

**MEMORANDUM**

To: City of Calistoga

From: Teifion Rice-Evans and Michael Nimon

Subject: For-Sale Residential Affordable Housing Fee Analysis;  
EPS #131015

Date: December 1, 2013

Economic & Planning Systems, Inc. (EPS) was retained by the City of Calistoga to estimate the affordable housing fee on for-sale market-rate residential use consistent with City's affordable housing ordinance requirement. A *Commercial Nexus Study* report was conducted separately and is provided under a separate cover, though both analyses include some shared assumptions.

*The Economics of Land Use*



### **For-Sale Residential Fee Estimate and Implementation**

Based on the analysis described below, a maximum fee of \$47,212 per market-rate for-sale unit could be charged for affordable housing, as shown in **Table 1**. This fee level is based on the City's affordable housing ordinance requiring 20 percent of residential development to be below market-rate (City's Municipal Code 17.08.020). Based on input from the City, the fee estimate is based on all affordable units being affordable to median income households (100 percent of AMI for Napa County). To the extent that lower income cohorts were assumed, the maximum fee would increase.<sup>1</sup>

While the City has the option of adopting fees up to the maximum levels calculated, EPS does not recommend the City adopt the entire maximum fee. At its maximum rate, this fee level would affect the financial feasibility of new market rate residential development. In addition, revenue generated through this fee program is just one source of potential subsidy funds to help finance affordable housing projects. Numerous other California communities—including Sacramento, Rohnert Park, and the County of Sonoma, among others—have adopted fees below the maximum level.

This residential affordable housing fee can only be charged to new development. The fee generated by this program will be used to provide assistance for production, acquisition of at-risk units, or rehabilitation of affordable housing.

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<sup>1</sup> The City could update its current ordinance to specify the envisioned affordable housing income levels.

**Table 1**  
**Callistoga In-Lieu Fee Estimate**  
**Callistoga Residential Affordable Housing Fee Nexus Study; EPS #131015**

<b>Item</b>	<b>Total</b>
Affordable Units Required Per 100 Units	20
Financing Gap per Affordable Unit	\$188,849
Total In-Lieu Fee Required	\$3,776,974.95
Per 100 Units	\$47,212
Per Market Rate Unit	

Source: Economic & Planning Systems, Inc.

## For-Sale Residential Fee Analysis

The affordable housing fee in this analysis is based on the financing gap, the difference between construction cost and capitalized value of affordable housing, and the specifics of the City's Ordinance and additional direction. As shown in **Table 2**, there is a considerable affordability gap for all affordability types. For median income households, a funding gap of \$188,849 per unit is estimated. This funding gap serves as the basis for the impact fee estimate with assumptions behind it described below.

The financing gap estimates are based on the small-lot, single-family product type. It reflects the density of 10 dwelling units per acre, lower than the 20 dwelling units per acre density (for apartment product) assumed in the *Commercial Nexus Study*. The small-lot, single-family product type reflects the expected development density for inclusionary housing envisioned by the City staff. The units are envisioned as for-sale rather than rentals because they would likely be provided as part of a larger for-sale subdivision development. The income segmentation is based on income categories as commonly defined by State and federal agencies that administer affordable housing programs. **Table 3** presents the income categories that are relevant for this fee program. More detailed assumptions and sources for the financing gap analysis are provided below.

### Development Cost Assumptions

Affordable housing development costs include land costs, direct costs (e.g., labor and materials), and indirect or "soft" costs (e.g., architecture, entitlement, marketing, etc.). Data from recent North Bay developments and recent Calistoga land transactions have been combined with EPS's information from various market-rate and affordable housing developers to estimate appropriate development cost assumptions for the small lot single-family use in Calistoga.

### Revenue Assumptions

Maximum supported unit values are based on the Napa County household incomes, as shown in **Table 2**. This analysis estimates the subsidy required to produce units for households earning 50, 65, 80, 100, and 120 percent of Area Median Income for a three-person household. In 2013, AMI in Napa County for these households was \$77,500, as shown in the California Department of Housing and Community Development's (HCD's) income limits chart.

HCD standards suggest that households earning less than 80 percent of AMI should pay no more than 30 percent of their gross income on housing costs. For this analysis, EPS has assumed that all households shall spend 30 percent of their gross income on housing costs. The analysis also assumes that other house-related costs will be incurred by homeowners. These costs may include utilities, home association fees, and property taxes and are estimated at \$6,200 per year. Total supportable unit value resulting from these assumptions is used to estimate affordability gap for each income category.

