

**CITY AND COUNTY OF SAN FRANCISCO  
BOARD OF SUPERVISORS  
BUDGET AND LEGISLATIVE ANALYST**

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**Policy Analysis Report**

To: Supervisor Gordon Mar, Chair,  
Government Audit and Oversight Committee  
From: Budget and Legislative Analyst's Office   
Re: Permitting Fees and Accessory Dwelling Unit Construction  
Date: January 31, 2019

**Summary of Requested Action**

Board of Supervisors Resolution 342-18 (File 18-0702) directed the Budget and Legislative Analyst's Office to study the correlation between a reduction in permitting fees and an increase in accessory dwelling unit construction in response to Recommendation No. R2 and Recommendation No. R3 in the 2017-2018 Civil Grand Jury Report entitled "Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing."

*For further information about this report, contact Severin Campbell at the Budget and Legislative Analyst's Office.*

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**Executive Summary**

- An accessory dwelling unit (ADU) is a residential unit that is added to an existing housing lot. San Francisco's Planning Code allows the construction of ADUs on all lots in San Francisco that allow residential use. ADUs are considered an opportunity to increase lower-cost housing, especially in built-out neighborhoods with little room for large scale development.
- Two other cities – Portland and Seattle – have enacted zoning changes, waived fees, and/or conducted public outreach to facilitate ADU construction. The number of new ADU units approved by the city of Portland increased between 2010, when development impact fees were waived, and 2016, after design and setback standards were relaxed. The city of Seattle legalized the construction of detached ADUs in certain neighborhoods in 2014 and conducted a study of options for increasing construction of ADUs in 2015, but has not implemented citywide zoning changes or fee waivers. However, the number of new ADUs approved by the city of Seattle increased between 2014 and 2016 during the period of increased public visibility occasioned by the city-commissioned study.

- According to the 2017 joint report published by the Turner Center, the Center of Community Innovation, and the Urban Land Institute, property owners in Portland, Seattle, and Vancouver stated that additional rental income (38 percent) and providing space for a family member or caregiver (28 percent) were the most important factors in deciding to construct an ADU. When asked what factors discouraged or encouraged property owners to actually undertake new construction, the most commonly cited reasons were changes in zoning restrictions and financial capacity.
- Our analysis of new housing construction and housing prices in Portland suggests that some of the increase in ADU approvals may be due to the overall housing market, including rising property values, as opposed to changes in zoning or fee waivers. Between 2010 and 2016, when the number of new ADUs approved by the city of Portland increased, the total number of new housing units approved in the Portland area and the Portland Case-Shiller House Price Index also increased. Between 2014 and 2016, when the number of new ADUs approved by the city of Seattle increased, the total number of new housing units approved in the Seattle area also increased.
- In San Francisco, the number of ADU screening forms – the first step in the ADU permit application process – increased between 2015 and 2018, during which time the Board of Supervisors approved several changes to the City’s Planning Code to facilitate construction of new ADUs. More than 70 percent of the permits for ADU construction are for multi-unit residences. On average, permit fees make up approximately 8 percent of total ADU project costs.
- ADU permit fees were \$2 million in FY 2017-18. Because permit fees are divided among several City departments, primarily the Planning Department, the Department of Building Inspection, and the Fire Department, the costs to waive permit fees would be spread across several departments, representing a small percentage of total department revenues.
- Waiving ADU permit fees could benefit property owners by reducing project costs by approximately 8 percent, and would have only a small revenue impact on City departments. While San Francisco would likely see an increase in ADU construction if permit fees were waived, other factors, including rising property values and the potential for rental income, would also likely impact the decision by San Francisco property owners to construct ADUs.
- If the Board of Supervisors were to approve a fee waiver for ADU permits, the Board should consider (a) a time-limited program, including a potential pilot program of two to three years to evaluate the impact of a fee waiver; (b) a waiver of specific types of fees – such as planning and building permit fees – but not all potential fees; and (c) whether to waive fees for ADUs constructed on single-family lots (which make up approximately 20 percent of ADU permits) in order to specifically waive the permit fee burden on single family homeowners.

## 2017-2018 Civil Grand Jury Recommendations

The 2017-2018 Civil Grand Jury Report entitled “Mitigating the Housing Crisis: Accessory Dwelling Units and Modular Housing” contains 14 findings and 11 recommendations related to accessory dwelling units (ADUs) and modular housing. Board of Supervisors Resolution 342-18 (File 18-0702) directed the Budget and Legislative Analyst’s Office to study the correlation between a reduction in permitting fees and an increase in accessory dwelling unit construction in response to Recommendation No. R2 and Recommendation No. R3:

- Recommendation No. R2 “recommends the Board of Supervisors amend existing City codes and ordinances, before June 30, 2019, to waive or reduce ADU permit fees, with the understanding that reduced departmental revenues would be made up from the City’s general fund.”
- Recommendation No. R3 “recommends the Board of Supervisors structure fees separately for ADUs in single family residences and ADUs in multi-unit buildings, specifically designed to ease the permitting costs for single family homeowners.”

