THE CITY OF PLEASANTON

CITY COUNCIL AGENDA REPORT

May 7, 2024
Community Development

TITLE: WORKSHOP TO PRESENT INITIAL FINDINGS AND RECEIVE POLICY DIRECTION ON DEVELOPMENT IMPACT FEES, INCLUSIONARY HOUSING REQUIREMENTS AND LOWER-INCOME HOUSING FEES, AND CITY WATER AND SEWER CONNECTION FEES

INTRODUCTION

Staff and a professional services team lead by Economic & Planning Systems (EPS) are undertaking work to update the City's Development Impact Fees and Lower-Income Housing Fees, and to update the existing Inclusionary Zoning Ordinance, including consideration of whether to modify the existing inclusionary rate, or percentage of affordable housing units required to be included in new market-rate developments. As a concurrent effort, the City has engaged Raftelis Associates (Raftelis) to complete a study to update City water and sewer connection fees, based on the recently completed Water and Sewer Hydraulic Capacity Plans.

Work on these various studies has been proceeding since early 2024. **Attachment 1** is a Background Memorandum that provides a more detailed analysis and supporting data developed to date, including:

- Regulatory background and context for the impact fee updates
- A summary of existing fees and fee levels
- Outcomes of the prior fee study updates
- An overview of the existing Inclusionary Zoning Ordinance (IZO) and Affordable Housing Fee
- An analysis and assessment of the feasibility of adjusting the inclusionary rate and fee

The remainder of this agenda report summarizes the key findings of the Background Memorandum and presents policy options and recommendations with respect to setting the various fees based on those initial conclusions. Direction from this study session will provide guidance to staff and the professional services team as the study proceeds.

STRATEGIC PLAN AND HOUSING ELEMENT ALIGNMENT

The recently adopted ONE Pleasanton Strategic Plan includes in Goal A: *Funding our Future* – Fiscal Sustainability, Strategy 7 to "Conduct an analysis and update development impact fees to keep pace with new development."

The 6th Cycle Housing Element incorporates Programs 2.1, 2.2, and 2.3 to evaluate and update the City's IZO, consider modifications to the inclusionary rate, and monitor and update the in-lieu housing fee – to support policy goals of having market-rate projects build affordable units, generate funding for affordable housing programs and activities, and mitigate demand for affordable housing while ensuring inclusionary requirements and fees do not constrain market-rate housing production.

SUMMARY OF KEY FINDINGS

The following reflects the high-level preliminary findings of the study to date, with respect to setting future fee levels relative to the maximum levels supported by initial analysis, the inclusionary rate established in the IZO and opportunities to modify it, and associated in-lieu fees.

Capital Facilities, Traffic Impact, Water and Sewer Connection Fees

- The nexus study includes an estimated growth in the service population of approximately 29,000 residents and non-resident employees, or 29.4% over the existing service population at buildout.

- With the increased service population, there will be additional needs for new facilities. EPS recommends taking a "service-standard" based approach that also correlates to City master plans and infrastructure studies, to provide flexibility over time, rather than the project list-based approach used in the prior nexus studies.

- The overall costs associated with the updated facilities has increased substantially since 2018 – in part because the range of facilities and improvements is more comprehensive, but also due to the substantial inflation in construction costs over the past several years. The preliminary estimated total costs for the combined Capital Facilities and Transportation program are $613.15 million; this is compared to about $223.33 million in the 2018 Nexus Studies. These program costs are split relatively evenly between Capital Facilities (54%) and Transportation (46%).

- Accordingly, the preliminary maximum fees supported by the Nexus Study in each land use category for the Capital Facilities Fee (CFF) and Transportation Impact Fee (TIF) are expected to increase. In aggregate, the maximum fees for residential uses would increase by approximately 61%; and non-residential uses would increase between 47% (Industrial) and 143% (Research/Development), with increases in other categories falling within this range.

- The City's water and sewer connection fees were last updated in 1992 and 2008 respectively and have not escalated in line with inflation. Therefore, these fees fall well short of the rates needed to pay for necessary system improvements to accommodate new growth and demand. The Water and Connection Fees are still under development, but preliminary estimates indicate a 300-400% increase in the maximum supportable connection fees. While the percentage increase is large, because the base fee is extremely low, the total dollar increase is relatively small – for example, increasing by approximately $3,400 for a 5/8" meter connection (typical size for a single-family home) and by $17,000 for a 1.5" meter that would serve multi-unit development. If CPI adjustments had been made in intervening years, the differential between those hypothetical fees, and new fees, would not be substantial.

- The preliminary analysis indicates that the maximum supportable level of the commercial linkage fee, which is the fee paid by non-residential development to mitigate its impact on affordable housing demand, could increase very substantially (e.g., for commercial, from the current rate of $5.38 per square foot to over $400 per square foot; for office from $14.42 per square foot to over $40 per square foot.) These sorts of maximum values are not atypical outcomes in commercial linkage studies, and most cities choose to discount them substantially, as the City Council did in 2018.

Inclusionary Zoning Rate and Fees

The City Council expressed interest in evaluating possible changes to the inclusionary rate, which is currently set at 20% for single-family projects and 15% for multi-family projects. There is an interest by the City Council in considering adjustments (a possible increase) to the inclusionary rate, as well as increasing the Affordable Housing Fees paid by developers in-lieu of building units on site.

- EPS analyzed multiple scenarios with different inclusionary rates for both for-sale and rental projects.[1] For for-sale projects, the study considered both an increase in the current rate (from 20% to 25%), and a decrease (from 20% to 15%), and different affordability mixes. For rental projects, the study looked at an increase from 15% to 20%, and retaining the existing 15% rate, both with different affordability mixes.

- With respect to the IZO, the current 20% inclusionary requirement for single-family/for-sale projects results in development costs that are prohibitively high in all scenarios analyzed. For rental housing/multi-family projects, the current market and development economics is challenging, even under existing fees and rates. Therefore, the study does not support an increase to the current 15% inclusionary rates for either for-sale or rental projects. As such, it is a recommendation of the study to equalize the inclusionary rate across both for-sale and rental projects to 15%, (i.e., decreasing the inclusionary rate for for-sale projects), but to increase the in-lieu housing fee for single-family and for-sale projects to the extent feasible.

- To encourage on-site construction of affordable inclusionary units, it is best practice to establish an in-lieu fee rate that is at, or close to, the cost to build the on-site units as doing so greatly reduces the developer's incentive to "fee out" of on-site requirements, and means that when fees are collected, they provide more effective mitigation. The analysis indicates there is an opportunity to increase the

[1] It is the tenure of units (for-sale vs. rental) that most strongly influences the development economics and feasibility of projects, rather than unit type, and so EPS' analysis is structured accordingly. For the purpose of the study, EPS analyzed three types of for-sale development (single-family detached, townhome, and condominiums), and two common types of multi-family rental product – apartment units in either a "wrap" style or "podium" style building.

amount of the current in-lieu fee for for-sale housing, which is currently well below the level supported by the economic analysis. As noted above, setting the inclusionary rate at 15% across the board provides the best opportunity to increase the Affordable Housing Fee to better align with the inclusionary rate.

Overall Fee Levels

- For for-sale residential development, the study indicates there is some capacity (based on the gap between total development costs and sales prices) to increase fees. There is very little capacity in multi-family rental projects.

- The survey of Pleasanton's current fees, compared to nearby peer jurisdictions shows that Pleasanton charges less for single-family development than most of the peer cities (local fees only); whereas multi-family fee rates are on a par with or above several other cities. When looking at fees for a typical office development, Pleasanton's current fees are similar to some other neighboring jurisdictions (e.g., Livermore and San Ramon), but well above cities such as Dublin, Fremont, Danville and Walnut Creek.

- The initial findings of the nexus study will support <u>maximum</u> fees that are considerably higher than the fees charged today. However, while charging the maximum fee is justifiable under the study, doing so, particularly for the CFF and TIF, is likely to render almost all new development, whether commercial or residential, financially infeasible. As such, the City will have to make policy choices about where to set its impact fees.

POLICY APPROACHES

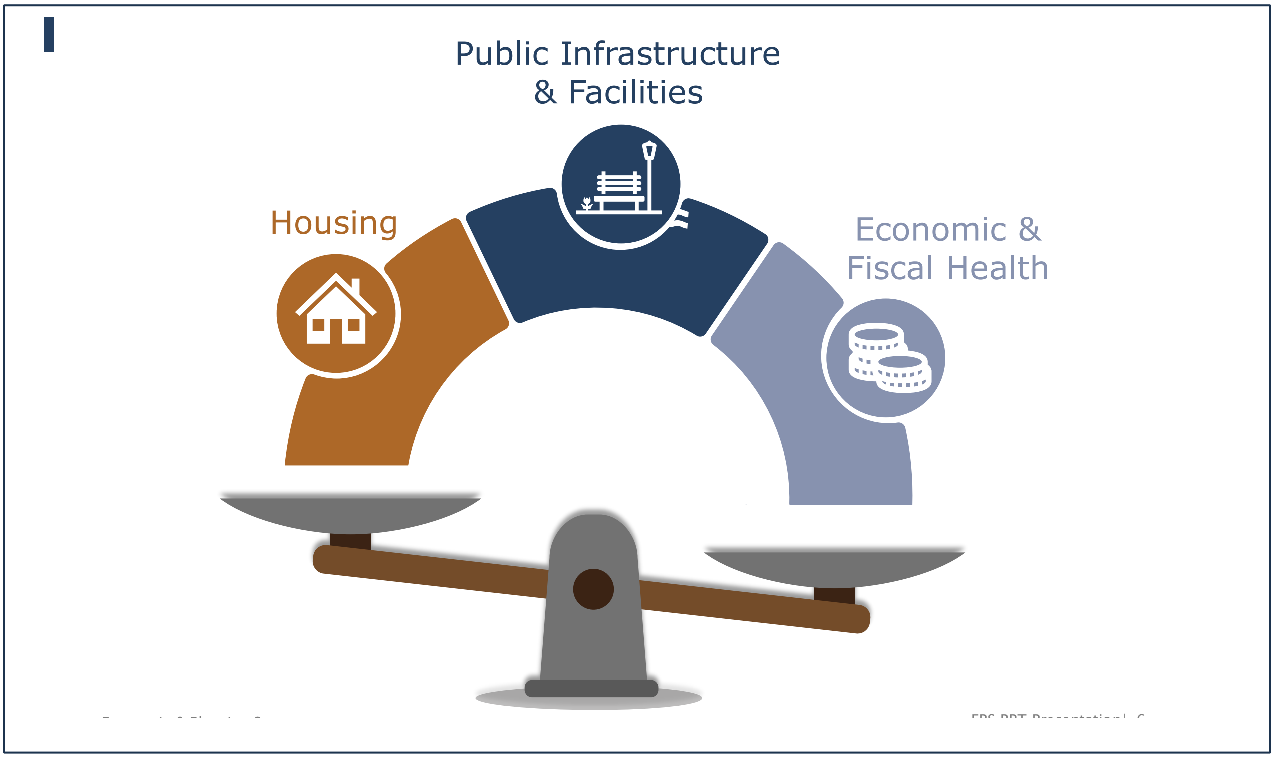
As noted above, and documented in more detail in Attachment 1, the initial assessment of facilities needs, costs, and service population indicate that substantially higher maximum impact fees than are charged today could be justified by the nexus studies. However, increasing fees to the maximum, or substantially increasing the inclusionary rate will threaten the feasibility of new development.

It is important that development pay fees to address the burden its new residents and employees place on City facilities; however, those fees and the costs to meet the City's housing inclusionary requirements must be set at a reasonable level. Fees, if set too high, will affect development's financial feasibility, and discourage or prevent projects from proceeding altogether.

Projects once built contribute ongoing benefits to the community in the form of property tax, sales tax, and other revenues that support the City's ability to maintain facilities and provide essential services. As such, it would be fiscally counterproductive, and could adversely affect the City's ability to meet its RHNA, if fees and inclusionary requirements are set at too high of a level.

