would not be needed to fill the employment demand created by new residents, and hence there would not be a need for a housing impact fee.

Figure 1 presents a diagram of this approach.

Affordable Housing Impact Fee Nexus Analysis



HOUSING PROTOTYPES USED IN STUDY

The first step in a nexus analysis is to model residential housing prototypes to use in the study. The prototypes establish the types of market rate housing development that are occurring or are expected to occur in the City that could potentially be subject to the affordable housing impact fee. The fees calculated in this nexus study are only applicable to the housing prototypes defined in this analysis.

Based on historical development trends, market data, developer interviews, and input from city staff, the Consultant Team constructed three housing prototypes that represent the type of development that is likely to occur in Salinas: for-sale single-family, low-density homes, for-sale small lot single family or townhomes, and rental apartments. While these prototypes are based on actual developments, they are not intended to represent specific development projects. Instead, they are designed to illustrate the types of projects that are likely to be built in Salinas in the near future. Tables 1 and 2 provide the background market information that was consulted in the development of the prototypes used in this Study.

It should be noted that the slowdown in new residential development that characterized both the state and the nation also impacted the City of Salinas. There was very little new residential construction during the period 2008-2015, and the housing market is only now recovering.

Because the model looks at impacts from new development, the prototypes are based on recent trends in new construction. Patterns in the resale market are summarized in the housing element.

Table 1: Planned and Newly Constructed, For-Sale Developments (City of Salinas and Selected Locations in Monterey County (2008-2015)

Prototype	Location	Number of Units	Unit Size	Sales Price	Price per SF	# of Bed-rooms	No. of Bath-rooms	Parking	Density/Lot Sizes
Single Family Homes-Low Density									
Monte Bella, Tesori (under construction)	Salinas	77 (About 27 are complete and 50 are under construction)	2,260 SF Average	$415,000 to $510,000	$184 to $226/SF	3	3	450 SF Garages	5 du/acre
Monte Bella Phase 4: 2011	Salinas	125 Lots	2,872 SF Average	$364,643	$128/SF	4	3	450 Sf Garages (Median)	5,500 - 6,827 SF
East Garrison: Some units completed, and others are under construction.	Unincorporated Monterey County	200	1,575 - 2,877 SF	$452,000 - $655,000	$228/SF to $287/SF	3 - 5	2.5 - 3	500 SF Garages (average)	Lot sizes - average 3,840 SF
Single Family Small Lot/Townhomes									
The Commons at Rogge Road (2008)	Unincorporated Monterey County	123	Average size of 1,567 SF	$254,267 (average)	$123/SF average	3 - 4	3	366 SF Garages (averages)	High Density (15 du/acre)
Sea Houses (Duets), part of The Dunes, opening in 2015	Marina	92	1,523 - 1,896 SF	$495,000 - $544,000	$287/SF to $325/SF	2 - 4	2.5	400 SF Garages	2,500 - 3,500 SF
Surf House, part of The Dunes, opening in 2015	Marina	105	1,928 - 2,158 SF	$599,000 - $634,000	$294/SF to $311/SF	3 - 4	2.5	400 SF Garages	2,500 - 3,500 SF

Sources: Interviews with local developers, and review of information on developers' websites (2015).

Table 2: Planned and Newly Constructed, Rental Developments (City of Salinas, 2008-2015)

Prototype	Location	Number of Units	Unit Size	Monthly Rent	Price per SF	Average # Bedrooms	Average # Bathrooms	Parking
Apartments								
Creekbridge Apartments (2015)	Salinas - Located in Creekbridge Retail Center.	36						One covered parking space assigned to each unit and 44 open spaces.
	One-Bedroom Units	6	772 SF	$1,265 - $1,290	NA	1	1	
	Model #1 (two-bedroom units)	6	972 SF	$1,465	NA	2	2	
	Model #2 (two-bedroom units)	6	1,026 SF	$1,515	NA	2	2	
	Three-Bedroom Units	12	1,192 SF	$1,765	NA	3	2	
	Four-Bedroom Units	6	1,407 SF	$1,890	NA	4	2	

Sources: Interviews with local developers, and review of information on developers' websites (2015).

Based on the information presented in Tables 1 and 2, new and proposed residential developments used in this Study are described as follows:

- **Single Family Homes-Low Density**
  Density: 6 DU/Acre (average)
  Lot Size: 5,000 SF
  Average House Size: 2,600 SF
  Sizes: Three to four bedrooms, three bathrooms
  Parking: 450 SF garages
  Average Prices: $415,000 to $520,000

- **Single Family/Townhome Small Lot**

  Density: 9 - 15 DU/Acre
  Lot Sizes: 3,000 SF
  Average House Size: 1,500 SF
  Sizes: Three to four bedrooms, three bathrooms
  Parking: 400 SF garages
  Average Price: $275,000 to $310,000

- **Apartments** – No change (based on Creekbridge Apartments)

  Density: 16 - 24 DU/Acre
  Sizes: One to four bedroom units, 1 to 2 bathrooms
  Parking: One covered space
  Rents: $1,265 - $1,890 per month

These unit descriptions are also consistent with requirements of the new residential balance proposed for the Future Growth Areas, and were approved by the Technical Advisory Committee.

Finally, Table 3 presents three prototypes. The prototype information includes residential unit descriptions, including rents and sales prices, as well as the number of units in each prototype. These unit counts do not conform to a specific project in Salinas or Monterey County, but are expressed in rounded numbers to simplify reporting.

Table 3: City of Salinas, Residential Prototypes Used in Nexus Study

	No. of Units in Prototype[1]	Sales Prices	Monthly Rents (Weighted Average)
Low Density Single Family	**40**		
Three-Bedrooms, Three Baths	20	$415,000	
Four-Bedrooms, Three Baths	20	$520,000	
Small Lot Single Family/Townhomes	**60**		
Three-Bedrooms, Three Baths	30	$255,000	
Four-Bedrooms, Three Baths	30	$310,000	
Apartments	**40**		
One Bedroom, One Bath	7		$1,300
Two Bedrooms, Two Baths	13		$1,500
Three Bedrooms. Two Baths	13		$1,750
Four Bedrooms, Two Baths	7		$1,900

Sources: Tables 1 and 2.

HOUSEHOLD INCOMES

A Housing Impact Fee Nexus Study requires that household incomes of new buyers and renters be calculated in order to provide the "input" into the IMPLAN3 model described in a subsequent section of this report. These incomes are not the same as the affordable incomes presented in Appendix B of this study, which are the affordable incomes provided by the State of California Department of Housing and Community Development (HCD). In other words, the market rate buyer and renter incomes are specifically estimated for this study only and are modeled on ***potential*** incomes of buyers and renters who would move into the units in these three project prototypes. These incomes are based on the sales prices and rents presented above.

Threshold incomes needed to purchase or rent units are detailed below, and are based on standards used in the housing industry – for example, standards used by lenders. Tables 4 and 5 show the estimated household incomes of buyers of single family detached units, buyers of small lot single-family and townhome units, and renters of apartment units, respectively. Household incomes are then incorporated into a model of household expenditures which are a key input to the IMPLAN3 economic impact analysis described in the next section of this report.

The first step for both renters and buyers it to estimate the annual costs of owning and renting. For buyers, a downpayment of 20% is assumed, and the mortgage is a fixed rate 30 year loan. Additional costs covering maintenance and repair, hazard insurance, and property taxes need to be considered. It is also assumed that housing costs should not exceed 30% of income.

[1] The project size used in a nexus study is not critical, since the housing impact fee is expressed on a unit (and per square foot basis). Furthermore, the project sizes are not meant to describe any particular development,

In calculating incomes, the following assumptions were made for the ownership prototypes:

Assumptions	Values
Downpayment	20%
Loan Term (years)	30
Interest Rate (annual)	4.125%[2]
Property tax rate (annual)	1.1821% of sales price[3]
Maintenance and Repair	1% of sales price
Fire and Hazard Insurance (annual)	0.35% of sales price
Housing Costs as % of HH Income	30%

The only assumption for the rental prototype was that 30% of gross income is spent on rent. Unlike affordable rental calculations, deductions for utilities are not necessary.

Table 4: Income Calculations for Ownership Prototypes

	Low Density Single Family		Small Lot Single Family/Townhomes	
Sales Prices	$415,000	$520,000	$255,000	$310,000
Number of Units	20	20	30	30
Downpayment	$83,000	$104,000	$51,000	$62,000
Loan Amount	$332,000	$416,000	$204,000	$248,000
Monthly Debt Service	$1,609	$2,016	$989	$1,202
Annual Debt Service	$19,308	$24,194	$11,864	$14,423
Annual Property Taxes	$4,906	$6,147	$3,014	$3,665
Annual Maintenance Costs	$4,150	$5,200	$2,550	$3,100
Fire and Hazard Insurance	$1,453	$1,820	$893	$1,085
Annual Costs	$29,817	$37,361	$18,321	$22,273
Household Income	**$99,389**	**$124,535**	**$61,070**	**$74,242**

Sources: Table 3, City of Salinas (tax rates), industry standards for insurance and maintenance costs, Wells Fargo Website for interest rate, and additional calculations undertaken by Vernazza Wolfe Associates Inc.

Table 5: Income Calculations for Apartment Prototype

Rental Unit Type	Number of Units	Average Monthly Rent	Annual Housing Cost	Estimated Average Annual Household Income
One Bedroom, One Bath	7	$1,300	$15,600	**$52,000**
Two Bedrooms, Two Baths	13	$1,500	$18,000	**$60,000**
Three Bedrooms. Two Baths	13	$1,750	$21,000	**$70,000**
Four Bedrooms, Two Baths	7	$1,900	$22,800	**$76,000**

Source: Table 3 and calculations undertaken by Vernazza Wolfe Associates Inc.

