

**HOUSING
IMPACT FEE
NEXUS STUDY**

SUBMITTED TO

City of Salinas

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Prepared by

VERNAZZA WOLFE ASSOCIATES, INC.

www.vernazzawolfe.com

**2909 Shasta Road
Berkeley, California 94708**

Tel: (510) 548-8229

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CITY OF SALINAS**

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HOUSING IMPACT FEE NEXUS STUDY CITY OF SALINAS

EXECUTIVE SUMMARY

As part of the review and update of the City's Inclusionary Ordinance, the City is looking at the possibilities of enacting a housing impact fee (discussed in this report) and a Commercial Linkage Fee (discussed in another nexus study report). The City of Salinas does not currently have a Housing Impact Fee. A Housing Impact Fee would be charged on new residential developments in order to help pay for an increase in affordable housing demand associated with the hiring of new workers who are employed to provide the goods and services needed by renters and buyers living in newly built residential developments. (In comparison, a Commercial Linkage Fee is charged on new commercial developments to offset affordable housing impacts from new employees working in these new commercial spaces.) In order to demonstrate an essential nexus (connection) between new housing development and the impact to affordable housing to justify a new fee on residential development, it is necessary to undertake a Housing Impact Fee Nexus Study. This Nexus Study provides this analysis and is a companion study to the *Commercial Linkage Fee Nexus Study* also prepared as part of the update to the Inclusionary Housing Program.

The purpose of this nexus analysis is to quantify the increase in demand for affordable housing that accompanies new residential development. It is assumed that there will be a net gain in employment when new residential units are built. (For example, child care, food service jobs and landscaping work will all be needed because of the new residential units.) Unlike other types of impact fee studies, the affordable housing impacts are not direct. Instead, they are derived from the expenditures of residents moving into newly constructed residential units.

The ability of new employees generated by the net gain in employment when new residential units are built to pay for housing costs is linked to their occupations (and hence salaries). Additional housing units will be needed for those employees who will work in Salinas and who want to live in Salinas as well. Housing units at all price levels are needed. Given anticipated incomes, there is an affordability *gap* between what some households can afford to pay (to rent or to buy) and the actual costs of new residential development. This gap provides the basis for a fee calculation.

Based on current and potential residential developments in the future growth areas, this Nexus Study examines three residential prototypes. These include (1) Single Family Low Density Units, (2) Single Family/Townhome Units on Small Lots, and (3) Apartment Units.

The per unit fee amounts calculated for this study are directly related to potential sales prices and potential market rents. However, the square foot fee amounts are related not only to these potential prices and rents, but also to the average sizes of units in each of the prototypes. Consequently, although the per unit fee calculated for the single family low density prototype is the highest of the three prototypes, the square foot fee calculated for the apartment units (that are less than half the size of the single family low density units) are the highest of the three prototypes.

Table ES-1 below presents the maximum fee amounts for each residential prototype, as well as three reduced fee scenarios, assuming the same fee per square foot for all residential prototypes. While a Nexus Study establishes a maximum fee level for the City's consideration, the City can select a lower fee amount.

Table ES-1: City of Salinas Potential Housing Impact Fees per Unit and Square Foot (Rounded Values)

	Low Density Single Family Homes	Small Lot Single Family/Townhomes	Apartments
Average Unit Size (Square Feet)	2,600	1,750	1,060
Maximum Fee Amount Per Unit (1)	\$34,000	\$22,000	\$21,000
Maximum Fee per Square Foot	\$13	\$13	\$20
Fee Scenarios (2)			
Scenario #1: Fee/Unit	\$26,000	\$17,500	\$10,600
Scenario #1: Fee per Square Foot	\$10	\$10	\$10
Scenario #2: Fee Per Unit	\$13,000	\$8,750	\$5,300
Scenario #2: Fee per Square Foot	\$5	\$5	\$5
Scenario #3: Fee Per Unit	\$5,200	\$3,500	\$2,120
Scenario #3: Fee per Square Foot	\$2	\$2	\$2

(1) The full fee represents a fee if all affordable housing impacts are considered within Monterey County.

(2) The fee scenarios are fixed dollar amounts below the maximum fee level.

Sources: Tables 3 and 8.

The study process was guided by a seven member Technical Advisory Committee (TAC), with additional input from a Resource Group. The TAC was made up of a broad set of stakeholders including developers, affordable housing advocates, land use law experts and others. The TAC, which met throughout the process, helped finalize key decisions, such as which prototypes to study. The Resource Group was made up mostly of developers with technical expertise. The next step in the study process is for public officials in the City to consider whether to adopt a Housing Impact Fee, and if so, at what level. In making this decision, the City will take into consideration many factors that could affect the proposed fee's impact on residential development feasibility, such as whether it will also be adopting a Commercial Linkage Fee on new commercial

developments, housing impact fees in neighboring jurisdictions, financial feasibility, as well as the overall existing City fees already charged on residential developments, as well as other affordable housing requirements.

INTRODUCTION

The City of Salinas is potentially interested in adopting a housing impact fee on new housing developments. The purpose of this fee would be to mitigate the impact of an increase in demand for affordable housing due to employment growth associated with potential new housing development. The City has also commissioned a Commercial Linkage Fee Study which calculated the demand for affordable housing due to direct employment growth associated with new commercial developments. In this way, the City could distribute the responsibility for affordable housing associated with real estate development across both commercial and residential developments.

The City authorized a Housing Impact Fee Study as part of an evaluation of its inclusionary program. While it is possible for the City to continue to operate an inclusionary program for ownership units, it cannot include rental units in its Inclusionary Program. Due to a state court decision (referred to as the Palmer Decision), it is no longer possible to apply inclusionary zoning requirements on new rental developments, unless the developer receives assistance from the City and the developer agrees by contract to limit rents. The assistance can take many forms including increased density.

However, a rental housing impact fee established through a nexus study will allow the City to collect housing impact fees from the developers of new rental housing. This Nexus Study also undertakes the calculations for an ownership housing impact fee. Finally, information provided by this Study (housing affordability gap) can also be used to update the City's in-lieu fee for the City's Inclusionary Housing Program.

In order to establish these fees, nexus studies are required under California law. In the case of residential development, a nexus study establishes and quantifies a link or nexus between new residential development and the need for additional housing affordable to new workers. Nexus studies for school impact fees, traffic mitigation fees, and park fees are common. Although nexus studies for housing impact fees are less common, a peer-validated methodology exists that establishes a connection between the development of market rate housing and the need to expand the supply of affordable housing. This study is based on this methodology.

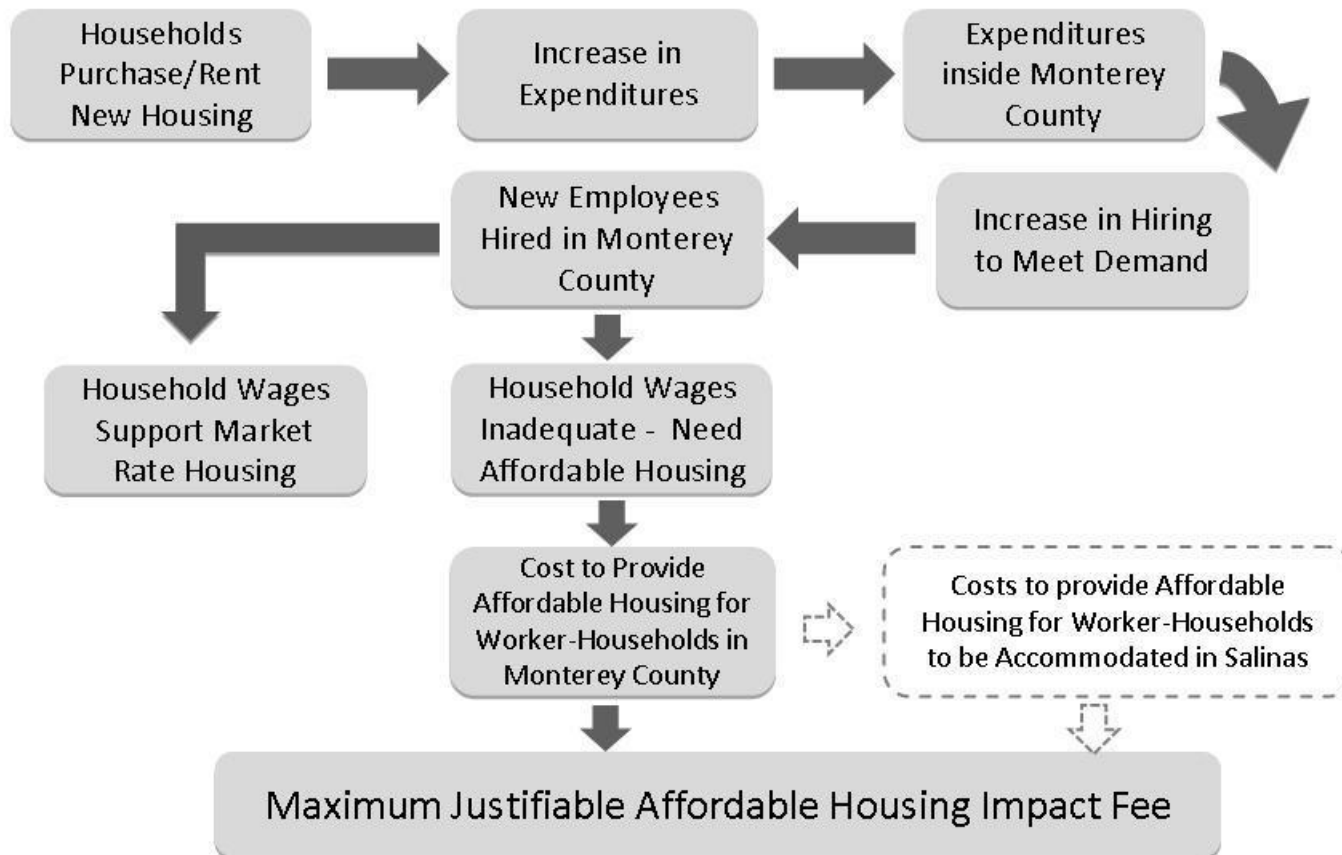
The approach for this Nexus Study is to quantify the number of new employees that need to be accommodated in the City of Salinas in order to provide goods and services to the market rate households that are moving into Salinas and renting or purchasing new housing. Although growth in employment will provide jobs at various wage rates, many of the new jobs will be at low-wage rates in retail trade and services. Since low-wage households cannot reasonably afford to pay for market rate rental and for-sale housing in Salinas, a housing impact fee can be justified

to bridge the difference between what these new households can afford to pay and the costs of developing new, modest housing units for them.

This approach assumes that the development of new market rate housing units creates a situation in which low-wage households need to move to the City of Salinas in order to provide goods and services to the residents of new market rate housing. In the absence of market rate residential growth, new employees would not be needed to fill the employment demand created by new residents, and hence there would not be a need for a housing impact fee.

Figure 1 presents a diagram of this approach.

Affordable Housing Impact Fee Nexus Analysis



HOUSING PROTOTYPES USED IN STUDY

The first step in a nexus analysis is to model residential housing prototypes to use in the study. The prototypes establish the types of market rate housing development that are occurring or are expected to occur in the City that could potentially be subject to the affordable housing impact fee. The fees calculated in this nexus study are only applicable to the housing prototypes defined in this analysis.