The City Council will therefore need to strike an appropriate balance between three potentially competing policy goals:

- Support the production of affordable housing in alignment with the Strategic Plan and Housing Element;
- Fund needed infrastructure and facilities by collecting impact fees that help offset the cost of those necessary investments;
- Support the City's long-term fiscal and economic health by ensuring that Pleasanton is an attractive and viable location for investment that can help to grow and sustain long-term revenues.



Broadly, there are four approaches the City Council could consider in setting the fees (including the inclusionary rate, which directly affects the affordable housing in-lieu fee):

1. Set the fees at the maximum rate and hold or increase the inclusionary rate – this would theoretically maximize the funds available to help support the City's capital improvement program, keep or increase inclusionary rates, and charge affordable housing fees at the maximum supportable rates. However, as described, such fees would make most new development infeasible and in practice generate little new short-term or long-term revenues.

If the Council wished to <u>reduce</u> fees below the maximums computed through the fee studies, this could be accomplished by:

2. Substantially reducing the "cost drivers" that are the basis for the overall program of new facilities, capacity enhancements, and other elements identified as being necessary to support new growth; and/or reducing inclusionary housing rates. While the fees would be scaled back to reflect the more modest capital program,

there would be a much narrower range of facilities and projects to which fees could be applied. If the inclusionary rate were substantially decreased, so too may be affordable housing production.

3. Taking "across the board" reductions to the maximum fee rates. While a relatively simple and straightforward approach, this does not allow the City Council to calibrate fees or the inclusionary rate in a more fine-grained way toward meeting specific policy or economic development goals.

4. Make targeted reductions in different fee categories or for different land use categories to better align to policy or economic development goals.

RECOMMENDATIONS

Considering the above and the preliminary findings of EPS' analysis, staff's initial recommendations reflect somewhat of a hybrid of the approaches outlined above, designed to balance the City's multiple objectives.

1) **Set Sewer and Water Connection Fees at, or close to, the Maximum.**
The City's water and sewer connection fees have not been updated since 1992 and 2008 respectively, and the existing fees fall well short of the amounts that need to be charged to allow for necessary capacity improvements to be made. However, because the overall increased costs, in dollar terms, are relatively modest, and maintaining the capacity of the water and sewer system to accommodate new growth (i.e., deliver potable water and accommodate sewer flows) is a critical need, staff recommends that setting connection fees at the higher rates supported by the study be prioritized.

2) **Do not increase inclusionary housing rates and consider equalizing rates to 15% across all project types.**
Staff does <u>not</u> recommend increasing the inclusionary rate for single-family projects, and in fact it may be appropriate to reduce the rate from 20% to 15%, to equalize it with the multi-family rate, and set the in-lieu fee accordingly. Even at the current inclusionary rate, the costs to provide on-site affordable housing units in single-family projects are extremely high due to the discrepancy between affordable sales prices and market-rate sales prices. As such, achieving inclusionary units at the 20% rate, or charging an in-lieu fee calibrated to the 20% rate is unlikely to be feasible except in very limited circumstances. If the City Council wishes to retain the fee at the current 20% rate, then affordability levels may need to be adjusted upward, and the in-lieu fee may need to be set at a rate that is substantially lower than the maximum for projects to remain feasible.

Retaining the existing 20% rate would also impede the ability to raise the amounts of capital facilities and traffic impact fees, since it also greatly increases cumulative development costs. Finally, it is noted that State law provides streamlining and "by-right" provisions for projects with a minimum of 20% affordability – this will mean that projects qualify for streamlining simply by meeting the City's inclusionary requirements.

For similar reasons, staff also does not recommend increasing the inclusionary rate for multi-family rental projects, retaining it at 15%. This would allow for other adjustments, such as deepening the affordability of inclusionary units, to be considered, and will ensure that rental projects with marginal financial feasibility remain viable.

3) **Set Capital Facilities and Transportation Impact Fees below the maximum supportable by the Nexus Study, but at an appropriate rate that reflects the highest reasonable increase that can be made without severely impacting development feasibility.**
Setting fees at the maximum rates would have a severe impact on development feasibility, such that staff recommends that the maximum fee rates be adjusted downward. While it is possible the reductions could be achieved by "paring down" the capital projects list that is the basis of the fee, staff continues to recommend having a broad list that fully reflects the scope of needed facilities to accommodate the anticipated 29.4% increase in service population estimated in the fee study.

In light of the many variables in play, and as numbers are not yet final, staff does not suggest the City Council direct the specific CFF, TIF or Water and Sewer fee levels at this time. Instead, staff requests the City Council provide input on the above three recommendations (agreement, disagreement, or alternative options), and any further input or direction as staff and the consultant team move forward to finalize the nexus fee studies and create a draft revised Inclusionary Zoning Ordinance.

NEXT STEPS

As noted, this workshop is intended to highlight the initial findings of the fee study update and obtain direction from the City Council on some of the more substantial decisions around formulation of the Impact Fee, Connection Fee, and IZO update. Staff notes that the detailed and final calculations of the nexus study are still under development, and so numbers may shift somewhat between now and when the studies are final – however, the feasibility assessment, and overall conclusions outlined here will remain valid.

Staff anticipates the following next steps:

- **City Council Study Session #2 (June).** A second study session will focus on more detailed policy considerations for the Inclusionary Zoning Ordinance, including with respect to alternative compliance (options to meet the inclusionary requirement, other than building on-site), refinement of the recommended affordability mix and other parameters for required on-site units, and process/procedural aspects of the ordinance. Should the City Council have additional questions or seek additional analysis from this May 7 meeting, that information would be presented at the subsequent Study Session. The second study session will also address the creation of a new Public Art Fee, including the pros and cons of creating and adopting such a fee and related program.

- **City Council Hearing – Draft Sewer and Water Connection Fee Study (Timing TBD)**

- **Planning Commission Hearing – Review and Recommendation for adoption of IZO (July/August).** Based on City Council direction, staff will present an initial revised IZO to the Planning Commission for its review and recommendation, prior to it being presented to the City Council for adoption.

- **City Council Hearing – Draft Nexus Studies, Impact Fees, IZO and Affordable Housing Fee (August/September)**

- **Stakeholder Meeting:** Convene a meeting of interested parties and stakeholders, including those from the development community.

- **City Council Hearings: Adopt Nexus Studies, Impact Fees and IZO (September/October)**

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Attachment:

1. Background Report: Impact Fees, Affordable Housing Fees and Development Feasibility Analysis

THE CITY OF PLEASANTON

MEMORANDUM

Date: May 7, 2024

To: Mayor and City Council

From: Ellen Clark, Director of Community Development
Jason Moody, Principal, Economic and Planning Systems

Subject: Background Memo: Development Impact Fees, Inclusionary Zoning Ordinance and Affordable Housing Fees, and Feasibility Analysis

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Background

On December 5, 2023, the City Council authorized a professional services agreement with Economic & Planning Systems, Inc. to assist with a project to comprehensively update the City's Development Impact Fees, Lower Income Housing Fee (LIHF), and to update the existing Inclusionary Zoning Ordinance (IZO). Separately, on February 6, 2024, the City Council authorized the fifth amendment with Raftelis to assist with the update of the water and sewer connection fees and complete the necessary connection fee study.

This memo provides a summary of background information and analysis developed to date in support of the studies, as supporting information for the May 7, 2024, City Council study session.

Development Impact Fees

Regulatory Requirements

State law, specifically AB 1600 (California Government Code Section 66000 et. seq.), regulates how impact fees are to be calculated and levied, and specifies reporting and other requirements. AB 1600 requires cities to justify and account for development fees that they enact as a condition of approval on new development. The justification, or nexus requirement, requires cities to:

1. Identify the purpose of the fee;
2. Identify the use or specific project to which the fee will be applied;
3. Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed; and
4. Determine how there is a reasonable relationship between the need for public improvement and the type of development project on which the fee is imposed.

The nexus is based on the premise that new development should pay its pro-rata share of public improvement costs. Because residents, businesses, and their employees create the need for and benefit from the availability of public services and infrastructure improvements, new development should pay its share of public facilities/improvements necessitated and/or impacted by development. Pursuant to AB 1600, fees cannot be imposed on new development to correct existing deficiencies or meet pre-existing needs.

Existing Citywide Development Impact Fees
Pleasanton currently levies the following development impact fees:

- *Capital Facilities Fee (CFF):* Fees collected in this category fund acquisition, construction and improvement of a range of public facilities including parks/recreational facilities; public safety facilities; public parking; civic facilities; and downtown beautification.

- *Transportation Impact Fee (TIF):* Fees collected in this category fund roadway improvements to accommodate traffic generated as a result of new development, including road and intersection improvements and traffic signalization; it also covers multi-modal facilities such as those needed to support pedestrian and bicycle users.

- *Sewer Connection Fee*: Local fees collected in this category fund sewer improvements to accommodate the increased capacity as a result of new development to convey sewage to the Dublin San Ramon Services District (DSRSD) treatment plant. It includes City-owned pipes, manholes and pump stations. DSRSD collects separate connection fees associated with improvements to the regional system including the treatment plant and transmission mains to serve new development.

- *Water Connection Fee*: Local fees collected in this category fund water and recycled water improvements to accommodate the increased demand as a result of new development to purchase, convey and store water. It includes the City's water turnouts (purchase water), pipes, wells, water tanks and pumping stations. Separately, Zone 7 collects connection fees associated with expanding the Zone 7 and DSRSD-EBMUD Recycled Water Authority (DERWA) water treatment and distribution system to serve new development.

Other City Fees
In addition to these citywide fees, some parts of the city are subject to Specific Plans or area-specific facilities plans that address localized areas of development – separate or additional fees are charged to reimburse the City for the infrastructure installed as outlined in the plans and adopted by the City Council. Examples include Downtown parking fees, and fees for infrastructure within Happy Valley, Ruby Hill, and the Vineyard Avenue Corridor. No changes to these fees are proposed as part of this update. The City also has a Recycled Water Connection Fee that was adopted in 2015 for parts of the city that benefit from recycled water. An update to the Recycled Water

Master Plan (and potentially, related fees) is scheduled to start in 2025 and is not part of this current fee update.

Summary of Current Fee Amounts
Tables 1 through 4 provided below summarize the current citywide impact fees, as of January 1, 2024. (Note that more limited data is provided for sewer and water since actual fees are based on project-specific analysis). Nexus studies were completed in 2018 for the CFF and TIF in accordance with AB 1600, establishing the maximum fee levels that could be justified based on the projected growth, and new facilities (and their costs) needed to support that growth. The most recent studies to support water and sewer connection fees were completed in 1992and 2008, respectively.

The 2018 Nexus Studies provided the calculation of the maximum CFF and TIF, and in most cases the City Council adopted these fees at the maximum level supported by the study but did so in consideration of similar fees charged by Dublin and Livermore, to ensure Pleasanton would remain an attractive and competitive location for new investment. Included in the 2018 fees was an annual adjustment to match the Consumer Price Index (CPI).

The table below also summarizes the outcomes of the previous process with respect to impact fees, including where available, the maximum fee supported by the Nexus Study, the fee ultimately adopted by the City Council, and the current (2024) fee, reflecting CPI adjustments that have been made since adoption.

As noted, the water connection fee was last adopted in 1992 and has remained the same fee without CPI adjustments for the last 32 years. The sewer connection fee was adopted in 2008 and has also remained the same fee without CPI adjustments since then.

