



Agenda Date: 8/7/2007  
Agenda Placement: 6T

## NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

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**TO:** Board of Supervisors  
**FROM:** Watt, Nancy - County Executive Officer  
Community Partnership Program  
**REPORT BY:** Howard Siegel, DIR OF COM AND INTERGOV AFFAIR, 253-4621  
**SUBJECT:** Annual Housing Fee Report (County Code section 15.60.060)

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### **RECOMMENDATION**

County Executive Officer requests Board acceptance of annual housing report as required by County Code Section 15.60.060.

### **EXECUTIVE SUMMARY**

In 1993, the County created its Housing Trust Fund (since renamed the Affordable Housing Fund) in order to help facilitate the development of affordable housing in the unincorporated area as well as within the cities of Napa County.

The requirements for this report are included in County Code Section 15.60.060 and include the identification of the purpose of the fee, the amount that has been generated in revenue and expended in any given fiscal year, and the benefits of those expenditures, in this case, primarily quantified in terms of the number of affordable housing units created. An evaluation of the efficiency in mitigating the shortage of low income housing available is also required. This report addresses that information for the current fiscal year (2006/07) as well as for the two prior fiscal years.

Revenue for this fund is generated by both inclusionary housing "in-lieu" fees and commercial linkage fees. Revenue from both sources has averaged well over \$1 million annually, generating a total in excess of \$20 million, of which over \$15 million has been expended to help generate over 700 affordable housing units. Frequently, these funds are used as the initial investment in a particular project, thereby allowing the developer to leverage those funds using other financing sources. Historically, the County funds have been leveraged at a rate of approximately 12 to 1.

### **FISCAL IMPACT**

Is there a Fiscal Impact?                      No

**ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

**BACKGROUND AND DISCUSSION**

In 1992, the County commissioned a "Jobs-Housing Nexus Study", completed by Keyser Marston Associates which led to the adoption of County Ordinance No. 1026 in 1993, thereby creating the Housing Trust Fund (also known as the Affordable Housing Trust Fund). The purpose of this study was to establish a causal relationship between the development of job-generating property (for example, commercial or industrial uses) and the demand for affordable housing.

The study concluded that the causal relationship existed and, in 1993, all building permits issued by the County included a housing mitigation fee. Since different types of workplaces generate different employment densities, these non-residential fees were established on a "per-square-foot" (psf) basis. The original range of these fees was between \$0.25 psf and \$1.40 psf for hotels.

In addition to these employment-generating fees, an "inclusionary housing in-lieu fee" was also levied on residential building permits. In the latter case, the fee was determined as a percentage of estimated construction cost which, for most applicants, is 2%.

This Nexus Study was updated in 2004, as required by the Settlement Agreement in the Deharo, et. al. vs. County of Napa litigation, filed by affordable housing advocates. As a result of that updated study and the Settlement Agreement, the original commercial linkage fees were increased by over 200% on an average basis, with the warehouse fee being increased from \$0.25 psf to \$0.75 psf and the retail uses from \$1.00 to \$3.00. Please note that the fee for the "in-lieu" residential fee (i.e. in-lieu of actually creating affordable units on the same or a different site) was not changed since it was based upon a straight percentage of construction costs which, on their own, have increased due to inflationary trends over the years.

During the life of the Affordable Housing Fund, revenue has been generated primarily by "inclusionary housing in-lieu fees" (over 70% of total) and secondarily, by commercial linkage fees. Revenue from both sources has averaged well over \$1 million annually, generating a total in excess of \$20 million, of which over \$15 million has been expended to help generate over 700 affordable housing units. Frequently, these funds are used as the initial investment in a particular project, thereby allowing the developer to leverage those funds using other financing sources. Historically, the County funds have been leveraged at a rate of approximately 12 to 1.

The attached table reflects both revenue sources and expenditures for each of the past three fiscal years. You may notice that the level of activity in recent years is less than that of prior years. It is important to understand the process by which these funds are expended. Typically, a project proponent - whether a current property owner or a non-profit developer seeking to acquire developable property - submits a project proposal with a number of prospective financing sources. The County's money is frequently obligated first and, thereby, used to leverage the acquisition of other funding. Quite often, it can be several years from the time of the County's commitment to the creation and occupancy of the affordable units. Our funds are often set aside for future disbursement, as needed, during the development process. Since these proposals are often opportunity driven, they can be sporadic from one year to another and difficult to anticipate.

It is also worth noting that the majority of the affordable units created thus far have been located in the cities of the

County, primarily in the City of Napa and, more recently, in American Canyon. This is a function of several factors - first, the County's long-standing dual policies of city-centered growth and agricultural preservation; secondly, earlier transfer agreements that were enabled by State legislation for the County to receive credit for a percentage of affordable units that we helped to create through the funding process; and third, the recent Housing Agreements (MOUs) with the cities of Napa and American Canyon, whereby the County agreed to provide funding for specified projects, which enabled those two cities to help ease the County's housing burden, as directed by State and regional agencies.

To evaluate the effectiveness of this Fund, staff has used the context of the number of affordable housing units that are deemed to be necessary for any given period of time, according to State and Regional agencies. For the period from 1999 to the present, the unincorporated area was obligated to provide for nearly 2,000 units, of which about 1,100 should be affordable to low and moderate income households. In 2003, via the aforementioned MOU's, the County was able to reallocate over half of that amount to the cities of Napa and American Canyon.

In the coming 7-year period, that requirement appears to have been drastically reduced (to about 650). Due to the 2004 Housing Element update and as a result of the 2003 DeHaro Settlement Agreement, the County has designated 14 parcels for "affordable housing" (through a "combination district" zoning approach), increased its commercial linkage fees by 2 or 3 times, and expanded the windows of opportunity for the use of its residential permits, along with continuing to utilize the resources of the Affordable Housing Fund, for projects either in our cities or in the unincorporated area. These 14 parcels have the capacity for over 600 housing units, with over 200 of them being affordable.

The 12 to 1 leverage ratio mentioned above also speaks to the efficiency of this Fund in attracting other financial resources to assist in the development of affordable housing units, as does the average investment per unit of less than \$20,000 over the life of the Fund, since it currently costs about 10 times that amount to create even a modest sized multi-family housing unit.

### **SUPPORTING DOCUMENTS**

A . Affordable Housing Table

CEO Recommendation: Approve

Reviewed By: Karen Gratton