

# **Analysis of San Luis Obispo County Housing Elements**

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*“If I seem too passionate, it’s because I care. If I come off too strong, it’s because I feel strongly. And If I push too hard, it’s because things aren’t moving fast enough” - Leslie Knope, Parks and Recreation*

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## Chapter 1 Background

### Introduction

Throughout my time at Cal Poly in the City and Regional Planning department I have learned about many facets of planning and how they can impact everyday life. One facet affects everyone whether they know it or not is housing.

My goal for this project is to create an understanding of what a California Housing element is and how it is pertinent to increasing housing at all levels. I will be using incorporated cities within San Luis Obispo County as an example of the effects of housing policy. I analyzed the housing elements of the cities within the County of San Luis Obispo and will provide a recommendation on how to better address the gaps they are missing within their elements.



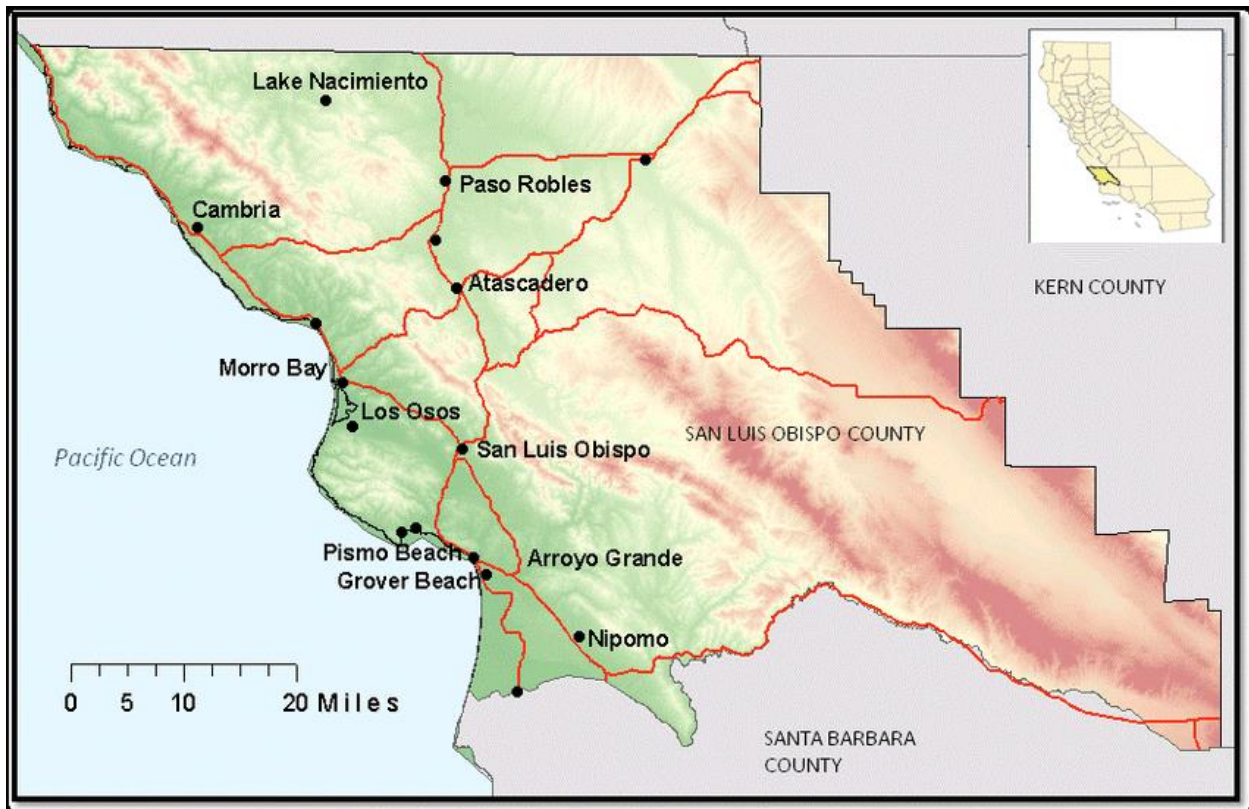


Figure 1: Map of San Luis Obispo County including major population centers. (Susan Moser Research and Consulting Santa Cruz, 2012)

## San Luis Obispo County

San Luis Obispo County is a county in located on the Pacific coast of coast of California. The County has a population of 283,111 (U.S. Census, 2018) and spans 3,636 square miles bordered by Monterey County to the north, Kern County to the east, and Santa Barbara County to the south. Within the county there are seven cities; Arroyo Grande, Atascadero, Grover Beach, Morro Bay, Paso Robles, Pismo Beach, and San Luis Obispo. The county seat is the City of San Luis Obispo.

The County has been noted for its balance of small-town and rural character but still offering amenities found in more populated areas (League of Women Voters of San Luis Obispo County, California, 2016). San Luis Obispo County is known for its major educational institutions including California Polytechnic State University San Luis Obispo and Cuesta Community college which draws students from all over the state and country. Besides education the area is

known for tourism and agriculture. A majority of workers work in the service industry (38 percent), followed by government workers (20.8 percent), and manufacturing (9 percent).

City	2018 Population	Median Household Income	Number of Housing Units	Median Home Cost
Arroyo Grande	18,039	\$80,615	7,087	\$699,995
Atascadero	30,037	\$79,610	11,283	\$565,916
Grover Beach	13,583	\$68,333	5,979	\$544,983
Morro Bay	10,592	\$66,404	4,846	\$692,936
Paso Robles	51,270	\$64,850	11,924	\$536,197
Pismo Beach	8,116	\$88,003	5,615	\$915,049
City of San Luis Obispo	47,459	\$52,740	20,332	\$752,316

Figure 2: Table illustrating population, median household income, number of housing units, and median home cost for incorporated cities within San Luis Obispo County (U.S. Census Bureau, 2018)

### Discussion of Housing Crisis in California

Since around 1970, California has been experiencing a housing shortage that continues to only expand. The shortage is estimated at 3-4 million housing units (20-30 percent of California’s current housing stock) (Levin & Christopher, 2017). The key imbalance is with supply and demand as a result of strong economic with creation of hundreds of thousands of jobs, and then in turn increasing the demand for housing. Construction of housing units has not grown at the same rate as job growth creating an imbalance between housing and jobs

In order to keep housing at the same average price and not increase California will need to construct 1.8 million additional homes by 2025 to maintain pace with projected household growth (California Department of Housing and Community Development, 2018). For the last 10 years California has averaged building 80,000 new homes a year, in order to stay on track with population growth projections, production needs to rise to 180,000 new homes a year (California Department of Housing and Community Development, 2018).