[2] Source: July 31, 2015 Wells Fargo Website - FNMA Loan https://www.wellsfargo.com/mortgage/rates/
[3] Average of Salinas tax rates, provided by the City of Salinas.

These incomes are then defined in terms of income categories for use in the expenditure calculations included in the IMPLAN3 Model. Table 6 shows the number of households for each prototype by income categories.

Table 6: Incomes of Buyers and Renters of Residential Prototype Units

Household Income Level	Households
Low Density Single Family Household Incomes	
Less than $10,000	0
$10,000-$15,000	0
$15,000-$25,000	0
$25,000-$35,000	0
$35,000-$50,000	0
$50,000-$75,000	0
$75,000-$100,000	20
$100,000-$150,000	20
Over $150,000	0
Total	**40**
Small Lot Single Family/Townhome Incomes	
Less than $10,000	0
$10,000-$15,000	0
$15,000-$25,000	0
$25,000-$35,000	0
$35,000-$50,000	0
$50,000-$75,000	60
$75,000-$100,000	0
$100,000-$150,000	0
Over $150,000	0
Total	**60**
Apartment Household Incomes	
Less than $10,000	0
$10,000-$15,000	0
$15,000-$25,000	0
$25,000-$35,000	0
$35,000-$50,000	33
$50,000-$75,000	7
$75,000-$100,000	0
$100,000-$150,000	0
Over $150,000	0
Total	**40**

Sources: Tables 4 and 5.

IMPLAN3 ANALYSIS

The growth in sales and services transactions (predicated upon buyers' and renters' incomes) can be translated into employment growth via an input-output model for Monterey County. This model simultaneously accounts for all purchases and expenditures throughout the entire local economy and is useful in defining economic impacts from exogenous changes, such as a growth in expenditures. In turn, growth in employment can be used to estimate employee household growth.

Some of these new households will require affordable housing, particularly since the growth in employment is generally in lower wage paying sectors, such as retail sales and services. Once the number of households that require affordable housing is estimated, it is possible to calculate the total funds needed to bridge the gap between the costs of developing new affordable housing and what new low- and moderate-income households can afford to pay. This total gap figure is then divided by the number of new housing units in the hypothetical development to estimate the maximum fee amount per unit that can be justified on the basis of a nexus calculation.

RESULTS

Table 7 presents the step-by-step findings of this Nexus Study. Based on the three prototypes defined for this study, the City of Salinas can expect the following:

- The increase in expenditures associated with new residential development generates direct and induced growth in Monterey County employment of 30 jobs for the 40 low density single family homes, 31 jobs for the 60 single family small lot/townhome units, and 19 jobs for the apartment units.

- Because the focus of this nexus study is on growth in households that require affordable housing, the total employment figure is adjusted by dividing total employment by the average number of workers per households with workers. According to the 2011-2013 American Community Survey 3-Year Estimates, the average number of wage-earners per household is 1.72 in Salinas. Therefore, the total number of new jobs calculated by the IMPLAN3 Model is reduced for each prototype. (See Table 7 for the exact number of households carried forward in the analysis.)

- It is assumed that the income of the second wage-earner in a household is the same as the first wage-earner's income. Hence, incomes of the new employee-households are calculated by multiplying the new worker's income (calculated by the IMPLAN3 Model) by 1.72 (the number of wage-earners in a household with a wage-earner).

- Since some new employees earn incomes over 120% area median income (or above the income cut-off of $78,325 for a moderate-income, 3.5-person household in Salinas), the number of new employee-households is further reduced for each prototype. (The income cut-off of $78,325 is based on HCD FY 2015 Income Limits for Monterey County.)

- The aggregate affordability gap for each prototype is calculated by multiplying the number of new worker households by the average gap that applies to each major income group (moderate-income level and below).[4] It is estimated that the total affordability gap associated with new employment related to the prototypes for low density single family homes is approximately $1.345 million; for single family small lot/townhome units, this gap figure is $1.314 million, and for apartments, the aggregate gap figure is $828,000.

- The final step is to divide the total gap figure by the number of units in each prototype. The maximum rounded fee ranges from $34,000 per unit for single family low density development, $22,000 per unit for single family small lot/townhome, and $21,000 for each apartment unit.

- Fees can also be presented on a square foot basis. The maximum (rounded) square foot fee ranges from $13/SF per unit for single family low density, $13/SF per unit for single family small lot/townhome, and $20/SF for each apartment unit.

The Appendices at the end of this report present the Nexus Study's methodology and findings in more detail.

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[4] There are no very low-income worker-households projected, and so the affordability gaps for low- and moderate-income households are used in these calculations.

Table 7: Nexus Calculations for Three Housing Prototypes in Salinas

ANALYTICAL STEPS	INFORMATION/FINDINGS
(1) Define residential prototypes.	Three prototypes are defined for the City of Salinas – two ownership models consisting of low density single family homes (40 units) and single family small lot/townhomes (60 units) and one apartment prototype (40 units). Unit sizes and rents are based on recent construction projects, in Salinas, Marina, and Unincorporated Monterey County.
(2) Estimate household income distribution of new owner and renter households in Salinas.	The average minimum incomes required to purchase low-density, single family houses ranges between $99,000 and $124,500 and for single family small lot/townhomes, income rages from $61,000 to $74,200. For new apartment units, incomes range from $52,000 to $76,000. These incomes are based on actual rents and sales prices of new developments included in the study (Monte Bella Tesori (Salinas), the Dunes - Seahouses and Surf House (Marina), and Creekbridge Apartments (Salinas). These incomes assume that 30% of gross income is paid for housing costs.
(3) Compute total consumer expenditures of the 100 buyer and 40 renter households for the entire County.	This estimate comes from the IMPLAN3 model, which uses the Bureau of Labor Statistics' Consumer Expenditure Survey to distribute household income based on the spending patterns for nine different income groups. Before expenditures are calculated, adjustments are made to household incomes to account for payments to income taxes and savings.
(4) Estimate the number of new employees required to accommodate an increase in spending on services and retail goods.	Using the IMPLAN3 model for Monterey County and the increase in expenditures defined in Step 3, growth in the number of workers (direct and induced) is estimated to be 30 for low-density single family, 31 for single family small lot/townhomes, and 19 for apartments.
(5) Estimate the number of new households associated with employment growth.	The number of new employees is divided by the average number of workers per household with workers in City of Salinas (1.72 workers per household according to the U.S. Census Bureau, 2011-2013, 3-Year American Community Survey.) The total number of new households is approximately 18 for low-density single family, 18 for single family small lot/townhomes, and 11 for apartments.
(6) Estimate the incomes of new households.	Multiply the average wage-earner's salary for each income category by 1.72 (average number of wage-earners in households with workers).

ANALYTICAL STEPS	INFORMATION/FINDINGS
(7) Subtract those employees earning over $78,325 (the moderate-income cut-off for a 3.5-person household from the total number of new employees.[5]	The total number of new employee-households is reduced to 13 for low-density single family, 13 for small lot/townhomes, and 8 for apartments.
(8) Estimate the total housing affordability gap of new households requiring subsidies.	This number ($1,345,154 for low density, $1,313,913 for single family small lot/townhomes, and $827,673 for apartments) is based on multiplying the number of new households requiring affordable housing (in each income group) by the affordability gap presented in Appendix B (for each income group).
(9) Calculate maximum potential housing fee.	The total gap for each housing prototype is divided by the number of units in each hypothetical development The results for low density are $33,629, rounded to $34,000 per unit; for single family small lot/townhomes, the result is $21,899, rounded to $22,000 per unit and for apartments, the amount is $20,692, rounded to $21,000 per unit. A square foot equivalent can be computed for each housing type based on dividing the unit gap by the average size of each prototype. These fees are $13/SF, for low density; $13/SF for single family small lot/townhomes, and $20/SF for an apartment unit.

[5] The income cut-off used to define moderate-income is $78,325 since the average household size in Salinas is approximately 3.5 persons, according to the 2010 US Census.

POLICY CONSIDERATIONS

This study provides the economic analyses required to adopt housing impact fees on residential developments and answers the question of "What are the maximum fees that the City can adopt on new housing developments?" However, the economic analysis does not answer the question of "What residential housing impact fees should the City adopt?" The conclusion of this report provides a policy context to help guide City officials in determining the actual fees.

When cities and counties consider whether to offset the full affordable housing impacts of new development or a portion of those impacts, a number of factors may be considered. For residential development housing impact fees, policymakers may wish to consider the following:

- What are possible fee options to consider?
- How do housing impact fees impact financial feasibility of the three residential prototypes?
- What are the housing impact fees in neighboring jurisdictions?
- How much will residential development fees increase?
- What is the relationship between revenues to be collected from the housing impact fee and the City's overall affordable housing strategy?

Fee Options

The City of Salinas has the option to charge the entire amount justified through a housing impact fee nexus study or a lesser amount. Table 8 presents three reduced fee options or scenarios assuming the same fee per square foot is charged for all housing prototypes. The three reduced fees, $10, $5, and $2 are meant to provide a range of options to consider. They were chosen after reviewing the fees of jurisdictions in similar housing markets. Because $13 is the maximum for the ownership units, the fees studied are lower than this level.

Table 8: Housing Impact Fee Options

	Low Density Single Family Homes	Small Lot Single Family/Townhomes	Apartments
Maximum Fee	$34,000	$22,000	$21,000
Maximum Fee per Square Foot	$13	$13	$20
Fee Scenarios			
Scenario #1: Fee/Unit	$26, 000	$17,500	$10,600
Scenario #1: Fee per SF	$10	$10	$10
Scenario #2: Fee Per Unit	$13,000	$8,750	$5,300
Scenario #2: Fee per SF	$5	$5	$5
Scenario #3: Fee Per Unit	$5,200	$3,500	$2,120
Scenario #3: Fee per SF	$2	$2	$2

Source: Calculations based on results presented in Appendix A tables.

