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City of Stockton Development Impact Fee Review Report

Presented to City of Stockton

Development Oversight Commission

June 6, 2013

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Presentation Overview

1. Background and Findings of the Fee Review
2. Stockton's Development Impact Fees
3. Development Impact Fee History
4. Economic Context and Assessment
5. CFF Revenue Forecast
6. Scope of Proposed Reforms

1. Background and Findings

- Purpose of Development Impact Fee (DIF) Review
- Key Issues and Questions
- Key Findings
- Decision and Actions Needed

Purpose of Development Impact Fee Review

- City Council review of Community Development Department (CDD) operations and budget mandated:
  - Top to bottom changes were mandated as part of a Management Partners – Implementation Action Plan
  - An examination and update of development fees was included in a 36-item list of to-do’s
- City Council reaffirmed the need to address development fees as a part of the Urban Land Institute Report’s 27 Action Steps Matrix
- Consideration of requests for additional fee reductions in 2013/14 and beyond

Key Issues and Questions

1. What is the background and status of the City's existing DIFs?
2. When will the local housing market recover?
3. How do impact fees affect development feasibility?
4. What options exist for setting DIF schedule for 2013/14
5. What are the implications of these fee options?
6. What is the scope of subsequent impact fee updates and reforms?

1. Background and Status of City Fees

- City's DIFs are technically sound; however, Capital Facilities Fees (CFFs) are "out of date" from several perspectives—full costing of infrastructure would yield higher fees
- The individual CFF accounts have been subjected to loans, inter-fund transfers, debt service commitments, and other encumbrances that limit their present and future availability for building capital projects
- Other impact fees (Utility, Mitigation, and Other Agency) appear to be in good order
- Community Development permit and processing fees and charges are in need of reform – they should be balanced with General Fund support to develop a sustainable departmental "cost recovery" policy

2. When will the Housing Market Recover?

- Current housing market remains weak due to limited real demand and over-supply of existing properties
- Existing housing supply will be absorbed and job growth will begin attracting new employees and household formation over next two years
- Market conditions continue improving and recovery (substantial new construction) is expected by 2017
- Some “spike” in demand may occur due to improving economic conditions and pent-up demand
- Stockton is capturing a decreasing share of regional market
- Sustained average of 700 units expected in future years
- Future annual fee revenues will be subject to expected business cycle variations

3. How do Fees Affect Feasibility?

- Current housing prices do not justify housing construction
- Fees are development costs that must be internalized in project economics
- Fees do not directly influence price – market sets price
- Housing price recovery in Stockton should “balance” with existing fee schedule by 2016
- Fees and other development costs should reflect market prices to avoid competitive or distortionary effects

4. What Options Exist for Setting CFFs?

1. Return to full fee schedule in December
2. Continue existing fee reductions for time certain period
3. Increase fee reductions as part of effort to advance new development

5. What are the implications of options?

1. **Return to full fee schedule in December**
   - Return to full fee schedule may inhibit residential growth between now and 2017 when recovery is expected
   - Assures that fee funding will return to level required by existing technical reports
   - Provides funding to meet other fee fund obligations
2. **Continue existing fee reductions for time-certain period**
   - Continuing existing reductions likely would have minimal measurable effect (especially in view of recent water connection fee reduction)

Implications of Options, continued

3. Increase fee reductions as part of effort to advance new development

- Substantial additional fee reductions may advance some residential development to 2014/2015
- The only fees with ability to be reduced are the City's CFFs
- Fee reductions result in a permanent loss of infrastructure financing capacity, the amount dependent upon the magnitude of the reduction and the amount of development occurring during period
- Bankruptcy negotiations limit City's flexibility regarding fee levels and use
- Fee losses due to additional reductions would need to be "backfilled" with other funding sources to maintain integrity of CFF program

6. Scope of City Impact Fee Update

- Full technical update of the City's CFFs is required
- Interim adjustments can be made to CFF; full update must await completion of General Plan Update
- Comprehensive infrastructure financing strategy should be prepared
- CDD permit and processing fees should be evaluated to achieve a sustainable financial base for community development services
- Existing CFF encumbrances should be documented, and reconciled as a preparation for the CFF Update

City Decisions and Actions Needed

1. Consider the implications, impacts, and effectiveness of further fee reductions
2. Set Interim CFF schedule for 2013/14
3. Begin clarifying and resolving CFF fund encumbrances
4. Set CDD permit fee and charge schedule 2013/14
5. Initiate phased action program to assure long term soundness of City's DIFs, CDD funding, land use planning, and related infrastructure investments and financing

2. Stockton’s Development Fees

- Current Development Fee Components
- Fee Component Details
- Jurisdictional Fee Comparison

Development Fee Components

City of Stockton Public Facilities Fee Program includes a range of fee types, including:

- "City CFFs" (e.g., public buildings/facilities, parks, transportation)
- "City Mitigation Fees" (e.g., air quality, agricultural)
- "Water/Wastewater Fees"
- "Other Agency Fees" (e.g., other agency capital facilities, and mitigation fees)

Community Development charges a range of fees for permits, plan checking, and special purposes

Development Fee Summary

- Total DIFs for typical single-family home presently equal approximately $49,800 (based on 2012 San Joaquin Partnership survey)
- Actual DIF amounts vary by project circumstance including building prototype and location
- Current permit, plan check and special fees that support Community Development Department equal approximately $5,000
- Current impact fee reductions apply only to City's Capital Facilities Fees

Summary of Development Impact Fees

Fee Type	Responsible Agency	Current Fee Amount	Percent of Total Fees	Existing Reduced Fee Amount	Percent of Total Fees
Capital Facilities	CDD	$20,217	40.6%	$12,623	29.9%
Utilities [1]	MUD	$14,394	28.9%	$14,394	34.1%
Mitigation	CDD	$3,057	6.1%	$3,057	7.2%
Other Agency	County, School District, SJCOG	$12,169	24.4%	$12,169	28.8%
Total Fees		**$49,837**	**100%**	**$42,243**	**100.0%**

[1] Utilities fee total reflects recent Delta Water Supply Project and Water Utility Connection Fee adjustment back to 3/4" fee rate from 1" (a fee reduction of $4,922.25).

Components of Capital Facility Fees

Fee Name	Responsible Agency	Current Fee Amount	Percent of Total Fees	Existing Reduced Fee Amount	Percent of Total Fees
City Office Space	CDD	$468	0.9%	$234	0.6%
Police Station Expansion	CDD	$591	1.2%	$591	1.4%
Fire Stations	CDD	$781	1.6%	$781	1.8%
Libraries	CDD	$902	1.8%	$451	1.1%
Community Recreation Center	CDD	$482	1.0%	$241	0.6%
Park Land	CDD	$2,798	5.6%	$2,798	6.6%
Street Improvements/Traffic Signals	CDD	$13,336	26.8%	$6,668	15.8%
Street Trees	CDD	$140	0.3%	$140	0.3%
Administration	CDD	$719	1.4%	$719	1.7%
Sub-total		**$20,217**	**40.6%**	**$12,623**	**29.9%**

Components of Utility, Mitigation, and Other Agency Fees

Fee Name	Responsible Agency	Fee Amount	Percent of Total Current Fees	Percent of Total Reduced Fees
Utilities				
Delta Water Supply	MUD	$4,595	9.2%	10.9%
Water Connection Fee	MUD	$2,063	4.1%	4.9%
Surface Water Fee	MUD	$3,839	7.7%	9.1%
Wastewater	MUD	$3,634	7.3%	8.6%
Administration	MUD	$263	0.5%	0.6%
Sub-total		**$14,394**	**28.9%**	**34.1%**
Mitigation				
Air Quality	CDD	$187	0.4%	0.4%
Agricultural Land	CDD	$2,870	5.8%	6.8%
Sub-total		**$3,057**	**6.1%**	**7.2%**
Other Agency				
County Facilities Fee	County	$1,826	3.7%	4.3%
School District	School District	$4,455	8.9%	10.5%
Habitat Mitigation	SJCOG	$2,874	5.8%	6.8%
Regional Transportation Fee	SJCOG	$3,014	6.0%	7.1%
Sub-total		**$12,169**	**24.4%**	**28.8%**

Community Development Permit Fees

CDD Fee Description	Current Fee Amounts	Totals
Permit and Plan Check Fees		**$2,778.68**
Permit Fee (Inspection and Administration)	$1,852.45	
Plan Check Fee	$926.23	
Other Processing Fees		**$93.74**
Design Review Construction Permit	$33.40	
Green Building Admin Fee (1%)	$1.09	
Image Paperwork/Documents Fee	$3.00	
Land Management Update Fee	$3.25	
Permit Issuance Fee	$39.00	
Permit Tracking Fee	$14.00	
Special Community Development Fees		**$2,215.91**
Capital Preservation Fee - Code Enforcement	$262.73	
Climate Action Plan Development and Implementation	$262.73	
Community Rating System (CRS) admin fee (Flood Ins)	$37.05	
Development Code Maintenance and Implementation	$262.73	
Development Oversight Commission	$262.73	
General Plan Implementation Fee	$788.18	
Housing Element Maintenance and Implementation	$131.36	
Technology Improvement GIS Support	$208.40	
Total		**$5,088.33**

Source: Stockton Community Development Department

Capital Facilities Fees

- CFFs created in wake of 1980s building boom – new City policy of having “development pay its own way”
- City CFFs (public facilities/building and transportation) appropriately calculated between 1991 and 2005
- Periods of falling behind (e.g., 1991 – 2001)
- Substantial fee increases in 2005, but not to maximum levels allowable
- Technical analysis in 2008/2009 suggested:
  - transportation fees could be twice as high
  - parks fees could be twice as high
  - public buildings/facilities could be lowered

City Capital Facilities Fee Considerations

- CFF at full rate of $20,217 equal 41 percent of total DIFs
- At reduced rate CFFs equal 30 percent of total DIFs
- Existing fee reductions to CFF of $7,594 are mostly (88 percent) derived from the "streets fee"
- CFFs at full rate are below what could be technically justified given existing level of service standards
- Bonds issued in 2006 and 2009 provided capital to build CFF facilities; CFF funds were allocated shares of this debt service

City Mitigation Fees

Mitigation associated with State/federal air quality regulations and CEQA resulted in the addition of two mitigation fees:

- **Air Quality Fee**
  - Adopted in 1991 in response to State/federal air quality regulations
  - pays for improvements that reduce vehicle
- **Agricultural Land Mitigation Fee**
  - Adopted by City in 2007 in response to CEQA and other requirements
  - Only applies to conversion of prime farmland

Mitigation Fee Considerations

- Mitigation fess equal 7 percent of total fees
- Agricultural mitigation fee applies only to projects converting prime agricultural land
- Due to statutory or legal basis mitigation fees cannot easily be changed or reduced
- Mitigation fees have been used appropriately for designated purposes

City Utility Connection Fees

- City charges connection fees for its water and sewer utilities
- Detailed technical studies support current water fees
- Fees cover the costs of utility services including water supply capacity, treatment and distribution, sewer collection, treatment, and effluent disposal
- Current fees fund capital facilities that have been constructed, off-setting debt service for these facilities
- Utility fees have been indexed and updated regularly

Utility Fee Considerations

- Utility fees equal about 29 percent of total fees
- Significant proportion of water fees associated with paying principal and interest on prior bond issuances
- A water connection charge reduction for single-family home of approximately $4,900 has been implemented due to classifying required one-inch pipe service as a ¾-inch service
- Other than this reclassification, there is little opportunity to alter utility fees; in fact fee contributions to the financing has fallen with the Recession and future fees will be needed to rebalance these accounts

Other Agency Fees

New development pays a number of fees overseen by other entities:

- **Regional Transportation Impact Fee (RTIF)** – Adopted in 2006 based on RTIF Technical Report and Operating Agreement
- **Countywide Facilities Fee** – Adopted in 2005 based on 2003 Countywide Nexus Study; fees pay for region-serving County facilities
- **School District** - School district charges impact fees to fund school facilities costs consistent with State law (SB-50)
- **Regional HCP Fee** –Adopted Multi-Species Conservation Habitat Conservation and Open Space Plan tiered including mitigation fee for habitat/open space impacts in 2002; mitigation fee update in 2006

Other Agency Fees Considerations

- Other agency fees equal approximately 24 percent of total fees
- All fees based on technical analyses and/or relevant State law
- City receives 75 percent of RTIF fees to spend on approved list of regional transportation projects in Stockton area
- City has no latitude to lower fees it administers for other agencies

Comparison with other Jurisdiction's Fees

- All other cities (and the County) charge DIFs
- Other factors (besides fee cost) influence development attractiveness, off setting competitive influence of fee levels
- Other agencies have also imposed temporary fee reductions
- Stockton's fees are "in the middle" of competing city fee rates

Jurisdictional Impact Fee Comparison

Fee Type	Stockton*	Lathrop	Lodi	Manteca	Ripon**	Tracy
Public Buildings/Facilities	$6,881	$10,214	$2,668	$7,322	$17,102	$12,856
Transport.	$13,336	$2,503	$289	$2,723	$6,543	$11,859
City Mitigation Fees	$3,057	$0	$0	$802	$0	$0
Storm Drain/Other	$263	$236	$0	$4,689	$2,430	$7,162
Water/Wastewater	$14,131	$2,306	$3,283	$9,922	$12,974	$19,602
Other Agency	$12,169	$7,919	$10,764	$11,698	$14,894	$15,480
Total	**$49,837**	**$23,178**	**$17,004**	**$37,156**	**$53,943**	**$66,959**

* Stockton has temporarily reduced certain public facilities and transportation fees by 50 percent ($7,594).
** Ripon has reduced its Parks & Recreation Fee by 50% for 2012 and 2103 ($6,538).
Note: Pre-reduction fee levels are shown above.

Sources: San Joaquin Partnership; Economic & Planning Systems, Inc.

