



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 1/14/2025

To: Board of Supervisors

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

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

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Consider Options to Establish a Two-Year County Imposed Development Impact Fee Reduction Program.

Recommended Action:

Direct staff to return with a resolution to reduce impact fees for affordable housing.

Executive Summary:

Development impact fees, or mitigation fees, are charged on new developments to fund infrastructure and services such as traffic, parks, and fire safety. On June 10, 2024, the Board requested staff develop options to reduce these fees to lessen barriers to building affordable housing. On November 5, 2024, the Board directed staff to pursue an updated nexus study for traffic and park development impact fees based on square footage, consistent with Assembly Bill 602.

This item presents options to reduce parks and traffic fees (Countywide and Sonoma Valley) for a two-year period, while the County establishes a new nexus study and fee schedule.

Staff seeks Board input on the Two-Year Reduction Program options developed. Should the Board find a suitable option to implement, staff will return with a resolution to implement a fee reduction program for parks and traffic fees on housing for very low to moderate income households, to be effective in February and through end of calendar year 2026 or until the County adopts an updated Nexus Study and fee schedule based on square footage for transportation and park impact fees, whichever comes first.

Discussion:

Background

Development impact fees are imposed on new developments to offset development impacts on County facilities and infrastructure such as roads and parks. Assembly Bill 602 (AB 602) requires public agencies to make fee schedules public, calculate fees based on square footage for nexus studies adopted after July 1, 2022, and update studies every eight years starting January 1, 2022. On [November 5, 2024 <https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6993609&GUID=FD3F1152-A79F-4F72-B6DE-8CA5D98AC11B&Options=&Search=>](https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6993609&GUID=FD3F1152-A79F-4F72-B6DE-8CA5D98AC11B&Options=&Search=>), the Board directed staff to complete an updated nexus study for traffic and parks fees, consistent with Assembly Bill 602, with an estimated completion of 12-18 months.

To create near-term incentives to build affordable housing, on [June 10, 2024 <https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6720200&GUID=98BD080D-F6CF-43F5-9FD1-](https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=6720200&GUID=98BD080D-F6CF-43F5-9FD1-)

[EEDFA15CF932&Options=&Search=>](#) the Board asked staff to explore options to waive or reduce impact fees and water and sewer connection fees.

The following information represents staff’s work on the options available.

Program Timing and Participation

The options in this summary aim to incentivize affordable housing production while the County transitions to square footage-based fees. Staff anticipate returning to the Board with an updated nexus study and fee schedule to implement square footage based fees in 12-18 months.

Due to the timing of the nexus study, it is likely that projects that will benefit from the program are already entitled or under entitlement review (land use approval) with Permit Sonoma. The start of entitlement to obtaining a building permit typically takes two to three years, depending on project complexity. Fees are determined, and would be reduced, at the time of building permit issuance.

Over the past 20 years, 25% of projects that started the entitlement process did not ultimately get completed. An impact fee reduction would provide financial relief only for affordable units, potentially increasing the likelihood of projects completing the entitlement stage and receiving a building permit. The total number of deed-restricted very low, low and moderate units (also known as affordable units) in the entitlement pipeline for unincorporated area projects is currently 30 times greater than the average number of the same type of units entitled in the past six years.

Data on multi-family projects with deed restrictions for very low, low and moderate-income units that are already entitled or under review and have not received building permits is available in Attachment A, and are often referred to as “pipeline projects.” All above moderate-income units (defined as any unit or home that is not deed restricted) are included for context.

Income Level	Very Low < 50% AMI	Low < 80% AMI	Moderate < 120% AMI	Above Moderate
Pipeline Units	142	312	1,470	1,935

Regional Housing Need Allocation

California local governments adopt eight-year housing elements to meet local housing needs. Sonoma County’s 2023-2031 Housing Element <<https://permitsonoma.org/housingelement>>, adopted on August 22, 2023, outlines its plan to fulfill the 2023-2031 Regional Housing Needs Allocation (RHNA) for unincorporated areas. The RHNA is divided into four income categories based on area median income (AMI) percentages.

The table below illustrates the actual production of units over the RHNA objective. The data for the 2023-2031 cycle determines how many additional units the County needs to meet the RHNA obligations. For instance, the County has issued 128 building permits out of the desired 627 moderate income units for this RHNA cycle, leaving an obligation of 499 moderate units. This calculation is used to determine how many units are needed to meet our RHNA objective in the options presented below.

Income Level	Very Low < 50% AMI	Low < 80% AMI	Moderate < 120% AMI	Above Moderate > 120% AMI	Total
2023-2031 RHNA units	54/1,024	58/584	128/627	447/1,589	687/3,824
2014-2022 RHNA units	166/126	285/37	729/160	1,230/192	2,289/515

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 lower than the obligation in the current cycle.

Current Fees and Exemptions

The County of Sonoma levies impact fees for parks and traffic, and approves, collects and disperses fire district fees at the request of the districts' governing boards. Additionally, Sonoma Water charges fees for sewer connections to their sanitation districts. Staff does not recommend reducing Sonoma Water's sewer connection fees or fire district fees.

