

Development Impact Fee Waivers

CITY COUNCIL STUDY SESSION

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PLANNING AND ECONOMIC DEVELOPMENT

Issue

- Request from community to waive all development fees for a three-to-five-year period for Affordable Housing Projects
- An attempt to ease the financial burden of those projects and spur Affordable Housing development
- The request seeks to pay for the fee waiver by using excess reserves in the special revenue funds, specifically the Community Facilities Fee fund and Park Development Fee funds

Development Impact Fee Basics

- Development Impact Fees are charged to new developments to defray the cost of public facilities and improvements related to the new development.
- The most common fees: Capital Facilities Fees (CFF); Park Development Impact Fees; Water/Wastewater Demand Fees; Housing Impact Fees; and Commercial Linkage Fees

Development Impact Fee Study

Current CFF and Park fees are based on a nexus fee study adopted by the Council on May 22, 2018

- Study updated nexus analysis
- Create program guidance on the use of CFF
- Used a market-based development forecast over a reasonable planning horizon to address under funded capital plans
- Evaluated financial feasibility of implementing fee

Development Impact Fee Study

Eligible Use of CFF funds

- Capital projects only
- Specific infrastructure or facility types
- Upgrade or expansion only
- Developer reimbursement
- Fee administration

Fee Study Expenditure
Categories and Allocations

| | |
|-------------------------------|---------------|
| Roadways & Intersections | 62.8% |
| Transit, Bicycle & Pedestrian | 10.7% |
| Public Safety ¹ | 12.8% |
| Storm Drainage | 12.7% |
| Fee Administration | 1.0% |
| | |
| | 100.0% |

Development Impact Fee Study

Eligible Use of Park funds

- Park and recreation facilities only
- Upgrade or expansion only
- Developer reimbursement
- Fee administration

Fee Study Expenditure Categories

| |
|--------------------|
| Northwest Quadrant |
| Northeast Quadrant |
| Southwest Quadrant |
| Southeast Quadrant |

Development Impact Fee Study

Assembly Bill 602

After January 1, 2022, local agency conducting an impact fee must follow specific standards and practices:

1. Impact fee study must be adopted
2. Study must identify and justify level of service
3. Studies adopted after July 1, 2022 must calculate housing development fees proportionately to the square footage.
4. Studies should be updated every 8 years, from the period beginning on January 1, 2022

Impact Fee Study – Time of Payment

- Jurisdiction often collect at the time of building permit issuance
- Fee deferral – collection beyond published payment date
- CFF currently collected at time of final inspection
- Park fee collected at time of building permit issuance or deferred on “Incentive Eligible Projects” to close of escrow on permanent financing
- Affordable housing under contract with the City eligible for fee payment 2 years from published payment date.

Affordable Housing Types

- Deed restricted vs. affordable by design
- Inclusionary affordable housing
 - Residential or mixed-use development must pay housing impact fee or incorporate on-site allocated units with 55-year affordability agreement
 - Percentage of affordable units varies based on development type
- 100% affordable projects
 - All units under contract, excluding management units
 - Existing service fee reductions apply at 60% AMI
- Affordable by Design
 - Units are not subject to affordability agreement
 - Generally smaller units with lower construction costs

Process



Types of Projects

- CFF typically funds Road and Intersection, Bike and Pedestrian, Storm Drain, and Public Safety/Fire projects.
 - US-101 Bicycle/Pedestrian Overcrossing: \$2.5M over three years
 - Sonoma Avenue Rehabilitation between Farmers Avenue and Hahman Drive: \$1.8M over three years
 - Fountaingrove Parkway/Hopper Avenue Fire-Related Recovery Projects: \$2.6M over two years
 - Fire Station improvements (Training Center improvements, South Santa Rosa FS, Temporary Fire Station 5): \$3.9M over five years

Types of Projects

- Park Development Impact Fees are used to acquire and develop park land
- CFF is typically supplemental funding; Park Fees and Grants are typically sole funding for park development
 - Lower Colgan Creek Park: \$3.9M PDI allocated
 - Finley Aquatic Center: \$4M PDI allocated
 - Fremont Park: \$3.8M PDI allocated
 - Kawana Springs Park: \$5M PDI allocated

Reserves

- Some projects require multiple years to build enough funding for design and construction, resulting in increased reserves
- While reserves may grow over time, and have so in the last few years, the funds in those reserves are all assigned to specific projects
- Use of the reserves to offset a potential loss of revenue would require the City to eliminate and not proceed with the desired/needed improvements

