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MEMORANDUM

TO: City Council

FROM: Sabrina B. Landreth
City Administrator

SUBJECT: Citywide Impact Fee Update

DATE: December 18, 2015

City Administrator Approval
/s/

Date: 12-18-15

INFORMATION

The purpose of this informational report is to present background information about impact fees, briefly summarize the results of the Nexus Study, provide a summary of the City staff's impact fee proposal, and identify next steps to present the proposal to the City Council for consideration. A full staff report will be issued on December 31st for the January 12th Community and Economic Development (CED) Committee meeting which will further flesh out information contained in this information memorandum.

Background

The City is considering adopting impact fees related to affordable housing, transportation, and capital facilities including imposing such fees on development applications that are already submitted, pursuant to the California Subdivision Map Act (Government Code Section 66474.2(b)).

Development impact fees are a commonly used method of collecting a proportional share of funds from new development for infrastructure improvements and/or other public facilities. With rare exceptions, development impact fees are one-time funds restricted to funding capital costs for new facilities or upgrades to existing facilities, and are not used for annual operations and/or maintenance. Impact fees may only be charged to new development and that the funds collected must be expended on improvements needed as a result of the new development.

Pursuant to the Mitigation Fee Act, California Government Code Section 66000, et seq. (also known as AB 1600), adoption of impact fees requires documentation of the "nexus" or linkage between the fees being charged, the impacts of new development, the benefit of the facilities needed to mitigate such impacts, and the proportional cost allocation among different fee categories. Impact fees must be adopted by the Oakland City Council via ordinance. Impact fees are usually imposed either jurisdiction-wide or in other relatively large areas anticipating significant amounts of new development. The fees can vary by different geographical areas of the City. The revenue collected from impact fees may not be immediately available for projects because it may take some time to accumulate sufficient funding (since the City collects the fee project-by-project). In addition, impact fee programs are often phased-in to allow the real estate market to adjust to the higher development costs. Therefore, it may take time to accumulate enough revenue to, for example, pay for a major transportation project or to build an affordable housing project.

An important component that accompanies Oakland's Impact Fee Nexus Study and Implementation Strategy is an Economic Feasibility Analysis. The purpose of the feasibility analysis is to ensure that any impact fee program appropriately addresses the need to mitigate development impacts without substantially impacting real estate investment in Oakland. Economic constraints are likely to preclude the adoption of the maximum justified impact fees under the nexus analyses because the level of economically feasible fees may be substantially lower than the level of legally justifiable fees. This is typically the case in urban areas like Oakland.

Policy Questions

There are a number of specific policy questions related to impact fees that need to be addressed prior to adoption of an impact fee ordinance:

- 1.) What should be the target fee levels?
- 2.) What should be the relative distribution of impact fees among the three (3) different fee categories (affordable housing, transportation, capital improvements)?
- 3.) How should the fees be phased in over time?
- 4.) What fees should be charged for different types of projects, such as multi-family, single-family, townhome, office, retail, industrial, warehouse, hotel/motel, and institutional?
- 5.) Should different geographic areas of the City have different fee levels?
- 6.) What development projects in the pipeline should be subject to the fee? What projects should be exempt from the fee? Some options include:
 - a) Option A: Only exempt projects that have a "vested right" (as defined by state law) when the fee is adopted. This would include (1) projects with a development agreement, (2) projects with a vesting tentative map, and/or (3) projects that have building permits and have started substantial construction. (This option would exempt the least number of projects and capture the largest number of projects to pay the fee).
 - b) Option B: Also exempt projects that have received planning approvals/permits and also have applied for and/or obtained a building permit but have not yet begun construction. (This would exempt slightly more projects than Option A and capture fewer projects to pay the fee).
 - c) Option C: Also exempt projects that have received planning approvals/permits but have not yet applied for and/or obtained a building permit. (This would exempt more projects than Option B and capture even fewer projects to pay the fee).
 - d) Option D: Also exempt projects that have submitted "complete" planning applications but have not yet received a planning approval/permit. (This would exempt the most projects and capture the least number of projects to pay the fees).

All the above options may also include applying the fee to “vesting” subdivision applications already submitted, as authorized by the State Subdivision Map Act (Government Code section 66474.2(b)), provided such applications are not approved prior to the adoption date of impact fees.