<u>Effect of Housing Impact Fees on Financial Feasibility</u>

It is useful to look at how new impact fees will affect the likelihood of new development to happen. The best way to view this is to consider how new fees influence financial feasibility. A financial feasibility study considers whether a project is viable after taking into consideration its total costs and likely revenues. In those situations in which revenues exceed development costs, the final assessment is whether the difference between revenues and costs is great enough to provide the level of return or profit that a developer expects, given current market conditions. Therefore, the financial feasibility of suggested fee levels is an important consideration. Given current costs and revenues, development of the prototypes is not currently feasible as the following section explains.

Based on information provided by a local builder, development cost estimates were created for the three prototypes. The feasibility assessment first looked at the financial feasibility of these three prototypes, given these costs and revenues assumed for the IMPLAN3 analysis. Several assumptions are needed for this analysis. These include the following:

- Reductions to gross revenues due to cost of sales (for for-sale prototypes) and operating expenses/vacancy loss for the rental prototype.
- Expectation of return for the for-sale prototypes, defined as the net value divided by development costs. Based on current market expectations, this number is 7% for the low density single homes and 8% for the small lot single family homes.
- For rental housing, there are several return measures, including the net value divided by development costs (based on a capitalization rate of six percent) and supportable debt, based on cash flow.

Table 9 presents a summary of the feasibility testing results for for-sale housing and Table 10 presents results for rental housing. The calculations for Tables 9 and 10 are presented in Appendix C, as well as all assumptions and sources used.

Table 9: Feasibility Testing of Three Fee Options for For-Sale Housing

	For Sale-Low Density (Average Size 2,600 SF)	For-Sale High Density (1,750 SF)
Unit Development Costs (Without Fee)	$454,454	$319,883
Average Sales Prices Per Unit	$467,500	$282,500
Net Sales Revenues	$451,138	$272,613
Expected Return	7%	8%
Return at Studied Rents/Prices	-1%	-15%
Sales Prices Needed to Achieve Expected Returns Without Housing Fee	$505,000	$357,500
Sales Prices Needed for Feasible Development		
Scenario #1 $10/SF	$535,000	$377,500
Scenario #2 $5/SF	$520,000	$367,500
Scenario #3 $2/SF	$510,000	$362,000

Sources: Tables 3 and 8, Cost Data Provided by a Local Builder, and industry standards for additional calculations. See Appendix C for more details on sources.
Note: It is not possible to know the sales prices of development in the Future Growth Areas. The prices used in the model are for reference only.

What do we learn from these tables? First, based on the assumption that developers of low density and higher density single family homes wish to achieve a return on costs of between 7% and 8%, the studied sales prices are too low. However, if the average price per unit were to increase from $467,500 to $505,000 per low density single family unit and from $282,500 to $357,500 per high density single family/townhome unit, residential development would be feasible. Secondly, slightly higher sales prices would be needed, if housing impact fees are adopted. Table 9 provides the sales prices required under the three fee scenarios. For example, a sales price for the low density single family of $535,000 would be required under Fee Scenario #1, ($10/SF). This price is about $30,000 higher than the financially feasible price today of $505,000.

Table 10 provides information about the rental housing prototype. Rental housing feasibility is somewhat more complex, since rental housing feasibility is based on a longer holding period, unlike for-sale housing which is assumed to be built and then sold. Thus, this analysis uses two measures of feasibility – net value divided as a percentage of total development costs and the amount of debt the resulting cash flow can support. Although the estimated net value divided by development costs is positive at 3%, this is below the expected return level of approximately 14%. Increasing the return requires an increase in average rent per unit of approximately $155/month to high of $1,775/month. If housing impact fees are adopted, the rent required (assuming the Scenario #1 fee of $10/SF) would need to increase by $100 per month above the financially feasible rent level of $1,775.

Table 10: Feasibility Testing of Three Fee Options for Rental Housing

Development Costs Per Unit Assumes Average Unit Size of 1,060 SF)	$208,619
Scenario #1: $10	$219,219
Scenario #2: $5	$213,919
Scenario #3: $2	$210,739
Studied Rent	$1,620
Current Return (Net Value Divided by Dev. Costs)	3%
Expected Return	14%
Rent Needed for Expected Return without Housing Fee	$1,775
Rents Needed for Expected Return Under Three Fee Scenarios	
Scenario #1: $10	$1,875
Scenario #2: $5	$1,835
Scenario #3: $2	$1,800
Debt Supported by Cash Flow	
Assuming Studied Rent	$185,022
Assuming Higher Rent of $1,775 Required for Financial Feasibility	$202,726
Assuming Higher Rents Required for Financial Feasibility Under Three Fee Scenarios	
Scenario #1: $10	$214,146
Scenario #2: $5	$209,567
Scenario #3: $2	$205,574

Sources: Tables 3 and 8, Cost Data Provided by a Local Builder, and industry standards for additional calculations such as Cushman and Wakefield's Class B Cap Rates estimate of between 5.75% and 6.5%. (Six percent was used in the modeling). See Appendix C for more details on sources and standards used in the feasibility testing.
Note: It is not possible to know the sales prices of development in the Future Growth Areas. The prices used in the model are for reference only.

Another measure of rental development feasibility is the debt per unit that the net revenues can support. According to the analysis undertaken, under the base case, the supportable debt is less than half the development costs. However, all scenarios that are based on higher rents demonstrate that the majority of development costs could be financed given the calculated cash flow under each fee scenario.

One drawback to the feasibility modeling included in this study is that it assumes that rents and sales prices increase, while development costs remain constant, with the exception of the increased costs associated with housing impact fees. In reality, if developers in Salinas need to wait until rents and sales prices are high enough to make new development feasible, it is also likely that development costs will increase as well.

Generally, cities have a fair amount of freedom to take the feasibility study into consideration or not as they set their fees, so long as they do not deprive landowners of all economic value of their land.

Comparison with Fees Imposed by Neighboring Jurisdictions [6]

Another important consideration is whether housing impact fees are charged in neighboring jurisdictions, and if so, what are their levels. Generally, cities encourage development and want to ensure a "level playing field" when it comes to housing impact fees. In other words, a city will consider whether the level of fee that is adopted could lead to less favorable development conditions and consequently a potential shift of development away from the city and to other cities or unincorporated areas. In Fall 2015, housing impact fees charged in similar market areas indicate that a fee of $2/SF is below fee levels currently charged at other cities, with the exception of rental housing in Santa Cruz County which also has a fee of $2/SF. (See Table 11.)

Table 11: Square Foot Housing Impact Fees of Selected Jurisdictions

Jurisdiction	Single Family	Multifamily/Rental
Sacramento	NA	$2.58/SF
Santa Cruz County	Up to 2,000 SF, $2/SF Fee. Over 4,000 SF, $15/SF. Fee is gradually increased between $2 and $15, based on unit size.	$2/SF
Santa Rosa	2.5% of sales price (in-lieu fee)	Between $1 and $6.55/SF, depending on size. Maximum is $12,712 per unit.
Watsonville	$12,107 per unit	$6,054 per unit

Source: Survey of Neighboring Jurisdictions conducted by Baird + Driskell Community Planning in November 2015.

At this time, neither San Benito or Monterey County nor their incorporated cities have housing impact fees.

City of Salinas Residential Impact and Planning Fees for Each Residential Prototype

[6] This conclusion is based on a review of local ordinances, other internet research, telephone, and email communications conducted by Baird + Driskell Community Planning.

Another source of information that cities consider when adopting new fees is how these new fees will impact the overall fees that are charged on new residential developments. Cities that adopt new impact fees do not want the fee levels to be so high that they discourage new development from occurring within their boundaries.

The City of Salinas currently charges the following impact fees: Sanitary Sewer Fee, Storm Drain Fee, Park Fee, and a Traffic Impact Fee. In addition, new developments pay the TAMC Regional Development Impact Fee (charged by Monterey County). The City's fees vary by location - fees in infill areas and elsewhere in the city are lower than fees for future growth areas (FGA). Since the majority of new housing development will occur in the FGA, fees presented in Table 12 provide information on FGA fees.

The City of Salinas Department of Planning and Building provided existing fee information based on the prototypes used in this study, including assumptions regarding lot size and parking. This background information included the following assumptions:

- Average square foot fee per unit (2,600 SF for large lot single family homes, 1,750 SF for small lot/townhomes, and 1,060 SF for apartments)

- Total site area for the prototype project - assuming subdivision or apartment building development (105,000 SF for large lot single family, 105,000 SF for small lot/townhomes, and 42,490 SF for the apartment prototype).

- Parking assumptions - 450 SF garages for the large lot homes, 400 SF for the small lot/townhomes, and two spaces (one covered and one open) for the apartment prototype.

Table 12 presents information on current FGA impact fees that are applicable to each of the three residential prototypes included in this study. On a square foot basis, the highest fees in the future growth area are associated with the apartment prototype ($9.23/SF) and the lowest fees in the future growth area are associated with the low density single family prototype ($5.33/SF citywide). If the City were to adopt a housing impact fee of $10/SF, total fees for the prototypes would almost double. Substantial increases in impact fees are not uncommon in cities that adopt new impact fees. However, fees adopted at a uniform $2/SF would result in overall fees increasing by less than 50%.

