

Housing Trust Fund Non-Residential Affordable Housing Fee Nexus Study and Fee Update

SHRA Commission

November 3 2021



Background

Need for Affordable Housing

- Market rate housing is not affordable for households under 80% of median income
- 73% of renters, 60% of homeowners earning under 80% of median are overpaying for housing
- Over 11,000 affordable units assigned to County under Regional Housing Needs Allocation

County's Housing Trust Fund Fee

- Fee for affordable housing on non-residential construction
- Provides gap financing to create affordable housing
- Established in 1990. Last updated in 1992.
- Reassessment of the fee is an implementation action for the Analysis of Impediments to Fair Housing Choice submitted to HUD.

Housing Trust Fund Fee

Applicable to Non-Residential Development



One-time fee paid at building permit



Applies to development of new non-residential buildings in unincorporated areas of Sacramento County



Deposited to Housing Trust Fund managed by Sacramento Housing and Redevelopment Agency (SHRA)



3,000 affordable units assisted since 1990

Housing Trust Fund Fee

Applicable to Non-Residential Development

- Approximately 50 Similar Programs in California
- Within Sacramento County, five cities have similar fees:
 - ❖ City of Sacramento
 - ❖ Elk Grove
 - ❖ Ranch Cordova
 - ❖ Citrus Heights
 - ❖ Folsom

Existing Fees (\$/SF of Building Area)

Office	\$0.97 / Sq.Ft.
Hotel	\$0.92 / Sq.Ft.
R&D	\$0.82 / Sq.Ft.
Commercial	\$0.77 / Sq.Ft.
Manufacturing	\$0.61 / Sq.Ft.
Warehouse	\$0.26 / Sq.Ft.

Fees apply to new non-residential construction.

Fees last updated in 1992

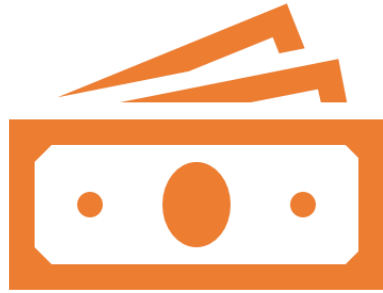
Studies to Support Fee Update

Two studies prepared by Keyser Marston Associates (KMA):

- **Housing Trust Fund Nexus Analysis** – addresses legal requirement and establishes maximum fees

- **Analysis, Context, and Recommendations** - provides information to support selection of updated fee levels:
 - Market context
 - Fees as a percent of development costs
 - Affordable housing fee programs in Sacramento area
 - Comparison of total fees and permit costs to other jurisdictions
 - Illustration of fee, had it been escalated for cost increases over time.

Nexus Study Purpose



Establishes Maximum Fee Levels



**Addresses Legal Requirement to
Implement an Impact Fee**

Nexus Concept

New Workplace Buildings Mean:

- New jobs, a share of which are lower paying
- New lower income households
- New demand for affordable housing

Nexus study result: maximum fee levels based on cost to provide needed affordable units to workers

Affordability Gap

Difference between cost of developing affordable units and the units value based on restricted affordable rent

- Nexus Study addresses three income levels
 - Extremely Low Income-under 30% of area median income(AMI)
 - Very Low Income- 30-50% of AMI
 - Low Income-50-80% of AMI

