



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 10/8/2024

To: Board of Supervisors

Department or Agency Name(s): County Administrator's Office

Staff Name and Phone Number: Jennifer Solito and Jennifer Larocque, (707) 565-2431

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Options to Reduce Development Impact Fees for Affordable Housing

Recommended Action:

Implement a pilot program to exempt and backfill half the cost of traffic and parks impact fees for units that count towards the County's very low-income Regional Housing Needs Allocation.

Executive Summary:

Development impact fees, also known as mitigation fees, are imposed on new developments to support infrastructure and services like roads, parks, and fire safety. On June 10, 2024, the Board requested staff develop options to waive or reduce these fees to reduce barriers to building affordable housing.

Sonoma County's 2023-2031 Housing Element outlines the Regional Housing Needs Allocation (RHNA) and contains policies and programs to assist in attaining the target number of units. Data shows that progress on meeting affordable housing production targets, particularly for lower-income categories, has been limited. To support achieving these targets, staff propose a three-year fee exemption pilot program, focusing on housing for very low-income groups. The program would consist of waiving half the impact fees for roads and parks for deed restricted units at the very low-income affordability threshold, capped at \$1 million annually, with backfill funding to ensure no disruption to services. This recommendation is consistent with Housing Element Policy HE-4c to consider fee exemptions for multifamily housing projects for lower income households. The program would be funded with \$1 million from contingencies in Fiscal Year 24-25 and programmed into the annual budget in future years.

Discussion:

Background

Development impact fees are charges levied on new developments to fund the infrastructure and services needed to support and address the impacts of new development and growth. State Assembly Bill 602 (AB 602) addresses development impact fees imposed on new housing developments and requires that public agencies make the written fee schedule publicly available, that any nexus study conducted after July 1, 2022, calculate fees based on square footage, and that fees be proportional to the square footage of the development projects. Further, the legislation requires that nexus studies be updated at least every eight years, beginning January 1, 2022. On June 10, 2024 [the Board of Supervisors \(Board\) reviewed options to implement AB 602 <](#)

<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6720200&GUID=98BD080D-F6CF-43F5-9FD1-EEDFA15CF932&Options=&Search=>>. Given the Board’s interest in increasing the development of affordable housing, the Board directed staff to return to the Board with options to waive or reduce impact fees for affordable housing before pursuing an updated nexus study in compliance with AB 602. Additionally, the Board requested that staff consider options to waive or reduce water and sewer connection fees for affordable housing. Reducing impact fees is one way to reduce the cost of building affordable housing, which may increase development.

Need for Affordable Housing

The California Department of Housing and Community Development (HCD) forecasts housing need in California. California’s local governments adopt eight-year housing elements as part of their general plan to show how the jurisdiction will meet local housing needs. The Board adopted ‘Sonoma Countys 2023-2031 Housing Element <<https://permitsonoma.org/housingelement>> on August 22, 2023; HCD certified the Housing Element on October 26, 2023.

Sonoma County’s Housing Element represents its plan to accommodate the 2023-2031 Regional Housing Needs Allocation (RHNA) that was assigned to the unincorporated County. The RHNA is broken down into four defined income categories that correlate approximately to percentages of local area median income (AMI).

Income Level	Very Low < 50% AMI	Low < 80% AMI	Moderate < 120% AMI	Above Moderate > 120% AMI	Total
2023-2031 RHNA units	1,024	584	627	1,589	3,824
2014-2022 RHNA units*	166/126	285/37	729/160	1,230/192	2,289/515

*actual production/quantified objective

In this RHNA cycle, Permit Sonoma has issued building permits for 54 very low income units, 58 low income units, 128 moderate income units, and 447 above average income units. Data from Sonoma County’s previous housing element cycle (2014-2022) demonstrates that while the County was able to achieve prior RHNA cycle targets, the targets and actual production of very low and low income housing were significantly lower than the obligation in the current cycle.

Efforts to Encourage Affordable Housing

Sections 2.1 and 2.2 of the Housing Element identify policies and programs to support achieving the County’s RHNA obligation. The policies are organized into six goals and contain a recommendation to waive fees for affordable housing. Numerous policies were developed in the beginning of this RHNA cycle to assist the County in meeting the increased RHNA obligation.

