More cities are considering community benefits programs to supplement or provide an alternative regulatory tool to entitle development projects. These programs leverage developers to offer community benefits in exchange for added development capacity. Programs may be applied to both residential and non-residential development, such as office projects.

Community benefits programs vary widely in terms of how they are implemented and are highly influenced by local market conditions and community objectives. What works in one community is not automatically transferable to another community. Effective programs require constructive communication and cooperation between city officials, developers, residents and community groups. This paper discusses factors to consider for structuring a successful community benefits program. Best practices are recommended, accompanied by insights on the pros and cons of certain practices.

Community Benefits as a Planning Practice

Community benefits are measures that are voluntarily incorporated into a development project and exceed requirements that municipalities can impose to mitigate project impacts or comply with regulations. Exactly how additional development capacity is exchanged for additional community benefits may be negotiated on a case-by-case basis through a development agreement, or codified as part of a regulatory process. Community benefits programs typically grant a developer additional floor area, height, density or other increase in development intensity in exchange for providing community benefits. Benefits may also include expedited permit processing and regulatory certainty. The program is optional for developers and is customized by each jurisdiction to address community priorities. A common objective is developing a regulatory framework, such as incentive zoning, where community benefits can be incorporated into project approvals without requiring a separate development agreement.

A broad definition of public benefits includes various development prerequisites or exactions as defined by city ordinances (e.g. park, school, traffic and housing impact fees,) or local economic and fiscal benefits (e.g. increased tax revenues and new jobs.) Many contend that such benefits primarily address the direct impacts of development or, in the case of jobs, generate impacts that offset the benefits. For the purpose of this paper, community benefits are more narrowly defined as items that exceed the prerequisites for development required through standard regulatory methods. Community benefits are distinguished from measures imposed on projects under the State Mitigation Fee Act (Government Code...
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66000) or the California Environmental Quality Act (CEQA) because they do not require a nexus study or a proportional relationship between the impact and the measure.

Municipalities typically articulate and prioritize community needs in policy plans, which help to justify the purpose for codified community benefits programs, although the plans may not specifically identify this. Examples of enhanced community benefits beyond standard project requirements and mitigation measures requirements, include:

✓ Affordable housing units/housing fees
✓ Neighborhood amenities
✓ Streetscape beautification
✓ Unfunded public improvements and operations and maintenance costs
✓ Landscaping, parks and open space enhancements
✓ Childcare facilities
✓ Community center/library enhancements
✓ Public art
✓ Complete streets, pedestrian and bicycle improvements
✓ Transit facilities and services
✓ Traffic reduction and traffic calming
✓ Police/fire facilities and services
✓ Workforce development (e.g. living wage, local hiring, training/apprenticeship programs)
✓ Sustainability/energy conservation/green building measures
✓ Funding for social and community programs

Many of the above benefits are also addressed through zoning regulations, standard ordinances and discretionary permit approvals. What makes these “extraordinary” is when a local jurisdiction seeks a greater level of benefit than can be obtained through traditional means; for example, providing additional public improvements to address existing community deficiencies beyond the proportional share of improvements needed to serve the new population associated with a project. Community benefits can also offer funds to address city-wide needs, which may not be directly related to a particular development, such as payments into a housing trust fund.
Value Capture Concept

Community benefits programs use private development to advance a city’s policies and its vision for the future. The central concept underlying community benefits is “value capture or recapture.” Assuming favorable market conditions, municipalities can allow for higher density development through incentive zoning, which can increase a developer’s financial gain. This potential increase in profit margin is the basis for community benefits. Since a municipality created this added value through its municipal authority and public improvements, the rationale is that it is fair and valid to capture or recapture a share of the resulting net increase in market value.

For value capture, base zoning is kept at a lower level for readily permitted or “by-right” development, with greater development possible by contributing benefits defined by an ordinance or through a negotiated process. The pre-development market value of a project site would theoretically be lower, although multiple factors affect property values. Assuming a lower initial market value, a higher value capture and greater community benefits can potentially be realized by a municipality.

By limiting development capacity, cities can constrain development capacity and limit development at locations where market conditions may support higher densities, such as adjacent to transit in high growth communities. Adopting a capture value strategy can be perceived as deliberately setting land values low to sell density for fiscal gains. Municipalities should use value capture to serve a legitimate public purpose, such as financing of community facility deficiencies, and do so in ways that avoid conflict with other policy priorities.

Historic Precedence

While community benefits programs have received much attention from California jurisdictions in recent years, the concept is not new. This practice has been used for many years by large cities such as Chicago, Vancouver and New York, as well as California cities such as Berkeley, San Diego, San Francisco and Santa Monica. It has been recently adopted by Emeryville, Oakland, Redwood City and Sunnyvale.
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among others. The goal is to gain additional concessions or contributions from development projects beyond those available through nexus-based regulatory methods.

