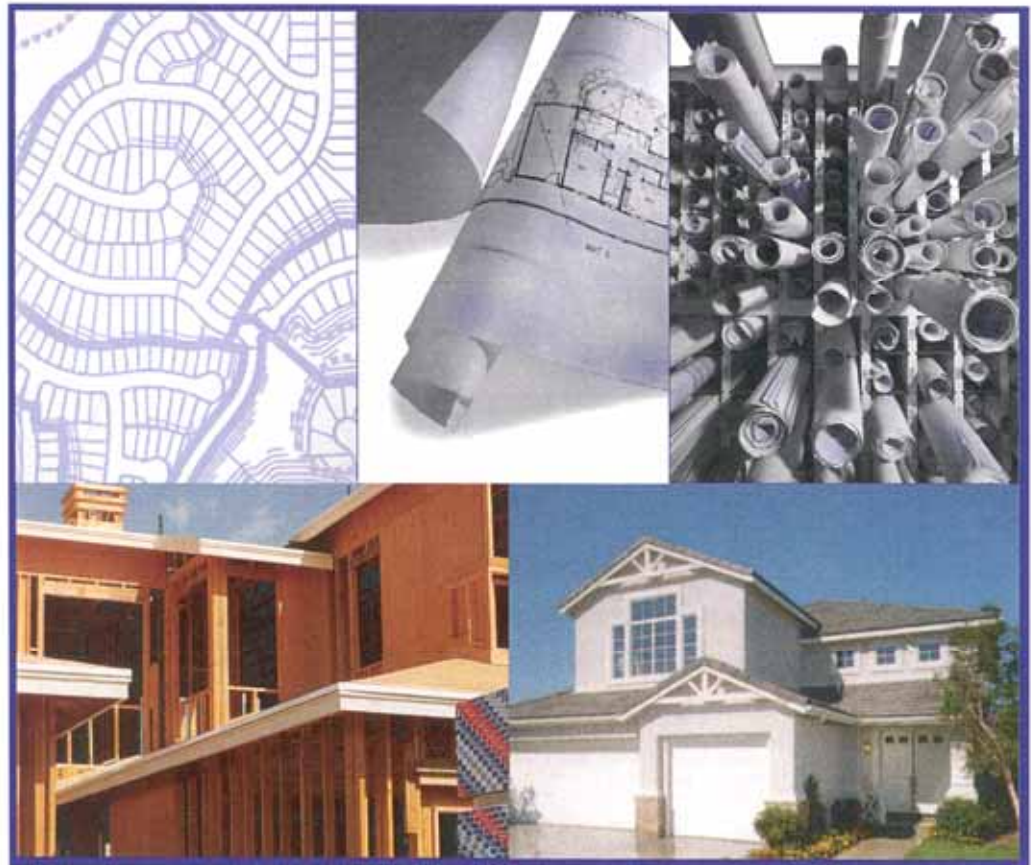


# THE ECONOMIC IMPACT OF REGULATION:



*The Case of the “Smith Family House”*  
Carlsbad, California



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## EXECUTIVE SUMMARY

The fundamental purpose of public policy is to protect the public's health, safety, and welfare. Sometimes, that public policy comes at significant cost. The City of Carlsbad, like most communities, has a myriad of complex policies, ordinances, and regulations governing how and where homes are built. It is not the objective of this study to pass judgment on the validity of Carlsbad's development review process, individual policies, or the quality of life within the City. Rather, Carlsbad serves as a case study to (1) identify the components of the regulatory environment within which builders must operate, and (2) to evaluate the economic consequences of those regulations. Those impacts, in turn, determine product pricing, and thus who can afford to live in a community.

It is important to note that the economic impacts of homebuilding regulation analyzed in this study are not comprehensive. Not all regulations governing the participants and policies involved in the process of building homes were addressed. For example, various Federal and state governmental agencies regulate such things as labor conditions, energy calculations, and water pollution controls, each of which has an economic consequence. By design, these policies have been excluded from consideration in order to focus on the direct and indirect monetary impacts of the regulatory process at the local level.

Futhermore, in this report the dollar amounts which summarize the economic consequences of homebuilding regulations exclude those costs absorbed by the developer due to the city's efforts to implement Federal and state resource regulations. While these environmental regulations were not quantified for purposes of this study, they result in significant costs related to planning requirements, delays, and the loss of buildable land.

What is included in the analysis are the direct, indirect, financing and soft costs borne by the home builder in the process of complying with local requirements. Included are such things as city fees, required land dedications, or exactions, the expense of meeting local development standards, some of which are unique, and the financial cost to carry a project through an often protracted review process.

The artifact of the hypothetical "Smith Family" house was constructed to allow the analysis to address regulation related cost impacts in general rather than site impacts specifically, since all prospective buyers, and renters, are subject to the financial impacts of homebuilding regulation. This approach enabled us to bring the economic consequences of regulation down to the housing unit level, and to better understand its impact on product cost as it affects the ultimate consumer, the homebuyer.

As demonstrated in the report, that impact is substantial. In Carlsbad, based on the average sales price (\$371,339) of a single family detached subdivision house on a 6,000-7,000 square foot lot

with 2,627 square feet of living space (plus balcony, patio and three car garage), the impact of direct, indirect, financing and soft costs ranged from \$70,413 to \$122,186 (an average of \$96,301) per home. This represents 19 to 33 percent (an average of 26 percent) of the sales price of the home.

Without attempting to draw conclusions from this analysis of regulatory financial impacts in a single community, it must be noted that recent national data on housing markets estimate that for every \$1,000 added to the cost of a new median-priced house, 21,000 families are excluded from homebuying eligibility. The same data suggest that in Carlsbad, for each additional \$1,000 of home cost attributable to regulation (average = \$96,301), approximately 1,000 (a total of 96,301) households are rendered ineligible to purchase the Smith Family house. Furthermore, the ever increasing complexity of the building approval processes, compounded by lengthy processing schedules makes it less than likely that the supply of housing in California will meet the growing demand for product, with the inevitable consequence that prices will rise. Thus regulation, while often necessary, has the characteristics of the two-edged sword, both of which result in higher home prices.

## I. INTRODUCTION

The first time Mr. and Mrs. Smith open the door to the family's new home in the City of Carlsbad, they can not possibly imagine the complexity of the review and regulatory process required to build the family's dream house. Homebuilders, for instance, engaged a wide variety of specialists that included, but were not limited to, real estate market analysts, design professionals (planners, architects, civil engineers, landscape architects, utility consultants), environmental experts (geologists, biologists, traffic consultants, noise analysts), school financial consultants, and many others. During a multi-year period, they negotiated the terms under which the housing community was constructed with policymakers and professional staff from the City and special districts, as well as from the Federal government and the State of California. Numerous people spent countless hours over several years making decisions affecting the design, planning, and building of the "Smith Family" house.

The fundamental purpose of public policy is to protect the public's health, safety, and welfare. The City of Carlsbad, like most communities, has a myriad of complex policies, ordinances, and regulations impacting the homebuilding industry. It is not the objective of this study to pass judgment on the validity of Carlsbad's development review process, individual policies, or the quality of life within the City. Rather, Carlsbad serves as a case study in order to identify the components of the regulatory environment within which builders must operate, and to evaluate the economic consequences of those regulations for the quality and quantity and of their products. Those impacts in turn determine product pricing, and thus who can afford to live in Carlsbad.

