MEMORANDUM

To: Michael Codron and Lee Johnson

From: Walter Kieser, Teifion Rice-Evans and Ashleigh Kanat

Subject: Compendium of Final Documents Prepared in Support of the Infrastructure Financing Analysis; EPS #131044

Date: April 10, 2014

The Economics of Land Use

This memorandum summarizes and transmits the technical documents and presentations prepared by Economic & Planning Systems, Inc. (EPS) as a part of the Infrastructure Financing Analysis and City Council Study Sessions. This Analysis reviewed the City's current infrastructure financing programs, including its development impact fees, in response to recommendations in the adopted Economic Development Strategic Plan (EDSP).

Background

The EDSP set forth several strategies for addressing barriers to job creation, including key strategies that begin to address the challenges associated with infrastructure costs, fees, standards and financing strategies. Financing infrastructure in California has become more complex and several tools have been developed to help local governments finance infrastructure associated with new development. Many of these financing tools are routinely used in jurisdictions throughout the state, but have rarely been used in the City of San Luis Obispo.

Implementation of these strategies must be considered in the context of State law governing how development impact fees and other tools may be imposed. Another consideration is the requirements for studies ("nexus studies") and reports to support the calculation and imposition of such fees on new development to defray infrastructure costs. The governing statutes are commonly referred to as "AB 1600" or the "Mitigation Fee Act".

In April 2013 the Council authorized staff to hire a consultant to undertake an infrastructure financing analysis that would include a series of study sessions with the Council. The purpose of these study sessions was to provide the Council and the community with information, context and tools to support informed decision making and direction.

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Economic & Planning Systems, Inc. (EPS) was hired to complete the infrastructure analysis and kicked off the Project in July 2013. Preliminary work included two memoranda. The first memorandum documented EPS's review of the City's current development impact fee programs and included recommendations for consideration in the next fee update. The second memorandum provided an overview of infrastructure financing generally.

The three Council Study Sessions were organized as follows:

- Study Session #1: ***Introduction and Background.*** This session was held on January 21, 2014, and covered the current trends in municipal infrastructure financing, gave an overview of development impact fees and reviewed the development of the City's existing fee programs.
- Study Session #2: ***Economic and Policy Implications of Development Impact Fees.*** This session was held on February 18, 2014, and highlighted the tools available to the City and the policy implications and trade-offs associated with the various options.
- Study Session #3: ***Direction for updating the City's Development Impact Fees.*** The final session (March 18, 2014) was a business item and focused on the path forward. In this session, Council provided direction to staff based on the first two sessions and accompanying documents.

Study Session #3 Direction from Council

At the conclusion of Study Session #3, the City Council provided City staff direction to proceed with the update of the City's development impact fees, to integrate fees into and prioritize projects in the City's Capital Improvement Program, and also to explore new infrastructure funding strategies to support the objectives of the Economic Development Strategic Plan with particular focus on creating head of household jobs in San Luis Obispo. Three different financing programs were discussed: funding infrastructure of broad community benefit, funding infrastructure that is likely to have an economic development outcome that justifies the public investment, and the use of land secured debt to fund infrastructure required to serve new development. The following text provides hypothetical descriptions of these programs.

- Community Investment Bond. A community investment bond could be a voter-approved general obligation bond targeted at high-value and popular infrastructure improvements such as implementation of the Bikeway Master Plan or repair and replacement of streets, sidewalks, and drainage facilities. One strategy would be to authorize a $50 million bond but issue five tranches, $10 million every two years corresponding to the bi-annual City Budget process and appropriated through the City's Capital Improvement Program for the targeted improvements. Each $10 million of bond would require approximately $50 of property tax annually for every $500,000 of assessed valuation.
- Economic Development Investment. The City has already applied this type of program in the Los Osos Valley Road Interchange (LOVR) project. In this case the City has assembled funding from a variety of sources to build infrastructure needed to serve the area. Approximately 29 percent of the required funding (or $8,005,000) will initially come from a certificate of participation (COP) issued by the City with required lease payments funded with

General Fund appropriations.[1] This advanced funding, needed to build the overcrossing in a timely manner, will be refunded with an impact fee levied on future development in the area benefitting from the improved access and roadway capacity. A similar program could be applied to other infrastructure improvements that have potential to stimulate economic development in the City, specifically Prado Road and Tank Farm Road improvements. These are both costly projects that may be beyond the ability (funding capacity) of new development in the respective specific plan areas. As a result, "bridge" financing may be necessary to build such improvements in order to stimulate the desired job-generating uses and related infrastructure financing capacity. The City could use a COP or perhaps a loan from the State Infrastructure Bank for this purpose. The City could rely upon existing funding capacity or, alternatively, create or allocate special funding to support such investments (e.g., a portion of a sales tax measure or other new broad-based taxes).

- Land Secured (Special Tax) Bonds for Area-Specific Infrastructure. Land secured financing based upon a special tax applied in a new development (or otherwise benefitting) area can be used to fund infrastructure that would otherwise be funded with development impact fees. Land secured financing has two economic development benefits: 1) land secured bonds lower the upfront cost of development by reducing fee burdens thus improving development feasibility; and 2) insofar as tax or assessment capacity exists, bonds can advance funding earlier than waiting for development impact fee revenue to accrue. Cities and special districts throughout California have successfully used the Mello Roos Community Facilities Districts (CFDs) for local infrastructure purpose over the past 30 years. Financial capacity is limited by a market cap on the aggregate property tax rate typically holding the additional property tax rate to no greater than 0.5 percent. In situations where the amount of funding needs is below that needed for a cost-effective bond issuance (i.e. less than $5 million) the City could make use of the States SCIP program, which pools multiple funding requests into larger bond issues.

Compendium of Final Documents

EPS is pleased to transmit this final compendium of the memoranda and presentations prepared in support of the Infrastructure Financing Analysis. This packet can be used as a resource for City staff and Council Members. It can also be used to as a training tool for future City staff and Council Members. This compendium includes the following attachments:

1. This transmittal memo, dated March 27, 2014, which provides a summary of the Study and summarizes the direction received from Council at the final Study Session held, March 18, 2014.

2. Staff Report prepared for Study Session #3 dated March 18, 2014, which provides a comprehensive overview of the Study and a synopsis of the work conducted up to the third Study Session.

3. Memorandum #1 dated January 6, 2014: Review of City's Current Development Impact Fee Programs

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[1] From Capital Improvement Plan, page 3-254.

4. Memorandum #2 dated January 6, 2014: Infrastructure Financing Background, Components and Strategy
5. Memorandum #3 dated February 6, 2014: Economic Development Considerations
6. Presentation from Study Session #1
7. Presentation from Study Session #2
8. Handout #1_Study Session #2
9. Handout #2_Study Session #2
10. Presentation for Study Session #3

ATTACHMENT 2:

Staff Report prepared for Study Session #3 dated March 18, 2014, which provides a comprehensive overview of the Study and a synopsis of the work conducted up to the third Study Session

council agenda report

Meeting Date
3-18-2014
Item Number SS1

CITY OF SAN LUIS OBISPO

FROM: Michael Codron, Assistant City Manager
Prepared By: Lee Johnson, Economic Development Manager

SUBJECT: ECONOMIC DEVELOPMENT STRATEGIC PLAN IMPLEMENTATION: INFRASTRUCTURE FINANCING ANALYSIS, SESSION #3

RECOMMENDATION

1) Provide direction to staff on the range of possible infrastructure tools the Council is willing to consider for funding major infrastructure programs in the future.
2) Provide direction to staff on various infrastructure related work programs to address the changes in the economic and legislative environment, the findings of the consultants and the input from the public as this information relates to infrastructure financing.

DISCUSSION

Background

The Economic Development Strategic Plan (EDSP) sets forth several strategies for addressing barriers to job creation, including key strategies that begin to address the challenges associated with infrastructure costs, fees, standards and financing strategies. Financing infrastructure in California has become more complex and several tools have been developed to help local governments finance infrastructure associated with new development. Many of these financing tools are routinely used in jurisdictions throughout the state, but have rarely been used in the City of San Luis Obispo.

Implementation of these strategies must be considered in the context of State law governing how development impact fees and other tools may be imposed. Another consideration is the requirements for studies ("nexus studies") and reports to support the calculation and imposition of such fees on new development to defray infrastructure costs. The governing statutes are commonly referred to as "AB 1600" or the "Mitigation Fee Act".

In April 2013 the Council authorized staff to hire a consultant to undertake an infrastructure financing analysis that includes a series of study sessions with the Council. The purpose of these study sessions is to provide the Council and the community with information, context and tools to support informed decision making and direction. The structure of these sessions are as follows:

- **Study Session #1: Introduction and Background:** This session was held on January 21, 2014 and covered the current trends in municipal infrastructure financing, gave an overview of development impact fees and reviewed the development of the City's existing fee programs.

- **Study Session #2: Economic and Policy Implications of Development Impact Fees:** This session was held on February 18, 2014 and highlight the tools available to the City and the policy implications and trade-offs associated with the various options.

- **Study Session #3: Direction for updating the City's Development Impact Fees:** The final session (March 18, 2014) is a business item and will focus on the path forward. It is intended to be the session in which Council provides direction to staff based on the first two sessions.

Session Three

The purpose of session number three is to secure direction from Council on a range of infrastructure related initiatives to address the key findings of the EDSP, as well as recommendations of City staff, the consultants involved in this project and input from the public during this process.

To provide a framework for the discussion, it is important to highlight the types of economic investment that are being addressed through these workshops. Based on the five broad categories presented in the economic development considerations memo (Attachment 3):

1. **Providing high quality municipal services and infrastructure:** The ongoing goal of all City employees.

2. **"Streamlining" land use regulations and development review procedures:** Identified in the EDSP with the efforts being led by CDD and supported by the other involved departments including the Economic Development Manager.

3. **Prioritizing infrastructure investments and assuring reasonable infrastructure financing burdens on the private sector investors:** The topic of these current sessions and future work efforts.

4. **Identifying cooperative efforts with private business groups and other government agencies in general business attraction activities:** Identified in the EDSP and being led by the City's Economic development manager.

5. **Providing targeted public subsidies to private companies:** Not being considered by the City.

In order to provide additional context for the discussion, it is important to highlight some of the key findings from the consultants as presented on page two of the memorandum titled, "Review of City's Current Development Impact Fee Programs" (Attachment 2).

Key Findings

1. **Incremental evolution in the City's existing development impact fee programs have resulted in a complex system of base fees, sub area fees, and geographic fee variation that warrants re-consideration in the next fee update process.** During the past 20-plus years, the City's impact fee programs have evolved to respond to growth and development patterns, changing development standards and infrastructure requirements. The City's fee programs represent one of the City's primary methods for financing infrastructure improvements, particularly in the growth areas of the City. The overall outcome of these incremental changes has resulted in a complex system that warrants detailed consideration

from the perspectives of clarity and efficiency as well as fee level balance (by geography and land use) and consistency with City goals (e.g., economic development).

2. **There are geographic "overlaps" in the City's fees that cause a significant difference in fee levels in various parts of the City.** The geographic sub areas, particularly in the transportation fee program, result in wide fee level differences area-to-area, although, in some cases, there may be technical justification to support these differentials.

3. **At the Citywide level, aggregate fee levels are consistent with fees levied by other cities, though some specific fees appear to be high by industry standards.** The tiered structure of the City's development impact fees (layering Citywide and area fees) leads to fees of significantly differing amounts in various parts of the City. The aggregate fee amounts for residential uses fall in a range typical for mid-sized California cities and fall within industry standard "burden" limits. Nonresidential fee levels, however, appear more concerning. For example, fees levied on retail commercial development in the Margarita Area Specific Plan Area appear to fall in a range beyond the industry standard for such uses.

4. **There is an inconsistency between land use categories used to compute fees between fee programs.** In some cases there are inconsistencies between several of the development impact fees with respect to the land use categories and their precise definition. For example, the Airport Area Sub Area transportation impact fee includes "business park" as a land use category; however, there is no "business park" equivalent under the Citywide fee and it requires a special calculation to estimate the Citywide base fee that is due. It is helpful for administrative and auditing purposes for the land use categories to be consistent across all of the individual fees, or more specific land use categories should be "nestled" within a common land use category.

5. **Fees do not contain a cost component for administration and updating.** The provisions of the Mitigation Fee Act allow jurisdictions to include the costs of administering the impact fee program in the fee amount. Administration requirements include collecting and allocating impact fee revenue, record keeping and reporting of fund activity, and periodic updates to the fee program, which are critical to fee program effectiveness. These costs typically are 1 to 3 percent of the capital portion of the fee. There is some funding in the City's Transportation Impact Fee (TIF) program for periodic updates of the traffic model and volume counts.

6. **The Engineering News Record's Construction Cost Index (CCI) may be a more appropriate index for automatic, annual "indexing" of existing fees.** As specified in the supporting resolutions, fees are inflated each year by the Consumer Price Index (CPI). In many jurisdictions, annual fee adjustments are linked to the CCI published by the Engineering News Record, rather than the CPI to better relate to increases in construction costs. ENR's CCI has been published consistently every month since 1913 for 20 U.S. cities and a national average of the 20 cities. As such it is one of the most reliable and consistent indices that track trends in construction costs. However, one City of San Luis Obispo resolution (Resolution No. 9582, Series 2004 – amendment of water and wastewater fees) states, "Since the facilities and improvements for which connection fees are charged will be financed through bonds or other form of debt, the annual adjustments are indexed to

consumer prices rather than construction costs." This may be the justification for the CPI, rather than CCI adjustment.

7. **The City does not charge fees for all municipal infrastructure categories, though this may be appropriate in the context of other concerns about the overall fee program.** The City of San Luis Obispo does not charge a General Government Fee to fund civic improvements and the preparation of plans and studies, nor does it charge a Public Safety Fee to fund police and fire capital improvements or a Citywide park improvement fee (in addition to the Quimby-authorized Park In-Lieu Fee). In many cities, these fee components, along with Transportation, are part of a comprehensive Public Facilities Impact Fee Program. However, any new fees should be considered in the context of broader development feasibility and citywide financing objectives.

In addition to the key findings from the original review, additional items have been highlighted by the public and the consultants as the sessions have progressed:

1. **The integration of the various fee programs into the City's overall Capital Improvement Plan (CIP)**: Including all potential infrastructure investment items in the CIP (5 year and long term) will allow the community and the Council to evaluate the priority of the various projects during the normal goal setting and budget processes.

2. **Data omissions from the session one presentation:** The initial graphs comparing the current fee program to industry standards were found to be missing the fees for the inclusionary housing and public art in-lieu fees. The inclusion of these in-lieu fees changes the feasibility comparison versus what was originally presented. New material is included in the presentation for the third session (Attachment 6). It should be noted that development projects that trigger the Inclusionary Housing Ordinance have the option to satisfy their requirement by: 1) building affordable housing in conjunction with new residential or commercial development; 2) paying an in-lieu fee to support the development of affordable housing citywide; 3) contributing real property, including land or existing dwellings, to be used as affordable housing; or 4) any combination of the above methods. As a result, a particular development project that finds paying the in-lieu fee cost prohibitive has other available methods of meeting the requirement. In practice, staff regularly sees both residential and commercial projects take advantage of the other methods as opposed to paying the in-lieu fee. The public art fees also include options for including public art rather than paying the in-lieu fee.

RECOMMENDATIONS

Based on the key findings, the input from the public and the feedback from the consultant team, the following are options for the Council to consider:

1. **Provide guidance on range of options the Council is willing to consider for financing the City's long term infrastructure requirements:** Based on the possibilities listed in the presentation for the third session (Attachment 6), provide guidance on the use of the various options and for what range of situations. Some key considerations are the use of tools like land based financing to provide a higher level of service to certain residents (landscape and

lighting districts) or to use the same tools to have certain residents pay more for the same level of service (public safety CFD in the growth areas). If Council is willing to consider different levels of service for different residents staff would recommend a future study session to address the implications from a policy perspective.

2. **Evaluate and potentially replace the current development impact fee structure:** This project is intended to update and ensure that there are sound analytical bases for City fee structures as highlighted by the consultants and the general public. It will also address the concerns voiced regarding the impact of City fee structure on the financial viability of projects within the City. The final work product would be a new development impact fee program covering all areas of the City as well as all types of infrastructure fees. The new fee structure should also include a cost component for administration and updating. A comparison of the City's new fee structure with relevant industry standards and the benchmark cities should also be included. The project would require the use of outside consultants. This effort is expected to be programmed for the 2015-17 Financial Plan as it will be important to wrap up the LUCE update which may drive the need for additional infrastructure and a corresponding need to distribute these costs accordingly.

3. **Develop a prioritized list of infrastructure projects for the City to invest in from an Economic Development and Quality of life perspective:** The Economic Development Strategic Plan calls on the City to consider revisiting fair-share percentages in its fee programs, specifically for projects that include community-wide benefits. Based on input from City staff and the public, outside consultants would assist City staff in preparing a prioritized list of infrastructure projects that would provide the most benefit to the City from an economic development and quality of life perspective. This effort is included in the Economic Development Major City Goal work program and is funded in the second year of the 2013-15 Financial Plan.

4. **Include the Major Infrastructure projects in the Capital Improvement Plan (CIP):** This is a policy change that would allow all major infrastructure projects, particularly those in specific plan areas, to be included in the goal setting and budget processes. This is especially desirable when community wide benefits, such as improved circulation or head of household job creation, could be obtained from City participation in important infrastructure projects.

5. **Use the Engineering News Record's Construction Cost Index (CCI) for automatic, annual "indexing" of existing fees:** This is a policy change that can be incorporated in any future update of the AB 1600 fee program.

6. **Evaluate and revise the current Land Use definitions:** This project would evaluate the current land use categories and develop a revised list that is more consistent across different locations in the City to ensure consistency in the application of impact fees. This project is planned to be undertaken in the 2015-17 Financial Plan as an implementation of the LUCE update, along with an update to the AB 1600 fee program.

While these options are representative of the work required, they are not all inclusive. Additional work programs related to infrastructure may be identified through the normal course of business, the goal setting process, and the 2015-17 financial planning process.

CONCURRENCES

Community Development, Public Works, Utilities and Finance all concur these sessions will provide the basis for decisions critical to the LUCE Update and fee-related policy choices and the recommendations provided are representative of the type of work that needs to be performed but are not all inclusive.

FISCAL IMPACT

None in the current fiscal year, the funding in the amount of $60,000 was allocated in the 2011-2013 financial plan for this study.

ALTERNATIVES

1) The City Council could change priorities or the scope of work on the potential projects outlined in this report.
2) The City Council could choose to direct staff to exclude the entire list of initiatives from future work programs and continue with current policies and programs.

ATTACHMENTS

1. Infrastructure Financing Background, Components and Strategy (From session #1)
2. Review of City's Current Development Impact Fee Programs (From session #1)
3. Economic Development Considerations; EPS #131044 (From session #2)
4. Presentation from session #1
5. Presentation from session #2
6. Presentation for session #3

ATTACHMENT 3:

Memorandum #1 dated January 6, 2014: Review of City's Current Development Impact Fee Programs

FINAL MEMORANDUM

To: Michael Codron and Lee Johnson

From: Walter Kieser, Teifion Rice-Evans and Ashleigh Kanat

Subject: Review of City's Current Development Impact Fee Programs; EPS #131044

Date: January 6, 2014

This memorandum provides an overview of the City of San Luis Obispo's current development impact fees. It has been prepared by Economic & Planning Systems, Inc. (EPS) as part of the Infrastructure Financing Analysis Study ("Study") that is currently underway. This memorandum is a companion to another EPS memorandum entitled "Infrastructure Financing Background, Components, and Strategy." Through this Study, the City seeks a technical assessment of the existing fees, a better understanding of their economic development implications, and alternative funding sources and mechanisms that may be available to fund infrastructure in the City. Together these memoranda are intended to inform the upcoming series of City Council study sessions that will involve the community, staff, Planning Commissioners and other interested stakeholders.

As a basis of this review of the City's development impact fees, EPS has met with City staff; reviewed the Specific Plans, including the Financing Plan chapters of the Margarita Area Specific Plan, the Airport Area Specific Plan and the Orcutt Area Specific Plan (OASP); and reviewed applicable ordinances, fee-setting resolutions, supporting nexus study documentation, and City budget and financial reports. This body of information leads to an understanding of the history, technical bases, improvements funded, and related financing mechanisms that have been used by the City in its efforts to fund the infrastructure needed to support new development in the City.

This memorandum is organized by type of fee, including Citywide fees and area fees. It is expected that a comprehensive update of the development impact fees will be prepared in 2015 based on the infrastructure improvements identified as part of the Land Use and Circulation Element (LUCE) update.

The Economics of Land Use

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Key Findings

1. ***Incremental evolution in the City's existing development impact fee programs have resulted in a complex system of base fees, sub area fees, and geographic fee variation that warrants re-consideration in the next fee update process.***

   During the past 20-plus years, the City's impact fee programs have evolved to respond to growth and development patterns, changing development standards and infrastructure requirements. The City's fee programs represent one of the City's primary methods for financing infrastructure improvements, particularly in the growth areas of the City. The overall outcome of these incremental changes has resulted in a complex system that warrants detailed consideration from the perspectives of clarity and efficiency as well as fee level balance (by geography and land use) and consistency with City goals (e.g., economic development).

2. ***There are geographic "overlaps" in the City's fees that cause a significant difference in fee levels in various parts of the City.***

   The geographic sub areas, particularly in the transportation fee program, result in wide fee level differences area-to-area, although, in some cases, there may be technical justification to support these differentials.

3. ***At the Citywide level, aggregate fee levels are consistent with fees levied by other cities, though some specific fees appear to be high by industry standards.***

   The tiered structure of the City's development impact fees (layering Citywide and area fees) leads to fees of significantly differing amounts in various parts of the City. The aggregate fee amounts for residential uses fall in a range typical for mid-sized California cities and fall within industry standard "burden" limits. Nonresidential fee levels, however, appear more concerning. For example, fees levied on retail commercial development in the Margarita Area Specific Plan Area appear to fall in a range beyond the industry standard for such uses.[1]

4. ***There is an inconsistency between land use categories used to compute fees between fee programs.***

   In some cases there are inconsistencies between several of the development impact fees with respect to the land use categories and their precise definition. For example, the Airport Area Sub Area transportation impact fee includes "business park" as a land use category; however, there is no "business park" equivalent under the Citywide fee and it requires a special calculation to estimate the Citywide base fee that is due. It is helpful for administrative and auditing purposes for the land use categories to be consistent across all of the individual fees, or more specific land use categories should be "nestled" within a common land use category.

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[1] Fees for other land uses also may exceed the industry standard "burden" limits, however, the feasibility analysis was limited to single-family, retail and industrial uses.

5. Fees do not contain a cost component for administration and updating.

The provisions of the Mitigation Fee Act allow jurisdictions to include the costs of administering the impact fee program in the fee amount. Administration requirements include collecting and allocating impact fee revenue, record keeping and reporting of fund activity, and periodic updates to the fee program, which are critical to fee program effectiveness. These costs typically are 1 to 3 percent of the capital portion of the fee. There is some funding in the City's Transportation Impact Fee (TIF) program for periodic updates of the traffic model and volume counts.

6. The Engineering News Record's Construction Cost Index (CCI) may be a more appropriate index for automatic, annual "indexing" of existing fees.

As specified in the supporting resolutions, fees are inflated each year by the Consumer Price Index (CPI). In many jurisdictions, annual fee adjustments are linked to the CCI published by the Engineering News Record, rather than the CPI to better relate to increases in construction costs. ENR's CCI has been published consistently every month since 1913 for 20 U.S. cities and a national average of the 20 cities. As such it is one of the most reliable and consistent indices that track trends in construction costs. However, one City of San Luis Obispo resolution (Resolution No. 9582, Series 2004 – amendment of water and wastewater fees) states, "Since the facilities and improvements for which connection fees are charged will be financed through bonds or other form of debt, the annual adjustments are indexed to consumer prices rather than construction costs." This may be the justification for the CPI, rather than CCI adjustment.

7. The City does not charge fees for all municipal infrastructure categories, though this may be appropriate in the context of other concerns about the overall fee program.

The City of San Luis Obispo does not charge a General Government Fee to fund civic improvements and the preparation of plans and studies,[2] nor does it charge a Public Safety Fee to fund police and fire capital improvements or a Citywide park improvement fee (in addition to the Quimby-authorized Park In-Lieu Fee). In many cities, these fee components, along with Transportation, are part of a comprehensive Public Facilities Impact Fee Program. However, any new fees should be considered in the context of broader development feasibility and citywide financing objectives.

Impact Fee History and Summary

During the past 20+ years the City has adopted multiple development impact fees that apply throughout the City including a transportation impact fee, a water impact fee, a wastewater impact fee (as connection charges), an affordable housing inclusionary requirement and in-lieu fee, a public art impact fee, and a park impact fee (an in-lieu of dedication of parkland).[3] The

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[2] The cost of preparing Specific Plans has been incorporated into several of the sub area transportation fees.

[3] There is also a parking in-lieu fee for the Central Commercial Zone that is not evaluated in this memorandum. See Chapter 4.30 of the Municipal Code for specifics.

City has also adopted "sub area" development impact fees for its specific plan areas including the following:

Margarita Area Specific Plan

- Margarita Area Specific Plan Sub Area Transportation Impact Fee
- Margarita Area Specific Plan Parkland Impact Fee

Airport Area Specific Plan[4]

- Airport Area Specific Plan Sub Area Transportation Impact Fee

Orcutt Area Specific Plan

- Orcutt Area Specific Plan Sub Area Transportation Impact Fee
- Orcutt Area Specific Plan Area Park Improvement Fee

Los Osos Valley Road Sub Area

- Los Osos Valley Road Sub Area Transportation Impact Fee

Figure 1 shows a time-line reflecting the adoption of the various development impact fees and also the major updates that have occurred over the past several decades, alongside planning events, such as Specific Plan adoptions or adoption of the Economic Development Strategic Plan. **Table 1** provides this same history with more detail about what led to the event (if known) and the effect of each event.