Based on historical development trends, market data, developer interviews, and input from city staff, the Consultant Team constructed three housing prototypes that represent the type of development that is likely to occur in Salinas: for-sale single-family, low-density homes, for-sale small lot single family or townhomes, and rental apartments. While these prototypes are based on actual developments, they are not intended to represent specific development projects. Instead, they are designed to illustrate the types of projects that are likely to be built in Salinas in the near future. Tables 1 and 2 provide the background market information that was consulted in the development of the prototypes used in this Study.

It should be noted that the slowdown in new residential development that characterized both the state and the nation also impacted the City of Salinas. There was very little new residential construction during the period 2008-2015, and the housing market is only now recovering.

Because the model looks at impacts from new development, the prototypes are based on recent trends in new construction. Patterns in the resale market are summarized in the housing element.

Table 1: Planned and Newly Constructed, For-Sale Developments (City of Salinas and Selected Locations in Monterey County (2008-2015))

Prototype	Location	Number of Units	Unit Size	Sales Price	Price per SF	# of Bed-rooms	No. of Bath-rooms	Parking	Density/Lot Sizes
Single Family Homes-Low Density									
Monte Bella, Tesori (under construction)	Salinas	77 (About 27 are complete and 50 are under construction)	2,260 SF Average	\$415,000 to \$510,000	\$184 to \$226/SF	3	3	450 SF Garages	5 du/acre
Monte Bella Phase 4: 2011	Salinas	125 Lots	2,872 SF Average	\$364,643	\$128/SF	4	3	450 Sf Garages (Median)	5,500 - 6,827 SF
East Garrison: Some units completed, and others are under construction.	Unincorporated Monterey County	200	1,575 - 2,877 SF	\$452,000 - \$655,000	\$228/SF to \$287/SF	3 - 5	2.5 - 3	500 SF Garages (average)	Lot sizes - average 3,840 SF
Single Family Small Lot/Townhomes									
The Commons at Rogge Road (2008)	Unincorporated Monterey County	123	Average size of 1,567 SF	\$254,267 (average)	\$123/SF average	3 - 4	3	366 SF Garages (averages)	High Density (15 du/acre)
Sea Houses (Duets), part of The Dunes, opening in 2015	Marina	92	1,523 - 1,896 SF	\$495,000 - \$544,000	\$287/SF to \$325/SF	2 - 4	2.5	400 SF Garages	2,500 - 3,500 SF
Surf House, part of The Dunes, opening in 2015	Marina	105	1,928 - 2,158 SF	\$599,000 - \$634,000	\$294/SF to \$311/SF	3 - 4	2.5	400 SF Garages	2,500 - 3,500 SF

Sources: Interviews with local developers, and review of information on developers' websites (2015).

Table 2: Planned and Newly Constructed, Rental Developments (City of Salinas, 2008-2015)

Prototype	Location	Number of Units	Unit Size	Monthly Rent	Price per SF	Average # Bedrooms	Average # Bathrooms	Parking
Apartments								
Creekbridge Apartments (2015)	Salinas - Located in Creekbridge Retail Center.	36						One covered parking space assigned to each unit and 44 open spaces.
	One-Bedroom Units	6	772 SF	\$1,265 - \$1,290	NA	1	1	
	Model #1 (two-bedroom units)	6	972 SF	\$1,465	NA	2	2	
	Model #2 (two-bedroom units)	6	1,026 SF	\$1,515	NA	2	2	
	Three-Bedroom Units	12	1,192 SF	\$1,765	NA	3	2	
	Four-Bedroom Units	6	1,407 SF	\$1,890	NA	4	2	

Sources: Interviews with local developers, and review of information on developers' websites (2015).

Based on the information presented in Tables 1 and 2, new and proposed residential developments used in this Study are described as follows:

➤ **Single Family Homes-Low Density**

Density: 6 DU/Acre (average)

Lot Size: 5,000 SF

Average House Size: 2,600 SF

Sizes: Three to four bedrooms, three bathrooms

Parking: 450 SF garages

Average Prices: \$415,000 to \$520,000

➤ **Single Family/Townhome Small Lot**

Density: 9 - 15 DU/Acre

Lot Sizes: 3,000 SF

Average House Size: 1,500 SF

Sizes: Three to four bedrooms, three bathrooms

Parking: 400 SF garages

Average Price: \$275,000 to \$310,000

➤ **Apartments** – No change (based on Creekbridge Apartments)

Density: 16 - 24 DU/Acre

Sizes: One to four bedroom units, 1 to 2 bathrooms

Parking: One covered space

Rents: \$1,265 - \$1,890 per month

These unit descriptions are also consistent with requirements of the new residential balance proposed for the Future Growth Areas, and were approved by the Technical Advisory Committee.

Finally, Table 3 presents three prototypes. The prototype information includes residential unit descriptions, including rents and sales prices, as well as the number of units in each prototype. These unit counts do not conform to a specific project in Salinas or Monterey County, but are expressed in rounded numbers to simplify reporting.

Table 3: City of Salinas, Residential Prototypes Used in Nexus Study

	No. of Units in Prototype ¹	Sales Prices	Monthly Rents (Weighted Average)
Low Density Single Family	40		
Three-Bedrooms, Three Baths	20	\$415,000	
Four-Bedrooms, Three Baths	20	\$520,000	
Small Lot Single Family/Townhomes	60		
Three-Bedrooms, Three Baths	30	\$255,000	
Four-Bedrooms, Three Baths	30	\$310,000	
Apartments	40		
One Bedroom, One Bath	7		\$1,300
Two Bedrooms, Two Baths	13		\$1,500
Three Bedrooms, Two Baths	13		\$1,750
Four Bedrooms, Two Baths	7		\$1,900

Sources: Tables 1 and 2.

HOUSEHOLD INCOMES

A Housing Impact Fee Nexus Study requires that household incomes of new buyers and renters be calculated in order to provide the “input” into the IMPLAN3 model described in a subsequent section of this report. These incomes are not the same as the affordable incomes presented in Appendix B of this study, which are the affordable incomes provided by the State of California Department of Housing and Community Development (HCD). In other words, the market rate buyer and renter incomes are specifically estimated for this study only and are modeled on *potential* incomes of buyers and renters who would move into the units in these three project prototypes. These incomes are based on the sales prices and rents presented above.

Threshold incomes needed to purchase or rent units are detailed below, and are based on standards used in the housing industry – for example, standards used by lenders. Tables 4 and 5 show the estimated household incomes of buyers of single family detached units, buyers of small lot single-family and townhome units, and renters of apartment units, respectively. Household incomes are then incorporated into a model of household expenditures which are a key input to the IMPLAN3 economic impact analysis described in the next section of this report.

The first step for both renters and buyers is to estimate the annual costs of owning and renting. For buyers, a downpayment of 20% is assumed, and the mortgage is a fixed rate 30 year loan. Additional costs covering maintenance and repair, hazard insurance, and property taxes need to be considered. It is also assumed that housing costs should not exceed 30% of income.

¹ The project size used in a nexus study is not critical, since the housing impact fee is expressed on a unit (and per square foot basis). Furthermore, the project sizes are not meant to describe any particular development,

In calculating incomes, the following assumptions were made for the ownership prototypes:

<u>Assumptions</u>	<u>Values</u>
Downpayment	20%
Loan Term (years)	30
Interest Rate (annual)	4.125% ²
Property tax rate (annual)	1.1821% of sales price ³
Maintenance and Repair	1% of sales price
Fire and Hazard Insurance (annual)	0.35% of sales price
Housing Costs as % of HH Income	30%

The only assumption for the rental prototype was that 30% of gross income is spent on rent. Unlike affordable rental calculations, deductions for utilities are not necessary.

Table 4: Income Calculations for Ownership Prototypes

	Low Density Single Family		Small Lot Single Family/Townhomes	
Sales Prices	\$415,000	\$520,000	\$255,000	\$310,000
Number of Units	20	20	30	30
Downpayment	\$83,000	\$104,000	\$51,000	\$62,000
Loan Amount	\$332,000	\$416,000	\$204,000	\$248,000
Monthly Debt Service	\$1,609	\$2,016	\$989	\$1,202
Annual Debt Service	\$19,308	\$24,194	\$11,864	\$14,423
Annual Property Taxes	\$4,906	\$6,147	\$3,014	\$3,665
Annual Maintenance Costs	\$4,150	\$5,200	\$2,550	\$3,100
Fire and Hazard Insurance	\$1,453	\$1,820	\$893	\$1,085
Annual Costs	\$29,817	\$37,361	\$18,321	\$22,273
Household Income	\$99,389	\$124,535	\$61,070	\$74,242

Sources: Table 3, City of Salinas (tax rates), industry standards for insurance and maintenance costs, Wells Fargo Website for interest rate, and additional calculations undertaken by Vernazza Wolfe Associates Inc.

Table 5: Income Calculations for Apartment Prototype

Rental Unit Type	Number of Units	Average Monthly Rent	Annual Housing Cost	Estimated Average Annual Household Income
One Bedroom, One Bath	7	\$1,300	\$15,600	\$52,000
Two Bedrooms, Two Baths	13	\$1,500	\$18,000	\$60,000
Three Bedrooms, Two Baths	13	\$1,750	\$21,000	\$70,000
Four Bedrooms, Two Baths	7	\$1,900	\$22,800	\$76,000

Source: Table 3 and calculations undertaken by Vernazza Wolfe Associates Inc.

² Source: July 31, 2015 Wells Fargo Website - FNMA Loan <https://www.wellsfargo.com/mortgage/rates/>

³ Average of Salinas tax rates, provided by the City of Salinas.

These incomes are then defined in terms of income categories for use in the expenditure calculations included in the IMPLAN3 Model. Table 6 shows the number of households for each prototype by income categories.

Table 6: Incomes of Buyers and Renters of Residential Prototype Units

Household Income Level	Households
Low Density Single Family Household Incomes	
Less than \$10,000	0
\$10,000-\$15,000	0
\$15,000-\$25,000	0
\$25,000-\$35,000	0
\$35,000-\$50,000	0
\$50,000-\$75,000	0
\$75,000-\$100,000	20
\$100,000-\$150,000	20
Over \$150,000	0
Total	40
Small Lot Single Family/Townhome Incomes	
Less than \$10,000	0
\$10,000-\$15,000	0
\$15,000-\$25,000	0
\$25,000-\$35,000	0
\$35,000-\$50,000	0
\$50,000-\$75,000	60
\$75,000-\$100,000	0
\$100,000-\$150,000	0
Over \$150,000	0
Total	60
Apartment Household Incomes	
Less than \$10,000	0
\$10,000-\$15,000	0
\$15,000-\$25,000	0
\$25,000-\$35,000	0
\$35,000-\$50,000	33
\$50,000-\$75,000	7
\$75,000-\$100,000	0
\$100,000-\$150,000	0
Over \$150,000	0
Total	40

Sources: Tables 4 and 5.

IMPLAN3 ANALYSIS

The growth in sales and services transactions (predicated upon buyers' and renters' incomes) can be translated into employment growth via an input-output model for Monterey County. This model simultaneously accounts for all purchases and expenditures throughout the entire local

economy and is useful in defining economic impacts from exogenous changes, such as a growth in expenditures. In turn, growth in employment can be used to estimate employee household growth.

Some of these new households will require affordable housing, particularly since the growth in employment is generally in lower wage paying sectors, such as retail sales and services. Once the number of households that require affordable housing is estimated, it is possible to calculate the total funds needed to bridge the gap between the costs of developing new affordable housing and what new low- and moderate-income households can afford to pay. This total gap figure is then divided by the number of new housing units in the hypothetical development to estimate the maximum fee amount per unit that can be justified on the basis of a nexus calculation.

