



Policy Recommendation  
October 2018

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# Lowering Barriers for Private Investment:

How Fee Incentives Can Help Achievable Local Housing Projects

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[www.mountainhousingcouncil.org](http://www.mountainhousingcouncil.org)

PROJECT OF  
**TAHOE TRUCKEE**  
COMMUNITY FOUNDATION



# ABOUT THE MOUNTAIN HOUSING COUNCIL OF TAHOE TRUCKEE

The Mountain Housing Council of Tahoe Truckee (MHC), a project of the Tahoe Truckee Community Foundation, brings together 29 diverse stakeholders to take on the unique and pressing challenges of housing in the North Tahoe-Truckee region. The MHC's goal is to build on needs identified in the 2016 Regional Housing Study and accelerate regional solutions to housing problems of availability, variety, and affordability.

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## ACKNOWLEDGEMENTS

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## ISSUE

Development impact fees are a cost component of any building project in the region. A common viewpoint expressed by the development community is that fees are high and, by extension, an obstacle to building achievable local housing in the North Tahoe-Truckee region. In addition, with 18 different fee-charging entities in the North Tahoe-Truckee region, all using different methodologies to calculate fees, the fee landscape has a reputation among developers as being unusually complex. Combined, these perceptions around impact fees create barriers for private investment in *achievable local housing*\*.

## BACKGROUND

Development impact fees are payments imposed on all new residential and commercial construction by local governments and special districts. They are based on a methodology and calculation derived from the cost of the facility or service, as well as the nature and size of the development.<sup>1</sup> Impact fees pay for the cost of growth's "impact" on vital services and infrastructure needs such as schools, parks, capital facilities, roads, ambulance, and fire service. The fee payments are reserved to finance improvements offsite, but to the benefit, of the new development, and are typically required to be paid in cash, in advance, at the time of project approval or permits.

National surveys show that California leads the nation in imposing fees on new residential development. One theory as to why impact fees are higher in California than other states goes back to the adoption of Proposition 13 tax reform in California in 1978. Prior to adoption of Proposition 13, California cities and counties used property taxes to finance infrastructure for residential development. With the passage of Proposition 13, property tax value was rolled back and frozen at the 1976 assessed value. Property tax increases on any given property were limited to no more than 2% per year as long as the property was not sold.<sup>2</sup> With the significant loss in property tax funding, cities and counties have had to find other ways to finance infrastructure through impact fees, in-lieu fees, and requirements to dedicate land for public uses.

### \*ACHIEVABLE LOCAL HOUSING DEFINED

In 2017, MHC coined the word *achievable local housing* to describe local housing needs that include both traditional HUD affordability (up to 80% AMI) AND our middle income needs (up to 195% AMI).

### AREA MEDIAN INCOME (AMI)

The household income for the median — or middle — household in a region. The US Department of Housing and Urban Development (HUD) publishes this data annually for regions; data varies by household size. The California Department of Housing and Community Development (HCD) makes minor adjustments based on regional factors to these numbers prior to publishing.

### UNDERSTANDING LOCAL AREA MEDIAN INCOME (AMI)

Exact household AMI is determined by county and household size.

#### EXAMPLES:

- ▶ Nevada County AMI for family of four: \$73, 500 (2017)
- ▶ Placer County AMI for family of four: \$76, 100 (2017)

*For more details see pp. 16 & 17 in Policy Brief.*

## POLICY RECOMMENDATION PROCESS

In order to explore the validity of the assumption that fees are a barrier to building achievable local housing (up to 195% AMI) and explore the potential to incentivize achievable local housing through fee-related actions,

<sup>1</sup> APA Policy Guide on Impact Fees, American Planning Association, 1997