- 7.) Should incentive be provided for the creation of on-site or off-site affordable housing units as an alternative of impact fee payment?

Impact Fee Process To Date

In December 2014, the City selected a team of consultants, led by Hausrath Economics Group (HEG), to conduct a Citywide Impact Fee Nexus Study and Implementation Strategy (“Impact Fee Nexus Study”) and Economic Feasibility Study. Staff worked with the consultant team and engaged subject matter experts within the City to gather necessary information for the Nexus Study. Staff presented an Informational Report to the City Council Community and Economic Development Committee (CED) on April 14, 2015 with an update on the Citywide Impact Fee Nexus Study and Implementation Strategy.

Preliminarily, City staff and the consultants presented at five (5) meetings about the Impact Fee Nexus Study and Economic Feasibility Analysis process. This enabled staff and consultants to hear concerns and comments, and answer questions about the study and the process. The five (5) meetings included: 1) an Impact Fee Roundtable meeting of the Land Use Committee of the Oakland Chamber of Commerce, 2) a meeting held by the Oakland Builders Alliance (OBA), 3) a meeting with affordable housing advocates that included East Bay Housing Organizations (EBHO) and Satellite Affordable Housing Associates (SAHA), 4) participation in a forum on Keeping Oakland Affordable held by TransFORM, and 5) a meeting with Oakland Community Investment Alliance (OCIA). Staff also held a follow up meeting with EBHO to review the assumptions for the affordable housing nexus analysis model in order to receive their input on the process.

In order to solicit feedback from a variety of different stakeholders concerning how the City could adopt an economically viable set of impact fees, a Stakeholder Working Group was established. It consisted of City staff and an ad-hoc panel of technical experts representing a cross section of stakeholders with interests associated with the impact fee program. The goal of the group was to provide diverse input to City staff as staff developed its proposal for the City Council’s consideration.

There were six (6) Stakeholder Working Group meetings. At the first meeting, staff-presented the results of the Nexus Study and Economic Feasibility Analysis. At the second meeting, staff presented a target impact fee proposal and received input from the Working Group on how to phase in the fee, how the fees should be applied in different geographic areas of the City, and how the fees should be distributed amongst three (3) different fee categories. At the third meeting, the group discussed a proposal presented in meeting number two (2) from some of the Working Group members along with a counter proposal presented by some other Working Group members, as well as a further discussion of how to distribute the fee amongst the three (3) different categories. At the fourth meeting, the group discussed a proposal from some of the Working Group members in meeting number three (3); as well as how the capital improvements fee should be allocated amongst the different fee categories. City staff also presented a preliminary proposal and asked for feedback from the Working Group. At the fifth meeting, discussions continued about the proposals; City staff presented fee information for

nonresidential use and estimated revenues. At the sixth, and final, meeting, City staff reviewed the nonresidential fees from the City's proposal and concluded discussions with the group about four (4) key policy questions: target fee levels, which projects are subject to the fees, a phase-in schedule, and fee revenue allocations.

The intent of these meetings was to engage and inform stakeholders and to seek input on policy issues prior to staff presenting its proposal to the City Council. All of the materials distributed at the meetings were made available to the public and posted on the City's website at www.oaklandnet.com/impactfee.

Nexus Analysis of Maximum Legal Impact Fees

The consultant team conducted a nexus analysis to determine the maximum legal impact fees that could be adopted by Council. The following three (3) fee categories were analyzed:

- 1.) Transportation impact fee on residential and nonresidential development that would fund expansion and improvements to the City's transportation system for auto, bike, and pedestrian modes of travel.
- 2.) Capital improvements impact fee on residential and nonresidential development that would fund expansion and improvements to fire, library, parks, police, and storm drain public facilities or infrastructure.
- 3.) Affordable housing impact fee on market-rate residential development that would fund affordable housing development. The City has already adopted a jobs-housing linkage fee effective July 1, 2005 on some nonresidential development (office and warehouse land uses) to mitigate the increased demand for affordable housing generated by these types of nonresidential development.

Attachment A summarizes the nexus analysis for transportation, capital improvements, and affordable housing, and provides the maximum legal impact fee amounts as determined by the nexus analysis. Typically in urban areas the maximum legal fee amount is not adopted as it far exceeds what is economically feasible for a development to bear. Real estate market factors typically result in adopted fees at levels below the maximum legal amount to avoid slowing the pace of development.

