

WESTERN PLACER COUNTY NEXUS-BASED AFFORDABLE HOUSING FEE STUDY **REVIEW DRAFT**

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Purpose of the Study

- Determine **Maximum Justifiable** Affordable Housing Fees for:
 - New Market-Rate Residential Development
 - New Commercial Development
 - In Western Placer County (the Fee Area)
- By demonstrating **nexus** between new development and the increase in demand for affordable housing
- May be implemented as either:
 - In-Lieu Fee or
 - Development Impact Fee

What is the difference between an in-lieu fee and a development impact fee?

In-Lieu Fee

- Rather than build the affordable housing, a developer can pay a fee to the County to enable another entity to build affordable units.
- The fee is deposited in the County's Housing Trust Fund and leveraged with other funds (tax credits, grants, etc.)
- Applicable to developments with an affordable housing requirement.

Impact Fee

- Applicable to ALL development, as specified in the adopting ordinance or resolution.
- Development is not required to build the affordable housing; it MUST pay the fee.
- The fees are deposited into a separate impact fee fund, restricted only for purposes of increasing or preserving the supply of affordable housing.

Who do the fees apply to?

- Undetermined as of yet; driven by County decision makers.
- **Currently an In-lieu fee may be permissible (case-by-case basis)**
- **Current County Requirement:**
 - **Market-Rate Residential:** 10% Affordability in Specific Plan Areas and other developments where a Community Plan and/or General Plan Amendment is approved that increases residential density on a site.
 - **Commercial:** No housing affordability requirement.

What is the basis of the fee?

- Development of new residential and non-residential land uses will generate additional need for affordable housing.
- The fee is mitigation for the impact of increased demand for affordable housing.
- The fees will be used to increase the supply of affordable housing in the fee area.
- Calculated on the number of income-qualified worker households generated by new development and the financing gap / subsidy amount necessary to house those low to moderate income households.

Affordability Defined

Income Level	% of Area Median Income	2015 Per Household Annual Income Limit							
		Placer County							
		1-person	2-person	3-person	4-person	5-person	6-person	7-person	8-person
Extremely Low	30%	\$16,000	\$18,300	\$20,600	\$24,250	\$28,410	\$32,570	\$36,730	\$40,890
Very Low	50%	\$26,650	\$30,450	\$34,250	\$38,050	\$41,100	\$44,150	\$47,200	\$50,250
Lower	60%	\$31,950	\$36,540	\$41,100	\$45,660	\$49,320	\$52,980	\$56,610	\$60,270
Low	80%	\$42,650	\$48,750	\$54,850	\$60,900	\$65,800	\$70,650	\$75,550	\$80,400
Median	100%	\$53,250	\$60,900	\$68,500	\$76,100	\$82,200	\$88,300	\$94,350	\$100,450
Moderate	120%	\$63,900	\$73,050	\$82,150	\$91,300	\$98,600	\$105,900	\$113,200	\$120,500

Source: HCD Section 6932. 2015 income limits.

Financing Gap / Subsidy per Unit

- Called the **Affordability Gap** in the study

Subsidy required to construct an affordable unit

OR

The difference between what a household can afford to pay and the cost to construct market rate housing.

- The study **DOES NOT** calculate the fee based on costs to build affordable housing.

Fee Methodology

- Residential
- Non-Residential

The fee methodology is consistent with studies conducted throughout the State (reference *"The Use of Residential Nexus Analysis in Support of California's Inclusionary Housing Ordinances: A Critical Evaluation"*, November 2011, by the Goldman School of Public Policy, University of California, Berkeley).