Table 12: Increase in Total Citywide Impact Fees - Three Housing Impact Fee Scenarios

	Residential Prototypes			
	Single Family Homes-Low Density	**Small Lot (1)**		**Apartments**
		Single Family	Townhome	
Current FGA Fees	$5.33	$7.92	$6.29	$9.23
Scenario #1: Fee per Square Foot	$10	$10	$10	$10
Potential Total Fees	$15.33	$17.92	$16.29	$19.23
Percentage Increase	188%	126%	159%	108%
Scenario #2: Fee per Square Foot	$5	$5	$5	$5
Potential Total Fees	$10.33	$12.92	$11.29	$14.23
Percentage Increase	94%	63%	79%	54%
Scenario #3: Fee per Square Foot	$2	$2	$2	$2
Potential Total Fees	$7.33	$9.92	$8.29	$11.23
Percentage Increase	38%	25%	32%	22%

(1) City impact fees are slightly lower for townhomes than small lot, single family units, so two fee categories are presented in this table.
Sources: Table 8 and the City of Salinas Department of Building and Planning, based on housing development descriptions of three housing prototypes.

How Does a Housing Impact Fee Fit into Salinas' Overall Housing Strategy

The City has operated an Inclusionary Housing Program for many years and continues to operate this program. Although the City had relied on redevelopment funding to subsidize affordable housing until 2012, this is no longer available due to changes in state law. . Additionally, the City is a HUD entitlement city and receives approximately $500,000 annually in HOME funding that is allocated to affordable housing projects. In addition to these local funds, the non-profit developers in the City build affordable housing through the use of numerous state and federal sources. A description of these multiple funding sources can be found in the Salinas Consolidated Annual Plan Evaluation Report, which is updated every year.

Housing impact fees would be deposited into a Housing Trust Fund. The purpose of the City's Housing Trust Fund is to provide local matching funds for new (and existing) affordable housing developers that will be seeking additional sources of financing for new development, or for refinancing and rehabilitation of existing projects. This Trust Fund is one of several sources of housing subsidy funds available for affordable developments built in the City. In order to cover the complete housing affordability gap that exists for very low-, low- and moderate-income households without assessing a housing impact fee at the maximum legally-justifiable rate, the City and its nonprofits can use funds available from this Housing Trust Fund, as well apply for loans and grants available from state and federal funding sources.

ANNUAL ADJUSTMENT MECHANISM

Similar to any impact fee, the residential impact fee should be adjusted annually for inflation and increases in construction costs. Adjustments are also needed due to possible changes in the housing affordability gap. However, the connection between new residential development and growth in employment derived from the IMPLAN3 Model is unlikely to change in the short run.

It is advisable that the City adjusts its residential impact fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. To simplify annual adjustments, it is recommended that the City select a cost index that is routinely published. While there is no index that tracks changes in the City of Salinas' development costs, including land, there are a few other options to consider.

- The first option is the Consumer Price Index (Shelter Only). The shelter component of the index covers costs for rent of primary residence, lodging away from home, owner's equivalent rent of primary residence, and household insurance. Of the total shelter index, costs associated with the owner's equivalent rent of primary residence constitute 70 percent of total costs entered into the index.

- A second option to adjust the fee for annual inflation is the construction cost index published in the Engineering News Record (ENR). This index is routinely used to update other types of impact fees. Cost index information for the San Francisco area, the closest geographical area to the City of Salinas, is available on an annual basis. While this index measures inflation in construction costs, it does not incorporate changes in land costs and public fees charged on new development.

While both indices measure changes in housing costs, both understate the magnitude of inflation for the reasons presented above. However, since these indices are readily available and relatively simple to use, it is recommended that the City use these indices for annual adjustments. It is further recommended that the City base its annual adjustment mechanism on the higher of the two indices (CPI or ENR), using a five-year moving average as the inflation factor.[7]

[7] For an impact fee, a five-year moving average is calculated as follows: First, one averages the values of the index under study (shelter or construction costs) over the last five years. Then, a year later, one calculates a new average – one that drops the first year and adds the current year. Consequently, the first year and the second year averages are not too far apart in terms of values, because they share four out of the five years included in the calculation. In this way, larger percentage changes are "smoothed out" over time.

In addition to revising the fee annually for inflation, the City is encouraged to update the housing impact fee study every five years, or at the very least, update the housing affordability gap used in the basic model. The purpose of these updates is to insure that the fee is still based on a cost/revenue structure that remains applicable in the Salinas housing market. In this way, the fee will more accurately reflect any structural changes between affordable prices/rents and market rate sales prices/development costs.

POLICY CHOICES

There are a number of important policy choices that the city will have to make including:

- Whether to implement a fee
- What level that fee should be at and what types of development will have to pay the fee
- Whether to phase in the fee or apply the entire fee level when the policy is adopted.
- How the fee interacts with the inclusionary ordinance

These considerations and others will be discussed in a separate document.

APPENDIX A: IMPLAN METHODOLOGY AND CALCULATED NEXUS RESULTS

Multiplier Impact Analysis Methodology Overview

The economic multiplier analysis was conducted by Applied Development Economics (ADE), a Bay Area Economics Consulting firm, through the use of the IMPLAN Model. The IMPLAN model is an economic data set that has been used for over 35 years to measure the economic impacts of new investments and spending using the industrial relationships defined through an Input-Output Model. The IMPLAN model can estimate economic impacts resulting from changes in industry output, employment, income, and other measures. The latest version of this model is referred to as IMPLAN3. The IMPLAN3 model's calculations are based on changes in household income, which adjusts the gross income to account for the payment of income taxes and savings.

ADE conducted two separate analyses. The first analysis estimated the household demand for retail goods and personal services. It is assumed that buyers of new housing units and renters of new apartment units in the City of Salinas increase demand for goods and services within the County. This demand is based on the projected incomes of these new buyers and renters. The second analysis estimated the multiplier effects that this new household demand would create in terms of employment and labor income.

For this analysis, the input-output model used data specific to Monterey County in order to estimate the multiplier effects resulting from the households that could potentially rent or buy new housing units in Salinas. In this case, all of the multiplier effects derive from new demand for goods and local services (including government) that new households would generate within Monterey County. It does not account for economic impacts generated during the construction period, or any economic impacts that would occur outside of the county.

The economic impacts estimated by the model generally fall into one of three categories - direct, indirect, or induced. For this analysis, the direct impacts represent the household income brought into the community by new residents. Indirect impacts would normally result from demand for commodities and services provided by suppliers for business operations. (Because the direct impacts come only from household spending, and not from business activity, the indirect effects were not calculated.) Induced impacts represent the potential effects resulting from household spending at local establishments by the new workers hired as a result of increased household expenditures. These impacts affect all sectors of the economy, but primarily affect retail businesses, health services, personal services providers, and government services. The employment estimates provided by the IMPLAN3 model cover all types of jobs, including full and part time jobs.

The second step in the analysis (the estimate of multiplier effects from new household demand) is to estimate the induced impacts, or multiplier effects of new household spending in terms of jobs and wage income. The jobs and income calculations are focused on the induced jobs that would be created through local spending by the new households. The input-output model estimates the job impacts by detailed industry sector. The analysis took the detailed industry impact estimates and distributed them by occupational category. The occupational employment data used in the analysis came from the California Employment Development Department (EDD) Labor Market Information Division, and aggregates together data for all of California. After converting the industry level data into occupational employment, the income distribution was calculated using the occupational wage data for the Salinas, California Metropolitan Statistical Area (MSA) that includes Monterey County. The average wage by occupation was used to make this calculation. The 2015 (first quarter) occupational wage data used in the analysis comes from California's EDD.

It should be noted that the figures used in the IMPLAN3 analysis reflect the demand for retail goods and services by net, new Monterey County households. The multiplier impacts assume that all of this spending will remain in Monterey County.[8]

<u>Occupational Analysis</u>

The occupational analysis focused on the induced jobs that would be created through local spending by the new households. The input-output model estimates the job impacts by detailed industry sector. The analysis took the detailed industry impact estimates and distributed them by occupational category. The occupational employment data used in the analysis came from the California Employment Development Department (EDD) Labor Market Information Division, and aggregates together data for all of California.

After converting the industry level data into occupational employment, ADE estimated the income distribution using the occupational wage data for the Salinas, California Metropolitan Statistical Area (MSA). The mean (or average) wage by occupation was used to make this calculation. The 2015 (1st Quarter) occupational wage data used in the analysis comes from California EDD. See Tables A-1, A-2, and A-3 for Occupational Impacts for each of the three prototypes.

It should be noted that the figures used in the retail analysis reflect the demand for retail goods and services by new households in Salinas. The multiplier impacts assume that all of this

[8] Estimating the retail leakage would require a detailed analysis of retail sales totals for existing businesses in Monterey County and is beyond the scope of this study.

spending will remain in Monterey County. Estimating the retail leakage would require a detailed analysis of the retail sales totals for existing businesses in City of Salinas and is beyond the scope of this study.[9]

Table A-1: Summary of Induced Employment Impacts by Occupational Title - Single Family, Low-Density Home Buyer Households

NAICS Code	Industry Description	Calculated Average Wage	Induced Jobs
	Total all occupations		31.84
11	Forestry, fishing, hunting, and agriculture	$25,737	0.10
21	Mining	$58,096	0.01
22	Utilities	$59,887	0.07
23	Construction	$56,113	0.49
31	Manufacturing	$53,577	0.05
42	Wholesale trade	$48,242	0.86
44	Retail trade	$40,196	4.74
48	Transportation & warehousing	$39,330	0.63
51	Information	$56,487	0.35
52	Finance & insurance	$56,249	1.70
53	Real estate & rental & leasing	$50,000	1.68
54	Professional, scientific & technical services	$70,306	1.28
55	Management of companies & enterprises	$68,791	0.13
56	Admin, support, waste mgt, remediation services	$46,697	1.45
61	Educational services	$58,899	0.91
62	Health care and social assistance	$57,735	5.68
71	Arts, entertainment & recreation	$39,330	1.01
72	Accommodation & food services	$29,177	4.21
81	Other services (except public administration	$44,116	2.90
91	Government	$60,294	3.60

Source: ADE, Inc., data from IMPLAN3 input-output model and California Labor Market Information Division
Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry. ~~See Page 13/14 for more information on IMPLAN3~~

[9] Although a leakage study would allow for more refined adjustments to the multiplier impacts, it can only account for the businesses that currently operate in Monterey County. Since the economic multiplier impacts of residential development reflect future development, the data for making detailed capture assumptions are insufficient.

