
File ID: 2024-01057

6/25/2024

Consent Item 15.

Reduced Residential Development Impact Fees for Affordable Dwelling Units Program Modifications

File ID: 2024-01057

Location: Citywide

Recommendation: Adopt a **Resolution:** (1) authorizing the City Manager or the City Manager’s designee to modify the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program (“Program”) so that development impact fees are reduced up to a maximum of \$10,000 for “affordable dwelling units” (as that term is defined in Resolution No. 2019-0185); and (2) authorizing the City Manager or the City Manager’s designee to modify the Program to allow reduction of development impact fees for “affordable dwelling units” (as that term is defined in Resolution No. 2019-0185) at the time a letter of funding award is received for projects receiving Low-Income Housing Tax Credit (“LIHTC”) or HomeKey funding (or future iterations of the LIHTC or HomeKey financing programs should the program names or other minor elements of the programs change) and establishing that, for all other projects not receiving LIHTC or HomeKey funding, the development impact fees for “affordable dwelling units” (as that term is defined in Resolution No. 2019-0185) may be reduced when the building permit for the project is “Ready to Issue.”

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Presenter: None

Attachments:

- 1-Description/Analysis
- 2-Resolution

Description/Analysis

Issue Detail: The Mitigation Fee Act authorizes local governments to impose fees on development projects to defray the cost of new or additional public facilities that are needed because of the development project. Development impact fees are monetary exactions established and imposed according to the Mitigation Fee Act and various sections of the Sacramento City Code and collected as fees at rates established by resolution.

On October 30, 2018, Council passed a resolution reducing certain specified development impact fees for “affordable dwelling units” (as that term is defined in the resolution) to a zero-dollar rate (Resolution No. 2018-0428). On May 28, 2019, Council rescinded Resolution No. 2018-0428 and adopted a new resolution (Resolution No. 2019-0185) that similarly provides a zero-dollar development impact fee rate “affordable dwelling units,” but provides more flexibility for determining whether a new development project would provide “affordable dwelling units” (as that term is defined in the resolution). This program, called the “Reduced Residential Development Impact Fees for Affordable Dwelling Units Program,” also known as the Zero-Dollar Rate Program (“Program”), reduces financial barriers to stimulate affordable housing production.

On August 9, 2022, staff presented an evaluation of the Program to Council, and on December 6, 2022, Council adopted Resolution No. 2022-0386, providing \$9,943,880 in funding to offset revenue losses resulting from the Program through FY 2022/23. The Program has continued to receive funding through the City’s budget in the amount of \$3 million each for FY 2023/24 and FY 2024/25. Since the Program inception in October 2018, the total amount of impact fees that have been reduced through this program is \$16,350,139, which has supported the development of 2,849 units.

The Program is currently available for new development of affordable housing with affordability restrictions for at least 30 years. Rental housing units must be offered at rents affordable to low- or moderate-income households, up to 120% of Area Media Income (AMI) and for-sale housing units must be offered to affordable to low-income households, up to 80% of AMI.

In FY 2023/24, the Program supported 10 affordable housing projects, which will result in the construction of 383 deed-restricted dwelling units. Halfway through the fiscal year, funds allocated for the Program were beginning to run low and City staff began notifying developers that there was only a limited amount of funding remaining in the Program. As of April 2024, the Program funds were fully depleted with at least eight other projects (175 units) in building plan check or ready for a building permit that were eligible for the zero-dollar rate but were not able to take advantage of the Program in FY 2023/24.

Program Modifications

Currently, there is no cap on the total amount per dwelling unit or project that can be reduced through the Program. To assist a broader range of projects, staff recommends a modification to the Program, establishing a cap of \$10,000 in reduced impact fees per dwelling unit. The average amount of reduced fees per unit through FY 2022/23 was \$5,224, and in FY 2023/24 the average amount per unit was \$9,056 (and the highest amount reduced for one project was \$20,822 per unit). Certain areas of the City have higher development impact fees, so the amount reduced under the Program is therefore higher for projects in those areas. Based on projects funded to date, the majority of projects would not reach the \$10,000 maximum per unit, but by capping the amount, it would allow for additional projects to take advantage of the Program.

The second modification to the Program is to allow affordable dwelling projects that are awarded Low-Income Housing Tax Credit (“LIHTC”) and HomeKey funding to have Program funds set aside at the time the project receives a letter of funding award (assuming Program funds are available). Impact fees are reduced when an affordable dwelling project reaches the “Ready to Issue” status for a building permit (as Program funds are available). For projects not receiving LIHTC or HomeKey funding, developers would continue to receive a reduction of impact fees at the “Ready to Issue” stage for a building permit. However, with this modification, LIHTC and HomeKey funded projects could request the reduction of impact fees when they receive the letter of LIHTC or HomeKey funding award and the City would reserve part of the available Program funds for impact fee reductions for such projects.

This second modification was requested by several affordable housing developers who indicated that the current Program structure makes it difficult to use the Program in their funding applications as match funding when they cannot plan for the reduction of impact fees at the time of LIHTC or HomeKey funding awards. LIHTC and HomeKey programs require issuance of the building permit within 6 months of funding award, so building permits will be completed quickly and Program funds will not be set aside for extended periods of time.

