EXHIBIT B

Development Impact Fee Program

City of Sebastopol

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Prepared for:

Prepared by:

Harris & Associates

1401 Willow Pass Road, Suite 500
Concord, CA 94520
(925) 827-4900

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Table of Contents

Executive Summary

Introduction

The City of Sebastopol (City) is located in Sonoma County (County), 56 miles north of the City of San Francisco and 7 miles west of Santa Rosa. The boundaries of the City extend roughly from the Ragle Ranch Regional Park on the east to the Laguna de Santa Rosa Wetlands Preserve on the west. The City reaches as far north as Mill Station Road and extends south to the slightly past Lynch Road. At the time of the 2010 U.S. Census, the City population was 7,379, down from 7,638 during the 2000 U.S. Census. The California Department of Finance (DOF) estimates that as of January 1, 2020, Sebastopol's population is 7,745.

The 2016 Sebastopol General Plan had several guiding principles including:

- Protecting Sebastopol's small-town charm, unique character, and strong sense of community.
- Encouraging a vibrant downtown core by supporting and enhancing local businesses and creating higher-density housing.
- Improve traffic downtown with infrastructure improvements to roadways and expanded facilities for bicycles and pedestrians.

As the resident population and non-resident employment in the City increase, there exists a correlating rise in the demand for public infrastructure and services to support the increased demand on the City. California's Assembly Bill 1600 (AB1600) adopted in 1987 and codified as California Government Code Section 66000 et. seq., allows the City to impose Development Impact Fees on new development within the City. Development Impact Fees are a one-time charge on new development that is collected and used by the City to cover the cost of capital facilities, vehicles, and equipment that are required to serve new growth.

The City currently collects fees on residential development for affordable housing, wastewater retrofit, water connection, fire sprinkler connection, sewer connection, traffic impact, and parks. The City also charges a fee for new area annexation. The City collects fees on non-residential development for Countywide affordable housing, traffic impact, water meter installation, water connection, and sewer connection.

The purpose of this study is to review and update the City's Development Impact Fee (Fee) program to ensure that new development pays their fair share of their impact on the City's infrastructure and that the Fees are in compliance with the legal requirements set out in AB1600 and relevant case law. This study includes fee updates to parks, water, sewer, traffic impact, and annexation and the addition of fees for general government facilities, fire facilities, and stormwater infrastructure. There are no changes to the commercial affordable housing or water meter

installation. Wastewater retrofit and fire sprinkler fees have been removed. The fees discussed in this report apply to all future development or redevelopment in the City.

NEXUS ANALYSIS

Purpose

As development occurs in the City, new infrastructure and capital facilities are required to mitigate the increased demand created by new residents and employees. Impact fee revenues fund this impacted backbone infrastructure and capital facilities through the City's Fee program, which contains separate fee categories for each type of infrastructure and capital facility. Incorporated in this report are nexus findings for the following fee categories, as requested by the City:

- ***Park Land and Facilities***
- ***Traffic Impact***
- ***General Government Facilities***
- ***Fire Facilities***
- ***Stormwater Facilities***
- ***Water Facilities***
- ***Sewer Facilities***

This report is designed to satisfy the AB1600 Nexus requirements and provide the necessary technical analysis to support the adoption of the Fee program. The fee will be effective 60 days after the City's final action establishing and authorizing the collection of the fee.

Results

Table E.1 shows a summary of the proposed Fee program. Residential development fees are on a per unit basis, non-residential development fees are on a per 1,000 square feet basis, and hotel fees are shown on a per room basis.

Table E.1: Summary of Proposed Impact Fees

Land Use	Park Land	Park Facilities	Traffic Impact	General Government	Fire Facilities	Stormwater Facilities[1]	Total
Residential				*(Fee per Dwelling Unit)*			
Single Family (Attached/Detached)	$ 7,276	$ 5,922	$ 8,174	$ 3,017	$ 1,000	$ 5,502	$ 30,891
Multifamily (Condos/Apartments)	$ 4,958	$ 4,036	$ 4,624	$ 2,056	$ 681	$ 2,830	$ 19,185
Non-Residential				*(Fee per 1,000 Square Feet)*			
Commercial	*n/a*	*n/a*	$ 12,583	$ 1,106	$ 366	$ 2,887	$ 16,942
Office	*n/a*	*n/a*	$ 9,495	$ 2,433	$ 806	$ 2,887	$ 15,621
Industrial	*n/a*	*n/a*	$ 5,202	$ 243	$ 81	$ 2,887	$ 8,413
				(Fee per Room)			
Hotel	$ 2,054	$ 1,672	$ 4,954	$ 487	$ 161	$ 3,144	$ 12,472

1) Storm water fee show assumes 8 du/acre for SFR and 70% lot coverage, 20 units/acre for MFR, and 90% lot coverage for non-residential uses at .45 FAR. Hotel assumes 90% lot coverage fee divided by the estimated units.

Water and sewer facilities fees are based on the size of the water meter installed on the property. Water meter size is used to estimate the water and sewer demand for each connection. See Table E.2 for the proposed schedule of water and sewer infrastructure fees.

Table E.2: Summary of Proposed Water and Sewer Facilities Fees

Water Meter Size	Water Facilities	Sewer Facilities
3/4"	$ 10,346	$ 4,550
1"	$ 17,243	$ 7,583
1 1/2"	$ 34,487	$ 15,167
2"	$ 55,179	$ 24,267
3"	$ 103,460	$ 45,500
4"	$ 172,433	$ 75,833

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Section 1 REQUIREMENTS AND METHODOLOGY

NEXUS REQUIREMENT SUMMARY

AB1600, commonly known as the Mitigation Fee Act, was enacted by the state of California in 1987 and created Section 66000 et. seq. of the Government Code. AB1600 requires public agencies to satisfy the following requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project:

1. Identify the purpose of the fee.
2. Identify the use for the fee.
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.
4. Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.
5. Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

The purpose of this report is to demonstrate that the fee components comply with AB1600. The assumptions, methodologies, facility costs and standards, and cost allocation factors used to establish the nexus between the levied fees and new development are in subsequent sections of this report.

METHODOLOGY

Imposed fees require various findings to ensure that a reasonable relationship exists between the fee amount and the cost of the facility or portion of the facility attributable to the new development. Several methodologies are available to determine fee amounts. Choosing the appropriate methodology depends on the type of facility for which the fee is calculated and the availability of documentation to support the fee calculation. Following is a discussion of the methodologies available to calculate the separate fee components in this report.

Facility Standards Method

The facility standards method determines the facilities and associated costs required to accommodate growth based on adopted City standards. Depending on the fee analysis, the City may or may not currently have sufficient facilities to meet the adopted standard. If the City's existing facilities are below the standards, then a deficiency exists. In this case, the portion of the cost of planned facilities associated with correcting the deficiency must be satisfied with funding sources other than Development Impact fees. AB1600 fees can only fund facilities needed to accommodate new development at the adopted standard.

Master Plan Method

The master plan method is based on a master facilities plan in situations where the needed facilities serve both existing and new development. This approach allocates existing and planned facilities across existing and new development to determine new development's fair share of the needed facility. This approach is used when it is not possible to differentiate the benefits of new facilities between existing and new development.

Planned Facilities Method

The planned facilities method calculates the standard based solely on the ratio of planned facilities to the increase in demand associated with new development. This method is appropriate when planned facilities are mostly for the benefit of new development, such as a wastewater trunk line extension to a previously undeveloped area. This method may also be used when there is excess capacity in existing facilities that can accommodate new development.

Existing Inventory Method

The existing inventory method uses a facility standard based on the ratio of existing facilities to the existing service population on a cost per unit or cost per person served. Under this approach, new development funds the expansion of facilities at the same standard currently serving existing development. By definition, the existing inventory method ensures that no facility deficiencies are spread to future development. This method is often used when a long-range plan for new facilities is not available.

CREDITS AND REIMBURSEMENT POLICIES

The City may provide fee credits or reimbursements to developers who dedicate land or construct facilities. Fee credits or reimbursements shall be the lesser of the estimated cost of the improvements as shown in this report, subject to inflation adjustments, or the actual cost incurred by the developer. Reimbursements will be made when funds are available based on the priority of capital improvements as determined by the City. Fee credits will be allowed on a case-by-case basis as determined by the City.

The Development Agreement Law (Gov. Code § 65864 et seq.) authorizes the City to enter into agreements for the development of real property with any party having a legal or equitable interest in such property to establish certain development rights in such property for their mutual benefit in a manner not otherwise available to the contracting parties. Such agreements can assure property owners that they may proceed with projects as approved by the City and that those approvals will not be modified (consistent with the legal principles of vesting) during the period covered by said agreements. The City is equally assured that elements of the project with particular and specific public interests are achieved and that its local land use policies are advanced. For developers that need to construct facilities included in the Fee program, the City can enter into a Development Agreement (DA) that

would condition the developer to construct said facilities and the City would provide fee credits or reimbursements to the developer for the constructed facilities. The DA would include the credit and reimbursement policy. The City may elect to enter into an off-site improvement agreement with the developer to construct the improvements and the City would provide fee credits or reimbursements to the developer for the constructed facilities instead of a DA.

SPECIALIZED DEVELOPMENT PROJECTS

The fees in this report may not apply to specialized development projects such as golf courses, cemeteries, assisted living facilities, sports facilities, or other specialized land uses. For specialized development projects City, planning will review the development's impacts to determine the applicable fees. The fee rates presented in this Nexus Study may be reduced, exempted, or waived under certain circumstances as determined by the City. Any exemption or reduction in fees will be based on the City's independent analysis and review of the subject property. In addition, for reuse, density increasing, or rezone projects, the developer shall only be responsible for paying fees for the intensification of the development. City planning will review the development's increased impacts to determine the applicable fees.

Some developments may include more than one land use type. In these cases, the fee is calculated separately for each land use type. The City has the discretion to impose the fees based on the specific aspects of a proposed development regardless of zoning. The fee imposed should be based on the land use type that most closely represents the impacts of the development.

ACCESSORY DWELLING UNITS

An accessory dwelling unit (ADU) is a second unit on the same lot that is attached or detached from a residential unit. In accordance with Government Code 65852, fees cannot be charged for an ADU that is less than 750 square feet. For an ADU that is 750 square feet or larger, an ADU will pay a percentage of the residential fee based on the square footage of the ADU in proportion to the primary dwelling unit.

Section 2 GROWTH ASSUMPTIONS

GROWTH FORECASTS

Growth projections are used as indicators of demand. The City's existing population, as well as 2035 population projections, are critical assumptions used throughout the fee sections that follow in this report. The following resources were used to establish the City's Fee program:

- Estimates of total development through 2035 were calculated using the City's development cap of 50 permits per year or 750 permits between now and 2035 as adopted via Ordinance 1103 in April 2017.
- Development estimates were adjusted using the City's planning department and planning commission.
- Existing population estimates are from the 2020 California Department of Finance.
- Existing non-residential worker populations are based on US Census Bureau Data.

LAND USE TYPES

To ensure a reasonable relationship between each fee and the type of development paying the fee, the following land use categories are used in this Study:

- **Single family:** Detached and attached single family dwelling units for residential uses, such as single family homes and townhomes.
- **Multifamily:** Attached residential dwellings such as condominiums, apartments, and care facilities with shared facilities and common areas.
- **Commercial:** Includes, but is not limited to, retail establishments, specialty shops, banks, professional offices, professional, administrative, medical, dental, and business offices, and business and personal services, along with ancillary commercial and service uses
- **Office:** Includes, but is not limited to, a range of offices including general offices, and those specialized for accounting, legal, life sciences, technology, biotechnology, or research and development uses.
- **Industrial:** Light industrial facilities (e.g., business/research parks, warehouses, mini-storage business, and light manufacturing facilities) as well as heavier operations (e.g., manufacturing, processing, and assembling).
- **Hotel:** Includes full-service hotels, limited-service hotels, motels, and other lodging designed for stays of under 30 days. Any non-hotel space, such as a restaurant or convention center, would be charged the fee based on the corresponding land use determination and square footage.

Some developments may include more than one land use type. In these cases, the fee is calculated separately for each land use type. The City may use its discretion to determine the applicable fees

and land use categories that apply to a specific project regardless of zoning. The fee imposed should be based on the land use type that most closely represents the impacts of the development.

SERVICE POPULATION

The City's service population accounts for persons who live in the City and a weighted percent of workers employed in the City. Workers are weighted to reflect the lower per capita service demand compared to City residents. Workers spend less time in the City than residents and use fewer City services. The service population is used to determine the cost standard necessary to continue providing the standard that the City's facilities currently provide and to ensure that the fees are allocated fairly to each type of new development based on impact.

Table 1 summarizes the City's service population used to develop the Fees. The total service population of 9,930, including a fifty percent (50%) weighted factor for employees, was calculated using information taken from the 2019 California DOF population estimate and On the Map, US Census Bureau Center for Economic Studies, 2016 Data.