Nexus Study Maximum Fee Findings

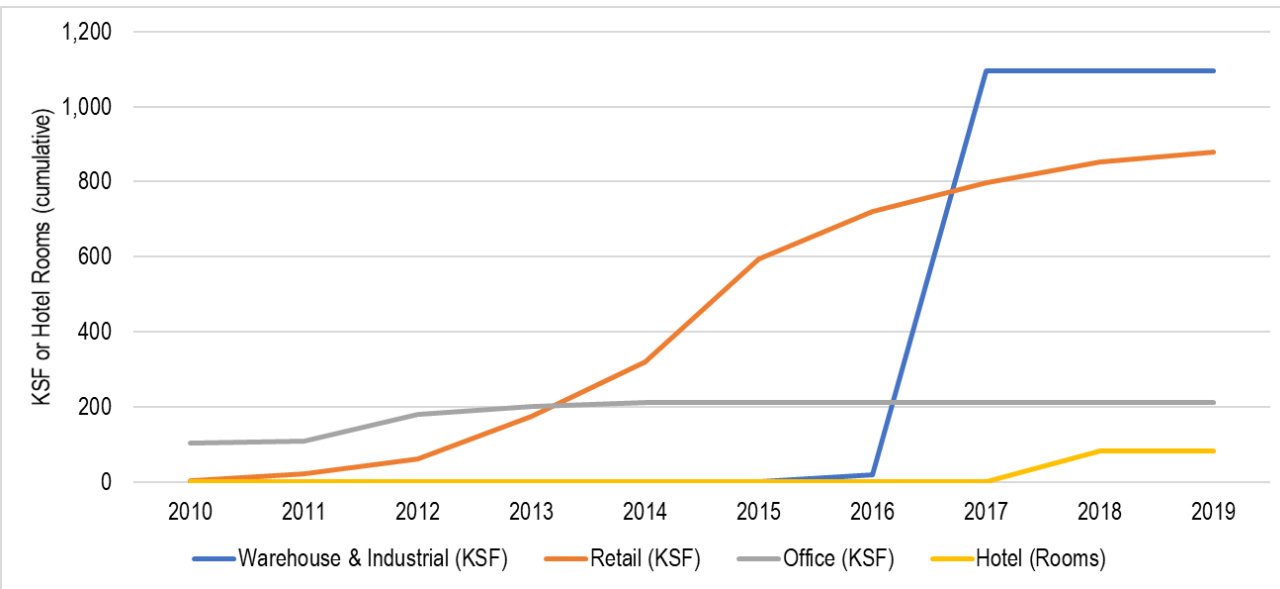
Building Type	Nexus Maximum Fee (\$/SF)
Office	\$47.60
Medical	\$48.20
Retail / Commercial	\$69.60
Hotel	\$16.50
Industrial / Manufacturing	\$38.90
Research and Development	\$15.40
Warehouse	\$16.40
Residential Care	\$15.10

Nexus findings are a ceiling on potential fees.

Fees are typically set well below nexus maximums based on other considerations.

Development in Unincorporated County

Unincorporated County Development, 2010 to 2019 Cumulative



Sources: Costar, Colliers International.

Warehouse / Distribution has been the largest category of non-residential development in recent years.

Nearly 5 million square feet built or under construction in 2020 and 2021.

Recent developments include distribution centers for Amazon, U.S. Foods, Walmart.

