Agenda Item #15.3
For Council Meeting of: May 22, 2018

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL

FROM: DAVID GUHIN, ASSISTANT CITY MANAGER/DIRECTOR PLANNING AND ECONOMIC DEVELOPMENT

SUBJECT: ADOPTION OF IMPACT FEE PROGRAM UPDATE REPORT, INTRODUCTION OF ORDINANCES AMENDING THE CITY CODE PERTAINING TO CAPITAL FACILITIES FEES (CFF) AND PARK IMPACT FEES, AND REPEALING THE SOUTHWEST AREA DEVELOPMENT IMPACT FEES (SWADIF) AND SOUTHEAST AREA DEVELOPMENT IMPACT FEES (SEADIF), ADOPTION OF REVISED CFF AND PARK FEES, AND ADOPTION OF REVISED COUNCIL POLICY FOR CFF CREDIT/REIMBURSEMENT

AGENDA ACTION: MOTION, RESOLUTIONS AND ORDINANCE

RECOMMENDATION

It is recommended by the Planning & Economic Development, Transportation & Public Works, and Recreation & Parks Departments that the Council, 1) adopt, by motion, the Impact Fee Program Update Report, 2) introduce two ordinances, one to amend City Code Sections pertaining to the Capital Facilities Fee (C FF) (Chapter 21-04), and repealing the Southwest Area Development Impact Fee (SWADIF) and Southeast Area Development Impact Fee (SEADIF), the other to amend City Code Sections pertaining to the Park Impact Fee (Chapter 19-70), 3) adopt, by two resolutions, revised CFF and Park Fees, and 4) adopt, by resolution, a revised Council policy for CFF credit/reimbursement.

EXECUTIVE SUMMARY

Development impact fees provide a mechanism for new development projects to contribute financially to the one-time cost of improving and expanding the public infrastructure and facilities needed to accommodate that development. Impact fees are commonly used by local agencies throughout California and in many other states as one of many funding sources for capital improvement programs. Fees are a one-time, non-recurring revenue source paid at the start of a development project, typically at building permit issuance. Since the mid -1990's, impact fees have been adopted by the City of Santa Rosa (City) to finance the City's infrastructure needs. The last update to these fees occurred between 2002 and 2005. Commencing in 2016, a study was conducted to analyze the development needs and impact fees for the following areas:

- Capital Facilities Fee (CFF)
- Southwest Area Development Impact Fee (SWADIF)
- Southeast Area Development Impact Fee (SEADIF)
- Park Impact Fee

In addition, studies are underway to assess the housing impact fee that is imposed on market-rate residential development to support affordable housing projects. Staff is also in the process of examining a potential commercial linkage fee that would be imposed on nonresidential development only, complementing the housing impact fee as a funding source for affordable housing. The housing fee will not be considered as part of this Council item.

The City retained a fee consultant, Urban Economics, to conduct a study of the City's current development impact fee program and public infrastructure needs and to prepare a report. The City of Santa Rosa Impact Fee Program Update, February 2018, explains the methodology that establishes a reasonable relationship between new development and the need for and use of impact fees, also known as a "nexus analysis". Based on the nexus analysis, the report presents a schedule of maximum justified fees by land use category. The City may adopt fees up to the maximum amount for each land use category. The report also includes a financial feasibility analysis that examines the potential impact of proposed impact fees, and fee increases, based upon prototype development projects. The report further recommends revisions to sections of the City Code consistent with the report and proposed changes to the fees. Due to the fire disaster, staff and Urban Economics have been delayed with bringing forward the report to City Council for adoption.

BACKGROUND

In FY 2016-17, the City contracted with the consultant group, Urban Economics, to conduct a comprehensive review of the current impact fee program, and update the program based on current development forecasts and public facility needs. The study had the following objectives related to challenges faced by the City's current impact fee program:

1. **Update nexus analyses:** A comprehensive program study and nexus analyses for the CFF, SWADIF, SEADIF, and Park Impact fees have not been completed for over 20 years. Lists of capital projects and their estimated costs have been updated over time but the underlying justification for each fee has remained unchanged. The study updates the nexus approach to reflect best practices while supporting the City's policy objectives.