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## Accessory Dwelling Units in San Francisco

An accessory dwelling unit (ADU), also known as an in-law unit, granny flat, or secondary unit, is a residential unit that is added to an existing housing lot. ADUs may be constructed within the existing building, as an extension to the existing building, or as a separate structure, and are typically developed using underutilized spaces within lots, such as garages, storage areas, rear yards, or attics. ADUs are independent living units with their own kitchens, bathrooms, and living areas. San Francisco’s Planning Code allows the construction of ADUs on all lots in San Francisco that allow residential use.

The addition of ADUs as a small-scale residential infill strategy may help address San Francisco’s growing housing demand, high cost of living, and scarcity of affordable housing. An added unit that is rented out can subsidize a homeowner’s mortgage or provide additional income, and the renter may pay a lower rent for an ADU than a full-size standard unit. An ADU is often rented at below-market rates because of the unit’s size, secondary status, and relatively low costs of construction. ADUs may also facilitate multi-generational households by housing a homeowner’s senior parent, college-age child, or other family member.

ADUs are also an opportunity to add new and likely lower-cost housing options in neighborhoods of San Francisco that are already built out with a single-family homes or multi-unit apartments and that are not undergoing major development. The construction of ADUs in these neighborhoods would create new housing supply in developed areas of San Francisco that otherwise might not have added additional housing in the short- or long-term future.

Policy 1.5 of the City’s 2014 Housing Element, which is a required element of the City’s General Plan, states that “secondary units represent a simple and cost-effective method of expanding the housing supply. Such units could be developed to meet the needs of seniors, people with disabilities, and others who, because of modest incomes or lifestyles, prefer or need smaller units at relatively low rents.”

Ordinance 162-16 (File 16-0657), adopted by the Board of Supervisors on July 26, 2016, amended San Francisco’s Planning Code to allow the construction of ADUs on all lots in the City that allow for residential use. Prior to Ordinance 162-16 and subsequent amendments,<sup>1</sup> construction of ADUs on residential lots was limited by various requirements in the Planning Code. Section 65852.2 of the California Government Code provides that any local agency may, by ordinance, provide for the creation of ADUs in zones that allow for residential use.

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## Other Cities’ Experiences with ADUs

### Fee Waivers and ADU Construction

Only a few cities in the United States of comparable size to San Francisco have enacted zoning changes and/or fee waivers for the express purpose of facilitating the construction of ADUs. The experience of two cities, Portland and Seattle, indicates that zoning changes, fee waivers, and public education to increase awareness of ADUs are correlated with an increase in the number of ADUs that are authorized. These effects are particularly pronounced in Portland, where a combination of public outreach and education, fee waivers, and subsequent complementary zoning changes to facilitate ADU construction appear to have achieved a significant boost in new production.

### Fee Waivers, Zoning Changes, and New Construction in Portland and Seattle

A 2017 joint report published by the Turner Center, the Center of Community Innovation, and the Urban Land Institute attempted to assess whether zoning changes and fee waivers encouraged the development of ADUs by examining the number of ADUs authorized in Portland, Seattle, and Vancouver following changes to zoning laws and the implementation of fee waivers.<sup>2</sup> The policy rationale underlying these policy changes is straightforward. Minimum lot sizes, setbacks, and on-site parking requirements can render many potential ADUs illegal. Fees increase the total cost of an ADU project to the property owner, and render ADU construction non-feasible if project costs exceed the savings or financial capacity of homeowners. Zoning easements and fee waivers would therefore encourage new production by making potential ADUs legal and reducing project costs to property owners interested in constructing an ADU.

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<sup>1</sup> Ordinance 95-17 (File 17-0125), adopted by the Board of Supervisors on May 2, 2017, expanded opportunities for single-family homes to add ADUs. Ordinance 162-17 (File 17-0434), adopted by the Board of Supervisors on July 18, 2017, amended Ordinances 162-16 and 95-178 to offer greater flexibility in the Planning Code.

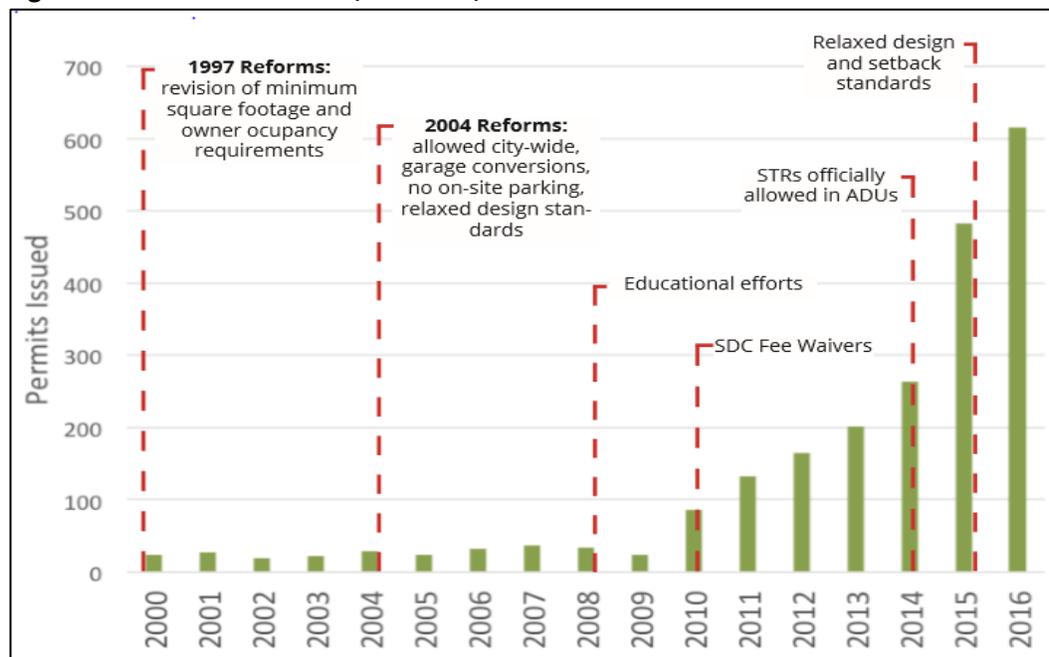
<sup>2</sup> Urban Land Institute, The Turner Center for Housing Innovation, and the Center for Community Innovation, (2017), “Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle and Vancouver”, Karen Chapple, Jake Wegmann, Farzad Mashhood, and Rebecca Coleman.