3. Development Impact Fee History

- Geography of Fee Programs
- Genesis of the DIF Program
- Changes over the past 25 years

Stockton CFF Geography

- Different DIF fees can be charged in sub-areas of the City
- Original Program created six sub-areas
- Sub-areas have been consolidated in recent amendments

CFF Sub-areas

Original Program divided City into six subareas (1991):

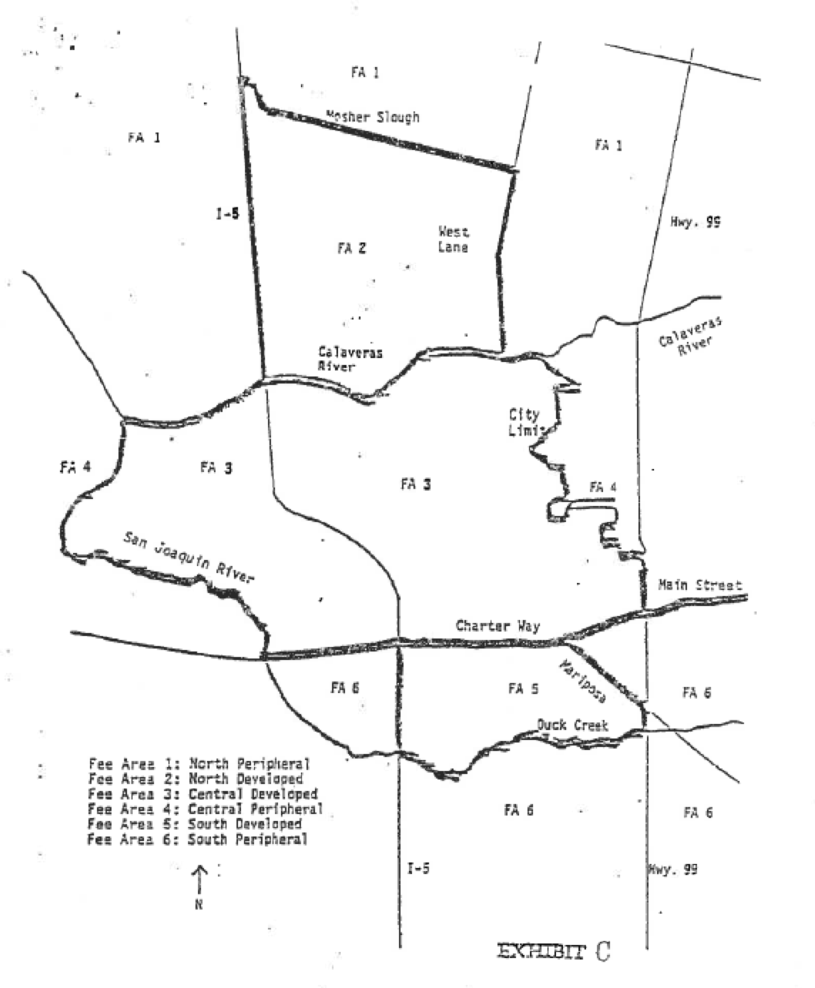
North Stockton

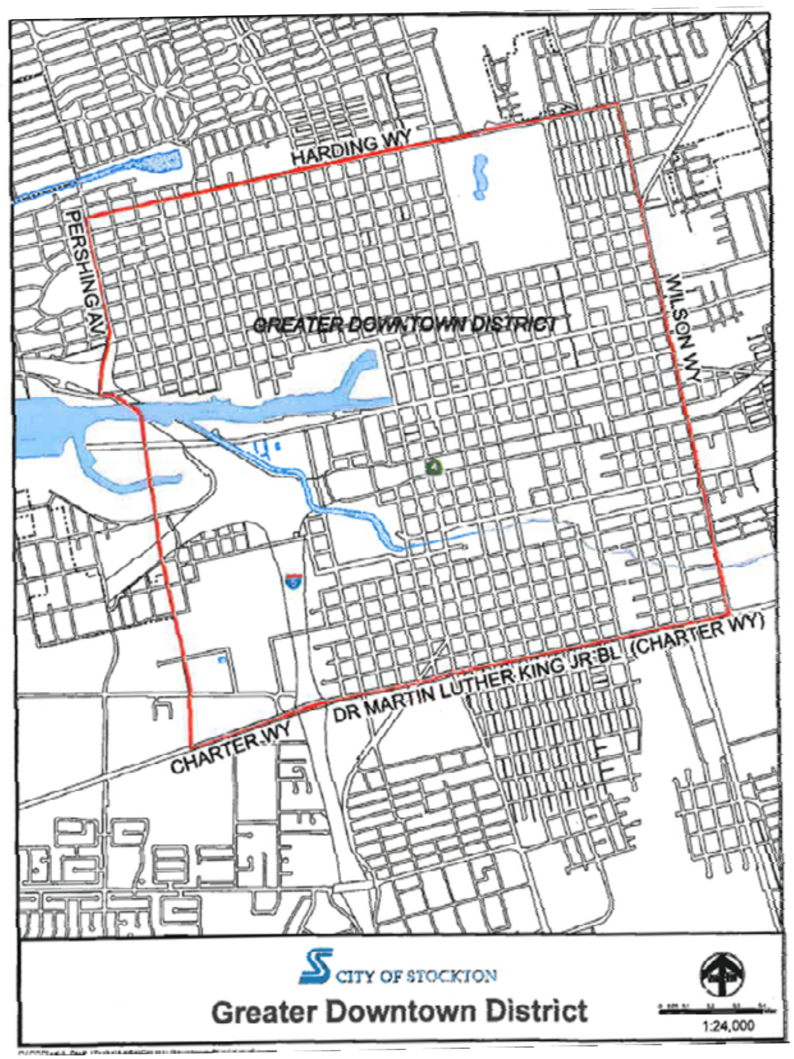
- Fee Area 1: North Peripheral (six of seven entitled projects; majority of future residential growth)
- Fee Area 2: North Developed (modest residential)

Central/South Stockton

- Fee Area 3: Central Developed
- Fee Area 4: Central Peripheral
- Fee Area 5: South Developed
- Fee Area 6: South Peripheral (substantial vacant industrial land and Weston Ranch)

Fee Areas Map





1991 Fee Schedule

Type	1	2	3	4	5	6
City Buildings	Yes	Yes	Yes	Yes	Yes	Yes
Police	Yes	Yes	Yes	Yes	Yes	Yes
Fire	Yes	Yes	No	No	No	Yes
Libraries	Yes	Yes	No	No	Yes	Yes
Rec. Centers	Yes	Yes	No	Yes	No	Yes
Parks	Yes	No	No	Yes	No	Yes
* Streets and Intersections	A	A	B	B	C	C

* Streets and Intersections – three fee zones with different fees of about $2,000 (A), $1,500 (B), $2,250 (C)

Genesis of Comprehensive Fee Program

- **1980s:** City charged development fees for limited set of purposes: construction of water/wastewater facilities, acquisition and development of public parks and recreation facilities, planting of street trees, and placement of traffic signals
- **Mid-1980s:** City/North Stockton developers responded to voter approval of seven development projects (six in North Stockton) in 1985/1986 by commissioning a series of financing studies to help City accommodate the associated growth
- **Late 1980s:** Consensus developed that new development should be financially responsible for the public facilities required to accommodate it

1987 – 1991: Comprehensive Capital Facilities Fee Program

Substantial technical analysis conducted to support comprehensive capital facilities fee/mitigation fee program:

- **September 1988** - City adopted six new development fees for City off space, Police station space, Fire stations, Libraries, Recreation centers, and Streets and intersection improvements.
- These were in addition to existing water, wastewater, and traffic signal fees. Prior parks fee was also updated/increased.
- Fee program considered growth from 1987 to 2005; 35 percent increase in residents (80,000) and 45 percent increase in jobs (45,000)

1991 – 2002: No Adjustments Occur

- No inflationary refinements made to City capital facilities fees between 1991 and 2002 (excludes sewer/water fees
- No detailed technical review/fee update conducted between 1991 and 2002
- Substantial cost inflation and new infrastructure needs emerging during this decade results in fees being well-below those needed to offset infrastructure needs
- Underinvestment in infrastructure affects ability of City to maintain desired level of service standards

2002 Parks and Recreation Center Fee Updates

Parks and Recreation Center Fees were updated in 2002:

- Technical nexus study conducted in 2002
- Parks fees increased by 62 percent
- Recreation center fees increased by 90 percent

2003 Revisions

- While considered overdue, City staff recommended delay in comprehensive update due to General Plan update
- Based on ENR Construction Cost Index, inflation of about 35 percent since December 1991 applied
- City office space, fire stations, libraries, police stations, street improvement fees updated
- Supported automatic, annual inflationary adjustments starting January 1, 2004
- Revisions maintained same subarea differentiation

2005 Comprehensive Capital Facilities Fee Update

- Comprehensive CFF technical update conducted
- Substantial increases in many fees especially street improvement fee
- Nonresidential fees maintained below maximum supportable
- Geography: Maintain subarea fee differentiation for street improvement fee

2007 – 2009: Unadopted Technical Studies

- City commissioned comprehensive CFF technical update in 2007 and street improvement fee update in 2008/2009
- Technical reports demonstrated potential to increase (double) transportation and park fees, but also reductions in police and fire fees
- <u>Geography</u>: CFF (non-transportation) – no clear differentiation
- <u>Geography</u>: Transportation – continued sub-area differentiation

2010 Fee Reduction and Deferral Programs

- 50 percent fee reductions in City transportation and public buildings fees (not including Police and Fire fees)
- Reductions totaling about $7,600 per single-family unit
- Deferral of several fees until Certificate of Occupancy
- Term of reduction through December 31, 2012
- In December 2012, fee reductions and deferrals extended through December 31, 2013

2011 Change in Geography

- City changed geographic subareas for street improvement fee
- City determined three zone subarea differentiation (North, Central, and South) problematic for administrative and economic reasons
- Previously collected fees by zone and allocated 15 percent for Citywide use
- Consolidated fee to $13,336 per single-family unit ($6,668 per single-family unit during temporary fee reduction)

CFF Fee History Summary

Fee Type	1991	2002/3	2005	2013	2008/9 (max un-adopted)
City Space	$61	$167	N/A	$467	$421
Police	$253	$350	N/A	$591	$645
Fire	$115	$159	N/A	$781	$727
Libraries	$234	$323	N/A	$902	$1,114
Recreation Centers	$128	$250	N/A	$482	$758
Public Facilities Subtotal	*$791*	*$1,249*	*$2,656*	*$3,224*	*$3,666*
Parks	$1,429	$1,900	$2,300	$2,798	$5,356
Transport.	$2,008	$2,770	$11,565	$13,336	$26,550
Admin/Other	$183	$169	$269	$859	$979
Total	**$4,411**	**$6,088**	**$16,790**	**$20,217**	**$36,551**

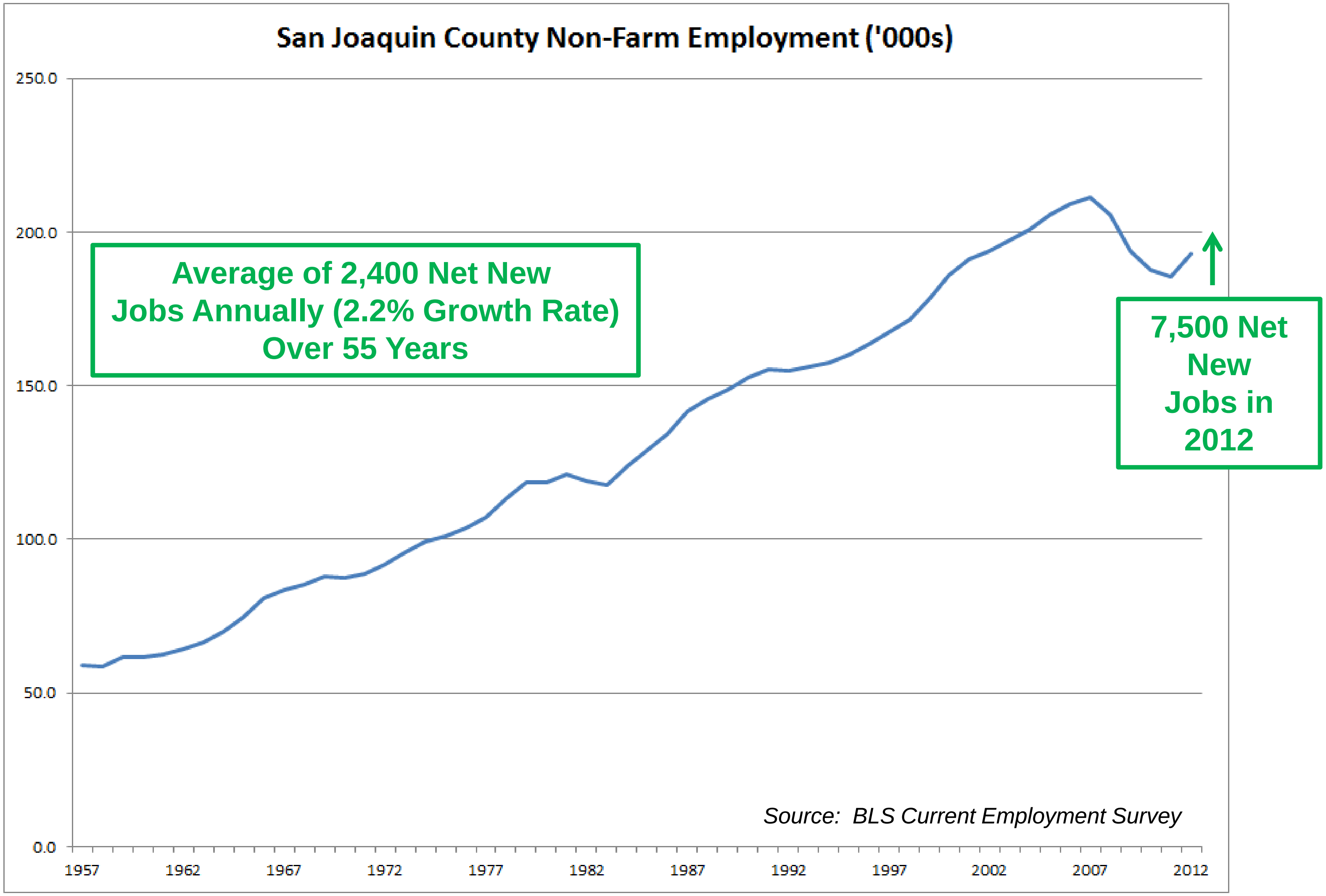
4. Economic Context and Forecast

- Economic History and Trends
- Housing Market Overview
- Economic Outlook and Forecast
- Development Feasibility Considerations

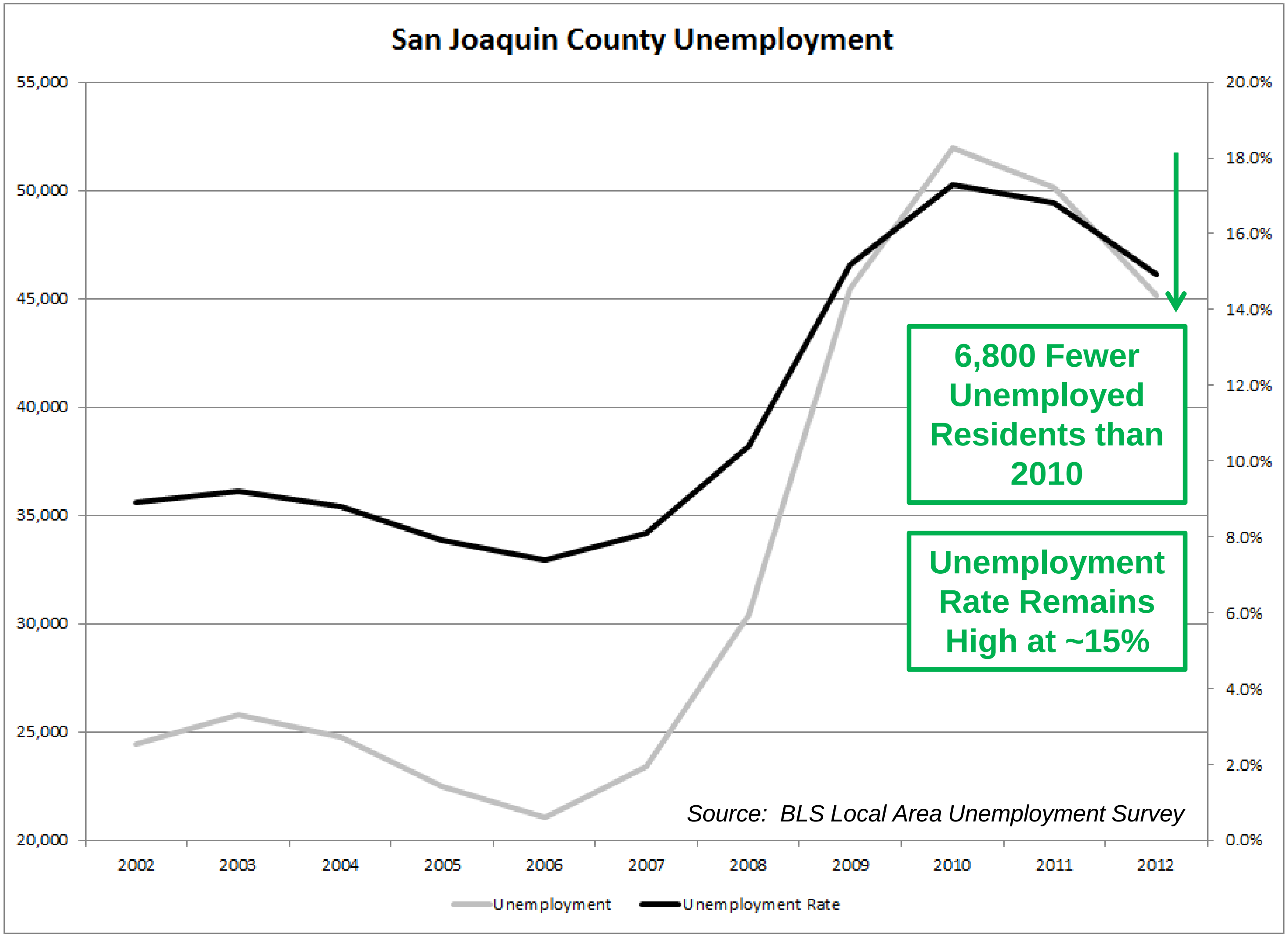
Economic History and Trends

- San Joaquin County consistently enjoyed employment gains for decades, with 2 percent compounded annual non-farm job growth over past 55 years
- The 2008 Recession reversed this trend with 26,000 nonfarm jobs lost between 2007 and 2011
- Job growth associated with the national economic recovery reached the County in 2012, with 7,500 non-farm more jobs created compared to 2011
- Unemployment has fallen, but the rate remains comparatively high, at about 15 percent
- Economic conditions in Stockton are comparably below other County cities