Table 1: Service Population Calculation

	Total	Weighting Factor[1]	Service Population
Residents[2]	7,745	1.00	7,745
Workers[3]	4,370	0.50	2,185
Total	**12,115**		**9,930**

1) Employees are weighted at 50% of residents to reflect lower facility use

2) California Department of Finance E-5 Study, January 2020

3) On the Map US Census Bureau Center for Economic Studies, 2016 data

RESIDENT AND EMPLOYMENT DENSITY

Using persons per household (PPH) data for residential units and employment density data for non-residential buildings establishes a reasonable relationship between the demand created by the development project and the fees charged. Developers pay fees based on the number of additional residential units, building square feet, or hotel rooms of non-residential development; therefore, the fee schedule must convert service population estimates to these units of measure for each land use. This conversion is done using the average PPH and employment density by land use type.

Table 2 summarizes the occupant density factors for residential and non-residential development. The residential density factors were calculated using information from the US Census, while the non-residential density factors were calculated using the default occupancy counts from US Green Building Council LEED v4.1 Building Design and Construction report dated January 22, 2019. The hotel employees per room factor is based on the hotel staff industry standards from *Hotel Operations Management*[1].

[1] Hayes, David K., Miller, Allisha A., Ninemeier, Jack D. (July 30, 2016). *Hotel Operations Management, 3rd Edition.* Pearson.

Table 2: Persons per Household and Employee Density

Residential [1]		
Single Family	2.48	Residents per dwelling unit
Multifamily	1.69	Residents per dwelling unit
Non-Residential [2]		
Commercial	1.82	Employees per 1,000 square feet
Office	4.00	Employees per 1,000 square feet
Industrial	0.40	Employees per 1,000 square feet
Hotel [3]	0.80	Employees per room

1) US Census Bureau Tables B25024 and B25033, 2018 American Community Survey 1-Year Estimates

2) USBGC LEED BD+C: New Construction | v4 - Default Occupancy Counts

3) Hayes, David K., et al. Hotel Operations Management. Pearson, 2017

2035 LAND USE PROJECTION

The 2035 land use projection includes the estimated amount of residential units developed using assumptions from the 2016 General Plan EIR, discussions with the City planning department, and input from the Planning Commission. The City adopted a growth cap in 1994 and extended it via Ordinance 1103 in April 2017. The growth cap limits development to 50 new (non-ADU) dwelling unit permits per year or 750 permits between 2017 and 2035. Any 'unused' permit allocation is carried forward for three years. Residential development estimates were divided between single family and multifamily units using recent development trends toward smaller and denser development.

Non-residential development land use was estimated using the 2016 General Plan EIR. The EIR estimates were adjusted to remove annexation areas that are not likely to happen before 2035. The City planning department and the Planning Commission provided input to reach a final land use estimate.

Table 3 summarizes the distribution of the estimated residential and non-residential development anticipated to take place in the City.

Table 3: 2035 Residential and Non-Residential Development Projections

Land Use	Acres	Units / Square Feet	
Residential			
Single Family	28.13	225	Dwelling Units
Multifamily	18.75	375	Dwelling Units
Non-residential			
Commercial	4.59	80,000	Building Square Feet
Office	4.59	80,000	Building Square Feet
Industrial	2.58	45,000	Building Square Feet
Hotel	3.00	120	Rooms

Source: Sebastopol Planning Commission

Section 3 PARK LAND AND FACILITIES FEE

BACKGROUND

This section presents an analysis of the need for park land and park facilities, such as picnic shelters, restrooms, and playground equipment to accommodate new development in the City and to ensure that new development provides adequate funding to meet its needs. Population information was reviewed to accurately determine the necessary fees to accommodate new development in the City and to ensure that new development provides adequate funding to meet increased demands.

The fee is calculated using the Facility Standards Method. Under this methodology, the fee is based on facilities and associated costs required to accommodate growth based on adopted City standards. The Park Land and Facilities Fee is based on the City's general plan standard of five acres of park land and open space per 1,000 residents. The Fee is calculated using the estimated costs of acquiring additional land for park and open space uses and the costs associated with the construction of the required facilities.

SERVICE POPULATION

Assembly Bill 1191 (AB1191) or the QUIMBY Act, California government code §66477 (QUIMBY Act), outlines the requirements for imposing fees for park purposes with a minimum of three (3) acres and a maximum of five (5) acres of green space per 1,000 residents. The City currently provides 23.6 acres of developed parkland and 89.7 acres of dedicated open space. This equates to 3.05 acres of active park and 11.58 acres of open space per 1,000 residents. The City's General Plan Standard of 3 acres of active park and 2 acres of open space per 1,000 residents is used for this analysis. The Park Land and Facilities Fee is not applied to commercial or office development because of the minimal per employee service demand. The fee for hotel use is calculated using the City's historical average of 70% occupancy to reach a per room fee.

COST STANDARD

Table 4 identifies the cost standard for land and construction costs per park acre. Charging a fee based on the City's General Plan standard of one acre per 200 residents, or five acres per 1,000 residents, ensures that the City will have sufficient revenues to maintain this standard as new development occurs and the population increases. The five-acre standard is comprised of three acres of active park land and two acres of open space.

As stated in the City's Municipal Code 17.280, as a condition of approval of a final subdivision map, the subdivider shall dedicate land or pay a fee in lieu thereof, or both, for park or recreational purposes at the time. The City Park Land and Facilities Fee satisfies the City's Quimby fee requirement. The developer could also dedicate land in-lieu of paying the land portion of the fee.

Table 4: Park Land and Facilities Fee – Cost Standard

Land Cost per Active Park Acre [1,2]	$	793,000
Land Cost per Open Space Acre [1,2]	$	555,000
Construction Cost per Active Park Acre [2,3]	$	638,000
Construction Cost per Open Space Acre [2,4]	$	237,000
Total Cost per Active Park Acre	$	1,431,000
Total Cost per Open Space Acre	$	792,000
Park Acres per 1,000 Persons Served [5]		5.0
Acres of Active Parkland		3.0
Acres of Open Space		2.0
Land Cost per Person Served	**$**	**2,934**
Park Construction Cost per Person Served	**$**	**1,914**
Open Space Construction Cost per Person Served	**$**	**474**

1) Average cost per acre per Multiple Listing Service survey of recent vacant land transactions

2) Costs discounted by 25% due to assumed grant funding

3) Park Improvement Cost per acre per Ives Park Master Plan, February 2013. Adjusted by CCI to February 2021 (26.2%)

4) Tomdachi Park costs escalated by CCI (26.2%)

5) City of Sebastopol General Plan park standards (5 acres per 1,000 residents)

FEE SCHEDULE

Table 5 summarizes the Park Acquisition and Facilities Fee schedule based on the existing standard. The cost per capita is converted to a fee per new residential unit based on the estimated persons per household.

Table 5: Park Acquisition and Facilities Fee – Proposed Fee Schedule

	A	B	C	D	A x D	(B + C) x D	
Land Use	**Land Cost per Resident**	**Park Construction Cost per Resident**	**Open Space Construction Cost per Resident**	**Density Factor**	**Land Cost per Unit**	**Construction Cost per Unit**	**Total Fee (Rounded)**
Residential (per Dwelling Unit)							
Single Family	$ 2,934	$ 1,914	$ 474	2.48	$ 7,276	$ 5,922	$ 13,198
Multifamily	$ 2,934	$ 1,914	$ 474	1.69	$ 4,958	$ 4,036	$ 8,994
	Land Cost per User	**Park Construction Cost per User**	**Open Space Construction Cost per User**	**Occupancy Factor[1]**	**Land Cost per Room**	**Construction Cost per Room**	**Total Fee (Rounded)**
Hotel (per Room)	$ 2,934	$ 1,914	$ 474	70%	$ 2,054	$ 1,672	$ 3,726

1) Assumes 70% occupancy per North Bay Business Journal, October 23, 2020.

NEXUS FINDINGS – PARK LAND AND FACILITIES FEE

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the Park Land and Facilities Fee is to acquire new park acres and to fund park facilities such as playground equipment, restrooms, and trash enclosures required to maintain the City's General Plan level of service of five (5) acres per 1000 residents.

Requirement 2: Identify the use of the fee.

The Park Land and Facilities Fee is used to fund the acquisition of land and development of new park facilities and/or to add additional amenities at the City's existing parks that increase the capacity of the park. Future park opportunities will be identified through City's CIP program.

Requirement 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.

New residential development will generate additional residents. An increase in residents will increase the demand for park facilities. The Park Land and Facilities Fee is calculated using the City's proposed general plan standard of five (5) acres of park per 1,000 residents. Residential development is responsible for paying its fair share to maintain the City's standard. Commercial and Office land uses do not pay the fee since they do not generate additional residents and workers have minimal impact on the City's park system. Hotel land uses are calculated using average room occupancy to determine the associated fee.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

New residential development will contribute to an increase in residents that raises the need for park facilities to maintain the City's proposed General Plan park standard of five (5) acres per 1,000 residents. Commercial and Office land uses do not pay the fee since workers have minimal impact on the City's park system. Residential and hotel development pays its fair share of the fees based on the estimated persons per household or room occupancy for each type of development.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

As new residential and hotel units are constructed, new park facilities are necessary to maintain the City's proposed General Plan standard of five (5) acres per 1,000 persons served. The City's current standard is higher than this, so new development is not funding existing deficiencies or and is funding parks at a similar standard to the standard the City currently provides. The fees are calculated by taking the cost per acre of park land times five acres of parks per 1,000 residents or guests and then dividing that by 1,000 to determine the cost per capita. The cost per capita is then spread to each development type based on the estimated PPH as shown in Table 17. The hotel fees are based on the City's historical room occupancy multiplied by the cost per capita. The park fee consists of a land acquisition portion and a facilities construction portion. For developments that dedicate land, the land component or a portion of the component will not apply. Since the need for parks is based on the number of new residents, by spreading the fees based on user density assumptions, each new unit is paying only its fair share of the facilities required to maintain the City's proposed General Plan Standard. Commercial and Office land uses do not have a park fee, as these developments will not generate a significant increase in park facility demand.

Section 4 TRAFFIC IMPACT

BACKGROUND

This section presents an analysis of the need for traffic and mobility improvements, such as roads, intersections, and bicycle and pedestrian infrastructure to accommodate new development in the City. The Traffic Impact Fee is calculated based on the ratio of planned facilities to the increase in demand associated with new development. As the resident population and non-resident employment in the City increase, there exists a correlating rise in the demand for traffic improvements to support the increased demand on the City.

The fee is calculated using the Planned Facilities Method. Under this methodology, the costs for the City's planned facilities are allocated to new development using the estimated demand generated by the development. Traffic infrastructure costs are allocated to new development based on the estimated trip generation rate.

SERVICE POPULATION

The City's Traffic Impact Fee provides funding for new traffic and mobility facilities, such as roads, intersections, and bicycle and pedestrian infrastructure, to accommodate and mitigate new development's impact on the City's infrastructure. The residential and non-residential land uses will be assessed a fee based on the PM peak hour trips from the 10th Edition of the Institute of Transportation Engineers (ITE) Trip Generation Manual generated by each land use.

FACILITIES AND COSTS

Calculating the Traffic Impact Fee based on the ratio of new development's increase in demand on planned facilities ensures that the City will have sufficient revenues to build and expand the City's traffic facilities to maintain acceptable levels of services as new development occurs. Traffic infrastructure costs are allocated between new and existing development to account for the City's existing need for expanded facilities.

Table 6 identifies the list of eligible traffic projects and associated costs based on discussions with the City Planning Commission and City engineering.

Table 6: Traffic Impact Fee – Total Project Cost

Project	Description	2021 Project Cost[1]	Allocation to New Development[1]	Cost Included in Fee Program
City of Sebastopol 2020 CIP				
Intersection Control - SR116 at Covert Lane	Install Signal or Roundabout	$ 2,350,529	100%	$ 2,350,529
Intersection Control - SR116 at Murphy Ave	Install Signal or Roundabout	$ 2,250,000	100%	$ 2,250,000
Bodega Avenue and Florence Ave	Pedestrian & Miscellaneous	$ 98,300	50%	$ 49,150
Bodega Avenue and Robinson Rd	Pedestrian & Miscellaneous	$ 41,800	50%	$ 20,900
SR116 Intersection Improvements	ADA Improvements	$ 451,920	50%	$ 225,960
Bodega Ave Sidewalks	Sidewalk Improvement	$ 564,893	50%	$ 282,447
Gravenstein Highway N Enhancement	Sidewalk Improvement	$ 385,431	50%	$ 192,715
Gravenstein Highway S Enhancement	Sidewalk and Crosswalk Improvements	$ 1,000,000	50%	$ 500,000
City of Sebastopol Bicycle and Pedestrian Master Plan (November 2011)				
Bodega Avenue - Atascadero Creek to Ragle Rd	Class I Bikeways (City Streets)	$ 338,794	50%	$ 169,397
Libby Park	Class I Bikeways (City Streets)	$ 57,236	50%	$ 28,618
Bodega Ave	Shared Lane Markings	$ 66,760	50%	$ 33,380
Ragle Rd	Shared Lane Markings	$ 13,876	50%	$ 6,938
Downtown Streetscape	Pedestrian & Miscellaneous	$ 38,543	50%	$ 19,272
General Plan Projects				
Willow St	Extend Street from Main St to Petaluma Ave	$ 5,000,000	0%	$ -
Abbott Ave	East Extension	TBD	50%	TBD
		$ 153,000	25%	$ 38,250
Total Planned Facilities		**$ 12,811,082**		**$ 6,167,556**
			New Trip DUEs Generated[2]	**747**
			Facility Cost per Trip DUE	**$ 8,256.43**

1) City of Sebastopol Engineering

2) Table 7

The cost per trip is calculated by estimating the total eligible project cost shown in Table 6 and dividing by the total future trips estimated in Table 7 below. Projects within one-half mile of a transit stop are eligible for a reduction of their impact fees per California Government Code Section 66005.1.