<sup>2</sup> What is Proposition 13, California Tax Data, Accessed 2018

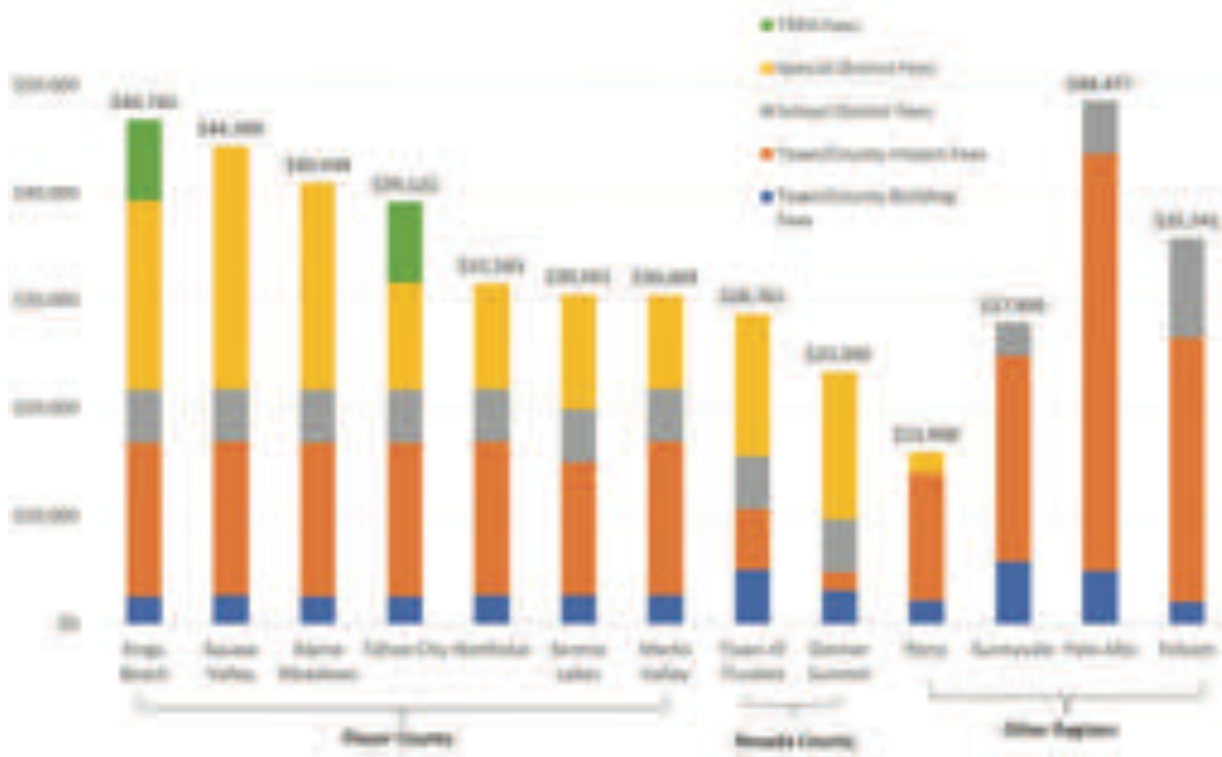
the Mountain Housing Council conducted a six month work group planning process that included hiring Hansford Economic Consulting (HEC) to conduct a study.<sup>3</sup> The work group included 10 of the 18 fee charging entities in the region as well as other local stakeholders. The recommendations outlined in this document are a result of six months of conversations and study of the fee issues in our region.

## FEE STUDY FINDINGS

Hansford Economic Consulting's fee study found, when compared with other regions, the North Tahoe-Truckee region's fees for a single-family home are comparable to San Francisco Bay Area fees, and higher than the City of Reno's fees due to different state laws. **As Figure 1 shows, below, within the region, there are significant differences in total fees depending on the special district, county, and town. For example, total fees are highest in Kings Beach (Placer County) and lowest on Donner Summit (Nevada County).**