Table 2 shows the City's development impact fees by category as they apply in the various sub-areas of the City to typical development types. Wastewater catchment fees also apply in the growth areas of the City, though are not reflected on this table.[5] Totals are provided for the single-family residential land use category only, as the nonresidential fees are not additive. At its most basic, the Citywide development impact fee total is approximately $18,000 per single-family residential unit. This fee level can be compared with the Orcutt Specific Plan Area, where a single-family residential unit would be charged approximately $39,400 in development impact fees, not including the Wastewater catchment fee, which would add an additional $3,630 for a total of $43,030, assuming development in the Tank Farm catchment area.

General Impact Fee Characteristics

The City's development impact fees reflect standard features seen in typical municipal development impact fee programs as described below.

Hybrid of Mitigation Fee Act Compliant Fees and In Lieu Fees

Cities adopt impact fees using two legal frameworks: 1) impact fees adopted pursuant to the Mitigation Fee Act (Government Code Section 66000 et seq.) which applies to funding for infrastructure required to serve new development requiring very specific infrastructure-related "nexus" findings, and 2) "In lieu" fees that are based a variety of public policy objectives such as

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[4] There is also an Open Space In Lieu Fee that applies to new development in the Airport Area Specific Plan area, which is not included here as it is not strictly an impact fee.

[5] See **Table 6** for a summary of wastewater catchment fees by catchment area.

Figure 1
City of San Luis Obispo Development Impact Fee Timeline

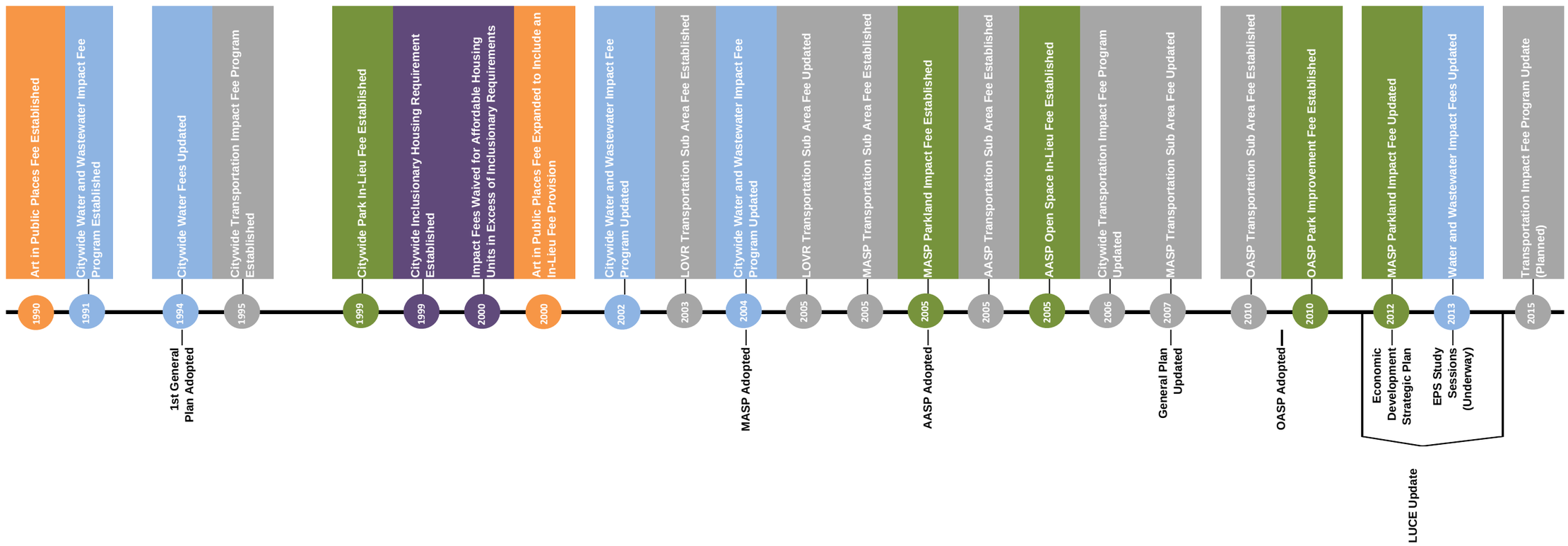

Table 1
City of San Luis Obispo Development Impact Fee Timeline

Date	Action	Reason	Effect
			Fee established
1990	Art in Public Places Fee Established		
1991	Citywide Water and Wastewater Impact Fee Program Established		Fees established
1994	Citywide Water Fees Updated	Increases to water supply costs	Water fees increased
1994	General Plan Updated		
1995	Citywide Transportation Impact Fee Program Established		Fees established
1999	Citywide Park In-Lieu Fee Established		Fees established
1999	Citywide Inclusionary Housing Requirement Adopted		Inclusionary Housing Requirement Adopted
2000	Impact Fees Waived for Affordable Housing Units in Excess of Inclusionary Requirements		Waiver for Affordable Housing Units in Excess of Inclusionary Requirements
2000	Art in Public Places Fee Expanded to Include an In-Lieu Fee Provision	Allow payment of a fee in lieu of providing art	Expanded to include an in-lieu fee provision
2002	Citywide Water and Wastewater Impact Fee Program Updated		
2002	Citywide Water Fees Updated		Water fee was reduced
2003	Los Osos Valley Road Transportation Sub Area Fee Established	LOVR Interchange costs increased	Allocates substantial cost increase (from 1994 estimate as part of Citywide TIF) to Los Osos Valley Road Interchange Sub Area
2004	Citywide Water and Wastewater Impact Fee Program Updated	Water and Wastewater Facilities Master Plans adopted and Council direction to participate in the Nacimiento Pipeline Water Supply Project	Water and wastewater fees increased
2004	Margarita Area Specific Plan Adopted		
2005	Los Osos Valley Road Transportation Sub Area Fee Updated	Changes to project cost	Project cost increased; Area fee established; Financing program for auto dealerships established
2005	Margarita Area Specific Plan Transportation Sub Area Fee Established	Specific Plan adopted in 2004	Fees established
2005	Margarita Area Specific Plan Parkland Impact Fee Established	Specific Plan adopted in 2004	Fees established
2005	Airport Area Specific Plan Adopted		
2005	Airport Area Specific Plan Transportation Sub Area Fee Established	Specific Plan adopted in 2005	Fees established
2005	Airport Area Specific Plan Open Space In-Lieu Fee Established	Specific Plan adopted in 2005	Fees established
2006	Citywide Transportation Impact Fee Program Updated	Revised projects, costs and development	Project list revised; Fees increased
2007	Margarita Area Specific Plan Transportation Sub Area Fee Updated	Prado Road cost estimate increase	Fees increased
2007	General Plan Amended (Certain Elements Updated)		
2010	Orcutt Area Specific Plan Adopted		
2010	Orcutt Area Specific Plan Transportation Sub Area Fee Established	Specific Plan adopted in 2010	Fees established
2010	Orcutt Area Specific Plan Park Improvement Fee Established	Specific Plan adopted in 2010	Fees established
2012	Margarita Area Specific Plan Parkland Impact Fee Updated	Citywide use of Damon-Garcia sports field	Fees reduced
2012	Economic Development Strategic Plan		Direction to focus on head of household job creation; high development impact fees are called out as an impediment
2013	Water and Wastewater Impact Fees Updated		Fees reduced; water add-on fees eliminated
2012-2014	LUCE Update	Current element outdated	
2013-2014	EPS Study Sessions (underway)		Hold CC study sessions to teach impact fees 101 and discuss policy trade-offs and considerations
2015	Transportation Impact Fee Program Update (planned)	Current fee program(s) outdated; need to simplify	

Sources: City of San Luis Obispo; Economic & Planning Systems, Inc.

Table 2
Development Impact Fees by Planning Area

Area/ Sub Area	Transportation *(per unit or per sq.ft.)*			Parks and Open Space *(per unit or per sq.ft.)*	Water *(per 3/4" meter)*	Wastewater [2,3] *(per 3/4" meter)*	Total [4]
	Citywide Base Fee	Sub Area Fee	Plan Documents Fee				
Citywide							
Single Family	$3,516				$10,775	$3,729	$18,020
Retail	$7.406				$10,774.00	$3,729.00	
Industrial	$2.036				$10,774.00	$3,729.00	
Margarita Specific Plan Area							
Single Family	$2,591	$9,713	$200	$8,247	$10,775	$3,729	$35,255
Retail	$5.443	$43.787	$0.176	n/a	$10,774.00	$3,729.00	
Industrial	$1.500	$18.375	$0.176	n/a	$10,774.00	$3,729.00	
Orcutt Specific Plan Area							
Single Family	$3,516	$7,871	$784	$12,719	$10,775	$3,729	$39,394
Retail	$7.406			n/a	$10,774.000	$3,729.000	
Industrial	$2.036			n/a	$10,774.000	$3,729.000	
Airport Specific Plan Area							
Single Family	$3,516			n/a	$10,775	$3,729	$18,020
Retail	$7.406			n/a	$10,774.000	$3,729.000	
Industrial	$2.036	$0.691	$0.124	$0.522 [5]	$10,774.000	$3,729.000	
Los Osos Valley Road Area							
Single Family	$2,899	$5,989	n/a	n/a	$10,775	$3,729	$23,392
Retail	$6.100	$14.456	n/a	n/a	$10,774.000	$3,729.000	
Industrial	$1.679	$4.349	n/a	n/a	$10,774.000	$3,729.000	
Los Osos Valley Road AND Airport Specific Plan Areas ("Triple Whammy" Zone)							
Single Family	$2,899	Calc Required	Calc Required	n/a	$10,775	$3,729	Calc Required
Retail	$6.100	Calc Required	Calc Required	n/a	$10,774.000	$3,729.000	
Industrial	$1.679	$5.04	$0.124	$0.522	$10,774.000	$3,729.000	

[1] Assumes 3/4" meter.
[2] Assumes 3/4" meter.
[3] Catchment sub area fees also apply in the growth areas of the City. For example, growth in the Airport and Orcutt areas pay the Tank Farm catchment fee. Growth in the Margarita area could pay the Margarita, Silver City or Tank Farm catchment fee.
[4] Fees are not additive for the non-residential uses, as transportation fees are based on square feet and water and wastewater are based on meter size. A total is provided for the Single Family land use category, as a single dwelling unit would require a 3/4" meter.
[5] Open space fee is as of 2005 and needs updating.

open space preservation, affordable housing, parking, and parkland acquisition. The City's development impact fees include both of these types of fees as will be discussed under each fee category, below.

Discounts for Retail and Hotel Uses

The City "discounts" (reduces) its Citywide Transportation Impact Fee from the amount calculated technically to a lower amount intended to be more affordable for retail and hotel development, in consideration of the General Fund benefits of this type of development (sales tax and transient occupancy tax, respectively). When this is done it automatically creates a deficit proportional to the cumulative amount of the discounted fees in the applicable fee account. By law, this deficit cannot be "made-up" by increasing fees on the remaining uses and must also be "backfilled" with other City funding sources or grants to assure the financial integrity of the fee program. The various specific plan transportation fee programs do not have this provision in their fee methodologies.

Timing of Payment

Fees are payable before issuance of a building permit. For any development project or portion thereof, impact fees shall be assessed at the time of application and remain valid for as long as the application is proceeding through valid processing as per the Uniform Administrative Code.

Annual Adjustments

The amount of the fees are currently automatically adjusted on July 1 of each year by the annual percentage change in the U.S. Bureau of Labor Statistics consumer price index for all urban consumers (CPI-U), all-cities average for the prior calendar year.

Fee Updates

Fee updates have been prepared periodically as is necessary to keep the individual impact fees reflective of current infrastructure costs, new land use plans, and real estate market trends.

Fee Credits and Reimbursements

If the applicant for approval of any development project is required by the City, as a condition of approval, to construct facilities whose cost has been used in the calculation of impact fees which apply to that project, the applicant shall receive a credit for that portion of the total fees otherwise payable that are attributable to those facilities. If the credit exceeds the amount of the impact fees due on the development, a reimbursement agreement with the applicant shall be offered. The reimbursement amount shall not include the portion of the improvement needed to provide services or mitigate the need for the facility or the burdens created by the development. The City has entered into several such reimbursement agreements in its efforts to assure timely construction of required infrastructure.

In general, the City would prefer to see improvements constructed at the time of development as opposed to waiting for there to be adequate revenue from fee collections. Due to recent economic conditions, requests for reimbursement agreements are becoming more common in order to fund up front infrastructure. The City has begun charging an "administrative" fee for long-term oversight of the reimbursement agreements and these costs are not currently included in the fee programs. As such, crediting for these costs is not currently allowed by the City.

Review of Development Impact Fees by Category

The following review of the City's development impact fees is organized by fee category including transportation, water and sewer utilities, and parks and open space. While not adopted pursuant to the Mitigation Fee Act, the City also has an inclusionary housing ordinance that provides an in-lieu fee option and a public art fee applicable to larger commercial projects. The fees in each category include those that are charged Citywide and also those that apply to specific sub-areas of the City. Within each category the initial section highlights some key components of the Citywide fee program generally and identifies topics for consideration as part of the proposed Comprehensive Update. The subsequent sections provide detailed information on the components of the fees including the subarea fees to illustrate how the fees evolved over time. Detailed tables illustrating how the fees function together are provided in **Appendix A** for select land use categories.

Transportation Impact Fees

Transportation impact fees include a Citywide Transportation Impact Fee (referred to as the "TIF") in addition to fees applicable to sub-areas of the City generally corresponding to the Specific Plan areas. The TIF program was originally established in 1995 and last updated in 2006. A comprehensive fee update will be prepared after the completion of the LUCE. The overall transportation fee program has evolved into a relatively complex fee program with the TIF, the three subarea fees associated with the different growth areas, an additional subarea-fee associated with an individual transportation improvement (the LOVR interchange), and numerous reimbursement agreements to monitor.

A map of the transportation sub areas is provided as **Figure 2**. Some of the definitions of the land uses (e.g., business park, service commercial) are uncertain and fees on some types of development in certain subareas require calculation (i.e., are not fully transparent). The variation in fees, the specifics of the allocations of improvement costs for some improvements, and lack of clarity in terms of which fees apply have resulted in questions concerning whether the fee program could be improved from an administrative efficiency, economic development, and other perspectives.

Table 3 provides a summary of the transportation fees in the City (Citywide and by sub area), and **Table 4** below shows the total transportation fees by select land use categories (Single-Family, Retail and Industrial are selected as representative) and subarea.

Figure 2: Transportation Impact Fee Program

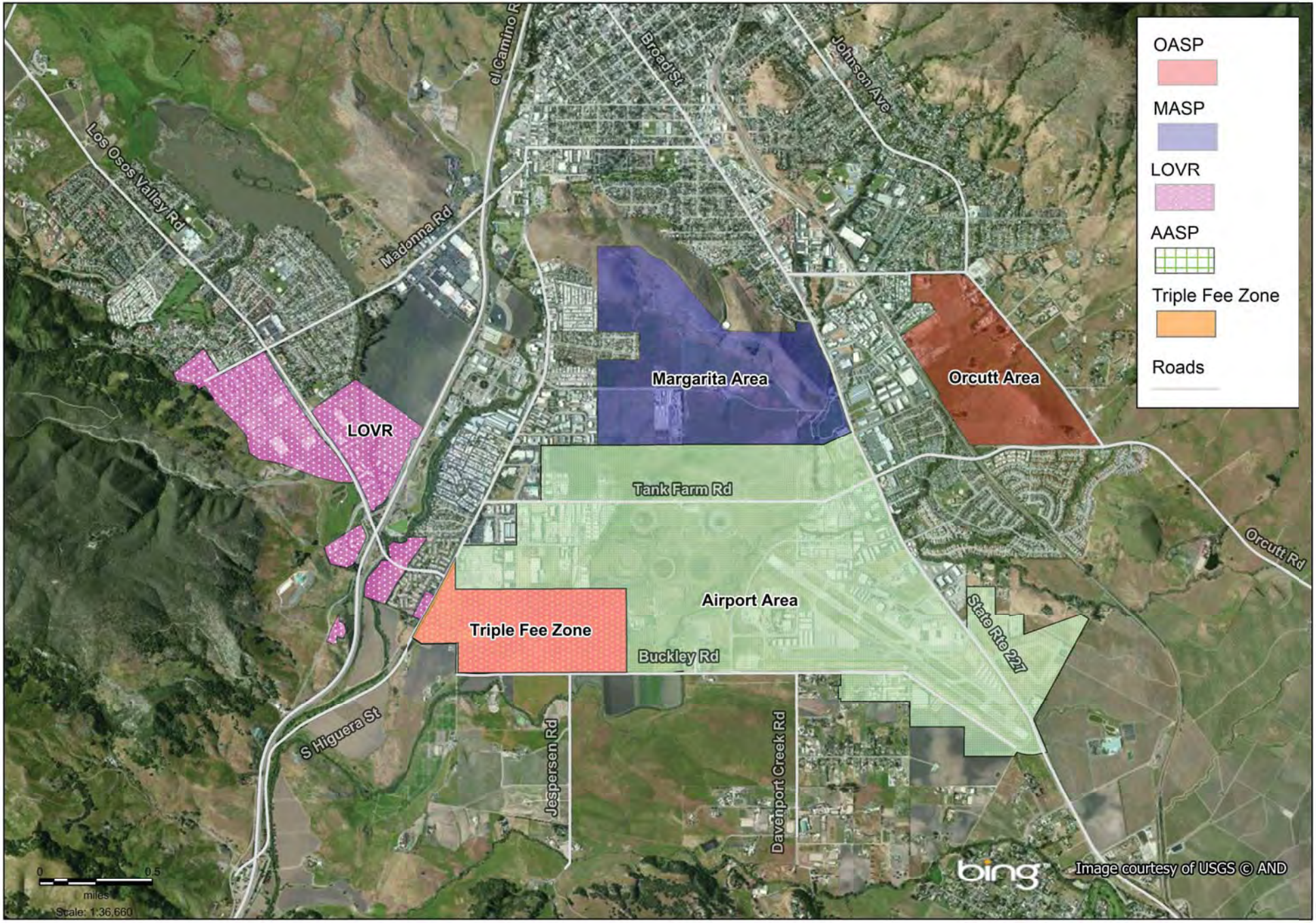

Table 3
Transportation Impact Fees

Land Use Category		Citywide	LOVR Sub Area		MASP Sub Area			AASP Sub Area			OASP Sub Area		
		Base	Base	Sub Area Traffic	Base	Sub Area Traffic	Sub Area Plan	Citywide Base	Sub Area Traffic	Sub Area Plan	Citywide Base	Sub Area Traffic	Sub Area Plan
Single Family Residential	Dwelling Unit	$3,516	$2,899	$5,989	$2,591	$9,713	$200	$3,516	None	None	$3,516	$7,871	$784
Multifamily Residential	Dwelling Unit	$3,120	$2,572	$3,934	$2,298	$5,993	$190	$3,120	None	None	$3,120	$5,498	$294
Retail	Square Foot	$7.406	$6.100	$14.456	$5.443	$43.787	$0.176	$7.406	None	None	$7.406	None	None
Office	Square Foot	$7.051	$5.813	None	$5.195	$18.375	$0.176	$7.051	None	None	$7.051	None	None
Service Commercial	Square Foot	$3.824	$3.152	$8.806	$2.817	ADT	Acre	$3.824	$3.464	$0.136	$3.824	None	None
Business Park	Square Foot	ADT	None	None	ADT	$18.375	$0.176	ADT	$4.601	$0.093	ADT	None	None
Industrial	Square Foot	$2.036	$1.679	$4.349	$1.500	$18.375	$0.176	$2.036	$0.691	$0.124	$2.036	None	None
Hospital	Square Foot	$5.977	$4.928	None	$4.404	ADT	Acre	$5.977	None	None	$5.977	None	None
Motel/Hotel	Room	$1,632	$1,346	$3,265	$1,202	ADT	Acre	$1,632	None	None	$1,632	None	None
Service Station (includes 1,000 sq.ft.)	Pump	$8,305	$6,848	$0.000	$6,117	ADT	Acre	$8,305	None	None	$8,305	None	None
Other	Average Daily Trip (PM for LOVR) or Acreage	$328	$270	$5,871	$242	$1,630	$2,442	$328	None	None	$328	None	None

Source: City of San Luis Obispo.

Table 4
Transportation Impact Fees by Select Land Use Categories and Sub Area

Area/Sub Area	Single Family Total	Retail Total	Industrial Total
Citywide	$3,516 per unit	$7.406 per sq.ft.	$2.036 per sq.ft.
MASP Sub Area [1]	$12,504 per unit	$49.406 per sq.ft.	$20.051 per sq.ft.
OASP Sub Area [1]	$12,171 per unit	Calc Required [3]	Calc Required [4]
AASP Sub Area [1]	Calc Required [2]	Calc Required [3]	$2.851 per sq.ft.
LOVR Sub Area	$8,888 per unit	$20.556 per sq.ft.	$6.028 per sq.ft.
"Triple Fee" Zone	Calc Required [2]	Calc Required [3]	$6.843 per sq.ft.

[1] Includes the "planning" fee for preparation of the Specific Plan.
[2] The Airport Area Specific Plan (and, therefore, the "Triple Fee Zone) does not anticipate residential growth. If required, a single family fee would need to be calculated by the Department of Public Works based on Average Daily Trips (ADT).
[3] The Orcutt Area Specific Plan and the Airport Area Specific Plan (and, therefore, the "Triple Fee Zone) do not anticipate significant retail growth. If required, a retail fee would need to be calculated by the Department of Public Works based on Average Daily Trips (ADT).
[4] The Orcutt Area Specific Plan does not anticipate industrial growth. If required, an industrial fee would need to be calculated by the Department of Public Works based on Average Daily Trips (ADT).

Source: City of San Luis Obispo.

As shown, fees for Single-Family residential development vary from $3,500 per unit in a non-growth area of the City to $12,500 per unit in the Margarita sub area, with uncertainties for other categories. Industrial fees show a greater variation with the base fee at $2.0 per square foot Citywide and $20.0 per square foot in the Margarita sub area.

Citywide Fee Program Description

Municipal Code Chapter 4.56, Sections 4.56.010
Resolution No. 9793 (2006 Series) Updates Transportation Impact Fees

Fee Purpose

The purpose of the transportation impact fee program is to help fund the transportation improvements required to accommodate new development in the City, including vehicular traffic as well as bicycle and pedestrian traffic and transit. It is the City's policy to ensure that new development pays for its fair share of the cost of transportation improvements, and the transportation impact fee program is one of the City's key strategies for doing so.

Fee Program Background

The City's transportation impact fee program was originally established in 1995. The MuniFinancial study, which was prepared in 2006, represented the first comprehensive update in over 10 years. It has not been updated since 2006. It is planned that when the LUCE update is complete, the transportation impact fee program will be updated.

Improvements and Costs

The Citywide fee program is designed to fund costs related to street and highway projects, transit projects, and bikeway projects. Total project costs, excluding financing costs, increased by $86.1 million, from $48.7 million in 1995 to $134 million in 2006. The portion of costs allocated to the fee program correspondingly increased by $32.2 million, from $19.3 million to $51.5 million. Including financing costs of $24.6 million for funding the Prado Road and Los Osos Valley Road interchanges and the Prado Road bridge widening increased the fee program costs from $51.5 million to $76.1 million.[6] The improvements are categorized into three components: 1) all identified projects except the Prado Road and Los Osos Valley Road interchanges, 2) the Prado Road interchange, and 3) the Los Osos Valley Road interchange.

Technical Methodology

Depending on the improvement item, costs are allocated between existing and new development based on the ratio of base-year trips versus trips at buildout using the City's traffic model. The resulting ratio of costs attributable to new development is 35 percent, though the precise allocation varies by improvement.

Trip rates by land use type were used to estimate total trips, and then total trips were multiplied by a pass-by factor. A cost per trip is calculated based on the project costs and the land use and total trips. Total capital costs are allocated to each land use category by multiplying the cost per trip by the total trips for each land use. The fee per unit of development for each category of project costs is calculated by dividing the share of total costs for each land use by the amount of projected development (in terms of trips) for that land use. Projected development assumptions were provided by the City and included estimates of total Citywide development and within the Prado Road and Los Osos Valley Road sub areas separately.[7]

<u>Adjustments</u>

For the Citywide fee, there is a 50 percent discount for retail and hotel uses in recognition of the General Fund fiscal benefits of these types of uses (e.g., sales tax and transient occupancy tax).

Adjustments to the Citywide TIF base fee are also made for the Los Osos Valley Road Sub Area and the Margarita Area Specific Plan Sub Area to avoid double-counting for the same project costs. New development in these sub areas are already charged for their benefit through the add-on sub area fees. Accordingly the Citywide fees in these sub areas are reduced proportionately by the amount that is attributable to these interchange projects in the base fee.

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[6] See Table 2 of the MuniFinancial Transportation Impact Fee Update, 2006.

[7] The Prado Road sub area was to be created to develop an "add on" fee for development in close proximity to the Prado Road Interchange (similar to the LOVR Interchange sub area). The Prado Road Sub Area never materialized since the "Dalidio" property approvals were overturned via referendum and other development in the area that would require the sub area to be formulated have not yet occurred.

Los Osos Valley Road Sub-Area

Resolution No. (2003 Series) established sub area fee
Resolution No. 9732 (2005 Series) updated sub area fee

The LOVR Sub Area fee was based on analyses approved by the Council in October 2003 and updated in September 2005. The LOVR Sub Area fee funds improvements to the Los Osos Valley Road/US 101 interchange. In the 2003 analysis, the total costs of the improvements were estimated to be $16 million. For budgeting and planning purposes, City staff estimated that grants amounting to approximately $8 million would be obtained.

Using the City's traffic model and various environmental documents that included trip generation estimates, City staff calculated the percentage of vehicle trips that would be generated by the new development surrounding the interchange and then derived a "per trip" cost for new development's share of the interchange improvements. A sub area around the interchange was established that reflected the likely development and redevelopment that would affect the need for increased capacity at the interchange location.

Partial funding for the LOVR/US 101 interchange is included in the Citywide transportation impact fee program. However, the estimated cost was based upon 1994 information (when the TIF program was established). At the time, the cost estimate for the interchange was $3 million. Further investigation before the 2003 establishment of the sub area fee indicated the cost was $16 million. In the Citywide TIF program, all new development equally shares the cost of the $3 million estimate. The 2003 Council agenda report explains that because the sub area will receive the greatest benefit and generate the greatest demand, the sub area fee is designed to ensure that the sub area pays its fair share. The rest of the City still benefits and will continue to contribute to the interchange project but at a much lower level.