Economic Feasibility Context for New Impact Fee Program

The consultant team is developing an economic feasibility analysis to inform the adoption of an impact fee program that will not adversely affect Oakland's ability to attract new development. The analysis will define representative development prototypes for Oakland and consider associated real estate market and cost data. An economic feasibility model will be used to assess the current economic feasibility of different land uses and building types in different parts of the City.

The staff report for the January 12th CED Committee meeting will include information about Oakland's market context to inform consideration of the new impact fee program and the effect of phasing in new fees so as to enhance project feasibility and increase development's ability to pay higher fees.

City Staff Impact Fee Proposal

City staff considered the first two proposals presented by Stakeholder Working Group members on November 12 and 19, 2015 before presenting a proposal on November 30, 2015. The full staff report for the January 12th CED Committee meeting will provide further details on the Stakeholder Working Group proposals. Staff proposes a target fee amount for multi-family housing development units in “Zone 1” (namely Central Oakland and the hills) of \$20,710 per unit, which is reached in July 2018. Staff proposes that projects applying for building permits on or after July 1, 2016 would be subject to the fee. The initial fee on July 1, 2016 is proposed to be \$5,710 for multi-family residential developments in an area referred to as “Zone 1”. Fees are proposed to vary by zone and building type. Staff proposes three different fee zones for the City, which are further described below. All projects that applied for a building permit prior to July 1, 2016 would not be subject to the fees. This would include projects given extensions by action of the City Council in December 2014. There are approximately 60 approved planning projects that received extensions per the City Council resolution in December 2014. Of those 60, projects that apply for a building permit prior to July 1, 2016, would be exempt under this proposal. Any projects that received extensions, but apply for a building permit after July 1, 2016, would be subject to the impact fee.

Key points of the City staff proposal for Multi-family Residential Units in Zone 1 are shown in the table below and are summarized as follows:

- The fee amount is determined at building permit application.
- Any project that applies for a building permit prior to July 1, 2016 is exempt from paying the impact fee; this includes projects that had extensions given to them by the City Council in December 2014.
- Any project that applies for a building permit from July 1, 2016 through June 30, 2017 will pay \$5,710 per unit during the building permit process.
- Any project that applies for a building permit from July 1, 2017 through June 30, 2018 will pay \$10,710 per unit during the building permit process.
- Any project that applies for a building permit from July 1, 2018 through June 30, 2019 will pay \$20,710 per unit during the building permit process.
- The above impact fees are the total impact fees that would be charged for multi-family Residential in Zone 1 during those years. They include a \$710 transportation impact fee, with the remainder allocated to the affordable housing impact fee. No capital improvement impact fees are included for multi-family residential units in Zone 1 in the years listed above. An additional amount for capital improvement could be added in subsequent years.

For the residential impact fees, staff divided the City into three (3) different zones that have different market characteristics (support different prices and rent) and different levels of economic feasibility, and thus different abilities to pay impact fees. Impact fee Zone 1 includes downtown, the east side of Lake Merritt, much of North Oakland, and the Hills above I-580, (see **Attachment B** for a map of the zones). Impact fee Zone 2 includes West Oakland and a small part of North Oakland. Lastly, Impact fee Zone 3 includes areas east of Park Boulevard to 2nd Avenue to International Avenue to 4th Avenue to E. 10th Street to 5th Avenue and below I-580.

The proposed target fee amount for multi-family housing development units in Zone 1 is \$20,710 per unit, which is reached in July 2018. The target fee anticipates increases in rents over current levels (2015) to support additional ability to pay the fees.

The transportation impact fee is sufficient to cover the California Environmental Quality Act (CEQA) transportation cumulative impact mitigations that are within the Environmental Impact Reports for all of the Specific Plans, Redevelopment Plans, General Plan, and other major projects. Therefore, paying the impact fee would satisfy a development's obligation to contribute its fair share towards mitigating its impact without having to fully fund the mitigation project. The remainder of the impact fees for multi-family housing are allocated to affordable housing due to the immediate need for affordable units. The staff proposal includes an impact fee for capital improvements starting in July 2016 for single-family and townhome developments. A later phase-in of a capital improvement fee for multi-family developments could also occur.

The following charts are only showing Zone 1. The full staff report issued on December 31st for the January 12th CED Committee meeting will contain information about Zones 2 and 3.

