

MEMORANDUM

To: City of Calistoga

From: Teifion Rice-Evans, Michael Nimon, and Walker Toma

Subject: Development Impact Fee and Affordable Housing Fee Level Recommendations; EPS #131015

Date: July 7, 2014

The Economics of Land Use



Economic & Planning Systems, Inc. (EPS) was retained by the City of Calistoga (City) to help update the existing development impact and affordable housing fees that the City charges for on new development. The EPS analyses, including the City of Calistoga Development Impact Fee Study, Nonresidential Development Housing Linkage Fee Nexus Study, and the For-Sale Residential Affordable Housing Fee Analysis, identify the maximum fees that could be charged under relevant City policies and California statutes. Jurisdictions will, however, sometimes charge fees below the maximum, justifiable level to avoid over-burdening new development (causing financial feasibility issues) and/or to remain competitive or on a par with peer and neighboring cities.

This memorandum describes the recommended fee levels with the comparison between existing, maximum, and recommended fees shown in **Table 1**. With input from City staff, EPS identified a number of other North Bay Area jurisdictions to consider and obtained information on their fee levels. EPS then compared the maximum new City of Calistoga fee levels with the averages for these other jurisdictions. Based on these comparisons, discussions with City staff, and consideration of the real estate economics of the different uses, and common approaches to fee adjustments, EPS and City staff determined the recommended set of revised City of Calistoga fees.

Key Findings

- 1. An excessive financial burden on desired new development could thwart the City's other policy goals (economic development, housing production, etc.).** Fees charged by other Bay Area jurisdictions vary significantly based on a wide range of factors, including infrastructure needs, community priority and

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associated service standards/ goals, the cost of subsidizing construction of affordable units, land values, and development costs, among other reasons. Jurisdictions often seek to charge fees similar to those in their general market area, to minimize the extent to which the fees may create a competitive disadvantage for attracting employment uses. In addition, non-residential uses, especially smaller scale and unique commercial uses, often have less capacity to pay development fees.

- 2. The maximum justifiable development impact fees for single-family residential use falls within the average range of currently imposed fees in the North Bay.** EPS calculated a maximum fee of \$20,300 per unit based on the City's infrastructure needs and future growth forecast. This estimate falls close to the average in other comparable cities, estimated between \$18,400 and \$20,000 per single-family unit, as shown in **Table 2**.¹ The strong demand for single-family housing in the City of Calistoga also means that most new single-family developments should be able to bear this level of cost burden.
- 3. The maximum, justifiable development impact fees for commercial uses exceed the average range of fees charged by comparable jurisdictions with the exception of tourist accommodation.** As a result, EPS recommends a development impact fee of between \$3.70 and \$6.70 per square foot for office /industrial/R&D, \$8.25 per square foot for retail, and \$12.50 per square foot for restaurant uses based on an average range of commercial fees charged by other North Bay communities and below the maximum nexus-based level. Only the tourist/accommodation fee maximum of \$10.73 per square foot is below the comparable jurisdiction average, as shown in **Table 3**. It should also be noted that the strong demand for overnight lodging in the City of Calistoga makes this use category more able to absorb this cost burden and, recent projects, approved through Development Agreements have been required to and agreed to make a range of contributions.
- 4. The maximum, justifiable affordable housing fees greatly exceed those currently required in Calistoga and other comparable jurisdictions.** EPS calculated maximum fees at \$47,200 per unit for residential and from \$80.22 to \$198.30 per square foot for nonresidential uses, based on the wages and density of employees in various land use categories and the full cost to subsidize below-market rate housing construction for those employee households. Most California jurisdictions, including those in the North Bay, have adopted affordable fees significantly below the maximum supportable levels, in recognition of the high levels of the maximum fees, the likely negative feasibility impacts on desired development, and the availability of other forms of affordable development financing (e.g., affordable housing tax credits). Based on the average for comparable cities, EPS recommends a residential housing fee of \$12,000 per unit and commercial housing fees of \$3.00 per square foot for tourist accommodation, \$2.25 per square foot for office, \$1.65 per square foot for industrial, and \$3.25 per square foot for retail and restaurant uses, as shown in **Table 4**. These recommendations reflect fee levels well below the maximum established based on the nexus study.

