



## CITY OF FORT BRAGG

416 N. FRANKLIN, FORT BRAGG, CA 95437

PHONE 707/961-2823 FAX 707/961-2802

### COUNCIL COMMITTEE ITEM SUMMARY REPORT

**MEETING DATE:** MAY 8, 2019  
**TO:** PUBLIC WORKS COMMITTEE  
**FROM:** TABATHA MILLER, CITY MANAGER  
**AGENDA ITEM TITLE:** Deferred Capacity and Development Fee Programs

#### ISSUE:

At the March 27, 2019, Goal Setting City Council Workshop, the City Council suggested that one possible opportunity to be more development friendly would be to delay or allow certain development related fees to be paid over time. Other California cities have programs that allow for deferral of development impact fees. Generally, deferral programs allow payment of development impact fees, including water and wastewater capacity fees, to be delayed until the permit is scheduled for final inspection or the Certificate of Occupancy is issued. The City currently collects all fees prior to issuing a permit.

#### SUMMARY:

New development within the City limits of Fort Bragg is subject to planning and development fees and public works fees. These fees vary depending on the project but fall into two categories: 1) fees which recoup the reasonable cost of providing the review, service or processing of the project/permits and 2) fees associated with offsetting the cost of growth or reimbursing future costs. The second category, also referred to as development impact fees, includes the General Plan Maintenance Fee, the Parking-in-Lieu Fee (currently subject to moratorium and not charged), and Water and Wastewater Capacity Fees. Recent City revenue collections are outlined in the chart below:

	Budget FY				
Development Impact Fee	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	2018-19
General Plan Maintenance	\$ 39,194	\$ 35,041	\$ 27,745	\$ 75,301	\$ 67,507
Parking-In-Lieu	\$ -	\$ -	\$ -	\$ -	\$ -
Water Capacity					
Residential	\$ (433)	\$ 42,099	\$ 12,822	\$ 4,484	\$ 8,000
Commercial	\$ 56,070	\$ 83,923	\$ 5,126	\$ 15,053	\$ 15,000
Wastewater Capacity					
Residential	\$ 2,233	\$ 20,811	\$ 6,673	\$ 3,524	\$ 8,000
Commercial	\$ 19,397	\$ 951	\$ 11,068	\$ 16,045	\$ 20,000

As a side note, many jurisdictions also charge development impact fees to offset the cost of growth for community/city facilities, parks/trails/open space, public safety facilities (fire and police), public art, affordable housing, flood or drainage control and transportation/traffic.

Most jurisdictions that offer some sort of fee deferral program, limit deferral to development impact fees and do not allow deferral for fees that have a direct and current cost for service provided, such as planning and permit fees. Development impact fees are levied so that the impact of development on various infrastructure is paid for by development. Typically, these fees are used to pay for future projects or expenses that are necessitated by the growth or the impacts of the new development. The fact that the fees are generally accumulated over years then used to pay for future projects, as opposed to current expenses, makes it easier to defer their collection. Accumulated balances for the City of Fort Bragg Development Impact Fees are set forth below:

<b>Development Impact Fee</b>	<b>Balance 06/30/2018</b>
General Plan Maintenance	\$ 229,173
Parking-In-Lieu	\$ 32,338
Water Capacity	\$ 164,300
Wastewater Capacity	\$ 319,572

#### Impact Fee Deferral Programs

Some deferral programs, delay collection of development impact and utility fees until occupancy certificate or final inspection of the building permit. This provides the advantage to the developer or builder of not having to pay construction loan interest on those fees during construction, they can be wrapped up into the final financing. Typically, the jurisdiction does not charge interest during this period of time. Other jurisdictions, allow for longer term deferrals such as three to five years and provide for annual payments with interest to the jurisdiction at either a set published interest rate or index, or at a rate equal to what the jurisdiction would have earned on investments for that same period.

Jurisdictions which allow deferrals to extend beyond issuance of the certificate of occupancy, require security such as assignment of investment/account, irrevocable letter of credit, surety bond or a lien against the real property. Some programs defer 100% of the development impact fees and others only a portion of the fees, such as 50-80%.

#### Incentives Via Reduced or Waived Fees

An alternative for reducing the upfront cost of development in a city, is to waive or reduce development fees for certain types of projects or in certain areas. Fort Bragg already employs this economic development tool by waiving water and sewer capacity fees for second units and by continuing the temporary waiver of the parking in-lieu of fees in order to continue to encourage development in the Central Business District. An important aspect of a waiver or reduction in fee program is to ensure that it is administered fairly, consistently and equitably. In other words, the program follows good policy direction and not individual reaction to a particular project or development.