The many variables affecting the cost of housing include land price, location, proximity to infrastructure, topography, sensitive environmental resources, labor, materials, and financing, as well as the time and complexity of the entitlement process. While every effort has been made to be comprehensive and objective in identifying and analyzing the impact factors, and their economic consequences, no claim is made that these are the only variables impacting price. The law of supply and demand is always at play. Please also note that the conclusions reached in this study concerning the economics of City regulation are not absolute numbers. Rather, they represent a range of values consistent with City regulations and policies as they pertain to the hypothetical "Smith House."

While few communities consciously consider the economic consequences of their policy decisions, such as adoption of a new ordinance, and although a specific ordinance may have only a limited impact, the cumulative effect on housing prices of the regulatory process may have significant implications for a community. While this study does not attempt to evaluate the socio-demographic consequences of regulatory policies in Carlsbad, recent national data on housing markets estimate that for every \$1,000 added to the cost of a new median-priced house, 21,000 families are excluded from homebuying eligibility. The same data suggest that in

Carlsbad, for each additional \$1,000 of home cost attributable to regulation (average = \$96,301), approximately 1,000 (a total of 96,301) households are rendered ineligible to purchase the Smith Family house. The latest national statistics available indicate that just over one-third of all households in the nation can afford to buy a median-priced new home, and that number will decrease as interest rates increase. The housing affordability problem is acutely felt in the San Diego region, and most particularly in higher priced coastal communities like Carlsbad. In 1999 for example, 91 percent of all San Diego County households (N=985,000) cannot afford to purchase the Smith Family house in Carlsbad.

One of the factors that influences affordability is the economic impact of land set-asides for environmental protection and conservation. In recent years, many municipalities, including the City of Carlsbad, have become participants in a new institutional structure that relies on the land use review and approval authority of local agencies to implement Federal and state endangered species laws. In exchange for conservation actions such as the adoption of Habitat Management Plans, local jurisdictions receive authorization for the taking of listed species and other species of concern. While many communities participate in larger sub-regional habitat conservation programs, the City of Carlsbad has elected to prepare their own plans.

Protection of environmental resources, such as coastal sage scrub (the habitat for the California gnatcatcher), by the City to implement federal and state requirements has direct implications for the cost of housing. It is common for the City to require newer master planned communities to retain up to two-thirds of their property in natural open space. This open space is usually obtained as a development exaction, in consideration for the right to develop, rather than through market rate purchase by a governmental entity. In the recent past, portions of the open space would likely have been developable depending on a number of factors, and especially topographic conditions.

While the majority of homebuilders interviewed for this study indicated that resource regulations have a very significant effect on the final sales price of a home, it is difficult to quantify an amount because of the variety of site specific factors. However, generalized financial consequences of the regulations include:

- A reduction in the availability of land for housing, potentially producing higher land prices,
- Delayed timing for project approval and the additional financing costs resulting because of the complications of complying with resource regulations,
- A reduction in the number of dwelling units for the cost allocation of major infrastructure,
- A partially offsetting benefit of possible premiums for open space view lots and,
- Uncertainty at the project acquisition stage concerning the amount of land available for development.

The dollar amounts in this report which summarize the economic consequences of homebuilding regulations exclude those costs absorbed by the developer due to the City's efforts to implement Federal and state resource regulations.

It is also important to note that the economic impacts of homebuilding regulation analyzed in this study are not comprehensive. Not all regulations governing the participants and policies involved in the process of building homes were addressed. For example, various Federal and state governmental agencies regulate such things as labor conditions, energy calculations, and water pollution controls, each of which has an economic consequence. By design, these policies have been excluded from consideration in order to focus on the direct and indirect monetary impacts of the regulatory process at the local level.

The artifact of the hypothetical “Smith Family” allows the analysis to address regulation related cost impacts in general rather than site impacts specifically, since all prospective buyers, and renters, are subject to the financial impacts of homebuilding regulation.

## II. CITY OF CARLSBAD PROFILE

The City of Carlsbad is located in the northwestern corner of San Diego County, California, approximately 35 miles north of downtown San Diego and approximately 90 miles south of downtown Los Angeles. It borders the Cities of Oceanside, Vista, San Marcos, and Encinitas, and a small, unincorporated area of the County of San Diego. The City, known for its colorful flower fields adjacent to Interstate 5, beaches, and world famous resorts is also the new home of the \$130-million Legoland theme park.

The City developed around the turn of the century as a rail stop. Carlsbad was named for Karlsbad, Bohemia - famous for its spas, after mineral waters were discovered. From its inception until well after the City's incorporation in 1952, Carlsbad was characterized as a quaint "village-by-the-sea". This aspect of the community's heritage is still found in the downtown area.

During the 1960s, Carlsbad began to expand through a series of annexations, including La Costa. The City has grown from 7.5 square miles and 7,000 people to its current 42.2 square miles and approximately 73,000 people. The City has been characterized as a "late bloomer" because the population has doubled since 1980. During this time, a large amount of industrial and office developments has also occurred near McClellan/Palomar Airport, adding a high-tech and progressive business component to the City. In 1986, voters approved a growth management plan that establishes maximum dwelling unit counts and ties development to the provision of facilities and services. Approximately 55% of the 54,599 dwelling units projected at buildout have been constructed. A rapid growth pace is predicted to continue, as city planners forecast a population of 132,000 by 2020.

Growth has occurred in cycles. The City, along with the rest of the region, was mired in an economic slump during the first half of the 1990s. Population growth in the City was limited to approximately 5,000 from 1990-1996 (Figure 1). In a three-year period, the City issued only 369 residential building permits (Figure 2). Tremendous growth and prosperity is evident in the City as the decade ends. In the last five years, residential building permits have increased fivefold. Industrial development is up ninefold, and commercial construction of offices and retail space has dramatically risen 35-fold. Carlsbad attracts executive families because of the City's proximity to Orange County, access to Interstate 5 and Highway 78, and links to flights in Los Angeles from the McClellan-Palomar Airport. Despite a recent boom in job creation, it is estimated that 70% of the City's residents who work leave Carlsbad to travel to their jobs.

The nation's building industry has recognized the quality of residential development in Carlsbad. In 1995, Aviara, adjacent to Batiquitos Lagoon, was awarded the Best Master Planned Community from the National Association of Homebuilders. Housing prices in the City range from \$270,00 for smaller detached homes in the eastern portion of the City to over \$800,000 in

Aviara. The housing market in the City includes some of the highest priced tract housing in the nation.

It is generally acknowledged that few opportunities exist in the City for first-time homebuyers. The San Diego region is one of the most expensive places in the nation to live. The City of Carlsbad Housing Element addresses the difficulty in providing affordable housing,

“Given that Carlsbad is a coastal city with an active citizenry, concerned with growth and quality development, there are numerous governmental and non-governmental constraints to the provision and preservation of housing opportunities, especially for moderate and lower income households. The coastal location imposes physical and regulatory constraints, as well as ensuring relatively high land costs. An active citizenry with concerns about quality development causes stringent development standards and more extensive public participation in permit processing.”

