



A Tradition of Stewardship
A Commitment to Service

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SUMMARY

Napa County recently adopted an updated housing element of its General Plan. As adopted, the Housing Element requires the County to update its Affordable Housing Ordinance. The County's affordable housing ordinance requires that market-rate housing construction, either new or additions to existing structures, include construction of affordable housing. Builders of market-rate housing have the option of paying a fee in-lieu of constructing affordable housing for developments of four or fewer units. Developers of five or more units must build inclusionary housing, consistent with the inclusionary requirements established in the updated Affordable Housing ordinance.

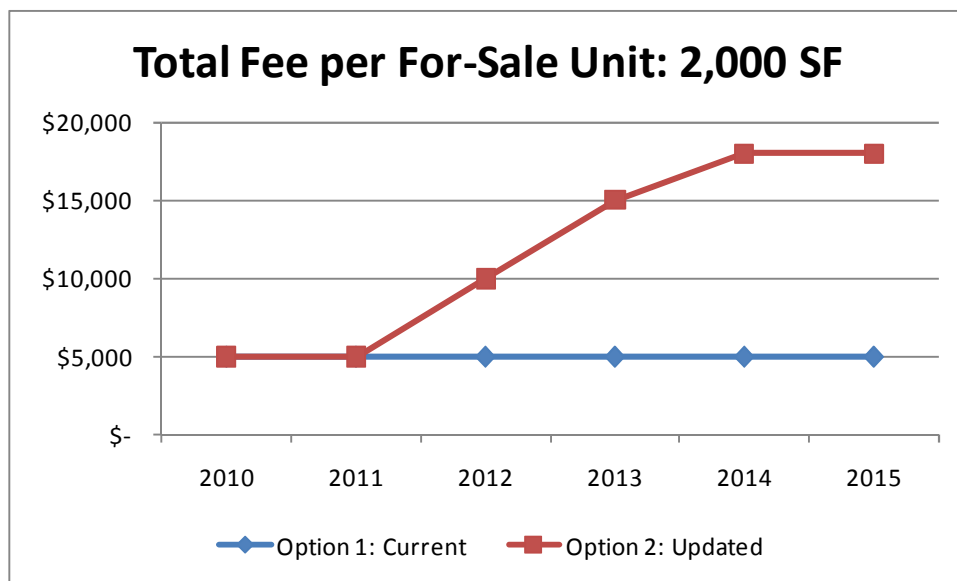
As part of the update of the affordable housing ordinance, the County is proposing to revise the in-lieu fees by converting them from a percentage of construction value to a fee per square foot of new habitable area. Two options are under consideration:

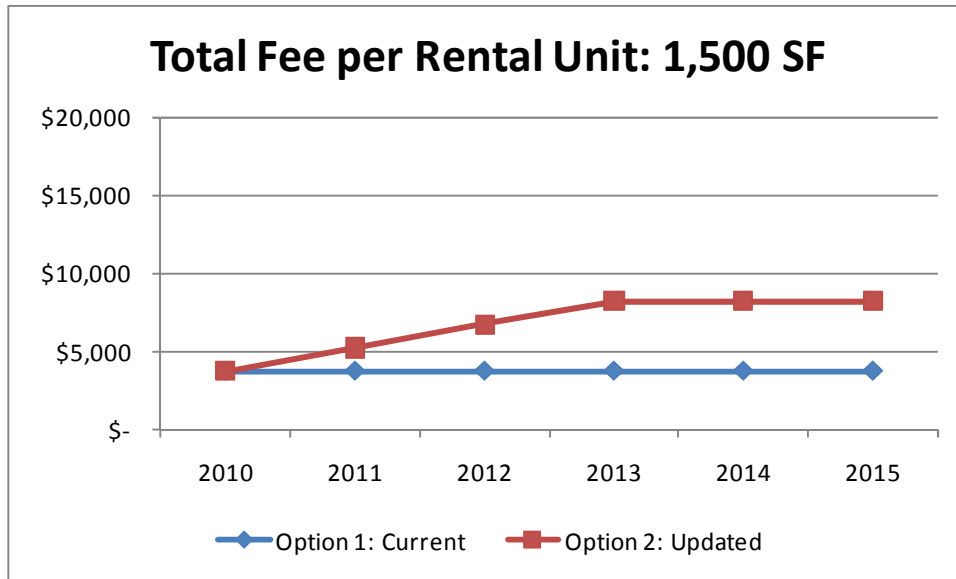
- Option 1: The current in-lieu fees that are assessed as a percentage of construction value would be converted to in-lieu fees per square foot, but the total amount of in-lieu fees owed by a residential project would be unaffected. For projects creating from 120 to 620 square feet of new habitable space, the current in-lieu fee (1% of construction value) would be converted to \$1.25 per square foot of new habitable area. For projects creating more than 620 square feet of new habitable space, the current fee (2% of construction value) would be converted to \$2.50 per square foot of new habitable area. This proposed option changes only the basis of assessment—from construction value to square footage—not the amount of the in-lieu fees owed.
- Option 2: The proposed in-lieu fees would reflect the findings of an economic nexus study commissioned by the County and conducted by Keyser Marston Associates, which targets an inclusionary requirement of 20% for detached for-sale units, 17% for attached for-sale units, and 12% for rental units. The proposed in-lieu fee for new or additions to for-sale units would be phased in over three years from 2011 to 2014, increasing from \$2.50 to \$9.00 per square foot of new habitable area. The proposed in-lieu fee for rental units would be phased in over four years from 2010 to 2013, increasing from \$2.50 to \$5.50 per square foot of new habitable area.