An early incentive-based approach for achieving community benefits is California’s Density Bonus Law (Government Code 65915) for affordable housing that was enacted in 1979 (with subsequent amendments thereafter). Affordable housing is an essential and critical community benefit. State law grants residential developers the right to additional density, including possible waivers or exceptions to zoning standards, if very low, lower income or special needs housing are included in projects for a minimum 30-year term. The result is that communities “capture” a portion of the financial gain from increased development capacity by having more affordable housing units.

Development agreements (DA) have also been a longstanding tool for municipalities to capture value and receive community benefits, but are not the only mechanism for employing this approach. DAs are defined and regulated by California law (Government Code 65865) and are voluntary contracts between a municipality and another party that are adopted through legislative action. These agreements often commit a developer to specific community benefits in exchange for negotiated development rights or entitlement guarantees. Residents in some communities have a negative view of DAs because they perceive a lack of transparency and predictability. For this reason, many municipalities have been incorporating community benefits in their zoning regulations and specific plans for defined areas.

Impetus for Expanding Community Benefits

While affordable housing is a common application of community benefits because of the State Density Bonus Law, municipalities have been expanding the scope of community benefits as listed above. The growing interest in community benefits programs and incentive-based regulatory approaches are propelled by the following factors:

**Community Response:** Community benefits can offset community opposition and resistance to development and alleviate concerns about the impact of growth on quality of life and community facilities. Infill development is perceived to have a greater impact on existing municipal facilities and services, and arguments opposing development typically include accusations that developers are “not paying their way.” While infill projects often do not have a negative fiscal impact on municipal services and certainly have less impacts that urban sprawl, this public illusion is very difficult to dispel despite the available literature and studies. For practical reasons, community benefits are offered as a credible response to public concerns over growth and change.

**Regulatory Flexibility:** Municipalities are seeking a more streamlined and flexible regulatory tool for achieving community benefits. Other methods, such as assessment districts and impact fees, have inherent limitations and implementation obstacles that require nexus or proportional benefit analyses and findings. Incentive zoning is viewed as a valid alternative approach that is more flexible because it is voluntary and therefore is not subject to the same fair benefit standards. While flexibility is an objective, transparency and predictability continue to be issues, similar to other regulatory tools.

**Value Capture:** Where development conditions are strong, municipalities believe it is justified to capture a portion of the increased market value from new development, which they contend is due in part to public investment in community and infrastructure improvements. The caution is that market conditions are dynamic, and opportunities for community benefits will correlate with market cycles and may be
limited in areas with a challenging development climate. Municipalities also affect market conditions and development opportunities through their land use policies, zoning regulations and entitlement processes.

**Sunset of Redevelopment:** Redevelopment agencies were eliminated in January 2012, which resulted in the loss of funds for:

- *Economic incentives that provide gap financing for desirable central city redevelopment;*
- *Lack of redevelopment funds for transportation, infrastructure and community facilities to accommodate growth; and*
- *Loss of the 20 percent “set-aside” funds earmarked for low-income housing.*

**Considerations for a Community Benefits Program**

Community benefits programs introduce additional considerations beyond those associated with nexus-based development impact fees, environmental mitigation measures or traditional zoning regulations. Key aspects of community benefits programs include the following:

**Market and Financial Feasibility:** Community benefits programs are highly market sensitive. A prerequisite for an effective program is that economic indicators must be favorable such that developers have a financial incentive to build denser or larger projects for a potentially higher cash-on-cash return or return on investment (ROI). Market conditions also vary between regions and cities, including within sub-areas of a city. A program should be tailored to recognize market variations; for locations where the economic setting is challenging, community benefit contributions may make development infeasible.

A financial analysis for a development project assesses the potential market value or income from the completed project less the cost to develop and operate the project (including sufficient return on capital to finance development.) This differential is commonly expressed as “residual land value” or the price that a developer can pay for the land. The residual land value must be positive for a project to be feasible. This projected financial return is the starting basis for determining the added value that can potentially be shared or captured by a municipality for community benefits. These analyses should also be regularly updated to reflect changing market and financial conditions over time, including new and increased development fees.

**Cost Management:** Construction costs are an important factor affecting value capture. If a zoning incentive allows for additional building height, but the increased height requires more extensive steel and concrete construction and more complicated life safety requirements, then a taller building may be less feasible economically. If structured without regard to these construction factors, community benefits programs may make development -- and the benefits that development is to generate -- less likely to happen.

