CITY COUNCIL STAFF REPORT

TO: City Council **DATE: October 27, 2025**

DEPARTMENT: Administration & Economic Development Department

PREPARED BY: Isaac Whippy, City Manager

PRESENTER: Isaac Whippy, City Manager

AGENDA TITLE: Receive Report and Consider Adoption of a Resolution Expanding the Water and Sewer Capacity Fee Deferral Program for Eligible Small Businesses Consistent with the City's Strategic Plan, BEAR Economic Development Strategies, and SB 937

RECOMMENDATION

Adopt a Resolution establishing a Water and Wastewater Capacity Fee Deferral Program that allows eligible small businesses to defer payment of capacity fees for a limited period. This program is consistent with the City's Strategic Plan, Business Expansion, Attraction, and Retention (BEAR) economic development strategies, and the legal authority provided under SB 937.

BACKGROUND

The City of Fort Bragg has long recognized the importance of supporting small businesses as a cornerstone of the local economy. Capacity fees—charged to new or expanding businesses to cover the cost of increased demand on the City's water and sewer systems—can present a significant upfront financial barrier for small entrepreneurs.

In 2024, the City Council adopted Resolution No. 4763-2024 and Ordinance 987-2024 implementing a Nexus Fee Study and updating facility fees to ensure that growth pays its fair share for infrastructure. While appropriate for fiscal sustainability, these fees can discourage small businesses from locating or expanding in Fort Bragg.

In response, the City previously established a targeted deferral program for food service businesses in the Central Business District (CBD). This initiative helped activate vacant storefronts and revitalize downtown. To build on that success, staff proposes expanding the deferral program citywide to other commercial zones, providing broader support to small local businesses. This proposal would expand this program to all commercial zones.

State Policy Context – SB 937

SB 937, effective January 1, 2024, provides legal authority for and requires cities to allow the deferment of development impact and capacity fees for designated residential development projects to later stages in the development process, provided that repayment is secured through enforceable agreements. Several California jurisdictions—including Cotati, Modesto, Anaheim, and Roseville—have successfully implemented SB 937-compliant programs.

This legislation aligns with Fort Bragg's economic development priorities by giving local governments the flexibility to stimulate economic activity without waiving revenue or undermining enterprise fund integrity.

DISCUSSION AND ANALYSIS

1. Program Expansion

- Current: Central Business District (CBD).
- Proposed: Expand to include other commercial zones such as General Commercial (CG), Highway Commercial (CH), and Neighborhood Commercial (CN), as defined in the Inland Land Use & Development Code.

Eligible Businesses:

CRITERIA	GUIDELINE/LIMIT
Business Size	≤ 25 FTE, ≤ $2.5 million gross receipts
Project Valuation	≤ $3 million
Ownership	Locally owned and operated; no national chains or large franchises
Annual Program Cap	$200,000 total deferrals per year
Business Types*	Food Service, retail, arts, tourism, neighborhood serving, light manufacturing *The City Council may, at its sole discretion, approve or deny deferral requests from businesses or projects that fall outside of standard eligibility categories.*
Zones	CBD, CG, CH, CN
Limit per Applicant	One deferral per property or business in 5 years
Program Cap	$200,000 total deferrals per year
Exclusions	National or regional corporate chains.Businesses exceeding capital investment thresholds, Franchise Operations

*Eligible Business Types

This program is designed to support small, locally owned businesses that contribute to Fort Bragg's economic vitality, neighborhood vibrancy, and community character. Eligible businesses include:

- Food service businesses, including restaurants, cafés, coffee shops, tasting rooms, and similar uses.
- Retail and specialty goods businesses, including visitor-serving shops and galleries.
- Arts, cultural, and creative sector uses, including studios, maker spaces, and cultural venues.
- Neighborhood-serving services, such as salons, fitness studios, and bookstores.
- Light manufacturing and artisan production businesses, including:
    - Small-scale food and beverage production (e.g., kombucha, vinegar, coffee roasting, bakeries, craft beverages);
    - Artisan fabrication shops (e.g., furniture, textiles, craft goods);
    - Makerspaces and other low-impact production activities located in eligible commercial zones.

Light manufacturing uses must meet all program size, valuation, and revenue thresholds, and the maximum deferred capacity fee amount shall not exceed $75,000 per project. Large-scale manufacturing, warehousing, or distribution uses are not eligible.

Council Discretion:
The City Council may, at its sole discretion, approve or deny deferral requests from businesses or projects that fall outside of standard eligibility categories if the Council determines that:

- The project is locally owned and operated,
- The project advances the City's Strategic Plan goals or BEAR economic development objectives, and
- The project does not pose an undue fiscal or operational burden on the City's water and sewer systems.

Council may also impose additional conditions on deferred agreements for such discretionary approvals, including but not limited to shorter repayment timelines, fee caps, or performance benchmarks.