With a lack of housing, California has experienced an increased cost of housing that is one of the highest in the United States. The only state that has a higher cost of housing is Hawaii. More Californians are experiencing cost burdened housings. Cost burdened housing is defined as an individual spending more than 30 percent of their income on housing or shelter. One third of Californians are in cost burdened households spending 30 percent of their income on housing and one sixth are spending more than half on their income on housing costs (Kimberlin, n.d.). Having a higher cost of housing leads to a decreased amount of spending in others factors of life such as healthcare and personal goods (Kimberlin, California's Housing Affordability Crisis Hits Renters and Housholds wiht the Lowest Incomes the Hardest, 2019).

The State of California has identified five challenges that face housing stock, supply and demand in California. First, the housing supply continues to not keep pace with demand. Second, high housing growth is associated with an increase in environmental and socio-economic disparities. Third, there is unstable funding for affordable-home development that impedes the ability to meet California's housing needs, particularly for low income-households. Fourth, people experience experiencing homelessness and other vulnerable populations face additional barriers to obtain housing. And the final challenge is that affordable housing has far-reaching policy, impacts that benefit the quality of life in California, including health, transportation education, the environment, and the economy (California Department of Housing and Community Development, 2018).

### Housing Crisis in San Luis Obispo County

San Luis Obispo County is not immune to the statewide effects of an affordable housing crisis. The county faces similar problems the state does but also has its own individualized issues. Throughout its history, San Luis Obispo County has had chronic undersupply of appropriate housing for its residents. Overall San Luis Obispo County is cited for having a higher than average cost of living not only for the nation but also the state. The median home value index in San Luis Obispo County is \$637,626 (average of \$379 per square foot) compared to California's \$578,267 (average \$315 per square foot) (Zillow, 2020). The situation has become exacerbated since the Great Recession in 2008 and housing market bubble

In 2019 the National Association of Home Builders ranked San Luis Obispo County as one of the least affordable housing markets in the United States. With the high cost of home purchasing, it is estimated that only 16.5 percent of families can purchase a medium-priced home within San Luis Obispo County. Renters are also not immune to the high cost of housing, more than 52 percent of renters spend more than 30 percent of their income on rent (County of San Luis Obispo, 2020).

Another factor effecting housing within San Luis Obispo County is jobs-housing imbalance which is the ratio of jobs to housing within a given jurisdiction. If a jobs-housing balance is too high, housing becomes unaffordable or unavailable to workers within the jurisdiction. Often this imbalance effects commute times, housing costs, and overall livability of an area. Often lower wage workers are forced to live outside of the main job hub in order to find affordable housing, Within San Luis County the city of San Luis Obispo has the most amount of jobs (34 percent) but only shares a small proportion of housing (18 percent). The overall jobs/housing for jurisdictions within San Luis Obispo County from 2015 in Figure 3.

Figure 3 Jobs/Housing Balance within San Luis Obispo County jurisdictions (San Luis Obispo Council of Governments, 2019)

Jurisdiction	Jobs (2015, estimate)	Share of Region's Jobs	Housing Units (2015, estimate)	Share of Region's Housing Units	Jobs/Housing Ratio (2015, estimate)
Arroyo Grande	6,421	5.9%	7,615	6.6%	0.84
Atascadero	8,964	8.2%	11,651	10.0%	0.77
Grover Beach	3,232	3.0%	5,459	4.7%	0.59
Morro Bay	3,782	3.4%	6,605	5.7%	0.57
Paso Robles	15,071	13.7%	11,846	10.2%	1.27
Pismo Beach	4,846	4.4%	5,549	4.8%	0.87
San Luis Obispo	34,163	31.1%	21,245	18.3%	1.61
Unincorporated Area	33,261	30.3%	46,038	39.7%	0.72
<b>Regional Total</b>	<b>109,740</b>	<b>100.0%</b>	<b>116,008</b>	<b>100.0%</b>	<b>0.95</b>

Data source: Modeled estimated results from SLOCOG Regional Land Use Model, jurisdictional indicators (2018)

## Chapter 2 Housing Element

## Introduction

Housing elements are the foundations of housing development from a local government perspective. I have analyzed the housing elements of the incorporated cities of San Luis Obispo County to gain a better understanding about the challenges facing each of the community and how they plan to further housing growth and preservation in the future. The housing element is the best way to understand the goals and policies of each community.

## What is the Housing Element?

All cities and counties in California are required by state law to plan to meet housing needs for everyone within their communities. Since 1996, California's local governments meet this requirement by adopting housing elements, which are a portion of the general plan. General Plans lay out the city/county's goals, policies, and implementation actions regarding future development. Other sections of the general plan besides the housing element include: land use, transportation, noise, open space, conservation, and safety. It is the guiding document for California local governments. All cities are required to have a general plan, and the housing element is the only one section of the general plan that is required to be periodically updated. Each of the seven mandated elements are required to be consistent with each other. Housing elements are required to be updated on a cyclical basis that is decided by the State of California's Housing and Community and Development Department (HCD). Local governments can update their plans every five years or eight years. The eight-year schedule is to better align with local governments updating their Regional Transportation Plans (that are required to be updated every four years). Housing plans are required to align with Regional Transportation Plans in Regional Sustainable Communities Strategies. (California Department of Housing and Community Development, 2018). Regional transportation plans (RTP) are outlines of transportation investment for a region usually drafted by the regional transportation planning agency every four years. This plays a role with allocation of regional housing need to each city and/or county in the designated region. (Institute for Local Government, 2015).

California's housing element law recognizes that in order for the private market to build, city and county governments must create and adopt plans that stimulate housing development. Local housing policy is dependent on local general plans, specifically the housing element (California

Department of Housing and Community Development, 2018). According to California state law, a housing element must:

1. Provide goals, policies, quantified objectives and scheduled programs to preserve, improve and develop housing
2. Identify and analyze existing and projected housing needs for all economic segments of the community
3. Identify adequate sites that are zoned and available within the five or eight-year housing cycle to meet the city's fair share of regional housing needs at all income levels
4. Be certified (approved) by HCD as complying with state law
5. Be internally consistent with other parts of the General Plan (and meeting this requirement is critical to having a legally adequate General Plan) (City of Atascadero, 2020) (City of Arroyo Grande, 2015) (City of Grover Beach, 2020) (City of Morro Bay, 2020) (City of El Paso de Robles, 2014) (City of Pismo Beach, 2014) (City of San Luis Obispo, 2020)

At the state level, the California Department of Housing and Community Development (HCD) provides a key role in reviewing every local governments housing elements and evaluating they comply with state law. From there the Housing Element is submitted back to the local government agency for adaptation and implementation. In order for the plan to be adopted into its general plan, the housing element must be first approved by HCD (California Department of Housing and Community Development, 2018). HCD is also responsible for determining the regional housing needs assessment (also known as RHNA) for each region's "council of government" (COG). Regional housing needs assessment is a representation of future housing needs for a jurisdiction and also required to be addressed by California housing law.