By 2005, the project costs had increased to $27 million, including $3.1 million for the Calle Joaquin relocation project and $23.9 million for the LOVR interchange project, and the sub area fee was updated. The 2005 staff report notes that while necessary to fund needed LOVR interchange improvements, the LOVR Sub Area fee presents an economic challenge for new development in the area. A financing program was proposed that would be extended to auto dealerships, in light of the fiscal benefits of this type of development and the City's General Plan policy of encouraging auto dealers to locate in this area.

Margarita Area Specific Plan Sub Area

Resolution No. 9643 (2005 Series)
Resolution No. (2007 Series) (updates cost estimate of Prado Road extension)

The Margarita Area Specific Plan was adopted in October 2004 and amended in July 2012. The 420-acre Margarita Area is in the southern part of San Luis Obispo, located within the City's urban reserve boundary. It includes much of the land bounded by South Higuera Street, Broad Street, Tank Farm Road, and the ridge of the South Street Hills.

The Margarita Area is identified as a Residential Expansion Area, meaning it is one of the areas designated to accommodate San Luis Obispo's planned residential growth for the near future. According to the General Plan, this area should include permanent open space protection and a mix of housing with supporting services, and a business park. The development program associated with the Margarita Area is summarized on **Table 5**, along with specific plan development programs.

Table 5
Development Program by Specific Plan Planning Area [1]

Land Use Category	Specific Plan Planning Areas		
	MASP [2]	AASP [3]	OASP [4]
Single Family Residential	685 units		540 units
Multifamily Residential	183 units		439 units
Retail	10,000 sq.ft.		8,000 sq.ft.
Office			8,500 sq.ft.
Business Park	959,017 sq.ft.	3,044,844 sq.ft.	
Industrial		4,277,592 sq.ft.	
Government		66,350 sq.ft.	

[1] Development program represents total plan area development capacity and does not necessarily represent the development totals that are used for fee calculation purposes. For example, the square footages noted above for the AASP are inclusive of existing development that would not factor into a fee calculation.
[2] See Table 8.1 of the Airport Area Specific Plan.
[3] See Table 4.1 of the Airport Area Specific Plan.
[4] See Table 3.2 of the Orcutt Area Specific Plan.

Sources: Margarita Area Specific Plan; Airport Area Specific Plan; Orcutt Area Specific Plan; City of San Luis Obispo.

Because development in the Airport Area Specific Plan is expected to occur concurrently with that in the Margarita Area, the Public Facilities Financing Plan (PFFP) (Chapter 9 of the Margarita Area Specific Plan) also incorporates the land uses and infrastructure facilities needs for the Airport area as well. The total cost of transportation infrastructure (road and bikeway improvements) and planning costs associated with the specific plans for which the Airport and Margarita areas are responsible is estimated to be $28.5 million.[8]

Some roadway infrastructure costs are allocated to the areas which benefit most significantly from these improvements or have a significantly higher impact on them than the overall City traffic generated by new development. Prado Road improvements, a portion of the cost of Prado Road Interchange, and intersection improvements at Prado and South Higuera are allocated to future development in the Margarita Area since this area will benefit from these improvements. As stated in the PFFP, future development in the Margarita Area will benefit from the improvements to Prado Road and the intersection at South Higuera Street, and, therefore, a significantly higher pro rata share of project costs associated with these improvements was allocated to future development in the Margarita Area.

Additionally, based on an earlier study, the City estimated that future development in the Margarita Area is responsible for 13 percent, or $2.9 million, of the $22 million Prado Road Interchange. Similarly, when the Dalidio-MacBride area near the Prado Interchange develops, City staff anticipates that properties in the immediate vicinity of the interchange will carry a higher cost responsibility of improving the interchange.

[8] Provided by Tim Bochum via an updated version of Table 8.6 of the Airport Area Specific Plan.

The total cost of these three improvements, approximately $13 million, is allocated among all future development in the Margarita Area based on trip generation factors.

In addition, funds were advanced by the City to pay consultants' costs associated with preparing the specific plans, environmental review, and other analyses to support development of the Airport and Margarita areas. These costs total $717,000 and have been allocated to all future development in the Airport and Margarita areas on a per-acre basis. The Specific Plan cost to the Margarita sub area is $252,000.[9]

When the fee was updated in 2007, the cost estimate of the Prado Road extension was revised. The current sub area fee reflects the following improvements:

- Prado Road Extension, $18,967,700
- Prado Road Interchange, $3,131,100
- Prado & Higuera Intersection, $313,400

In the case of the Prado Road extension, it was envisioned that this improvement would be built by new development, and as such, the impact fees serve to determine that basis for reimbursement agreements and crediting, rather than fees to be collected. As noted by City staff, the recent economic downturn influenced this philosophy and the City has received requests from proponents of existing approved vesting maps to modify construction requirements to be more aligned with a fee based program with deferral of Prado Road improvements.

Airport Area Specific Plan Sub Area

Resolution No. 9727 (2005 Series)

The roughly 1,500-acre Airport Area is located approximately 2.5 miles south of downtown San Luis Obispo, in the City's designated Urban Reserve area. The land use program for the Airport Area allows for the development of up to 1,073 acres (71 percent of the planning area) with a mixture of services, manufacturing, business park, and airport-related facilities. The balance of the area is to be preserved as open space and agriculture (424.9 acres), and an existing mobile home park (7 acres) will be retained.

In addition to providing for new development, a key goal of the Plan is to preserve, enhance, and manage the planning area's open space lands and natural resources for the long-term benefit of planning area businesses, the San Luis Obispo community, visitors to the area, and the environment itself.

Because development in the Margarita Area Specific Plan is expected to occur concurrently with that in the Airport Area, the PFFP that is included as Chapter 8 in the Airport Area Specific Plan also incorporates the land uses and infrastructure facilities needs for the Margarita Area. The total of transportation infrastructure (road and bikeway improvements) and planning costs for which the Airport and Margarita areas are responsible is estimated to be approximately $28.5 million.[10]

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[9] Indicated as $284,000 in the MASP, Table 10.

[10] Provided by Tim Bochum via an updated version of Table 8.6 of the Airport Area Specific Plan.

As stated in the PFFP, roadway infrastructure costs are allocated to the areas which benefit from these improvements. Future development in the Airport Area will primarily benefit from the improvements to Tank Farm Road, the Unocal Collector, Santa Fe Road Extension and Buckley Road Extension and therefore, existing development in the Airport Area is not allocated these costs. Costs include roadway improvements and median landscaping and irrigation for Tank Farm Road. The original PFFP did not include the full cost of the Buckley Road Extension because the County of San Luis Obispo was acting as lead on the project at the time of the plan adoption and costs were included as part of the County's SLO Area Fringe Transportation Impact Fee Program. The original PFFP assigned most of the Unocal Collector and Santa Fe Road Extension improvement costs to the fronting property owners, although the part of the Unocal Collector that crosses the Chevron/Unocal property is included in the Plan.

The total cost of these roadway improvements is approximately $12.78 million and is allocated solely to future development in the Airport Area.[11] Additionally, $2.0 million in bikeway costs is allocated to the Airport Area.

Funds have been advanced by the City to pay consultants' costs associated with preparing the specific plans and other analyses to support development of the Airport and Margarita areas. These costs total $717,000 and have been allocated to all future development in the Airport and Margarita areas on a per-acre basis. The existing development in the Airport and Margarita areas is not included in the cost allocation. The Specific Plan cost to the Airport sub area is $465,000.

Orcutt Area Specific Plan Sub Area

Resolution No. 10222 (2010 Series)

The 230.85-acre Orcutt Plan Area, located southeast of the City, is designated as an expansion area within the urban reserve line in the City's General Plan. The Specific Plan calls for a balanced mix of housing types including single-family and multifamily residential areas and two sites for public or low-income housing development. Required infrastructure to serve the OASP area includes roads and bridges, a network of biking and walking paths linking the residential areas, a centrally located park, a neighborhood park, a pocket park, a linear park system and Trail Junction Park.

The costs for roads, bridges, pedestrian and bicycle paths, and parks and recreation facilities were estimated to be approximately $15.9 million when the Specific Plan was completed in 2010. The fair share of these costs allocated to the Orcutt Plan Area was $14.1 million.

- Transportation, $4.2 million
- Pedestrian and Bicycle Paths, $1.8 million
- Parks and Recreation, $4.4 million
- Parkland, $3.7 million

[11] Text on page 8-8 of the Airport Area Specific Plan indicates $5.5 million. Estimate of $12.78 million is extracted from Table 8.6 on page 8-11 of the Airport Area Specific Plan.

The public facilities identified in the OASP were designed and sized to serve the residential development in the OASP. The proposed commercial uses are a minor part of the total Plan, representing less than one-half of 1 percent of the net developable acreage. Therefore, the cost of the public facilities attributable to the commercial land uses is not allocated to them because they will be developed only as a result of the demand created by the residential development, as such, are shared equally by all residential development in the OASP area.

Development in the OASP is expected to participate in the Citywide development impact fee programs for transportation, water, and sewer facilities. The Citywide fees are in addition to the OASP fees and will fund the Plan Area's fair share of Citywide public facility costs. It should be noted that there are no duplicated transportation infrastructure costs between the OASP-specific transportation fees and the Citywide fees.

New development in the OASP area is also subject to a fee that will be used to reimburse the City and certain land owners for EIR preparation costs, and the City will be reimbursed for its costs associated with preparation of the Specific Plan. The total cost of the EIR and the Specific Plan is spread equally to the residential land uses on a per-acre basis.

Fee Update Topics

1. **Geography of Fee Program**. The City's TIF program includes a Citywide fee, distinct add-on fees for three growth areas (Orcutt, Margarita, and Airport) and an additional add-on fee for one of the City's major projects (the LOVR Interchange). While additional fees for growth expansion areas exist in a number of California cities, the complexity and overlap of the City's current transportation fee programs should be carefully studied as part of the future fee update process, with the objectives of reducing both complexity and geographic disparities (including, overlap).

2. **Transportation Improvement Cost Allocations**. A key component of the geography of the current transportation fee program, and the associated differences in fee levels in different areas, relates to the process of allocating transportation costs. The future fee update process should consider the allocation of transportation improvement costs, including the best allocation of major facilities (e.g., LOVR Interchange, Prado Road) between the Citywide fee program and the expansion areas as well as among the expansion areas themselves. The proportion of costs allocated to existing development (i.e., non-fee funding sources) should also be reviewed, as should prior fee program assumptions concerning expected revenues from other non-fee funding sources.

3. **Transportation Impact Fee Discounts and Other Policy Decisions**. There are a number of policy decisions involved in fee program creation. One common example is the discounting of fees for certain uses. The City currently discounts transportation fees on retail and hotel uses due to the General Fund fiscal benefits of such developments (sales tax from retail development and transient occupancy tax from hotel development). In situations where discounts are provided, the City should identify the other funding sources that will ensure a comprehensive transportation financing policy and ensure a fully-funded fee program. Other policy decisions can include 1) the range of transportation improvements the City determines are necessary, and 2) the specific allocation of new transportation improvement costs between existing and new development.

4. **Fee Updating**. The Citywide transportation impact fee program was first adopted in 1995 and last updated in 2006. The City is prudently awaiting the update of its LUCE before conducting a comprehensive fee update. At the same time, once a new fee program is in place, the City may wish to adopt a policy of more frequent fee program updating. Generally speaking, impact fee programs should be updated within a five-year timeframe.

Water and Sewer Utilities

Chapter 4.20.140

This section provides an overview of the City's water and wastewater fee programs. The initial section highlights key components of the fee program, and the subsequent sections provide more detailed information on the different components of the fee program, including catchment areas, fee program history, and other important factors. The end of the section identifies fee update topics for discussion.

The water and wastewater fees were recently updated (August 2013) after the necessary technical work and policy level discussions occurred. The water fee schedule was refined to a single overall Citywide fee with the removal of sub area differentiation. The wastewater fee has a Citywide base fee as well as catchment area add-ons. The Citywide wastewater fee along with the catchment area fees are shown in **Table 6**. As a result of the catchment area add-ons, wastewater fees for single-family residential development range from $3,739 per unit (no catchment area) to $7,359 per unit (Tank Farm catchment area).

Fee Program Descriptions

The City's water and wastewater development impact fees are based on future growth under the City's General Plan used in conjunction with capital improvement planning to ensure adequate water supply, water treatment, wastewater collection infrastructure, and wastewater treatment capacity. These fees are based on a methodology that applies facility cost and location, and types and size of anticipated development. The fees collected are used to finance improvements to the benefit of future development.

The City Council first assessed water and wastewater impact fees in 1991 and updated them in 2004. The City prepared the 2013 Study in order to identify and/or update the public facilities and costs associated with providing capacity for future development. Costs came down significantly in the 2013 update.

The 2013 Study reflects significant changes to the Water Development Impact Fee and the Wastewater Development Impact Fee since the adoption of the fees in 2004. Important changes to note include the following:

1. The Fees include a new fee class for secondary dwelling units (studio units less than 450 square feet) that is 30 percent of one equivalent dwelling unit based on water demand and wastewater generation for similar units. This unit type was previously charged the fee for a multifamily residential unit.

2. The Fees also include an updated multifamily unit development impact fee that is 70 percent of one equivalent dwelling unit based on water demand and wastewater generation for similar units. The fee for a multifamily unit was previously 80 percent one equivalent dwelling unit based on water demand and wastewater generation for similar units.

Table 6
Wastewater Impact Fees
Infrastructure Financing Analysis; EPS #131044

Land Use Category		Citywide Fee	Catchment Areas				
			Margarita	Tank Farm	Silver City	Calle Joaquin	Laguna
Residential							
Single Family Detached	Dwelling Unit	$3,729	$2,745	$3,630	$1,356	$1,829	$490
Multifamily	Dwelling Unit	$2,610	$1,922	$2,541	$949	$1,280	$343
Mobile Home	Dwelling Unit	$2,237	$1,647	$2,178	$814	$1,097	$294
Studio Unit (< 450 sq.ft.)	Dwelling Unit	$1,119	$824	$1,089	$407	$549	$147
Non-Residential							
3/4"	Meter Size	$3,729	$2,745	$3,630	$1,356	$1,829	$490
1"	Meter Size	$6,339	$4,667	$6,171	$2,305	$3,109	$833
1.5"	Meter Size	$12,678	$9,059	$11,979	$4,475	$6,036	$1,617
2"	Meter Size	$20,135	$14,549	$19,239	$7,187	$9,694	$2,597
3"	Meter Size	$39,897	$29,372	$38,841	$14,509	$19,570	$5,243
4"	Meter Size	$62,274	$45,842	$60,621	$22,645	$30,544	$8,183
6"	Meter Size	$124,540	$91,409	$120,879	$45,155	$60,906	$16,317

Water and wastewater impact fees are based on meter size for non-residential uses in determining "equivalent dwelling units." For example, a 3/4-inch meter is the equivalent of one single-family residence (EDU); a one-inch meter is 1.7 EDUs; a two-inch meter is 5.4 EDUs; and a three-inch meter is 10.7 EDUs.

Source: 2013 Water & Wastewater Development Impact Fee Study and 2013 Water & Wastewater Fee schedule.

3. Updated actual capital costs for additional water supplies.

4. Elimination of the Water Area-Specific add-on fee for the Airport and Margarita Areas.

5. Updated actual and forecasted wastewater capital facility costs with actual and forecasted capital costs for facilities from the 2013-15 Financial Plan, along with costs from the 2010 Water Reclamation Facility (WRF) Master Plan, and City project financing resources as documented throughout the report.

6. Change from "Area Specific Add-On" fees to "Catchment Area" fees for certain wastewater lift station facilities.

7. Elimination of the 3.5 percent adjustment in the Citywide nonresidential fee related to higher discharge strengths.

Water Impact Fee

The City's Utilities Department provides water service to City residents and businesses within the City limits and to the County Airport and California Polytechnic State University, San Luis Obispo (Cal Poly). Cal Poly does, however, provide its own source of supply, on-site storage, and distribution facilities to meet its on-campus water demands. If an area outside the City limits wants to receive water service, that area must be annexed to the City, with the exception being customers who have made prior agreements with the City.

There are two components of the Water Development Impact Fee: Water Supply and Water System Facilities.

<u>Water Supply</u>

Two of the City's water supply sources, recycled water and the Nacimiento Pipeline Project, are included in the cost calculation for the water supply development impact fee since the added water supply of these projects enables the City to meet the General Plan build-out goals.

- Water Reuse Project, $11,532,100 (includes Financing Costs)
- Nacimiento Pipeline Project, $149,879,829 (includes Financing Costs)

The unit cost per EDU is determined by the total cost of water supply attributable to future development ($63.2 million[12]) divided by the total future EDUs within the City (6,927 EDU). The equivalency factor is applied to this unit cost to determine the residential fees per dwelling unit. Nonresidential development impact fees are based on meter size per the American Water Works Association ratio.

<u>Water Facility</u>

The 2000 Water System Master Plan identifies water treatment facilities required to accommodate future development in the City:

- 2006 Water Treatment Plant Improvements, $24,842,500
- Sedimentation Process, $7,776,700
- 2007 Bishop Tank, $1,502,100
- 1994 Water Treatment Plant Upgrade, $22,566,900

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[12] See Table 14, page 20 of 2013 Water and Wastewater Development Impact Fee Study.

Of these total facility improvement costs, approximately $11.4 million is allocated to future development.

The cost of water facilities attributable to future development, ($11,431,833) is divided by the total EDUs anticipated as a result of future development in the City (6,927 EDUs) to determine the cost per EDU. The equivalency factors for other residential categories are then applied to this unit cost to determine the residential fees per dwelling unit. Nonresidential development impact fees are based on meter size. **Table 7** provides a summary of the City's water impact fees.

Table 7
Water Impact Fees

Land Use Category		Citywide Water Fees		
		Facilities Fee	Supply Fee	Total
Residential				
Single Family Detached	Dwelling Unit	$1,650	$9,124	$10,775
Multifamily	Dwelling Unit	$1,155	$6,387	$7,542
Mobile Home	Dwelling Unit	$990	$5,474	$6,465
Studio Unit (< 450 sq.ft.)	Dwelling Unit	$495	$2,737	$3,232
Non-Residential				
3/4"	Meter Size	$1.650	$9.124	$10.774
1"	Meter Size	$2.806	$15.511	$18.317
1.5"	Meter Size	$5.611	$31.022	$36.633
2"	Meter Size	$8.912	$49.270	$58.182
3"	Meter Size	$17.659	$97.628	$115.287
4"	Meter Size	$27.561	$152.373	$179.934
6"	Meter Size	$55.123	$304.746	$359.869

Water and wastewater impact fees are based on meter size for non-residential uses in determining "equivalent dwelling units." For example, a 3/4-inch meter is the equivalent of one single-family residence (EDU); a one-inch meter is 1.7 EDUs; a two-inch meter is 5.4 EDUs; and a three-inch meter is 10.7 EDUs.

Wastewater Impact Fee

The City provides wastewater collection and treatment service for residents and businesses located within the City, as well as the County Airport and Cal Poly.

Citywide

An upgrade of the City's Water Reclamation Facility (WRF) is planned in response to stricter discharge limits required by the Central Coast Water Board (CCWB), to increase capacity to serve the City's population at General Plan buildout, and to replace existing aged facilities at the end of their service life. The Water Reclamation Facility Master Plan was prepared to identify these upgrades and associated costs. Study and design phases of these improvements are scheduled to begin in 2013-14, with construction anticipated in 2016-17.

The total cost of the Water Reclamation Facility Master Plan Improvements is $126,254,900, of which $25,847,460 is allocated to future development.

Catchment Areas

In addition to the Citywide improvements, the City has constructed and anticipates additional necessary catchment-area specific improvements to accommodate future development within the City. These catchment areas are regions with wastewater mains, lift stations, and force mains that collect wastewater from identified areas of the City. Each catchment area varies in the amount of flow contributions to the Water Reclamation Facility, due to its applicable topography and land uses. The wastewater catchment areas and associated improvement costs are as follows:

1. Margarita, $1,000,000
2. Tank Farm, $19,118,800
3. Silver City, $1,000,000
4. Calle Joaquin, $1,500,000
5. Laguna, $3,121,300

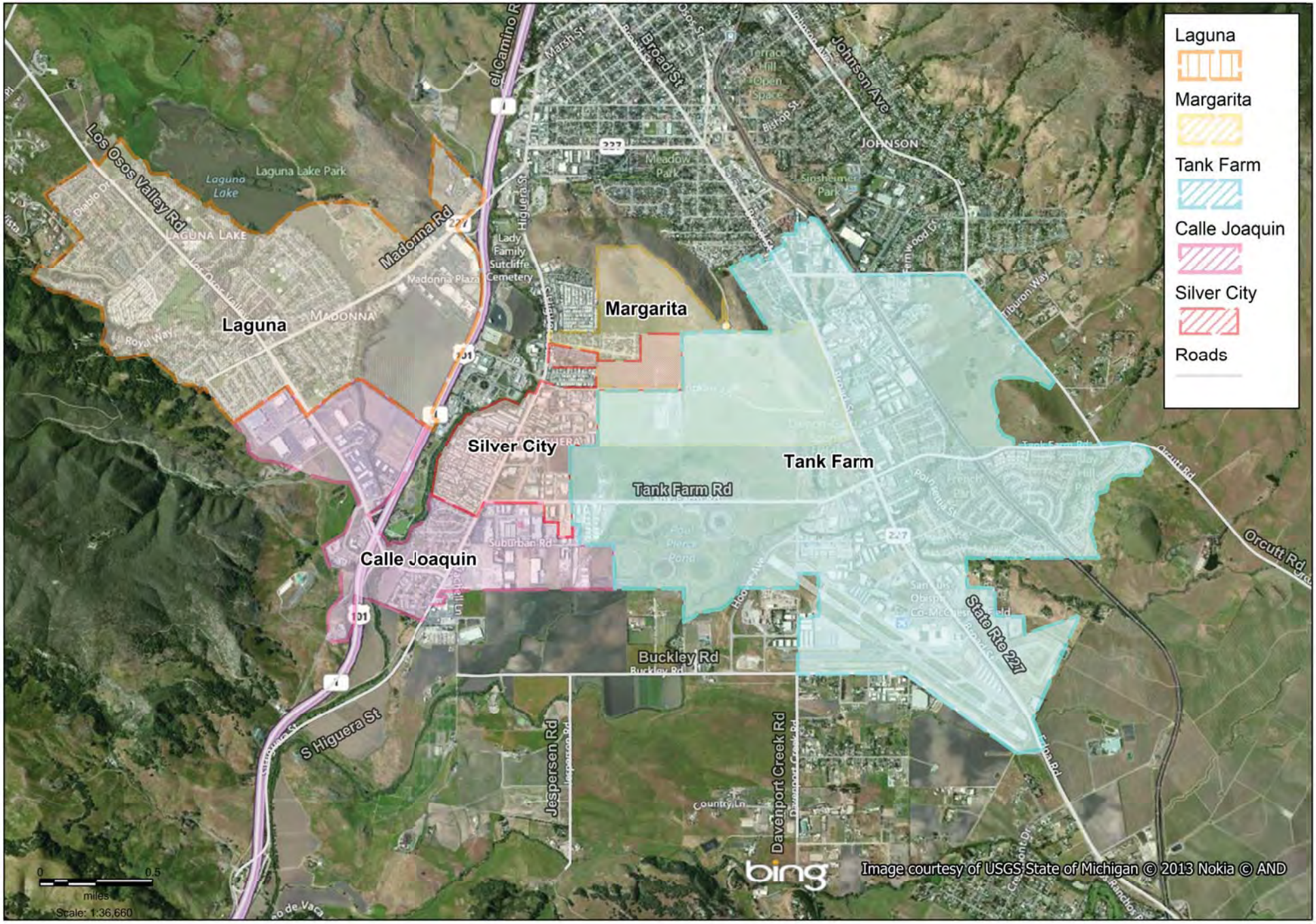
The City's planning area boundaries, such as the Margarita, Airport, and Orcutt Specific Plan areas, do not coincide with wastewater catchment area boundaries, as shown below in **Table 8**. A map of the wastewater catchment areas is provided as **Figure 3**.

Table 8
Planning Areas and Catchment Areas

	Lift Station Catchment Areas				
Planning Area	**Tank Farm**	**Margarita**	**Silver City**	**Laguna**	**Calle Joaquin**
Airport	X				
Margarita	X	X	X		
Dalidio				X	
Madonna				X	
McBride					X
Irish Hills					X
Orcutt	X				

Source: 2013 Water and Wastewater Development Impact Fee Study.

Figure 3: San Luis Obispo Wastewater Catchment Areas



Fee Update Topics

Due to the recent water and wastewater fee update, the discussion topics around this fee program are likely to include some of the broader areas for discussion as well as considerations of whether there were any broader innovations from this process that should be considered as part of the future comprehensive fee study process. Potential discussion issues include:

1. **Overall Feasibility Issues.** Broader development feasibility analysis as part of the comprehensive fee update process will need to consider the collective fee burden, including water and wastewater fees.

2. **Geography of Sub Areas.** A combination of catchment areas for wastewater fees as well as sub areas for transportation fees are also present in other California cities, though an overall examination of fee variation throughout the City should be considered as part of the fee update process.

3. **Applicable Approaches.** The update of the water and wastewater fee programs might have highlighted specific principles or approaches of interest to policymakers. The transferability of these lessons could be discussed.

4. **Cost Allocations**. To the extent there are ongoing questions concerning the allocation of particular wastewater improvements, the allocation methodology could be further explored. For example, with improvement costs of approximately $19 million, the Tank Farm catchment area faces the highest sub area fee.

Parks and Open Space Fees

The City's fee programs include a Citywide park in-lieu fee, an area-specific Margarita Area Specific Plan parkland improvement fee, and an OASP park improvement fees. These fees are all only charged to residential development, including separate fees for single-family and multifamily development. **Table 9** shows the current fee schedules.

