

INCLUSIONARY HOUSING RESIDENTIAL IN-LIEU FEE STUDY

City of Folsom

City Council Hearing

December 9, 2025



**Economic & Planning
Systems, Inc.**

The Economics of Land Use

SACRAMENTO
OAKLAND
LOS ANGELES
DENVER



CITY OF
FOLSOM

AGENDA



- Project Context
- Residential In-Lieu Fee Nexus-Based Methodology
- Key Findings and Considerations
- Alternative Approaches
- Next Steps and Recommendation
- Comments and Questions



PROJECT CONTEXT


INCLUSIONARY HOUSING ORDINANCE UPDATE

PROJECT CONTEXT

The City's 2021–2029 Housing Element includes **Program H-9**, requiring a study of inclusionary housing fees

Purpose: Evaluate fee levels, funding gaps, and improve in-lieu fee methodology

The City engaged **Economic & Planning Systems, Inc. (EPS)** to conduct a comprehensive study of the Inclusionary Housing Ordinance



HOUSING | 5

5 Housing

This element identifies the City's housing goals, policies, and programs to ensure that the existing and future housing needs for all Folsom residents are met. The Housing Element promotes a wide range of housing types in order to meet a variety of needs, including housing for seniors, special needs groups, and all income levels. As required by State law, the housing element must be updated every eight years. This element addresses the 2021 through 2029 planning period.

Adopted August 24, 2021

5-1

PROJECT CONTEXT

• Current In-Lieu Fee Methodology

- Calculated as 1% of the lowest-priced for-sale residential unit multiplied by total for-sale units
- Administrative challenges
 - **Detailed Validation** - increases staff workload; risk of inconsistency
 - **Manual Data Entry** - fees manually entered; non-standardized and subdivision-specific; prone to clerical errors)
 - **Annual Review Burden** - requires annual review of lowest-price unit; fee adjustment triggered by >10% price fluctuation (~\$70K on \$700K home)

• Proposed In-Lieu Fee Methodology

- Based on nexus-based maximum justifiable fee per residential unit square foot
- Evaluates financial feasibility under existing and proposed new city fee structure and recommends a percentage of maximum justifiable fee per residential unit square foot
- Although not legally required, aligns with AB 602 requirements (development impact fees per residential unit square foot)
- Resolves administrative challenges

PROJECT CONTEXT

- **Proposed FMC Title 17 Amendments**

- Remove outdated references
- Improve clarity and administrative consistency
- Align ordinance with current state law

- **State Housing Law Alignment**

- New state laws aim to streamline housing production
- Reduce developer barriers
- Key Updates: density bonus provisions, fee deferrals, tenant preference policies

PUBLIC OUTREACH

- Planning Commission Hearing held on **November 19, 2025**
- Planning Commission Workshop held on **September 17, 2025**
- Over 600 emails sent to residents, businesses, and developers in Folsom
- Three meetings with North State Building Industry Association
- Two meetings with Sacramento Housing Alliance and Legal Services of Northern California
- Inclusionary Housing Ordinance Update webpage on the City's website



INCLUSIONARY HOUSING RESIDENTIAL IN-LIEU FEE

NEXUS-BASED METHODOLOGY AND ESTIMATED UPDATED FEE



RESIDENTIAL IN-LIEU FEE NEXUS-BASED METHODOLOGY

Step #1:
Determine
Affordability Gap
Analysis
(Subsidy Required
to Construct
Units)



Step #2:
Estimate
Affordable
Housing Demand
Generated by
Market Rate
Housing



Step #3:
Compute
Impact Fees

STEP #1: AFFORDABILITY GAP ANALYSIS



Four representative prototypes:

**Single-Family
Detached Low-
Density (For Sale)**
2,600 sq. ft.
4 bedrooms

**Single-Family
Detached Medium-
Density (For Sale)**
2,000 sq. ft.
3 bedrooms

**Multifamily
Attached (For Sale
Townhome/Condo)**
1,500 sq. ft.
3 bedrooms

**Multifamily
Apartment Units
(For Rent)**
1,000 sq. ft.
2 bedrooms

\$ Affordable Unit Value (based on HCD-defined income limits)

