

REPORT

To the Honorable Mayor and City Council
From the City Manager

October 26, 2015

SUBJECT

Affordable Housing Impact Fees

RECOMMENDATION

- (1) Waive First Reading and Introduce an Ordinance Requiring Affordable Housing Impact Fees for New Residential and Commercial Development and
- (2) Adopt a Resolution Establishing the Fee Amount and List of Uses and Exemptions for Payment of the Fee.

EXECUTIVE SUMMARY

Redwood City has a strong and ongoing commitment to affordable housing. With the Redevelopment Agency, the City subsidized and participated in the construction of over 700 affordable units that still house Redwood City residents today. However, the loss of the Redevelopment Agency funds and reduction in other state or federal funding has created a resource gap for the development of affordable housing. Coupled with a boom in the economy, availability of affordable housing has become a critical regional concern.

In 2013 the City adopted a new housing element with a variety of policies and programs intended to increase housing supply and address housing affordability issues. Building on those policies, the City initiated the *Partnership Redwood City* program in March 2015 to establish new opportunities for partnerships with nonprofits, residents, and business groups to, among other community efforts, create new housing. One key aspect of Partnership Redwood City was consideration of affordable housing impact fees.

Affordable housing impact fees help pay for creation of new homes for lower income residents. The fees can be charged to developers of new residential or commercial projects with rates depending on use types. Several communities such as Mountain View, San Carlos, Sunnyvale and Menlo Park have already implemented these fees. Individual cities may set the fee at different rates, depending on local conditions and legal limits. San Mateo County cities recently joined together to collectively study potential affordable housing impact fees, and those completed reports are on the City's website at www.redwoodcity.org/housingfees.

The reports describe and quantify how the development of offices, commercial space, and homes creates a need for housing of all income levels, particularly for very low, low and moderate income residents. Maximum impact fee levels based on the true cost of the affordable housing need were cited. The reports state that the maximum fees, if charged to developers, would make all development economically unfeasible. The reports suggest lower impact fee rates that take into account General Plan policies and nearby cities' fee levels. The reports recommend specific fees for most development types except for apartments and condominiums, where a range of feasible options was given. Staff concurs with the report's recommended fee levels and further specifies the amount as shown in Figure 1.

FIGURE 1: STAFF RECOMMENDATIONS ON FEE AMOUNTS AND APPLICABLE PROJECT SIZE

UNIT TYPE	FEE / SQ. FT.	MINIMUM PROJECT SIZE
Condos and Apartments	\$20	5 or More Net New Units for Residential Projects
Single Family	\$25	
Townhome, Duplex and Triplex Developments	\$25	
Office	\$20	More than 5,000 square feet of Net New Construction for Commercial Projects
Hotel	\$5	
Retail and Restaurant	\$5	

This fee would be used to provide affordable housing in partnership with nonprofits and other housing developers. Funds can be used for land purchase, construction costs, or renovation and retention of existing apartment units for lower income residents. Based on estimates of recent development projects, the fee program could receive over \$3,000,000 per year if the economy remains strong.

BACKGROUND

Adopted in December 2013, the [City's Housing Element](#) describes the need for affordable housing and the policies and programs to help meet that need. The Regional Housing Needs Allocation (RHNA), a critical component of the Housing Element, is a primary consideration when establishing housing policies. This RHNA goal identifies the amount of housing needed at each affordability level to meet projected local need.

Regionally, and in Redwood City, recent developments have primarily contained market rate units and very few affordable units. The reason for this imbalance is a combination of factors including a very strong region-wide housing market, high land costs, the dissolution of the redevelopment agencies, cutbacks in federal and state funding for affordable housing and court cases that restrict the ability of cities to require affordable housing in every development. In Redwood City, the accompanying loss of nearly \$10,000,000 set aside for affordable housing also has had a significant impact. While the City is considering a variety of programs to increase affordable housing, one program that can provide substantial benefits is the creation of an affordable housing impact fee.

This fee was one part of the [Partnership Redwood City program adopted](#) by Council in [March 2015](#). *Partnership Redwood City* promotes new and creative ways to form working relationships within the community to achieve City goals, including improved transportation systems, parks, schools, and affordable housing. One specific program step, identified by the community and decision-makers as a top priority, was consideration of an affordable housing fee. This consideration was also initiated by motion at the [September 21, 2015 City Council hearing](#).

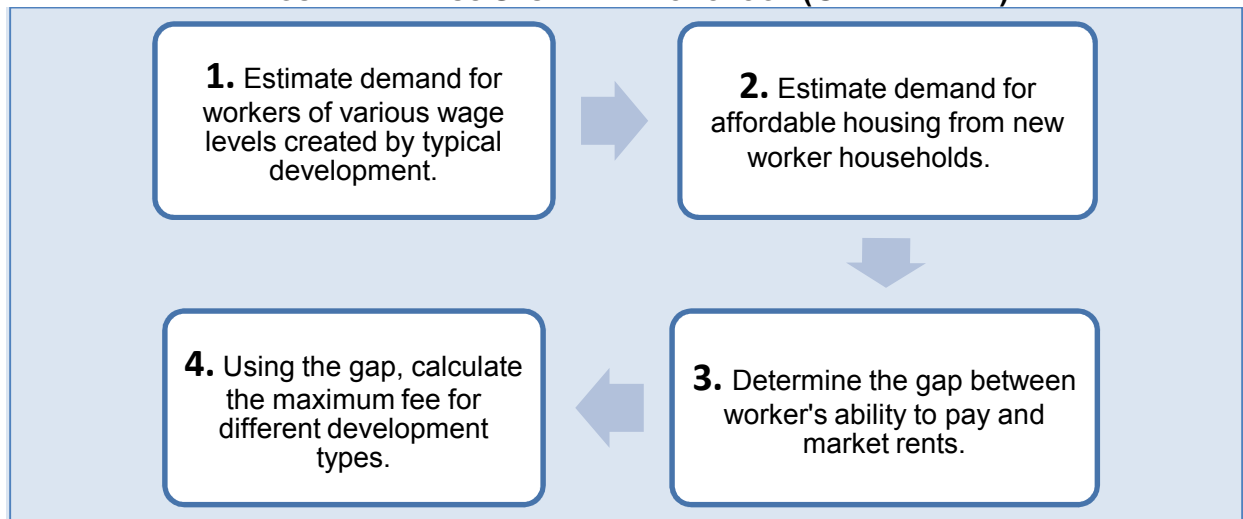
Beginning in spring of 2014, San Mateo County jurisdictions undertook a unique collaboration by pooling their resources and jointly conducting a Countywide Nexus Study. The Nexus Study is a legally-required report that determines how much affordable housing need is created with new development, the cost of meeting that need, and possible fees that could be charged to new development while maintaining a dynamic and growing economy. Winning a [Best Practices award in May of 2015](#) by the Northern California chapter of the American Planning Association, the joint study allowed diverse jurisdictions to collectively study and collaborate on a critical regional issue. The study created efficiencies with data collection and regional information while tailoring results to individual cities' conditions. All cities maintain their individual authority in adopting a fee and developing a related fee program.

