



Case Study – Scalable Development Fees 9.1.2018

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

- ***Does the charging of development fees using a scalable methodology (ex. square footage, per fixture) rather than per unit encourage development of achievable local housing?***

Incentivizes Creation of Smaller Units

Establishing development plan check/permit, impact, and connection fees based on a scalable methodology, such as square foot, per equivalent dwelling unit (EDU), per bedroom, or per fixture, to appropriately charge for the level of impacts based on the size of the house or housing types, results in a fee that is proportional to the size of the residence. Using a scalable methodology for assessing fees, will allow smaller units to pay lower development fees.

Within the North Tahoe-Truckee region, all of the sub-regions have at least some fees that are charged by local jurisdictions/special districts on a per housing unit basis without regard to whether the unit is a 3,000 square foot single family home or a 900 square foot rental apartment. It is the opinion of MHC that this per unit methodology provides a financial disincentive to build smaller units which can have a much greater effect on improving our region's supply of achievable, local housing.

While changing the basis of fees to a scalable methodology will not necessarily create new local achievable housing immediately, it will encourage development of smaller units, in other words "Affordability by Design." This is an approach which assumes that units cost less because they are smaller and more efficiently designed or have fewer amenities – housing that permanent, local residents are more likely to live in.

The following table compares fees for a hypothetical 15 multi-family unit project using a per unit versus square foot methodology for assessing fees. When applying various methodologies for assessing development fees, the project would pay \$375,000 if fees are assessed on a per unit basis while the same project would only pay \$270,000 if fees are assessed using a square foot methodology. Similarly, if the project details changed to include fewer (only 10 units), but larger units (2,000 square foot), the project would pay \$360,000 if fees are assessed using a square foot basis. This is \$90,000 more in fees than the project would be assessed for 15 smaller units using the square foot



methodology (total cost \$270,000). Therefore, **a scalable methodology provides a modest incentive for a mix of housing sizes and affordability levels.** Local jurisdictions can expect to collect the same net development fees using either the per unit or square foot methodology cumulatively (by the time of full buildout), but the amount of fees each project will pay will vary depending on the methodology used for assessing fees.

	Project Details	Total Fees
# of Units	15	
# of Bedrooms	2	
# of Bathrooms	1	
Square Footage of Units	1,000	
Total Square Footage of Living Space	15,000	
Per Unit Methodology	\$25,000/unit	25,000 X 15 = \$375,000
Square Foot Methodology [1]	\$18/sq ft	18 X 15,000 = \$270,000

[1] \$18 includes total development fees due (ex. sewer connection, traffic, facilities, parks & rec, etc...)

Increases Uniformity Across Fee Charging Jurisdictions

There are 18 fee charging entities in the North Tahoe – Truckee region. Eight of them (see list below) are currently utilizing fee structures that adapt with unit size. Assessing fees based on a scalable methodology by all of the 18 fee charging jurisdictions would create broader uniformity in the region and further incentivize the development of smaller residential units. For example, if a new development pays half of its fees based on a per unit charge and half on a square footage basis, there is less incentive to develop a smaller unit as some of the fees will not change no matter the size of the unit or number of bedrooms or bathrooms.

The local entities charging fees based on a scalable methodology include:

- Alpine Springs County Water District – Square Foot (Fire Fee)
- North Tahoe Fire Protection District – Square Foot
- Northstar Community Services District – Square Foot (Fire Fee)
- Squaw Valley Public Service District – Per Bedroom (Fire Fee)
- Tahoe Truckee Unified School District – Square Foot
- Town of Truckee – Square Foot
- Truckee Donner Parks and Recreation District – Square Foot
- Truckee Donner Public Utility District – Square Foot (Water Facilities Fee)
- Truckee Fire Protection District – Square Foot



Other California Jurisdictions Use Scalable Fee Methodologies Programs

Other jurisdictions in California have also implemented a scalable methodology for charging fees. These jurisdictions cite charging fees on a square footage, or similar basis, in their Housing Elements as a strategy to incentivize the development of affordable housing by encouraging the building of smaller units. Some of these jurisdictions include:

- City of Mountain View
- City of San Marino
- Glenn County

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 using scalability as a basis for charging development fees and believe that this methodology encourages the building of smaller units. Further comments were that this strategy could be strengthened by changing zoning to increase density. For example, if a parcel is not zoned for enough units to make it profitable to build smaller units, developers will build larger units on that parcel to ensure that they are still able to earn a profit irrespective of how development fees are calculated.

Recommended by Experts

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

"Establish impact fees based on square footage to appropriately charge for the level of impacts based on the size of the house or housing types (i.e. second-unit, single-room occupancy, multifamily, single-family). For example, a sewer impact of a second-unit is less than for a 5,000 square foot home."

as a strategy that has been successfully implemented by localities to address their housing needs.¹

¹ 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>



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. **Scale all fees by square foot, not per unit was one of the Partnership's promising recommended policy recommendations.**²

Reasons not to Implement a Scalable Fee Methodology

The following is a list of potential reasons why local jurisdictions would not want to change their fee charging methodology to a scalable basis. However, we have not evaluated the likelihood or impact of these concerns.

1. Based on the Fee Mitigation Act (AB 1600), a nexus must be shown between the fee and the facilities the fee will fund.
2. May require a new fee study or at least an analysis justifying the new fee structure and why it complies with California state law. This could create an increased administrative burden for local jurisdictions, especially those that recently adopted a new fee structure. However, even if a new fee study is needed, the study can be paid for from collected AB 1600 fees.

Summary

In conclusion, MHC believes that using a scalable fee methodology reduces barriers and provides incentives to building achievable, local housing by encouraging the development of more, but smaller units.

² 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