



Case Study – Fee Deferrals 9.1.2018

Summary of the key question that will be answered in this Case Study:

- **Does deferring impact fees until Certificate of Occupancy encourage development of achievable local housing?**

Reduces Borrowing Costs for Developers

Deferring the payment of development fees reduces finance costs of building achievable local housing projects, while still provides funds for future public improvements. The San Diego Housing Commission used this strategy to encourage development by recommending a comprehensive fee deferral program which has been adopted by the City of San Diego. With the fee deferral program, impact and permit fees for affordable housing are now collected as a requirement of Certificate of Occupancy rather than at permit issuance or other stages of the project’s timeline. **The San Diego Housing Commission estimates that developers save about \$2,000 - \$6,000 per unit by avoiding borrowing costs for development fees.**¹

Utilizing the total development fees calculated by Hansford Economic Consulting for a hypothetical 77 unit multi-family complex for select subregions within the North Tahoe-Truckee region, **developers could save about \$2,225 - \$3,729 per unit in borrowing costs (interest)** – see *Table below*. Total savings in borrowing costs for fees would range from \$171,342 to \$287,151.

Subregion	Total Development Fees Due [1]	Monthly Loan		Per Unit Cost	Total Interest Paid	Per Unit Interest Amount
		Payment Amount	# of Units			
Kings Beach	\$2,421,411	\$112,857	77	\$31,447	\$287,151	\$3,729
Town of Truckee	\$1,504,033	\$70,100	77	\$19,533	\$178,360	\$2,316
Donner Summit (Nevada County)	\$1,444,846	\$67,341	77	\$18,764	\$171,342	\$2,225

[1] Total Fees calculated by HEC in Fee Analysis for MHC, 2018

This analysis is based on the following assumptions:

- Project would take 2 years to complete
- Financing would be required to pay development fees
- Interest rate would be 11% due to the actual cost of borrowing capital early on in a project. Bank loans are often not available when

¹ Addressing the Housing Affordability Crisis, San Diego Housing Commission, January 2016. Available at: <https://www.sdhc.org/about-us/media-center/significant-documents/>.



development fees are required at permit application so initial capital is borrowed from investors who require a higher rate of return than conventional bank loans.

- Loan payments would be due monthly

Some Local Jurisdictions Already Have Fee Deferral Programs – Increases Uniformity across Fee Charging Jurisdictions

Some of the local jurisdictions in the North Tahoe – Truckee region currently have fee deferral programs in place. Having a fee deferral option available for achievable local housing projects at all of the 18 fee charging jurisdictions would create broader uniformity in the region with how fees are charged and paid. The jurisdictions with fee deferral programs currently include:

Placer County

- Traffic impact, public facility, and parks and recreation fees may be deferred for any development until (whichever occurs first) request for the temporary or final Certificate of Occupancy, request for final inspection, two years from the date of issuance of building permit, or sale or transfer of all or a portion of the property.

Town of Truckee

- Fee deferral until Certificate of Occupancy can be approved if fee exceeds \$25,000 and developer enters into recorded agreement with the Town (any type of development).
- Town impact fees and the impact fees collected by the Town of Truckee for the Truckee Fire Protection District and Truckee Donner Recreation and Parks District are deferred for Workforce Housing development until the issuance of the temporary or final Certificate of Occupancy, whichever occurs first (Workforce Housing Ordinance).

Other California Jurisdictions Use Fee Deferral Programs to Incentivize Affordable Housing Development

Other jurisdictions in California have adopted development fee deferral programs to reduce the cost of affordable housing projects. Some of these jurisdictions include:

- City of Dublin
- City of Elk Grove
- City of Escalon
- City of Fremont
- City of Modesto
- City of Pittsburg



- City of Santa Rosa
- City of Sonoma
- City of Roseville
- Sacramento County

MHC contacted several jurisdictions implementing fee deferral programs to better understand if the programs encourage affordable housing development. In speaking with a few of the jurisdictions (Cities of Dublin, Modesto, and Santa Rosa and Sacramento County) that have implemented fee deferral programs, **all of those with voluntary programs believe that it does provide a positive incentive to affordable housing developers.** The fee deferral programs help developers bridge the gap from initial construction loans into the project's second/final loan by avoiding having to borrow funds for development fees during this bridge period.

