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**File ID:** 2022-01980

12/6/2022

**Consent Item 19.**

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**Funding of the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program**

File ID: 2022-01941

**Location:** Citywide

**Recommendation:** Adopt a **Resolution:** 1) Authorizing the City Manager or the City Manager's designee to transfer up to \$9,943,880 from FY2021/22 and/or FY2022/23 year-end resources included in available fund balance in the General Fund/Measure U Fund (Fund 1001/Fund 2401) to the FY2022/23 Affordable Housing Project (I02189050), to be used to offset the revenue losses resulting from the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program for FY2018/19 through FY2021/22 (as shown in Attachment 2); 2) Authorizing the City Manager or the City Manager's designee to transfer \$3,000,000 (Measure U Fund, Fund 2401) from the Homeless Housing Initiative MYOP (I02000200) to the FY2022/23 Affordable Housing Project (I02189050), to be used to offset the anticipated revenue losses resulting from the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program for FY2022/23 and beyond in the event of a surplus; 3) Authorizing the City Manager or the City Manager's designee to take any further budgetary actions as necessary to accomplish the foregoing recommendations; and 4) Sunsetting the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program on the date the \$3 million, identified in item 2 above, is exhausted, which may extend beyond FY2022/23.

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**Presenter:** None.

**Attachments:**

1-Description/Analysis

2-Reduced Residential Development Impact Fees for Affordable Dwelling Units Program - Impact Fees Not Collected (FY2018/19 - FY2021/22)

3-Resolution - Funding of the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program

## 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 Sacramento City Code and collected as fees at rates established by resolution.

On October 30, 2018, Council passed a resolution reducing certain development impact fee rates for new qualified affordable dwelling units 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 impact fee rate for development of eligible affordable housing units but provides more flexibility for determining whether a new development project would provide “affordable dwelling units” as defined in the resolution. This program, called the “Reduced Residential Development Impact Fees for Affordable Dwelling Units” (Zero-Dollar Impact Fee Program), reduces financial barriers to stimulate affordable housing production. At the time the program was approved, staff did not anticipate the extent to which this program would be utilized, and revenue losses were anticipated to be minimal. Today, we know the program was used extensively and the fee programs must be repaid in accordance with the Mitigation Fee Act.

On August 9, 2022, staff presented a 3.5-year evaluation of the Zero-Dollar Impact Fee Program (Program) to Council. From the start of the Zero-Dollar Impact Fee Program on October 30, 2018, through June 30, 2022, the total amount of impact fees not collected is \$9,943,880. Council expressed continued support for the Program and directed staff to identify funding to both reimburse outstanding fee balances and for current fiscal year funding.

At the October 25, 2022, Council meeting, staff recommended the funding allocations contained in this report; however, Council directed staff to first take the funding request to the Budget and Audit Committee for consideration.

On November 29, 2022, the Budget and Audit Committee passed a motion recommending the City Council adopt a Resolution to fund the Zero-Dollar Impact Fee Program (Attachment 3).

The recommendations in this report identify funding for the Program through FY2022/23 (and beyond if the funds are not fully exhausted). Going forward, staff anticipates that the Program will cost approximately \$2.5 million annually. To continue the program beyond this fiscal year, additional funding sources will need to be identified.

**Policy Considerations:** The reduction in development impact fees for affordable dwelling units is 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 affordable housing. In the 3.5 years since the inception of the Program, 2,076 affordable dwelling units participated in the Program. Notable affordable housing projects that have used the Program include Lavender Courtyard, Mirasol Village, Northlake Senior Apartments, ARY Place (17<sup>th</sup> & S), AJ (Railyards Block 48), and Arden Way Apartments.

**Environmental Considerations:** The allocation of funding to the City's Zero-Dollar Impact Fee Program is the creation of a government funding mechanism that does not involve commitment to any specific project and therefore is exempt from CEQA under 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 help meet air quality standards.

**Commission/Committee Action:** On November 29, 2022, the Budget and Audit Committee passed a motion recommending the City Council adopt a Resolution to fund the Zero-Dollar Impact Fee Program. As a minor correction, the Budget and Audit Committee staff report incorrectly identified the MYOP for the \$3,000,000 to be used to offset the anticipated revenue losses resulting from the Program for FY2022/23. As correctly stated in this report and the attached Resolution, the correct MYOP is from the Homeless Housing Initiative (I02000200).