Table 9
Summary of Park Fees

Area/Sub Area	Single Family	Multifamily
Citywide (Quimby)		
Park In-Lieu Fee	$5,668 per unit [1]	$4,494 per unit [2]
Margarita Specific Plan Area		
Parkland Impact Fee	$8,247 per unit	$6,945 per unit
Orcutt Specific Plan Area		
Park Improvement Fee	$12,719 per unit	$9,359 per unit

[1] Applies to each potential additional single family dwelling unit in C/OS and R-1 zones within the subdivided area.
[2] Applies to each potential additional multifamily dwelling unit in zones other than C/OS and R-1 within the subdivided area.

Source: City of San Luis Obispo.

Park and Open Space Fee Program Descriptions

Park In-Lieu Fees (applies to residential subdivisions)

Resolution No. 8956 (1999 Series)

The City of San Luis Obispo requires dedication of park land or payment of park in-lieu fees as a condition of approval for a final tract or parcel map, consistent with California Subdivision Map Act, Government Code Section 66477 (Quimby). Fees apply to single-family homes in the C/OS and R-1 zones within the subdivided area and multifamily homes in zones other than C/OS and R-1 within the subdivided area. Fees are based on residential land costs.

Table 10
Citywide Park In-Lieu Fees (Quimby)

Land Use	Fee
Single Family [1]	$5,668 per unit
Multifamily [2]	$4,494 per unit

[1] Applies to each potential additional single family dwelling unit in C/OS and R-1 zones within the subdivided area.
[2] Applies to each potential additional multifamily dwelling unit in zones other than C/OS and R-1 within the subdivided area.

Source: City of San Luis Obispo.

Parkland Impact Fee (applies to Margarita Specific Plan Sub Area)

Resolution No. 9643 (2005 Series)
Resolution No. 10387 (2012 Series)

The City's parkland standards are established in the General Plan at 10 acres per 1,000 residents. This standard is only applicable to residential development, so it was not included with the joint Airport/Margarita area infrastructure analyses. The most recent update occurred in 2012 to reflect increases in Citywide use of the Damon-Garcia sports field.

The Margarita Specific Plan Area will include 868 housing units and a population of 1,835 residents.[13] At 10 acres per 1,000 residents, new development in the area is responsible for providing approximately 18.35 acres of developed parkland.

The Specific Plan calls for 25 acres of parkland in this area (9.9 acres of neighborhood park and 15.1 acres in sports fields), but only 18.35 acres are required to meet the standard of 10 acres per 1,000 residents. Since original adoption of the Plan in 2004, the Damon-Garcia sports fields have been developed and utilized as a Citywide facility. Therefore some of the costs originally anticipated as being the sole responsibility of the Margarita Area development needed to shift to

[13] On page 76 of the MASP, the number of future housing units is indicated as 836. Elsewhere in the MASP document, the number of future housing units is indicated as 868 units.

City responsibility. Of the total parkland planned for the area, new development is responsible for 12.9 acres.

In meeting the standard for this area, this results in 9.9 acres in neighborhood parks and 8.45 acres in sports fields required to serve the increase in the MASP population. Land costs are estimated at $300,000 per acre for the future neighborhood park and $200,000 in actual costs for the Damon Garcia sports field. Park development costs are $235,000 per acre for both the Damon Garcia sports field and the proposed neighborhood park.

Those who dedicate parkland within the Margarita area will receive a fee credit based on the land and improvement value of the dedicated parkland.

Table 11
Margarita Area Specific Plan Parkland Impact Fees

Land Use	Fee
Single Family	$8,247 per unit
Multifamily	$6,945 per unit

Source: City of San Luis Obispo.

<u>Park Improvement Fee (applies to Orcutt Area Specific Plan Sub Area)</u>

Resolution No. 10222 (2010 Series)

The OASP provides for approximately 16.3 acres of improved parkland. In addition, the San Luis Coastal Unified School District is expected to develop an elementary school within the Orcutt Area, or nearby, to serve future residents. It is normal for the City to enter into Joint-Use Agreements with the School District, which would provide additional parkland benefits to City residents. The amount of parkland listed below, plus future recreation facilities that would be developed with a new elementary school, fully satisfy parkland requirements for the Orcutt Area.

As indicated in the March 2010 OASP, a proposed 12-acre neighborhood park located at the center of the Project will serve as a community gathering place for casual recreation and sporting events by providing a variety of active recreation facilities. In addition, a linear park is proposed that will serve a dual purpose as both an area-wide detention basin and a recreation area, and a smaller pocket park is planned within the low and medium density residential neighborhoods. A 2.5 acre "trail junction" park will provide passive parkland adjacent to trailheads at the base of Righetti Hill. The following list summarizes the parks and recreation projects planned to serve the Project:[14]

- Central Neighborhood Park – 11.13 Acres
- Garay Portion of Neighborhood Park (if Garay property is developed) - 0.87 Acres
- Pocket Park – 0.26 Acre

[14] See page 8-4 of the Orcutt Area Specific Plan. The Parks and Rec Commission will need to approve each of these improvements.

- Linear Park System – 1.54 Acres
- Trail Junction Park – 2.50 Acres

The total cost of park and recreation improvements to be funded by the Project is estimated to be approximately $4.45 million. The parks will be improved with a wide range of features, including tennis courts, a soccer field, perimeter paths, creek enhancements, public art, restrooms, and parking as described in the OASP.

The total land cost will be $3,678,000, or $300,000 per acre for the Neighborhood Park and the Pocket Park (12.26 acres total). Land for the Linear Park System and the Trail Junction Park, which has no development potential (4.04 acres total), will be dedicated by the property owner for parkland purposes at no cost.

Table 12
Orcutt Area Specific Plan Park Improvement Fees

Land Use	Fee
Single Family	$12,719 per unit
Multifamily	$9,359 per unit

Source: City of San Luis Obispo.

<u>Open Space In-Lieu Fee (applies to Airport Area Specific Plan Sub Area)</u>

Resolution No. 9728 (2005 Series)

The City's General Plan includes policies for greenbelt protection including Land Use Element Policy 7.4, which says that an Airport Area annexation shall not take effect unless the annexed area helps protect an appropriate part of the greenbelt near the Airport Area either by dedicating open space or by paying an in-lieu fee, which is to be used to secure greenbelt open space. In 2005 and based on negotiations for open space acquisition in the area south of the Airport, City staff determined that the in-lieu fee should be set at $2,500 per acre, which is an amount sufficient to allow the City to acquire greenbelt open space at a ratio of at least 1:1.

Development in the Airport Area that has not met its open space dedication requirement through provisions of a pre-annexation agreement established before the above-referenced 2005 resolution, or through the dedication of open space land, or conservation easements, in a manner consistent with Land Use Element Policy 7.4, will pay an in-lieu fee per every 1,000 square feet of new floor area, based on the per-acre fee of $2,500. Properties brought into the City via interim annexation agreements paid their In-Lieu fee based upon acreage only and not final buildable square footage.

Table 13
Airport Area Specific Plan Open Space In-Lieu Fees

Land Use	Fee [1]
Business Park	$0.390 per sq.ft.
Service Commercial	$0.574 per sq.ft.
Manufacturing	$0.522 per sq.ft.

[1] Fee levels are as of 2005 and need updating.

Source: City of San Luis Obispo.

Park and Open Space Fee Update Topics

1. **Geography of Fee Program.** The City's park and open space fees include a Citywide in-lieu fee and distinct sub area fees for three growth areas (Orcutt, Margarita, and Airport). While additional fees for growth expansion areas exist in a number of California cities, the need for the complexity and overlap under the City's current park and open space fee programs should be carefully studied as part of the future fee update process.

2. **Variation in Park Fee Programs and Cost Allocations**. Some discussion of the variation of fees between different areas of the City could be important. As part of this, a number of factors should be considered including:

   (a) The application of City General Plan standards by area.

   (b) The allocation of park improvement costs between new and existing development, particularly for large park facilities in new growth areas (for example, one park under the MASP Parkland Impact Fee was determined to be of Citywide benefit during the 2012 update, resulting in an adjustment in the area fee schedule).

   (c) Confirmation that the City of San Luis Obispo, like many California cities, does not want to allocate any park improvement costs to new nonresidential development should also be obtained.

3. **Update to the Airport Area Open Space Fee**. The Airport Area open space fee was established at $2,500 per acre based on negotiations for open space acquisitions that took place in or before 2005. As part of the broader update issue, it may be appropriate to set a formal timing for updating this fee as well as others.

Other City Fees

Two other City fee programs are (1) the in-lieu affordable housing fee (applicable to both residential and commercial development) that represents one way for a developer to meet the City's affordable housing obligations (pursuant to the City's inclusionary housing ordinance) and (2) the Public Art in private development in-lieu fee that represents one option for nonresidential developers to meet the City's public art requirement. The primary issues for discussion for these

programs include the particulars of City requirements and whether any changes are warranted as well as consideration of the recent court decisions on affordable housing fees and their implications, if any, for these fees.

Inclusionary Housing Requirement

Chapter 17.91, Ordinance No. 1348 (1999 Series)

The City's Inclusionary Housing Requirement is designed to increase the supply of housing available to very-low, low- and moderate-income households in the City and the City's Expansion Areas. The Inclusionary Housing Requirement applies to development projects consisting of five or more lots or new dwelling units, and to commercial development projects consisting of 2,500 square feet of gross floor area or larger. The Developer can either 1) construct the required number of affordable dwelling units, 2) pay an in-lieu fee, 3) dedicate real property, or 4) a combination of these, to City approval.

1. A residential project located in the City must build 3 percent low or 5 percent moderate cost affordable dwelling units but not less than 1 affordable dwelling unit per project or pay an in-lieu fee equal to 5 percent of the value of the building.

2. A residential project located in the Expansion Area must build 5 percent low and 10 percent moderate cost affordable dwelling units but not less than 1 affordable dwelling unit per project or pay an in-lieu fee equal to 15 percent of the value of the building.

3. A commercial project located in the City or the Expansion Area must build 2 affordable dwelling units per acre but not less than 1 affordable dwelling unit per project or pay an in-lieu fee equal to 5 percent of the value of the building.

Resolution No. 9131 (2000 Series) waives Citywide Development Impact fees for Affordable Housing Units in Excess of Inclusionary Requirements

Citywide development impact fees are waived on residential units qualifying as affordable housing that 1) exceed the number required to meet the City's inclusionary housing requirements, or 2) are built, owned and managed by the San Luis Obispo Housing Authority, other governmental agencies or not-for-profit housing organizations.

Resolution No. 8415 (1995 Series) waives Development Review and Meter Installation Fees for Affordable Housing Projects

Residential development projects which meet the City's affordability standards for very-low and low income households, and for which provisions have been made to ensure that they will continue to meet affordability standards for the life of the housing to the satisfaction of the Community Development Director, shall be exempt from all planning, building, engineering and any other similar development review fees as well as any water meter or sewer installation fees. Impact fees for funding capital facility improvements necessary to serve the project shall not be included in this blanket exemption. Whenever a project includes a combination of affordable and market rate housing units, fees shall be pro-rated appropriately as determined by the Community Development Director.

Public Art in Private Development

Chapter 17.98

Public Art in Private Development is a program designed to provide opportunities for the general public to experience quality works of art by facilitating their acquisition, display and development in places where they may be experienced by large numbers of people. The City's Public Art program was first established in 1990 and formally expanded to include a fee applicable to art in private development (if the developer chose to pay a fee instead of developing an art piece) in 2000.

The program applies to all new nonresidential development and all expansion of, remodeling of, or tenant improvements to existing eligible buildings when any work has a total construction cost of $100,000 or more.

Options are 1) Propose Public Art to be reviewed and approved by the Architectural Review Committee and the Art Jury for art to be placed in a public place on or in the vicinity of the development project site or 2) Pay an Art in-lieu Fee in an amount equal to one-half of one percent (0.5 percent) of that portion of the total construction costs in excess of $100,000 for each building permit.

APPENDIX A

Appendix A, Table 1
Single-Family Development Impact Fees by Planning Area
Infrastructure Financing Analysis; EPS #131044

Area/ Sub Area/ Catchment Area	Transportation *(per unit or per sq.ft.)*			Parks and Open Space *(per unit)*	Water *(per 3/4" meter)*	Wastewater *(per 3/4" meter)*		Total [1]
	Base	Sub Area	Plan			Base	Catchment Area	
Citywide								
Calle Joaquin	$3,516				$10,775	$3,729	$1,829	$19,849
Margarita	$3,516				$10,775	$3,729	$2,745	$20,765
Silver City	$3,516				$10,775	$3,729	$1,356	$19,376
Laguna	$3,516				$10,775	$3,729	$490	$18,510
Tank Farm	$3,516				$10,775	$3,729	$3,630	$21,650
Margarita Specific Plan Area								
Margarita	$2,591	$9,713	$200	$8,247	$10,775	$3,729	$2,745	$38,000
Silver City	$2,591	$9,713	$200	$8,247	$10,775	$3,729	$1,356	$36,611
Tank Farm	$2,591	$9,713	$200	$8,247	$10,775	$3,729	$3,630	$38,885
Orcutt Specific Plan Area								
Tank Farm	$3,516	$7,871	$784	$12,719	$10,775	$3,729	$3,630	$39,394
Airport Specific Plan Area								
Tank Farm	$3,516	Calc Required	Calc Required	n/a	$10,775	$3,729	$3,630	$18,020
Los Osos Valley Road Area								
Catchment Area: n/a	$2,899	$5,989	n/a	n/a	$10,775	$3,729	n/a	$23,392
Los Osos Valley Road AND Airport Specific Plan Areas ("Triple Whammy" Zone)								
Catchment Area: n/a	$2,899	Calc Required	Calc Required	n/a	$10,775	$3,729	Catchment Area Geo Check Required	$17,403

[1] A total can be provided for the Single-Family land use category, as a single dwelling unit would require a 3/4" meter.

Source: City of San Luis Obispo

Appendix A, Table 2
Industrial Development Impact Fees by Planning Area
Infrastructure Financing Analysis; EPS #131044

Area/ Sub Area/ Catchment Area	Transportation *(per unit or per sq.ft.)* Base	Sub Area	Plan	Parks and Open Space *(per unit)*	Water *(per 3/4" meter)*	Wastewater *(per 3/4" meter)* Base	Catchment Area
Citywide							
Calle Joaquin	$2.036				$10,774	$3,729	$1,829
Margarita	$2.036				$10,774	$3,729	$2,745
Silver City	$2.036				$10,774	$3,729	$1,356
Laguna	$2.036				$10,774	$3,729	$490
Tank Farm	$2.036				$10,774	$3,729	$3,630
Margarita Specific Plan Area							
Margarita	$1.500	$18.375	$0.176	n/a	$10,774	$3,729	$2,745
Silver City	$1.500	$18.375	$0.176	n/a	$10,774	$3,729	$1,356
Tank Farm	$1.500	$18.375	$0.176	n/a	$10,774	$3,729	$3,630
Orcutt Specific Plan Area							
Tank Farm	$2.036			n/a	$10,774	$3,729	$3,630
Airport Specific Plan Area							
Tank Farm	$2.036	$0.691	$0.124	$0.522 [3]	$10,774	$3,729	$3,630
Los Osos Valley Road Area							
Catchment Area: n/a	$1.679	$4.349	n/a	n/a	$10,774	$3,729	n/a
Los Osos Valley Road AND Airport Specific Plan Areas ("Triple Whammy" Zone)							
Catchment Area: n/a	$1.679	$5.040	$0.124	$0.522 [3]	$10,774	$3,729	Catchment Area Geo Check Required

[1] Assumes 3/4" meter.
[2] Assumes 3/4" meter.
[3] Catchment sub area fees also apply in the growth areas of the City. For example, growth in the Airport and Orcutt areas pay the Tank Farm catchment fee. Growth in the Margarita area could pay the Margarita, Silver City or Tank Farm catchment fee.

Source: City of San Luis Obispo

Appendix A, Table 3
Retail Development Impact Fees by Planning Area
Infrastructure Financing Analysis; EPS #131044

Area/ Sub Area/ Catchment Area	Transportation *(per unit or per sq.ft.)* Base	Sub Area	Plan	Parks and Open Space *(per unit)*	Water *(per 3/4" meter)*	Wastewater *(per 3/4" meter)* Base	Catchment Area
Citywide							
Calle Joaquin	$7.406	n/a	n/a	n/a	$10,774	$3,729	$1,829
Margarita	$7.406	n/a	n/a	n/a	$10,774	$3,729	$2,745
Silver City	$7.406	n/a	n/a	n/a	$10,774	$3,729	$1,356
Laguna	$7.406	n/a	n/a	n/a	$10,774	$3,729	$490
Tank Farm	$7.406	n/a	n/a	n/a	$10,774	$3,729	$3,630
Margarita Specific Plan Area							
Margarita	$5.443	$43.787	$0.176	n/a	$10,774	$3,729	$2,745
Silver City	$5.443	$43.787	$0.176	n/a	$10,774	$3,729	$1,356
Tank Farm	$5.443	$43.787	$0.176	n/a	$10,774	$3,729	$3,630
Orcutt Specific Plan Area							
Tank Farm	$7.406	Calc Required	Calc Required	n/a	$10,774	$3,729	$3,630
Airport Specific Plan Area							
Tank Farm	$7.406	Calc Required	Calc Required	$0.574 [3]	$10,774	$3,729	$3,630
Los Osos Valley Road Area							
Catchment Area: n/a	$6.100	$14.456	n/a	n/a	$10,774	$3,729	n/a
Los Osos Valley Road AND Airport Specific Plan Areas ("Triple Whammy" Zone)							
Catchment Area: n/a	$6.100	Calc Required	Calc Required	$0.522 [3]	$10,774	$3,729	Catchment Area Geo Check Required

[1] Assumes 3/4" meter.
[2] Assumes 3/4" meter.
[3] Open space fee is as of 2005 and needs updating.

Source: City of San Luis Obispo

ATTACHMENT 4:

Memorandum #2 dated January 6, 2014: Infrastructure Financing Background, Components and Strategy

FINAL MEMORANDUM

To: Michael Codron and Lee Johnson

From: Walter Kieser, Teifion Rice-Evans & Ashleigh Kanat

Subject: Infrastructure Financing Background, Components, and Strategy; EPS #131044

Date: January 6, 2014

The Economics of Land Use

The high costs of expanding municipal infrastructure combined with real economic and market feasibility constraints faced by new development requires a renewed approach to infrastructure financing. This approach can help the City of San Luis Obispo realize *General Plan* and specific plan policies and related community and economic development as envisioned in the *Economic Development Strategic Plan*. Additional funding sources and financing mechanisms can augment existing fee programs by tapping into strategies that can offset costs otherwise funded with development-based sources and/or provide "bridge" financing that may be necessary to incentivize sought-after economic development uses and revitalization of existing neighborhoods.

This memorandum describes funding sources and financing methods available to the City of San Luis Obispo for funding municipal infrastructure; specifically, funding and financing methods that can be integrated with existing and updated development-based funding sources (e.g., development impact fees) as part of an overall infrastructure financing strategy promoting economic development in the City's newly developing (Specific Plan) areas and revitalization areas. This proposed infrastructure financing strategy requires a number of area plan evaluations and analyses to select the appropriate funding sources and financing mechanisms.

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Overview of Economic and Fiscal Trends

As a preface to this discussion, it is valuable to note the "macro" trends influencing municipal infrastructure financing. Economic, fiscal and political trends over the past several decades, beginning with Proposition 13 in 1978, sowed the seeds for the growth in service costs and revenue constraints now facing California local jurisdictions. These trends, described below, compound the lingering effects of the recent Great Recession and underscore the need for cost control, diversification of funding sources, and a thoughtful infrastructure financing strategy.

- Shift of financing responsibilities to local governments. During the past three decades there has been an increasing shift of infrastructure financing responsibilities from State and federal government to the local level. Many grant programs that once funded major highway improvements and water and sewer infrastructure improvements were abandoned long ago.

- Advent of Constitutional and statutory restrictions on municipal revenues. Beginning with the "tax revolt" that resulted in Proposition 13 in 1978, voters (through voter-approved ballot initiatives) and the legislature have continued to restrict the ability of local governments to raise revenues for general or special purposes. This trend continues to the present with the State's elimination of redevelopment agencies in 2012.

- Increasing public expectations regarding municipal levels of service and infrastructure standards. During this same time frame, citizens have come to expect high standards for the quality and function of infrastructure (e.g., traffic congestion thresholds) and have often embedded these standards in planning documents, such as General Plans and other policy documents. These higher standards are sometimes necessary to assure sustainability of infrastructure.

- Increasing federal and State regulatory standards and mandates. The lack of funding from federal and State government has not slowed the growth in mandates related to water quality, habitat conservation, pollution controls and other rules that have increased cost burdens on local governments. Compliance with these mandates results in expenditures that compete for resources needed for other local services and infrastructure.

- Increasing shift of infrastructure costs to new development. The aforementioned trends, along with continuing population growth in California over the decades (population has continued to increase by an average of 500,000 people per year, despite economic ups and downs), has led to new development bearing an increasing share of costs for building new infrastructure. Development impact fees are the key expression of this trend and it is now the norm throughout California that "development should pay its own way". San Luis Obispo has followed this trend by establishing a range of impact fees and other developer-based infrastructure financing requirements.

- Linking infrastructure to growth management policies. While there never has been a statewide expression of "growth management" policy in California as seen in other states (e.g., Washington, Florida), local jurisdictions have imposed a range of policy constraints including urban limit lines, growth rate caps and infrastructure concurrency policies. These policies often are explicitly linked to concerns regarding the costs of infrastructure and the impact on other aspects of local quality of life. However, growth controls can also inhibit economic development and create unintended negative fiscal consequences, including reduced impact fee revenue and other anticipated development-related revenues.

- Market and financial effects of the Great Recession. The Great Recession, while officially over, left persistent effects upon real estate markets and both private and public financing. These effects have changed development economics in a number of ways including re-setting market pricing and requiring tighter credit standards that have affected both buyers (new homeowners) and producers (more restrictive credit standards for builders and developers). The reduced values for new homes not only lower property tax receipts, but also reduce the funding that can be collected through development impact fees and other fees and taxes because proportionately high development fees may reduce development feasibility thus deterring or precluding housing development.

Funding Sources and Financing Mechanisms

The options available to the City fall into four general categories. The City presently makes use of many of these sources and financing mechanisms, though not necessarily organized into a cohesive overall financing program.

- Developer-Based Funding
- Land-Secured Funding and Financing
- City Funding and Financing
- State and Federal Grant Programs

The following sections describe each of the funding sources and mechanisms that fall under these general categories, and each is described along with their role in the proposed financing program. Development-based funding, including Citywide and area development impact fees, project-specific exactions, private financing, and land-secured taxes and debt, will remain the primary framework for funding new development-required infrastructure. City-based sources can augment development-based sources, providing both a source of "bridge" financing and also providing funding for specific infrastructure projects.

Developer-Based Funding

Development Impact Fees

A development impact fee is an ordinance-based, one-time charge on new development designed to cover a "proportional-share" of the total capital cost of necessary public infrastructure and facilities. The creation and collection of impact fees are allowed under California Assembly Bill (AB) 1600 as codified in California Government Code Section 66000, known as the Mitigation Fee Act. This law allows a levy of one-time fees to be charged on new development to cover the cost of constructing the infrastructure needed to serve the demands created by new growth. To the extent that required improvements are needed to address both "existing deficiencies" as well as the projected impacts from growth, only the portion of costs attributable to new development can be included in the fee. Consequently, impact fees are frequently just one of many sources used to finance a city's needed infrastructure improvements. Fees can be charged on a jurisdiction-wide basis or for a particular sub-area of the jurisdiction (such as a specific plan area).

- ***Establishment.*** Development impact fees can be imposed through adoption of a City-enabling ordinance supported by a technical analysis showing "nexus" between the fee and infrastructure demands of new development. A development impact fee may be levied over an entire jurisdiction or a geographic sub-area. Fees may also be charged for a particular improvement (e.g., transportation improvements) or include two or more infrastructure improvement categories in a comprehensive program. Impact fee programs must be

reviewed annually and periodically updated to assure adequate funding and proper allocation of fee revenues to the infrastructure for which the fees are collected.

- ***Who Pays?*** The burden incidence of development impact fees is upon the developers and builders who pay the fees; fees are a cost of development and are "internalized" into project costs in the same manner as all other development- and construction-related costs. There is no direct effect of fees on development pricing, because markets set prices, independent of costs. However, when costs are too high for the "market to bear," development may be deterred until such time as prices justify costs. All costs will influence land value, so it is often the case that landowners bear a portion of the cost of fees through lower land values (prices paid by developers or builders). While individual circumstances will vary, industry experience has shown that aggregate cost for off-site infrastructure should generally not exceed approximately 15 percent of total development sale value. Impact fees, as a cost to new development, affect financial feasibility of development. If development revenues are insufficient to fully fund costs, development will be diminished until market conditions improve. So long as total development costs fall within a reasonable level, such effects are manageable. This concern has taken on increased importance in the wake of the Great Recession and the related retrenchment of real estate prices and tightened credit markets.
- ***Economic Considerations.*** There are a number of specific economic considerations of development impact fees including:
  - Understanding the positive economic effects, including economic development, of building necessary infrastructure and sustaining desired levels of municipal service and related quality of life.
  - Understanding the contribution of new development, particularly the types of development that generate economic activity, employment, and retail sales, and that create amenities that attract economic activity (e.g., tourist expenditures at local businesses). Effectively planned new development can help to achieve the City of San Luis Obispo's economic development goals and improve fiscal conditions, as well as provide the economic base to enhance the ability to fund services and infrastructure.
  - The effects of fees on the financial feasibility of new development and potential to deter otherwise desirable development.
  - The competitive effects of higher development costs (compared to neighboring jurisdictions) leading to dislocation of desired development.
- ***Benefits***. Impact fees provide a comprehensive and programmatic framework for identifying and allocating infrastructure costs to new development based on rational nexus allocations. There is no discretion on the part of those subject to the fees nor is voter approval required.
- ***Limitations.*** The key limitation of development impact fees (in addition to the burden limit) is the timing of funding set against the need for funding—infrastructure is often needed "up-front" while fees are paid over time as development occurs. This means that other funding or financing methods are needed to close the "timing gap" between the need for infrastructure investment and the flow of development impact fees. Fees are also irregular, as they depend on development activity that varies with economic trends and conditions. During the Great Recession, when development around the State ground to a near halt, fee programs were directly affected. Fees also require ongoing management including need for

annual review, fund accounting and monitoring, and updating to assure the efficacy and transparency of the fee program.

