

Development Impact Fee Review Study Session #2

The Economics of Land Use



presented to

City of Santa Rosa City Council

presented by

Walter Kieser

Economic & Planning Systems, Inc.

September 22, 2015

Oakland
Sacramento
Denver
Los Angeles

Economic & Planning Systems, Inc.

One Kaiser Plaza, Suite 1410, Oakland, CA 94612
510.841.9190 • www.epsys.com

Overview of Study Sessions

- **Study Session #1** – August 18, 2015
 - Development impact fee (DIF) basics
 - Development-related infrastructure needs
 - Review of existing fee programs
 - Development feasibility analysis
- **Study Session #2** – September 22, 2015
 - Staff summary of DIF Update scope and commercial linkage fees
 - Stakeholder and public comments
 - Obtain Council direction regarding:
 - Determining scope of impact fee program update
 - Deciding to commission a Commercial Linkage Fee Nexus Study

Development Impact Fee Update

Impact Fee Program Update -- Overview

- Impact fees provide an important source of funding for infrastructure needed to support new development in the City
- City has imposed fees under the current ordinances during the past 20 years
- Key impact fees have not been updated recently (should occur every five years)
- Meanwhile, substantial changes have occurred to factors affecting need for and calculation of development impact fees
- Fee Update will require preparation of a new “nexus study” that provides the technical basis of the fee schedules and updates program overall

Impact Fee Update – Scope of Update

1. Which fees should be updated?
2. Review of fee-funded capital projects
3. Evaluation of growth forecasts and development capacity
4. Consideration of the geographic coverage of the area fees and potential need for additional area fees
5. Fee fund accounting and administration
6. Economic considerations
7. Supplemental funding and related strategies

1. Fee Programs to be Updated

Fee	Improvements Funded	Update
Capital Facilities Fee	Roads, storm drains, public facilities	✓
Park Fees	Parkland acquisition and improvements	✓
Water Demand and Meter Fees	Water improvements	Updated 2014
Wastewater Demand	Wastewater improvements	Updated 2014
Inclusionary Housing In-lieu Fee	Affordable housing	Updated 2013
Southwest Area Impact Fee	Roads, storm drains, public facilities	✓
Southeast Area Impact Fee	Roads, storm drains, public facilities	✓
Public Art in Private Development Fee	Public art	

2. Capital Projects Funded

- Current infrastructure schedules (project lists) require updating to reflect completed projects and current cost estimates and the expected need for the project.
- In addition to the existing fee programs, there are identified infrastructure needs for the specific plan areas that require further evaluation and possible addition to Citywide or area fee infrastructure schedules
- As part of this effort it will be important to establish nexus of each infrastructure item to new development and also the priority of need given expected development patterns

Current Fee Program Cost Estimates

Fee Program	Fees collected 1995 - FYE 2014	Estimate of Remaining/Future Cost of Fee-funded Infrastructure	Notes
Citywide Fee Programs			
Capital Facilities Fee	\$42,506,954	\$365,400,000	Portion of these costs require Citywide funding
Park Development and Acquisition Fee	\$36,522,450	\$350,000,000	These parks mostly require Citywide funding because proposed parks improve service standard generally
Sub-total	\$79,029,404	\$715,400,000	
Area-Specific Fee Programs			
Southwest Area Development Impact Fee	\$18,781,585	\$109,600,000	Most costs are "new devleopment share"
Southeast Area Development Impact Fee	\$5,313,426	\$16,700,000	Most costs are "new devleopment share"
Downtown Station Area Specific Plan		\$49,800,000	Portion of costs require Citywide funding
North Station Area Specific Plan		\$45,543,000	Portion of costs require Citywide funding
Roseland Specific Plan		\$77,000,000	Most of these costs are related to existing deficiencies and thus will be Citywide costs
Sub-total	\$24,095,011	\$298,643,000	
	\$103,124,415	\$1,014,043,000	

3. Growth Trends and Forecasting

- Future growth in the City will determine both the need for infrastructure and the actual fee revenue
- Current forecasts (ABAG, etc.) may overstate rate of development in the City (new housing starts and commercial development)
- A market-based development forecast should be prepared as a basis of fee revenue forecasting
- Review of forecasts should evaluate development capacity in the City (specific plan areas and elsewhere) and how this capacity can be made more ready for development

