

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
SUBJECT: PUBLIC HEARING – ADOPTION OF HOUSING IMPACT
FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02
(HOUSING ALLOCATION PLAN) REGARDING TIMING OF
FEE PAYMENT
STAFF PRESENTER: LISA KRANZ, SUPERVISING PLANNER
COMMUNITY DEVELOPMENT
AGENDA ACTION: INTRODUCTION OF ORDINANCE, ADOPTION OF
RESOLUTION

ISSUE(S)

Should the City Council 1) introduce an ordinance amending City Code Chapter 21-02.090(A) revising the timing for payment of the housing impact fee; and 2) adopt housing impact fees for for-sale and rental housing?



COUNCIL GOALS/STRATEGIES

Council Goal 5 is: Improve the Partnerships between Neighborhoods, Community Organizations, Schools, and the City to Support and Promote Thriving, Inclusive, and Diverse Neighborhoods. A strategic objective supporting this goal is to: Seek Opportunities to Increase Affordable Housing and Emergency Housing Beds.

The proposed housing impact fee would support the future development of affordable housing, thus is related and consistent with this council goal.

BACKGROUND

1. On November 13, 2012, the City Council revised the Housing Allocation Plan, the city's inclusionary housing ordinance, to make fee payment the primary method of compliance with the ordinance. At that time, the Council also directed the preparation of nexus studies to analyze the impact that development of market rate housing has on the demand for affordable housing and from them, to determine the appropriate fees to be charged to market rate housing.
2. The purpose of the housing impact fee is to address the impacts that the development of new market housing will have on the need for affordable housing by helping to fund future development of housing affordable to very low and low

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 2

income households in Santa Rosa as directed by the General Plan and the Housing Allocation Plan. The fee is applied to new dwelling units, and since its inception in 1992 has generated more than \$25 million (including loan repayment and interest) and assisted the development of 1,630 lower income units.

3. **Nexus Studies.** The City hired Economic and Planning Systems to prepare the nexus studies, which were completed in February 2013. Two studies, the “Nexus-Based Affordable Housing Fee Analysis for For-Sale Housing” and the “Nexus-Based Affordable Housing Fee Analysis for Rental Housing,” analyze and quantify the specific impacts of market rate housing types on the demand for affordable housing. The studies are attached to this report.
4. The studies evaluate the new services needed to support new market rate households added in the City based upon the income necessary to acquire the market rate housing. To the extent that these services create new jobs that do not pay wages which allow employees to afford market rate housing in the community, the new market rate households have a negative impact on the local economy and the demand for affordable housing. A nexus-based housing fee accounts for the impact of new market rate units on the demand for affordable housing.
5. Determining the impact of market rate development on the demand for affordable housing involves three main steps:
 - Estimating the typical subsidy required to construct housing units at affordable (lower income) levels;
 - Determining market rate households’ demand for goods and services, the jobs created by the demand, and the affordable housing needs of employees in those jobs;
 - Comparing the needed subsidy to the demand for services to compute the maximum supportable nexus-based affordable housing impact fees per market rate unit.
6. The nexus studies identify the *maximum* fee that may be charged to mitigate the impacts of market rate housing on the demand for affordable housing. The City has the option of establishing a housing impact fee *at or below* the maximum identified by the studies.
7. These studies were presented at two stakeholder meetings in March 2013. Some of the comments expressed at these meetings include:

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 3

- Philosophical disagreement about the approach - that studies account for net new spending in the community rather than looking at the community as a whole.
 - Fees should not increase because they diminish project feasibility.
 - How will the housing impact fee affect the overall fee load of a project?
 - Both concern and appreciation about a future sales price-based fee.
 - Fees for small for-sale units and rentals should be kept low to help “incentivize” their development.
8. **Draft Fee Schedules.** Proposed fee schedules for both for-sale and rental housing types were developed based on these nexus studies and stakeholder input and are a subject of the public hearing before the City Council. The nexus studies revealed that current housing fees for larger units need to be reduced and that current fees for smaller units could be raised significantly for both rental and for-sale units.

