

**MEMORANDUM**

TO: Mayor Gavin Newsom
Members, Board of Supervisors

FROM: Monique Zmuda, Deputy Controller *MZmuda*

DATE: April 3, 2008

SUBJECT: Development Impact Fee Nexus Study

The City and County of San Francisco currently imposes development impact fees for transit and parks, in-lieu fees for child care facilities and inclusionary housing, a linkage fee for jobs and housing, and a capacity charge for wastewater treatment.

In order to update the basis, purpose and amount of development impact and in-lieu fees charged in San Francisco, the City engaged a team of consultants under the direction of the Controller's Office and the City Attorney's Office to analyze the existing fees. In addition, the study was conducted to explore options to enact fees for fire facilities and expand on existing documentation of the nexus support for the Inclusionary Housing Program. A copy of the impact development fee nexus study is attached.

The team of consultants was comprised of Brion & Associates, David Taussig & Associates, FCS GROUP, Keyser Marston Associates, and LaFrance Associates. The consultants worked with departmental staff from Recreation and Park, Public Works, Fire, City Planning, Children, Youth and Their Families, Treasurer/Tax Collector, Building Inspection, Controller and City Attorney to complete the various elements of the study. A City Steering Committee oversaw the project, consisting of staff from the Controller's Office, the City Attorney's Office and the Mayor's Office.

The study includes the following elements:

1. Review of the City's current fee collection process
2. Review of comparative practices in other jurisdictions
3. Population and employment growth forecasts
4. Child Care Nexus Study
5. Fire Facility Development
6. Recreation and Park Development
7. Residential Nexus Analysis

The study confirms through a comparative analysis that development impact fees are commonly assessed in other jurisdictions and that there is a nexus for assessing fees for both commercial and residential developments in San Francisco. The nexus study also establishes the maximum

potential fee schedules for each area that can legally be charged in the City, but does not assess the feasibility or larger economic impact of raising fees.

Changes to the impact fees charged by the City may affect the total cost of development, and the economic and financial feasibility of building in San Francisco. The Office of Economic and Workforce Development has begun to quantify the effect of potential increases to development impact fees through a sensitivity analysis. This analysis will analyze prototypical pro forma development costs against completed values of market-rate units considering market conditions. It will include the effects of a range of new child care, fire and recreation-parks impact fees on development feasibility and the already adopted inclusionary housing fees in the feasibility calculations. This work is currently underway and is scheduled for completion by the end of April 2008. Before adopting any fees, policy makers should consider the outcome of that analysis in order to fully understand the impact of the options identified in the attached impact development fee nexus study.

The following table provides a high level summary of current and potential maximum fees identified in the nexus study. A more detailed summary of findings and options is attached.

	<u>Existing Fee</u>	<u>City-wide Potential Maximum Fee</u>
Fire	Residential: No Fee Non-Residential: No Fee	Residential: \$227 - \$688 per dwelling unit, depending on type. Non-Residential: \$0.49 - \$0.87 per square foot, depending on type.
Child Care	Residential: No Fee Non-Residential: \$1.00 per square foot, downtown office or hotel.	Residential: \$1,493 - \$2,272 per dwelling unit, depending on type. Non-Residential: \$0.72 - \$1.29 per square foot, depending on type.
Parks	Residential: No Fee Non-Residential: \$2.00 per square foot for downtown office.	Residential: \$3,078 - \$7,845 per dwelling unit, depending on type. Non-Residential: \$1.26 - \$2.25 per square foot, depending on type.

Our office is available to meet with you should you have any questions related to the attached study. I can be reached at Monique.Zmuda@sfgov.org, or at (415) 554-7500.

cc: Clerk of the Board of Supervisors
Nani Coloretti
Ben Rosenfield
Michael Cohen
Susan Cleveland-Knowles

Attachments: Summary of Findings and Options
Citywide Development Impact Fee Nexus Study