Table 1: City Staff Proposal Residential Impact Fees for Zone 1

City Staff Proposed Residential Impact Fees (Fee is Per Unit) The Date is Based on When the Applicant Applies for Building Permit				
Housing Use Type	Fee Category	7/1/16 – 6/30/17	7/1/17 – 6/30/18	7/1/18 – 6/30/19 (target fee)
Multi-family, Zone 1	Affordable Hsg.	\$5,000	\$10,000	\$20,000
	Capital Imp.*	\$0	\$0	\$0*
	Transportation	\$710	\$710	\$710
	Total	\$5,710	\$10,710	\$20,710
Townhome, Zone 1	Affordable Hsg.	\$5,500	\$10,000	\$17,000
	Capital Imp.	\$1,000	\$1,000	\$3,000
	Transportation	\$1,000	\$1,000	\$1,000
	Total	\$7,500	\$12,000	\$21,000
Single-family, Zone 1	Affordable Hsg.	\$5,000	\$10,000	\$20,000
	Capital Imp.	\$1,500	\$4,000	\$4,000
	Transportation	\$1,000	\$1,000	\$1,000
	Total	\$7,500	\$15,000	\$25,000

*An impact fee, yet to be determined, for Capital Improvements will phase in later.

Nonresidential Impact Fees (City Staff Proposal)

There is an existing jobs-housing linkage fee of \$5.44 per square foot in Fiscal Year (FY) July 1, 2015 – June 30, 2016 on office and warehouse to provide funding for affordable housing. Therefore, new proposed impact fees are for capital improvements and transportation only. For all of the nonresidential uses the proposed impact fees include the minimum amount to cover CEQA transportation cumulative impact mitigations starting in 2016 so developers can pay their fair share of required transportation improvements. For capital improvements the fees vary by land use depending on the estimated current economic feasibility for that land use, economic development considerations, and the phasing in of increases as development becomes more feasible. The combined fee was allocated 50 percent to transportation and 50 percent to capital improvements where deemed to be economically feasible, and where the maximum legal amount for the capital improvement fee does not limit the fee amount.

- **Office:** target fee is proposed to phase in over 5 years to 2020 due to the need for substantial increase in office rents to make projects feasible, and the City's desire to encourage new office building construction.

- **Retail (freestanding and ground floor):** target fee is based on economic feasibility and economic development considerations for encouraging retail development that Oakland is lacking in order to provide more local shopping opportunities for residents and to collect much needed sales tax revenue.
- **Light Industrial:** target fee addresses economic feasibility along with consideration that light industrial activities provide business opportunities and jobs for Oakland residents.
- **Warehouse:** target fee based on consideration of economic feasibility. The capital improvement fee is affected by the maximum legal amount.
- **Hotel/motel:** similar to retail, the target fee for hotel/motel is constrained to encourage economic development of hotel/motel uses for the economic and fiscal benefits they provide.
- **Institutional:** target fee is based on economic feasibility and nexus analysis considerations.

Table 2: City Staff Proposal Nonresidential Impact Fees

City Staff Proposed Nonresidential Impact Fees (Fee is Per Square Foot) The Date is Based on When the Applicant Applies for Building Permit						
Use Type	Fee Category	7/1/16 – 6/30/17	7/1/17 – 6/30/18	7/1/18 – 6/30/19	7/1/19 – 6/30/20	7/1/20 + (target fee)
Office*	Capital Imp.	\$0.00	\$0.00	\$1.00	\$1.00	\$2.00
	Transportation	\$0.85	\$0.85	\$1.00	\$1.00	\$2.00
	Total	\$0.85	\$0.85	\$2.00	\$2.00	\$4.00
Retail, Freestanding	Capital Imp.	\$0.00	\$0.15	\$0.25	\$0.25	\$0.50
	Transportation	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
	Total	\$0.75	\$0.90	\$1.00	\$1.00	\$1.25
Retail, Ground Floor	Capital Imp.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Transportation	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
	Total	\$0.75	\$0.75	\$0.75	\$0.75	\$0.75
Light Industrial	Capital Imp.	\$0.40	\$0.40	\$0.75	\$0.75	\$1.00
	Transportation	\$0.60	\$0.60	\$0.75	\$0.75	\$1.00
	Total	\$1.00	\$1.00	\$1.50	\$1.50	\$2.00
Warehouse*	Capital Imp.	\$0.65	\$0.90	\$1.00	\$1.00	\$1.00
	Transportation	\$0.35	\$1.10	\$2.00	\$3.00	\$3.00
	Total	\$1.00	\$2.00	\$3.00	\$4.00	\$4.00
Hotel/Motel	Capital Imp.	\$0.10	\$0.20	\$0.35	\$0.35	\$0.60
	Transportation	\$0.65	\$0.65	\$0.65	\$0.65	\$0.65
	Total	\$0.75	\$0.90	\$1.00	\$1.00	\$1.25
Institutional	Capital Imp.	\$2.50	\$2.50	\$2.50	\$2.50	\$3.00
	Transportation	\$1.50	\$1.50	\$2.50	\$2.50	\$3.00
	Total	\$4.00	\$4.00	\$5.00	\$5.00	\$6.00