Based on the studies’ results, a variety of fee options were reviewed before the draft fee schedules were developed. Staff and the City’s consultant focused on revising the housing impact fee to ensure that the City adopts a legally supported fee and does not significantly increase the fee for pending development projects, but also provides funds for future affordable housing projects.

9. The current housing fee is based on the square footage of the dwelling unit, whether it will be sold or rented, with units of 900 square feet or less exempt from the fee.

The revised fees are proposed to be charged differently, depending on whether the unit will be sold or rented. The fee is proposed to be based on a unit’s sales price for for-sale units and on the number of bedrooms for rental units, with no exemptions for units of 900 square feet or less.

The decision to recommend elimination of the fee exemption for small units was based on the nexus studies’ indication that all market rate units create demand for affordable housing regardless of size, and that it was therefore more equitable for all market rate units to be subject to the fee.

The proposed fees are less than the maximum that the nexus studies support. The discussion below provides greater detail about the proposed rental and for-sale housing impact fees.

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 4

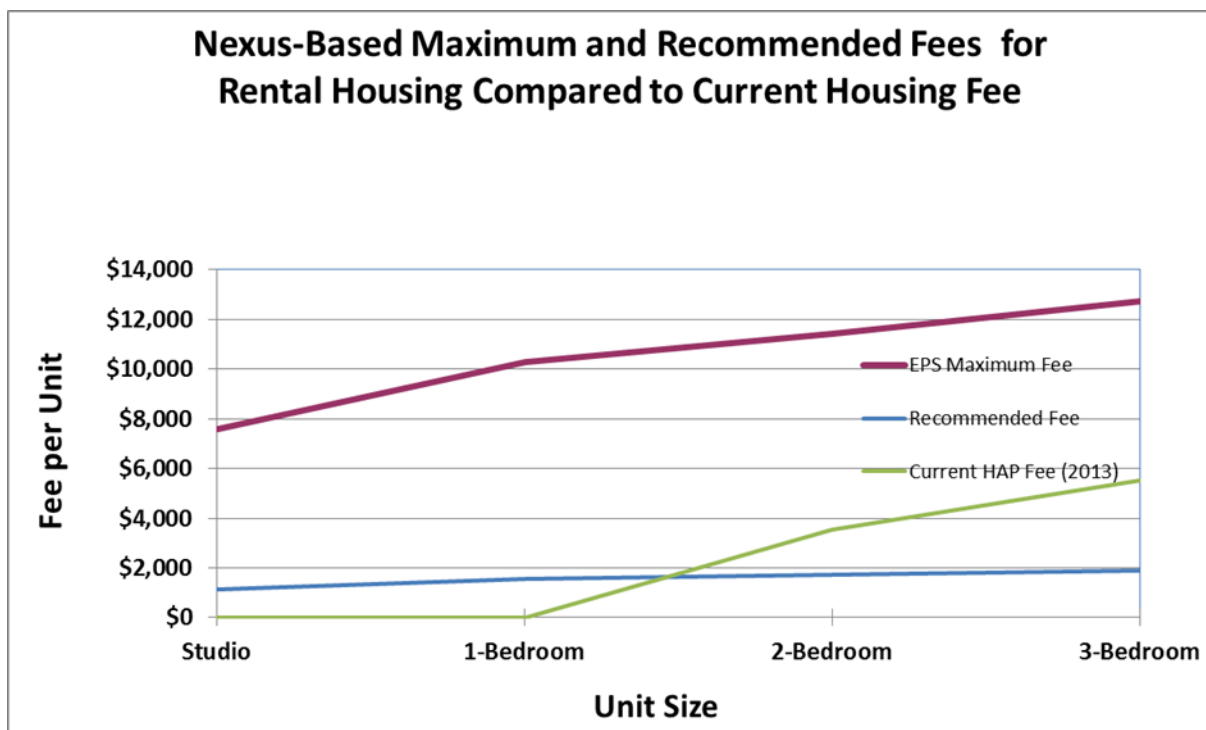
10. **Proposed Housing Impact Fee for Rental Units.** The nexus study for rental units indicates that fees of \$7,583 to \$12,741 are supported based on the impact from market rate rental units on the demand for affordable housing. Current housing fees for multifamily units range from \$0 to \$5,516, as illustrated in the table below.

