HANSFORD
ECONOMIC CONSULTING

Eastern Placer County Nexus-Based Affordable Housing Fee Study

COUNTY OF Placer

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The analyses, opinions, and findings contained within this report are based on primary data collected through interviews and research, as well as many sources of secondary data available as of the date of this report. Updates to information obtained for this report could change or invalidate the findings contained herein. While it is believed that the secondary sources of information are accurate, this is not guaranteed.

This report should not be relied upon as sole input for decision-making; it should be utilized strictly for the purposes of the scope and objectives of the commissioned study. Questions regarding information contained within this report should be directed to:

Catherine Hansford

Hansford Economic Consulting

Ph: 530 412 3676
catherine@hansfordecon.com

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SECTION 1: INTRODUCTION

1.1 BACKGROUND AND PURPOSE OF THE STUDY

Per Placer County's Housing Element Goal C-2, and the Martis Valley Community Plan Policy 3.A.4, the County currently requires new development in the Sierra Nevada and Lake Tahoe areas to provide for employee housing equal to at least 50 percent of the housing demand generated by the project. If the project is an expansion of an existing use, the requirement only applies to that portion of the project that is expanded. Employee housing is to be provided for 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.

The County contracted with Hansford Economic Consulting (HEC) to prepare a Nexus Study in support of implementation of workforce housing fees in Eastern Placer County. The County may adopt in-lieu fees or development impact fees based on this Nexus Study (hereinafter "the Study").[1] The maximum justifiable fees are calculated pursuant to the legal requirements for enactment of a development impact fee program set forth in Government Code Sections 66000-66025 (also known as the Mitigation Fee Act), which requires demonstration of the nexus between new development and the increase in demand for affordable housing.[2]

Specifically, the purpose of this Study is to:

1. Establish the nexus (reasonable relationship) between new residential and non-residential development and the demand created for additional workforce housing; and
2. Determine the maximum justifiable workforce housing fees *and* present options for adoption of fees.

The Eastern Placer County affordable housing requirements currently (2018) only address workforce housing; there is no inclusionary housing requirement in Eastern Placer County.

The workforce housing fees calculated in the Study are applicable to all lands in unincorporated Placer County inside the North Lake Tahoe Transient Occupancy Tax Area (hereinafter referred

[1] Interpretation of the Palmer/Sixth Street Properties, L.P. v City of Los Angeles (2009) and the California Building Industry Association v City of San Jose (2012) decisions.

[2] State law (the Mitigation Fee Act) requires that a local government adopting a development impact fee to offset public costs associated with private development establish a reasonable relationship between the development project and the public improvement for which the fee is charged. Studies undertaken to demonstrate this connection are called nexus studies.

to as “the Fee Area”) as illustrated in **Map 1** on the following page. This study is not a workforce housing needs assessment. Another independent report “Truckee North Tahoe Regional Workforce Housing Needs Assessment” completed August 2016 by the Community Collaborative of Tahoe Truckee may be a useful resource for further understanding of the workforce housing needs in Eastern Placer County.

1.2 ORGANIZATION OF THE REPORT

Key findings of the Study, as well as discussion of fee impacts, implementation, and use complete Section 1 of the Study.

Section 2 describes the nexus relationship between new development and the need for more workforce housing for residential and non-residential land uses and presents an overview of the methodologies used to calculate the workforce housing fees.

Section 3 calculates the affordability gap for different household incomes in Placer County. The affordability gap calculations are used in both the residential and non-residential fee methodologies.

Section 4 presents and discusses calculation of the residential workforce housing fee and Section 5 presents and discusses calculation of the non-residential workforce housing fees.

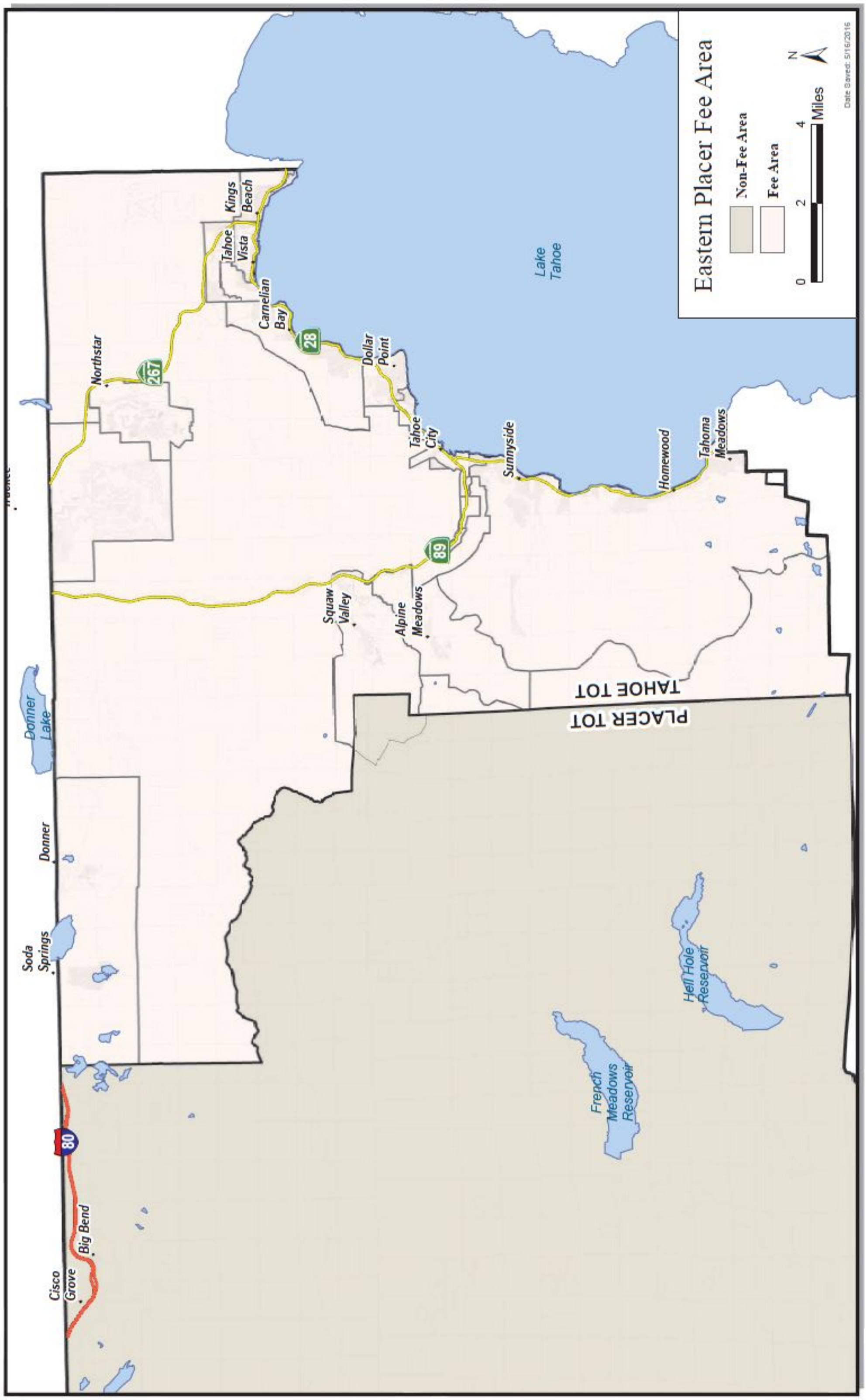
Section 6 examines the potential impacts of a workforce housing fee on the financial feasibility of new development in Eastern Placer County.

Section 7, the closing chapter, presents conclusions of the Study.

Supporting tables for the residential and non-residential fee calculations are included in five appendices.

- **Appendix A** – Affordability Gap Tables
- **Appendix B** – Housing Market Analysis
- **Appendix C** – Residential Fee Calculations
- **Appendix D** – Tahoe Employment Survey
- **Appendix E** – Non-Residential Fee Calculations

Map 1
Eastern Placer County Fee Area



1.3 Key Findings

The maximum justifiable fees represent the amounts needed to cover 100 percent of the difference between the costs of developing a mix of housing types, including rental and ownership for-sale market rate units, and what Placer County households can afford to rent or purchase. This difference is called the "affordability gap". It is important to understand that this fee is NOT intended to cover the full cost of constructing workforce housing units.

The maximum justifiable fees presented in the Study are determined by the methodologies and assumptions based on the most current available data sources presented in the analysis. The fee calculations presented in the Study should be reviewed and updated periodically to reflect changing economic and real estate market conditions.

