



September 3, 2015

Aaron Akin, City Manager
City of Redwood City
1017 Middlefield Road
Redwood City, CA 94063

Dear City Manager Akin,

It is an undisputed fact that there is a need for the greater Silicon Valley region to address the crisis of housing affordability throughout the Bay Area, including the City of Redwood City. However, legally indefensible nexus studies, such as the study provided by Vernazza Wolfe Associates for the San Mateo County 21 Elements model Nexus Study does not provide the lawful basis to implement new fees, i.e., taxes, on new residential construction.

Housing affordability has become a crisis due to the lack of housing supply, recent explosive regional job growth, the termination of redevelopment by the state legislature and other economic, political and social factors that should be addressed by society at large, not allocated to builders of market-rate housing based on studies that fail to satisfy the most basic elements of proximate cause.

Additionally, adding to the crisis in housing supply is Redwood City's under performance in meeting its RHNA obligation in the 2007/14 cycle. Per California's Dept. of Housing and Community Development (HCD), Redwood City has permitted only 85% of its housing responsibility during the past 7 year timeframe!

Upon review of the Vernazza Nexus Study and the fee methodology utilized to determine the maximum supportable nexus-based Housing Fees, BIA Bay Area has concluded that the Nexus Study is not a legally defensible document and does not prove legally defensible "causation" through its attenuated fee calculation methodology. The Vernazza methodology consists of a multiple step chain of events subject to numerous assumptions including federal or local tax levels, personal spending habits, personal savings rates, number of jobs created, the location of those jobs, how many of those jobs will be new jobs, how many of those new jobs will be low income jobs, gross household incomes, net household incomes, rate of expenditures on goods & services, how many of those households will choose to live in resulting targeted city and so on.

The assumptions in this study are more commonly applied in academic and economic studies. This approach and application of assumptions are not common practice in establishing nexus findings in accordance with provisions of the Mitigation Fee Act. A copy of the legal analysis of Residential Nexus Studies by attorneys Geoffrey Robinson and Christopher Chou of Perkins-Coie dated December 2014 utilizing fee methodologies and analysis as modeled in the 21 Elements Vernazza Wolf study are attached for your review along with a copy of the accompanying Perkins-Coie Executive Summary.

BIA Bay Area does not support the adoption of a residential Housing Impact Fee based on the methodology used by Vernazza to arrive at a maximum mitigation fee. However, BIA recognizes that Redwood City may follow the trend of other Bay Area cities in adopting such a fee. In this case, BIA Bay Area strongly suggests that 1) to prevent an escalation of housing impact fees and therefore higher housing costs throughout the region, 2) to maintain competitiveness for future investment by the private sector and 3) to incentivize the construction of affordable units by market rate developers, the following actions should be taken when adopting the fee:

- Adopt a HIF no higher than \$17 per sq. ft. to stay in alignment with other nearby cities such as Sunnyvale (\$17), Mountain View (\$17), San Jose, (\$17), and Fremont (\$17.50);
- Provide a financially attractive incentive provision in the adopted resolution to voluntarily construct a percentage of required affordable units in rental developments;
- Allow a sufficient pipeline exemption and phase in implementation of the fee to allow those projects in the city that are currently in process to complete their entitlement permitting at current fee levels.

The greater Silicon Valley region's substantial lack of an adequate housing supply, both market rate and affordable, is a region wide as well as state wide problem and is the most significant factor contributing to the escalating cost of housing, as noted in the Legislative Analyst Office Report dated March 17, 2015. Restrictive land use regulations, infrastructure costs, impact fees and rising labor costs create serious impediments to addressing the affordability crisis the region is facing.

This challenge should be addressed not by relying solely on the tax revenue generated by one industry - development, but by using a balanced approach - the establishment of a set of broad based, community-wide fiscal and policy responses that will generate an adequate housing supply and provide stable, long term financial resources.

Respectfully submitted,



Patricia E. Sausedo, Government Affairs
BIA Bay Area

Cc: Diana Odell, Redwood City
Paul Campos, Sr. VP Govt. Affairs/General Counsel
BIA Bay Area

Encl: CA LAO Report
Perkins Coie Nexus Analysis & Executive Summary
CA DHS 2007-2014 Regional Housing Need Allocation
Vernazza Wolf Associates Model Nexus Study