### *City of Portland Fee Waivers and Zoning Changes*

Portland enacted regulatory changes in 1997 and 2004 that included reduction in minimum lot sizes, legalization of garage conversions, and elimination of on-site parking requirements. These changes were followed in 2008-2009 by a city-wide organizational and outreach campaign. ADU advocates organized bicycle tours and various educational events to increase awareness of the multiple environmental, transit, and social benefits of ADUs. In 2010, the city waived System Development Charges, which are one-time fees based on the new or increased use of a property (for example, impact fees for parks, sewers, water, and streets) that average 7 percent of the cost of a new home. Portland subsequently enacted further regulatory changes, allowing short-term rentals in 2014 and relaxing design and setback requirements in late 2015.

Figure 1 shows ADU authorizations in Portland between 2000 and 2017. Neither the 1997 nor 2004 zoning changes appear to have any impact on ADU authorizations. In contrast to the negligible effect of zoning changes, the fee waiver did appear to result in a significant increase in ADU permit authorizations, which rose from fewer than 50 in 2009 to more than 600 in 2016.

**Figure 1: ADU authorizations, Portland, 2000-2016<sup>3</sup>**



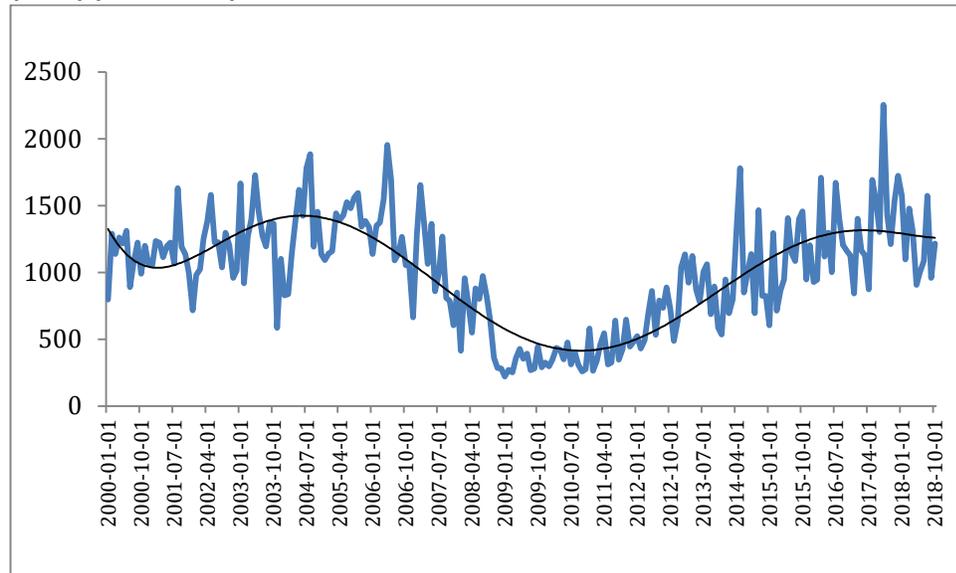
Source: Chapple, et al, 2016.

However, some of the upturn in ADU authorizations may be due to the cyclical increase in construction levels and rising property values, as opposed to changes in zoning or effects of a fee waiver. It is difficult to separate the rise in ADU authorizations from the overall increase in permit issuance that took place beginning in early 2009, as shown in Figure 2. The post-2009 upturn in overall

<sup>3</sup> “STR” stands for “short term rentals”, and “SDC” stands for “system development charges”.