4. Geographic Coverage of Impact Fees

- Impact fees under consideration include the Citywide Capital Facilities Fee and “quadrant-based” Park Development Fee, and the two existing “area” fees for Southwest and Southeast Santa Rosa, respectively
- There may be the need for new “area” fees for the Northwest and Northeast quadrants of the City (that would include the specific plan areas)
- The infrastructure improvements in the area fees should include only those items that predominately serve development in the respective area
- Potential for merging area fees into Citywide fee programs

5. Fee Accounting and Administration

- Impact fees derived from the respective fee programs should be placed in corresponding restricted accounts that can be drawn upon for any listed infrastructure project or project that would otherwise qualify for fee funding
- Fee programs and related infrastructure improvements could be integrated into the City's Capital Improvement Program, improving efficiency
- Council should receive substantive annual reports on the status and accomplishments of each fee program
- An interdepartmental committee should oversee and administer the fee programs

6. Economic Considerations

- Preliminary estimates suggest that fee revenues will not be adequate to cover costs of infrastructure included in existing fee programs
- Given expected nexus-based cost allocations, a substantial cost burden will fall on the City (not new development) for its share of infrastructure costs needed to improve service standards (e.g., parks) and address existing deficiencies
- Preliminary estimates suggest that new development will not be capable of absorbing substantially higher impact fees
- Targeted community development and economic development efforts will be needed to stimulate housing production

Economic Considerations – Other City Fees (Single Family)

Prototype: Single Family

2,000 sq.ft.

3 bedrooms

\$500,000 market value

\$300,000 construction value

Impact Fee	<u>Santa Rosa [1]</u> Low to High	<u>Sonoma County [2]</u> Low to High	<u>Rohnert Park [3]</u> Low to High
Traffic Mitigation Fee		\$6,969	
Public Facilities Fees	\$5,837		
Park and Open Space Fees	\$8,580 to \$10,352	\$3,678	
Water and Wastewater Fees	\$12,889	\$6,000 to \$22,801	\$2,040 \$2,040
School District	\$5,760 to \$5,958	\$5,000 to \$8,000	
Housing Impact Fee	\$12,500	\$14,059	
General Plan Amendment Fee			
Urban Design			
Area Specific Fees	\$0 to \$16,143		\$0 to \$30,940
Storm Drain Impact Fee			
Electrical Development			
Fire System Development			
Total	\$45,566 to \$63,679	\$35,706 to \$55,507	\$2,040 to \$32,980

Source: City of Santa Rosa, Rohnert Park, Petaluma, Fairfield, and Healdsburg; County of Sonoma

Economic Considerations – Other City Fees (Single Family Cont.)

Prototype: Single Family

2,000 sq.ft.

3 bedrooms

\$500,000 market value

\$300,000 construction value

Impact Fee	Petaluma [4] Low to High	Fairfield [5] Low to High	Healdsburg [6] Low to High
Traffic Mitigation Fee	\$18,944	\$5,039	\$2,991
Public Facilities Fees	\$5,680	\$12,800	
Park and Open Space Fees	\$7,582	\$3,350 to \$6,023	\$2,057
Water and Wastewater Fees	\$11,231	\$12,505	\$21,455
School District		\$7,980 to \$10,380	\$5,940 to \$10,500
Housing Impact Fee			
General Plan Amendment Fee		\$89	
Urban Design		\$272	
Area Specific Fees	\$0 to \$1,063		
Storm Drain Impact Fee			\$3,222
Electrical Development			\$975 to \$2,925
Fire System Development			\$193
Total	\$43,437 to \$44,499	\$42,035 to \$47,108	\$36,833 to \$43,343

Source: City of Santa Rosa, Rohnert Park, Petaluma, Fairfield, and Healdsburg; County of Sonoma

Economic Considerations – Other City Fees (Multifamily)

Prototype: Multifamily

43.6 units
1,000 sq.ft.
2 bedrooms
\$300,000 market value
\$180,000 construction value

Impact Fee	Santa Rosa [1]	Sonoma County [2]	Rohnert Park [3]
	Low to High	Low to High	Low to High
Traffic Mitigation Fee		\$6,969	
Public Facilities Fee	\$3,961		\$0 to \$19,081
Park and Open Space Fee	\$6,310 to \$7,612	\$3,678	
Water and Wastewater Fees	\$1,227		\$1,625
School District		\$4,000 to \$7,000	
Housing Impact Fee	\$2,745	\$2,163	
General Plan Amendment Fee			
Urban Design			
Area Specific Fee	\$0 to \$10,873		\$0 to \$19,081
Storm Drain Impact Fee			
Electrical Development			
Fire System Development			
Total/Unit	\$14,243 to \$26,418	\$16,810 to \$19,810	\$1,625 to \$39,787

Source: City of Santa Rosa, Rohnert Park, Petaluma, Fairfield, and Healdsburg; County of Sonoma

Economic Considerations – Other City Fees (Multifamily Cont.)