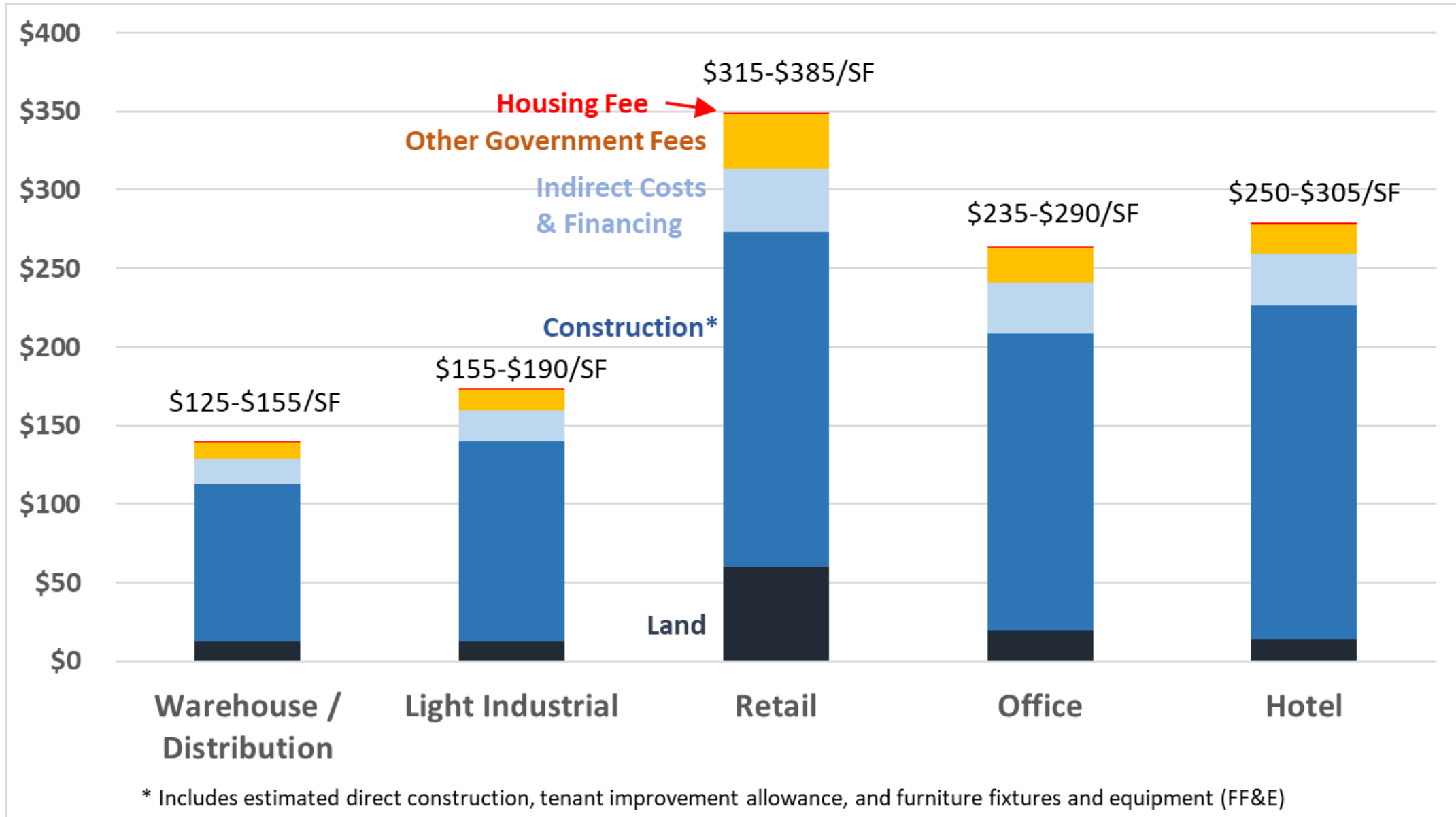


Development Costs Analysis: Representative Project Types Addressed

Prototype	Gross Building Area (Square Feet)	Floor Area Ratio (FAR)	Land Area (acres)
Warehouse / Distribution	500,000	0.4	28.7
Light Industrial	100,000	0.4	5.7
Retail	20,000	0.25	1.8
Office	50,000	0.5	2.3
Hotel	65,000 / 105 Rooms	0.8	1.9

Illustrative Total Development Cost Estimates

Prototype Non-Residential Projects (\$ / square foot gross building area)