2. Program Structure

- Deferral Term:
    - Up to five (5) years from Certificate of Occupancy or project completion, whichever is earlier.
    - Early repayment permitted at any time.
    - Interest rate: Equal to City's Pooled Investment rate (3-4% currently)
- Security:
    - Record lien or deferral agreement to ensure repayment.
    - Cap on total annual deferred amount (recommended $200,000 annually).
    - Repayment required upon property transfer, expansion, or end of term.
- Implementation Timeline:
    - Effective immediately upon adoption of resolution.

3. Legal Authority – SB 937 Compliance

The program complies with SB 937 and the Mitigation Fee Act (Gov. Code §§ 66000 et seq.) through:

- Written deferral agreements and recorded security instruments;
- Defined repayment terms and program caps;
- Fiscal safeguards, including the ability to use interfund loans to prevent delays in capital projects;
- Annual monitoring and reporting to Council.

FISCAL IMPACT/FUNDING SOURCE

This program defers — but does not waive — capacity fees. The total annual deferral amount will be capped at approximately $200,000.

The City has collected over $1.3 million in Capacity Fees in the the last 10 years (Att:6)

Deferred amounts will be repaid through recorded agreements. If necessary, the City may loan from the General Fund to the Water and Wastewater Capacity Fee Funds to ensure capital improvement schedules remain on track.

This approach preserves the financial stability of enterprise funds while providing flexibility to support small businesses.

STRATEGIC PLAN/COUNCIL PRIORITIES/GENERAL PLAN CONSISTENCY

The proposed fee deferral program is consistent with and advances multiple adopted goals and policies of the City's Strategic Plan and General Plan:

Goal 1: Invigorate Economic Opportunity & Community Vibrancy.

Goal 1 (1A) specifically calls out: "Enliven Fort Bragg through local jobs and business success … cultivate a diverse business climate … encouraging investment through economic incentive programs (e.g., capacity fee deferrals)."

The City's Economic Development resources mention the small business assistance role of the City ("first stop for startups … small business loans & other financing referrals")

Goal 3: "Foster and help sustain local businesses.

<u>General Plan</u>:

- Goal LU-4 – *Promote the economic vitality of the City's existing commercial areas.*
  → Your program supports this goal by incentivizing adaptive reuse, encouraging investment in established commercial zones (CBD, CG, CN, CH), and strengthening the downtown economy.
- Policy EV-1.1 – *Foster a diverse and resilient local economy that provides jobs and services for residents and visitors.*
  → The program targets small, locally owned businesses across several sectors, including artisan production and visitor-serving enterpris
- Policy LU-4.1 – *Encourage a range of commercial uses that serve both residents and visitors and strengthen the City's tax base.*
  → The program supports food service, retail, arts, tourism, and light manufacturing uses—all directly tied to this policy intent.
- Policy LU-4.3 – *Promote infill and redevelopment of existing commercial properties.*
  → By deferring capacity fees, the City reduces barriers for small businesses to occupy or improve existing spaces rather than building new greenfield sites.
- Policy LU-4.4 – *Encourage pedestrian-oriented development in commercial areas.*
  → Infill projects activated through this program support downtown walkability and neighborhood-serving business clusters.
- Policy EV-1.4 – *Support programs and incentives that encourage the retention and expansion of small businesses.*
  → The fee deferral structure is itself a financial incentive explicitly designed for small business retention and growth.
- Policy EV-2.2 – *Encourage adaptive reuse of existing buildings as a way to revitalize downtown and neighborhood commercial areas.*
  → This is a direct match to your program's structure.

IMPACT ON GREENHOUSE GAS EMMISSIONS

The proposed program is expected to have a beneficial impact on greenhouse gas (GHG) emissions by aligning economic development with sustainable land use practices. Specifically:

- Encouraging infill and reuse:
  By supporting projects in existing commercial zones (CBD, CG, CH, CN), the program incentivizes infill development and adaptive reuse rather than greenfield expansion. This minimizes new infrastructure demand and lowers lifecycle emissions.
- Reducing vehicle miles traveled (VMT):
  Supporting neighborhood-serving and visitor-oriented businesses encourages residents and visitors to walk or bike rather than drive to out-of-area destinations, resulting in reduced VMT and associated emissions.
- Localizing supply chains:
  Including light manufacturing and artisan production promotes local production and distribution, reducing long-distance freight and transportation emissions.
- Supporting mixed-use corridors:
  A more active commercial environment contributes to walkable, mixed-use

neighborhoods—consistent with local climate action goals and regional sustainability strategies.

- Alignment with State Goals:
  This approach supports California's climate policy framework under Assembly Bill 32 and Senate Bill 375, which emphasize compact development, reduced VMT, and sustainable infrastructure investment.

No negative impacts on GHG emissions are anticipated. This aligns with the CEQA exemption for fee programs under CEQA Guidelines § 15273(a)(4).

ATTACHMENTS

- Draft Resolution No.xxx-2025 Expanding Capacity Fee Deferral Program
- Deferal Program Gidelines
- Resolution No. 485-2024 (Existing CBD Deferral Program)
- Appendix A – Benchmark Comparison of Peer Cities (Cotati, Modesto, Roseville, Anaheim)
- Zoning Map
- Capacity Fees Historical Report

NOTIFICATION

Economic Development
Downtown Business
Housing