1.3.1 Maximum Justifiable Fees

Table 1 on the following page summarizes the calculated maximum justifiable fees for residential and non-residential land uses.

The fees calculated for non-residential development in this Study are based on direct job generation from development of new non-residential buildings. Job density by land use type was determined based on data from the Tahoe Employment Survey, which was prepared by HEC as part of this Study.

The job generation rates determined by the Tahoe Employment Survey are summarized in **Table 2**. Job generation rates are for Full Time Equivalent Employees (FTEEs), with part-time positions weighted at 25 percent of a full-time position.

Table 2
Employee Generation Factors

Type of Use	Unit	Factor
	[1]	
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.

[1] Net usable square feet per employee. This excludes garages (unless this space is occupied by employees, such as a vehicle service station), loading docks, and other ancillary building uses, but includes hallways and common areas, for example.

Table 1
Summary of Maximum Justifiable Fees

Land Use	Maximum Justifiable Fee
Market-Rate Residential	
Single Family [1]	per unit
Sales Price up to $500,000	$21,490
Sales Price $500,001 - $1,000,000	$44,500
Sales Price $1,000,001 - $2,000,000	$88,840
Sales Price greater than $2,000,000	$177,690
Multi-Family [2]	$13,890
Non-Residential	per bldg. sq. ft.
Restaurant/Bar	$184
Retail	$47
Office	$61
Service	$41
Light Industrial	$45
Other (not listed)	$49
Lodging	per room
Hotels/Motels per Room	$11,700
Outdoor Recreation [3]	
Independent calculation on case by case basis	n.a.
Campgrounds	per site
Campgrounds per Site	$73

Source: HEC, January 2018.

[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.

1.3.2 Fee Options

The calculated maximum justifiable fees (residential and non-residential) represent the highest amounts the County could collect for workforce housing based on the nexus methodologies presented in this Study. The Placer County Board of Supervisors will ultimately decide on the actual fees to be collected and method of collection, and could adopt fees at lower levels than the maximum justifiable fees. Indeed, many jurisdictions do collect fees that are lower than the maximum justifiable fees. The decision of fee collection methodology and what level of fees to establish will depend on several considerations such as financial feasibility of new development, and ease of implementation. Below are some options for the Board of Supervisors' consideration:

- **Option 1: Workforce Rental Housing Only**
  The County could collect a workforce housing fee that is based on only providing rental housing for very low-, lower-, and low-income households up to 80 percent Area Median Income (AMI). This is commonly done in places where almost all, if not all, affordable housing unit construction will be rental unit construction. As an example, the maximum justifiable fee for a unit priced up to $500,000 is $21,490; however, it would be $15,600 per unit if the County chose to provide only rental workforce housing units.

- **Option 2: Percentage of Maximum Justifiable Fees**
  The County could adopt fees at a percentage of the maximum justifiable fees or fees shown under Option 1. **Table 3** shows the calculated fees per unit in each residential sales price bracket, fees per building square foot, per room, and per campsite for non-residential land uses at 75, 50, and 25 fee percentage levels.

Table 3
Workforce Housing Fees at Different Percentage Levels of the Maximum Justifiable Fees

	Ownership & Rental Units				Rental Housing Only			
		Option 2			Option 1	Option 2		
Land Use	**100%**	**75%**	**50%**	**25%**	**100%**	**75%**	**50%**	**25%**
Market-Rate Residential								
Single Family [1]		*per residential unit*				*per residential unit*		
Sales Price up to $500,000	$21,490	$16,118	$10,745	$5,373	$15,600	$11,700	$7,800	$3,900
Sales Price $500,001 - $1,000,000	$44,500	$33,375	$22,250	$11,125	$32,300	$24,225	$16,150	$8,075
Sales Price $1,000,001 - $2,000,000	$88,840	$66,630	$44,420	$22,210	$64,400	$48,300	$32,200	$16,100
Sales Price greater than $2,000,000	$177,690	$133,268	$88,845	$44,423	$128,900	$96,675	$64,450	$32,225
Multi-Family [2]	$13,890	$10,418	$6,945	$3,473	$10,100	$7,575	$5,050	$2,525
Non-Residential		*per bldg. sq. ft.*				*per bldg. sq. ft.*		
Restaurant/Bar	$184	$138	$92	$46	$183	$138	$92	$46
Retail	$47	$35	$24	$12	$44	$33	$22	$11
Office	$61	$46	$31	$15	$50	$38	$25	$13
Service	$41	$31	$21	$10	$36	$27	$18	$9
Light Industrial	$45	$34	$23	$11	$20	$15	$10	$5
Other (not listed)	$49	$36	$24	$12	$38	$28	$19	$9
Lodging		*per room*				*per room*		
Hotels/Motels per Room	$11,700	$8,775	$5,850	$2,925	$11,160	$8,370	$5,580	$2,790
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	$73	$55	$37	$18	$73	$55	$37	$18

Source: HEC, January 2018.

[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.

- **Option 3: Single Family Residential Workforce Housing Fee**
  The workforce housing fee for single family residential units could be charged as a percentage of the actual sales price of the unit instead of by sales price bracket. **Table 4** shows that the maximum justifiable fee is equal to 4.4 percent of sales price for all residential units, or 3.2 percent of sales price for all residential units if only rental housing units (Option 1) are included in the fee calculation.

Setting the fee based on sales price of the unit has some advantages. First, it makes the fee self-indexing. If the market drops then the fee will drop in proportion to the sales price, and vice-versa; if the market gets really hot then the fee will increase in proportion to the sales price. Second, it has the most direct nexus to household spending which drives the need for more workforce housing generated by new residential development. Whereas the maximum justifiable fee is based on a home sales price of $500,000 for the lowest sales bracket, $1 million for the next price bracket, $2 million for the next price bracket, and $4 million for homes greater than $2 million, having a workforce housing fee based on the actual sales price of the unit would be proportional to the actual sales price.

Table 4
Summary of Calculated Fees under Option 3

	Fee as % of Sales Price			
Market-Rate Single Family [1]	**100%**	**75%**	**50%**	**25%**
Ownership & Rental Units				
Sales Price up to $500,000	4.4%	3.3%	2.2%	1.1%
Sales Price $500,001 - $1,000,000	4.4%	3.3%	2.2%	1.1%
Sales Price $1,000,001 - $2,000,000	4.4%	3.3%	2.2%	1.1%
Sales Price greater than $2,000,000	4.4%	3.3%	2.2%	1.1%
Rental Housing Only				
Sales Price up to $500,000	3.2%	2.4%	1.6%	0.8%
Sales Price $500,001 - $1,000,000	3.2%	2.4%	1.6%	0.8%
Sales Price $1,000,001 - $2,000,000	3.2%	2.4%	1.6%	0.8%
Sales Price greater than $2,000,000	3.2%	2.4%	1.6%	0.8%

Source: HEC, January 2018.

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

- **Option 4: Adjust for Other Funding Sources**
  The County could adjust the fees downward to reflect expected funding contributions to the workforce housing supply from other available housing funding sources. Such adjustment(s) might include assuming some portion of costs are covered with non-County funding sources such as Federal and State tax credits, or County sources (non-enterprise fund) such as transient occupancy taxes or sales and use taxes. No analysis is presented for Option 4, as this is speculative and requires a policy decision beyond the scope of this Study.

1.3.3 Fee Impacts

The Study includes a financial feasibility test to measure the impact of a potential new workforce housing fee on real estate development. The financial feasibility test is conducted on residential land use only and tests the threshold for a workforce housing fee. Financial feasibility tests were not conducted for non-residential land uses because of the difficulty in reasonably representing costs to develop them. Many non-residential land uses in Eastern Placer County are part of a resort development. Non-residential uses of property in resort developments are often subsidized by residential properties or the resort business entity.

The major finding of the test is that addition of the maximum justifiable workforce housing fee would not reduce builder profits below 10% for most new residential development in the Fee Area. While some land parcels will be able to carry a higher workforce housing fee due to economic factors such as geographic location of the parcel(s), raw land value, development constraints and so forth, the workforce housing fee would be applied throughout the Fee Area and should be set at a level so as not to preclude development anywhere in the Fee Area.

1.4 FEE IMPLEMENTATION AND USE

This Nexus Study determines maximum justifiable residential and non-residential workforce housing fees, but the Board of Supervisors can adopt fees at any level up to the maximum justifiable fees. The County can implement the workforce housing fee(s) as an in-lieu fee or a development impact fee.