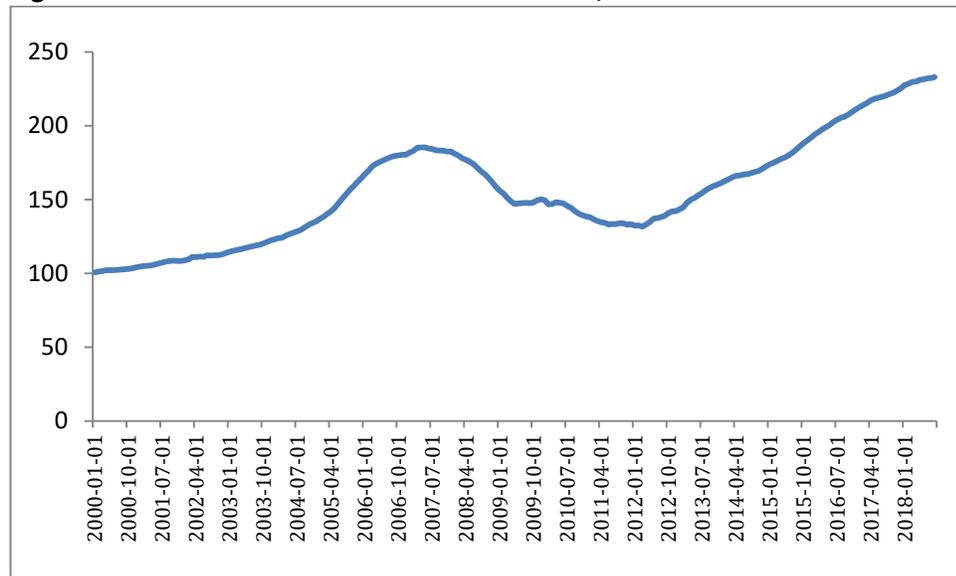
permit authorizations coincides with recovery from the 2007-2008 recession, increases in population that have driven a sustained increase in housing demand, and rising incomes among segments of the renter population. Some of the increase in ADU authorizations may be due to the more general recovery in new housing construction. In addition, rising housing prices can provide incentives to increased ADU construction by increasing the value of home equity. Combined with very low interest rates during the 2010-2016 periods and the viability of using home equity loans to finance new construction, these factors may also have contributed to the observed increase in ADU authorizations.

**Figure 2: New Units Authorized, Monthly, Portland Metropolitan Statistical Area (MSA) (2000-2018)**



Source: St. Louis Federal Reserve FRED.

**Figure 3: Portland Case-Shiller House Price Index, 2000-2018**



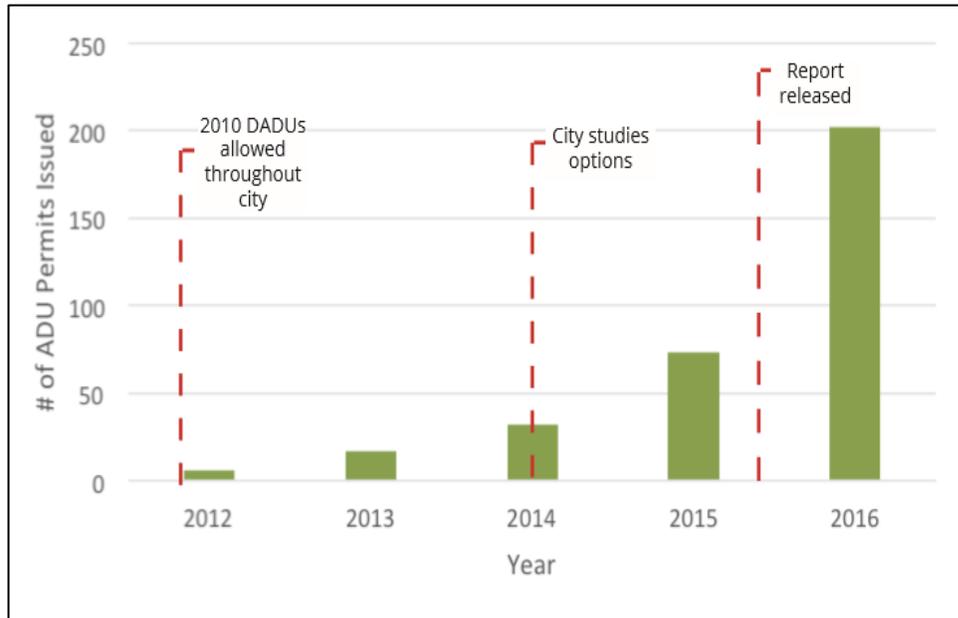
Source: St. Louis Federal Reserve FRED.

### *City of Seattle*

The 2017 Turner Center et al. report also reviewed the effects of zoning change and educational and outreach efforts on ADU authorizations in Seattle, which has allowed the construction of attached ADUs since the 1990s. In 2012, Seattle legalized the construction of detached ADUs in selected neighborhoods. In 2014, the city engaged in a study of options for increasing the production of ADUs, which was released in 2015. As seen in Figure 4 below, in the two-year period of 2015-2016, there was a significant increase in ADU permit issuance, with ADU authorizations rising from a negligible level in 2012 to approximately 75 authorizations in 2014, and then again to slightly over 200 authorizations in 2016.