- ***Role in Financing Program.*** While it is important to consider options and augmentation for the City of San Luis Obispo's existing infrastructure financing methods, the first step is to recognize that a comprehensive, updated and sound development impact fee program provides a comprehensive, robust, and administratively efficient basis for assuring appropriate development-based infrastructure funding. Development impact fees provide a rational accounting of costs, rational "nexus" (who benefits) based allocation of all development-related infrastructure costs, and establishing a comprehensive obligation to pay for these costs, and a mandated reporting system that promotes transparency and efficiency.

- ***Methods for Moderating or Deferring fees.*** While considering alternatives and options for augmenting and offsetting development impact fees related to the economic concerns discussed above, it is important to assure that the individual development impact fee ordinances are consistently applied and coordinated and that they contain features that can reduce potential negative economic effects and thus not unnecessarily inhibit otherwise desirable development. Also, there can be features of development impact fees that address economic concerns generally or on a case-by-case basis.

  — Fee Deferrals. While the statute allows a levy of fees at issuance of building permit, many development impact fee ordinances allow a deferral until the "certificate of occupancy" (CO) is issued.

  — Fee Waivers or Categorical Exemptions. Fee waivers provide the local government the ability to waive the fee for a particular project when it is determined that without such reduced costs a project that has substantial public benefit may not otherwise occur. Lacking such community benefits, waivers may be regarded as a "gift of public funds". Examples of such partial or total waivers include projects with the potential to generate substantial municipal revenue or amenities, affordable housing projects, and employment-generating uses. Fee waivers or categorical exemptions reduce funding in a fee program proportional to the aggregate amount of waivers or exemptions granted. Such revenue reductions must be "made up" by the city from other funding sources, or the City of San Luis Obispo risks not being able to build the infrastructure for which the fee was levied.

  — Credits and Reimbursements. Credits and reimbursements are mechanisms that allow developers subject to an impact fee to build infrastructure in-lieu of paying the fee and receiving a proportional credit for the value of that construction against the fee obligation. Reimbursement would occur in the case where construction value actually exceeded the particular developer's fee obligation.

  — Short-Term Fee Financing (Interest Bearing Installment Payments). Ordinances can provide for a developer to pay fee obligations over a period of time subject to an interest bearing and secured note payable.

Private Financing, Agreements, and Partnerships

Developers commonly fund infrastructure requirements privately, for example virtually all "in-tract" improvements (infrastructure improvements within a given subdivision) are privately financed. In some cases area-serving infrastructure (not fully the responsibility of a particular developer) can be privately financed, subject to a refund of all or a portion of this investment

using subsequently collected development impact fees, special tax bond proceeds, or other City funding sources. These cooperative arrangements are typically structured in development agreements or reimbursement agreements.

- Developer (Project-Specific) Conditions and Exactions. Before the advent of ordinance-based development impact fees, it was common for infrastructure to be funded by project-specific "exactions" – payments or construction of infrastructure required as a condition of subdivision or project approval. While development impact fees have reduced the use of exactions, exactions remain an important part of development-based infrastructure financing as there are often infrastructure requirements of a new project that are not included in the applicable fee programs. Determination of the need for such additional infrastructure is often derived from CEQA-based mitigation measures.

- Development Agreements. A development agreement (DA) is a legally binding agreement between a local government and developer authorized by State statute (Government Code Section 65864 et seq.). A DA is a means for a developer to secure existing regulations or a development entitlement for a particular development project for an agreed upon period in exchange for special considerations for the city (or county), generally including infrastructure improvements or amenities that cannot be obtained through the normal conditions applicable to the project. DAs are entirely discretionary on the part of local government and must be individually adopted by local ordinance. Cities often establish their own policies and procedures for considering development agreements. Developer Funding Secured with Fee Credits and Reimbursements. Pursuant to terms of a development impact fee, a specific development exaction, or a development agreement, a developer may build and/or or directly fund infrastructure improvements and thus receive a credit against any formal fees or charges otherwise due. A developer may also receive reimbursement when the amount expended exceeds any fees or charges otherwise due. Such agreements effectively make use of private credit available to the developer to fund municipal infrastructure, subject to repayment from one or another municipal source of funding. Typically, repayment of reimbursable investments made by a developer is derived from future development impact fee revenue derived from other benefitting landowners or developers.

Land-Secured Funding and Financing

There is a long history in California and elsewhere in the United States of using land-secured financing methods to fund local infrastructure or provide services that benefits a particular area (ranging from an entire jurisdiction to sub-areas of the jurisdiction of all sizes. Traditionally, special assessment bonds as authorized in the 1913 Municipal Improvement Act and other related legislation were issued and funded by annual property tax assessments from benefitting properties. Since its advent in 1982, the Mello-Roos Community Facilities District has largely supplanted the use of the range of assessment districts available in the California statutes. The City of San Luis Obispo has historically not used land-secured financing districts, although they are referenced in the financing plans of Specific Plans. Because their characteristics are similar, assessments and special tax secured financing are both addressed below.

- ***Establishment***. California's land secured funding districts require (resident) voter or landowner approval. In the case of assessment districts, majority landowner approval is typically required. In the case of a Community Facilities District, a two-thirds voter approval is needed in all areas that have more than 12 residents (landowners can approve special taxes in areas with 12 or fewer residents).

- ***Who Pays?*** The owners or users of real property pay assessments and special taxes. Insofar as developer-based costs are shifted to land secured financing, a shift in the incidence of burden from the developer or builder to the future tax or assessment payer occurs. By adding to the cost of ownership this shift may affect the price a buyer is willing to pay for a home or commercial property; however experience suggests that there is a discount (i.e., less than 100 percent of additional infrastructure financing burden cost is recognized by the buyer-owner).

- ***Benefits***. Land secured financing provides a well-established method for financing the cost of infrastructure thus reducing "up-front" costs and shifting the burden from the developer to the future users of the developed property.

- ***Limitations***. Land secured financing adds financing costs to the mix (cost of issuance, insurance, and administration) and also faces temporal limits similar to impact fees because the financing capacity of a district is a function of its potential tax revenue at a given point in time and, of course, at the beginning of development or in the early phases, tax revenue (and related funding capacity) will be proportionately limited. This is why it may be necessary to rely on other sources of infrastructure funding (e.g., advances from other sources) during initial years until special tax or assessment-based funding capacity is adequate to support a bond issue or otherwise pay for needed infrastructure.

- ***Role in Financing Program***. Land secured financing districts can be used as an optional alternative for funding costs otherwise included in development impact fees. This could be done by including certain cost items or categories of items (e.g., a highway or bridge improvement, or all park and recreation improvements) in a financing district that encompasses the benefitting properties that would otherwise be included in the development impact fee program. Or, alternatively, developers could be given the option to fund all or part of their City fee obligations with a land secured district. The Statewide Community Infrastructure Program (SCIP) requires creation of a CFD as security for accessing State financing of development impact fee obligations.

Special Benefit Assessment Districts

Special benefit assessment districts are a way of creating a property-based assessment upon properties benefiting from a specific public improvement. Formation of assessment districts requires majority approval of the affected property owners. Such benefit assessments can fund a wide range of infrastructure improvements so long as a direct and measurable benefit can be identified for the benefitting properties. There are numerous forms of special benefit assessments in the California statutes, including the Municipal Improvement Act of 1913, Lighting and Landscape Maintenance Districts, and many others. Recent court rulings (Silicon Valley Taxpayers' Assn., Inc. v. Santa Clara County Open Space Authority, 44 Cal. 4th 431 (Cal. 2008)) have tightened the requirements for demonstration of "special benefit" thus further reducing the flexibility and utility of assessment districts. And even before these rulings, the administrative requirements of assessment districts limited their flexibility and shifted most land secured financings toward Mello-Roos Community Facilities Districts.

Community Facilities District Act

The Mello-Roos Community Facilities Act of 1982 *(authorized by Section 53311 et. seq. of the Government Code)* enables the formation of a Community Facilities District (CFD) by local agencies, with two-thirds voter approval (or landowner approval in when there are fewer than 12 registered voters in the proposed district), for the purpose of imposing special taxes on property

owners. The resulting special tax revenue can be used to fund capital costs or operations and maintenance expenses directly, or they may be used to secure a bond issuance, the proceeds of which are used for funding capital costs. Because the levy is a tax rather than an assessment, the standard of benefit received is lower, thus creating more flexibility. CFDs have become the most common form of land secured financing in California and have been paired, in other jurisdictions, with development impact fee programs as part of area-specific infrastructure financing.

As special taxes and tax overrides approach 50 percent or more compared to the basic 1 percent property tax rate, there is a risk of impacts on land and home prices which would offset any financing benefit associated with the additional special taxes. Cities using CFDs often adopt policies that regulate how they are used and the various limits and considerations to be applied in creating CFDs.

Statewide Community Infrastructure Program

The Statewide Community Infrastructure Program (SCIP) is a program of the California Statewide Communities Development Authority that makes use of a local government's ability to create land secured financing districts. Because the obligations are "pooled" they typically can gain a comparatively lower interest rate, and issuance costs, particularly if the issue is small, will be reduced.

The Authority is a joint powers authority sponsored by the League of California Cities and the California State Association of Counties. Membership in the Authority is open to every California city and county, and most are already members. SCIP financing is available for development projects situated within cities or counties (local agencies) which have elected to become SCIP participants. Eligibility to become a local agency requires only (a) membership in the League of Cities or CSAC, as the case may be, (b) membership in the Authority, and (c) adoption of a resolution making the election (the "SCIP Resolution").

Participation in SCIP entails the submission of an application by the property owner of the project for which development entitlements either have been obtained or are being obtained from a Local Agency. For Projects determined to be qualified, SCIP provides non-recourse financing of either (a) eligible development impact fees payable to the Local Agency (the "Fees") or (b) eligible public capital improvements (the "Improvements") or both. Under certain circumstances, to be determined on a case by case basis, development impact fees payable to local agencies other than the Local Agency can also be used as repayment for upfront SCIP funding.

Applicants benefit from SCIP because it allows them to obtain low-cost, long-term financing of fees and improvements, which can otherwise entail substantial cash outlays. The Local Agencies benefit from SCIP because it encourages developers to pay fees sooner and in larger blocks than they otherwise would. The availability of low-cost, long-term financing also softens the burden of rising Fee amounts and Improvement costs, benefiting both the Applicants and the Local Agencies. Upon receipt of a completed Application, the SCIP team reviews it to determine (a) eligibility of the fees and improvements for which the Applicant seeks financing and (b) creditworthiness of the Applicant and the Project. Once approved by the SCIP team, the Application is countersigned by the Local Agency. Approved Applications are aggregated for inclusion in the next round of financing authorization. Periodically, as warranted by the accumulation of approved Applications, the Authority issues tax-exempt revenue bonds (the "Bonds"). The proceeds from the Bonds are used to finance fees and/or improvements for qualifying Projects located throughout the state. For projects involving a sufficient amount of

financing (generally $5 million or more), a special series of bonds may be issued to fund the project separately if the timing of issuance of a pooled financing does not suit the project, subject to approval of the Authority.

Revenues to pay debt service on the Bonds are derived by the Authority in one of two ways: 1) through the levy of special assessments on the parcels which comprise the participating Projects by establishing one or more assessment districts pursuant to the Municipal Improvement Act of 1913; or 2) through the levy of special taxes on the Project parcels by establishing a CFD pursuant to the Mello-Roos Community Facilities Act of 1982. Absent circumstances which warrant a CFD, the Assessment District format has been and is expected to continue to be the customary basis for SCIP financing.

City Funding and Financing

The City has a number of ways in which it can raise money for capital projects including seeking voter approval of general obligation bonds or special tax bonds, use of enterprise revenues for enterprise (e.g., water and sewer utilities) investments, and issuing certificates of participation funded with existing (or new or increased) general fund revenue sources. The City also has discretion over the use of various State and federal grant programs that continue to be available.

General Obligation Bonds

A general obligation bond is a type of municipal bond in the United States that is secured by a state or local government's pledge to use legally available resources, most typically including property tax revenues, to repay bond holders. General obligation bonds are restricted to defined capital improvements. Because property owners are usually reluctant to risk losses due to unpaid property tax bills, credit rating agencies often consider a general obligation pledge to have very strong credit quality and frequently assign them investment grade ratings. If local property owners do not pay their property taxes on time in any given year, a government entity is required to increase its property tax rate by as much as is legally allowable in a following year to make up for any delinquencies. In the interim between the taxpayer delinquency and the higher property tax rate in the following year, the general obligation pledge requires the local government to pay debt service coming due with its available resources. In California, cities must secure a two-thirds voter approval to issue general obligation bonds.

- ***Establishment***. Creation of general obligation bonds requires two-thirds voter approval if the issuance is for non-educational purposes.
- ***Who Pays?*** The incidence of burden of general obligation bonds is upon all property owners in the issuing jurisdiction proportional to the value of their property. It is this very broad base of funding that provides excellent security for general obligation bonds, thus typically garnering the lowest interest rate of any municipal debt instrument.
- ***Benefits***. General obligation bonds typically garner comparatively low interest rates due to their inherent security (the property tax base of the entire jurisdiction) and the typically long financing period (30 years).
- ***Limitations.*** General obligation bonds are limited to capital improvement expenditures and are also limited in their use to the precise purposes outlined in the authorizing ballot measure; general obligation bonds are commonly restricted to particular capital uses (e.g., street improvements, drainage improvements, parks and recreation, etc.) in the issuing jurisdiction.

- ***Role in Financing Program***. General obligation bonds can fund community-serving infrastructure that is capable of winning super-majority support by the voters. Funding community-serving infrastructure (that benefits all residents and businesses, existing and new) such as community parks and open space can reduce the need for adding such facilities in the citywide development impact fees (as new development will pay their share of these costs through future property taxes).

Revenue Bonds

Cities and other local governments typically issue revenue bonds when they have access to a stable source of revenue such as municipal utility rates. San Luis Obispo has traditionally made use of revenue bonds to fund improvements to its water and sewer facilities, including improvements that serve newly developing areas. Revenue bond funding is commonly paired with "connection charges" (a form of development impact fee) charged to new customers as they connect to the sewer or water utility service. Utility rates that fund revenue bonds can vary within a given jurisdiction if there are substantial differences in the costs of providing services to sub-areas of the City. There can also be rate surcharges to a given area if unique improvements are needed to serve the area.

- ***Establishment***. Revenue bonds are issued by the municipal enterprise and require no voter approval. Revenue bonds may provide improvements for an entire jurisdiction or a sub-area.
- ***Who Pays?*** The incidence of burden of revenue bonds is upon rate payers.
- ***Benefits***. Revenue bonds have a good risk profile and therefore garner comparatively low interest rates. Because they are exclusively secured by enterprise revenue they are not general obligations of the city and thus do not require ballot approval. The ability to adjust rates to cover debt service costs and the ability to charge such rates differentially (given differing costs and benefits of service in sub-areas) create flexibility and appropriate cost allocation.
- ***Limitations.*** Revenue bonds are limited to the specific enterprise-related capital improvement expenditures and are also limited in their use to the precise purposes outlined in the authorizing bond instrument. Revenue bonds are also limited by the rate base – utility rates must conform to State statute (Proposition 218) and are primarily used for funding operations and maintenance of the utility system, often limiting the amount of funding available for debt service.
- ***Role in Financing Program***. Major "backbone" water and sewer infrastructure serving a new development area can be funded with revenue bonds (and related utility area-specific rates or surcharges applicable only to the benefitting area). This technique can shift costs otherwise funded by development impact fees or exactions, as a part of a strategy to keep development impact fee burdens within reasonable limits.

Citywide Parcel or Special Tax Bonds

Parcel taxes or a Citywide Mello-Roos CFD special tax can be imposed with voter approval to fund municipal services and infrastructure. They can provide a broad-based source of funding for citywide-serving services and infrastructure. Due to the voter approval requirements and similar to general obligation bonds, jurisdiction-wide parcel taxes or special taxes are typically only successful if they fund highly desired services and improvements such as improved public safety services.

- ***Establishment***. Parcel taxes, if used for general purposes, can be imposed with majority voter approval. If used for special purposes, parcel taxes will require two-thirds voter approval. They may be used for funding ongoing services or pledged to debt service.

- ***Who Pays?*** The incidence of burden of parcel or special taxes falls upon property owners. Typically such taxes are "flat rate"-per parcel, sometimes with use-related variation and exemptions.

- ***Benefits***. Parcel taxes and citywide special taxes create an opportunity for voters to decide to pay for municipal services or facilities that they deem important. With a broad funding base and strict allocation rules, the taxpayers can assure that funding will be used as intended.

- ***Limitations.*** Parcel and special taxes are limited to the purposes for which they were approved. They also are commonly subject to a "sunset" date, and thus must be re-authorized periodically to maintain funding.

- ***Role in Financing Program***. Similar to a general obligation bonds, parcel and special taxes can fund improvements with broad public benefit including both existing and new residents and businesses. As such they can reduce the need for adding such facilities in the citywide development impact fees (as new development will pay their share of these costs through future property taxes). Parcel and special taxes differ from general obligation bonds in that parcel and special taxes can be used for maintenance and operations, all or in part, and they are not levied "ad valorem" (they typically have a flat or escalating rate structure applied to particular classes of properties). Infrastructure Financing Districts

Local agencies can establish an Infrastructure Financing District (IFD) for a given project or geographic area of the jurisdiction. The IFD "captures" incremental increases of property tax revenues from future development otherwise accruing to the City's General Fund that can be used for funding project-related infrastructure. Current law is highly restrictive making IFDs difficult to enact. However, pending legislation (SB 33) seeks to modify current restrictive provisions of IFD law. IFDs could become a more viable funding and financing mechanism in the future, particularly if inter-agency partnerships can improve the amount of increment financing available.

- ***Establishment***. The establishment of an IFD can be rather complicated and requires approval by every local taxing entity that will contribute its property tax increment AND also requires two-thirds voter approval (within the specific geographic area) to form the IFD and issue bonds.

- ***Who Pays?*** The incidence of burden of an infrastructure financing district is identical to property taxes in general – those paying the property taxes. However, there is an additional consideration – the property tax "increment" diverted to the infrastructure financing district is not available for funding general fund supported services. Thus it could be said that the City at large also "pays" by losing access to this funding during the duration of the district.

- ***Benefits.*** IFDs, similar to redevelopment agency tax increment financing, redirect property taxes otherwise accruing to the city to project-related purposes – the value created by the project is "captured" and invested in a manner that helps realize the project.

- ***Limitations.*** Only public capital facilities of communitywide significance may be financed; an IFD cannot be used to finance operations and maintenance expenses. Unlike former redevelopment tax increment funding, IFDs can only utilize the City of San Luis Obispo's share of property tax increment (and any other agencies who agree to forego their share of tax increment).

- ***Role in Financing Program***. An IFD would provide a way for the City to assist funding a desired project or plan area by infusing property tax funding into the financing of local infrastructure, thus lowering the need for development impact fees, exactions, or special tax funding. IFD funding could be used as a source of reimbursement for funding advances from developer or other city-based sources.

Municipal Credit and Financing Programs

The City can use a variety existing or new broadly based funding sources to fund infrastructure directly or provide a source of interim financing for developer-based obligations (e.g., through issuance of a lease revenue bond as described below). By enhancing General Fund revenues, the City gains the ability to divert some General Funds to infrastructure projects. Such a commitment can be made in the ordinances that create the taxes in question or can be made as a matter of policy. Local sales tax increases, transient occupancy taxes, utility users taxes, development taxes, and a local option real estate transfer tax all can be created or increased for this purpose. The City of San Luis Obispo has levied a new general tax in recent years, a sales tax override (Measure Y) that is allocated to diverse community investments and programs.

- ***Establishment***. Creation of new general or special revenues and any related issuance of bonds supported by such revenues are limited by State Constitutional requirements and statutes that require voter approval of greater than 50 percent for general taxes and two-thirds approval for special taxes (those earmarked for particular uses).

- ***Who Pays?*** The incidence of burden of taxes or rates is upon those paying; for example, sales taxes are paid by residents, businesses, employees, and visitors to the City of San Luis Obispo; transient occupancy taxes are paid by visitors; rates are paid by those receiving utility services, etc. The rationale for the investment and general funding is that these households, visitors, and businesses will benefit from the investments made in infrastructure and the related economic development that is expected to ensue.

- ***Benefits.*** Use of various general fund sources to support infrastructure investments including repair and replacement of existing infrastructure as well as that serving new development requires little additional administrative effort and is typically secure given the broad range of revenues ultimately pledged to the financing.

- ***Limitations.*** Use of existing general fund revenues is limited by existing demands to support municipal operations. Capitalizing general or special taxes (i.e., issuing bonds) typically involves voter approval for any "multi-year" funding obligation. Certificates of participation (described below) offer a means for raising capital without creating such a multi-year obligation or voter requirement.

- ***Role in Financing Strategy***. Citywide based funding (and related bond issues) can be used to fund infrastructure pay-as-you-go, as a source of reimbursement, or to support a municipal bond issue to fund infrastructure or to close the initial funding gap associated with development impact fee programs or land secured financing programs. Allocation of existing General Fund revenues or the creation of new general or special taxes can be integrated (as

they have been in the City of San Luis Obispo) with fee and other developer-based financing efforts as a source of paying directly for a particular infrastructure item or class of items. These revenues and taxes can also provide "bridge" financing to fee programs or land secured financing districts where there is a temporal funding gap anticipated. In such cases the City of San Luis Obispo's investment would be repaid with subsequent development impact fee or other project-based revenue sources.

Financing Mechanisms Linked to City Funding Sources

- ***Certificates of Participation.*** Government agencies acquire needed capital assets in one of two ways: 1) by purchasing the asset either in cash or through a bond financing arrangement; or 2) entering into a rental agreement to obtain use, but not ownership of the asset, or to obtain use and ownership. Leasing, the most malleable of financing tools, can accommodate both options, without the requirement of voter approval. A common form of leasing, Certificates of Participation (COPs) offer a way to pay capital improvements and assets with a long-term lease-purchase agreement with a third-party leasing entity. Cities regularly enter into operating leases, or true leases, to rent property such as equipment and office space. Agencies execute lease-purchase agreements, or tax-exempt leases, to finance not only minor equipment procurements, but also the construction or acquisition costs of major capital projects, such as schools and courthouses. Tax-exempt leasing, often involving the sale of COPs, serves as an alternative to issuing municipal bonds. As new financing needs emerge and market conditions change, government agencies often find that their leasing powers provide more expedient access to the capital markets than their more limited powers to incur debt. As noted above, the City of San Luis Obispo has made use of COPs in its Capital Improvement Program (CIP) and has used COPs to "front" funding for projects needed to facilitate economic development, specifically for providing "bridge" financing for the Los Osos Valley Road interchange project.

- ***Private Placement.*** "Private placement" is the sale of securities (revenue bonds or COPs) to a relatively small number of select investors as a way of raising capital. Given current financial markets, municipal financial advisors have found that structuring private placement municipal debt is competitive with more traditional municipal bond offerings. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. Private placement is the opposite of a public issue, in which securities are made available for sale on the open market. Since a private placement is offered to a few, select individuals, the placement does not have to be registered with the Securities and Exchange Commission. In many cases, detailed financial information is not disclosed and the need for a prospectus is waived. Finally, since the placements are private rather than public, the average investor is only made aware of the placement after it has occurred.

- ***State Infrastructure Bank***. The California Infrastructure and Economic Development Bank (I-Bank) was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities. The I-Bank operates pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (Government Code Sections 63000 et seq.) The I-Bank is located within the Governor's Office of Business and Economic Development and is governed by a five-member Board of Directors and has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds. The I-Bank's current programs include the Infrastructure State Revolving Fund (ISRF) Program, 501(c)(3) Revenue Bond Program, Industrial Development Revenue Bond Program, Exempt

Facility Revenue Bond Program and Governmental Bond Program. The I-Bank operates the Infrastructure State Revolving Fund (ISRF) Program.

This ISRF Program is a statewide program that provides low-cost loans up to $10 million per project to municipal governments for a wide variety of municipal infrastructure, including infrastructure needed to serve new development. An application is required for these loans, and loans require a stable and reliable source of repayment. If approved, loan repayment can be funded through a commitment of general fund revenues or a pledge of a particular revenue source, including City wide taxes or land secured assessments or special taxes.

State and Federal Grant Programs

The City participates in a range of State and federal grant programs, competes for special grants, and cooperates with Caltrans on improvements to the State highways that transect the City. These grant programs and cooperative efforts, while mainly focused on maintenance of existing infrastructure, can be managed in a way that supports revitalization and economic development efforts.

Capital Improvement Programming

Capital improvement programming and related efforts to manage infrastructure costs at the policy, design, and construction phases are an integral part of the conceptual financing program. Successful cost management can reduce the funding necessary from development impact fees and other funding sources and financing mechanisms that would otherwise be necessary. Cost management activities include review of policies that influence costs (in the context of comprehensive and area planning), capital improvement programming, and project-level cost management efforts. In the past the City has not integrated its CIP and its development impact fee programs or other development related infrastructure projects. Key aspects of cost management include the following techniques. Given the "overlap" of many capital projects (i.e., benefitting both new and existing development) and the need to prioritize use of a broad range of funding and financing options, it may be beneficial to integrate the City's capital programming efforts.

Review of Level-of-Service Policies and Infrastructure and Facility Commitments

Cities' infrastructure cost obligations derive from the need to provide new infrastructure and public facilities to serve new development and maintain service levels, improve facilities pursuant to State and federal mandates, improve existing levels of service throughout the City of San Luis Obispo, and last but not least, maintain (repair and replace) existing capital assets. The provision and cost of infrastructure to new developing areas is influenced by City policy in a variety of ways including the setting of "level of service" standards in the General Plan, development of facility master plans that contain actual or de facto standards, and the creation of specific plans that contain specific infrastructure and public facility commitments. It is important that such service level policies and programs consider long-range capital and maintenance cost implications and funding constraints.

