EASTERN PLACER COUNTY NEXUS-BASED WORKFORCE HOUSING FEE STUDY

REVIEW DRAFT

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ECONOMIC CONSULTING

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Purpose of the Study

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

Current Requirement

- **New Development:** Required to provide workforce housing equal to at least 50 percent of the housing demand generated by the project. Required housing is to be provided in one of four ways:
    1. Construction of on-site employee housing;
    2. Construction of off-site employee housing;
    3. Dedication of land for needed units; and/or
    4. Payment of an in-lieu fee.
- **Expansion of Existing Development:** Requirement only applies to the portion of the project that is expanded OR an intensification of use.

Key Concept – Affordability Gap

- The study is based on an Affordability Gap calculation:

  Affordability Gap = Subsidy required to construct affordable units. It is 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 workforce housing.
- The study 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 Methodology

- **Step 1**: Determine the affordability gap for new rental and ownership housing.
- **Step 2**: Determine amount of workforce housing needed for workers generated by spending of new market-rate households.
- **Step 3**: Apply affordability gap to the number of workforce housing units needed to house the workers generated by the new market-rate households.

Residential Linkage

Home Price = $600,000

Income = $130,000

Consumers

Spending = $60,000

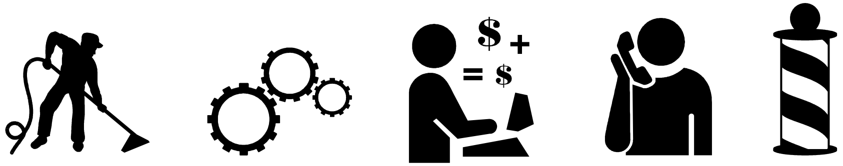
SPENDING

Private Goods & Services

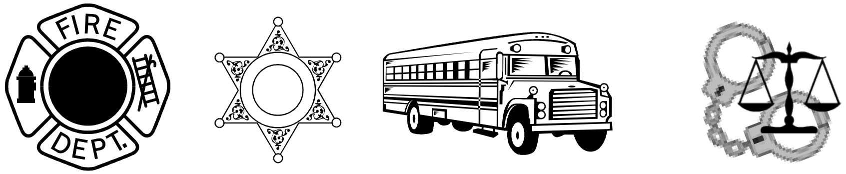
Ratio of Private Sector to Government Jobs
Placer County = 6.4

TAXES

Government (Public Services)



service workers | engineers manufacturers | analysts accountants | customer service | personal services



firefighters | sheriff | bus drivers | legal services

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 Workforce Units Needed

Step 1: Affordability Gap Results (2 Bedroom Units)

Uses 2015 Placer County Income Limits from California Department of Housing and Community Development

	Housing Type	
Income	**Rental Units**	**Ownership**
Very Low	$259,000	n.a.
Lower	$219,000	n.a.
Low	$140,000	$178,000
Median	n.a.	$86,000
Moderate	n.a.	$27,000

Source: HEC.

Residential Step 2: Demand for Income-Qualified Employees

Demand for New Affordable Units is from Spending by Households in New Market-Rate Units in Private and Public Sectors.

- Step 2a: Determine Household Incomes of New Market-Rate Units
- Step 2b: Determine Household Expenditures of New Market-Rate Units
- Step 2c: Convert Spending to Number of Net New Jobs and New Worker Households
- Step 2d: Assign Worker Households to Income Categories

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.

Residential Step 3: Maximum Justifiable Fee Calculation

For each income bracket multiply the number of affordable units needed by the affordability gap. *Note: fee calculations include an adjustment for vacant and seasonally used units.*

	Calculated Fee Per Unit	
Home Price	**Ownership & Rental Units**	**Rental Housing Only**
Single Family	[1]	[1]
Sales Price up to $500,000	$21,180	$17,710
Sales Price $500,001 - $1,000,000	$42,360	$35,420
Sales Price $1,000,001 - $2,000,000	$84,570	$70,710
Sales Price greater than $2,000,000	$169,140	$141,420
Apartments	$10,710	$8,950

Source: HEC, April 2016.

[1] Rounded to the nearest $10.

