



Chapter 2B Calculation of In-Lieu Fees – Rental - Section 18.37.080 (B)

I. Introduction

The Rental In-Lieu Fee is calculated from the financing gap required to build affordable rental dwelling units using 4% Low Income Housing Tax Credits (LIHTC or tax credits) assuming a blended affordability of 25% of the Inclusionary Units affordable to households at or below 35% AMI (35% AMI), 50% of the Inclusionary Units affordable to households at or below 50% of AMI (very low-income), and the remaining 25% of Inclusionary Units affordable to households at or below 60% AMI (low-income). This reflects the requirement in Section 18.37.050(2).

II. Calculation of the Rental In-Lieu Fee

The City retained David Rosen & Associates to conduct the analysis for the initial calculation of the Rental In-Lieu Fee, beginning in 2020. The multifamily rental prototype used in this calculation is based on historical data from affordable rental multifamily housing prototypes in East Palo Alto and an analysis of 2017-2019 Low Income Housing Tax Credit applications. Further detailed analysis and methodology can be found in Attachment 2C.

During the FY 2021-2022 and FY 2022-2023 updates, the fees were updated using the percentage change in new home prices in the fourth quarter of the previous two years. Given that the data source for new home prices discontinued, for FY 2023-2024, the City opted to update the fees using the Construction Cost Index (CCI). A summary of the current FY 2023-2024 Rental Housing In-Lieu Fees, updated from the FY 2022-23 Rental Housing In-Lieu Fee Calculation, is provided below:

City of East Palo Alto Baseline Rental Housing In-Lieu Fee Calculation (2020)*	
	Apartments, Structured Parking
Tax Credit Equity per Dwelling Unit	\$233,000
Permanent Mortgage Financing per Dwelling Unit	<u>\$182,400</u>
Total Sources per Dwelling Unit	\$415,400
Development Cost per Dwelling Unit	\$665,000
Gap for In-Lieu Fee (Blended AMI)	\$250,000 per unit
2% Increase Due to Delay	\$5,000 per unit
Baseline In-Lieu Fee for Rental (2020)	\$255,000 per unit

FY 2023-24 Rental Housing In-Lieu Fee Calculation*	
December 2021 CCI	12,481
December 2022 CCI	13,175
Percentage Change	+5.56%
2022 Rental In-Lieu Fee	\$259,000
FY 2023-2024 Rental In-Lieu Fee (13.32% increase)	\$273,400 per unit

*Figures are rounded in this chart, but not in the actual calculation. Rental In-Lieu Fee rounded to nearest hundredth.



The full calculation of the baseline Rental In-Lieu Fee and subsequent annual increases are described below.

1. The Total Development Cost is calculated based on the following cost assumptions:

Assumption	Amount
Land price	\$16,335,000
Building Hard Construction Cost (including prevailing wage and structured parking)	\$73,095,000
Soft Costs (including development impact fees)	\$22,033,500 (30%)
Total Development Cost	\$111,358,500 (\$636,334 per unit)

2. The Affordable Rent calculation is based on the maximum household income at the income levels specified below, adjusted by household size, less utilities:
 - 35% AMI [25% of dwelling units]
 - 50% AMI [50% of dwelling units]
 - 60% AMI [25% of dwelling units]
 Utility cost varies by bedroom count and is based on the utilities allowances from the Housing Authority of San Mateo County. The occupancy standard is 1.5 persons per bedroom.
3. Net Operating Income and Supportable Mortgage amount are calculated based on Affordable Gross Rents less the following:

Assumption	Amount
Operating Costs	\$2,365,078
Replacement Reserves	\$43,750
Vacancy	\$182,044 (5%)

4. Tax credit equity from 4% tax-exempt bonds is assumed and added to the Permanent Mortgage Amount to calculate the total sources for the project.

Source	Amount
Permanent Mortgage	\$31,925,408
Tax Credit Equity (4%)	\$40,803,684
Total Sources	\$72,729,092

5. The gap between the Total Sources and the Total Development Cost is the In-Lieu Fee.

Total Sources	\$72,729,092
Total Development Cost (incl. Developer Fee and Capitalized Operating Reserves assumption)	\$116,490,147
Gap (In-Lieu Amount)	\$43,761,056 (\$250,000 per unit)



This In-Lieu Fee is effective through FY 2023-24, starting July 18, 2023.

Annual adjustments of the Rental In-Lieu Fee were formerly based on the Northern California Real Estate Construction Report published by the Real Estate Research Council of Southern California at California State Polytechnic University, Pomona. The Rental In-Lieu Fee was adjusted based upon the percentage difference in the current completed year new home prices in San Mateo County from the immediately preceding year as published in the Northern California Real Estate Construction Report. Given that the report and data for new home prices is no longer available, the Construction Cost Index (CCI) is used to calculate the Rental In-Lieu Fee adjustment instead.

The updated calculation for annual adjustment is made as follows:

December 2021 Construction Cost Index	12,481
December 2022 Construction Cost Index	13,175
Difference:	1,549
Divide the difference by the 2021 figure:	<u>694</u>
To determine the % difference of the current year and the preceding year:	5.56%
Then multiply the current In-Lieu Fee by 100% plus this percentage:	105.56% x \$259,000
In-Lieu Fee per Unit:	\$273,400*

*Figure rounded to nearest hundredth.

III. In-Lieu Fee Additional Charges

The Housing Division may collect an administrative fee to account for the estimated costs of administration. This administrative fee may be levied as part of the In-Lieu Fee or as a separate charge. In addition, the In-Lieu Fee can account for the estimated cost of increases in the price of housing and construction between payment and the acquisition of land and construction of affordable dwelling units.

The In-Lieu Fee described in this document does not currently include an administrative fee in the calculation. However, the In-Lieu Fee amount shown at the beginning of this Chapter includes a 2% increase to account for the delay between payment and construction of affordable dwelling units.

Please see the calculation below using an example Residential Development project of 100 dwelling units:

Rental In-Lieu Fee (FY 2023-24)	\$273,400
Total Number of Dwelling Units:	100
	X
Multiplied by 25%:	<u>.25</u>
Units Required to Pay In-Lieu Fee:	25
	X
In-Lieu Fee Per Inclusionary Unit	<u>\$273,400</u>



In-Lieu Fee for a Residential Development of 100 Dwelling Units: \$6,835,000