### **III. DEFINING THE SMITH FAMILY HOUSE**

The first step of this case study necessitated the development of a hypothetical model that was as representative as possible of new residential development in the City of Carlsbad. Characteristics of that model include:

#### **The Smith Family**

The Smiths are a middle-aged married couple with one child between the ages of 5 and 14. Both adults are employed outside the home in professional capacities with one commuting to a job outside the City. The Smith Family, like other Carlsbad residents, is relatively affluent when compared to others in the San Diego region. Their family profile is consistent with recent demographic information compiled by the San Diego Association of Governments for the City of Carlsbad. The average household size in the City is 2.6 persons per household, slightly less than the region. The current median age in Carlsbad is 38 years old, with a significant growth in the 45-64 and 5-14 age groups. The City's population has witnessed a steep decline in the number of persons between the ages of 25-34, perhaps a result of higher housing prices. The City's median household income for 1998 is over \$50,000 with over a quarter of the population with yearly household incomes exceeding \$75,000. Carlsbad's median household income exceeds the County's median income by over \$11,000.

#### **Housing Type**

The housing stock in Carlsbad has historically been dominated by single-family detached dwelling units. Most homes are production housing rather than individual custom units. The Smith family home is assumed to be within a subdivision tract, because the vast majority of housing opportunities are within this segment of the market. In the period of 1990-1998, the highest growing proportion of housing in Carlsbad was the single-family detached category.

#### **Lot Size**

A lot size of 6,000 square feet was chosen for the Smith family house for several reasons. Homes on lots ranging from 6,000-7,000 square feet accounted for the second largest number of sales in the City of Carlsbad during 1998. An important consideration in defining the model was to identify and evaluate significant policies, ordinances and regulations of the City. As described in a later section of this study, residential lots less than 7,500 square feet are subject to several City ordinances that are not applied to larger residential lots.

## **House Size**

According to information supplied by Market Profiles for 1998, the average living area for homes situated on residential lots of 6,000-7,000 square feet is 2,627. In addition, these homes commonly have a 600-square-foot garage for three cars, a 240-square-foot patio, and a 120-square-foot balcony. The Smith Family House includes Type V wood frame construction with fireplace, and gas and electric hookups.

## **Location**

A number of City fees are dependent on location, such as quadrant or Local Facilities Management Zone. To avoid prejudicing the economic analysis, a specific location for the “Smith Family House” was not selected. As described in other sections of this study, both the upper and lower end of fee ranges, as well as averages, were calculated. It was, however, determined the case study would be located outside the Coastal Zone, since two-thirds of the City (including many developments) are east of this boundary.

## **Sales Price**

According to information provided by Market Profiles, the average sales price for a new home in 1998 on a 6,000 to 7,000-square-foot lot in the City of Carlsbad was \$371,339 (excluding special upgrades or premiums for views).

## **Other Model Attributes**

The Smith Family home is located in a new 1,000-dwelling-unit master planned community. The larger community has preserved a significant amount of land because of the presence of environmental constraints such as sensitive biological resources and steep slopes. It is assumed that City review and approval of a Master Plan, Local Facilities Management Plan Amendment and certification of an Environmental Impact Report took several years. The Smith family’s specific neighborhood, which consists of approximately 30 acres and 100 dwelling units, received approval of a Tentative Map, Planned Development Permit, Hillside Development Permit, completed environmental review and recorded a final map in 18 to 24 months.

Additional assumptions of the model concerning calculations of fees and the financial impact of the regulatory process are described in later sections of the report.

## IV. STUDY METHODOLOGY

1. A hypothetical case study was created as the subject for analysis. A profile of the “Smith Family House” was created after researching information concerning the community, its residents and the local housing market.
2. Although this study could have followed an actual project through the development process, quantifying the specific costs of City regulations, it was decided this approach would limit the analysis by introducing an unwanted bias and preventing generalized conclusions.
3. All relevant City and Special District documents governing the development of single family housing units in Carlsbad were identified, obtained reviewed and analyzed in the preparation of this report.
4. Interviews were conducted with senior executives from most of the major developers and homebuilders that conduct business in the City of Carlsbad. Combined, these companies have experience with thousands of homes either completed or in planning stages. Many of the participants’ initial contact with the City of Carlsbad starts from the time property is undeveloped and unentitled, and extends through the issuance of building permits. Each of the companies interviewed has a national and/or strong regional presence, which provides perspective on the City of Carlsbad’s development review process relative to other communities.
5. While the homebuilders participating in this study routinely account for the direct costs of City fees, none of them had comprehensively considered the cumulative indirect costs of complying with City policies, ordinances and regulations.
6. The methodological goal was to distinguish between features of a builder’s project that would have been included to create a product desired by the market, and those aspects that were directly responsive to City requirements. This framework was designed to avoid appropriating the cost of design changes or improvements that would have been incorporated into the project regardless of the City of Carlsbad’s development review process.

## V. SUMMARY OF SELECTED CITY OF CARLSBAD POLICIES, ORDINANCES, AND REGULATIONS

Many of the homebuilders participating in this study expressed the opinion that the City of Carlsbad's entitlement process is among the most stringent they had encountered. Criticisms concerning the length of time within the development review process, the extent of exactions, the sometimes arbitrary nature of City Staff, the amount of fees, and general practices of the City were expressed. While many participants commended the overall quality of life enjoyed by City residents, they questioned if this outcome could be directly attributed to City ordinances, policies, and practices. Others questioned if the City was becoming too exclusive, eliminating most lower and middle income households from living in Carlsbad.

The opposing view would point to the City's award-winning Growth Management Program and overall quality of development as evidence the City's entitlement review process is working successfully. The City's six-year old Inclusionary Housing Ordinance is considered by some observers to offer the best opportunity in the County to produce affordable housing.

The following discussion summarizes the primary components of the City of Carlsbad's development review process that are central to the debate. A more detailed explanation of how the various City policies, ordinances, standards, and regulations impact an individual home may be found in the section of this report describing economic implications.

### **General Plan**

Each city in California is required by law to adopt a General Plan which is defined in State Planning and Zoning law as "... a comprehensive, long-term plan for the physical development of the ... city, and of any land which bears relation to its planning." This plan "shall consist of a statement of development policies and shall include a diagram or diagrams and text promoting forth objectives, principles, standards and plan proposals." The General Plan provides the overall policy vision of a City, articulating the community's aspirations for the future.

The City of Carlsbad's Land Use Element defines the form and function of the residential community. Approximately 57% of the City's gross land acreage or approximately 14,200 acres are designated for residential development. Five density categories have been established ranging from Low Density (RL, 0-1.5 DU/ac), which accommodates large lot single-family residential dwellings to High Density (RMH, 15-23 DU/ac) which is suited for two- and three-story condominiums and apartments. Maximum densities are further defined by the City's Growth Management Program that establishes a growth control point or a cap on the number of dwelling units. The growth control point may be exceeded only with the adoption of special findings by the City Council.

Residential density is based on a number of dwelling units per developable acre of property. Lands, which are considered undevelopable and excluded from density calculations, include:

- a. Beaches,
- b. Permanent bodies of water,
- c. Floodways,
- d. Slopes with an inclination of greater than 40%,
- e. Significant wetlands,
- f. Significant riparian woodland habitats,
- g. Lands subject to major power transmission easements,
- h. Land upon which other significant environmental features as determined by the environmental review process for a project are located, and
- i. Railroad track beds.

Development on slopes with an inclination of 25% to 40% are permitted if designed to minimize grading and comply with the slope development provisions of the hillside ordinance and Carlsbad Local Coastal Program. However, only 50% of the area shall be considered eligible for density calculations.