Regional Perspective: Jobs



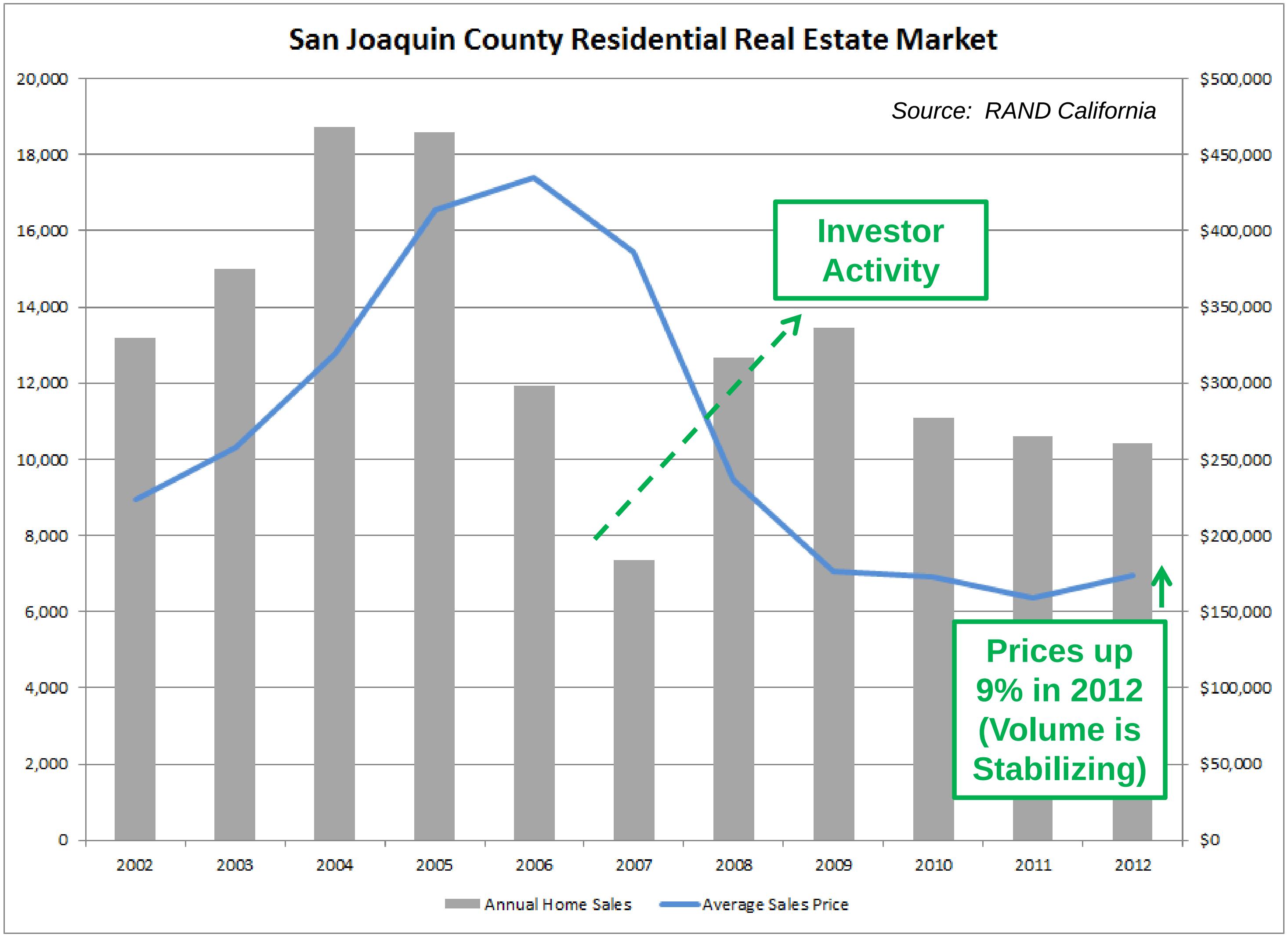
Regional Perspective: Unemployment



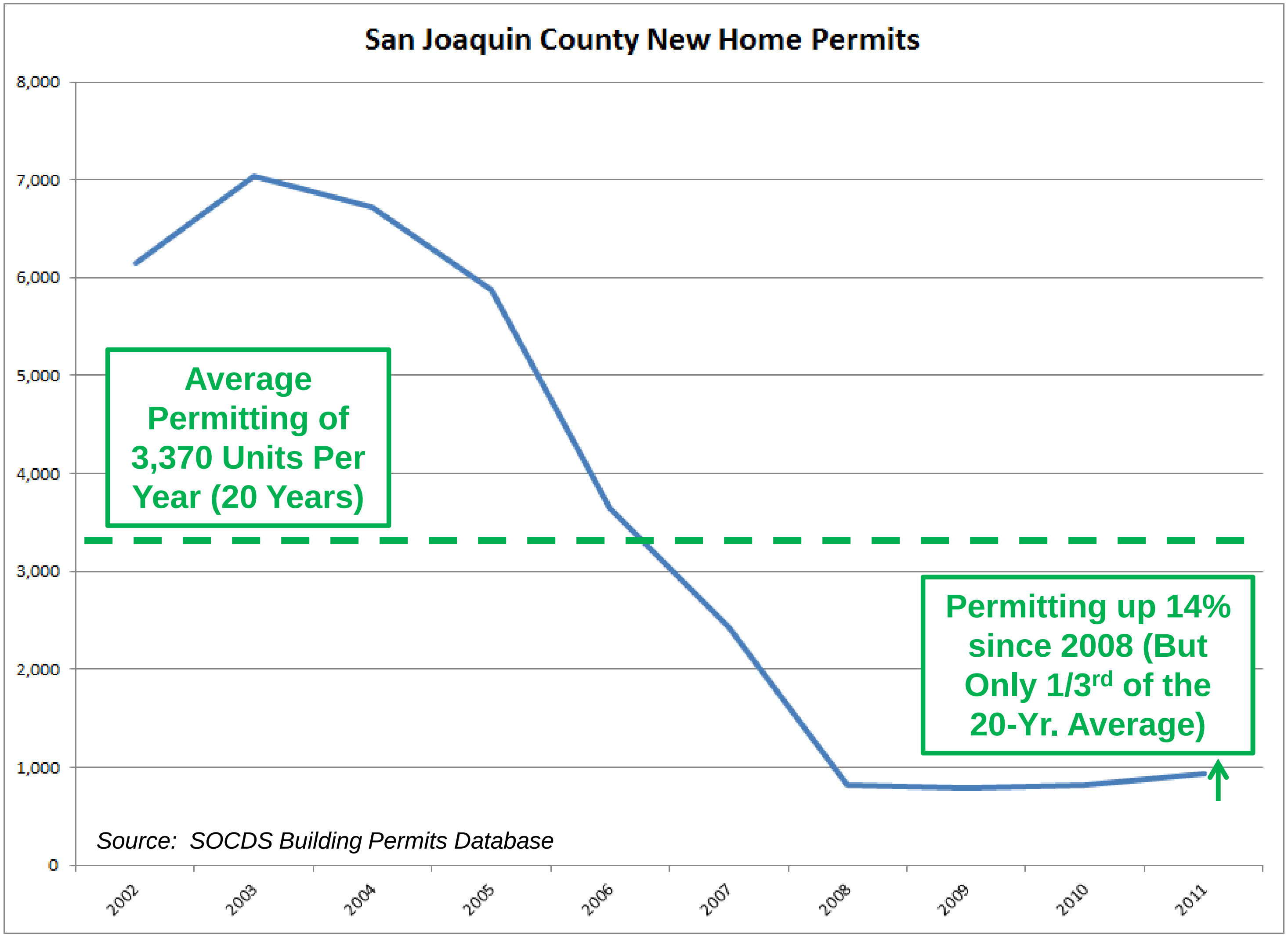
Housing Market Overview

- The San Joaquin County market for new housing boomed in the early 2000s, with permitting reaching a record-setting 7,000 units in 2003
- As the economy cooled, the oversupply of housing in the market became apparent and permitting plunged to less than 900 units countywide by 2009
- Prices of both new and existing product fell dramatically, attracting some opportunistic investment activity that continues (investment-based purchases)
- Vacancy of existing homes remains high at about 10 percent
- Market is showing signs of recovery with new construction beginning to occur

Regional Perspective: Home Sales



Regional Perspective: New Home Permits

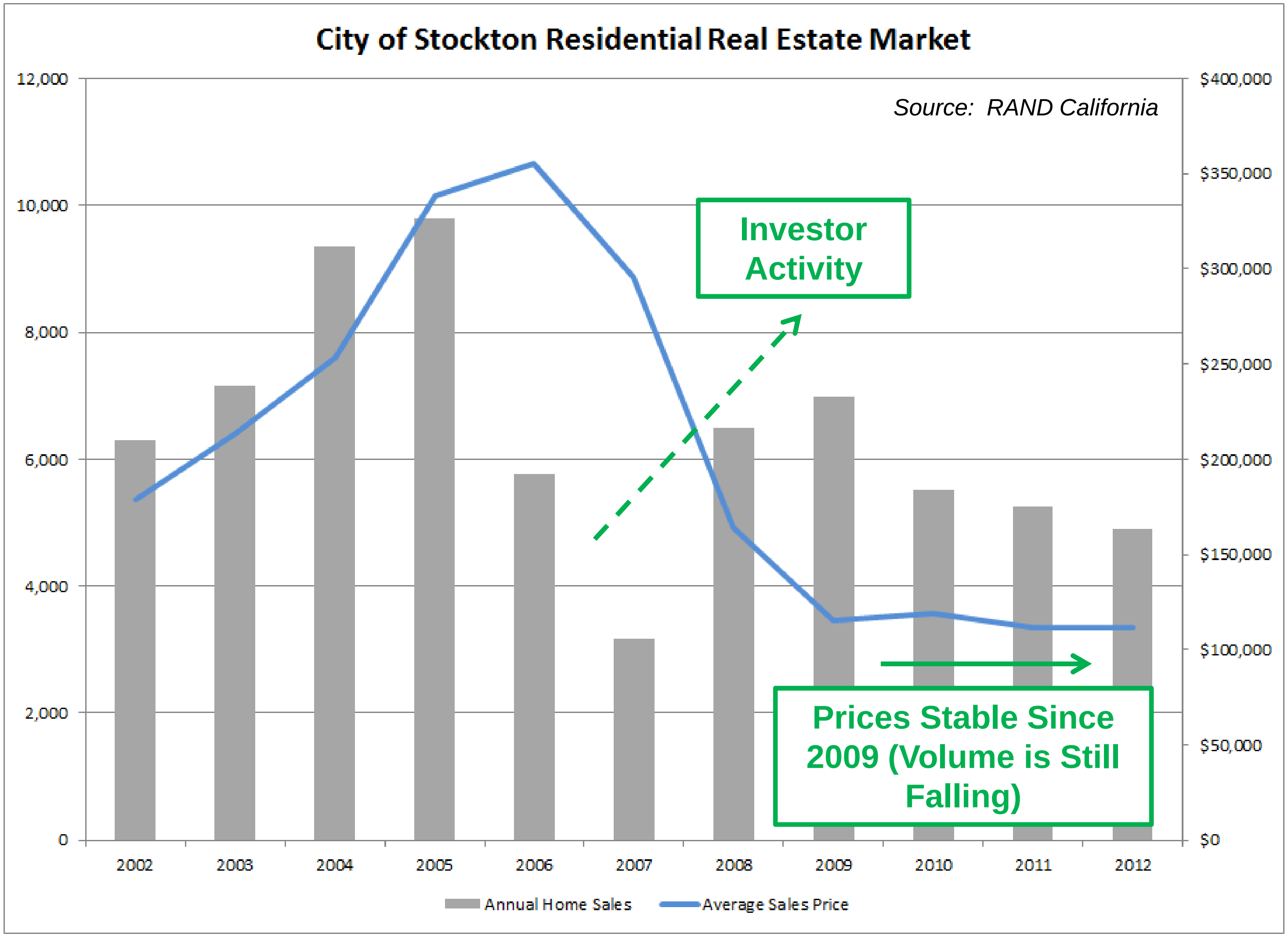


Regional Perspective: New Home Market

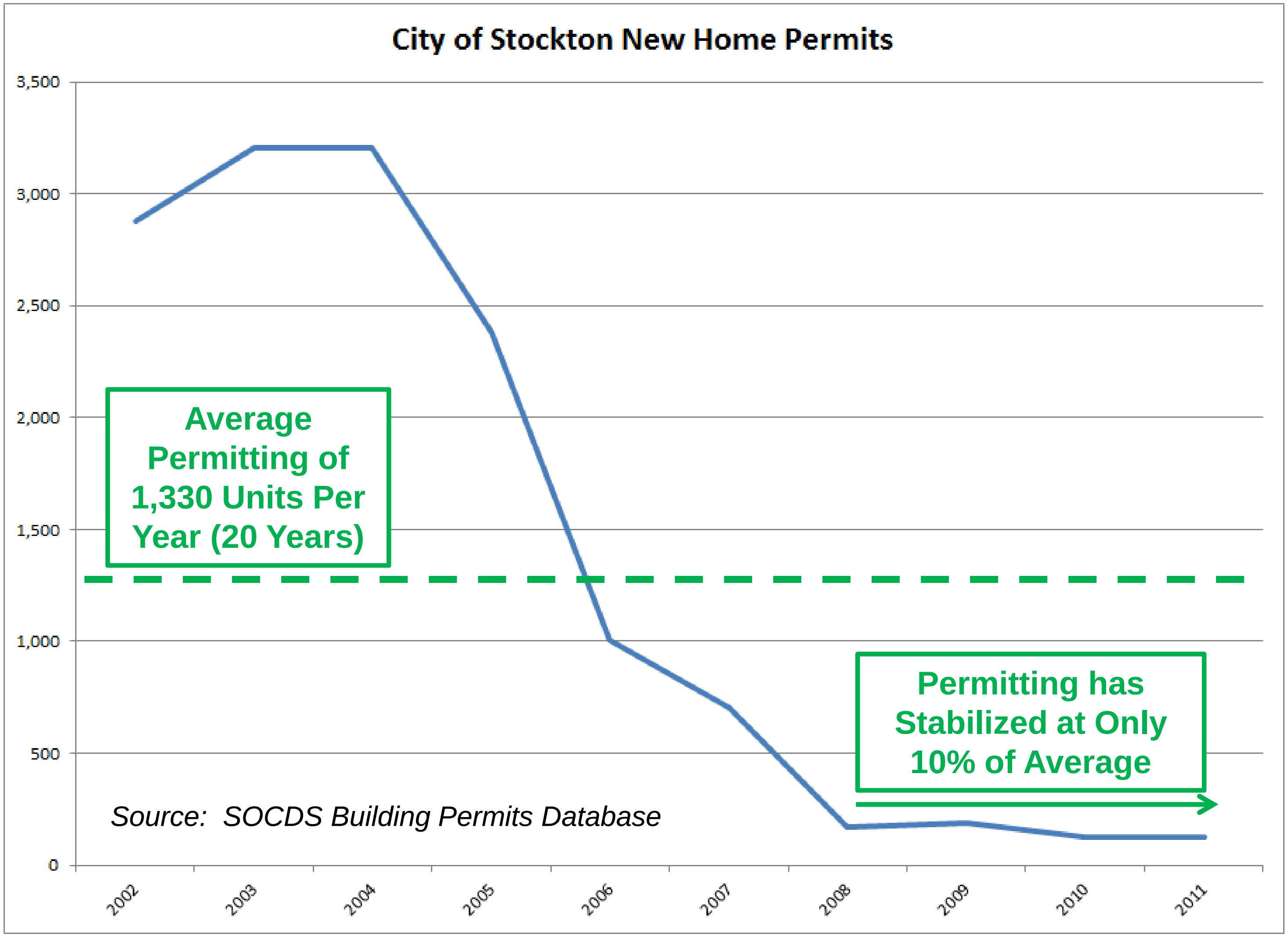
Community	Active Projects	Units Sold Q4 2012	Avg. Price
Lathrop	3	40	$225k
Manteca	8	42	$325k
Mountain House	5	35	$415k
Stockton	4	44	$230k
Tracy	1	3	$275k