FEE SCHEDULE

Table 7 estimates the trips generated by future development based on the land use projections in Table 3. The ITE trip generation rate manual, 10th edition is used to estimate the total PM peak hour trips generated by the estimated 2035 development.

Table 7: Traffic Impact Fee – Total Trips Generated and Fee Schedule

Land Use	Planned Units	ITE Trip Generation Rate[1]	Trip DUEs Generated[2]	Cost per Trip DUE	Fee Per Unit / 1,000 SF (Rounded)
Residential		*Per Unit*			*Fee Per Unit*
Single Family	225	0.99	223	$ 8,256.43	$ 8,174
Multifamily	375	0.56	210	$ 8,256.43	$ 4,624
Non-Residential		*Per 1,000 SF*			*Fee Per 1,000 SF*
General Retail	80,000	1.52	122	$ 8,256.43	$ 12,583
High Turnover Restaurant	n/a	3.91	n/a	$ 8,256.43	$ 32,266
Quality Restaurant	n/a	3.12	n/a	$ 8,256.43	$ 25,760
General Office	80,000	1.15	92	$ 8,256.43	$ 9,495
General Industrial	45,000	0.63	28	$ 8,256.43	$ 5,202
Mini-Warehouse	n/a	0.17	n/a	$ 8,256.43	$ 1,404
		Per Room			*Fee Per Room*
Hotel	120	0.60	72	$ 8,256.43	$ 4,954
			747		

1) Institute of Transportation Engineers Common Trip Generation Rates. General Retail, High Turnover Restaurant, and Quality Restaurant trip rates have been reduced by 60% to account for 'pass-by' trips

2) Land use assumes general zoning rather than specific land uses

NEXUS FINDINGS – TRAFFIC IMPACT FEE

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the Traffic Impact Fee is to fund transportation-related facilities such as roads, intersections, and bicycle and pedestrian infrastructure that are necessary to mitigate transportation impacts created by new residential and non-residential development.

Requirement 2: Identify the use of the fee.

The Traffic Impact Fee will be used to fund the transportation facilities and infrastructure identified in Table 6 that are necessary to accommodate new development's increase in demand on the City's transportation system.

Requirement 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.

New residential and non-residential development will generate additional trips as identified in the ITE trip generation manual 10th edition and summarized in Table 7. These additional

trips will impact the existing transportation infrastructure, this impact on the City's transportation infrastructure is addressed with the project listed in Table 6. Residential and non-residential development is responsible for paying their fair share of the City's infrastructure costs based on the new trips that are generated by each type of development.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

New residential and non-residential development will contribute to an increase in trips that create the need for expanded transportation infrastructure. These trips will affect the existing transportation infrastructure, which can be alleviated with additional transportation improvements. The Traffic Impact Fee will be used to build and improve new development's fair share of transportation facilities as identified in Table 6. Each development will pay its fair share of the fees based on the trip generation rates summarized in Table 7. Charging a Traffic Fee based on the number of new trips generated by each new development ensures that the project pays only to mitigate its fair share of the improvements.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

New transportation facilities are necessary to accommodate new developments increased demand on the City's transportation system. The City's list of eligible projects is shown in Table 6. The eligible cost is based on the anticipated growth in the City through 2035. The eligible cost is then divided by the trips expected to be generated by future development in the City shown in Table 7. This cost per trip is then multiplied by the PM peak hour trip generation rate from the 10th edition ITE manual to calculate the fee for each land use. This fee calculation ensures that each development pays only its fair share to mitigate their traffic impacts within the City based on the additional trips generated by the development.

Section 5 GENERAL GOVERNMENT FACILITIES

BACKGROUND

This section presents an analysis of the City's General Government Facilities Fee. The General Government Facilities Fee covers the costs to mitigate the effects of new development on the City's government facilities. The existing facilities include city hall, corporation yard, senior center, police station, museum, youth center, and any other government facilities not addressed by other fees in this report. As the resident population and non-resident employment in the City increases, there exists a correlating rise in the demand for government facilities to support the increased demand on the City.

The fee is calculated using the Existing Inventory Method. Under this methodology, the facilities are inventoried and the value of the facilities is used to determine the current level of service (LOS) provided by the City on a per capita basis. This LOS calculation is then multiplied by the estimated persons per household (PPH) or employee density to determine the fee per residential unit, square foot of non-residential space, or hotel room that is needed for new development to fund the facilities needed to maintain this existing LOS.

SERVICE POPULATION

Demand for services and the associated facilities is based on the City's existing service population, which includes residents and non-resident workers. In calculating the service population for growth, workers were weighted less than residents to reflect the lower service demand of workers. Non-resident workers spend less time in the City and use fewer City services, so the demand for services and the associated facilities is less than that of a resident. A non-resident worker's impact is weighted at 0.5 of a resident's impact.

COST STANDARD

To calculate the General Government Facilities Fee, this study examines the existing general government facilities to calculate the existing standard. The total value is then divided by the existing service population to determine the cost per capita. The cost per capita is then multiplied by the PPH and worker density assumptions to determine the fee for each land use. This approach ensures that the new development contributes its fair share to new facilities at the same level of service the City currently provides. Table 8 identifies the City's general government facilities outlines the total value, and calculates the cost per person served.

Table 8: General Government Facilities – Total Inventory Value

Asset	Square Feet	2010 Replacement Value	CCI Increase (29.6%)[1]	CPI Increase (32.3%)[2]	Current Value
Buildings					
City Hall	3,357	$ 1,023,000	$ 302,916	n/a	$ 1,325,916
Corporation Yard	7,574	$ 1,602,000	$ 474,361	n/a	$ 2,076,361
Senior Center	2,093	$ 392,000	$ 116,073	n/a	$ 508,073
Police station	11,795	$ 3,026,000	$ 896,016	n/a	$ 3,922,016
Museum	1,771	$ 469,000	$ 138,874	n/a	$ 607,874
Youth Center	5,005	$ 2,000,000	$ 592,211	n/a	$ 2,592,211
Total Buildings		$ 8,512,000	$ 2,520,451		$ 11,032,451
Vehicles					
Public Works Vehicles		$ 513,600	n/a	$ 165,781	$ 679,381
Police Department Vehicles		$ 278,600	n/a	$ 89,927	$ 368,527
Total Vehicles		$ 792,200		$ 255,708	$ 1,047,908
Total Existing Facilities		**$ 9,304,200**	**$ 2,520,451**	**$ 255,708**	**$ 12,080,359**
				Existing Service Population	**9,930**
			General Government Facilities per Resident		**$ 1,216.55**

1) ENR Construction Cost Index for the San Francisco Bay Area, October 2010 to February 2021

2) Consumer Price Index for the San Francisco Bay Area, October 2010 to December 2020

Source: City of Sebastopol Draft Public Facilities Fee Study, 2010

Note: Valuations do not include land costs

FEE SCHEDULE

Table 9 summarizes the General Government Facilities Fee schedule based on the existing cost standard established in Table 8. The cost per capita is converted to a fee per residential unit based on the persons per household assumptions. The fee for non-residential uses is determined by multiplying the cost per capita times 0.5 (the weighting factor) and then multiplying by the number of employees per 1,000 square feet or in the case of the hotel, the number of employees per room.

Table 9: General Government Facilities – Fee Schedule

Land Use	A Cost per Capita	B Density	C = A x B Full Fee (Rounded)
Residential			*(Fee per Dwelling Uni*
Single Family	$ 1,216.55	2.48	$ 3,017
Multifamily	$ 1,216.55	1.69	$ 2,056
Non-Residential		*(Fee per 1,000 Square Feet)*	
Commercial	$ 608.28	1.82	$ 1,106
Office	$ 608.28	4.00	$ 2,433
Industrial	$ 608.28	0.40	$ 243
			(Fee per Room)
Hotel	$ 608.28	0.80	$ 487

NEXUS FINDINGS – GENERAL GOVERNMENT FACILITIES FEE

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the General Government Facilities Fee is to fund government facilities (e.g., city hall expansion, community or meeting rooms, corp yard improvements, parking lots, other vehicles and equipment, police station expansion, or any other items not covered by other fee areas) required to mitigate the impacts of new development on the City's infrastructure.

Requirement 2: Identify the use of the fee.

The General Government Facilities Fee will be used to fund government facilities to maintain the existing level of service the City provides. As new development occurs, the City will be required to expand general facilities to maintain the existing standard. The City will, through their CIP process, allocate the funds to eligible expansion projects as they are identified.

Requirement 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.

New residential and non-residential development will generate additional growth. An increase in residents and non-resident workers will increase the demand for facilities. The General Government Facilities Fee is calculated based on the City's existing standard.

Residential and non-residential development are responsible for paying their fair share to maintain the City's existing standard based on the weighted service population assigned to each land use as shown in Table 9.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

An increase in residential and non-residential development generates additional residents and workers that increase the need for general facilities to maintain the City's existing level of service. One worker is assumed to create half of the demand of a new resident. The value of the City's existing facilities is divided by the current service population to determine the existing cost per capita as shown in Table 8. Each residential land use is charged a fee based on the additional residents multiplied by the cost per capita. Non-residential development is charged a fee based on the cost per capita, multiplied by 0.5 (the weighting factor), and then multiplied by the number of assumed workers per 1,000 square feet of a building or in the case of hotels the number of assumed workers per room. By charging the fee based on the additional residents or workers created by each land use, the fee directly correlates to the demand created by each new development.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

New facilities are necessary to maintain the City's existing level of service as new residential and non-residential units are constructed. The City inventoried the existing government facilities and identified the value of each. This value was divided by the City's existing service population to calculate the cost per resident and the cost per worker necessary to maintain the City's existing level of service. This cost per resident and cost per worker was converted into a cost per unit for each type of residential development and a cost per square foot for non-residential development based on the estimated population and worker densities as shown in Table 9. Basing the fee on the additional residents or workers that are generated ensures that the development pays only their fair share of future facilities.

Section 6 FIRE FACILITIES FEE

BACKGROUND

This section presents an analysis of the City's Fire Facilities Fee. The Fire Facilities Fee covers the costs to mitigate the effects of new development on the City's fire facilities. Existing facilities include a fire station, six fire and emergency vehicles, and associated non-emergency vehicles. As the resident population and non-resident employment in the City increase, there exists a correlating rise in the demand for fire facilities to support the increased demand on the City.

The Fire Facilities Fee is calculated using the Existing Inventory Method. Under this methodology, the facilities are inventoried and the value of the facilities is used to determine the current LOS provided by the City on a per capita basis. This existing LOS is then used to determine the fee by land use that is needed to fund new fire facilities needed to maintain this existing LOS.

SERVICE POPULATION

Demand for services and the associated facilities is based on the City's existing service population, which includes residents and non-residential workers. In calculating the service population for growth, workers were weighted less than residents to reflect the lower service demand of workers. Non-resident workers spend less time in the City and use fewer services, so the demand for City services is less than that of a resident. A non-resident worker's impact is weighted at 0.5 of a resident's impact.

COST STANDARD

The City-owned fire facilities are summarized in Table 10. The total value of the facilities is divided by the City's existing service population to determine the cost per capita of the existing fire facilities. The cost per capita is then applied to the PPH and worker assumptions to determine the fee for each land use. This approach ensures that new development contributes its fair share to new facilities at the same level of service the City currently provides. Table 10 identifies the City's existing facilities and total value.

Table 10: Fire Facilities – Total Inventory

Asset	Square Feet	2010 Replacement Value	CCI Increase (29.6%)[1]	CPI Increase (32.3%)[2]	Current Value
Buildings					
Fire Station	8,246	$ 1,767,000	$ 523,219	n/a	$ 2,290,219
Total Buildings		$ 1,767,000	$ 523,219		$ 2,290,219
Vehicles					
International Emergency		$ 100,000	n/a	$ 32,278	$ 132,278
Ford Escape		$ 28,000	n/a	$ 9,038	$ 37,038
Chevrolet Rescue Van		$ 17,100	n/a	$ 5,520	$ 22,620
Ford Rescue		$ 14,200	n/a	$ 4,584	$ 18,784
Pierce Lance Fire Truck		$ 596,000	n/a	$ 192,379	$ 788,379
Pierce Lance Pumper		$ 200,000	n/a	$ 64,557	$ 264,557
International Pumper		$ 200,000	n/a	$ 64,557	$ 264,557
Ford Pumper		$ 100,000	n/a	$ 32,278	$ 132,278
Ford Expedition		$ 10,000	n/a	$ 3,228	$ 13,228
GEM Electric Car		$ 2,500	n/a	$ 807	$ 3,307
Ford Escape		$ 26,700	n/a	$ 8,618	$ 35,318
Total Vehicles		$ 1,294,500		$ 417,842	$ 1,712,342
Total Existing Facilities		**$ 3,061,500**	**$ 523,219**	**$ 417,842**	**$ 4,002,561**
			Existing Service Population		**9,930**
			Fire Facilities per Capita		**$ 403.08**

1) ENR Construction Cost Index for the San Francisco Bay Area, October 2010 to February 2021

2) Consumer Price Index for the San Francisco Bay Area, October 2010 to December 2020

Source: City of Sebastopol Draft Public Facilities Fee Study, 2010

Note: Valuations do not include land costs

FEE SCHEDULE

Table 11 summarizes the Fire Facilities Fee schedule based on the existing cost standard established in Table 10. The cost per capita is converted to a fee per residential unit based on the persons per household assumptions. The fee for non-residential uses is determined by multiplying the cost per capita times 0.5 (the weighting factor) and then multiplying by the number of employees per 1,000 square feet or in the case of hotels, the number of employees per room.