Staff presented these changes to the Sacramento Housing Policy Working Group in April 2024 and have had subsequent meetings and conversations with housing developers. One developer requested that the cap be increased to \$15,000 per dwelling unit. However, staff recommends keeping the cap at \$10,000 per unit to ensure that at least 300 affordable units are assisted through the Program each fiscal year. One non-LIHTC or HomeKey developer expressed concern that there will not be funds remaining if the City allows LIHTC and HomeKey projects to reserve funds when their project financing has been awarded. City staff believes that even with early funding reservation for LIHTC and HomeKey projects, there will be sufficient funding to reduce impact fees for several other projects.

Policy Considerations: The modifications to the Program are consistent with the City’s goals and policies as established in the 2021-2029 Housing Element, including:

Policy H-2.4: Provide Deferrals and Zero-Dollar Impact Fees for Affordable Housing. The City shall continue to offer deferrals of City-controlled impact fees and consider the continuation of zero-dollar impact fees for affordable housing units.

Economic Impacts: Reducing development impact fees for affordable dwelling units reduces barriers for the construction of qualified new affordable housing. In the 5+ years since the inception of the Program, 2,849 affordable dwelling units have participated and benefited from the Program.

Environmental Considerations: The modification to the City’s Program amends certain provisions of a government funding mechanism that does not involve commitment to any specific project which may result in a potentially significant physical impact on the environment and therefore is exempt

from CEQA under CEQA Guidelines section 15378(b)(4).

Sustainability: The reduction of development impact fees for affordable dwelling units has increased infill housing opportunities near the urban core and public transit, which helps to reduce long commutes and dependence on the use of the private automobile, reduce the use of fossil fuels and greenhouse gas emissions and helps meet air quality standards.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: The reduction of certain City development impact fees provides an incentive for the production of affordable dwelling units. The Program has effectively incentivized affordable housing development. City staff is recommending two modifications to the Program: (1) a cap on the total amount reduced per dwelling unit to support more affordable housing projects; and (2) a set-aside procedure that would allow LIHTC and HomeKey projects to reserve funds from the Program upon receiving funding awards, which would make affordable housing projects more competitive for State and Federal affordable housing funding. The modifications are being proposed at this time so the changes can be in place on July 1, 2024, when the Program funds are replenished.

Financial Considerations: On June 11, 2024, the City Council adopted Resolution No. 2024-0193 approving the FY 2024/25 City Budget, which included \$3 million to fund the Program. The proposed amendments do not result in any further financial obligations on the City but rather help make the Program more sustainable and reliable for affordable housing developers.

Local Business Enterprise (LBE): No goods or services are being purchased in association with this report.

RESOLUTION NO.

Adopted by the Sacramento City Council

June 25, 2024

Modifications to the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program

BACKGROUND

- A. On October 30, 2018, Council passed a resolution reducing certain development impact fee rates for “affordable dwelling units” (as that term is defined in the resolution) to a zero-dollar rate (Resolution No. 2018-0428).
- B. On May 28, 2019, Council rescinded Resolution No. 2018-0428 and adopted a new resolution (Resolution No. 2019-0185) that similarly provides a zero-dollar impact fee rate for “affordable dwelling units” (as that term is defined in the resolution), but provides more flexibility for determining whether a new development project would provide “affordable dwelling units.”
- C. The reduction of development impact fees to zero dollars for “affordable dwelling units” is known as the “Reduced Residential Development Impact Fees for Affordable Dwelling Units Program” or the “Zero-Dollar Rate Program” (hereafter called the “Program”). On August 9, 2022, staff presented a 3.5-year evaluation of this Program to Council.
- D. On December 6, 2022, Council passed Resolution No. 2022-0386 to fund the Program through FY 2022/23. The Program subsequently received funding through the City’s budget in the amount of \$3 million for FY 2023/24. The FY 2023/24 funding was fully expended as of April 2024.
- E. On June 11, 2024, Council passed Resolution No. 2024-0193 to fund the Program through the City’s budget in the amount of \$3 million for FY 2024/25.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. The City Manager or the City Manager’s designee is authorized to modify the Program so that development impact fees are reduced up to a

maximum of \$10,000 for “affordable dwelling units” (as that term is defined in Resolution No. 2019-0185).

Section 2. The City Manager or the City Manager’s designee is authorized to modify the Program to allow Program funds to be set aside for reduction of development impact fees for “affordable dwelling units” (as that term is defined in Resolution No. 2019-0185) at the time a letter of funding award is received for projects receiving Low-Income Housing Tax Credit (“LIHTC”) or HomeKey funding (or future iterations of the LIHTC or HomeKey financing programs should the program names or other minor elements of the programs change). For all other projects not receiving LIHTC or HomeKey funding, the development impact fees for “affordable dwelling units” (as that term is defined in Resolution No. 2019-0185) may be reduced when the building permit for the project is “Ready to Issue.”