



Community Development Department  
**PLANNING COMMISSION STAFF REPORT**

**ACTION ITEM (Public Hearing):** *Public Hearing to Consider  
Adoption of Residential Impact Fees*

**MEETING DATE:** February 11, 2019  
**AGENDA ITEM NO:** 8b

## **BACKGROUND**

Affordable housing impact fees are used to support and build new homes for lower-income residents. The fees can be charged to developers of new residential projects, and used for land purchase, construction costs, or site rehabilitation related to providing workforce housing.

Jurisdictions may tailor the fees so they meet local needs. The fees can be adjusted for a wide variety of reasons, so long as they are not arbitrary or capricious, and so long as the fees for all projects remain below the legal maximum.

As part of the San Mateo County “21 Elements” multi-jurisdictional effort, a Residential Impact Fee Nexus Study was prepared for the City of Burlingame, together with a Commercial Linkage Fee Nexus Study. These studies describe and quantify how the development of homes, offices, and commercial space creates a need for housing, particularly for very low-, low- and moderate-income residents. The maximum impact fees that can be legally charged were calculated by estimating the number of new worker households associated with new development. A final analysis was then completed that considered factors like local conditions and the fees of neighboring jurisdictions to determine a potential range of impact fees. These studies enable the City Council to consider the adoption of commercial linkage and/or residential impact fees that would be used to provide affordable housing.

On June 19, 2017, the City Council adopted an ordinance establishing commercial linkage fees for new commercial development in Burlingame. The adopted fees are \$7.00 per square foot for new retail development, \$12.00 per square foot for new hotel development, \$18.00 per square foot for office projects of 50,000 square feet or less, and \$25.00 per square foot for office greater than 50,000 square feet. For developers who utilize prevailing wages or area standard wages, the fees are \$5.00 per square foot for new retail development, \$10.00 per square foot for new hotel development, \$15.00 per square foot for office of 50,000 square feet or less, and \$20.00 per square foot for office greater than 50,000 square feet. Over time, these fees will provide a dedicated source of funding for programs supporting workforce housing in Burlingame.

On February 12, 2018 the City Council considered the establishment of residential impact fees that would apply to new residential development in Burlingame. The City Council directed staff to further study potential fee levels and structures, consider an on-site “in-lieu” option for providing affordable units within development projects, and obtain input from housing developers and other stakeholders.

Following direction from the City Council, staff engaged Seifel Consulting Inc. to prepare an analysis on options for residential impact fees. A key focus of the Seifel Consulting work program was to develop recommendations related to the potential adoption of new fees on residential development and the best strategies to incentivize the on-site provision of affordable housing within new development as part of the

---

City's housing program. Seifel Consulting subsequently prepared a memorandum reflecting findings of the analysis and input from the City Council (attached).

On November 14, 2018 the City Council held a special meeting to review the Seifel Consulting report and provide direction on establishing residential impact fees.

## **DISCUSSION**

**Housing Need:** For years, housing development in Burlingame and San Mateo County has not kept up with the thousands of new jobs added, and the problem has gotten worse in recent years. Between 2010 and 2016, San Mateo County added 79,000 new jobs, but only 4,941 new homes of all types. The resulting jobs-housing gap ratio was 1 to 16. In other words, only one new housing unit was built for every 16 new jobs created. This jobs-housing gap drives up the cost of housing for homebuyers and renters alike, produces congestion and long commutes for workers, and forces friends and family members to move away because they can no longer afford to live in Burlingame or San Mateo County.

A significant number of new jobs pay wages that are not sufficient to cover local housing costs. This includes jobs generated by new development. The region's driving economic sectors are increasingly split between high-wage jobs in industries such as professional and technical services, and low-wage jobs in hospitality, childcare, retail, and others. Those in the low-wage workforce increasingly commute into the area from long distances, which results in increased traffic in the region and ultimately limits the pool of employees for local businesses. For a worker earning minimum wage, the cost of gas and bridge tolls together with the long commute times make it difficult (if not infeasible) to justify employment in a low wage local job. Local service businesses have reported difficulty hiring and retaining employees, even when offering wages well above minimum wage.