ANALYSIS

General Information on Affordable Housing Impact Fees: The City collects a variety of impact fees. The City currently charges a Parks Impact Fee on new residential development to improve and expand parks facilities serving new Redwood City residents. New development must also pay a Transportation Impact Fee to improve streets and connections needed for new development. In addition to these common fees, cities may also charge Affordable Housing Impact Fees on new development to create workforce housing needed by new residents and employees. Redwood City does not currently have an affordable housing impact fee.

There are particular findings required and limitations upon establishing this type of fee program. Affordable housing impact fees can be charged when there is a nexus between new residential or commercial development and additional demand for affordable housing. A Countywide Nexus Study was conducted and draft [Residential and Commercial Nexus Studies for Redwood City](#) were completed in September 2015. Specific study methodologies are described in Section II of both the Residential and Commercial Nexus Studies. A summary of the steps is shown in Figure 2; however, the steps vary slightly between the commercial and residential studies.

FIGURE 2: NEXUS STUDY METHODOLOGY (GENERALIZED)



Impact fees lessen the impact of new individual development projects; they do not address existing or longstanding affordable housing issues outside of a particular development. As the fee is based on the additional low-income workers needed by new residents and employees, the funds are to be used on workforce housing.

Common Concerns with Affordable Housing Fees: There are two common concerns with adopting affordable housing impact fees:

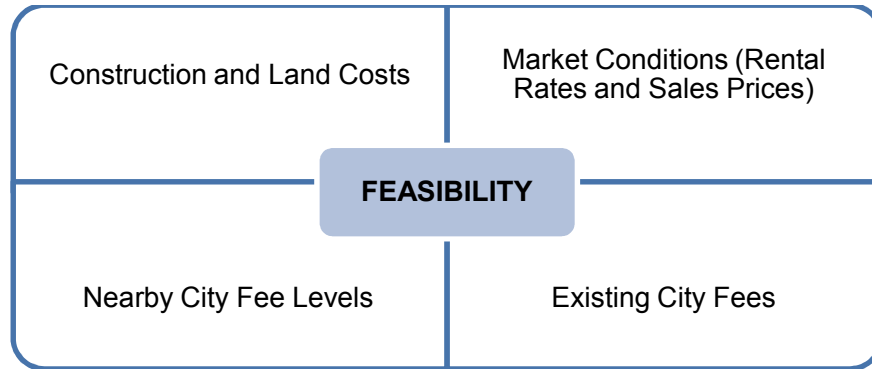
1. The fee cost will be passed on to residents, raising rents and sales prices.
2. The fee will discourage new development by making new construction too expensive.

One concern is that the fee cost will be passed on to market-rate residents in the form of higher rents or sales prices, undercutting the purpose of the fee. Staff reviewed this concern with consultants assisting with the nexus study. The consultants provided information that affordable housing impact fees do not raise housing prices. The overall market sets the rental or sales price and developers cannot raise prices even if their costs go up, regardless of the reason. Inversely, if development costs go down, rent or sales prices do not generally drop below the market rate. Increased development cost typically results in lower land prices as opposed to a higher market rent or sales price. For this reason, the feasibility analysis is crucial to setting a fee level that does not inhibit new construction and economic development, (i.e. that developers can still profitably buy land), and ideally is somewhat in line with surrounding cities.

This feasibility analysis was incorporated into the Redwood City Nexus Studies. While the actual nexus analysis establishes the maximum legally-justified fee, the feasibility analysis considers a fee level that will not interfere with General Plan polices or

suppress development opportunities which would result in lower overall fees paid to the fund. Feasibility analysis includes comparison to existing City fees, neighboring jurisdictions' fee levels and related citywide policies.

FIGURE 3: FACTORS IN CONSIDERING FEASIBILITY OF FEE LEVELS



Redwood City Results - Two separate studies were conducted for Redwood City – one for new commercial development (Commercial Linkage Fee) and one for new residential development (Residential Impact Fee).

Commercial Linkage Fee: Office, R&D office and medical office (referred collectively throughout this report as “office”), retail, restaurant and personal service uses (“retail”), and hotels were all considered in the commercial study. Recent projects and pro forma analyses were used to determine construction costs and market value. Employment density was calculated to estimate the number of new worker households that require affordable housing. Affordability gaps were calculated for new worker housing, resulting in a maximum nexus fee of well over \$100 per square foot for hotel and \$200 per square foot for retail, restaurant and office uses.

Further feasibility analysis determined appropriate fee levels (below this maximum) that maintain economic vitality and reasonable project cost. These factors include market capitalization rates, total City fee costs, and nearby city rates. Generally, the study looked for a total return on cost of 6.75 percent to 7 percent depending on development type. The study chose four different fee levels and tested them against the project assumptions to determine an appropriate fee level while maintaining project viability (pages 64-79 of the Commercial Linkage Report). Staff concurs with all the study’s recommended fee levels.

- *Office* – In the current market, office development has a particularly high return on cost, which allows for one of the highest recommended fees of \$20/square foot, with an estimated return on cost of approximately 8 percent. This fee compares to \$20/square foot in Cupertino, \$25/square foot in Mountain View, \$19/square foot in Palo Alto and \$15/square foot in Sunnyvale.
- *Retail* – Retail uses are more fee sensitive than office uses, with marginal levels of feasibility for a new fee. Viability may differ slightly for exclusively retail projects versus mixed use with ground-floor retail. A fee of \$5/square foot would

be less than one percent of total development costs and one of the lowest of neighboring jurisdictions with Menlo Park at \$8/square foot, Sunnyvale at \$7.50/square foot, and Mountain View at \$2.50/square foot).

- *Hotel* – Generally, hotels require the greatest return on cost (due to high risk) and were the most sensitive to any fee level. The study found that a fee of \$5/square foot would bring the project below the target return of 7 percent, but is generally in line with other cities' hotel fees and would be considered viable. This fee is lower than Menlo Park at \$8/square foot, Sunnyvale at \$7.50/square foot and Palo Alto at \$19/square foot, while higher than Mountain View at \$2.50/square foot.

Residential Impact Fee: Single-family detached homes, townhomes, condominiums and apartments were evaluated for the residential study. These uses were converted into prototypes with generalized unit sizes and construction type. Many of the recently completed projects consisted of single-family homes and apartments, with fewer examples of condominiums and townhomes. The steep increase in prices and supply over the last several years made studying feasibility challenging, as sales figures and initial analysis was from projects sold or rented in Summer 2014 or earlier, prior to recent rent increases and completion of pipeline projects. In particular, examples of condominium sales were limited to the One Marina project. The condominium analysis was augmented by sales prices in similar nearby communities, to ensure a more accurate analysis.