In both these options, new housing units with fewer than 1,200 square feet of habitable area would be exempt from the in-lieu fee. The fees per square foot for both options are shown in the following table:

	2010	2011	2012	2013	2014	2015
Option 1: Current Equivalent						
New Habitable Area: 120-620 SF	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25	\$ 1.25
New Habitable Area: > 620 SF	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50	\$ 2.50
Option 2: Updated Nexus						
Rental	\$ 2.50	\$ 3.50	\$ 4.50	\$ 5.50	\$ 5.50	\$ 5.50
For-Sale	\$ 2.50	\$ 2.50	\$ 5.00	\$ 7.50	\$ 9.00	\$ 9.00

The following charts illustrate the total in-lieu fee amount owed per new market-rate unit under both options:





BACKGROUND

The Current Residential In-Lieu Fee

Section 15.60.220(b) of the Napa County Code, last updated by ordinance 1243 in 2004, establishes the current in-lieu fee as follows:

- For market rate units in a residential project for which the projected construction costs are less than seventy seven thousand dollars, one percent of such costs.
- For market rate units in a residential project for which the projected construction costs are equal to or greater than seventy seven thousand dollars, two percent of such construction costs.

Projects with construction cost less than \$15,000 pay no in-lieu fee. The in-lieu fee is assessed only on the construction cost of new square feet of habitable space. The County collects it when issuing a building permit. Because on-site compliance has been voluntary in the past, developers have routinely chosen to pay the fee in-lieu of providing affordable units.

Construction Cost Estimates

The County Building Official has the authority to determine the project construction cost of new residential structures. The project construction cost is usually calculated as the product of the square feet of new construction and the standard construction cost per square foot according to the type and quality of construction. The square feet of new construction and the construction cost per square foot are both verified by the County during building plan review. This estimate of construction cost is the basis for determining the amounts of the building plan review and building inspection fees.

The County also calculates a separate construction cost as the basis for the residential in-lieu fee. This second calculation uniformly assumes an average construction cost of \$125 per square foot for all residential projects. The County has followed this practice since 2008 to ensure fairness and consistency in the application of the residential in-lieu fee.

Assessing the In-Lieu Fee per Square Foot, Instead of per Construction Cost

The County is exploring the feasibility of converting the current in-lieu fee from a percentage of construction value to a flat rate per square foot of new residential construction. This change would prevent any confusion that can arise from using two different construction cost estimates to calculate building permit and in-lieu fee amounts. The change would therefore make fees more predictable to permit applicants and simpler for County staff to administer. Making only this change to the in-lieu fees constitutes the first fee option under consideration by the County.

As mentioned at the outset, for all residential projects with construction cost over \$77,000, the in-lieu fee is 2% of construction cost. This requirement equals an in-lieu fee \$2.50 per square foot (2% of \$125 per square foot). For smaller projects with construction cost less than \$77,000, the in-lieu fee is 1% of construction cost, equaling \$1.25 per square foot.

Comparing Current In-Lieu Fees to the 10% Inclusionary Requirement

The in-lieu fee amounts that equal the 10% inclusionary requirement have also been estimated from the results of the economic nexus study conducted by Keyser Marston Associates in the last year. The following table compares the County’s current in-lieu fees, converted to square foot, with the fee range per square foot that approximates the 10% inclusionary requirement.