Most single-family housing is developed in either one of two residential land use classifications. Approximately 34% of the City's gross land area is designated Low-Medium Residential (RLM, 0-4 DU/ac). The City's Growth Management Control Point limits density to 3.2 dwelling units per acre. Small-lot single-family homes or townhomes, duplexes, and low-density apartments are typically developed in the Medium-Density land use designations (RM, 4-8 DU/ac, growth control point: 6 dwelling units per acre).

## **Zoning Ordinance**

Each of the General Plan land use categories is implemented by one or more zoning classifications that contains specific development standards that govern permitted uses, lot size, setbacks, building height, lot coverage, and other factors that affect the function and appearance of a project. While the ordinance includes an R-1 (one-family residential zone), a significant amount of residential development has occurred under the P-C Zone (Planned Community, Section 21.38). The P-C zone is applied to land exceeding 100 acres in size. Preparation and adoption of a Master Plan is required before approval of any discretionary permits.

In addition to underlying residential zones, the City has designated areas of special interest that require special development standards and/or other permit processing requirements. These areas

include hillsides, coastal zone properties, floodplains and areas adjacent to scenic corridors or within the influence of the airport.

### **Planned Development Ordinance**

Projects that propose single-family subdivisions with lots less than 7,500 square feet are required to comply with the Planned Development Ordinance (Chapter 21.45 of the Zoning Ordinance). The intent and purpose of the Planned Development Ordinance includes:

- Ensuring that projects develop in accordance with the general plan and all applicable specific and master plans,
- Allowing flexibility in project design while providing for essential development standards,
- Encouraging creatively designed projects using the concepts contained in the City’s adopted design policy in the design guidelines manual, and
- Promoting development that is sensitive to the natural topography of the site, minimizing alterations to the land and maintaining and enhancing significant natural resources.

The PD ordinance includes design criteria that both supplement and modify the requirements of the applicable underlying residential zone. Planning Department Administrative Policy 23 provides further requirements regarding open space calculations within planned developments.

Applicants for most residential subdivisions are required to concurrently obtain approval of a Planned Development Permit by either the Planning Commission or City Council, depending on the nature of the project.

### **City Council Policy 44: Establishing Guidelines for the Development of Small Lots**

The objective of this policy (revised in August 1997) is to encourage the quality development of small-lot single-family projects (less than 7,500 square feet). The intent of the guidelines is to ensure that units have sufficient building articulation to not appear “boxy” or as “row” housing. They are primarily designed for application to projects where there is a predominance of two-story units. Projects are evaluated for compliance against eight guidelines contained in the policy.

### **Hillside Development Ordinance**

The purposes and intent of this portion of the zoning ordinance are to:

- Implement the goals and objectives of the Land Use and Open Space/Conservation Elements of the Carlsbad General Plan;

- Assure hillside conditions are properly identified and incorporated into the planning process;
- Preserve and/or enhance the aesthetic qualities of natural hillsides and manufactured slopes by designing projects which relate to the slope of the land, minimizing the amount of project grading, and incorporating contour grading into manufactured slopes which are located in highly visible public locations; and
- Assure that the alteration of natural hillsides will be done in an environmentally sensitive manner whereby lagoons and riparian ecosystems will be protected from increased erosion and no substantial impacts to natural resource areas, wildlife habitats, or native vegetation will occur.

Virtually all undeveloped property proposed for residential development is subject to the requirements contained in the ordinance and implementing guidelines. A Hillside Development Permit is required if a slope of 15% and an elevation differential greater than 15 feet are present on the site. The ordinance establishes standards for slope heights, grading volumes, development of slopes over 40%, contour grading, slope screening/setbacks, rooflines/building bulk and scale and roadways.

### **Inclusionary Housing Ordinance**

The City's Inclusionary Housing Ordinance was approved by the City Council in 1993. The program has been designed to assist the City in reaching its lower-income housing goals. The ordinance requires that a minimum of 15% of all approved units in any residential specific plan or qualified subdivision be made available to lower-income units with limited exceptions. These units are required to be affordable to families earning 80% of the County median income for a family of four (presently \$42,000).

Compliance with the ordinance can occur in several different ways depending on the status and size of project:

1. Payment of an affordable housing impact fee. Only those projects deemed complete or having received discretionary approval prior to the effective date of the ordinance are eligible to pay the fee. In reality, very few projects qualify.
2. Payment of an in-lieu fee. Only those projects of six or less market-rate units may pay the fee in-lieu of constructing affordable units. Again, few projects qualify.
3. Construction of affordable units. The ordinance addresses the minimum levels of affordability, period of affordability and the number of bedrooms.

An Affordable Housing Agreement, a legally binding document between the City and developer must be signed before approval of any final map for the subdivision, master plan or residential specific plan. The agreement must stipulate all affordability requirements of the proposed housing, including the number of inclusionary units, the units size, location, affordability tenure, terms and conditions of affordability and unit production schedule.

## **Local Facilities Management Plan**

In November 1986, City voters approved a Growth Management Program that established citywide, quadrant and Local Facilities Management Zone performance standards for 11 public facilities. The City is divided into 25 zones, each which is required to have an adopted Local Facilities Management Plan before development can proceed.

Each of the zone plans has specific requirements to ensure that all public facilities will be constructed or are guaranteed to be constructed concurrently with the need to serve proposed development. Special conditions concerning public infrastructure and services are included in each zone plan. The City commonly requires project developers to construct facilities in advance of need, or to remedy existing public service deficiencies. Individual development proposals are required to conform to conditions included in the zone plan that includes the subject property.

## **Subdivision Ordinance**

The California Subdivision Map Act vests a city with the power to regulate and control the design and improvement of subdivisions within its boundaries. The Map Act's primary objectives are:

- To encourage orderly community development by providing for the regulation and control of the design and improvement of subdivisions, with a proper consideration of its relation to adjoining areas;
- To ensure that the areas within the subdivision dedicated to public purposes will be properly improved by the subdivider so they will not become an undue burden on the community; and
- To protect the public and individual transferees from fraud and exploitation.

The City of Carlsbad, like other California municipalities, is obligated to enforce the Map Act through a locally approved implementing ordinance. The Map Act authorizes cities to approve, approve with conditions, or deny a proposed subdivision. A subdivider, in return for receiving approval of a map to sell, lease, or finance property, and thus develop it, is usually receives conditions to pay fees, make physical improvements, or dedicate land to provide services.

The source of a city's authority to impose exactions is the exercise of its police power. Although all cities within California abide by the same State laws, each exercises discretion during the review process to determine the extent of a fee or land dedication. To ultimately be judged legal, the exaction must have a nexus or connection either to a need directly attributed to a proposed project or to a general and broad public welfare.

## **Environmental Protection Procedures and the California Environmental Quality Act**

In 1970, the State legislature enacted the California Environmental Quality Act (CEQA). CEQA provides that public and private projects are required to perform a thorough analysis of potential environmental effects. The City of Carlsbad, along with other local governmental agencies, is required to adopt an ordinance establishing procedures for implementing CEQA.

As a lead agency, the City conducts an initial study for proposed residential projects to determine if a negative declaration or an environmental impact report (EIR) is required. If the initial study demonstrates that a fair argument can be made based on substantial evidence, that the project may have any significant effects on the environment, then an EIR must be prepared. In the absence of significant environmental impacts, a Negative Declaration is prepared concluding the project will not have any foreseeable significant adverse effects on the environment.