**CITY-WIDE DEVELOPMENT IMPACT FEE
STUDY
SUMMARY OF FINDINGS & OPTIONS**

CITY AND COUNTY OF SAN FRANCISCO

SAN FRANCISCO, CALIFORNIA

MARCH 2008

Collection Process Analysis

Findings	Options
<ul style="list-style-type: none"> • No instances of missed fee collection were found for projects owing fees prior to issuance of a site permit. Fee collection prior to issuance of a site permit appears to have been effective. • The effectiveness of fee collection prior to issuance of certificate of final completion is uncertain. Reliance on staff in the City Planning Department to instigate fee collection after site permits have been issued creates vulnerability and inefficiency in the fee collection process. • No inaccuracy in collections was found, but systematic, cost-effective means to routinely and independently verify the accuracy of fee amounts are lacking. • Site and building permits are not screened automatically to determine applicability of the Transit Impact Development Fee, making fee assessment and quality control less efficient. • Comprehensive and automated reporting on the impact fee requirements and approval status of projects is not available. The Planning Department has dedicated resources to monitor/coordinate fee collection, but further improvements require modification of information systems and procedures, however. 	<ul style="list-style-type: none"> • The separate case-tracking and permit-tracking systems used by the Planning Department and Department of Building Inspection should be replaced by a single, integrated database application within which the entire fee collection process can be managed. • Pending replacement of the case-tracking and permit-tracking systems, modifications should be made to the existing permit-tracking system to improve the effectiveness and efficiency of fee collection. (See report for details.) • If improvements cannot be made to the existing case-tracking and permit-tracking systems, alternative procedural changes can be made that address most of the same process issues, including synchronizing collection of all impact fees prior to issuance of a site permit. • Publish a single, comprehensive schedule of City impact fees that describes their criteria for applicability, fee calculation method, and timing of payment. • The criteria for vesting of impact fees, if any, should be clarified, possibly by amendment of the Administrative and Planning Code sections that enact impact fees.

Child Care

Findings	Options
<ul style="list-style-type: none"> • San Francisco currently has a shortage of child care spaces due to deficiencies in existing supply. • On average, 199 new spaces are needed annually to meet demands from new development, costing an average of \$2.45 million per year. • By 2025 the demand for child care will have increased from the current level by 3,779 spaces. • The cost of the additional supply required to serve new development is \$48.9 million. • The current Child Care Fee is \$1.00 per square-foot of office or hotel space in the downtown area of San Francisco. • Impact fees in by other jurisdictions in California range from \$100 to \$1,736 per residential unit and \$0.01 to \$1.15 per non-residential square foot. • Most programs fund only the capital costs of developing child care spaces, but some use proceeds to extend loans/grants for the development of child care facilities. • Roughly half of the agencies that levy impact fees levy them on non-residential uses only, with the other half imposing requirements on all land uses. 	<ul style="list-style-type: none"> • Apply the child care fee city-wide, except for Visitacion Valley, Rincon Hill, and South of Market. • Single Family: \$2,272 per dwelling unit • Multi-Family 0-1 bedroom: \$1,493 per dwelling unit • Multi-Family 2+ bedrooms: \$1,704 per dwelling unit • Civic/Institution/Educational (CIE): \$1.29 per square foot • Motel-Hotel: \$0.72 per square foot • Medical: \$1.29 per square foot • Office: \$1.29 per square foot • Retail: \$0.97 per square foot • Industrial: \$0.83 per square foot • Allow new development to either provide child care space or pay the child care fee. • Limit in-kind contributions to non-residential projects generating demand for at least 14 child care spaces, and residential projects providing a small family child care home serving up to 8 children. • Identify non-fee funding sources totaling \$16.1 million to pay for additional child care facilities in the areas of the City not subject to the child care fee.

Fire

Findings	Options
<ul style="list-style-type: none"> • By 2025 the City will require three additional fire stations, three new engines, two new trucks, and one medic unit. • The cost of the additional facilities that benefit new development is \$27.4 million. • The City does not currently impose a development impact fee for fire facilities. • Impact fees in other jurisdictions in California range from \$93 to \$1,025 per residential unit and \$0.01 to \$1.76 per non-residential square foot. 	<ul style="list-style-type: none"> • Apply the fire fee city-wide, except for Visitacion Valley, Rincon Hill, and South of Market. • Single Family: \$688 per dwelling unit • Single Room Occupancy: \$227 per dwelling unit • Multi-Family 0-1 bedroom: \$452 per dwelling unit • Multi-Family 2+ bedrooms: \$515 per dwelling unit • CIE: \$0.87 per square foot • Motel-Hotel: \$0.49 per square foot • Medical: \$0.87 per square foot • Office: \$0.87 per square foot • Retail: \$0.65 per square foot • Industrial: \$0.56 per square foot • Identify non-fee funding sources for \$5.5 million to pay for additional fire facilities that benefit existing development.