*Existing jobs-housing linkage fee for affordable housing = \$5.44 per square foot for July 1, 2015 – June 30, 2016.

Next Steps

Staff is proposing to move the impact fee consideration forward on the following timeline, with the understanding that additional discussion may need to occur at various times during the process:

Date	Event / Discussion
December 30, 2015	Publication of impact fee report to CED Committee.
January 12, 2016	City Council Community and Economic Development Committee (CED) discussion of impact fee.
January 19, 2016	If forwarded by Committee, full City Council discussion and possible action on the impact fee report.
February 2016	CED Committee discussion of a draft impact fee ordinance and introduction.
March 2016	City Council consideration of the draft ordinance and possible adoption of the ordinance. (Two readings required)

Attachments:

Attachment A: Summary of Nexus Analysis of Maximum Legal Impact Fees

Attachment B: Preliminary Map of Fee Zones

Attachment A – Nexus Study Summary

Nexus Analysis of Maximum Legal Impact Fees

The consultant team conducted a nexus analysis to determine the maximum legal impact fees that could be adopted by Council. The following three (3) fee categories were analyzed:

- 1.) Transportation impact fee on residential and nonresidential development that would fund expansion and improvements to the City's transportation system for auto, bike, and pedestrian modes of travel.
- 2.) Capital improvements impact fee on residential and nonresidential development that would fund expansion and improvements to fire, library, parks, police, and storm drain public facilities or infrastructure.
- 3.) Affordable housing impact fee on market-rate residential development that would fund affordable housing development. The City has already adopted a jobs-housing linkage fee effective July 1, 2005 on some nonresidential development (office and warehouse land uses) to mitigate the increased demand for affordable housing generated by these types of nonresidential development.

The maximum legal impact fee amounts as determined by the nexus analysis will be included in the full staff report for the January 12th Community and Economic Development (CED) Committee meeting. Typically in urban areas the maximum legal fee amount is not adopted. Real estate market factors typically result in adopted fees at levels below the maximum legal amount to avoid slowing the pace of development.

1.) Transportation Impact Fee Nexus Analysis

The transportation impact fee nexus analysis was developed to provide a flexible funding source for multi-modal (auto, bike, and pedestrian) investments to accommodate additional travel demand generated from new development.

The City has extremely limited funding sources for expanding and improving transportation infrastructure. A substantial portion of ongoing capital funding from the Alameda County Transportation Agency sales tax measures (Measures B and BB) is directed at maintenance of existing assets. The City's current FY 2015-17 Capital Improvement Program (CIP) allocates \$34 million from these two sources of which about \$15 million is allocated to improvements and upgrades to transportation infrastructure and the remainder directed at repair, maintenance, and safety projects. Funding for transportation expansion and improvements is also from competitive grants though grants do not provide a secure ongoing funding source. The City's current FY 2015-17 Capital Improvement Program (CIP) anticipates \$17 million from grants to improve and upgrade transportation infrastructure.

The nexus between new development and the need for expanded and improved transportation infrastructure is based on maintaining the City's existing level of investment in that infrastructure as the City grows. The existing level of investment is calculated per existing trip so that this standard can be applied to trips from new development.¹ The current replacement cost for that portion of the City's transportation infrastructure that provides for circulation citywide is \$4.1 billion, or \$17,925 per equivalent single family dwelling (SFD) unit. If the maximum legal

¹ Each trip has two trip ends (an origin and a destination). To measure travel demand the nexus analysis uses trip end generation rates for all modes by land use type to be able to allocate total travel demand among all land uses regardless of whether the trip end is an origin or destination.