Table 1: Existing Capital Facilities Fee

Category	2018 Maximum Fee Rate	2018 Fee Rate Adopted	Percent of Maximum	2024 Rate, reflecting CPI adjustments
Single-Family (per unit)	$16,029	$16,029	100%	$20,480
Multi-Family (per unit)	$11,421	$11,421	100%	$14,593
Office (per sq. ft.)	$2.32	$2.32	100%	$2.97
Retail (per sq. ft.)	$1.69	$1.69	100%	$2.16
Research/Development (per sq. ft.)	$1.86	$1.86	100%	$2.38
Industrial/Distribution (per sq. ft.)	$0.74	$0.74	100%	$0.95
Lodging (per room)	$918	$918	100%	$1,148

Table 2: Transportation Impact Fee

Category	2018 Maximum Fee Rate	2018 Fee Rate Adopted	Percent of Maximum	2024 Rate, reflecting CPI adjustments
Single-Family (per unit)	$9,112	$9,112	100%	$11,642
Multi-Family (per unit)	$5,602	$5,602	100%	$7,158
Office (per sq. ft.)	14.22	14.22	100%	$18.17
Retail (per sq. ft)	23.87	18.80	78%	$26.71
Research/Development (per sq.ft)	10.71	10.71	100%	$13.69
Industrial/Distribution (per.sq.ft)	8.61	8.61	100%	$10.99
Lodging (per room)	$6,008	$6,008	100%	$7,675.76

Table 3: Sewer Connection Fee

Category	2008 Maximum Fee Rate	2008 Fee Rate Adopted	Percent of Maximum	2024 Rate (no CPI Adjustment
Single-Family (per unit)	$2,150	$500	23%	$500
Fees for other uses vary by use and flow rate – see detailed table in Attachment 1				

Table 4: Water Connection Fee (See Attachment 1 for full table)

Category Meter Size [Meter Equivalent]	1992 Maximum Fee Rate	1992 Fee Rate Adopted	Percent of Maximum	2024 Rate
5/8” [1] (typ single family)	$1,200	$1,200	100%	$1,200
¾ [1.5]	$1,800	$1,800	100%	$1,800
1” [2.5]	$3,000	$3,000	100%	$3,000
1.5” [16]	$6,000	$6,000	100%	$6,000

<u>Inclusionary Housing Ordinance and Lower-Income Housing Fees</u>

The IZO was adopted in 2000 and has not been comprehensively updated or amended since then. Key components of the IZO include:

- For projects of 15 units or more, a requirement to include affordable units as follows:
    - For multi-family projects[1], 15 percent of total units to be dedicated to very-low or low-income households

[1] Multi-Family Projects are defined as: *A residential project consisting of condominiums, apartments, and similar dwellings attached in groups of four or more units per structure and including multiple units located on a single parcel of land under common ownership (PMC 17.44.030)*

- For single-family projects[2], 20 percent of total units to be dedicated to very-low, low-, and/or moderate-income households.

  Note that the “and/or” language, and lack of a specified affordability mix, leaves a developer free to choose the specific mix of affordable units among the range allowed.

- Projects of fewer than 15 units, and commercial, industrial and office (CIO) projects are allowed to pay Lower-Income Housing Fees, at a rate either per market rate unit (for residential projects); or per square foot for CIO projects. (See below for additional discussion on the establishment of the LIHF.)

- Allowance for projects to propose a range of alternatives to building on-site units, that include payment of in-lieu fees (see below), dedication of land, and construction of units off-site, transfer of fee credits, and other mechanisms.

- Parameters for the location and design of the inclusionary units, generally prohibiting clustering the units in a single area of the site; requiring consistent design and amenities among the market-rate and affordable units, but allowing the affordable units to be smaller than the market-rate units.

Although the IZO has not been updated in recent years, the City recognized the need to create more objective standards for housing developments, including with respect to inclusionary requirements. The 2023 Objective Design Standards for Housing Sites include more stringent criteria with respect to the affordability mix, minimum unit sizes, and ability to “count” ADUs as inclusionary units. These standards apply to all the sites re-zoned as part of the 4th, 5th or 6th Cycle Housing Element.

The May 7 workshop content, with respect to the IZO, is focused on the key elements of the ordinance that affect development costs and feasibility: specifically, the overall inclusionary rate and the mix of affordability among the required inclusionary units. Other aspects of the IZO, such as alternative compliance (the ability to pay fees or offer other methods of meeting the inclusionary requirements), development standards for inclusionary units, definitions, and procedures for review, will be the subject of future City Council and/or Planning Commission review and discussion.

Lower-Income Housing Fee
In 2018, the City also reviewed and updated the Lower-Income Housing Fee (LIHF), (in 2018 re-titled the Affordable Housing Fee – the terms are used interchangeably in this memo). The fee is calculated based on the cost to mitigate the demand for new affordable housing generated by new commercial and market-rate residential development. The fee operates alongside/in tandem with the City’s Inclusionary Zoning Ordinance (IZO), which as noted, automatically allows smaller residential projects of less than 15 units, and non-residential projects, to pay LIHF on a per unit basis (residential) or per square-foot (non-residential) basis. Projects otherwise required to

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[2] Single-Family Projects are defined as: *A residential project consisting of detached and attached single-family homes, including paired single-family, duets, duplexes, townhomes, and similar unit types where each unit is located on a separate parcel of land (PMC 17.44.030)*

build inclusionary units on site may currently also propose payment of LIHF, or other forms of alternative compliance. (See note above – alternative compliance will be the subject of a future workshop).

A 2015 court case (*California Building Industry Association vs. City of San Jose*) determined that inclusionary programs for residential developments, and associated in-lieu fees are not subject to the same nexus study requirements as are required for impact fees pursuant to AB 1600. However, California State law requires local agencies to consider the financial impact of inclusionary programs and in-lieu fees on the feasibility of residential projects. Even without this consideration, it is best practice to use a nexus study as guidance to determine the maximum fee that should be charged, and structure the fee program in light of this information.

As such, the City's 2018 nexus study established the maximum fee rates for the LIHF. Table 5 provided below summarizes the LIHF as of January 1, 2024, and for reference the 2018 maximum fee and actual fee adopted. As shown in the table, while the residential in-lieu fee was set at a rate very close to the maximum, the so-called "linkage fees" for commercial development reflect a deeply discounted rate. In deciding to set the fees well below the maximum for commercial development, the City Council recognized that charging the full amount would be prohibitive, and instead calibrated the fees to be similar to those charged at the time by the neighboring cities of Livermore and Dublin.

Table 5: Lower-Income Housing Fee Rates

Category	2018 Maximum Fee Rate	2018 Fee Rate Adopted	Percent of Maximum	2024 Rate, reflecting CPI adjustments
Single-Family (per unit>1,500 sq. ft.)*	$44,930	$44,248	98.5%	$52,203
Single-Family (per unit <1,500 sq. ft.)*	$44,930	$43,248	96.2%	$51,077
Multi-Family (per unit)*	$37,358	$43,293	115%	$51,077
Office (per sq. ft.)	$82.56	$7.61	9.2%	$8.98
Retail (per sq. ft.)	$211.08	$4.56	2.1%	$5.38
Industrial/Distribution (per sq.ft.)	$82.56	$12.64	15.3%	$14.91
Lodging (per sq. ft.)	$49.69	$3.15	6.3%	$3.71
* While the background information is not entirely clear, it appears that adopted fees differ slightly from the maximum fee rate stated in various agenda reports, based on slightly different assumptions around the "typical" single family and multi-family unit size, when the adopted fee was set. The fee study calculated maximum in-lieu fees between $28,431 and $75,857 per unit, for units ranging in size between 1,000 and 3,500 square feet.				

It is important to note that the LIHF, when charged in-lieu of building on-site units, is charged per market rate unit, not per inclusionary unit. This is illustrated in the example below, for a hypothetical 100-unit multi-family project:

Scenario A: Project provides on-site inclusionary units:
Inclusionary Requirement: 15% (15 low- or very-low income deed-restricted units built on site)
Affordable Housing Fees Paid: $0

Scenario B: Project opts to pay LIHF instead of building on-site:
Inclusionary Requirement: 15% (0 deed-restricted units built)
Affordable Housing Fees Paid: 100 x $51,077 = $5.08 Million

The City Council has expressed concern that the in-lieu fee rate does not adequately address the cost to construct affordable units, and that fees charged should match (or come close to meeting) that amount. While it is difficult to put a precise value on the project-specific cost to construct a unit (since that will vary significantly based on unit type, size, construction and land costs), and factor in the degree of subsidy needed to maintain the unit's affordability, the current fee falls well short of that value, particularly for single-family and townhome units.[3]

As a policy matter, there is a correlation between the value of the total fees paid, and the cost to construct the deed-restricted units. Specifically, the more closely aligned the amount of in-lieu fees paid, and the cost to construct the on-site affordable units, the less incentive a developer has to "fee out" of the on-site inclusionary requirement.

However, if the City increases both the inclusionary rate and the corresponding in-lieu fee, it could place significant additional financial cost burdens on a project, potentially affecting financial feasibility to the point where the project cannot be built at all. On the other hand, if the in-lieu fee continues to reflect a substantial discount, then developers have little incentive to build units on site. Thus, ideally, the inclusionary rate and the corresponding in-lieu fee should be set at levels that meet the City's housing policy goals, do not unduly affect project feasibility, and are as closely aligned in terms of the cost to the developer as possible.

Sewer and Water Connection Fee

The sewer and water connection fees support the City's enterprise funds and cover the developer's "fair share" of cost for infrastructure improvements to the systems to meet future demands based on population growth. An update of the water and sewer connection fees is needed to bring those fees in line with current system, system improvements needed to accommodate growth, and the projected cost of those improvements.

[3] For example, assuming that a housing unit costs $750,000 to construct, then the same 15 units not constructed in the hypothetical 100-unit project would cost 15 x $750,000 or $11.25 Million to build. Some proportion of this would be recouped through sale or rental of the unit but is nonetheless substantially greater than the roughly $5 Millon collected in LIHF in the project example.

Water connection fees vary based on the required capacity (flow) and are charged on the equivalent water meter size with the single-family home (5/8” meter) as the primary unit. Sewer connection fees for residential are generally charged per unit while commercial units are generally charged by per square foot; because industrial uses can have widely different sewer flows based on the nature of the use, sewer fees are charged based on the expected strength[4] and volume (flow) of sewage.

The sewer and water connection fee studies currently underway are based on the hydraulic capacity analysis recently completed by Woodward and Curran for the sewer system, and Akel Engineering for the water system. The hydraulic analysis is part of the larger management plans being developed for each utility that will provide a more comprehensive analysis of all aspects of the systems and their costs and will be the basis for the next connection fee study update. The hydraulic capacity analysis is founded on a modeling of the City’s system based on land use and population projections and identifies the necessary infrastructure projects to address current and forecasted infrastructure deficiencies.

The general steps in calculating connection fees are:

- Determine the value of backbone facilities (existing or future growth-related)
- Estimate current system capacity or level of service
- Calculate the unit cost of capacity
- Determine customer service level demand characteristics
- Apply unit cost of capacity to customer’s demand characteristics

Water backbone facilities include major infrastructure such as the City’s wells, turnouts, water mains, storage, and pumping facilities. Sewer backbone facilities include pump stations, manholes and piping. The level of service is defined as the relationship between the service capacity and the service demand. In other words, the service capacity is the capacity of the system, and the service demand is the requirement to serve new development.

There are three generally accepted methodologies for calculating connection fees; each method is designed to recover the cost of capacity to serve new development. The three methodologies include buy-in (if there is additional capacity to accommodate new growth), incremental (need to build capacity to serve new growth), and hybrid (mixed between the two).

The incremental method is recommended based on the hydraulic models that identified there is limited capacity in portions of the City’s networks to support future growth. The costs for the necessary long-term expansion projects developed as part of the modeling projects align best with incremental method.

In addition to the City’s connection fees, DSRSD and Zone 7 levy connection fees to address development’s impacts to the regional infrastructure for the wastewater

[4] “Strength” refers to the amount of treatment required to treat the water – with “dirtier” water (e.g. wastewater discharge with significant amounts of fats, oils and grease) having higher treatment costs.

treatment (wastewater treatment plant and pipes) and regional water supply (water treatment plant, wells, and transmission mains). Under existing agreements, the City collects these fees on behalf of DSRSD and Zone 7 and remits them to each agency.

