

2013 Council Study Issue

## **CDD 09-11 Review of the Housing Mitigation Fee**

**Lead Department** Community Development

**History**                      **1 year ago** Deferred                      **2 years ago** Deferred

### **1. What are the key elements of the issue? What precipitated it?**

This study was proposed initially as part of the 2008 Housing Strategy, which was intended to increase the City's ability to provide affordable housing units. In June of 2008 Council directed staff to review this fee program to determine if the amount of the fee, and the indexing method, were appropriate and effective. At that time Council set the fee at \$8.95 per square foot of new building area subject to the fee (high intensity industrial development in excess of the allowable floor/area ratio [FAR] of the zoning district in which it is located); directed staff to adjust the fee annually based on change in the CPI for that year; and require all projects approved after July 1, 2008 to pay the fee in effect at the time of payment. The goal of the study is to review the existing housing mitigation fee structure, rate, and applicability, and consider possibly expanding it to a wider range of development types. The study would include a review of existing conditions in the City and would review other nearby cities' requirements. A nexus study would also be conducted in compliance with the state Mitigation Fee Act.

In September 2009, the Housing and Community Revitalization Element of the General Plan (Housing Element) was adopted with an implementation plan which included this study as an objective to be initiated in 2011, and completed no later than 2014:

#### **3. Affordable Housing Development Assistance**

Support development of new housing affordable to extremely low, very low and low income households. Provide financial and regulatory assistance for new affordable housing development, using available funds. Identify new sources of funding. Evaluate expansion of Housing Mitigation Fee in 2011.

In early 2009, this study was considered as a study issue, but given the severe economic recession which began in late 2008, it was deferred in 2010 and 2011 as it was not considered to be an appropriate time to raise fees on employment-generating developments such as those subject to the fee. However, it is not necessary to continue to consider and rank this item as a study issue, as it will be completed as part of CDD's general Housing Element implementation work program, after the LUTE is adopted.

### **2. How does this relate to the General Plan or existing City Policy?**

#### **HOUSING AND COMMUNITY REVITALIZATION SUB-ELEMENT**

**GOAL B:** Move toward a local balance of jobs and housing

Policy B.2 Continue to require office and industrial development above a certain intensity to mitigate the demand for housing.

*Action Statement B.2.a* Codify the Housing Mitigation Policy that requires certain developments in industrial zoning districts that exceed established floor area ratios to contribute towards the housing fund or take other measures to mitigate the effects of the job increase upon the housing supply, and index the Housing Mitigation Fee.

#### **LAND USE AND TRANSPORTATION ELEMENT**

**GOAL C4:** Sustain a strong local economy that contributes fiscal support for desired city services and provides a mix of jobs and commercial opportunities.

Policy C4.1 Maintain a diversity of commercial enterprises and industrial uses to sustain and bolster the local economy.

Policy C4.3 Consider the needs of business as well as residents when making land use and transportation decisions.

### **HOUSING STRATEGY**

**Issue:** To increase resources to provide the subsidy needed to create affordable units. Review the Housing Mitigation Fee ordinance to consider including other industrial and commercial developments to increase housing resources for all loan and development programs. (Study issue already proposed on this item.)

**Target:** Very Low, Low and Moderate

### **3. Origin of issue**

**City Staff** Staff

### **4. Staff effort required to conduct study** Moderate

#### **Briefly explain the level of staff effort required**

Staff will need to work with Purchasing to issue an RFP for completion of a nexus study; review proposals and assist in selection of the consultant, manage the contract and supervise the consultant, provide significant amounts of in-house data on development trends, land use policies, housing costs and programs, etc. to the consultant, review draft reports, and write an RTC with final recommendations regarding any possible revisions to the fee, as well as work with OCA to make any code revisions necessary to implement such changes. Staff of CDD, OCA, Finance, and possibly ITD will be involved to varying degrees in completing this study.

### **5. Multiple Year Project?** No **Planned Completion Year** 2014

### **6. Expected participation involved in the study issue process?**

**Does Council need to approve a work plan?** No  
**Does this issue require review by a Board/Commission?** Yes  
**If so, which?** Housing and Human Services Commission,  
 Planning Commission  
**Is a Council Study Session anticipated?** No

### **7. Briefly explain if a budget modification will be required to study this issue**

**Amount of budget modification required** 75000

#### **Explanation**

A mitigation fee nexus study of this type would be estimated at \$75,000 for a qualified consultant to complete, depending on exactly what scope of work is ultimately defined for the study. This type of study requires highly specialized knowledge, analytical ability, and often costly proprietary economic data, and it would be most cost-effective to hire an experienced consultant to do it, as such studies are often subject to legal challenge. This estimate does not include staff hours estimated to be required to complete this study, which can be provided as part of standard operations. The cost for this study could be funded by the Housing Mitigation Fund, if added as a special project in the FY 2013-14 Budget.

### **8. Briefly explain potential costs of implementing study results, note estimated capital and operating costs, as well as estimated revenue/savings, include dollar amounts**

**Are there costs of implementation?** No

**Explanation**

A restructure of the housing mitigation fee program could be revenue neutral, or it could result in additional revenues for housing programs. Estimates and analysis of additional revenue are a key components for this study. Implementation costs would include the costs to revise the Municipal code and fee schedule as needed to implement the study recommendations, however these are not anticipated to be significant and most likely can be absorbed within the operating budget.

**9. Staff Recommendation**

**Staff Recommendation** Drop

**If 'Support', 'Drop' or 'Defer', explain**

A study issue is no longer required because this work was incorporated into the Housing Element Implementation Plan (Objective 3). Staff is tentatively planning to complete this study in FY 2013-14, after adoption of the LUTE, assuming adequate funding is approved in the adopted FY 2013-14 Projects Budget.

**Reviewed by**



**Department Director**

**Date** 10/3/12

**Approved by**



**City Manager**

**Date** 10-4-12