

TO: James L. App, City Manager
FROM: Ron Whisenand, Community Development Director
SUBJECT: Development Impact Fees
DATE: February 1, 2011

Needs: For the City Council to set the priorities of an ad hoc committee formed to review capital facility needs, and reconsider temporarily reducing development impact fees.

Facts:

1. The General Plan and Council goals establish public facility standards, objectives, and requirements to offset the impacts of, and serve, development.
2. The development impact fee program documents public facilities needed to serve the community. The facilities Needs List is based upon General Plan standards, infrastructure master plans, environmental analysis, and Council goals. It also establishes costs for needed facilities.
3. Development's impacts may be offset by payment of impact fees that fund a proportionate share of the costs for needed public facilities.
4. A comprehensive update of the development impact fee program is underway. On December 7, 2010, the Council formed an AB 1600 ad hoc committee to study policies associated with the program, facility needs, and identify possible modifications.
5. On December 7, 2010, the council rejected a proposal to temporarily reduce development impact fees, however, at their meeting of December 21, 2010, the Council requested reconsideration of a temporary impact fee reduction.

**Analysis &
Conclusion:**

Priorities for the ad hoc committee may be set and considered prior to discussion and adoption of the Circulation Element of the General Plan. Transportation issues aside, the ad hoc committee should carefully consider the current Needs List with respect to discretionary standards and goals involving:

- Government facilities
- Open space and parkland
- The storm drain master plan
- The bikeway master plan

Additionally, the Council requested another discussion of a temporary reduction of development impact fees under the premise that permit cost relief may spur construction, and that construction activity will translate to local jobs and retail commerce.

While fee relief is intended to benefit the local economy, there is no assurance that local taxpayers would receive the hoped-for benefits. Builders would have to guarantee that all construction jobs would be filled with Paso Robles, and all building materials purchased from Paso Robles vendors. If such guarantees could be enforced, then one could argue a Paso Robles benefit (although it is not known whether any local benefit would offset the amount of fee relief granted). Unfortunately, the City cannot require local hiring or purchasing, so no means is available to assure a local benefit.

Regardless, should development impact fee relief be considered, the City Council had previously excluded water and sewer connection fees, as well as transportation impact fees. The transportation fee exclusion is essential because those fees are in direct response to required mitigations of traffic impacts associated with new development. The entitlements associated with new development are predicated upon mitigation of traffic impacts.

NOTE:

Non-residential development project impacts are predominantly transportation, so a temporary reduction excluding transportation fees would have little impact on the cost of those permits. It is therefore recommended that a waiver or reduction, if any, be limited to residential permits where fees are calculated on a per unit basis.

Policy

Reference: 2003 General Plan (G.P.); 2006 Economic Strategy (E.S.); and 2009 City Council Goals (C.G.); Government Code section 66000 *et seq.*

- *"Strive to ensure that City services and facilities are maintained at current levels and/or in accordance with adopted standards". (G. P.-Goal 4)*
- *". . . should be evaluated on . . . long-term benefits and impact on the whole community, not on short-term job or revenue increases. Public investment should be equitable and targeted, support environmental and social goals, and prioritize infrastructure and supportive services that promote the vitality of all local enterprises instead of individual firms." (Economic Strategy)*
- *"Requiring new development to mitigate a fair share of the impact created by the development." (G.P.-Policy CE-1Aj)*
- *"Use development impact fees to fund any needed improvements. (G.P.-Action Item No. 9)*
- *"Establish stable long-term funding for infrastructure." (Economic Strategy)*
- *"Maintain fiscal neutrality and stability" (Council Goals)*
- *"Live within our means" (Council Goals)*

Fiscal**Impact:**

Development impact fees aid in offsetting the infrastructure impacts of new development. Failure to collect adopted fees will diminish funds needed to build infrastructure. Consequently, needed infrastructure will not be built and/or subsidized by the general public.

Impact fee waiver would cost \$10,634 per residential unit (based on single-family units on the east side of the City). Loss of impact fee revenue will undermine fund balances for parks, government facilities, library, police equipment and emergency services facilities. These facilities have no alternative source of revenue (outside the General Fund).