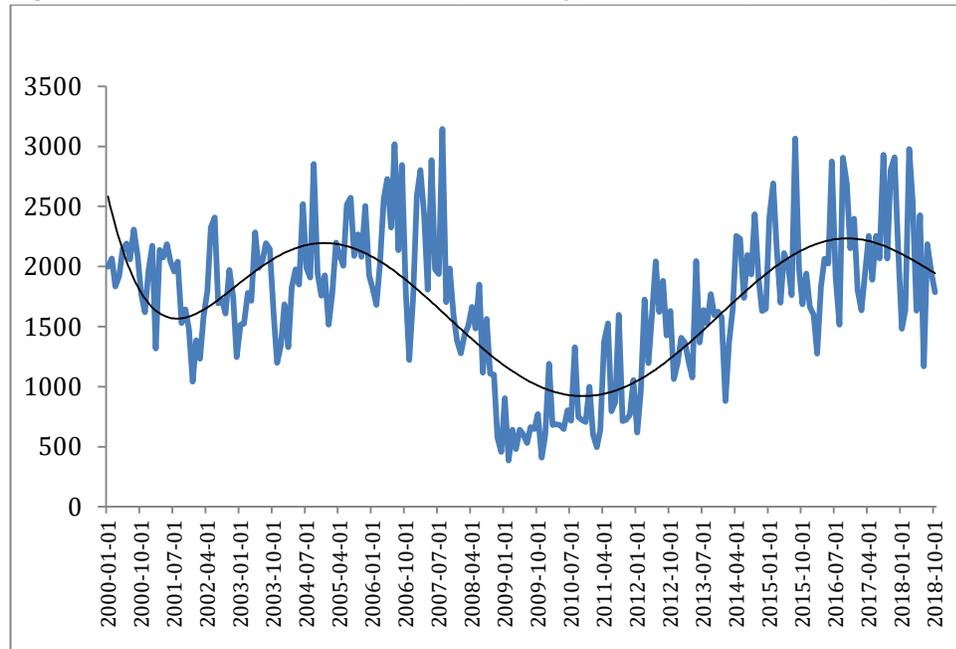
However, in contrast to Portland, Seattle has not enacted any major City-wide zoning easements or fee waivers. The increase in ADU production, to the extent it is due to local public policy, appears to be due entirely to the increased public visibility occasioned by the city-commissioned study. However, similar to Portland, the upturn coincides with the upturn in the construction cycle as seen in Figure 5, as well as rising housing prices (not shown), strong regional population growth, and rising wages for certain categories of workers employed in the region's technology industry. Therefore, public awareness and the upturn in regional housing construction and rising home prices, as opposed to policy changes, appear to be the major factors driving the increase in ADU authorizations in Seattle.

**Figure 4: ADU Authorizations, Seattle, 2012-2016**



Source: Chapple, et al, 2016.

**Figure 5: Total New Units Authorized, Monthly, Seattle MSA (2000-2018)**



Source: St. Louis Federal Reserve FRED.

*Survey of Property Owners*

Aside from the city case studies, the 2017 Turner Center et al. report also surveyed homeowners in Portland, Seattle, and Vancouver who had constructed ADUs to determine which factors were most significant to homeowners when deciding to engage in new development. The most common motives for ADU

construction identified in the survey results were additional rental income (38 percent) and providing space for a family member or caregiver (28 percent). When asked what factors discouraged or encouraged property owners to actually undertake new construction, the most commonly cited reasons were changes in zoning restrictions and financial capacity. The largest share of homeowners that developed ADUs financed the project through loans secured against existing home equity (40 percent) or with cash savings (30 percent), which indicates that new ADU construction is likely to be influenced by fluctuations in property values of existing homes and interest rates on long-term home equity loans. Both these factors were favorable to new construction between 2010 and 2016.

### **ADUs, Shifting Urban Demographics, and Affordability**

ADUs may be well suited to providing housing in cities that conform to the type of demographic profile that currently characterizes San Francisco. The NYU Furman Center published a report in 2014 that evaluated micro-unit construction as a means of providing housing that meets the needs and profiles the urban renter populations in the United States. Urban populations have become generally younger since 1990, and the percentage of single persons living alone has been steadily rising over the last five decades, although at a slower rate since 1980. In the selected comparison cities used in the Furman study, the number of one-person households in 2011 ranged from 34.5 percent (Austin) to 45.2 percent (Washington DC), with San Francisco at 37.1 percent.<sup>4</sup> Because ADUs are typically occupied by a single individual, or at most a couple, the authors conclude that ADU development will match the housing needs and preferences of the single households that compose a significant, and growing, percentage of total urban households.

In addition, the 2014 Furman study reported that micro-units often rent at higher rates per square foot but at lower overall rents than larger apartments, which suggests that ADUs could meet the housing needs of individuals earning at, or below, area median income (AMI). These conclusions are supported by studies and working papers published by the Berkeley Institute of Urban and Regional Development that seek to assess the degree to which ADU production could be used to promote policy goals such as increasing affordable housing production. In one working paper, researchers conducted a review of Craigslist data for the Oakland-Fremont HUD Metro Fair Market Rent Area comparing rental rates for non-secondary and secondary (ADU) units.<sup>5</sup> The average secondary unit was affordable to a single household earning 62.8 percent of AMI, while the average regular unit was affordable to a household earning 69.3 percent of AMI.<sup>6</sup> The report also found that: (a) 30 percent of all secondary units were affordable to those earning between 30 and 50 percent of AMI, as opposed to 12 percent of non-secondary units; (b) 49 percent of all secondary units were affordable to

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<sup>4</sup> See data at <https://statisticalatlas.com/place/California/San-Francisco/Household-Types>

<sup>5</sup> Institute of Urban and Regional Development (2012), "Scaling Up Secondary Unit Production in the East Bay: Impacts and Policy Implications". Jake Wegmann, Alison Nemirov, and Karen Chapple.