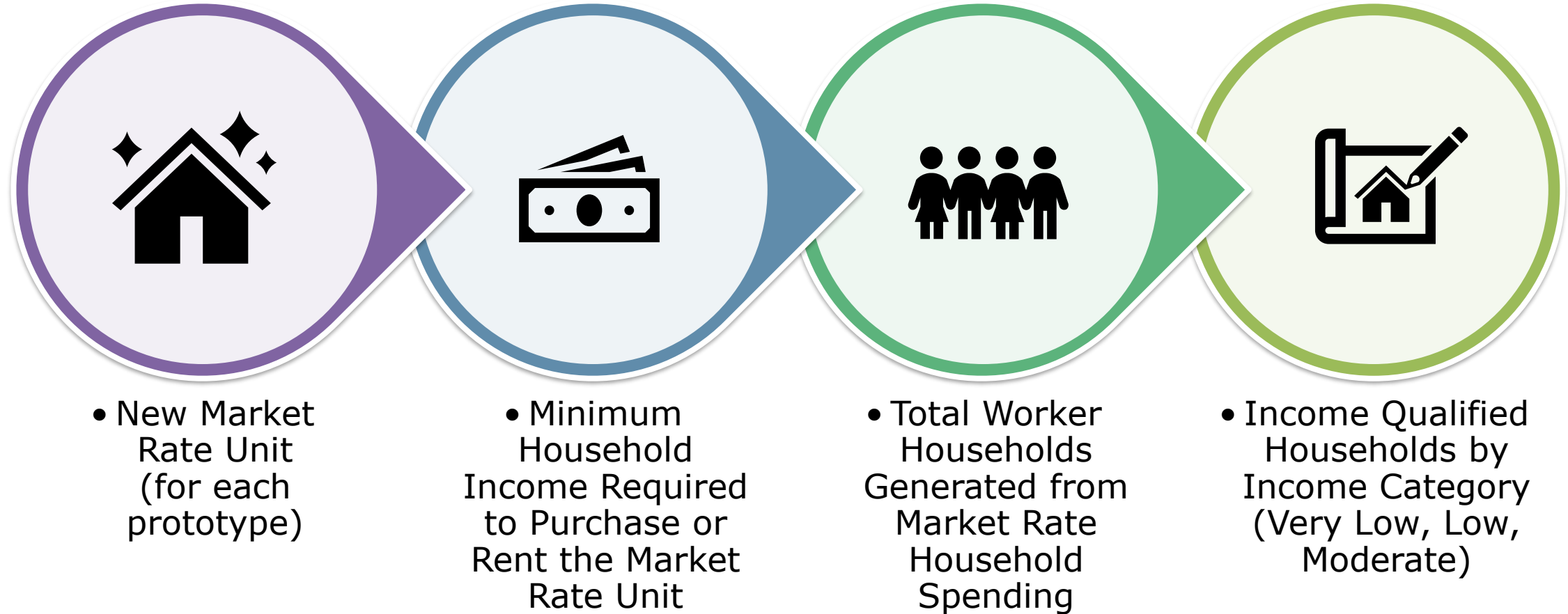
- **\$ Cost to Build Unit** (land, construction, and soft costs)

\$ Affordability Gap (amount that needs to be subsidized)

AFFORDABILITY GAP ANALYSIS

Prototype	Very Low Income (50% AMI)	Low Income (80% AMI)	Moderate Income (120% AMI)
Single-Family Low-Density			
Supportable Unit Value	\$140,900	\$258,000	\$353,700
Unit Development Cost (FPASP Costs)	\$810,000	\$810,000	\$810,000
Affordability Gap	(\$669,100)	(\$552,000)	(\$456,300)
Single-Family Medium-Density			
Supportable Unit Value	\$126,200	\$235,300	\$353,700
Unit Development Cost (FPASP Costs)	\$612,000	\$612,000	\$612,000
Affordability Gap	(\$485,800)	(\$376,700)	(\$258,300)
Multifamily Attached (Townhome/Condo)			
Supportable Unit Value	\$126,200	\$235,300	\$353,700
Unit Development Cost (FPASP Costs)	\$513,200	\$513,200	\$513,200
Affordability Gap	(\$387,000)	(\$277,900)	(\$159,500)
Multifamily Apartments			
Supportable Unit Value	\$162,300	\$282,800	\$413,900
Unit Development Cost (FPASP Costs)	\$451,500	\$451,500	\$451,500
Affordability Gap	(\$289,200)	(\$168,700)	(\$37,600)