**Table 2**  
**Financing Gap Analysis --Small Lot Single Family Product Type**  
**Calistoga Residential Affordable Housing Fee Nexus Study; EPS #131015**

Item	Small Lot Single Family With Surface Parking				
	Very Low Income (50% AMI)	Low Income (65% AMI)	Low Income (80% AMI)	Median Income (100% AMI)	Moderate Income (120% AMI)
<b>Development Program Assumptions</b>					
Density/Acre	10	10	10	10	10
Average Gross Unit Size	1,500	1,500	1,500	1,500	1,500
Average Net Unit Size	1,500	1,500	1,500	1,500	1,500
Average Number of Bedrooms	2	2	2	2	2
Average Number of Persons per Household	3	3	3	3	3
Parking Spaces/Unit (1)	2.00	2.00	2.00	2.00	2.00
<b>Cost Assumptions</b>					
Land/Acre (2)	\$800,000	\$800,000	\$800,000	\$800,000	\$800,000
Land/Unit	\$80,000	\$80,000	\$80,000	\$80,000	\$80,000
Direct Construction Costs/Gross SF (3)	\$120	\$120	\$120	\$120	\$120
Direct Construction Costs/Unit	\$180,000	\$180,000	\$180,000	\$180,000	\$180,000
Offsites/Intracts per Unit (4)	\$65,000	\$65,000	\$65,000	\$65,000	\$65,000
Parking Construction Costs/Space (5)	\$0	\$0	\$0	\$0	\$0
Parking Construction Costs/Unit	\$0	\$0	\$0	\$0	\$0
Subtotal, Direct Costs/Unit	\$245,000	\$245,000	\$245,000	\$245,000	\$245,000
Indirect Costs as a % of Direct Costs (6)	40%	40%	40%	40%	40%
Indirect Costs/Unit	\$98,000	\$98,000	\$98,000	\$98,000	\$98,000
<b>Total Cost/Unit</b>	<b>\$423,000</b>	<b>\$423,000</b>	<b>\$423,000</b>	<b>\$423,000</b>	<b>\$423,000</b>
<b>Maximum Supported Unit Value</b>					
Household Income (7)	\$38,750	\$48,975	\$59,200	\$77,500	\$92,950
Income Available for Housing Costs/Year (8)	\$11,625	\$14,693	\$17,760	\$23,250	\$27,885
Operating Expenses per Unit/Year (9)	\$6,200	\$6,200	\$6,200	\$11,065	\$11,065
<b>Total Supportable Unit Value (10)</b>	<b>\$104,244</b>	<b>\$163,188</b>	<b>\$222,132</b>	<b>\$234,151</b>	<b>\$323,215</b>
<b>Financing Gap</b>	<b>\$318,756</b>	<b>\$259,812</b>	<b>\$200,868</b>	<b>\$188,849</b>	<b>\$99,785</b>

(1) Based on the City's Municipal Code 17.36.130.  
(2) The land costs rate based on interviews with local brokers and review of recent land sale transactions in the area.  
(3) Direct construction costs include labor and materials and are based on other comparable development projects and pro formas.  
(4) Assumes an offsite/intract cost of \$15 per land square foot.  
(5) Envisioned in the garage and included as part of the direct construction cost.  
(6) Includes costs for architecture and engineering; entitlement and fees; project management, marketing, commissions, and general administration; financing and charges; insurance; and contingency. Reflects water and sewer per unit fees of \$14,734 and \$22,514, respectively.  
(7) Based on HCD 2013 income limits for Napa County.  
(8) Assumes housing costs to be 30% of gross household income.  
(9) Operating expenses based upon previous findings in other Bay Area jurisdictions, and include costs of tenants' utilities and property tax.  
(10) Reflects a mortgage payment under a 30-year fixed loan with a 5% interest assuming a 20% down payment.

Sources: Bay Area housing developers; Department of Housing and Urban Development; Economic & Planning Systems, Inc.

**Table 3**  
**Napa County Affordable Housing Income Limits\***  
**Calistoga Residential Affordable Housing Fee Nexus Study; EPS #131015**

<b>Affordability Category</b>	<b>Percentage of County Median</b>	<b>2013 Max Income Threshold 4-person household</b>
Very Low Income (LI) - 50% (1)	31% - 50%	\$38,750
Low Income (LI) - 65% (2)	51% - 65%	\$48,975
Low Income (LI) - 80%	66% - 80%	\$59,200
Median Income (Med)	81% - 100%	\$77,500
Moderate Income (Mod)	101% - 120%	\$92,950

\*Data for Napa County.

Sources: California Department of Housing and Community Development; Economic & Planning Systems, Inc.

### **Affordability Gap Results**

**Table 2** shows the subsidies for construction of small lot single-family units at various income levels. For all incomes, the cost of constructing the unit is higher than the value of the unit. This is considered the "affordability gap," and serves as the basis for calculating the subsidies required to provide housing for new residents in Calistoga. The fee estimate in this analysis is based on the median income category of households earning 100 percent of the median in Napa County.