<sup>6</sup> Using the standard assumption that a unit is affordable if the household pays no more than 30 percent of income in rent.

households earning 50-80 percent of AMI, as opposed to 67 percent for non-secondary units, and; (c) affordability percentages for households earning above 80 percent of AMI were 21 and 20 percent for non-secondary and secondary units, respectively.

The Institute of Urban and Regional Development also undertook an analysis of the total increase in potential supply that could be achieved in the half-mile radius surrounding selected BART stations on the Oakland-Berkeley-Richmond corridor through zoning changes specifically targeted to encourage ADU construction. Effects in encouraging affordable housing development and increased transit usage were generally seen as favorable, with estimates of a potential increase ranging between 17 to 42 percent.<sup>7</sup> However, there are no studies of the longer-term impacts of zoning changes and fee waivers that allow us to assess whether these policy changes have significant impacts on construction volumes or housing affordability over the longer term. The principal barriers in order of ranked importance according to surveyed homeowners were parking requirements, mandated minimum lot size, and development costs.<sup>8</sup>

The lower overall rents in micro-units reported by the Furman study in 2014, and in secondary units reported by the Institute of Urban and Regional Development in 2012 may be less evident in San Francisco, which is presently characterized by very high area median income and very pronounced income disparities. The Institute of Urban and Regional Development survey of rents in 2012 was for the Oakland-Fremont area, which in 2012 had a higher percentage of low- to moderate-income working class residents and less housing pressures than San Francisco has in 2019. The 2019 housing and rent pressures in San Francisco may result in higher rents for ADUs.

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## ADU Permit Applications and Construction in San Francisco

San Francisco has enacted Planning Code changes to facilitate construction of ADUs. In July 2016, the Board of Supervisors amended the City's Planning Code to allow the construction of ADUs on all lots in the City that allow for residential use with subsequent changes to further facilitate ADU construction.<sup>9</sup> Following the Planning Code changes, the number of screening forms received by the Department of Building Inspection (DBI), which is the first step in the ADU application process, increased by nearly three times from 115 between July 2015 and June 2016 to 319 between July 2016 and June 2017. The number of ADU screening forms submitted to DBI continued to increase in 2017 and 2018, as shown in Figure 6 below.

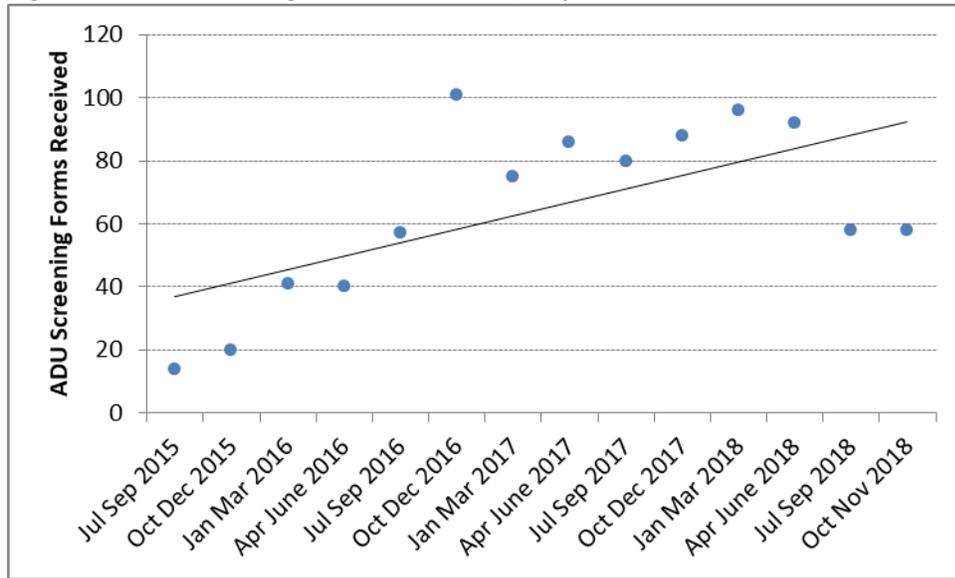
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<sup>7</sup> Institute of Urban and Regional Development (2012), "Yes, But Will they Let Us Build: The Feasibility of Secondary Units in the East Bay, Alison Nemirow and Karen Chapple;

<sup>8</sup> Institute of Urban and Regional Development (2012), "Understanding the Market for Secondary Units in the East Bay". Jake Wegmann and Karen Chapple. Institute of Urban and Regional Development (2012), "Scaling Up Secondary Unit Production in the East Bay: Impacts and Policy Implications". Jake Wegmann, Alison Nemirow, and Karen Chapple.

<sup>9</sup> As noted above, Ordinance 95-17 (File 17-0125), adopted by the Board of Supervisors on May 2, 2017, expanded opportunities for single-family homes to add ADUs. Ordinance 162-17 (File 17-0434), adopted by the Board of Supervisors on July 18, 2017, amended Ordinances 162-16 and 95-178 to offer greater flexibility in the Planning Code

**Figure 6: ADU Screening Forms Submitted, July 2015–November 2018**



Source: Department of Building Inspection.