Residential Linkage



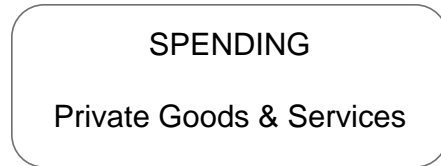
Home Price = \$600,000



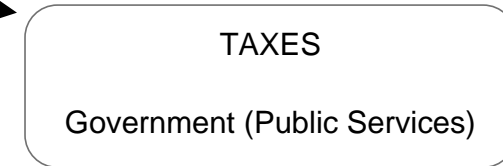
Consumers

Income = \$130,000

Spending = \$60,000



Ratio of Private Sector to Government Jobs
Placer County = 6.4

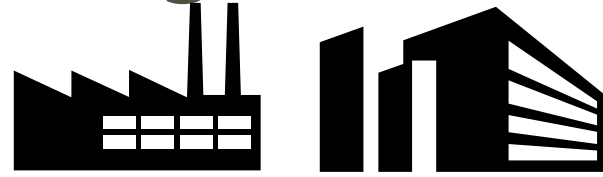


New Jobs less Unemployment = Net New Workers

Net New Workers / Workers per Household = Net New Worker Households

Net New Worker Households by Income Bracket = # of New Affordable Units Needed

Commercial Linkage



New Space x Occupancy = Occupied Space



New Workers = Space / Jobs per Sq. Ft.

Adjustments:

1. Deduct for Workers Transferring from one Employer to another Within Unincorporated Western Placer County
2. Deduct for Workers that will not live in Unincorporated Western Placer County
3. Deduct for Workers Generated by Spending of New Residents

Net New Workers / Workers per Household = Net New Worker Households



Net New Worker Households by
Income Bracket = # of New Affordable
Units Needed

Fee Methodology: 3 Steps

- **Step 1:** Determine the affordability gap for new rental and ownership housing.
- **Step 2:** Determine the number of affordable housing units needed for workers generated by spending of new market-rate households and new non-residential occupied space.
- **Step 3:** Apply affordability gap to the number of affordable housing units calculated in Step 2.

Step 1: Affordability Gap Results: RENTALS

The difference between what a household can afford to pay and the cost to construct and operate an apartment.

Bedrooms	Rental Units - Income Bracket		
	Very Low	Lower	Low
	< or = 50%	51% - 60%	61% - 80%
1 Bdrm	\$120,620	\$89,529	\$27,194
2 Bdrm	\$121,894	\$86,923	\$16,725
3 Bdrm	\$158,797	\$119,945	\$42,141
Weighted Average	\$147,726	\$110,039	\$34,516

Source: Colliers International, local developers, and HEC.

Step 1: Affordability Gap Results: OWNERSHIP

In some parts of the County market-rate housing will be affordable for moderate income households (101% - 120% of MHI). Moderate income households are EXCLUDED from the affordable housing fee calculation.

Bedrooms	Ownership Units - Income Bracket		
	Low 61% - 80%	Median 81% - 100%	Moderate 101% - 120%
3 Bdrm	\$57,466	(\$14,597)	(\$79,597)
4 Bdrm	\$151,246	\$135,057	\$64,057
Weighted Average	\$104,356	\$60,230	(\$33,085)

Source: New development at Hidden Crossing and HEC.

Step 2: Calculate the Number of Affordable Housing Units Generated

New Market-Rate Residential

- High Density, Medium Density, Low Density, Rural Residential

New Non-Residential Occupied Space

- Office, General Commercial, Industrial/Flex, Warehouse

Data Sources: Bureau of Labor Statistics Occupational Employment Statistics, US Census Families and Living Arrangements Report 2014, 2013 5-year American Community Survey, 2012 Consumer Expenditure Survey (Bureau of Labor Statistics), US Census 2012 Economic Census for Placer County, California Employment Development Department, US Census 2013 County and Zip Code Business Patterns, CB Richard Ellis 2015 Marketview Reports.

Step 3: Maximum Justifiable Fee Calculation

For each income bracket multiply the number of affordable units generated by the affordability gap.

RESIDENTIAL

Calculation	HDR	MDR	LDR	RR
<i>Building Square Feet</i>	<i>1,300</i>	<i>2,050</i>	<i>2,450</i>	<i>3,400</i>
Maximum Justifiable Fee				
Calculated Fee per Unit	\$6,231	\$9,691	\$12,808	\$17,160
Fee per Square Foot	\$4.79	\$4.73	\$5.23	\$5.05
Weighted Average Fee per Sq. Ft.	\$5.00	\$5.00	\$5.00	\$5.00
Max. Justifiable Fee with 3% Administration	\$5.15	\$5.15	\$5.15	\$5.15

Residential Fee Finding

- County Requirement = 100 out of 1,000 new residential units (10%) affordability
- Fee Model Result = 592 out of 4,000 new residential units (15%) affordability

Step 3: Maximum Justifiable Fees Calculation

For each income bracket multiply the number of affordable units needed by the affordability gap.