The City of Burlingame has been proactive in addressing the supply aspect of the housing situation through the encouragement and approval of significant numbers of new housing units. The Burlingame Downtown Specific Plan, together with the most recent Housing Element update, have emphasized the construction of new housing units to address the increased demand for housing units near employment in Burlingame and San Mateo County. Per the City's most recent Residential Projects Overview document (attached), 513 units have been approved, and an additional 487 units are currently under review by the Planning Commission, for a total of 1000 units. Of these, 192 would be priced below market rate for households in the Moderate, Median, Low, or Very Low income categories.<sup>1</sup> Furthermore, the General Plan Update has had a strong emphasis on promoting housing production, with increased residential densities and the addition of new housing areas in the northern portion of the City.

---

<sup>1</sup> By government definition, "Moderate-Income" means a household with an income that is 120% of the "Area Median Income" (AMI), "Low-income" means a household with an income that is 80% of AMI, "Very-Low Income" means a household with an income that is 50% of AMI, and "Extremely-Low Income" means a household with an income at 30% of AMI.

**Legal and Policy Context:** Impact fees are charges imposed by jurisdictions that can be used to support and build new development. Since the 1970s, California cities have used impact fees to reduce costs paid by the public for items like roads, parks, schools, water and sewer. The money generated by housing impact fees is placed into a fund to help pay for new affordable housing. Fees can be set per square foot, per unit or by some other measure, and can only be applied to new development projects. Before being adopted, jurisdictions must show that there is a connection, or nexus, between the impacts of development and the fees charged.

A nexus study assesses the connection between new development and the need for new affordable housing. This is accomplished by calculating the number, type and salaries of jobs that will result from a new development. The study then establishes the maximum impact fee that can legally be charged to a developer for each type of development being studied. Residential developments include townhomes, condominiums and apartments.

The logic behind impact fee nexus studies is that residents of new housing spend money on goods and services like landscaping, childcare and restaurants. Many of the workers providing these services and working at these new businesses earn lower wages, and cannot afford to buy or rent a home at market-rate. Nexus studies calculate the maximum fees that would be necessary to bridge the difference between what these new worker households can afford to pay, and the cost of developing housing units to accommodate them.

While a nexus study will inform a jurisdiction about the maximum amount it can legally charge as an impact fee, the maximum fee level may not be appropriate given local housing market conditions, existing fee levels in the region or the jurisdiction's current fee structure. A feasibility study considers these conditions and recommends a more appropriate range of fees that do not unduly burden or lessen the profitability of new development. The study prepared by Seifel Consulting evaluates the feasibility of residential impact fees on both rental and for-sale development, utilizing recently obtained market data.

**Proposed Fee Structure:** At the November 14<sup>th</sup> City Council meeting, the Council provided direction for a tiered fee structure, with tiers based on residential density, and whether a project is rental or for sale. As demonstrated in the Seifel Consulting study, rental projects have a significantly lower developer margin/return compared to for sale projects, so therefore the feasibility of a rental project is more sensitive to variables in cost such as impact fees. Likewise, the feasibility of a lower density project is more sensitive to fees than a higher density project because the fixed costs are distributed over fewer units.

Table 1 summarizes the fee structure proposed by the City Council at its November 14<sup>th</sup> meeting:

**TABLE 1:  
PROPOSED RESIDENTIAL IMPACT FEE STRUCTURE**

	Impact Fee – Per Square Foot	
	Base	With Prevailing / Area Wage
Rental Multifamily – 11 units and above		
Up to 50 du/ac	\$17.00 / sq ft	\$14.00 / sq ft
51-70 du/ac	\$20.00 / sq ft	\$17.00 / sq ft
71 du/ac and above	\$30.00 / sq ft	\$25.00 / sq ft
For Sale Multifamily (Condominiums) – 7 units and above		
	\$35.00 / sq ft	\$30.00 / sq ft
Notes: 1. Rental Multifamily with total of 10 units or fewer are exempt. 2. For Sale Multifamily (Condominiums) with total of 6 units or fewer are exempt. 3. Rental projects that convert to condominiums within 10 years of completion of construction would be subject to the fee differential as a condition of conversion.		

**In-Lieu Option:** Developers would have an “in-lieu” option where the developer could choose to provide an affordable unit or units on site in lieu of submitting the impact fee. Whether a developer would choose an on-site option would depend on a number of factors such as the amount of the impact fee, the size of the development, the comparable cost of underwriting the affordable units for the designated time period and affordability level, and whether the ownership of the development is expected to be retained or sold at completion of construction. For example, a developer building apartments that they intend to own and manage for an extended time frame may have a different perspective and make a different choice than a developer building condominiums to be sold with completion of construction.