Collected workforce housing in-lieu fees would be used to increase the supply of affordable housing in the Fee Area. Fees would be deposited into the County Housing Trust Fund to be used as authorized in County Housing Trust Fund Guidelines.

As with all fee programs, the workforce housing fee should be reviewed periodically. During the interim periods when the fee is not reviewed the County could use an automatic inflation index to keep up with potential increases in the affordability gap for households. Automatic inflation indices often used for fee programs include the Engineering News Record Construction Costs Index and the West Region Consumer Price Index (produced by the Bureau of Labor Statistics).

SECTION 2: THE NEXUS RELATIONSHIP

2.1 RESIDENTIAL METHODOLOGY

The approach for this Nexus Study assumes that the development of new housing units brings new residents (full-time and part-time) to the County, who spend money in the County on goods and services. Increased local business results in the need to hire new employees. A nexus study establishes the connection between the new households that move to the County to purchase and rent new housing units and the number of new employees that will be hired by local businesses to serve the needs of new residents.

Employment growth will provide jobs at various wages. While some jobs will pay salaries and wages that will allow new workers to rent or purchase market-rate housing, many new jobs will also be at low-wage rates. Some occupations pay lower wages than others; for example, the hospitality industry, retail trade, and services occupations tend to pay low wages. The difference between what households can afford to pay and the cost of market-rate housing is defined as the housing affordability gap. Since low-wage households cannot afford to pay for market-rate rental and for-sale housing in Eastern Placer County, a workforce housing fee can be justified to bridge the difference between what these new households can afford to pay and the costs of developing new housing units for them.

The analysis uses a series of steps to calculate the number of employees generated by a hypothetical 1,000-unit market-rate development for residential units at different price points. This project size is used to simplify the presentation. The number of calculated new employees is converted to households and housing units by affordability level.

The key linkage steps are:

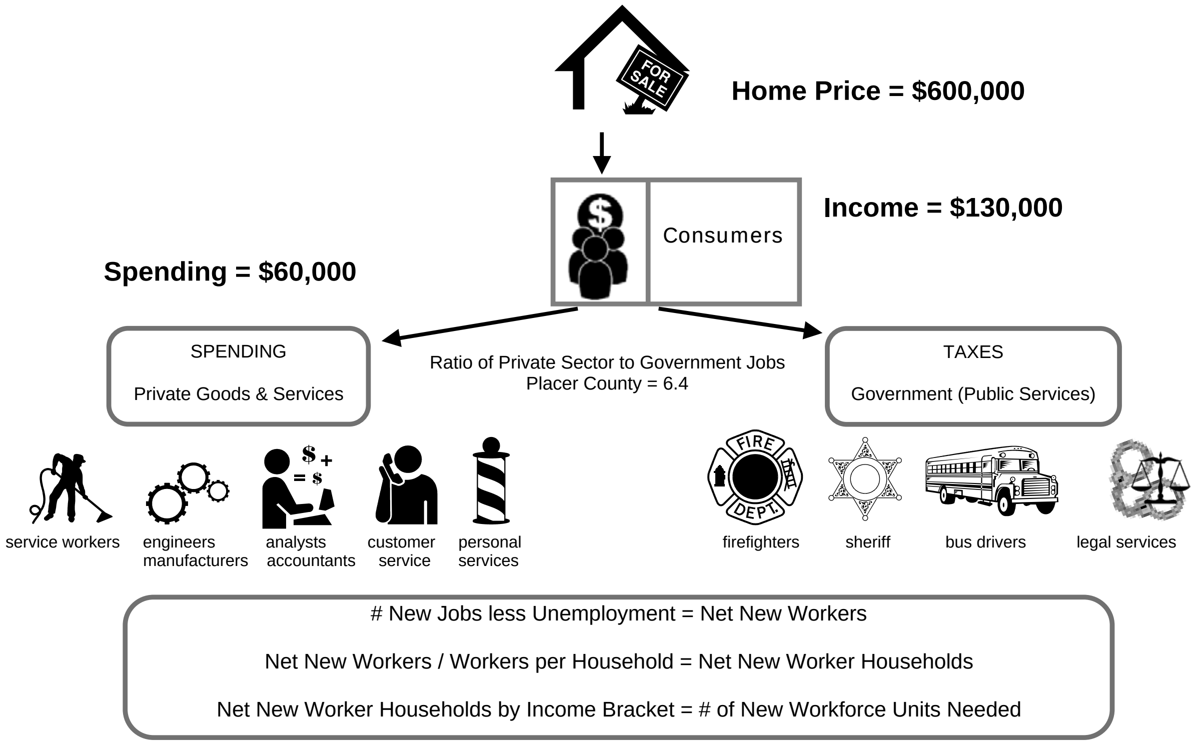
1. Determine the affordability gap for new rental and ownership workforce housing (Section 3 of the Study).

2. Determine the amount of workforce housing needed for workers generated by the spending of new market-rate households (Section 4 of the Study).

3. Apply the affordability gap to the number of workforce housing units needed to house the workers generated by the new market-rate households (Section 4 of the Study).

The maximum justifiable residential fee is based on the estimated number of lower to moderate income workers required to support the residents of market-rate units and the subsidy required to construct housing for those workers. **Figure 1** illustrates the linkage between new market-rate residential units and the need for new workforce housing units.

Figure 1
Residential Linkage Illustration

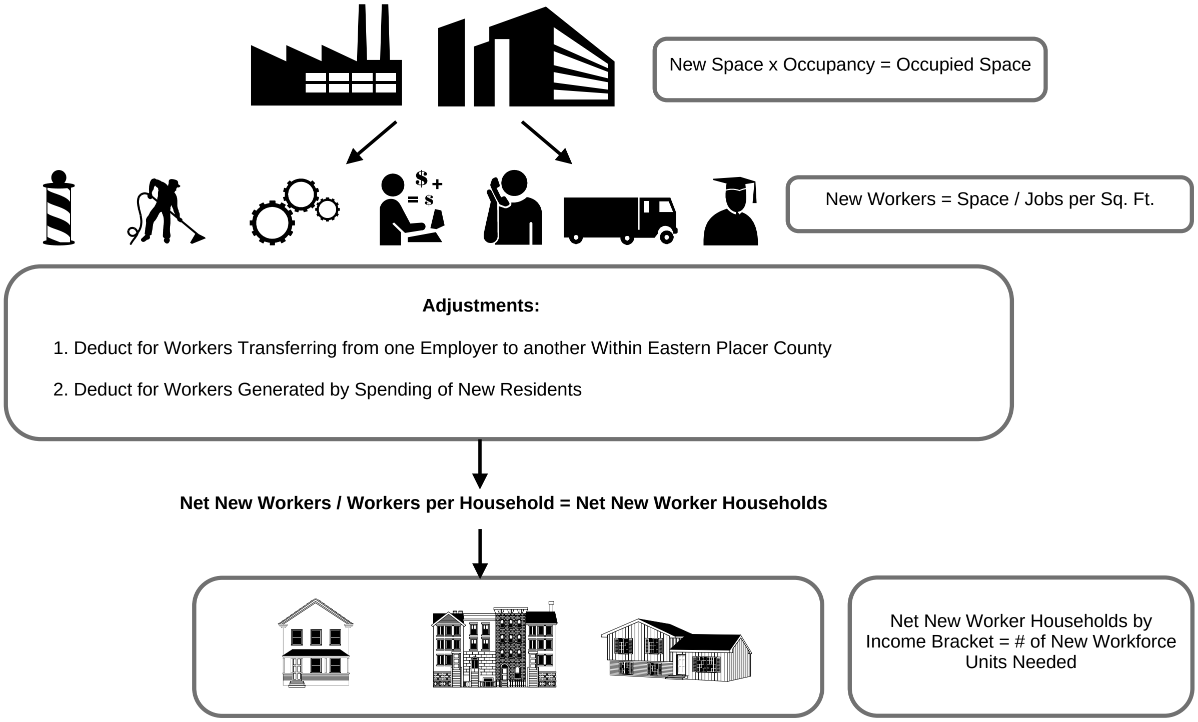


2.2 Non-Residential Methodology

The nexus between new non-residential development and the demand created for workforce housing follows a similar logic. New workplace buildings have new jobs associated with them, some of which pay wages that are insufficient to meet market-rate housing costs and create a need for additional workforce housing. The linkage between new non-residential buildings and the need for new workforce housing units is illustrated in **Figure 2** on the following page.