If an EIR is required, it must include a description of the project, the environmental setting, significant environmental effects, mitigation measures, project alternatives, and any growth-inducing impacts the project may have. The purpose of the EIR is to inform decisionmakers and the public of possible environmental effects. The City's responsibility is to suggest methods to reduce or mitigate impacts, or to find that the project's benefits outweigh its adverse effects.

## **VI. ECONOMIC IMPACTS OF THE CITY OF CARLSBAD'S REGULATORY PROCESS**

Actions by the City during the regulatory review process have both direct and indirect consequences for the cost of housing. Direct consequences, such as fees for discretionary applications, recording the final map, and obtaining building permit, are available from the City. While the extent and level of agency fees concerns many homebuilders, most can accurately predict their impact on the final price of a home from the onset of a project. Less visible indirects, such as finance costs incurred during a lengthy City review, unanticipated development exactions, or redesigns to comply with City requests, are far more problematic to the industry.

### **Costs**

Costs to a project can be divided into several broad categories:

#### **1. City Fees**

The City of Carlsbad Community Development Department publishes an extensive list of fees that covers a variety of development activities. Homebuilders must pay fees for rezoning requests; submission of subdivision maps and discretionary permits; environmental review; sewer, water and drainage connections; school fees; grading plan check; building permits; and numerous other activities.

The 1998-99 Fee Survey prepared by the Building Industry Association of San Diego County surveyed 12 of the 18 cities in the county. The City of Solana Beach, a predominately developed community, is the only city with higher fees than the City of Carlsbad for a new single-family home. The City of Carlsbad's fees for a single-family home were approximately \$10,000 more than its neighboring cities of Encinitas, Oceanside, and Vista, and \$6,000 more than the average of all surveyed cities.

The amount of fees required for a single-family home is partially dependent on location within the City of Carlsbad. As previously mentioned, selecting a specific location for the Smith Family Home could have influenced costs in a biased manner. To avoid distorting conclusions concerning fees, the upper and lower ends as well as an average for a specific fee category was used.

#### **2. Required Dedications**

The City requires applicants, through conditions of approval, to dedicate land to the City for roads, passive open space, parks, schools, trails, bike paths, recreational vehicle storage, and numerous other purposes. There is no compensation to the developer for these dedications.

### **3. Development Standards**

The California Constitution confers on cities the power to protect the public health, safety, and welfare of its citizens. The “elastic nature” of land use regulations can be evidenced in the differing ways that cities interpret and implement this authority. As previously discussed, this study does not propose to evaluate the efficacy of specific City ordinances or policies in creating a desired quality of life. Some “City requirements” would customarily be included by a homebuilder to create a desirable product that appeals to the public. To avoid “blame shifting” for costs, the study focused on those aspects of the City of Carlsbad ordinances that are unique to the City or not universally used by other communities in the region.

### **4. Financing Costs During City Review**

Every month of review time affects the final cost of a home because of additional financing costs, property taxes, and administrative overhead. This study does not purpose to define “unnecessary delays” or identify the sources of a City entitlement process that many homebuilders consider too lengthy. Although a comparison could be made with other communities, many variables such as public involvement, City Staff caseloads, developer and City Staff responsiveness, and the overall regulatory environment would suggest that even a detailed analysis of this nature would have limited value. The model assumes that all financing costs during a typical City entitlement process result simply as a product of City involvement.

### **Housing Cost Components**

The cost components of a single-family home can generally be divided into four categories:

- Land,
- Financing,
- Labor and materials, and
- Overhead and profit.

The National Association of Home Builders (NAHB), in a report entitled 1998 Housing Facts, Figures and Trends, traced national trends concerning the proportion of each component to the final cost of a home. The report concludes that “During the last five decades, technological advances in home building have significantly increased efficiency and reduced proportionate costs of labor and materials. However, the drop has been offset by a sharp increase in the cost of a developed lot, primarily due to regulations imposed by local, state and federal government.” The developed lot cost is the single largest component of the final sales price of a home, actually accounting for more than labor and materials.

Residential land prices, both on a national and local level, have soared during the last 20 years. According to studies conducted by the Urban Land Institute, the price of a 10,000-square-foot lot

in thirty metropolitan areas more than quadrupled between 1975 and 1995. The San Diego region had the second highest percentage of change in the national survey, with residential land prices usually comprising 35-45% of the final sales price of a home. Lot prices throughout San Diego County, including the City of Carlsbad, have escalated rapidly since the time of the last survey.

The NAHB report notes that: "The complexities, number of approvals, time delays, and costs of meeting regulatory requirements are increasing rapidly. Builders are being required to pay a larger share of the cost of providing infrastructure improvements such as new schools, fire stations, roads, and other public facilities that benefit an entire community – not just people living in newly constructed homes. In years past these costs were funded by the community at large through general taxes."

The City of Carlsbad, by virtue of its actions, impacts lot costs both directly and indirectly.

### **Direct Costs – City Fees**

The most direct and measurable impact of a City is reflected in the fees assessed a residential project. California cities charge the largest number and the highest amount of fees in the country, partly due to Proposition 13, which drastically changed the way local governments operate.

In the City of Carlsbad, fees are paid at several distinct stages of a project:

- ***Discretionary Application:*** These fees are charged for the City's review of a proposed project. Similar to other municipalities, the City of Carlsbad requires deposit accounts for reviewing planning and environmental documents. Although the City's fee schedule includes a deposit amount for environmental impact reports, local facilities management zone plans, and master plans, the City and applicants both acknowledge that most proposals require additional funds to cover final costs charged by the City.
- ***Final Map Recordation:*** After receiving approval of a tentative subdivision map and satisfying a lengthy list of conditions, an applicant must obtain approval of a final map for recordation. A number of City fees are payable at final map recordation. Completion of this last step allows for the transfer, sale, or lease of individual parcel(s).
- ***Building Permit:*** Building permit fees for an individual home such as the Smith Family House are a significant portion of the final sales price. The City in some instances may collect as many as 21 separate fees. These cover a variety of functions including checking submitted plans, paying local facilities management fees, special road assessments, and public service related fees for other agencies such as school districts, water districts, and utility providers.

The following charts note those fees that would be collected for the Smith Family House:

**Table 1**

**Per Dwelling Unit Fees Payable at Discretionary Application**

*[The minimum amount of the deposit has been utilized as a conservative estimate]*

<b>Type of Fee</b>	<b>Fees Divided Over the 1,000 Units of the Master-Planned Community</b>	<b>Fees Divided Over the 100-Unit Subdivision</b>
General Plan Amendment	\$ 3,680	
Zone Change	3,970	
Tentative Tract Map		\$10,600
Planned Development Permit		7,900
Hillside Development Permit		402**
Environmental Impact Assessment		1,030
Environmental Impact Report	12,000*	
Local Facilities Management Zone Plan	10,000*	
Master Plan	25,000*	
Public Facilities Fee Agreement		50
Public Notice Fee		500
Fish and Game Fee		1,275
<b>Total</b>	<b>\$54,650</b>	<b>\$21,757</b>
<b>Subtotal Per Dwelling Unit</b>	<b>\$ 55</b>	<b>\$ 218</b>
<b>Total Fees Per Dwelling Unit</b>	<b>\$ 273</b>	

\* Excludes the cost of retaining consultants to prepare an EIR and/or a LFMP Zone Plan Amendment; also excludes any additional City deposits required for ongoing staff review.

\*\*Subject to discount for multiple permits.