Prototype: Multifamily

43.6 units

1,000 sq.ft.

2 bedrooms

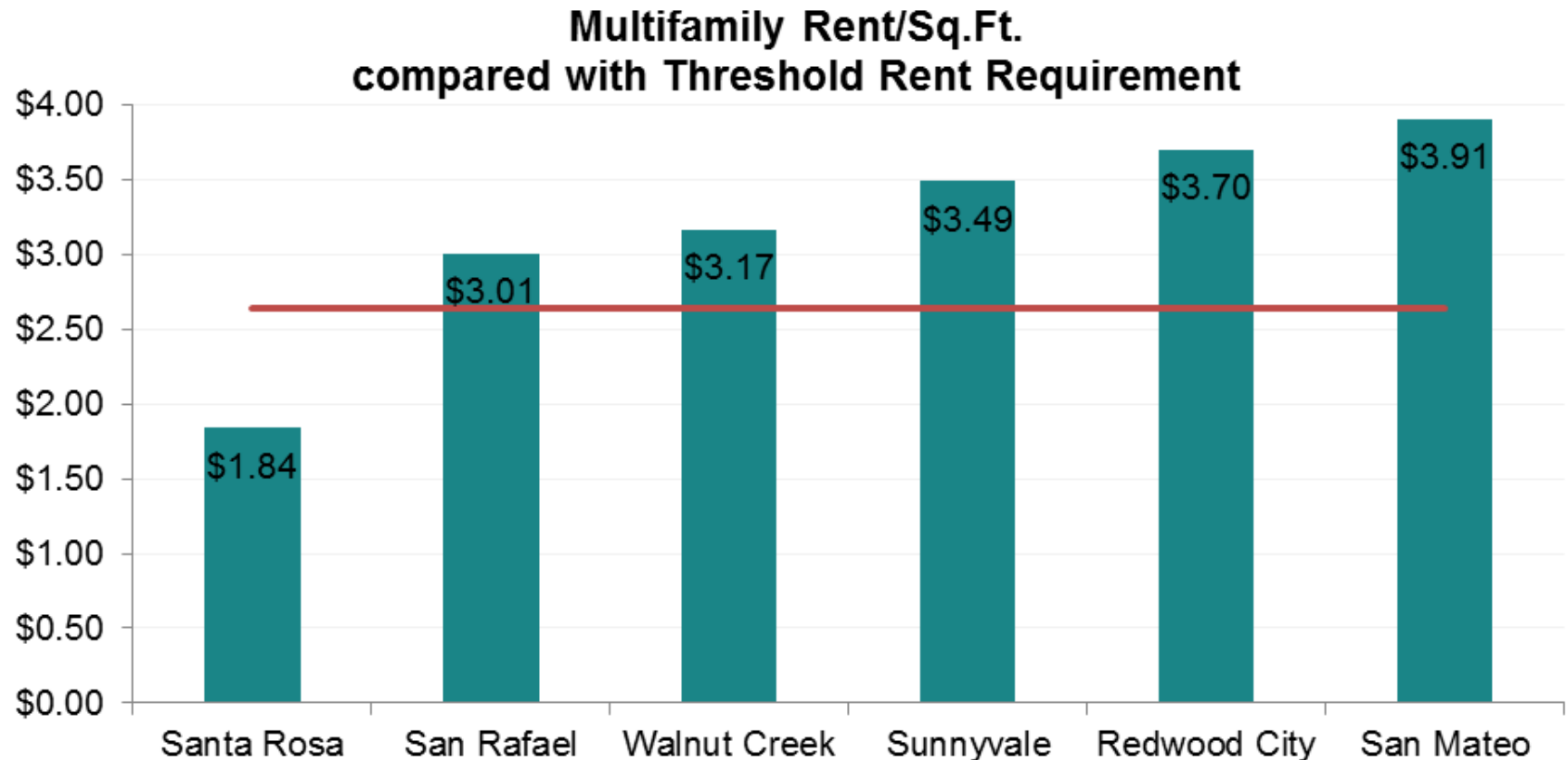
\$300,000 market value

\$180,000 construction value

Impact Fee	Petaluma [4] Low to High	Fairfield [5] Low to High	Healdsburg [6] Low to High
Traffic Mitigation Fee	\$11,559	\$3,310	\$2,991
Public Facilities Fee	\$3,824	\$9,772	
Park and Open Space Fee	\$16,517	\$1,338 to \$4,516	\$2,057
Water and Wastewater Fees	\$8,678	\$7,322	
School District		\$2,638 to \$9,367	\$2,970 to \$5,250
Housing Impact Fee	\$3,951		
General Plan Amendment Fee		\$45	
Urban Design		\$137	
Area Specific Fee	\$0 to \$2,125		
Storm Drain Impact Fee			\$1,320
Electrical Development			\$780
Fire System Development			\$193
Total/Unit	\$44,529 to \$46,654	\$24,562 to \$34,469	\$10,311 to \$12,591

Source: City of Santa Rosa, Rohnert Park, Petaluma, Fairfield, and Healdsburg; County of Sonoma

Economic Consideration – Construction Thresholds



Sources: CoStar, 2015; RS Means; Economic & Planning Systems, Inc.

Economic Consideration – Construction Thresholds

- Construction costs (for similar building types) do not vary significantly throughout the Bay Area but rents do vary substantially reflecting local market conditions
- “Threshold rent” for new multifamily construction estimated to be approximately \$2.60 per square foot to cover costs of creating building
- Cost factors include land and construction costs and vacancy rates, operating expenses, replacement reserves, marketing and commission expenses, and capitalization rates
- Santa Rosa average rents are below this Threshold

7. Funding Strategy & Supplemental Funding

- Preliminary estimates suggest that impact fee funding may not be sufficient to meet new development infrastructure needs as currently defined
- Refining project lists and cost estimates and prioritizing infrastructure items will help balance costs and revenues
- Innovative strategies will be needed to keep impact fee levels within reasonable burden limits and thus promote market rate and affordable housing production
- New Citywide funding sources should be sought as part to meet Citywide share of infrastructure costs and to promote economic development

Commercial Linkage Fee