RESULTS

Table 7 presents the step-by-step findings of this Nexus Study. Based on the three prototypes defined for this study, the City of Salinas can expect the following:

- The increase in expenditures associated with new residential development generates direct and induced growth in Monterey County employment of 30 jobs for the 40 low density single family homes, 31 jobs for the 60 single family small lot/townhome units, and 19 jobs for the apartment units.
- Because the focus of this nexus study is on growth in households that require affordable housing, the total employment figure is adjusted by dividing total employment by the average number of workers per households with workers. According to the 2011-2013 American Community Survey 3-Year Estimates, the average number of wage-earners per household is 1.72 in Salinas. Therefore, the total number of new jobs calculated by the IMPLAN3 Model is reduced for each prototype. (See Table 7 for the exact number of households carried forward in the analysis.)
- It is assumed that the income of the second wage-earner in a household is the same as the first wage-earner's income. Hence, incomes of the new employee-households are calculated by multiplying the new worker's income (calculated by the IMPLAN3 Model) by 1.72 (the number of wage-earners in a household with a wage-earner).
- Since some new employees earn incomes over 120% area median income (or above the income cut-off of \$78,325 for a moderate-income, 3.5-person household in Salinas), the

number of new employee-households is further reduced for each prototype. (The income cut-off of \$78,325 is based on HCD FY 2015 Income Limits for Monterey County.)

- The aggregate affordability gap for each prototype is calculated by multiplying the number of new worker households by the average gap that applies to each major income group (moderate-income level and below).⁴ It is estimated that the total affordability gap associated with new employment related to the prototypes for low density single family homes is approximately \$1.345 million; for single family small lot/townhome units, this gap figure is \$1.314 million, and for apartments, the aggregate gap figure is \$828,000.
- The final step is to divide the total gap figure by the number of units in each prototype. The maximum rounded fee ranges from \$34,000 per unit for single family low density development, \$22,000 per unit for single family small lot/townhome, and \$21,000 for each apartment unit.
- Fees can also be presented on a square foot basis. The maximum (rounded) square foot fee ranges from \$13/SF per unit for single family low density, \$13/SF per unit for single family small lot/townhome, and \$20/SF for each apartment unit.

The Appendices at the end of this report present the Nexus Study's methodology and findings in more detail.

⁴ There are no very low-income worker-households projected, and so the affordability gaps for low- and moderate-income households are used in these calculations.

Table 7: Nexus Calculations for Three Housing Prototypes in Salinas

ANALYTICAL STEPS	INFORMATION/FINDINGS
(1) Define residential prototypes.	Three prototypes are defined for the City of Salinas – two ownership models consisting of low density single family homes (40 units) and single family small lot/townhomes (60 units) and one apartment prototype (40 units). Unit sizes and rents are based on recent construction projects, in Salinas, Marina, and Unincorporated Monterey County.
(2) Estimate household income distribution of new owner and renter households in Salinas.	The average minimum incomes required to purchase low-density, single family houses ranges between \$99,000 and \$124,500 and for single family small lot/townhomes, income ranges from \$61,000 to \$74,200. For new apartment units, incomes range from \$52,000 to \$76,000. These incomes are based on actual rents and sales prices of new developments included in the study (Monte Bella Tesori (Salinas), the Dunes - Seahouses and Surf House (Marina), and Creekbridge Apartments (Salinas). These incomes assume that 30% of gross income is paid for housing costs.
(3) Compute total consumer expenditures of the 100 buyer and 40 renter households for the entire County.	This estimate comes from the IMPLAN3 model, which uses the Bureau of Labor Statistics' Consumer Expenditure Survey to distribute household income based on the spending patterns for nine different income groups. Before expenditures are calculated, adjustments are made to household incomes to account for payments to income taxes and savings.
(4) Estimate the number of new employees required to accommodate an increase in spending on services and retail goods.	Using the IMPLAN3 model for Monterey County and the increase in expenditures defined in Step 3, growth in the number of workers (direct and induced) is estimated to be 30 for low-density single family, 31 for single family small lot/townhomes, and 19 for apartments.
(5) Estimate the number of new households associated with employment growth.	The number of new employees is divided by the average number of workers per household with workers in City of Salinas (1.72 workers per household according to the U.S. Census Bureau, 2011-2013, 3-Year American Community Survey.) The total number of new households is approximately 18 for low-density single family, 18 for single family small lot/townhomes, and 11 for apartments.
(6) Estimate the incomes of new households.	Multiply the average wage-earner's salary for each income category by 1.72 (average number of wage-earners in households with workers).

ANALYTICAL STEPS	INFORMATION/FINDINGS
(7) Subtract those employees earning over \$78,325 (the moderate-income cut-off for a 3.5-person household from the total number of new employees. ⁵	The total number of new employee-households is reduced to 13 for low-density single family, 13 for small lot/townhomes, and 8 for apartments.
(8) Estimate the total housing affordability gap of new households requiring subsidies.	This number (\$1,345,154 for low density, \$1,313,913 for single family small lot/townhomes, and \$827,673 for apartments) is based on multiplying the number of new households requiring affordable housing (in each income group) by the affordability gap presented in Appendix B (for each income group).
(9) Calculate maximum potential housing fee.	The total gap for each housing prototype is divided by the number of units in each hypothetical development. The results for low density are \$33,629, rounded to \$34,000 per unit; for single family small lot/townhomes, the result is \$21,899, rounded to \$22,000 per unit and for apartments, the amount is \$20,692, rounded to \$21,000 per unit. A square foot equivalent can be computed for each housing type based on dividing the unit gap by the average size of each prototype. These fees are \$13/SF, for low density; \$13/SF for single family small lot/townhomes, and \$20/SF for an apartment unit.

⁵ The income cut-off used to define moderate-income is \$78,325 since the average household size in Salinas is approximately 3.5 persons, according to the 2010 US Census.

POLICY CONSIDERATIONS

This study provides the economic analyses required to adopt housing impact fees on residential developments and answers the question of “What are the maximum fees that the City can adopt on new housing developments?” However, the economic analysis does not answer the question of “What residential housing impact fees should the City adopt?” The conclusion of this report provides a policy context to help guide City officials in determining the actual fees.

When cities and counties consider whether to offset the full affordable housing impacts of new development or a portion of those impacts, a number of factors may be considered. For residential development housing impact fees, policymakers may wish to consider the following:

- What are possible fee options to consider?
- How do housing impact fees impact financial feasibility of the three residential prototypes?
- What are the housing impact fees in neighboring jurisdictions?
- How much will residential development fees increase?
- What is the relationship between revenues to be collected from the housing impact fee and the City’s overall affordable housing strategy?

Fee Options

The City of Salinas has the option to charge the entire amount justified through a housing impact fee nexus study or a lesser amount. Table 8 presents three reduced fee options or scenarios assuming the same fee per square foot is charged for all housing prototypes. The three reduced fees, \$10, \$5, and \$2 are meant to provide a range of options to consider. They were chosen after reviewing the fees of jurisdictions in similar housing markets. Because \$13 is the maximum for the ownership units, the fees studied are lower than this level.

Table 8: Housing Impact Fee Options

	Low Density Single Family Homes	Small Lot Single Family/Townhomes	Apartments
Maximum Fee	\$34,000	\$22,000	\$21,000
Maximum Fee per Square Foot	\$13	\$13	\$20
Fee Scenarios			
Scenario #1: Fee/Unit	\$26,000	\$17,500	\$10,600
Scenario #1: Fee per SF	\$10	\$10	\$10
Scenario #2: Fee Per Unit	\$13,000	\$8,750	\$5,300
Scenario #2: Fee per SF	\$5	\$5	\$5
Scenario #3: Fee Per Unit	\$5,200	\$3,500	\$2,120
Scenario #3: Fee per SF	\$2	\$2	\$2

Source: Calculations based on results presented in Appendix A tables.

Effect of Housing Impact Fees on Financial Feasibility

It is useful to look at how new impact fees will affect the likelihood of new development to happen. The best way to view this is to consider how new fees influence financial feasibility. A financial feasibility study considers whether a project is viable after taking into consideration its total costs and likely revenues. In those situations in which revenues exceed development costs, the final assessment is whether the difference between revenues and costs is great enough to provide the level of return or profit that a developer expects, given current market conditions. Therefore, the financial feasibility of suggested fee levels is an important consideration. Given current costs and revenues, development of the prototypes is not currently feasible as the following section explains.

Based on information provided by a local builder, development cost estimates were created for the three prototypes. The feasibility assessment first looked at the financial feasibility of these three prototypes, given these costs and revenues assumed for the IMPLAN3 analysis. Several assumptions are needed for this analysis. These include the following:

- Reductions to gross revenues due to cost of sales (for for-sale prototypes) and operating expenses/vacancy loss for the rental prototype.
- Expectation of return for the for-sale prototypes, defined as the net value divided by development costs. Based on current market expectations, this number is 7% for the low density single homes and 8% for the small lot single family homes.
- For rental housing, there are several return measures, including the net value divided by development costs (based on a capitalization rate of six percent) and supportable debt, based on cash flow.

Table 9 presents a summary of the feasibility testing results for for-sale housing and Table 10 presents results for rental housing. The calculations for Tables 9 and 10 are presented in Appendix C, as well as all assumptions and sources used.

Table 9: Feasibility Testing of Three Fee Options for For-Sale Housing

	For Sale-Low Density (Average Size 2,600 SF)	For-Sale High Density (1,750 SF)
Unit Development Costs (Without Fee)	\$454,454	\$319,883
Average Sales Prices Per Unit	\$467,500	\$282,500
Net Sales Revenues	\$451,138	\$272,613
Expected Return	7%	8%
Return at Studied Rents/Prices	-1%	-15%
Sales Prices Needed to Achieve Expected Returns Without Housing Fee	\$505,000	\$357,500
Sales Prices Needed for Feasible Development		
Scenario #1 \$10/SF	\$535,000	\$377,500
Scenario #2 \$5/SF	\$520,000	\$367,500
Scenario #3 \$2/SF	\$510,000	\$362,000

Sources: Tables 3 and 8, Cost Data Provided by a Local Builder, and industry standards for additional calculations. See Appendix C for more details on sources.

Note: It is not possible to know the sales prices of development in the Future Growth Areas. The prices used in the model are for reference only.

What do we learn from these tables? First, based on the assumption that developers of low density and higher density single family homes wish to achieve a return on costs of between 7% and 8%, the studied sales prices are too low. However, if the average price per unit were to increase from \$467,500 to \$505,000 per low density single family unit and from \$282,500 to \$357,500 per high density single family/townhome unit, residential development would be feasible. Secondly, slightly higher sales prices would be needed, if housing impact fees are adopted. Table 9 provides the sales prices required under the three fee scenarios. For example, a sales price for the low density single family of \$535,000 would be required under Fee Scenario #1, (\$10/SF). This price is about \$30,000 higher than the financially feasible price today of \$505,000.

Table 10 provides information about the rental housing prototype. Rental housing feasibility is somewhat more complex, since rental housing feasibility is based on a longer holding period, unlike for-sale housing which is assumed to be built and then sold. Thus, this analysis uses two measures of feasibility – net value divided as a percentage of total development costs and the

amount of debt the resulting cash flow can support. Although the estimated net value divided by development costs is positive at 3%, this is below the expected return level of approximately 14%. Increasing the return requires an increase in average rent per unit of approximately \$155/month to high of \$1,775/month. If housing impact fees are adopted, the rent required (assuming the Scenario #1 fee of \$10/SF) would need to increase by \$100 per month above the financially feasible rent level of \$1,775.

