



CITY OF FORT BRAGG

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COUNCIL COMMITTEE ITEM SUMMARY REPORT

MEETING DATE: JANUARY 8, 2020

TO: PUBLIC WORKS & FACILITIES COMMITTEE

FROM: PUBLIC WORKS DIRECTOR- Tom Varga

**AGENDA ITEM TITLE: DISCUSSION OF CAPACITY FEE WAIVERS IN THE
CENTRAL BUSINESS DISTRICT**

BACKGROUND AND OVERVIEW:

At its September 23, 2019 City Council meeting, Council provided staff direction to develop a Development Impact Fee Deferral Program for Council approval. The Development Impact Fee Deferral Program was brought forward to City Council in advance of the full Business Development, Economic Development and Housing Development Incentives Policy Manual, so that the new program to defer water and wastewater capacity fees could be applied to a pending low income housing project. In addition, an incomplete part of the Policy Manual is called, "Central Business District Capacity Fee Forgiveness Program." Today's discussion can also be used to develop draft program for the Policy Manual.

On November 12, 2019, The City Council introduce Ordinance 954-2019 to add Chapter 15.36 – Deferral of Development Impact Fees (attached) to the municipal code. The Ordinance was adopted November 25, 2019. The chapter allows the deferral of water and waste water capacity fees for qualified projects. In addition to low-income residential projects, this program can be applied to commercial projects in the Central Business District (CBD). However as a fee deferral program, the fees must ultimately be paid back over a two or three year period with accrued interest. The accompanying City Council staff report provides a detailed background and analysis of fee deferral programs. It is attached for further reference.

At its November 25th meeting, Council asked the Public Works & Facilities Committee to consider the waiver of capacity fees for projects within the Central Business District that intensified land use. This intensification would be of a nature that triggered the payment of water or waste water capacity fees. The most likely source of such intensification would be the addition or creation of a restaurant and/or bar in a building where one had not already paid capacity fees for a restaurant and/or bar.

Briefly, development impact fees are one-time charges applied to new development or expansion to fund the increased needs for City infrastructure impacted by the service needs of new development. However, development impact and permit fees are often cited as a hurdle to development. In response, a number of cities and counties have created programs to provide for deferral of some of these fees, to encourage construction of residential and/or nonresidential development projects. The fact that development fees are generally accumulated over years and then used to pay for future projects makes it easier to defer their collection.

A more aggressive approach is to not just defer impact/capacity fees, but to waive them in part or entirely. Such a waiver reduces the collection of capacity fees. In turn, this shifts a portion of capital improvements to the ratepayers who make up the difference as a greater portion of the water or wastewater rate. With a large number of projects contributing their share of funding capital improvements, the proportionate burden for each project is smaller. Similarly, the share provided by the rate payers is smaller. Conversely, reducing the imposition of capacity fees increases these shares. The third source of funding, grants and loans, remains unchanged.

While the immediate discussion is intended to cover the CBD, larger policy matters come into play. First, restricting capacity fee waivers to just the CBD excludes other types of projects. Second, as capacity fees are waived, the remaining projects and ratepayers pay a greater portion of the cost for capital improvements. Given that water and waste water infrastructure are in need of extensive and costly upgrades or improvements this is also an important policy consideration. Third, can waivers be used as an incentive to accomplish other important goals?

Questions for the Committee consider include:

- What is the appropriate scope of capacity waivers; should other locations or land uses be included?
- If a waiver is desired, how much of the total obligation might be waived?
- What are the justifications for waivers?
- What is the appropriate blend of funding sources between development-based capacity fees, ratepayer contributions, and loans/grants?
- Should other options be considered? The estimates and assumptions for high cost capacity fees can be re-examined.
- Should the waiver of capacity fees be part of an incentive to install fire sprinklers in the CBD?

RECOMMENDATION:

The Committee is requested to consider the City Council's request to examine the idea of capacity fee waivers for development in the Central Business District. Such a discussion can also help shape the City's economic development policy(s). Finally, the potential consequences of these policy choices should be addressed.

After the Committee's deliberation, the matter can be forwarded to the City Council with the Committee's recommendations. The Committee can also return the matter to staff for further investigation and/or refinement.

ATTACHMENTS:

- Staff report, Introduction of Ordinance No. 954-2019 Adding Chapter 15.36 (Deferral of Development Impact Fees)
- Ordinance 954-2019, Chapter 15.36