Adjustment for Seasonal Use / Vacancy

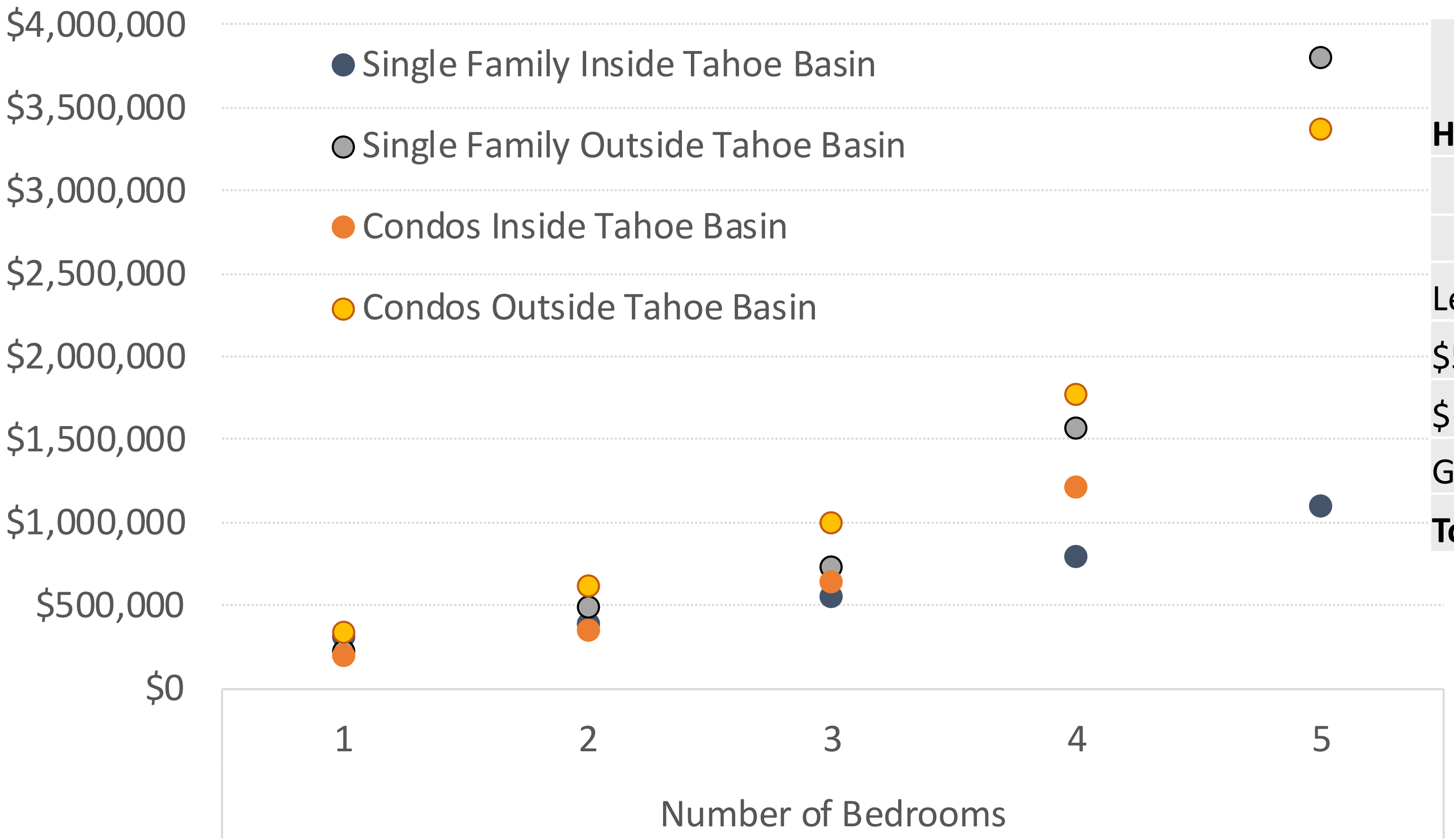
Occupancy	% of Total Units	% Occupancy [1]	Calculated Year-round Occupancy
	a	*b*	*c = a*b*
Units Occupied Permanently	28%	100%	28%
Units Occupied Seasonally [1]	67%	34%	23%
Units Vacant	5%	0%	0%
Total Units	**100%**		**51%**
Vacancy Rate			**49%**

Source: 2014 5-year American Community Survey, U.S. Census, local developments, and HEC.

occ

[1] Data provided to HEC by local developments (includes Squaw Valley and Tahoe Mountain Resorts). Units that are managed are typically occupied 53% of the year. Units that are not managed are typically occupied 28% of the year. HEC assumed 75% of seasonal units are not managed and 25% are managed.

Fee by Sales Price Bracket Differs from most Affordable Housing Fees WHY?

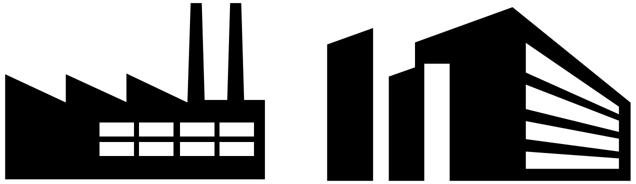


Home Price	**Units sold in 2015 that were built in the last 5 years**	
	Number	**Distribution**
Less than $500,000	0	0%
$500,000 - $1,000,000	13	14%
$1,000,000 - $2,000,000	30	31%
Greater than $2,000,000	53	55%
Total	**96**	**100%**

Non-Residential Methodology

- **Step 1**: Determine the affordability gap for new rental and ownership housing. *Same step as for the Residential Methodology.*
- **Step 2**: Determine amount of workforce housing needed for the workers generated by the new non-residential space.
- **Step 3**: Apply affordability gap to number of workforce housing units needed to house the workers generated by the new non-residential building space.

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 Eastern Placer County
2. 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 Workforce Units Needed

Non-Residential Step 2: Demand for Net New Worker Households

Demand for New Affordable Units is from Net New Employees in New Non-Residential Space.

- Step 2a: Determine Net New Workers generated per 100,000 building square feet of **Restaurant/Bar, Retail, Office, Service, Light Industrial, and Other space.** Determine Net New Workers per room for **Lodging** and per site for **Campgrounds**.
- Step 2b: Adjust Number of Net New Workers to account for transfers and overlap with Residential Fee.
- Step 2c: Convert Number of Net New Workers to New Worker Households.
- Step 2d: Assign New Worker Households to Income Categories.