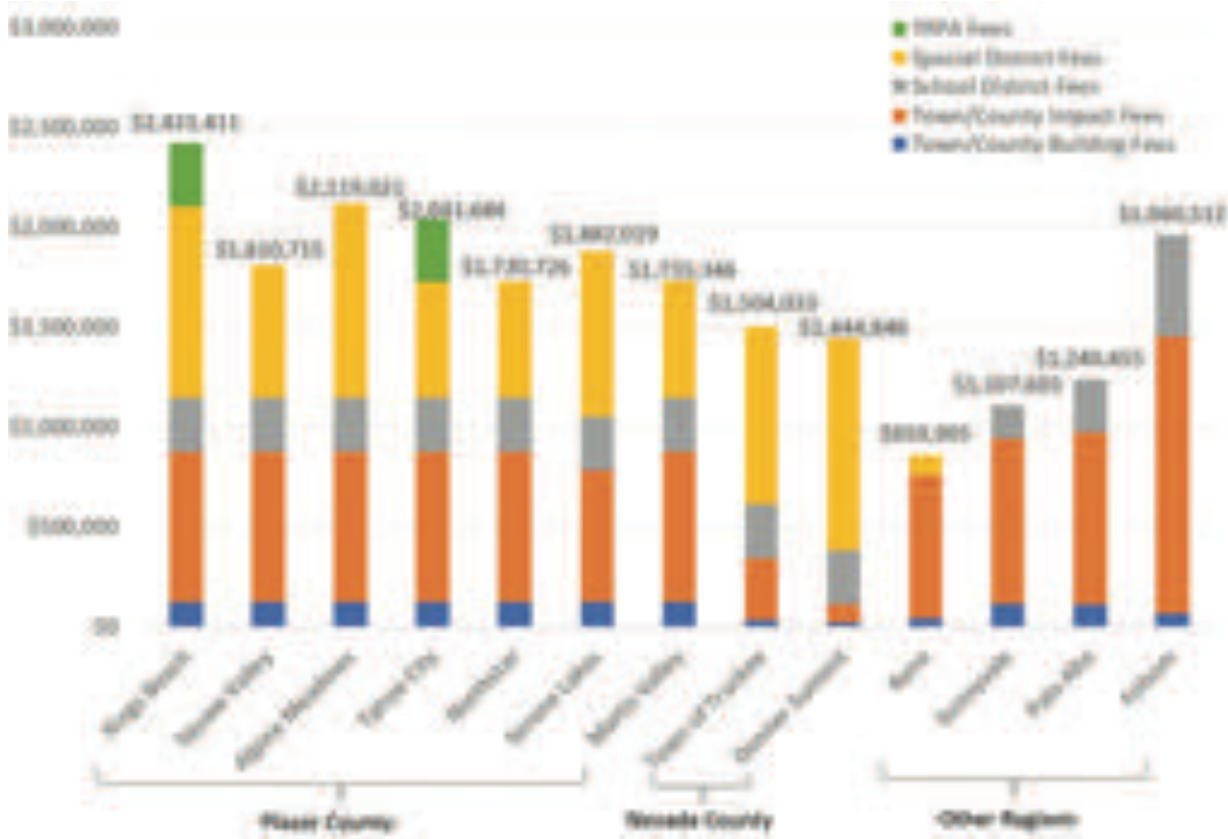
A clear difference in the composition of the region's fees is the large percentage of fees charged by special districts when compared to select other communities in the Bay Area and Reno. Hansford's study highlighted that the fee landscape, which has **18 fee-charging government entities/special districts with unique development requirements and varying methodologies for assessing fees, is complex for a developer to navigate.** See **Appendix A** (p. 13–14) for list of all entities with fee-charging authority in the North Tahoe-Truckee region, the types of fees that are charged, and methodology used for assessing the fees.

**FIGURE 1 ►**  
**Total Fees for North Tahoe-Truckee Sub-Regions and Comparison Communities 1,400 sq. ft. Single Family Home**



<sup>3</sup> The full Hansford Economic Consulting Fee Study can be found on the Mountain Housing Council website [www.mountainhousingcouncil.org](http://www.mountainhousingcouncil.org)

**FIGURE 2 ►**  
**Total Fees for North Tahoe-Truckee Sub-Regions and Comparison Communities 77 Unit Multi-Family Complex**