Table A-2: Summary of Induced Employment Impacts by Occupational Title – Small Lot, Single Family/Townhome Buyer Households

NAICS Code	Industry Description	Calculated Average Wage	Induced Jobs
	Total all occupations		30.82
11	Forestry, fishing, hunting, and agriculture	$25,737	0.10
21	Mining	$58,096	0.01
22	Utilities	$59,887	0.07
23	Construction	$56,113	0.45
31	Manufacturing	$53,577	0.05
42	Wholesale trade	$48,242	0.82
44	Retail trade	$40,196	4.56
48	Transportation & warehousing	$39,330	0.58
51	Information	$56,487	0.36
52	Finance & insurance	$56,249	1.63
53	Real estate & rental & leasing	$50,000	2.07
54	Professional, scientific & technical services	$70,306	1.17
55	Management of companies & enterprises	$68,791	0.13
56	Admin, support, waste mgt, remediation services	$46,697	1.42
61	Educational services	$58,899	0.73
62	Health care and social assistance	$57,735	5.83
71	Arts, entertainment & recreation	$39,330	0.99
72	Accommodation & food services	$29,177	4.04
81	Other services (except public administration	$44,116	2.84
91	Government	$60,294	2.97

Source: ADE, Inc., data from IMPLAN3 input-output model and California Labor Market Information Division

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry.

Table A-3: Summary of Induced Employment Impacts by Occupational Title – Apartment Renter Households

NAICS Code	Industry Description	Calculated Average Wage	Induced Jobs
	Total all occupations		19.43
11	Forestry, fishing, hunting, and agriculture	$25,737	0.06
21	Mining	$58,096	0.01
22	Utilities	$59,887	0.05
23	Construction	$56,113	0.29
31	Manufacturing	$53,577	0.03
42	Wholesale trade	$48,242	0.52
44	Retail trade	$40,196	2.86
48	Transportation & warehousing	$39,330	0.37
51	Information	$56,487	0.22
52	Finance & insurance	$56,249	1.03
53	Real estate & rental & leasing	$50,000	1.27
54	Professional, scientific & technical services	$70,306	0.74
55	Management of companies & enterprises	$68,791	0.08
56	Admin, support, waste mgt, remediation services	$46,697	0.90
61	Educational services	$58,899	0.47
62	Health care and social assistance	$57,735	3.65
71	Arts, entertainment & recreation	$39,330	0.62
72	Accommodation & food services	$29,177	2.56
81	Other services (except public administration	$44,116	1.79
91	Government	$60,294	1.92

Source: ADE, Inc., data from IMPLAN3 input-output model and California Labor Market Information Division

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry.

Allocation of Employment Growth to Salinas

The projections of new employees presented above did not consider location within Monterey County. Some of the new employees will work in businesses located outside of Salinas. So, one policy issue to consider is how to allocate employment growth to Salinas specifically. For reference purposes, Appendix Tables A-4, A-5, and A-6 provide the calculations based on 100% of employment impacts.

Table A-4: Calculations Needed to Link Expenditures from Buyers of Low Density Single Family Homes to an Estimate of an Affordable Housing Impact Fee – City of Salinas [10]

Income Category	New Homes Induced Jobs	No. of New Employee Households (No. of new employees divided by average number of wage-earners in a HH or 1.72)	Average Worker Income	Household Income (Average Worker income multiplied by the number of wage-earners in a HH or 1.72)	No. of new low- and moderate-income households qualifying for assistance based on City of Salinas Moderate-Income cut-off for a HH of 3.5 persons, or $78,325	Total Gap (No. of total households multiplied by average affordability gap for each Income Group	Total Fee per Unit (Total gap divided by # of new units - 40)
Less than $10,000	0.00	0.00	n/a	n/a	0.000	$0	
$10,000-$15,000	0.00	0.00	n/a	n/a	0.000	$0	
$15,000-$25,000	0.10	0.06	$21,727	$37,370	0.06	$8,422	
$25,000-$35,000	9.41	5.47	$28,884	$49,680	5.47	$793,513	
$35,000-$50,000	12.55	7.30	$38,794	$66,726	7.30	$543,220	
$50,000-$75,000	3.01	1.75	$59,810	$102,873	0.00	$0	
$75,000-$100,000	1.55	0.90	$103,597	$178,187	0.00	$0	
$100,000-$150,000	3.84	2.23	$122,897	$211,382	0.00	$0	
Over $150,000	0.00	0.00	n/a	n/a	0.00	$0	
Total	30.46	17.71	$51,641	$88,823	12.83	$1,345,154	$33,629

Sources: IMPLAN3 Results and Housing Affordability Gap calculated in Appendix B.

[10] These results assume that 100% of "new homes" induced jobs would be located in the City of Salinas.

Table A-5: Calculations Needed to Link Expenditures from Buyers of Small Lot Single Family/Townhomes to an Estimate of an Affordable Housing Impact Fee – City of Salinas [11]

Income Category	New Homes Induced Jobs	No. of New Employee Households (No. of new employees divided by average number of wage-earners in a HH or 1.72)	Average Worker Income	Household Income (Average Worker income multiplied by the number of wage-earners in a HH or 1.72)	No. of new low- and moderate-income households qualifying for assistance based on City of Salinas Moderate-Income cut-off for a HH of 3.5 persons, or $78,325	Total Gap (No. of total households multiplied by average affordability gap for each Income Group	Total Fee per Unit (Total gap divided by # of new units - 60)
Less than $10,000	0.00	0	n/a	n/a	0.000	$0	
$10,000-$15,000	0.00	0	n/a	n/a	0.000	$0	
$15,000-$25,000	0.10	0.06	$21,727	$37,370	0.058	$8,373	
$25,000-$35,000	9.14	5.31	$28,899	$49,707	5.312	$770,583	
$35,000-$50,000	12.36	7.19	$38,802	$66,740	7.188	$534,957	
$50,000-$75,000	2.70	1.57	$59,571	$102,461	0.000	$0	
$75,000-$100,000	5.00	2.90	$86,050	$148,006	0.000	$0	
$100,000-$150,000	1.53	0.89	$103,597	$178,187	0.000	$0	
Over $150,000	0.00	0.00	n/a	n/a	0.000	$0	
Total	30.82	17.92	$48,500	$83,421	12.558	$1,313,913	$21,899

Sources: IMPLAN3 Results and Housing Affordability Gap calculated in Appendix B.

[11] These results assume that 100% of "new homes" induced jobs would be located in the City of Salinas.

Table A-6: Calculations Needed to Link Expenditures from Renters of New Apartment Units to an Estimate of an Affordable Housing Impact Fee – City of Salinas [12]

Income Category	New Homes Induced Jobs	No. of New Employee Households (No. of new employees divided by average number of wage-earners in a HH or 1.72)	Average Worker Income	Household Income (Average Worker income multiplied by the number of wage-earners in a HH or 1.72)	No. of new low- and moderate-income households qualifying for assistance based on City of Salinas Moderate-Income cut-off for a HH of 3.5 persons, or $78,325	Total Gap (No. of total households multiplied by average affordability gap for each Income Group	Total Fee per Unit (Total gap divided by # of new units - 40)
Less than $10,000	0.00	0.00	n/a	n/a	0.000	0	
$10,000-$15,000	0.00	0.00	n/a	n/a	0.000	0	
$15,000-$25,000	0.06	0.04	$21,727	$37,370	0.036	$5,275	
$25,000-$35,000	5.77	3.35	$28,892	$49,694	3.353	$486,393	
$35,000-$50,000	7.77	4.51	$38,803	$66,741	4.515	$336,005	
$50,000-$75,000	1.72	1.00	$59,605	$102,520	0.000	$0	
$75,000-$100,000	3.16	1.83	$86,015	$147,947	0.000	0	
$100,000-$150,000	0.96	0.56	$103,597	$178,187	0.000	0	
Over $150,000	0.00	0	n/a	n/a	0.000	0	
Total	19.43	11.30	$48,520		7.904	$827,673	$20,692

Sources: IMPLAN3 Results and Housing Affordability Gap calculated in Appendix B.

[12] These results assume that 59% of "new homes" induced jobs would be located in the City of Salinas.

APPENDIX B: HOUSING AFFORDABILITY GAP

Estimating the housing affordability gap is necessary to calculate potential housing and commercial impact fees. This Appendix presents the analytic steps taken to calculate the housing affordability gap and the results of these calculations.

The housing affordability gap is defined as the difference between what very low-, low-, and moderate-income households can afford to pay for housing and the development costs of new, modest housing units. Calculating the housing affordability gap involves the following three steps:

- Estimating affordable rents and housing prices for households in targeted income groups;
- Estimating development costs of building new, modest housing units, based on current costs and additional market data; and
- Calculating the different between what renters and owners can afford to pay for housing and the development costs of rental and ownership units.

Note: This housing affordability gap calculation was calculated specifically for the housing impact studies.

Estimating Affordable Rents and Sales Prices

The first step in calculating the housing affordability gap is to determine the maximum amount that households at the targeted income levels can afford to pay for housing. For eligibility purposes, most affordable housing programs define very low-income households as those earning approximately 50 percent or less of area median income (AMI), low-income households as those earning between 51 and 80 percent of AMI, and moderate-income households as those earning between 81 and 120 percent of AMI. In order to ensure that the affordability of rental housing does not overstate affordability, this analysis does not use the top incomes in each income category for the low- and moderate-income groups.