Data Sources: Bureau of Labor Statistics Occupational Employment Statistics, 2013 5-year American Community Survey, CB Richard Ellis 2015 Marketview Reports, California Economic Development Department.

Tahoe Employment Survey Results

- Service uses include gyms, banks, spas, salons.
- Light industrial includes auto service & tire stations, printing, welding, carpentry.

Type of Use	Unit	Factor
Restaurant/Bar	Sq. Ft. per Employee	200
Retail	Sq. Ft. per Employee	650
Office	Sq. Ft. per Employee	350
Service	Sq. Ft. per Employee	750
Light Industrial	Sq. Ft. per Employee	600
Other (not listed)	Sq. Ft. per Employee	550
Lodging	Rooms Per Employee	3
Outdoor Recreation	Independent calculation on case by case basis	n.a.
Campgrounds	Sites Per Employee	85

Source: HEC Tahoe Employment Survey December 2015.

Non-Residential Step 3: Maximum Justifiable Fees Calculation

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

Calculation	Non-Residential Restaurant /Bar	Retail	Office	Service	Light Industrial	Other Uses	Lodging	Outdoor Recreation	Campgrounds
	Per Building Square Foot						Per Room [1]	[2]	Per Site [3]
Ownership & Rental Units Fee	**$175**	**$45**	**$51**	**$37**	**$37**	**$43**	**$9,900**	**n.a.**	**$90**
Rental Housing Only Fee	**$175**	**$43**	**$43**	**$34**	**$32**	**$38**	**$9,740**	**n.a.**	**$90**

Source: HEC, April 2016.

[1] Converted from a per square foot basis to a per room basis assuming 450 square feet per room (includes common areas).

[2] Independent calculation on case by case basis.

[3] Calculated fee reduced 50% to account for employees living in the campground.

Fee Level Options

Evaluated

Option 1: For Residential & Non-Residential - Include only Rental Housing Units in Fee Calculation (no ownership units)

Option 2: The County Adopts Lower Fees at a Percentage of the Maximum Justifiable Fees

Option 3: Residential fees (detached and attached units including fractional ownership and condotels) could be charged as a percentage of actual sales price of the unit rather than by sales price bracket

Not Evaluated

Option 4: Maximum Justifiable Fee reduced by revenue stream from another non-enterprise fund revenue source

Fee Level Options 1 & 2 Summary

Land Use	Ownership & Rental Units 100%	Ownership & Rental Units Option 2 75%	Ownership & Rental Units Option 2 50%	Ownership & Rental Units Option 2 25%	Rental Housing Only Option 1 100%	Rental Housing Only Option 2 75%	Rental Housing Only Option 2 50%	Rental Housing Only Option 2 25%
Market-Rate Residential								
Single Family [1]	*per residential unit*				*per residential unit*			
Sales Price up to $500,000	$21,180	$15,885	$10,590	$5,295	$17,700	$13,275	$8,850	$4,425
Sales Price $500,001 - $1,000,000	$42,360	$31,770	$21,180	$10,590	$35,400	$26,550	$17,700	$8,850
Sales Price $1,000,001 - $2,000,000	$84,570	$63,428	$42,285	$21,143	$70,700	$53,025	$35,350	$17,675
Sales Price greater than $2,000,000	$169,140	$126,855	$84,570	$42,285	$141,400	$106,050	$70,700	$35,350
Multi-Family [2]	$10,710	$8,033	$5,355	$2,678	$9,000	$6,750	$4,500	$2,250
Non-Residential	*per bldg. sq. ft.*				*per bldg. sq. ft.*			
Restaurant/Bar	$175	$131	$88	$44	$175	$131	$87	$44
Retail	$45	$34	$23	$11	$43	$33	$22	$11
Office	$51	$38	$26	$13	$43	$32	$21	$11
Service	$37	$28	$19	$9	$34	$26	$17	$9
Light Industrial	$37	$28	$19	$9	$32	$24	$16	$8
Other (not listed)	$43	$32	$21	$11	$38	$29	$19	$10
Lodging	*per room*				*per room*			
Hotels/Motels per Room	$9,900	$7,425	$4,950	$2,475	$9,740	$7,305	$4,870	$2,435
Outdoor Recreation [3]	*Independent calculation on case by case basis*				*Independent calculation on case by case basis*			
Campgrounds	*per site*				*per site*			
Campgrounds per Site	$90	$68	$45	$23	$90	$68	$45	$23

Source: HEC, April 2016.

[1] Includes all detached and attached owned unit types; includes fractional ownership and timeshares. Condotel units are in this category.

[2] Includes all rented units (apartments).

[3] Applies to projects generating workers but not increasing building square footage.