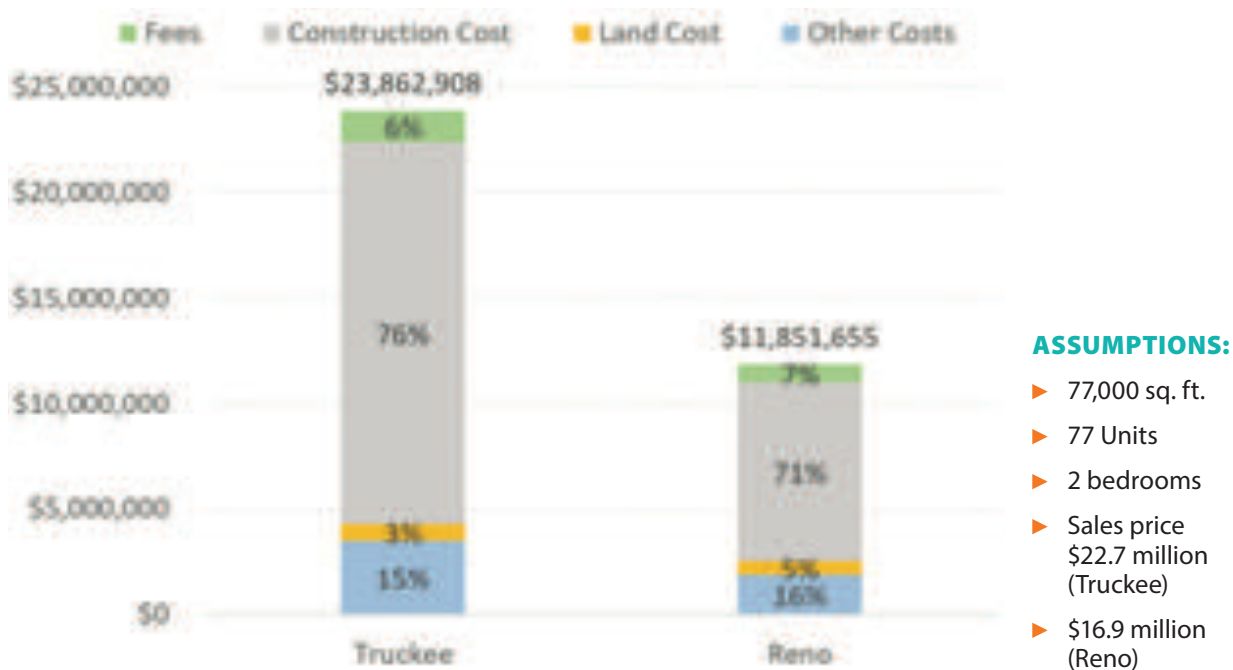
Hansford Economic Consulting also analyzed fees for a hypothetical multi-family apartment complex with 77, 2-bedroom units. **Figure 2** (above) shows that total fees for multi-family complexes vary across the region just as they do for single-family homes. **A noticeable difference is that fees for multi-family housing in the North Tahoe-Truckee region are much higher than in three of the four comparison communities.**

**Another key finding in Hansford’s study was that the basis for charging fees in the region varies considerably. Regional fee-charging methodologies include, in order of most common: per unit, per square foot, per meter, per bedroom, and per equivalent dwelling unit based on plumbing fixtures.**

**Hansford’s study demonstrated that development fees are about 4–5% of the total cost to build a single-family home and 6% for a multi-family complex.** Notably however, overall building costs are substantially higher compared to other regions (see **Figure 3** on next page). For example, it costs almost double to build a multi-family complex in the North Tahoe-Truckee region compared to nearby Reno.

**FIGURE 3 ►**

## Development Costs for Multi-Family Housing in Truckee and Reno



As seen in **Figure 3** (above), construction costs comprise 76% of the overall cost of development in our region. A contributing factor is high labor costs due to a shortage of skilled workers, many of whom left the housing market during the crash in the late 2000s and have not returned. Costs of raw materials, such as lumber and concrete, are also on the rise nationally and land costs in California are generally higher than other parts of the country due to limited land availability.<sup>4</sup>

Besides land and construction costs, some other drivers of cost are inflexible (ex. snow load requirements), some are beyond the ability of local jurisdictions to control (ex. CEQA lawsuits). **However, through policy change, such as restructuring how development fees are charged, MHC believes that the cost of building *achievable local housing* can be lowered incrementally.**

Hansford's study also reviewed fee waivers and reductions, but noted that if fees are waived or reduced, another funding source must be used to backfill the gap. Waivers and reductions are likely to impact special districts more than cities and counties which have a greater ability to waive or defer fees due to having more discretionary revenue sources available.