Table B-1 presents the household sizes and unit sizes used in the gap analysis, and Table B-2 provides the income levels used in the gap analysis. Table B-1 assumptions about household and unit sizes, approved by the Technical Advisory Committee, are more conservative (resulting in a lower gap) than the standards Salinas traditionally uses. Regarding Table B-2, it is important to understand how to interpret the information presented here. Under all income scenarios (50% AMI or very low-income through moderate-income (110% to 120% AMI), it is assumed that a household pays 30% of its income for total housing costs.

Table B-1: Unit and Household Sizes Used in Housing Affordability Gap Analysis

Unit Size	Household Size
Studio	1 person
1-bedroom	1.5 person
2-bedroom	3 person
3- bedroom	4.5 person
4- bedroom	6 person

Sources: Technical Advisory Committee and the City of Salinas

Table B-2: Income Assumptions by Tenure

Income Category	**Income Targets – Salinas Inclusionary Zoning Ordinance**
Rental Housing	
Very Low-Income	30% of 50%
Low-Income	30% of 60%
Moderate-Income	30% of 110%
Ownership Housing	
Very Low-Income	30% of 50%
Low-Income	30% of 80%
Moderate-Income	30% of 120%

Source: HCD affordability definitions.

Table B-3 shows the incomes used for both rental and ownership gap calculations. Table B-4 demonstrates the rents that are affordable at each income level used in this study. The maximum affordable monthly rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities. The utility allowance is included in both the rental and ownership affordability calculations. Assumptions used in the calculation of utility costs are based on schedules provided by the Monterey County Housing Authority (based on unit sizes) and information from the U.S. Census on utilities commonly used in rental and ownership housing units. Incomes in the city are lower than those in the county, so this is a conservative assumption.

Table B-3: Monterey County Income Limits

	Number of Persons in Household					
Income Category	**1**	**2**	**3**	**4**	**5**	**6**
100% Median	$48,100	$54,950	$61,850	$68,700	$74,200	$79,700
Extremely Low (30% AMI)	$15,250	$17,400	$20,090	$24,250	$28,410	$32,570
Very Low Income (50% AMI)	$25,400	$29,000	$32,650	$36,250	$39,150	$42,050
Low Income (80% AMI)	$40,600	$46,400	$52,200	$58,000	$62,650	$67,300
Moderate Income (120% AMI)	$57,700	$65,950	$74,200	$82,450	$89,050	$95,650

Source: 2015 HCD Income Definitions for Monterey County.

Table B-4: Rental Housing Affordability Calculations

	Studio	1 BR	2 BR	3 BR	4 BR
Household Size (Persons per HH)	**1**	**1.5**	**3**	**4.5**	**6**
Income Levels Tested					
Maximum Household Income at 50% AMI	$25,400	$27,200	$32,650	$37,700	$42,050
Maximum Monthly Housing Cost (1)	$635	$680	$816	$943	$1,051
Utility Deduction	$40	$50	$73	$92	$114
Maximum Available for Rent (HH Size) (2)	$595	$630	$743	$851	$937
Maximum Available for Rent (Unit Type)	**$595**	**$630**	**$743**	**$851**	**$937**
Maximum Household Income at 60% AMI	$28,860	$35,040	$37,110	$42,870	$47,820
Maximum Monthly Housing Cost(1)	$722	$876	$928	$1,072	$1,196
Utility Deduction	$40	$50	$73	$92	$114
Maximum Available for Rent (HH Size) (2)	$682	$826	$855	$980	$1,082
Maximum Available for Rent (Unit Type)	**$682**	**$826**	**$855**	**$980**	**$1,082**
Moderate Income (110% AMI)					
Maximum Household Income at 110% AMI	$52,910	$56,678	$68,035	$78,595	$87,670
Maximum Monthly Housing Cost(1)	$1,323	$1,417	$1,701	$1,965	$2,192
Utility Deduction	$40	$50	$73	$92	$114
Maximum Available for Rent (HH Size) (2)	$1,283	$1,367	$1,628	$1,873	$2,078
Maximum Available for Rent (Unit Type)	**$1,283**	**$1,367**	**$1,628**	**$1,873**	**$2,078**

Notes:
1) 30 percent of maximum monthly household income.
2) Maximum monthly housing payment after utility costs are deducted.

Acronyms: AMI: Area median income
HH: Household
Sources: Table B-3, 2009-2013 American Community Survey 5-Year Estimates - City of Salinas, and Allowances for Tenant-Purchased Utilities and Other Services: Housing Authority of Monterey County.

The affordable homeownership calculations are more complex than the affordable rental housing calculations. Homeowners are assumed to pay a maximum of 30 percent of gross monthly income on total housing costs. The maximum affordable price for for-sale housing is then calculated based on the total monthly mortgage payment that a homeowner could afford, using standard loan terms used by CalHFA programs and many private lenders for first-time homebuyers, including a five percent down payment.

Affordable sales price estimates again start by assuming 30 percent of income for rent less utility cost deductions appropriate to the size of the unit and nature of utilities used. The next step for ownership affordability estimates is to consider the additional costs that must be covered by homeowners including the following:

- Property maintenance reserve - which is assumed to be $300 per month
- Property taxes – which are assumed to be 1.153% of the sales price[13]
- Property Mortgage Insurance assumed to be 0.89% of the sales price (required since the loan is for 95% of the sales price)[14]
- Property Insurance assumed to be .35% of the sales price.

Affordable housing prices are then calculated, assuming a 95% loan to value, an interest rate of 4.125%, and a thirty-year fixed rate loan. Table B-5 presents the results of the affordable sales price calculations.

[13] This property tax rate of 1.153% is the calculated average rate across the tax rate areas in the City of Salinas.

[14] Although the downpayment for market rate housing buyers is assumed to be 20% of the purchase price, the downpayment for more affordable housing is assumed to be 5% of the purchase price, which is consistent with how special homebuyer programs, such as those provided by CalHFA, operate.

Table B-5: Affordable Sales Prices by Income Level and Unit Sizes

Income Level and Unit Type [1]	Affordable Sales Price
Very Low-Income Households	
1 Bedroom	$35,812
2 Bedroom	$56,575
3 Bedroom	$75,814
4 Bedroom	$92,387
Low-Income Households	
1 Bedroom	$97,911
2 Bedroom	$131,056
3 Bedroom	$162,010
4 Bedroom	$188,583
Moderate-Income Households	
1 Bedroom	$167,725
2 Bedroom	$214,871
3 Bedroom	$258,874
4 Bedroom	$296,590

(1) The sales price table differs from the rental table in that a studio unit is not included for the sales calculations. This reflects the fact that there are virtually no studio units developed for sale in the City of Salinas housing market.
Sources: Table B-3, ownership housing affordable cost assumptions, and calculations undertaken by Vernazza Wolfe Associates, Inc. The assumptions are documented above in the text and based on standard industry practices, adjusted for local conditions whenever possible.

Estimating Housing Development Costs

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. Modest housing is defined slightly differently for rental and ownership housing. For rental housing, the costs and characteristics of modest housing are similar to recent projects developed in Salinas and Monterey County by the affordable rental housing sector. Modest for-sale housing is assumed to be non-luxury small lot single family homes and townhouses.

The calculation of housing development costs used in the housing affordability gap requires several steps. Because the gap covers both rental housing and for-sale housing, it is necessary to estimate costs for each separately.

Rental Housing Costs

No one rental project is used to model rental housing costs. Costs used in this Study are more "synthetic" in nature and depend on multiple data sources. The determination of new rental unit costs relied on two steps. First, it is necessary to develop costs per square foot. For this analysis, pro formas from several Salinas and Monterey County affordable rental developments were examined. However, in the end, the decision was reached to model costs on one pro forma for an affordable family project under construction in Salinas (Haciendas 3) for three major reasons:

(1) The project is located in Salinas;
(2) The pro forma information is very current, and
(3) It is a family rental project (in contrast, for example, to Haciendas 4 which is a senior project).

The Haciendas 3 pro forma provided costs that could be estimated on a square foot basis. This cost, $290/SF, was used in the analysis.[15]

The second step is to determine the size of rental units (in square feet). This size estimate is undertaken for all units - studio units through four-bedroom units. The following affordable developments were considered when determining unit sizes: Gateway Apartments, Haciendas Phase II. Haciendas Phase I, Loma El Paraiso, Sunflower Gardens, Tresor Apartments and Tynan Village.

Once unit sizes are determined, the same square foot cost measure is applied to each unit size to develop estimates of rental housing development costs for each unit size included in the analysis.[16] Table B-6 presents these rental housing development costs.

Table B-6: Unit Sizes and Costs Used in Affordability Gap Analysis

Rental Housing Cost @ $290 per Net SF		
Number of Bedrooms	**Unit Size (net SF)**	**Development Costs**
Studio	400	$116,000
1	630	$182,700
2	880	$255,200
3	1,280	$371,200
4	1,430	$414,700
For-Sale Small Lot Single Family Housing @ $180 per Net SF		
Number of Bedrooms	**Unit Size (net SF)**	**Development Costs**
1	610	$109,800
2	850	$153,000
3	1,280	$230,400
4	1,580	$284,400

Sources: Selected Salinas and Monterey County Housing Pro Formas, and DataQuick Sales Data.

[15] These costs were adjusted to remove prevailing wage requirements that are required when affordable housing is built using government subsidies. Therefore, the cost of $350/SF was reduced to $290/SF for the purpose of the housing affordability gap calculations.
[16] In reality, square foot costs are not the same across unit sizes. For example, they are generally higher for smaller units and lower for larger units. However, for the purpose of this study, the cost measure developed for this study was an average across several different unit sizes.