Fee Level Option 3 Summary

Examples: Folsom (2.0%), Santa Rosa (2.5%), Menlo Park (3.0%), Mountain View (3.0%), Sunnyvale (7.0%), Palo Alto (7.5%)

	Fee as % of Sales Price			
Market-Rate Single Family [1]	**100%**	**75%**	**50%**	**25%**
Ownership & Rental Units				
Sales Price up to $500,000	4.2%	3.2%	2.1%	1.1%
Sales Price $500,001 - $1,000,000	4.2%	3.2%	2.1%	1.1%
Sales Price $1,000,001 - $2,000,000	4.2%	3.2%	2.1%	1.1%
Sales Price greater than $2,000,000	4.2%	3.2%	2.1%	1.1%
Rental Housing Only				
Sales Price up to $500,000	3.5%	2.7%	1.8%	0.9%
Sales Price $500,001 - $1,000,000	3.5%	2.7%	1.8%	0.9%
Sales Price $1,000,001 - $2,000,000	3.5%	2.7%	1.8%	0.9%
Sales Price greater than $2,000,000	3.5%	2.7%	1.8%	0.9%

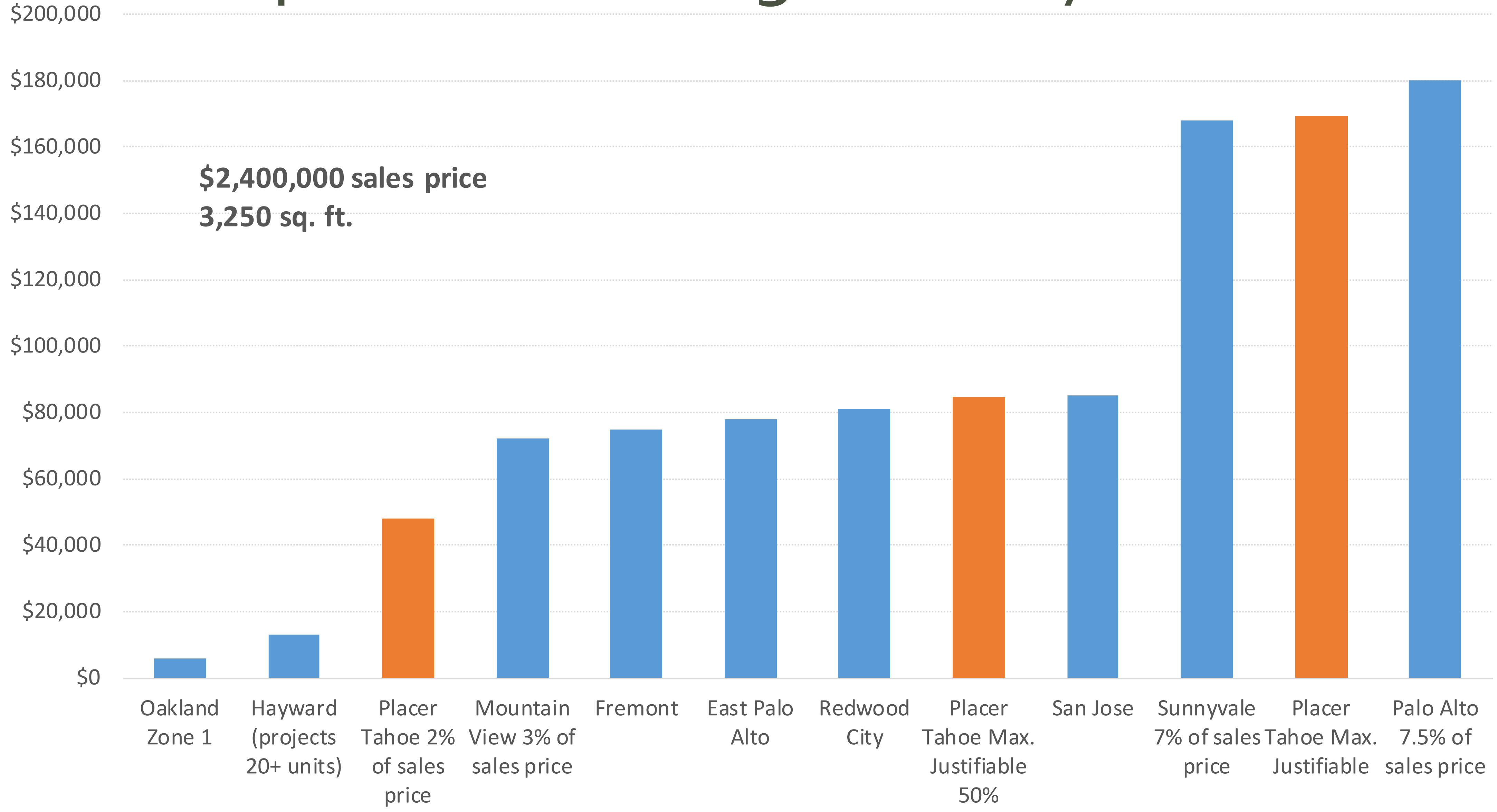
Source: HEC, April 2016.

[1] Includes all detached and attached owned unit types; includes fractional ownership and timeshares. Condotel units are in this category.