STEP #2: AFFORDABLE HOUSING DEMAND

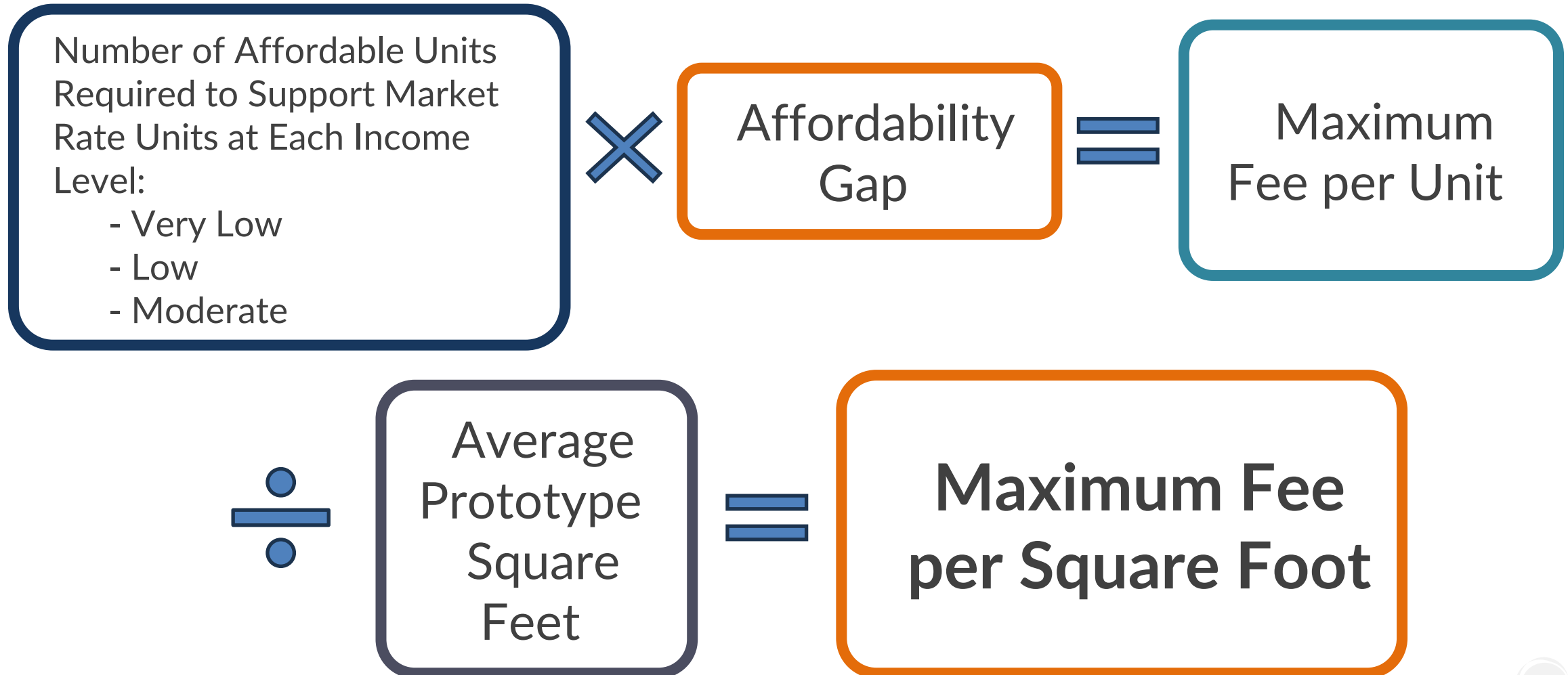


AFFORDABLE HOUSING DEMAND

Prototype	Weighted Average Sales Price/Rent	Minimum Annual Household Income Required	Total Worker Households Per 100 Market Rate Units	Worker Households by Income Category per 100 Market Rate Units				
				Very Low	Low	Mod.	Above Mod.	Total
Single-Family Low Density	\$861,011	\$327,200	44.0	18.1	5.8	0.3	NA	24.3
Single-Family Medium Density	\$655,794	\$253,500	33.9	11.6	7.2	1.9	NA	20.8
Multifamily Attached	\$502,467	\$199,100	27.1	9.1	5.7	1.5	NA	16.4
Multifamily Apartments	\$2,974	\$130,100	18.5	8.0	6.2	1.2	NA	15.4

STEP #3: COMPUTE MAXIMUM JUSTIFIABLE IMPACT FEES

For each prototype:



COMPARISON OF EXISTING AND UPDATED IN-LIEU FEES (2025\$)

Prototype	Existing In-Lieu Fee (Example)		Updated Maximum In-Lieu Fee		Updated Recommended In-Lieu Fee	
	Per Unit	Per Sq. Ft.	Per Unit Example	Per Sq. Ft.	Per Unit Example	Per Sq. Ft.
Single-Family Low-Density	\$8,610	\$3.31	\$154,856	\$59.56	\$7,800	\$3.00
Single-Family Medium-Density	\$6,558	\$3.28	\$88,700	\$44.35	\$6,000	\$3.00
Multifamily Attached	\$5,025	\$3.35	\$53,730	\$35.82	\$3,750	\$2.50
Multifamily Apartments	NA	NA	\$34,010	\$34.01	\$0	\$0.00