Attachment B summarizes County fees for parks, traffic, fire, and sewer connections. Information on recent fee use and planned expenditures is available in the Dec. 10, 2024 [AB 1600 Development Fees Annual Reports for FY 2023-24](https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=7040210&GUID=57B0758B-CAEC-409A-84C6-2EFA87D19431&Options=&Search=>) <<https://sonoma-county.legistar.com/LegislationDetail.aspx?ID=7040210&GUID=57B0758B-CAEC-409A-84C6-2EFA87D19431&Options=&Search=>>> item. In this last report, the county collected approximately \$1.5 million in Roads and Parks impact fees for fiscal year 23-24.

The County collects fees for connections to Sonoma Public Infrastructure's small water systems in Fitch Mountain, Freestone, Jenner, and Salmon Creek. Staff does not recommend a connection fee reduction for the small water systems because the water systems are challenging locations for affordable housing not designated in the Sonoma County Housing Element and they face supply and capacity limitations. The County collects 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, as they are only applied to market rate units.

Under California law, Accessory Dwelling Units, or ADUs, under 750 square feet are exempt from impact fees, including traffic, park and fire fees. Rebuilds and remodels pay traffic and park fees only when the rebuild/remodel includes additional units, and additional fire fees if there is increased living space. Developers may pursue a development agreement, which is a contract between the developer the County that outlines project-specific terms, such as uses, design, and public benefits, providing clarity and flexibility beyond standard zoning laws. Development agreements may lower the cost of fees, however, the options presented in this item do not rely on the use of development agreements because the County cannot compel developers to enter into an agreement with the County and the County cannot guarantee fee reductions as a component of development agreements.

Development of Program Options

Staff developed options for a fee reduction program considering factors such as which fees to reduce, the amount of fee revenue collected which would require funding backfill to deliver planned projects, if they should be reduced in whole or in part, how to apply reductions across very low, low, and moderate-income units, and if smaller units should receive a steeper reduction.

Staff applied the following criteria to develop options for Board consideration:

1. The reduction amount should be substantial enough to incentivize development (estimated at \$8,000-\$10,000 per unit).
2. The reductions may be greater for smaller units, consistent with AB 602 methodology.
3. Units with historically lower production and higher RHNA obligations (very low and low income) may receive a steeper reduction.
4. The program should include deed restricted moderate-income housing, which has fewer public

financing opportunities than low-income housing.

5. The program should leverage the current pipeline to meet RHNA obligations.
6. The program should be one-time and term limited to be financially affordable to the County.

Program Options

A complete description of program options is available in Attachment C. Staff developed three program options, each with a sub-option to cap the program at half the County's RHNA objective, the full RHNA objective, or the entire pipeline amount.

1. Reduce Parks and Traffic Fee by 100%
 - Average reduction: \$10,144 per unit
2. Reduce Parks and Traffic Fee with square footage tiers
 - Average reduction: \$9,054 per unit
 - Details:
 - Very low, low and moderate-income units would be eligible for a 100% reduction if they are under 600 ft², an 80% reduction if they are between 601-1,100 ft², and a 60% reduction if they are over 1,101 ft².
3. Reduce Parks and Traffic Fee with square footage tiers, with a separate tier for Moderate-Income
 - Average reduction: \$8,722-\$ 8,286 per unit (depending on the number of units included in the program)
 - Details:
 - Very low and low-income units would be eligible for a 100% reduction if they are under 600 ft², an 80% reduction if they are between 601-1,100 ft², and a 60% reduction if they are over 1,101 ft².
 - Moderate-income units would be eligible for an 80% reduction if they are under 1,100 ft², and a 60% reduction if they are over 1,100 ft².

Staff identified that option three (above), capped at the full RHNA obligation, best meets the criteria for the program based on the following:

1. Staff anticipate that the reduction amount is largely substantial enough to help close financing gaps (average \$8,527 per unit), based on the results of the City of Sacramento's fee reduction program.
2. The square-footage based tiers result in greater reductions for smaller units.
3. Units that the County would like to incentivize to achieve RHNA obligations (very low and low income) would receive a steeper reduction than moderate units.
4. The program includes deed restricted moderate-income housing, as moderate-income housing has fewer public financing opportunities than low-income housing.
5. The County has an established goal of achieving the full RHNA obligation. Providing a fee reduction may result in units coming online earlier during the eight-year RHNA cycle, maximizing housing

availability.

6. If all affordable units in the pipeline, within the County's RHNA obligation, receive a building permit before the County adopts a new nexus study and fee schedule the total traffic and park impacts fees could be up to \$8.1 million under option three. While data shows that units in the entitlement process typically receive a building permit in two-three years, staff are unsure what percentage of pipeline projects will receive a building permit before the Board adopts a new nexus study and fee schedule.