Replacement of revenue or decreasing expenses is also a consideration when waiving or reducing fees. As noted in the chart at the top of this page, revenues have accumulated in each

fund. For some period of time, funds will be available from prior year's revenues. Once those funds are depleted, if not replaced other sources may be tapped. For example, the water and wastewater capacity fees are used on capital projects associated with expansion or growth in the utilities. The vast majority of the cost of capital for utility infrastructure (up to \$1.5 million per utility per year) is funded from the monthly utility rates and the capacity fees are a small portion of that capital program. If the Council chooses to reduce capacity fees on some level, the revenue could be recouped through setting the water and wastewater rates at a level that makes up that small difference in revenue.

### Staff Resources

Another factor in developing a deferral program is to consider the cost of staff time to administer the program. The longer the repayment period the more time to track and bill repayments. Additionally, if payments are collected after Certificate of Occupancy or final inspection, security must be managed, maintained and refunded or released. This additional work would likely fall to the Finance Department and City Attorney and thus there is an additional cost involved.

### Larger Scale Development

An option for larger developments interested in a longer repayment period, is to participate in organizations such as the Statewide Community Infrastructure Program (SCIP). The SCIP is a California Statewide Communities Development Authority program, which is a Joint Powers Authority sponsored by the League of California Cities and the California State Association of Counties to promote bond programs of public benefit to its members. SCIP typically issues pooled tax exempt bond financing twice a year to finance impact fees and public improvements for private development. The bonds are 30-year fixed-rate tax exempt bonds secured by property owner assessments. The program also allows for the establishment of stand-alone Mello-Roos Community Facilities Districts (CFDs) for repayment of the debt.

In addition to the potential this could offer the Mill Site Reuse project, there are two projects North of Pudding Creek currently in development. The challenge for those two projects is securing water service sufficient to provide ongoing domestic service and fire needs. This is an infrastructure matter with short-term financial challenges to the City and the developers. That said, the City will likely benefit in the long run from the economic impact of the projects.

The proposed Avalon Hotel will provide the City an estimated \$480k in Transient Occupancy Tax (TOT) annually. Additional sales tax revenue to the City, generated by additional visitors is estimated at just under \$200k per year. These figures do not include the additional economic benefit from the \$8-10 million construction project or ongoing employee wages spent locally.

### Central Business District Revitalization

An ongoing concern is the lack of automatic sprinkler systems in commercial buildings within the Central Business District (CBD). The older primarily wooden structures with abutting walls creates the potential for significant loss in the event of a fire. While the City's volunteer fire department is a significant asset to the City and saves the City and property owners millions of dollars a year, the response time is delayed a few minutes as the fire fighters come from their jobs, homes and family commitments. This increases the risk of a fire spreading from building to building and causing significant damage to our downtown.

The City has researched grant funding to assist business and property owners in the CBD retrofit their buildings with sprinklers. The grant constraints deemed this a less than viable option.

A fee deferral program, fee waiver or other long-term financing option could encourage and assist businesses and property owners in the CBD with retrofitting for sprinkler systems. Several new property owners have approached the City with request for some assistance or payment options for at least a portion of the costs associated with the costlier retrofitted sprinkler systems.

The potential programs suggested in the prior paragraph for the CBD could be supplemented or enhanced through participation in other state sponsored programs. For example, the Mills Act Program's purpose is to foster the preservation of residential neighborhoods and the revitalization of downtown commercial districts through property tax relief. In exchange for an agreement to a restore, maintain and protect historic properties, a property owner can receive property tax savings of 40-60% for an initial 10-year period.

Another state program that could facilitate revitalization and preservation of the CBD is the California State Historical Building Code (SHBC). The SHBC provides an alternative to the building codes targeting modern construction standards and recognizes the unique character of historic buildings. The SHBC facilitates the rehabilitation of historic buildings by allowing for preservation of original or restored elements in a cost effect and safe way.

The purpose of this staff report is to introduce potential options for assisting property owners, businesses and developers by reducing barriers, in particular financial, to economic development in Fort Bragg. The suggestions and considerations are a starting point and there may be other programs or opportunities available.

### **RECOMMENDATION:**

Staff is seeking general direction on the following issues:

1. Is the PW Committee interested in creating a Development Impact Fee Deferral Program?
2. If so, are there particular fees to be included or all Development Impact Fees?
3. Does the Committee recommend limiting the deferral until final inspection or for longer period of time, such as 3 – 5 years?
4. If so, how should interest or a fee be charged?
5. Is the Committee interested in any additional incentives, such as reduced fees to encourage more density in multi-family residential units or incentives in the Central Business District to encourage new businesses and/or installation of sprinkler systems?
6. Other suggestions or incentives from the Committee?

### **ATTACHMENTS:**

1. SCIP Presentation