

# Development Fees: Sacramento

*This brief is part of the Turner Center series “Statewide Goals, Local Tools: Case Studies in Affordable Housing Development in California.”*

Among many factors contributing to the shortfall of homes in California, the rapidly-rising cost of new construction is among the most significant. Rising development costs can be partially explained by nationwide factors, such as the cost of steel or concrete, as well as state or local factors. One factor particularly prevalent in California is the increasingly high fees that cities charge for new development.<sup>1</sup> While these fees are often necessary to meet expanded need for infrastructure, there is room for more strategic and streamlined use of development fees to encourage housing production where it is most essential and sustainable. The following case study examines the steps taken by the city of Sacramento to restructure fees to better suit the collective interests of city administrators, developers, and residents.

## Background

In the 1970s, 1980s, and 1990s, Californians enacted a series of anti-tax ballot measures and initiatives that drastically restricted the amount of property tax that can be collected by the state. While the stated intent behind Propositions 13, 62, and 218 was to reduce the taxpayer burden and curtail wasteful bureaucratic practices, a consequence was the dramatic restructuring of municipal finance statewide. Jurisdictions had previously relied on revenue generated by property taxes to fund the infrastructure improvements that would serve a growing population. But with more limited sources of tax revenues, local administrators have increasingly placed the burden of infrastructure financing directly on new development. In the current paradigm, housing development is largely expected to “pay its own way” in the form of fees

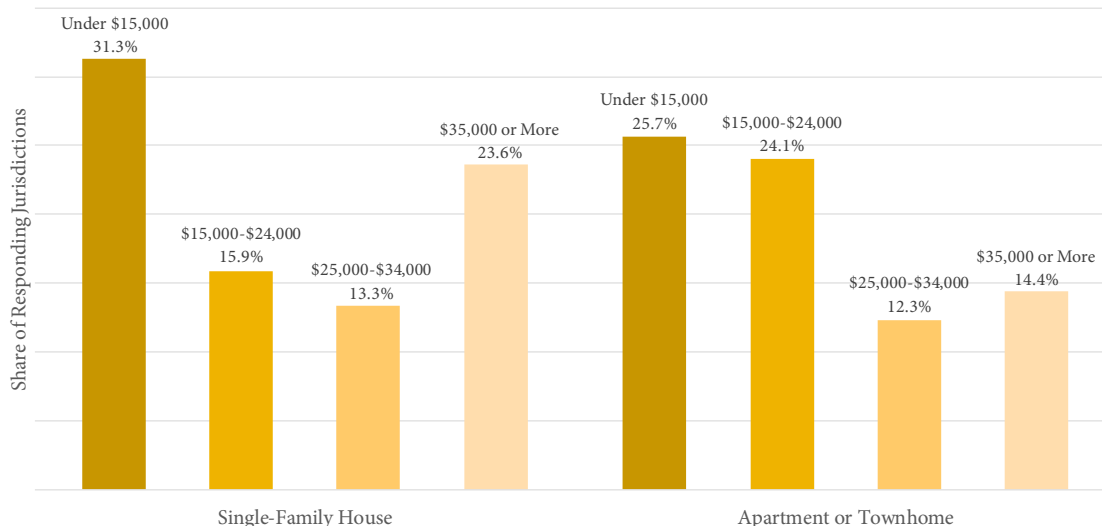
that cover both the jurisdiction’s development approval process and the impact that the new development will have on infrastructure, schools, and transportation systems, among other factors.

These fees vary widely in their nature and amount from city to city, and are governed by several different statutes, including the Mitigation Fee Act (1987), the Quimby Act (2015), and the California Environmental Quality Act (CEQA) (1970). Even within a city, development fees are often set by different departments without coordination with one another.

This highly dispersed process can present difficulties for stakeholders at the local scale. Developers face obstacles to estimating the potential fees for their project and planning their project budgets accordingly. City officials can have difficulty estimating the fees that their own jurisdictions charge. In a recent Turner Center survey of all California cities, 15 percent of respondents could not estimate total fees for a single-family home and 23 percent could not provide an estimate for an apartment home, citing the extreme variability of the fees in question.<sup>2</sup> The variability and lack of transparency present a clear challenge for researchers and policymakers trying to better understand and streamline the fees at a statewide level.