Most property owners who submitted screening forms between June 2015 and November 2018 submitted permit applications to construct ADUs. Of the 960 screening forms that DBI received between June 2015<sup>10</sup> and November 2018, 884 (or 92 percent) submitted permit applications. As of November 30, 2018, 261 permits had been issued and/or approved and construction work had been completed for 65 permits. DBI calculates that 584 ADUs have been constructed, are being constructed, or have been approved to begin construction as of November 30, 2018. (Many ADU projects generate multiple units on a property under a single project and permit.) Figure 7 below summarizes the status of ADU project screenings and permits in the 3 ½ year period between June 2015 and November 2018.

<sup>10</sup> DBI’s database includes screening forms received beginning in the second half of June 2015.

**Figure 7: Status of ADU Project Screenings and Permit Applications, June 2015–November 2018**

Under review by Planning	298
Under review by DBI	100
Under review by other agency <sup>a</sup>	59
No routing/activity <sup>b</sup>	42
<b>TOTAL UNDERGOING PLAN REVIEW</b>	<b>479</b>
Permit issued	210
Permit approved (waiting for pickup)	51
Work completed	65
Permit withdrawn/revise	59
<b>TOTAL PERMITS</b>	<b>884</b>
No permit application after screening form	76
<b>TOTAL SCREENING FORMS RECEIVED</b>	<b>960</b>

Source: Department of Building Inspection.

<sup>a</sup> Other City agencies may include the Fire Department, the Department of Public Works, the San Francisco Public Utilities Commission, and DBI's Permit Processing Center.

<sup>b</sup> Owners have not paid filing fees.

Note: The totals presented above represent ADU projects, not ADU units. Some ADU projects add multiple dwelling units under a single project and permit. DBI calculates that the completed, issued, and approved permit applications together have generated 584 ADUs that have been constructed, are being constructed, or have been approved to begin construction.

Once an ADU project has been reviewed by all necessary departments, DBI may approve the permit application. In order to issue the permit, the applicant must pay applicable City fees.

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## ADU Fee Costs to Property Owners

### Types of ADU Fees

The fees assessed on an ADU project include: 1) permit fees, which are fees imposed by a Department to compensate for the cost of reviewing applications, issuing permits, and inspecting permitted work; 2) service fees or charges, such as water and wastewater capacity charges, record retention fees, and other fees or charges; and 3) development impact fees, which are fees imposed on development projects to mitigate the impacts on public services, infrastructure, and facilities.

The Planning Department, DBI, and the Fire Department are the three main City departments that always charge fees on an ADU project and receive most of the fee revenues, according to DBI. The San Francisco Public Utilities Commission (SFPUC), the Department of Public Works (DPW), and San Francisco Unified School District (SFUSD), among other departments, may charge fees depending on the parameters of the ADU project.

Significant fees that consistently apply to ADU projects include the Building Permit Fee, the Planning Permit Fee, and the Fire Plan Review Fee, which are always assessed on permits for new construction or building alterations and are based on

the cost of construction of the project. Other significant fees, including the SFPUC Water Capacity Charge and the SFUSD School Impact Fee, vary by other circumstances, and not all of these fees are assessed on all projects.

The fees that apply to an ADU project and the fee value depends on various factors, including the number of dwelling units to be added, the valuation of the construction work, changes in the building's occupancy code, square footage of the ADU(s), the addition of a house number, increase in water meter size, and other factors. Examples of valuation-based fees and fees that vary by circumstance are shown in Figure 8 below.

**Figure 8: Categories of ADU Fees**

Type of Fee	Example
Permit fees based on valuation	DBI Building Permit Fee, Planning Building Permit Fee, Fire Plan Review Fee
Other specific fees and charges	PUC Water Capacity Charge, PUC Wastewater Capacity Charge, DBI Records Retention Fee, Building Numbers Fee
Development Impact fees	SFUSD School Impact Fee, Childcare Impact Fee for Residential Projects

Note: This exhibit is not an exhaustive list of all fees that could apply to an ADU project.

### **ADU Fee Costs to Property Owners**

Of the 275 ADU projects that have had fees assessed (210 issued permits and 65 completed permits, as shown in Figure 7 above), the average permit fee paid was \$13,638. On average, fees represent 7.8 percent of the total cost (permit value plus permit fees) of an ADU project.

Recommendation No. R3 in the Grand Jury's report recommends that permit fees for ADUs in single family residences and multi-unit residences be structured separately, "specifically designed to ease the permitting costs for single family homeowners." Single family residences make up nearly one-quarter of ADU permits (64) and multi-unit residences make up nearly three-quarters of ADU permits (199). Average total ADU project costs are lower for single family residences (\$127,133) than for multi-unit residences (\$193,798). Permit fees represent 7.24 percent of total project costs for single-family homes and 7.92 percent of total project costs for multi-unit residences.

Figure 9 below summarizes ADU project costs and permit fees overall and for single-family and multi-unit residences specifically.