The non-residential methodology includes two adjustments. First, an adjustment is made for workers transferring from unemployment to employment status (filling new jobs with an existing workforce). Second, an adjustment is made to ensure there is no double-counting of workers generated by the spending of new residents identified in the residential fee calculation. Since new commercial space is supported by both spending from new households as well as spending by visitors, employees, and others (not the new households), the non-residential fee calculation should only include the workers generated by visitors, employees, and others.

Figure 2
Non-Residential Linkage Illustration



The Study calculates workforce housing fees for the following non-residential land uses with examples of types of establishments for each (not exhaustive):

- Restaurant / Bar (restaurants and bars including those inside hotels and resorts)
- Retail (grocery stores, jewelry stores and galleries, toy stores, sports stores)
- Office (vets, medical offices, real estate offices, architects, engineers, insurance)
- Service (gyms, hair salons, banks, spas)
- Light Industrial (lumber yards, welding, printing, glass shops, vehicle repair shops, woodworking shops)
- Lodging (hotels, motels)
- Campgrounds

The key linkage steps for the non-residential workforce housing fee are:

1. Determine the affordability gap for new rental and ownership workforce housing (Section 3 of the Study). *This is the same step as for the residential fee*.
2. Determine the amount of workforce housing needed for the workers generated by the new non-residential space (Section 5 of the Study).

3. Apply the affordability gap to the number of workforce housing units needed to house the workers generated by the new non-residential building space (Section 5 of the Study).

All workers are assumed to be “net new” workers to the Fee Area. As such, the total number of workers generated using job density factors from the Tahoe Employment Survey are adjusted downward for the following reasons:

1. Adjustment for Transfers – this accounts for unemployment as currently unemployed persons may fill the new job positions.

2. Adjustment for Overlap with the Residential Fee – this ensures there is no double-counting of workers generated by the spending of new residents identified in the residential fee calculation.

SECTION 3: THE AFFORDABILITY GAP

The affordability gap refers to the subsidy required to construct units affordable at various income levels, or in other words, the difference between what households at various income levels can afford to pay and the actual cost of building market-rate housing. Two pieces of information are needed to calculate the affordability gap: (1) affordable rents and home prices, and (2) typical costs to develop the housing units. Determination of the affordability gap for typical units in the Fee Area is presented in this section. **Appendix A** includes support tables for the affordability gap analysis.

3.1 DEFINING AFFORDABILITY IN THE FEE AREA

Income limits are defined by the California Department of Housing and Community Development (HCD) for Placer County:

- *Very low-income households* are defined as having income up to 50 percent of the area median income (AMI).

- *Lower-income households* are defined as households with incomes between 51 percent and 60 percent of AMI.

- *Low-income households* are defined as households with incomes between 61 percent and 80 percent of AMI.

- *Median-income households* are defined as households with incomes between 81 and 100 percent of AMI.

- *Moderate-income households* are defined as households with incomes between 101 percent and 120 percent of AMI. HCD's 2017 income limits for Placer County are shown in **Table A-1** of **Appendix A**.

Affordable housing expense for renters includes rent plus utilities. Utility costs in this analysis are taken from the U.S. Department of Housing and Urban Development allowance for apartments in Placer County for units over 3,500 feet elevation. For owners, affordable housing expense includes mortgage principal and interest, property taxes, property insurance, and homeowners' association (HOA) dues. For renters and owners at the very low-, lower-, and low-income bracket (<80 percent of AMI), affordable housing expense is calculated at 30 percent of household income. For owners in the median- and moderate-income brackets affordable housing expense is calculated at 35 percent of household income. Housing expense as a percentage of household income is based on what HCD considers to be affordable.

Table A-2 in **Appendix A** shows the calculation of affordable rents in the Fee Area. For a three-person household, for example, affordable monthly rent would be $755 for a very low-income household, $927 for a lower-income household, and $1,270 for a low-income household.

Table A-3 in **Appendix A** shows the affordable purchase price of a home for households in the low-income bracket for different family sizes (one to five persons), and **Table A-4** shows this information for the moderate-income bracket. **Table A-5** shows the affordable purchase prices for low- to moderate-income ownership units with two bedrooms.

3.2 HOUSING DEVELOPMENT COSTS

Housing development costs are estimated for three-bedroom single family homes and townhomes/condominiums inside and outside the Tahoe Basin. Three-bedroom units comprise the largest portion of units by bedroom size in Eastern Placer County and provide good current estimates of development costs per building square foot. The Study based the two-bedroom unit cost on a three-bedroom unit cost per square foot because this was the bedroom size with the best available data. While historically the median size of a three-bedroom unit has been 1,700 square feet, the median size of newer three-bedroom units has been larger. Housing development costs in the Study are based on a three-bedroom unit with 2,200 square feet.

Total development costs include permit fees, land (and entitlement) costs, land improvements, and building construction costs as well as soft costs, financing costs, and builder profits. **Table A-6** in **Appendix A** shows all estimated development costs except permit fees for units developed inside and outside the Tahoe Basin. **Table A-7** estimates permit fees for each unit.

It is important to note that total development costs per unit will vary by location within Eastern Placer County; however, this analysis is intended to represent typical unit costs anywhere in the Fee Area, which is a large area encompassing many different geographies. In the Tahoe Basin for example, there may be additional costs associated with transferring development rights (TDR)[3] if, for example, additional coverage is needed or the property includes environmentally sensitive area. *Actual costs for a development project may be higher or lower than those shown in **Tables A-6** and **A-7**.*

For owner housing, total developments costs are calculated using an average cost of $390 per square foot calculated in **Table A-8**. Total development costs exclude builder profit. Builder profit is excluded because ownership workforce housing constructed by a developer would have no profit (most likely they would be subsidized by the market-rate units).

For rental housing, total development costs are calculated using a cost of $350,000 per unit. Development cost per unit is calculated in **Table A-9** using cost information from the most recent affordable and affordable/mixed income units developed in Eastern Placer County (Sawmill Heights in Northstar and Housing NOW in Kings Beach).

3.3 CALCULATION OF THE AFFORDABILITY GAP

The affordability gaps for rental housing are calculated in **Table A-10.** The affordability gap for rental housing is calculated based on affordable monthly rents from **Table A-2** and multi-family

[3] Transfer of development rights, otherwise known as TDR, is a Tahoe Regional Planning Agency regulatory strategy used to manage growth within the Lake Tahoe Basin. Voluntary and incentive-based, TDR capitalizes on market forces to direct development away from sensitive lands into more desirable areas such as town centers. TDR is based on the designation of standard sending and receiving areas, as well as the distinction between land ownership and the rights necessary to develop a parcel. Source: trpa.com

housing operations assumptions including a capitalization rate[4] of 6.1 percent, a vacancy rate of 2.7 percent, and operating expenses of $5,370 per unit. These assumptions were based on information contained in the Colliers International Research and Forecast Report Third Quarter 2017 for Sacramento Multi-Family, the Third Quarter 2017 Apartment Survey of the Reno/Sparks Metro Area conducted by Johnson, Perkins, Griffin, LLC, and the 2017 National Apartment Association Income and Expenses Survey.

The affordability gaps for ownership housing are calculated in **Table A-11**. The affordability gap for owner housing is based on affordable unit sales prices from **Table A-5**.

Table 5 summarizes the affordability gap calculations for rental and ownership units by income bracket from **Tables A-10** and **A-11**. The lower the income bracket the higher the affordability gap. The affordability gap calculations for two-bedroom rental units range between $195,000 and $293,000 per unit depending on household income. The affordability gap calculations for two-bedroom ownership units range between $83,000 and $234,000 per unit depending on household income. The affordability gap is based on a 2-bedroom unit because the average number of persons per household in the Fee Area is 2.43 (per the 2016 American Community Survey, U.S. Census). A 2-bedroom unit is considered to be suitably sized to house three people without overcrowding.

Table 5
Summary of Affordability Gap for 2-bedroom Unit

	Housing Type	
Income	**Rental Units**	**Ownership**
Very Low	$293,000	n.a.
Lower	$261,000	n.a.
Low	$195,000	$234,000
Median	n.a.	$142,000
Moderate	n.a.	$83,000

Source: HEC.

[4] Capitalization rate is the rate of return on a real estate investment property based on the income that the property is expected to generate. The capitalization rate is used to estimate the investor's potential return on his or her investment.

SECTION 4: RESIDENTIAL FEE CALCULATIONS

Appendices A, B, and **C** include support tables for the residential fee calculations.

