# Housing Impact Fees in Oakland — Frequently Asked Questions
# October 9, 2014

## What is a housing impact fee?

A housing impact fee is charged on market-rate housing development to build affordable workforce housing. The fee is based on the fact that new market-rate housing brings new residents who spend money on goods and services, generating new jobs. Many of these new jobs do not pay workers enough to afford available housing. Thus, creation of new market-rate housing in our community increases the need for affordable housing which needs to be mitigated. The fee is charged either on a per unit or per square foot basis. The City of Oakland is in the process of selecting a consultant to conduct a nexus study and determine the appropriate level of the fee.

## Why do we need a housing impact fee in Oakland?

While Oakland has historically been a leader in the production of affordable housing, in recent years production has been greatly reduced by the decline in affordable housing resources. With the loss of redevelopment funds, the amount available each year for new affordable housing projects has fallen from $20 - $25 million to roughly $5 to $7 million. A housing impact fee set at a meaningful level could restore a significant share of the affordable housing funding Oakland has lost in recent years. If a fee had been in effect during the last housing boom, we could have secured funding for 1,000 to 2,000 additional affordable homes. If Oakland fails to take this step, our already dire affordable housing crisis will get worse. Furthermore, not passing an impact fee will make it nearly impossible for Oakland to meet its Housing Element goals, especially after discovering through their nexus study that developing new luxury housing does in fact contribute to the affordable housing crisis.

## Can an impact fee help the city leverage other resources to build affordable homes?

Yes. Implementing a housing impact fee is a direct way to ensure new affordable homes will be built, as the fees collected will be used by the City of Oakland's Housing Department to create new affordable rental homes. By collecting these fees, and then lending them to affordable housing developers, the City enables developers to compete for the rest of the funding they need to build affordable rental homes – namely, federal Low Income Housing Tax Credits and the State of California's Multifamily Housing Program, as well as new funding available from Cap-and-Trade auction revenues. Each dollar lent by the City to an affordable housing developer typically leverages three to four other dollars to create affordable rental homes – this ensures that the cost of building each affordable rental apartment is shared between local, state, and federal governments as well as banks who provide construction loans and long-term loans. Oakland is already missing out on fully utilizing these funds due to cuts in local funding, and we will continue to leave money on the table unless we enact a housing impact fee.

## Do other cities have housing impact fees?

Yes. Many Bay Area cities utilize housing impact fees to raise money for affordable housing. The cities of Mountain View, San Carlos, Fremont, San Francisco, Walnut Creek, Santa Rosa, Berkeley, and most recently Daly City and Emeryville all have adopted housing impact fees. For example, Fremont charges a rate of between $17.55 and $20.25 per square foot, while Santa Rosa charges a fee equal to $19.53 per square foot. Emeryville charges $20,000 per unit. In fact, Oakland itself already has an impact fee charged on new commercial developments – $5.24 per square foot on office and warehouse/distribution facilities. However, few new office buildings have been developed in recent years, so the "jobs/housing fee" isn't producing enough on its own.

## Why a housing impact fee rather than other potential funding sources?

A housing impact fee is the best chance Oakland has to restore funding for affordable housing. The City's General Fund is already inadequate for basic services, and a parcel tax – or any other tax to generate local funds specifically for affordable housing – would require a ballot measure and 2/3 approval from voters. Despite strong support for affordable housing, this is a very high bar to reach, and few local taxes for specific uses can meet this threshold. Oakland has committed to dedicate a portion of its "boomerang funds" (the money the City gets back in property tax because redevelopment was eliminated), but this amounts to just a fraction of what was available under redevelopment.

Likewise, while we welcome the Legislature's decision to put a small percentage of ongoing revenue from cap-and-trade toward affordable homes, these funds alone are not a panacea, and cannot be accessed without a local city contribution. Bills to reconstitute redevelopment were vetoed by the Governor, and SB 391, the California Homes and Jobs Act, which would create a permanent source of funding for the State of California's affordable housing programs, also was defeated by powerful opposition from Realtors.

## Will housing impact fees make market-rate apartments more expensive to rent?

No. Landlords set rents and sales prices based on the market, not based on the cost of the developer to produce a new home. The cost of an impact fee can't simply be passed along as an added cost in market-rate homes, because homes priced this way won't be competitive with other homes. Rather, studies suggest this cost tends to be reflected in the price of land, and is absorbed by landowners.

## Do housing impact fees discourage development?

Not if they are designed well. City leaders from Mountain View – the most recent local city to pass a housing impact fee – report no decline in interest among rental housing developers to build since their rental impact fee was enacted. In Oakland, the nexus study will also include a financial feasibility analysis, which will determine how much of a fee can be charged and still keep market rate housing feasible.

Furthermore, a 2008 analysis by the Furman Center for Real Estate at NYU, which looked specifically at inclusionary housing policies in the Bay Area, found that these programs had no impact on housing production or prices. A well designed and well run program can create affordable homes without discouraging development.

## Is it fair to require developers to pay part of the cost of affordable housing?

Yes. The feasibility study will be used to help set a reasonable fee that still includes a reasonable profit for developers. And if an impact fee is passed, the development community will not be the only group being asked to contribute. There are still several funding sources that contribute to affordable housing. As mentioned above, the state is devoting some cap-and-trade funds, and federal tax credits are one of the most important remaining sources of funds. But it is important to have local funding sources to be able to make projects more competitive to attract these outside sources of funds.