Impact Fee Nexus Study – Initial Findings

The updated impact fees, when adopted, must be supported by a nexus study that incorporates:

- An estimate of projected growth, including both resident population growth and employment growth, together described as the "service population." The nexus study includes an estimated growth in the service population of approximately 29,000, or 29.4% of the existing service population.

- A summary of new and expanded facilities that will be needed to accommodate the demand generated by the new service population, and the estimated costs of those facilities.

    - For the Capital Facilities Fee, this includes facilities such as City administrative building and public works facilities (e.g., equipment yards), public safety facilities, community buildings, City fleet vehicles and motorized equipment, and parks and trails. It is the general premise of the study that new and expanded facilities will be provided at a similar ratio or service level per capita as exists today (e.g., the amount of parkland per capita, square footage of recreational and community facilities) and will increase proportionately to new population.

    - For the Transportation Impact Fee, new and expanded roads and intersections, traffic signals, pedestrian and bicycle facilities and similar improvements based on buildout traffic volumes in the City's traffic model and proportionate increases in demand for new and enhanced multi-modal transportation facilities.

    - For the Sewer and Water connection Fees, new and expanded infrastructure including pipes, manholes, pump stations and water storage tanks consistent with increased sewer and water system flows and demands associated with the increased service population.

Table 6, below, summarizes the facilities and costs initially identified to maintain existing service levels and/or featured in various City plans and studies.

The total preliminary cost of the Capital Facilities, with adjustment to reflect the share attributed to new development is approximately $329 million; the preliminary cost of new and expanded transportation facilities and attributed to new development is approximately $284.16 million. This amount is substantially higher than the costs estimated in 2018 for several reasons:

- The previous study was project based and focused solely on the Capital Improvement Program (CIP) and future City facilities needs identified at the time the study was prepared – this reflected a more limited scope of projects;

- The service-based model is more comprehensive in capturing expanded needs across the entire city – for example, reflecting new fleet vehicles and equipment, public works yard space, and space to accommodate City governmental functions, among other elements;

- Several of the City's master plans have been updated since 2018, including the Trails System Master Plan, Climate Action Plan, Downtown Specific Plan, LPFD Strategic Plan, and Capital Facilities 10-year State of Good Repair estimates. All of these updates have provided more refined costs and, generally speaking, a more expansive list of projects to meet community needs; and

- Construction costs for projects have escalated substantially since the prior study. The Engineers News Record for San Francisco Construction Price Index from 2017 to 2024 has increased 32% (4.5% annually on average) which is above the historical averages of 2.5-3% since the early 1990s.

Table 6: Preliminary Estimates of Future Facilities Costs

Fee Category	**Facilities Addressed**	**2024 Preliminary Nexus Study Estimates**		**2018 Nexus Study**	
		Cost Allocated to New Development	%	Cost Allocated to New Development	%
Capital Facilities	General Government, Public Works, Library and Recreation, Parks and Trails, Police, Fire	$329,033,000	54%	$69,754,000	31%
Transportation	Roads, intersections, signal improvements, pedestrian and bicycle facilities	$284,115,400	46%	$153,575,900	69%
	TOTAL	$613,148,400	100%	$223,329,900	100%

It is noted that, while the impact fee study references both existing service levels (and standards, where defined), and looks to City facilities master plans and studies and the 5-year Capital Improvement Program as a basis for determining both the array of facilities and their costs, the impact fee study does not incorporate a detailed list of facilities and projects that may be funded with impact fees. Although it is expected the vast majority of projects funded with DIF will be those included in the City's prioritized capital projects lists, this approach provides flexibility to the City in future years to add or re-prioritize projects, without being bound by a static, prescribed project list.

Initial Estimates – Development Impact Fees
While staff, EPS and Raftelis are continuing to refine the facilities list and water and sewer studies and cost estimates, initial estimates suggest that the maximum fee supportable based on the nexus study would reflect a significant increase from the current rate. Tables 7 through 9 below, provide those initial/preliminary estimates:

Table 7: Capital Facilities and Transportation Impact Fees – Preliminary Estimated Fee Maximums

	2024 Update – Maximum Allowable	Current Fee	
		Amount	% Change from Current
Single-Family (per unit)	$51,700	$32,122	61%
Multi-Family (per unit)	$35,000	$21,751	61%
Office (per sq. ft.)	$42	$21	100%
Retail (per sq. ft.)	$55	$29	91%
Research/Development (per sq. ft.)	$33	$13	143%
Industrial/Distribution (per sq. ft.)	$22	$15	47%
Lodging (per room)	$13,800	%8,849	56%

Table 8: Water Connection Fees – Preliminary Estimated Fee Maximums

Meter Size [Meter Equivalent]	2024 Update – Maximum Allowable	Current Fee (last updated 1992)	
		Amount	% Change
5/8” [1] (single family)	$4,600	$1,200	383%
¾” [1.5]	$6,900	$1,800	383%
1” [2.5]	$11,500	$3,000	383%
1.5” [16]	$23,000	$6,000	383%

Table 9: Sewer Connection Fees – Preliminary Estimated Fee Maximums

	2024 Update – Maximum Allowable	Current Fee	
		Amount	% Change
Single-Family (per unit)	TBD	$500	TBD
Multi-Family (per unit)	TBD	$500	TBD

Preliminary sewer connection fees are not available but early analysis has identified the fees will adjust in the same order of magnitude of the water connection fees.

Commercial Linkage Fee for Affordable Housing
Table 10 provided below summarizes the estimated commercial linkage fee based on initial analysis. Unlike the in-lieu affordable housing fee (discussed in depth below), the Commercial Linkage fee uses a methodology that considers new demand for affordable housing generated by employment associated with commercial uses. Factors such as wage levels, employment densities, and the costs to provide housing at the affordability levels needed by those future employees are incorporated to arrive at the linkage fee.

As shown in the table, the maximum is quite significant – this is not an unusual outcome in these types of studies, and most communities choose to discount commercial linkage fees, as the City Council opted to do as part of the 2018 update.

Table 10: Commercial Linkage Fee – Estimated Fee Maximums

	2024 Update – Maximum Allowable	Current Fee	
		Amount	% Change
Commercial (per sq. ft.)	412.97	5.38	7576%
Lodging (per sq. ft)	41.19	3.71	1010%
Office (per sq. ft)	75.51	8.98	741%
Industrial (per sq. ft)	40.47	14.42	181%

Analysis of Modifications to Inclusionary Housing Rate and In-Lieu Fee Estimates
The City Council has expressed interest in various changes to the existing IZO including:

- Modifying the existing inclusionary rate, potentially to increase it above the current rate of 15% inclusionary for multi-family projects, and 20% for for-sale projects.
- Providing more specificity as to the affordability mix required among inclusionary units (i.e., the income levels at which units would be deed-restricted).
- Increasing the Affordable Housing Fee that is charged in-lieu of building units on site (whether for small residential projects and commercial developments exempt from the on-site inclusionary requirement), or that request to opt out of building units on-site.

All three of these changes have the potential to be more costly to new developments, whether reflected in more deed-restricted units required to be built on site, or an increased in-lieu fee. It is best practice, as well as a requirement of State law, to consider the effect of changes to the inclusionary program on project feasibility, and to ensure that the program does not have the unintended consequence of making market rate residential development financially infeasible.

It is noted that Pleasanton's IZO and inclusionary rates are structured around unit types (single-family and multi-family) versus tenure (for-sale or rental housing projects). Because tenure strongly influences the market-factors that relate to affordability, it is much more commonly used by cities in structuring their inclusionary programs. Among staff's recommendations for revisions to the IZO, is to modify the ordinance to use tenure (rental vs. for-sale) rather than unit type for the purposes of determining the inclusionary rate. For the purposes of the analysis outlined below, and to provide a comparison, it was assumed that under the existing IZO, most “single-family” projects are also ownership projects, and that most “multi-family" projects are also rental project.

Most cities’ programs include different affordability requirements for inclusionary units within rental and for-sale projects – primarily because of the relative differences between market-rate prices and affordable prices. In Pleasanton’s housing market, rents for deed-restricted rental units priced at the upper end of the moderate-income scale (above 100% AMI) often approach, or even exceed, market rents. Conversely, market-rate homes in Pleasanton sell at prices only affordable to households making well above 120% AMI, meaning that it can be beneficial from a policy perspective to offer deed-restricted units at the upper end of the moderate-income range, or even above the top end of that range, above 120% AMI. There are also practical/policy reasons – it may be difficult to find qualified buyers for housing units deed-restricted at very low income levels (50% AMI and low income levels (80% AMI), since they also need to qualify for mortgage financing.

Based on these considerations, to evaluate potential changes in inclusionary requirements and their effects on project feasibility, EPS developed four alternative scenarios for ownership housing projects, and three scenarios for rental housing projects, summarized in Tables 11 and 12 provided below, compared to the affordability mix currently included in the Objective Design Standards for Housing Element Sites.

EPS’ initial analysis only included scenarios that would retain or increase the existing inclusionary rate. However, after initial analysis indicated the 20% inclusionary rate for for-sale projects may be difficult for projects to meet and remain financially feasible, EPS modeled a scenario that would reduce the inclusionary rate from 20% to 15% (i.e., bringing it to the same level as specified for multi-family/rental projects), to determine the effect it would have on feasibility and in-lieu fee rates.

Table 11: For-Sale Projects: Alternative Inclusionary Scenarios

Scenario	Percentage Inclusionary	Affordability Mix	
Existing IZO/ODS	*20%*	*20% @ 100% AMI or 20% at 120% AMI*	
Scenario 1	15%	15% @ 120% AMI	
Scenario 2	20%	5% @ 100% AMI	15% @ 120% AMI
Scenario 3	20%	5% @ 80% AMI	15% @ 120% AMI
Scenario 4	25%	12.5% @ 120% AMI	12.5% @ 150% AMI

Table 12: Rental Projects: Alternative Inclusionary Scenarios

<table>
<tr><th>Scenario</th><th>Percent Inclusionary</th><th colspan="6">Affordability Mix</th></tr>
<tr><td>Existing IZO/ODS</td><td>15%</td><td colspan="2">3.75% @ 50% AMI</td><td colspan="2">3.75 % @ 60% AMI</td><td colspan="2">7.5% @ 80% AMI</td></tr>
<tr><td>Scenario 1</td><td>15%</td><td colspan="3">5% @ 50% AMI</td><td colspan="3">10% @ 60% AMI</td></tr>
<tr><td>Scenario 2</td><td>20%</td><td colspan="3">10% @ 60% AMI</td><td colspan="3">10% @ 80% AMI</td></tr>
<tr><td>Scenario 3</td><td>20%</td><td colspan="3">5% @ 50% AMI</td><td colspan="3">15% @ 80% AMI</td></tr>
</table>

Housing In-Lieu Fee Analysis

For each of the scenarios, EPS developed a calculation of the equivalent in-lieu fee that would need to be charged, per market-rate unit, to equate to the actual cost of constructing the number of units, at the specified affordability rates. The calculation factors in the cost of land, construction, City and outside agency fees and other typical development costs.

<u>Ownership Projects:</u> Table 13 summarizes the maximum in-lieu fee that could be charged, based on the inclusionary rates and affordability mix in each scenario.

Table 13: Maximum In-Lieu Fee per Market-Rate Unit - Ownership

	Existing In-Lieu Fee per unit	Fee based on Existing IZO Requirements	Scenario 1 (15%)	Scenario 2 (20%)	Scenario 3 (20%)	Scenario 4 (25%)
Single Family Detached	$52,203	$357,502	$268,127	$363,347	$369,187	$441,977
Townhome	$51,077	$125,621	$94,216	$131,026	$136,436	$142,222
Condo	$51,077	$122,428	$91,821	$127,293	$132,158	$140,177

As summarized in the table, for for-sale projects the hypothetical fee that could be charged on a <u>per-market-rate unit</u> basis to equate to the same cost to construct, for any scenario at or above a 20% inclusionary is between approximately $357,000 (under the existing 20% requirement) and $442,000 (with a 25% requirement). Reducing the inclusionary rate to 15% (assuming 120% AMI units) lowers the equivalent in-lieu fee to approximately $268,000, per market-rate unit – still a significant amount.