**Table 2**

**Per Dwelling Unit Fees Payable at Final Map Recordation**

Type of Fee	Amount
Final Map <sup>(1)</sup>	\$ 46
Grading Permit <sup>(2)</sup>	38
Improvement Plan Review <sup>(3)</sup>	270
Improvement Construction Inspection <sup>(4)</sup>	210
Landscape Plan Check <sup>(5)</sup>	85
Landscape Inspection	72
<b>Total</b>	<b>\$721</b>

- (1) The flat rate is  $4,470 + 150 (\$5.00 \text{ per acre} \times 30 \text{ acres}) = \$4,620$  divided by 100 dwelling units = \$46.20.
- (2) The flat rate is \$3,050 for the first 200,000 cubic yards + \$750 for each 100,000 cubic yards. A 300,000 cubic yard grading operation would be required to pay City fees of \$3,800 divided by 100 dwelling units = \$38.00.
- (3) Based on improvement costs of \$25,000 per dwelling unit or a total value of \$2,500,000. If the estimated cost of improvements exceeds \$1,000,000, the fee is \$8,100 plus 0.75% of value with a \$27,000 minimum.
- (4) The fee is calculated as \$9,000 for the first \$1,000,000 plus \$80 for each additional \$10,000 or fraction thereof. The fee would be  $\$9,000 + \$12,000 (\$1,500,000 \text{ divided by } \$10,000 \times \$80) = \$21,000$  divided by 100 = \$210.
- (5) Based on landscape improvements of \$1,500,000.

**Table 3****Per Dwelling Unit Fees Payable at Building Permit**

<b>Type of Fee</b>	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
Affordable Housing Fee <sup>(1)</sup>	\$ 0	\$ 4,800	\$ 2,400
Bridge & Thoroughfare Fee/CFD No. 1/Special Road Assessments <sup>(2)</sup>	2,440	12,750	7,595
Building Permit	847	847	847
Building Plan Check	551	551	551
Plumb./Electric/Mech.	300	300	300
Seismic	12	12	12
Park in Lieu Fee <sup>(3)</sup>	1,575	1,755	1,665
Public Facilities Fee <sup>(4)</sup>	4,253	8,179	6,216
LFMP Zone Fee <sup>(5)</sup>	0	310	155
Drainage Area Fee <sup>(6)</sup>	10	1,043	527
Sewer Benefit Area <sup>(7)</sup>	46	2,411	1,229
Sewer Capacity Fee <sup>(8)</sup>	1,854	1,854	1,854
School Mitigation Fee <sup>(9)</sup>	5,070	10,405	7,738
Traffic Impact Fee <sup>(10)</sup>	550	870	710
Water Meter <sup>(11)</sup>	250	550	400
Water Service Connection / Capacity Fee <sup>(12)</sup>	3,264	3,420	3,342
County Water Authority <sup>(13)</sup>	1,871	1,871	1,871
Irrigation Meter <sup>(14)</sup>	250	550	400
Irrigation Water Service Connection <sup>(15)</sup>	436	436	436
Irrigation Water Authority Capacity <sup>(16)</sup>	2,618	2,618	2,618
Street Light Energizing Fee <sup>(17)</sup>	26	26	26
<b>Total</b>	<b>\$26,223</b>	<b>\$55,558</b>	<b>\$40,892</b>

(1) The lower end assumes the applicant complies by complying by the ordinance onsite; the upper end assumes an allocation of the \$32,000 per unit credit for 15 homes divided by 100 dwelling units.

(2) Community Facilities District No. 1 Fees, Bridge and Thoroughfare Fees or Special Assessment for Roads are paid depending on the location of a project within the City. At the lower end of the range is payment of a \$2,500 CFD fee. The Bridge and Thoroughfare Fee of \$530 is not required, if the CFD No. 1 fee is paid. At the other end of the range is payment of special assessments for specific public works projects such as Rancho Santa Fe Road or Cannon Road and the CFD No. 1 fee. The combined fee for Rancho Santa Fe Road and the CFD represent the upper end of the range.

- (3) The lower end represents the fee amount required for a single-family detached residence in the northeast, southeast, or southwest quadrants of the City. The higher number is for the same product located in the northwest quadrant of the City.
- (4) The Public Facilities Fee is based on residential building valuation. The residential building value is calculated as follows: 2,627 square feet of living area x \$82 = \$215,414 + 600 square feet of finished garage x \$23 = \$13,800 + 420 square feet of patio x \$7.25= \$3,045 +120 square feet of balcony x \$12.00=\$1,440 . The total amount is \$233,699. PFF fees range from 1.82% (within the CFD) to 3.5% (outside the CFD). Total fees would range from \$4,253-\$8,179.
- (5) Several of the zones have a Local Facilities Management Zone fee per dwelling unit (Zones 6, 11, and 12).
- (6) Planned Local Drainage Fees are calculated by location within the City, land use, and potential for runoff. All areas designated RLM are considered to have low runoff potential. The lower end is PLDA "D" with low runoff of \$35 per acre. The 30-acre tract would equal \$1,050. Costs are apportioned evenly to all 100 dwelling units. The model's share would be \$10. The upper end is PLDA "B" with a fee of \$3,478. Total tract costs would be \$104,340. The model's proportional share would be \$1,043.
- (7) The lower end is for Sewer Benefit Area M; the upper end is for Sewer Benefit Area K.
- (8) General sewer capacity fee for all areas of the City.
- (9) The lower end is the State mandated fee of \$1.93 per square foot x 2,627 (garage excluded) = \$5,070. The upper end represents the current mitigation cost paid to San Marcos Unified School District for Community Facilities District fees.
- (10) The lower-end cost is for Traffic Impact Fees paid for single-family residences within CFD No. 1; the upper-end cost is for areas outside the CFD.
- (11) The fee is based on a 3/4-inch meter.
- (12) The Olivenhain Water District Zone A has a water capacity fee of \$3,264. The upper end is for the Carlsbad Municipal Water District, which has a connection fee.
- (13) The fee is based on a 3/4-inch meter.
- (14) The fee is based on a 1 1/2-inch meter.
- (15) The fee is based on a 1 1/2 -inch meter.
- (16) The fee for a 1 1/2-inch meter is \$14,400 x 6 EDUs divided by 33 homes. The assumption is one meter serves 33 homes.
- (17) It is assumed 100 watts is standard for streetlights in residential areas. If each streetlight serves three homes, the model is responsible for one-third the fee. The amount excludes the one-time SDG&E service point connection fee.

The following table summarizes the range of direct fees that would be required for the Smith Family house at each stage of the development process.

**Table 4**

**Summary of Direct Costs**

**[Impact Fees Per Dwelling Unit]**

<b>Type of Fee</b>	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
Discretionary Application	\$ 273	\$ 273	\$ 273
Final Map Recordation	721	721	721
Building Permit	26,223	55,558	40,892
<b>Total</b>	<b>\$27,217</b>	<b>\$56,552</b>	<b>\$41,886</b>

**Indirect Costs – City Regulations**

Determining the definitive indirect cost of City regulations is probably impossible. There are simply too many variables, including but not limited to:

- Location of the property;
- Physical characteristics of the undeveloped site;
- Applicable regulations; and
- Specific decisions made by the Planning Commission and City Council unique to the particular project.

The following discussion reviews those City regulations cited by homebuilders as having a particular financial impact on the cost of a home.