### [What is Affordable Housing?](#)

Within the world of community planning there can be confusion about what is affordable housing. What makes housing affordable is the percentage of income a household spends on housing. The Department of Housing and Urban Development (HUD) defines an "affordable dwelling" as one that a household can obtain for 30 percent or less of its household income.

Housing costs include mortgage or rent payments, utilities (gas, water, sewer, electricity, garbage recycling, green waste), property taxes, and insurance (for owner occupied units) (California Department of Housing and Community Development, 2018) This measurement allows for individuals to have enough remaining income to pay for nondiscretionary costs such as food, healthcare, clothing, and transportation. When a household spends over 30 percent of its income on housing it is considered cost burdened while spending 50 percent of income on housing is severe overpaying (California Department of Housing and Community Development, 2018).

In California, renters are more likely to struggle with finding affordable housing than homeowners. More than half of all renter households in 2017 within California were cost burdened. Among Californians who are experiencing cost burdened housing, more than two-thirds were people of color, and 45 percent were Latinx (Kimberlin, California's Housing Affordability Crisis Hits Renters and Housholds wiht the Lowest Incomes the Hardest, 2019).

### Affordability Levels

Housing affordability is broken down into certain levels based off a household's income. The income levels are used in most federal and state assistance programs to set the maximum income for eligibility to receive services such as Section 8 Housing Choice Voucher Program. Income levels are measured through the local area median income (AMI). The levels are broken up into extremely low income (0-30 percent AMI), very low income (30 percent-50 percent AMI), lower income (50 percent-80 percent), and moderate income (80 percent-100 percent).

Affordability levels also are used for Regional Housing Needs Allocation (RHNA). RHNA is mandatory from State Housing Law as part of the updating process of housing elements within a general plan. The report quantifies the need for which level of housing is needed based off of income levels. The designated number of housing units numbered through RHNA are based off of Department of Housing and Community Development guidelines and California's Department of Finance demographic reports are given to the local council of governments.

## San Luis Obispo RHNA Report

Cities within San Luis Obispo County and the County itself receive their RHNA determination through the San Luis Obispo Coalition of Governments (SLOCOG). SLOCOG distributes the RHNA Determination to local jurisdictions by income categories: very low income, low income, moderate income, and above moderate income. Each jurisdiction's housing elements is responsible for allocating area to be developed for building new housing or expanding within the jurisdiction. Each housing element is often updated after RHNA determination to meet housing needs within the community (San Luis Obispo Council of Governments, 2019). Currently San Luis Obispo County is in the Regional Housing Needs Allocation 6<sup>th</sup> Housing Element Cycle: 2020 to 2028. HCD and SLOCOG finalized the determination for regional need of housing in November 2018. Each incorporated city's updated housing elements is due in December 2020 (San Luis Obispo Council of Governments, 2019).

Through the analysis I have used versions of the 2014-2019 Housing Element Cycle and available drafts for the 2020-2028 Housing Element Cycle. This was dependent on whether each city had released their public draft. Arroyo Grande, Paso Robles, and Pismo Beach only had the 2014-2019 housing element available. For Atascadero, Grover Beach, Morro Bay, and the City of San Luis Obispo I analyzed the 2020-2028 housing elements . It is important to remember that the many of the same issues are still prevalent and continue to affect the San Luis Obispo County communities. Issues included unaffordable housing, jobs housing imbalance, and high cost of construction.



Figure 4: 2020-2028 Regional Housing Needs Allocation by jurisdiction and income level in San Luis Obispo County (San Luis Obispo Council of Governments, 2019)

Jurisdiction	Total Allocation	Very Low	Low	Moderate	Above Moderate
		24.6%	15.5%	18.0%	41.9%
Arroyo Grande	692	170	107	124	291
Atascadero	843	207	131	151	354
Grover Beach	369	91	57	66	155
Morro Bay	391	97	60	70	164
Paso Robles	1,446	356	224	259	607
Pismo Beach	459	113	71	82	193
San Luis Obispo	3,354	825	520	603	1,406
Unincorporated	3,256	801	505	585	1,365
<b>Regional Total</b>	<b>10,810</b>	<b>2,660</b>	<b>1,675</b>	<b>1,940</b>	<b>4,535</b>

2019 RHNA: Jan. 1, 2019 - Dec. 31, 2028 (10 years)

Note 1: The table above included minor percentage calculation adjustments (to the top percentage to achieve whole units). Income group totals accurately match HCD's determination.

Note 2: Income limit categories for San Luis Obispo County in 2019 are determined by HCD and found at: <http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits.shtml>

## Chapter 3 Analysis

My analysis of each jurisdictions' housing element follows guidance from HCD guidelines meeting the basic requirements of a housing element but also examining the innovative ways each community looks to meet individual challenges regarding housing. Mainly, I focus on how each authority looks to address specific housing needs outlined by HCD.

This includes comparing and contrasting different goals, objectives and programs throughout the different jurisdictions to meet the same overall regional goal of increasing housing stock. Although the majority of housing element is made up of background and community data I chose to specifically focus on the policy, programs, and objectives.

This analysis compares actions taken through each housing element and if over the designated time resulted in any change for the community. Housing is a complex issue within California and by no means can the housing crisis be solved overnight but will take decades of building and policy change to create an equitable housing market that serves all populations. Overall analysis

is broken down into analysis of how each city meets the existing housing needs, projected needs, special populations housing needs housing, and constraints to housing development.

### HCD Guidelines

All jurisdictions currently have an approved housing element but as previously noted should be in the process of updating the element for the 2020-2028 Housing Element cycle. Most housing elements updates should build upon what has been effective in the past and address new requirements and issues that have appeared in their communities since the last update. It is critical that the update process engages all critical stakeholders within the community including but not limited to residents, housing developers/providers. special needs residents, and businesses. Although a housing element is a state requirement it should serve as a local plan and match the vision and priorities of each individual community

Overall the housing elements should help each local government to plan to meet their existing housing needs and projected needs based off of RHNA. The quantification and analysis of each need is broken down into existing need, projected need, and special need. Existing needs listed by HCD include; assisted housing developments at risk of conversion, extremely low-income housing needs, housing stock characteristics, overpayment and overcrowding, and population, employment, and household characteristics. Existing needs paint a picture of what the current needs are for housing within the community while projected needs directly deal with needs allocated through RHNA. Special needs housing includes more at-risk stakeholders including farmworkers, large families and female headed households, people who experience homelessness, disabled persons (including developmental disabilities), and seniors.