While other factors need to be considered with respect to feasibility, it is unlikely that new single-family development would be able to bear the cost to build, or to pay the equivalent in-lieu fees, and still be feasible.

There is less of a discrepancy between the existing and potential in-lieu fee for for-sale attached units such as townhomes and condominiums. For townhomes, the in-lieu fee per unit under the current 20% requirement is approximately $125,600 per unit; this amount is reduced to approximately $94,200 with a 15% requirement and increases to approximately $142,200 with a 25% inclusionary rate. For condominiums, this value ranges from approximately $122,400 per unit (current inclusionary rate and mix), to $140,177 at a 25% rate; reducing the inclusionary rate to 15% lowers the cost to about $91,800 per unit.

As noted above, because the costs and equivalent in-lieu fees are so substantial for for-sale projects under even the current 20% inclusionary rate, EPS modeled an alternative scenario that would set the inclusionary rate for ownership single-family homes, townhomes, and condos at the same 15% rate as rental multi-family units (Scenario 1). While still substantial, reducing the inclusionary rate would allow the in-lieu fee to be set closer to the actual cost of providing the units, encouraging more projects to build on site and potentially yielding more inclusionary units.[5]

Rental Projects: Table 14 summarizes the hypothetical in-lieu fee rate per project, for rental projects under each inclusionary scenario, and for two different multi-family product types – a wrap-style building (comprising units "wrapped" around a central parking core), and a podium style building (units built on top of parking deck(s)), with the latter being somewhat more expensive to construct.

Table 14: Maximum In-Lieu Fee - Rental

	Existing In-Lieu Fee	**Max. Fee Based on Existing Requirements**	**Scenario 1 (15%)**	**Scenario 2 (20%)**	**Scenario 3 (20%)**
Multi-Family Apartment (Wrap)	$51,077	$46,802	$52,872	$54,969	$53,207
Multi-Family Apartment (Podium)	$51,077	$54,480	$62,468	$64,565	$60,405

The difference in hypothetical rate under any of the three scenarios modeled ranges from $46,802 (wrap) to $54,480 (podium) under the current inclusionary rate and affordability mix, to between $54,969 (wrap) to $64,565 (podium) under Scenario 2. Scenario 3 also reflects a 20% affordable rate, but with a slightly less deep affordability mix, so a lower resultant cost.

Compared to the existing multi-family in-lieu fee of $51,077 per unit, these increases are much more modest, in part because the difference between affordable and market-rate rents is less pronounced as compared to for-sale units (i.e., the degree of subsidy is lower), and because the subsidy for the affordable units is typically spread among a larger total number of units in the project. However, as described in more detail below, multi-family residential / rental development is financially challenged in the current

[5] It is noted that most attached units, whether for-sale or rental, and whether apartments, condominiums or townhomes are constructed as multiple units on a single parcel of land. In other words, many for-sale townhome projects are already subject to a 15% inclusionary rate, so the policy shift is less significant than it may appear to be at first glance.

economy, and even small increases in the inclusionary rate or fee may be difficult to support.

Development Feasibility Analysis

It is important to consider the effect of City-imposed fees on development feasibility, and particularly whether fees will create an impediment to development that could limit housing production, discourage new commercial investment that supports job creation, and limit development that can contribute to a sustainable and growing sales tax and property tax base.

To evaluate this question, EPS conducted an initial feasibility assessment for various types of development, using three different benchmarks or indicators:

1. An evaluation of the costs to develop residential units, versus the market-rate sales price/rental cost of units in a project.

2. An evaluation of typical rates of return for ownership and rental projects and the effects that increased inclusionary requirements and/or fees might have on those returns.

3. A comparative analysis of impact fees charged in Pleasanton, versus peer communities – both as a dollar amount, and as a percentage of project value.

Note that the analysis focuses most heavily on residential development, since development costs tied to inclusionary requirements are a significant factor in this workshop's discussion. However, for reference, data has been provided for a typical non-residential (office) project, so a similar evaluation can be made for commercial uses.

The analysis was based on generalized assumptions that reflect typical or average conditions; in reality, every project is different in terms of site improvement and acquisition cost, development costs, achievable rents / prices, and other factors. The results of this analysis are summarized below:

Indicator 1: Evaluation of Cost to Develop versus Market-Rate Sales Price/Rental Cost

This indicator helps to define the potential capacity for market-rate development to absorb additional costs in the form of increased impact fees or inclusionary requirements, by calculating the cost to develop or build a unit, versus the sales or rental price.[6]

For residential development, the analysis indicates there is some capacity to increase overall fee burden for ownership products, particularly detached single-family homes and townhomes. Based on the assumed cost inputs, for single-family homes, there is estimated capacity for fees or other development costs to be increased in the range of $215,000 per unit; for townhomes, approximately $96,000 per unit; and condos approximately $88,000 per unit. It is important to note that these figures provide broad

[6] Includes costs such as land, construction, soft costs, and fees, including regional connection fees, such as those levied by PUSD, Zone 7 and DSRSD, at the rates reflected in those agencies' Master Fee Schedules.

guidance only – cost factors may vary substantially within an actual project and are subject to change over time. (See Attachment 2, Figure 1)

For rental products, under current economic conditions, the cost to develop, exclusive of fees comes much closer to meeting the return that can be expected from market rents, meaning there is limited capacity to absorb additional fees. (See Attachment 2, Figure 2)

Indicator 2: Project Rates of Return
This indicator evaluates project feasibility based on a developer's expected return on cost (12% for-sale projects), or yield on cost (5.5% for rental projects). The return-on-cost and yield-on-cost metrics are established based on industry standards and take account of the margin and return on investment a developer will typically expect to see when making a decision to invest in a project. If the return-on-cost or yield-on-cost falls below the threshold, it is unlikely that a developer would choose to move forward with a project. (See Attachment 2, Figures 3 and 4)

The analysis suggests that for single-family homes, it would be infeasible to increase the inclusionary rate (assuming units are produced on site) without pushing expected returns below the threshold of feasibility; and, even reducing the inclusionary rate to 15% results in returns on cost that are somewhat below the margin of feasibility, particularly for Single-Family Detached projects. However, the analysis also suggests that the current in-lieu fee rate per unit could be increased by some degree, and projects would still remain feasible. With respect to the inclusionary rate for single family detached, the analysis conservatively assumes that the on-site affordable unit would be the same type and size as the market rate unit. If the City's IZO permits smaller or different unit types to be proposed to meet the inclusionary requirements (e.g., apartments, duets or townhomes vs. detached SFRs), then the margin of feasibility would improve.

For ownership townhomes, there is also room to increase the in-lieu fee rate, but in all scenarios, the 20% inclusionary requirement is highly infeasible, improving slightly for the 15% scenario. The same conclusion is true for multifamily condominium projects.

For rental housing projects, there is no apparent room for either an increase in inclusionary rates, or in-lieu fees, under current market conditions, with yield-on-cost currently falling well below the 5% expected developer return to be considered feasible.

Indicator 3: Comparison to Peer Jurisdictions
EPS conducted a comparison of Pleasanton's fees on a per unit basis compared to those of six nearby peer jurisdictions including Dublin, Livermore, Danville, San Ramon, Fremont, and Walnut Creek, for a prototypical single-family project, and prototypical multi-family project.[7] A similar analysis was completed for a prototypical office project. (See Attachment 2, Figures 5, 6 and 7)

[7] Single Family Prototype: 3,000 sq. ft. detached single-family unit
Multi-Family Prototype: 800 sq. ft. apartment

It is noted that comparing fees across jurisdictions can be challenging, because different communities charge different types of fees, and account for facilities differently within those fee categories. Several of the peer communities surveyed also charge fees on a per square foot basis, rather than a per unit basis. However, EPS made a best effort to equalize these factors in order to provide an “apples to apples” comparison. To further provide a consistent analysis and take account of the full burden of fees charged by each jurisdiction, EPS looked not just at local impact fees, affordable housing fees, and connection fees, but also fees charged by regional and other non-City agencies.

Residential: For single family developments, Pleasanton’s total fee burden, including local, regional, and outside agency fees, is approximately $228,800 per unit; this is comparable to Livermore ($231,600), but substantially above San Ramon ($157,000). Dublin and Danville have higher fees than Pleasanton in this category, particularly with respect to affordable housing fees, suggesting Pleasanton is discounting these fees for single family to some degree. It is noted that Pleasanton, Dublin, and Livermore’s fees all include a high proportion of regional fees. In a secondary analysis that isolates local fees only, Pleasanton’s local fees are slightly lower than Livermore’s, but above Dublin and San Ramon. Danville, Fremont, and Walnut Creek all have local fees on the lower end of the range among the peer cities.

The picture is somewhat different for multi-family development. While Pleasanton’s fees are relatively comparable to Dublin and Livermore (although, Livermore’s are higher than Pleasanton), Pleasanton (and Dublin and Livermore) charges fees at rates considerably higher than Danville, Fremont, San Ramon, or Walnut Creek. The largest proportion of Pleasanton, Dublin and Livermore’s fees is the cost to meet inclusionary housing requirements. Isolating local fees, Livermore charges the most for multi-family development, followed by Pleasanton and then San Ramon; Walnut Creek and Fremont charge somewhat lower rates, and Danville the least of all the peer cities.

As a further data point, because of the substantial difference between jurisdictions for multi-family fee rates, EPS provided a comparison of the total fee burden (local and regional fees) as a “percentage of value” for multi-family projects. This metric helps to provide a benchmark across jurisdictions that considers how much units may sell for in their specific local markets. In this analysis, Pleasanton’s multi-family fees represent approximately 20% of the value of a unit when it’s sold, with Livermore (32%) and San Ramon (23%) having higher fees as a percentage of value. Walnut Creek (10%), Danville (5%) and Fremont (14%) have lower fees as a percentage of value, suggesting that these communities will prove to be more attractive locations for multi-family development.

Commercial: For commercial development, Pleasanton’s fees per 1,000 square feet of office development are approximately $48,900, which is on a par with Livermore ($49,700) and San Ramon ($43,900). Dublin ($27,600), Danville ($25,200), and Fremont ($15,900) are approximately half, or less, than Pleasanton’s fees.

Inclusionary Rates and Programs: For reference, Pleasanton’s current inclusionary rates and programs, compared to those of other jurisdictions, are summarized in Attachment 2, Figures 8 and 9. For ownership projects, Pleasanton’s 20% inclusionary rate is the highest among the peer jurisdictions; the City's $52,023 in-lieu fee per unit is above Dublin ($30,141) and San Ramon ($47,100); but well below that charged in Livermore ($119,820) and Fremont ($132,000).

For rental projects, Pleasanton's 15% inclusionary rate is on a par with several peer cities, including Danville, Livermore, and San Ramon. Dublin (12.5%), Fremont (10%) and Walnut Creek (10% or 6%) are on the lower end among peer cities. Pleasanton's multi-family in-lieu fee is the highest among the peer cities at $51,077 per unit, followed by Dublin at $30,141 per unit. Fremont, San Ramon, and Walnut Creek each have considerably lower fees.

Attachments:

A. Current Sewer and Water Connection Fee Rates
B. Figures 1 through 9, Development Feasibility and Comparative Analysis

1992 City Council Adopted Full Fee

Category Meter Size [Meter Equivalent]	1992 Maximum Fee Rate	1992 Fee Rate Adopted	Percent of Maximum	Estimated 2024 Rate CPI adjustments
5/8” [1] (typ. single family)	$1,200	$1,200	100%	$2,952
¾ [1.5]	$1,800	$1,800	100%	$4,428
1” [2.5]	$3,000	$3,000	100%	$7,380
1.5” [16]	$6,000	$6,000	100%	$14,760
2	$9,600	$9,600	100%	$23,616
3	$21,000	$21,000	100%	$51,660
4	$60,000	$60,000	100%	$147,600
6	$120,000	$120,000	100%	$296,400
8	$210,000	$210,000	100%	$516,600
10	$330,000	$330,000	100%	$811,800

2024 City Water Connection Fees

For each single family house, or any other use that is determined by the City Engineer or the Engineer's duly appointed representative to have a water demand equivalent to that of a single-family house, for normal domestic-type water uses only, there shall be a connection fee charged for each service connection as indicated in the following table. This shall be the minimum charge for all uses. For all other uses, for each service connection, a charge shall be made as established in the following table depending on the size of the meter required for that service connection as determined by the City Engineer or his duly appointed representative.