For-Sale Housing Costs

In order to model for sale housing costs, there were fewer examples to consider. However, two recent modest developments were studied - Cambria Park (CHISPA's project in Greenfield) and Rogge Road (just outside Salinas city limits). CHISPA provided a pro forma for Cambria Park development costs, and Rogge Road's sales prices were used. Based on this information, a development cost of $180/SF was estimated and used in the analysis.

For housing size information, unit sizes for the following projects were reviewed: Cambria Park, Rogge Road, Gabilan Hills Townhomes, and Mountain View Townhomes. Average unit sizes were computed for the one- through four-bedroom units included in the gap analysis.[17]

Calculating the Housing Affordability Gap

The final step in the analysis is to calculate the housing affordability gap, or the difference between what renters and owners can afford to pay and the total cost of developing new units. The purpose of the housing affordability gap calculation is to help determine the fee amount that would be necessary to cover the cost of developing housing for very low-, low-, and moderate-income households. The calculation does not assume the availability of any other source of housing subsidy because not all "modest" housing is built with public subsidies, and tax credits and tax-exempt bond financing are highly competitive programs that will not always be available to developers of modest housing units.

Table B-7 shows the housing affordability gap calculation for rental units. For each rental housing unit type and income level, the gap is defined as the difference between the per-unit cost of development and the supportable debt per unit. The supportable debt is calculated based on the net operating income generated by an affordable monthly rent, incorporating assumptions about operating expenses, reserves, vacancy and collection loss, and market rate mortgage terms. Because household sizes are not uniform and the type of units each household may occupy is variable, the average housing affordability gap is calculated by averaging the housing affordability gaps for the unit sizes (studios through four-bedroom units).

[17] Since the ownership developments studied do not include one-bedroom units, it was necessary to "create" a one-bedroom house size. It was assumed that the one-bedroom unit size was approximately the same as the one-bedroom rental unit size used in this study.

Table B-7: Rental Housing Affordability Gap Calculation

Income Level and Unit Type	Unit Size (SF)	Maximum Monthly Rent (1)	Annual Income	Net Operating Income (2)	Available for Debt Service (3)	Supportable Debt (4)	Development Costs (5)	Affordability Gap
Very-Low Income (50% AMI)								
Studio	400	$595	$7,140	-$717	$0	$0	$116,000	$116,000
1 Bedroom	630	$630	$7,560	-$318	$0	$0	$182,700	$182,700
2 Bedroom	880	$743	$8,919	$973	$778	$10,293	$255,200	$244,907
3 Bedroom	1,280	$851	$10,206	$2,196	$1,757	$23,227	$371,200	$347,973
4 Bedroom	1,430	$937	$11,247	$3,185	$2,548	$33,688	$414,700	$381,012
Average Affordability Gap								**$254,518**
Low Income (60% AMI)								
Studio	400	$682	$8,178	$269	$215	$2,847	$116,000	$113,153
1 Bedroom	630	$826	$9,912	$1,916	$1,533	$20,272	$182,700	$162,428
2 Bedroom	880	$855	$10,257	$2,244	$1,795	$23,739	$255,200	$231,461
3 Bedroom	1,280	$980	$11,757	$3,669	$2,935	$38,813	$371,200	$332,387
4 Bedroom	1,430	$1,082	$12,978	$4,829	$3,863	$51,083	$414,700	$363,617
Average Affordability Gap								**$240,609**
Moderate Income (110% AMI)								
Studio	400	$1,283	$15,393	$7,123	$5,699	$75,352	$116,000	$40,648
1 Bedroom	630	$1,367	$16,403	$8,083	$6,466	$85,505	$182,700	$97,195
2 Bedroom	880	$1,628	$19,535	$11,058	$8,846	$116,972	$255,200	$138,228
3 Bedroom	1,280	$1,873	$22,475	$13,851	$11,081	$146,517	$371,200	$224,683
4 Bedroom	1,430	$2,078	$24,933	$16,186	$12,949	$171,223	$414,700	$243,477
Average Affordability Gap								**$148,846**

(1) Affordable Rents are based on HCD FY 2015 Income Limits for Monterey County.
(2) Amount available for debt. Assumes 5% vacancy and collection loss and $7,500 per unit for operating expenses and reserves.
(3) Assumes 1.25 Debt Coverage Ratio.
(4) Assumes 6.38%, 30 year loan. Calculations based on annual payments.
(5) Assumes development cost of $290 per net square foot.

Sources: Vernazza Wolfe Associates, Inc. and selected Salinas Rental Housing Pro Formas.

Table B-8 shows the housing affordability gap calculation for ownership units. For each unit type, the gap is calculated as the difference between the per-unit cost of development and the affordable sales price for each income level. As with rental housing, the average housing affordability gap for each income level is calculated by averaging the housing affordability gaps across unit sizes.

Table B-8: For-Sale Housing Affordability Gap Calculation

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price (1)	Development Costs (2)	Affordability Gap (3)
Very-Low Income (50% of AMI)				
1 Bedroom	610	$35,812	$109,800	$73,988
2 Bedroom	850	$56,575	$153,000	$96,425
3 Bedroom	1,280	$75,814	$230,400	$154,586
4 Bedroom	1,580	$92,387	$284,400	$192,013
Average Affordability Gap				**$129,253**
Low Income (80% of AMI)				
1 Bedroom	610	$97,911	$109,800	$11,889
2 Bedroom	850	$131,056	$153,000	$21,944
3 Bedroom	1,280	$162,010	$230,400	$68,390
4 Bedroom	1,580	$188,583	$284,400	$95,817
Average Affordability Gap				**$49,510**
Moderate Income (120% of AMI)				
1 Bedroom	610	$167,725	$109,800	$0
2 Bedroom	850	$214,871	$153,000	$0
3 Bedroom	1,280	$258,874	$230,400	$0
4 Bedroom	1,580	$296,590	$284,400	$0
Average Affordability Gap				**$0**

(1) See Table B-5 above.
(2) Assumes $180/SF for development costs.
(3) Calculated as the difference between affordable sales price and development cost

Sources: Vernazza Wolfe Associates, Inc., CHISPA pro forma, and DataQuick Sales Data.

Finally, Table B-9 presents the tenure-neutral estimates of the housing affordability gap for very low-, low-, and moderate-income households by averaging the rental and ownership gaps for each income group.[18] The calculated average affordability gap per unit is $191,886 for very low-income households, $145,060 for low-income households, and $74,423 for moderate-income households. The housing affordability gap is highest for lower income households because they have less money to spend on housing costs. The gap is also higher for rental housing due to the higher development cost per square foot in comparison to for-sale development costs.

Table B-9: **Average Rental and For-Sale Gap by Income Group**

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low-Income (50% AMI)	$254,518	$129,253	$191,886
Low-Income (60% - 80% AMI)	$240,609	$49,510	$145,060
Moderate-Income (100% - 120% AMI)	$148,846	$0	$74,423

Sources: Tables B-7 and B-8.

[18] There is no gap on for-sale housing for moderate-income owners, given the assumptions used in this study.

APPENDIX C: FINANCIAL FEASIBILITY ANALYSIS

Based on information provided by a local builder, development cost estimates were created for the three prototypes. The feasibility assessment then looked at the financial feasibility of these three prototypes, given these costs and revenues assumed for the IMPLAN3 analysis, as well as profit expectations in today's real estate market. Several assumptions are needed for this analysis. These include the following:

- Reductions to gross revenues due to cost of sales (for for-sale prototypes) and operating expenses/vacancy loss for the rental prototype.
- Expectation of return for the for-sale prototypes, defined as the net value divided by development costs. Based on current market expectations, this number is 7% for the low density single homes and 8% for the small lot single family homes.
- For rental housing, there are two return measures, including the net value divided by development costs (based on a capitalization rate of six percent) and supportable debt, based on cash flow.

Table C-1 provides a detailed list of the assumptions and data sources used in the Appendix C tables. Table C-2 provides the base case of the two for-sale prototypes, based on the anticipated sales prices analyzed in the nexus analysis. Since the base case is not currently feasible (showing a negative return), Table C-3 presents information on what sales prices would need to be to provide the required return on costs (7% to 8%) in today's market. Tables C-4, C-5 and C-6 provide information on what sales prices would need to be in order to support the three impact fee levels presented in this report ($10, $5, and $2 per SF).

Table C-7 shows the base case for the rental housing prototype, which, unlike the for-sale prototype, currently shows a positive return. Net operating income supports a loan that is about 90% of development costs which is not optimal (the developer does not receive any profit and also has to fund the deficit). Table C-8 provides information on what rents would need to be in order to conclude that the project was financially feasible. In this context, feasibility requires that the net operating income covers costs and also provides a return on development costs of 14%. Finally, Tables C-9, C-10 and C-11 provide information on what rents would need to be in order to support the three impact fee levels presented in this report ($10, $5, and $2 per SF).

One significant factor that is not known at present are future sales prices and rents, particularly in the Future Growth Area. The prices modeled were based on recent development and are conservative. If prices have increased, and there is strong evidence they have, development will be more feasible than modeled in this analysis.

Since a significant amount of future development will occur in the FGA's and additional impact fees that will be charged there have not been established, it was not possible to include these higher fees in the development costs. Consequently, it is likely that costs would be higher by the time there is development in the FGA's. In reality, therefore, rents and sales prices would need to be even higher than those presented in these tables. Finally, the biggest discrepancy at this time is between the sales prices/rents modeled in this study and what sales prices/rents need to be for future development to be financially feasible. In other words, the levying of housing impact fees has less of an impact on feasibility than do current market conditions.

