Impact Fees and Smart Growth in Sacramento

City of Sacramento
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Sacramento’s Experience

- Presentation Focuses on Two Aspects of Smart Growth in Sacramento:
  - Infill Development
  - Affordable Workforce Housing
- Both Are Difficult to Finance
- Often Face Community Opposition
- Historically Relied on City Assistance
- Are Essential Components of any Smart Growth Strategy
Background

- Sacramento Has Many Vacant Infill Parcels Plus Underutilized Sites
- Significant Challenges to Development on Infill Sites
- Significant Increase in the Cost of Housing
- Workforce Increasingly Priced Out of the Housing Market
- Desire to Create Complete Neighborhoods with Mix of Housing
Vacant Infill Sites

- Small and Scattered Parcels
  - Skipped Over
  - Irregularly-Sized Parcels
- Larger Infill Parcels
  - Potential for Focused Efforts and Coordination
- Overall Infill Issues
  - Inadequate Infrastructure
  - Brownfield Issues
  - Financing Challenges
Housing Affordability Index

Sacramento County

Source: NAHB, Housing Opportunity Index, 2006
Policy Shift

- City Smart Growth Principles - 2001
- Infill Strategy - 2002
- SACOG Regional Blueprint - 2004
- New Housing Element - Underway
- New 2030 General Plan - Underway
Infill and Greenfield – Different Approaches for Different Needs

- “The private sector shall provide necessary capital improvements which provide benefit to (or mitigate development impact of) the North Natomas community . . .”
  - North Natomas Community Plan (1986)

- “Provide focused incentives and project assistance to assist in infill development in target areas and sites.”
  - Infill Strategy (2002)
## Total Fees: Commercial Example

Retail = 10,000 sq ft on 1 acre, Valuation = $890,700

<table>
<thead>
<tr>
<th>Type of Fees</th>
<th>Infill Areas</th>
<th>Greenfield Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>N. Natomas</td>
<td>Greenbriar</td>
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<tr>
<td>Impact Fee Amount</td>
<td>$30,700</td>
<td>$267,600</td>
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<tr>
<td>Other Fees</td>
<td>$22,500</td>
<td>$22,500</td>
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<tr>
<td>Total</td>
<td>$53,200</td>
<td>$290,100</td>
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<tr>
<td>Impact Fees as % of Total</td>
<td>58%</td>
<td>92%</td>
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</table>
Total Fees:

*Residential Example*

Medium Density Residential; Detached Single Family Unit; Building = 1,600 sq ft; Lot = 10,000 sq ft on 1 acre, Valuation = $96,544; Sales Price = $310,000

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<tr>
<td></td>
<td></td>
<td>N. Natomas</td>
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<tr>
<td>Impact Fee Amount</td>
<td>$14,500</td>
<td>$34,300</td>
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<td>Other Fees</td>
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<td><strong>Total</strong></td>
<td><strong>$17,600</strong></td>
<td><strong>$42,100</strong></td>
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<tr>
<td>Impact Fees as % of Total</td>
<td>82%</td>
<td>82%</td>
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</table>
Remaining Challenges

- Even with Increase in Infill Development since 2002, only 5,000 of 21,000 Units Built Between 2002 - 2006
- Despite Lower Fee Level, Infill Projects Still Face Higher Costs and Difficulties Due to:
  - Inadequate Infrastructure
  - Limited Financing Options
  - Environmental Challenges
  - Community Resistance to Infill (NIMBY)
  - Lack of Predictability with Development Process
Financial Incentives for Infill: 

Impact Fee Changes

- Water Development Fee Waiver
  - Savings of $1,281 - $57,624+

- Lower Sewer Impact Fees
  - Reduces Fee by $3,281 - $4,375

- County SRCSD Sewer Credits
  - Reduces Fee by $1,800 - $6,177

- Affordable Housing Fee Waiver
  - Reduces Building Fees by $1,000 - $4,000/unit

- Infill Fee Reduction Program
  - Reduces Building Fees by $5,000

- Infill Park Impact Fees
  - Reduces Standard Fee by $2,592
Example: Regional Sanitation Sewer Credits

- 10-Year Program Designed to Promote Infill & Economic Development
- Result of Excess Capacity
- Provided through all Jurisdictions in Sacramento County plus West Sacramento
- Jurisdiction Grants Credits to Qualified Residential and Commercial Projects
- Reduces Fee to $923/Equivalent Single-Family Dwelling (ESD)
- In 2006, City Used Sewer Credits for 324 Infill Housing Units
Obstacles to Incentives

- Incentives and Fee Waiver Programs Rarely Used
- California Laws Have Undermined Usefulness of Programs
- Incentive, Fee Reduction and Fee Waiver Programs either:
  - Trigger Prevailing Wage Requirements
  - OR -
  - Violate Prop. 218 Requirements
California Law and Impact Fees