4.1 HOUSEHOLD EXPENDITURES AND JOB CREATION

As described in Section 2, the crux of the residential linkage is that new residents of market-rate housing have disposable incomes that they spend on goods and services. Spending may be in the private sector (examples include spending on personal services, professional services, food products, and durable goods) or in the public sector by way of their taxes (examples include school bus service, dial-a-ride, sheriff, and fire protection services). Provision of these goods and services requires a supply of workers, some of whom make moderate to very low household incomes and cannot afford market-rate housing.

4.1.1 Eastern Placer County Housing Market

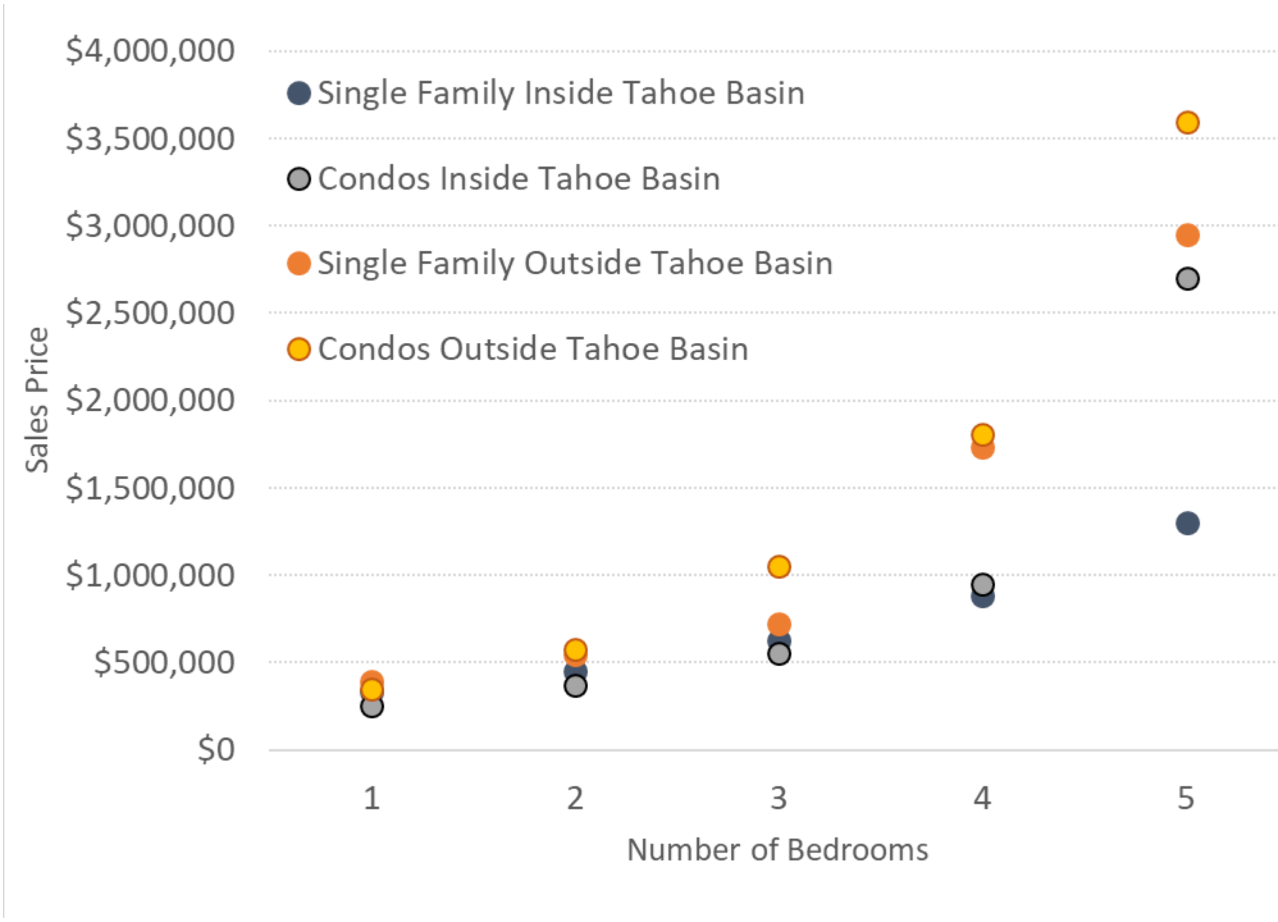
The Eastern Placer County housing market is typical of many mountain communities in the Western United States. Housing consists primarily of single-family units (cabins, homes, townhomes, and condominiums), some of which may have fractional ownership or timeshares. **Table B-1** in **Appendix B** summarizes the real estate market as of November 2017. Approximately one-third of residential units have three bedrooms, one-quarter have four bedrooms, and about 12 percent have five or more bedrooms. This data reflects properties sold January through November 2017 or on the market as of November 29, 2017. Condominiums comprise the majority of units with one or two bedrooms. A typical residential unit size is 900 square feet for a two-bedroom unit and 1,700 square feet for a three-bedroom unit. These unit sizes reflect old and new stock of housing. Average sales price per square foot is similar for single family and condominium two-bedroom units, but is higher for condominium three-bedroom units in relation to single family three-bedroom units.

Most of new development in Eastern Placer County will occur outside of the Tahoe Basin because of limited land available to build on in the Tahoe Basin. **Tables B-2** and **B-3** in **Appendix B** show the differences between residential real estate inside and outside of the Tahoe Basin. The median price per unit is higher outside of the Tahoe Basin because of the volume of development outside of the Tahoe Basin in the past few years and high sales prices realized in the Martis Valley. **Figure 3** illustrates the median price per unit by number of bedrooms inside and outside of the Tahoe Basin. With the exception of homes with six and seven bedrooms (not shown), the median price per unit is higher outside the Tahoe Basin.

Table B-4 in **Appendix B** shows the distribution of units by price brackets for homes built in the last five years and all homes sold (of any age) in 2017 and on the market in November 2017. Of the units built in the last five years that have recently sold, more than half have sold for more than $2 million, and almost one-third between $1 million and $2 million.

The data in **Appendix B** indicates that it would be appropriate to calculate the workforce housing fees using unit sales price brackets rather than unit type or density as is often done in workforce housing studies.

Figure 3
Eastern Placer County Median Price per Unit by Number of Bedrooms



4.1.2 Market-Rate Household Income Levels

Spending on goods and services in the private sector is estimated by first estimating the annual household income of new residents by each residential sales price bracket (less than $500,000, between $500,001 and $1 million, between $1 million and $2 million, and greater than $2 million) in the analysis. These incomes are determined by calculating the income needed to purchase each new home. Incomes were then used to estimate mean annual spending for each market-rate residential unit type in the analysis, as shown in **Table 6**.

Note that the down payment assumption is 10 percent in these calculations and 5 percent in the affordability gap calculations. This difference is because the calculations in **Table 6** are for households with incomes greater than 120 percent of AMI. It is assumed that households with higher incomes are able to make a larger down payment. Actual down payments depend primarily on the credit score of the applicant and the lender's requirements; 10 percent is considered an acceptable average to use for fee studies. Note that, based on interviews with local realtors, purchasers of higher-priced units typically pay either in cash (in full) or, if interest rates are low, may finance up to 50%-75% of the purchase price. The analysis does not change the methodology for calculating income of the purchasers of higher-priced units; it maintains industry standard calculations for all sales price brackets. It is too difficult and subjective to try to alter the methodology for estimating income of households of higher-priced units.

Table 6
Estimated Annual Income and Mean Spending by Residential Unit Price

Housing	$500,000	$1,000,000	$2,000,000	$4,000,000
Downpayment 10%	$50,000	$100,000	$200,000	$400,000
Price after Downpayment	$450,000	$900,000	$1,800,000	$3,600,000
Annual Mortgage [1]	$31,822	$63,645	$127,289	$254,578
Other Housing Costs [2]	$12,500	$25,000	$50,000	$100,000
Annual Housing Cost	$44,322	$88,645	$177,289	$354,578
Estimated Annual Income [3]	**$148,000**	**$296,000**	**$591,000**	**$1,182,000**

Source: Local real estate data November 2017 and HEC.

[1] Mortgage Assumptions:

interest	5.75%
years	30

[2] Calculated as 2.5% of sales price; includes property taxes, insurance, and HOA dues.

[3] Assumes housing costs are 30% of annual household income.

