



MEMORANDUM

TO: City Council

FROM: Nicole Valentine, Administrative Services Director

SUBJECT: Hold Public Hearings, Consider Adopting a Resolution Updating the Development Impact Fee Schedule & Consider the 2024 Development Impact Fee Nexus Study, & Introduction of an Ordinance Amending Chapter 3.36 of the AGMC, Development Impact Fees

DATE: February 13, 2024

SUMMARY OF ACTION:

Hold a public hearing and adopt a Resolution updating City Development Impact fees as set forth in Attachment 1 Exhibit A, and receive and file the 2024 Development Impact Fee Nexus Study. Hold a public hearing and conduct the first reading, by title only, of an Ordinance titled: "An Ordinance of the City Council of Arroyo Grande Amending Section 3.36.030 of the Arroyo Grande Municipal Code Regarding Development Impact Fees and Finding the Ordinance Exempt from the California Environmental Quality Act." Adoption of this Ordinance will be at a future City Council meeting.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The Development Impact Fee Nexus Study Update ("DIF Study") was included in the FY 2022-23 budget and the City spent approximately \$45,850 on consultant services to prepare the DIF Study. Development Impact Fees (DIFs) reflect and mitigate impacts of new development. They do not represent profit making by the City.

RECOMMENDATION:

- 1) Hold a Public Hearing and Adopt the Resolution updating Development Impact fees set forth in Attachment 1 Exhibit A;
- 2) Receive and file the 2024 Development Impact Fee Nexus Study Update;
- 3) Hold a Public Hearing and Introduce the Ordinance amending Arroyo Grande Municipal Code Section 3.36.030 Regarding Development Impact Fees; and
- 4) Make findings that adopting the Resolution updating Development Impact fees and introducing the proposed Ordinance are not projects subject to the California Environmental Quality Act ("CEQA") because they have no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.).

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BACKGROUND:

In Arroyo Grande, DIFs are collected at the time a building permit is issued. Fees are used to finance the acquisition, construction and improvement of public facilities needed as a result of this new development. A separate fund is maintained to account for the receipt and expense of each category of DIF funds.

The City engaged with Willdan Financial Services to conduct the DIF Study; included as Attachment 1, Exhibit "B." Willdan Financial Services worked closely with the Administrative Services Department, Community Development Department, Public Works Department, and the City Attorney to update the DIF Study to reflect best practices and changes in state and federal law that have occurred since the last update.

ANALYSIS OF ISSUES:

DIFs are one-time fees paid by new development to fund the cost of providing municipal facilities to serve that development. This authorization exists through the enactment of California Government Code sections 66000 through 66025 (also known as the "Mitigation Fee Act" and sometimes referred to as "AB1600"). The Mitigation Fee Act is premised on the concept that new development pays its own way, or, put another way, new development has to mitigate its own impacts on the City's public facilities. This process includes making a determination that there is a reasonable relationship between the purpose of the fee, the fee's use and the type of development project on which the fee is imposed. In order for DIF to be legally enforceable, local governments must conduct an analysis that identifies anticipated growth that is related to infrastructure costs and apportion those costs to projected development. This is distributed by type of development, square foot, dwelling unit, or per trip basis - with the intent that this impact fee type of distribution equitably mitigates the impact of development on City resources, amenities and infrastructure.

The primary policy objective of a DIF program is to ensure that new development pays the capital costs associated with growth. Although growth also imposes operating costs, there is not a similar system to generate revenue from new development for services. The primary purpose of the DIF Study is to calculate and present fees that will enable the City to expand its inventory of public facilities, as new development creates increased demands on those public facilities.

The City programs DIF-funded capital projects through its Capital Improvement Plan (CIP). Using a CIP allows the City to identify and direct its fee revenue to public facilities projects that will accommodate future growth. By programming fee revenues to specific capital projects, the City can help ensure a reasonable relationship between new development and the use of fee revenues as required by the Mitigation Fee Act.

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Impact fee revenue must be spent on new facilities or expansion of current facilities to serve new development. Impact fee revenue can be spent on capital facilities to serve new development, including but not limited to land acquisition, construction of buildings, construction of infrastructure, the acquisition of vehicles or equipment, information technology, software licenses and equipment. The proposed DIF unit measurement is based on Square Foot or Meter Size depending on the type of DIF.

DIF is calculated to fund the cost of facilities required to accommodate growth. The six steps followed in this DIF Study include:

1. Estimate existing development and future growth;
2. Identify facility standards;
3. Determine facilities required to serve new development;
4. Determine the cost of facilities required to serve new development;
5. Calculate fee schedule; and
6. Identify alternative funding requirements.

In accordance with the provisions of Section 66000 of the Government Code, there must be a nexus between the fees imposed, the use of the fees and the development projects on which the fees are imposed. Furthermore, there must be a relationship between the amount of the fee and the cost of the improvements.