Attachment A – Nexus Study Summary

transportation impact fee is adopted, new development would fund expansion and improvements to the City's transportation infrastructure at the same level as the City's current level of investment in that infrastructure (\$17,925 per equivalent SFD unit).

Table 1: Transportation Maximum Legal Impact Fee

Land Use	Maximum Legal Impact Fee
Residential	Per Dwelling Unit
Single-Family	\$17,925
Multi-Family	\$12,636
Nonresidential	Per Square Foot
Retail/Commercial	\$12.78
Hotel/Motel	\$11.17
Office	\$14.55
Institutional	\$19.54
Light Industrial	\$9.40
Warehouse	\$5.58

The full staff report issued on December 31st for the January 12th Community and Economic Development Committee (CED) will contain attachments which include tables from the nexus model showing how the maximum legal transportation impact fee was calculated.

The nexus between new development and the need for expanded and improved transportation infrastructure is not based on a specific list of transportation capital projects. Furthermore, the nexus is not based on maintenance of a specific service standard such as level of traffic congestion, typically measured on a scale of A to F with D being a minimally acceptable level of service. Using either approach would constrain the use of fee revenues to listed projects or projects that only target a single travel mode (relieving auto congestion). These approaches also would limit the City's flexibility to respond to changing transportation demands, integrate new transportation technologies, and make investments across all modes (auto, bike, and pedestrian).

The use of transportation fee revenues is limited by law to capital projects. Therefore, revenues cannot be used for operating or maintenance activities, including roadway maintenance. Additional guidelines for the use of transportation fee revenues include:

- ♦ Fee revenues must be used to build, expand and/or improve the citywide circulation system used for the nexus analysis. This system is defined as arterials, collectors, and existing and proposed bicycle facilities that provide connectivity between neighborhoods and activity centers within the City, as well as to neighboring communities and regional transportation facilities. This circulation system includes the entire roadway curb-to-curb (vehicle travel lanes, bicycle lanes, and on street parking), as well as adjacent sidewalks, medians, and intersection signalization equipment, plus off-street bicycle and walking paths.
- ♦ Fee revenues could only be used for transportation infrastructure that is the City's responsibility. Therefore, capital projects to deliver transportation services provided by agencies such as AC Transit and BART would not be an eligible use of revenues. In addition, interstate highways that are primarily the State's responsibility would not be eligible.

Attachment A – Nexus Study Summary

2.) Capital Improvements Impact Fee Nexus Analysis

The capital improvements impact fee nexus analysis was developed using a methodology similar to that described above for the transportation nexus analysis. The fee provides a flexible funding source for a range of public facility investments needed to accommodate additional service demand from new development. As mentioned above, these facilities include fire, library, parks, police, and storm drain facilities.

Sanitary sewer facilities were included in the scope of work for the nexus analysis but based on further analysis have been excluded from the capital improvements impact fee. Sanitary sewer facilities benefit from a user charge that generates approximately \$58 million annually of which about \$18 million is allocated for substantially the same types of improvements that would be funded by the development impact fee. Although this funding is inadequate to fund the City's 10 year CIP based on the 2014 Sanitary Sewer Management Plan it is substantially more funding than is available to the other types of facilities included in the capital improvements impact fee. Furthermore, the sanitary sewer user charge could be increased to provide additional funding through a Proposition 218 procedure that only requires a notice and protest hearing.

The City has no dedicated funding source for the types of public facilities included in the capital improvements impact fee. Spending on these types of infrastructure and facilities is \$1.3 million in the City's current FY 2015-17 Capital Improvement Program (CIP), or 2.1 percent of total CIP spending. The entire amount is allocated to disability access projects and funded by the General Purpose Fund.

The nexus between new development and the need for expanded or improved public facilities is based on maintaining the City's existing level of investment in public facilities as the City grows. The existing level of investment is calculated per capita based on the existing service population so that this standard can be applied to the additional service population associated with new development. The current replacement cost for the City's public facilities included in the nexus analysis is \$3.2 billion, or approximately \$19,092 per equivalent SFD unit. If the maximum legal capital improvements impact fee is adopted, new development would fund expansion and improvements to the City's public facilities at the same level as the City's current level of investment in those facilities.