Source: The Gregory Group

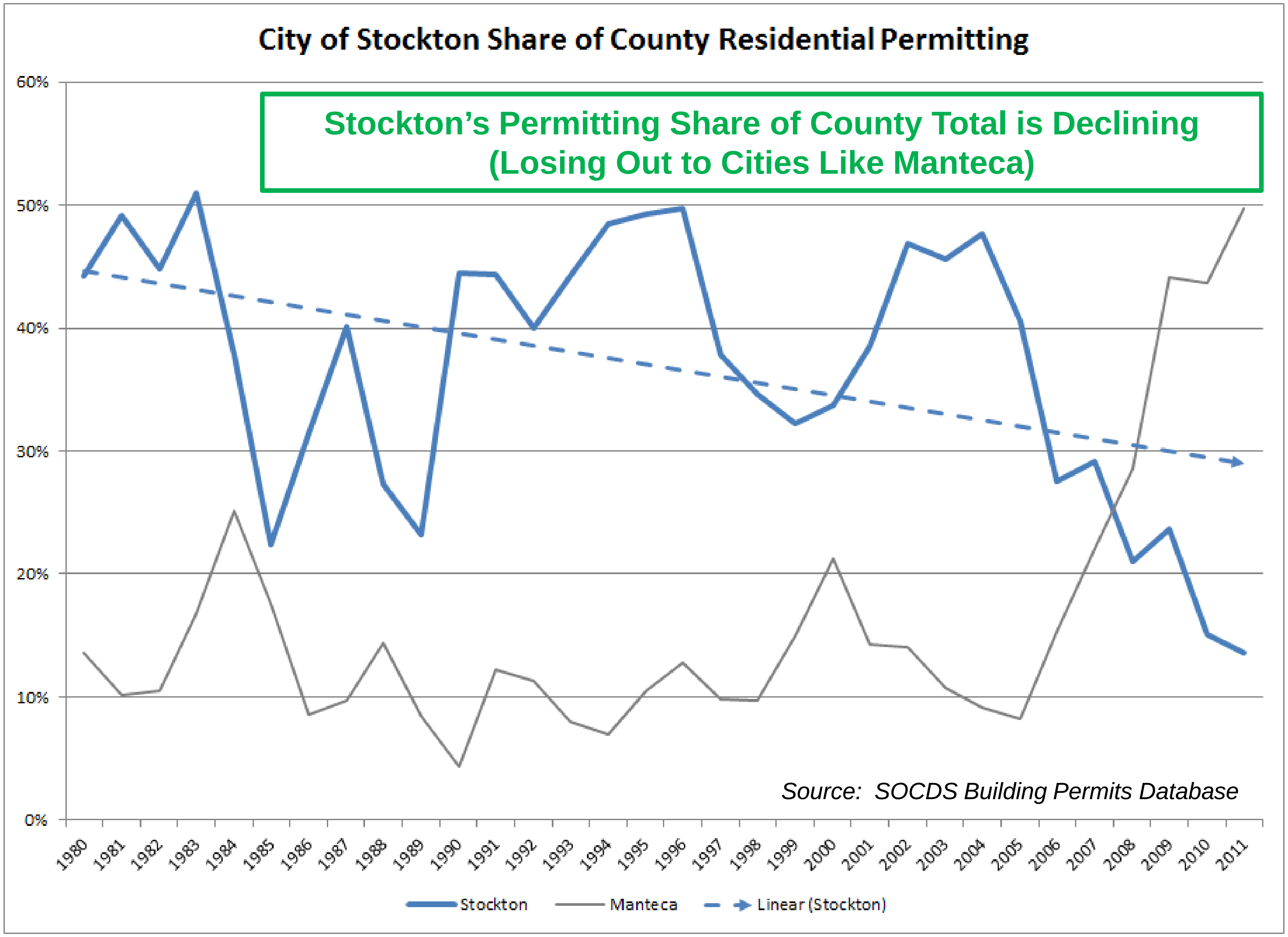
Local Perspective: Home Sales



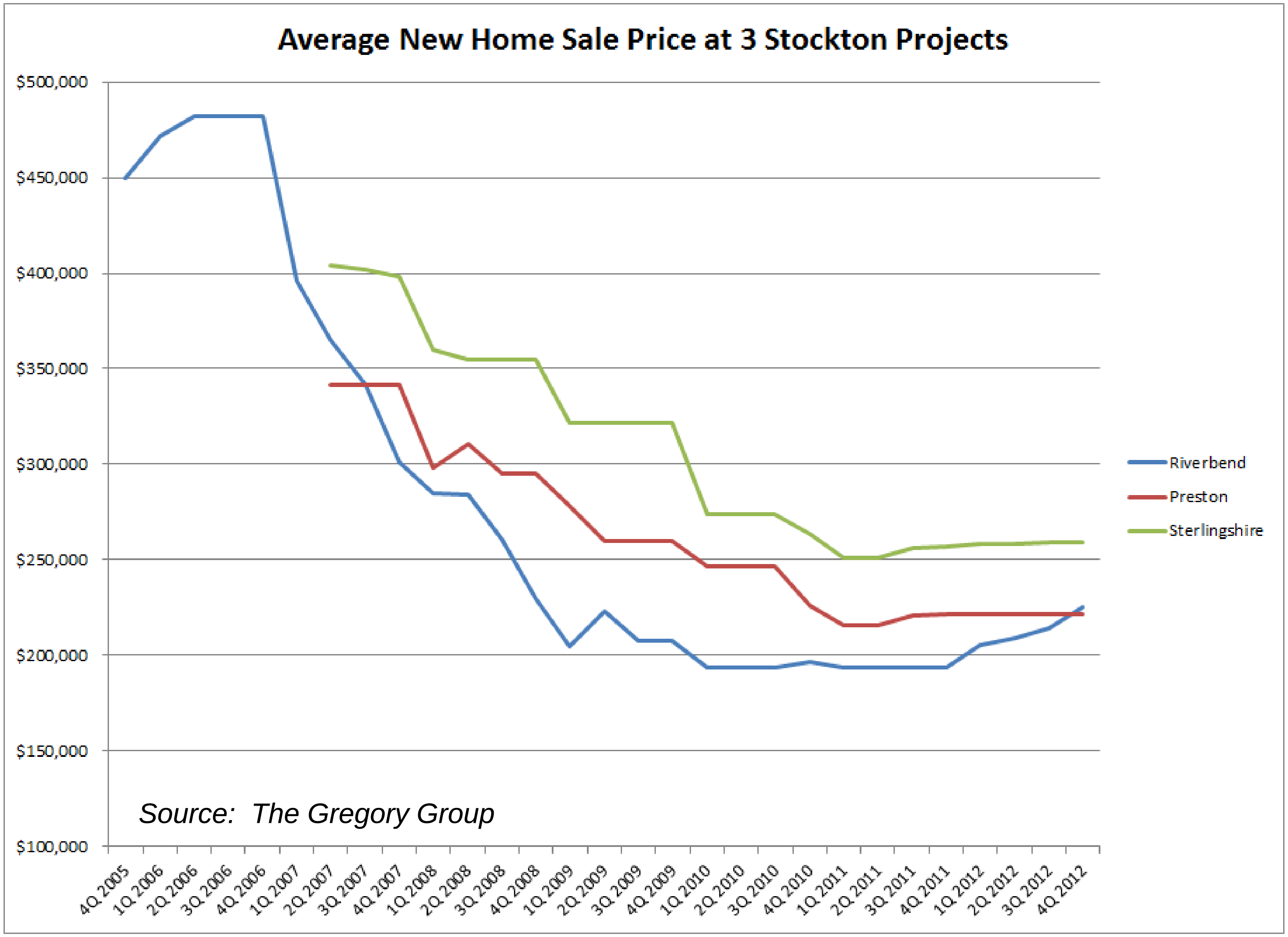
Local Perspective: New Home Permits



Local Perspective: New Home Permits



Local Perspective: New Home Prices



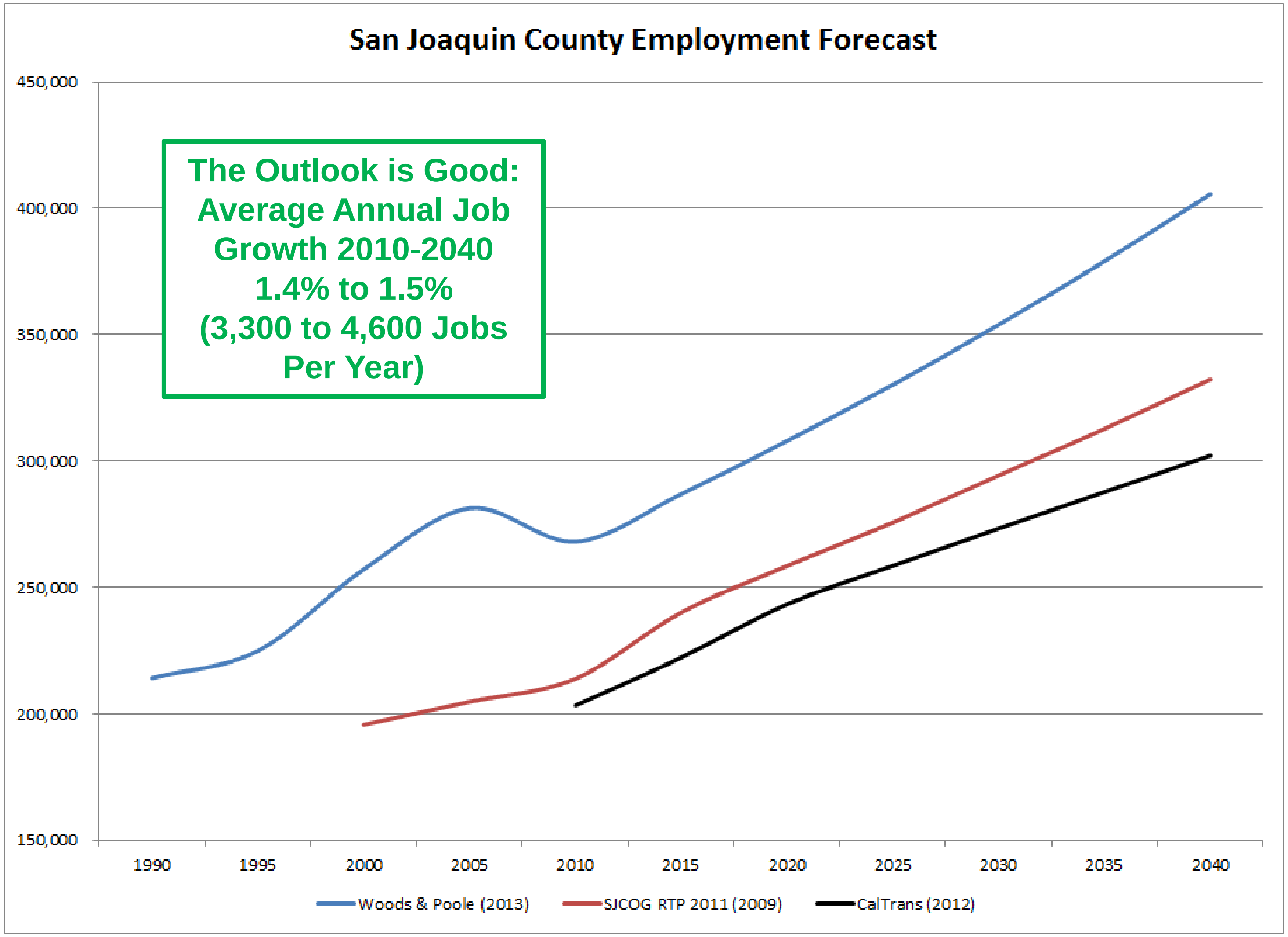
Stockton's Economic Outlook and Forecast

- The Region's economic outlook is turning positive, with average annual job growth 2010-2040 forecasted to be roughly 1.5 percent (4,000 jobs per year)
- Surrounding counties including Bay Area will also exhibit job growth, about 1 percent to 1.5 percent per year supporting continuing out-commute
- Unemployment will likely fall, with initial job gains re-employing existing residents (rather than supporting population growth)
- San Joaquin County unemployment could fall below 10 percent by 2014 according to recent forecasts
- Stockton's economic conditions (unemployment, job growth, etc.) will lag the rest of County