NON-RESIDENTIAL

Office	General Commercial	Industrial / Flex	Warehouse
\$2.25 per sq. ft.	\$3.61 per sq. ft.	\$0.96 per sq. ft.	\$0.93 per sq. ft.
<i>(includes 3% administration component)</i>			

Fee Level Options

Option 1: Residential - Reduce to Match 10% Affordability Requirement.

Option 2: Residential & Commercial - Include only Rental Housing in Fee Calculation (no ownership units) – *this methodology is used by other jurisdictions regionally, such as Sacramento County.*

Option 3: Board of Supervisors Adopts Lower Fees at a Percentage of the Maximum Justifiable Fees.

Option 4: Not evaluated - Fees Adjusted to Account for Other Funding Sources (such as TOT or Sales Tax).

Fee Level Options Summary

[1] Includes institutional uses.

[2] Includes retail and hospitality/accommodation.

[3] Residential fee at 10% inclusionary equivalent.

[4] Rental Housing only included in fee calculation.

Calculation	Residential	Office [1]	General Commercial [2]	Industrial / Flex	Warehouse
<i>Fees Per Building Square Foot; All include 3% Administration</i>					
Maximum Justifiable	\$5.15	\$2.25	\$3.61	\$0.96	\$0.93
Fee @ 75%	\$3.86	\$1.69	\$2.71	\$0.72	\$0.70
Fee @ 50%	\$2.57	\$1.13	\$1.80	\$0.48	\$0.47
Fee @ 25%	\$1.29	\$0.56	\$0.90	\$0.24	\$0.23
Option 1 [3]	\$3.48	\$2.25	\$3.61	\$0.96	\$0.93
Fee @ 75%	\$2.61	\$1.69	\$2.71	\$0.72	\$0.70
Fee @ 50%	\$2.57	\$1.13	\$1.80	\$0.48	\$0.47
Fee @ 25%	\$1.29	\$0.56	\$0.90	\$0.24	\$0.23
Option 2 [4]	\$2.60	\$1.96	\$3.51	\$0.86	\$0.87
Fee @ 75%	\$1.95	\$1.47	\$2.63	\$0.65	\$0.65
Fee @ 50%	\$2.57	\$1.13	\$1.80	\$0.48	\$0.47
Fee @ 25%	\$1.29	\$0.56	\$0.90	\$0.24	\$0.23

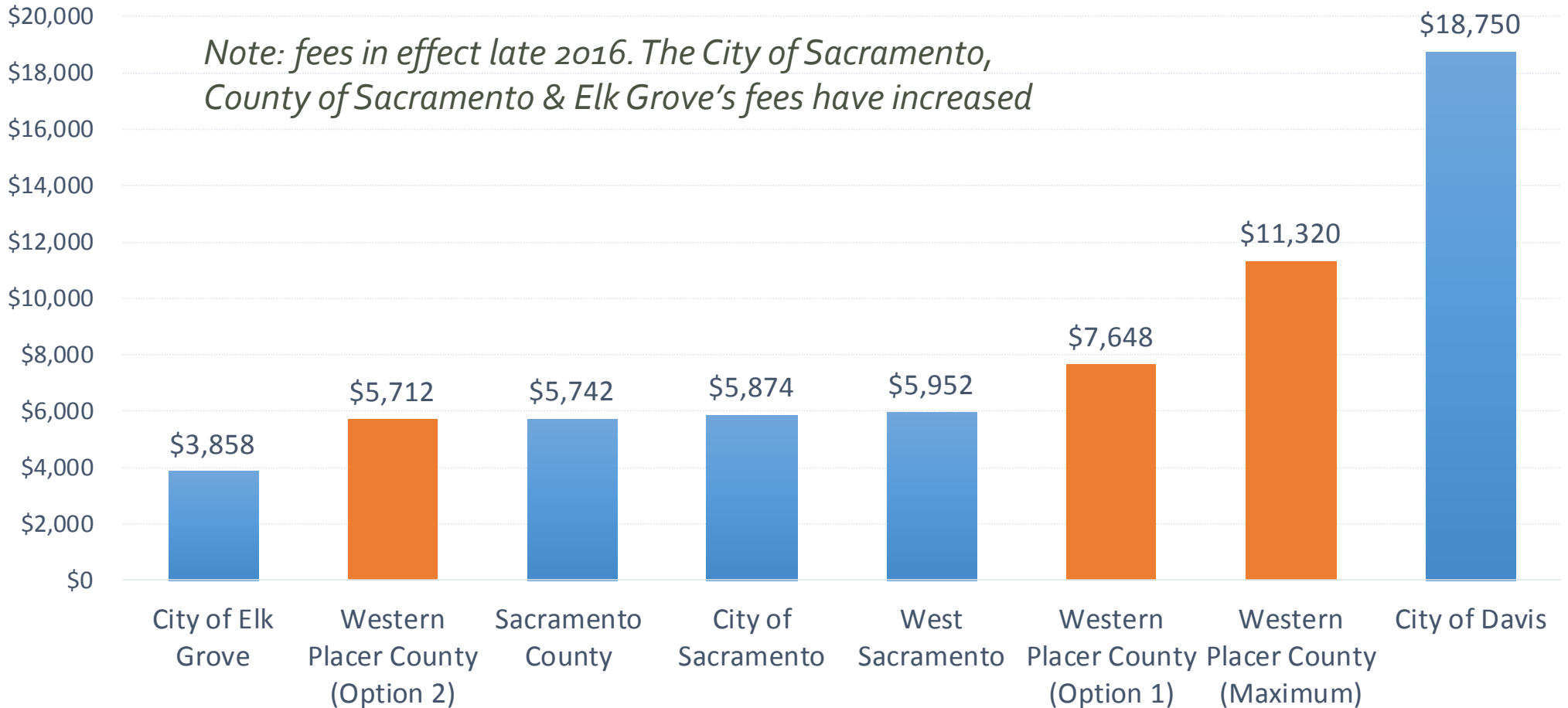
Source: HEC.