¹ Includes cultural/recreation, civic facilities, transportation, police, and fire components.

Methodology

EPS conducted a survey of development impact and inclusionary housing fees in jurisdictions comparable to Calistoga in Napa and Sonoma Counties. These jurisdictions include several cities in the Bay Area where fees have been recently updated. While this survey is not a comprehensive review of all fees in the Bay Area, it is designed to provide an "order of magnitude" and variance for fees charged by various jurisdictions. Data for the North Bay jurisdictions was verified in early 2014. This survey makes use of information collected by EPS for various clients over the past 12 months, and specific jurisdictions' fees may vary today as fees are updated from time to time. Where necessary, due to unique implementation factors, EPS has noted key assumption required for estimating the applicable fee. Development impact fees charged by comparable jurisdictions are shown in **Tables 5 and 6**, while affordable housing fees charged by comparable jurisdictions are shown in **Table 7**.

Caveats

- The development impact fee comparisons do not include components that were excluded from the EPS study (e.g., water and sewer fees) and the parking in lieu fee estimated by EPS.
- Average estimated fees include outlier cities with additional research necessary to determine the reasons for high fee deviation in certain cases (e.g., Yountville restaurant development impact fee).
- Fee recommendations are not provided for the winery use given a lack of this fee in comparable jurisdictions.
- For comparison purposes, the commercial fee often consists of a range of retail, office, and industrial uses in some cases. This mix may not be directly comparable to commercial uses in Calistoga, where commercial growth is primarily envisioned to consist of retail uses.
- This analysis converts tourist use from a per-room to a per-square foot basis based on an average hotel room assumption of 500 square feet.

Table 1
Development Impact Fee Recommendation Summary
Calistoga Fee Study; EPS #131015

City	Existing	Maximum	Proposed
Development Impact Fee*			
<u>Residential</u>			
Single Family	varies	\$20,330	\$20,330
<u>Commercial</u>			
Tourist / Accommodation	varies	\$10.73	\$10.73
Office / Industrial / R & D	varies	\$8.28	\$3.70 - \$6.70
Retail	varies	\$8.28	\$8.25
Restaurant	varies	\$15.11	\$12.50
Affordable Housing Fee			
<u>Residential</u>			
Single Family	varies	\$47,212	\$12,000
<u>Commercial</u>			
Tourist / Accommodation	\$1.40	\$89.64	\$3.00
Office / Industrial / R & D	\$0.50 - \$1.00	\$80.22	\$2.25
Retail	\$0.80	\$198.30	\$1.65
Restaurant	\$0.80	\$198.30	\$3.25

*Note: includes cultural/recreation, civic facilities, transportation, police, and fire components.

Source: Economic & Planning Systems, Inc.

Table 2
Development Impact Fee Recommendation for Single-Family Residential Development
Calistoga Fee Study: EPS #131015

City	Per Residential Unit					Total
	Cultural/ Recreation	Civic Facilities	Transportation	Fire	Public Safety Police	
Calistoga						
Maximum Fee	\$5,832	\$2,527	\$9,276	\$2,129	\$566	\$20,330
Other Comparable Cities						
Average	\$7,458	\$4,587	\$5,858	\$686	\$1,434	\$20,024
Modified Average (1)	\$7,458	\$4,587	\$4,230	\$686	\$1,434	\$18,395
Recommended Fee	\$5,832	\$2,527	\$9,276	\$2,129	\$566	\$20,330

(1) Excludes outlier cities of Petaluma and Santa Rosa for transportation fee.

Source: Economic & Planning Systems, Inc.

Table 3
Development Impact Fee Recommendation for Non-Residential Development
Calistoga Fee Study; EPS #131015

Land Use Category	Tourist /			Retail	Restaurant
	Accommodation	Office / Industrial / R & D			
Calistoga Maximum Fee	\$10.73	\$8.28			\$15.11
Other Comparable Cities					
Average	\$11.60	Low \$4.74 High \$7.85		\$11.11	\$17.97
Modified Average (1)	\$7.42	\$3.71 \$6.67		\$8.27	\$18.27
Recommended Fee	\$10.73	\$3.70 \$6.70		\$8.25	\$12.50

Assumptions:

A) Fee levels shown on a per square foot basis.