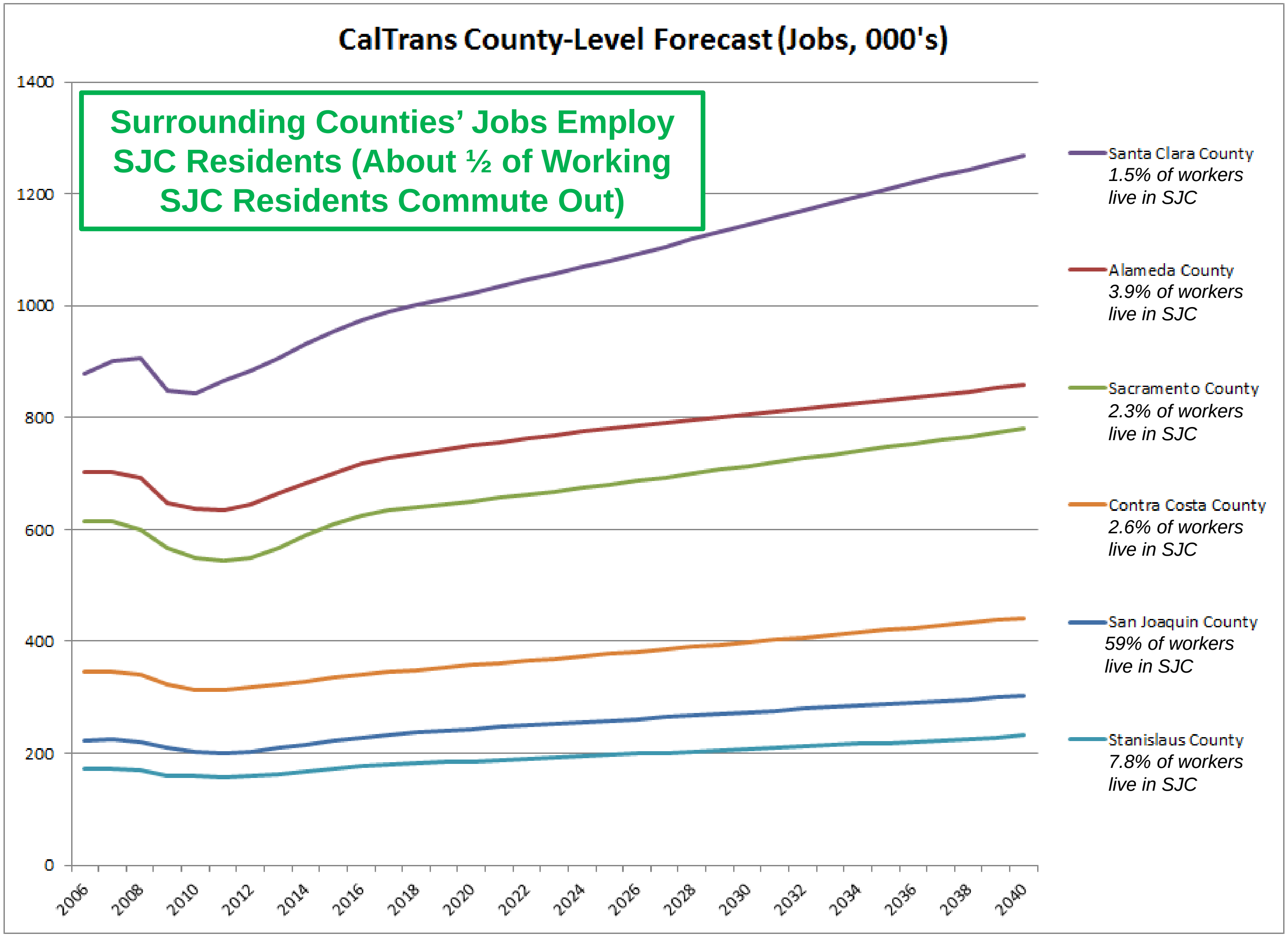
Economic Outlook, continued

- As unemployment subsides, net new jobs will support new household formation and demand for housing
- Subsequent new household formation will likely reduce housing vacancy to normal levels (about 5 percent) by 2016
- Concerns remain regarding economic diversification in San Joaquin County and the creation of "high quality" "basic industry" jobs

Looking Forward: Regional Job Growth



Looking Forward: Regional Job Growth



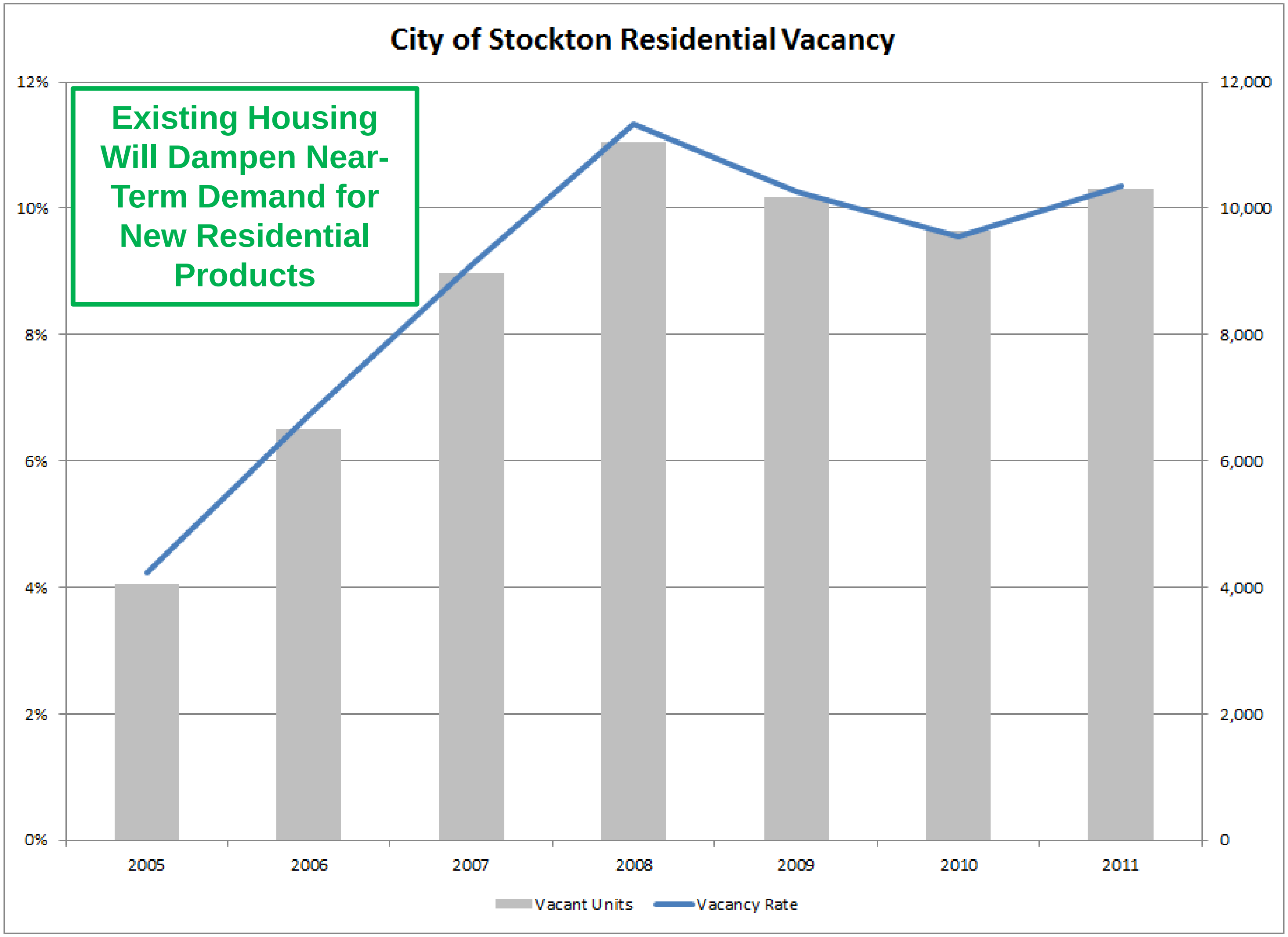
Housing Market Prospects and Forecast

- Existing housing supply will continue to dampen demand for new housing over the next year or two
- As the existing supply of housing is depleted, pricing is anticipated to rise, improving the feasibility of new home development
- Unmet demand for new housing will return by 2017, with new employment supporting roughly average of 700 new housing units annually in Stockton through 2040
- A spike in housing demand may occur as the economy recovers boosting demand in the short term and adding to the recovery

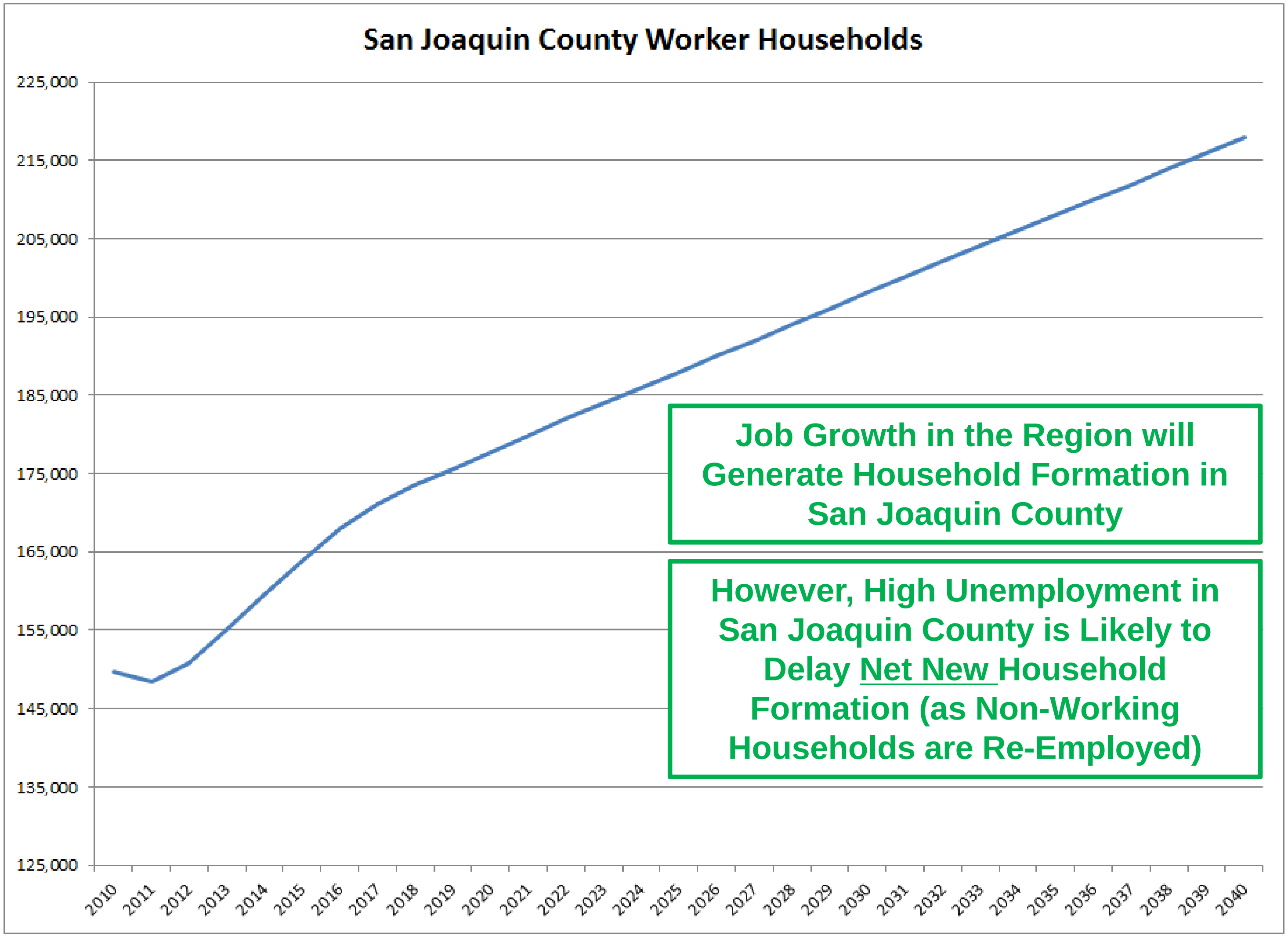
Housing Market Prospects, continued

- Stockton's market share of the County's housing market has declined substantially over the years
- Future housing need (linked to job growth) will include low and very low income families that will not be able to afford market rate housing
- Future housing production may include a greater share of higher density housing reflecting need to provide affordable housing and to utilize infill sites as part of broader revitalization efforts

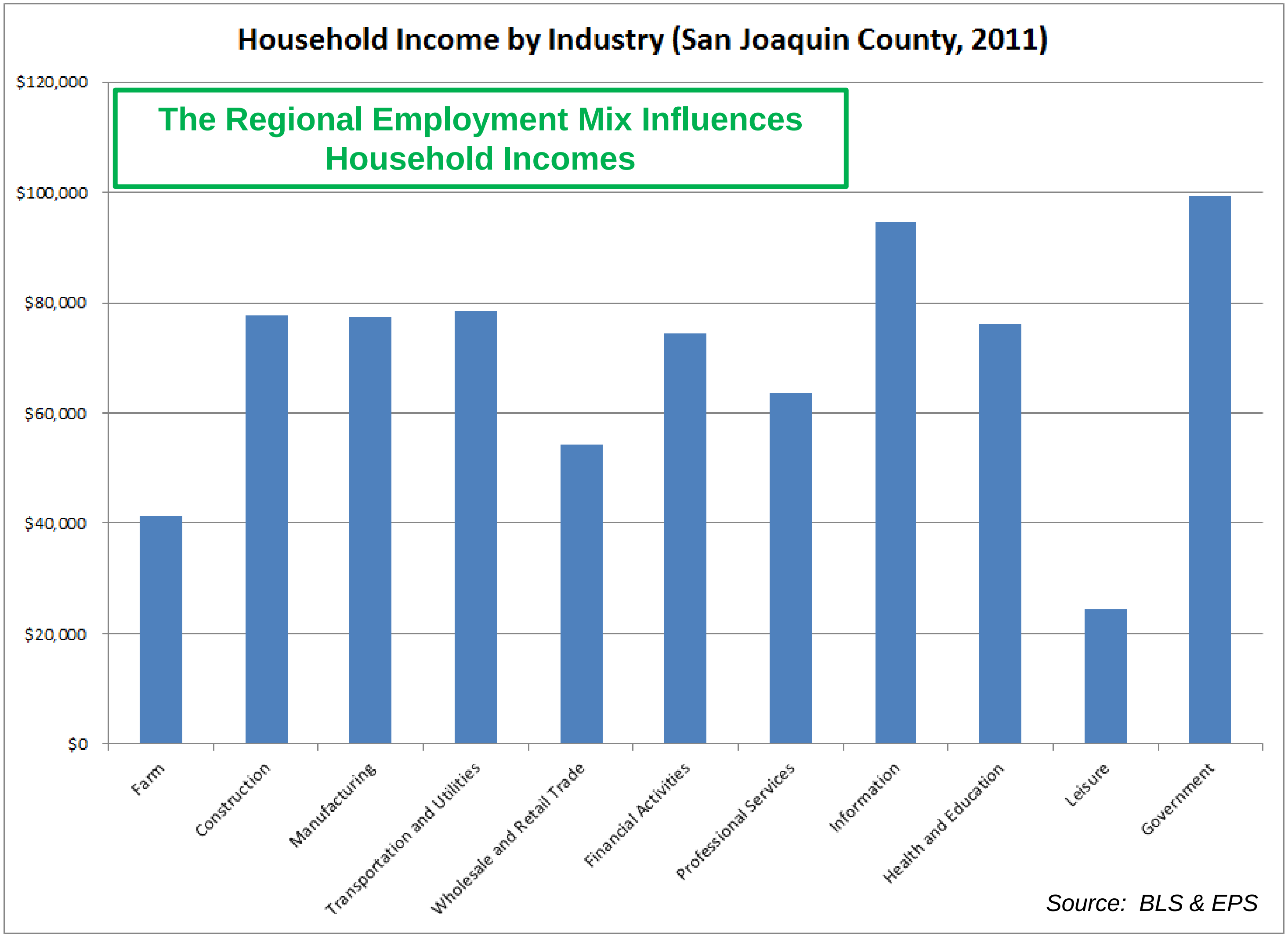
Looking Forward: Existing Housing Supply