FINANCIAL FEASIBILITY ANALYSIS

Prototype	Existing In-Lieu Fee	Updated Max In-Lieu Fee	Updated Recommended In-Lieu Fee
Single-Family Low-Density			
Unit Value	\$861,011	\$861,011	\$861,011
Unit Cost	\$810,000	\$973,400	\$809,100
Development Funding Gap	\$51,011	(\$112,389)	\$51,911
Single-Family Medium-Density			
Unit Value	\$655,794	\$655,794	\$655,794
Unit Cost	\$612,000	\$703,000	\$611,400
Development Funding Gap	\$43,794	(\$47,206)	\$44,394
Multifamily Attached			
Unit Value	\$502,467	\$502,467	\$502,467
Unit Cost	\$513,200	\$567,000	\$511,800
Development Funding Gap	(\$10,733)	(\$64,533)	(\$9,333)
Multifamily Apartments			
Unit Value	\$412,600	\$412,600	\$412,600
Unit Cost	\$451,500	\$488,600	\$451,500
Development Funding Gap	(\$38,900)	(\$76,000)	(\$38,900)



KEY FINDINGS AND CONSIDERATIONS

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- Reducing administrative burden, rather than increasing revenue, was a key goal of this update. As such, staff recommends charging a per-square-foot fee for each housing category.
 - Approaches from other jurisdictions demonstrate the fee can be used as a policy tool to encourage or discourage different types of housing.
- AB 1505 (2017) authorizes city to impose inclusionary requirements on rental housing, but feasibility findings show these projects already face challenges; therefore, the Study recommends continuing to exempt rental housing.
- The proposed per-square-foot fee should be indexed to the Construction Cost Index (CCI) to align with other City fees and keep pace with funding needs.
- The City should continue to evaluate the in-lieu fee and other development fees to ensure they achieve policy goals without negatively impacting feasibility.

LOCAL JURISDICTION FEE COMPARISON

PROTOTYPE 2,600 SQUARE FEET/ SALES PRICE \$861,001

Jurisdiction	Fee Type	Fee Calculation Method	Fee Amount
City of Folsom (Recommended)	In-Lieu Fee	Per Square Foot	\$7,800
City of Folsom (Existing)	In-Lieu Fee	1% of Lowest Sales Price in Subdivision	\$8,610
City of Rancho Cordova	DA	Development Agreement (DA) (Rio Del Oro Specific Plan) Fee differs for each Specific Plan based on DA	\$4,978
City of Elk Grove	Impact Fee	Per Dwelling Unit Currently in process of updating to a per-square-foot fee	\$6,396
City of Davis	In-Lieu Fee	Per Dwelling Unit	\$21,028
West Sacramento	In-Lieu Fee	Per Dwelling Unit	\$7,699
Sacramento County	Impact Fee	Per Square Foot	\$9,854
City of Sacramento	Impact Fee	Per Square Foot	\$9,256

ALTERNATIVE APPROACHES



ALTERNATIVE APPROACHES

OPTION 1: RETAIN CURRENT FEE STRUCTURE WITH THIRD PARTY ADMINISTRATION

- Retains existing fee structure
- Consultant administers in-lieu fee program
- City staff still responsible for:
 - Processing deed restrictions
 - Manual data entry
 - Managing consultants & invoices

OPTION 2: RETAIN CURRENT FEE STRUCTURE WITH COLLECTION AT C OF O

- Fee collected at Certificate of Occupancy (C of O) based on **actual sales price**
- Collect full subdivision fee at first C of O
- Full revenue earlier → faster funding for affordable housing projects
- Reduces analytical burden and time required for monitoring and annual review
- Developers may resist upfront payment before generating sales

OPTION 3: TRANSITION TO SQUARE-FOOT-BASED FEE WITH SLIDING SCALE

- Shifts to a square-foot-base fee with a sliding scale
- Need to re-evaluate recommended \$3.00 per square-foot-based fee
 - **Recommend higher fees for smaller homes** to balance revenue if larger homes are charged less
- The approach conflicts with EPS study findings → larger homes generate more low-wage jobs and greater affordability needs



NEXT STEPS AND RECOMMENDATION

NEXT STEPS

- Present the Inclusionary Housing Fee Study and recommended fees for City Council consideration **December 9, 2025**
- City Council Second Reading and Adoption on **January 13, 2026**
- City Council approve Resolution to formally establish the in-lieu fee on **January 13, 2026**
- Ordinance Amendment Effective **February 12, 2026**



RECOMMENDED ACTION

Adopt Ordinance No. 1359 - An Ordinance of the City of Folsom Amending Certain Sections of Chapter 17.104 (Inclusionary Housing) of the Folsom Municipal Code to Update the Methodology for Calculating In-lieu Fees Applicable to Residential Development, and to Incorporate Non-Substantive Cleanup Revisions for Clarity and Consistency (Introduction and First Reading) and Determine that the Project is Exempt from CEQA



COMMENTS AND QUESTIONS