2. **Increase flexibility on use of revenues citywide:** The SWADIF, SEADIF, and Park Impact fees have requirements to spend revenues in specific geographic areas that constrain the ability to address citywide needs. When these programs

were created, the City was expanding geographically into new areas, and this approach made sense to isolate capital improvement needs and funding to sub-areas. The City is now more highly developed and urbanized, with more infill development, affecting the types and locations of facilities needed to serve future growth, and calling for a citywide approach.

3. **Use a market-based development forecast over a reasonable planning horizon to address underfunded capital plans:** The CFF, SWADIF, and SEADIF are based on capital facilities needs for buildout of the City's 2009 General Plan. A recent fee program review found that fee revenue is sufficient to fund only 50 percent of estimated costs, and adequate non-fee revenues have not been identified throughout the program's history. The combined result is a capital project list that is both too extensive to guide near-term expenditure priorities, and too expensive to fund within a reasonable planning horizon.

   Rather than buildout, the program update uses a market-based development forecast for a 24-year planning horizon to identify capital facility needs and estimate fee revenues. The study uses the associated estimate of fee revenues to focus the capital project list on short to medium term needs, and identifies realistic alternative revenue sources to cover funding gaps.

4. **Evaluate Financial Feasibility:** High construction costs, limited land supply, and long entitlement processes are inhibiting real estate market investment. Any increases in the level of exactions imposed by the City on development projects, such as higher impact fees, needs to be considered in this context. The study includes a financial feasibility analysis that examines recommended fee levels, and evaluates potential impacts on development projects under current market conditions.

PRIOR CITY COUNCIL REVIEW

The last update of these impact fees occurred between 2002 and 2005, though the focus was on capital project lists and included little change in policy and underlying approaches. Fee program reviews occurred in 2008 and most recently in 2015, though no substantive changes were made to the program.

ANALYSIS

Working closely with City staff through a cross-departmental steering committee, including the Planning & Economic Development, City Attorney's Office, Fire, Police, Recreation & Parks, and Transportation and Public Works, the Urban Economics team conducted extensive data analysis and developed preliminary recommendations. These recommendations were communicated in a workshop with development industry representatives in July 2017, and comments were integrated into the attached *Impact Fee Program Update Draft Report*. This update proposes revisions to implementing ordinances and resolutions to support the study's objectives and recommendations.

1. Capital Improvement Funding

Southwest Area Development Impact Fee (SWADIF) and Southeast Area Development Impact Fee (SEADIF)

The SWADIF and SEADIF are sub-area fees that currently fund transportation and utility infrastructure, as well as fire and library facilities. Each fee is only collected within a sub-area (the southwest and southeast quadrants of the city, respectively). Fee revenues can only be spent within the sub-area in which the fee is collected. This report recommends the repeal of SWADIF and SEADIF, as indicated below.

- Terminate the SWADIF and SEADIF programs and eliminate these two fees, and instead, focus on a single capital facilities fee city-wide.

Capital Facilities Fee (CFF)

The purpose of the CFF is to fund capital improvements to accommodate the impact of new development on transportation, public safety, library, and storm drain facilities and infrastructure. The CFF may also fund capital improvements to accommodate the impact of new development on city administration, planning and economic development, and public works (excluding infrastructure funded by the City's park impact fee and water and wastewater fees). This report recommends the following changes to the CFF, which will require an amendment to the City Code, Chapter 21-04.

- Instead of a nexus approach based on the cost of a specific list of capital projects, calculate the maximum justified fee sufficient to maintain existing city facility standards. The advantages of this approach allow the City:
  - To adapt the capital project list over time to changing facility needs, and
  - To adopt fees at a level up to the maximum justified amount that reflects development financial feasibility under current market conditions.
- Take a revenue neutral approach by increasing the CFF to replace revenue that the SWADIF and SEADIF would have generated.

This impact fee program update included substantial effort to develop a long-range capital improvement plan that both (1) maintains levels of service as growth occurs through the 2040 planning horizon, and (2) can reasonably be implemented given proposed fee levels and other anticipated funding. Project lists are in Appendix A of the study (Attachment 1).

Further proposed changes include revisions to the fee credit and reimbursement program that would be adopted by Council policy revision. This proposes to allow CFF credits and reimbursements that meet certain criteria only as determined by the Director of Transportation & Public Works to assure consistency with the City's Capital Improvement Program needs and goals. The Director's decision could be appealed to the Council.

2. Park Impact Fee Funding

The purpose of the Park Impact Fee is to fund parkland acquisition and development of park and recreation facilities to accommodate the impact of new development on neighborhood and community parks. The City currently imposes slightly different fees across four fee zones within the city. This report recommends the following changes to the Park Impact Fee, which will require an amendment to the City Code, Chapter 19-70.