Table C-1: Cost and Return Assumptions Used in Feasibility Analysis

	Large Lot Single Family	**Small Lot Single Family/Townhomes**	**Apartments (Multifamily)**
Average Unit Sizes Based on Prototypes	2,600 SF	1,750 SF	1,060 SF
Revenue Assumptions			
Gross Revenues per Unit (Average of Units in Prototypes)	$467,500	$282,500	$1,620 per Month
Sales Expenses/Vacancy Loss	3.5%	3.5%	Gross Rent Reduced by 5% (Vacancy Loss) and assumes operating expenses are 30% of net revenues
Cost Assumptions			
Site Improvement Costs per SF (1)	$18.62	$18.62	$41.22
Building Costs per SF (2)	$85.00	$93.00	$97.66
Soft Costs per SF (3)	$27.10	$27.10	$31.15
Additional Costs per SF (4)	$9.00	$9.00	$7.20
Land Costs per SF (5)	$35.07	$35.07	$19.58
Total Costs per SF	**$174.79**	**$182.79**	**$196.81**
Total Costs per Unit	**$454,454**	**$319,883**	**$208,619**
Profit Based on Prevailing Market Expectations (2015)			
Return on Costs (6)	7%	8%	14%
Capitalization Rate (7)	NA	NA	6%
Interest Rate Used in Debt Service Calculation (8)	NA	NA	5.64%

(Table notes on following page.)

Notes for Table C-1: Cost and Return Assumptions Used in Feasibility Analysis

(1) Site Improvement Costs include demolition, grading, sewer, storm drain, water, PG&E, curb, gutter, erosion control, bio swales, water, storage, signing, landscaping, fencing, paving, etc.
(2) Building Costs include foundation to carpet.   Parking costs included in site improvements costs.
(3) Soft costs include construction financing, contingency, developer fee (including impact fees) consultants, engineering, architect, and insurance.
(4) Additional costs include general conditions, temporary fencing, utilities, toilets, labor, debris disposal, administrative project manager, superintendent, construction labor, and off-site administration.
(5) Land costs are based on prototype densities as follows: large lot single family (6 DU/Acre), small lot single family (9 – 15 DU/Acre), and apartments (16 – 24 DU/Acre).
(6) The return on costs measure used here (7% for large lot single family, 8% for small lot single family/townhomes, and 14% for rental housing) is based on feasibility modeling included in a recent Oakland Fee Study examining new development in Oakland submarkets, such as East Oakland, that are similar to the Salinas market.
(7) Capitalization Rate (Cap Rate) is used for rental housing feasibility. The Cap Rate used in this feasibility analysis is from Cushman and Wakefield. http://annualreview.cushwake.com/downloads/04_cap_market_report.pdf, accessed on November 12, 2015. The Cap Rate selected represents Sacramento's Class B space (estimated between 5.75% and 6.5%). This submarket was selected since among locations in California, it is the most comparable to the Salinas apartment market.
(8) Assumes interest rate of 5.64% for a 30-year, fixed rate loan. Source is http://www.crefcoa.com/apartment-rates-main.html, accessed on November 12, 2015

Table C-2: Financial Analysis of Base Case Single Family/Townhome Prototypes

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	**Per Unit**	**Per SF**	**Per Unit**
A. Revenue - Average Sales Price	**$179.81**	**$467,500**	**$161.43**	**$282,500**
B. Sales Expenses (3.5% of Revenues)	($6.29)	($16,363)	($5.65)	($9,888)
C. Net Revenues (Revenues less Sales Expenses)	$173.51	$451,138	$155.78	$272,613
D. Development Costs, excludes developer fee and return on capital	($174.79)	($454,454)	($182.79)	($319,883)
E. Profit/Loss (Net Revenues less Development Costs)	($1.28)	($3,317)	($27.01)	($47,270)
F. Profit expressed as a percentage of Development Costs	-1%	-1%	-15%	-15%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-3: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	**Per Unit**	**Per SF**	**Per Unit**
A. Revenue - Average Sales Price	**$194.23**	**$505,000**	**$204.29**	**$357,500**
B. Sales Expenses (3.5% of Revenues)	($6.80)	($17,675)	($7.15)	($12,513)
C. Net Revenues (Revenues less Sales Expenses)	$187.43	$487,325	$197.14	$344,988
D. Development Costs, excludes developer fee and return on capital	($174.79)	($454,454)	($182.79)	($319,883)
E. Profit/Loss (Net Revenues less Development Costs)	$12.64	$32,871	$14.35	$25,105
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-4: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes $10/SF Housing Impact Fee Scenario

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	**Per Unit**	**Per SF**	**Per Unit**
A. Revenue - Average Sales Price	**$205.77**	**$535,000**	**$215.71**	**$377,500**
B. Sales Expenses (3.5% of Revenues)	($7.20)	($18,725)	($7.55)	($13,213)
C. Net Revenues (Revenues less Sales Expenses)	$198.57	$516,275	$208.16	$364,288
D. Development Costs, excludes developer fee and return on capital, and includes $10/SF Impact Fee	($184.79)	($480,454)	($192.79)	($337,383)
E. Profit/Loss (Net Revenues less Development Costs)	$13.78	$35,821	$15.37	$26,905
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-5: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes $5/SF Housing Impact Fee Scenario

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	**Per Unit**	**Per SF**	**Per Unit**
A. Revenue - Average Sales Price	**$200.00**	**$520,000**	**$210.00**	**$367,500**
B. Sales Expenses (3.5% of Revenues)	($7.00)	($18,200)	($7.35)	($12,863)
C. Net Revenues (Revenues less Sales Expenses)	$193.00	$501,800	$202.65	$354,638
D. Development Costs, excludes developer fee and return on capital, and includes $5/SF Impact Fee	($179.79)	($467,454)	($187.79)	($328,633)
E. Profit/Loss (Net Revenues less Development Costs)	$13.21	$34,346	$14.86	$26,005
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-6: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes
$2/SF Housing Impact Fee Scenario

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	**Per Unit**	**Per SF**	**Per Unit**
A. Revenue - Average Sales Price	$196.15	$510,000	$207.14	$362,500
B. Sales Expenses (3.5% of Revenues)	($6.87)	($17,850)	($7.25)	($12,688)
C. Net Revenues (Revenues less Sales Expenses)	$189.29	$492,150	$199.89	$349,813
D. Development Costs, excludes developer fee and return on capital, and includes $2/SF Impact Fee	($176.79)	($459,654)	($184.79)	($323,383)
E. Profit/Loss (Net Revenues less Development Costs)	$12.50	$32,496	$15.10	$26,430
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-7: Financial Analysis of Base Case Apartment Prototype

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	$1.53	$1,620
Annual Rents	**$18.34**	**$19,440**
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	$17.42	$18,468
C. Less Operating Expenses (30% of Net Revenues)	($5.23)	($5,540)
D. Net Operating Income	$12.20	$12,928
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	$203.26	$215,460
F. Development Costs (excludes developer fee and return on capital)	$196.81	$208,619
F. Difference Between Value and Development Costs	$6.45	$6,841
G. Supportable Debt (30 year loan, 5.64% interest rate)	NA	$185,022
H. Net Value Divided by Development Costs	3%	3%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-8: Financial Analysis of Financially Feasible Case Apartment Prototype

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	$1.67	$1,775
Annual Rents	**$20.09**	**$21,300**
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	$19.09	$20,235
C. Less Operating Expenses (30% of Net Revenues)	($5.73)	($6,071)
D. Net Operating Income	$13.36	$14,165
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	$222.71	$236,075
F. Development Costs, excludes developer fee and return on capital	$196.81	$208,619
F. Difference Between Value and Development Costs	$25.90	$27,456
G. Supportable Debt (30 year loan, 5.64% interest rate)		$202,726
H. Net Value Divided by Development Costs	13%	13%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-9: Financial Analysis of Financially Feasible Case Apartment Prototype - $10/SF Housing Impact Fee Scenario

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	$1.77	$1,875
Annual Rents	**$21.23**	**$22,500**
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	$20.17	$21,375
C. Less Operating Expenses (30% of Net Revenues)	($6.05)	($6,413)
D. Net Operating Income	$14.12	$14,963
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	$235.26	$249,375
F. Development Costs, excludes developer fee and return on capital, and includes $10/SF Impact Fee	$206.81	$219,219
F. Difference Between Value and Development Costs	$28.45	$30,156
G. Supportable Debt (30 year loan, 5.64% interest rate)		$214,146
H. Net Value Divided by Development Costs	14%	14%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-10: Financial Analysis of Financially Feasible Case Apartment Prototype - $5/SF Housing Impact Fee Scenario

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	$1.73	$1,835
Annual Rents	**$20.77**	**$22,020**
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	$19.73	$20,919
C. Less Operating Expenses (30% of Net Revenues)	($5.92)	($6,276)
D. Net Operating Income	$13.81	$14,643
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	$230.24	$244,055
F. Development Costs, excludes developer fee and return on capital, and includes $5/SF Impact Fee	$201.81	$213,919
F. Difference Between Value and Development Costs	$28.43	$30,136
G. Supportable Debt (30 year loan, 5.64% interest rate)		$209,567
H. Net Value Divided by Development Costs	14%	14%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-11: Financial Analysis of Financially Feasible Case Apartment Prototype - $2/SF Housing Impact Fee Scenario

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	$1.70	$1,800
Annual Rents	**$20.38**	**$21,600**
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	$19.36	$20,520
C. Less Operating Expenses (30% of Net Revenues)	($5.81)	($6,156)
D. Net Operating Income	$13.55	$14,364
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	$225.85	$239,400
F. Development Costs excludes developer fee and return on capital, and includes $2/SF Impact Fee	$198.81	$210,739
F. Difference Between Value and Development Costs	$27.04	$28,661
G. Supportable Debt (30 year loan, 5.64% interest rate)		$205,574
H. Net Value Divided by Development Costs	14%	14%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.