Table 11: Fire Facilities – Fee Schedule

Land Use	A Cost per Capita	B Density	C = A x B Full Fee (Rounded)
Residential			*(Fee per Dwelling Unit*
Single Family	$ 403.08	2.48	$ 1,000
Multifamily	$ 403.08	1.69	$ 681
Non-Residential		*(Fee per 1,000 Square Feet)*	
Commercial	$ 201.54	1.82	$ 366
Office	$ 201.54	4.00	$ 806
Industrial	$ 201.54	0.40	$ 81
			(Fee per Room)
Hotel	$ 201.54	0.80	$ 161

NEXUS FINDINGS – FIRE FACILITIES FEE

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the Fire Facilities Fee is to fund fire facilities that are required to mitigate the impacts of new development on the City's infrastructure in order to meet required response times.

Requirement 2: Identify the use of the fee.

The Fire Facilities Fee will be used to fund new fire facilities that are necessary to maintain the existing level of service the City provides. As new development occurs, the City will be required to expand fire facilities in order to meet the required response times. The City will, through their CIP process, allocate the funds to eligible expansion projects as they are identified.

Requirement 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.

New residential and non-residential development will generate additional residents and employees. An increase in residents and non-resident workers will increase the demand for fire facilities. The Fire Facilities Fee is calculated based on the City's existing level of service. Residential and non-residential development are responsible for paying their fair

share to maintain the City's existing standard based on the weighted service population assigned to each land use as shown in Table 11.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

An increase in residential and non-residential development generates additional residents and workers that increase the need for fire facilities to maintain the City's existing level of service. The value of the City's existing facilities is divided by the current service population to determine the existing cost per capita. One worker is assumed to create half of the demand of a new resident. Each residential land use is charged a fee based on the additional residents it is expected to add multiplied by the cost per capita. Non-residential development is charged a fee based on the cost per capita, multiplied by 0.5 (the weighting factor), and then multiplied by the number of assumed workers per 1,000 square feet of a building or per hotel room as shown in Table 11. By charging the fee based on the additional residents or workers created by each land use, the fee directly correlates to the demand created by each new development.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

New facilities are necessary to maintain the City's existing level of service as new residential and non-residential units are constructed. The City inventoried the existing fire facilities and identified the value of each. This value was divided by the City's existing service population to calculate the cost per resident and the cost per worker necessary to maintain the City's existing level of service. This cost per resident and cost per worker was converted into a cost per unit for each type of residential development and a cost per square foot for non-residential development based on the estimated densities as shown in Table 11. Basing the fee on the additional residents or workers that are generated ensures that the development pays only their fair share of future facilities.

Section 7 STORMWATER FEE

BACKGROUND

This section presents an analysis of the City's Stormwater Fee. The City will need to charge stormwater fees for the construction of stormwater facilities to accommodate growth. The stormwater facilities consist of upgraded and additional drainage facilities that will be used to address stormwater runoff. The planned infrastructure includes upsizing drainage lines, removal of silt from basins, and various system upgrades to increase capacity. This section documents the fee per impervious square foot and the reasonable relationship between new development, planned stormwater facilities, and the fees proposed for new development. Stormwater fees are based on impervious square footage which ensures that each new development pays only its fair share of the drainage facilities necessary to accommodate growth. Small projects are exempted from this impact fee, the Stormwater Fee will apply to all projects of 150 square feet or more. This includes additional impervious square footage on existing development including, but not limited to, additions, additional paving, or large sheds.

The fee is calculated using the Planned Facilities Method. Under this methodology, the costs for the City's planned facilities are allocated to new development using the estimated demand generated by the development. Stormwater facility costs are allocated based on the estimated new impervious surface created by new development.

FACILITIES AND COSTS

Table 12 identifies the planned stormwater facilities necessary to meet the drainage demand created by new development in the City. The City will be required to increase the drainage infrastructure to meet future demand. The Stormwater Fee is calculated by dividing the cost of planned stormwater facilities by the estimated increase in the impervious surface from new development. This allocates the costs based on the increase in demand associated with a new development from additional impervious surfaces. The City's planned infrastructure improvements include upgrades to the Calder Creek Watershed, various upsizing projects, basin improvements, and other system improvements to meet the future stormwater runoff generated by the development. These facilities are allocated between existing and future users based on the reason for the upgrade and the estimated fair share of new development. New development also benefits from capacity in existing facilities that they are not required to fund.

Stormwater Fee Cost Standard

New development generates the need for more stormwater facilities. Stormwater facility costs are allocated to new development by the estimated impervious surface associated with new development. Table 12 shows the facilities required to meet future demands.

Table 12: Stormwater Fee – Planned Facilities

Project	Description	2020 Project Cost[1]	Allocation to New Development[1]	Cost Included in Fee Program
Calder Creek Watershed	System upgrades	$ 1,200,000	40%	$ 480,000
Witter Creek	Various upgrades	$ 352,904	50%	$ 176,452
Atascadero Creek	Various upgrades	$ 254,686	50%	$ 127,343
Gravenstein HWY S	Between Fircrest and Lynch to Hazel Cotter Ct	$ 848,233	50%	$ 424,117
Healdsburg Conduit Upgrade	Upsize lines in Laguna Park Way and Morris St	$ 708,448	50%	$ 354,224
Palm Ave Conduit Upgrade	Upsize lines in Palm and Petaluma Ave	$ 392,251	50%	$ 196,126
Willard F Libby Pond	Silt removal	$ 250,000	50%	$ 125,000
MS4 Permit	MS4 Stormwater Permit Offset Program	$ 2,000,000	25%	$ 500,000
Zimpher Creek	Existing System Improvements	$ 2,457,437	25%	$ 614,359
Gravenstein HWY N	Existing System Improvements	$ 547,543	25%	$ 136,886
	Total	**$ 9,511,503**		**$ 3,134,506**

1) City of Sebastopol Engineering

The total cost allocated to new development for the Storm Water Fee is divided by the estimated impervious square feet generated by future development. Impervious surface estimates are from the Sonoma County Flood Management Design Manual. Table 13 shows the additional impervious surface associated with new development.

Table 13: Stormwater Fee – Impervious Surface Estimate

Land Use	Acres	Runoff Coefficient [1]	Total Impervious Acres	Total Impervious Square Feet
Residential				
Single Family	28.13	0.700	19.69	857,739.96
Multi-Family	18.75	0.900	16.88	735,075.00
Non-Residential				
Commercial	4.59	0.900	4.13	179,946.36
Office	4.59	0.900	4.13	179,946.36
Industrial	2.58	0.900	2.32	101,146.32
Hotel	3.00	0.900	2.70	117,612.00
			49.85	2,171,466.00

1) Sonoma County Flood Management Design Manual, 2020

FEE SCHEDULE

The cost per impervious square foot is calculated by dividing the planned stormwater projects from Table 12 by the estimated impervious square foot estimate from Table 13. Charging fees based on impervious square footage ensures that each development pays its fair share of stormwater improvements. The cost per impervious square foot is calculated in Table 14.

Table 14: Stormwater Fee – Fee Calculation

Storm Drain Project Total	$	3,134,506
Total Impervious Square Feet		2,171,466
Storm Drain Fee per Impervious Square Foot	**$**	**1.44**

NEXUS FINDINGS – STORMWATER FEE

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the Stormwater Fee is to fund the drainage facilities necessary to mitigate the impact on the City's stormwater discharge system that is created by new development in the City.

Requirement 2: Identify the use of the fee.

The Stormwater Fee will be used to fund new development's fair share of stormwater facilities that are necessary to mitigate the impacts of new development in the City. Table 12 summarizes the list of planned stormwater facilities allocated to new development in the City.

Requirement 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.

New residential and non-residential impervious square footage generates stormwater runoff that requires additional drainage facilities to store and transport water. The stormwater fees are calculated based on new development's fair share of the cost of the facilities necessary to handle the increased stormwater runoff. New development pays fees based on the amount of stormwater runoff that the development generates through the additional impervious area.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

New development in the City creates additional stormwater runoff that must be handled through new stormwater facilities. The Stormwater Fee will be used to build new stormwater infrastructure to serve future development in the City as identified in Table 12. Each development pays its fair share of the fee based on the estimated stormwater runoff which is dictated by the new impervious area. Using impervious square footage ensures that each type of development pays its fair share of the required facilities.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

New stormwater facilities are necessary to mitigate the increased stormwater runoff generated by new development. New development increases the need for new stormwater facilities. New development is allocated its fair share of the required facilities based on the stormwater runoff generated by each development, which is indicated by the impervious square footage. The proposed stormwater fees are shown in Table 14. Charging the fee based on impervious square footage ensures that each new development only pays for its fair share of the required improvements based on the estimated stormwater runoff.

Section 8 WATER FACILITIES FEE

BACKGROUND

This section presents an analysis of the City's Water Facilities Fee. The City will need to charge a Water Facilities Fee for the construction of new water supply and upsizing of transmission facilities to accommodate growth. The water facilities will increase water supply and transmission lines to increase the City's water capacity. This section documents the fee by water meter size and the reasonable relationship between new development, planned water facilities, and the fees proposed for new development. Water fees are based on the water meter size required by each new development which ensures that each new development pays only its fair share of the water facilities necessary to accommodate growth in the City.

The fee is calculated using the Planned Facilities Method. Under this methodology, the costs for the City's planned facilities required are allocated to new development using the estimated demand generated by the development. Water facility costs are allocated based on the estimated new water demand created by new development.

FACILITIES AND COSTS

Table 15 identifies the planned water facilities necessary to meet the water demand created by new development in the City. The City will be required to increase the size of two wells and upsize several transmission lines throughout the City. The cost of these facilities is allocated between existing and future development depending on whether or not there is an existing deficiency or if the improvement is triggered by new development. New development also benefits from capacity in the City's existing facilities that they are not required to fund. The Water Facilities Fee is calculated based on the ratio of planned facilities to the increase in water demand associated with new development.

Water Facilities Cost Standard

New development generates the need for additional or expanded water facilities. Water demand, consumption patterns, and facility costs are used to calculate the cost per gallon per day. Table 15 shows the facilities required to meet future demands, the allocation to future development, and the calculation of the cost of water facilities per gallon per day (GPD).

Table 15: Water Facilities – Planned Facilities

Project	Description	2020 Project Cost[1]	Allocation to New Development[1]	Cost Included in Fee Program
City of Sebastopol Five-Year Capital Improvement Plan 2015-2020 (June 2015)				
Well No. 6 Arsenic Treatment	Construction	$ 2,288,559	50%	$ 1,144,280
Water main Loop	14" to improve pressure and flow	$ 3,489,047	50%	$ 1,744,524
Abbott Ave Water Line Replacement	Replace 6" with 8"	$ 181,008	100%	$ 181,008
Teresa Court Watermain Replacement	Replace 6" with 8"	$ 286,764	100%	$ 286,765
Gravenstein Hwy N Watermain	Replace 6" with 8"	$ 1,042,322	100%	$ 1,042,322
Gravenstein HWY S Water Line	Increase main sizes, Palm to Lynch	$ 1,332,740	100%	$ 1,332,740
Well No. 4 Upgrade	Replacing well for capacity	$ 1,500,000	50%	$ 750,000
City of Sebastopol Water Master Plan (September 2005)				
Northeast Area	Replace 6" main with 8" DIP	$ 1,386,562	100%	$ 1,386,562
West Hills Circle	Replace 6" main with 8" DIP	$ 387,922	100%	$ 387,922
Pleasant Hill Ave	Replace 4" main with 6" DIP	$ 113,303	100%	$ 113,303
Gravenstein Hwy North	Replace 6" main with 8" DIP	$ 216,475	100%	$ 216,475
Total		**$ 12,224,703**		**$ 8,585,900**
			Gallons per Day of New Development	265,604
			Cost per GPD	**$ 32.33**

1) City of Sebastopol Engineering

The total cost allocated to new development for the Water Facilities Fee is divided by the estimated new water demand (GPD) generated by future development. The Water Facilities Fee for a ¾" meter (single family service) is then derived by multiplying the residential water demand per day from the 2005 Water Master Plan by the water cost per GPD. Table 16 calculates the estimated water demand generated by new development and calculates the fee for a residential unit and ¾" water line. A residential unit typically requires a larger meter to accommodate fire sprinkler systems, however, the Water Supply and Storage Fees will only apply based on the water demand estimate outside of fire flow (which is typically a ¾" meter for a single family residential unit).