**Rationale for Recommendation:** Over the 3.5 years since the Program began (October 30, 2018 - June 30, 2022), the total amount of impact fees not collected was \$9,943,880. The following table summarizes impact fees not collected by fiscal year:

FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	Total
\$982,210	\$5,133,745	\$1,336,079	\$2,491,844	<b>\$9,943,880</b>

The Mitigation Fee Act requires local agencies to make findings every five years for impact fee revenue that has been collected but not yet expended on public facilities projects. These findings include: 1) Identification of all sources and amounts of funding anticipated to complete financing of the incomplete improvements for which the fee was collected; and 2) Designation of the approximate dates on which the funding for the incomplete improvements is expected to be deposited into the appropriate account or fund. Given the City has been collecting impact fee revenue from non-affordable housing developers, the City will need to make such five-year findings and identify the

remaining money that will be used to complete the public facilities and the date such money will be deposited into the fee program accounts. Staff will return to Council in January 2023 to make the required 5-year findings for most of the fee programs affected by the Program.

**Financial Considerations:** Approximately \$9.9 million of impact fees were uncollected from program inception to June 30, 2022. It is anticipated that for FY2022/23, the Program will result in impact fee deficits of up to \$3,000,000.

Staff is recommending transfer of up to \$9,943,880 from FY2021/22 and/or FY2022/23 year-end resources included in available fund balance in the General Fund/Measure U Fund (Fund 1001/Fund 2401) to the FY2022/23 Affordable Housing Project (I02189050), to be used to offset the revenue losses resulting from the Program for FY2018/19 through FY2021/22. Staff is also recommending transfer of \$3,000,000 (Measure U Fund, Fund 2401) from the Homeless Housing Initiative MYOP (I02000200), to be used to offset the anticipated revenue losses resulting from the Program for FY2022/23 and future years if there is a surplus.

Sufficient funding is available in the applicable project budgets and available fund balances to support the recommended budgetary transfers. To continue the Program beyond FY 2022/23 and offset the resulting revenue losses beyond these budgetary transfers, Council must identify a funding source before the proposed allocation of funding is fully exhausted, which is anticipated at the end of this fiscal year, June 30, 2023.

**Local Business Enterprise (LBE):** Not applicable.

**Background:** In the 3.5 years since the inception of the Program (October 30, 2018 - June 30, 2022), 2,076 affordable dwelling units participated in the Program. Notable affordable housing projects that have used the Program include, Lavender Courtyard, Mirasol Village, Northlake Senior Apartments, ARY Place (17<sup>th</sup> & S), AJ (Railyards Block 48), and Arden Way Apartments.

The table below, shows the number of units per year.

NUMBER OF DWELLING UNITS RECEIVING FEE REDUCTIONS				
	2019	2020	2021	1st Half of 2022
Commercial (3+ unit)	801	307	287	620
Residential (1-2 unit)	46	4	8	3
<b>Grand Total Dwelling Units</b>				
<b>2,076</b>				

On August 9, 2022, staff presented a 3.5-year evaluation of the Program to Council. During that meeting, Council requested staff evaluate two potential modifications to the program: 1) Changing Income Eligibility for the Program; and 2) Geographical Limits on Eligibility. After further evaluation,

staff recommends maintaining the current income eligibility and maintaining it as a citywide program. Below is background on staff's recommendation as well as a summary of the impact fees not collected since the inception of the program.

Changing Income Eligibility for the Program: Staff recommends maintaining the current income eligibility of the Reduced Residential Development Impact Fees for Affordable Dwelling Units program.

The program is currently available to rental housing units offered at rents affordable to low- or moderate-income households (80-120% of Area Media Income (AMI)) and for-sale housing units offered at rents affordable to low-income households (0-80% of AMI) for at least 30 years. One of the options identified in the August 9, 2022, staff report was to revise the program to reduce the income eligibility for rental housing units from 120% AMI to a maximum of 80% AMI.

To inform staff's recommendation, an analysis of the percent of participating dwelling units at or below 80% AMI was conducted. The table below provides a breakdown of the percentage of housing units that fall into the California Housing and Community Development (HCD) income limits. One of the challenges in conducting this analysis is that the income ranges of the HCD categories overlap. Due to the overlap of "Lower Income" and "Moderate Income", it is not possible to know the exact percentage of affordable dwelling units at or below 80%. However, at least 20% of participating dwelling units were above 80% AMI. If the program were revised to limit income eligibility to lower-income households (0-80% AMI), the amount of impact fees not collected would be reduced. However, this financial incentive program would no longer be available to moderate-income housing and there are very few funding sources or financial tools available to encourage production of this much needed housing type.

HCD Income Limits Category	Percent Area Median Income (AMI)	Percent of Affordable Dwelling Units in Program	At or Below 80% AMI
Acutely low income	0-15%	1%	Yes
Extremely low income	15-30%	5%	Yes
Very Low income	30-50%	45%	Yes
Lower income	50-80%	25%	Unknown
Moderate income	80-120%	20%	No

Geographical Limits on Eligibility: Staff recommends maintaining the Reduced Residential Development Impact Fees for Affordable Dwelling Units program as a citywide program. The City's financial contribution is relatively small compared to the number of affordable units produced. In other words, the Program is a financially efficient way to further the City's affordable housing goals.