- *Single Family* – In the current market, single-family homes have the highest return on cost and the highest resulting threshold for financial feasibility with up to \$25/square foot. For this use type, consideration of nearby cities' fees is a critical concern. Fees range from \$15/square foot in Cupertino to up to \$44/square foot in San Carlos.
- *Townhouse* – This use type, smaller than single-family homes and larger than condos or apartments, also typically includes attached garages and three floors. Primarily built outside the downtown area, this use also has high value and supports a higher fee level of \$25/square foot. Fees for townhouse range from \$18/square foot (Daly City) to \$23/square foot (East Palo Alto) and \$21-\$42/square foot (San Carlos).
- *Condominiums and Apartments* – Condominiums and apartments share similar characteristics in size and parking. These unit types also have the widest range of value, as projects in the Downtown can be at higher density (and development value) than projects along El Camino Real or Veterans Boulevard. The study recommended a fee range from \$15-\$25/square foot, in line with Mountain View, Sunnyvale and San Jose and Cupertino.

Proposed Redwood City Program - To implement this program, both an ordinance and resolution are proposed (Attachments 1 and 2). The ordinance lays out the requirement for the fee, alternatives to payment, and the use of the fees. The resolution establishes the particular fee amount and provides specifics about how to calculate the fee and what uses are exempt. Each of these items will be discussed in more depth below.

Fee Amounts: Based on the findings of the nexus studies, fees could be charged on both types of development and maintain development feasibility. Redwood City has a healthy market for residential and commercial development and staff recommends fees shown in Figure 4. The study allowed for a range for condominiums and apartments. In considering the fee, staff looked at surrounding city amounts (ranging from \$15/square foot - \$25/square foot) and future actions. In particular, staff recommends the \$20/square foot for condominiums and apartments as this allows for additional community benefits as part of the Partnership Redwood City program. All other amounts are recommended at the maximum feasibility. Residential square footage subject to the fee excludes non-leasable square footage, such as covered patios, amenity spaces, hallways and parking structures. Commercial square footage includes gross square footage excluding structured parking. The adopted amounts are proposed to adjust automatically each year consistent with the Engineering News Record (ENR), which is typical for impact fees. Payment amount would be set at the time of building permit issuance.

FIGURE 4: RECOMMENDED FEE AMOUNTS FOR REDWOOD CITY

UNIT TYPE	FEE PER SQUARE FOOT
Condominiums and Apartments	\$20
Single Family	\$25
Townhome Developments	\$25
Office	\$20
Hotel	\$5
Retail and Restaurant	\$5

With these fee amounts, a high-density downtown project of 100 residential units could pay approximately \$1,600,000 in fees. An office project of 100,000 sq. ft. could pay \$2,000,000 in fees.

Projects Subject to the Fee: While the Nexus Study justifies charging the fee on any new square footage or use conversion, staff recommends a more conservative program with a minimum project size of five or more residential units or more than 5,000 square feet of net new commercial floor area. This minimum eliminates further cost burden on homeowners or new duplex and fourplex-type projects. They also encourage small commercial improvements that benefit neighborhood quality and business retention. Desirable public uses such as hospitals and community facilities and quasi-public uses such as child care centers, churches and schools are also exempted.

Projects for which the applications were deemed complete prior to September 21, 2015 (when the fee was initiated) are proposed to be exempt from paying the fee. The fee would become effective 60 days after the adoption date.

Alternative to Fee Payment: The ordinance allows alternatives to the payment of housing impact fees. These alternatives could include onsite affordable housing construction, contribution to offsite affordable housing, or other alternatives that meet

the City's affordable housing goals. Alternative housing plans would be submitted with the primary development application and must be considered by the decision-making authority for the project. Any housing developed as part of an alternative plan must match the finishes, overall unit types, and amenities of the market-rate units.

Impact Fee Use: Affordable housing funds would be spent to provide housing affordable to very low, low, and moderate income households. The City Council may adopt guidelines which prioritize how the money may be spent on renovating existing units, land purchase, or construction funding for new units. The fee must also meet the Mitigation Fee Act reporting requirements, which require annual updates on collection and expenditure of fees, as well as identification of projects for funding. Every five years, specific findings must be made regarding unspent fees with estimates for future funding commitments.

GENERAL PLAN GOALS

- **Goal H-2** Promote, encourage, and assist in the development of housing that meets the needs of all socio-economic segments of the community.
- **Policy H-2.1** Pursue and maximize the use of State, federal, local, and private funding for the development, preservation and rehabilitation of housing affordable to very low, low, and moderate income households.
- **Policy H-2.5** Consider various avenues to ensure the provision or construction of affordable housing and other community benefits.
- **Program H-3** Countywide Nexus Study. Participate in the countywide Nexus study to determine a nexus and appropriate fees. Invite the public to attend public meetings to discuss the results of the nexus study. Consider results of the study in development of the new Partnership RWC program.

PUBLIC NOTICE AND COMMENT

Notice was published in the Redwood City Daily Journal twice in the last 10 days, and provided to interested parties, including residential and commercial developers, housing advocates, commercial brokers, residents, businesses, and other interested community members. Notice was also provided through the City's E-News, website, and social media.

Staff received a comment letter from the Builders Industry Association (BIA) and a coalition of organizations including Housing Leadership Council, the Non-Profit Housing Association of Northern California, Greenbelt Alliance, and SFPOP/PIA (Attachment 3).

ALTERNATIVES

1. Consider exempting projects from the fee calculation that have a complete planning application.
2. Consider a different fee amount, which would require an additional Council hearing date.
3. Request more information and an additional Council hearing date.

FISCAL IMPACT

Based on recent development levels, the City could receive over \$3,000,000 in affordable housing impact fees per year. These amounts would likely vary widely depending on the timing of particular applications, use of alternative housing plans, and economic cycles. Staff recommends revisiting the fee in two years to assess outcomes and potentially modify the fee.

There would be staff costs with collecting and administering the fee. The CDBG/HOME Administrator and staff would be the primary contact for this program. In consultation with the Planning Division, the program administrator would meet with developers and collect the fees. The City Council would direct how funds are spent. Staff is recommending as Exhibit D of the ordinance that an initial deposit of \$1,500 be required to pay for staff time in collecting and administering the fee.

ENVIRONMENTAL REVIEW

The adoption of the ordinances and resolutions is not a project under the California Environmental Quality Act as they create a governmental funding mechanism that does not involve any commitment to a specific project that may result in a potentially significant effect on the environment. (CEQA Guidelines Section 15378(b) (4)). Furthermore, even if these approvals were a project, they would be exempt from CEQA because it can be seen with certainty that there is no possibility that the fees may have a significant effect on the environment, in that the ordinance and resolution contain no provisions modifying the physical design, development, or construction of residences or nonresidential structures (CEQA Guidelines Section 15061(b)(3)).