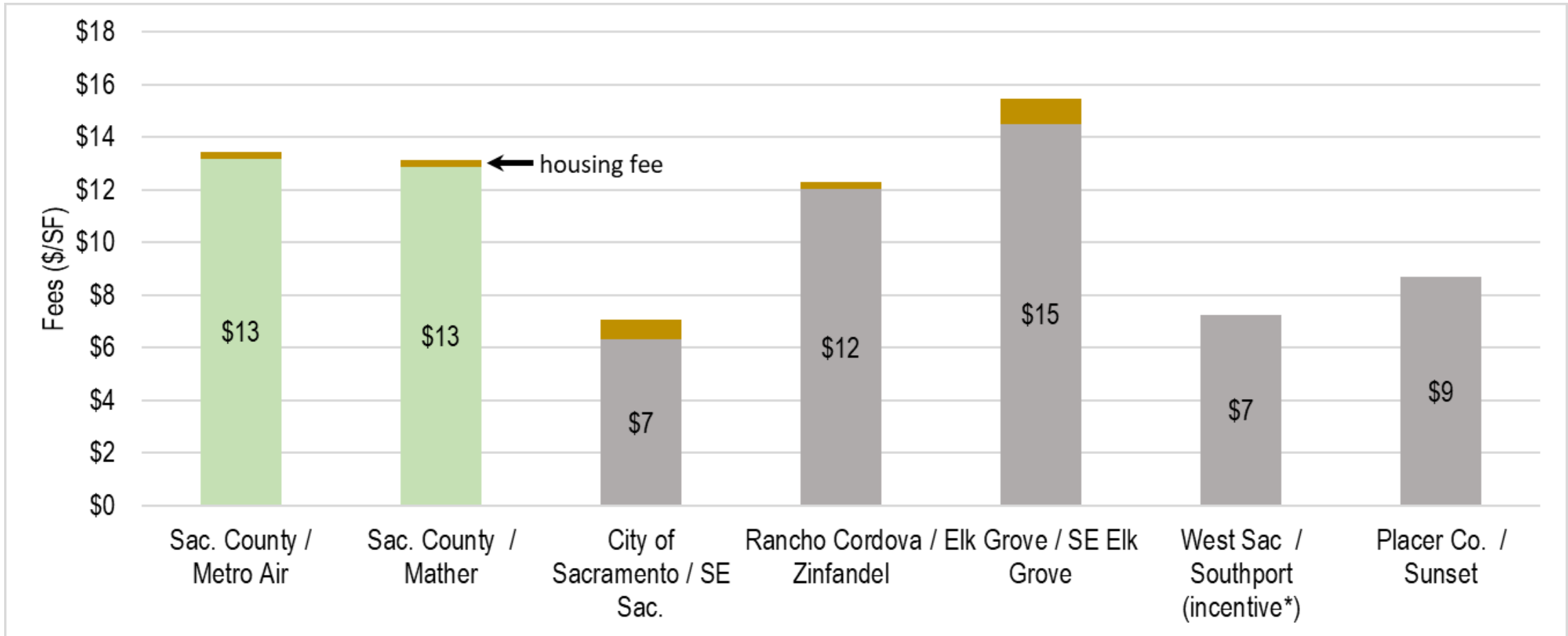
Fee Levels as Percent of Total Development Costs