Amounts DO NOT include water meter installation fees, which are revised periodically based on current costs for labor & materials as authorized in Section B "Water Meter & Installation Fees".	Meter Size	N. Pleasanton Improvement Dist 2B	All Other Service Connections
	5/8 inch (displacement type)	$460	$1,200
	3/4 inch (displacement type)	$690	$1,800
	1 inch (displacement type)	$1,150	$3,000
	1.5 inch (displacement type)	$2,300	$6,000
	2" (displacement type)	$3,680	$9,600
	2" Mueller MVR	$5,290	$13,800
	2" (OMNI C2)	$7,360	$19,200
	3 inch (OMNI C2)	$8,050	$21,000
	4 inch (OMNI C2)	$23,000	$60,000
	6 inch (OMNI C2)	$46,000	$120,000
	8 inch (OMNI C2)	$80,500	$210,000
	10 inch (OMNI C2)	$126,500	$330,000

For any larger service connection, the City Engineer or his duly appointed representative will determine the charge; or a battery of meters may be used at the City Engineer's option.

Any change in use or addition requiring greater capacity will require the payment of additional fees at the rates established herein as a condition of continued service.

2024 City Sewer Connection Fees

		Pleasanton Local Fee	Regional-DSRSD [(2)] effective 7/1/22
RESIDENTIAL			
Single Family Dwelling Unit	per house	$500.00	$15,021.00
Auxiliary (Secondary) Dwelling Unit	per Square Foot	$2.00	$9.61
Townhome, Townhouse, Duet, Duplex	*per unit*	$500.00	$15,021.00
Condominium	*per unit*	$375.00	$11,266.00
Apartment, Mobile Home	*per unit*	$330.00	$9,914.00
REGULAR (low strength wastewater)			
Auditoriums	*per seat*	$4.55	$148.84
Auto body shops/ Auto dealers	*per square foot*	$0.25	$8.19
Banks, Financial Offices	*per square foot*	$0.14	$4.47
Barber shops/ Beauty shops	*per square foot*	$0.68	$22.33
Bars, Cocktail lounges, taverns (w/o dining)	*per square foot*	$0.80	$26.05
Bowling alleys	*per square foot*	$0.70	$23.07
Car washes	*per square foot*	$3.86	$126.51
Churches	*per seat*	$11.36	$372.10
Delicatessen	*per square foot*	$1.61	$52.84
Dental Clinic	*per square foot*	$2.05	$10.42
Dry Cleaners	*per square foot*	$1.02	$33.49
Gas Stations	*per square foot*	$1.07	$34.98
General Retail/ Commercial	*per square foot*	$0.11	$3.72
Gyms, Health Clubs	*per square foot*	$0.95	$31.26
Hospital	*per bed*	$568.18	$18,604.78
Hotels, Motels (no dining facilities)	*per room*	$295.45	$9,674.48
Institutional (Resident)	*per bed*	$227.27	$7,441.91
Laundries, coin-operated	*per machine*	$295.45	$9,674.48
Laundries, full service (commercial)	*per square foot*	$2.27	$74.42
Market - Dry Goods	*per square foot*	$0.43	$14.14
Medical Clinic	*per square foot*	$0.84	$27.54
Medical/ Dental Complex	*per square foot*	$0.50	$16.37
Office Buildings	*per square foot*	$0.11	$3.72

				Pleasanton Local Fee	Regional-DSRSD (2) effective 7/1/22
REGULAR (low strength wastewater) continued					
	Parks/ Rec				
		Country Club	*per person*	$159.09	$5,209.34
		Picnic Park	*per person*	$22.73	$744.19
		Pool	*per person*	$22.73	$744.19
		Tennis Courts, w/ toilet & shower	*per court*	$227.27	$7,441.91
	Plant Nursery		*per square foot*	$0.18	$5.95
	Printers		*per square foot*	$0.32	$10.42
	Public Agencies		*per square foot*	$0.11	$3.72
	Recreational vehicle R.V. Park		*per RV*	$272.72	$8,930.29
	Schools (excluding cafeteria)				
		W/o showers	*per student*	$34.09	$1,116.29
		With showers	*per student*	$45.45	$1,488.38
	Theaters		*per seat*	$4.55	$148.84
	Veterinary Hospital		*per square foot*	$0.77	$25.30
	Warehouse/distribution		*per square foot*	$0.07	$2.23
REGULAR (medium strength wastewater)					
	Banquet Facilities - intermittent use		*per square foot*	$0.61	$22.03
	Business with cafeteria		*per square foot*	$1.36	$47.06
	Cafeteria		*per square foot*	$1.23	$44.05
	Hotels/Motels with dining facilities		*per square foot*	$1.36	$47.06
	Restaurant, Fast Food		*per square foot*	$1.36	$47.06
	Restaurant, Full Service		*per square foot*	$1.23	$44.05
	School with cafeteria		*per square foot*	$1.36	$47.06
REGULAR (high strength wastewater)					
	Bakeries/ Donut Shops/ Ice Cream Shops		*per square foot*	$1.41	$54.45
	Car washes w/ steam cleaning		*per square foot*	$0.91	$161.01
	Markets with garbage disposals		*per square foot*	$3.86	$16.43
	Mortuaries		*per square foot*	$0.43	$7.78
INDUSTRIAL (other):					
	All other non-residential users or special use (users with above-normal discharge of flow, BOD, and SS) shall be assessed a connection fee on a case-by-case basis based on average day peak month flow, BOD, and SS to be discharged to the sewer system as follows:				

	Wastewater Flow	*gallons per day*	n/a	$69.41
	BOD (Biochemical Oxygen Demand)	*lbs per day*	n/a	$1,678.06
	SS (Suspended Solids)	*lbs per day*	n/a	$883.01

Applies to residential development in Ruby Hills. This fee is collected in lieu of the DSRSD regional connection fee for the City of Livermore in accordance with the Ruby Hills Sewer Agreement	
per single-family residential unit	$4,633.70

* City of Livermore council may, by resolution, adjust the fee schedule, including flow factors, from time to time. Once the fee is established, it shall automatically be increased annually based upon the Engineering News Record (ENR) 20-City Construction Cost Index (CCI). In calculating the adjustment, the rate (in each use category, including the flow, BOD and SS costs) for the base year is multiplied by the index for the then-current, divided by the base year index.

City of Livermore adjusted this fee for ENR-CCI effective 1/1/11

Res 19-1102	Existing Home Including Service Lateral Cost	$17,983.00
	Existing Home Excluding Service Lateral Cost	$14,716.00
	New Home Including Service Lateral Cost	$32,552.00
	Annual 4.5% interest rate adjustment	