<sup>4</sup> 5 Reasons California's Housing Costs Are So High, KQED News, 2018.

# CASE FOR PROPOSED FEE INCENTIVES

## Move to Methodology Based on Scalable Fees

Establishing development fees based on a scalable methodology, such as square foot, per equivalent dwelling unit (EDU), per bedroom, or per fixture, results in a fee that is proportional to the size of the residence and the level of impacts produced. Using a scalable methodology for assessing fees allows smaller units to pay lower development fees.

**Figure 4** (below), which reflects the current methodology for assessing fees in our region, demonstrates that fees vary significantly when a scalable methodology is applied. There is some scalability of fees in the region due to some of the fee chargers using a scalable methodology. However, as seen in the chart, when all fees are assessed utilizing a scalable methodology, there is a the greatest variability. This is demonstrated most clearly in the Town of Truckee figures where developers will pay 103% more in impact fees for a 3,000 square foot home than for a 1,400 square foot home.

**FIGURE 4 ►**  
**Flat Fee vs. a Scalable Fee Methodology**



When applying various methodologies for assessing development fees in the hypothetical example above, the project would pay \$375,000 if fees are assessed on a per unit basis while the same project would only pay \$270,000 if fees are assessed using a square foot methodology. Assuming that some developers will continue to build larger homes, **a scalable methodology could provide a financial incentive for a mix of housing sizes and affordability levels as it will encourage the building of smaller units as well.**

Local jurisdictions can expect to collect the same net development fees using either the per unit or square foot methodology cumulatively (by the time of full buildout). If a jurisdiction switches to a scalable methodology for assessing fees, each project will end up paying higher or lower fees as compared to the flat fee methodology. However, the total amount of impact fees collected, from a range of project types, should end up the same.



	PROJECT DETAILS	TOTAL FEES
# of Units	15	
# of Bedrooms	2	
# of Bathrooms	1	
Square Footage of Units	1,000	
Total Square Footage of Living Space	15,000	
Per Unit Methodology	\$25,000/unit	25,000 x 15 = \$375,000
Square Foot Methodology <sup>[1]</sup>	\$18/sq. ft.	18 x 15,000 = \$270,000

[1] \$18 includes total development fees due (ex. sewer connection, traffic, facilities, parks & rec, etc...)

## Offer Fee Deferrals

Deferring the payment of development fees reduces finance costs of building achievable local housing projects, while still providing funds for future public improvements. Using the total development fees calculated by Hansford Economic Consulting for a hypothetical 77-unit multi-family complex in North Tahoe-Truckee, **developers could save approximately \$171,325 – \$287,133 in borrowing costs.**

MHC contacted several jurisdictions throughout the state that are implementing voluntary fee deferral programs and found that **all believe the programs provide a positive incentive to affordable housing developers.** In addition, MHC surveyed local developers with experience or interest in achievable local housing and **found support for development fee deferrals.** Since developers don't start to receive revenue on a project until Certificate of Occupancy or later, fee deferral programs bridge the gap from initial construction loans to the project's second/final loan by eliminating the need to borrow additional funds for development fees.