Fees can also really add up. In the same Turner Center survey, almost a quarter of respondents reported that the total development fees charged to build a single-family home exceeded \$35,000 (Figure 1).<sup>3</sup>

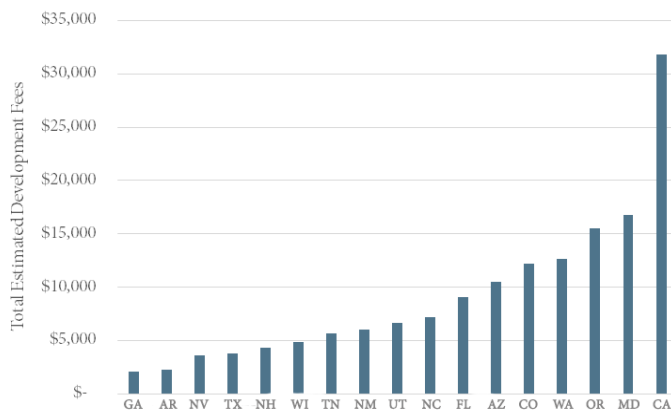
Figure 1: Total Estimated Development Fees Per Unit in California



Notes: Amounts are an estimate of all fees charged for a development project including utility fees; percentages do not total to 100 due to omitted response of “impossible to say”  
 Source: Turner California Residential Land Use Survey

Indeed, California stands out as a state with exceptionally high fees (Figure 2). A 2015 report noted that, overall, development fees in California were almost three times the national average. The average single-family home built in California in 2015 cost a developer over \$30,000 in fees, about double the average fees in the state with the second-highest fees, Maryland.<sup>4</sup>

Figure 2: Average Single-Family Development Fees by State, 2015



Source: Duncan Associates

In general, fees are most commonly used in southern and western states, and where anti-tax statutes have garnered the most public support.<sup>5</sup> Fees can impact housing affordability in two primary ways. First, they can add to the purchase price or rent of a home as developers pass fees onto the new homeowners. Second, the addition of fees can restrict housing supply if the project’s costs exceed the amount a developer can pay while still achieving a minimum desired profit (i.e. the project ceases to “pencil”).<sup>6</sup>

Development impact fees can have distinct effects on different types of housing development. Broadly, housing development is either “greenfield” development—that is, in a location formerly

free of any structures—or “infill” development, situated within an already built-up area. In California, greenfield developments can make use of creative infrastructure financing tools, such as Mello-Roos Community Facilities Districts (CFDs), to fund the additional infrastructure needed to support them. CFDs allow master developers to pass the cost of new infrastructure on to future home purchasers in the form of special taxes. Such a financing tool is less readily available for infill developers as two-thirds of existing residents would need to approve the special tax.

Despite hurdles to its implementation, strategic use of infill development can mitigate both the financial and environmental costs of housing, especially in California’s most desirable housing markets.<sup>7</sup> As such, streamlining fees can help to encourage infill development. It is increasingly a strategy that California’s cities, including Sacramento, have begun to use.

### Streamlining Development Fees

In 2009, the state capitol adopted a new General Plan centered on the principles of Smart Growth, favoring infill and urban revitalization over greenfield housing development to accommodate substantial anticipated population growth through 2035.<sup>8</sup>

The General Plan’s Housing Element was adopted in 2013, and among its goals was a specific directive to “review and reduce applicable processing and development fees for very low- and low-income housing units,” acknowledging the potential role that fees were playing in constraining the supply of affordable housing.<sup>9</sup>

In 2014, city officials began a comprehensive, multi-year process to overhaul the city’s development fees, with an explicit recognition of their potential cumulative impacts on housing affordability and development feasibility. The city first engaged an external firm to review all fees and produce a report which would develop a framework for the city to engage in the following:

- » Support the General Plan planned growth areas with adequate capital improvements
- » Provide a more consistent and certain fee calculation and payment process
- » Have growth pay its fair share of infrastructure investments to the maximum extent feasible
- » Adjust fees comprehensively, rather than piecemeal<sup>10</sup>

Considering Sacramento's fees in the context of its neighboring municipalities, the report found that the current system of fees was complex and costly to both developers and city administrators, created an inequitable financial burden on infill projects, and served as a barrier to citywide economic development. Total fees ranged from 10-20 percent of total development costs, but varied widely by neighborhood in a pattern that had been established when greenfield development was incentivized. Overall, Sacramento's development fee programs were found to directly impact the feasibility of new development, especially in areas where homes were not highly valued.<sup>11</sup> The report recommended that Sacramento consider citywide as opposed to neighborhood-specific fees, which would spread out the cost of infrastructure and promote more infill development.