**Figure 9: Average Permit Value and Fee Overall and by Residence Type**

	Single-family	Multi-unit	Other <sup>a</sup>	Total
Number of permits	64	199	12	<b>275</b>
Average permit fee	\$9,199	\$15,345	\$9,011	<b>\$13,638</b>
Average project cost <sup>b</sup>	\$127,133	\$193,798	\$123,112	<b>\$175,199</b>
Permit fee as % of project cost	7.24%	7.92%	7.32%	<b>7.78%</b>

Source: Department of Building Inspection.

a: "Other" includes hotels, boarding houses, private garages, and other buildings.

b: The permit value is the cost of construction under the scope of work of the ADU permit as calculated by DBI based on the Department's cost schedule.

Note: The fees presented above represent fees per ADU project, not per ADU unit. Some ADU projects add multiple dwelling units under a single project and permit. Total cost calculated as the permit value plus the permit fees associated with a project.

Overall, ADU project permit fees have a similar cost impact on single-family homes and multi-unit homes.

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## The Fiscal Impact of Waiving ADU Fees

General permit fees are designed to cover the cost to the City of monitoring permitted projects. Specific fees and charges like capacity charges are intended to cover the costs of sewer and water line connections or other costs generated by the project. Development impact fees are designed to mitigate the effects of development on City public services, such as transportation and schools. Waiving these fees would prevent San Francisco from recovering these costs.

### Estimations of Annual Cost of Waiving ADU Fees

Fees for ADU permits are paid upon the issuance of the building permit. In FY 2017-18, 142 ADU permits were issued and fees for these permits totaled \$1,914,689. Waiving these fees would cost the City approximately \$2 million per year.<sup>11</sup>

The costs of approximately \$2 million per year associated with the fee waiver would be spread out across the permitting departments, primarily the Planning Department, DBI, and the Fire Department, and to a lesser extent SFPUC, DPW, SFUSD, and others. These costs will increase if number of issued permits for ADU projects increases in the future. If the number of issued permits in future fiscal years is higher than in FY 2017-18, City costs of waiving permit fees will be higher.

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<sup>11</sup> DBI issued 92 ADU project permits for the first six months of FY 2018-19; if total permits in FY 2018-19 are 184 (or 2x the permits issued for the first six months), estimated permit costs are \$2.5 million, based on average permit costs of \$13,638.

## Conclusion and Costs and Benefits

Both zoning changes and fee waivers likely contribute to an increase in permit applications and construction of ADUs. Portland saw an increase in ADU authorizations after relaxing some zoning restrictions and waiving some fees. San Francisco saw an increase in ADU screening forms after allowing ADUs to be constructed on all lots zoned for residential use. Because total housing construction also increased during the same time period, high housing prices and low interest rates may have also contributed to an increase in ADU permit applications and construction.<sup>12</sup>

Because permit fees are a significant part of ADU project costs, making up nearly 8 percent of total project costs, waiving permit fees could be an incentive to property owners to construct ADUs. These savings can offer significant benefit to property owners, who typically finance ADU projects through loans or the use of their savings.

Recommendation No. R2 in the Civil Grand Jury report recommends waiving or reducing ADU permit fees “with the understanding that reduced departmental revenues would be made up from the City’s general fund.” However, it is likely that affected departments will be able to absorb the reduction in revenue without General Fund assistance. While City departments would incur estimated costs of approximately \$2 million or more per year, these costs would be spread among several City departments, including Planning, DBI, and Fire, making up a smaller percentage of each department’s permitting budget.

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## Policy Considerations

If the Board of Supervisors were to consider a fee waiver program to encourage owners of single-family properties to construct ADUs, the following program components should be considered.

**Program duration:** The duration of a fee waiver program will affect both the ongoing fiscal impact and the incentives for property owners. A time-limited program may cause an increase in ADU construction in the short term, while also limiting the fiscal impact on City departments. However, if the time limit causes a spike in ADU permits because property owners want to take advantage of the fee waiver while it is in place, such an increase would increase the short-term fiscal impact on the City. The Board of Supervisors could also implement a fee waiver program for two to three years initially with the option to make a waiver program permanent. An initial term of two to three years would allow the City to assess whether the program has successfully encouraged more ADU construction,

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<sup>12</sup> The 2004 zoning change in Portland removing prohibitions on garage conversions and eliminating parking requirements occurred at the turning point of the construction cycle, and appeared to have no impact on the overall volume of new permit authorizations. This period was also characterized by rising interest rates that increased the cost of ADU construction finance. These factors would dampen the interest in ADU development.

calculate the fiscal impact on the City, and decide whether to make the fee waiver permanent.

**Selection of fees waived:** Another policy consideration is the selection of fees to be waived. This analysis assumes that both permit fees and impact fees would be waived. However, the Board of Supervisors could decide to only waive permit fees, to exclude certain impact fees from the waiver, or otherwise to select which fees are waived for ADU projects. Limiting the fees waived would decrease the cost savings to property owners. However, selecting which fees to waive would offer the Board flexibility and allow the City to continue to recover certain costs or to mitigate the impacts of development on certain City services.

**Single-family homes:** Recommendation No. R3 in the Grand Jury report focuses on single-family homes. The Board of Supervisors could decide to waive fees for ADUs constructed only on single-family lots in order to specifically alleviate the permit fee burden on single family homeowners.