Illustrative Housing Fee Levels

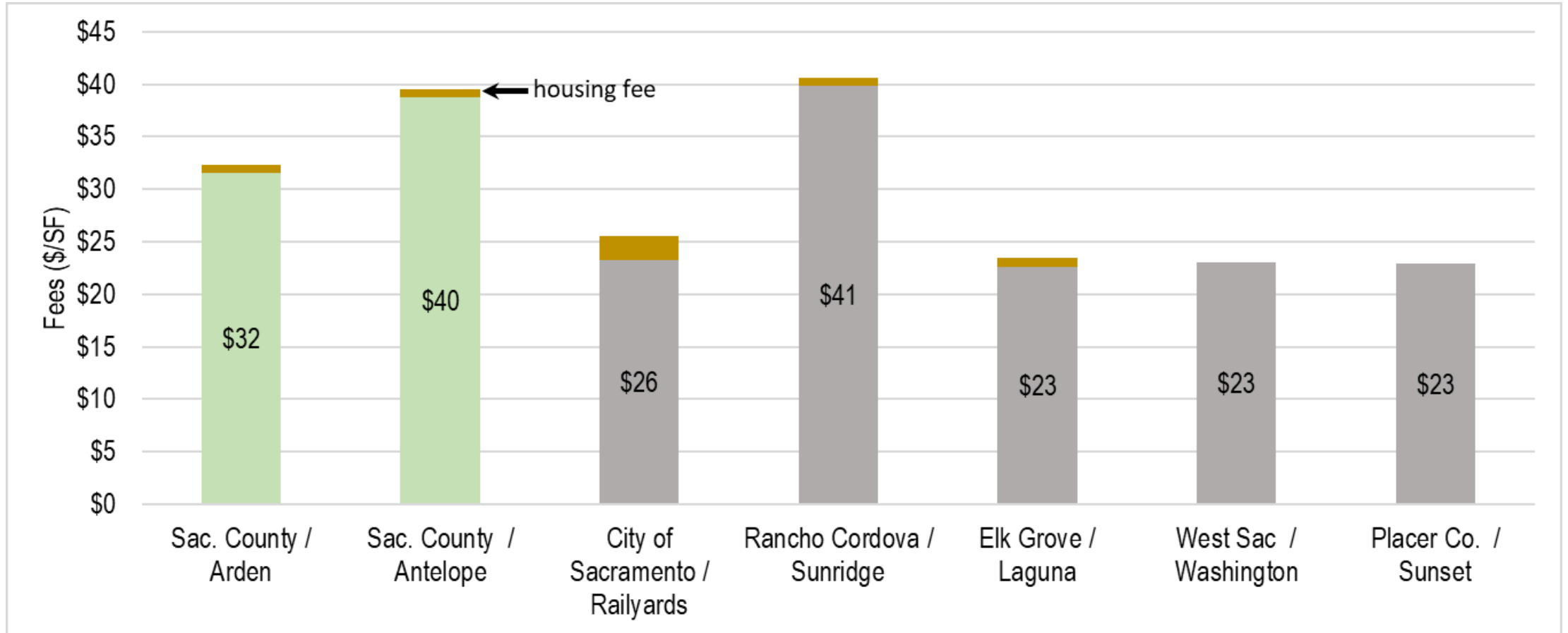
	<i>Development Cost Range (\$/GSF)</i>	\$0.50	\$1	\$2	\$3	\$4	\$5	Current Fee
Warehouse / Distribution	\$125 - \$155	0.36%	0.72%	1.43%	2.15%	2.87%	3.58%	0.19%
Light Industrial	\$155 - \$190	0.29%	0.58%	1.16%	1.73%	2.31%	2.89%	0.35%
Retail	\$315 - \$385	0.14%	0.29%	0.57%	0.86%	1.15%	1.43%	0.22%
Office	\$235 - \$290	0.19%	0.38%	0.76%	1.14%	1.52%	1.90%	0.37%
Hotel	\$250 - \$305	0.18%	0.36%	0.72%	1.08%	1.44%	1.80%	0.33%