Calculated Fees and Adopted Fees Often Different

- City of Elk Grove Fee Study
 - Maximum Justifiable Fee \$7,000 per residential unit
 - Fee is currently \$4,132 per residential unit
- City of Sacramento Fee Study
 - Maximum Justifiable Fee by unit type ranged from \$14.27 to \$37.37 per square foot for residential
 - Fee is currently \$2.67 per square foot for residential

Comparison of Regional Affordable Housing Fees (Residential) for a 2,200 sq. ft. Market Rate Unit

- Elk Grove's fee is an impact fee; all others are in-lieu
- Davis charges \$75,000 per affordable housing unit not built; with a 25% inclusionary requirement this equates to \$18,750 per market-rate unit.

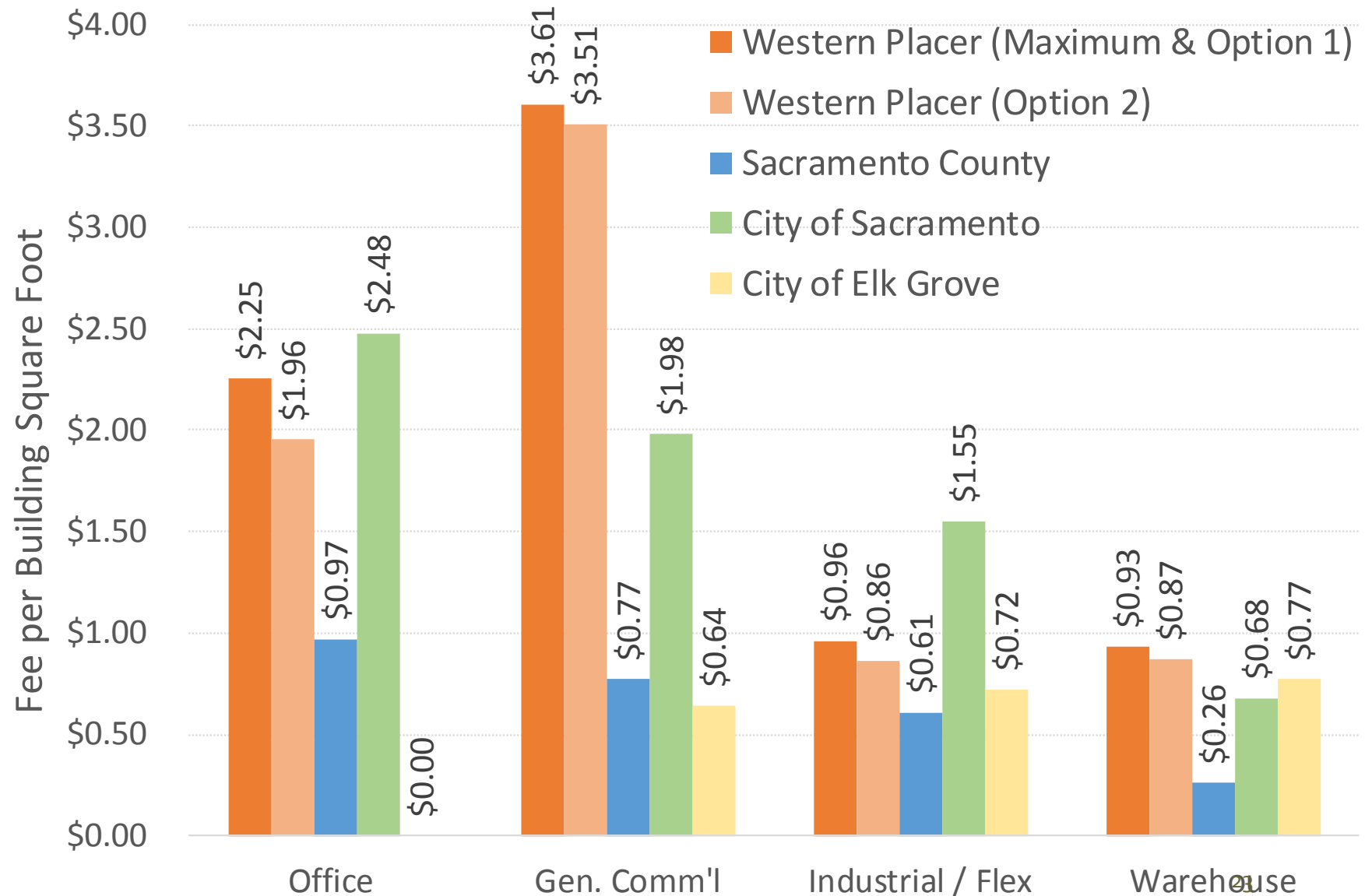


Roseville

- 10% affordable units required of developments
- Rarely allows payment of in-lieu fee
- When an in-lieu fee is permitted, it is based on the cost to construct an affordable housing unit at that time
- In January 2016 that cost was \$115,000
- At 10% inclusionary = \$11,500 per market-rate unit built
- Compares with \$11,320 in Western Placer County for a 2,200 sq. ft. unit @ max. justifiable fee

Comparison of Regional Affordable Housing Fees (Non-Res.)

- Option 1 is the residential fee at 10% inclusionary requirement.
- Option 2 is calculated with rental housing only.



Financial Feasibility for Developers

- Fee is additional cost burden to developers.
- Two tests conducted with sensitivity analysis.