In the process of addressing housing needs, Government Code Section 65583(a)(3) specifies that each local government create an inventory of land developable for redevelopment that includes vacant sites and those with potential for redevelopment. This analysis allows the identification of potential areas for residential development while also working with developers to highlight the best use of each site. The overall analysis lists; adequate site alternatives, analysis of sites and zoning, inventory of suitable land, accessory dwelling units (ADUs), opportunity for energy conservation, and zoning for a variety of housing types.

Each housing element is also required to address the constraints of increasing or maintaining the housing stock level in the jurisdiction. Government constraints could hinder housing growth or diminish it with overbearing policy that inadequately affects those of different income levels or people with disabilities. The analysis looks at specific standards and elects on whether the issue impairs or impacts housing development. Analysis determines whether local governmental regulatory standards pose a constraint and demonstrate an effort to remove those constraints. Constraints include; codes and enforcement and onsite/offsite improvement standards, constraints for people with disabilities, fees and exactions, land use controls, non-governmental constraints, and processing and permitting procedures.

Jurisdictions must also develop specific programs to achieve goals stated within the housing element. It is important that goals have steps to be including specific action taken through programs. Programs should have a specified time frame, listed responsible agency, each agency's specific role in implementation, and having a measurable outcome. Measurement is one way to identify success of these goals, policies, and programs. Steps that are included for required programs include; program overview and quantified objectives, address and remove/address constraints, assist in the development in housing. Identify adequate sites, improve and conserve the existing housing stock, preserve unites at risk of conversion to market rates, and provide equal housing opportunities.

The final requirements of a housing element from HCD standards must have consistency with the General Plan, as the two are reflective of one another. After the completion and adaptation of a jurisdiction's housing element, there must be an annual housing element progress report that goes over what policies, goals, or programs were completed or their status on completion/implementation. Finally, it is the responsibility for each agency to distribute a copy of the completed housing element to the area sewer and water providers. I will not be looking into if the cities of San Luis Obispo County met this requirement.

### Meeting HCD Guidelines

Most of the guidelines include background information that is pertinent to being updated, the housing element is often the only time new demographic information is routinely updated for the

general plan. Having demographic background information is vital to understanding the goals of a community. While demographic data is extremely important, this study does not go over in extensive detail the demographic requirements set by HCD for creating/updating a housing element. Instead it focuses on how cities within San Luis Obispo County are planning for existing and future housing needs and the constraints unique to each city.

### Planning for Existing Housing Needs

HCD requires each housing element to address the current needs of housing for a city or county. This includes government assisted housing development at risk of conversion, extremely low-income housing needs, housing stock characteristics, overpayment and overcrowding, and background demographic data. As seen in the chart above all cities met the basic requirements for a housing element but delving in deeper, some cities focus on specific programs or policies to address that need (California Department of Housing and Community Development, 2020).

#### Assisted Housing Development at Risk of Conversion

HCD defines assisted housing developments as multifamily, rental housing complexes that receive government assistance. Assistance can come in from federal, state, and/or local programs in the form of mortgage insurance, interest reduction, rental assistance, or direct loan programs. Cities are required to report any of these properties that are at risk of converting to market rate housing within ten years. If they are at risk, cities must state a plan to help conserve the affordable housing (California Department of Housing and Community Development, 2020). Atascadero, Grover Beach, Paso Robles, and Morro Bay stated that none of those characterized properties were at risk of conversion. Arroyo Grande stated that they had lost four units within their inclusionary housing program, two at moderate income level and two at low income level. They attributed this loss to foreclosure the formula used to determine the maximum allowable sale price for these units, therefore owners chose to leave the program (City of Arroyo Grande, 2015). Twelve units in Pismo Beach faced a risk of conversion due to an expiration of an affordable housing agreement, the City then delved deeper into analysis of cost of replacement or the cost of funding for community housing partners to secure more affordable housing (City of Pismo Beach, 2014). Finally, the City of San Luis Obispo identified three developments at risk of conversion including a special needs housing for persons living with AIDS. The City of San

Luis Obispo identified different funding sources to be able to conserve the assisted housing developments at risk (City of San Luis Obispo, 2020).

### Extremely Low-Income Housing Needs

Another group that is important to preserving affordability for existing housing is to identify needs for extremely low-income (ELI) households. HCD requires the element to quantify the existing and project ELI households and assess the kind of housing available and suitable. ELI households may require specific solutions such as targeting subsidies for certain incomes, housing with supportive services, single room occupancy or shared housing. (California Department of Housing and Community Development, 2020). All cities except Paso Robles identified strategies for assisting ELI households. Paso Robles had very minimal discussion on how to assist ELI households. (City of El Paso de Robles, 2014).

The main strategies to help ELI households were found in nine categories of policy to promote affordable housing growth. The most popular policy was to identify forms of funding that could be used to promote housing programs to assist with special needs housing, including ELI households. Funding sources included Community Development Block Grants (CDBG), state grants, and local grants. Atascadero, Arroyo Grande, Grover Beach, Morro Bay, Pismo Beach, and San Luis Obispo all created a policy to apply for these different funding sources. Arroyo Grande, Pismo Beach, and San Luis Obispo also stated in a goal that they would incentivize affordable housing development through changes in parking minimums, density requirements, and reduced sidewalks recruitment. Cutting costs for developers can sometimes incentivize them to build in affordable units if it means being able to build more units due to being able to increase the number of units on a lot.

Another policy solution found in Atascadero's and Arroyo Grande's housing element is giving priority to development projects that included low income, very low income, or extremely low-income households. Both Atascadero and Arroyo Grande had policies that prioritize the development of these housing types. From the Atascadero Housing Element Program 1.E. "Provide housing opportunities to meet the special housing needs of special needs residents by giving priority to development projects that include a component for special needs groups in

addition to other lower-income households” (City of Atascadero, 2020). One of the ways cities can prioritize ELI households is through reduction in development fees for new projects that cater to lower income households. Both Arroyo Grande and San Luis Obispo stated to reduce development fees and standards if they include lower income housing within the development project. Another way to attract lower income housing development was through offering In Lieu Fee Funds for nonprofit developers. Often this comes from developers paying a fee for creation of affordable housing when any housing is developed for market rate sale. Atascadero, Arroyo Grande and San Luis Obispo offer In-Lieu Fund available to those who work with the city to create affordable housing.