The DIF Study summarizes an analysis of development impact fees needed to support future development in the City through 2050. It is the City's intent that the costs representing future development's share of public facilities and capital improvements be imposed on that development in the form of a DIF. During the DIF Study review we identified which public facilities would provide the right categories for the City through 2050. The proposed Ordinance will be adopted following the successful public hearing and adoption of the Resolution. The proposed Ordinance includes the following updated DIF categories to ensure the City's municipal code contains the current DIF information. The public facilities and improvements included in this analysis are divided into the following fee categories, which are described in detail in the DIF Study, Attachment 1, Exhibit "B":

- Fire Protection Facilities
- Police Facilities
- Park Facilities
- Recreation Facilities
- Water Facilities
- Transportation Facilities
- Storm Drain Facilities
- Wastewater Facilities

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Growth projects are used as indicators of demand to determine facility needs and allocate those needs between existing and new development. The growth projections included in the DIF Study are based on a 2023 base year and a planning horizon of 2050. These growth estimates are used to allocate facility costs to the projected new development.

Table 1 shows the estimated number of residents, dwelling units, employees, and non-residential building square footage in Arroyo Grande, both in 2023 and projected for 2050. The base year estimates of household residents and dwelling units comes from the California Department Of Finance (DOF). The 2050 projection of residents was identified in the "Medium" growth scenario from the SLOCOG 2050 Regional Growth Forecast. The regional growth forecast projected 8,460 households in 2050. Accounting for 7% vacancy (which is the current vacancy rate reported by the DOF), the projection totals an increase of 1,016 housing units. It assumes that the same ratio of single family to multifamily will be maintained as development occurs.

Base year employees were estimated based on the latest data from the US Census' OnTheMap application and exclude 187 local government (public administration) employees. Total projected workers in 2050 are identified in the regional growth forecast. The proportion of workers by land use is held consistent with current estimates.

Table 1 – Existing and New Development

	2023	Increase	2050
Residents	17,740	2,709	20,449
Dwelling Units	8,086	1,016	9,102
Employment	5,338	2,575	7,913
Sources: CA DOF; OnTheMap; SLOCOG 2050 Regional			

The DIF Study details the legal framework that allows the imposition of the DIF, the required findings, the reasonable relationship requirements, and the methodology used in the DIF Study.

The DIF Study does not create the DIF rates but rather recommends DIF rates that would recover the estimated full costs of providing public facilities to mitigate the demands of new development. The City Council must vote to adopt the DIF rates. Collecting the full costs needed to provide these future facilities today positions the City to have resources available when those facilities are needed. For this reason, staff recommends that the attached proposed Resolution be adopted, to fully recover future development related costs.

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Next Steps:

The City Council may approve the DIF via the attached Resolution with the attached Ordinance being subsequently adopted to ensure the proposed DIF categories match the City's Municipal Code. In compliance with State law, the updated DIF rate will become effective 60 days after adoption of the Resolution. An effective date of April 15, 2024, would result in two and a half months of collecting the new fees during the remainder of the fiscal year. Finally, a second reading and adoption of the Ordinance is scheduled for February 27, 2024.

The amount of the DIF shall be modified annually to account for inflation each January 1 based on the change in the Engineering News Record, California Construction Cost Index each year. Such inflationary increases shall not constitute an increase within the meaning of the Mitigation Fee Act and may be implemented each year without the requirement to obtain approval of the City Council.

ALTERNATIVES:

The following alternatives are provided for the Council's consideration:

1. Adopt the Resolution updating Development Impact fees set forth in Exhibit "A" and introduce the Ordinance amending Section 3.36.030 of the AGMC; or
2. Modify and adopt the Resolution updating Development Impact fees set forth in "Exhibit "A" and continue the public hearing to introduce the Ordinance amending Section 3.36.030 of the AGMC pending legal counsel review of any modifications applied to the Resolution; or
3. Provide other direction to staff.

ADVANTAGES:

By approving the recommended DIF, the City will be able to recover the estimated cost of providing infrastructure to offset the impact caused by new development.

DISADVANTAGES:

Implementing the recommended DIF will result in an increased cost to new development.

ENVIRONMENTAL REVIEW:

Adopting the Resolution updating Development Impact fees set forth in the Exhibit "A" and the Ordinance are not projects subject to the California Environmental Quality Act ("CEQA") because they have no potential to result in either a direct, or reasonably foreseeable indirect, physical change in the environment. (State CEQA Guidelines, §§ 15060, subd. (c)(2)-(3), 15378.)

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PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall, on the City's website, and published in the newspaper in accordance with the Mitigation Fee Act and Government Code Section 54954.2.

Attachments:

1. Proposed Resolution, including the following exhibits
 - i. Exhibit A – the DIF Schedule
 - ii. Exhibit B – the DIF Study
2. Proposed Ordinance: “An Ordinance of the City Council of Arroyo Grande Amending Section 3.36.030 of the Arroyo Grande Municipal Code Regarding Development Impact Fees and Finding the Ordinance Exempt from the California Environmental Quality Act.”