Proposal

- To increase Affordable Housing production in the City, housing advocates have proposed the City waive all Development Impact Fees for a 3-5-year period on Affordable Housing projects serving residents at 120% AMI and below
- Recently, a “Right Size Impact Fee Policy” was shared with the City, which proposed to lower fees on certain Affordable Housing and Affordable by Design projects, but increase fees on single family residential developments to make budget neutral
- Staff has not had an opportunity to analyze this proposal

Staff Analysis

- Staff studied the impacts of lowering impact fees and found the following:
 - Waiving Water/Sewer fees would be problematic due to Prop 218
 - Waiving impact fees would cut off the revenue stream to pay for public infrastructure projects that are necessary because of the development
 - The revenue lost from this action could not be recovered – these are one-time revenues – and would severely impact the City’s ability to complete these projects
 - There are already funding shortfalls for many eligible projects

Impact Fees Collected From Affordable Housing Projects FY 2012 – FY 2022

- Chart shows that of the total Impact Fees collected, the amount that came from deed-restricted housing projects
- Over the last three years, 41% of Park Development Fees came from these Affordable Housing projects
- 35% of CFF came from these projects

| Fiscal Year | 100% Affordable Projects | | | | |
|--------------|--------------------------|------------------|------------|------------------|------------|
| | Total | PDF Collected | % of Total | CFF Collected | % of Total |
| FYE 2012 | 2,856,353 | | | | |
| FYE 2013 | 2,897,840 | 135,388 | 20% | 74,646 | 5% |
| FYE 2014 | 3,088,849 | | | | |
| FYE 2015 | 4,755,617 | 446,815 | 27% | 296,491 | 20% |
| FYE 2016 | 2,843,859 | | | | |
| FYE 2017 | 5,739,042 | 264,531 | 15% | 162,594 | 7% |
| FYE 2018 | 12,719,932 | | | | |
| FYE 2019 | 7,766,306 | | | | |
| FYE 2020 | 10,812,562 | | | | |
| FYE 2021 | 10,145,637 | 1,592,502 | 46% | 1,624,355 | 51% |
| FYE 2022 | 13,911,411 | 3,545,888 | 74% | 2,474,299 | 57% |
| FYE 2023 | 23,311,097 | 1,715,905 | 21% | 882,979 | 13% |
| | | | | | |
| Total | 100,848,504 | 7,701,029 | 23% | 5,515,364 | 16% |

Impact Fees vs Total Project Cost

- Affordable Housing Projects last 24 Months
- Total Development Cost was \$209,007,965
- Of the Impact Fees Paid:
 - CFF was 1.1% of total project cost
 - PDF paid was 1.8% of total project cost

| Completed Within Last 24 Months | | | | | CFF IMPACT FEES | PARK IMPACT FEES | TOTAL IMPACT FEE |
|---------------------------------|---|------------|-----------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | Project Name and Address | # of Units | # of Affordable | Development Cost | CFF Paid | Park Paid | Total Paid |
| 1 | St Vincent De Paul Commons 2400 Mendocino Ave | 51 | 50 | \$18,573,377 | \$124,067.35 | \$436,560.00 | \$560,627.35 |
| 2 | Laurel at Perennial Park Phase II (3575 Mendocino Phase II) | 38 | 37 | \$31,148,808 | \$225,302.00 | \$0.00 | \$225,302.00 |
| 3 | Stony Oaks Apts 2542 Old Stony Point Rd | 142 | 15 | unknown | \$841,918.00 | \$1,378,110.00 | \$2,220,028.00 |
| 4 | Laurel at Perennial Park Phase I (3575 Mendocino Phase I) | 94 | 93 | \$61,258,307 | \$841,918.00 | \$1,378,110.00 | \$2,220,028.00 |
| 5 | Caritas Homes Phase I 340 7th St | 64 | 63 | \$43,694,050 | \$0.00 | \$0.00 | \$0.00 |
| 6 | Orchard Commons (Boyd Street) | 46 | 45 | \$22,183,544 | \$302,518.32 | \$399,735.00 | \$702,253.32 |
| 7 | Linda Tunis Senior Apts 615 Acacia Ln | 26 | 25 | \$9,485,205 | | \$176,878.00 | \$176,878.00 |
| 8 | Sage Commons 80 College Ave | 54 | 8 | \$22,664,674 | \$5,567.80 | \$22,876.00 | \$28,443.80 |
| | Subtotal | 515 | 336 | \$ 209,007,965 | \$2,341,291.47 | \$3,792,269.00 | \$6,133,560.47 |

Summary

- The goal of the Council and housing advocates is to increase housing development in the City
- City currently incentivizes Affordable Housing production and housing development in general in the Downtown
- Reducing or waiving fee revenue would have a dramatic effect on the City's ability to build infrastructure projects necessary to serve the developments that are creating the impact
- There is no guarantee that additional incentives would increase the amount of Affordable Housing production in the City

Questions?