**Inclusionary Housing Ordinance**

Local government has struggled for many years with the difficulty of providing housing for moderate- and lower-income families. The City’s program largely places the burden for solving

this communitywide concern on new housing, rather than having the general public assume responsibility.

As previously indicated, an assumption of the model is that the master-planned community in which the Smiths reside includes 1,000 dwelling units. Fifteen percent of the total housing stock would be restricted to affordable units (150) by the Inclusionary Housing Ordinance. The balance of the units (850), including the Smith Family house, would be market-rate units.

The Smith Family house subsidizes the cost of constructing affordable housing in several ways:

### **Land Subsidy**

The economics of providing affordable housing requires multiple-family projects, rather than single-family subdivisions. In the City of Carlsbad, most affordable projects are built in the RH category that permits 15-23 DU/ac (growth management control point is 19 DU/ac). The master developer would be required to improve and set aside 8.8 acres of apartment land to accommodate a 150-dwelling-unit affordable project. Apartment developers pay approximately \$38,000 per unit for improved land. The lost sales opportunity of the land for the master developer would be \$5,700,000 (\$38,000 x 150 dwelling units). The subsidy provided by each market rate dwelling unit (\$6706) can be calculated by dividing the land value (\$5,700,000) by the number of market rate units (850).

### **Construction Subsidy**

The participants interviewed for this study indicated that a master developer must also subsidize the building of affordable units, because the revenue generated by these units is insufficient to support construction. One master developer, citing their recent experience, identified an approximately \$11,000 per market rate unit subsidy. A 150-dwelling-unit project would require a \$1,650,000 subsidy from the master developer. The subsidy, divided by the number of market-rate dwelling units (850), would result in a per-unit amount of \$1,941.

### **Processing Subsidy**

The Inclusionary Housing Ordinance requires the City to approve an affordable housing project before issuance of any building permits for market-rate dwelling units. It is estimated that the cost of preparing and processing plans for a 150-dwelling-unit project would likely cost approximately \$600,000. This cost, divided by the number of market-rate dwelling units, would be \$706.

### **Time Element Subsidy**

It is conservatively estimated that approval of the affordable housing project would delay sale of market-rate units by six months. The residual land value for one single-family lot of 6,000 square feet could be calculated as follows:

<b>Average Finished Lot Value</b>	<b>\$155,000</b>
<i>less Fees</i>	30,000
<i>less Improvements</i>	55,000
<i>less Finance/Other</i>	10,000
<b>Total – Residual Land Value/Lot</b>	<b>\$ 60,000</b>

A residual land value of \$60,000, multiplied by the number of market rate units, totals \$46,750,000. The cost of carrying the land at 10% interest for an additional six months due to time delays during processing the affordable housing site plan would total \$2,337,500, or \$2,750 per market-rate unit.

### **Summary**

The contribution of the Smith Family home to providing affordable housing can be summarized as follows:

**Table 5**

### **Summary of Inclusionary Housing Cost**

**[Impacts Per Dwelling Unit]**

<b>Subsidy</b>	<b>Amount</b>
Land	\$ 6,706
Construction	1,941
Processing	706
Time	2,750
<b>Total</b>	<b>\$ 12,103</b>

## **Planned Development Ordinance**

The homebuilders interviewed as part of this study cited four aspects of this ordinance that have cost implications for single-family dwelling units on lots less than 7,500 square feet.

### **Recreational Vehicle Areas**

The City requires 20 square feet per dwelling unit to be dedicated for purposes of parking for recreational vehicles. Adding circulation and landscaping, this area increases to approximately 40 square feet per dwelling unit. A 1,000-dwelling-unit master-planned community would require approximately a 1-acre site. The following fees are based on actual improvement costs.

#### **Improvement Costs**

Grading	\$ 1,850
Storm Drain	5,200
Concrete	11,200
Paving	103,300
Utility Trenching	39,900
Landscaping	59,900
Perimeter Walls/Fencing	43,000
Storage Building	5,000
Site Fees	5,000
Soft Costs	36,000
Contingency	<u>13,600</u>
<b>Subtotal</b>	<b>\$323,950</b>
Value of Land (\$60,000 residual land value x 5 lots)	300,000
<b>Total</b>	<b><u>623,950</u></b>
<b>Per Unit Cost (1,000 Units)</b>	<b>\$ 624</b>

### **Building Setback Requirements**

Projects governed by the Planned Development Ordinance are subject to setback requirements that address the distance between two-story structures. When more than 10 structures are in a row, the distance between two-story structures must exceed 20 feet. Conformance with the ordinance often requires the loss of developable land (usually the 11<sup>th</sup> lot). This requirement is commonly referred to as “Drop a Lot” by homebuilders acquainted with the City of Carlsbad. Recognizing that effective site planning and street design can be used to eliminate or reduce the requirement, the model considers a loss of 0 to 9 lots.

Value of Land	\$ 60,000
0 to 9 Lots	\$0-450,000
Per Unit Cost	\$0- 4,950
Average	\$ 2,475

### Prime Arterial Setback

The City requires a 50-foot landscaped setback, rather than a more customary 30-foot setback. The difference in area is 20 feet x 1,000 lineal feet = 20,000 square feet.

Value of Land	\$200,000
Per Unit	\$ 200

### Common Active Area

Open space areas designated for recreational use shall be provided for all residential development at a ratio of 200 square feet per unit, unless all lots in the subdivision exceed 7,500 square feet. City Policy 23 requires that 50% of the recreational area shall be provided as a common active area. Each dwelling unit is required to contribute 100 square feet. A 100-unit subdivision would require 10,000 square feet of common recreation area. An assumption is that the land set aside to comply with the building separation requirement would be used to conform to this portion of the ordinance.

Improvements (10,000 SF x \$4.00/SF)	\$ 40,000
<b>Per Unit</b> (\$40,000/100)	<b>\$ 400</b>

**Table 6**

## Summary of Planned Development Ordinance Impacts

[Cost Per-Dwelling-Unit]

Type of Cost	Amount
Recreational Vehicle Area	\$ 624
Building Setbacks (Average)	2,475
Prime Arterial Setback	200
Common Active Area	400
<b>Total</b>	<b>\$3,699</b>

## Community Facilities

The City of Carlsbad, by practice rather than regulation, requires a master-planned community to provide up to 10 acres for community facilities such as churches and day care. Recent revisions to the Planned Community Ordinance describe the need to provide child care facilities without specific requirements.

At the low end of the range of costs, child care could be located within a church or other community facility, and only negligible costs can be discerned. At the high end of the range, the developer grades a 0.5-acre site and extends services. The site is sold to the day-care provider at a nominal amount.

### COSTS

Land Value (3 Lots x \$60,000 Residual Land Value)	180,000
<b>Per Unit</b>	<b>\$ 180</b>
Other Community Facilities – Land Value of 8 Acres (48 Lots x \$60,000)	\$2,880,000
<i>less</i> \$3.00/sf Paid for Land by Institutional Users	<u>1,045,440</u>
<b>Total</b>	<b>\$1,834,560</b>
<b>Per Unit</b>	<b>\$ 1,834</b>
<b>Total Per Unit (Community Facilities/Child Care)</b>	<b>\$ 2,014</b>

## Hillside Development Ordinance

Several aspects of this ordinance and implementing guidelines can affect housing costs. An assumption of the model is the Smith family's two-story house is situated along a natural open space preserve containing sensitive vegetation and steep slopes. The manufactured slope beyond the rear yard is 40 feet tall and extends beyond 200 lineal feet. The ordinance would require that a slope of this nature be contour graded, because of criteria established by the ordinance.