Maximum, Current and Proposed Fees – Rental Units

Unit Type	Maximum Fee	Current Fee	Proposed Fee
Studio	\$7,583	\$0	\$1,137
1 Bedroom	\$10,294	\$0	\$1,544
2 Bedroom	\$11,417	\$3,521	\$1,713
3 Bedroom	\$12,741	\$5,516	\$1,911

The fee proposed for market rate rental units is 15% of the maximum possible fee identified in the nexus study. This level of fee was determined, when applied at a project level to all units, to be similar to current housing fees.

Market rate rental units which previously paid no fee because of their small size (the studio and 1 bedroom units in the chart above) would now be subject to a fee of \$1,137 and \$1,544, respectively). Fees for 2 and 3 bedroom units would be decreased from the current fees by \$1,808 and \$3,605 per unit. The chart below compares existing, proposed, and maximum fees.



Charging the fee based on the type of unit (studio, 1-3 bedroom) is straight forward and simpler to understand and implement than a per square foot fee. It also directly connects the nexus study conclusions based on a market rate unit's demand for affordable units to the resulting fee. For rental units, the fee will be paid no later than prior to the final building inspection for the unit. The fee will be adjusted annually based on a construction cost index, as directed by the Housing Allocation Plan.

1. **Proposed Housing Impact Fee for For-Sale Units.** The nexus study for market rate for-sale units supports fees of about \$8,900 to more than \$26,000 per unit. Current housing fees range from \$0 to \$37,750. The nexus study identified that current fees for larger, more expensive units are too high and must be reduced.

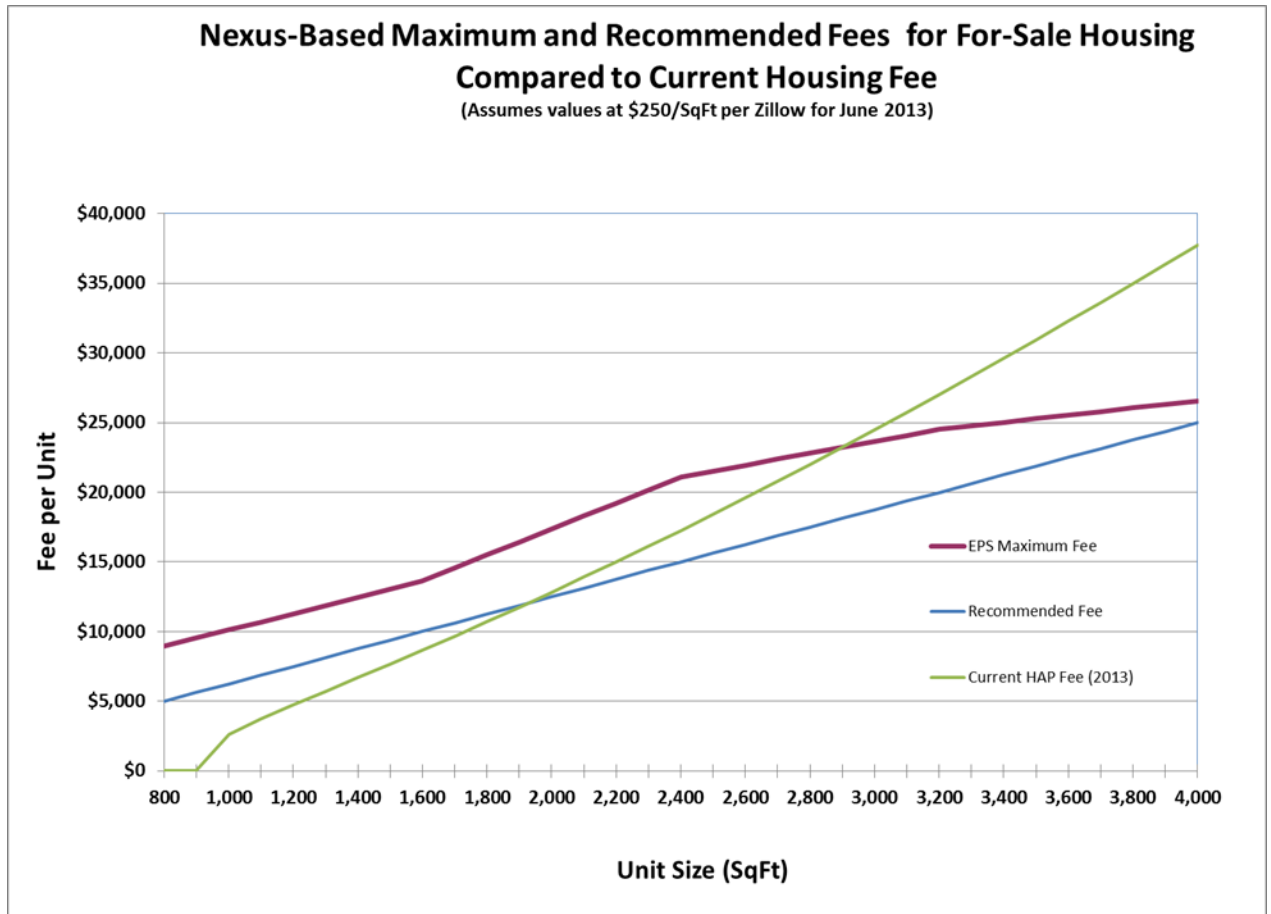
The fee for all for-sale units, regardless of size, is proposed to be 2.5% of the unit's sales price. This factor (2.5%) is generally the maximum fee that could be charged for higher priced units based on the nexus study. The maximum fee for smaller units ranges from 3 to 4.5% of a unit's assumed sales price, but the resulting fee was determined to be too high, so 2.5% of sales price is proposed to calculate all housing fees for for-sale units.