Accounting for Capital Assets' "Life-Cycle" Costs in CIP

The City of San Luis Obispo's capital assets, buildings, roads, parks, water and sewer utility infrastructure, drainage facilities, and other capital equipment are in continual need of repair and replacement. The cost of such repairs and replacement are commonly referred to as "depreciation"—the value or utility of an asset wears out with time and use. One of the key

coping mechanisms commonly deployed by organizations, including cities, under financial stress is to defer maintenance and replacement of capital assets, thus creating a long-term liability and perhaps even higher costs than would otherwise be the case. On the other hand, life-cycle costing reflects the full range of costs of an asset over its life span based on the optimal cost-effective maintenance and replacement schedule. An asset management approach can assure that these costs are measured, monitored, and factored into all related infrastructure funding and financing mechanisms.

Clarifying How CIP Investments Can Contribute to Revitalization and Economic Development

A major City goal as articulated in the Economic Development Strategic Plan focuses upon incentivizing economic development. The City has also focused upon revitalization of its older commercial corridors. These policies suggest that some City investment in infrastructure for desired economic development uses should be considered. Such investment may involve the collection and use of development impact fees, but the precise nature of this interaction should be defined. This effort could also include prioritization of available grant funding (e.g., State and federal transportation grant programs) to support revitalization efforts and a recognition of the linkage of broad community, fiscal, and economic benefits derived from targeted infrastructure investments.

Appropriate Spatial Allocation of Costs

A "spatial" component of the CIP can consider how individual infrastructure items differentially benefit sub-areas of the City of San Luis Obispo as a matter of policy as well as technical analysis. Such policy and technical analysis, combined with other policies (e.g., those contained in the General Plan or Specific Plans) can provide a key input to development impact fees and sub-area financing programs, and also "spread" costs in an efficient manner.

Enhanced project cost management

Beyond the identification of needed or desired capital improvements and identification of funding sources typically reflected in the CIP, the actual cost of individual capital improvement items can be influenced by a variety of factors including:

- "right-sizing" the project
- phasing the project
- prioritizing and linking with funding availability
- Value-engineering (efforts to reduce costs through design and engineering efforts

A sound capital improvement programming effort will engage all of these techniques to assure that infrastructure will be constructed in a timely and cost-effective manner.

Financing Program Elements

The preceding discussion of funding sources and financing mechanisms occurs in a context of City policy, planning, capital improvement programming and financing, and economic development that together need to be aligned to assure that policy objectives are achieved while at the same time not impeding desired revitalization and economic development in the City. It is important to note that such a program must not be limited to consideration of new funding

sources and financing mechanisms but rather integrating funding and financing in the broader context of community planning, General Plan and specific plan policy fulfillment, economic development objectives, and related economic analysis. The funding sources and financing mechanism must also be linked to the efforts involved in their creation and ongoing administration. Accordingly, seven steps shape the overall financing program:

1. Economic evaluation of the area plan
2. Area plan cost and feasibility analysis
3. Value added and cost management adjustments
4. Funding and financing policies and options
5. Preparation of area financing strategy
6. Implementing actions
7. Monitoring, reporting, and updating

Each of these steps is described in detail below. **Figure 1** illustrates how the Program Components interact.

1. Economic evaluation of the area plan

An economic evaluation of the planning area should be conducted, ideally as a part of plan-making. The economic evaluation should document market trends and likely values of the plan as it is realized, document the general set of infrastructure improvements and any extraordinary development costs (e.g., land assembly) that can influence development economics. The evaluation should also analyze future fiscal effects (municipal service costs and revenues) and also the range of broader economic benefits (jobs, sales, household income, multiplier effects, etc.). This information is fundamental to subsequent feasibility analysis and determining the appropriate financing strategy.

2. Area plan cost and feasibility analysis

Once the plan land use capacity and mix of uses are quantified, market information is available, and basic infrastructure items (and other site-related development costs) are generally identified, a more detailed cost analysis can be conducted. The cost analysis combined with the quantification of potential real estate value (combining land use capacity and market prospects) allows a development feasibility analysis. Such feasibility analyses can determine the ability of a project or a plan area can fund necessary infrastructure and, if not, the magnitude of funding “gaps” that may exist. This information, combined with the economic evaluation previously prepared, provides the basis for making adjustments to the project or plan (i.e., increasing value or decreasing costs) and formulating an informed financing strategy.

3. Development incentives opportunities and cost management

Feasibility analysis provides a basis for reconsidering the project or plan in question and its policies, especially those policies affecting “value creation” or conferring development costs. If feasibility challenges are identified it may be necessary to make changes that: 1) increase a plan’s real estate value (e.g., higher densities) through the provision of development incentives that improve the project or plan’s ability to fund necessary infrastructure, 2) reduce costs by altering the basic infrastructure improvement program or other policy-based development costs; or 3) apply the funding and financing techniques discussed above in a manner that offsets development costs.

4. Funding and financing mechanisms

Given the need for infrastructure in newly developing and revitalization areas and related economic development objectives and economic limitations, it is first necessary to assure that the most efficient and cost-effective mechanisms are applied in tapping development-based sources of funding. In cases where feasibility challenges are met despite best practices it may be necessary to augment development-based funding sources and financing with additional sources of funding along with other incentives if sought-after revitalization and commercial and industrial development is to occur. The funding sources and financing mechanisms presented in this Memorandum are all available and are being used in jurisdictions around the State as a part of overall capital financing strategies. Going forward there will be the need to formalize policy and to take the necessary steps to institutionalize favored revenue sources and financing mechanisms.

5. Preparation of area financing strategy

A financing strategy for a given project or area or specific plan would synthesize the above technical analyses into the necessary policy guidance, financing framework, and implementation program. Such financing strategies are normally an integral part of specific plans as required by State Planning Law. Setting precise guidelines for the form and content of such strategies can assure that they adequately address economic, financial, and fiscal issues related to specific plan development.

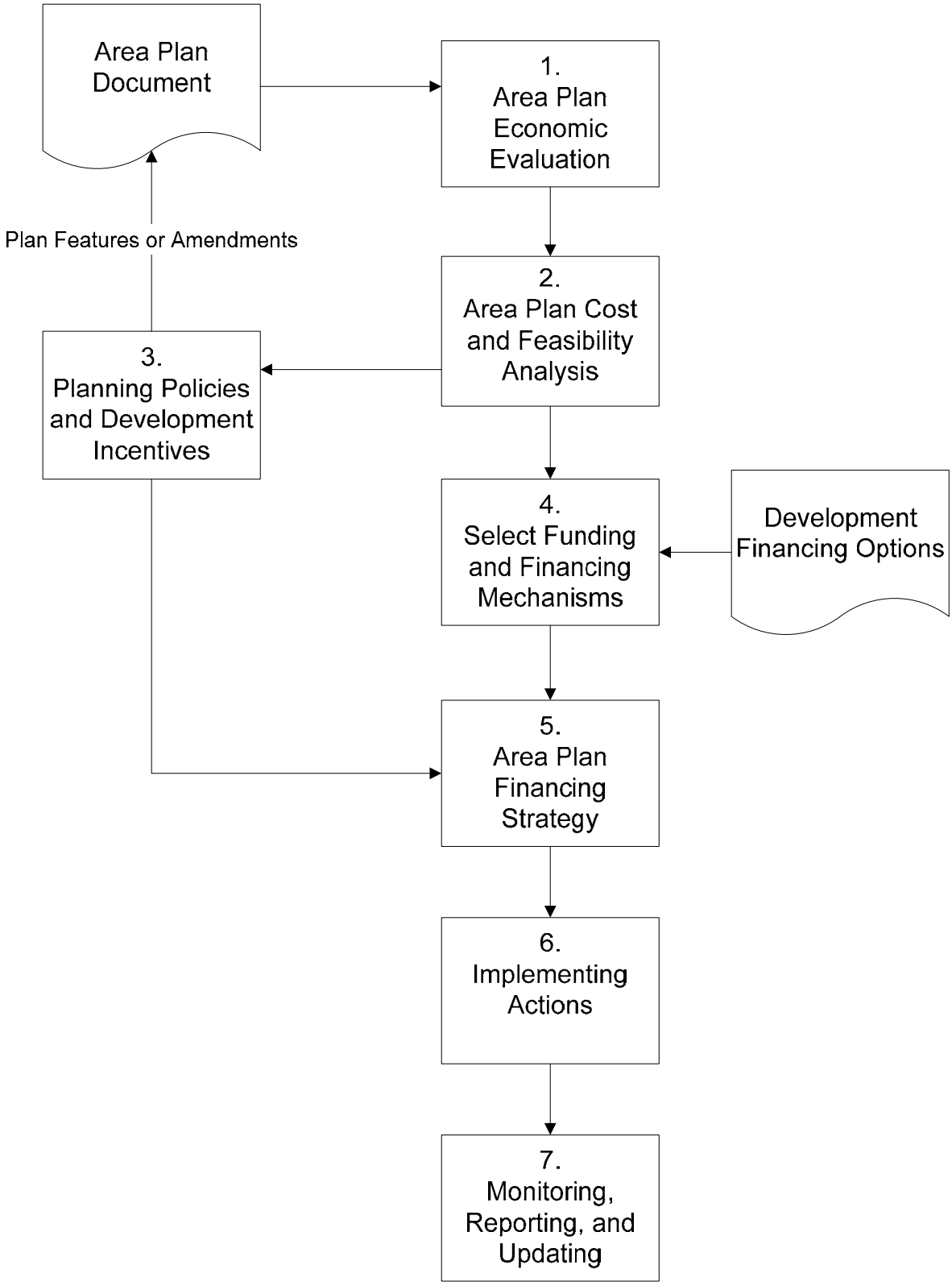
6. Implementing actions

The financing strategy would provide policies, and a financing framework, and identify the specific actions necessary to implement the various components needed to assure funding of local and related citywide infrastructure in a manner consistent with broader City policy and economic development objectives. There are implications associated with a higher level of City involvement in development-related infrastructure financing. For example, the activities outlined in the program (e.g., enhanced levels of economic, fiscal, and financial analysis as a part of plan making) and ongoing administration of the financing program components and plan-related implementation efforts will require substantial staff time and other expenses that must be anticipated and funded as a part of the overall program.

7. Monitoring, reporting, and updating

Development of an area typically plays out over an extended period of years. Thus, following completion of the implementing actions it is necessary to monitor the financing strategy components to assure they are performing as expected. Changing circumstances (e.g., market conditions, developer proposals, etc.) are often inconsistent with forecasts or what may have been expected thus requiring adjustments to the program. Reporting is also necessary, as may be required by statute (e.g., Gov't Code Section 66000 et seq.) or by local policy. Finally, if adjustments are in order, amendments to the area plan or altering or remixing funding and financing mechanisms may be required.

Figure 1 Area Plan Financing Program Elements



ATTACHMENT 5:

Memorandum #3 dated February 6, 2014: Economic Development Considerations

The Economics of Land Use

MEMORANDUM

To: Michael Codron and Lee Johnson

From: Walter Kieser

Subject: Economic Development Considerations; EPS #131044

Date: February 6, 2014

During the first Study Session the Mayor raised two questions that are central to the whole topic of economic development and specifically how the *Economic Development Strategic Plan* will be implemented. These questions include (EPS paraphrasing): "What financial risks may be involved with economic development investments?"; and "How can we be assured that City investments of whatever sort actually have the desired result of increasing 'head of household' jobs?"

The answer to the first question rests upon the definition of "economic development investments." Depending upon the definition, the types of economic development investments and activities, and how investments are actually made, there may be little or no risk, or substantial risk. For purposes of discussion, economic development investments can be divided into five broad categories:

1) Providing high quality municipal services and infrastructure;

2) "Streamlining" land use regulations and development review procedures;

3) Prioritizing infrastructure investments and assuring reasonable infrastructure financing burdens on the private sector investors (the topic of the current City Council Study Sessions);

4) Identifying cooperative efforts with private business groups (e.g., Chamber of Commerce, etc.) and other governmental agencies in general business attraction activities, training, marketing, and related physical improvements; and

5) Providing targeted public subsidies to private companies that contribute to the City's economic development goals.

Each of these categories has unique cost, return, and risk characteristics. Moreover, it is our understanding that the *Economic Development Strategic Plan* focuses upon the first four of these categories, (i.e., the fifth category of direct public subsidies is not contemplated).

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Regarding the second question about performance, it is also the case that each of the different categories has unique performance measures contributing to the overall goal of increasing head of household jobs. Public investments in these activities should consider the likely contribution to increasing employment.

1. High Quality Municipal Services and Facilities

The normal job of the City to provide services such as police protection, routine maintenance of facilities, and assure adequate infrastructure system capacities has an important impact upon economic development as well as overall quality of life in the City. For example, providing security and well-maintained facilities (e.g., public parking) are important factors in attracting new businesses and customers to a downtown area. San Luis Obispo is arguably doing well with this category of economic development; the City is well-regarded as a place to live and work, municipal services are offered at or above typical municipal level-of-service standards, and basic infrastructure systems are exist or are being planned to support existing and future levels of demand.

2. "Streamlining" Land Use Regulations and Development Review Procedures

Land use regulations and the time, costs, and risks involved with obtaining entitlements can affect the City's attractiveness to business investment. As noted in the *Economic Development Strategic Plan,* permit "streamlining" for priority commercial and industrial uses, use-by-right zoning standards (minimizing additional discretionary review) and CEQA streamlining strategies (completing program EIRs, comprehensive mitigation strategies, etc.) can help minimize regulatory costs, time required to obtain entitlement, and uncertainties, without weakening regulatory standards or achievement. Moreover, the ongoing *General Plan Land Use and Circulation Element* (LUCE) update offers an opportunity to assure supporting General Plan policies and land use district characteristics compatible with market demand for commercial and industrial uses and consistent with economic development goals. Risks to the City in this category are limited to the cost of City staff time or other expenses that may be involved in streamlining reforms and activities.

3. Prioritizing Infrastructure Investments and Financing

Public investments in roads, parking, utilities, public buildings can all have a large impact upon economic development both by assuring adequate capacity and level of service to commercial and industrial areas while also keeping costs borne by the private sector within industry-standard burden limits. Strategy 1.5 in the *Economic Development Strategic Plan* specifically addresses this category of economic development. The City's Capital Improvement Program should take full account of the economic development goals and prioritize investments based upon a "return-on-investment" (i.e. achieving economic development goals) logic. This category is the subject of our ongoing effort to specific reforms to the City's development impact fees and related infrastructure financing efforts. The risk involved in this category, in addition to the costs of reforms and activities involved, is that infrastructure investments in pursuit of economic development will be made (e.g., improving roadways) that may not result in desired development and job creation (stranded costs).

4. Identifying cooperative Public/Private Efforts

The City's Economic Development Department, guided by the *Economic Development Strategic Plan,* and is involved with a range of cooperative efforts with private companies, industry organizations, and other government entities in pursuit of economic development goals. Cooperative (City and landowners) identification and marketing of development opportunity sites is another example of cooperative public/private efforts targeted at the same outcome. Risks in this category are limited to the cost of City staff time or other expenses that do not yield the desired result of head of household job creation.

5. Direct Subsidies to Desired Businesses

Providing subsidies in one form or another was historically the realm of redevelopment agencies in California. The City, as part of its economic development efforts, is not contemplating such subsidies. These subsidies typically come in the form of writing down the cost of land to the private sector investor, provision of needed infrastructure funded with redevelopment agency sources, tax abatements and credits, and direct subsidies of one form or another. All such programs carried both performance and financial risks—performance risks meaning the potential that the desired outcome fails to materialize and financial risks meaning that project failure exposes the City to loss of invested assets or even broader liabilities. Without redevelopment powers the City's ability to engage in such direct financial subsidies is quite limited due to restrictions on the use of public funding.

The ability to *measure* the effectiveness of these categories of economic development (i.e., in terms of creating head of household jobs) varies with the "directness" of the investments. It is relatively easy to determine the effectiveness of a direct subsidy (category 5, above) because the receiving entity either performs or not. As efforts become more generalized, it becomes more difficult to draw a direct relationship between the activity and the desired result. Nonetheless, all of the strategies contained in the *Economic Development Strategic Plan* in combination, will very likely improve the City's competitive position and attraction of jobs. As a part of ongoing efforts, a monitoring program based upon specific metrics and data sources (EDD employment data, creation of work space, and business expansion and attraction) can be created to determine whether the City's efforts are yielding the desired results.

ATTACHMENT 6:

Presentation from Study Session #1

The Economics of Land Use

Infrastructure Financing Analysis
Study Session #1

presented to

City of San Luis Obispo

City Council

presented by

Walter F. Kieser

Economic & Planning Systems, Inc.

January 21, 2014

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Team Introduction

- About EPS
- EPS Staff
  - Walter Kieser, Senior Principal
  - Teifion Rice-Evans, Managing Principal
  - Ashleigh Kanat, Vice President
- City Staff
  - Michael Codron
  - Lee Johnson
  - Derek Johnson, Carrie Mattingly, Wayne Padilla, Daryl Grigsby, Tim Bochum

How Did We Get Here?

- City's development impact fees created incrementally over the past 25 years
- 2012 Economic Development Strategic Plan (EDSP)
  - Enhance Quality of Life
  - Increase Head of Household Jobs
  - Development Impact Fees as a Barrier
- EDSP recommended a consultant be retained to prepare an infrastructure financing analysis
  - RFP issued in May
  - EPS kicked-off the Study in July

Study Objectives

- Evaluate City's development impact fee programs and recommend scope of update
- Consider economic development objectives in fee review (consistent with quality of life objectives and removal of barriers to head of household job creation)
- Prepare for implementation of the Land Use and Circulation Element (LUCE)
- Identify supplemental infrastructure funding sources and financing mechanisms

What Have We Completed?

- Met with City Staff, EVC in July
- Following on outreach associated with the EDSP
- Evaluated how infrastructure is currently being funded
- Reviewed City's current fee programs and provided summary overview as a memorandum
- Identified alternative funding sources and mechanisms and provided as a memorandum

Overview of Study Sessions

- Study Session #1 – January 21, 2014
  - Role of fees in public finance
  - Impact fee basics
  - Overview of City's current fee programs
- Study Session #2 – February 18, 2014
  - Supplemental funding sources and mechanisms
  - Impact fee policy tradeoffs
- Study Session #3 – March 18, 2014
  - Summary
  - Future considerations for SLO

Study Session Goals

- At the end of the three scheduled study sessions, we hope you will:
  - Understand the role a fee program plays in infrastructure financing
  - Understand how fee programs are developed
  - Understand key decision points in developing a fee program
  - Understand associated policy implications and tradeoffs
  - Understand the City's current fee programs
  - Be prepared to consider adjustments to the City's current fee programs through subsequent fee update efforts

Agenda for Study Session #1

- Present Municipal Infrastructure Financing Trends and Influence
- Development Impact Fee Primer
- Review of San Luis Obispo's Existing Fee Programs
- Identification of Key Topics for Discussion

Infrastructure Financing Trends and Influence

- Major Trends
  - Historical shift of financing responsibilities to local governments
  - Increasing public level of service expectations and standards
  - Increasing federal and State regulatory standards
  - Advent of Constitutional and statutory restrictions on municipal revenues

Infrastructure Financing Trends and Influence

- Municipal Responses
  - Increasing shift of infrastructure cost to new development
  - Linking infrastructure to growth management policies (concurrency, etc.)
  - Increasing deferred maintenance
  - Inter-jurisdictional conflicts

Infrastructure Financing Trends and Influence

- Financial effects of the Great Recession
  - Reset of real estate values followed by slow recovery
  - Tightening credit markets
  - Disruption of existing financing plans (e.g., Specific Plan financing plans) due to changing market conditions
  - Slower growth
  - Persistent demographic/socio-economic changes (i.e., household incomes)
  - Exposed weakness in municipal funding and financing programs

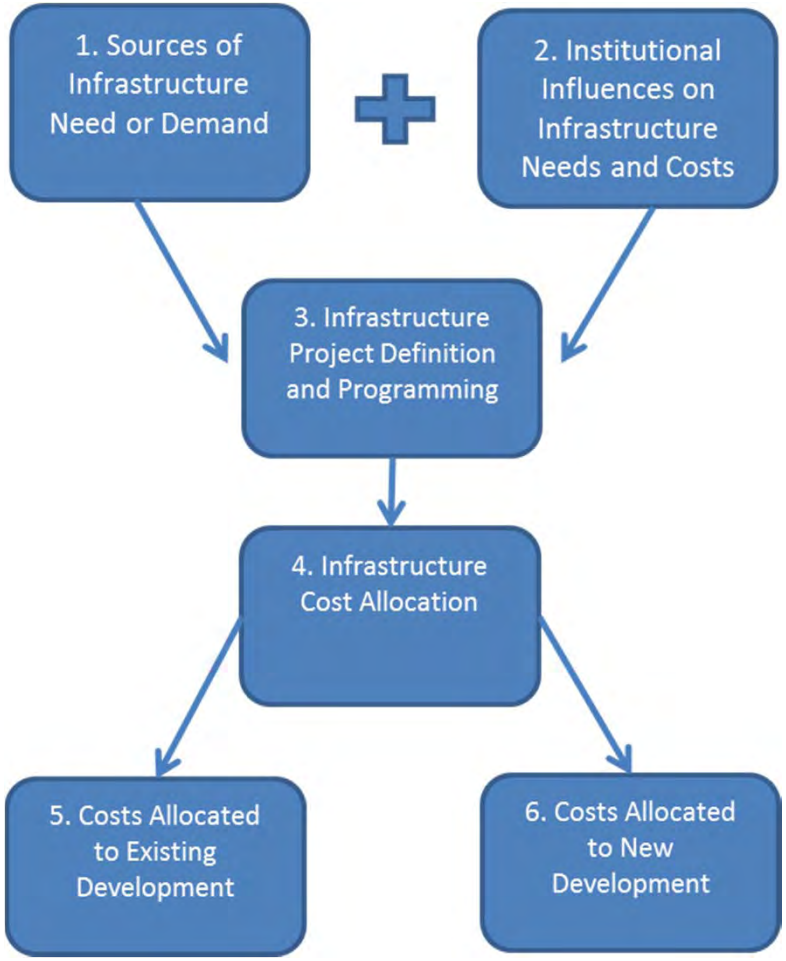
Development Impact Fees – Definition

- Impact fees are “one-time” charges to new development charged for funding infrastructure required to serve new development
- What can they fund?
  - Funds only capital facilities
  - Funds only portion of costs associated with new development (“nexus”)
  - Can fund financing charges so long as these are clearly identified in technical report
  - Non-fee funded portion must be funded through other municipal sources
- Part of a city’s overall infrastructure financing program

Development Impact Fees – Legal Basis

- Police power of local government is the fundamental legal basis of impact fees
- Constitutional case law: Nollan 1987, Dolan 1994 and Erlich 1996) established restraints on use of fees
- AB 1600 (1988) Mitigation Fee Act (as amended) provides the State's statutory framework for infrastructure-related fees
- Non-infrastructure fees are based upon State Constitutional police powers and statutes (Quimby)
- School impact fees not purview of Cities (Serrano, 1971 and SB-50 1998)

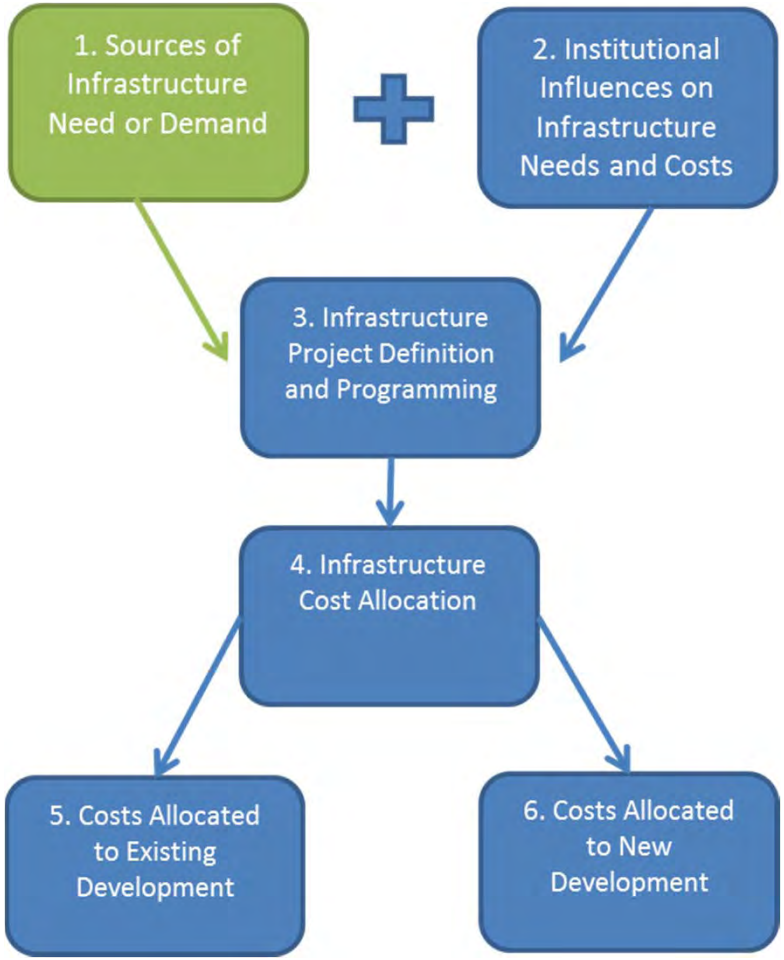
Infrastructure Need and Responsibility



Impact fee programs should be part of City's broader capital improvement programming and funding:

- Demand for infrastructure comes from both existing and new development
- Numerous factors influence need and cost of infrastructure
- Cost allocation follows "nexus" logic
- Funding responsibility based on benefit incidence