The cost of the ordinance can be summarized as follows:

## **Lost Developable Land**

The use of contour grading results in the loss of developable land. A 40-foot-high slope graded at 2:1 would require 80 horizontal feet of slope. A 40-foot-high slope graded at 3:1 would require 120 horizontal feet of slope. A 40-foot-high contoured-graded slope (with portions at 2:1 and 3:1) would require 100 feet of slope area.

The horizontal area lost is contour graded area less the horizontal area required for a 2:1 slope (100 feet – 80 feet = 20 feet). A 60-foot-wide lot would have a 1,200-square-foot loss (20 feet x 60 feet = 1,200 square feet). If the loss is directly assigned to the individual lot, the value of the 1,200 square feet, based on a residual land value of \$60,000, is \$12,000.

Assuming grading costs are spread throughout the 100-unit subdivision, another method may be used to calculate the loss. If 25% of the lots were canyon rim lots, the loss would be 25 lots x 1,200 square feet = 30,000 square feet, or the equivalent of five 6,000-square-foot lots. The value of the lots would be \$360,000 divided by 100 dwelling units, or \$3,600 per dwelling unit.

## **Landscaping and Irrigation**

The cost of landscaping and irrigation for additional slope area is \$1.75 per square foot. The difference in landscaped area would be the total additional surface planting area of 6,464 square feet for a contour graded slope – 5,366 square feet for the planting surface area of a 2:1 slope = 1,096 square feet x \$1.75 = \$1,918.

Assuming 25 canyon rim lots, the total would be \$1,918 x 25 = \$47,950. Divided by 100 lots, the total would be \$479.50.

## **Isolated Slopes**

Section 21.95.120.B.1 addresses development of natural slopes exceeding 40%. A steep slope of this nature can not be developed if it meets four criteria. Isolated slopes that are not defined as prominent land features may be graded. In the model subdivision, the assumption is that isolated steep slopes have been graded. No cost has been assigned for preserving isolated steep slopes.

**Table 7**

**Summary of Hillside Development Ordinance Impacts**

[Cost Per Dwelling Unit]

	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
Loss of Developable Land	\$ 3,600	\$12,000	\$ 7,800
Cost of Landscaping	480	1,918	1,199
<b>Total</b>	<b>\$ 4,080</b>	<b>\$13,918</b>	<b>\$8,999</b>

**City Council Policy No. 44 – Establishing Guidelines for the Development of Small Lots**

The intent of this policy is to encourage quality development of small-lot (less than 7,500-square-foot) single-family projects by advocating:

1. Where three two-story units occur in a row and they are situated less than 15 feet apart, at least one unit must have a single-story building edge not less than 10 feet in length.
2. Where three two-story units occur in a row and they are situated 15 to 20 feet apart, at least one unit must have a single-story building edge not less than 5 feet in length.
3. Per project, 33% of all units shall have a single-story edge a minimum of 40% of the total perimeter.
4. Per project, 50% of all units with a lot frontage greater than 45 feet must have four separate building planes on the front elevation.
5. Per project, 50% of all units with a lot frontage greater than 45 feet must have four separate building planes on the street side elevation.
6. Per project, 50% of all units shall have one side elevation with a 7-foot average side-yard setback.
7. Three-car garages limited to 75% of the total units where average lot size is 5,000 SF or less. Three-car garages shall incorporate a mixture of two-door, three-door, and offset two-door designs.

8. Fifty percent of exterior door and window openings shall be projected or recessed a minimum of 2 inches.

Two architects, who have worked with the policy, were consulted concerning potential regulatory costs. One architect noted the vast majority of homebuilders in Carlsbad provide a design that is compatible with the policy, simply to present a product that will sell in an upscale market. He felt direct costs were “negligible”, except for the time involved in processing plans.

The second architect cited an example of the same product used both in the City of Carlsbad and a nearby municipality. To meet the requirements for rear elevations contained in City Council Policy 44, a deck was added to the original elevations. The cost of the deck was \$5,000.

**Table 8**

**Policy No. 44 Per-Unit Summary**

<b>Type of Cost</b>	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
City Council Policy No. 44 Costs	\$ 0	\$5,000	\$2,500

**Table 9**

**Summary of Indirect Costs**

[Per Dwelling Unit]

<b>Type of Cost</b>	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
Inclusionary Housing Ordinance	\$12,103	\$12,103	\$12,103
Planned Development Ordinance	3,699	3,699	3,699
Community Facilities	2,014	2,014	2,014
Hillside Development Ordinance	4,080	13,918	8,999
City Council Policy No. 44	0	5,000	2,500
<b>Total</b>	<b>\$21,896</b>	<b>\$36,734</b>	<b>\$29,315</b>

## Land Carrying/Soft Costs

A primary concern of developers and homebuilders in the City of Carlsbad is the amount of time necessary to secure approvals to proceed with development of housing. As City regulations become more complex, the length of time to receive approvals has increased. At least two years is needed for City review and adoption of a Master Plan, Local Facilities Management Plan Amendment, and certification of an EIR for a 1,000-dwelling-unit project. During this time, a developer is making option payments to the landowner and incurring the costs associated with creating a proposed project. These costs are reflected in the final sales price of a house.

The City's Housing Element states the typical time from application to the final decision date for a Tentative Tract Map and accompanying permits is 8 to 12 months for a residential project consisting of more than 50 units. Obtaining and recording a Final Map for a subdivision of this nature generally takes another 10 to 12 months. In fact, a conservative estimate of the actual time elapsed from initial request for land re-zoning to building permit issuance is three to five years. Each month of carry at 10% interest would be approximately \$1,100 per lot, based on the residual land value used for this study.

Soft costs for consulting services range from \$3,000 to \$5,000 per lot to cover the variety of services needed during the entitlement process. Approximately half of the costs are to prepare plans that would be necessary, regardless of the governmental review process. The participants in the study have estimated the other half of their soft costs are related to revisions required by the City.

**Table 10**

### **Finance/Soft Costs Per Unit**

<b>Type of Cost</b>	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
Finance	\$19,800	\$26,400	\$23,100
Soft Costs	1,500	2,500	2,000
<b>Total</b>	<b>\$21,300</b>	<b>\$28,900</b>	<b>\$25,100</b>

## VII. CONCLUSIONS

The estimated range of economic impacts attributable to City of Carlsbad regulations, policies, ordinances and practices for the hypothetical case study described and analyzed in the preceding sections can be summarized as follows:

**Table 11**

**Summary Table**

**Economic Impact of Regulations  
“Smith Family” House  
Carlsbad, California**

<b>Type of Cost</b>	<b>Lower End</b>	<b>Upper End</b>	<b>Average</b>
Direct Costs	\$ 27,217	\$ 56,552	\$41,886
Indirect Costs	21,896	36,734	29,315
Financing	19,800	26,400	23,100
Soft Costs	1,500	2,500	2,000
<b>Economic Impact</b>	<b>\$70,413</b>	<b>\$122,186</b>	<b>\$96,301</b>
<b>Impact as % of House Cost*</b>	<b>19%</b>	<b>33%</b>	<b>26%</b>

*\*Based on an average sales price of \$371,339 (Market Profiles, 1998)*

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