Table 10: Feasibility Testing of Three Fee Options for Rental Housing

Development Costs Per Unit Assumes Average Unit Size of 1,060 SF)	\$208,619
Scenario #1: \$10	\$219,219
Scenario #2: \$5	\$213,919
Scenario #3: \$2	\$210,739
Studied Rent	\$1,620
Current Return (Net Value Divided by Dev. Costs)	3%
Expected Return	14%
Rent Needed for Expected Return without Housing Fee	\$1,775
Rents Needed for Expected Return Under Three Fee Scenarios	
Scenario #1: \$10	\$1,875
Scenario #2: \$5	\$1,835
Scenario #3: \$2	\$1,800
Debt Supported by Cash Flow	
Assuming Studied Rent	\$185,022
Assuming Higher Rent of \$1,775 Required for Financial Feasibility	\$202,726
Assuming Higher Rents Required for Financial Feasibility Under Three Fee Scenarios	
Scenario #1: \$10	\$214,146
Scenario #2: \$5	\$209,567
Scenario #3: \$2	\$205,574

Sources: Tables 3 and 8, Cost Data Provided by a Local Builder, and industry standards for additional calculations such as Cushman and Wakefield's Class B Cap Rates estimate of between 5.75% and 6.5%. (Six percent was used in the modeling). See Appendix C for more details on sources and standards used in the feasibility testing.

Note: It is not possible to know the sales prices of development in the Future Growth Areas. The prices used in the model are for reference only.

Another measure of rental development feasibility is the debt per unit that the net revenues can support. According to the analysis undertaken, under the base case, the supportable debt is less than half the development costs. However, all scenarios that are based on higher rents demonstrate that the majority of development costs could be financed given the calculated cash flow under each fee scenario.

One drawback to the feasibility modeling included in this study is that it assumes that rents and sales prices increase, while development costs remain constant, with the exception of the increased costs associated with housing impact fees. In reality, if developers in Salinas need to wait until rents and sales prices are high enough to make new development feasible, it is also likely that development costs will increase as well.

Generally, cities have a fair amount of freedom to take the feasibility study into consideration or not as they set their fees, so long as they do not deprive landowners of all economic value of their land.

Comparison with Fees Imposed by Neighboring Jurisdictions⁶

Another important consideration is whether housing impact fees are charged in neighboring jurisdictions, and if so, what are their levels. Generally, cities encourage development and want to ensure a “level playing field” when it comes to housing impact fees. In other words, a city will consider whether the level of fee that is adopted could lead to less favorable development conditions and consequently a potential shift of development away from the city and to other cities or unincorporated areas. In Fall 2015, housing impact fees charged in similar market areas indicate that a fee of \$2/SF is below fee levels currently charged at other cities, with the exception of rental housing in Santa Cruz County which also has a fee of \$2/SF. (See Table 11.)

Table 11: Square Foot Housing Impact Fees of Selected Jurisdictions

Jurisdiction	Single Family	Multifamily/Rental
Sacramento	NA	\$2.58/SF
Santa Cruz County	Up to 2,000 SF, \$2/SF Fee. Over 4,000 SF, \$15/SF. Fee is gradually increased between \$2 and \$15, based on unit size.	\$2/SF
Santa Rosa	2.5% of sales price (in-lieu fee)	Between \$1 and \$6.55/SF, depending on size. Maximum is \$12,712 per unit.
Watsonville	\$12,107 per unit	\$6,054 per unit

Source: Survey of Neighboring Jurisdictions conducted by Baird + Driskell Community Planning in November 2015.

At this time, neither San Benito or Monterey County nor their incorporated cities have housing impact fees.

City of Salinas Residential Impact and Planning Fees for Each Residential Prototype

⁶ This conclusion is based on a review of local ordinances, other internet research, telephone, and email communications conducted by Baird + Driskell Community Planning.

Another source of information that cities consider when adopting new fees is how these new fees will impact the overall fees that are charged on new residential developments. Cities that adopt new impact fees do not want the fee levels to be so high that they discourage new development from occurring within their boundaries.

The City of Salinas currently charges the following impact fees: Sanitary Sewer Fee, Storm Drain Fee, Park Fee, and a Traffic Impact Fee. In addition, new developments pay the TAMC Regional Development Impact Fee (charged by Monterey County). The City's fees vary by location - fees in infill areas and elsewhere in the city are lower than fees for future growth areas (FGA). Since the majority of new housing development will occur in the FGA, fees presented in Table 12 provide information on FGA fees.

The City of Salinas Department of Planning and Building provided existing fee information based on the prototypes used in this study, including assumptions regarding lot size and parking. This background information included the following assumptions:

- Average square foot fee per unit (2,600 SF for large lot single family homes, 1,750 SF for small lot/townhomes, and 1,060 SF for apartments)
- Total site area for the prototype project - assuming subdivision or apartment building development (105,000 SF for large lot single family, 105,000 SF for small lot/townhomes, and 42,490 SF for the apartment prototype).
- Parking assumptions - 450 SF garages for the large lot homes, 400 SF for the small lot/townhomes, and two spaces (one covered and one open) for the apartment prototype.

Table 12 presents information on current FGA impact fees that are applicable to each of the three residential prototypes included in this study. On a square foot basis, the highest fees in the future growth area are associated with the apartment prototype (\$9.23/SF) and the lowest fees in the future growth area are associated with the low density single family prototype (\$5.33/SF citywide). If the City were to adopt a housing impact fee of \$10/SF, total fees for the prototypes would almost double. Substantial increases in impact fees are not uncommon in cities that adopt new impact fees. However, fees adopted at a uniform \$2/SF would result in overall fees increasing by less than 50%.

Table 12: Increase in Total Citywide Impact Fees - Three Housing Impact Fee Scenarios

	Residential Prototypes			
	Single Family Homes- Low Density	Small Lot ⁽¹⁾		Apartments
		Single Family	Townhome	
Current FGA Fees	\$5.33	\$7.92	\$6.29	\$9.23
Scenario #1: Fee per Square Foot	\$10	\$10	\$10	\$10
Potential Total Fees	\$15.33	\$17.92	\$16.29	\$19.23
Percentage Increase	188%	126%	159%	108%
Scenario #2: Fee per Square Foot	\$5	\$5	\$5	\$5
Potential Total Fees	\$10.33	\$12.92	\$11.29	\$14.23
Percentage Increase	94%	63%	79%	54%
Scenario #3: Fee per Square Foot	\$2	\$2	\$2	\$2
Potential Total Fees	\$7.33	\$9.92	\$8.29	\$11.23
Percentage Increase	38%	25%	32%	22%

(1) City impact fees are slightly lower for townhomes than small lot, single family units, so two fee categories are presented in this table.

Sources: Table 8 and the City of Salinas Department of Building and Planning, based on housing development descriptions of three housing prototypes.

How Does a Housing Impact Fee Fit into Salinas' Overall Housing Strategy

The City has operated an Inclusionary Housing Program for many years and continues to operate this program. Although the City had relied on redevelopment funding to subsidize affordable housing until 2012, this is no longer available due to changes in state law. . Additionally, the City is a HUD entitlement city and receives approximately \$500,000 annually in HOME funding that is allocated to affordable housing projects. In addition to these local funds, the non-profit developers in the City build affordable housing through the use of numerous state and federal sources. A description of these multiple funding sources can be found in the Salinas Consolidated Annual Plan Evaluation Report, which is updated every year.

Housing impact fees would be deposited into a Housing Trust Fund. The purpose of the City's Housing Trust Fund is to provide local matching funds for new (and existing) affordable housing developers that will be seeking additional sources of financing for new development, or for refinancing and rehabilitation of existing projects. This Trust Fund is one of several sources of housing subsidy funds available for affordable developments built in the City. In order to cover the complete housing affordability gap that exists for very low-, low- and moderate-income households without assessing a housing impact fee at the maximum legally-justifiable rate, the City and its nonprofits can use funds available from this Housing Trust Fund, as well apply for loans and grants available from state and federal funding sources.

ANNUAL ADJUSTMENT MECHANISM

Similar to any impact fee, the residential impact 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. However, the connection between new residential development and growth in employment derived from the IMPLAN3 Model is unlikely to change in the short run.

It is advisable that the City adjusts its residential impact fee annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees to compensate for inflation in development costs. To simplify annual adjustments, it is recommended that the City select a cost index that is routinely published. While there is no index that tracks changes in the City of Salinas' development costs, including land, there are a few other options to consider.

- The first option is the Consumer Price Index (Shelter Only). The shelter component of the index covers costs for rent of primary residence, lodging away from home, owner's equivalent rent of primary residence, and household insurance. Of the total shelter index, costs associated with the owner's equivalent rent of primary residence constitute 70 percent of total costs entered into the index.
- A second option to adjust the fee for annual inflation is the construction cost index published in the Engineering News Record (ENR). This index is routinely used to update other types of impact fees. Cost index information for the San Francisco area, the closest geographical area to the City of Salinas, is available on an annual basis. While this index measures inflation in construction costs, it does not incorporate changes in land costs and public fees charged on new development.

While both indices measure changes in housing costs, both understate the magnitude of inflation for the reasons presented above. However, since these indices are readily available and relatively simple to use, it is recommended that the City use these indices for annual adjustments. It is further recommended that the City base its annual adjustment mechanism on the higher of the two indices (CPI or ENR), using a five-year moving average as the inflation factor.⁷

⁷ For an impact fee, a five-year moving average is calculated as follows: First, one averages the values of the index under study (shelter or construction costs) over the last five years. Then, a year later, one calculates a new average – one that drops the first year and adds the current year. Consequently, the first year and the second year averages are not too far apart in terms of values, because they share four out of the five years included in the calculation. In this way, larger percentage changes are “smoothed out” over time.

In addition to revising the fee annually for inflation, the City is encouraged to update the housing impact fee 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 insure that the fee is still based on a cost/revenue structure that remains applicable in the Salinas 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.

POLICY CHOICES

There are a number of important policy choices that the city will have to make including:

- Whether to implement a fee
- What level that fee should be at and what types of development will have to pay the fee
- Whether to phase in the fee or apply the entire fee level when the policy is adopted.
- How the fee interacts with the inclusionary ordinance

These considerations and others will be discussed in a separate document.

APPENDIX A: IMPLAN METHODOLOGY AND CALCULATED NEXUS RESULTS

Multiplier Impact Analysis Methodology Overview

The economic multiplier analysis was conducted by Applied Development Economics (ADE), a Bay Area Economics Consulting firm, through the use of the IMPLAN Model. The IMPLAN model is an economic data set that has been used for over 35 years to measure the economic impacts of new investments and spending using the industrial relationships defined through an Input-Output Model. The IMPLAN model can estimate economic impacts resulting from changes in industry output, employment, income, and other measures. The latest version of this model is referred to as IMPLAN3. The IMPLAN3 model's calculations are based on changes in household income, which adjusts the gross income to account for the payment of income taxes and savings.

ADE conducted two separate analyses. The first analysis estimated the household demand for retail goods and personal services. It is assumed that buyers of new housing units and renters of new apartment units in the City of Salinas increase demand for goods and services within the County. This demand is based on the projected incomes of these new buyers and renters. The second analysis estimated the multiplier effects that this new household demand would create in terms of employment and labor income.