Spending on goods and services is estimated based on mean annual spending for each unit type and application of data from the Consumer Expenditure Survey (CES) from the United States Bureau of Labor Statistics. The 2012 CES is used so data is analyzed for the same year as the 2012 Economic Census from the U.S. Census Bureau, which is the most recent data available for the Economic Census. Income brackets from the CES were inflated to 2017 dollars. The CES details the amount that a typical household will spend on things such as “Food at Home”, “Apparel and Services”, and “Housekeeping Supplies” by gross income bracket.

Typical annual expenditures on goods and services are converted to number of full and part-time jobs (workers) by applying gross receipts to wages factors. Gross receipts to wages factors are calculated using 2012 Economic Census data from the U.S. Census Bureau. The U.S. Census Bureau conducts the Economic Census every five years. Total computed 2012 wages are divided by 2012 average wages to calculate the number of new jobs. Average wages are also taken from 2012 Economic Census data. Linking 2012 CES and Economic Census data requires matching up North American Industry Classification System (NAICS) data from the Economic Census with expenditure categories from the CES data. For example, purchases made under the category “Medical Services” (CES) was matched with gross receipts from Ambulatory Health Care Service, Offices of Physicians, Outpatient Care Services, and Home Health Care Services (Economic Census).

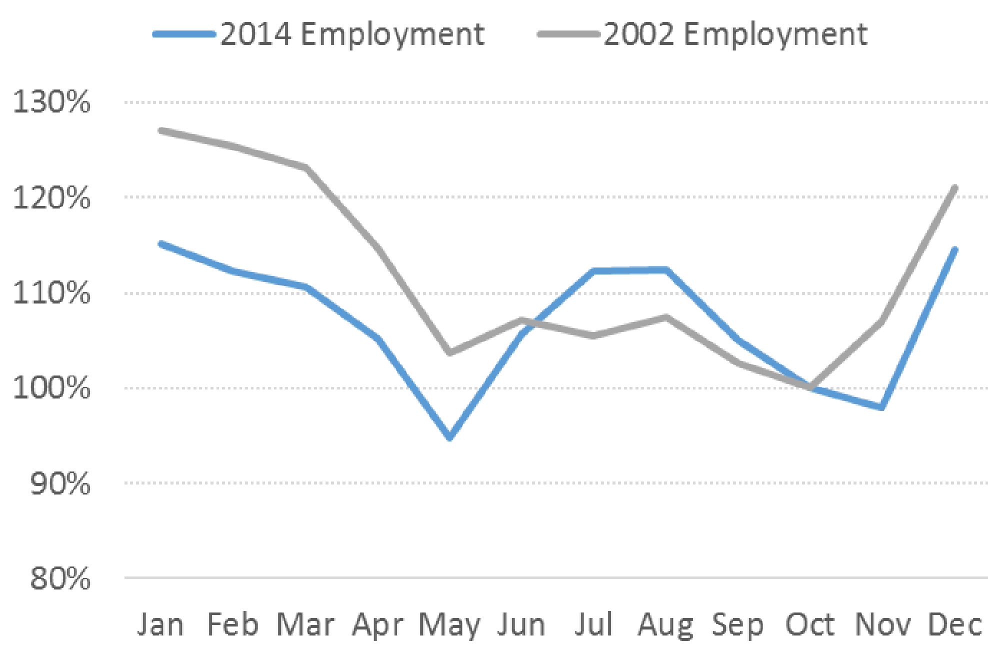
Total estimated net new full- and part-time workers is multiplied by the percentage of workers forming households and then divided by number of workers per household to calculate the net new number of worker households. The percentage of workers forming households for each CES expenditure type is calculated in **Tables C-1** through **C-3** in **Appendix C**.

The calculation of workers per household, which is a key assumption used in both the residential and non-residential fee methodologies, is shown in **Table C-4**. Supporting data is shown in **Table C-5**.

As shown in **Table C-4**, the ratio of workers per household is higher in Eastern Placer County than Western Placer County. The higher number of workers per household reflects the shortage of housing stock affordable to local workers. The analysis uses the County's workers per household ratio rather than the unincorporated Eastern County ratio to account for this issue. Not only is there more workers per unit, only about 7 percent of employees in Eastern Placer County also live in Eastern Placer County (see **Table C-6**) currently.

The number of workers in mountain resort communities tends to fluctuate with the seasons. In the past there was a strong seasonal fluctuation with peak employment during the winter months. This seasonal trend has tapered in recent years due to lack of snowfall, and possibly due to diversification of recreation and other business enterprises in Tahoe. **Figure 4** shows the difference in seasonal trends between 2002 and 2014 by comparing employment in each month to October which was historically the month of lowest employment in the region. The figure shows that the relative increase in employment during the winter months was greater in 2002 than in 2014, and that employment during the summer months was greater in 2014 than in 2002 when compared with October employment. Data for this figure is provided in **Table C-7** in **Appendix C**.

Figure 4
Comparison of Seasonal Employment in 2002 and 2014



Tables C-8 through **C-12** in **Appendix C** show the calculations of new workers and household income for each residential sales price bracket and apartments. The 2012 household income estimates are inflated to 2017 dollars.

4.2 Calculation of Demand for Income-Qualified Employees

The total demand and distribution of affordable units by income bracket is calculated by obtaining estimated household incomes by industry from **Tables C-1** through **C-3** and assigning the workers in that industry to an income bracket using the 2017 Placer County HCD income limits. This is shown in **Table C-13**.

It is assumed that the average household size of new workforce housing units will be 3.0 persons based on the 2016 5-Year ACS data for Placer County which shows average household size of 2.43 for the Fee Area (see **Table C-5**). It is assumed that a two-bedroom unit is suitably sized to house three people; therefore, the Study uses the HCD income limits for two-bedroom units.[5]

Demand for lower-income workers is generated by the spending on goods and services described above as well as spending on public goods and services. **Table C-13** also shows the estimate of government jobs generated. Government job estimates are calculated in **Tables C-14** and **C-15**. A sample of government occupations is used to determine a distribution of government jobs by income bracket. The sample is shown in **Table C-14**. The total number of government jobs is calculated using the ratio of private sector to public sector jobs, which was 14.9 in Eastern Placer County in 2015 (this is the most recent data available, shown in **Table C-16**). **Tables C-16** provides supporting data for **Table C-15.**

4.3 Calculation of Residential Fee

For all residential sales price brackets, the number of affordable units generated per 1,000 units is adjusted downward to account for unemployment because currently unemployed persons may fill the new jobs. The analysis uses the 2016 5-year ACS unemployment data shown in **Table C-5** in **Appendix C**. In addition, because many homes are for vacation or seasonal use in the Fee Area, vacancy of homes is accounted for in the residential fee calculations.

The vacancy rate calculation is shown in **Table C-17** in **Appendix C**. The 2016 5-year ACS reports that 25 percent of all units in Eastern Placer County are occupied permanently, 70 percent of units are occupied seasonally, and 5 percent of units are vacant. Data from local developments show that seasonally-occupied units that are managed are usually occupied 53 percent of the year and units that are not managed are usually occupied 28 percent of the year. Using this information, permanent-occupied units were multiplied by an occupancy rate of 100 percent and seasonally-occupied units were multiplied by an occupancy rate of 34 percent (assuming 75 percent of seasonally-occupied units are not managed and 25 percent are managed). The result of these calculations is that on average single family units are occupied 48 percent of the time in the Fee Area, or have a vacancy rate of 52 percent.

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[5] California State Law (California Health and Safety Code Section 50052.5) assumes that a two-bedroom unit is occupied by a three-person household.

4.3.1 Maximum Residential Justifiable Fee Calculation

The maximum fee calculation by residential unit type is shown in **Tables C-18** through **C-22**. **Table 7** shows that the fee increases by sales price bracket as would be expected since the fee is driven by household spending. Spending by persons in the more expensive units is greater. Two maximum justifiable fees are shown: a fee which includes rental and ownership workforce housing units in the calculation and a fee which only includes rental workforce housing units in the calculation (this is presented in Option 1 in Section 1 of the Study).

Table 7
Calculated Residential Maximum Justifiable Fees

	Calculated Fee Per Unit	
Home Price	**Ownership & Rental Units**	**Rental Housing Only**
Single Family	[1]	[1]
Sales Price up to $500,000	$21,490	$15,590
Sales Price $500,001 - $1,000,000	$44,500	$32,280
Sales Price $1,000,001 - $2,000,000	$88,840	$64,440
Sales Price greater than $2,000,000	$177,690	$128,890
Apartments	$13,890	$10,070

Source: HEC, January 2018.

[1] Rounded to the nearest $10.

