

TO: James L. App, City Manager
FROM: Ed Gallagher, Community Development Director
SUBJECT: Development Impact Fees
DATE: December 20, 2011

Needs: For the City Council to consider extending a temporary waiver of certain development impact fees in order to stimulate building construction activity.

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 is intended to help pay for 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 projects costs for those 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 6, 2011, the Council directed staff to arrange for a workshop in late January-early February to accept comment on a draft Needs List.
5. On February 15, 2011, the City Council adopted Resolution No. 11-015 temporarily waiving impact fees for up to 50 permits issued during the calendar year 2011.
6. As of December 1, 2011, 20 permits had been issued and 20 others were getting close to notification of permit ready. With model homes under plan check it is still possible that 50 permits could be issued in 2011.
7. In a letter to the Mayor dated November 30, 2011, Dirk Poeschel, a consultant retained by Wathen-Castanos Homes Inc. of Fresno requests that the impact fee waiver be extended into 2012.

Analysis &
Conclusion: At its meeting of February 15, 2011, Council adopted Resolution No. 11-015 temporarily waiving some impact fees under the premise that reducing fees may spur construction, and that construction activity will translate to local jobs and retail commerce.

The waiver was limited to 50 permits, and while only 23 have been pulled to date, it is still possible that 50 permits could be issued that will qualify for the waiver. In order to collect on the waiver the construction must be completed over the course of 2012. While fee relief is intended to benefit the local economy, it is not possible to track and determine whether local taxpayers actually receive the benefits. That would only occur if builders hired Paso Robles for their construction jobs and only purchased building materials in Paso Robles. If such promises could be enforced, 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, however, the City cannot require local hiring or purchasing, so no means is available to ensure a local benefit.

Regardless, should development impact fee relief be considered; water, sewer and transportation impact fees should continue to be excluded from any waiver. In accordance with the Circulation Element and its environmental analysis, the transportation fee is an established mitigation of traffic impacts resulting from entitlements granted with new development consistent with the General Plan.

Wathan-Castanos has purchased 30 lots in Montebello Oaks and has an option on 30 additional lots. They have permits for models in progress and may obtain up to 20 building permits this year. In any case, they will be left with a substantial inventory of lots for next year and hence their request for continuance of the impact fee discount.

It appears that 50 permits could be issued, or could at least be in ready status by the end of this year. Options include applying the waiver to 50 additional permits, both residential and non-residential, issued in the calendar year 2012. In all cases, construction must pass final inspection within one year of notification of an approved building permit in order for the fee waiver to apply.

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 will be subsidized by the general public.

Assuming 50 permits are issued in 2011 and are completed in a timely manner, the losses in *potential* revenue in 2012 will be approximately \$500,000. Extending the waiver into 2012 could yield a similar outcome in 2013; the ultimate liability being around \$1,000,000. 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.

- Options:
- Adopt attached Resolution 11-xxx providing for a second year of a temporary waiver of certain development impact fees, excepting fees for transportation, water and sewer, for a maximum of 50 permits issued in 2012 and which are completed within one year of notification that permit is ready to be issued.
 - Amend, modify or reject the above option.

Attachments:

- (1) Letter From D. Poeschel dated 11-30-11
- (2) Current schedule of impact fees
- (3) Resolution for Temporary Waiver of Certain Impact Fees

November 30, 2011

Via E-mail: dpicanco@prcity.com

Mr. Duane Picanco, Mayor
City of Paso Robles
1000 Spring Street
Paso Robles, CA 93446

SUBJECT: Request to Extend the City of Paso Robles Fee Reduction Ordinance

Dear Mayor Picanco:

Thank you for the recent opportunity to discuss the process by which the City of Paso Robles fee reduction ordinance may be extended. As you recall, I spoke to you on behalf of my client Wathen Castanos Hybrid Homes. Also present were Joshua Peterson, Vice President of Wathen Castanos Hybrid Homes (WCH Homes), Ed Gallagher and John Falkenstien.

As you recall, WCH Homes seeks to build high quality homes on the remaining 60 lots of the Montebello Oaks project within the City of Paso Robles. WCH Homes has purchased 30 of the 60 lots and has an option contract on the remaining balance. The WCH Homes will be, attractive, compatible with the existing homes in the subdivision and offered at market rate.