B) Fees include parks and recreation, civic facilities, transportation/street improvement, police and fire.

(1) Excludes Sebastopol, Healdsburg, Petaluma and St. Helena that have the two lowest and two highest fees respectively out of comparable cities.

Source: Economic & Planning Systems, Inc.

Table 4
Affordable Housing Fee Recommendation for Residential and Commercial Development
Calistoga Fee Study; EPS #131015

Land Use Category	Residential In Lieu Fee (1)	Commercial Linkage Fees (per SF)			
		Tourist / Accommodation	Office	Industrial	Retail / Restaurant
Calistoga					
Existing Fee	subject to negotiation	\$1.40	\$1.00	\$0.50	\$0.80
Maximum Fee	\$47,212	\$89.64	\$80.22 - \$198.30		
Other Comparable Cities					
Average	\$14,265	\$4.80	\$4.10	\$1.64	\$5.00
Modified Average (2)	\$11,243	\$3.05	\$2.25	\$1.64	\$3.28
Recommended Fee	\$12,000	\$3.00	\$2.25	\$1.65	\$3.25

(1) For-sale residential.

(2) Excludes Sebastopol for residential average and Yountville for commercial average given their high fees relative to the comparable cities.

Sources: City of Calistoga and Economic & Planning Systems, Inc.

**Table 5
Sonoma and Napa County Impact Fee Comparison; Residential Development
Calistoga Fee Study; EPS #131015**

City	Year Adopted / Updated	Per Residential Unit					Total
		Parks & Rec	Civic Facilities	Traffic	Fire	Public Safety / Police	
Calistoga							
Existing Fee (1)		\$3,000	-	\$2,000	\$12,996		\$17,996
Maximum Fee		\$5,832	\$2,525	\$9,905	\$2,157	\$440	\$20,859 (2)
Other Comparable Cities							
St. Helena	2006	-	\$5,460	\$8,220	-	\$2,500	\$16,180
Yountville	2013	\$1,338	\$3,495	\$5,479	-	\$551	\$10,863
American Canyon	2012	\$4,394	\$1,275	\$3,954	\$400	-	\$10,023
Cloverdale	2013	\$5,878	\$8,477	\$2,072	\$1,216	-	\$17,643
Cotati	2011	\$12,106	-	\$250	-	-	\$12,356
Healdsburg	2012	\$2,057	-	\$2,991	\$300	-	\$5,348
Petaluma	2013	\$11,496	\$3,919	\$20,516	\$829	\$1,252	\$38,012
Rohnert Park	2008	\$14,000	-	\$0	-	-	\$14,000
Santa Rosa	2013	\$7,491	\$4,686	-	-	-	\$12,177
Sebastopol	2011	\$6,500	-	\$4,040	-	-	\$10,540
Windsor	2013	\$9,318	\$4,799	\$11,060	-	-	\$25,177
Average		\$7,458	\$4,587	\$5,858	\$686	\$1,434	\$20,024

(1) Based on the 4% of construction value; reflects the public safety fee applied to police and fire.
(2) Based on the draft PM-based traffic fee estimate.

Sources: City of Calistoga; city and county departments in Napa and Sonoma County jurisdictions surveyed, and Economic & Planning Systems, Inc.

**Table 6
Development Impact Fee Comparison for New Commercial Development (Per Square Foot; excludes water/sewer fees)
Calistoga Fee Study; EPS #131015**