4.3.2 Optional Fee Levels

The County can set the workforce housing fee at a level lower than the maximum justifiable fee. Considerations for setting a lower fee include the impact of the fee on financial feasibility, as well as acceptance of the fee by the building community. Options for lower fee levels include setting the fee based on supplying only rental workforce housing units as shown in **Table 7**, adopting fees at a percentage level (such as 50 percent of the maximum justifiable fees), and including revenues from an alternative source (such as transient occupancy tax).

In addition to having lower fee levels, the County could collect the single family residential fee based on a percentage of the actual sales price of the unit instead of by sales price bracket. This approach has some advantages. First it makes the fee self-indexing. If the market drops then the fee will drop in proportion to the sales price, and vice-versa; if the market gets really hot then the fee will increase in proportion to the sales price. Second, it has the most direct nexus to household spending which drives the need for more workforce housing generated by new residential development. Whereas the maximum justifiable fee is based on a home sales price of $500,000 for the lowest sales bracket, $1 million for the next price bracket, $2 million for the next price bracket and $4 million for homes greater than $2 million, having a workforce housing fee based on the actual sales price of the unit is probably more equitable.

Fees under these different options are shown in Section 1 of the Study.

SECTION 5: NON-RESIDENTIAL FEE CALCULATIONS

Appendices A, C, D, and **E** include support tables for the non-residential fee calculations.

5.1 GENERATION OF NEW EMPLOYEES BY NON-RESIDENTIAL LAND USE

The number of new employees generated by new non-residential space is based on a survey of Tahoe establishments. The Tahoe Employment Survey was conducted by HEC between October and December 2015. Results of the Tahoe Employment Survey are provided in **Appendix D**. Based on the Tahoe Employment Survey, the job density for each of the non-residential land uses is as follows:

- ***Restaurant / Bar.*** *200 square feet per employee.* Included in this land use are restaurants and bars, including those inside resorts/lodging.

- ***Retail.*** *650 square feet per employee.* This land use category includes grocery stores, jewelry stores and galleries, toy stores, and sports stores, for example.

- ***Office****. 350 square feet per employee*. All types of office uses such as real estate offices, vets, medical offices, offices of engineers, architects, and so forth.

- ***Light Industrial.*** *600 square feet per employee.* Included in this land use are lumber yards, welding, printing, glass shops, garages, and woodworking shops.

- ***Service****. 750 square feet per employee.* Included in this use are properties that primarily serve the public for personal needs, such as gyms, hair salons, banks, and spas.

- ***Lodging***. *1,400 square feet per employee, and 3 rooms per employee.* Includes hotels and motels.

- ***Campgrounds***. *85 campsites per employee.*
- ***Outdoor recreation****. Independent calculation on case by case basis (no data collected in the Tahoe Employment Survey).*

Table D-1 in **Appendix D** summarizes the Tahoe Employment Survey. Further detail for each land use category is provided in **Tables D-2** through **D-8**. The data show that the land use type with greatest seasonal changes is restaurants/bars with peak employment in the summer. The increase in employment in winter is not captured in the Tahoe Employment Survey because resort operations employment (ski coaches and lift operators for example) are not included in the survey. Resort operations employment was excluded because it is assumed for purposes of this fee calculation that new non-residential building space for resort operations will be minimal and because the fee calculation uses job density factors for year-round employment generation. In the event that additional square feet of resort operations are developed, the average fee for all non-residential land uses, which is based on the average job density of all other non-residential land uses excluding restaurants/bars, could be applied. This fee is shown in **Table 10**

in this section of the Study under ‘Other Uses’ ($49 per building square foot for ownership and rental units).

5.2 CALCULATION OF NET NEW EMPLOYEE HOUSEHOLDS

Table 8 shows the total estimated number of workers generated per 100,000 building square feet in each land use category and per 1,000 campsites for campgrounds. Two adjustments are made to the calculated number of workers.

1. **Adjustment for Transfers.** The unemployment rate in the Fee Area was 6.1 percent in 2016, per the 2016 5-year ACS (see **Table C-5**). Since the fee is calculated on net new jobs and currently unemployed persons may fill some new jobs, total net new jobs should be reduced. Without knowing how many unemployed persons will fill these new jobs the entire unemployment rate is used in the adjustment. Workers per 100,000 building square feet or 1,000 campsites is multiplied by 93.9 percent.

2. **Adjustment for Overlap with Residential Fee.** It is important that the non-residential workforce housing fee does not double-count for employment created by new market-rate residential units. To account for this the Study estimates the percentage of space created by expenditures of visitors, employees who do not live in the Fee Area and others (NOT by spending of new residential households). As shown in **Table C-5,** displaying 2016 ACS data, the employment to population ratio[6] is approximately 0.60 in the Fee Area. This ratio is used as a proxy for spending by people who do live in the Fee Area; therefore, 40 percent is applied as an adjustment to the number of workers generated for the non-residential fee calculation.

[6] The employment to population ratio provides a gauge of the workforce participation rate (portion of the workforce earning and spending).

Table 8
Job Density and Workers per 100,000 Building Square Feet or 1,000 Campsites

Non-Residential Land Use	Gross Sq. Ft. Building	Occupancy Rate	Occupied Square Feet	Gross Sq. Ft. / Rooms/ Sites per Worker [1]	Workers per 100,000 Sq. Ft.	Adjustment for Transfers [2]	Adjustment for Overlap with Residential Fee [3]	Calculated New Workers per 100,000 Sq. Ft.
			a	*b*	*c = a/b*	*d*	*e*	*f = c*d*e*
Restaurant/Bar	100,000	90%	90,000	200	450	94%	40%	171
Retail	100,000	90%	90,000	650	138	94%	40%	53
Office	100,000	90%	90,000	350	257	94%	40%	98
Service	100,000	90%	90,000	750	120	94%	40%	46
Light Industrial	100,000	90%	90,000	600	150	94%	40%	57
Lodging	100,000	90%	90,000	1,400	64	94%	40%	24
Other (not listed)	100,000	90%	90,000	550	164	94%	40%	62
Outdoor Recreation [4]	n.a.	n.a.	n.a.	n.a.	*calculation on case by case basis*			
	Campsites			Workers per 1,000 Sites				Workers per 1,000 Sites
Campgrounds	1,000	100%	1,000	85.00	12	94%	40%	4

Source: HEC Tahoe Employment Generation Survey.

[1] See Appendix Table D-1.
[2] Unemployment rate of 6%, see Appendix Table C-5.
[3] See Appendix Table C-5.
[4] Applies to projects generating workers but not increasing building square footage.

Once total net new employees by land use was calculated, the ratio of number of workers per household of 1.31 was applied to determine the number of new households generated per 100,000 building square feet and 1,000 campsites. The ratio of workers per household was discussed in Section 4.

As shown in **Table 9,** the calculated number of new households per 100,000 building square feet is 74 for restaurant/bar, 26 for retail, 55 for office, 25 for service, 31 for light industrial, 12 for lodging, and 33 for Other. There are 2 new households generated for every 1,000 campsites.

Table 9
Estimated New Worker Households by Non-Residential Land Use

Non-Residential Land Use	Calculated New Workers per 100,000 Sq. Ft.	% of Workers forming Households [1]	Calculated Workers in Households per 100,000 Sq. Ft.	New Households (Units) per 100,000 Sq. Ft.
	a = Table 8	*b*	*c = a*b*	*d = c/1.31*
Restaurant/Bar	171	57%	97	74
Retail	53	66%	35	26
Office	98	74%	72	55
Service	46	72%	33	25
Light Industrial	57	72%	41	31
Lodging	24	67%	16	12
Other (not listed)	62	69%	43	33
Outdoor Recreation [2]	*total number of new employees is an independent calculation on case by case basis*			
	Workers per 1,000 Sites			Households per 1,000 sites
Campgrounds	4	67%	3	2

Source: 2016 5-year ACS (US Census) and California Employment Development Department.

[1] See Table C-3.
[2] Applies to projects generating workers but not increasing building square footage.

5.3 CALCULATION OF NUMBER OF EMPLOYEE HOUSEHOLDS UP TO 120 PERCENT AMI

Table E-1 in **Appendix E** calculates the number of affordable units generated by land use type by income bracket. The calculation uses data for mean annual wage by occupation for the Northern Mountain Region, Eastern Sierra Region, and Mother Lode Region from the first quarter 2016, which is the most recent data available. Mean annual wage by occupation is multiplied by the number of workers per occupied household (1.31) to estimate income by household by occupation. The distribution of occupations by land use type is taken from **Tables E-2** through **E-7** in **Appendix E**.