Table 16: Water Facilities – Estimated Demand

Land Use	Units	Gallons per Day [1]		Total Gallons
Residential (Fee per Dwelling Unit)				
Single Family	225	320		72,000
Multi-Family	375	320		120,000
Non-Residential (Fee per 1,000 Square Feet)				
Commercial	80,000	260		20,800
Office	80,000	260		20,800
Industrial	45,000	420		18,900
Hotel [2]	120	109		13,104
		Total Gallons		265,604
		Project Cost	$	8,585,900
		Cost per GPD	$	32.33
Cost per Residential Unit or 3/4" Line			$	10,346

1) Water use per 2005 Water Master Plan

2) Hotel rooms are assumed to be 420 square feet per room

FEE SCHEDULE

The cost per ¾ meter is used as the standard for determining the fee cost per water meter size. The water meter size determines the maximum water flow capacity for a property and is a fair and equitable measure of potential water demand. The cost per ¾" meter can be applied to all meter sizes based on the American Water Work Association (AWWA) meter equivalency factor. Charging the fees based on the water demand ensures that each type of development pays its fair share. A summary of the Water Facilities Fee is presented in Table 17.

Table 17: Water Facilities – Fee Schedule

Water Meter Size	AWWA Rated Capacity GPM	AWWA Meter Service Ratio		Water Fee
Residential Service	30	1.00	$	10,346
3/4"	30	1.00	$	10,346
1"	50	1.67	$	17,243
1 1/2"	100	3.33	$	34,487
2"	160	5.33	$	55,179
3"	300	10.00	$	103,460
4"	500	16.67	$	172,433
6"	1,000	33.33	$	344,867
8"	1,600	53.33	$	551,787

NEXUS FINDINGS – WATER FACILITIES FEE

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the Water Facilities Fees is to fund the water facilities necessary to mitigate the impact on the City's water system that is created by new development. This includes water supply and transmission facilities.

Requirement 2: Identify the use of the fee.

The Water Facilities Fee will be used to fund new development's fair share of water facilities that are necessary to mitigate the impacts of new development in the City. Table 15 summarizes the list of planned water facilities allocated to new development in the City.

Requirement 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.

New residential and non-residential development generates additional water demand that requires additional water supply and transmission facilities. The Water Facilities Fee is calculated based on new development's fair share of the cost of the facilities necessary to handle the increased water demand. New development pays the fee based on the amount of water demand that the development is estimated to generate based on the meter size.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

New development in the City creates additional water demand that must be handled through new or expanded water facilities. The Water Facilities Fee will be used to build or expand water infrastructure to serve future development in the City as identified in Table 15. Each development pays its fair share of the fee based on the estimated water demand which is dictated by the water meter size. Using water meter sizes ensures that each type of development pays its fair share of the required water facilities.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

New water facilities are necessary to mitigate the increased water demand generated by new development. New development increases the need for new or expanded water facilities. New development is allocated their fair share of new and expanded water

facilities that are necessary to mitigate new development's impacts on the City's water infrastructure. New development is required to pay its fair share of the required facilities based on the estimated water demand of each development, which is indicated by the water meter size. The proposed water fees are shown in Table 17. Charging the fee based on water meter size ensures that each new development only pays for its fair share of the required improvements based on the estimated water demand.

Section 9 SEWER FACILITIES FEE

BACKGROUND

This section presents an analysis of the City's Sewer Facilities Fee. The City will need to charge a Sewer Facilities Fee for the construction of new and expanded sewer facilities to accommodate growth. The planned facilities include moving and upsizing conveyance lines to serve new development. The City does not have its own sewer treatment facility. All sewer flows are processed at the Santa Rosa Water Reclamation Facility.

This section documents the fee based on water meter size and the reasonable relationship between new development, planned sewer facilities, and the fees proposed for new development. Sewer fees are based on the water meter size required by each new development which ensures that each new development pays only its fair share of the sewer facilities necessary to accommodate growth in the City. Water meter size is the best estimate of sewer discharge from the development. The 2005 master plan assumes 62.5% of a project's water supply is discharged as sewer (320 gallons of water becomes 200 gallons of sewer per day per single family residential property).

The fee is calculated using the Planned Facilities Method. Under this methodology, the costs for the City's planned facilities required to serve new development are allocated to new development using the estimated demand generated by the development. Sewer facility costs are allocated based on the estimated new sewer flows created by new development.

FACILITIES AND COSTS

Table 18 identifies the planned sewer facilities necessary to meet the sewer demand created by new development in the City. The City will be required to increase the size of several conveyance lines throughout the City. The cost of these facilities is allocated between existing and future development depending on whether or not there is an existing deficiency or if the improvement is triggered by new development. New development also benefits from capacity in the City's existing facilities that they are not required to fund. The Sewer Facilities Fee is calculated based on the ratio of planned facilities to the increase in sewer demand associated with new development from the estimated population growth.

Sewer Cost Standard

New development generates the need for additional or expanded sewer facilities. Sewer demand, consumption patterns, and facility costs are used to calculate the cost per gallon per day. Table 18 shows the facilities required to meet future demands, the allocation to future development, and the calculation of the cost of sewer facilities per gallon per day (GPD).

Table 18: Sewer Facilities – Planned Facilities

Project	Description	2020 Project Cost[1]	Allocation to New Development[1]	Cost Included in Fee Program
City of Sebastopol Five-Year Capital Improvement Plan				
Zimpher Creek Sewer Relocation	Project defined by Relocation Study	$ 572,140	75%	$ 429,105
Eastside Ave Sewer Replacement	Upsize 4" to 6"	$ 94,828	100%	$ 94,828
Calder Ave Sewer Replacement	Capacity increasing replacement	$ 299,061	100%	$ 299,061
High St Sewer Replacement	Capacity increasing replacement	$ 237,380	100%	$ 237,380
Florence Ave	Capacity increasing replacement	$ 800,000	50%	$ 400,000
Zimpher Creek Creek Sewer Replacement	Capacity increasing replacement	$ 4,000,000	25%	$ 1,000,000
City of Sebastopol Sanitary Sewer System Utility Master Plan (December 2005)				
Gravenstein Hwy South	Upsize Lines Village Way to Palm Ave	$ 1,200,000	100%	$ 1,200,000
Total		**$ 7,203,408**		**$ 3,660,373**
			Estimated New Sewer Demand	160,864
			Cost per Gallon of Sewer Treatment	**$ 22.75**

1) City of Sebastopol Engineering

The total cost allocated to new development for the Sewer Facilities Fee is divided by the estimated new sewer demand (GPD) generated by future development. The Sewer Facilities Fee for a ¾" water meter (single family service) is derived by multiplying the per household sewer usage assumption for a residential unit from the 2005 Water Master Plan by the sewer cost per GPD. This result is the fee for a residential unit or ¾" water meter. A residential unit typically requires a larger meter to accommodate fire sprinkler systems, however, the Sewer Facilities Fee will only apply based on the water demand estimate outside of fire flow (which is typically a ¾" meter for a single family residential unit). Table 19 calculates the estimated sewer demand generated by new development and calculates the fee for an individual residential unit and a ¾" water meter.

Table 19: Sewer Facilities – Estimated Demand

Land Use	Units	Wastewater Generation[1]		Total Wastewater Generation
Residential (Per Unit)				
Single Family	225	200.00		45,000
Multi-Family	375	200.00		75,000
Non-Residential (Fee per 1,000 Square Feet)				
Commercial	80,000	160.00		12,800
Office	80,000	160.00		12,800
Industrial	45,000	160.00		7,200
Hotel [2]	120	67.20		8,064
	Total Wastewater Generation			160,864
		Project Cost	$	3,660,373.09
		Cost per GPD	$	22.75
	Cost per Residential Unit or 3/4" Line		$	4,550

1) Wastewater generation per 2005 Master Plan

2) Hotel rooms are assumed to be 420 square feet per room

FEE SCHEDULE

The cost per ¾" water meter is used as the standard for determining the fee cost per water meter size. The water meter size determines the maximum water flow capacity for a property and is a fair and equitable measure of potential sewer demand. The cost per ¾" meter can be applied to all meter sizes based on the American Water Work Association (AWWA) meter equivalency factor. Charging the fees based on the water demand ensures that each type of development pays its fair share. A summary of the Sewer Facilities Fee is presented in Table 20.

Table 20: Sewer Facilities – Fee Schedule

Meter Size	Capacity GPM	Ratio	Sewer Fee
Residential Service	30	1.00	$ 4,550
3/4"	30	1.00	$ 4,550
1"	50	1.67	$ 7,583
1 1/2"	100	3.33	$ 15,167
2"	160	5.33	$ 24,267
3"	300	10.00	$ 45,500
4"	500	16.67	$ 75,833
6"	1,000	33.33	$ 151,667
8"	1,600	53.33	$ 242,667

NEXUS FINDINGS – SEWER FACILITIES FEES

AB1600 requires that public agencies satisfy five requirements when establishing, increasing, or imposing a fee as a condition of approval of a development project. The required findings are as follows.

Requirement 1: Identify the purpose of the fee.

The purpose of the Sewer Facilities Fee is to fund the sewer facilities necessary to mitigate the impact on the City's sewer system that is created by new development.

Requirement 2: Identify the use of the fee.

The Sewer Facilities Fee will be used to fund new development's fair share of sewer facilities that are necessary to mitigate the impacts of new development in the City. Table 18 summarizes the list of planned sewer facilities allocated to new development in the City.

Requirement 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.

New residential and non-residential development generates additional sewer demand that requires additional sewer infrastructure to transport waste. The sewer fees are calculated based on new development's fair share of the cost of the facilities necessary to handle the increased sewer demand. New development pays fees based on the amount of sewer demand that the development is estimated to generate based on the required water meter size in accordance with the 2005 Water Master Plan.

Requirement 4: Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

New development in the City creates additional sewer demand that must be handled through new sewer facilities. The Sewer Facilities Fees will be used to build new sewer

infrastructure to serve future development in the City as identified in Table 18. Each development pays its fair share of the fee based on the estimated sewer demand which is dictated by the water meter size. Using water meter sizes ensures that each type of development pays its fair share of the required sewer facilities.

Requirement 5: Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

New sewer facilities are necessary to mitigate the increased sewer demand generated by new development. New development increases the need for new sewer facilities. New development is allocated their fair share of new and expanded sewer facilities that are necessary to mitigate new development's impacts on the City's sewer infrastructure. New development is required to pay its fair share of the required facilities based on the estimated sewer demand of each development, which is indicated by the water meter size. The proposed Sewer Facilities Fee schedule is shown in Table 20. Charging the fee based on water meter size ensures that each new development only pays for its fair share of the required improvements based on the estimated demand.

Section 10 IMPLEMENTATION AND ADMINISTRATION

IMPLEMENTATION

According to the Mitigation Fee Act, before levying a new fee or increasing an existing fee, an agency must hold at least one open and public meeting. Notice of the time and place of the meeting, including a general explanation of the matter to be considered, and a statement that the data required by this section is available, shall be mailed at least 14 days before the meeting to any interested party who files a written request with the local agency for mailed notice of the meeting on new or increased fees or service charges. Any written request for mailed notices shall be valid for one year from the date on which it is filed unless a renewal request is filed. At least 10 days before this public meeting, the agency must make data on infrastructure costs and funding sources available to the public. Notice of the time and place of the public meeting and a general explanation of the matter is to be published in accordance with Section 6062a of California Government Code, which states that publication of the notice shall occur for 10 days in a newspaper regularly published once per week or more. The new or increased fees shall be effective no earlier than 60 days following the final action on the adoption or increase of the fees.

The fee categories summarized in this report may not apply to specialized or unique development projects in the City. For example, the development of a cemetery, golf course, or stadium will not fall under any of the fee categories in this report. For specialized development projects, the City will need to review the impacts and decide on an applicable fee based on the specific impacts.

DISCONTINUED FEES

The City has decided to stop collecting the Wastewater Retrofit and Fire Sprinkler Service impact fees. The remaining fund balances will be spent in accordance with Resolution 5485 and Resolution xx. When funds are fully expended, the associated funds will be closed.

ANNEXATION FEES

Properties that are annexing into the City will pay the associated impact fees as if they were a new development. Municipal Code Section 13.08 requires properties within the City to connect to the City's sewer system unless the property meets the specific conditions contained within 13.08.050(C)(1). Annexing properties will be subject to the Park Land and Facilities Fee, Traffic Impact Fee, General Government Facilities Fee, Fire Facilities Fee, and (if connecting to City services) Water Facilities Fee, and Sewer Facilities Fee. Annexing properties will not be charged impact fees for Stormwater Facilities, as the properties do not create additional runoff. The properties will be exempt from Sewer Facilities or Water Facilities Fees if not connecting to City utilities.

FEE ADJUSTMENTS

The fees will be automatically adjusted each year on July 1st based on the Engineering News-Record Construction Cost Index (CCI) for the San Francisco Bay Area. Also, the fees may be adjusted to reflect revised facility standards, receipt of funding from alternative sources (i.e., state or federal grants), revised facilities or costs, changes in demographics, or changes to the land use plan. A complete review of the fees must be completed every five years per California Government Code but it is recommended that the fees be updated more frequently.