ATTACHMENT B: FIGURES

FIGURE 1

EXISTING FEE CAPACITY

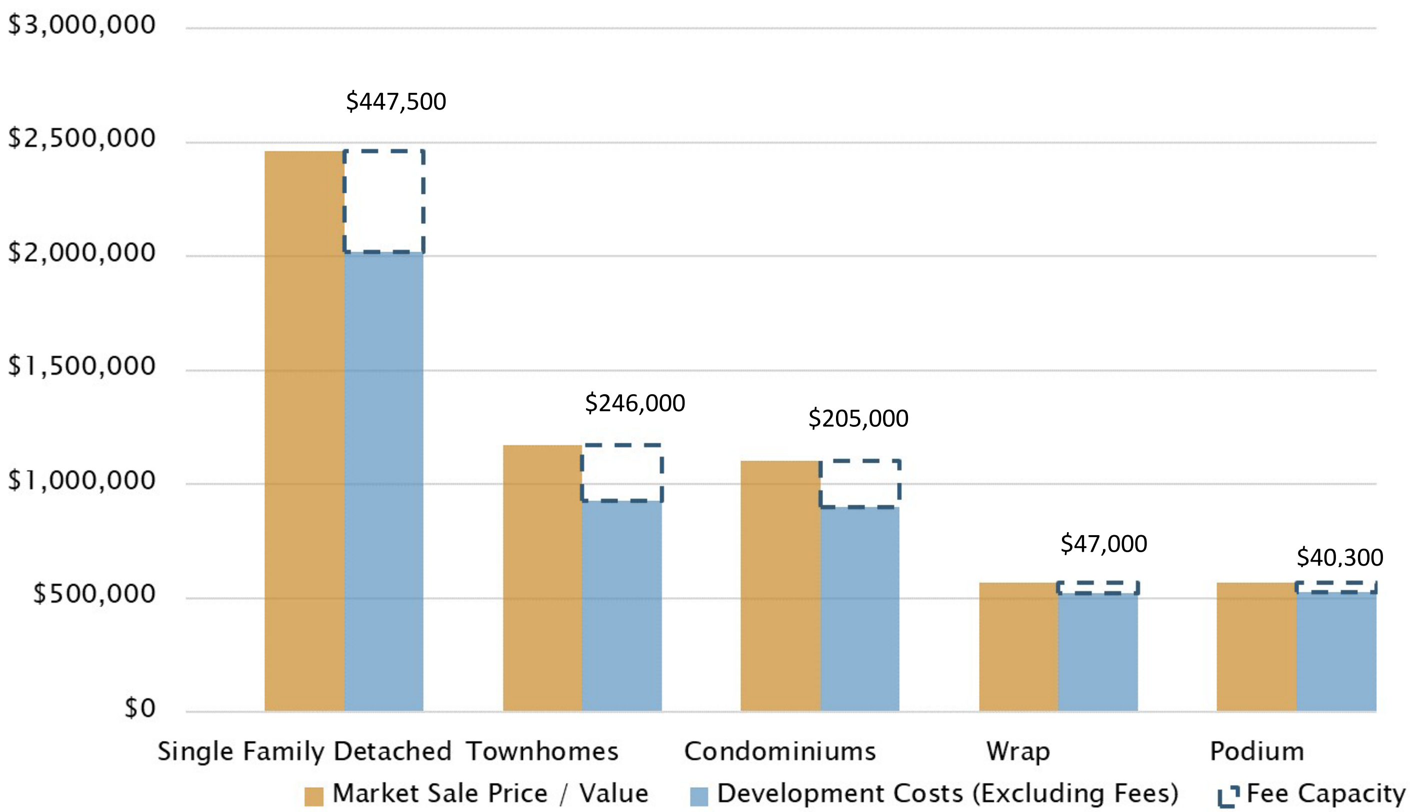


FIGURE 2

EXISTING FEE CAPACITY PER UNIT– CURRENT FEES

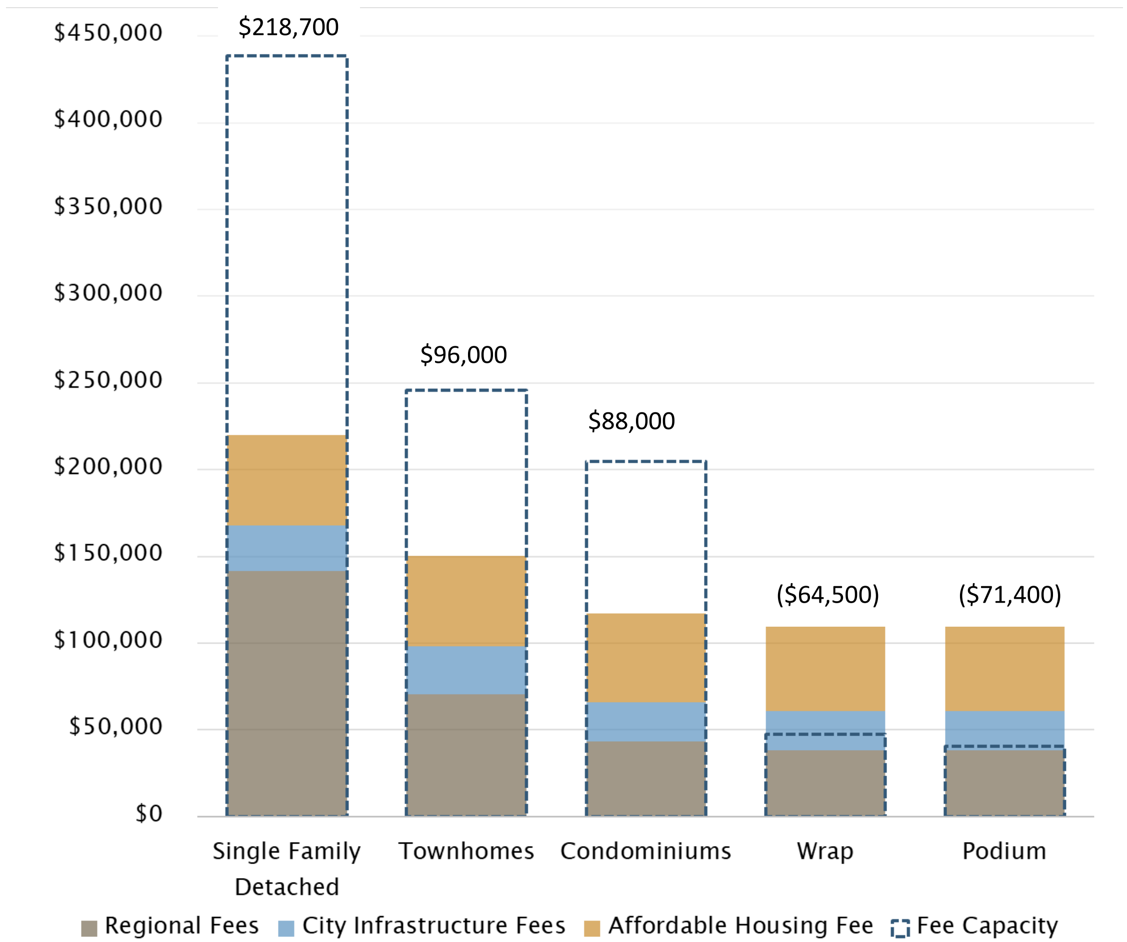


FIGURE 3

FEASIBILITY ANALYSIS – OWNERSHIP

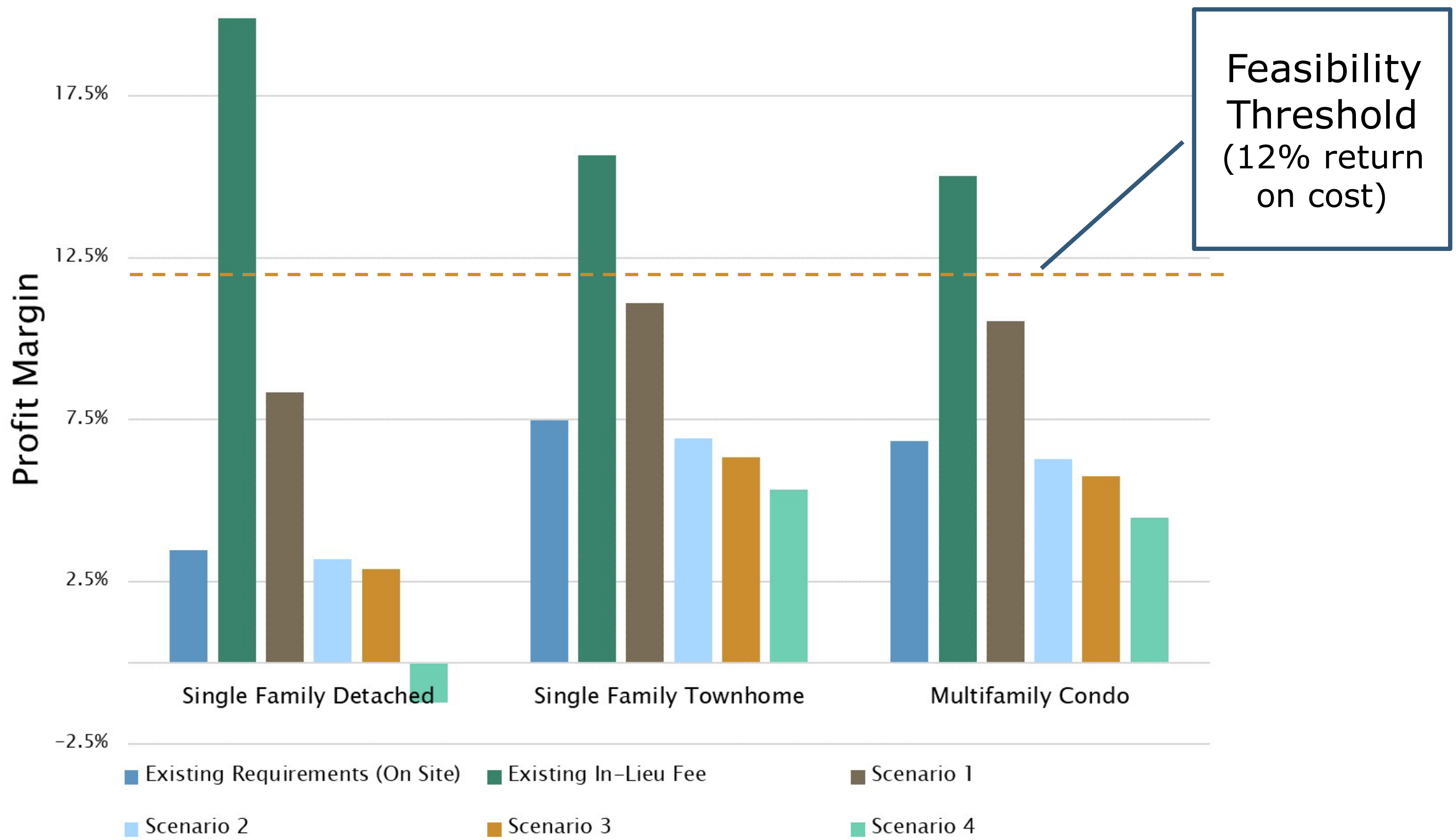
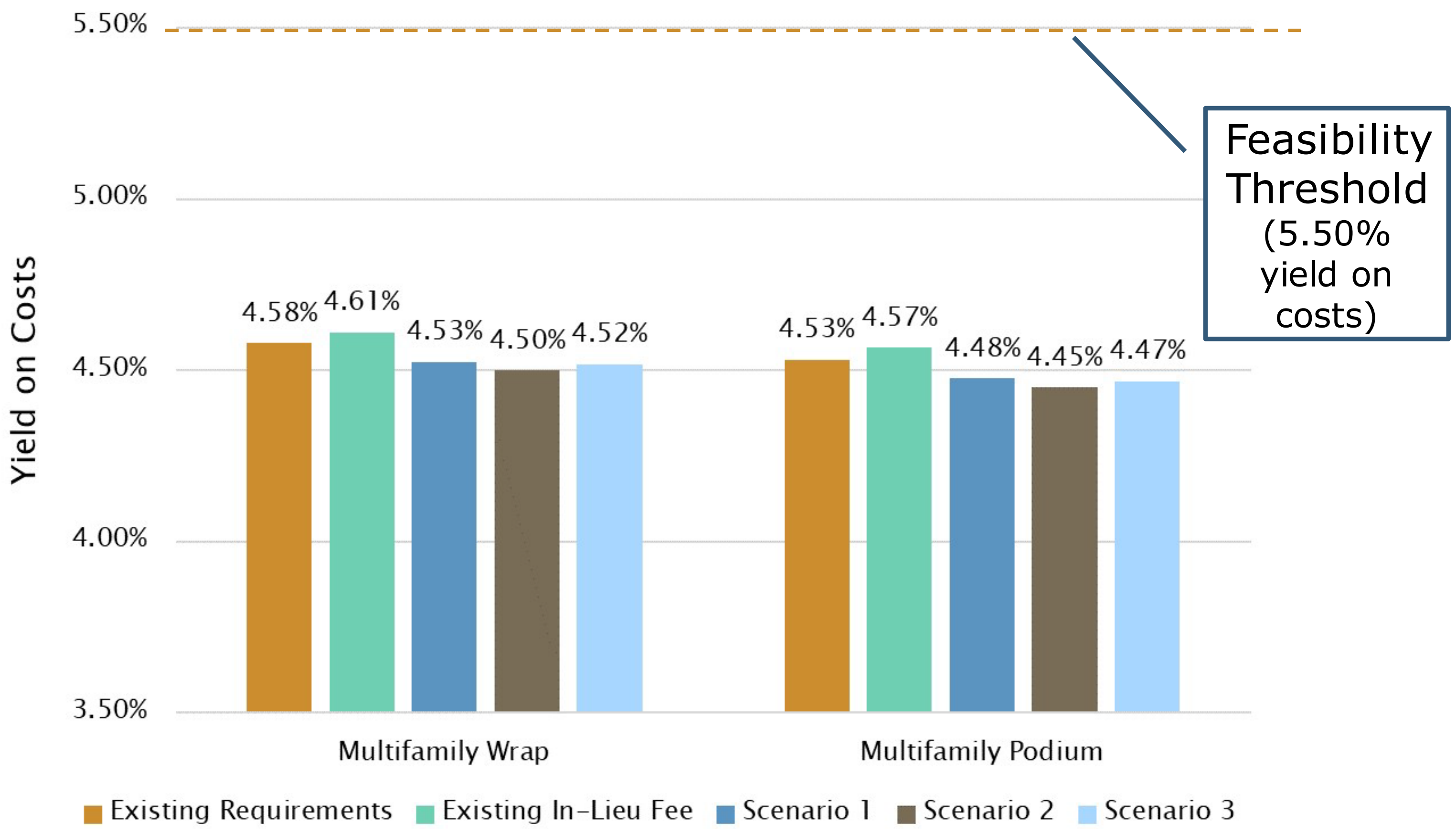
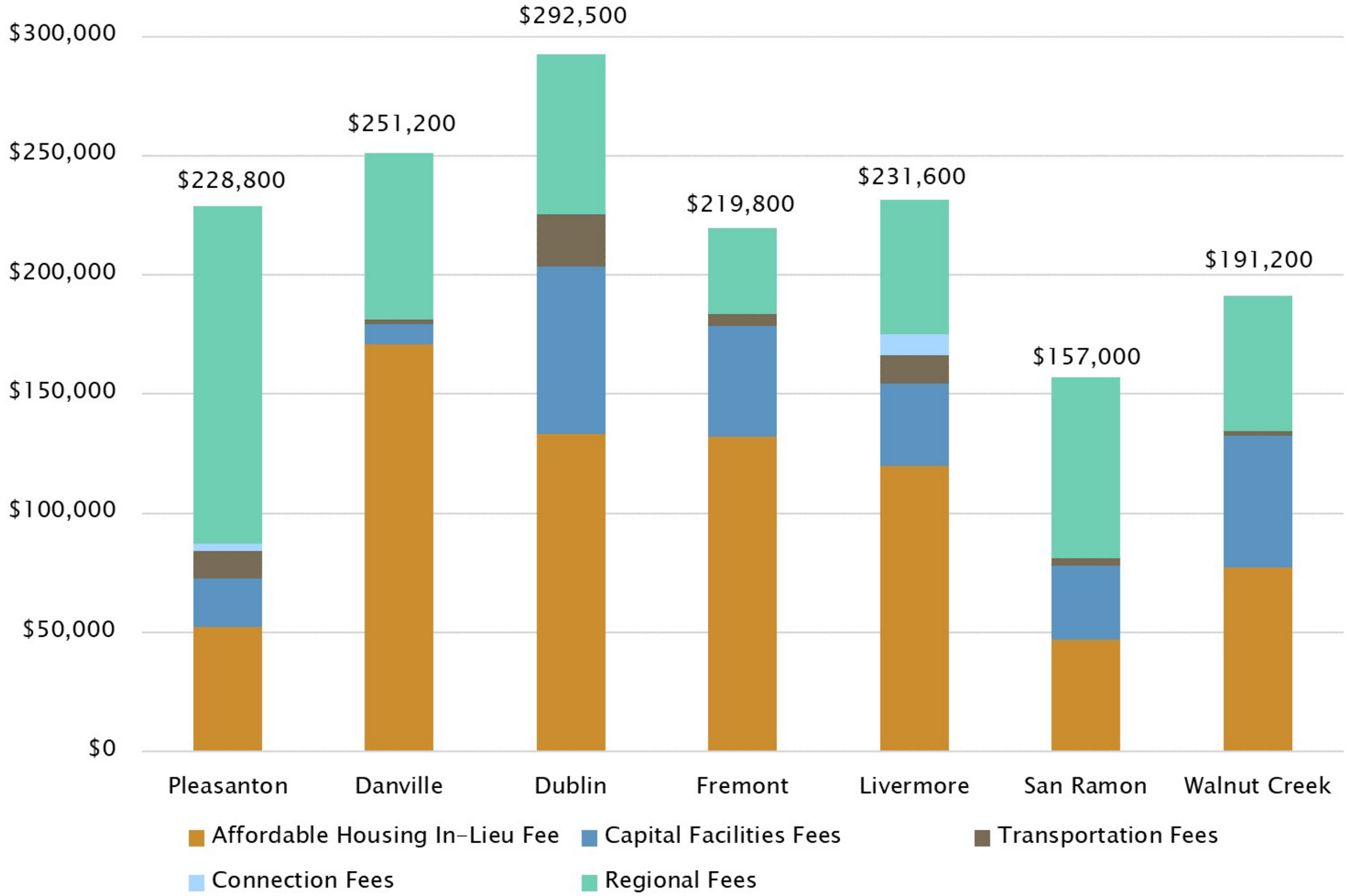