- Simplify the relationship between the Park Impact Fee and the park land dedication in-lieu fee by adopting a single impact fee that funds park land acquisition and development, and provide a credit against the impact fee for park land dedication.
- Fee levels across all four zones are currently relatively close to one another. Simplify the program for developers and City staff by applying the same fee in every zone. The approach is revenue neutral (raising the fee in some zones and lowering it in others).
- Increase flexibility on the use of funds by increasing from one-third to one-half the share of revenue that can be expended on park projects outside the zone in which the revenue was generated.

3. Financial Feasibility Analysis

The study analyzed the financial feasibility, or the “return on cost” (total revenue we expect to receive calculated by dividing developer profit by total development cost), of the potential changes to the fee levels by comparing different scenarios to current market conditions. The forecasts reflect recent trends, market information, and interviews with local developers and brokers, and include the Roseland annexation area. Three scenarios were tested:

- **Scenario 1:** Maintain the CFF and park impact fee at existing levels and terminate the SWADIF and SEADIF.
- **Scenario 2 (proposed):** Increase the CFF to replace revenue lost by terminating the SWADIF and SEADIF and equalize the park impact fee across all four zones (quadrants) for residential uses.
- **Scenario 3**: Assume a fee increase equal to 30 percent of proposed combined scenario 2 CFF and park impact fee levels. The fee increase could apply to any existing or new impact fee (not necessarily the CFF or park impact fee).

These scenarios were then tested against six prototype development projects, three residential and three nonresidential located in the northwest quadrant. The study estimated project costs and revenues and compared the return on investment to the threshold level necessary to attract private capital. To evaluate financial feasibility of potential changes in fee levels, the study estimated the change in development costs and the consequent impact on financial feasibility. If a fee increase would cause financial feasibility to fall below a certain threshold, then the City would be less likely to be able to attract real estate investment. The proposed fee schedule is estimated to be revenue neutral over the 24-year planning horizon of the study.

The results of the financial feasibility analysis indicate that:

- Three prototypes (apartment, retail/restaurant and business park/light industrial) are marginal even under existing conditions (scenario 1).
- All six prototypes remain financially feasible under the proposed fees, though in many cases development is marginally justified (return on investment within one percent of the feasibility threshold).
- Prototypes reflect fee levels in the Northwest quadrant, so results do not reflect the significant fee decrease from the termination of the SWADIF and SEADIF in the southern parts of the City under all scenarios (see Table E.2).
- The City should approach with caution any further increase in impact fees, and consider phasing any increase in over time, to avoid negatively affecting levels of real estate investment.

4. Key Study Recommendations

    - SWADIF and SEADIF repealed, with adjustments to CFF for a single, city-wide fee using a revenue-neutral approach
    - Added flexibility to Park Impact Fees to fund citywide projects and equalize park fees across all four quadrants
    - Maintain total fees levels within thresholds of economic feasibility for development projects

FISCAL IMPACT

There is no fiscal impact to the General Fund as the proposed fee schedule is estimated to be revenue neutral as compared to current fee revenues over the 24-year planning horizon of the study.

ENVIRONMENTAL IMPACT

The proposed change in impact fees is exempt from the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Sections 15061(b)(3) (activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15378(b)(4) (government funding mechanism is not a project; and 15273(a)(4) (fee increase is for the purpose of obtaining funds for capital projects necessary to maintain service within existing service areas) and Public Resources Code section 21080(b)(8)).

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

None.

NOTIFICATION

None.

ISSUES

None.

ATTACHMENTS

- Attachment 1 – Urban Economics, City of Santa Rosa, Impact Fee Program Update, Draft Report, February 2018.
- Attachment 2 – City and School Impact Fees
- Attachment 3- Council Policy 200-22 revised (red-lined)
- Resolution 1 – Capital Facilities Fees, Southwest Area Development Impact Fees, and Southeast Area Development Impact Fees
- Resolution 2 – Park Fees
- Resolution 3 – Credit and Reimbursement Council Policy
- Exhibit A – Council Policy 200-22 revised
- Ordinance 1 – Capital Facilities Fees, Southwest Area Development Impact Fees, and Southeast Area Development Impact Fees
- Ordinance 2 – Park Fees

CONTACT

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