## Leverage State Accessory Dwelling Unit (ADUs) Incentives

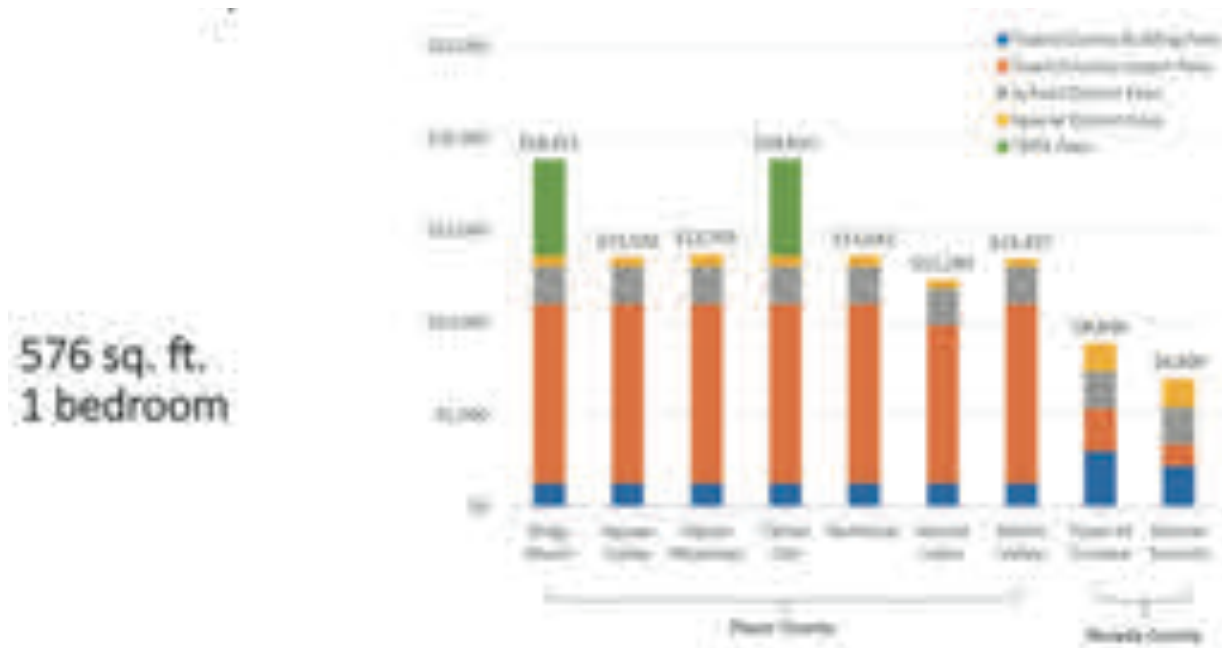
Granny units or accessory dwelling units, known as ADUs, are a great avenue, if deed restricted, for creating local, long-term rentals. The state of California has created an incentive package to encourage building of ADUs. MHC encourages local government to not only update their ADU policies to comply with the state regulations as soon as possible, but also consider offering additional ways to incentivize deed restricted ADUs such as offering fee waivers up to 195% AML.

Just as we saw great variability among the fee-charging jurisdictions in their methodologies for assessing development fees for single-family and multi-family units we also saw inconsistency in how connection/capacity fees are being assessed for ADUs. See **figures 5 and 6** on the following page for comparison of ADU fees by area and by type (attached or unattached).