The Housing Element lists 32 County programs aimed at increasing affordable housing, including the [County Fund for Housing <](#)

<https://sonomacounty.ca.gov/development-services/community-development-commission/divisions/community-development/funding-opportunities/county-fund-for-housing>> (CFH). The CFH provides loans and grants to undertake activities which create, maintain, or expand the County’s affordable housing stock. Over the last three years, the County has been the sole contributor to the CFH and

has contributed \$9.7 million. Over the last three years the fund received regular contributions from the affordable housing in-lieu fee and Transient Occupancy Tax (TOT), and a one-time contribution of general fund when TOT revenue fell during the pandemic. Over the same period, the CFH awarded funding to nine projects in the cities/towns of Windsor, Santa Rosa, Healdsburg and Cloverdale.

The CFH offers grants to offset impact fees, however developers have not applied for funding to offset the cost of impact fees. Housing Element Program 1b states that the County will continue providing loans from CFH funds to housing projects located within cities, however, due to the increased RHNA requirement in the unincorporated County the Community Development Commission will prioritize CFH for units in the unincorporated County.

Comparable Jurisdictions, Studies and Stakeholders

Jurisdictions implement exemptions for affordable housing in various ways. Most cities in Sonoma County do not implement fee exemptions. Cities and counties that implement fee exemptions have a range of programs including 1) exemptions for impact fees, sewer and water connection fees, 2) exemptions for impact fees, 3) case-by-case or partial impact fee exemptions, 4) exemptions for building and permitting fees. Additional details on comparable jurisdictions can be found in Attachment A.

Academic studies on impact fees primarily focus on impact fee methodology and state-wide efforts, and do not address local impact fee exemptions.

Staff reviewed materials from Generation Housing and contacted local developers, who emphasized the importance of reduced costs for building affordable housing, advocated for more opportunities for low-interest, long-term loans, and spoke to the importance of a square-footage based fee model with waivers for smaller units.

Current Fees and Exemptions

The County of Sonoma levies impact fees for parks, traffic, and fire districts. Additionally, Sonoma Water charges fees for sewer connections to their sanitation districts. Attachment B summarizes County fees for parks, traffic, fire, and sewer connections.

The County collects fees for connections to Sonoma Public Infrastructure's small water systems. Sonoma Public Infrastructure's water systems are located in Fitch Mountain, Freestone, Jenner, and Salmon Creek. Staff does not recommend a connection fee exemption for affordable housing for the small water systems because the water systems are not identified as optimum locations for affordable housing in the Sonoma County Housing Element and they face supply and capacity limitations. The County collects affordable and workforce housing in-lieu fees when a developer chooses to pay a fee in-lieu of constructing affordable units on-site. Modifications to those fees are not included in today's deliberations.

Under California law, Accessory Dwelling Units (ADUs) under 750 square feet are exempt from impact fees, including traffic, park and fire fees. Fire rebuilds and remodels pay traffic and park fees only when the rebuild/remodel includes additional units because the original units would have already paid construction fees when first built. Rebuilds and remodels pay additional fire fees if there is increased conditioned square footage.

Program Methodology

Should the Board wish to waive or reduce all or certain development impact fees, there is no legal requirement to backfill fees for traffic, parks, and fire. Waiving fees with no backfill could result in delayed or reduced roadway projects, which are designed to address the traffic impacts of new development and alleviate congestion. Further, Parks relies on fee revenue for many park development and improvement projects. Lastly, waiving fire impact fees without backfilling the fees would result in reduced funding for fire services intended to address the impacts of additional development requiring fire protection. Backfilling any waived or reduced fees ensures that the impacts of the development will continue to be addressed.

The County is required to backfill connection fees for Sonoma Water’s sanitation districts. Sonoma Water cannot use its own funds to backfill fees, as special districts are only allowed to spend funds on powers they are authorized to exercise in their enabling legislation. In the case of Sonoma Water, this does not include housing.

Given the goal of reducing barriers to the development of affordable housing, staff evaluated impact fees in the context of meeting the County’s RHNA obligation. The County’s current RHNA cycle is 2023-2031. Staff recommends establishing a pilot program for three years (to halfway through the RHNA cycle) or until half the County’s very-low income RHNA obligations have been met, whichever occurs first.