FIGURE 4

FEASIBILITY ANALYSIS – RENTAL



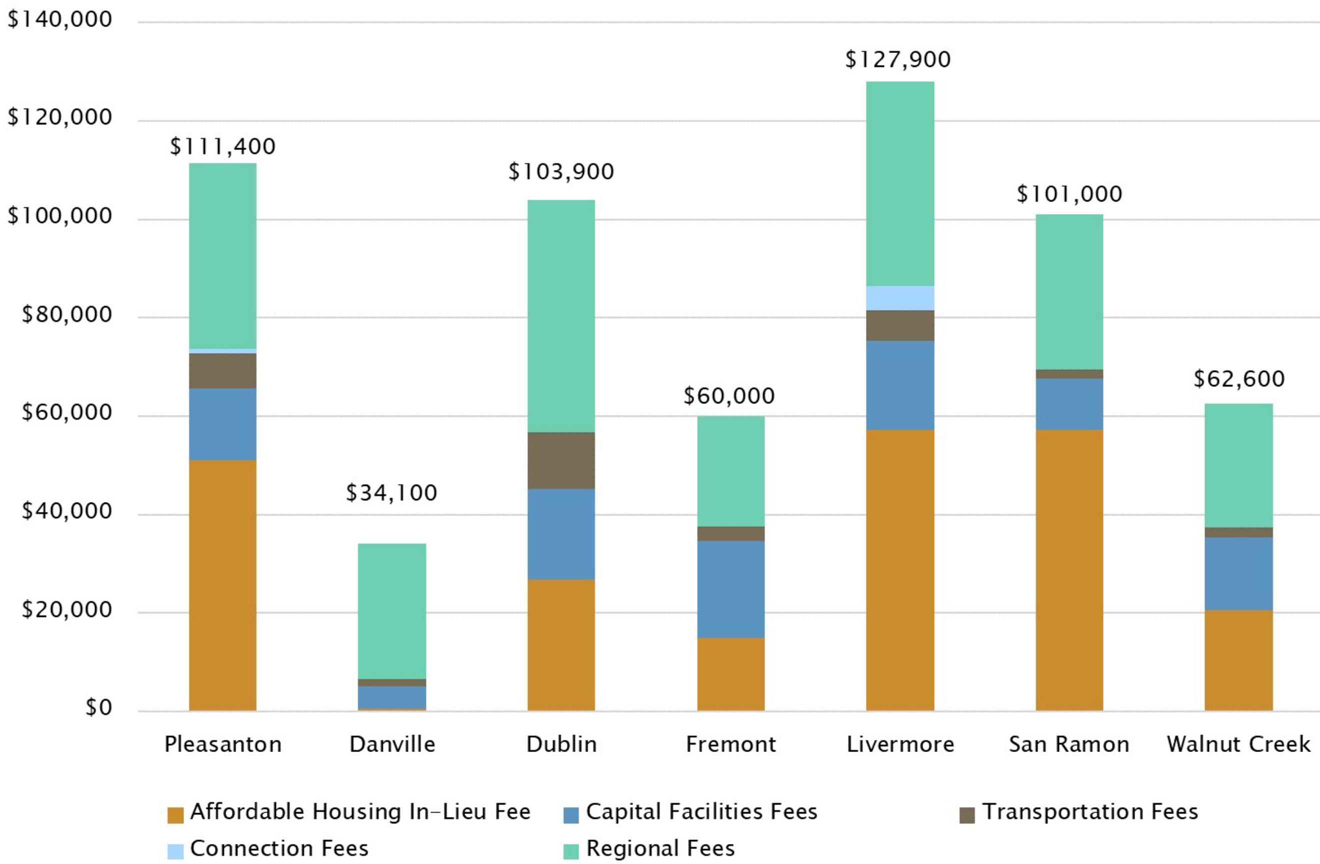
FEE COMPARISONS: SINGLE FAMILY PER UNIT



*Actual Fees will differ based on factors such as site location, unit size etc.

FIGURE 6

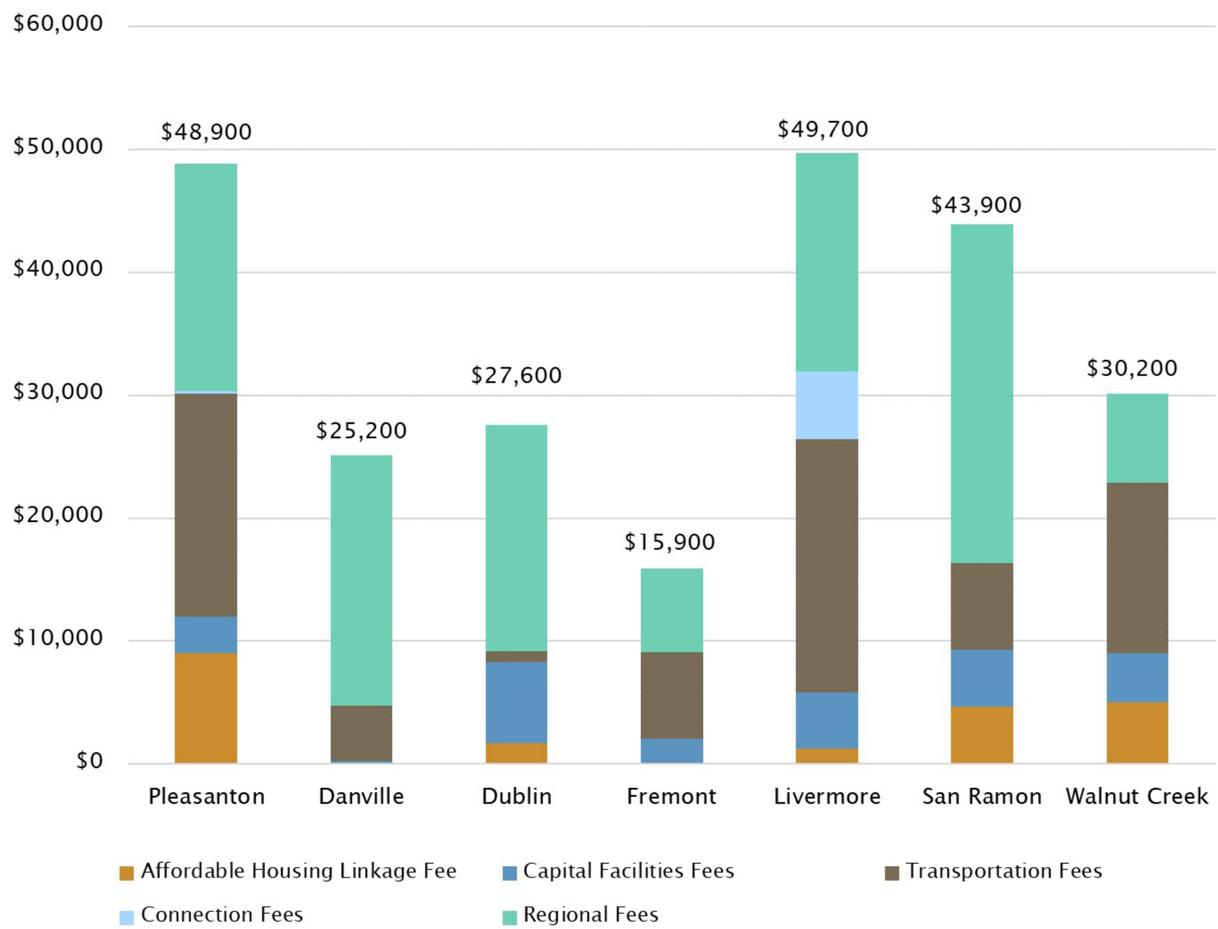
FEE COMPARISONS: MULTIFAMILY PER UNIT



*Actual Fees will differ based on factors such as site location, unit size etc.

FIGURE 7

OFFICE – FEE PER 1,000 SQUARE FEET



*Actual Fees will differ based on factors such as site location, FAR, etc.

INCLUSIONARY REQUIREMENTS – OWNERSHIP

City	Overall Inclusionary Requirement	Income Targets	In-Lieu Fee[1]			
Pleasanton	**20%**	**Moderate**	**$17.34**	**per sq. ft.**	**$52,023**	**per unit**
Danville	10%	Moderate	*market gap calculation*			
Dublin[2]	12.5%	60% Moderate 40% Low	$10.05	per sq. ft.	$30,141	per unit
Fremont	15%	66% Moderate 33% Low	$44.00	per sq. ft.	$132,000	per unit
Livermore[3]	15%	50% Moderate 50% Low	$39.94	per sq. ft.	$119,820	per unit
San Ramon	10%	Moderate	$15.70	per sq. ft.	$47,100	per unit
Walnut Creek	10% 7% 6%	Moderate Low Very Low	$21.86	per sq. ft.	$65,580	per unit

1) Assumes units are single family detached - 3,000 square feet.
2) Based on fee of $241,131 per inclusionary unit.
3) Only applies to projects with less than 11 units.

FIGURE 9

INCLUSIONARY REQUIREMENTS – RENTAL

City	Overall Inclusionary Requirement	Income Targets	In-Lieu Fee[1]			
Pleasanton	**15%**	**Low Very Low**	**$63.85**	**per sq. ft.**	**$52,023**	**per unit**
Danville	15%	Moderate	*market gap calculation*			
Dublin[2]	12.5%	50% Moderate 20% Low 30% Very Low	$37.68	per sq. ft.	$30,141	per unit
Fremont	10%	Low	$17.50	per sq. ft.	$14,000	per unit
Livermore	15%	50% Low 50% Very Low	*11+ units must build*			
San Ramon[3]	15%	50% Low 50% Very Low	$14.63	per sq. ft.	$11,704	per unit
Walnut Creek	10% 6%	Low Very Low	$21.86	per sq. ft.	$17,488	per unit

1) Assumes units are 800 square feet apartments.
2) Based on fee of $241,131 per inclusionary unit.
3) Only applies to projects with less than 10 units.