For this analysis, the input-output model used data specific to Monterey County in order to estimate the multiplier effects resulting from the households that could potentially rent or buy new housing units in Salinas. In this case, all of the multiplier effects derive from new demand for goods and local services (including government) that new households would generate within Monterey County. It does not account for economic impacts generated during the construction period, or any economic impacts that would occur outside of the county.

The economic impacts estimated by the model generally fall into one of three categories - direct, indirect, or induced. For this analysis, the direct impacts represent the household income brought into the community by new residents. Indirect impacts would normally result from demand for commodities and services provided by suppliers for business operations. (Because the direct impacts come only from household spending, and not from business activity, the indirect effects were not calculated.) Induced impacts represent the potential effects resulting from household spending at local establishments by the new workers hired as a result of increased household expenditures. These impacts affect all sectors of the economy, but primarily affect retail businesses, health services, personal services providers, and government services. The employment estimates provided by the IMPLAN3 model cover all types of jobs, including full and part time jobs.

The second step in the analysis (the estimate of multiplier effects from new household demand) is to estimate the induced impacts, or multiplier effects of new household spending in terms of jobs and wage income. The jobs and income calculations are focused on the induced jobs that would be created through local spending by the new households. The input-output model estimates the job impacts by detailed industry sector. The analysis took the detailed industry impact estimates and distributed them by occupational category. The occupational employment data used in the analysis came from the California Employment Development Department (EDD) Labor Market Information Division, and aggregates together data for all of California. After converting the industry level data into occupational employment, the income distribution was calculated using the occupational wage data for the Salinas, California Metropolitan Statistical Area (MSA) that includes Monterey County. The average wage by occupation was used to make this calculation. The 2015 (first quarter) occupational wage data used in the analysis comes from California's EDD.

It should be noted that the figures used in the IMPLAN3 analysis reflect the demand for retail goods and services by net, new Monterey County households. The multiplier impacts assume that all of this spending will remain in Monterey County.⁸

Occupational Analysis

The occupational analysis focused on the induced jobs that would be created through local spending by the new households. The input-output model estimates the job impacts by detailed industry sector. The analysis took the detailed industry impact estimates and distributed them by occupational category. The occupational employment data used in the analysis came from the California Employment Development Department (EDD) Labor Market Information Division, and aggregates together data for all of California.

After converting the industry level data into occupational employment, ADE estimated the income distribution using the occupational wage data for the Salinas, California Metropolitan Statistical Area (MSA). The mean (or average) wage by occupation was used to make this calculation. The 2015 (1st Quarter) occupational wage data used in the analysis comes from California EDD. See Tables A-1, A-2, and A-3 for Occupational Impacts for each of the three prototypes.

It should be noted that the figures used in the retail analysis reflect the demand for retail goods and services by new households in Salinas. The multiplier impacts assume that all of this

⁸ Estimating the retail leakage would require a detailed analysis of retail sales totals for existing businesses in Monterey County and is beyond the scope of this study.

spending will remain in Monterey County. Estimating the retail leakage would require a detailed analysis of the retail sales totals for existing businesses in City of Salinas and is beyond the scope of this study.⁹

Table A-1: Summary of Induced Employment Impacts by Occupational Title - Single Family, Low-Density Home Buyer Households

NAICS Code	Industry Description	Calculated Average Wage	Induced Jobs
	Total all occupations		31.84
11	Forestry, fishing, hunting, and agriculture	\$25,737	0.10
21	Mining	\$58,096	0.01
22	Utilities	\$59,887	0.07
23	Construction	\$56,113	0.49
31	Manufacturing	\$53,577	0.05
42	Wholesale trade	\$48,242	0.86
44	Retail trade	\$40,196	4.74
48	Transportation & warehousing	\$39,330	0.63
51	Information	\$56,487	0.35
52	Finance & insurance	\$56,249	1.70
53	Real estate & rental & leasing	\$50,000	1.68
54	Professional, scientific & technical services	\$70,306	1.28
55	Management of companies & enterprises	\$68,791	0.13
56	Admin, support, waste mgt, remediation services	\$46,697	1.45
61	Educational services	\$58,899	0.91
62	Health care and social assistance	\$57,735	5.68
71	Arts, entertainment & recreation	\$39,330	1.01
72	Accommodation & food services	\$29,177	4.21
81	Other services (except public administration)	\$44,116	2.90
91	Government	\$60,294	3.60

Source: ADE, Inc., data from IMPLAN3 input-output model and California Labor Market Information Division

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry. See Page 13/14 for more information on IMPLAN3

⁹ Although a leakage study would allow for more refined adjustments to the multiplier impacts, it can only account for the businesses that currently operate in Monterey County. Since the economic multiplier impacts of residential development reflect future development, the data for making detailed capture assumptions are insufficient.

Table A-2: Summary of Induced Employment Impacts by Occupational Title – Small Lot, Single Family/Townhome Buyer Households

NAICS Code	Industry Description	Calculated Average Wage	Induced Jobs
	Total all occupations		30.82
11	Forestry, fishing, hunting, and agriculture	\$25,737	0.10
21	Mining	\$58,096	0.01
22	Utilities	\$59,887	0.07
23	Construction	\$56,113	0.45
31	Manufacturing	\$53,577	0.05
42	Wholesale trade	\$48,242	0.82
44	Retail trade	\$40,196	4.56
48	Transportation & warehousing	\$39,330	0.58
51	Information	\$56,487	0.36
52	Finance & insurance	\$56,249	1.63
53	Real estate & rental & leasing	\$50,000	2.07
54	Professional, scientific & technical services	\$70,306	1.17
55	Management of companies & enterprises	\$68,791	0.13
56	Admin, support, waste mgt, remediation services	\$46,697	1.42
61	Educational services	\$58,899	0.73
62	Health care and social assistance	\$57,735	5.83
71	Arts, entertainment & recreation	\$39,330	0.99
72	Accommodation & food services	\$29,177	4.04
81	Other services (except public administration)	\$44,116	2.84
91	Government	\$60,294	2.97

Source: ADE, Inc., data from IMPLAN3 input-output model and California Labor Market Information Division

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry.

Table A-3: Summary of Induced Employment Impacts by Occupational Title – Apartment Renter Households

NAICS Code	Industry Description	Calculated Average Wage	Induced Jobs
	Total all occupations		19.43
11	Forestry, fishing, hunting, and agriculture	\$25,737	0.06
21	Mining	\$58,096	0.01
22	Utilities	\$59,887	0.05
23	Construction	\$56,113	0.29
31	Manufacturing	\$53,577	0.03
42	Wholesale trade	\$48,242	0.52
44	Retail trade	\$40,196	2.86
48	Transportation & warehousing	\$39,330	0.37
51	Information	\$56,487	0.22
52	Finance & insurance	\$56,249	1.03
53	Real estate & rental & leasing	\$50,000	1.27
54	Professional, scientific & technical services	\$70,306	0.74
55	Management of companies & enterprises	\$68,791	0.08
56	Admin, support, waste mgt, remediation services	\$46,697	0.90
61	Educational services	\$58,899	0.47
62	Health care and social assistance	\$57,735	3.65
71	Arts, entertainment & recreation	\$39,330	0.62
72	Accommodation & food services	\$29,177	2.56
81	Other services (except public administration)	\$44,116	1.79
91	Government	\$60,294	1.92

Source: ADE, Inc., data from IMPLAN3 input-output model and California Labor Market Information Division

Note: Average wage is calculated based on the mean occupational wages, and the average statewide distribution of occupations for each industry.

Allocation of Employment Growth to Salinas

The projections of new employees presented above did not consider location within Monterey County. Some of the new employees will work in businesses located outside of Salinas. So, one policy issue to consider is how to allocate employment growth to Salinas specifically. For reference purposes, Appendix Tables A-4, A-5, and A-6 provide the calculations based on 100% of employment impacts.

Table A-4: Calculations Needed to Link Expenditures from Buyers of Low Density Single Family Homes to an Estimate of an Affordable Housing Impact Fee – City of Salinas ¹⁰

Income Category	New Homes Induced Jobs	No. of New Employee Households (No. of new employees divided by average number of wage-earners in a HH or 1.72)	Average Worker Income	Household Income (Average Worker income multiplied by the number of wage-earners in a HH or 1.72)	No. of new low- and moderate-income households qualifying for assistance based on City of Salinas Moderate-Income cut-off for a HH of 3.5 persons, or \$78,325	Total Gap (No. of total households multiplied by average affordability gap for each Income Group)	Total Fee per Unit (Total gap divided by # of new units - 40)
Less than \$10,000	0.00	0.00	n/a	n/a	0.000	\$0	
\$10,000-\$15,000	0.00	0.00	n/a	n/a	0.000	\$0	
\$15,000-\$25,000	0.10	0.06	\$21,727	\$37,370	0.06	\$8,422	
\$25,000-\$35,000	9.41	5.47	\$28,884	\$49,680	5.47	\$793,513	
\$35,000-\$50,000	12.55	7.30	\$38,794	\$66,726	7.30	\$543,220	
\$50,000-\$75,000	3.01	1.75	\$59,810	\$102,873	0.00	\$0	
\$75,000-\$100,000	1.55	0.90	\$103,597	\$178,187	0.00	\$0	
\$100,000-\$150,000	3.84	2.23	\$122,897	\$211,382	0.00	\$0	
Over \$150,000	0.00	0.00	n/a	n/a	0.00	\$0	
Total	30.46	17.71	\$51,641	\$88,823	12.83	\$1,345,154	\$33,629

Sources: IMPLAN3 Results and Housing Affordability Gap calculated in Appendix B.

¹⁰ These results assume that 100% of “new homes” induced jobs would be located in the City of Salinas.

Table A-5: Calculations Needed to Link Expenditures from Buyers of Small Lot Single Family/Townhomes to an Estimate of an Affordable Housing Impact Fee – City of Salinas ¹¹

Income Category	New Homes Induced Jobs	No. of New Employee Households (No. of new employees divided by average number of wage-earners in a HH or 1.72)	Average Worker Income	Household Income (Average Worker income multiplied by the number of wage-earners in a HH or 1.72)	No. of new low- and moderate-income households qualifying for assistance based on City of Salinas Moderate-Income cut-off for a HH of 3.5 persons, or \$78,325	Total Gap (No. of total households multiplied by average affordability gap for each Income Group	Total Fee per Unit (Total gap divided by # of new units - 60)
Less than \$10,000	0.00	0	n/a	n/a	0.000	\$0	
\$10,000-\$15,000	0.00	0	n/a	n/a	0.000	\$0	
\$15,000-\$25,000	0.10	0.06	\$21,727	\$37,370	0.058	\$8,373	
\$25,000-\$35,000	9.14	5.31	\$28,899	\$49,707	5.312	\$770,583	
\$35,000-\$50,000	12.36	7.19	\$38,802	\$66,740	7.188	\$534,957	
\$50,000-\$75,000	2.70	1.57	\$59,571	\$102,461	0.000	\$0	
\$75,000-\$100,000	5.00	2.90	\$86,050	\$148,006	0.000	\$0	
\$100,000-\$150,000	1.53	0.89	\$103,597	\$178,187	0.000	\$0	
Over \$150,000	0.00	0.00	n/a	n/a	0.000	\$0	
Total	30.82	17.92	\$48,500	\$83,421	12.558	\$1,313,913	\$21,899

Sources: IMPLAN3 Results and Housing Affordability Gap calculated in Appendix B.