Staff evaluated fees and the cost to backfill fees in relation to RHNA units. Based on current fee amounts and the County’s RHNA obligation, staff estimate that a program to waive and backfill fees would incur the following costs:

	Up to 50% AMI	Up to 80% AMI	Up to 120% AMI
Half the County’s RHNA obligation	512	804	1,118
Three-Year Max. Cost Traffic	\$3,478,827	\$5,462,845	\$7,592,947
Three-Year Max. Cost Parks	\$1,883,136	\$2,957,112	\$4,110,165
Three-Year Max. Cost Fire*	\$1,400,148	\$2,198,671	\$3,055,988
Three-Year Max. Cost Sanitation*	\$4,073,984	\$6,397,428	\$8,891,948
Total	\$10,836,095	\$17,016,056	\$23,651,047

*This calculation assumes that all specified RHNA units would be built in sanitation districts and fire districts due to cost of developing multi-family units on septic and zoning.

Recommendation

Staff recommend implementing exemptions with backfill for half the cost of traffic and parks impact fees for units that count towards the County’s very-low income RHNA obligation. This methodology prioritizes housing at the lowest affordability level and stretches program funding to more units than if the program offered complete exemptions. This approach does incur some legal risk, as a 50% reduction could be considered a change to the existing fee structure triggering AB 602 compliance, as opposed to a complete exemption.

	Half the fees for very-low income units
Half the County’s RHNA obligation	512

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Three-Year Max. Cost Traffic	\$1,739,414
Three-Year Max. Cost Parks	\$941,568
Total	\$2,680,982

Staff recommend capping the program at \$1 million in backfilled fees annually, plus any unutilized funds from the prior years.

Additional recommendations include:

- Exemptions are available on a first-come first-serve basis until funds are exhausted.
- Exemptions will only be available to nonprofit developers.
- The fee exemptions will apply to only multifamily housing developments.
- Fees will be waived on a unit basis, as opposed to a project basis. Project fees will be waived in an amount proportional to the percentage of units affordable.
- Fees will be waived at the time of building permit issuance.

- A developer may elect to receive a 50% exemption from impact fees, or a lesser amount consistent with Labor Code § 1720(c)(3).

Staff recommend utilizing \$1 million in contingencies for the initial year of the program and will identify funding for the remaining two years through the annual budget process.

Next steps

If the Board chooses to implement a fee exemption program, staff will return with a resolution in December or January to implement the program and request contingency funding. Permit Sonoma will modify internal procedures as needed to evaluate projects to determine if they meet program requirements, identify the amount of fees exempted, apply the exemption, and work the County Administrator’s Office to monitor program funding.

Staff will return to the Board in three years for Board direction, or when the County completes a square footage-based nexus study - whichever happens sooner.

Strategic Plan:

This item directly supports the County’s Five-year Strategic Plan and is aligned with the following pillar, goal, and objective.

Pillar: Healthy and Safe Communities

Goal: Goal 3: In collaboration with cities, increase affordable housing development near public transportation and easy access to services.

Objective: Objective 3: Create incentives for developers to promote affordable housing development in the County.

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?

No

Prior Board Actions:

6/10/24: AB 602 Development Impact Fee Nexus Study

FISCAL SUMMARY

Expenditures	FY24-25 Adopted	FY25-26 Projected	FY26-27 Projected
Budgeted Expenses	\$1,000,000	\$1,000,000	\$1,000,000
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF		\$1,000,000	\$1,000,000
State/Federal			
Fees/Other			
Use of Fund Balance			
General Fund Contingencies	\$1,000,000		
Total Sources			

Narrative Explanation of Fiscal Impacts:

If the Board chooses to implement a fee exemption program, staff will return with a request for contingency funding. Staff will identify funding for the remaining two years through the annual budget process.

Narrative Explanation of Staffing Impacts (If Required):

None.

Attachments:

- Attachment A: Comparison Matrix
- Attachment B: Current Fee Summary
- Attachment C: Presentation

Related Items "On File" with the Clerk of the Board:

None