In-Lieu Fee per Square Foot	Current Ordinance	10% Inclusionary Requirement
Rental Units	\$2.50	\$0-6
Attached For-Sale Units (Townhomes)	\$2.50	\$6-9
Detached For-Sale Units (Single Family Homes)	\$2.50	\$9-10

The in-lieu fees that the County currently charges are substantially less than the in-lieu fees that are equivalent to the 10% inclusionary requirement established by the current affordable housing ordinance.

Inclusionary Requirement Update

The County’s current inclusionary housing program requires that housing projects provide affordable dwelling units in an amount equal to 10% of the market-rate units (Napa County Code Section 15.60.130). The economic nexus study conducted by Keyser Marston Associates documents the need for higher levels of inclusionary housing in the County based on economic and demographic trends. The levels of inclusionary housing supported by the study and recommended by the County are as follows:

Inclusionary Requirement by Housing Type	Current Ordinance	Nexus Study
Rental Units	10%	12%
Attached For-Sale Units	10%	17%
Detached For-Sale Units	10%	20%

The economic nexus study also estimates the in-lieu fees that equal the updated inclusionary requirements. The following table compares the in-lieu fee range estimated by the nexus study, the in-lieu fees established by current ordinance (Option 1), the in-lieu fee range estimated for the current 10% inclusionary requirement, and the maximum in-lieu fees under Option 2:

In-Lieu Fee per Square Foot	Current Ordinance (Option 1)	10% Inclusionary Requirement	Phased Alternative (Option 2)	Nexus Study Estimate
Rental Units	\$2.50	< \$6	\$5.50	< \$8
Attached For-Sale Units	\$2.50	\$6-9	\$9.00	\$10-15
Detached For-Sale Units	\$2.50	\$9-10	\$9.00	\$18-20

Comparisons with Other Jurisdictions

City of American Canyon

- The City charges in-lieu fees per dwelling unit (see table on next page).

Sonoma County

- Sonoma County charges in-lieu fees based on square footage, as Napa County is considering.
- Sonoma County exempts from in-lieu fees farm housing, new homes smaller than 1,000 square feet, and residential additions that do not create new dwelling units.

City of Napa

- The City charges in-lieu fees based on construction cost, as Napa County does currently.
- The City uniformly determines construction cost assuming a standard cost of \$92.40 per square foot, however, so that its in-lieu fee is effectively based on square footage, as Napa County is considering.
- The City expressly excludes garage space from its calculation of in-lieu fees.
- The City exempts from in-lieu fees residential additions that do not create new dwelling units.
- The City is in process of updating its inclusionary ordinance and in lieu fee calculation

Solano County

- Solano County has no inclusionary requirement and no in-lieu fees are charged.

All these jurisdictions collect their in-lieu fees when building permits are issued. Both the City of Napa and Sonoma County increase the in-lieu fee per square foot as the total square footage increases, as does Napa County. The following table summarizes these comparative findings.

Affordable Housing In-Lieu Fee Update

October 2, 2009

Page 7

Jurisdiction	Inclusionary Requirement	In-Lieu Fee Basis	In-Lieu Fee Amount	Code Reference
Napa County – Current	10%	Construction cost (number of square feet constructed)	<\$15,000 = 0% \$15,000-\$77,000 = 1% >\$77,000 = 2%	NCC 15.60.220
Napa County – Option 1	Rental: 12% Attached: 17% Detached: 20%	Number of square feet constructed	\$2.50 per square foot	NA
Napa County – Option 2	Rental: 12% Attached: 17% Detached: 20%	Number of square feet constructed	Rental: \$5.50 per sq.ft. For-Sale: \$9.00 per sq.ft.	NA
City of Napa*	10%	Construction cost (number of square feet constructed)	<\$86,700 = 0% \$86,700-\$115,250 = 1% >\$115,250 = 2%	NMC 15.94.050
City of American Canyon	10%	Number of dwelling units constructed	\$3,000 per dwelling unit	ACMC 19.28.050
Sonoma County	For-sale: 15-20% For-rent: 10-15% Condo-convert: 30%	Number of square feet constructed	\$9.08 to \$12.47 per square foot, depending on total size of project	SCC 26.89.040

* City of Napa is in process of updating their ordinance.