



## **CITY OF SALINAS COUNCIL STAFF REPORT**

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**DATE:** MARCH 19, 2019

**DEPARTMENT:** COMMUNITY DEVELOPMENT

**FROM:** MEGAN HUNTER, DIRECTOR

**BY:** KAYLIE LOW, AMERICORPS VISTA MEMBER

**TITLE:** AN ORDINANCE AMENDING CHAPTER 9 OF THE SALINAS MUNICIPAL CODE (BUILDING) TO EXEMPT ACCESSORY DWELLING UNITS FROM DEVELOPMENT IMPACT FEES FOR A FIVE-YEAR PERIOD

**RECOMMENDED MOTION:**

A motion to introduce and adopt an ordinance amending Chapter 9 of the Salinas Municipal Code (building) to exempt Accessory Dwelling Units from development impact fees for a period of five (5) years from the effective date of this ordinance.

**RECOMMENDATION:**

Staff recommends that the City Council introduce and subsequently adopt the attached ordinance amending Chapter 9 of the Salinas Municipal Code (building) to exempt Accessory Dwelling Units from development impact fees for a period of five (5) years from the effective date of this ordinance.

**EXECUTIVE SUMMARY:**

The City adopted the 2015-2023 Housing Element that identifies an implementation action to facilitate the production of Accessory Dwelling Units (ADUs). In addition, the Farmworker Housing Study, the Draft Alisal Vibrancy Plan and the Salinas Plan all describe the importance of development of ADU's in the City. With Staff research it has been shown that the development impact fees can total over \$8,000 before construction or conversion of the unit begins resulting in a financial impediment. Most of the City's development impact fees are charged per dwelling unit instead of size or square footage except for utility and park fees. As a result, a 400 square foot ADU will pay roughly the same amount of impact fees as a new 3,000 square foot single-family residence. ADUs are an opportunity to add much needed housing stock, production would help alleviate overcrowding, and create more affordable housing types. To reduce the barriers of production of ADU units in the City and following best practices by other jurisdictions Staff recommends that Accessory Dwelling Units be exempt from development impact fees for a period of five years. The proposed amendment would only be applicable to new construction or conversion of existing structures following the effective date of the ordinance.

## BACKGROUND:

An Accessory Dwelling Unit (ADU) as defined in Section 37-10.250 of Chapter 37 of the Salinas Zoning Code is an attached or a detached residential dwelling unit which provides complete independent living facilities for one or more persons, including permanent provisions for living, sleeping, eating, cooking, and sanitation, which is located on the same parcel as a single-family detached dwelling unit. ADUs can be new construction or converting an existing structure to fit the definition. Currently, the City is charging development impact fees to residents who construct ADUs on their single-family lots. The City charges development impact fees for parks, traffic, fire, police, recreation, and libraries.

Salinas residents are facing a housing crisis demonstrated by the percent of population that is burdened by high housing costs and/or living in overcrowded conditions. Cost burdened is defined as gross housing costs exceeding 30% of gross household income. 77% of Salinas households have reported being burdened by housing costs. In fact, according to an analysis of 2016 census data by Harvard's Joint Center for Housing Studies, the Salinas Metro area is one of the ten least affordable places in the nation. In the 2018 Farmworker Housing Study and Action Plan for the Salinas and Pajaro Valleys, 93% of 420 farmworkers surveyed reported living in overcrowded housing with more than the standard of one person per bedroom. Permanent farmworker residents have detailed renting hallways and closets in single family homes in extremely overcrowded conditions. The production of ADUs on single family lots could alleviate the high cost burden and overcrowding that have become reality for many Salinas residents. Because ADUs are smaller and are constructed on already available land, they are seen by many cities as a solution for the affordable housing crisis.

Interested in the potential of ADUs to assist with Salinas' housing needs, the Community Development Department (CDD) applied for and received an AmeriCorps VISTA grant through the Corporation for National Service. With the assistance of Kaylie Low, our AmeriCorps VISTA Member, CDD staff was able to identify multiple barriers to ADU production. After interviewing community members and sorting through the City's permitting database, it was apparent that the development impact fees are a substantial upfront cost requiring capital that most residents do not have. This is consistent with the findings of the City of Santa Cruz, which conducted an ADU survey with 61% of respondents reporting that paying impact fees was a challenge.

A public hearing notice was published in the Monterey County Herald on Sunday, March 3<sup>rd</sup> as required. On March 2<sup>nd</sup>, the Salinas Valley Chamber of Commerce sent a letter of support for the proposed exemption.