- Proposition 13 (1978)
- CA Senate Bill 975 (2001) and Prevailing Wage
  - Effectively Doubles the Cost of Doing Development
- AB 1600 Requirements (California Mitigation Fee Act)
- Proposition 218 (1996)
  - Fees Cannot Exceed Cost of Directly Related Capital
  - Cannot Use Fees for Other Purposes
Changing Approach to Impact Fees

- High Costs for Infill:
  - Inadequate Infrastructure
  - Transportation Impacts
- Neighborhood Concern over Impact from Infill
- Limited Funding to Overcome Obstacles to Infill
- Incentives through City Investment
  - Grants
  - Focused Capital Improvement Program
- New Interest in Citywide Impact Fees
- Additional Citywide Impact Fees with Zone Approach Under Discussion
Example: Park Development Impact Fee

- Citywide Park Impact Fee in 2004
- Policy Decision to Lower Fee in Infill Areas
- Based on Different Needs:
  - Greenfield Development = New Capital (New Facilities)
  - Infill Development = Capital Improvements to Existing Parks/Facilities
Example: (cont.)

Park Development Impact Fee

- Lower Fee Applies to Development in:
  - Central City
  - Commercial Corridors
  - Target Residential Infill Areas
  - 65th Street Transit Village

- Residential Fee Example
  - Standard Fee Residential = $4,843
  - Infill Fee Residential = $2,251

- In 2006, 16% of Projects Received Infill Fee Rate
Example:
County Sewer Impact Fees for Infill

- Established by Sacramento Regional County Sanitation District & CSD-1
- Qualified Infill Area = 70% of Area is Developed
- New Areas Pay Higher Rate due to Expansion of System
- Generally 50% - 66% Less for Infill Areas
- Multifamily Example:
  - New Development Fee = $5,325/unit
  - Infill Development Fee = $2,044/unit
SRCSD Areas

- Infill Area
- New Area
Housing Trust Fund History

- City Adopted Housing Linkage Fee in 1989
- Nexus Study Established Connection Between Commercial Development, Low Wage Jobs and Affordable Housing Demand
- Regional Approach With County and Other Cities
  - County, Citrus Heights, Elk Grove, Rancho Cordova and now Folsom Have Fee
- City Won BIA Lawsuit at US Supreme Court
Housing Trust Fund Goals

- Require Commercial Development to Address Low-income Housing Needs
- Increase Affordable Workforce Housing Stock
- Stimulate Affordable Housing Throughout City
- Provide Affordable Housing Near Job Centers
Housing Trust Fund Fees

- Fees Range From $0.50 Per Sq Ft. for Warehouses to Almost $2.00 for Retail Commercial
- Only City Increased Fees 81% in 2005
- Added Automatic Indexing in 2005
- Fees Generate $1.5 Million Annually
- New Nexus Study Completed
Housing Trust Fund Production

Total HTF Funds Collected 1989-2006:

$22 million

Affordable Housing Units Produced in City with Funds since 1989:

2,645 Units
Housing Trust Fund Issues

- Affordable Housing Needs Addressed by Both Residential and Non-Residential Development
- Concern Over Fee Levels and Impact on Retail Attraction
- Fee Setting and Regional Competition Issue
- Limited Regional Coordination
New Approach to Housing
Trust Fund Impact Fee

- Only City and County have both Inclusionary Ordinance and Housing Trust Fund Fee
- Continue to Work with County and Others to Adjust Fee to Address Increased Need
- Focus on Regional Affordable Housing Issue
Lessons Learned in Sacramento:

- Cannot Rely on Fee Waivers and Reductions to Encourage Infill
- Need to Finance Infrastructure without Increasing Overall Infill Costs
- Need City Investment Strategy that Gets Infrastructure into Key Areas with Economic Potential
  - Reduces Risk from Prop. 218 Issues
  - Use in Conjunction with Impact Fee Zone
  - Focused CIP Strategy
Lessons Learned in Sacramento:  (cont.)

- New Approach Necessary to Support Infill Emphasis in 2030 General Plan
  - New Development Should Pay Full Cost of Impacts
  - Use Zone Approach for Infill Areas
  - Reduced Impact from Infill Development Should Result in Lower Impact Fees
    - Examples – Transportation, Parks
  - Relief from Exactions for Critical Infill Projects
For More Information

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Infill Strategy and Other Info at Web Site:
www.cityofsacramento.org/planning/infill/

Housing Trust Fund Impact Fee Program:
www.cityofsacramento.org/planning/long-range/citywide-and-regional/housing.cfm