Regardless, if a fee waiver is offered with the objective of spurring new construction then units already under construction should not be included (there are more than 100 units currently under construction). Additionally, a very short-term (3-month) and limited (25 unit) trial effort could be developed so that local job and commerce stimulus could be evaluated before extending waivers for more units

Options:

- a. Reaffirm Council's rejection of a temporary fee reduction and direct the ad hoc committee to begin its work with a report of progress by April 5, 2011.
- b.
 - 1) Request staff to bring back a resolution providing for a temporary reduction in development impact fees based upon certain parameters.
 - 2) Request a report of progress from the ad hoc committee by April 5, 2011.
- c. Amend, modify or reject the above option.

Attachments:

Current Development Impact Fees (by Category)

Exhibit "A" - Resolution 09-131 **Development Impact Fees Summary** **July 1, 2010**

Construction Type	Transportation	Westside Drainage	Bike and Pedestrian Path	Police	Fire	General Governmental	Park and Recreation	Library	Total
Single Family - East Side of Salinas River	\$9,472	No Fee	\$547	\$71	\$848	\$4,004	\$4,058	\$1,106	\$20,106
Single Family - West Side of Salinas River	\$4,715	\$1,936	\$547	\$71	\$848	\$4,004	\$4,058	\$1,106	\$17,285
Multiple Family - East Side of Salinas	\$7,577	No Fee	\$480	\$83	\$742	\$3,507	\$3,554	\$971	\$16,914
Multiple Family - West Side of Salinas	\$3,773	\$954	\$480	\$83	\$742	\$3,507	\$3,554	\$971	\$14,064
Assisted Living Units - East Side of Salinas	\$2,122	No Fee	No Fee	\$84	\$12,192	\$3,560	No Fee	No Fee	\$17,958
Assisted Living Units - West Side of Salinas River	\$1,154	\$968	No Fee	\$84	\$12,192	\$3,560	No Fee	No Fee	\$17,958
Commercial Lodging Motel/Hotel - East Side of Salinas	\$2,476	No Fee	No Fee	\$84	\$399	\$83	No Fee	No Fee	\$3,042
Commercial Lodging Motel/Hotel - West Side of Salinas River	\$2,476	No Fee	No Fee	\$84	\$399	\$83	No Fee	No Fee	\$3,042
Parks & Campgrounds - East Side of Salinas	\$2,065	No Fee	No Fee	\$84	\$399	\$83	No Fee	No Fee	\$2,631
RV Parks & Campgrounds - West Side of Salinas River	\$2,065	No Fee	No Fee	\$84	\$399	\$83	No Fee	No Fee	\$2,631
Commercial per sq. ft. - East Side of Salinas	\$7.96	No Fee	NA	\$0.05	\$0.53	\$0.41	NA	NA	\$8.95
Commercial per sq. ft. - West Side of Salinas River	\$6.64	\$1.32	NA	\$0.05	\$0.53	\$0.41	NA	NA	\$8.95
Industrial per sq. ft. - East Side of Salinas	\$4.00	No Fee	NA	\$0.02	\$0.05	\$0.12	NA	NA	\$4.19
Industrial per sq. ft. - West Side of Salinas River	\$3.13	\$0.87	NA	\$0.02	\$0.05	\$0.12	NA	NA	\$4.19

NOTES:

Multiple Family includes Condominium, Duplex, and Mobile Homes

The following uses are allowed in commercial zones under Conditional Use Permits.

Buildings constructed for these uses shall be considered Industrial for the purposes of Development Impact Fees.

