

# AFFORDABLE HOUSING POLICY OPTIONS FOR EL DORADO COUNTY

Following are key takeaways from this study, highlighting affordable housing needs and potential policy responses for El Dorado County.

## Context Summary and Local Needs

The nationwide housing shortage is ultimately the result of increasing housing costs and stagnating wages along with increased demand and supply shortages. El Dorado County is similar to many jurisdictions across the country in this respect; housing costs increasingly outweigh the ability of households to pay, as this report has outlined. In fact, approximately one-third of all households (20,491) in unincorporated El Dorado County as of 2021 experience a housing cost burden. Of these cost-burdened households, 16,484 households are moderate-income households or lower, while 3,918 are moderate-income households only. In addition, 40.1 percent of unincorporated El Dorado County household growth between 2021 and 2041 will be cost-burdened, comprising future affordable housing demand. The subset of future affordable housing demand from moderate-income households or lower (i.e., workforce housing demand) is 3,179 households, while the future affordable housing demand by moderate-income households only will be 584 households (i.e., missing middle demand). At a minimum, the County should aim to meet some subset of future affordable housing demand, whether it is missing middle or workforce demand, while seeking to improve housing affordability for existing residents by encouraging increased and diversified housing supply overall.

## Board of Supervisors Direction

These findings confirm the concerns expressed by the El Dorado County Board of Supervisors in a housing workshop held at their regularly scheduled meeting on January 25<sup>th</sup>, 2022. All five Supervisors agreed that there is a need for affordable housing across all income groups, although they recognized that the County may be limited in its ability to tackle to overall affordable housing gap. The Board agreed that missing middle housing is an important subset to target but did not suggest this is the only subset of the affordable housing gap that an affordable housing ordinance, and an IZ policy specifically, should aim to address. In addition, the Board acknowledged that it would be important to allow for a wider range of development types, and that more areas should be zoned for residential development. In particular, the Board unanimously agreed that more commercial zones should be able to accommodate residential or mixed-use development, particularly as shopping centers are aging and as there is dwindling demand for brick-and-mortar retail space.

The Board expressed an interest in understanding the feasibility of implementing an IZ policy, which this report helps to outline.

## Regulatory Approaches

The minimum IZ requirement, mandatory or voluntary, in any California jurisdiction with an IZ policy is ten percent, although requirements of affordability by income differ. In El Dorado County, given current market conditions, a ten percent IZ requirement for units restricted for moderate-income households in a multifamily project is likely to be infeasible for developers under current market conditions. However, with a relatively small inventory of multifamily housing, the County may want to avoid burdening potential multifamily projects with additional costs in order to encourage increasing the overall diversity of housing types in the County. For sale single-family developments may be a more effective target for an IZ policy, as the increased profitability of for sale housing suggests an IZ policy may be marginally feasible to implement under current market conditions. Such an IZ policy also would have the benefit of creating affordable ownership units that can help to keep families in El Dorado County, which was one of the key takeaways from the Board's comments in January.

An important consideration for IZ policies targeting moderate-income housing affordability in for-sale residential development is the relationship between housing affordability benefits provided to moderate-income buyers and the sale price restrictions to which they would be subject upon re-sale of the unit. Specifically, it is necessary to ensure that the perceived opportunity cost of limiting the homebuyer's equity return on resale is balanced out by the initial purchase price savings they would receive on the initial purchase. For example, program viability challenges arise when the initial restricted purchase price is not significantly below market rates and potential moderate-income homebuyers feel that the purchase price discount is not sufficient to make it worthwhile for them to give up some portion of their equity appreciation upon re-sale.

Given the marginal feasibility of a mandatory IZ requirement, the Board could consider a voluntary IZ requirement that is tied to incentives, which is in line with comments from several Supervisors who were concerned about a mandatory requirement discouraging development altogether. In addition, the best practices analysis in this report suggests that IZ policies are more effective if there are alternative means of compliance, such as allowing developers to build IZ units off-site, pay a fee in-lieu, donate land to the County, or purchase deed-restrictions on existing homes. These alternative compliance means increase the flexibility for developers to find cost-effective means to comply with the requirements that are tailored to their unique project circumstances. For example, such options may allow developers to mitigate the added costs of including affordable units by affecting the timing and/or responsibility for construction and management of the affordable units. Offering alternative means of compliance can also allow the County to meet other policy imperatives. For example, although this analysis has primarily defined workforce housing on the basis of income, the County is also interested in capturing workers employed in the County as residents to reduce commute times and traffic, as well as to increase the tax base. Using Placer County's Workforce Housing Preservation Program as an example, El Dorado County

could offer an alternative means of compliance with an IZ policy that deed-restricts new or existing units for workers employed in the County, regardless of income level, and allows developers to set the sale price or rental rate at a market rate level, albeit defined by the prices that qualified buyers or renters are willing and able to pay.