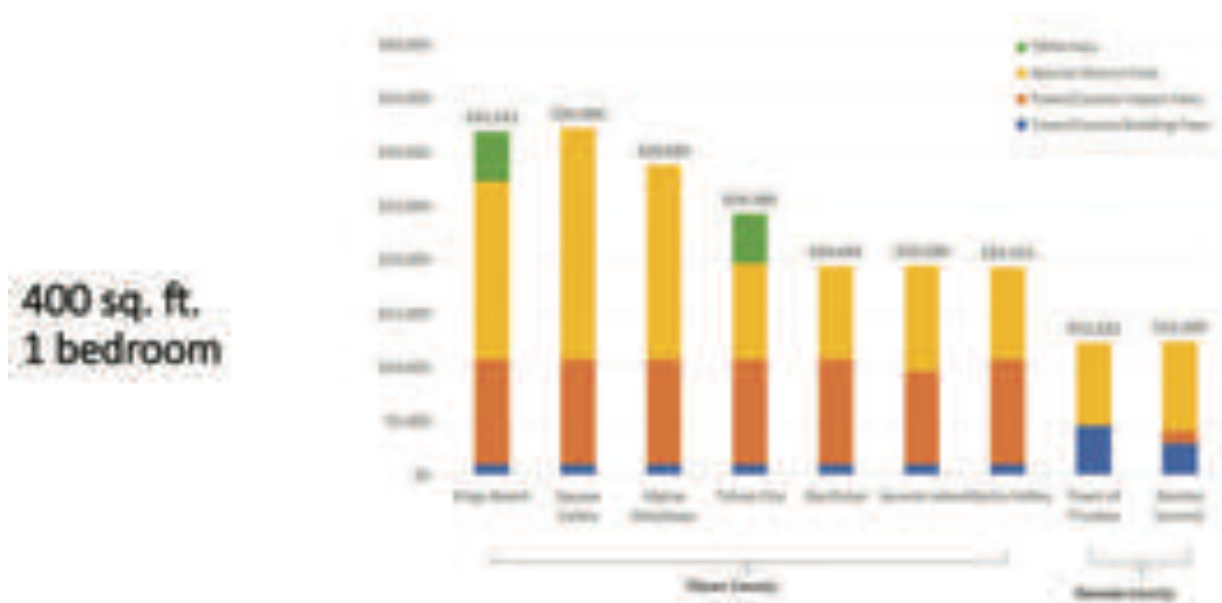
The recently enacted AB 494 State of California legislation states that:

- ▶ ADUs may be attached or unattached
- ▶ Floor area may not exceed 50% of existing living area, with maximum addition of 1,200 sq. ft.
- ▶ If an ADU is attached, it cannot be considered a new residential use and therefore, connection and capacity fees for utilities, including water and sewer cannot be charged
- ▶ If an ADU is unattached, local agencies may require a new or separate utility connection/capacity fee. However, fees must be proportionate to the burden of the proposed ADU

**FIGURE 5 ►**  
**Fee Comparison for an Attached ADU**



**FIGURE 6 ►**  
**Fee Comparison for a Detached ADU**



## SUMMARY OF FEE INCENTIVE RECOMMENDATIONS

Following are the fee incentive recommendations developed by the Mountain Housing Council of Tahoe-Truckee as well as other regional leaders. Of the 18 fee charging entities in the region, 10 worked on this document.

The goal of the Mountain Housing Council is to develop solutions and lower barriers for achievable local housing in the region. This fee incentive policy document is intended less to prescribe a set of actions but instead to generate conversation at the staff and board levels on how each unique entity can look at their own fee methodology to lower barriers and increase incentives for achievable local housing projects.

### **Summary of recommendations for how to restructure fees to create incentives for achievable local housing projects.**

- 1** Consider charging impact fees based on a scalable methodology, such as square footage, per fixture, per bedroom, to encourage the building of smaller, more affordable units and Accessory Dwelling Units (ADUs/granny units).
- 2** Consider offering impact and capacity fee deferrals until Certificate of Occupancy to help reduce finance and borrowing costs for developers.
- 3** Update your agency's Accessory Dwelling Unit (ADU) policy to comply with new changes in state-law and look for additional ways to encourage more ADU building in our region.

## CONCLUSION

### Lowering Barriers for Private Investment

Housing is critical to the health of our economy and our community. Everything from education to emergency services relies on having housing that is safe and attainable to our local community members.

There is no silver bullet for our regional housing crisis. It cannot be solved by one simple action or one single group. It will take many small steps and many committed partners to clear the daunting housing hurdles that we face.

Development fees are one piece of this ongoing process. Making fees simple, streamlined and scalable will help reduce roadblocks and encourage investment in achievable local housing within our communities. These fee changes will require creativity and flexibility from our local agencies, and the reward will be a fee structure that incentivizes housing for our local residents over the long term.

We urge our 18 fee charging agencies to create a development fee structure that welcomes private investment in local housing solutions. It's one straightforward, significant step toward a stronger future for our communities.