Commercial Linkage Fee -- Definition

- Commercial linkage fee is based on the logic that new employment increases demand for affordably-priced housing
- A “nexus study” is needed to demonstrate this relationship and to establish a fee on new commercial floor space
- Commercial linkage fees are often adopted in concert with inclusionary housing in-lieu fees to provide a source of funding for subsidizing affordable housing
- Fees charged are typically well-below the technical justified amount

Commercial Linkage Fee -- Background

- Santa Rosa originally co-sponsored preparation of “Sonoma County Workforce Housing Study” in 2002
- The *Workforce Housing Study* provided a comprehensive “nexus analysis” for the levy of a commercial linkage fee by Sonoma County Cities
- Santa Rosa chose not to adopt the fee at that time
- Four other Sonoma County cities and the County adopted commercial linkage fees
- Relatively limited commercial construction throughout the County (due to the Recession, oversupply, and other factors) has resulted in limited linkage fee revenues overall

Commercial Linkage Fee -- Issues

- Current market conditions and trends suggest that there will not be significant commercial construction in the near term
- A commercial linkage fee would add to the cost of commercial development in Santa Rosa perhaps deterring desired commercial development
- Given the limited amount of construction expected, a commercial linkage fee would not produce substantial revenue for the City
- In the longer term, as market conditions improve and if fees (in aggregate) are held to reasonable levels, a commercial linkage fee would contribute to needed affordable housing funding

Commercial Linkage Fees in Sonoma County

Jurisdiction	Fee per Square Foot by Land Use		
	Commercial	Retail	Industrial
County	\$2.60	\$4.49	\$2.68
Petaluma	\$2.19	\$3.78	\$2.26
Rohnert Park	\$2.08	\$3.59	\$2.15
Cotati	\$2.08	\$3.59	\$2.15
Sepastopol	\$2.08	\$3.59	\$2.15

Stakeholder and Public Comments

Council Direction

Council Direction

1. Determine the scope of the Development Impact Fee Update and provide related guidance regarding related items
2. Decide whether to authorize preparation of Commercial Linkage Fee Nexus Study