Land Use Category	Tourist / Accommodation		Office / Industrial / R & D		Retail	Restaurant
	Low	High	Low	High		
Calistoga Maximum Fee	\$10.73	\$8.28				\$15.11
Sebastopol	\$0.73	\$1.92	\$2.71	\$0.99	\$0.99	\$6.48
Healdsburg	\$1.09	\$1.09	\$1.09	\$1.09	\$1.09	\$1.09
Cloverdale	\$4.92	\$3.61	\$4.73	\$4.92	\$4.92	\$4.92
Santa Rosa	\$5.80	\$2.48	\$4.05	\$9.66	\$9.66	\$5.80
Yountville	\$15.21	\$6.39	\$6.39	\$6.39	\$6.39	\$62.05
American Canyon	\$3.67	\$2.66	\$8.02	\$7.68	\$7.68	\$25.62
Windsor (1)	\$11.13	\$5.91	\$10.21	\$11.13	\$11.13	\$11.13
Rohnert Park	\$6.59	\$3.00	\$9.59	\$13.25	\$13.25	\$13.25
Napa	\$4.64	\$1.95	\$3.67	\$4.86 (2)	\$4.86 (2)	\$5.12 (3)
Petaluma	\$34.04	\$14.33	\$22.87	\$22.44	\$22.44	\$22.44
St. Helena	<u>\$39.80</u>	<u>\$8.81</u>	<u>\$12.98</u>	<u>\$39.80</u>	<u>\$39.80</u>	<u>\$39.80</u>
Average	\$11.60	\$4.74	\$7.85	\$11.11	\$11.11	\$17.97
Low	\$0.73	\$1.09	N/A	\$0.99	\$0.99	\$1.09
High	\$39.80	N/A	\$22.87	\$39.80	\$39.80	\$62.05

Assumptions:

A) Fee levels shown on a per square foot basis.

B) Fees include parks and recreation, civic facilities, traffic/street improvement, public safety/police and fire.

(1) Does not include fire impact fee, which is calculated by Fire District.

(2) Retail impact fees are driven primarily by the traffic fee, which varies by use type and location (downtown or other) in certain instances. Retail is shown here for an apparel store use, which totals \$4.38 per square foot. The range of retail traffic fees range from \$1.61 to \$44.23 per square foot.

(3) Restaurant impact fees are driven primarily by the traffic fee, which varies by restaurant type and location. The fee shown here reflects a downtown, quality restaurant totaling \$4.96 per square foot. Restaurant traffic fees range from \$4.38 to \$36.37 per square foot.

Sources: City of Calistoga; city and county departments in Napa and Sonoma County jurisdictions surveyed, and Economic & Planning Systems, Inc.

**Table 7
Sonoma and Napa County Affordable Housing Fee Comparison
Calistoga Fee Study; EPS #131015**

City	Year Adopted / Updated	Residential For Sale			Commercial Linkage Fees (per SF)				
		In-Lieu Impact Fee (per Unit; Assumes 2,000 SF)	Inclusionary Req.	Tourist / Accommodation	Office	Industrial	Retail		
Calistoga Existing Fee		subject to negotiation	20%	\$1.40	\$2.00	\$0.50 - \$1.00			
Calistoga Maximum Fee		\$47,212		\$89.64		\$80.22 - \$198.30			
Napa County									
St. Helena	2004	\$14,000	None	\$3.00	\$2.00				\$2.00
Yountville	2004	Per SF Construction Costs	20%	\$3.80	\$4.11	\$1.26			\$5.21
American Canyon	2002	Negotiated w Developer	15%	\$17.00	\$17.05				\$17.05
Napa	2009	\$10,250	10%	-	-				-
	1999	\$4,400	None	\$1.40	\$1.00	\$0.50			\$0.80
Sonoma County									
Cloverdale	2012	\$13,000	20%	\$2.40	\$2.40				\$4.15
Cotati	2008	\$15,000	15%	-	-				-
Healdsburg	2006	\$18,400	20%	\$3.59	\$2.08	\$2.15			\$3.59
Petaluma	2005	\$10,940	15%	-	-				-
Rohnert Park	2003	\$9,022	15%	\$3.59	\$2.08	\$2.15			\$3.59
Santa Rosa	2005	None	None	-	-				-
Sebastopol	2013	\$12,819	20%	-	-				-
Sonoma	2006	\$44,480	20%	\$3.59	\$2.08	\$2.15			\$3.59
Windsor	2010	None	20%	-	-				-
	2009	\$4,600	5% - 15%	-	-				-
Average		\$14,265		\$4.80	\$4.10	\$1.64			\$5.00
Low		\$4,400		\$1.40	\$1.00	\$0.50			\$0.80
High		\$44,480		\$17.00	\$17.05	\$2.15			\$17.05

Sources: City of Calistoga; city and county departments in Napa and Sonoma County jurisdictions surveyed, and Economic & Planning Systems, Inc.