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CITY MANAGER

ATTACHMENTS

1. Draft Municipal Code Amendments – Creation of Chapter 18 (Affordable Housing Impact Fee)
2. Draft Resolution Establishing Housing Impact Fees for Residential and Nonresidential Development Projects
3. Comment Letters

RELATED DOCUMENTS AVAILABLE ON THE WEBSITE WWW.REDWOODCITY.ORG/HOUSINGFEES AND PROVIDED UNDER SEPARATE COVER

1. Residential Impact Fee Nexus Study for Redwood City – September 2015
2. Commercial Linkage Fee Nexus Study for Redwood City – September 2015

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF REDWOOD CITY ADDING A NEW ARTICLE XVII (AFFORDABLE HOUSING IMPACT FEE) TO CHAPTER 18 OF THE REDWOOD CITY MUNICIPAL CODE

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF REDWOOD CITY DOES ORDAIN AS FOLLOWS:

Section 1. The City Council makes the following findings:

A. The provision of safe and stable housing for households at all income levels is essential for the public welfare of the city. Housing in Redwood City has become steadily more expensive and housing costs have gone up faster than incomes. Federal and state government programs do not provide enough affordable housing to satisfy the needs of very low, low, or moderate income households. As a result, there is a severe shortage of adequate, affordable housing for extremely low, very low, lower, and moderate income households, as evidenced by the following findings in the City's 2015-2023 Housing Element:

1. Almost half of Redwood City's households are lower income (see Housing Element Figure H-5).

2. Households of any size earning less than the median income cannot afford the average home purchase price or the average rents in Redwood City.

3. More than 90 percent of Redwood City renter households and two-thirds of owner households earning under \$35,000 annually are overpaying for housing. Just over half the households earning between \$35,000 and \$75,000 per year are overpaying as well. In total, an estimated 22 percent of all households are paying between 30 and 49 percent of household income for housing. An additional 21 percent of households are paying more than 50 percent of household income for housing, yielding a total cost burden rate of 43 percent in Redwood City.

B. As provided in the Housing Element of the General Plan, the City wishes to be a leader in providing resources to facilitate the development of housing, and especially affordable housing, within its borders. Housing Element Goal H-2 is to promote, encourage, and assist in the development of housing that meets the needs of all socio-economic segments of the community. Housing Element Policies H-2.4 and H-2.5 call for the City to facilitate a variety of housing choices in Redwood City and to consider various avenues to ensure the provision or construction of affordable housing and other community benefits. To implement the goal and policies, Housing Element Program H-3 requires the City to participate in a countywide nexus study to consider affordable housing impact fees and commercial linkage fees. As part of the Partnership RWC community benefits program, required by Housing Element Program H-14, the City will adopt fees to provide affordable housing.

C. New residents of market-rate housing purchase goods and utilize services in the community, increasing local employment and attracting employees, of whom a quantifiable number will have very low, low, or moderate incomes and cannot afford market-rate housing.

D. New housing construction that does not include affordable units aggravates the existing shortage of affordable housing by absorbing the supply of available residential land.

E. Because nonresidential development also attracts employees, of whom a quantifiable number will have very low, low, or moderate incomes, new nonresidential developments similarly increase the demand for and exacerbate the shortage of housing available for people at these income levels while also reducing the supply of land potentially available for housing development.

F. Based on the findings above, the City desires to further the public health, safety and welfare by requiring residential and nonresidential development projects in the City to mitigate their impact on the need for affordable housing in the City.

Section 2. A new Article XVII (Affordable Housing Impact Fee) is hereby added to Chapter 18 of the Redwood City Municipal Code to read as follows:

Chapter 18

Article XVII

Affordable Housing Impact Fee

Section 18.266. Short Title, Authority and Applicability

Section 18.267. Purpose

Section 18.268. Definitions

Section 18.269. Housing Impact Fee

Section 18.270. Exemptions from Payment of Housing Impact Fee

Section 18.271. Alternatives to Payment of Housing Impact Fee

Section 18.272. Standards for Development of Affordable Housing

Section 18.273. Housing Fund

Section 18.274. Administrative Relief

Section 18.275. Enforcement

Section 18.266. – Short Title, Authority, and Applicability:

A. This Article shall be known and may be cited as the "Affordable Housing Ordinance."

B. The fees established pursuant to this Article are adopted under the authority of California Constitution Article XI, Section 7, which provides: "A county or city may make and enforce within its limits all local, police, sanitary, and other ordinances and regulations

not in conflict with general laws," and in accordance with the findings set forth in the ordinance codified in this Article.

C. This Article shall apply to the extent permitted by the statutes and laws of the State of California.

Section 18.267. – Purpose:

A. The purpose of this Article is to: (1) enhance the public welfare by imposing a residential and nonresidential development project housing impact fee whereby developers of residential and nonresidential development projects will mitigate the impacts of their projects on the need for affordable housing by contributing to the supply of housing for households with very low, low, and moderate incomes; and (2) implement the Housing Element by creating a mechanism to provide benefits to the community from new development in the form of affordable housing, thereby helping to meet the needs of all socioeconomic elements of the community as provided in the Housing Element.

Section 18.268. – Definitions: The following words and terms as used in this Article shall have the meaning respectively ascribed thereto:

A. "Affordable housing fund" means a fund or account designated by the City to maintain and account for all monies received pursuant to this Article.

B. "Affordable ownership cost" means the sales price of a for-sale affordable unit resulting in projected average monthly housing payments, during the first calendar year of a household's occupancy, including interest, principal, mortgage insurance, property taxes, homeowners insurance, homeowners' association dues, if any, and a reasonable allowance for utilities, property maintenance, and repairs, not exceeding the sales prices specified by Section 50052.5 of the California Health and Safety Code and California Code of Regulations Title 25, Sections 6910-6924.

C. "Affordable rent" means the total monthly housing expenses for a rental affordable unit not exceeding the rents specified by Section 50053 of the California Health and Safety Code and California Code of Regulations Title 25, Sections 6910-6924. As used in this Chapter, "affordable rent" shall include the total of monthly payments by the tenant for all of the following: (1) use and occupancy of the affordable unit and land and all facilities associated with the affordable unit, including but not limited to parking, bicycle storage, storage lockers, and use of all common areas; (2) any additional separately charged fees or service charges assessed by the owner, other than security deposits; (3) an allowance for utilities paid by the tenant as established by the San Mateo County Housing Authority, including garbage collection, sewer, water, electricity, gas, and other heating, cooking, and refrigeration fuel, but not telephone service or cable TV; and (4) any other interest, taxes, fees or charges for use of the land or affordable unit or associated facilities and assessed by a public or private entity other than the owner, and paid by the tenant.

D. "Affordable unit" means a dwelling unit which a developer proposes as an alternative to payment of the housing impact fee, as defined in this Article and which is

required to be rented at an affordable rent or sold at an affordable ownership cost to very low, low or moderate income households.

E. "Building permit" includes full structural building permits as well as partial permits such as foundation-only permits.

F. "Decision-making body" means the City staff person or body authorized to approve or deny an application for a planning or building permit for a residential or nonresidential development project.

G. "Developer" means the person(s) or legal entity(ies), who also may be the property owner, who is seeking real property development permits or approvals from the City or developing a particular project in the City.

H. "For-sale unit" means a residential dwelling unit that may be sold individually in conformance with the Subdivision Map Act. For-sale units also include units that are converted from rental units to for-sale units.

