

Housing Impact Fees:

A Guide for San Mateo County



Why Housing Impact Fees?

- The current housing market is not producing enough housing options for all members of our communities.

Average Rents in San Mateo County*:

1-BR: \$2,516
2-BR: \$2,815

- Recent court cases have limited the ability of cities to apply inclusionary requirements on new market rate rental housing development**.
- The loss of Redevelopment Agencies has caused local cities to find new ways to fund the construction of affordable housing.
- Housing Impact Fees help cities address the problem of a "jobs-housing fit," where the range of housing affordability choices need to fit the range of worker incomes of the community.

~60% of new jobs in San Mateo County over the next 10 years are expected to pay less than \$50,000/year

*San Mateo County Department of Housing, June 2015

**Palmer 6th St. Properties v. City of Los Angeles (2009)

"The current shortfall in affordable homes is due in part to the 8% decline in California renters' median incomes and simultaneous 21% increase in rents since 2000," California Housing Partnership Corporation, Update on California's Affordable Housing Crisis, April 2015.

How much do you need to earn to rent a market-rate apartment in San Mateo County?

1-BR: \$100,640/year

2-BR: \$112,600/year

Occupation	Avg. Salary 2015
EMT/Paramedic	\$56,336
Administrative Assistant	\$45,545
Preschool Teacher	\$36,290
Home Health Aide	\$28,428
Child Care Worker	\$31,963
Retail Salesperson	\$33,342

Source: California Employment Development Department

CHANGE IN INFLATION ADJUSTED MEDIAN RENT AND RENTER INCOME 2000-2013

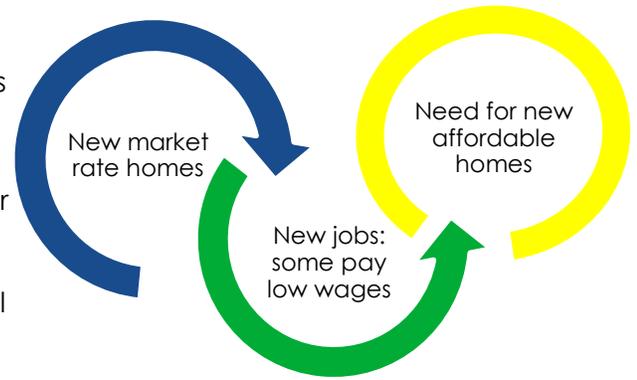


Source: CHPC analysis of 2000-2013 of Census and ACS data. Median income and rent from 2001-2004 are an estimated trend.

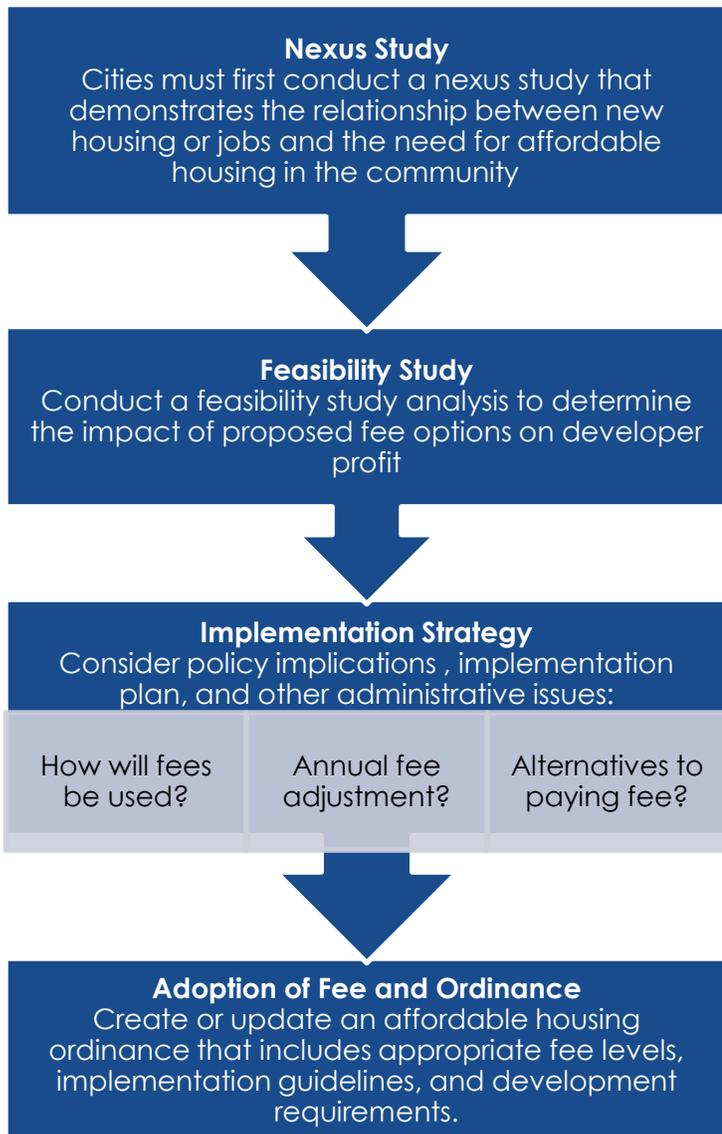
What is a Housing Impact Fee?

A Housing Impact Fee is a per-square foot or per-unit fee assessed to new market rate housing construction to offset its impact on the community.

These fees are based on the idea that every person that moves into a new market rate home will generate a need for services that requires employees who will make less than median income, such as hairdressers, coffee baristas, landscapers, healthcare workers, restaurant staff, and school teachers. These new workers will then create increased demand for new affordable homes.