Legend: up to 1% 1-2% 2-3% over 3%

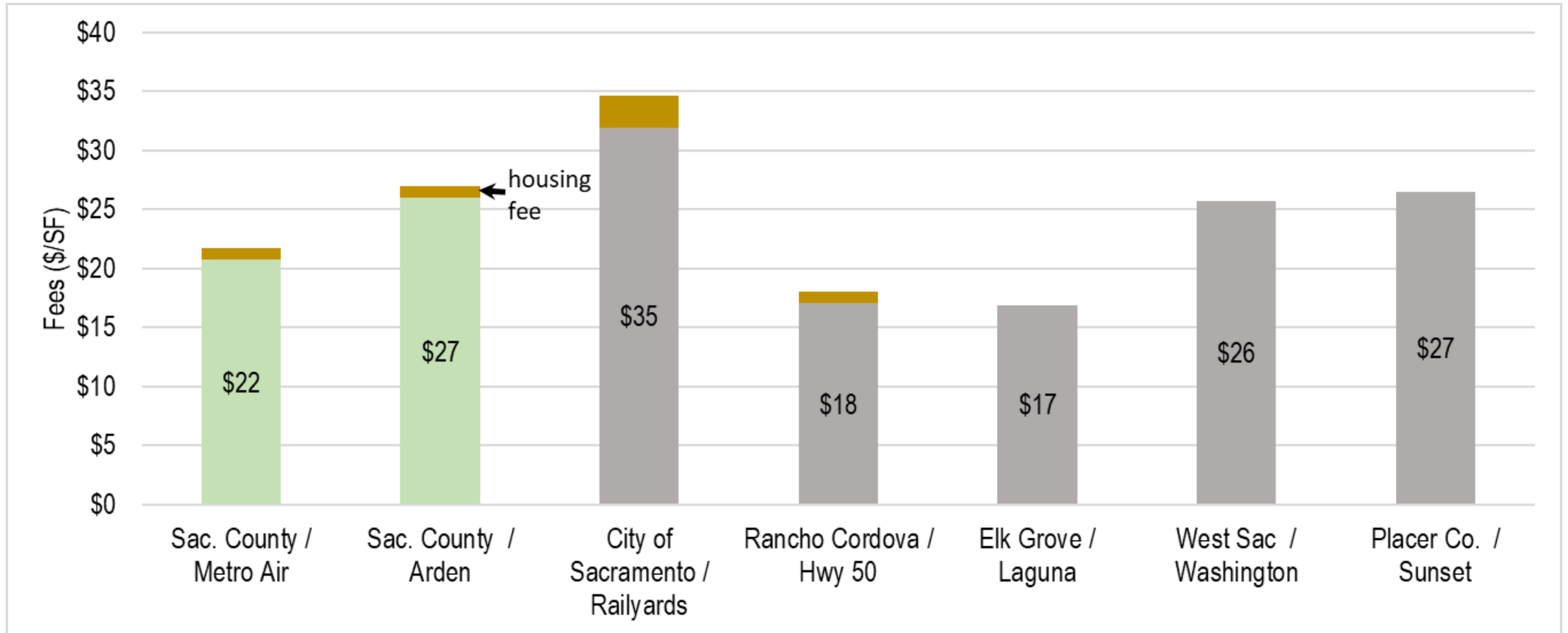
Total Development Fee Comparison: Warehouse