IMPACT FEE PROGRAM ADMINISTRATIVE REQUIREMENTS

AB1600 requires the City to report fee information annually and every fifth year. Within 180 days after the last day of each fiscal year, the City must make available the following information from the prior fiscal year:

- Brief description of the type of fee in the account or fund
- Amount of the fee
- Beginning and ending balance in the account or fund
- Amount of fees collected and the interest earned
- Identification of each public improvement for which fees were expended and the amount of expenditures
- Identification of an approximate date by which time construction on the improvement will begin if it is determined that sufficient funds exist to complete the project
- Description of each inter-fund transfer or loan made from the account and when each will be repaid
- Identification of any refunds made once determined that sufficient monies have been collected to fund fee-related projects

The City must make this information available for public review and must present it at the next regularly scheduled public meeting no less than 15 days after this information is made available to the public.

For the fifth fiscal year following the first deposit into the account or fund, and every five years thereafter, the City must make the following findings with respect to any remaining funds in the fee account, regardless of whether those funds are committed or uncommitted:

- Identify the purpose of the fee
- Demonstrate a reasonable relationship between the fee and the purpose for which it is charged
- Identify sources and amounts of funding anticipated to complete the financing of any incomplete improvements
- Designate the approximate dates on which funding is expected to be deposited into the fee account, as needed

As with the annual disclosure, the 5-year report must be made public within 180 days after the end of the City's fiscal year and must be reviewed at the next regularly scheduled public meeting. The City must make these findings; otherwise, the law requires that the City refund the money on a prorated basis to the current record owners of the development projects.

ONLINE FEE REPORTING

Assembly Bill No. 1843, which became effective January 1, 2020 requires that Cities make the following information available on their website. This must be completed by January 1, 2021. The following information must be provided:

1. A current schedule of fees, exactions, and affordability requirements imposed by the city, county, or special district, including any dependent special districts, of the city or county applicable to a proposed housing development project, which shall be presented in a manner that clearly identifies the fees, exactions, and affordability requirements that apply to each parcel.

2. All zoning ordinances and development standards, which shall specify the zoning, design, and development standards that apply to each parcel.

3. The list of information required to be compiled pursuant to Section 65940.

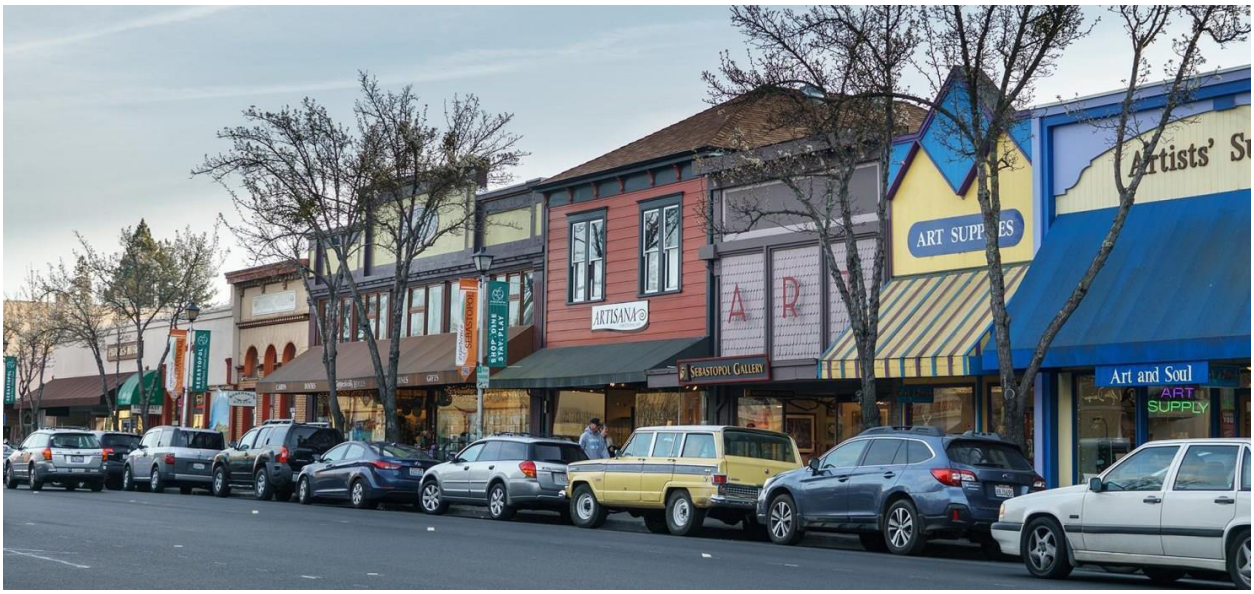
4. The current and five previous annual fee reports or the current and five previous annual financial reports, that were required pursuant to subdivision

5. An archive of impact fee nexus studies, cost of service studies, or equivalent, conducted by the city, county, or special district on or after January 1, 2018.

Any updates to the above information must be available within 30 days.

PROGRAMMING REVENUES WITH THE CAPITAL IMPROVEMENT PLAN

The City should maintain and update its CIP to adequately plan for future infrastructure needs. The City's CIP should commit projected fee revenues and fund balances to specific projects that are necessary to serve growth as described in this report. The City's CIP provides the documentation necessary for the City to hold funds in a project account for longer than 5 years, if necessary, to collect sufficient funds to complete a project.



PRELIMINARY DRAFT

Affordable Housing In-Lieu Fee Nexus Study

City of Sebastopol

March 2021

Prepared for:

Prepared by:

1401 Willow Pass Road, Suite 500
Concord, CA 94520
(925) 827-4900

Table of Contents

Executive Summary

INTRODUCTION

The City of Sebastopol (City) retained Harris & Associates (Harris) to prepare an Affordable Housing In-Lieu Fee Study (Study) in order to update the previously adopted Affordable Housing In-Lieu Fee (Fee) contained in Ordinance 1111 adopted in 2018. The City's current inclusionary in-lieu fee was adopted in July 2006. The City updated their Affordable Housing Ordinance in 2018 changing the inclusionary requirements and allowing additional flexibility to developers. This study will update the City's inclusionary in-lieu fee to match the updated policy.

The purpose of this report is to provide information to the City of Sebastopol (City) for its consideration in updating the Fee component of the City's Inclusionary Housing Ordinance (Ordinance). The Fee is part of the City's Inclusionary Housing Policy (Policy) and is an option for developers to satisfy their inclusionary housing requirement when the requirement results in a fractional inclusionary unit.

Harris & Associates has reviewed the current fees, analyzed the City's current inclusionary ordinance, updated build costs, and incorporated the County's Area Median Income (AMI) numbers for 2020. The updating of these data will create an 'affordability gap', which represents the difference between what is affordable to a lower income household and the costs of developing an affordable housing unit in the City. The affordability gap represents the amount that must be provided through special financing, public or private subsidies, or other sources such as an in-lieu fee, to make housing affordable to very low, low, and moderate-income households. The Fees in this Study represent the fees supported but do not represent specific Fee recommendations. The City has the latitude to adopt the Fees deemed appropriate.

FINDINGS AND METHODOLOGY

The existing in-lieu fee is based on the requirements of an outdated Inclusionary Housing Ordinance. The City updated its Inclusionary Housing Ordinance in 2018 and this study will update the inclusionary in-lieu fee to align with the updated City Ordinance.

The City's 2018 inclusionary housing policy (Policy) applies to projects of five (5) units or more. The Policy requires 15% of a development to be provided at prices affordable to moderate-income (120% AMI) households, or 10% of units affordable to low-income (80% of AMI) households, or 5% of units affordable to very low-income (50% of AMI). The Ordinance and fractional in-lieu Fee are designed to mitigate the impact of an increase in demand for affordable housing from the development of new market-rate residential units.

Table E.1 shows the inclusionary unit equivalent fees using the analysis in this report. The report will give detailed calculations on how these fees are calculated in the following sections.

Table E.1: Inclusionary Unit Equivalent Fee

Income Level	Inclusionary Unit Fee For-Sale	For-Rent
Very Low-Income	$ 436,586	$ 331,903
Low-Income	$ 278,872	$ 220,858
Moderate-Income	$ 149,931	$ 115,625

Sources: Table 8 and Table 9.

The inclusionary unit fee is available to developers when a project's inclusionary housing requirement has a fractional unit requirement. The City's Policy states that required whole units will be constructed as part of the development and any fractional units may be rounded up to the next whole number and constructed or the project may pay an in-lieu fee for the fractional units. An example 16 unit development that opts for moderate-income inclusionary housing is required to provide 2.4 units (16 units x 15% inclusionary requirement) at prices affordable to households at 120% AMI. This project could construct two units and pay a fee of $59,972.40 (0.4 units x $149,931 Inclusionary Unit Equivalent Fee) if the project is for-sale and $46,250.00 (0.4 units x $115,625 Inclusionary Unit Equivalent Fee) if the project is for-rent or they could build three affordable units.

The inclusionary unit equivalent fee represents the difference between what very low, low, and moderate-income households can afford to pay for housing and the cost to develop and service affordable housing in the City. This difference is known as the 'affordability gap.' For rental affordable units, the net income available from lower-income households is used to determine the supportable debt and is compared with unit development costs to calculate the affordability gap. For-sale units calculate the maximum affordable mortgage for lower-income households compared to the development cost of affordable housing in the City.

To estimate future market-rate housing development in the City, Harris staff researched and reviewed new residential development projects in the City, Multiple Listing Service (MLS) data showing recently constructed units, information from City staff to identify recent market trends related to home prices, and academic and building industry publications. The Fees calculated in this Study reflect the estimated cost of future residential development.

POLICY CONSIDERATIONS

The City should evaluate several policy considerations and implications related to the in-lieu fees. Harris & Associates reviewed the supportable Fees for consistency with the Housing Policy outlined in the City's Inclusionary Ordinance.

Housing Policy Consistency

The Inclusionary Housing Ordinance, adopted in 2018, discusses the current affordable housing issues that exist within the City and details the City's existing Inclusionary Housing Program. The

Fees in this study are consistent with the City's goal of providing opportunities for the development of adequate housing for households of all income levels.

To be consistent with City housing policy, the household income categories addressed in this analysis are:

- Very Low-Income (<50% AMI)
- Low-Income (51-80% AMI)
- Moderate-Income (81-120% AMI)

Role of Fee in Overall Housing Strategy

Affordable housing in Sebastopol is funded through a variety of sources, including funding provided by the City and Sonoma County, as well as direct and indirect financing provided by the state and federal government. Inclusionary fee revenues would augment other affordable housing funding sources.

Section 1 INTRODUCTION AND METHODOLOGY

Introduction

The City of Sebastopol (City) retained Harris & Associates (Harris) to prepare an Affordable Housing In-Lieu Fee Study (Study) in order to update the previously adopted Affordable Housing In-Lieu Fee (Fee) contained in Ordinance 1111. The City's current inclusionary in-lieu fee was adopted in July 2006. The City's inclusionary housing policy at that time required 20% of a project to be sold or rented at a price affordable to households earning 80% or less of the Area Median Income (AMI). The City updated this policy in 2018 changing the inclusionary requirements and allowing additional flexibility to developers. This study will update the City's inclusionary in-lieu fee to match the updated policy.

The City is updating the Inclusionary Housing In-Lieu Fee for new residential development to offer developers the option to pay an in-lieu fee for fractional units that are required under the inclusionary ordinance as part of any new residential development project of five units or more.

While In-Lieu Fees are just one of several funding mechanisms that jurisdictions can use to mitigate affordable housing needs, they are a proven method of funding, as various California cities and counties have implemented inclusionary housing fee programs. The revenues collected through the Fee are to be deposited into a housing fund specifically reserved for the funding of affordable housing within the City.

The City's inclusionary housing policy (Policy) applies to projects of five units or more. The Policy requires 15% of a development to be provided at price affordable to moderate-income (120% AMI) households, or 10% of units affordable to low-income (80% of AMI) households, or 5% of units affordable to very low-income (50% of AMI). The dedicated units are required to be deed-restricted as affordable units for a period of 55 years.

The first portion of the analysis determines the demand for affordable housing units at various income levels to calculate the "affordability gap." For ownership housing units, the sales price needed for units to be affordable to very low, low, and moderate-income households is compared to the cost to develop these units to calculate the "affordability gap." For rental units, the development cost is compared with income sources available to service debt for affordable housing to determine the "affordability gap."

Background

This section discusses the City's historical Inclusionary Housing Policy and the results of recent legislation and judicial rulings.

City's Inclusionary Housing Ordinance

The City has historically used an Inclusionary Housing Policy originally established by Ordinance 1111 to generate affordable housing in proportion with the overall increase in market-rate residential units and is described in the Housing Element of the City's General Plan. The Policy requires the following for housing projects with five or more units:

- Fifteen percent (15%) of the units shall be inclusionary units affordable to households earning 120 percent or less of AMI; or
- Ten percent (10%) of the units shall be inclusionary units affordable to households earning 80 percent or less of AMI; or
- Five percent (5%) of the units shall be inclusionary units affordable to households earning 50 percent or less of AMI.