Affordable housing development, especially for ELI households, usually involve multiple partners. Arroyo Grande, Grover Beach, and Pismo Beach have stated policies to collaborate with developers and nonprofits to provide more housing for lower income households and overall solutions for development. Pismo Beach even stated that they would bi-annually hold a meeting with stakeholders, developers, and the city to find solutions for ELI households (City of Grover Beach, 2020).

Barriers sometimes stand in the way for affordable housing development including zoning code or preexisting policies. Arroyo Grande and Morro Bay both list existing programs as an impediment to helping assist ELI households through increasing multi-family developments. Changing zoning code to allow more density helps with incentivizing developers to build more affordable housing (City of Morro Bay, 2020).

### Housing Stock Characteristics

A threat to current housing stock is the deterioration of housing units. If housing is not regularly maintained, structures deteriorate and discourage reinvestment, depress neighborhood property values, and even a health hazard for residents (California Department of Housing and Community Development, 2020). It can be difficult for cities to regulate the maintenance of private property through city funds, but with proper funding, can organize windshield surveys to assess housing stock conditions. Maintaining and improving housing quality should be an important goal for communities.

San Luis Obispo, Paso Robles, and Pismo Beach did not address aging housing stock through policy, but as required by HCD listed the age of housing. Both Atascadero (Goal HOS 4) and Arroyo Grande (Goal H) had goals stating the importance of conservation of housing stock. Atascadero followed up the goal with a program (Program 4.A) that the City will continue use of code enforcement to identify housing maintenance issues and expedite rehabilitation of deteriorating housing by offering technical assistance to homeowners (City of Atascadero, 2020) (City of Arroyo Grande, 2015). Arroyo Grande had an innovative program (Program H. 1-2) for rehabilitation including offering housing developers an alternative to meeting affordable housing requirements by instead contributing a form of “sweat equity” on projects where assisted housing units will be rehabilitated or conserved as affordable (City of Arroyo Grande, 2015). Both Grover Beach (Program 5.2) and Morro Bay (Implementation Action H-2.1.2) stated programs to assist the elderly, disabled, and disadvantaged persons with repairs and rehabilitations through directing them to local organizations to help (City of Grover Beach, 2020) (City of Morro Bay, 2020).

Vacancy rate is also a key statistical point of data that helps evaluate the health and direction of the housing market. Low owner and renter vacancy rates are often a sign of a greater housing shortage. San Luis Obispo County cities often run into a problem with vacation destination housing markets with higher vacancy rates in beach side cities (Siniavskaia, 2019). Although there is not much policy that can prevent high vacancy rates, measures restricting vacation rentals can help free up housing stock and regulate the number of short-term rentals.

<b>City</b>	<b>2020 Vacancy Rate</b>
Arroyo Grande	4.8%
Atascadero	4.4%
Grover Beach	9.2%
Morro Bay	23.2%
Paso Robles	4.8%
Pismo Beach	27.7%
City of San Luis Obispo	7%

*Table 1: Vacancy rates in San Luis Obispo County incorporated cities. Retrieved from the American Community Survey 5-year estimates (State of California Department of Finance, 2020)*

The vacancy rates listed above are from the United States Census American Community Survey 5-year estimate from 2018. Because there are inconsistent publishing dates between housing elements, I chose to utilize U.S. Census data rather than the data from individual housing elements. It is important to acknowledge that different data can influence policy decisions, especially when dealing with vacancy rates.

Although Pismo Beach and Morro Bay both have high vacancy rates due to vacation rentals, they did not list a policy or program to regulate the amount. This may be tied to the fact that both cities have tourism-based economies that benefit from Transient Occupancy Tax from vacation rentals. Although there is a regional County of San Luis Obispo goal stated throughout all analyzed housing elements (R-6) to “Encourage rental units to be prioritized for long term residents rather than short term users or vacation rentals” (City of San Luis Obispo, 2020). Arroyo Grande did state a city specific policy (Policy B.6) to continue to regulate the use of existing residences on residentially zoned properties for vacation rentals and create a program (Program B.6-1) monitor the loss of permanent workforce housing from vacation rentals (City of Arroyo Grande, 2015).

### Overpayment and Overcrowding

Overpayment and overcrowding can serve as a threat to existing housing stock and affects low income households more frequently. Overpayment is considered spending more than 30% of a household’s income on housing costs. This results in being cost burdened, and as discussed earlier can lead to a less disposable income. A unit is considered overcrowded when there are more than 1.5 persons per room. Overcrowding increases health and safety concerns and stresses the condition of housing stock and infrastructure. This affects infrastructure through a shortage of off-street parking, increased strain on public infrastructure, and more traffic congestion. Usually family size and tenure are determinants in overcrowding along with income. Usually as income decreases, overcrowding levels increase (California Department of Housing and Community Development, 2018).



City	Percentage of Renters Paying over 30% of income	Percentage of Owners Paying over 30% of income	Percentage of Overcrowded
Arroyo Grande	43.3%	34%	1.1%
Atascadero	42.8	37%	.3%
Grover Beach	46.1%	34%	1.7%
Morro Bay	61.2%	47.7%	.7%
Paso Robles	56%	46%	.5%
Pismo Beach	41.7%	42.9%	.2%
City of San Luis Obispo	63.1%	38.7%	1.2%

Table 2: List of overpayment and overcrowding percentages in San Luis Obispo County incorporated cities (U.S. Census Bureau, 2018)

None of the housing elements analyzed spend much time focusing on overcrowding because of overcrowding does not significantly impact the community. Also, no policy solution is directed at overpayment for housing as largely market driven costs are out of control of local policy.

**Projected Housing Needs**

One of the main points of consistently updating the housing element is to constantly try to project the housing need, while balancing the need for growth with need for additional housing. Projected housing need revolves around RHNA. Meeting projected need should promote increasing the housing supply and mix of housing types, tenure, and affordability within an equitable manner. It should also promote infill development and socioeconomic equality, the protection of the environment and agricultural resources, and encourage efficient development patterns. As discussed earlier, projecting housing need should balance with the projected jobs within the jurisdiction (California Department of Housing and Community Development, 2018).

**Special Needs Housing**

Special needs are those associated with specific demographic or occupational groups that call for specific program responses, such as preservation of single-room occupancy hotels or the development of units with larger bedroom counts. The statute specifically requires analysis of the special housing needs of people who are elderly or disabled (including developmental

disabilities), female-headed households, large families, farmworkers, and people experiencing homelessness. These special-needs groups often spend a disproportionate amount of their income to secure safe and decent housing and are sometimes subject to discrimination based on their specific needs or circumstances (California Department of Housing and Community Development, 2020).

