



Memorandum

TO: CITY COUNCIL
SUBJECT: SEE BELOW

FROM: Mayor Sam Liccardo
DATE: November 4, 2019

APPROVED:

DATE: 11/4/19

SUBJECT: DEVELOPMENT FEE FRAMEWORK

RECOMMENDATIONS

1. Accept staff's report on the Development Fee Framework.
2. As the Framework is built out, direct City staff to:
 - a. Ensure that the annual adjustment of Inclusionary Housing Ordinance (IHO) in-lieu fees is tied to an index¹ that is based on cost of residential construction (e.g., Engineering News Record Building Cost Index). Direct City staff to outreach to residential developers for input into indices that are already utilized in their pro formas.
 - b. Explore modifying the basis of square footage to which development fees apply to net rentable space, in a manner that is net revenue-neutral to the City.

BACKGROUND

Predictability of local government processes and fees is essential for residential development to move forward with financing. However, to-date, our development fees have proved to be complicated and difficult for builders—and their lenders—to anticipate. Some of the issue has been in the long process of policymaking that has left some fees uncertain at a time that the market has been most ripe for development. Other issues lie in the lack of standard applicability, i.e., some fees per unit and some fees per square footage.

The two recommendations above are important points to incorporate as staff builds out the Framework. For the IHO in-lieu fees, I agree with staff recommendation to tie annual

adjustments to an index, based on cost of residential construction. The Engineering News Record (ENR) Building Cost Index may offer one option, but industry experts may have other indices in mind.

For the applicable square footage for development fees, I ask staff to study whether the C/its should move to a net rentable space model for calculation. Currently, common areas and amenities are included in the fee calculation, and this formulation may discourage many of the more innovative approaches, such as micro-units and co-living, that can substantially boost density and expand housing affordability.

City staff have done a masterful job in creating a Development Fee Framework to move the City to more understandable and certain development fees. I thank you for your work and look forward to your coming back in Council in the spring.

¹ C.4 Cap the Annual Fee Adjustment and D.2 Adjust the Mixed Compliance Fees as the Market Changes, Proposed Revisions to Inclusionary Housing Ordinance Staff Memo