Both the City of Modesto and Sacramento County receive about 1-2 fee deferral applications each year for multi-family housing. In response to requests from developers, the City of Modesto, which is experiencing a housing boom, has recently approved expanding their fee deferral program to single-family home projects, demonstrating that this is a popular program for developers. Sacramento County did note that processing fee deferral applications can take some time due to requirements for multiple approvals and notarization of the agreement. However, staff believe that the program's benefits for encouraging multi-family housing outweigh the additional staff time spent processing fee deferral agreements. None of the jurisdictions mentioned issues with collecting payment when due (at Certificate of Occupancy) or lacking enough funds to complete their jurisdiction's planned infrastructure projects on schedule.

The only negative experience was at the City of Santa Rosa, which requires that all fees are deferred for any type of new development – rather than a voluntary program. According to staff, implementing fee deferral agreements is a time-consuming process, requiring multiple levels of approvals and notarization of the fee deferral agreement. However, this experience is unique in that the City of Santa Rosa requires all projects to enter into a fee deferral agreement which is a good lesson for our region in that we would not want to recommend mandatory fee deferrals to local jurisdictions.

Developer Feedback

MHC asked several local housing developers who have experience building affordable housing projects, are currently working on affordable or Achievable Local Housing projects, or are interested starting to work on affordable or



Achievable Local housing projects in our region. The developers surveyed indicated unanimous support for development fee deferrals as an option for affordable and Local Achievable Housing projects since they do not start to receive any revenue on a project until Certificate of Occupancy or later; thus, fee deferrals would give them an opportunity to save some money on borrowing costs. Further comments were that this strategy could be strengthened by offering fee deferrals for 15 years or until a unit is sold, whichever comes first. Other comments included ensuring that the fee deferral process is easy to enforce from a local jurisdiction's point of view and easy to comply with from a developer's point of view.

Recommended by Experts

Housing experts such as the California Department of Housing and Community Development lists:

“reduce, waive, or subsidize development and impact fees for affordable housing”

as a strategy that has been successfully implemented by localities to address their housing needs.²

Furthermore, the Monterey Bay Economic Partnership, recently released a White Paper with a call-to-action to its local jurisdictions to adopt promising policy changes to increase housing affordability throughout the Monterey Bay Region. Their policy recommendations were based on a review of local policy recommendations, analysis, and studies of implemented policies by the California Department of Housing & Community Development, the San Diego Housing Commission, multiple policy groups in the San Francisco Bay area, and a few specific jurisdictions. Deferral of development impact fees until the certificate of occupancy was one of the Partnership's promising recommended policy recommendations.³

² Assist in the Development of Housing, California Department of Housing and Community Development. Available at: <http://hcd.ca.gov/community-development/building-blocks/program-requirements/assist-in-development-housing.shtml>

³ What Realistic Policy Changes Could Improve Housing Affordability in the Monterey Bay Region? Monterey Bay Economic Partnership, January 2018. Available at: http://staging.mbep.biz/wp-content/uploads/2018/04/MBRegionLocalHousingPolicyWP_Final.pdf



Reasons not to Implement a Fee Deferral Program

The following is a list of potential reasons why local jurisdictions would not want to implement a fee deferral program. However, we have not evaluated the likelihood or impact of these concerns.

1. Increased risk to local jurisdiction of not being paid fees due at Certificate of Occupancy. For example, if a developer is unable to complete project, the development fees most likely will not be paid to the local jurisdiction.
2. Increased administrative burden for local jurisdiction to evaluate and approval deferral request as well as track when payment is due.

Summary

In conclusion, MHC believes that offering a regional fee deferral program, adopted by each partnering jurisdiction, encourages Achievable Local housing development by moderately lowering the cost of borrowing funds for projects as well as creating a region welcoming to developers who want to build housing for the local and workforce population.

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