### Farmworkers

Farmworkers are traditionally defined as people whose primary incomes are earned through permanent or seasonal agricultural labor. Farmworkers are generally considered to have special housing needs due to unstable employment and limited income. Additionally, farmworkers often have high rates of poverty, live in housing in poor condition, have high rates of overcrowding, and low homeownership rates.

Agriculture is one of San Luis Obispo County's primary industries, but it is often hard to tell how many farmworkers are living within the county due to the seasonality of their work. Overall there are 9,107 farmworkers who work on one of the 188 farms within the county (City of San Luis Obispo, 2020). Policy to address the needs of farmworker housing is often grouped together with overall special needs housing. The cities of Arroyo Grande (Goal J), Morro Bay (Policy H-3.2.), and Pismo Beach (HE-11) all stated overarching goals of meeting the housing needs of special groups, including farmworker housing. Both Arroyo Grande and Morro Bay stated a goal of changing zoning code to meet compliance with the Employee Housing Act. Overall jurisdictions did not focus much of the policy specifically towards farm workers, and if addressed at all, were grouped together with other special needs groups.

### Large Families and Female-Headed Households

Both large families and female headed households face specific challenges that categorize them as special needs housing. Female headed households are more likely to have lower incomes paired with higher living costs, additionally they may lack resources for childcare or job training. Pairing these factors, it can be difficult to find safe, decent, and affordable housing. Due to a limited supply of adequately sized units to accommodate larger households, large families have

difficulty finding appropriately sized and affordable housing units (California Department of Housing and Community Development, 2018).

Most of the cities addressed female headed households and large family's by grouping them together under one special needs housing goal. Grover Beach (Program 4.1), Morro Bay (Implementation Action H-3.1.2), and Pismo Beach (HE-11) all had a policy specifically stating working with housing providers to encourage the development of special needs housing. They specifically mentioned regulatory incentives through zoning standards and other supportive services. Atascadero (Policy 1.3) and San Luis Obispo (Policy 8.1) had a similar policy (Policy 1.3) which stated to encourage the production of housing for special need households but unlike Grover Beach, Pismo Beach, and Morro Bay did not specifically mention measures to help encourage said development. Arroyo Grande was the only city that had a specific policy (Policy J.4.) for large families that the City encourages multifamily housing projects that include a portion of units with three or more bedrooms to accommodate larger families. Paso Robles did not list any specific policy geared towards larger families or female headed households.

### People Experiencing Homelessness

Along with a growing housing crisis, homelessness continues to grow throughout California. Families and individuals experiencing homelessness are without permanent housing mainly because a lack of affordable housing. Often homelessness is multifaceted experience where individuals lack proper job training and supportive services to treat domestic violence, mental illness, and/or substance abuse. Homelessness in California demands the involvement of both private and public sectors to combat this crisis. California has the highest population of people experiencing homelessness (California Department of Housing and Community Development, 2018). The last official count of homeless persons in San Luis Obispo County was 1,483 persons in January 2019, a 32 percent rise since the last count in 2017. Rising rents in the region may have played a role in the increase of homelessness because of increased rental housing costs extends the time people experience homelessness, rising (County of San Luis Obispo Social Services, 2019).

All seven incorporated cities within San Luis Obispo County readily addressed the issue of homelessness. As homelessness persons have increased over the years, most of the newer elements have more programs and policies to address the issue. All of the elements focus on commitment on a regional level to ending homelessness and working with other jurisdictions to combat the effects and put in preventative measures. Again, a majority of cities also addressed the issue of homelessness through a specific goal of working with special needs housing providers to help develop housing for homeless persons and families. These cities included Atascadero (Policy 1.3), Grover Beach (Goals 3.1.3), Morro Bay (Policy H-3.2, Implementation Action H-3.1.1), Pismo Beach (Policy 13), and San Luis Obispo (Policy 8.1). Along with working regionally with other cities and the county, many cities made a specific policy commitment to working with local non-profits such as Transitions Mental Health Association and the Housing Authority of San Luis Obispo to help address the needs of homeless persons. Arroyo Grande (Program K.1-1), Atascadero (Program 2.H), Grover Beach (Program 3.3), Morro Bay (H-4.2), and San Luis Obispo (Program 8.21) all discuss partnerships their city can make with nonprofits to address specific issues that cause homelessness and help homeless persons.

More specific policies and programs included programs to assist homeless persons and development code changes that cities can implement. Both Arroyo Grande (Program K.2-3) and Morro Bay (Implementation Action H-4.1.2) recommend the city consider implementing an overnight parking program for homeless persons. These were two of the more direct actions discussed in the Housing Elements regarding homelessness. Arroyo Grande (Program K.2-1, K.2-2) discussed development code changes to allow emergency shelters in without conditional use permits and also define transitional/supportive housing as residential use. Small changes like this allow for an easier development process for homeless shelters and supportive housing (City of Arroyo Grande, 2015). Overall most policies and programs were not direct actions and focused on forming partnerships with local non-profits and regional county services. The focus on partnerships because experiencing homelessness is mainly because cities do not have all of the resources to help homeless persons. Social services are run at a county level and supplemented by non-profit services.

## Persons with Disabilities

Many individuals who live with a disability (physical, mental, or developmental) are on a small, fixed income that limits their ability to pay for housing. These individuals need conveniently located and affordable housing that is adapted or can be adapted to meet their specific needs. Housing for disabled individuals sometimes needs to include on or offsite support services and inpatient and outpatient day treatment programs (California Department of Housing and Community Development, 2018). Seven percent of San Luis Obispo County's population under the age of 65 is living with a disability (U.S. Census Bureau, 2018).

Once again most of the city's housing elements focused on promoting the development of special needs housing which also includes housing focused towards individuals with disabilities. Arroyo Grande (Goal J), Atascadero (Policy 1.3), Grover Beach (Program 4.1), Morro Bay (Implementation Action H-3.1.2), Pismo Beach (Goal 13), and San Luis Obispo (Policy 8.1) stated the goal of working with developers to promote special needs housing production. Another popular goal was to ensure that those residents have adequate access to housing including having accommodations to make residences more accessible. Arroyo Grande (Goal L), Atascadero (Policy 1.4, 5.1), Grover Beach (Policy 4.1), Pismo Beach (HE-11), and San Luis Obispo (Policy 8.9) all stated the need for adequate access to housing with special adaptations. Arroyo Grande (Program L.2-1), Grover Beach (Policy 4.2), and Pismo Beach (HE-25) stated to make changes in their Development Code to provide reasonable accommodations with building and zoning permits to those with disabilities. This could be leniency with codes when installing a ramp outside a residence or other associability aids. Many cities also cited creating a partnership to give assistance to disabled persons with rehabilitation and repairs to their residences. Providing funding from CBDG, Grover Beach (Policy 5.2), Morro Bay (Implementation Action H-2.1.2), and Pismo Beach (HE-19). Only Paso Robles did not have specific actions described to encourage development of housing or assistances towards individuals with disabilities (City of El Paso de Robles, 2014).