## DISCUSSION:

In 2017 the State relaxed requirements for Accessory Dwelling Units (ADU) such as eliminating minimum lot size and reducing required setbacks. In 2016, the City updated the ADU ordinance to comply with the new State law that took effect in 2017. The State lessened ADU requirements with the intent of incentivizing construction of ADUs to address the California's housing shortage. Even with the change in regulations, there are still multiple barriers to ADU production, chief among them high development impact fees.

Since 2007, only twenty-four (24) ADUs have been permitted in the City of Salinas. In 2018, eight (8) ADUs initiated the permitting process, but one ADU was canceled before the permit was finalized. Thus, the construction of ADUs over the years has been very slow. Of the seven (7) permits issued for ADUs in 2018, the average development impact fees (regional and city) totaled just under \$13,000. City development impact fees accounted for slightly more than \$8,000. Unfortunately, Salinas' fee structure never factored ADUs in the calculation and consequently, impact fees are largely charged per unit regardless of size, resulting in ADU impact fees that are nearly equal to that of a large single-family home.

ADU Development Costs in 2018						
ADU Size (Square Feet)	Bedrooms	City DIF	Regional DIF	Total (City/Regional DIF)	City Other Fees (Inspection, Plan Review)	Grand Total
516	2	\$ 8,207.21	\$ 4,851.47	\$ 13,058.68	\$ 4,763.40	\$ 17,822.08
660	1	\$ 7,263.21	\$ 4,851.47	\$ 12,114.68	\$ 3,714.66	\$ 15,829.34
578	1	\$ 7,263.21	\$ 4,851.47	\$ 12,114.68	\$ 1,924.77	\$ 14,039.45
750	2	\$ 8,207.21	\$ 4,851.47	\$ 13,058.68	\$ 4,541.09	\$ 17,599.77
1200	3	\$ 9,151.21	\$ 4,851.47	\$ 14,002.68	\$ 6,460.89	\$ 20,463.57
816	3	\$ 9,151.21	\$ 4,851.47	\$ 14,002.68	\$ 6,901.96	\$ 20,904.64
500	1	\$ 7,263.21	\$ 4,851.47	\$ 12,114.68	\$ 4,425.23	\$ 16,539.91
<b>Average</b>		<b>\$ 8,072.35</b>	<b>\$ 4,851.47</b>	<b>\$ 12,923.82</b>	<b>\$ 4,676.00</b>	<b>\$ 17,599.82</b>
Notes: DIF = Development Impact Fees						
City DIF fees: park, recreation, library, traffic, utility, fire, police						
Regional DIF fees: Monterey One Water, TAMC						

The purpose of development impact fees is to offset any potential impact to City infrastructure and services as authorized in California Government Code §§ 66000-66008, also known as the Mitigation Fee Act. This Act requires that fees for a development be proportional to the actual impact. The 2016 California Department of Housing and Community Development Accessory Dwelling Unit Memorandum states “fees on ADUs, must proportionately account for impact on services based on the size of the ADU or number of plumbing fixtures”. To ensure compliance with the Fee Mitigation Act, many jurisdictions are either reducing or exempting ADUs from development impact fees. Rightsizing fees for ADUs is justified because unlike new residential projects, ADUs are built on an already developed and occupied lot. New single-family development will have already paid development impact fees. For this reason, charging development impact fees for ADU construction or conversion on a lot already charged for development is unnecessary and results in an unfair impediment to construction of vital housing stock. In many cases, a new ADU is providing housing for existing occupants living on site.

Multiple jurisdictions have reduced, waived, or exempted ADUs from development impact fees. Communities like Vacaville and Chico have significantly reduced fees. Other jurisdictions have taken more dramatic steps to facilitate ADU production. For example, the City of San Diego waived their impact fees for ADU's for a trial period of 5 years back in April of 2018 and as of January 2019, the San Diego County Board of Supervisors did the same. The Santa Cruz County Board of Supervisors waived County fees for small (>640 SQF) accessory dwelling units under a three-year pilot program in October 2018.

The City has adopted numerous plans that support the production of Accessory Dwelling Units. The City's 2015-2023 Housing Element, Policy H-1.1 states that the City should encourage development of a variety of housing types and innovative approaches such as micro units and smaller houses on smaller lots. The City wants to incentivize development of innovative housing types such as ADUs to support Policy H-1.1 and to assist in achieving the City's Regional Housing Needs Allocation (RHNA). ADUs are a chance to facilitate housing development in a more inexpensive manner and can provide RHNA mandated housing stock without the expense of land acquisition or the administrative burden of other types of housing production.