On a square foot basis, construction costs can escalate significantly for taller buildings because building code regulations necessitate concrete or steel frame construction. For example, if the base density allows a building to be built with wood or steel studs (defined as Type V and Type III, respectively), the per square foot construction cost would be lower. A higher density project with incentives may require higher cost concrete or steel frame (Type I) construction systems. Therefore, an increase in density does
not necessarily translate into an increase in ROI. In such situations, allowing increased building height may not provide an effective incentive as the increased height may not be financially feasible.

**Community Objectives:** A developer may offer community benefits if a higher density or higher floor area ratio (FAR) project can yield a more favorable ROI than a lower density/FAR project. Project financials would be meaningless, however, if the political setting is not supportive or the community opposes higher density development (e.g. strong NIMBY sentiment). While more intensive development is possible with community benefits, a stringent program that negatively affects project feasibility will deter such development. This may compromise other city benefits, such as removing urban blight, increasing the supply of housing, expanding the employment base, or promoting infill development. Municipalities should balance these goals when crafting a community benefits program.

**Supplemental Tool:** Community benefits do not replace mitigation measures required through the environmental review process (CEQA), impact fees established through nexus studies (e.g. traffic and utility fees), or specific fees allowed by state law (e.g. school impact mitigation and park dedication in-lieu fees). However, they are useful for supplementing these measures and fees. If properly structured as a regulatory approach, community benefits programs can reduce legal risks and financial exposure for municipalities. They also provide an alternative to other financing and regulatory options, such as development agreements, public/private partnerships, transfer of development rights, assessment benefit districts and tax increment financing.

**Development Uncertainty:** Since community benefits are optional instead of mandatory, the level of development and corresponding community benefits are less definitive and predictable. While this uncertainty can be a disadvantage, community benefits are voluntary and the legal test is less stringent since developers can opt in or out of the incentive-based program.

**Legal Foundation:** While community benefits programs are not a new concept, municipalities should closely consult with legal counsel when structuring a program. The following principles would buffer local agencies from potential legal challenges and strengthen the regulatory basis for community benefits programs:

- Community benefits are grounded in general plan and/or specific plan policies.
- Community benefits are codified and integrated in zoning regulations.
- Community benefits are voluntary and not mandatory.
- Incentive zoning is applied uniformly to a district, and is not applied in an arbitrary and capricious manner.
- Base zoning still allows for a reasonable development potential.
- CEQA documents evaluate the aggregate development capacity that can be realized with a community benefits program.

**Recommended Best Practices**

The following best practices are offered to municipalities that are considering a community benefits program with their next general plan or zoning ordinance update, or including such a program in the policy and regulatory framework of a specific plan. These recommendations are also applicable for expanding and updating existing community benefits program.
**POLICY-LEVEL RECOMMENDATIONS:**

1. **Reinforce and substantiate community benefits best practices within General Plans and/or Specific Plans.**

City-wide community benefits can be addressed in the General Plan or related policy documents that articulate the needs of the entire community, while benefits for a focus area can be described in a specific plan or area plan. Priorities should also be identified, although these priorities can vary for different land uses (e.g. residential, commercial, office/industrial or mixed use,) or different development areas (e.g. downtowns, transit stations and corridors, employment centers, or urban village centers.) Priorities can also differ for each plan area to respond to the preferences and needs of adjacent neighborhoods. Additionally, policies in adopted plans establish the foundation for community benefits and the framework for subsequent review of individual projects. Policies should validate a city’s exercise of police power through incentive zoning to achieve community benefits.

2. **Integrate the discussion of community benefits in the public planning process for land use plans.**

Community benefits can be an essential ingredient for gaining community consensus and support for development, particularly infill projects which are often contentious and controversial. If community benefits are part of the policy discussion, it is important to incorporate this topic into the public dialogue when updating or preparing a general plan or specific plan. The ideal would be to have “champions” for the concept. Planners should seek public input on community priorities through community workshops and other avenues during the planning process. Ensure an inclusive process where neighborhood concerns and priorities are recognized in policy plans, while also balancing city-wide goals. Input from developers, property owners, real estate professionals, and other stakeholders should also be sought to address financial factors. Santa Monica, San Diego, Redwood City and Sunnyvale are examples of cities that engaged in extensive public dialogue to define and prioritize benefits.
Community benefits programs invariably involve the consideration of higher density development for community benefits. A community's concerns over density and the effects of larger and denser projects should be fully acknowledged and explored in the public dialogue. Remedies could include: enacting development standards to lessen projects impacts on surrounding areas; setting a maximum development capacity; or establishing land use buffers and transitions. Displacement of existing residents could also be an issue, and plans should include a response to this impact. These remedies could ease concerns that community benefits will overshadow important land use, social equity and neighborhood considerations. A community benefits program will be critically flawed if new higher density development is not conditionally accepted by a community or the program becomes a tool to substantially inhibit development.