I. "Housing impact fee" means the fee paid by developers of residential and nonresidential development projects to mitigate the impacts that such developments have on the demand for affordable housing in the City.

J. "Low income households" means households with incomes no greater than the maximum income for low income households, as published annually by the City for each household size, based on United States Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) income limits for San Mateo County.

K. "Market rate unit" means a new dwelling unit in a residential development project that is not an affordable unit.

L. "Median income" means the median income applicable to San Mateo County, as published annually by the City for each household size, based on median income data for San Mateo County published by the United States Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD).

M. "Moderate income households" means households with incomes no greater than the maximum income for moderate income households, as published annually by the City for each household size, based on United States Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) income limits for San Mateo County.

N. "Nonresidential development project" means an application for a planning permit or building permit that includes the new construction of gross square feet of nonresidential space or the conversion of a residential use to a nonresidential use.

O. "Planning permit" means any discretionary approval of a residential or nonresidential development project, including, without limitation, a general or specific plan adoption or amendment, rezoning, tentative map, parcel map, conditional use permit, variances, or design review.

P. "Rental unit" means a dwelling unit that is intended to be offered for rent or lease and that cannot be sold individually in conformance with the Subdivision Map Act.

Q. "Residential development project" means an application for a planning permit or building permit at one location to create one or more additional dwelling units, convert nonresidential uses to dwelling units, subdivide a parcel to create one or more separately transferable parcels intended for residential development, or implement a condominium conversion, including development constructed at one time and in phases. "One location" includes all adjacent parcels of land under common ownership or control, the property lines of which are contiguous at any point, or the property lines of which are separated only by a public or private street, road, or other public or private right-of-way, or separated only by the lands owned or controlled by the developer.

R. "Very low income households" means households with incomes no greater than the maximum income for very low income households, as published annually by the City for each household size, based on United States Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) income limits for San Mateo County.

Section 18.269. – Housing Impact Fee:

A. A housing impact fee is hereby imposed on all developers of residential and nonresidential development projects. The amount of the housing impact fee shall be established from time to time by resolution of the City Council. Housing impact fees shall not exceed the cost of mitigating the impact of nonresidential and residential development projects on the need for affordable housing in the City.

B. Payment of the residential and nonresidential development project housing impact fees shall be due at the issuance of the building permit for the development. The fees shall be calculated based on the fee schedule in effect at the time the building permit is issued.

Section 18.270. – Exemptions from Payment of Housing Impact Fee:

A. The housing impact fee shall not apply to developers of residential development projects consisting of four or fewer dwelling units; the creation of four or fewer parcels, provided that no more than four dwelling units are allowed; or accessory dwellings created under Article 37 of the Redwood City Zoning Code.

B. The housing impact fee shall not apply to developers of nonresidential development projects adding 5,000 square feet or less of net new square footage.

C. The housing impact fee shall not apply to developers of residential or nonresidential development projects which fall within one or more of the following categories:

1. Residential or nonresidential development projects located on property owned by the state of California, the United States of America, or any of its agencies and used exclusively for governmental or educational purposes.

2. Any structure proposed to repair or replace a building that was damaged or destroyed by fire or other calamity, so long as the square footage and use of the building remains the same, and construction of the replacement building begins within one year of the damage's occurrence.

3. Residential or nonresidential development projects to the extent they have received a vested right to proceed without payment of housing impact fees pursuant to state law, including those that are the subject of development agreements currently in effect with the City, if such development agreements were approved prior to the effective date of this Article and where such agreements expressly preclude the city from requiring payment of the housing impact fee.

4. Residential or nonresidential development projects for which applications have been deemed complete prior to September 21, 2015.

5. Other uses that may be specified by resolution of the City Council.

Section 18.271. – Alternatives to Payment of Housing Impact Fee:

A. As an alternative to compliance with the basic provisions included in Section 18.269 of this Article, developers of residential or nonresidential development projects may propose to mitigate the affordable housing impacts of such development through the construction of affordable units on site or through an alternative mitigation program proposed by the developer and the community development director, such as the provision of off-site affordable units, donation of land for the construction of affordable units, or purchase of existing units for conversion to affordable units.

1. The City Council may adopt by resolution the percentage of affordable units needed to mitigate the impact of residential or nonresidential development projects on the need for affordable housing.

2. Any affordable rental or for-sale units proposed as an alternative to the payment of the housing impact fee shall be subject to the requirements described in Section 18.272 of this Article.

3. If a developer proposes to provide affordable rental units, then, to ensure compliance with the Costa-Hawkins Rental Housing Act (Chapter 2.7 of Title 5 of Part 4 of Division 3 of the Civil Code), the City may only approve such a proposal if, as required by Civil Code Sections 1954.52(b) and 1954.53(a)(2), the developer agrees in a contract with the City to limit rents in accordance with Section 18.272 of this Article in

consideration for a direct financial contribution from the City or a form of assistance specified in the State's Density Bonus Law (Chapter 4.3, commencing with Section 65915, of Division 1 of Title 7 of the Government Code). The developer may request that the City waive the affordable housing impact fee as a direct financial contribution to the rental residential development project.

B. If the developer seeks an alternative to the payment of the housing impact fee pursuant to subsection A of this Section, then the application for the first approval of a residential or nonresidential development project for which the alternative is sought shall include an "affordable housing plan" that describes how the alternative will comply with the provisions of this Article. No affordable housing plan is required if the developer proposes only to pay the housing impact fee.

1. Residential or nonresidential development projects requesting an alternative to payment of the housing impact fee require that an affordable housing plan be submitted in conformance with this Article prior to the application being deemed complete.

2. The affordable housing plan shall be processed concurrently with all other permits required for the residential or nonresidential development project. Before approving the affordable housing plan, the decision-making body shall find that the affordable housing plan conforms to this Article. A condition shall be attached to the first approval of any residential or nonresidential development project to require recordation of an affordable housing agreement, as described in this subsection, prior to the approval of any final or parcel map or building permit for the residential or nonresidential development project.

3. The approved affordable housing plan may be amended prior to issuance of any building permit for the residential or nonresidential development project. A request for a minor modification of an approved affordable housing plan may be granted by the community development director if the modification is substantially in compliance with the original affordable housing plan and conditions of approval. Other modifications to the affordable housing plan shall be processed in the same manner as the original plan.

4. If required to ensure compliance with the approved affordable housing plan, affordable housing agreements acceptable to the community development director or designee shall be recorded against the residential or nonresidential development project prior to approval of any final or parcel map, or issuance of any building permit, whichever occurs first. The affordable housing agreement shall specify the number, type, location, size, and phasing of all affordable units, provisions for income certification and screening of potential purchasers or renters of units, and resale control mechanisms, including the financing of ongoing administrative and monitoring costs, consistent with the approved affordable housing plan, as determined by the city manager or designee.