Table 2: Capital Improvements Maximum Legal Impact Fee

Land Use	Maximum Legal Impact Fee
Residential	Per Dwelling Unit
Single-Family	\$19,092
Multi-Family	\$13,746
Nonresidential	Per Square Foot
Retail/Commercial	\$5.73
Hotel/Motel	\$2.48
Office	\$6.87
Institutional	\$3.44
Light Industrial	\$4.39
Warehouse	\$1.15

The full staff report issued on December 31st for the January 12th CED Committee will contain attachments which include tables from the nexus model showing the calculations for the maximum legal capital improvements impact fee.

Attachment A – Nexus Study Summary

Similar to the transportation impact fee, the nexus between new development and the need for expanded or improved public facilities is not based on a specific list of capital projects. Furthermore, the nexus is not based on maintenance of a specific service standard such as park acres per thousand residents. While these are fairly common approaches, using either would constrain the use of fee revenues to listed projects or projects that only target a single type of facility (for example, parks). These approaches also would limit the City's flexibility to respond to changing service demands, integrate service delivery technologies, and make investments across all facility types (fire, library, parks, police, and storm drain).

The use of capital improvements fee revenues is limited by law to capital projects. Therefore, revenues cannot be used for operating or maintenance activities, including facility maintenance. Additional guidelines for the use of fee revenues include:

- ♦ Fee revenues must be used to build, expand and/or improve the types of public facilities included in the nexus analysis (fire, library, parks, police, and storm drain). Any city-owned facility that enables the delivery of these services could be built, expanded, and/or improved with fee revenues.
- ♦ Fee revenues could only be used for public facilities that are the City's responsibility. Therefore, capital projects to deliver services provided by other agencies such as the East Bay Regional Parks District would not be an eligible use of revenues.
- ♦ Improvements to the City's storm drain system are primarily associated with replacement of existing deteriorated pipes rather than capacity expansion. Consequently, storm drain facilities were included in the nexus analysis at a depreciated replacement cost. The use of the lower depreciated value enables revenues to be used to replace existing facilities.

3.) Affordable Housing Nexus Analysis

The affordable housing nexus analysis establishes the link between new market-rate residential development, the growth of employment associated with the consumer expenditures of new residents, and the demand for affordable housing to accommodate the new worker households. The resulting impact fee quantifies the cost per new market-rate unit to fund the gap between what low and moderate income households can pay for housing and the cost to produce that housing (the affordability gap). The peer-validated methodology for this type of nexus analysis is based on generally accepted economic impact modelling techniques. Major steps in the analysis include:

- Define housing prototype projects for new market-rate residential development in Oakland.
- Estimate household income distribution of new market-rate owner and renter households in Oakland, their consumer expenditures, and the employment growth in Oakland supported by the increased spending on services and retail goods.
- Estimate the number of new households associated with this job growth (worker households) and their associated household incomes.
- Estimate the number of new worker households that are moderate income or below.
- Calculate the gap between the cost to develop affordable housing and the ability of moderate and lower income households to afford that housing (affordability gap).
- Calculate the maximum legal impact fee for each market rate housing prototype based on the affordability gap for the new worker households associated with that unit.