Staff considered a range of options to backfill fees. Jurisdictions such as Santa Rosa and Petaluma do not backfill fees, while others, including Sacramento, backfill fees. In fiscal year 23-24 the County collected approximately \$1.5 million in park and traffic fees. To preserve the current level of project planning and funding, staff recommend backfilling the reduced fees with up to \$1.5 million a year during the 2-year program. Option Three will require allocating \$1.5 million in General Fund contingencies this fiscal year, and staff will recommend that the Board program an additional \$1.5 million of General Fund in fiscal year 25-26. Should the volume of projects exceed the identified backfill then staff will work with departments to understand the necessary level of backfill.

Program Implementation

Staff recommend applying the following criteria to guide program implementation:

- Fees will be reduced at the time of building permit issuance.
 - Reason: Projects that receive a building permit have a high likelihood of being built soon, as opposed to projects at earlier milestones in the development pipeline. Reducing fees at the time of building permit issuance ensures that units that are likely to be built receive a reduction. This reduces the chance of utilizing program capacity on units that are less likely to be built.
- Reductions are available on a first-come, first-served basis within established RHNA objectives.
 - Reason: Reducing fees on a first-come, first-served basis within established RHNA parameters allows policy to determine if a project receives a reduction, as opposed to staff discretion.
- The fee reductions will apply only to deed-restricted multifamily housing developments.
 - Reason: The County requires deed-restricted housing to meet RHNA obligations.
- Fees will be reduced on a unit basis, as opposed to a project basis.
 - Reason: Reducing fees on a unit basis ensures that program funds are reserved for the intended units, and will avoid the reduction of fees on market-rate units.

Next steps

If the Board chooses to implement a fee reduction program, staff will return with a resolution to implement the program and to request contingency funding.

Permit Sonoma Planning Division will modify internal procedures as needed to evaluate projects to determine if they meet program requirements, identify the amount of the fee reduction, apply the fee reduction, and

work the County Administrator's Office to monitor program funding.

Staff will include program participation rates in the General Plan Annual Implementation Progress Report, which is provided to the Board and made available on [Permit Sonomas website](https://permitsonoma.org/longrangeplans/adoptedlong-rangeplans/generalplan/implementationprogressreports) <<https://permitsonoma.org/longrangeplans/adoptedlong-rangeplans/generalplan/implementationprogressreports>> annually.

Ongoing Efforts to Encourage Affordable Housing

The County offers numerous programs to support the development of affordable housing, identified in the Housing Element. Some notable programs include the Combined Fund for Housing, density bonus programs, and fee deferral programs. Additional details on these programs can be found in Attachment D.

<<https://sonomacounty.ca.gov/development-services/community-development-commission/divisions/community-development/funding-opportunities/county-fund-for-housing>>**Comparable Jurisdictions, Studies and Engagement**

Cities and counties that implement fee reductions have a range of programs including 1) reductions for impact fees, 2) reductions for impact fees, sewer and water connection fees, 3) case-by-case or partial impact fee reductions, 4) reductions for building and permitting fees. Additional details on comparable jurisdictions can be found in Attachment D.

In Sonoma County, Petaluma offers a zero-fee program and Santa Rosa recently implemented a program to reduce capital facilities fees for very low, low and moderate units that do not otherwise receive local, public financing. The cities of Petaluma and Sacramento note a correlation between reduced fees and an increase in the number of projects receiving building permits, although staff acknowledge that the increased permitting is likely a result of numerous factors including reducing fees.

Staff engaged Generation Housing, who champions opportunities to increase the supply, affordability, and diversity of homes throughout the North Bay, 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 reductions for smaller, affordable units. Academic studies on impact fees primarily focus on impact fee methodology and state-wide efforts, and do not address local impact fee reductions.

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

11/5/24: AB 602 Development Impact Fees

FISCAL SUMMARY

Expenditures	FY24-25 Adopted	FY25-26 Projected	FY26-27 Projected
Budgeted Expenses		\$1,500,000	N/A
Additional Appropriation Requested	\$1,500,000		
Total Expenditures	\$1,500,000	\$1,500,000	N/A
Funding Sources			
General Fund/WA GF		\$1,500,000	N/A
State/Federal			
Fees/Other			
Use of Fund Balance			
General Fund Contingencies	\$1,500,000		
Total Sources	\$1,500,000	\$1,500,000	N/A

Narrative Explanation of Fiscal Impacts:

If the Board chooses to implement a fee exemption program, staff will return with a request for contingency funding as part of the action that will formally approve the Impact Fee Reduction Program. Additionally, staff will recommend programming discretionary General Fund for the second and last year of the program through the annual budget process. Current fiscal year unused funds could be rolled forward into year two for a total \$3 million backfill.

Narrative Explanation of Staffing Impacts (If Required):

None.

Attachments:

- Attachment A: Entitlement Pipeline
- Attachment B: Current Fee Summary
- Attachment C: Program Options
- Attachment D: Ongoing Efforts to Encourage Affordable Housing
- Attachment E: Comparison Matrix
- Attachment F: Presentation

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

None