The Farmworker Housing Study and Action Plan of the Salinas Valley and Pajaro Valley (Study) was published in June 2018 and specifically includes an action related to ADUs. Action H4 in the Study states "facilitate the development of Accessory Dwelling Units by considering the reduction of ADU Impact and permit fees, disseminating public information, and establishing lender products for ADU new construction and rehabilitation". As a result, exempting ADUs from development impact fees will be a step forward in implementing the Study and will create new housing opportunities for the permanent year-round farmworker families residing in the City.

Production of ADUs will help with housing affordability, conditions, and ultimately increase property tax revenue. For example, if an ADU is assessed at around \$100,000, the City will receive approximately \$1,000 of additional property tax revenue per year, helping offset any loss of development impact fees. The exemption would be limited to five (5) years to minimize any potential fiscal impact and would allow the City to evaluate the impact of the exemption in generating more housing units. While the proposed ordinance would exempt ADUs from development impact fees, it would not exempt or waive permitting fees. The Permit Services Division is fully funded by fees. Under State law, the City can only charge fees to cover our direct costs. With no other funding mechanism, the City cannot use permitting fees from other projects to cover expenses for ADUs. In addition, we are also not proposing to exempt regional development impact fees (Monterey One Water and TAMC). However, the City will approach TAMC and Monterey One Water requesting a similar approach for ADUs related to impact fees.

In addition to this proposed ordinance change, City staff has engaged in multiple activities to facilitate production of ADUs by simplifying the process for residents. Staff is revising an educational packet for residents interested in building an ADU and hopes to develop pre-approved plans meant to streamline the approval process and save on costs. Another area of focus is ADU financing. Staff will explore the creation of a Housing Trust that could serve as a financing tool for ADU construction. By amending Chapter 9 to exempt ADUs from development impact fees for five years, the largest barrier of production would be eliminated, and staff would be able to work on implementing these other actions.

#### CEQA CONSIDERATION:

The proposed amendment is statutorily exempt from environmental review pursuant to Public Resources Code Section 21080.17 and provides that the California Environmental Quality Act (CEQA) does not apply to the adoption of an ordinance under Government Code Section 65852.2 regulating accessory dwelling units as enumerated in Section 15282(h). Further, the amendment to Development Impact Fees is "Not a Project" under CEQA Guidelines Section 15378(b)(4),

which provides that a “project” within the meaning of CEQA does not include the creation of funding mechanisms and other fiscal activities that do not involve any commitment to a specific project that may result in a potentially significant physical impact on the environment.

The publication notice for this item included the CEQA determination that it is “Not a Project” under CEQA Guidelines Section 15378, but did not reference the statutory exemption from environmental review pursuant to Public Resources Code Section 21080.17 and CEQA Guidelines Section 15282(h). This additional CEQA exemption has been included in the attached ordinance.

#### STRATEGIC PLAN INITIATIVE:

The proposed Ordinance supports City Council’s goal of “Updating the Housing Element” as an action of initiating research on incentives to encourage housing production and expand grant opportunities.

#### DEVELOPMENT COORDINATION:

The Community Development Department (CDD) has coordinated this proposal among the Housing, Current Planning, and Project and Plan Implementation Divisions and the facilitation of ADUs has been frequently discussed through community engagement efforts. Most recently, the Alisal Vibrancy Plan Housing Working Group included the construction of ADUs as an implementation measure to alleviate housing deficits. The proposal was also discussed during our Economic Development Coordination Meetings, which involves the City Manager’s Office and the Public Works and Finance Departments. The proposal was presented on March 4<sup>th</sup> to the Finance Committee and on March 12<sup>th</sup> to the Housing and CDBG Subcommittee of City Council. Both committees supported the proposal.

#### FISCAL AND SUSTAINABILITY IMPACT:

The proposal would be limited to five years and therefore the potential fiscal impact is lessened. The proposed amendment would only be applicable to new construction or conversion of existing structures following the effective date of the ordinance.

In eleven years, only twenty-four (24) ADUs have been permitted. Based upon the average of 3 ADUs permitted per year, the City would only lose approximately \$120,000. This past year, the City had the largest number of permitted ADUs at eight (8). Even using this as the basis for estimating the potential loss, the City would only lose \$320,000 over the next five years for 40 ADUs.

In contrast, the development cost of one affordable housing unit is between \$300,000 to \$400,000 and would require a local subsidy to construct. For example, the City subsidy for Moongate Plaza was roughly \$40,000 per unit. Thus, in comparing the exemption and potential loss of revenue with the needed local subsidy, the five-year exemption from ADU development impact fees is a much more economical way to facilitate housing production.

The City will also gain new property tax revenue from ADUs that likely would never be constructed because of the prohibitive development impact fees.

ATTACHMENTS:

- Draft Ordinance
- Hearing Notice in Newspaper Publication
- Letter of Support from the Salinas Valley Chamber of Commerce