Attachment A – Nexus Study Summary

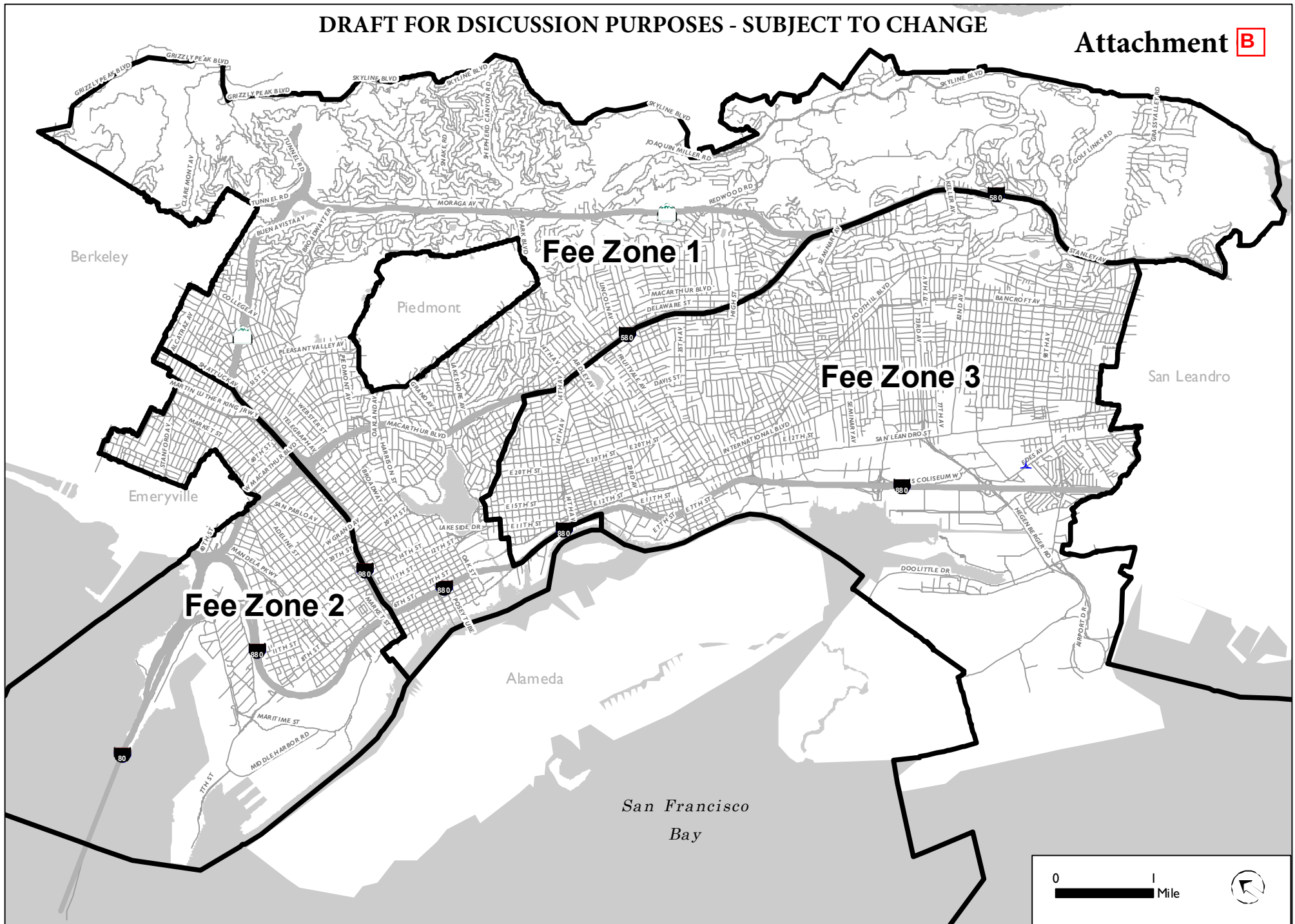
Table 3: Affordable Housing Maximum Legal Impact Fee

Land Use	Maximum Legal Impact Fee
Residential	Per Dwelling Unit
Single-Family Urban	\$34,833
Single-Family Hills	\$81,729
Townhome Urban	\$44,693
Townhome Hills	\$53,258
Multi-Family Lower/Mid-Rise	\$35,172
Multi-Family Mid-Rise	\$39,887
Multi-Family High-Rise	\$50,804

The full staff report issued on December 31st for the January 12th CED Committee will contain attachments which include tables from the nexus model showing the calculations for the maximum legal affordable housing impact fee for each housing prototype.

Affordable housing impact fee revenue would be deposited into the City's Affordable Housing Trust Fund, where it would be combined with other sources such as revenue from the existing Jobs-Housing Linkage Fee and the 25 percent allocation of former redevelopment funds (i.e., "boomerang funds"). Through the Affordable Housing Trust Fund, the City provides funding to affordable housing developers who leverage various funding sources and tax credits to develop affordable housing projects. Through this process, fee revenue is leveraged by a factor of more than 3:1 to produce more affordable units. Funding can also be targeted to meet particular categories of housing need. It would be possible to provide an on-site or off-site development option as an alternative to impact fee payment.

A new affordable housing impact fee on residential development is one of the recommended strategies for new affordable housing production set forth in the Housing Equity Roadmap and Housing Action Plan recently approved by the City.



Draft Residential Development Impact Fee Zones