Based on these insights, city officials from various departments collaborated on reviewing and overhauling all fees, culminating in the following:

- » **A uniform process for all fees.** Where previously fees had been governed by a variety of disparate codes, city officials created a master ordinance in the City Code under which all fees, existing and future, would be governed.<sup>12</sup> The master ordinance lays out common rules and requirements for fees, including consistent procedures for refunds, credits, and challenges to fees.
- » **Fees that are more predictable and affordable.** The city established a fee deferral program in which developers could delay payment of certain fees until completion of construction.<sup>13</sup> Deferring fees reduces reliance on pre-development funding, which can be more expensive and more difficult to secure. This concept in particular arose from the development community, and speaks to the collaborative process used to craft the fee overhaul.
- » **Incentive structures that favor infill development.** The city reduced the number of park acres required for each development, an incentive which specifically aids the feasibility of infill construction, and created area finance plans to mitigate the uncertainties of infrastructure financing in infill areas. Officials also lowered fee rates in housing incentive zones, in the central city, and near transit.
- » **A fee estimation service.** For a nominal fee, developers can obtain a projection of the total anticipated project fees they will incur. This information is typically obtained by individual developers who work with various city departments in

what can be a confusing and lengthy process. The fee estimation service was in place before 2014, and complements the overall streamlining of fees that took place in the fee overhaul process.

## Implementation

Sacramento's fee program overhaul was not without challenges, and not all complexities could be fully addressed. For example, one element contributing to the complexity of fees is the fact that there are often varying methods of calculation: some are based on the project's total square footage, while others use the number of units or bedrooms, among other measures. Sacramento city officials proposed using one standard for all fees. This approach, while appealing, would not allow the fees to comply with the legal rules that govern them. When possible, however, fees are now calculated using square footage.<sup>14</sup> Fees based on square footage rather than on the number of units or bedrooms can encourage more units in the same area by lowering the cost of dense multi-family relative to single-family home construction.

In addition, although some officials favored eliminating many fees to encourage development, ultimately the overhaul process resulted in increasing and even adding some fees. A necessary balance was struck between progressive revision and practical considerations. It is important to note that the fee study had been conducted based on information from the nadir of the housing market in 2012, and by 2017 market conditions had improved significantly. Ultimately, with the fee deferral and reduction that did take place, the city managed to keep overall fees low and approximately consistent.<sup>15/16</sup>

A recent Turner Center study examining impact fees in seven different cities in California found that Sacramento stood out among other municipalities for its practices. Its fees were estimated at \$17,257 for a multi-family unit and \$21,174 for a single-family unit (not including utility fees), which were the lowest or second-lowest among the other cities in the study.<sup>17</sup> Sacramento went even further recently when the City Council voted to waive most development fees on affordable housing projects, substantially lowering local costs on those projects.<sup>18</sup>

In the short time since the program overhaul, it would be premature to assert a causal connection between the process and housing production. However, it appears that the strategic revision at the very least has added to existing momentum in Sacramento's housing development environment. City officials report that housing production has essentially doubled in the past year, and that the central city has become an increasingly viable location in which to build homes.<sup>19</sup>

## Lessons Learned

- » **Streamline for external and internal benefit.** A transparent and consistent fee system can minimize confusing and time-consuming processes for both developer applicants and for city officials. Sacramento's fees were redesigned with input from a variety of city departments, and the fee estimator system

streamlines a typically opaque and time-consuming process for developers interested in obtaining project entitlements.

- » **Engage in a diverse collaborative process.** In Sacramento's case, several key insights emerged from stakeholders who were not city officials. Engaging the public, interest groups, and developers in the overhaul process can bring forth ideas that might not emerge internally and ensure more appropriately calibrated and applied fees.
- » **Design fees to support housing priorities.** Sacramento has taken conscientious steps to design their fees such that they are responsive to projects' location and type. The city's fees now incentivize infill housing development and fund infrastructure more equitably, consistent with the city's housing element.

## Useful Sources

Duncan Associates' Impact fees Resources  
<http://www.impactfees.com/>

National Association of Home Builders Impact Fee Handbook  
<https://www.nahb.org/en/research/~//media/8B12E2AABAE549F49CDC751B378C737A>

It All Adds Up: The Cost of Housing Development Fees in Seven California Cities  
<https://turnercenter.berkeley.edu/development-fees>

## Endnotes

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