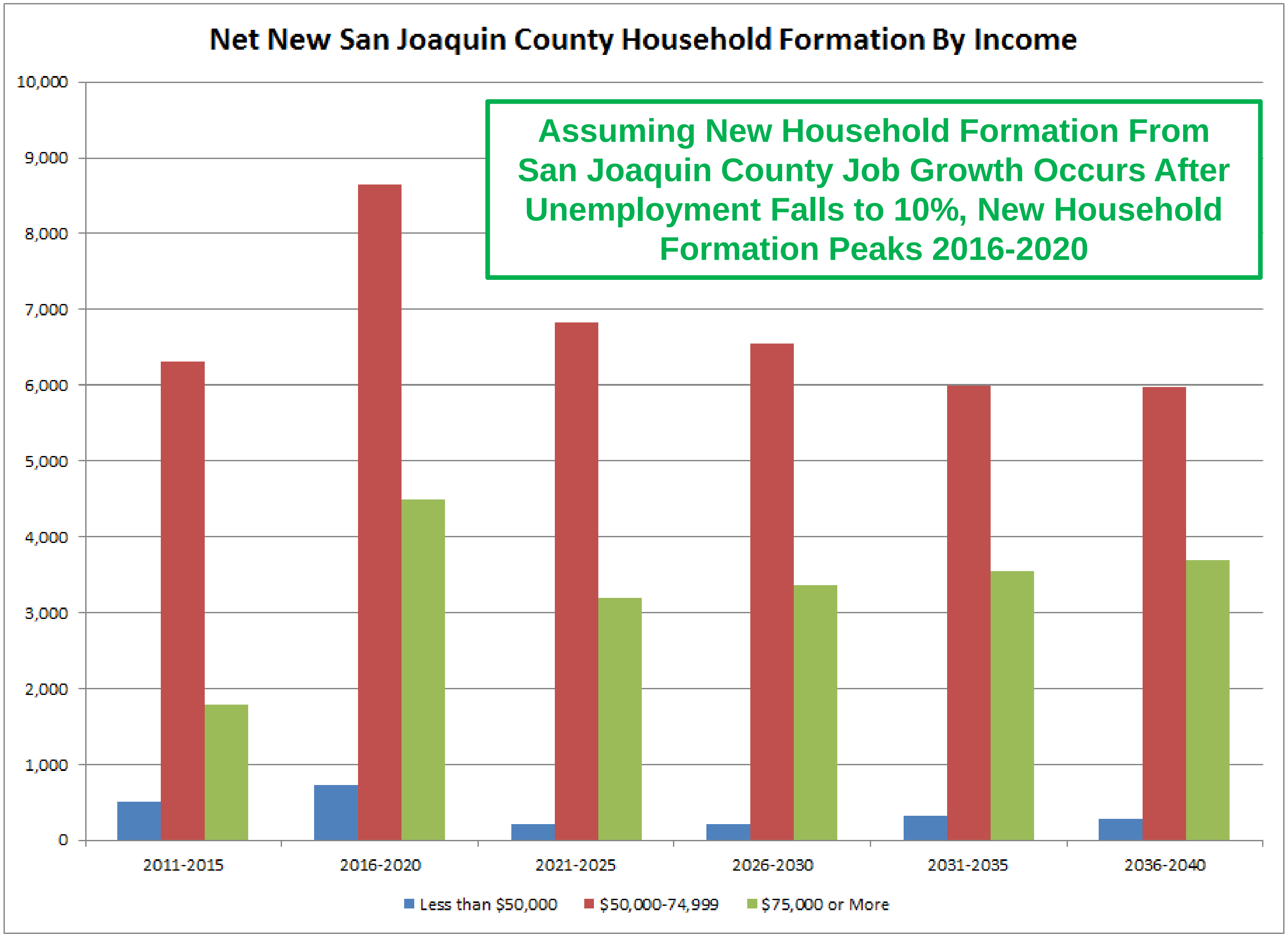
Looking Forward: Household Formation



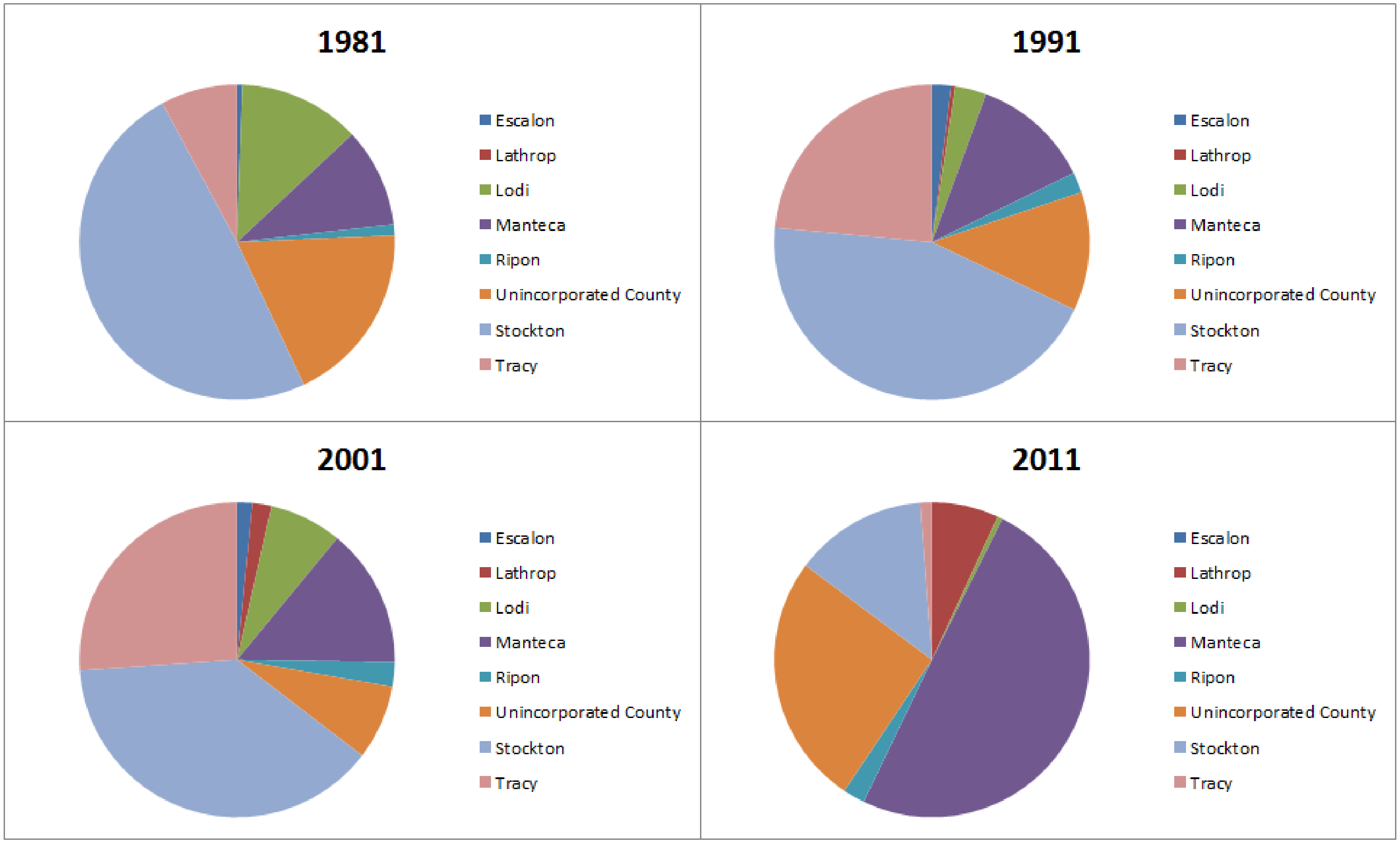
Looking Forward: Household Incomes



Looking Forward: HH Growth By Income

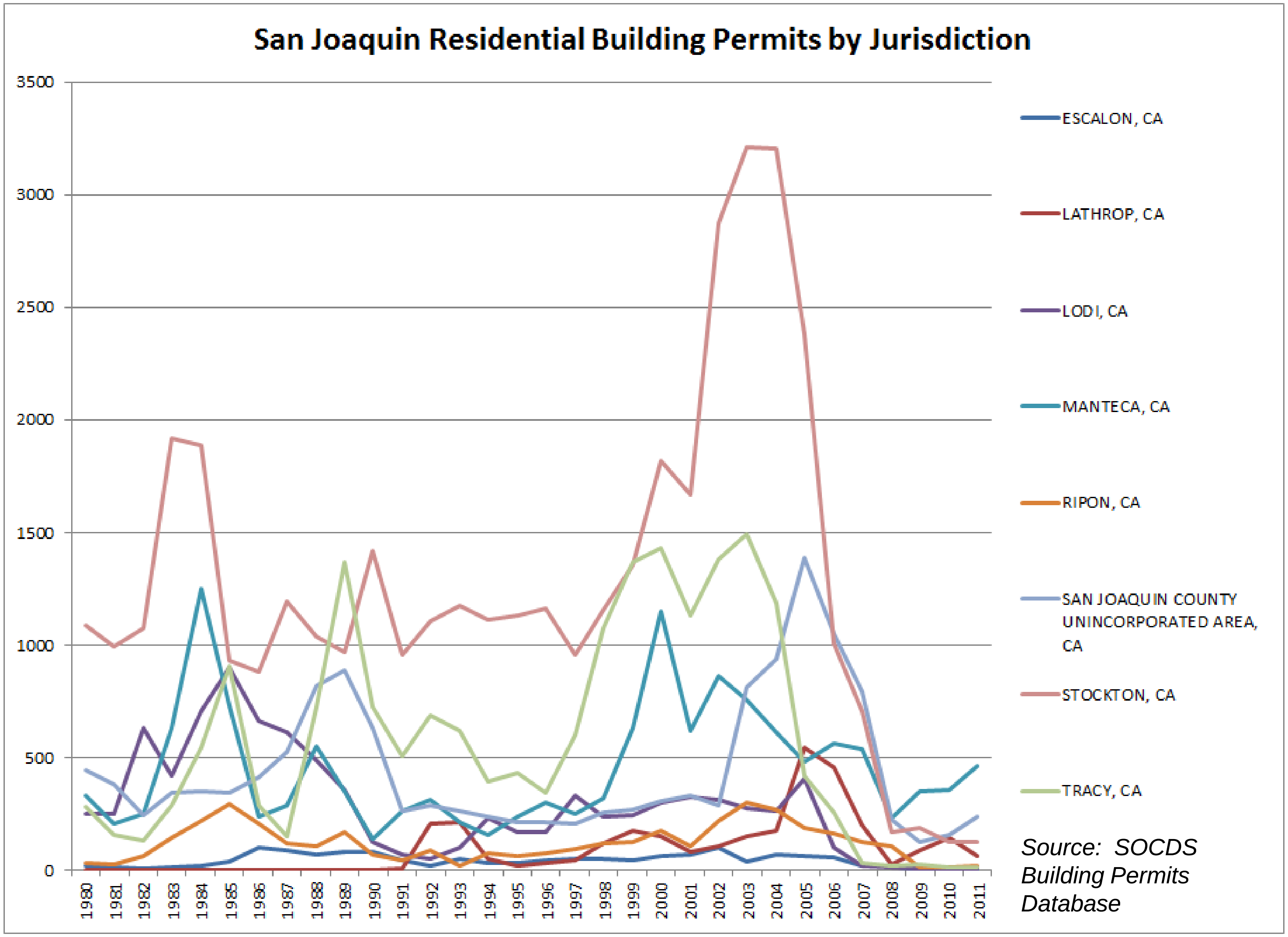


Local Perspective: New Home Permits

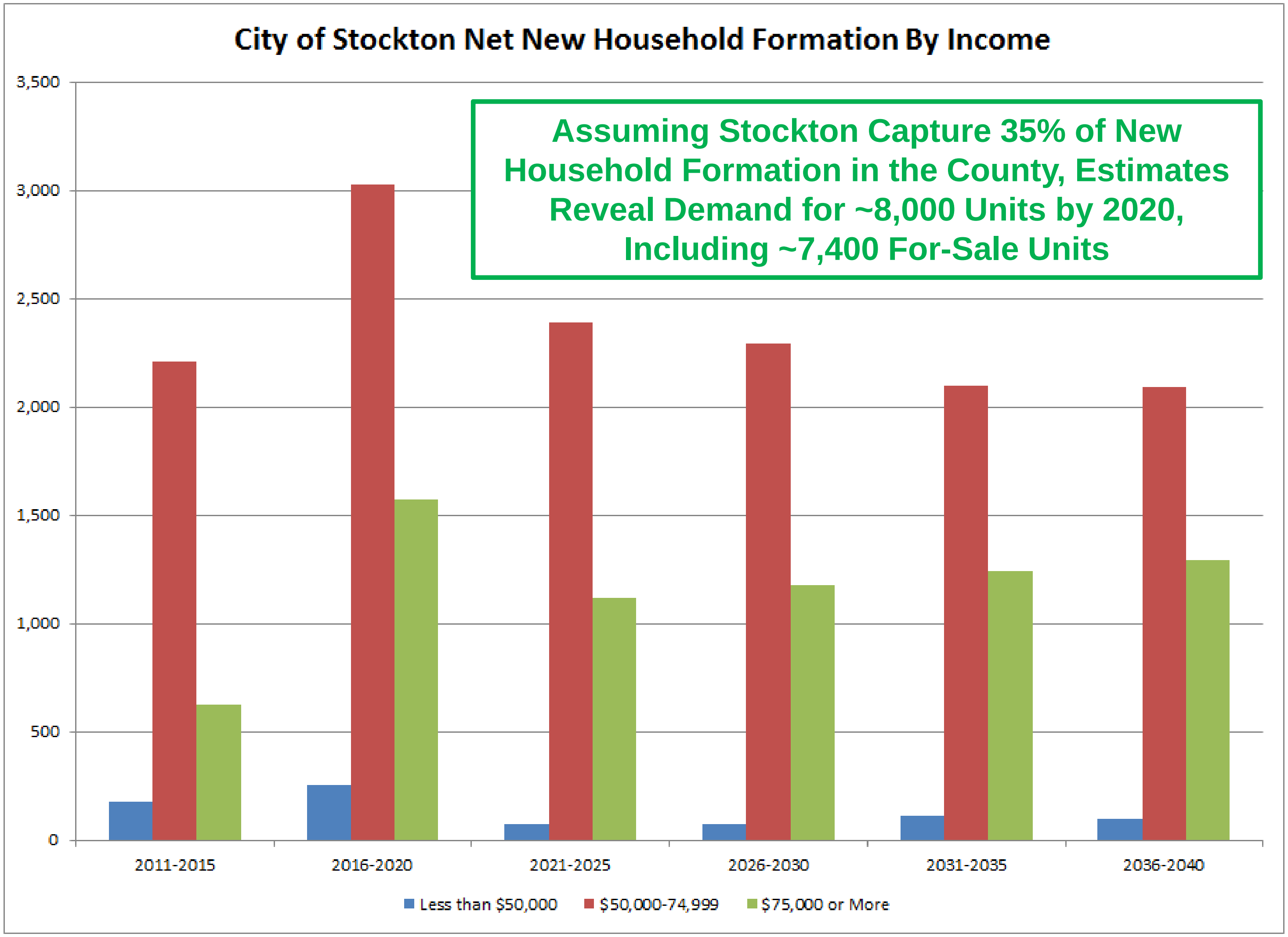


Source: SOCDS Building Permits Database

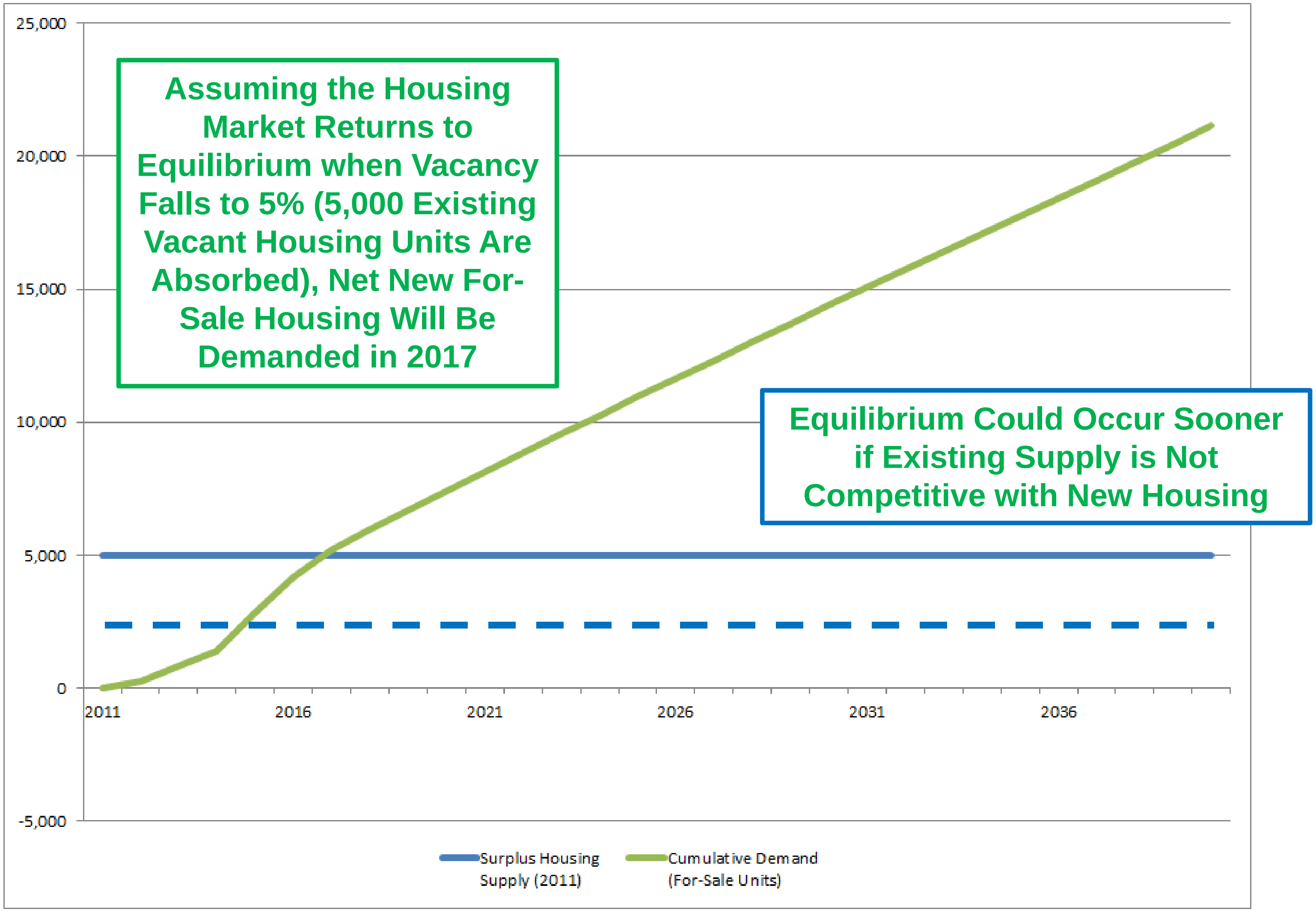
Local Perspective: New Home Permits



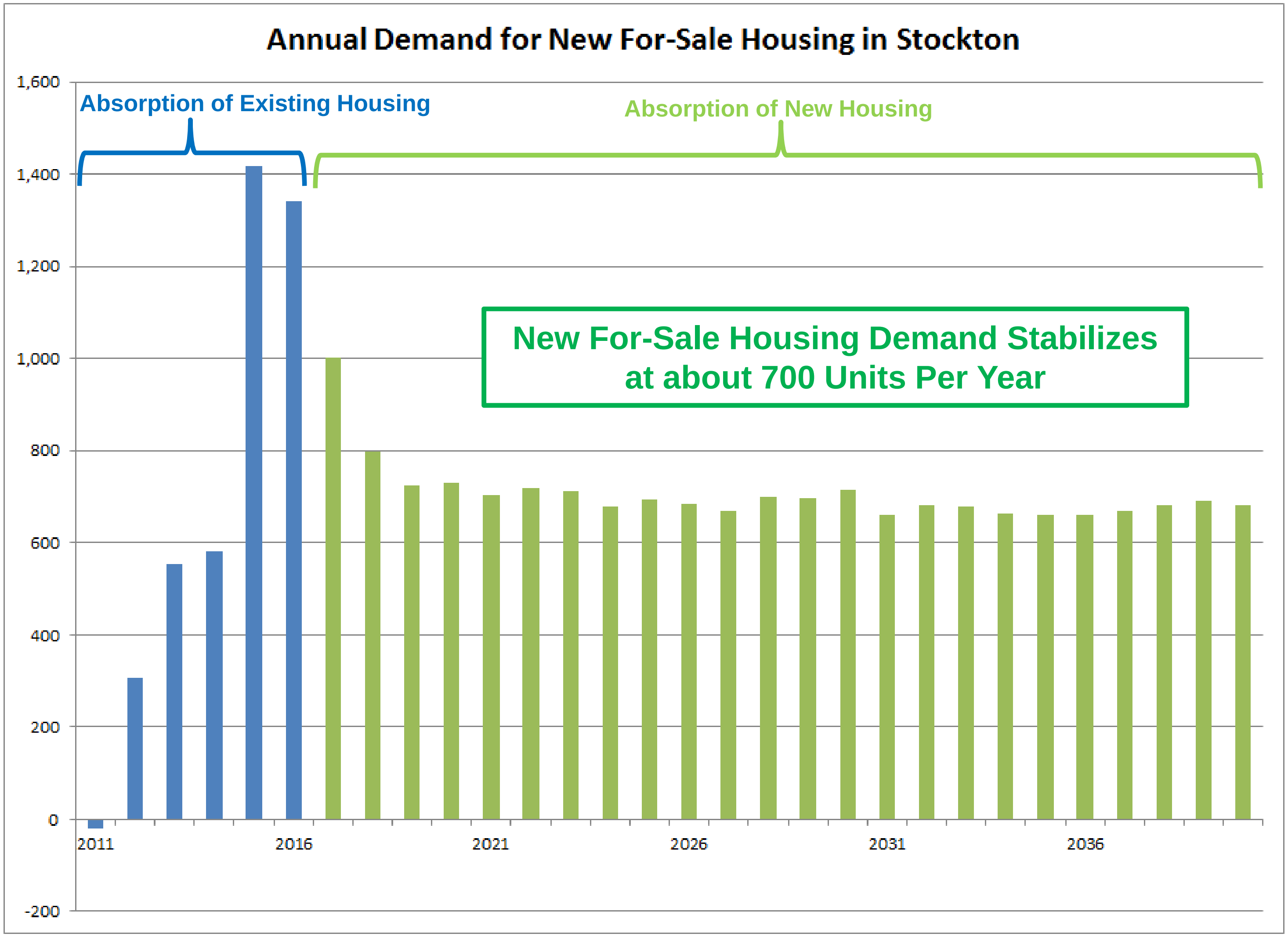
Looking Forward: HH Growth By Income



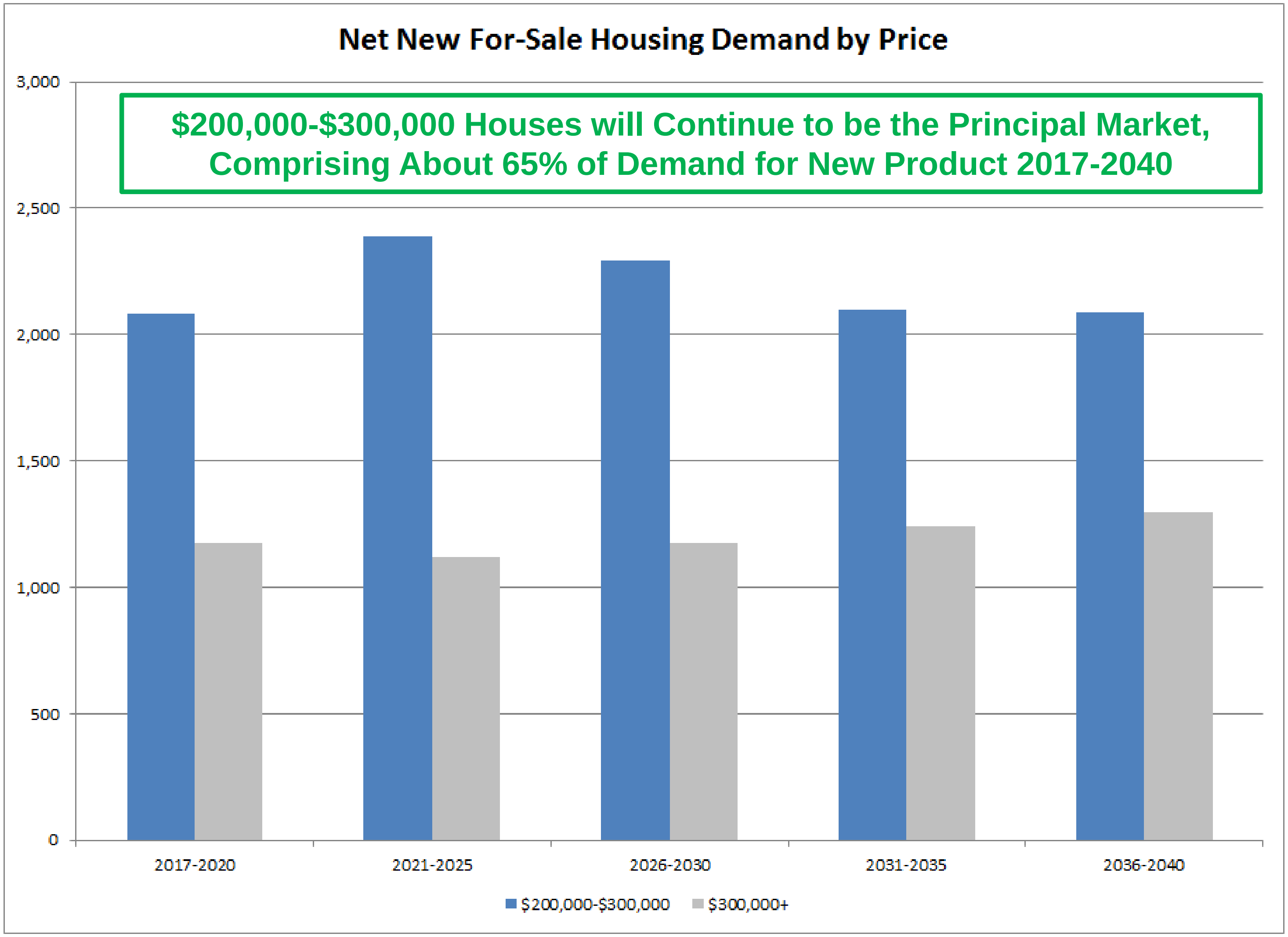
Looking Forward: Market Normalization



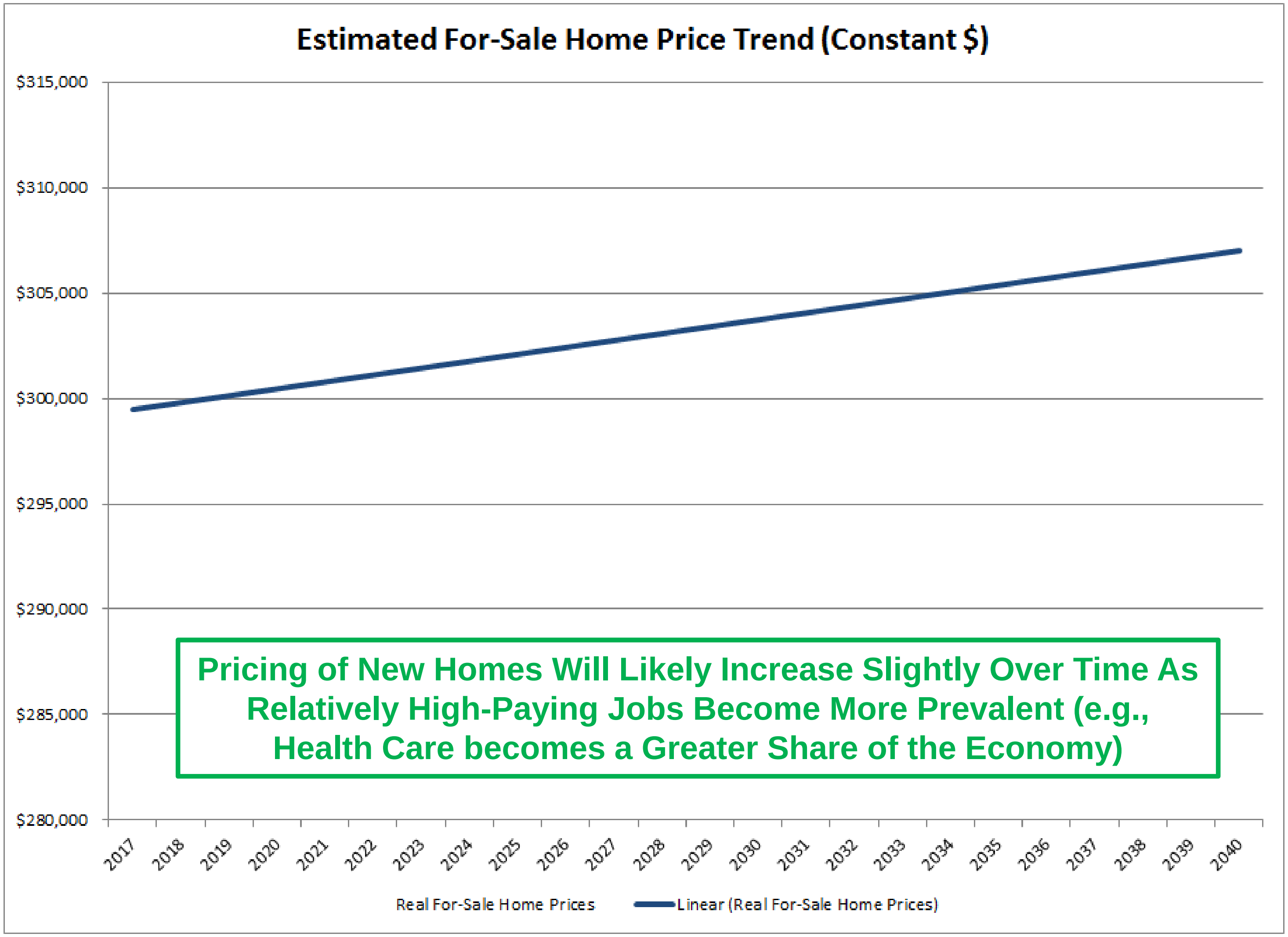
Looking Forward: Demand for New Units



Looking Forward: Price Points



Looking Forward: Real Price Increases



Development Feasibility Considerations

- DIFs add to the cost of new construction
- Insofar as fees fund necessary infrastructure and improve quality of life they along with other infrastructure investments “create value”
- Like other development costs fees can influence development feasibility as ability to purchase land or profit margins slim
- Fees, like other costs, do not directly influence prices (markets set prices)
- Aggregate fees should be moderated to “industry standard” levels given existing and expected pricing to avoid displacement of otherwise feasible development