Joshua and I would like the opportunity to address your council as soon as possible to discuss a process by which the aforementioned fees could be extended. I trust you will find the following information justifies support of our request to extend the current fee reduction plan that computes to \$10,500+/- per Montebello Oaks lot.

Since the company's formation, Wathen has strived to provide attractive and sustainable projects. The company continues to improve their homes through the analysis of the design and construction which has produced the following recognition:

- The 2007, 2008, 2009 and 2010 Energy Star Leadership in Housing Award
- Green Point Rated Builder
- PG&E's Advance Tier II Builder with 30% savings above California's Title 24 Standard
- Builder Challenge Certified Homes
- 2011 and 2012 National Housing Quality Award Winner
- 2011 Energy Value Housing Award Winner

The company is very proud being awarded the 2009 San Joaquín Valley Blueprint Award of Achievement for planning and developing the Harlan Ranch master planned community in the City of Clovis. That award was given by a regional association of the Central Valley Council of Governments.

As we discussed, the current fee structure is planned to expire this year. Wathen believes exposure to new or increased fees will create an additional burden to stabilizing the once failed project. According to experts, total sales prices, sales prices per foot and total sales volumes in the Paso Robles market continue to fall. For example, data of San Luis Obispo County sales over the past three years sadly indicate a typical downward trend of real estate sales prices in California.

	May 2008-2009	May 2009-2010	May 2010-2011
Price/Foot	\$198.00	\$185.00	\$171.61
Sales Price	\$343,000.00	\$312,000.00	\$298,000.00

Marketing experts believe the current housing crisis more dramatically impacted the Paso Robles' economy based on its stronger dependence on construction-related employment. Single-family permit authorizations in the City of Paso Robles in 2009 (29 single-family permit authorizations) and 2010 (9 single-family permit authorizations) were dramatically below the 30-year average of over 100 single-family permit authorizations per year.

Currently, the largest challenge to new home sales opportunities at Montebello Oaks is from foreclosure activity at very discounted prices 18.0+/- percent below already low resale prices. Neither my firm, Wathen nor others involved in the housing industry expect the aforementioned trends to abate soon.

We are also prepared to discuss the positive economic ripple effect of housing on the local economy. The *Citizens' Housing and Planning Association* reports that housing construction and rehabilitation have a high ratio (62.3 %) of value-added to total gross outlays. This means that a high percentage of the gross outlays for a residential construction project are spent on wages and salaries, thus stimulating job creation. The *U.S. Department of Agriculture's Rural Housing Service* estimates that each single-family home financed by the Section 502 program generates 1.75 jobs and \$50,201 in wages.

Another study concluded the positive economic impacts of building 100 new housing units as detailed below:

Local Jobs Supported	Local Income	Local Wages and Salaries	Local Business Owner's Income	Local Taxes
102	\$4,845,000	\$3,921,000	\$924,000	\$511,000

Based on an average metropolitan statistical area using homes with an average construction value of \$145,372.

The Wathen group and I look forward to addressing your council to discuss this important topic. If you have any questions, please feel free to contact me.

Sincerely,



Dirk Poeschel, AICP

- c: Mr. Ed Gallagher
Mr. John Falkenstien
Mr. Joshua Peterson
Mr. Kevin Castanos

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**Exhibit "A" - Resolution 09-131
Development Impact Fees Summary
July 1, 2011**