The current Policy allows developers to pay an Affordable Housing Payment in-lieu of providing a fractional unit equal to the applicable decimal fraction times the established in-lieu fee for one inclusionary unit.

Legal Framework

In 2009, the Court of Appeals struck down a City of Los Angeles ordinance imposing inclusionary housing requirements on rental housing projects with a density of more than 10 dwelling units per lot. The Courts' decision that regulating the rent levels to ensure the units were affordable directly violated the provisions of the Costa-Hawkins Act. Jurisdictions were unable to require affordable housing units at affordable rental rates as a condition of project approval because of this decision.

In 2015, the California Supreme Court ruled in favor of the City of San Jose in a court case involving the California Building Industry Association (Association). The Association challenged the legality of San Jose's inclusionary program on the basis that it constituted an "exaction" that required a nexus study. The court deemed that San Jose's inclusionary program was not an exaction and it constituted a valid exercise of the City's power to regulate land use.

Finally, in 2017, a package of housing related bills was passed, which included AB 1505, commonly referred to as the "Palmer Fix". AB 1505 allows jurisdictions to adopt ordinances that require a percentage of residential rental units to be affordable to individuals whose income falls below the moderate-income level for the jurisdiction. Additionally, AB 1505 requires jurisdictions to provide alternative methods for developers to satisfy their affordable housing requirements, which may include in-lieu fees, off-site construction, land dedication, or acquisition and rehabilitation of existing units. AB 1505 also imposes specific standards on any county or city with an inclusionary housing policy requiring greater than 15% of a project to be provided as affordable units.

Methodology

Nexus Analysis

Residential development projects contribute to population growth. As the population grows, additional services and facilities are needed to accommodate the residential population influx. To meet the increased demands of population growth, new non-residential development will occur, correlating to an increase in the worker population. A portion of the new worker population will earn a wage that is not sufficient to rent or purchase market-rate housing. The Study analyzes the supported Fee to address the affordable housing need created by new residential development. The Fee will be used to build affordable housing to address the demand generated.

The methodology utilized in this nexus analysis complies with general best practices related to nexus studies and follows the following order, specific data points are explained in the following sections of this study. This nexus analysis is broken down into the steps described below.

Step 1: Determine the type of units to be developed

Harris & Associates coordinated with City staff, local real estate professionals, and a sampling of planned and current recently developed housing types to determine the likely characteristics of new affordable residential units developed in the City and determined the likely affordable development will all be multifamily units.

Step 2: Determine the amount that very low, low, and moderate-income households can afford to spend on housing.

Using the area median income (AMI), the maximum a household can spend on housing can be calculated. Per Sebastopol's Affordable Housing Ordinance, a maximum of 30% of household income can be used for the calculation of affordable housing. This amount does not include an allowance for utilities, property taxes, insurance, or maintenance. This amount represents the maximum affordable housing cost. Using monthly housing costs, the maximum mortgage amount can be calculated.

Step 3: Calculate the Supportable Debt of For-Rent Units

For-rent units use a project's supportable debt amount to determine what is the affordable price for a multifamily unit. Rental projects have property expenses that affect the cash flow available for debt service, and the debt service requirements on nonresidential projects are different than that of standard residential mortgages.

Step 4: Calculate Development Costs of Affordable Units

The next step in calculating the affordability gap is to determine the cost to develop an affordable unit in the City. Costs are determined by examining current development costs related to unit type

and size, the City's Policy, and recent land transactions. As the development, sale, and operations associated with for-rent and for-sale units vary, an analysis of each housing type was required.

Step 5: Calculate the Affordability Gap

The affordability gap can now be calculated by using the difference between the cost to develop a for-sale unit and what households at very low, low, and moderate incomes can afford as a mortgage (step 2). The for-rent affordability gap is calculated using the difference between the supportable debt and the cost to develop the units (step 4).

Step 6: Calculate the Supported Fee

The inclusionary equivalent Fee calculation for each housing type in this study is the affordability gap (Step 5) for each housing type. The fee for the fractional unit is calculated by multiplying the affordability gap by the fractional unit requirement.

Section 2 AFFORDABILITY GAP ANALYSIS

A key input required in the calculation of the supported fractional in-lieu Fees is the affordability gap. The affordability gap is the difference between what very low, low, and moderate-income households can afford to pay to buy or rent housing versus the total cost of developing and servicing the units. This section summarizes the methodology used to calculate the affordability gap and presents the results of this analysis for the respective unit type. For eligibility purposes, the City defines very low income as those earning less than 50 percent of the area median income (AMI), low-income households as those earning between 51 percent and 80 percent of AMI, and moderate-income as those earning between 81 percent and 120 percent of AMI.

Methodology

The following section details the findings for affordable housing rates, total development costs of units in the City, and a summary of the affordability gap by unit type. Calculating the housing affordability gap for rental units involves the following three steps:

1. Estimate the housing costs that are affordable for households in target income groups from Table 1.

2. Estimate development and servicing costs of building new affordable housing units, based on current cost and market data.

3. Calculate the difference between what very low and low-income households can afford to pay for housing and the cost of developing and servicing affordable housing units.

The housing affordability gap calculation for ownership units involves the following three steps:

1. Estimate the affordable monthly maximum mortgage affordable to very low, low, and moderate-income households from Table 1.

2. Estimate the development costs of new affordable housing units.

3. Calculate the difference between what moderate-income households can afford to pay for housing and the cost of development of affordable housing units.

Affordable Housing Rates

Prior to determining the affordability gap, the total amount that households can afford to allocate to their housing must be determined. For this report, the income levels included in the City's Inclusionary Housing Ordinance have been included in the analysis and are defined as:

- Moderate-income households earning 120 percent or less of AMI
- Low-income households earning 80 percent or less of AMI
- Very low-income households earning 50 percent or less of AMI.

The area median income is defined by the Department of Housing and Urban Development (HUD) for Sonoma County. Table 1 shows the AMI for various household sizes.

Table 1: Threshold Incomes and percent of Area Median Income (AMI)

	Persons per Household					
	1	**2**	**3**	**4**	**5**	**6**
30% AMI	$ 23,900	$ 27,300	$ 30,700	$ 34,100	$ 36,850	$ 39,600
50% AMI	$ 39,800	$ 45,450	$ 51,150	$ 56,800	$ 61,350	$ 62,650
80% AMI	$ 63,650	$ 72,750	$ 81,850	$ 90,900	$ 98,200	$ 105,450
100% AMI	$ 71,900	$ 82,150	$ 92,450	$ 102,700	$ 110,900	$ 119,150
120% AMI	$ 86,300	$ 98,600	$ 110,950	$ 123,250	$ 133,100	$ 142,950

1) California Department of Housing and Community Development July 2, 2020.

Housing affordability of rental and ownership units is defined by the City's Ordinance as 30% of gross income and states that the cost of utilities, property taxes, insurance, homeowner's dues, and the like shall not be included in the calculation of housing costs.

Because income levels for affordable housing programs vary by household size, calculating affordable rent requires a defined household size. Unit occupancy is calculated consistent with California Health and Safety Code Section 50052.5(h). Table 2 outlines the maximum available housing cost calculations for each income bracket and persons per household (PPH) category. All units being constructed are assumed to be multifamily housing. This will be a mix of studio, one-bedroom, two-bedroom, and three-bedroom units to represent the mix of units required for a diverse mix of household sizes. The maximum monthly housing cost on Table 2 is the maximum affordable rent for each income level.

Table 2: Maximum Affordable Housing Cost by Income Level

Income Level and Unit Type	Persons per Household	Household Income[1]	Maximum Monthly Housing Cost[2]
Very Low Income (50% AMI)			
One Bedroom	2	$ 45,450	$ 1,136
Two Bedroom	3	$ 51,150	$ 1,279
Three Bedroom	4	$ 56,800	$ 1,420
Four Bedroom	5	$ 61,350	$ 1,534
Low Income (80% AMI)			
One Bedroom	2	$ 72,750	$ 1,819
Two Bedroom	3	$ 81,850	$ 2,046
Three Bedroom	4	$ 90,900	$ 2,273
Four Bedroom	5	$ 98,200	$ 2,455
Moderate Income (120% AMI)			
One Bedroom	2	$ 98,600	$ 2,465
Two Bedroom	3	$ 110,950	$ 2,774
Three Bedroom	4	$ 123,250	$ 3,081
Four Bedroom	5	$ 133,100	$ 3,328

1) California Department of Housing and Community Development July 2, 2020.

2) 30% of gross income per Sebastopol Municipal Code 17.250.

Table 3 shows the maximum affordable mortgage and purchase price for very low, low, and moderate-income households.

Table 3: Maximum Affordable Mortgage and Purchase Price by Income Level

Income Level and Unit Type	Persons per Household	Household Income[1]	Maximum Monthly Mortgage[2]	Maximum Mortgage Amount[3]	Maximum Purchase Price[4]
Very Low Income (50% AMI)					
One Bedroom	2	$ 45,450	$ 1,136	$ 200,118	$ 222,353
Two Bedroom	3	$ 51,150	$ 1,279	$ 225,216	$ 250,240
Three Bedroom	4	$ 56,800	$ 1,420	$ 250,093	$ 277,881
Four Bedroom	5	$ 61,350	$ 1,534	$ 270,127	$ 300,141
Low Income (80% AMI)					
One Bedroom	2	$ 72,750	$ 1,819	$ 320,321	$ 355,912
Two Bedroom	3	$ 81,850	$ 2,046	$ 360,389	$ 400,432
Three Bedroom	4	$ 90,900	$ 2,273	$ 400,237	$ 444,708
Four Bedroom	5	$ 98,200	$ 2,455	$ 432,379	$ 480,421
Moderate Income (120% AMI)					
One Bedroom	2	$ 98,600	$ 2,465	$ 434,140	$ 482,378
Two Bedroom	3	$ 110,950	$ 2,774	$ 488,518	$ 542,798
Three Bedroom	4	$ 123,250	$ 3,081	$ 542,675	$ 602,972
Four Bedroom	5	$ 133,100	$ 3,328	$ 586,045	$ 651,161

1) California Department of Housing and Community Development July 2, 2020.

2) 30% of gross income per Sebastopol Municipal Code 17.250.

3) Assumes 30 year term at 5.5% interest.

4) Assumes a 10% down payment per Sebastopol Municipal Code 17.250.

The development costs and maximum mortgage amounts are used as the basis of the for-sale affordability gap, but for-rent units require an additional calculation. For-rent unit's affordability gap is defined as the difference between development costs and the first mortgage amount that can be supported by the net operating income (NOI) based on affordable rents. See Table 4 for the calculation of the supportable debt.

Table 4: Supportable Debt Calculation on For-Rent Units

Income Level and Unit Type	Persons per Household	Household Income	Maximum Monthly Rent[1]	Annual Rental Income	Net Operating Income[2]	Revenue Available for Debt Service[3]	Supportable Debt[4]
Very Low Income (50% AMI)							
One Bedroom	2	$ 45,450	$ 1,136	$ 13,635	$ 9,453	$ 8,220	$ 114,255
Two Bedroom	3	$ 51,150	$ 1,279	$ 15,345	$ 11,078	$ 9,633	$ 133,890
Three Bedroom	4	$ 56,800	$ 1,420	$ 17,040	$ 12,688	$ 11,033	$ 153,352
Four Bedroom	5	$ 61,350	$ 1,534	$ 18,405	$ 13,985	$ 12,161	$ 169,025
Low Income (80% AMI)							
One Bedroom	2	$ 72,750	$ 1,819	$ 21,825	$ 17,234	$ 14,986	$ 208,293
Two Bedroom	3	$ 81,850	$ 2,046	$ 24,555	$ 19,827	$ 17,241	$ 239,639
Three Bedroom	4	$ 90,900	$ 2,273	$ 27,270	$ 22,407	$ 19,484	$ 270,813
Four Bedroom	5	$ 98,200	$ 2,455	$ 29,460	$ 24,487	$ 21,293	$ 295,958
Moderate Income (120% AMI)							
One Bedroom	2	$ 98,600	$ 2,465	$ 29,580	$ 24,601	$ 21,392	$ 297,336
Two Bedroom	3	$ 110,950	$ 2,774	$ 33,285	$ 28,121	$ 24,453	$ 339,877
Three Bedroom	4	$ 123,250	$ 3,081	$ 36,975	$ 31,626	$ 27,501	$ 382,246
Four Bedroom	5	$ 133,100	$ 3,328	$ 39,930	$ 34,434	$ 29,942	$ 416,175

1) Table 2.

2) Assumes a 5% vacancy and $3,500 per unit in operating expenses including management, taxes, insurance, and maintenance.

3) Maximum debt using a 1.15 debt service coverage ratio per California Housing and Community Development Uniform Multifamily Regulations, 2017 update.

4) Assumes a 30 year term and 6% interest rate.

Affordable Development Cost Estimates

Next, the estimated cost of developing affordable housing units was determined by examining current development trends related to unit type and size. As the development, sale, and operations associated with for-rent and for-sale units vary, an analysis of each housing type was required. Single family units in Sebastopol tend to be significantly more expensive than multifamily units. For purposes of this analysis, it is assumed all City-led construction projects will be multifamily developments and as such only multifamily development costs have been calculated.