¹¹ These results assume that 100% of “new homes” induced jobs would be located in the City of Salinas.

Table A-6: Calculations Needed to Link Expenditures from Renters of New Apartment Units to an Estimate of an Affordable Housing Impact Fee – City of Salinas ¹²

Income Category	New Homes Induced Jobs	No. of New Employee Households (No. of new employees divided by average number of wage-earners in a HH or 1.72)	Average Worker Income	Household Income (Average Worker income multiplied by the number of wage-earners in a HH or 1.72)	No. of new low- and moderate-income households qualifying for assistance based on City of Salinas Moderate-Income cut-off for a HH of 3.5 persons, or \$78,325	Total Gap (No. of total households multiplied by average affordability gap for each Income Group	Total Fee per Unit (Total gap divided by # of new units - 40)
Less than \$10,000	0.00	0.00	n/a	n/a	0.000	0	
\$10,000-\$15,000	0.00	0.00	n/a	n/a	0.000	0	
\$15,000-\$25,000	0.06	0.04	\$21,727	\$37,370	0.036	\$5,275	
\$25,000-\$35,000	5.77	3.35	\$28,892	\$49,694	3.353	\$486,393	
\$35,000-\$50,000	7.77	4.51	\$38,803	\$66,741	4.515	\$336,005	
\$50,000-\$75,000	1.72	1.00	\$59,605	\$102,520	0.000	\$0	
\$75,000-\$100,000	3.16	1.83	\$86,015	\$147,947	0.000	0	
\$100,000-\$150,000	0.96	0.56	\$103,597	\$178,187	0.000	0	
Over \$150,000	0.00	0	n/a	n/a	0.000	0	
Total	19.43	11.30	\$48,520		7.904	\$827,673	\$20,692

Sources: IMPLAN3 Results and Housing Affordability Gap calculated in Appendix B.

¹² These results assume that 59% of “new homes” induced jobs would be located in the City of Salinas.

APPENDIX B: HOUSING AFFORDABILITY GAP

Estimating the housing affordability gap is necessary to calculate potential housing and commercial impact fees. This Appendix presents the analytic steps taken to calculate the housing affordability gap and the results of these calculations.

The housing affordability gap is defined as the difference between what very low-, low-, and moderate-income households can afford to pay for housing and the development costs of new, modest housing units. Calculating the housing affordability gap involves the following three steps:

- Estimating affordable rents and housing prices for households in targeted income groups;
- Estimating development costs of building new, modest housing units, based on current costs and additional market data; and
- Calculating the difference between what renters and owners can afford to pay for housing and the development costs of rental and ownership units.

Note: This housing affordability gap calculation was calculated specifically for the housing impact studies.

Estimating Affordable Rents and Sales Prices

The first step in calculating the housing affordability gap is to determine the maximum amount that households at the targeted income levels can afford to pay for housing. For eligibility purposes, most affordable housing programs define very low-income households as those earning approximately 50 percent or less of area median income (AMI), low-income households as those earning between 51 and 80 percent of AMI, and moderate-income households as those earning between 81 and 120 percent of AMI. In order to ensure that the affordability of rental housing does not overstate affordability, this analysis does not use the top incomes in each income category for the low- and moderate-income groups.

Table B-1 presents the household sizes and unit sizes used in the gap analysis, and Table B-2 provides the income levels used in the gap analysis. Table B-1 assumptions about household and unit sizes, approved by the Technical Advisory Committee, are more conservative (resulting in a lower gap) than the standards Salinas traditionally uses. Regarding Table B-2, it is important to understand how to interpret the information presented here. Under all income

scenarios (50% AMI or very low-income through moderate-income (110% to 120% AMI), it is assumed that a household pays 30% of its income for total housing costs.

Table B-1: Unit and Household Sizes Used in Housing Affordability Gap Analysis

Unit Size	Household Size
Studio	1 person
1-bedroom	1.5 person
2-bedroom	3 person
3- bedroom	4.5 person
4- bedroom	6 person

Sources: Technical Advisory Committee and the City of Salinas

Table B-2: Income Assumptions by Tenure

Income Category	Income Targets – Salinas Inclusionary Zoning Ordinance
Rental Housing	
Very Low-Income	30% of 50%
Low-Income	30% of 60%
Moderate-Income	30% of 110%
Ownership Housing	
Very Low-Income	30% of 50%
Low-Income	30% of 80%
Moderate-Income	30% of 120%

Source: HCD affordability definitions.

Table B-3 shows the incomes used for both rental and ownership gap calculations. Table B-4 demonstrates the rents that are affordable at each income level used in this study. The maximum affordable monthly rent is calculated as 30 percent of gross monthly household income, minus a deduction for utilities. The utility allowance is included in both the rental and ownership affordability calculations. Assumptions used in the calculation of utility costs are based on schedules provided by the Monterey County Housing Authority (based on unit sizes) and information from the U.S. Census on utilities commonly used in rental and ownership housing units. Incomes in the city are lower than those in the county, so this is a conservative assumption.

Table B-3: Monterey County Income Limits

Income Category	Number of Persons in Household					
	1	2	3	4	5	6
100% Median	\$48,100	\$54,950	\$61,850	\$68,700	\$74,200	\$79,700
Extremely Low (30% AMI)	\$15,250	\$17,400	\$20,090	\$24,250	\$28,410	\$32,570
Very Low Income (50% AMI)	\$25,400	\$29,000	\$32,650	\$36,250	\$39,150	\$42,050
Low Income (80% AMI)	\$40,600	\$46,400	\$52,200	\$58,000	\$62,650	\$67,300
Moderate Income (120% AMI)	\$57,700	\$65,950	\$74,200	\$82,450	\$89,050	\$95,650

Source: 2015 HCD Income Definitions for Monterey County.

Table B-4: Rental Housing Affordability Calculations

	Studio	1 BR	2 BR	3 BR	4 BR
Household Size (Persons per HH)	1	1.5	3	4.5	6
Income Levels Tested					
Maximum Household Income at 50% AMI	\$25,400	\$27,200	\$32,650	\$37,700	\$42,050
Maximum Monthly Housing Cost ⁽¹⁾	\$635	\$680	\$816	\$943	\$1,051
Utility Deduction	\$40	\$50	\$73	\$92	\$114
Maximum Available for Rent (HH Size) ⁽²⁾	\$595	\$630	\$743	\$851	\$937
Maximum Available for Rent (Unit Type)	\$595	\$630	\$743	\$851	\$937
Maximum Household Income at 60% AMI	\$28,860	\$35,040	\$37,110	\$42,870	\$47,820
Maximum Monthly Housing Cost ⁽¹⁾	\$722	\$876	\$928	\$1,072	\$1,196
Utility Deduction	\$40	\$50	\$73	\$92	\$114
Maximum Available for Rent (HH Size) ⁽²⁾	\$682	\$826	\$855	\$980	\$1,082
Maximum Available for Rent (Unit Type)	\$682	\$826	\$855	\$980	\$1,082
Moderate Income (110% AMI)					
Maximum Household Income at 110% AMI	\$52,910	\$56,678	\$68,035	\$78,595	\$87,670
Maximum Monthly Housing Cost ⁽¹⁾	\$1,323	\$1,417	\$1,701	\$1,965	\$2,192
Utility Deduction	\$40	\$50	\$73	\$92	\$114
Maximum Available for Rent (HH Size) ⁽²⁾	\$1,283	\$1,367	\$1,628	\$1,873	\$2,078
Maximum Available for Rent (Unit Type)	\$1,283	\$1,367	\$1,628	\$1,873	\$2,078

Notes:

1) 30 percent of maximum monthly household income.

2) Maximum monthly housing payment after utility costs are deducted.

Acronyms: AMI: Area median income

HH: Household

Sources: Table B-3, 2009-2013 American Community Survey 5-Year Estimates - City of Salinas, and Allowances for Tenant-Purchased Utilities and Other Services: Housing Authority of Monterey County.

The affordable homeownership calculations are more complex than the affordable rental housing calculations. Homeowners are assumed to pay a maximum of 30 percent of gross monthly income on total housing costs. The maximum affordable price for for-sale housing is then calculated based on the total monthly mortgage payment that a homeowner could afford, using standard loan terms used by CalHFA programs and many private lenders for first-time homebuyers, including a five percent down payment.

Affordable sales price estimates again start by assuming 30 percent of income for rent less utility cost deductions appropriate to the size of the unit and nature of utilities used. The next step for ownership affordability estimates is to consider the additional costs that must be covered by homeowners including the following:

- Property maintenance reserve - which is assumed to be \$300 per month
- Property taxes – which are assumed to be 1.153% of the sales price¹³
- Property Mortgage Insurance assumed to be 0.89% of the sales price (required since the loan is for 95% of the sales price)¹⁴
- Property Insurance assumed to be .35% of the sales price.

Affordable housing prices are then calculated, assuming a 95% loan to value, an interest rate of 4.125%, and a thirty-year fixed rate loan. Table B-5 presents the results of the affordable sales price calculations.

¹³ This property tax rate of 1.153% is the calculated average rate across the tax rate areas in the City of Salinas.

¹⁴ Although the downpayment for market rate housing buyers is assumed to be 20% of the purchase price, the downpayment for more affordable housing is assumed to be 5% of the purchase price, which is consistent with how special homebuyer programs, such as those provided by CalHFA, operate.

Table B-5: Affordable Sales Prices by Income Level and Unit Sizes

Income Level and Unit Type ⁽¹⁾	Affordable Sales Price
Very Low-Income Households	
1 Bedroom	\$35,812
2 Bedroom	\$56,575
3 Bedroom	\$75,814
4 Bedroom	\$92,387
Low-Income Households	
1 Bedroom	\$97,911
2 Bedroom	\$131,056
3 Bedroom	\$162,010
4 Bedroom	\$188,583
Moderate-Income Households	
1 Bedroom	\$167,725
2 Bedroom	\$214,871
3 Bedroom	\$258,874
4 Bedroom	\$296,590

(1) The sales price table differs from the rental table in that a studio unit is not included for the sales calculations. This reflects the fact that there are virtually no studio units developed for sale in the City of Salinas housing market. Sources: Table B-3, ownership housing affordable cost assumptions, and calculations undertaken by Vernazza Wolfe Associates, Inc. The assumptions are documented above in the text and based on standard industry practices, adjusted for local conditions whenever possible.

Estimating Housing Development Costs

The second step in calculating the housing affordability gap is to estimate the cost of developing new, modest housing units. Modest housing is defined slightly differently for rental and ownership housing. For rental housing, the costs and characteristics of modest housing are similar to recent projects developed in Salinas and Monterey County by the affordable rental housing sector. Modest for-sale housing is assumed to be non-luxury small lot single family homes and townhouses.

The calculation of housing development costs used in the housing affordability gap requires several steps. Because the gap covers both rental housing and for-sale housing, it is necessary to estimate costs for each separately.

Rental Housing Costs

No one rental project is used to model rental housing costs. Costs used in this Study are more “synthetic” in nature and depend on multiple data sources. The determination of new rental unit costs relied on two steps. First, it is necessary to develop costs per square foot. For this analysis, pro formas from several Salinas and Monterey County affordable rental developments were

examined. However, in the end, the decision was reached to model costs on one pro forma for an affordable family project under construction in Salinas (Haciendas 3) for three major reasons:

- (1) The project is located in Salinas;
- (2) The pro forma information is very current, and
- (3) It is a family rental project (in contrast, for example, to Haciendas 4 which is a senior project).

