Converting to an Affordable Housing Impact Fee Ordinance

Bay Area Planning Directors Association
May 30, 2014
History

• Inclusionary Ordinance adopted in 1999
  • Required affordable housing be included in new development
  • Commercial development paid in-lieu fees
  • Residential development built affordable units (10% of total) on site (or ownership units could opt to pay an in-lieu fee)
  • Fees collected deposited into Housing Trust Fund
• 2006 – Residential fees updated (no change to commercial fees)
• 151 on-site units created
• 1,059 off-site units created through Trust Fund
Why Change?

- Needed to become Palmer-compliant
- Also facing:
  - Pricing issues in housing market during recession
    - BMR prices > market prices in for-sale homes
  - Philosophical question: is it preferable to have a larger project located near services or a scattered units in more remote location?
Conversion to Impact Fee Ordinance

• Fall 2010 – City selected Vernazza Wolfe Associates to conduct nexus studies for Commercial and Residential fees
• Fall 2011
  • Nexus studies completed
  • Initial recommendations presented to stakeholder groups for feedback and input
  • Work with sub-committee of real estate agents and developers on recommendations
• Spring 2012
  • Proposed change from on-site inclusionary ordinance to housing impact fee ordinance with minimal changes to fees
  • Meetings with stakeholders to review and get feedback
• Summer 2012 – ordinance presented to Council
• Fall 2012 – ordinance adopted
Impact Fee Ordinance

• Switched all fees to impact fees, assessed per square foot
• Maintained existing fee levels for commercial development
• Maintained existing fee levels for ownership residences
• Created a rental housing fee at level at what developers reported is equivalent to cost of providing on-site
• Affordable Housing Task Force would evaluate fee levels
Impact Fee Ordinance: Commercial

- Industrial, warehouse and wine production categories combined into one “Industrial” category
- Commercial fees maintained at their current rate (set in 1999)

<table>
<thead>
<tr>
<th>Fee</th>
<th>Office</th>
<th>Hotel</th>
<th>Retail</th>
<th>Industrial</th>
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<tbody>
<tr>
<td>Nexus</td>
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</table>
Impact Fee Ordinance: Residential

- Fees converted from per unit fees to an equivalent square foot fee
- Ownership (single family or condominium) fees maintained at their current level, adapted to square footage-based fees
- Rental fees created, with input from multifamily developers
- Developers have the option to provide an alternative equivalent to fee

<table>
<thead>
<tr>
<th></th>
<th>Single Family</th>
<th>Condo</th>
<th>Rental</th>
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<tbody>
<tr>
<td>Inclusionary Ordinance</td>
<td>$2.20</td>
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</table>

*Units were previously required to be built on site, no in-lieu fee option available
** County fee for residential ownership projects ranges by size of house. Chart presumes condos are <2001 square feet
Result = Less Affordable Housing Created

- Current fee does not cover cost to build same number of affordable units
- Example – 20 unit market rate apartment project
  - Under Inclusionary Ordinance – 2 affordable units built in project
  - Under Impact Fee Ordinance – Developer pays $80,000
    - Average local subsidy required to develop affordable housing = $86,000-$104,000 per unit
    - Local subsidy required to develop 2 affordable units = $172,000-$208,000
    - Cost to develop units equates to $8.00-$9.75 per square foot (versus current fee of $3.75)
Other Issues

• Time required to develop affordable housing projects
• Higher cost to build affordable housing
• NIMBY / CEQA challenges