Recreation & Parks

Findings	Options
<ul style="list-style-type: none"> • The current level of service is 4.32 acres of park land per 1,000 residents. • A typical employee uses park facilities 19% as much as the typical resident. • To serve the new development that is anticipated by 2025, the net costs of future acquisitions and improvements is projected at \$167.7 million. • Other jurisdictions use impact fees primarily to fund acquisition and development of new facilities and upgrade of existing facilities to accommodate new development. • Common practice avoids the use of impact fees to remedy existing deficiencies. • Most impact fees are levied on residential uses only. • Impact fees range from \$83 to \$19,264 per residential unit and \$0.06 to \$3.89 per non-residential square foot. • The current Downtown Park Fee is \$2.00 per square foot of office space in specific districts. 	<ul style="list-style-type: none"> • Apply the recreation-parks fee city-wide, except for Visitacion Valley, Rincon Hill, and South of Market. • Single Family: \$7,845 per dwelling unit • Single Room Occupancy: \$3,078 per dwelling unit • Multi-Family 0-1 bedroom: \$5,170 per dwelling unit • Multi-Family 2+ bedrooms: \$5,899 per dwelling unit • CIE: \$2.25 per square foot • Motel-Hotel: \$1.26 per square foot • Medical: \$2.25 per square foot • Office: \$2.25 per square foot • Retail: \$1.69 per square foot • Industrial: \$1.45 per square foot • Limit acquisition of park land to 5.9 additional acres. • Identify non-fee funding sources for \$29.7 million to pay for additional recreation and park improvements in the areas of the City not subject to the recreation and park fee. • Identify non-fee funding sources for \$11.7 million to pay for additional recreation and park improvements that benefit existing development.

Inclusionary Housing

Findings	For-Sale Housing	Rental Housing
Area per market-rate unit	800 square feet	800 square feet
Sale price or rental rate per market-rate unit	\$580,000	\$2,500 per month
Gross annual household income of residents	\$138,400	\$102,000
Disposable annual household income of residents	\$95,500	\$74,000
Total job generation per market-rate unit	0.89 jobs	0.69 jobs
Affordable housing demand per market-rate unit	0.4331 units	0.3368 units
Affordable housing percentage of total new units	30.2%	25.2%
Affordable housing percentage required by City	15-20%	15-20%
Conclusion: The City does not require more affordable housing than justified by market conditions.		

Current and Calculated Fee Comparison

Fee per Dwelling Unit	Single Family		MFR 0-1 br		MFR 2+ br	
	Current	Calculated	Current	Calculated	Current	Calculated
Affordable Housing In-Lieu*	NA	NA	51,000	51,000	51,000	51,000
Wastewater Capacity	2,604	2,604	2,604	2,604	2,604	2,604
Childcare	-	2,272	-	1,493	-	1,704
Recreation & Parks	-	7,845	-	5,170	-	5,899
Fire	-	688	-	452	-	515
Total Fees	NA	NA	\$ 53,604	\$ 60,719	\$ 53,604	\$ 61,722
Percentage Change	NA		13%		15%	

*Note: Fee estimation only calculated by KMA for selected multi-family residential prototypes.

Fee per Square Foot	Hotel-Motel		Office		Retail	
	Current	Calculated	Current	Calculated	Current	Calculated
Transportation Impact	8.00	8.00	10.00	10.00	10.00	10.00
Jobs-Housing Linkage	11.21	11.21	14.96	14.96	13.95	13.95
Wastewater Capacity	0.91	0.91	0.29	0.29	1.78	1.78
Childcare	1.00	0.72	1.00	1.29	-	0.97
Recreation & Parks	-	1.26	2.00	2.25	-	1.69
Fire	-	0.49	-	0.87	-	0.65
Total Fees	\$ 21.12	\$ 22.59	\$ 28.25	\$ 29.66	\$ 25.73	\$ 29.04
Percentage Change	7%		5%		13%	