C. The decision-making body may approve or conditionally approve an affordable housing plan that proposes on-site construction of affordable units if the decision-making body determines, based on substantial evidence, that:

1. The proposed affordable units comply with the standards in Section 18.272, including without limitation compliance with Section 18.272(B) requiring that the affordable units be made available for occupancy concurrently with the market-rate units; and

2. The affordable units will mitigate the impact of the project on the need for affordable housing.

D. If a developer proposes off-site affordable housing units or any other alternative in the affordable housing plan, the decision-making body may approve such a proposal if it is able to make the findings set forth in subsection C of this Section and the proposal meets all of the following conditions:

1. Financing or a viable financing plan, which may include public funding sources, is in place for the proposed affordable housing units; and

2. The proposed location is suitable for the proposed affordable housing, is consistent with the Housing Element, general plan, and zoning, and will not tend to cause residential segregation.

Section 18.272. – Standards for Development of Affordable Housing:

A. All affordable units provided pursuant to Section 18.271 shall be comparable to the overall quality of construction to market-rate units in the same housing development as follows:

1. The exterior appearance of the affordable units shall be compatible with that of market-rate units.

2. Interior finishes and amenities may not differ from those provided in the base model market rate units.

3. The number of bedrooms in the affordable units shall be comparable to the average number of bedrooms in the market-rate units, and the affordable units shall be reasonably dispersed within the residential development, with unit locations comparable to those of the market-rate units, subject to review and approval by the community development director.

4. The affordable units shall have the same amenities as the market rate units, including the same access to and enjoyment of common open space, parking, storage, and other facilities in the residential development, provided at an affordable rent as defined in Section 18.267 or at affordable ownership cost as defined in Section 18.267.

B. All affordable units provided pursuant to Section 18.271 shall be made available for occupancy concurrently with the market-rate units. For the purposes of this subsection, "concurrently" means that the City may not issue building permits for more than fifty percent (50%) of the market-rate units until it has issued building permits for all of the affordable units, and the City may not approve any final inspections or certificates of occupancy for more than fifty percent (50%) of the market-rate units until it has issued final inspections or certificates of occupancy for all of the affordable units.

C. All affordable units provided pursuant to Section 18.271 shall be subject to a resale restriction, deed of trust, and/or regulatory agreement recorded against the property for execution by the city manager, in a form approved by the city attorney, to ensure the continued affordability of the affordable units.

1. All affordable units shall remain affordable to the targeted income group for 30 to 55 years.

2. Any household that occupies an affordable unit must occupy that unit as its principal residence, unless otherwise approved in writing for rental to a third party for a limited period of time due to household hardship, as determined by the City.

3. No household may begin occupancy of an affordable unit until the household has been determined to be eligible to occupy that unit by the community development director or designee. The community development director may from time to time adopt guidelines for determining household income and affordable housing cost, determining buyer eligibility, monitoring, and relevant administrative provisions.

4. Officials, employees, or consultants of the City and members of City boards and commissions shall comply with all applicable laws, regulations, and policies relating to conflicts of interest as to their eligibility to develop, construct, sell, rent, lease, occupy, or purchase an affordable unit.

Section 18.273. – Housing Fund:

A. There is hereby established in the City of Redwood City an "Affordable Housing Fund." All affordable housing impact fees or other funds collected under this Article shall be deposited into the City's Affordable Housing Fund.

B. The monies in the Affordable Housing Fund and all earnings from investment of the moneys in the Fund shall be expended exclusively to provide housing affordable to extremely low income, very low income, lower income, and moderate income households in the City, consistent with the goals and policies contained in the City's Housing Element and the purposes for which the fees were collected, and for administration and compliance monitoring of the affordable housing program.

C. The City Council may, from time to time, adopt guidelines for expenditure of monies in the affordable housing fund.

Section 18.274. – Administrative Relief:

A. As part of an application for the first approval of a residential or nonresidential development project, a developer may request that the requirements of this Article be waived or modified by the decision-making body, based upon a showing that applying the requirements of this Article would result in an unconstitutional taking of property or would result in any other unconstitutional result, or because there is no reasonable relationship between the impact of the development and the need for affordable housing.

1. Any request for a waiver or modification shall be submitted concurrently with the project application. The developer shall set forth in detail the factual and legal basis for the claim, including all supporting technical documentation.

2. Any request for a waiver or modification based on this Section shall be reviewed and considered at the same time as the project application. The City Council may from time to time establish by resolution a processing fee for review of any request for a waiver or modification.

B. The waiver or modification may be approved only to the extent necessary to avoid an unconstitutional result, based upon legal advice provided by or at the behest of the City Attorney, after adoption of written findings, based on legal analysis and the evidence. If a waiver or modification is granted, any change in the project shall invalidate the waiver or modification, and a new application shall be required for a waiver or modification pursuant to this Section.

Section 18.275. – Enforcement:

A. Payment of the housing impact fee is the obligation of the developer for a residential or nonresidential development project. The City may institute any appropriate legal actions or proceedings necessary to ensure compliance herewith, including, but not limited to, actions to revoke, deny, or suspend any permit or development approval.

B. The city attorney shall be authorized to enforce the provisions of this Article and all affordable housing agreements, regulatory agreements, and all other covenants or restrictions placed on affordable units, by civil action and any other proceeding or method permitted by law.

C. Failure of any official or agency to fulfill the requirements of this Article shall not excuse any developer or owner from the requirements of this Article. No permit, license, map, or other approval or entitlement for a residential development shall be issued, including without limitation a final inspection or certificate of occupancy, until all applicable requirements of this Article have been satisfied.

D. The remedies provided for in this Section shall be cumulative and not exclusive and shall not preclude the City from any other remedy or relief to which it otherwise would be entitled under law or equity.

Section 3. Adoption of this ordinance is found to be categorically exempt from the California Environmental Quality Act because the adoption of this resolution is not a project, in that it is a government funding mechanism which does not involve any commitment to any specific project (CEQA Guidelines Section 15378(b)(4)), and because it can be seen with certainty that there is no possibility that the fees may have a significant effect on the environment, in that this ordinance contains no provisions modifying the physical design, development, or construction of residences or nonresidential structures (CEQA Guidelines Section 15061(b)(3)).

Section 4. If any section, subsection, sentence, clause or phrase of the ordinance is for any reason held to be invalid, such decision shall not affect the validity of the remaining portions of this ordinance. The City Council hereby declares that it should have adopted the ordinance and each section, subsection, sentence, clause or phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional.

Section 5. The City Clerk shall publish this ordinance in accordance with applicable law

Section 6. Effective date. This ordinance shall take effect thirty (30) days from the date of its passage. Before expiration of fifteen (15) days after its passage, this ordinance shall be published in the Daily News, a newspaper of general circulation published and printed in the County of San Mateo and circulated in the City of Redwood City.