For smaller units, those less than 1,800 square feet and about \$450,000, the recommended fee is higher than the current fees. For units of 1,900 to 2,100 square feet, the recommended and current fees are similar, and at 2,200 square

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 6

feet, the current fee is higher. The proposed fee schedule is attached and an illustrative chart is below.



Fees for for-sale units are proposed to be based on the unit sales price since there is a relationship between the price of the unit and the income required for purchasing it and the nexus-based need for services, and thus the impact on the demand for affordable housing.

The fee is proposed to be paid not later than close of escrow for each market rate for-sale unit. The City will place a lien on lots to ensure future payment of fees.

11. A meeting was held on August 20, 2013 to present the draft fees and receive feedback. Concern was expressed about City fees being considered individually and the impact this has on the overall fee load and financial feasibility for development projects. The desirability of fee waivers to enhance project viability was also raised regarding all City fees, not just the housing impact fee.

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 7

12. **City Code Amendment.** To allow the housing impact fee to be paid no later than the close of escrow for for-sale units, a change to the city code is required, since the current language in the Housing Allocation Plan requires the fee to be paid no later than the final inspection. Close of escrow is later than the final building inspection, so code language is proposed which would clarify that fees for rental units shall be paid no later than final inspection and fees for for-sale units would be paid no later than close of escrow.

ANALYSIS

ISSUES

Fee burden for smaller for-sale units. The maximum fee supported by the nexus study for for-sale units ranges from about 2.5% to 4.5% of assumed sales price. Because the higher percentage applies to units of 1,900 square feet and smaller, and housing price is typically lower for these units, it was decided that the 2.5% should apply to all units, regardless of the demonstrated nexus that would allow for higher fees. While this lessened the potential fee for smaller units, the recommended fee remains 1.2 to 2.4 times greater than the current housing fee for similarly sized units (not including currently exempt units).

Fee load for development projects. According to the City's Fee Schedule, development fees for an 1,800 square foot single family unit range from about \$46,000 to \$57,000, depending on location in the city. For an 800 square foot multifamily unit, according to the General Plan Housing Element (2009), fees range from about \$28,000 to \$36,000.

The housing impact fee for rental units are proposed to increase from \$0 for units of 900 square feet or less and to decrease for 2 and 3 bedroom units to balance the overall fees for a multifamily project (see prior chart for details). It is anticipated that on a project basis, lowering the housing fee for larger rental units while spreading the fees to all project units will result in total project fees similar to current fees.