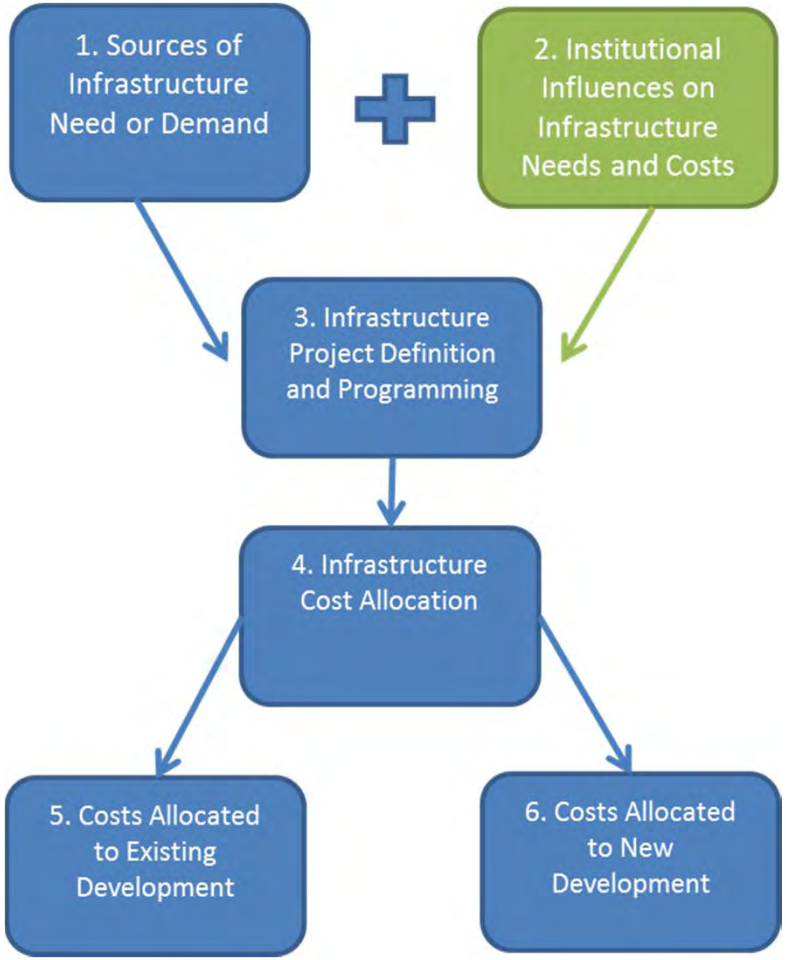
Infrastructure Need and Responsibility – 1



Need for infrastructure derives from four sources:

- Repair and replacement of existing infrastructure
- New infrastructure required to meet new service standards
- Expanded or improved infrastructure to meet deficiencies in meeting existing service standards
- Meet demands created by new development

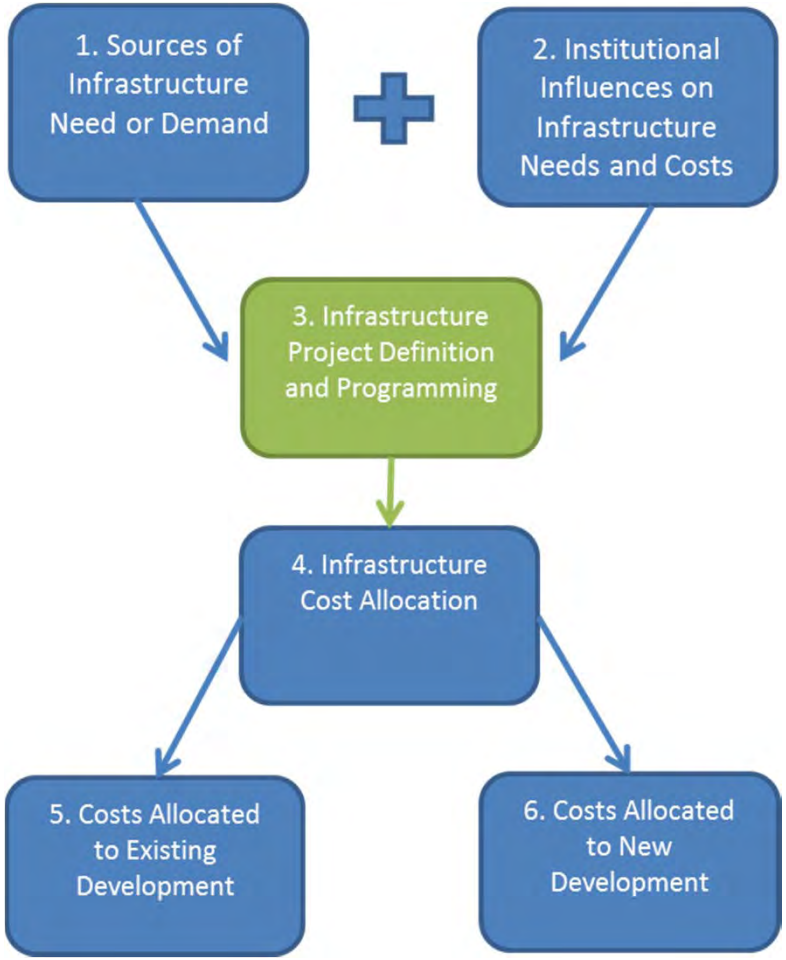
Infrastructure Need and Responsibility – 2



Infrastructure need also influenced by institutional factors:

- State and federal regulations
- Professional engineering design and standards
- Community level of service standards (e.g., GP policies)
- CEQA mitigation requirements
- Other City regulations and policies

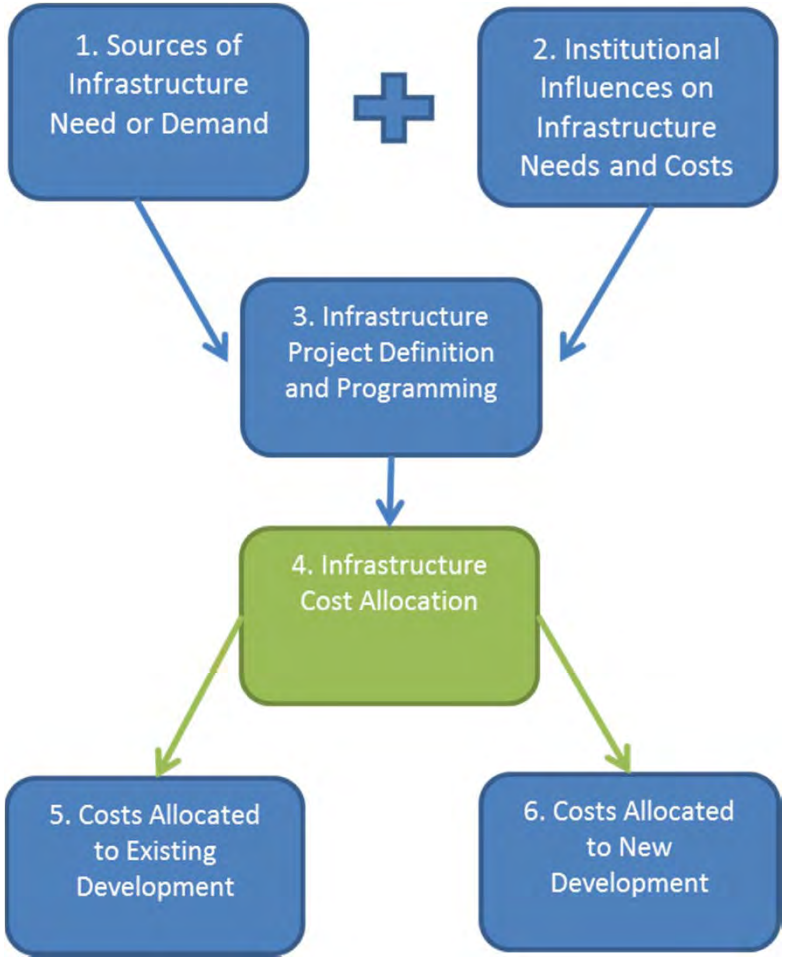
Infrastructure Need and Responsibility – 3



Infrastructure projects require cost estimates and programming:

- Draw upon policy documents
- Preliminary design and cost
- Determining project priorities
- Funding availability influences design and programming
- Typically completed in conjunction with CIP process

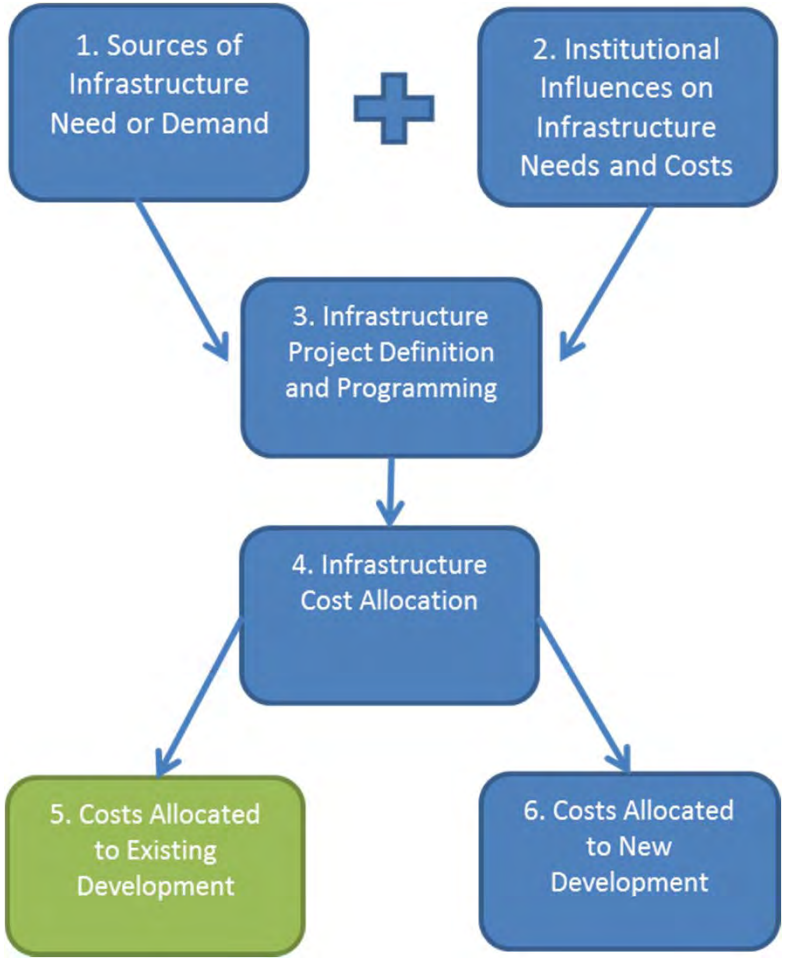
Infrastructure Need and Responsibility – 4



Infrastructure cost allocation determined by who benefits:

- Existing development pays for relieving service deficiencies
- All development pays for meeting adopted standards and repair and replacement
- New development pays for infrastructure not needed *but for* new development

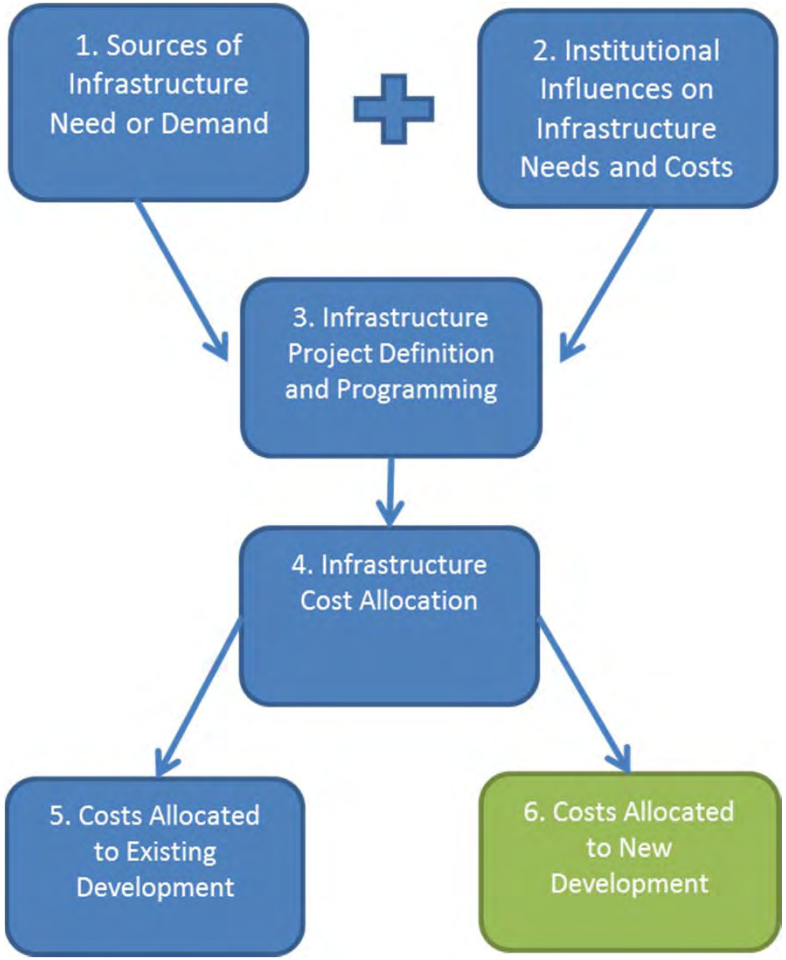
Infrastructure Need and Responsibility – 5



Existing development infrastructure cost allocation funded by existing City sources:

- General fund appropriations
- Available special funds (enterprise revenues)
- Grant funding
- Special communitywide taxes and financing

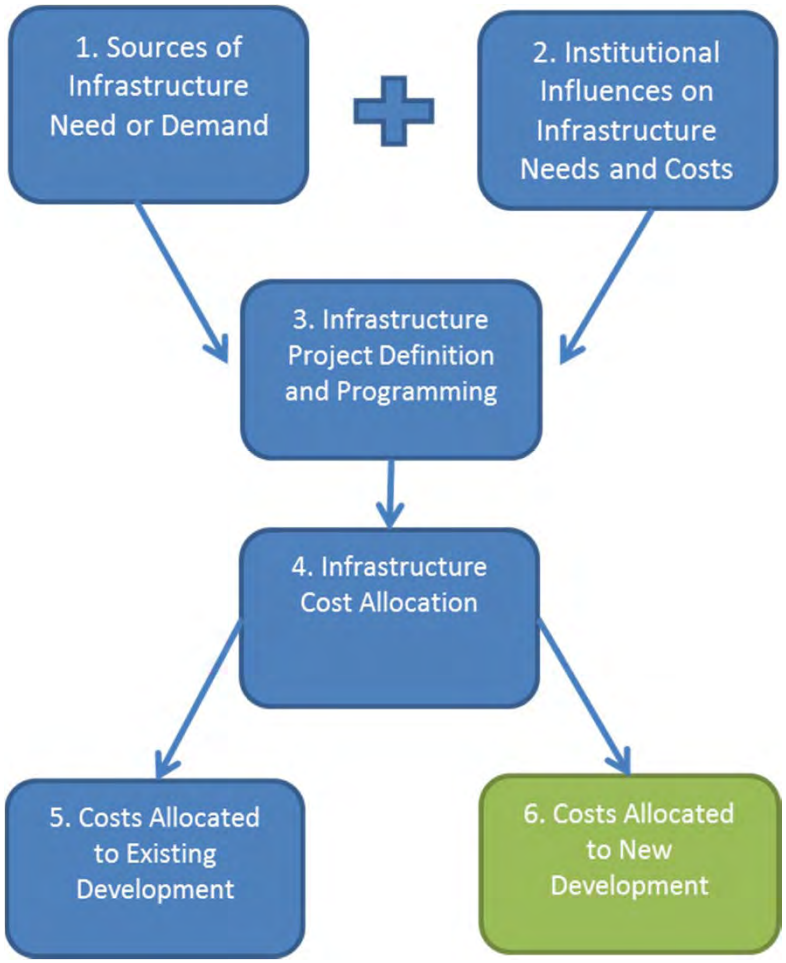
Infrastructure Need and Responsibility – 6a



New development cost allocation further allocated to:

- Geographic sub-areas:
  - Whole City
  - Planning sub-area
  - Project
- Need/use based upon land use types and characteristics
- Phase of development or time

Infrastructure Need and Responsibility – 6b



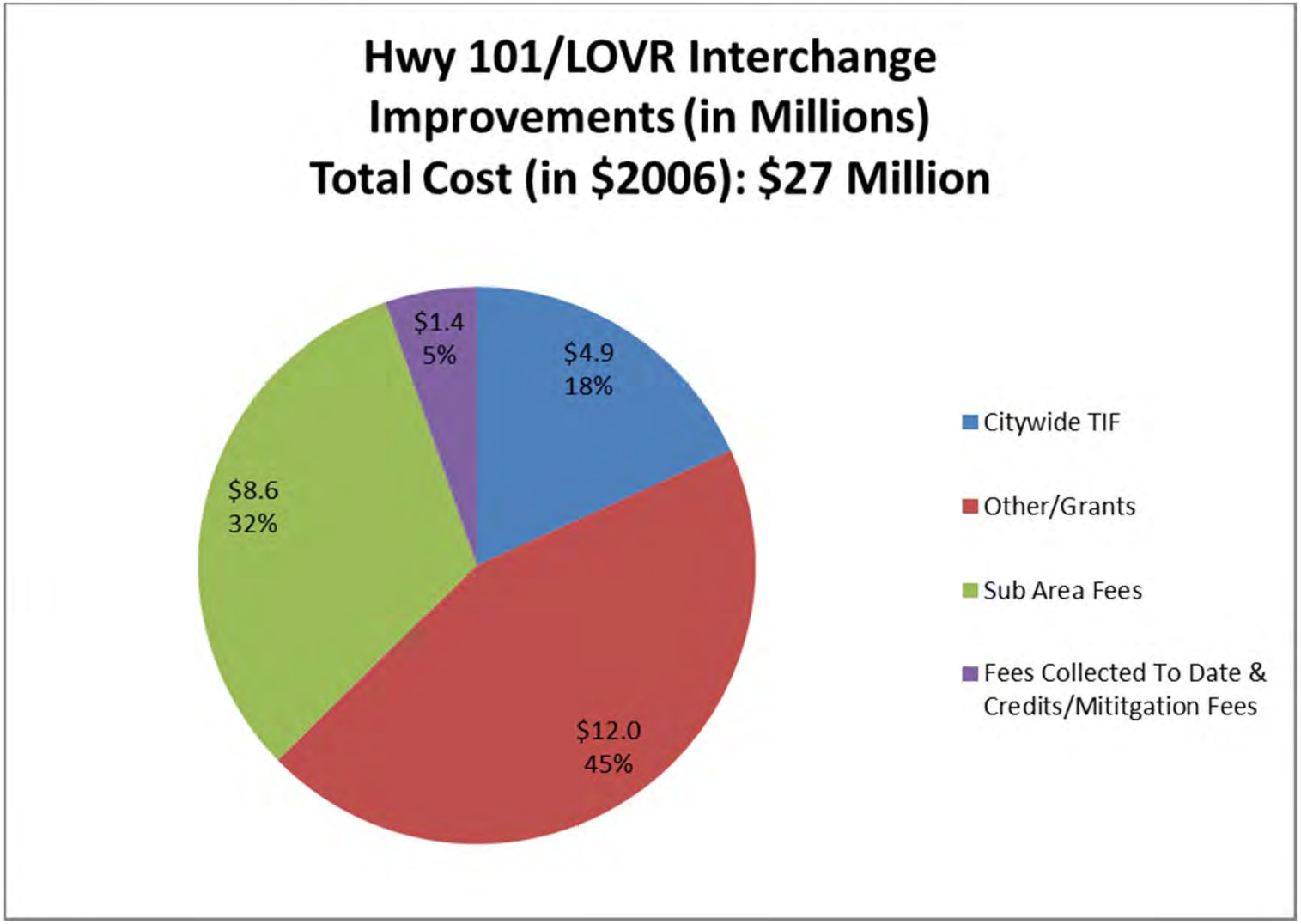
New development allocation funded by:

- Development impact fees
- Subdivision map conditions
- Other special exactions
- Private capital (build-transfer)

Development Impact Fees – Financial Characteristics

- Can assure that all new development pays its "proportional share" of costs
- Cost and development estimates must be accurate to assure adequate funding
- Incidence of funding may be mismatched with the timing of need for infrastructure
- Variable cash flow (i.e., market conditions)
- Can provide "match" funding and other complements to other financing sources, such as grants
- Can be integrated with other development-related funding mechanisms such as land secured financing districts, reimbursement agreements, etc.

Example: Hwy 101/LOVR Funding



Development Impact Fees – Economic Considerations

- DIFs add to the cost of new construction
- Fees, like other costs, do not directly influence prices (markets set prices)
- 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
- Aggregate fees should be moderated to “industry standard” levels given existing and expected pricing to avoid displacement of otherwise feasible development

Development Impact Fees – Supplemental Funding and Financing

- City participation in funding new development infrastructure cost considered when:
  - Excessive cost burdens on new development
  - Community and fiscal benefits
- Existing or new city funding sources and grant sources can be used to offset cost of fees to new development when community-wide benefits can be achieved
- Land secured financing methods offer alternative to "one-time" fees
- Fee credit and reimbursement agreements can assure timely construction of infrastructure

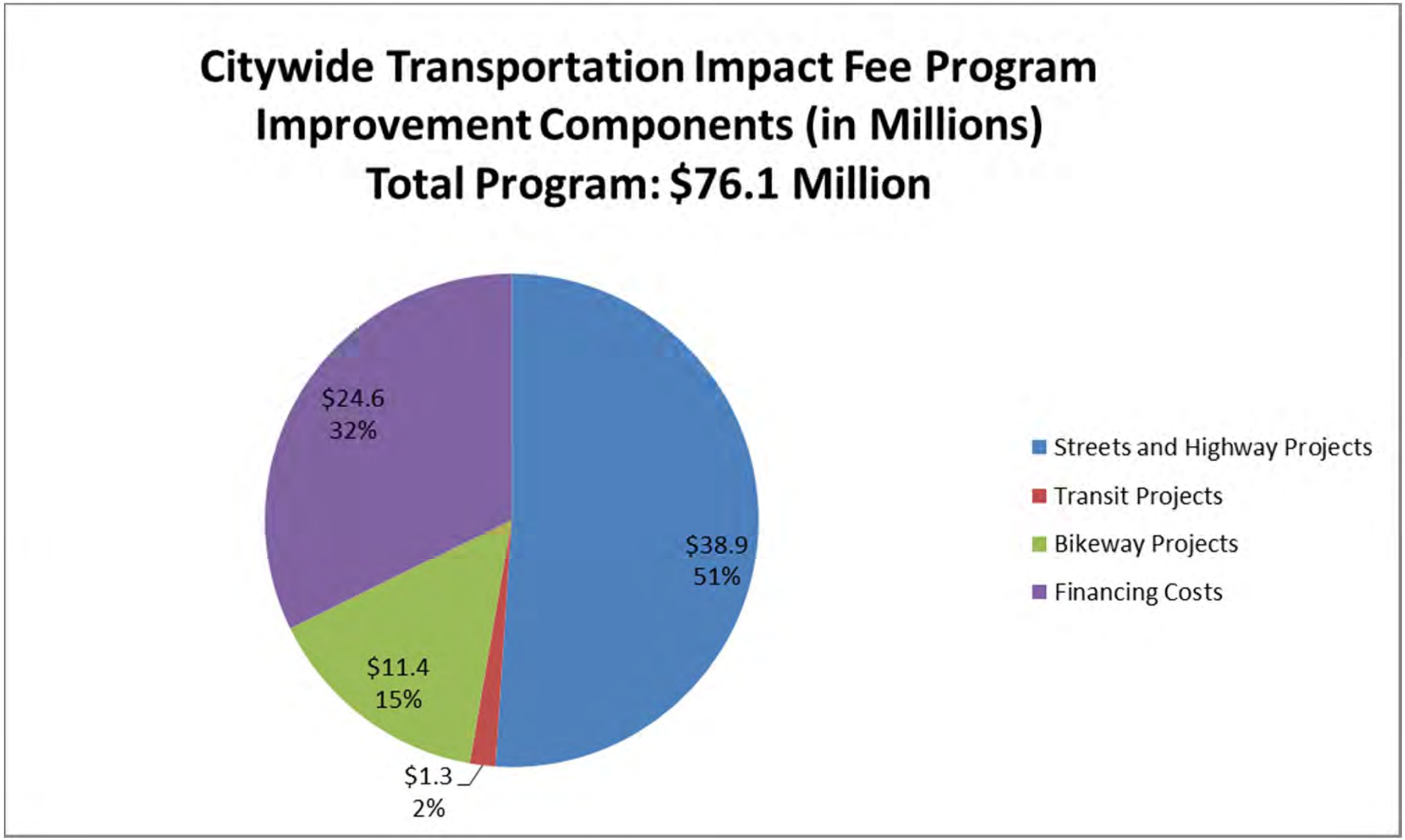
City's Existing Fee Programs

- Transportation
  - Citywide fee
  - Area fees (4 areas: Los Osos Valley Road, Margarita Area, Airport Area, Orcutt Area)
- Water and Wastewater
  - Water Impact Fee (Citywide)
  - Wastewater Impact Fee (Citywide)
  - Wastewater Catchment Area Fees (5 areas)
- Parks and Open Space
  - Parkland dedication in lieu fee – Quimby (Citywide)
  - Area open space fees (3 areas: Margarita, Orcutt, Airport)