## Seniors

Seniors are considered special needs housing due to growing physical disabilities and limitations. Seniors are defined as residents over the age of 65. Often seniors are on a fixed income and are

sometimes unable to afford growing prices in housing. It is important that seniors still have housing that fits their needs even at this stage of life.

There was not a lot of policy discussion aimed directly at seniors, again if they were mentioned most of the time it was discussing promoting development of special needs housing. Atascadero, Paso Robles, and San Luis Obispo did not mention anything regarding seniors in any policy, program, or goal. Arroyo Grande (Goal J), Grover Beach (Goal 4.1), Morro Bay (Implementation Action H-3.1.2), and Pismo Beach (Goal 13) all stated the goal of promotion of housing development for special needs residents, including seniors. Arroyo Grande did have a specific policy (Policy J.2) of permitting large group housing for seniors and Pismo Beach (H-12) would incentivize senior housing through lot size and parking requirements. Similar to the policy regarding disabled individuals, Pismo Beach (HE-19) encouraged local nonprofits to assist seniors with repair and rehabilitation of homes.

## Chapter 4 Constraints

Within this chapter I have analyzed the constraints to housing development in incorporated cities in San Luis Obispo County. Each housing element is required to list and analyze potential and actual constraints to housing development within that city. This includes development of special needs housing as well as those at every income level. Housing elements should analyze constraints and determine if they pose as a roadblock on developing more housing. Local jurisdictions must also make an effort to remove constraints if possible (California Department of Housing and Community Development, 2018).

I have analyzed the constraints stated in each jurisdiction's housing element and broken them down into two categories; governmental constraints and non-governmental constraints.

### Governmental Constraints

Governmental constraints are policies, standards, requirements, actions, or fees imposed by local, State or Federal governments to guide land development. Their purpose is to ensure that cities and communities are well planned and protect the health, safety and wellbeing of all residents. Achieving these purposes means having government rules and laws that may result in

constraining the construction rate, design, or amount of new housing (City of San Luis Obispo, 2020).

### Land Use Controls

All the incorporated cities within San Luis Obispo County acknowledged the fact that basic local governmental constraint is a hinderance to housing development. But the constraints of the General Plan and Zoning Code are needed to balance housing production with maintaining a safe and healthy environment. Zoning and development codes are responsible for land designations and also development standards within the jurisdiction.

Zoning codes restrict the development of housing to only designated areas while also regulating the height and density of the structures. Development and zoning code can regulate also setbacks, lot coverage, parking, open space, and other standards related to development. All of the housing elements. The cities analyzed in San Luis Obispo County recognized that zoning and development codes restrict housing development. Overall, they do not pose extraordinary constraints but still any form of regulation will constrain housing development.

Another form of land use control that restrict development are coastal zones. Both Grover Beach, Morro Bay, and Pismo Beach have coastal zones that constrain development in some way. Channing the Coastal Zoning Code is more difficult than changing a city's development code because changes are subject to approval by the California Coastal Commission (City of Grover Beach, 2020). The majority of Pismo Beach is located within the Coastal Zone and projects within the zone have to additionally apply for a coastal development permit (City of Pismo Beach, 2014). Although following Coastal Zoning protocol can make a project last longer, all three cities with a coastal zone identified that it is not a hinderance to housing or affordable housing development (City of Morro Bay, 2020).

### Development Fees and Permit Processing

Housing production can also be constrained by development review procedures, fees and standards. New residential projects can be subject to design, environmental review, zoning, permit control, and building permit approval. Minor projects can take one to three months to be

approved from initial submittal of applications. Larger residential projects, including multifamily developments, can take six to twelve months for approval. Permits are costly and going through several review boards can be time consuming. But with the passage of Senate Bill 35, cities and counties are required to streamline review and approval of eligible affordable housing projects by providing exemption from the California Environmental Quality Act (CEQA). This however only applies to projects with 50 percent or more affordability (City of Atascadero, 2020).

Developmental fees can also add onto the constraint of some housing development. As illustrated in the chart below, development fees can be expensive dependent on each jurisdiction. Many cities have tried to alleviate some of the development fees for extremely low, very low, and low-income developments by removing the review fees portion from development fees.

Development Fees for Incorporated Cities within San Luis Obispo County

City	Average Development Fee for Single Family Home	Average Development Fee for Multi-Family Project (per unit)
Arroyo Grande	\$25,000	\$20,000
Atascadero	\$56,800	\$38,193
Grover Beach	\$25,163	\$9,817
Morro Bay	\$31,781	\$41,692
Paso Robles	\$20,337	\$16,564
Pismo Beach	\$44,510	\$27,140



City of San Luis Obispo	\$17,395	\$13,094
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Figure 5: Development fees for Incorporated cities within San Luis Obispo County (U.S. Census Bureau, 2018)

### Non-Governmental Constraints

A majority of housing constraints are focused on nongovernmental constraints that are market driven and usually outside direct governmental control. Local jurisdictions can influence the negative effects of nongovernmental constraints through programs and policies. Specific housing cost including cost of land, construction cost, and financing available (California Department of Housing and Community Development, 2018).

### Land and Construction Cost

Land costs vary through the cities and are based on a number of factors that mainly have to do with site conditions. The main determinants of the value of land are the zoning, location, and size of parcel. Factors such as the difficulty of development and availability of infrastructure can also play a part in the cost of land. Land that conveniently located and zoned for residential uses will be more valuable than a remote agriculture zoned parcel. Arroyo Grande, Atascadero, Morro Bay, Pismo Beach, and San Luis Obispo listed the cost of land as a constraint for housing development, especially for affordable housing development. Often the initial cost of land can account for 60% of developmental costs (City of San Luis Obispo, 2020).

The cost of construction is determined by the labor and materials used in the process. Each factor is important and can be variable dependent on the complexity of the construction job and the desired quality of the material and finished product. Builders and contractors are under pressure to compete for a job while having a low price and still providing a quality product. Overall there has been an emphasis on labor saving materials and construction techniques (City of Atascadero, 2020).

### Financing

Another barrier to housing development is the availability of financing, which affects both the cost and supply of housing. Financing is provided either by governmental assistance programs,

private financing, or private foundations. Of the elements analyzed, the cities mainly focused on aspects of private financing.