For for-sale units, the proposed increase for lower priced units is greater than for higher priced units, as noted above. This is due to the nexus study's finding that Santa Rosa's housing fee is currently too high for larger, higher priced units.

For lower priced, smaller units, this increase will in turn increase the overall fee burden for the unit and the project of which it is a part. For very small single family units of 900 square feet or less (assumed sales price \$225,000), the increase is about \$5,600 since no fee is currently paid. For units of 1,500 square feet (assumed sales price \$375,000) the difference between the current fee (\$7,666) and the proposed fee (\$9,375) is \$1,709. While this fee increase does affect the overall fee burden for projects, it is a small percentage of overall

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 8

development costs and must be balanced with the impact of market rate units on the need for affordable housing.

Revenue from housing impact fee. Since the Housing Allocation Plan was adopted in 1992, most residential projects have paid a fee to support future development of affordable housing in lieu of providing affordable housing on the project site. More than \$25 million has been collected to support the development of affordable housing projects in Santa Rosa.

The housing impact fee is increasingly important because it is one of the few significant sources of revenue which remain since Redevelopment was eliminated in California and since the economic downturn limited other state and federal housing funds.

Change from fee based on square footage. For many years, Santa Rosa's housing fee has been based on a unit's size, with the fee increasing as the size increases. The proposed fees vary from this practice.

The proposed fees aim to balance the impact to new development with the impact to and the funding needed for affordable housing. By using sales price and unit type on which to base the fees, they will better reflect the relationship between a new unit's impact on the demand for affordable housing.

Waiver of development impact fees. While this topic was raised during the discussion of the housing impact fee, it is a broader issue, impacting all City development fees. Santa Rosa has not looked closely at fee waivers for development impact fees since the impacts identified in nexus studies (need for public facilities, for example) must be addressed through fee payment in some manner. Should the Council wish to discuss this topic, staff recommends it occur outside the current review of the housing impact fee and allow for additional research by staff.

OPTIONS

Adopt the housing impact fees as proposed. As outlined in this report, the proposed fees represent a reasonable adjustment to housing fees, with proposed rental fees set at 15% of the possible maximum and the fee for all for-sale units set at 2.5% of the sales price.

Revise fees only where the nexus studies shows current City fees to be higher than the recommended fee. The only instance where current fees *must* be adjusted is for units of 2,000 square feet and above, where the for-sale nexus study shows that current fees are too high. To ensure a legally defensible housing impact fee, these higher fees can be adjusted downward, and all other

PUBLIC HEARING – ADOPTION OF HOUSING IMPACT FEE AND AMENDMENT TO CITY CODE CHAPTER 21-02 (HOUSING ALLOCATION PLAN) REGARDING TIMING OF FEE PAYMENT

Page 9

fees can be adjusted from square footage to be based on sales price and unit type, but to be as close as possible to current fees.

Adopt the for-sale unit fee for units of 2,000 square feet and above and phase in the fee for units of 1,900 square feet and below. This option, like the one above, reduces fees for for-sale units above 2,000 square feet in size as indicated by the nexus study. For for-sale units of 1,900 square feet or less, the fees could be phased in over a period of years to reduce the impact of increased fees for smaller, for-sale units.

Staff recommends the first option, to adopt the fees as presented, since the proposed fees are anticipated to be similar in terms of development project impact and overall fee generation.

RECOMMENDATION

It is recommended by the Departments of Community Development and Economic Development and Housing that the City Council introduce an ordinance amending City Code Chapter 21-02 (Housing Allocation Plan) and adopt a resolution revising housing impact fees for rental and for-sale unit types.

Author: Lisa Kranz

Attachments:

- Nexus-Based Affordable Housing Fee Analysis for Rental Housing, February 20, 2013
- Nexus-Based Affordable Housing Fee Analysis for For-Sale Housing, February 20, 2013
- Proposed Fee Schedule and Chart Comparing Maximum, Current, and Recommended Housing Impact Fees for Rental Housing
- Proposed Fee Schedule and Chart Comparing Maximum, Current, and Recommended Housing Impact Fees for For-Sale Housing