Key Steps to Adopting a Housing Impact Fee



Local Cities with a Housing Impact Fee

City	Fee Amount
Daly City (2014)	Single Family Home: \$14.00/sq. ft. Townhome: \$18.00/sq. ft. Condo: \$22.00/sq. ft. Rental: \$25.00/sq. ft.
San Carlos (2010)	Approximately \$25.00/sq. ft. Based on #units and average sq. ft.
East Palo Alto (2014)	Single Family infill: \$23.95/sq. ft. Owner Townhome: \$23.00/sq. ft. Rental: \$22.70/sq. ft.
Sunnyvale (2015)	\$17.00/sq. ft.
San Jose (2014)	\$17.00/sq. ft.
Mountain View (2015)	\$17.00/sq. ft.
Berkeley (2013)	\$28,000/rental unit

For a complete list of Bay Area cities that have adopted impact fee: www.nonprofiithousing.org

Sample ordinance language:

"All rental projects shall pay an affordable housing impact fee, upon issuance of a building permit for each dwelling unit in the rental project, unless an alternative is proposed by the developer and approved by the City Manager."
Daly City Municipal Code [Ch. 17.47, Title 17]

Policy Considerations

Setting Appropriate Fee Levels

A residential nexus study will typically present maximum and recommended fee levels for various prototypes that address both the affordability gap as well as the feasibility of a development with impact fees. Fees should also be adjusted on a regular basis to compensate for inflation and changes in the housing market. When determining what fee levels to adopt, cities should take into consideration several factors:

- Will it help mitigate the increased demand of new housing generated by new development?
- Will it help promote a city's housing goals, such as increasing homeownership opportunities or increasing multi-family rental stock?
- Will it appropriately address current and future housing needs?
- Is it appropriate given the size and scope of a proposed development?

Alternatives to Fee Payment

Some cities have provided the option for a developer to propose an alternative to paying a housing impact fee, such as onsite construction of affordable rental units. Providing alternatives to fee payment may be beneficial for cities that own little to no vacant or underdeveloped property and are unable to collect a significant amount in fees.

Overall Fee Structure

It is important to consider how a housing impact fee will interact with its existing fee structure on residential development. An effective housing impact fee will strike a balance between fully mitigating the affordable housing impacts of new development and encouraging new development.

Establishing a Fund

When development begins to happen after the adoption of a housing impact fee, cities will need to create an "affordable housing fund" to collect the fees. How these fees are dispersed can then be determined at the discretion of local decision makers, such as the City Council or the City Manager, or through a public process. Fees can be used to fund a variety of spending programs, such as paying for new construction costs, preservation programs, providing rental assistance to low-income households, creating a first-time homebuyer loan program, or loans for home improvements.

Fee vs. Inclusionary

Many cities continue to apply an inclusionary requirement on ownership residential development. Others have repealed their current Inclusionary Housing ordinances altogether, given that they are no longer consistent with the *Palmer* (2009) decision, and have replaced it with a new ordinance to adopt a new housing impact fee and affordable housing requirements. The results from a nexus study can help cities update their inclusionary policies by calculating an inclusionary rate based on the nexus, and providing developers the option of paying an impact fee or building onsite or offsite for-sale units.

Public Participation

As cities begin to study and consider the adoption of a housing impact fee, it is critical to encourage participation and gather input from all members of the community, such as residents, community groups, housing developers, and other stakeholders.

Resources

- **Non-Profit Housing Association of Northern California**, *Bay Area Impact Fees*, link: nonproflthousing.org/resources/bay-area-impact-fees/
- **San Mateo County 21 Elements**, Grand Nexus Study, Link: <http://www.21elements.com/Nexus-Study/View-category.html>
- **City of San Carlos Housing Impact Fee**, Affordable Housing Program - Zoning Code Chapter 18.16, Link: <http://www.codepublishing.com/ca/SanCarlos/html/SanCarlos18/SanCarlos1816.html#18.16>,
- **City of Daly City Housing Impact Fee**, Affordable Housing Impact Fees – Zoning Code 17.47.080, Link: https://www.municode.com/library/ca/daly_city/codes/code_of_ordinances?nodeld=TIT17ZO_CH17.47_AFHO_17.47.080AFHOIMFE

Founded in 2001, **HOUSING LEADERSHIP COUNCIL OF SAN MATEO COUNTY** works with communities and their leaders to produce and preserve quality affordable homes. We work to provide **fundamental solutions** to some of our community's most pressing issues. Our membership includes nonprofits, employers, business associations, labor unions, real estate professionals, public agencies, environmentalists, and concerned community members.

Housing Leadership Council of San Mateo County

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Frequently Asked Questions

Do housing impact fees discourage development?

Not if they are designed and implemented well. A strong financial feasibility analysis can show that market rate rental housing in the current market would still be feasible if a city enacts a significant housing impact fee.

Do housing impact fees make market rate housing more expensive?

No. Landlords set their rents based on the market and not on the cost of construction to the developer. In a competitive market, property owners and landlords are already commanding the maximum sales prices or rents that the market will bear. It is unlikely that sales prices or rents will increase due to the adoption of a housing impact fee.

Is it fair to require market rate developers to pay this fee?

Yes. Since a residential nexus study will demonstrate the increased demand for affordable housing as a result of new market rate development, it is fair for developers to share the burden of the costs of meeting this new demand. Adopting a housing impact fee ordinance will make it clear to all developers what their financial obligations will be up front, rather than having fee levels vary on a project-by-project basis.