Interest rates also significantly impact housing development, when interest rates are low housing production increases. As interest rates increase, fewer buyers can afford to purchase a home and as they decrease the number of potential home buyers increases. A fluctuation of just 2.5 percent can make a significant change in the annual income needed to qualify for a loan. (City of Pismo Beach, 2014). Interest rates are determined by national policies and economic conditions, and there is little that local governments can do to change these rates.

### Insurance Costs

Insurance costs for construction have become a constraint on affordable housing development. Liability insurance for construction is required by lenders and has become difficult and expensive to obtain in California. According to the Home Builders Association of the Central Coast, liability insurance cost can equal two percent of a unit's selling price. The increase in cost is from unprecedented construction defect litigation in the 1990s in California. Most of the litigation was focused on condominium conversions, a popular approach for providing high density housing (City of San Luis Obispo, 2020). The situation with insurance has become so dire that only single-family residents seem profitable for development (City of Arroyo Grande, 2015).

Arroyo Grande, Grover Beach, City of San Luis Obispo have specifically cited the issue and mark it as one of the main constraints on affordable housing development. This is largely out of local governmental control and needs to be resolved at a state level.

## Chapter 5 Recommendations

After analyzing all of the housing elements of the incorporated cities of San Luis Obispo County, I developed three recommendations on policy to help promote housing production within the local jurisdiction. Several of the cities within San Luis Obispo county have already incorporated innovative solutions to increase housing stock but these recommendations I believe will help increase housing stock attainable for all income levels. Three policy recommendations are

creating an inclusionary housing requirement, focusing on upzoning, and increasing public education efforts around local housing issues.

### Inclusionary Housing Requirement

Inclusionary housing (or sometimes inclusionary zoning) refers to policies that obligate developers of new multifamily housing projects to include designated affordable units for extremely low, very low, low, or moderate-income households. Inclusionary housing requirements can have different levels of affordability required. Designated affordable units built are usually deed restricted, meaning the affordability of the unit is preserved for 45 to 55 years. Housing requirement and using overlay zoning. Instead of building in affordable housing, developers can donate land, build units off site, or pay an in-lieu fee to the city. The fees are collected from developers and used to subsidize other affordable housing projects.

Currently Arroyo Grande, Atascadero, Morro Bay, Pismo Beach, and San Luis Obispo have inclusionary housing requirements. Grover Beach and Paso Robles do not, and I would recommend that they adopt an inclusionary housing requirement. Utilizing an inclusionary housing ordinance can help each city meet their RHNA goals for extremely low, very low, and low-income households.

For cities with inclusionary housing ordinances, I would recommend increasing the amount required for developers to pay. Often housing developers opt out of building the affordable units and resort to the in-lieu fee. For example, in the City of San Luis Obispo if the developer opts to pay the in-lieu fee it is equal to five percent of the “building valuation”. The “building valuation” means the total value of all construction work for which a permit would be issued (City of San Luis Obispo, 2018). This does not include the land cost which is as discussed earlier one of the most expensive and largest barriers to development, especially for affordable housing. Raising the in-lieu fee would not only increase funding for affordable housing projects but incentivize developers to build affordable units themselves or donate land to non-profit housing agencies.

## Upzoning

A new way to expand housing supply is by altering a jurisdiction's zoning code to allow for greater building height and density. Upzoning can increase housing supply by allowing developers to build more units on a piece of land than previously allowed (Nolan, 2019). Recently within California there is a push for upzoning with the proposition of Senate Bill 50 and Senate Bill 4 that both focus on addressing the state housing crisis by utilizing upzoning. Upzoning cities within San Luis Obispo may not be as drastic as the elimination of single-family housing but would allow for creation of more housing and also a “missing middle” of housing stock.

Missing middle is a range of multi-unit or clustered housing types that are comparable to the scale of single-family houses. Most commonly they are duplexes, fourplexes, and bungalow courts. Upzoning would allow for these forms of housing to exist in previously restricted single-family zones, where only one unit is allowed per lot. Increase in this housing stock could allow for a more walkable environment and increase affordability by design (Missing Middle Housing, 2018).



Figure 6: Illustration of missing middle housing types (Missing Middle Housing, 2018)

The City of San Luis Obispo has started the process of encouraging upzoning in certain areas, mainly the downtown commercial corridor. They have addressed it through Policy 5.3 stating to encourage missing middle housing types (City of San Luis Obispo, 2020). Most density and height bonuses for the incorporated cities are reserved for affordable housing projects to incentivize more affordable housing development. To meet missing middle housing upzoning

should be considered for single family zoned areas, mainly areas close to retail and commercial spaces.

## Increasing Community Education on Housing

One of the biggest constraints not accounted for when it comes to housing development, especially affordable housing development is a lack of community support. The word affordable housing often comes with negative stereotypes and assumptions about those who live in affordable units. Now more than ever affordable housing has been politicized with the issue of affordable housing within the suburbs coming to the forefront of the 2020 presidential race (O'Donnell, 2020)

HCD does require a section of the housing element to focus on public participation following Government Code 544837(c)(7) that states “The local government shall make a diligent effort to achieve public participation of all economic segments of the community in the development of the housing element, and the program shall describe this effort.” (California Department of Housing and Community Development, 2018). Cities will often due the minimum requirement for public engagement and outreach through holding one or two meetings before publishing an updated housing element. Within San Luis Obispo County, Atascadero had three public meetings, Grover Beach had one public meeting and a surveyor, Morro Bay had one meeting and one survey, Paso Robles had one public workshop, Pismo Beach had stakeholder interviews and a study session, and San Luis Obispo had a planning commission study session, one workshop, two stakeholder meetings, and one survey. Arroyo Grande did not publish any information on their public engagement efforts for their 2020-2028 Housing Element Draft. Public engagement may have also not reached its full potential due to constraints on meetings from the Coronavirus pandemic and social distancing guidelines.

Public engagement should go beyond meeting mandatory state requirements and focus on educating the public on housing and affordable housing within the community. Without education about future development projects, citizens may take the stance of not in my backyard (NIMBY). They may support the idea of the project but be against it within their city’s limits. Public education can also serve as a discussion forum to find solutions to local issues in housing.

Currently the way government education works is the public reaching out to government agencies or personnel for information or to ask a specific question. This form of education is outdated and is ineffective for educating the public. It should shift to the government reaching out to the public. It can start small with an annual State of Housing for each city but making sure that all members of the community are invited through vapid marketing. Reaching out to the public is one of the best ways to build a community of trust and understanding.

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