Tables E-2 through **E-7** use national employment data from the Bureau of Labor Statistics Occupational Employment Statistics Program by NAICS code.

5.4 CALCULATION OF NON-RESIDENTIAL FEES

As in the residential fee calculation, only the number of employee households generated through 120 percent of AMI are included in the next step of the fee calculation. For example, 100,000 square feet of office is estimated to generate 54.9 net new households; however, 21.4 of those households are in the greater than 120 percent of AMI income bracket, so 33.5 net new households are included in the fee calculation.

In the next step of the fee calculation shown in **Table E-8** in **Appendix E**, the total estimated number of affordable units generated in each income bracket for each land use type is multiplied by the affordability gap for that income bracket and then divided by 100,000 to calculate the fee per square foot for each non-residential land use type and by 1,000 to calculate the fee per campsite. Note that campground fees are reduced 50 percent to account for employees living in the campground. Lodging is converted from a per 100,000 square foot fee to a per room fee assuming 450 square feet (inclusive of common space) per room. This assumption is based on data from local hotels and national lodging data. The calculated non-residential fees are shown in **Table 10**.

Table 10
Summary of Calculated Non-Residential Maximum Justifiable Workforce Housing Fees

	Non-Residential								
Calculation	**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	**$184**	**$47**	**$61**	**$41**	**$45**	**$49**	**$11,700**	**n.a.**	**$73**
Rental Housing Only Fee	**$183**	**$44**	**$50**	**$36**	**$20**	**$38**	**$11,160**	**n.a.**	**$73**

Source: HEC, January 2018.

[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.

Section 6: Economic / Fee Burden Analysis

This section of the Study examines the impact of the potential fee on the feasibility of new residential development. A residual land value analysis tests for feasibility of residential development with a workforce housing fee. The test is affected by a large number of variables; one of the most important is the location of the raw land. Since the Fee Area covers a large and varied geography the test results may not be indicative of feasibility in some locations.

6.1 Fee Impact on Financial Feasibility of Development

The Residual Land Value test is used by real estate developers and investors to evaluate the financial feasibility of different unit types and densities on a piece of property. The project must generate a profit (a positive residual land value) to incent land development.

Figure 5 shows the relationship between residual land value and land development cost. The final sales price of a developed property less the development costs and builder profit results in the residual land value, or the price that a builder is able to pay for property and still have a financially feasible project.

The residual land value is highly influenced by a combination of current market conditions and the level of development fees. Land values can experience dramatic swings between recessionary downturns and economic booms. During the Great Recession, in some locations, finished lots were selling at less than the cost to create a finished lot. In average market conditions, connection/impact fees can greatly influence land prices in some regions. If home prices and other development costs are constant, then an increase in development fees causes a reduction in land price. In hot markets, development fee increases may have no impact on home sales prices or land prices. In recessionary markets, development fee increases may cause a greater than 1 to 1 land price reduction because of their impact on project feasibility.

Table 11 presents the residual land value test for a new three-bedroom unit inside and outside of the Tahoe Basin. Using the assumptions provided in **Tables A-6** and **A-7** of **Appendix A**, the test shows that addition of the maximum justifiable workforce housing fee would still result in positive profits and residual land values for most new residential development in the Fee Area. While some land parcels will be able to carry a higher workforce housing fee due to economic factors such as geographic location of the parcel(s), raw land value, development constraints and so forth, the workforce housing fee would be applied throughout the Fee Area and should be set at a level so as not to preclude development anywhere in the Fee Area.

Figure 5
Residual Land Value Calculation Illustration

Residual Land Value = Amount a builder will pay a land developer

Sales Price per Unit

Less

Land Development Costs

- Water Utilities Fees
- Other Fees (City/County, other local governments)
- Land Costs
- Building Costs
- Backbone Infrastructure (Onsite & Offsite)
- Environmental Mitigation
- Site Development & Reclamation Costs
- Marketing and Financing Costs

Less

Builder Profit

Equals

Residual Land Value

Table 11
Residual Land Value

		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**	**$1,260,000**	**$1,580,000**	**$1,260,000**	**$1,580,000**
Costs					
County Fees		$18,132	$17,749	$18,035	$17,652
TRPA Fees		$0	$0	$9,773	$9,773
Other Agency Fees		$18,773	$18,773	$18,966	$18,966
Land and Building Development Costs		$950,875	$849,875	$950,875	$849,875
Costs of Selling	5% of sales price	$63,000	$79,000	$63,000	$79,000
Total Costs [1]	**B**	**$1,050,000**	**$965,000**	**$1,060,000**	**$975,000**
Residual Value	**C = A-B**	**$210,000**	**$615,000**	**$200,000**	**$605,000**
Residual Value as % of Price	**F = C/A**	**16.7%**	**38.9%**	**15.9%**	**38.3%**
Max. Justifiable Workforce Housing Fee		$88,840	$88,840	$88,840	$88,840
Total Costs with Max. Justifiable Fee		$1,138,840	$1,053,840	$1,148,840	$1,063,840
Residual Value with Max. Justifiable Fee		**$121,160**	**$526,160**	**$111,160**	**$516,160**
Residual Value with Max. Justifiable Fee as % of Price		**9.6%**	**33.3%**	**8.8%**	**32.7%**

Source: Placer County and HEC.

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

SECTION 7: CONCLUSIONS

This workforce housing fee Nexus Study for Eastern Placer County meets the requirements of the Fee Mitigation Act. Specifically, this Study:

1. Identifies the purpose of the fee;
2. Identifies how the fee is to be used;
3. Determines how a reasonable relationship exists between the fee's use and the type of development project on which the fee is imposed;
4. Determines how a reasonable relationship exists between the need for the public facilities and the type of development project on which the fee is imposed; and
5. Demonstrates a reasonable relationship between the amount of the fee and the cost of the public facilities or portion of the public facilities attributable to the development on which the fee is imposed.

7.1 NEXUS FINDINGS

7.1.1 Purpose

The workforce housing fees would be used to increase the supply of workforce housing in the Fee Area. Fees would be deposited into the County Housing Trust Fund to be used as authorized in Placer County's Housing Trust Fund Guidelines (last adopted June 2012).

7.1.2 Use of Fees

The workforce housing fees would be used to fund a portion of the costs to develop new workforce housing in the unincorporated portion of Eastern Placer County. The workforce housing fees are based on the affordability gap of new units, not on the total cost to produce new workforce housing units.

7.1.3 Relationship Between Use of Fees and Type of Development

The development of new residential and non-residential land uses in the unincorporated portion of Eastern Placer County will generate additional need for workforce housing. The workforce housing fees will be used to increase the supply of affordable housing units.

7.1.4 Relationship Between Need for Facilities and Type of Project

Each new residential and non-residential development project will generate additional demand for workforce housing. To create housing for persons unable to afford market-rate rents or home prices, new residential and non-residential development may be required to pay a workforce housing fee.

7.1.5 Relationship Between the Amount of Fees and Portion of Cost of Facilities attributed to Development upon which the Fee is Imposed

Development of new housing units brings new residents to the County who spend money in the county on goods and services. Increased local business results in the need to hire new employees. Demand for income-qualified employees is generated by the new residents' spending on goods and services as well as spending on public goods and services. The cost of the affordability gap is allocated to each residential price bracket based on the estimated spending and generation of income-qualified employees by each of the residential unit price brackets; consequently, lower-priced market-rate units have a lower calculated workforce housing fee than higher-priced market-rate units.

New workplace buildings have new jobs associated with them, some of which pay wages that are insufficient to meet market-rate housing costs, and create a need for additional workforce housing. The total estimated number of workers generated per 100,000 building square feet in each non-residential land use category, and per 1,000 campsites, is estimated using job density factors and then adjusted for various factors, including elimination of double-counting workers generated by new residences captured in the Eastern Placer County residential workforce housing fee. The cost of the affordability gap is allocated to each non-residential land use category based on the net number of affordable units generated per 100,000 building square feet developed, or per 1,000 campsites developed.

7.2 IMPLEMENTATION STEPS

The calculated maximum justifiable fees (residential and non-residential) represent the highest amounts the County could collect for workforce housing based on the nexus methodologies presented in this Study. The Board of Supervisors would ultimately decide on the actual fees to be collected and could adopt fees at lower levels than the maximum justifiable fees.

The County can implement the workforce housing fee(s) as an in-lieu fee or as a development impact fee.