



Staff Reports

File #: 1474-2018, **Version:** 1

To: Honorable Mayor and Members of City Council

From: Rick Tooker, Community Development Director

Prepared By: Lark Ferrell, Housing Manager

TITLE:

Affordable Housing Impact Fees Ordinance Amendment Regarding Residential Units 500 Square Feet or Less

RECOMMENDED ACTION:

Approve first reading and introduction of an Ordinance amending Napa Municipal Code Chapter 15.94 ("Affordable Housing Impact Fees") to include units that are 500 square feet or less within the definition of "affordable units" and to make minor clarifications; and determining that the actions authorized by this Ordinance were adequately analyzed by a previous CEQA action.

DISCUSSION:

This agenda item amends the City's Affordable Housing Impact Fees Ordinance to make minor clarifying changes, and to include residential units of 500 square feet or less within the definition of "affordable units" which are exempt from payment of affordable housing impact fees. The specific changes proposed are shown in Attachment 2.

As part of its overall affordable housing strategy, in March 2017, the City updated its Accessory Dwelling Unit Ordinance. This has made it significantly easier for homeowners to receive approvals to build accessory dwelling units. As a result, the City has seen a dramatic increase in the number of applications for accessory dwelling units ("ADUs") over the past year. Despite the changes to the ordinance, some homeowners are still finding the development of ADUs, including the fees, to be cost prohibitive and have not yet moved forward on approved projects. When considering the total fees for construction of an ADU (over 500 sq. ft.), the cost is nearly \$20,000 including all City and non-City fees (e.g., Napa Sanitation District and Napa Valley Unified School District).

As part of this effort to encourage ADUs, Council has also directed staff to look at ways to reduce fees charged to develop ADUs. Recently, the Napa Sanitation District, and Napa Valley Unified School District have reduced or eliminated fees charged for ADUs that are 500 square feet or less, representing a reduction of approximately \$12,000 or nearly 60% of the total fees applied to small ADUs. An opportunity exists to further reduce fees to encourage more ADUs, particularly small ADUs 500 square feet or less in size. Based on a study prepared by City staff, those ADUs existing in the Napa market that are rented out are generally not affordable units with some renting for more than \$2,000 a month. However, naturally small units 500 square feet or less are not able to rent at these high rates by virtue of their limited size (state law allows ADUs as large as 1,200 sq. ft.). As a result, staff is focusing its recommendations to reduce the City's affordable housing impact fees similar to

the actions taken by Napa Sanitation District and Napa Valley Unified School District for ADUs 500 square feet or less.

There are currently three City impact fees charged for ADUs regardless of size. These include the Affordable Housing Impact fee, Park Dedication fee, and Street Improvement fee. For a 500-square foot ADU, these three impact fees total approximately \$7,000. The Affordable Housing Impact fee, calculated at a rate of \$4.75 per square foot for single family development represents approximately one third of this amount of the City fee or \$2,375 (deed restricted ADUs do not pay the Affordable Housing Impact Fee). Because each of these impact fees was adopted by separate ordinance, in order to make changes to them, each ordinance must be amended by separate action. This agenda item addresses the Affordable Housing Impact Fee charged for ADUs. City staff is in the process of evaluating updates to the Park Dedication and Street Improvement fees, which will be brought back to Council for separate consideration.

The City's Affordable Housing Impact Fee Ordinance was adopted in 2012. As part of this process, the City adopted implementing resolutions establishing fee amounts based on nexus studies that document the linkage between both residential and non-residential development and the increased need for affordable housing. Based on these nexus studies, the City enacted fees on a per square foot basis based on the type of development, including multifamily residential, single family residential, hotel, office and retail developments. Prior to the impact fee, between 1999 and 2012, the City had an Inclusionary Housing Ordinance in effect which generally required 10% of all units in a residential project to be affordable. Under the Inclusionary Housing Ordinance, units less than 640 square feet were exempt from this requirement as these units were deemed to be affordable. The nexus study prepared in 2010 for residential development similarly presumes small units to be affordable, and the report suggested if a per unit fee was adopted, that small units could similarly be excluded. Because the City instead adopted a per square foot fee, the idea being smaller units would pay a smaller fee, this was not incorporated into the City's current Affordable Housing Impact Fee ordinance.

Under the proposed revisions to the Affordable Housing Impact Fee ordinance, small efficiency apartments 500 square feet or less would be excluded from the Affordable Housing Impact fee. Encouraging higher density through smaller units is a recognized strategy to address the lack of affordable housing in higher rent communities. It would also help encourage the provision of housing for the workforce.

If approved, as part of the proposed amendments to the Affordable Housing Impact Fee Ordinance, residential units that are 500 square feet or less would be considered "affordable units" and would not be required to pay the City's Affordable Housing Impact fees. Although it would result in a decrease to the Affordable Housing Impact Fees fund's revenue, this change should result in an overall increase in the number of smaller "naturally affordable" units being created. This change would go into effect thirty days after the second reading of the ordinance. Those people with approved applications that have not yet paid the Affordable Housing Impact Fee or with pending ADU applications would be notified of the change.

FINANCIAL IMPACTS:

This amendment would result in a decrease in Affordable Housing Impact Fees revenues due to excluding residential units of 500 square feet or less from the fee. Staff is unable to determine the exact impact as it is unclear how many units 500 square feet or less will be built, understanding for

each application approved the reduction in revenue for the Affordable Housing Impact Fee would be approximately \$2,700.

CEQA:

City staff recommends that the City Council determine that the potential environmental effects of the Recommended Action described in this Agenda Report were adequately examined per the negative declaration adopted by Council on July 24, 2012 based on the Initial Study for the Affordable Housing Impact Fee Ordinance dated May 18, 2012 (PL 12-0045) pursuant to CEQA Guidelines Section 15063 and 15162.

DOCUMENTS ATTACHED:

ATCH 1 - Draft Ordinance with EX A

EX A - Chapter 15.94 Affordable Housing Impact Fees

ATCH 2 - Redline of proposed amendments to Chapter 15.94

NOTIFICATION:

Legal notice of public hearing was published in the Napa Valley Register at least ten days prior to the hearing date. Additionally, affordable housing advocates and interested homeowners were notified of this agenda item.