At the November 14<sup>th</sup> City Council meeting, the Council provided direction for in-lieu options for both rental and for sale projects:

- Rental Multifamily – 10% of the units affordable to Moderate Income households (80% - 120% AMI) for a period of 55 years
- For Sale Multifamily (Condominiums) – 10% of the units affordable to Above-Moderate Income households (120% - 150% AMI, with the price set at the 135% AMI level) for a period of 55 years

**Potential Revenues:** Estimating potential fees anticipated to be collected depends on a number of variables, including the residential densities, sizes of units (since the fees are typically based on square feet, not number of units), and the sliding scale of the fees themselves. The proposed ordinance would also provide discounts for projects paying prevailing construction wages, similar to the model the City adopted for commercial linkage fees. Furthermore, if an in-lieu option is offered, the impact fees collected would be lower depending on how many units are built with projects.

Upon adoption, residential impact fees will apply to new residential projects that have not had applications deemed complete as of the effective date of the ordinance implementing the fee. In the near term (within the next five years), staff estimates that there could be potentially 400 to 600 new units that have been discussed in conjunction with the update of the General Plan, based on property owner input,

and factoring the residential densities proposed in the Draft General Plan. Over the course of the General Plan, up to 2,951 units are projected through the year 2040.

Table 2 below provides rough estimates of the range of potential fees that could be collected, working with the assumption that applications for 400 to 600 new units may be contemplated in the near term (approximately 5 years). For purposes of the estimate, the assumption is an average unit size of 850 square feet. The estimate provides a range of potential fees based on:

- Lowest fee - \$14.00/sq ft for a rental project 50 units/acre or less with prevailing/area wage
- Medium/Average fee - \$23.50/sq ft based on an average of all fee levels
- High fee - \$30.00/sq ft based on prevalence of higher density rental projects and/or for sale/condominium projects

**TABLE 2:**  
**ESTIMATE OF POTENTIAL NEAR-TERM HOUSING IMPACT FEES**

<b>Units</b>	<b>Floor Area (assuming 850 sf/unit)</b>	<b>Housing Impact Fees – Low (\$14.00/sf)</b>	<b>Housing Impact Fees – Medium/Average (\$23.50/sf)</b>	<b>Housing Impact Fees – High (\$30.00/sf)</b>
<b>400</b>	340,000	\$4,760,000	\$7,990,000	\$10,200,000
<b>600</b>	510,000	\$7,140,000	\$11,985,000	\$15,300,000

Table 3 below includes three scenarios that adjust for the in-lieu option, whereby some or most projects would choose to provide an affordable unit or units on site in lieu of submitting the impact fee. These scenarios are hypothetical, as it is not possible to forecast what proportion of new projects would choose the in-lieu option; the scenarios are presented for informational purposes.

**TABLE 3:**  
**ESTIMATE OF POTENTIAL NEAR-TERM HOUSING IMPACT FEES**

<b>Units</b>	<b>Housing Impact Fees – Low (\$14.00/sf)</b>	<b>Housing Impact Fees – Medium/Average (\$23.50/sf)</b>	<b>Housing Impact Fees – High (\$30.00/sf)</b>
<b>400 Units</b>			
25% projects utilize in-lieu option	\$3,570,000	\$5,992,500	\$7,650,000
50% projects utilize in-lieu option	\$2,380,000	\$3,995,000	\$5,100,000
75% projects utilize in-lieu option	\$1,190,000	\$1,997,500	\$2,550,000
<b>600 Units</b>			
25% projects utilize in-lieu option	\$5,355,000	\$8,988,750	\$11,475,000
50% projects utilize in-lieu option	\$3,570,000	\$5,992,500	\$7,650,000
75% projects utilize in-lieu option	\$1,785,000	\$2,996,250	\$3,825,000

**PLANNING COMMISSION ACTION**

The Planning Commission should review the draft ordinance and resolution, conduct a public hearing, and consider public input. At the end of the meeting, the Planning Commission should take action on a recommendation to the City Council.

Prepared by:

Kevin Gardiner  
Community Development Director

Exhibits:

- Exhibit A – Proposed Residential Impact Fee Chapter 25.82
- “Financial Analysis of Proposed Affordable Housing Program, City of Burlingame” – Seifel Consulting
- Proposed Resolutions
- Notice of Public Hearing – Published January 31, 2019