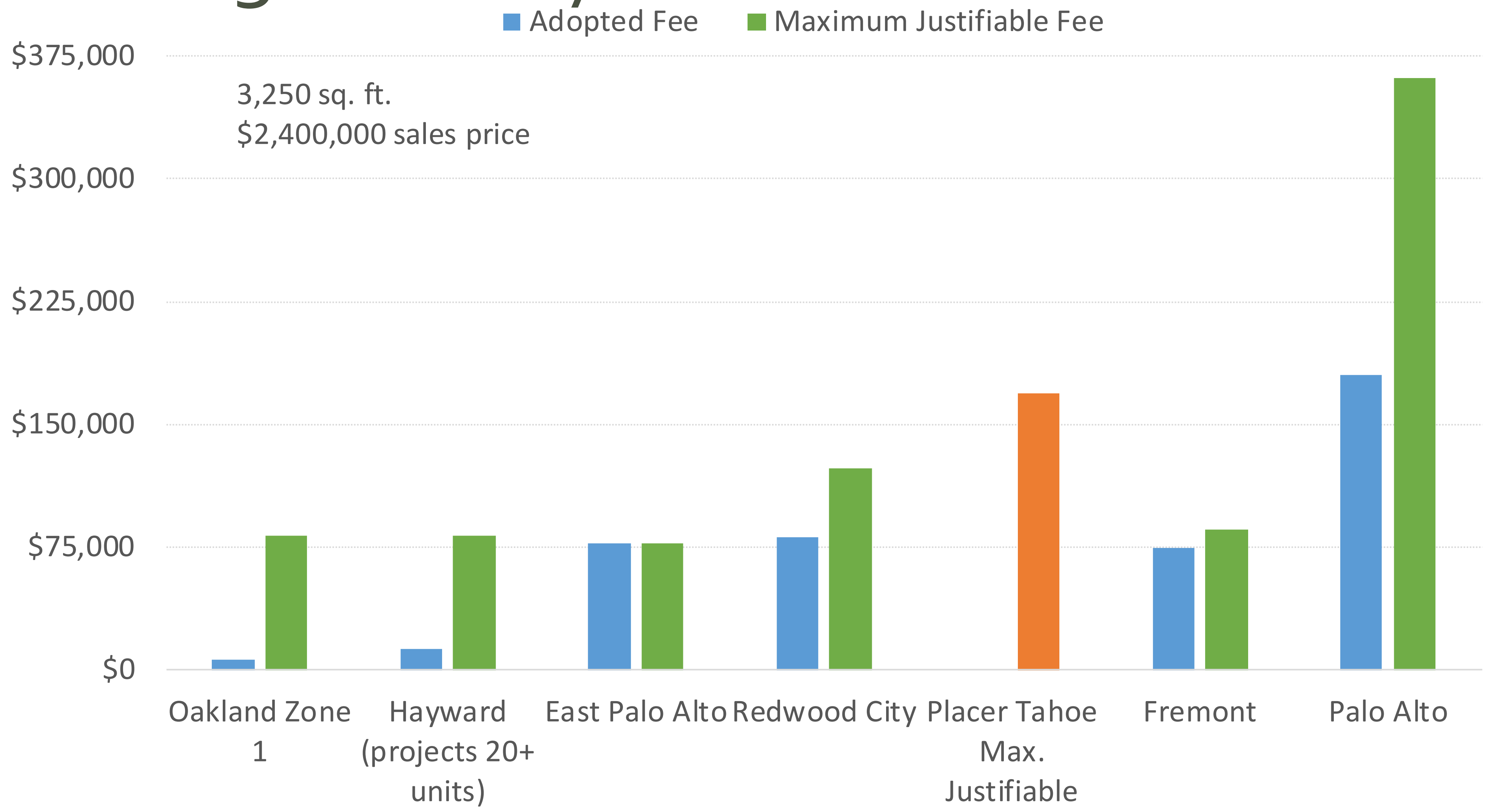
Financial Feasibility for Developers

- Additional cost burden to developers
- Residual Land Value test used for evaluation
- Results show addition of the fee could have a major impact on feasibility of new residential development; however, it will have greater impact in some portions of Eastern Placer County than others
- **Housing fee should not exceed 2.2% of sales price in order for single family development to be financially feasible**