* * *

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDWOOD CITY ESTABLISHING HOUSING IMPACT FEES FOR RESIDENTIAL AND NONRESIDENTIAL DEVELOPMENT PROJECTS AND ESTABLISHING A STANDARDIZED LIST OF USES AND EXEMPTIONS WITH RESPECT TO THE PAYMENT OF NONRESIDENTIAL HOUSING IMPACT FEES

WHEREAS, on October 24, 2014 the City Council of the City of Redwood City adopted its 2015-2023 Housing Element which contemplates, among other things, an ordinance to provide a mechanism to increase the supply of affordable housing in the City pursuant to Housing Element Programs H-3 and H-14; and

WHEREAS, to implement the affordable housing goals, policies and programs of the City's 2015-2023 Housing Element, the City Council has considered and introduced on this same date an affordable housing ordinance that, among other things, authorizes the imposition of housing impact fees for certain residential and nonresidential development projects to mitigate the impact of such projects on the need for affordable housing in the City (the "Affordable Housing Ordinance"); and

WHEREAS, to ensure that future development projects mitigate their impact on the need for affordable housing in Redwood City, and to ensure that any adopted housing impact fees do not exceed the actual affordable housing impacts attributable to the development projects to which the fees relate, the City agreed to participate in the preparation of a nexus study through the countywide 21 Elements collaboration project; and

WHEREAS, the City has received and considered reports from Strategic Economics and Vernazza Wolfe Associates, Inc. dated September 2015 entitled "Residential Impact Fee Nexus Study" and "Commercial Linkage Fee Nexus Study" (together, the "Nexus Study"); and

WHEREAS, the Nexus Study uses widely used, appropriate methodology to determine the maximum amount needed to fully mitigate the burdens created by residential and nonresidential development on the need for affordable housing; and

WHEREAS, to ensure that development projects remain economically feasible, the recommended housing impact fees as shown in the attached Exhibits A and B are lower than the maximum amount needed to fully mitigate the burdens created by new development on the need for affordable housing as determined by the Nexus Study; and

WHEREAS, the City Council now desires to adopt housing impact fees for certain residential and nonresidential development projects as authorized by the Affordable Housing Ordinance, which fees do not exceed the justified fees needed to mitigate the actual affordable housing impacts attributable to the development projects to which the fees relate, as determined by the Nexus Study; and

WHEREAS, the Affordable Housing Ordinance authorizes the City Council to adopt by resolution housing impact fees for residential and nonresidential development, and the City Council desires to do so; and

WHEREAS, the Affordable Housing Ordinance authorizes the City Council to adopt by resolution a standardized list of specific uses that shall be exempt from the payment of housing impact fees, and the City Council desires to do so; and

WHEREAS, the Affordable Housing Ordinance allows the City Council to adopt by resolution the percentage of affordable units needed to fully mitigate the impact of residential or nonresidential development projects on the need for affordable housing, and the City Council desires to do so; and

WHEREAS, the Affordable Housing Ordinance authorizes the City Council to adopt by resolution a fee for processing applications for waivers from or modifications to the housing impact fees, and the City Council desires to do so; and

WHEREAS, at least ten days prior to the date this resolution is being heard, data was made available to the public indicating the amount of cost, or estimated cost, required to provide the service for which the fee or service charge is levied and the revenue sources anticipated to provide the service, including general fund revenues, in accordance with Government Code Section 66019; and

WHEREAS, at least fourteen days prior to the date this resolution is being heard, notice was provided to any persons or organizations who had requested notice, in accordance with Government Code Section 66019; and

WHEREAS, notice of the hearing on the proposed fee was published twice in the manner set forth in Government Code Section 6062a as required by Government Code Sections 66004 and 66018; and

WHEREAS, the City Council has reviewed the information contained in this Resolution and the accompanying staff report and any attachments at a meeting held on October 26, 2015.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Redwood City as follows:

1. The foregoing recitals are true and correct and incorporated into this Resolution by this reference.

2. The findings of the Nexus Study have been considered and are hereby incorporated into this Resolution by this reference.

3. The facts and substantial evidence in the record establish that there is a reasonable relationship between the need for affordable housing and the impacts of the development described in the Nexus Study for which the corresponding fee is charged, and that there is also a reasonable relationship between the housing impact fee's use and the type of development for which the fee is charged, as is described in more detail in the Nexus Study.

4. The Nexus Study sets forth cost estimates, in 2015 dollars, that are reasonable for constructing affordable housing, and the fees expected to be generated by new development will not exceed these costs.

5. The City Council hereby adopts those housing impact fees for residential development projects shown on Exhibit "A", attached hereto and incorporated by reference herein.

6. The City Council hereby adopts those housing impact fees for nonresidential development projects shown on Exhibit "B", attached hereto and incorporated by reference herein.

7. All housing impact fees collected shall be deposited into the City's Affordable Housing Fund to be used to increase and preserve the supply of housing affordable to households of extremely low, very low, low, and moderate incomes (including necessary administrative costs).

8. The City Council hereby adopts the "Land Use Exemptions" set forth in Exhibit "C", attached hereto and incorporated by reference herein.

9. The City Council may review housing impact fees from time to time. For any annual period during which the City Council does not review the housing impact fee, fee amounts shall be adjusted once by the community development director based on the percentage increase in the Engineering News-Record Construction Cost Index for San Francisco, California.

10. The City Council hereby determines that the following percentages of affordable units will mitigate the impacts of residential development on the need for affordable housing:

Required Affordable Units per Residential Development Project*				
Income Category	Single Family	Townhouse	Condominium	Apartment
Very Low Income	12.2%	11.6%	9.2%	9.4%
Low Income	12.3%	11.1%	8.8%	9.2%
Moderate Income	13.9%	12.1%	9.6%	10.2%
TOTAL	38.4%	34.8%	27.6%	28.8%

*Definitions of project types and affordability categories are contained in the Nexus Study.

11. The City Council further determines that the following number of affordable units will mitigate the impacts of nonresidential development on the need for affordable housing:

Required Affordable Units per 100,000 sf in a Nonresidential Project*			
	Hotel	Retail Etc.	Office, R&D, Medical
Very Low Income	20	76	24
Low Income	31	13	55
Moderate Income	7	2	13
TOTAL	58	91	92

*Definitions of project types and affordability categories are contained in the Nexus Study.

12. The City Council hereby adopts a fee for processing applications for waivers from or modifications as shown on Exhibit "D", attached hereto and incorporated by reference herein..

13. The City Council finds that all of the housing impact fees adopted pursuant to this Resolution do not exceed the actual affordable housing impacts of the development projects to which those housing impact fees relate, as further set forth in the Nexus Study.

14. Adoption of this Resolution is exempt from the California Environmental Quality Act because the adoption of this resolution is not a project, in that it is a government funding mechanism which does not involve any commitment to any specific project (CEQA Guidelines Section 15378(b)(4)), and because it can be seen with certainty that there is no possibility that the fees may have a significant effect on the environment, in that this

resolution contains no provisions modifying the physical design, development, or construction of residences or nonresidential structures (CEQA Guidelines Section 15061(b)(3)).

15. This Resolution shall take effect on December 26, 2015, but only if the Affordable Housing Ordinance is adopted and effective prior to that date.