APPENDIX A ►

# FEE CHARGERS & METHODOLOGY IN THE NORTH TAHOE-TRUCKEE REGION

TABLE 1 ►

Types of Fees Charged

FEE CHARGER	Air Quality Mitigation	Animal Services	Building Permit	Other Facilities	Fire Facilities	Parks/Recreation	Plan Review	School Facilities	Traffic Mitigation	Waste Water Connection	Waste Water Treatment	Water Connection	Water Quality Mitigation
Alpine Springs County Water District					►					►		►	
Donner Summit Public Utility District										►	►	►	
Nevada County			►				►		►				
North Tahoe Fire Protection District					►								
North Tahoe Public Utility District										►		►	
Northstar Community Services District					►					►		►	
Placer County		►	►	►		►	►		►				
Sierra Lakes County Water District										►		►	
Squaw Valley Public Utility District					►					►		►	
Tahoe City Public Utility District										►		►	
Tahoe Regional Planning Agency (TRPA)	►						►						►
Tahoe-Truckee Unified School District								►					
Town of Truckee			►	►			►		►				
Truckee Donner Public Utility District												►	
Truckee Donner Recreation & Parks District						►							
Truckee Fire Protection District					►								
Truckee Sanitary District (TSD)										►			
Tahoe-Truckee Sanitation Agency (TTSA)											►		

**TABLE 2 ►**  
**Methodology for Assessing Fees for Single-Family Housing Units**

**F E E L E G E N D**

- PB** = Per Bedroom  
**PM** = Per Meter  
**PU** = Per Unit  
**SF** = Square Footage  
**V** = Valuation (*"average" construction costs per square foot*)

FEE CHARGER	Air Quality Mitigation	Animal Services	Building Permit	Other Facilities	Fire Facilities	Parks/Recreation	Plan Review	School Facilities	Traffic Mitigation	Waste Water Connection	Waste Water Treatment	Water Connection	Water Quality Mitigation
Alpine Springs County Water District					SF					PM		PM	
Donner Summit Public Utility District										PU	PU	PU	
Nevada County			SF				SF		PU				
North Tahoe Fire Protection District					SF								
North Tahoe Public Utility District										PU		PU	
Northstar Community Services District					SF					PU		PM	
Placer County		PU	V	PU		PU	V		PU				
Sierra Lakes County Water District										PU		PU	
Squaw Valley Public Utility District					PB					PM		PM	
Tahoe City Public Utility District										PU		PM	
Tahoe Regional Planning Agency (TRPA)	PU						SF						SF
Tahoe-Truckee Unified School District								SF					
Town of Truckee			SF	SF			SF		SF				
Truckee Donner Public Utility District										PU		PM+SF	
Truckee Donner Recreation & Parks District						SF							
Truckee Fire Protection District					SF								
Truckee Sanitary District (TSD)										PU			
Tahoe-Truckee Sanitation Agency (TTSA)											PU		

## VISION

All people that work and live in the North Tahoe - Truckee region have access to diverse, quality, and achievable local housing.

## MISSION

To accelerate solutions for achievable local housing for those that live in the North Tahoe - Truckee Region.

## PARTNERS

### LOCAL GOVERNMENTS

Nevada County  
Placer County  
Town of Truckee

### SPECIAL DISTRICTS

North Tahoe Public Utility District  
Squaw Valley Public Service District  
Tahoe City Public Utility District  
Tahoe Forest Hospital District  
Tahoe Regional Planning Agency  
Tahoe Truckee  
Unified School District  
Truckee Donner Public Utility District  
Truckee Tahoe Airport District

### CORPORATE PARTNERS

Squaw Valley | Alpine Meadows  
Vail Resorts | Northstar California

### NONPROFITS

Family Resource Center of Truckee  
Mountain Area Preservation  
North Tahoe Family Resource Center  
Tahoe Prosperity Center  
Tahoe Truckee Community  
Foundation

### NETWORKS

Community Collaborative  
of Truckee Tahoe  
Contractors Association  
of Truckee Tahoe  
North Lake Tahoe Resort Association  
Sierra Business Council  
Tahoe Donner  
Homeowners Association  
Truckee Chamber of Commerce  
Truckee Downtown  
Merchants Association  
Tahoe Sierra Board of Realtors





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