The Haciendas 3 pro forma provided costs that could be estimated on a square foot basis. This cost, \$290/SF, was used in the analysis.¹⁵

The second step is to determine the size of rental units (in square feet). This size estimate is undertaken for all units - studio units through four-bedroom units. The following affordable developments were considered when determining unit sizes: Gateway Apartments, Haciendas Phase II, Haciendas Phase I, Loma El Paraiso, Sunflower Gardens, Tresor Apartments and Tynan Village.

Once unit sizes are determined, the same square foot cost measure is applied to each unit size to develop estimates of rental housing development costs for each unit size included in the analysis.¹⁶ Table B-6 presents these rental housing development costs.

Table B-6: Unit Sizes and Costs Used in Affordability Gap Analysis

Rental Housing Cost @ \$290 per Net SF		
Number of Bedrooms	Unit Size (net SF)	Development Costs
Studio	400	\$116,000
1	630	\$182,700
2	880	\$255,200
3	1,280	\$371,200
4	1,430	\$414,700
For-Sale Small Lot Single Family Housing @ \$180 per Net SF		
Number of Bedrooms	Unit Size (net SF)	Development Costs
1	610	\$109,800
2	850	\$153,000
3	1,280	\$230,400
4	1,580	\$284,400

Sources: Selected Salinas and Monterey County Housing Pro Forms, and DataQuick Sales Data.

¹⁵ These costs were adjusted to remove prevailing wage requirements that are required when affordable housing is built using government subsidies. Therefore, the cost of \$350/SF was reduced to \$290/SF for the purpose of the housing affordability gap calculations.

¹⁶ In reality, square foot costs are not the same across unit sizes. For example, they are generally higher for smaller units and lower for larger units. However, for the purpose of this study, the cost measure developed for this study was an average across several different unit sizes.

For-Sale Housing Costs

In order to model for sale housing costs, there were fewer examples to consider. However, two recent modest developments were studied - Cambria Park (CHISPA's project in Greenfield) and Rogge Road (just outside Salinas city limits). CHISPA provided a pro forma for Cambria Park development costs, and Rogge Road's sales prices were used. Based on this information, a development cost of \$180/SF was estimated and used in the analysis.

For housing size information, unit sizes for the following projects were reviewed: Cambria Park, Rogge Road, Gabilan Hills Townhomes, and Mountain View Townhomes. Average unit sizes were computed for the one- through four-bedroom units included in the gap analysis.¹⁷

Calculating the Housing Affordability Gap

The final step in the analysis is to calculate the housing affordability gap, or the difference between what renters and owners can afford to pay and the total cost of developing new units. The purpose of the housing affordability gap calculation is to help determine the fee amount that would be necessary to cover the cost of developing housing for very low-, low-, and moderate-income households. The calculation does not assume the availability of any other source of housing subsidy because not all "modest" housing is built with public subsidies, and tax credits and tax-exempt bond financing are highly competitive programs that will not always be available to developers of modest housing units.

Table B-7 shows the housing affordability gap calculation for rental units. For each rental housing unit type and income level, the gap is defined as the difference between the per-unit cost of development and the supportable debt per unit. The supportable debt is calculated based on the net operating income generated by an affordable monthly rent, incorporating assumptions about operating expenses, reserves, vacancy and collection loss, and market rate mortgage terms. Because household sizes are not uniform and the type of units each household may occupy is variable, the average housing affordability gap is calculated by averaging the housing affordability gaps for the unit sizes (studios through four-bedroom units).

¹⁷ Since the ownership developments studied do not include one-bedroom units, it was necessary to "create" a one-bedroom house size. It was assumed that the one-bedroom unit size was approximately the same as the one-bedroom rental unit size used in this study.

Table B-7: Rental Housing Affordability Gap Calculation

Income Level and Unit Type	Unit Size (SF)	Maximum Monthly Rent (1)	Annual Income	Net Operating Income (2)	Available for Debt Service (3)	Supportable Debt (4)	Development Costs (5)	Affordability Gap
Very-Low Income (50% AMI)								
Studio	400	\$595	\$7,140	-\$717	\$0	\$0	\$116,000	\$116,000
1 Bedroom	630	\$630	\$7,560	-\$318	\$0	\$0	\$182,700	\$182,700
2 Bedroom	880	\$743	\$8,919	\$973	\$778	\$10,293	\$255,200	\$244,907
3 Bedroom	1,280	\$851	\$10,206	\$2,196	\$1,757	\$23,227	\$371,200	\$347,973
4 Bedroom	1,430	\$937	\$11,247	\$3,185	\$2,548	\$33,688	\$414,700	\$381,012
Average Affordability Gap								\$254,518
Low Income (60% AMI)								
Studio	400	\$682	\$8,178	\$269	\$215	\$2,847	\$116,000	\$113,153
1 Bedroom	630	\$826	\$9,912	\$1,916	\$1,533	\$20,272	\$182,700	\$162,428
2 Bedroom	880	\$855	\$10,257	\$2,244	\$1,795	\$23,739	\$255,200	\$231,461
3 Bedroom	1,280	\$980	\$11,757	\$3,669	\$2,935	\$38,813	\$371,200	\$332,387
4 Bedroom	1,430	\$1,082	\$12,978	\$4,829	\$3,863	\$51,083	\$414,700	\$363,617
Average Affordability Gap								\$240,609
Moderate Income (110% AMI)								
Studio	400	\$1,283	\$15,393	\$7,123	\$5,699	\$75,352	\$116,000	\$40,648
1 Bedroom	630	\$1,367	\$16,403	\$8,083	\$6,466	\$85,505	\$182,700	\$97,195
2 Bedroom	880	\$1,628	\$19,535	\$11,058	\$8,846	\$116,972	\$255,200	\$138,228
3 Bedroom	1,280	\$1,873	\$22,475	\$13,851	\$11,081	\$146,517	\$371,200	\$224,683
4 Bedroom	1,430	\$2,078	\$24,933	\$16,186	\$12,949	\$171,223	\$414,700	\$243,477
Average Affordability Gap								\$148,846

(1) Affordable Rents are based on HCD FY 2015 Income Limits for Monterey County.

(2) Amount available for debt. Assumes 5% vacancy and collection loss and \$7,500 per unit for operating expenses and reserves.

(3) Assumes 1.25 Debt Coverage Ratio.

(4) Assumes 6.38%, 30 year loan. Calculations based on annual payments.

(5) Assumes development cost of \$290 per net square foot.

Sources: Vernazza Wolfe Associates, Inc. and selected Salinas Rental Housing Pro Formas.

Table B-8 shows the housing affordability gap calculation for ownership units. For each unit type, the gap is calculated as the difference between the per-unit cost of development and the affordable sales price for each income level. As with rental housing, the average housing affordability gap for each income level is calculated by averaging the housing affordability gaps across unit sizes.

Table B-8: For-Sale Housing Affordability Gap Calculation

Income Level and Unit Type	Unit Size (SF)	Affordable Sales Price (1)	Development Costs (2)	Affordability Gap (3)
Very-Low Income (50% of AMI)				
1 Bedroom	610	\$35,812	\$109,800	\$73,988
2 Bedroom	850	\$56,575	\$153,000	\$96,425
3 Bedroom	1,280	\$75,814	\$230,400	\$154,586
4 Bedroom	1,580	\$92,387	\$284,400	\$192,013
Average Affordability Gap				\$129,253
Low Income (80% of AMI)				
1 Bedroom	610	\$97,911	\$109,800	\$11,889
2 Bedroom	850	\$131,056	\$153,000	\$21,944
3 Bedroom	1,280	\$162,010	\$230,400	\$68,390
4 Bedroom	1,580	\$188,583	\$284,400	\$95,817
Average Affordability Gap				\$49,510
Moderate Income (120% of AMI)				
1 Bedroom	610	\$167,725	\$109,800	\$0
2 Bedroom	850	\$214,871	\$153,000	\$0
3 Bedroom	1,280	\$258,874	\$230,400	\$0
4 Bedroom	1,580	\$296,590	\$284,400	\$0
Average Affordability Gap				\$0

(1) See Table B-5 above.

(2) Assumes \$180/SF for development costs.

(3) Calculated as the difference between affordable sales price and development cost

Sources: Vernazza Wolfe Associates, Inc., CHISPA pro forma, and DataQuick Sales Data.

Finally, Table B-9 presents the tenure-neutral estimates of the housing affordability gap for very low-, low-, and moderate-income households by averaging the rental and ownership gaps for each income group.¹⁸ The calculated average affordability gap per unit is \$191,886 for very low-income households, \$145,060 for low-income households, and \$74,423 for moderate-income households. The housing affordability gap is highest for lower income households because they have less money to spend on housing costs. The gap is also higher for rental housing due to the higher development cost per square foot in comparison to for-sale development costs.

Table B-9: Average Rental and For-Sale Gap by Income Group

Income Level	Rental Gap	Ownership Gap	Average Affordability Gap
Very Low-Income (50% AMI)	\$254,518	\$129,253	\$191,886
Low-Income (60% - 80% AMI)	\$240,609	\$49,510	\$145,060
Moderate-Income (100% - 120% AMI)	\$148,846	\$0	\$74,423

Sources: Tables B-7 and B-8.

¹⁸ There is no gap on for-sale housing for moderate-income owners, given the assumptions used in this study.

APPENDIX C: FINANCIAL FEASIBILITY ANALYSIS

Based on information provided by a local builder, development cost estimates were created for the three prototypes. The feasibility assessment then looked at the financial feasibility of these three prototypes, given these costs and revenues assumed for the IMPLAN3 analysis, as well as profit expectations in today's real estate market. Several assumptions are needed for this analysis. These include the following:

- Reductions to gross revenues due to cost of sales (for for-sale prototypes) and operating expenses/vacancy loss for the rental prototype.
- Expectation of return for the for-sale prototypes, defined as the net value divided by development costs. Based on current market expectations, this number is 7% for the low density single homes and 8% for the small lot single family homes.
- For rental housing, there are two return measures, including the net value divided by development costs (based on a capitalization rate of six percent) and supportable debt, based on cash flow.

Table C-1 provides a detailed list of the assumptions and data sources used in the Appendix C tables. Table C-2 provides the base case of the two for-sale prototypes, based on the anticipated sales prices analyzed in the nexus analysis. Since the base case is not currently feasible (showing a negative return), Table C-3 presents information on what sales prices would need to be to provide the required return on costs (7% to 8%) in today's market. Tables C-4, C-5 and C-6 provide information on what sales prices would need to be in order to support the three impact fee levels presented in this report (\$10, \$5, and \$2 per SF).

Table C-7 shows the base case for the rental housing prototype, which, unlike the for-sale prototype, currently shows a positive return. Net operating income supports a loan that is about 90% of development costs which is not optimal (the developer does not receive any profit and also has to fund the deficit). Table C-8 provides information on what rents would need to be in order to conclude that the project was financially feasible. In this context, feasibility requires that the net operating income covers costs and also provides a return on development costs of 14%. Finally, Tables C-9, C-10 and C-11 provide information on what rents would need to be in order to support the three impact fee levels presented in this report (\$10, \$5, and \$2 per SF).

One significant factor that is not known at present are future sales prices and rents, particularly in the Future Growth Area. The prices modeled were based on recent development and are conservative. If prices have increased, and there is strong evidence they have, development will be more feasible than modeled in this analysis.

