



City of Sunnyvale

Agenda Item-No Attachments (PDF)

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REPORT TO COUNCIL

SUBJECT

Approve Budget Modification No.10 in the Amount of \$28,435 for Non-Residential Housing Mitigation Fee Study for BAE Urban Economics Consultant Costs

BACKGROUND

A Housing Mitigation Fee (HMF) was first approved by City Council in 1983 to address the impacts of development and prevent the jobs/housing imbalance from becoming more severe. The fee was set at \$7.19 per square foot for projects over a certain size and remained at that amount until 2002; it only applied to developments in industrial zoning districts with high floor area ratios (FARs) that required City Council approval. In 2002, the HMF was increased slightly and was indexed annually based on the CPI and remained limited to high FAR developments in industrial zoning districts. In 2015, the HMF was expanded to include office/industrial, retail, and lodging development projects in any zoning district; and the initial fee was set at \$15 per net new square foot for all office/R&D and industrial projects and \$7.50 per square foot for all retail and lodging projects, both adjusted annually for inflation as part of the annual fee schedule adoption. The fee was also renamed the "Housing Impact Fee for Nonresidential Development." The Housing Mitigation fee program was last studied in 2014 and updated in 2015.

In February 2021, the City Council approved Study Issue 21-02 to review and potentially update the Housing Mitigation Fees and allocated \$60,000 from the General Fund to cover the cost of the Study. The California Mitigation Fee Act (Government Code Section 66000 et seq.) requires that local governments determine a reasonable relationship between the impacts of new development, the facilities needed to address those impacts, and the fees that the jurisdiction intends to charge. To meet this requirement, staff conducted a Request for Proposals (RFP) and selected BAE Urban Economics (BAE) to prepare the Non-Residential Housing Mitigation Fee Nexus Study. A contract with BAE in the amount of \$88,435 was executed in June 2022 and the project will be considered by Council in early 2023.

EXISTING POLICY

General Plan, Housing Element, Goal HE-1

Assist in the provision of adequate housing to meet the diverse needs of Sunnyvale's households of all income levels.

Policy HE-1.4 Continue to require office and industrial development to mitigate the demand for affordable housing.

Pursuant to Sunnyvale Charter Section 1305, at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by affirmative votes of at least

four members so as to authorize the transfer of unused balances appropriated for one purpose to another, or to appropriate available revenue not included in the budget.

ENVIRONMENTAL REVIEW

The approval of funding to complete a nexus study and adjustment of fees does not constitute a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines Section 15378(b)(4) because it constitutes a governmental fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

DISCUSSION

BAE was selected to prepare a new nexus study to review the current fees and compare them to development feasibility, which would ensure any change in fees would not hinder new development in the city. A nexus study would review development in each of the land-use categories and calculate the maximum justifiable fee that would apply per square foot for each land use based on a variety of factors including: estimated number of employee households that would be supported by the jobs in the new development, the portion of those households expected to have household income levels that are insufficient to afford market rate housing, and the “feasibility gap” to build housing units with sufficient subsidy to accommodate those households needing below market rate housing. Sunnyvale’s last nexus study was completed in 2014. Preparing a new nexus study helps protect the City from potential legal challenges that may arise due to increasing the fees. The nexus study will be presented to the Council to review the acceptable fee range for the nonresidential uses for consideration on increasing, decreasing, or maintaining the fees. The fee study will also include a review of similar fees in other jurisdictions to be able to compare the existing Sunnyvale fees and fee levels justified by the nexus study.

The City Council appropriated \$60,000 as part of FY 2021/22 Budget Supplement #1, which was the estimated cost for the fee study at the time. The City conducted an RFP in January 2022 and three written proposals were received. Two firms were invited for direct interviews in April 2022 and the staff conducting the RFP evaluation decided to award the contract to BAE with a base cost proposal of \$59,910. During initial meetings with BAE, City staff identified the importance of the offered optional service of Pro-Forma Feasibility Testing for Potential Fee Updates, which would provide accurate, up to date project cost templates rather than reliance on assumed costs or City-obtained costs from developers. This tool would also allow us to further analyze various land use and product types to ensure fee recommendations would be as accurate and specific to Sunnyvale as possible. These services are common in fee studies across the State but were removed from the proposal to meet the City’s initial proposed budget. In addition, based on community interest in recent housing and fee related projects, City staff requested that BAE add one virtual community meeting as opposed to just stakeholder meetings. Combined, these additional costs totaled \$28,525 for a final executed contract total of \$88,435.

Cost-savings this fiscal year are anticipated in other Housing Study Issues funded by the General Fund, such as the Right to Lease Ordinance Study Issue. Any remaining funds for those projects will be returned at the end of FY 2022/23 and will offset the increased costs needed to finalize the Housing Mitigation Fee Study.

FISCAL IMPACT

Budget Modification No.10 has been prepared to appropriate \$28,435 from the General Fund to Project 835640 - Housing Mitigation Fee Study.

Budget Modification No. 10 FY 2022/23

	Current	Increase/ (Decrease)	Revised
General Fund			
<u>Expenditures</u>			
835640 - Housing Mitigation Fee Study	\$60,000	\$28,435	\$88,435
<u>Reserves</u>			
Budget Stabilization Fund Reserve	\$78,935,683	(\$28,435)	\$78,907,248

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Public Library, Senior Center, Community Center and in the Department of Public Safety Lobby. In addition, the agenda and report are available at the Sunnyvale Public Library, Office of the City Clerk, and on the City's website.

STAFF RECOMMENDATION

Approve Budget Modification No. 10 in the amount of \$28,435 for Non-Residential Housing Mitigation Fee Study for BAE Urban Economics Consultant Costs.

The Housing Mitigation Fee Study is a critical tool to analyze the City's impact fee to adequately capture the need for new affordable housing based on new commercial development in Sunnyvale. This Study Issue is nearing completion and is expected to be considered by the City Council in early 2023. To finalize this Study Issue, additional funding is needed to cover previously awarded Consultant expenses.

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