3 Keep other city priorities and development policies in perspective when structuring a community benefits program.

A prime example is that increasing the supply of housing is a priority in many communities to meet Housing Element goals. If a community benefits program is onerous or restrictive such that it is more of a disincentive than an incentive for higher density residential development, this can hinder the overall production of housing and specifically affordable units. This emphasizes the importance of financial and market analyses to gauge the realistic value capture and contribution for community benefits. While the housing market has rebounded and is expected to remain strong in the near term, it should be closely monitored for its effects on community benefits and housing production.

Community benefits programs should complement and support other public policy objectives and requirements. For instance, incentives should not provide a means to circumvent the State Density Bonus Law, or undermine the ability to encourage additional affordable housing development. Instead, a community benefits program could offer an incentive for additional density and affordable units beyond that permitted by state law.

4 Evaluate parking standards for project types, which can significantly affect the potential value capture and community benefits.

Parking management and trip reduction strategies are appropriate to consider for all projects and should not be limited to projects that participate in a community benefits program. More creative solutions, however, can be viewed as a community benefit. If a project includes an effective transportation demand management program (TDM), innovative parking solution or aggressive trip reduction measures, this can justify relaxing parking standards.
Pro forma analyses for development scenarios show that parking requirements strongly affect project feasibility, particularly for higher density projects that require structured parking. Reducing parking standards, particularly near a transit station or at locations with good transit options, promotes sustainability and can improve project feasibility. This raises the potential value capture and community benefits from a project. Flexibility in applying other site development standards, such as open space, lot coverage and setbacks, can also improve project feasibility.

**IMPLEMENTATION RECOMMENDATIONS:**

5 **Conduct a market and financial analysis to set realistic expectations for a community benefits program.**

Community benefits are highly market sensitive. A financial analysis should evaluate project-specific scenarios that assess the incremental added value that can be created with different development prototypes and construction types. These analyses are typically referred to as pro forma analyses. The full cost of development should be incorporated into the analysis, and development costs should reflect the specific city or region. Variables include current land value, construction unit costs, construction and long-term financing costs, labor costs, recent lease/sale data and local code and local ordinances (e.g. green building requirements.) The length and uncertainty of the entitlement process should also be factored into the analysis. All assumptions underlying the pro forma analysis should be transparent and clearly stated.

The findings will help determine the feasible level of contribution for community benefits. If set too high, a project will not proceed because it cannot “pencil out” or is not financially feasible. If set too low, the municipality may forgo an opportunity for more benefits. Finding the right balance or “sweet spot” can be challenging, as developers are usually guarded about sharing their project financials. A municipality should bring in a third party to conduct an independent financial analysis. This analysis should be done early in the planning process, such as for a specific plan, and can be recovered through a specific plan fee.

Both financial feasibility and market conditions should be considered when formulating a community benefits program. Project-based pro forma analyses are essential for determining the financial feasibility of different development scenarios. While a financial analysis might suggest the potential to capture community benefits, economic indicators must also be favorable for higher density development. Conversely, while a modest project might yield a comfortable ROI with lower investment risks, a favorable market might exist for a more intensive and innovative project.

A pro forma analysis may reveal that the ability to add value to a project is constrained and, thus, potential community benefits are limited. In response, a municipality could consider enhancing the project financials by offering fee reductions or deferrals or relaxing onsite requirements in exchange for

**Parking Reduction Strategies:**

- Shared Parking
- Unbundled parking
- Car share/bike share
- Parking pricing
- Employee cash out incentive
- Transit passes
- Bus shuttles
- Transportation management association
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community benefits. A cautionary note, however, is that these trade-offs should be carefully considered as they may not be viewed by the public as a net gain for the community.

6 **Integrate community benefits into zoning ordinances and develop implementation standards.**

This can avoid the need for a DA and streamline the development review process. A common approach is community benefits incentive zoning (CBIZ): a base level of development is defined where no community benefits are required other than non-discretionary impact fees and project mitigation measures; additionally, higher tiers of development up to a defined maximum are defined. Developers have the option of proposing a higher development density or FAR by taking advantage of a voluntary community benefits program. Since incentive zoning is market sensitive, setting the base zoning requires an understanding of the market dynamics for the planning area and possible project types. Economic consultants and real estate professionals can offer valuable insights for creating a CBIZ district.