Since a significant amount of future development will occur in the FGA's and additional impact fees that will be charged there have not been established, it was not possible to include these higher fees in the development costs. Consequently, it is likely that costs would be higher by the time there is development in the FGA's. In reality, therefore, rents and sales prices would need to be even higher than those presented in these tables. Finally, the biggest discrepancy at this time is between the sales prices/rents modeled in this study and what sales prices/rents need to be for future development to be financially feasible. In other words, the levying of housing impact fees has less of an impact on feasibility than do current market conditions.

Table C-1: Cost and Return Assumptions Used in Feasibility Analysis

	Large Lot Single Family	Small Lot Single Family/Townhomes	Apartments (Multifamily)
Average Unit Sizes Based on Prototypes	2,600 SF	1,750 SF	1,060 SF
Revenue Assumptions			
Gross Revenues per Unit (Average of Units in Prototypes)	\$467,500	\$282,500	\$1,620 per Month
Sales Expenses/Vacancy Loss	3.5%	3.5%	Gross Rent Reduced by 5% (Vacancy Loss) and assumes operating expenses are 30% of net revenues
Cost Assumptions			
Site Improvement Costs per SF (1)	\$18.62	\$18.62	\$41.22
Building Costs per SF (2)	\$85.00	\$93.00	\$97.66
Soft Costs per SF (3)	\$27.10	\$27.10	\$31.15
Additional Costs per SF (4)	\$9.00	\$9.00	\$7.20
Land Costs per SF (5)	\$35.07	\$35.07	\$19.58
Total Costs per SF	\$174.79	\$182.79	\$196.81
Total Costs per Unit	\$454,454	\$319,883	\$208,619
Profit Based on Prevailing Market Expectations (2015)			
Return on Costs (6)	7%	8%	14%
Capitalization Rate (7)	NA	NA	6%
Interest Rate Used in Debt Service Calculation (8)	NA	NA	5.64%

(Table notes on following page.)

Notes for Table C-1: Cost and Return Assumptions Used in Feasibility Analysis

- (1) Site Improvement Costs include demolition, grading, sewer, storm drain, water, PG&E, curb, gutter, erosion control, bio swales, water, storage, signing, landscaping, fencing, paving, etc.
- (2) Building Costs include foundation to carpet. Parking costs included in site improvements costs.
- (3) Soft costs include construction financing, contingency, developer fee (including impact fees) consultants, engineering, architect, and insurance.
- (4) Additional costs include general conditions, temporary fencing, utilities, toilets, labor, debris disposal, administrative project manager, superintendent, construction labor, and off-site administration.
- (5) Land costs are based on prototype densities as follows: large lot single family (6 DU/Acre), small lot single family (9 – 15 DU/Acre), and apartments (16 – 24 DU/Acre).
- (6) The return on costs measure used here (7% for large lot single family, 8% for small lot single family/townhomes, and 14% for rental housing) is based on feasibility modeling included in a recent Oakland Fee Study examining new development in Oakland submarkets, such as East Oakland, that are similar to the Salinas market.
- (7) Capitalization Rate (Cap Rate) is used for rental housing feasibility. The Cap Rate used in this feasibility analysis is from Cushman and Wakefield.
http://annualreview.cushwake.com/downloads/04_cap_market_report.pdf, accessed on November 12, 2015. The Cap Rate selected represents Sacramento's Class B space (estimated between 5.75% and 6.5%). This submarket was selected since among locations in California, it is the most comparable to the Salinas apartment market.
- (8) Assumes interest rate of 5.64% for a 30-year, fixed rate loan. Source is <http://www.crefcoa.com/apartment-rates-main.html>, accessed on November 12, 2015

Table C-2: Financial Analysis of Base Case Single Family/Townhome Prototypes

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	Per Unit	Per SF	Per Unit
A. Revenue - Average Sales Price	\$179.81	\$467,500	\$161.43	\$282,500
B. Sales Expenses (3.5% of Revenues)	(\$6.29)	(\$16,363)	(\$5.65)	(\$9,888)
C. Net Revenues (Revenues less Sales Expenses)	\$173.51	\$451,138	\$155.78	\$272,613
D. Development Costs, excludes developer fee and return on capital	(\$174.79)	(\$454,454)	(\$182.79)	(\$319,883)
E. Profit/Loss (Net Revenues less Development Costs)	(\$1.28)	(\$3,317)	(\$27.01)	(\$47,270)
F. Profit expressed as a percentage of Development Costs	-1%	-1%	-15%	-15%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-3: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	Per Unit	Per SF	Per Unit
A. Revenue - Average Sales Price	\$194.23	\$505,000	\$204.29	\$357,500
B. Sales Expenses (3.5% of Revenues)	(\$6.80)	(\$17,675)	(\$7.15)	(\$12,513)
C. Net Revenues (Revenues less Sales Expenses)	\$187.43	\$487,325	\$197.14	\$344,988
D. Development Costs, excludes developer fee and return on capital	(\$174.79)	(\$454,454)	(\$182.79)	(\$319,883)
E. Profit/Loss (Net Revenues less Development Costs)	\$12.64	\$32,871	\$14.35	\$25,105
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

**Table C-4: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes
\$10/SF Housing Impact Fee Scenario**

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	Per Unit	Per SF	Per Unit
A. Revenue - Average Sales Price	\$205.77	\$535,000	\$215.71	\$377,500
B. Sales Expenses (3.5% of Revenues)	(\$7.20)	(\$18,725)	(\$7.55)	(\$13,213)
C. Net Revenues (Revenues less Sales Expenses)	\$198.57	\$516,275	\$208.16	\$364,288
D. Development Costs, excludes developer fee and return on capital, and includes \$10/SF Impact Fee	(\$184.79)	(\$480,454)	(\$192.79)	(\$337,383)
E. Profit/Loss (Net Revenues less Development Costs)	\$13.78	\$35,821	\$15.37	\$26,905
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

**Table C-5: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes
\$5/SF Housing Impact Fee Scenario**

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	Per Unit	Per SF	Per Unit
A. Revenue - Average Sales Price	\$200.00	\$520,000	\$210.00	\$367,500
B. Sales Expenses (3.5% of Revenues)	(\$7.00)	(\$18,200)	(\$7.35)	(\$12,863)
C. Net Revenues (Revenues less Sales Expenses)	\$193.00	\$501,800	\$202.65	\$354,638
D. Development Costs, excludes developer fee and return on capital, and includes \$5/SF Impact Fee	(\$179.79)	(\$467,454)	(\$187.79)	(\$328,633)
E. Profit/Loss (Net Revenues less Development Costs)	\$13.21	\$34,346	\$14.86	\$26,005
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

**Table C-6: Financial Analysis of Financially Feasible Case Single Family/Townhome Prototypes
\$2/SF Housing Impact Fee Scenario**

	Large Lot, Single Family		Small Lot Single Family/Townhomes	
	Per SF	Per Unit	Per SF	Per Unit
A. Revenue - Average Sales Price	\$196.15	\$510,000	\$207.14	\$362,500
B. Sales Expenses (3.5% of Revenues)	(\$6.87)	(\$17,850)	(\$7.25)	(\$12,688)
C. Net Revenues (Revenues less Sales Expenses)	\$189.29	\$492,150	\$199.89	\$349,813
D. Development Costs, excludes developer fee and return on capital, and includes \$2/SF Impact Fee	(\$176.79)	(\$459,654)	(\$184.79)	(\$323,383)
E. Profit/Loss (Net Revenues less Development Costs)	\$12.50	\$32,496	\$15.10	\$26,430
F. Profit expressed as a percentage of Development Costs	7%	7%	8%	8%
G. Market Expectation of Profit as a Percentage of Development Costs	7%	7%	8%	8%

Source: Table C-1.

Table C-7: Financial Analysis of Base Case Apartment Prototype

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	\$1.53	\$1,620
Annual Rents	\$18.34	\$19,440
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	\$17.42	\$18,468
C. Less Operating Expenses (30% of Net Revenues)	(\$5.23)	(\$5,540)
D. Net Operating Income	\$12.20	\$12,928
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	\$203.26	\$215,460
F. Development Costs (excludes developer fee and return on capital)	\$196.81	\$208,619
F. Difference Between Value and Development Costs	\$6.45	\$6,841
G. Supportable Debt (30 year loan, 5.64% interest rate)	NA	\$185,022
H. Net Value Divided by Development Costs	3%	3%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-8: Financial Analysis of Financially Feasible Case Apartment Prototype

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	\$1.67	\$1,775
Annual Rents	\$20.09	\$21,300
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	\$19.09	\$20,235
C. Less Operating Expenses (30% of Net Revenues)	(\$5.73)	(\$6,071)
D. Net Operating Income	\$13.36	\$14,165
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	\$222.71	\$236,075
F. Development Costs, excludes developer fee and return on capital	\$196.81	\$208,619
F. Difference Between Value and Development Costs	\$25.90	\$27,456
G. Supportable Debt (30 year loan, 5.64% interest rate)		\$202,726
H. Net Value Divided by Development Costs	13%	13%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-9: Financial Analysis of Financially Feasible Case Apartment Prototype - \$10/SF Housing Impact Fee Scenario

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	\$1.77	\$1,875
Annual Rents	\$21.23	\$22,500
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	\$20.17	\$21,375
C. Less Operating Expenses (30% of Net Revenues)	(\$6.05)	(\$6,413)
D. Net Operating Income	\$14.12	\$14,963
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	\$235.26	\$249,375
F. Development Costs, excludes developer fee and return on capital, and includes \$10/SF Impact Fee	\$206.81	\$219,219
F. Difference Between Value and Development Costs	\$28.45	\$30,156
G. Supportable Debt (30 year loan, 5.64% interest rate)		\$214,146
H. Net Value Divided by Development Costs	14%	14%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-10: Financial Analysis of Financially Feasible Case Apartment Prototype - \$5/SF Housing Impact Fee Scenario

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	\$1.73	\$1,835
Annual Rents	\$20.77	\$22,020
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	\$19.73	\$20,919
C. Less Operating Expenses (30% of Net Revenues)	(\$5.92)	(\$6,276)
D. Net Operating Income	\$13.81	\$14,643
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	\$230.24	\$244,055
F. Development Costs, excludes developer fee and return on capital, and includes \$5/SF Impact Fee	\$201.81	\$213,919
F. Difference Between Value and Development Costs	\$28.43	\$30,136
G. Supportable Debt (30 year loan, 5.64% interest rate)		\$209,567
H. Net Value Divided by Development Costs	14%	14%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.

Table C-11: Financial Analysis of Financially Feasible Case Apartment Prototype - \$2/SF Housing Impact Fee Scenario

	Per SF	Per Unit
A. Revenue – Initial Monthly Rents (100% Occupancy)	\$1.70	\$1,800
Annual Rents	\$20.38	\$21,600
B. Annual Rents, Net of Vacancy Loss, Assumed to be 5% of Total Revenues	\$19.36	\$20,520
C. Less Operating Expenses (30% of Net Revenues)	(\$5.81)	(\$6,156)
D. Net Operating Income	\$13.55	\$14,364
E. Value Based on Capitalization Rate of 6% (Assumes no debt service)	\$225.85	\$239,400
F. Development Costs excludes developer fee and return on capital, and includes \$2/SF Impact Fee	\$198.81	\$210,739
F. Difference Between Value and Development Costs	\$27.04	\$28,661
G. Supportable Debt (30 year loan, 5.64% interest rate)		\$205,574
H. Net Value Divided by Development Costs	14%	14%
I. Market Expectation of Net Value Divided by Dev. Costs	14%	14%

Source: Table C-1.