Recycling
Wholesale and Storage
Mini-Storage
Warehousing
Manufacturing and Processing, including:
Apparel, Chemical Products, Electrical Equipment, Food and Kindred Products, Furniture and Fixtures,
Glass Products, Cabinet Shops, Prefabricated Walls and Tussets, Machinery, Metal Fabrication, Mobile Home Manufacturing
Paper Products, Plastics, Fiberglass, Rubber, Jewelry, Stone, Structural Clay and Pottery, Testing Laboratories

Increase for ENR July 2010

1.50%

February 1, 2011
Ad-Hoc Committee Interim Report

RE: Development Impact Fees - AB 1600

Background: The City Council established an Ad-Hoc Committee (Strong and Gilman) to evaluate, and recommend, possible modifications to the Development Impact Fee program for new construction. The Ad-Hoc has met; discussing several possible approaches to further City Capital Improvement needs and possible construction cost relief.

2006 : Paso Robles adopts the “ Taussig Report” , per AB 1600, to establish Impact Fees for new construction. The adopted fees were organized into seven general categories:

A. Transportation (East and West of Hwy 101, separately)

B. Drainage (Westside only)

C. Bike and Pedestrian Path Facilities

D. Public Safety Facilities

E. General Government Services Facilities

F. Park and Recreation Facilities

G. Library Facilities

2010 : These fees were modified by elimination of funding for a Performing Arts Center and an Aquatic Facility, from Categories “E” and “F” respectively.

2011 (?) : With adoption of the new “Traffic Circulation Element” a new AB 1600 Study will be required. The Transportation Improvement costs from 2006 will need to be revised to reflect the proposed new Transportation Improvements. At this time City Management and Department Heads will be updating, and re-estimating costs of the Categories “B thru G”, from 2006. This will be a major project, optimistically timed for 2012. With this review new impact costs and AB 1600 fees can be established.

Current; Construction activity, especially new single family residential, has dwindled since the 2008 “Asset Bubble” collapse. A significant portion of the work force has faced limited, if any, employment opportunities. Material suppliers have seen major losses of sales. The City of Paso Robles has suffered significant reductions in permit fees, water and sewer connection fees, as well as Development Impact fees. Any reasonable mitigations of this financial situation should be explored.

Proposals: The Ad-Hoc Committee has identified three options which may help mitigate the lack of construction activity, and the loss of City revenue. The committee looks to the Council as a whole for discussion and direction on which proposals to pursue.

A. New construction projects might be offered the opportunity to join the existing Mello-Roos District. The advantage would be that Impact Development fees could be shifted to the Owner’s property tax bill, relieving the “up front” costs to the project.

Unknowns:

- 1) Professional and administrative to revise the Mello-Roos District.
- 2) Time required to implement such a reorganization.
- 3) Manner and timing of City’s receipt of revenue.

4) Possible sales resistance by future buyers to an enhanced property tax.

B: An item by item review, and editing, of the 2006 Taussig Report, excepting only Category 'A' Transportation Facilities. Items which have been completed could be removed, e.g. South Vine Street Bike Path @ \$475,000. Items, which appear unlikely in today's vision might be removed, e.g. a new City Hall @ \$27,430,000. It is estimated that 25% of the non-transportation fees, about \$2,500, could be removed.

1) This process would need to be repeated with new Staff input upon adoption of the new Circulation Element.

2) In the long term, this process equates to a serious shift of capital, approx. \$38,000,000.

3) Would the benefit of an approx. \$2,500 relief from the \$43,000 permit costs be felt significant by the construction community.

C: For a period limited by time, and number, all non-transportation fees could be waived. Currently this would be approx. \$10,600 on the Eastside and \$12,500 on the Westside. Assuming a program of 50 total permits the loss to the AB1600 funds would be about \$550,000. A comparable sum can easily be deleted from the project list, as noted above.

1) Realistically will the noted reduction in Fees spur increases construction activity ? Is it worth a try?

2) Will such an attempt to increase City revenue, especially water and sewer funds, be interpreted as a "give-away"? Certainly segments of the community will see it that way whatever explanation is offered.

3) The proposed idea of 25 permits, and a 3 month period is not realistic. The time required to plan and find financing is too long. Six months would be a minimum period to monitor the effect on construction activity.

The Ad-Hoc Committee is split on the programs above. One favoring 'A' or "B", one favoring 'C'. We would appreciate the Council's direction.