Housing Feasibility Forecast

- Current development costs (including fees) are generally above existing home prices
- Construction costs have continued to increase while prices have fallen
- Latent supply of existing houses will continue to check price increases in near term
- Some construction activity does and will occur despite current feasibility challenges
- Housing demand and prices will continue to improve with the economy and will become generally feasible by 2016

Current Feasibility Challenge

- The market value of a typical new home is presently insufficient to cover the cost of development

Prototype: 2,070 Square-Foot Single-Family Detached Home
Current Pricing (Market Value): ~$256,000 ($124 Per Square Foot)
Current Development Cost with Full Fees: ~$291,000

Cost Category	**Assumption**		**Unit Cost (2013)**
Building Construction	$68	Per Square Foot	$140,760
Site Work	$37,500	Per Lot	$37,500
Soft Costs (A&E)	10%	Building Construction	$14,076
Development Fees	$50,000	Per Lot	$50,000
Development Budget			**$242,336**
Developer ROI Threshold (Cash-on-Cost)	12%	Hard and Soft Costs	$23,080
Total Development Cost and ROI (Without Land)			**$265,416**
Land Value	10%	Finished Home Value	$25,600
Total Development Cost and ROI (Including Land)			**$291,016**

Looking Forward: Price Recovery

- Assuming 5 percent real price appreciation (over cost escalation), market value will rise to a level that supports new development by 2016

Prototype: 2,070 Square-Foot Single-Family Detached Home
$256,000 Value in 2013 increases to $296,000 Value in 2016

	2013	2014	2015	2016	2017	2018
Product Value	$256,000	$269,000	$282,000	$296,000	$311,000	$327,000
Development Budget	$242,000	$242,000	$242,000	$242,000	$242,000	$242,000
Development Budget + Profit	$265,000	$265,000	$265,000	$265,000	$265,000	$265,000
Development Budget + Profit + Land Cost	$291,000	$292,000	$294,000	$295,000	$297,000	$298,000
Feasibility	No	No	No	Yes	Yes	Yes

Fee Reductions and Development Feasibility

- City Office Space, Community Recreation Centers, Libraries, and Street Improvement Fees currently subject to 50 percent fee reduction
- Current reductions, which expire in December, equal $7,500 per typical single-family unit
- City has implemented a $5,000 reduction in its water connection charges for single-family home
- As home prices rise the ability of development to pay fees increases
- BIA has requested a further reduction of $17,000 as a near-term stimulus to housing production

Effects of Additional Fee Reduction

- The $17,000 fee reduction requested by the BIA would lower construction cost and thus might “accelerate” the time when housing construction becomes feasible
- It is estimated that the advance would be approximately 18 months sooner that would otherwise be the case (existing fee levels remain in place)
- The loss of foregone fee revenue during this period would be proportional to the number of homes constructed and the amount of the reduction
- Assuming that 1,300 homes are constructed during this period (2013-2014) loss of CFF revenue would be $15 million (assuming net $12,000 reduction)
- This loss would not be recoverable through future fees

Looking Forward: Development Feasibility

- Assuming 5 percent real price appreciation and a $17,000 fee reduction, market value will rise and cost will fall to levels that support new development by 2015, sooner than without the fee reduction

Prototype: 2,070 Square-Foot Single-Family Detached Home
Value increases to $282,000, more than cost of $277,000 in 2015

	2013	2014	2015	2016	2017	2018
Product Value	$256,000	$269,000	$282,000	$296,000	$311,000	$327,000
Development Budget	$225,000	$225,000	$225,000	$225,000	$225,000	$225,000
Development Budget + Profit	$248,000	$248,000	$248,000	$248,000	$248,000	$248,000
Development Budget + Profit + Land Cost	$274,000	$275,000	$277,000	$278,000	$280,000	$281,000
Feasibility	No	No	Yes	Yes	Yes	Yes

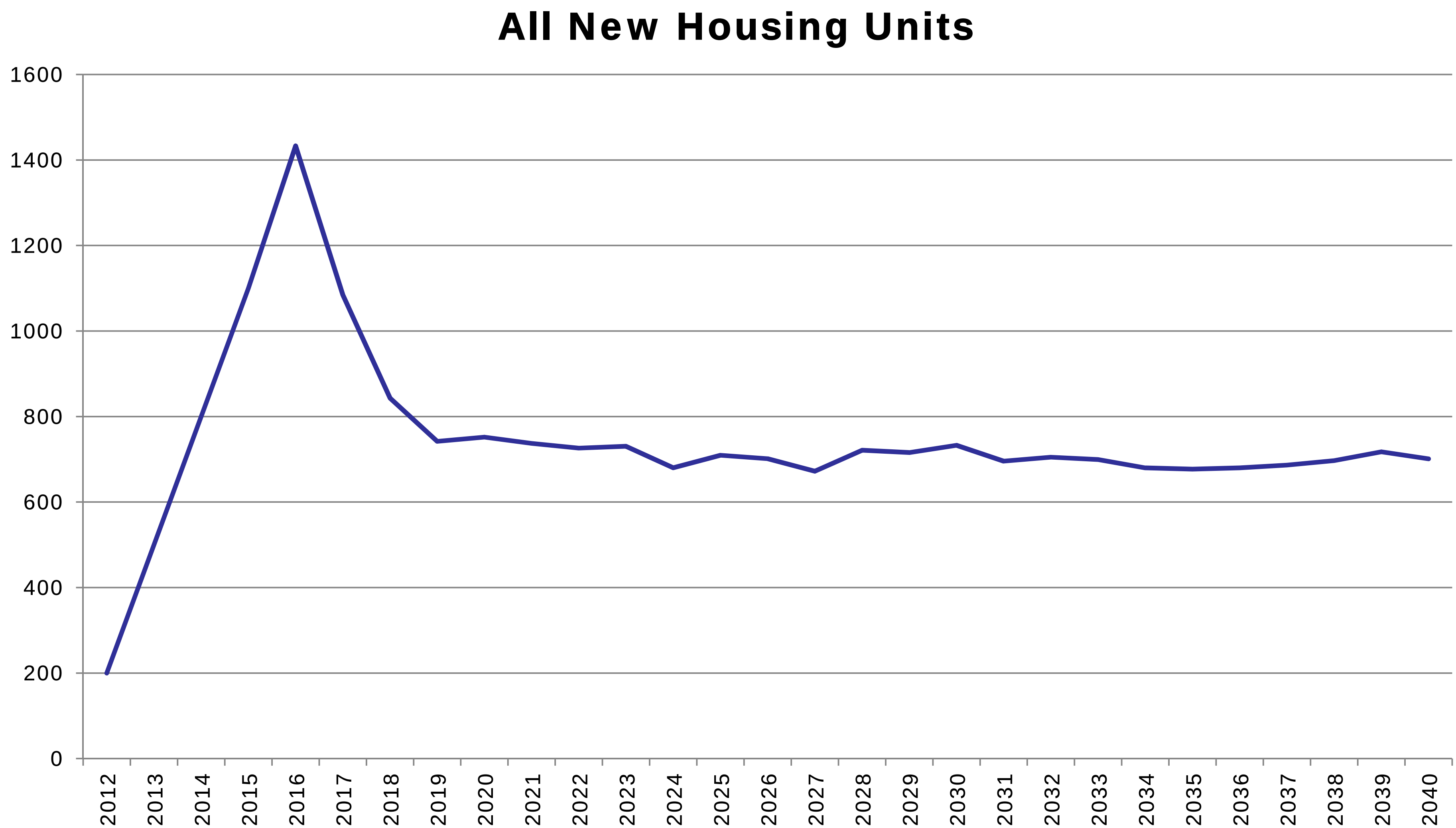
5. Development and CFF Fee Forecast

- Development Forecast
- CFF Schedule Scenarios
- Gross Future CFF Revenues

Development Forecast

- Development expected to remain tepid through 2015 as market slowly recovers
- A spike in demand may occur as demand for new product resumes and the market recovers
- Long-range economic growth (jobs and income) will sustain an average new housing of approximately 700 units per year through 2040, with annual variations
- There will be substantial annual variations, as in the past, related to future business cycle
- Housing price points will stabilize at about $300,000 in 2013 dollars with limited real appreciation possible

Development Forecast Illustrated



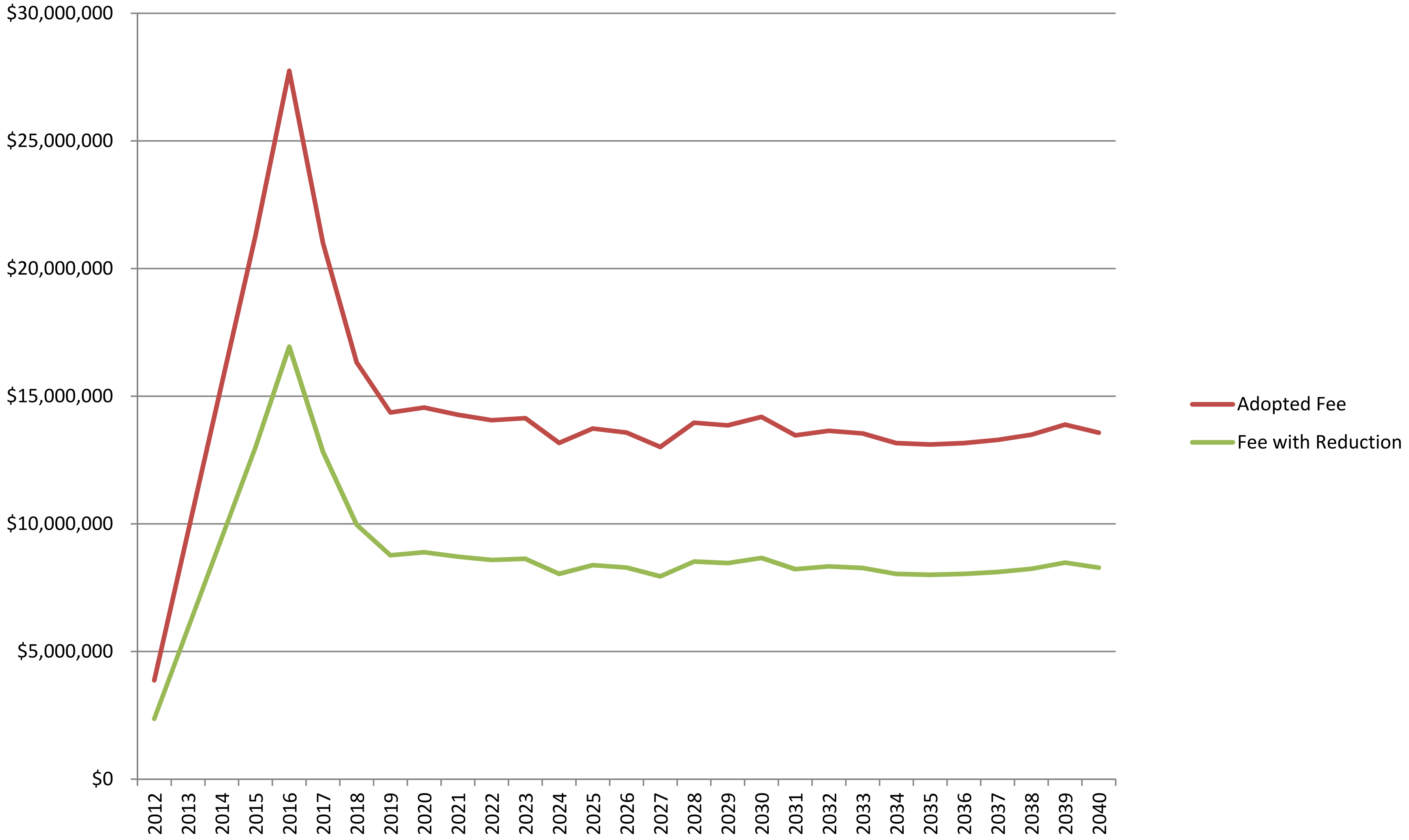
CFF Fee Schedule Scenarios

- Actual fee revenue will depend on the uncertain rate of development and the level of fees
- Adopted CFF fee schedules (before 2010 reductions) are currently below the maximum that could be charged and that will be needed to meet capital facilities needs of future development
- Scenarios considered:
  a. Existing adopted fee schedule indexed by ENR
  b. Continue existing reduced schedule

CFF Revenue Forecast

- Over the next 25 years the CFF applied to residential development could generate over $400 million in revenue (at currently adopted rates)
- This funding is likely to be less than required for City capital facilities investments
- If reduced CFF rates are sustained (or fees are further reduced there will be a proportional impact on fee revenue (see Scenario b. results)
- Revenue losses from such reductions cannot be “made-up” by future fee increases
- Mitigation fee act requires that these revenues be used expressly for those items for which the fees were collected
- Commercial development will add perhaps an additional ten percent to fee revenue

CFF Revenue Forecast



Implications of Fee Reductions

- Any fee adjustments (temporary or permanent) should refer to:
  - Requirement to reduce related service standards (e.g., reduce parks standard to less than 2.5 acres/1,000 residents or do not improve selected local roadways)
  - Change in City policy that "new development pays it own way"
  - Identification of revenues that "backfill" foregone revenue and that maintain integrity of related capital improvement programs

6. Scope of Proposed Reforms

- Interim CFF Update Program
- Reduce and Manage Financial Liabilities
- Continue CDD Reforms and Reorganization
- Pursue New Infrastructure Funding Sources
- Re-visioning and Updating Land Use Policy
- Pursuing Economic Development Initiatives

Interim CFF Update Program 2013/14

- **Review existing facility master plans** —adjust discretionary or technical service standards, review and update improvement list, prioritize projects, delete low-priority projects, etc.
- **Review cost estimates** —verify and value engineer cost estimates and tighten cost contingencies
- **Review land use and cost allocation assumptions** —growth projections, demand factors, and cost allocation factors are all technical assumptions used in fee calculations that may no longer be valid and can be changed to reflect current and expected conditions
- The above technical changes may result in lower infrastructure costs and thus lower fees; the City Council, on the basis of this analysis, could then update the fee schedules

Reduce or Manage Financial Liabilities

- Review and renegotiate pending development agreements and other prior agreements with developers
- Review all CFF fund encumbrances and consider methods for rectifying current encumbrances
- Pursue favorable outcome to RDA Successor Agency ROPS

Continue CDD Reform and Reorganization

- Seek additional operating efficiencies and cost savings
- Manage reconciliation of development and engineering project accounts
- Improve internal and inter-departmental financial management controls
- Review and revision of plan check and processing fees
- Manage interim CFF Update Program
- Establish scope of CFF Update as part of General Plan Update Program

Pursue New Capital Funding Sources

- Establish alternative development-based financing methods including Mello-Roos Community Facilities District to fund new development-related infrastructure
- Create new broad-based funding sources such as real estate transfer tax or community-wide assessment districts
- Apply any available federal or State funding to high-priority infrastructure projects
- Participate in the State's Statewide Community Infrastructure Program and other State funding programs

Re-visioning Land Use Policy

- Conduct preparatory studies regarding housing demand, infill site capacity, and cost-effectiveness of existing development pattern
- Review all pending development agreements to determine status, feasibility and effects on the City's future land use discretion
- Initiate General Plan Update focused upon revitalization and more cost-effective and feasible type, location, and timing of new development

Economic Development Initiatives

- Pursuing economic development opportunities that strengthen the economic base and the viability of the local economy
- Revitalizing commercial districts attracting new major employers and businesses
- Improving labor force through retention, training, and attraction
- Focusing on improving quality of life for all residents thus attracting new households and workers
- Assure that fees and charges fall within industry standards (as the market normalizes) and are competitive with nearby cities