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	\$9,652	No Fee	\$557	\$72	\$864	\$4,080	\$4,135	\$1,127	\$20,487
Single Family - West Side of Salinas River	\$4,804	\$1,973	\$557	\$72	\$864	\$4,080	\$4,135	\$1,127	\$17,612
Multiple Family - East Side of Salinas	\$7,721	No Fee	\$489	\$85	\$756	\$3,574	\$3,622	\$989	\$17,236
Multiple Family - West Side of Salinas	\$3,844	\$972	\$489	\$85	\$756	\$3,574	\$3,622	\$989	\$14,331
Assisted Living Units - East Side of Salinas	\$2,163	No Fee	No Fee	\$86	\$12,424	\$3,627	No Fee	No Fee	\$18,300
Assisted Living Units - West Side of Salinas River	\$1,176	\$987	No Fee	\$86	\$12,424	\$3,627	No Fee	No Fee	\$18,300
Commercial Lodging Motel/Hotel - East Side of Salinas	\$2,523	No Fee	No Fee	\$86	\$406	\$85	No Fee	No Fee	\$3,100
Commercial Lodging Motel/Hotel - West Side of Salinas River	\$2,523	No Fee	No Fee	\$86	\$406	\$85	No Fee	No Fee	\$3,100
Parks & Campgrounds - East Side of Salinas	\$2,104	No Fee	No Fee	\$86	\$406	\$85	No Fee	No Fee	\$2,681
RV Parks & Campgrounds - West Side of Salinas River	\$2,104	No Fee	No Fee	\$86	\$406	\$85	No Fee	No Fee	\$2,681
Commercial per sq. ft. - East Side of Salinas	\$8.12	No Fee	NA	\$0.05	\$0.54	\$0.41	NA	NA	\$9.12
Commercial per sq. ft. - West Side of Salinas River	\$6.77	\$1.35	NA	\$0.05	\$0.54	\$0.41	NA	NA	\$9.12
Industrial per sq. ft. - East Side of Salinas	\$4.08	No Fee	NA	\$0.02	\$0.05	\$0.12	NA	NA	\$4.27
Industrial per sq. ft. - West Side of Salinas River	\$3.19	\$0.89	NA	\$0.02	\$0.05	\$0.12	NA	NA	\$4.27

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 Tusses, Machinery, Metal Fabrication, Mobile Home Manufacturing
 - Paper Products, Plastics, Fiberglass, Rubber, Jewelry, Stone, Structural Clay and Pottery, Testing Laboratories

Increase for ENR July 2011

1.90%

RESOLUTION NO. 11-xxx

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
TEMPORARILY WAIVING CERTAIN DEVELOPMENT IMPACT FEES

WHEREAS, the General Plan and City Council goals establish public facility standards, objectives and requirements to offset the impacts of, and serve development; and

WHEREAS, at its meeting of October 3, 2006, the City Council adopted Resolution No. 06-188 adopting a development impact fee Justification Study, a Public Facilities Needs List and revised development impact fees; and

WHEREAS, at its meeting of October 6, 2009, the City Council adopted Resolution No. 09-131 modifying some of the impact fees adopted in 2006; and

WHEREAS, a comprehensive update of the development impact fee program is underway. On December 7, 2010, the City Council formed an ad hoc committee to study policies associated with the program, facility needs and to identify possible modifications; and

WHEREAS, anticipated growth, building permit activity, and payment of impact fees have diminished to minimal levels due the severe economic recession; and

WHEREAS, the City Council desires to stimulate building permit activity; and

WHEREAS, at its meeting of February 15, 2011, the City Council adopted Resolution No. 11-015 temporarily waiving certain impact fees for 50 permits during the calendar year 2011; and

WHEREAS, the Mayor has received a letter dated November 30, 2011, from Dirk Poeschel, a consultant representing Wathan-Castanos Homes Inc. of Fresno requesting that the waiver be extended into 2012; and

WHEREAS, the council has received a staff report and has heard testimony at its regular meeting of December 20, 2011;

NOW, THEREFORE THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. Subject to the limitations set forth in this resolution, the City Council agrees that the City shall temporarily waive the collection of development impact fees set by Resolution No. 09-131 for drainage, bike and pedestrian paths, police, fire, general government facilities, library, parks and recreation.

SECTION 2. The waiver of fees shall only apply to the first 50 residential units and/or non-residential buildings for which (i) building permits have been issued on or after January 1, 2012, and before January 1, 2013; and (ii) construction has been completed (as evidenced by the issuance of Certificate of Occupancy by the City Building Division)

within one (1) year of written notification by the City Building Division that a building permit was ready to be issued.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 20th day of December, 2011 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Duane Picanco, Mayor

ATTEST:

Caryn Jackson, Deputy City Clerk