



**CITY OF SALINAS  
FINANCE COMMITTEE**

**DATE: MARCH 4, 2019**

**DEPARTMENT: COMMUNITY DEVELOPMENT DEPARTMENT**

**FROM: MEGAN HUNTER, DIRECTOR**

**TITLE: ACCESSORY DWELLING UNIT (ADU) EXEMPTION FROM PAYMENT  
OF DEVELOPMENT IMPACT FEES FOR FIVE (5 YEARS)**

**RECOMMENDED MOTION:**

A motion to recommend the City Council adopt an ordinance amending Chapter 9 of the Salinas Municipal Code (Building) to exempt accessory dwelling units (ADUs) from payment of development impact fees for five (5) years.

**DISCUSSION:**

Multiple plans, most importantly the 2015-2023 Housing Element include an implementation action to facilitate the production of Accessory Dwelling Units (ADUs) in the City. Through the assistance of an AmeriCorps VISTA, the Community Development Department was able to identify multiple barriers to ADU production. After interviewing residents who applied for ADUs, staff discovered that the most significant impediment to production is payment of development impact fees. Most of the City's development impact fees are charged per dwelling unit except for utility and park fees. As a result, a 400 square foot ADU will pay roughly the same amount of impact fees as a new 3,000 square foot single-family residence. Of the eight permits issued for ADUs in 2018, the total development impact fees averaged just under \$13,000. City development impact fees averaged just over \$8,000.

ADU Development Costs in 2018						
ADU Size (Square Feet)	Bedrooms	City DIF	Regional DIF	Total (City/Regional DIF)	City Other Fees (Inspection, Plan Review)	Grand Total
516	2	\$ 8,207.21	\$ 4,851.47	\$ 13,058.68	\$ 4,763.40	\$ 17,822.08
660	1	\$ 7,263.21	\$ 4,851.47	\$ 12,114.68	\$ 3,714.66	\$ 15,829.34
578	1	\$ 7,263.21	\$ 4,851.47	\$ 12,114.68	\$ 1,924.77	\$ 14,039.45
750	2	\$ 8,207.21	\$ 4,851.47	\$ 13,058.68	\$ 4,541.09	\$ 17,599.77
1200	3	\$ 9,151.21	\$ 4,851.47	\$ 14,002.68	\$ 6,460.89	\$ 20,463.57
816	3	\$ 9,151.21	\$ 4,851.47	\$ 14,002.68	\$ 6,901.96	\$ 20,904.64
500	1	\$ 7,263.21	\$ 4,851.47	\$ 12,114.68	\$ 4,425.23	\$ 16,539.91
Average		\$ 8,072.35	\$ 4,851.47	\$ 12,923.82	\$ 4,676.00	\$ 17,599.82

Notes: DIF = Development Impact Fees

City DIF fees: park, recreation, library, traffic, utility, fire, police

Regional DIF fees: Monterey One Water, TAMC

Like Salinas, many jurisdictions consider ADU production as a critical component in providing much needed affordable housing. Recently both the City and County of San Diego opted to waive or exempt ADUs from development impact fees. Many jurisdictions are either exempting or reducing development impact fees for ADUs to ensure compliance with the Fee Mitigation Act, which requires fees to be proportional to the actual impact. In fact, the 2016 California Department of Housing and Community Development Accessory Dwelling Unit Memorandum states “fees on ADUs, must proportionately account for impact on services based on the size of the ADU or number of plumbing fixtures. Fees for ADUs should be significantly less and should account for a lesser impact such as lower sewer or traffic impacts”.

Unfortunately, Salinas’ current fee structure never factored ADUs in the calculation of fees. The purpose of development impact fees is to offset any potential impact to City infrastructure and services. Unlike new residential projects, ADUs are built on an already developed and occupied lot. A new single-family development will have already paid development impact fees. For this reason, charging development impact fees for ADU construction or conversion is unnecessary and results in an unfair impediment to construction of vital housing stock. In many cases, a new ADU is providing housing for occupants that are already living onsite.

The Salinas Plan underscores the need to address the housing crisis to ensure the City’s fiscal health. By continuing to charge prohibitive impact fees, very few ADUs will be constructed. Since 2007, only a total of 24 ADUs have been permitted. Simultaneously, Salinas’s housing situation has worsened as we are now the 10<sup>th</sup> least affordable metro area in the nation.

Production of ADUs will help with housing affordability, conditions, and ultimately increase property tax revenue. For example, if an ADU is assessed at around \$100,000, the City will receive approximately \$1,000 of additional property tax revenue per year, helping offset any loss of development impact fees. The exemption would be limited to five (5) years to minimize any potential fiscal impact and would allow the City to evaluate the impact of exemption in generating more housing units. The City will approach TAMC and Monterey One Water about a similar exemption for ADUs.

#### FISCAL AND SUSTAINABILITY IMPACT:

The proposal would be limited to five years and therefore the potential fiscal impact is lessened. In eleven years, only twenty-four (24) ADUs have been permitted. Based upon the average of 3 ADUs permitted per year, the City would only lose approximately \$120,000. This past year, the City had the largest number of permitted ADUs at eight (8). Even using this as the basis for estimating the potential loss, the City would only lose \$320,000 over the next five years for 40 ADUs.

In contrast, the development cost of one affordable housing unit is between \$300,000 to \$400,000 and would require a local subsidy to construct. For example, the City subsidy for Moongate Plaza was roughly \$40,000 per unit. Thus, in comparing the exemption and potential loss of revenue with the needed local subsidy, the five-year exemption from ADU development impact fees is a much more economical way to facilitate housing production.

The City will also gain new property tax revenue from ADUs that likely would never be constructed because of the prohibitive development impact fees.