THE FOREGOING RESOLUTION WAS DULY AND REGULARLY ADOPTED by the City Council of the City of Redwood City, at a regular meeting of said City Council held on _____, 2015, by the following vote:

AYES:

NOES:

ABSENT:

ATTEST:

City Clerk of the City of Redwood City

APPROVED AS TO FORM:

City Attorney of the City of Redwood City

EXHIBIT "A"

Housing Impact Fees for Residential Development Projects

*Housing impact fees for residential projects shall be calculated using the net new square footage of Residential Floor Area for the dwelling unit to which the housing impact fee relates.

As used in the Nexus Study, "Residential Floor Area" for Single-Family Detached Homes, Townhomes, Duplexes, and Triplexes includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for parking.

As used in the Nexus Study, "Residential Floor Area" for Apartments and Condominiums includes all horizontal areas of the several floors of such buildings measured from the exterior faces of exterior walls or from the center line of party walls separating two (2) buildings, minus the horizontal areas of such buildings used exclusively for parking, elevators, stairwells or stairs between floors, hallways, and between-unit circulation.

Fees shall be paid that are in effect at the time of issuance of the building permit for the residential development, based on the effective rate at the time of building permit issuance.

Type of Residential Unit	Fee per Square Foot of Net New Residential Floor Area
Single-Family Detached Home	\$25
Townhomes, Duplexes, and Triplexes	\$25
Apartments and Condominiums	\$20

EXHIBIT "B"

Housing Impact Fees for Nonresidential Development Projects

*All housing impact fees for nonresidential projects, including new construction and conversion of a residential use to a nonresidential use shall be calculated using the gross floor area of net new nonresidential space, excluding structured parking.

Nonresidential Use	Fee per Square Foot of Net New Gross Floor Area
Hotel	\$5
Retail, Restaurants and Services	\$5
Office, Medical Office and Research and Development Uses	\$20

EXHIBIT "C"

LAND USE EXEMPTIONS

In accordance with section 18-270(A)(8) of the Affordable Housing Ordinance, the following specific nonresidential uses are exempt from the payment of the housing impact fee:

1. Public Uses, as defined by Article 2, Section 2.2 of the Redwood City Zoning Code, including, but not limited to, public schools, parks, playgrounds, hospitals, and administrative and service facilities.;
2. Quasi-Public Uses, as defined by Article 2, Section 2.2 of the Redwood City Zoning Code, including, but not limited to, churches, schools and colleges, recreational facilities, cultural institutions and private hospitals;
3. Child Care Centers, including Family Child Care Homes;
4. Recreational facilities for public use and enjoyment within commercial or industrial developments;
5. Housing for the Elderly, nursing homes, rest homes, residential care facilities, and skilled nursing facilities as defined by Article 2, Section 2.2 of the Redwood City Zoning Code; and
6. Schools, public and private, as defined by Article 2, Section 2.2 of the Redwood City Zoning Code.

EXHIBIT "D"

FEE FOR WAIVERS AND MODIFICATIONS

Waivers and Modifications of Requirements of Affordable Housing Ordinance:

Initial Deposit of \$1,000

To be charged on a cost recovery basis, where the staff charges their time and other costs against the initial deposit, recovering the actual cost of project review.



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



October 14, 2015

Mayor Jeff Gee
City of Redwood City
P.O. Box 391
1017 Middlefield Rd.
Redwood City, CA 94063

RE: Development Impact Fees for Affordable Housing

Dear Mayor Gee:

Cities across Silicon Valley are starting to deliberate how they can re-start their respective pipelines of affordable housing production. As you know, San Mateo County is at the center of a housing affordability crisis of historic proportions, which is precipitated in large part by our location as the northern end of Silicon Valley, our geographic limitations on the peninsula, and our fragmented jurisdictional landscape. Considering the dissolution of Redevelopment Agencies (RDA), coupled with the legal challenges to inclusionary housing programs, cities are further limited in their ability to require or fund the production of affordable housing, specifically rental housing.

The demand for new housing here appears almost endless. Our local jobs economy continues to experience explosive growth, creating 40,000 jobs over the last three years. In response, only 3,000 units of housing were created over this same three year period. This tremendous imbalance has further skewed our existing jobs-housing mismatch and has caused housing prices to skyrocket. Average rents have increased by 50% in the last four years. In having a workforce and community of diverse incomes, a commensurate inventory of housing that is affordable to that range is important – housing affordabilities that “fit” our diverse workforce.

Unfortunately the production of market-rate housing is not providing housing options for a significant portion of our workforce and community. As a result, employers – both public and private - are struggling with the impacts of expensive housing in the form of employee turnover, loss of productivity, and an inability to attract and retain qualified personnel. The county is experiencing a distressing exodus of workers who are essential to making our communities complete, including child care workers, teachers, paramedics, home health aides, hotel clerks, and restaurant staff. The fabric of our community is being weakened and undermined. Ironically, the largest number of future job openings in San Mateo County is expected to be in low- and moderate-wage occupations (making less than \$20/hour).

A coalition of community groups has formed (please see the signatories below) to encourage local jurisdictions to adopt housing impact fees and commercial linkage fees to enable an important source of funding for the creation of deed-restricted, affordable housing that serves

these income segments neglected by the market. We urge our City Council members to adopt meaningful fees to help mitigate the impacts of new residential and commercial development and to create a new source of funding available for affordable housing development and other necessary programs.

Development impact fees are an important and legally tested way for communities to mitigate the collateral impacts of new growth. They provide an ongoing source of funding for new affordable housing and other uses. These fees are no different than other types of impact fees levied for parks, schools, or traffic. As new market-rate housing and new businesses bring additional people to a community, it drives the need for additional services that are provided by lower-income workers. Development impact fees will ensure that those new low-income workers that contribute to the success and vitality of our community will be able to live here too. These fees will also help to ensure that the additional “burden” placed on our strained housing market meets the full needs of our community.

Therefore we urge the following actions:

- a. Implementation of a meaningful residential impact fee that is high enough to ensure that the city is able to either maintain or improve their existing jobs-housing fit.
- b. Implementation of an in-lieu, inclusionary requirement. You may wish to consider an approach similar to what San Mateo implemented that adjusts the percentage units required to income level targeted (i.e. 15% for low-income or 10% very low-income).
- c. Implementation of a meaningful commercial impact fee that is high enough to ensure that the city is able to either maintain or improve their existing jobs-housing fit.

With so much public funding going into the enhancement of our primary growth areas, we think it is only fair that those that build there and are benefitting from future appreciation contribute their fair share to maintain balance and diversity in our community.

Thank you for your dedication and efforts towards sustainable planning and bringing greater housing affordability to your community.

Please contact Joshua Hugg, Program Manager at Housing Leadership Council of San Mateo County, at jshugg@hlscmc.org or (650) 872-4444, x2# if you have any questions.

Sincerely,

San Mateo County Development Impact Fee Coalition:

Housing Leadership Council of San Mateo County

Greenbelt Alliance

Non-Profit Housing Association of Northern California

San Francisco Organizing Project/Peninsula Interfaith Action

Cc. City Council
City Manager