OFFICE OF THE MAYOR
SAN FRANCISCO

LONDON N. BREED
MAYOR

Fact Sheet: Housing Fee Reform Plan

Mayor London N. Breed and President of the Board of Supervisors Aaron Peskin have proposed a Housing Fee Reform Plan that will unlock the housing pipeline and accelerate the planning, approval and construction of existing and new projects citywide.

The Housing Fee Reform Plan is composed of two pieces of legislation that will reduce inclusionary housing requirements on new and already approved development projects and reform and defer development impact fees in order to spur development projects and economic activity.

This legislation is a key piece of Mayor Breed's Housing For All Plan, which is the City's effort to allow for 82,000 new homes to be built over the next 8 years. This legislation meets obligations set out in the City's Housing Element, which was unanimously approved by the Board of Supervisors in January and certified by the State.

Inclusionary Housing Legislation

The Inclusionary Housing legislation will reduce inclusionary requirements for both Pipeline Projects – those that are already approved by the City – and new housing projects. By setting these requirements based on data, San Francisco can remove a significant barrier to new housing being built.

Technical Advisory Committee Findings

The Inclusionary Housing legislation was born out of the Affordable Housing Technical Advisory Committee (TAC), a group of development and affordable housing experts appointed by the Mayor and Board of Supervisors that advises the City on the Inclusionary Housing Program. The TAC, which is convened by the Controller, met four times between October 2022 and April 2023, studied ten development prototypes, and found that residential development is not financially feasible in San Francisco under the current inclusionary housing rates.

Lowering Rates to Ensure Housing is Built

The Inclusionary Housing legislation proposes following the TAC recommendations by lowering the inclusionary housing percentage to a range between 12% - 16% affordable. This will improve financial feasibility and maximize production of both market rate and inclusionary housing.

The Inclusionary Housing legislation provides special relief to Pipeline Projects, which represent thousands of units in San Francisco. These are projects that have spent years securing land, obtaining City approvals and advancing design work, but have also been subject to significant construction cost and interest rate increases during those years, which has seriously undermined their financial feasibility. By easing the burden on these projects to as low as 12%, more will be able to assemble financing and begin construction, resulting in new housing, construction jobs, and growth of the City's tax base.

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Reducing Additional Fees by 33%

In addition to reducing the percent of new units that are required to be built as affordable to a more feasible level, the Inclusionary Housing legislation will also reduce all other development impact fees by 33% over the next three years. These are fees that development projects are required to pay, which over time have become a serious financial burden on new development projects. These fees have increased by more than 30% over the last five years alone. These costs are imposed on projects already struggling to bear increased construction costs and interest rates, resulting in many projects simply not able to finance the construction of new housing and commercial space.

Impact

This legislation has the potential to unlock almost 8,000 already approved but unbuilt units across the City. In our Downtown areas alone, there are over 2,500 units in this pipeline that when built, will accelerate the mixed use vision set forth in the Mayor's Downtown Roadmap. There are over 10,000 units in proposed projects that are not yet approved that will be able to take advantage of the reduced inclusionary package, which will enable them to move more quickly from approval into construction.

The Impact Fee Reform legislation

The Impact Fee Reform legislation will make important changes to the way that the City sets, imposes, and collects the myriad development impact fees that are required. Importantly it creates predictability and stability by setting a flat rate at which impact fees increase over time, assigns fees when a project is approved, and reinstates a fee deferral program to allow projects to pay once they've broken ground. The legislation also waives fees for certain commercial developments as part of economic recovery.

Stabilizing Impact Fee Values

Currently, most City development impact fees are increased each year by the Annual Infrastructure Construction Cost Inflation Estimate (AICCIE). This index is produced by the City's Office of Resilience and Capital Planning to project construction cost escalation for the upcoming calendar year, used primarily to inform the cost estimates for future capital projects. While an appropriate tool for capital planning and budgeting, using this index to escalate impact fees results in unpredictable and aggressive escalation for development impact fees. By setting development impact fees to escalate at a flat 2% rate each year, both the projects that pay these fees as well as City departments that spend the fees will have certainty about what the fee rates will be in future years.

Changing When Impact Fees are Assigned and Paid

The Impact Fee Reform legislation changes how development impact fees are imposed, so that the fee rates are set when a project is approved by the City, as opposed to the current practice of not finalizing the rates until a project breaks ground. This will provide additional certainty for projects that the impact fees won't continue to escalate unpredictably during a long permitting process. The legislation also reinstates the fee deferral program, allowing projects to pay impact fees after construction, instead of before construction as is currently the practice. In a high interest rate environment, this change will result in significant savings on financing costs, rendering more projects financially feasible and able to move forward, providing housing, jobs, and tax revenue.