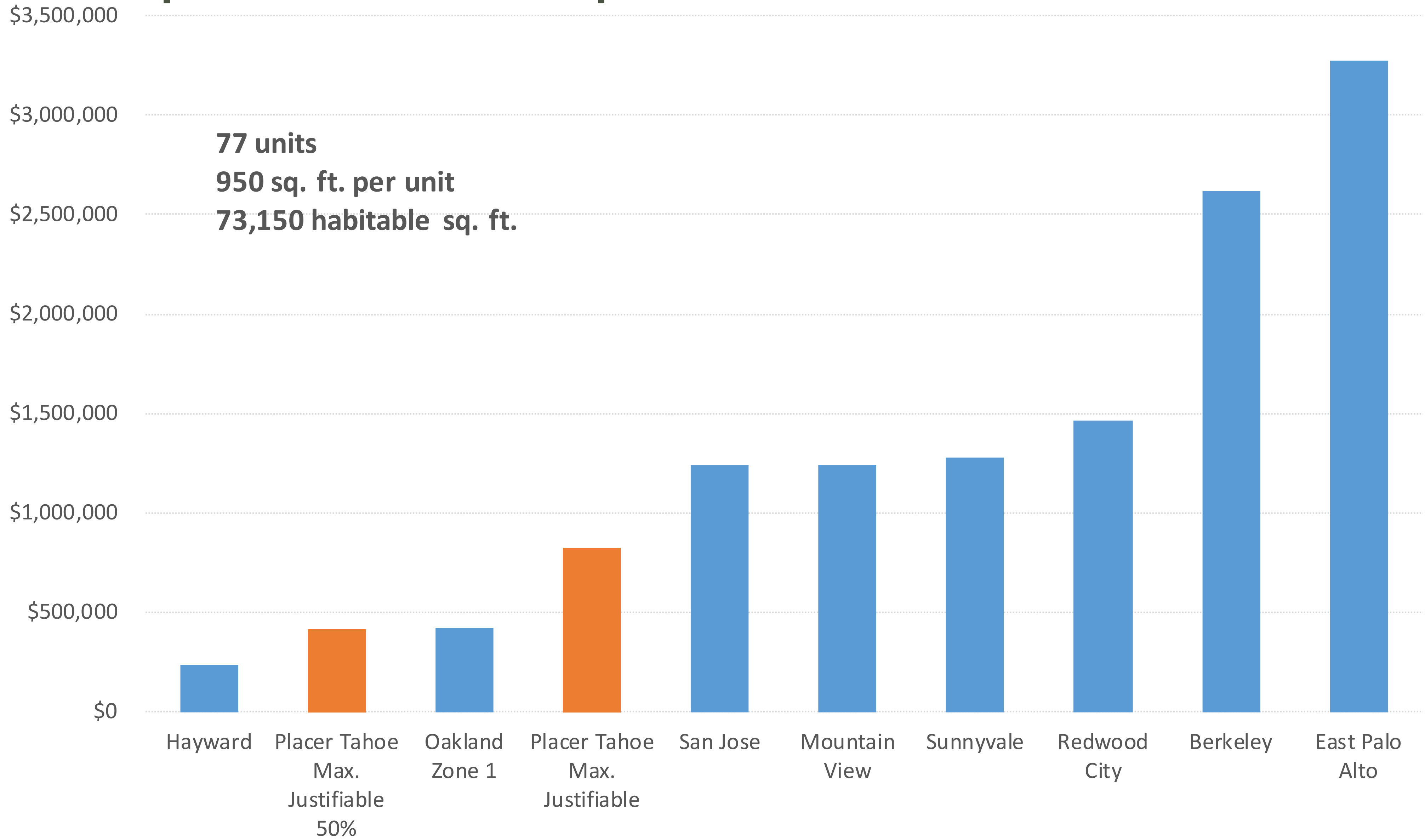
Fee Comparison for Single Family



Comparison of Max. Justifiable and Adopted Fees for Single Family