### ***Other Regulatory Policy Changes to Encourage Affordable Housing***

One of the main benefits of an IZ policy is that it is a regulatory mechanism that does not require substantial additional funding to implement. For example, this is in contrast to a direct subsidy program for affordable housing units that would require the County to raise substantial money for capital contributions to subsidize affordable housing development. This is one of the reasons local jurisdictions impose IZ requirements, as most local jurisdictions have limited funding to support affordable housing development. Other potential regulatory mechanisms to encourage affordable housing include relaxing development standards like density, height, lot coverage, and FAR. Developers may not necessarily seek lowered development standards in El Dorado County, such as increased density, if it requires constructing tall buildings, but developers may appreciate flexibility in lot coverage to build, for example, 'horizontal' mixed-use developments where housing units do not necessarily have to go above commercial development.

Furthermore, as the Board noted in its January meeting, zoning more land for denser small lot single-family, multifamily, or mixed-use development, could help to lower land costs. A mixed-use overlay zone, as suggested by the County staff and the Board, could also direct development to existing under-utilized commercial areas to take advantage of existing roads and infrastructure capacity, thereby potentially reducing development costs and infrastructure impacts. Finally, in terms of regulatory interventions, standardizing development design standards and allowing by-right residential development can significantly improve the feasibility of development by reducing project risk and accelerating the timeline for project approvals. All Supervisors expressed support for the County's ongoing community design standards process which may codify by-right development.

## **Funding Approaches**

There are some funding mechanisms the County may be able to implement to support affordable housing development, although there will be some trade-off, such as levying additional taxes, diverting existing funds, or securing additional state and federal subsidies. El Dorado County already administers a down payment assistance program for first-time home buyers. This is funded by state and federal money as well as a revolving loan fund, as are down payment assistance programs in nearby and similar jurisdictions. However, if the County is willing and able to levy an additional fee or tax to support affordable housing, or divert existing revenues to support affordable housing, it may relatively be easy to use some of that money to supplement and expand the existing down payment assistance program. By contrast, using new or diverted local revenues for a Housing Trust Fund or gap financing program that would target different types of affordable housing development as compared to a

down payment assistance program may require significant resources to set up and administer, such as requiring additional staff resources. Expanding the County's first-time homebuyer program as well as supporting ADU financing are eligible activities for Permanent Local Housing Allocation (PLHA) grant funding, which the County has available to use.

One funding mechanism that would be relatively straightforward to implement and would not require a levy of additional fees or taxes would be to waive a portion of impact and permitting fees. The County currently administers a Traffic Impact fee offset for affordable housing, although expanding the threshold for eligibility (less than five units) and the amount of the offset would significantly influence the feasibility of developing affordable housing. The County could consider waiving the fee for affordable units included within a development and could lower the fee for developments in certain target. For example, infill development typically generates smaller infrastructure impacts as sites are already served by existing infrastructure. A fee waiver could also be incorporated as an incentive for including affordable units, or for building in a mixed-use overlay zone. However, if not backfilled from other sources or if overall capital improvement costs are reduced, fee waivers can have the effect of creating a funding "hole" for the capital improvement programs that rely on fee revenue to pay for new development's share of new capital costs. Thus, rather than outright waiver of fees, many jurisdictions have fee deferral programs, which allow developers to pay fees later in the development process, to reduce the amount of up-front cash financing that is required for a project and to reduce project carrying costs. Typically, funds used earliest in a development project are most difficult to raise and require the highest rate of return, so a simple fee deferral can be helpful to certain projects.

## Conclusions

Overall, the County should strongly consider the viability of an IZ policy beyond just financial feasibility, as it is a popular and fiscally neutral policy that can generate affordable housing. An inclusionary zoning requirement that is tied to incentives and offers a range of alternative means of compliance is potentially an effective policy to introduce in El Dorado County. Given current market conditions, moderate-income inclusionary units in single-family for-sale housing development could be the most suitable target for a local ordinance based on the marginal feasibility of a ten percent inclusionary requirement, as tested in this report. Such a program would need to be carefully crafted to ensure that the program parameters would be financially attractive to participating moderate-income households. One possible solution to this challenge would be to shift from a deed restriction on sale price to a deed restriction on type of household (i.e., local workforce household requirement). To attract developer interest to a voluntary program, incentives can include development bonuses, although the nature of development bonuses in El Dorado County should provide flexibility that is valuable for developers given the form and size of existing development in the County.

The County has a limited existing supply of multifamily housing, market rate or affordable. This, combined with the finding that multifamily housing development feasibility is weak under

current economic conditions, suggests that the County may wish to avoid placing any further regulatory requirements such as an IZ policy on multifamily development at this time. Rather, taking steps to expand the supply of land available for multifamily housing development and streamlining the development process by modifying the County's land use regulations and approvals process (see below) may be most beneficial to help expand the supply of multifamily housing and diversify the County's housing options.

In terms of other implementable policies, the County is already undertaking a process to establish by-right development through Community Design Standards, which will significantly shorten the entitlement process and decrease risk for developers, which improves development feasibility overall. The County should also strongly consider additional opportunities to expand policies that waive or defer development impact fees.

A ten percent inclusionary requirement of units affordable to moderate-income households is marginally infeasible in El Dorado County under current market conditions, for both single-family and multifamily prototypes, but waiving some or all of the TIF alone could render such a mandatory inclusionary policy feasible. Finally, the County should weigh pros and cons of generating additional revenues or diverting existing revenue such as the Transient Occupancy Tax, to support affordable housing.