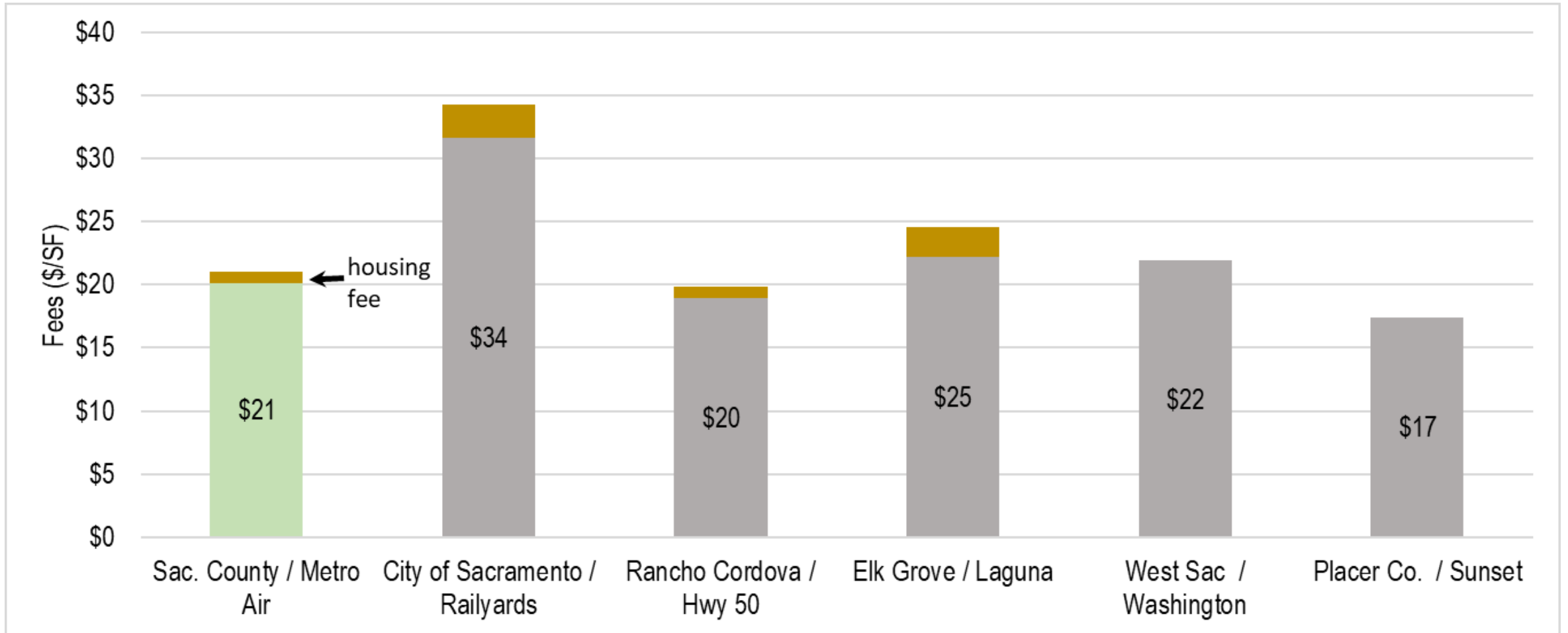
Total Development Fee Comparison: Retail



Total Development Fee Comparison: Office



Total Development Fee Comparison: Hotel



Affordable Housing Fees for Non-Residential Sacramento Area Examples *Dollars per square foot*

	Warehouse	Industrial / Manufacturing	Commercial	Office	Hotel
County of Sacramento Existing [Rancho Cordova & Citrus Heights are the same]	\$0.26	\$0.61	\$0.77	\$0.97	\$0.92
City of Sacramento	\$0.76	\$1.73	\$2.22	\$2.76	\$2.63
Folsom ⁽¹⁾	\$1.70	\$1.70	\$1.70	\$1.70	\$1.70
Elk Grove	\$0.94	\$0.88	\$0.78	None	\$2.29
Placer County Tahoe / Sierra Nevada Area	exempt	\$2.00	\$2.00	\$2.00	\$2.00

(1) Rates for buildings up to 200,000 SF. Reduced fees apply to buildings over 200,000 SF.

Illustration - If Fees Were Indexed Since 1992

	Existing Fee (\$/SF)	Illustrative Fee if Indexed For Cost Increases Since 1992 (\$/SF)
Office	\$0.97	\$2.39
Hotel	\$0.92	\$2.27
R&D	\$0.82	\$2.02
Commercial	\$0.77	\$1.90
Manufacturing	\$0.61	\$1.51
Warehouse	\$0.26	\$0.64

Note: Based on change in the Building Cost Index 20-City Average published by Engineer News Record / McGraw Hill from July 1992 through July 2021.

KMA Recommendation

- Warehouse and Industrial: Up to \$2 per square foot
- All Other Non-Residential: Up to \$3 per square foot
- Add an annual index to allow fee to keep pace with increases in cost

County Recommendation

Development Type	Recommended Fee per Square Foot of New Building
Office	\$3.00
Hotel	\$3.00
Research and Development	\$2.00
Commercial	\$2.00
Manufacturing	\$1.00
Warehouse	\$0.70

- Add an annual index to allow fee to keep pace with increases in cost