- Feasibility is affected by location – price of raw land, total fees in the area, market unit sales prices, proximity to infrastructure and so forth (other economic factors).
- Results show addition of the fee could affect feasibility of projects in some portions of Western Placer County; however the fee is not a major impact on financial feasibility.

What other fees/costs are there?

- County Fees – typically \$40,000 to \$50,000 per Unit
- Plan Area & School Fees – typically \$20,000 to \$30,000 per Unit
- **Residential Fees \$60,000 to \$80,000 per Unit**
- Max. New Fee would be an additional \$10,000 to \$20,000 per Unit

Example of Fee Applicability

Paid as part of Development Agreement if an In-Lieu Fee

Paid at Building Permit if a Development Impact Fee

New 100-unit Low Density Development

County Fees	\$4,480,300	54%
Plan Area & School Fees	\$2,519,700	31%
Aff. Housing Fee [1]	\$1,260,630	15%
Total Fees	\$8,260,630	100%
Fee per Unit	\$82,606	

[1] Calculated using the maximum justifiable fee

Conclusions

- Fee can be collected as an in-lieu fee, a development impact fee, or combination thereof. County should obtain legal opinion.
- Maximum justifiable fees are rarely adopted; Board of Supervisors could adopt lower fees.
- Fees fall in middle of the range of regional affordable housing fees.
- Currently there is no affordable housing requirement for new commercial development. This study provides the nexus to implement a non-residential fee.