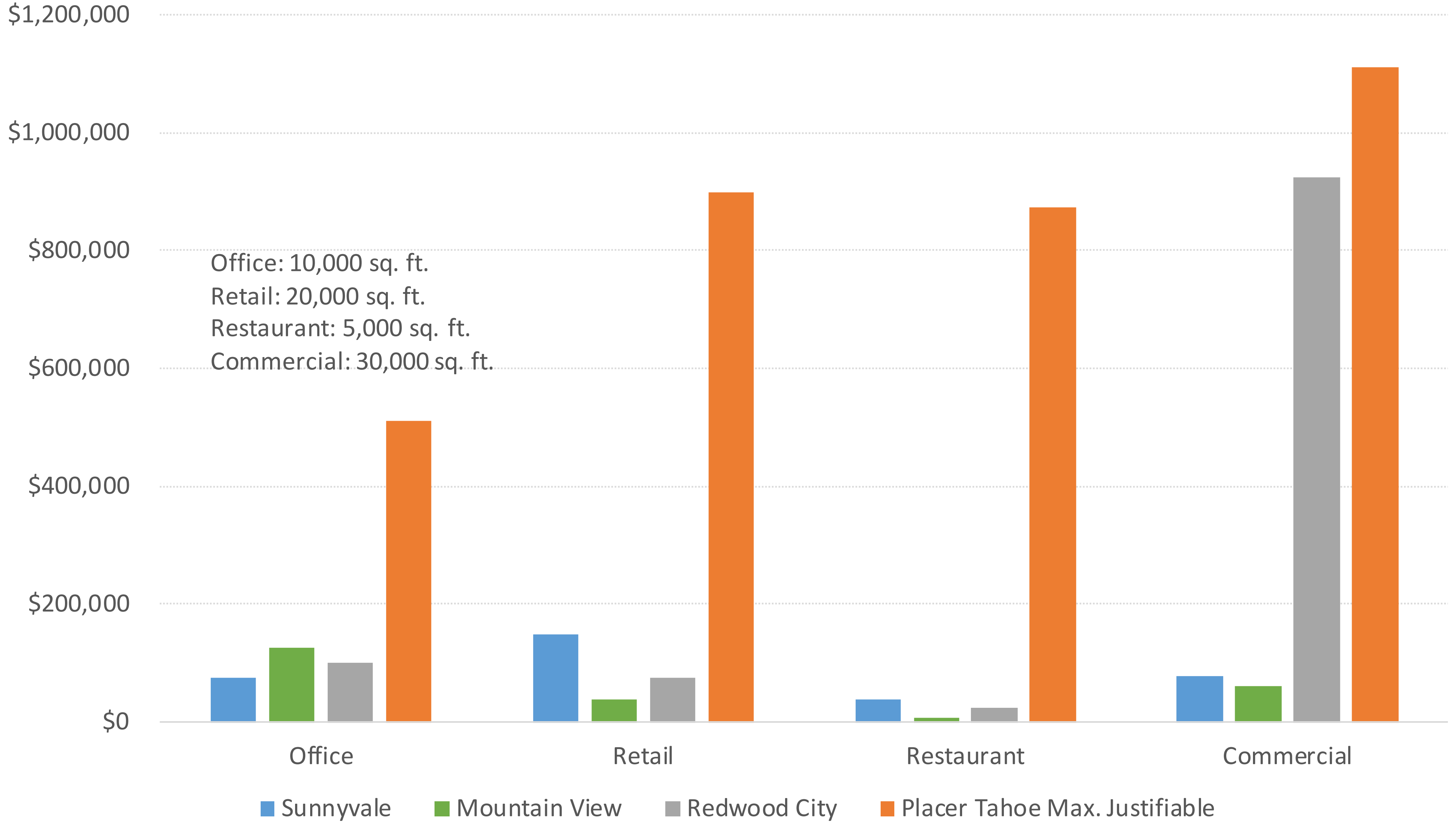


Fee Comparison for Apartments



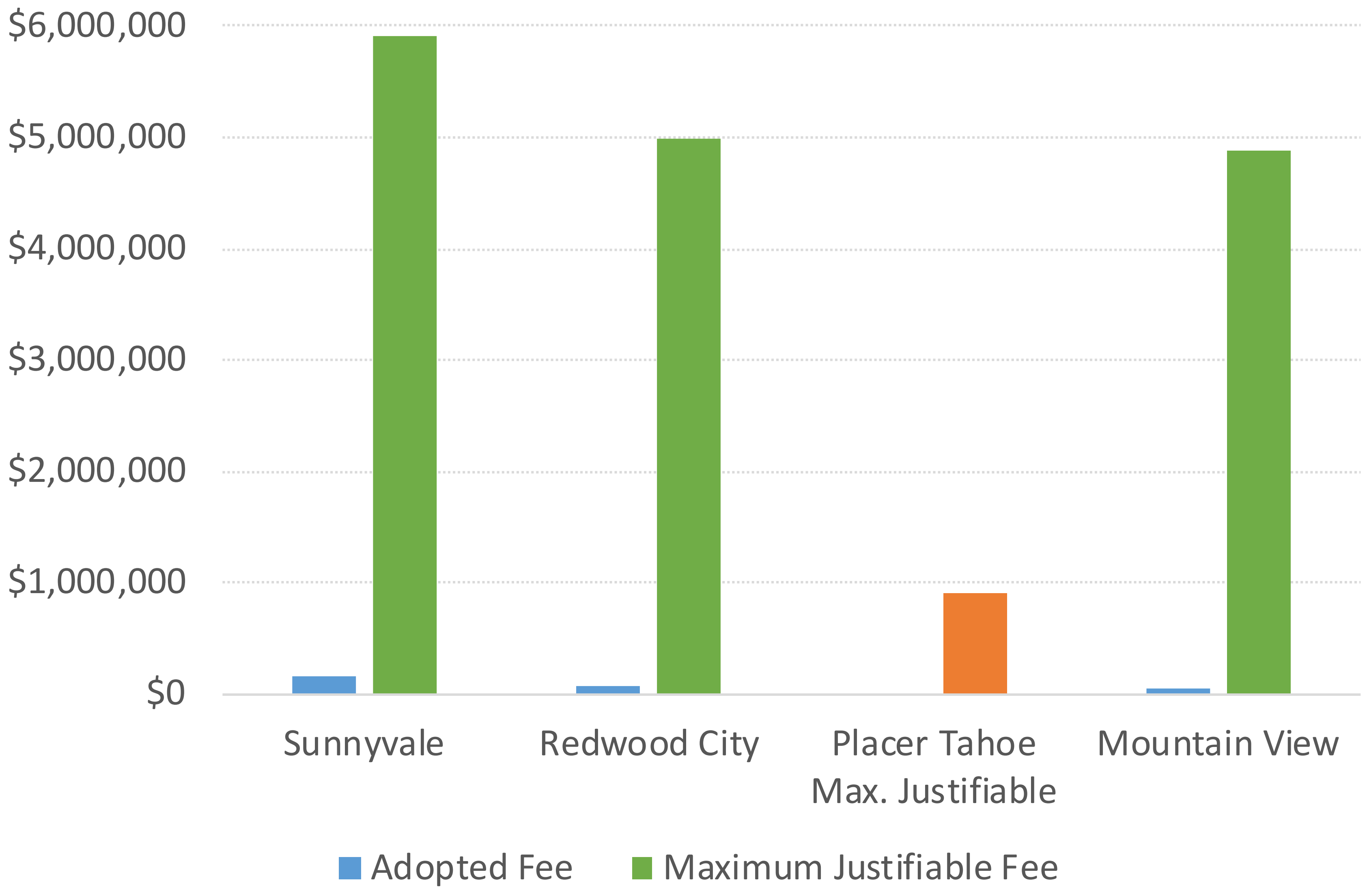
Comparison of Max. Justifiable and Adopted Fees for Apartments