![Community Benefit Tiers](image)

7 **Weigh the advantages and disadvantages of a standardized community benefits program versus a program with a flexible discretionary approach.**

The political and planning context varies among municipalities and influences the most feasible solution. Some situations may warrant a more standardized ministerial program, while other circumstances may suggest that a discretionary approach is more suitable. A pre-determined standardized approach provides greater certainty, consistency and transparency for developers when analyzing the potential financial return for different types of development; however, it provides less latitude for municipalities to tailor community benefits to specific projects. A discretionary approach provides municipalities with more room to negotiate and allows for unanticipated creative solutions to address community needs. The caution, however, is that this uncertainty could deter development, create inconsistencies or lengthen a project approval process. Community benefits programs vary widely among jurisdictions. Examples of different approaches include the following (refer to links at end of paper):

- **Berkeley** – streamlined development review process (“Green Pathway”) with provision of prescribed and extraordinary community benefits for downtown projects.
- **Culver City** – community benefits incentive zoning for mixed use development.
• **Redwood City** – a combination of approaches including zoning regulations, specific plan standards, and contributions to a Community Fund to support a program of community benefits that can change over the years.

• **Emeryville** – a development bonus (additional density, FAR or building height) is available by providing affordable housing and other community benefits through a prescribed point system.

• **San Diego** – community benefits set to a dollar amount per square foot of additional FAR; program applies to the North Park, Uptown, and Greater Golden Hill community plan areas.

• **Santa Monica** – tiered approach with greater FAR or height allowed with defined community benefits or subject to approval of a DA.

• **Sunnyvale** – blended menu approach: increase in FAR above baseline zoning allowed through “defined” benefits, with greater FAR increase allowed through “flexible” benefits.

### 8 Facilitating the development review process can be a viable method for incentivizing community benefits.

Added value is not achieved solely through the granting of higher development capacity. Time is money for developers, so if a city can expedite the approval of planning and/or building permits, this can yield a greater value capture and correspondingly more community benefits. The most streamlined development review process is typically a staff-level ministerial approval. Based on policy guidance, community benefits and the corresponding development increment could be standardized through a point system. Alternatively, a discretionary approach might require Planning Commission or City Council approval, which could lengthen the development review process. If the process is not timely, predictable or transparent, risk averse developers will be wary of participating in the program. Some developers have indicated that while increased certainty and clarity are desirable, “streamlined” procedures that still require discretionary review are not a sufficient incentive.

### 9 Streamlining the CEQA process can shorten project approval, provide greater certainty and potentially increase community benefits.

A strategy for streamlining the environmental review process for projects is to certify a program or plan level environmental impact report (Program EIR). Project level environmental reviews would tier off of this document. Applicable mitigation measures would already be identified in the Program EIR, and a focused environmental analysis would be limited to project-specific impacts that have not been previously addressed. The Program EIR should evaluate a level of development (with community benefits) that could be realized in the near-term, such as next 10-15 years, based on market forecasts. A Program EIR or Mitigated Negative Declaration supported by existing studies and environmental analysis can streamline the approval of projects and increase predictability, thus translating to potentially higher value capture and community benefits.
Identify desired outcomes and regularly monitor the success of a community benefits program.

Whether a municipality adopts a standardized or flexible approach, a community benefits program should be regularly evaluated to assess its success in achieving identified objectives. Criteria should be defined to measure the success of the program. A jurisdiction may find that sufficient or insufficient benefits have been realized for certain items, or community priorities have changed over time. Programs should also be adjusted as necessary to respond to shifting market cycles. More community benefits are possible when the economy and development climate are strong, while less community benefits are feasible when the economy weakens. Additionally, the effect of new or increased impact fees, regulations and mitigation measures should be assessed. An increase in these development costs can reduce the feasible contribution to community benefits.

Conclusion

Infill development, particularly higher density development, often faces a challenging public review process and intense public scrutiny. Common concerns are expressed about the impacts of these projects on quality of life, community facilities and the local street network. Typical methods for mitigating these impacts are often insufficient, limiting or complex to implement or are politically ineffective. This perceived impotency furthers the public’s frustration and adverse reaction to development. Carefully enacted community benefits programs that are vetted through healthy community dialogue can provide a constructive response. While not a complete solution, these programs can offer a meaningful method to address community needs and leverage enhanced public benefits from private development. The caveat is that economic indicators must be favorable, and some communities may find that current market conditions limit the feasibility of this approach. These programs should also be tailored to reflect the specific economic setting and values of each community. With the right conditions, community benefit programs supported by a solid policy and regulatory framework can be an effective and responsive community planning tool.
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7. City of Seattle  
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