If the Committee desires to reduce the geographic applicability of the Program to reduce the amount

of impact fees not collected, staff recommends continuing the programs in the areas of the city that are experiencing or at-risk for displacement and gentrification or in high resource areas of the city. Increasing the amount of deed-restricted affordable housing in areas at-risk of displacement can help keep low-income households in their neighborhoods. High resource areas offer low-income children and adults the best chance at economic advancement, high educational attainment, and good physical and mental health.

As noted during the August 9, 2022, Council meeting, another option would be to limit the program to commercial corridors. If, for example, the program had been limited to the key commercial corridors included in the 2040 General Plan Key Strategies report that went to Council on January 19, 2021, only 357 of 2,076 dwelling units that benefited from the program over the last 3.5-year period, would have qualified. The key commercial corridors in this report included Freeport Boulevard, Northgate Boulevard, Broadway, Franklin Boulevard, Truxel Road, Del Paso Boulevard, Stockton Boulevard, Folsom Boulevard, and Florin Road.

But, as mentioned above, staff recommends maintaining the Program as is, with no change.

**Attachment 2 – Reduced Residential Development Impact Fees for  
Affordable Dwelling Units Program – Impact Fees Not Collected  
(FY2018/19 – FY2021/22)**

<b>Fee/Revenue Program</b>	<b>Fees Not Collected, January 1, 2019 through June 30, 2022</b>
Water Development Fee: 211	(\$1,147,763.24)
Sewer Development Fee: 212	(\$1,836.32)
Combined Sewer Development Fee: 403	(\$1,564,022.97)
North Natomas Public Facilities Fee: 270	(\$1,434,170.00)
North Natomas Public Land Acquisition: 272	(\$184,125.00)
North Natomas Regional Land Acquisition: 273	(\$159,270.00)
North Natomas Transit Fee: 271	(\$162,784.00)
PDIF: 287	(\$1,923,267.44)
PDCI: 267	(\$1,074,520.28)
River District fee: 380	(\$169,485.24)
Central City Transportation: 390	(\$193,702.89)
Central City Public Facilities: 391	(\$26,337.49)
Central City Sewer: 393	(\$117,732.33)
Central City Water: 392	(\$94,334.25)
Central City Administration: 394	(\$13,039.48)
Railyards Infrastructure: 306	(\$1,002,308.00)
Railyards Interchange: 307	(\$47,149.00)
Railyards Com Facilities: 308	(\$282,894.00)
Railyards Admin: 309	(\$39,951.00)
Greenbriar Regional Park: 433	(\$137,247.76)
Greenbriar Fire: 434	(\$57,276.62)
Greenbriar Community Center: 435	(\$57,925.04)
Greenbriar Transit: 436	(\$52,737.72)
<b>GRAND TOTAL FEES NOT COLLECTED</b>	<b>(\$9,943,880.07)</b>

Note: The Infrastructure Finance Division provided a fee reduction for Greenbriar Impact Fees to provide the same incentive for affordable dwelling units as in other areas.

## **RESOLUTION NO. 2022-**

Adopted by the Sacramento City Council

December 6, 2022

### **Funding 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 new qualified affordable dwelling units 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 development of eligible affordable housing units but provides more flexibility for determining whether a new development project would provide “affordable dwelling units” as defined in the resolution.
- C. On August 9, 2022, staff presented a 3.5-year evaluation of this program—the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program (commonly referred to as the “Zero-Dollar Impact Fee Program”) (Program)—to Council. From the start of the Zero-Dollar Impact Fee Program on October 30, 2018, through June 30, 2022, the total amount of impact fees not collected is \$9,943,880.
- D. On November 29, 2022, the Budget and Audit Committee passed a motion recommending the City Council adopt a Resolution to fund the Zero-Dollar Impact Fee Program.

#### **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 transfer up to \$9,943,880 from FY2021/22 and/or FY2022/23 year-end resources included in available fund balance in the General Fund/Measure U Fund (Fund 1001/Fund 2401) to the FY2022/23 Affordable Housing Project (I02189050), to be used to offset the revenue losses resulting from the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program for FY2018/19 through FY2021/22.



- Section 2. The City Manager or the City Manager's designee is authorized to transfer \$3,000,000 (Measure U Fund, Fund 2401) from the Homeless Housing Initiative MYOP (I02000200) to the FY2022/23 Affordable Housing Project (I02189050), to be used to offset the anticipated revenue losses resulting from the Reduced Residential Development Impact Fees for Affordable Dwelling Units Program for FY2022/23 and beyond in the event of a surplus.
- Section 3. The City Manager or the City Manager's designee is authorized to take any further budgetary actions as necessary to accomplish the foregoing recommendations.
- Section 4. The Program sunsets on the date the funds identified in section 2 of this Resolution are exhausted, which may extend beyond FY2022/23.