Fee Comparison for Non-Residential



Comparison of Max. Justifiable Fees and Adopted Fees for Office

Comparison of Max. Justifiable Fees and Adopted Fees for Retail



Fee Collection

- **Study only calculates fees, it does not determine method of collection**
- **Options:** Collect from developer and/or Collect at Building Permit or Certificate of Occupancy (or some combination thereof)
- **Custom Lots:** Large number of units are built on custom lots in Tahoe (developer sells an improved lot, NOT finished product)
  - Need to determine mechanism for collecting from these developments
  - Brentwood example – options are a) developer pays at final map approval **or** b) developer pays entire fee when 1st building permit pulled **or** c) each purchaser pays at building permit

Conclusions

- Fee can be collected as an in-lieu fee, a development impact fee, or combination thereof. County should obtain legal opinion.
- The nexus study supports the presented maximum justifiable fees; however, the feasibility analysis demonstrates that the fee should be no greater than 2.2% of sales price for single family residential.
- Fees are within the range of regional affordable housing fees for markets with similar housing prices (Bay Area).
- In similar markets the maximum justifiable fees are rarely adopted.

BACKUP

Outdoor Recreation – Case by Case

- Unique category; driven by additional employees not associated with new commercial building square feet
- Steps:
  - Determine number of net new employees
  - Determine number of units needed to house net new employees
  - Apply the affordability gap to the number of units to obtain total fee amount for outdoor recreation
    - County will determine the affordability gap to use depending on the income bracket selected (from Study Table 5); may use a weighted average of the affordability gap by income bracket

2015 Affordable Rents

	Household Size				
Description	1-person	2-person	3-person	4-person	5-person
Unit size	**Studio**	**1-bdrm**	**2-bdrm**	**3-bdrm**	**4-bdrm**
Very Low Income (50% of AMI)					
Annual Income	$26,650	$30,450	$34,250	$38,050	$41,100
Maximum Monthly Rent [1]	$666	$761	$856	$951	$1,028
Utility Allowance [2]	$66	$76	$96	$115	$133
Rent Less Utility Allowance	**$600**	**$685**	**$760**	**$836**	**$895**
Lower Income (60% of AMI)					
Annual Income	$31,950	$36,540	$41,100	$45,660	$49,320
Maximum Monthly Rent [1]	$799	$914	$1,028	$1,142	$1,233
Utility Allowance [2]	$66	$76	$96	$115	$133
Rent Less Utility Allowance	**$733**	**$838**	**$932**	**$1,027**	**$1,100**
Low Income (80% of AMI)					
Annual Income	$42,650	$48,750	$54,850	$60,900	$65,800
Maximum Monthly Rent [1]	$1,066	$1,219	$1,371	$1,523	$1,645
Utility Allowance [2]	$66	$76	$96	$115	$133
Rent Less Utility Allowance	**$1,000**	**$1,143**	**$1,275**	**$1,408**	**$1,512**

Source: OMB Approval No. 2577-0169 allowances for tenant, and HEC. afford calc

[1] Calculated at 30% of income.

[2] HUD utility allowances for 2015 (OMB Approval No. 2577-0169) excludes water, sewer and trash which are typically included in rent. Assumes the unit has natural gas for heating, water heating, and cooking.

2015 Household Income Limits

Uses 2015 Placer County Income Limits from California Department of Housing and Community Development

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.

limits

Single Family Financial Feasibility Test

		Outside Tahoe Basin		Inside Tahoe Basin	
		Single Family	Townhomes / Condos	Single Family	Townhomes / Condos
		3-bdrm	3-bdrm	3-bdrm	3-bdrm
Unit Building Size (sq. ft.)		*2,200*	*2,200*	*2,200*	*2,200*
Sales Price per Unit	**A**	**$1,065,000**	**$1,320,000**	**$1,065,000**	**$1,320,000**
Costs					
County Fees		$16,857	$16,501	$16,857	$16,501
TRPA Fees		$0	$0	$10,115	$10,115
Other Agency Fees		$16,934	$17,959	$16,392	$16,392
Land and Building Development Costs		$837,250	$731,375	$837,250	$731,375
Costs of Selling	5% of sales price	$53,250	$66,000	$53,250	$66,000
Total Costs [1]	**B**	**$925,000**	**$830,000**	**$935,000**	**$840,000**
Residual Value	**C = A-B**	**$140,000**	**$490,000**	**$130,000**	**$480,000**
Residual Value as % of Price	**F = C/A**	**13.1%**	**37.1%**	**12.2%**	**36.4%**
Workforce Housing Fee Threshold		**$33,500**	**$358,000**	**$23,500**	**$348,000**
Residual Value with Workforce Housing Fee		$106,500	$132,000	$106,500	$132,000
Residual Value as % of Price		**10.0%**	**10.0%**	**10.0%**	**10.0%**
Workforce Housing Fee as % of Sales Price Threshold		**3.1%**	**27.1%**	**2.2%**	**26.4%**

Source: Placer County and HEC.

[1] Costs rounded to nearest $5,000.