This study uses the baseline density assumption of 25 units per acre as directed by the City. Included in the total cost of developing new units are land acquisition costs, hard costs (direct improvements), soft costs (design, permits, fees, etc.), a prevailing wages cost increase, developer fees, and financing costs. These cost estimates were populated using data from a Multiple Listing Service and Commercial Sale Survey completed in November of 2020, as well as the *"Making It Pencil: The Math Behind Housing Development"* report published by the Terner Center for Housing Innovation at the University of California, Berkley. As these projects are assumed to have federal and state funding, all labor costs are required to meet the prevailing wage requirements.

Table 5 shows the per square foot development cost and land costs of for-rent multifamily units, pursuant to the requirements in the City's existing Inclusionary Housing Ordinance.

Table 5: Development Costs – For-Rent Affordable Units

Assumed Density	A		25 Units/Acre
Land Acquisition Cost ($/Acre) [1]	B	$	1,012,000.00
Land Price per Unit	**B ÷ A = C**	**$**	**40,480.00**
Development Costs [2]			
Building Hard Costs ($/SF)	D	$	250.00
Prevailing Wage Cost Increase (35%)	D x 0.35 = E	$	87.50
Soft Costs (30%) [3]	D x 0.30 = F	$	75.00
Developer Fees (12%)	(D + E + F) x 0.12	$	49.50
Financing Costs (10%)	(D + E + F) x 0.10	$	41.25
Total Development Costs per SF		**$**	**503.25**

1) Per Multiple Listing Service survey and tax record search of vacant land sales completed December 2019.

2) "Making It Pencil: The Math Behind Housing Development." Aug. 2019, www.TernerCenter.Berkeley.Edu, escalated by CCI.

3) Includes design, engineering, city permits and fees, and contingencies.

Table 6: Development Costs – For-Sale Affordable Units

Assumed Density	A		25 Units/Acre
Land Acquisition Cost ($/Acre) [1]	B	$	1,012,000.00
Land Price per Unit	**B ÷ A = C**	**$**	**40,480.00**
Development Costs [2]			
Building Hard Costs ($/SF)	D	$	275.00
Prevailing Wage Cost Increase (35%)	D x 0.35 = E	$	96.25
Soft Costs (30%) [3]	D x 0.30 = F	$	82.50
Developer Fees (12%)	(D + E + F) x 0.12	$	54.45
Financing Costs (10%)	(D + E + F) x 0.10	$	45.38
Total Development Costs per SF, Rounded		**$**	**553.58**

1) Per Multiple Listing Service survey and tax record search of vacant land sales completed December 2019.

2) "Making It Pencil: The Math Behind Housing Development." Aug. 2019, www.TernerCenter.Berkeley.Edu, escalated by CCI.

3) Includes design, engineering, city permits and fees, and contingencies.

The estimated unit size (square footage) is multiplied by the total development cost per square foot to determine the building cost. Then, the estimated land cost per unit is added to calculate the total development cost for each unit type, as seen in Table 7. Rental square footages are based on the City's Inclusionary Ordinance minimum size requirements, for-sale square footages are from a Multiple Listing Service (MLS) survey of all Sonoma County multifamily transactions in 2020.

Table 7: Unit Cost Summary

Unit Development Cost	Unit Size[1,2]	Build Costs, Rounded	Land Costs	Total Development Costs
For-Rent Units				
1 Bedroom Unit	600	$ 301,950	$ 40,480	$ 342,430
2 Bedroom Unit	750	$ 377,438	$ 40,480	$ 417,918
3 Bedroom Unit	900	$ 452,925	$ 40,480	$ 493,405
4 Bedroom Unit	1,200	$ 603,900	$ 40,480	$ 644,380
For-Sale Units				
1 Bedroom Unit	650	$ 359,827	$ 40,480	$ 400,307
2 Bedroom Unit	1,065	$ 589,563	$ 40,480	$ 630,043
3 Bedroom Unit	1,345	$ 744,565	$ 40,480	$ 785,045
4 Bedroom Unit	1,700	$ 941,086	$ 40,480	$ 981,566

1) For-rent unit sizes per Sebastopol Municipal Code 17.250.

2) For-sale unit sizes per MLS survey of all multifamily property transactions in Sonoma County in 2020, rounded.

Affordability Gap Analysis

The differences between the total amount that each targeted income level can afford to allocate for housing (Table 3, Table 4) and the total cost of developing new units (Table 6) determines the Affordability Gap. This difference represents the fee amount that is necessary to cover the costs of

developing housing at each of the respective income levels analyzed. While other funding sources may be available to assist in mitigating this difference between affordability and development costs, these sources are very difficult to predict with accuracy moving forward.

The City's current Ordinance has the following inclusionary requirements:

- Fifteen percent (15%) of the units shall be inclusionary units affordable to households earning 120 percent or less of AMI; or
- Ten percent (10%) of the units shall be inclusionary units affordable to households earning 80 percent or less of AMI; or
- Five percent (5%) of the units shall be inclusionary units affordable to households earning 50 percent or less of AMI.

The affordability gap for rental units is the difference between the development costs and the maximum supported debt for each income level, shown in Table 8.

Table 8: Affordability Gap –For-Rent Units

Income Level and Unit Type	Persons per Household	Household Income	Supportable Debt[1]	Development Cost[2]	Affordability Gap
Very Low Income (50% AMI)					
One Bedroom	2	$ 45,450	$ 114,255	$ 342,430	$ 228,175
Two Bedroom	3	$ 51,150	$ 133,890	$ 417,918	$ 284,028
Three Bedroom	4	$ 56,800	$ 153,352	$ 493,405	$ 340,053
Four Bedroom	5	$ 61,350	$ 169,025	$ 644,380	$ 475,355
Average Affordability Gap					**$ 331,903**
Low Income (80% AMI)					
One Bedroom	2	$ 72,750	$ 208,293	$ 342,430	$ 134,137
Two Bedroom	3	$ 81,850	$ 239,639	$ 417,918	$ 178,279
Three Bedroom	4	$ 90,900	$ 270,813	$ 493,405	$ 222,592
Four Bedroom	5	$ 98,200	$ 295,958	$ 644,380	$ 348,422
Average Affordability Gap					**$ 220,858**
Moderate Income (120% AMI)					
One Bedroom	2	$ 98,600	$ 297,336	$ 342,430	$ 45,094
Two Bedroom	3	$ 110,950	$ 339,877	$ 417,918	$ 78,041
Three Bedroom	4	$ 123,250	$ 382,246	$ 493,405	$ 111,159
Four Bedroom	5	$ 133,100	$ 416,175	$ 644,380	$ 228,205
Average Affordability Gap					**$ 115,625**

1) Table 2.

2) Assumes a 5% vacancy and $5,000 per unit in operating expenses including taxes, insurance, and maintenance.

3) Assumes a 1.15 debt coverage ratio.

1) Table 4.

2) Table 7.

Using the inclusionary requirements, Table 9 shows the for-sale affordability gap calculation.

Table 9: Affordability Gap – For-Sale Units

Income Level and Unit Type	Persons per Household	Maximum Mortgage Amount[1]	Allowable Down Payment[2]	Maximum Purchase Price	Development Cost[3]	Affordability Gap
Very Low Income (50% AMI)						
One Bedroom	2	$ 200,118	$ 22,235	$ 222,353	$ 400,307	$ 177,954
Two Bedroom	3	$ 225,216	$ 25,024	$ 250,240	$ 630,043	$ 379,803
Three Bedroom	4	$ 250,093	$ 27,788	$ 277,881	$ 785,045	$ 507,164
Four Bedroom	5	$ 270,127	$ 30,014	$ 300,141	$ 981,566	$ 681,425
Average Affordability Gap						**$ 436,586**
Low Income (80% AMI)						
One Bedroom	2	$ 320,321	$ 35,591	$ 355,912	$ 400,307	$ 44,395
Two Bedroom	3	$ 360,389	$ 40,043	$ 400,432	$ 630,043	$ 229,611
Three Bedroom	4	$ 400,237	$ 44,471	$ 444,708	$ 785,045	$ 340,337
Four Bedroom	5	$ 432,379	$ 48,042	$ 480,421	$ 981,566	$ 501,145
Average Affordability Gap						**$ 278,872**
Moderate Income (120% AMI)						
One Bedroom	2	$ 434,140	$ 48,238	$ 482,378	$ 400,307	$ -
Two Bedroom	3	$ 488,518	$ 54,280	$ 542,798	$ 630,043	$ 87,245
Three Bedroom	4	$ 542,675	$ 60,297	$ 602,972	$ 785,045	$ 182,073
Four Bedroom	5	$ 586,045	$ 65,116	$ 651,161	$ 981,566	$ 330,405
Average Affordability Gap						**$ 149,931**

1) Table 3.

2) 10% down payment per Sebastopol Municipal Code 17.250.

3) Table 7.

Section 3 FINDINGS AND POLICY CONSIDERATIONS

This section presents the inclusionary unit Fee, which is calculated by following the methodology outlined in Section 1 and using the results from the affordability gap analysis detailed in Section 2.

Fee Calculation

The supported Fees are calculated by averaging the multiplication result of the affordability gap by unit type and at affordability levels required by the City's Inclusionary Housing Ordinance. Table 10 shows the calculation of the inclusionary equivalent in-lieu fee for each income level.

Table 10: Inclusionary Unit Equivalent Fee Calculation

	Inclusionary Unit Fee	
Income Level	**For-Sale**	**For-Rent**
Very Low-Income	$ 436,586	$ 331,903
Low-Income	$ 278,872	$ 220,858
Moderate-Income	$ 149,931	$ 115,625

Sources: Table 8 and Table 9.

The inclusionary unit fee is available to developers when a project's inclusionary housing requirement has a fractional unit requirement. The City's Policy states that required whole units will be constructed as part of the development and any fractional units may be rounded up to the next whole number and constructed or the project may pay an in-lieu fee for the fractional units. An example 16 unit development that opts for moderate-income inclusionary housing is required to provide 2.4 units (16 units x 15% inclusionary requirement) at prices affordable to households at 120% AMI. This project could construct two units and pay a fee of $59,972.40 (0.4 units x $149,931 Inclusionary Unit Equivalent Fee) if the project is for-sale and $46,250.00 (0.4 units x $115,625 Inclusionary Unit Equivalent Fee) if the project is for-rent or they could build three (3) affordable units.

Adopting a fee to be collected from new development should be consistent with other City policies and should not have measurable impacts on the development community.

Housing Policy Consistency

The City updated its inclusionary housing policy in 2018. Updating the affordable housing in-lieu fee enables the City to partially mitigate affordability issues for future development by providing housing for households in the very low, low, and moderate-income categories.

The Policy requires the following for housing projects with five or more units:

- Fifteen percent (15%) of the units shall be inclusionary units affordable to households earning 120 percent or less of AMI; or

- Ten percent (10%) of the units shall be inclusionary units affordable to households earning 80 percent or less of AMI; or
- Five percent (5%) of the units shall be inclusionary units affordable to households earning 50 percent or less of AMI.

The current Policy allows developers to pay an in-lieu Affordable Housing Payment to meet the requirements for fractional inclusionary units.

BENEFIT TO THE CITY'S OVERALL AFFORDABLE HOUSING STRATEGY

The revenues to be collected from an Inclusionary Housing In-Lieu Fee provide an important source of local funding; however, fee revenues do not generally cover the entire funding gap encountered by sponsors of new affordable housing. Additional funding is usually required.

Currently, affordable housing in the City is funded using a variety of financing sources, including funding provided by the City, Sonoma County, the state, or the federal government. In addition, equity is also provided directly by developers and indirectly raised through the allocation and sale of Low Income Housing Tax Credits. Finally, a portion of permanent financing comes from conventional loans obtained from private lending institutions.

In-lieu fees would augment existing affordable housing funds. The existence of a local revenue source such as impact fees can also make certain projects more competitive for outside funding.

FEE ADJUSTMENTS

Similar to any impact fee, the fee should be adjusted annually for inflation and increases in construction costs. Adjustments are also needed due to possible changes in the housing affordability gap.

The City should adjust its inclusionary in-lieu fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. Adjusting the fee for annual inflation by the Construction Cost Index published in the Engineering News-Record (ENR) will represent the annual increases in construction costs. Cost index information for the San Francisco area, the closest geographical area to the City, should be used as the annual inflator.

In addition to revising the fee annually for inflation, the City is encouraged to update the Study every five years, or at the very least, update the housing affordability gap used in the basic model. The purpose of these updates is to ensure that the fee is still based on a cost/revenue structure that remains applicable in the Sebastopol housing market. In this way, the fee will more accurately reflect any structural changes between affordable prices/rents and market-rate sales prices/development costs.

Conclusion

Inclusionary Housing Fractional In-Lieu Fees, along with other development impact fees, are a necessary tool to allow development to 'pay its own way' and offset the impacts created by new development. The revenues generated by the in-lieu fees, in conjunction with other funding sources, can help mitigate the City's affordable housing need. Fractional in-lieu fees allow developers to meet City requirements when building additional units may not be an option.