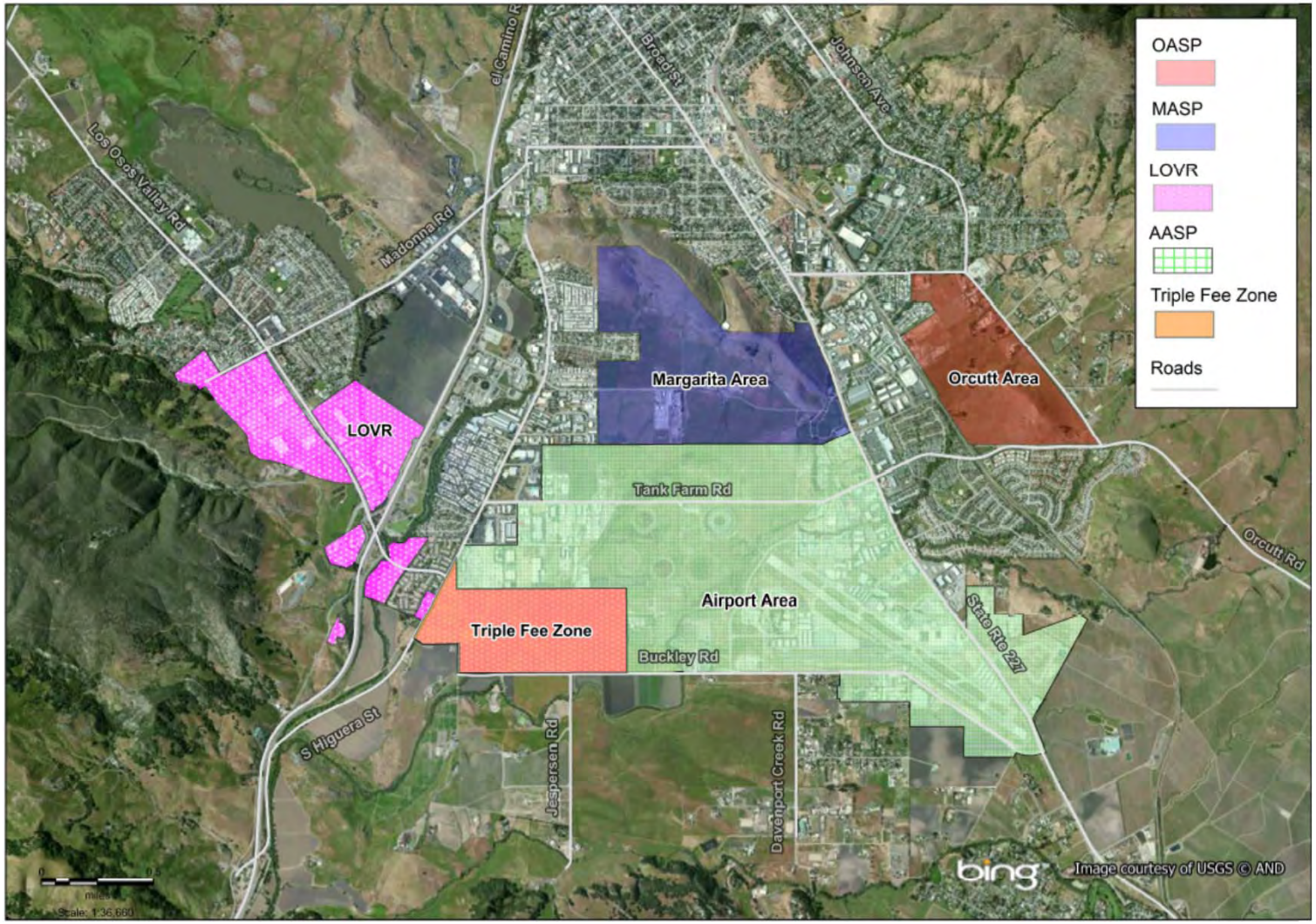
City's Existing Fee Programs (continued)

- Affordable Housing (Zoning Ordinance)
  - Inclusionary housing in lieu fee (Citywide)
- Art in Public Places (Zoning Ordinance)
  - Commercial development in lieu fee (Citywide)

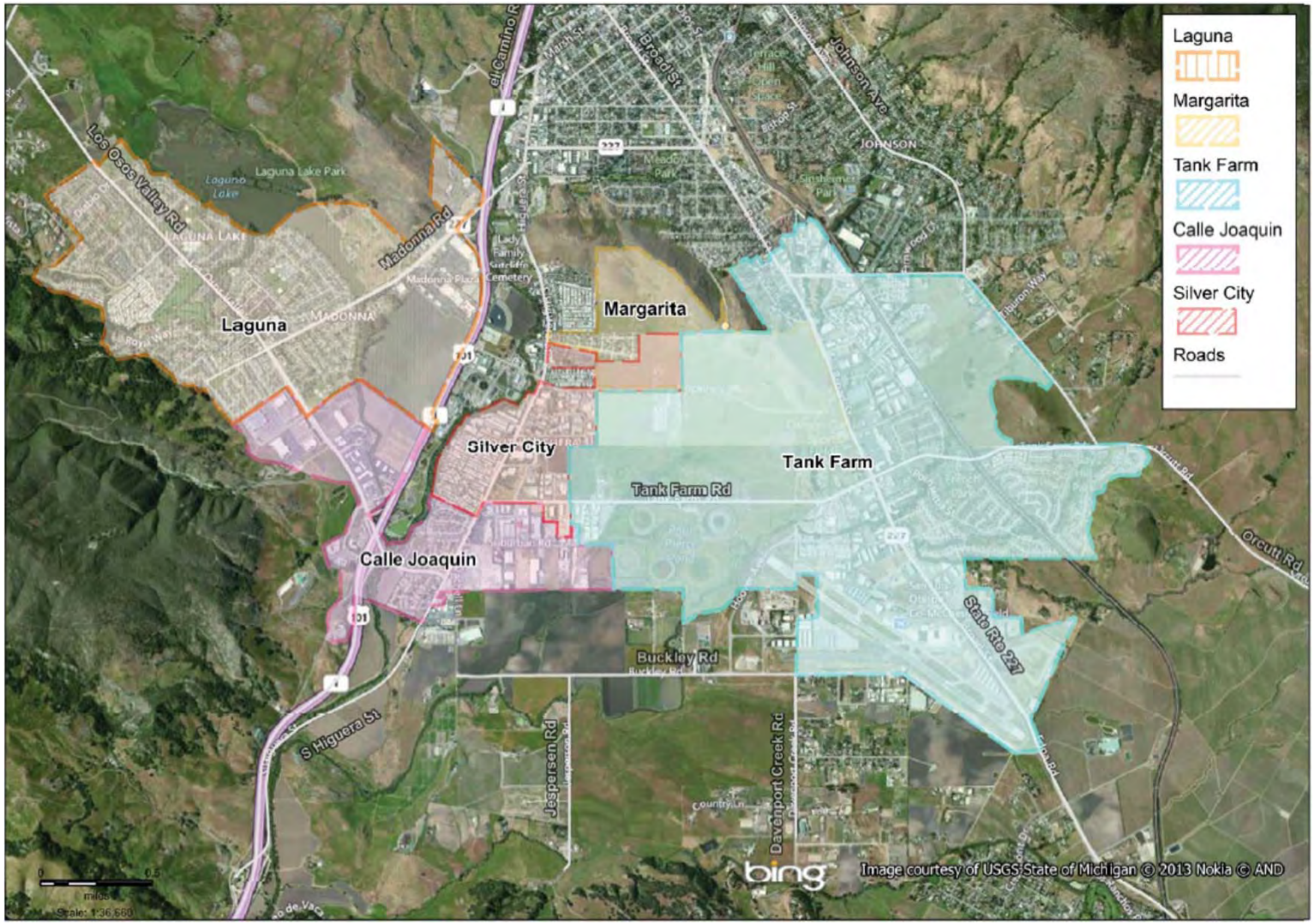
Transportation Impact Fee Program



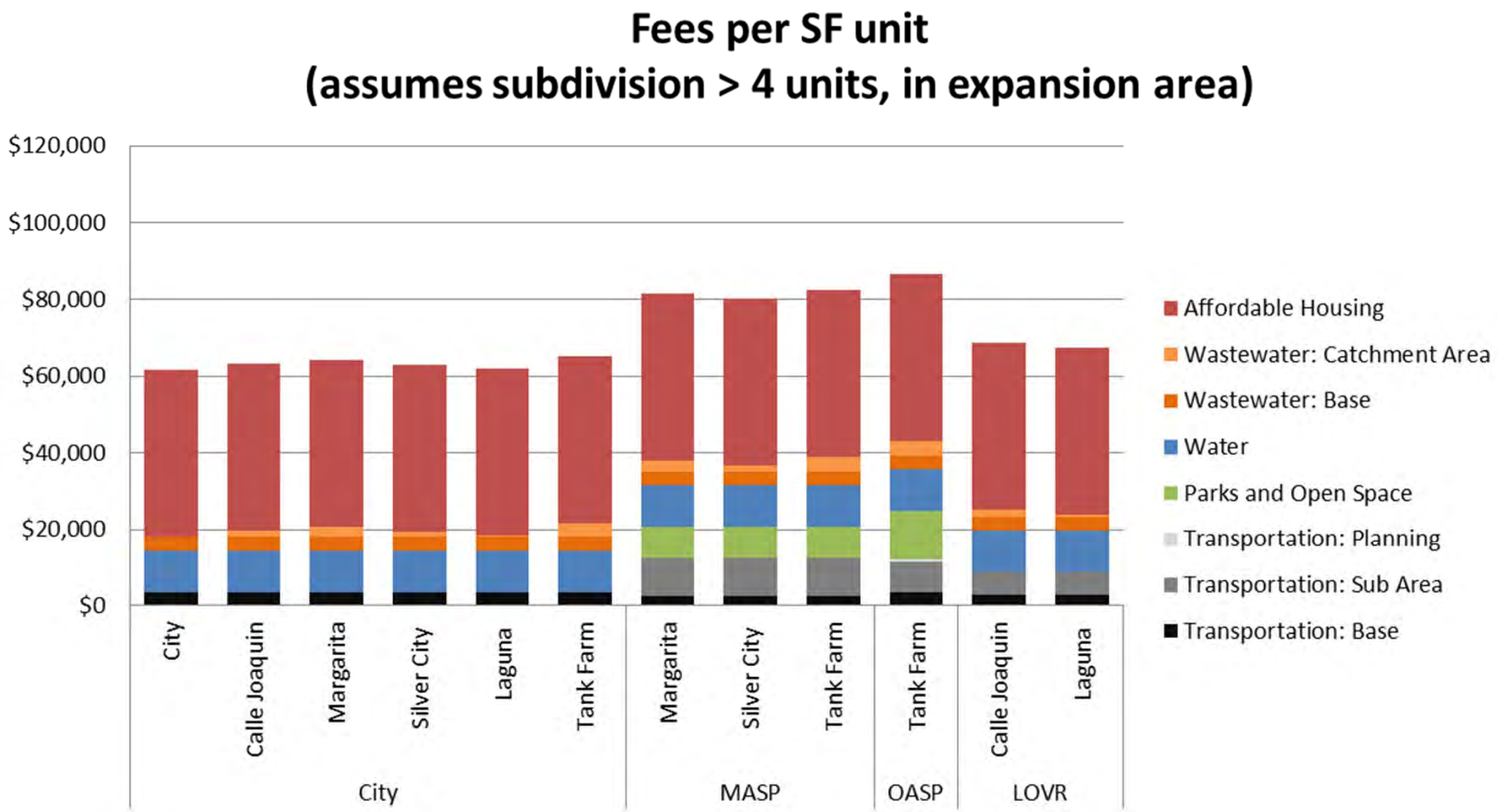
Transportation Impact Fee Program



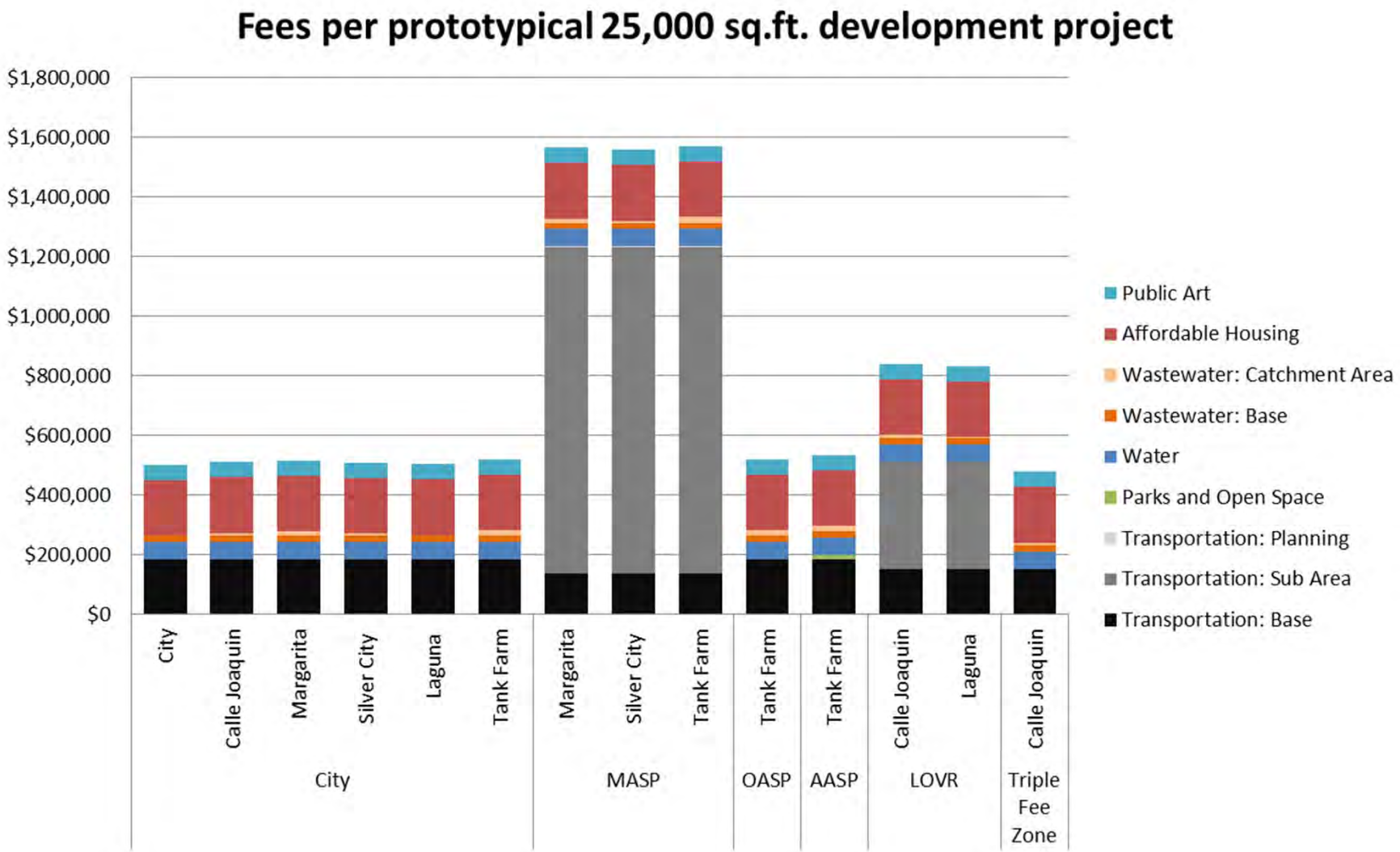
Water and Wastewater Impact Fee Program



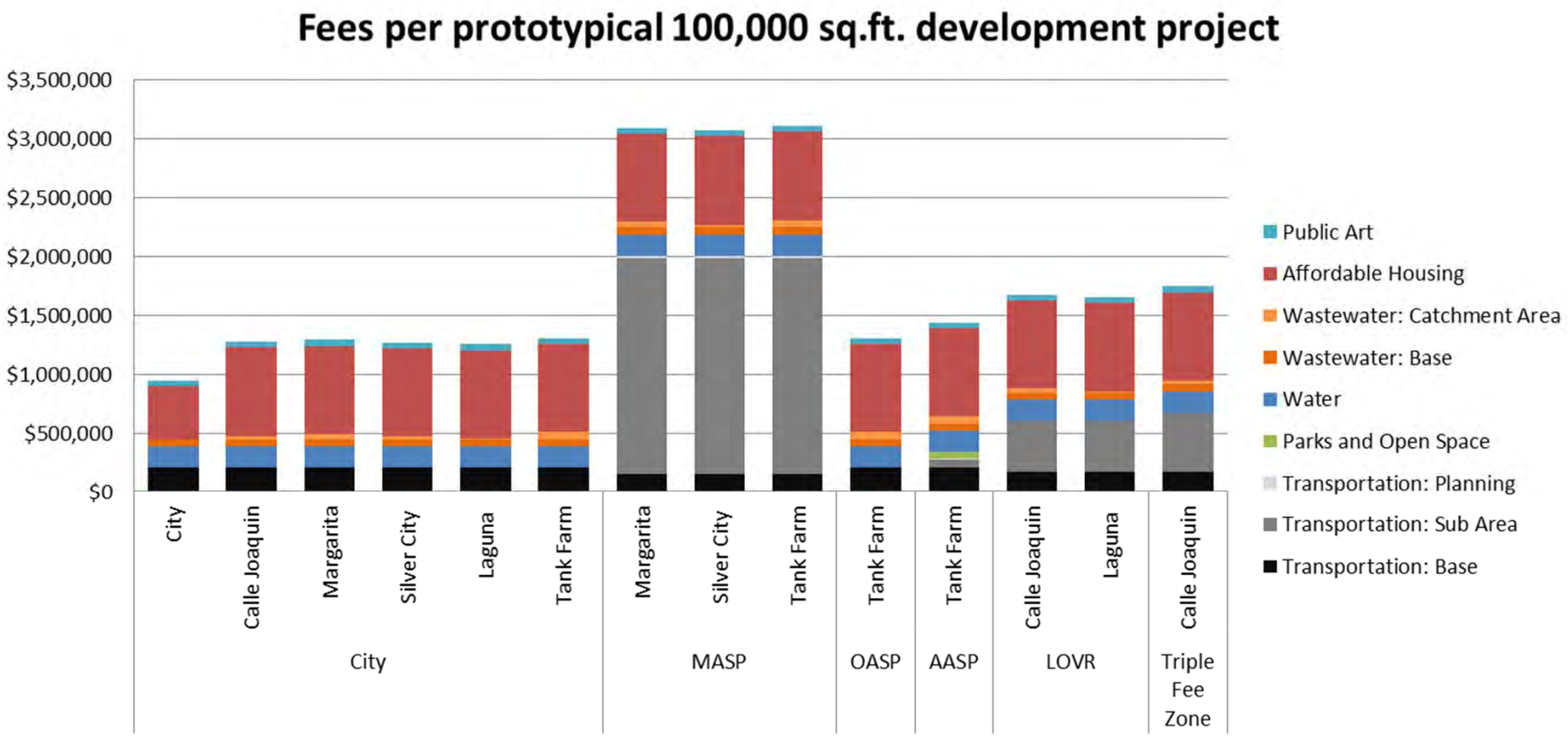
Single Family Fees: Area to Area Comparison



Retail Fees: Area to Area Comparison



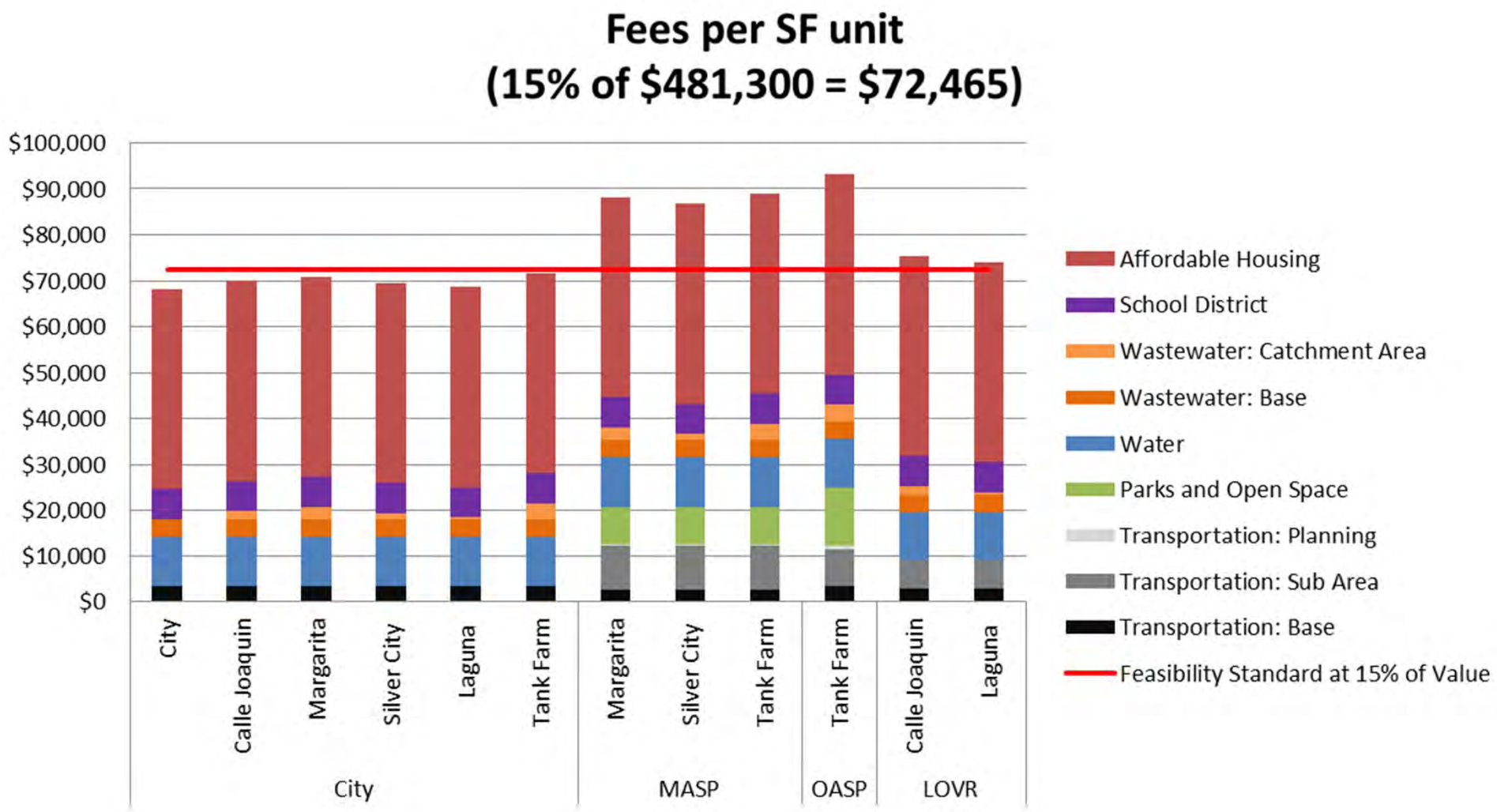
Industrial Fees: Area to Area Comparison



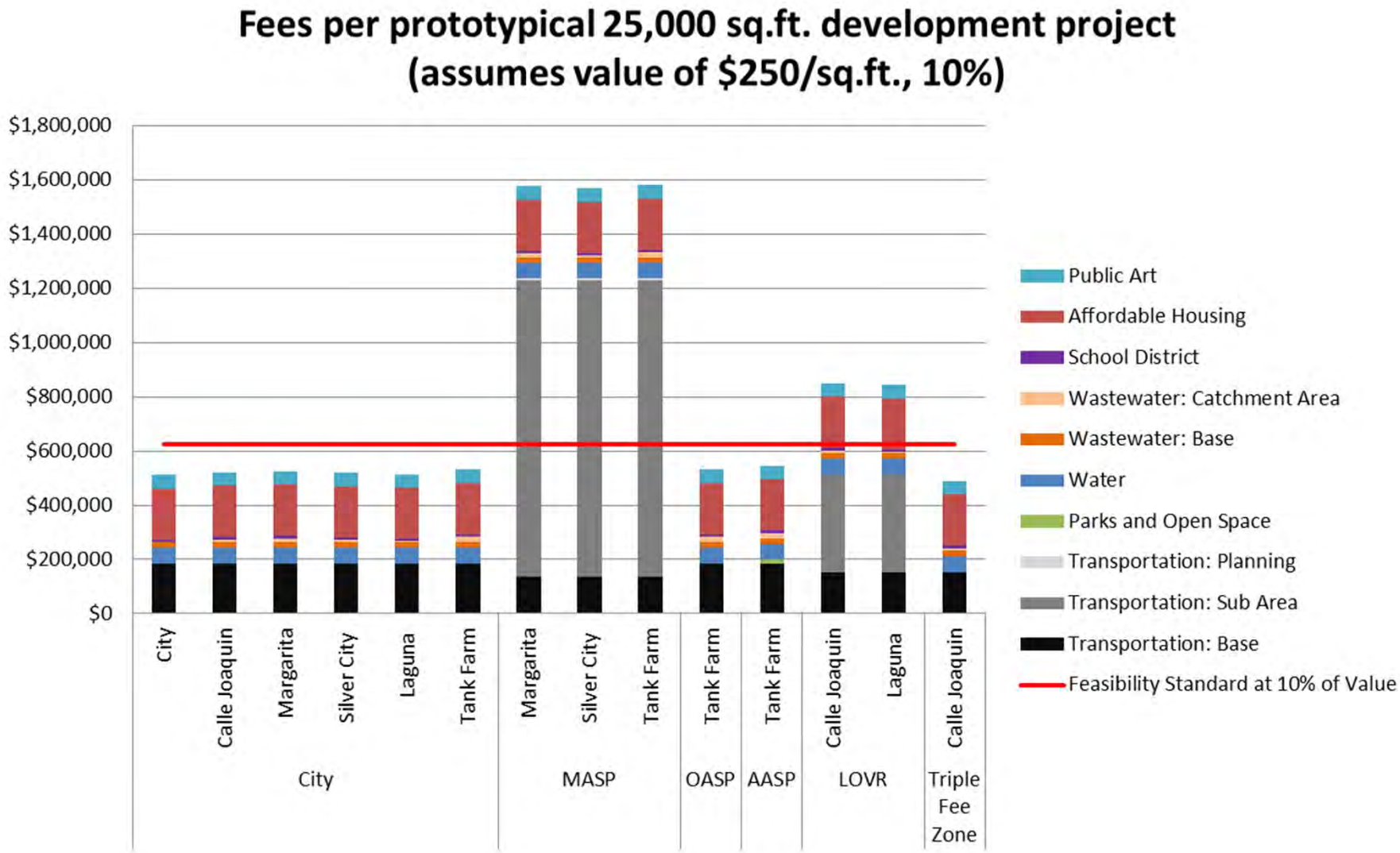
Feasibility Analysis

- Fees are a development costs
- Industry standard burdens
  - 15% of residential market value
  - 10% of commercial/industrial market value
- Local circumstances affect burden measure
- Analysis indicates that
  - Residential development, at current median price, meets standard
  - Retail and industrial development in the MASP exceeds standard
  - Other subareas require further research to determine economic effects

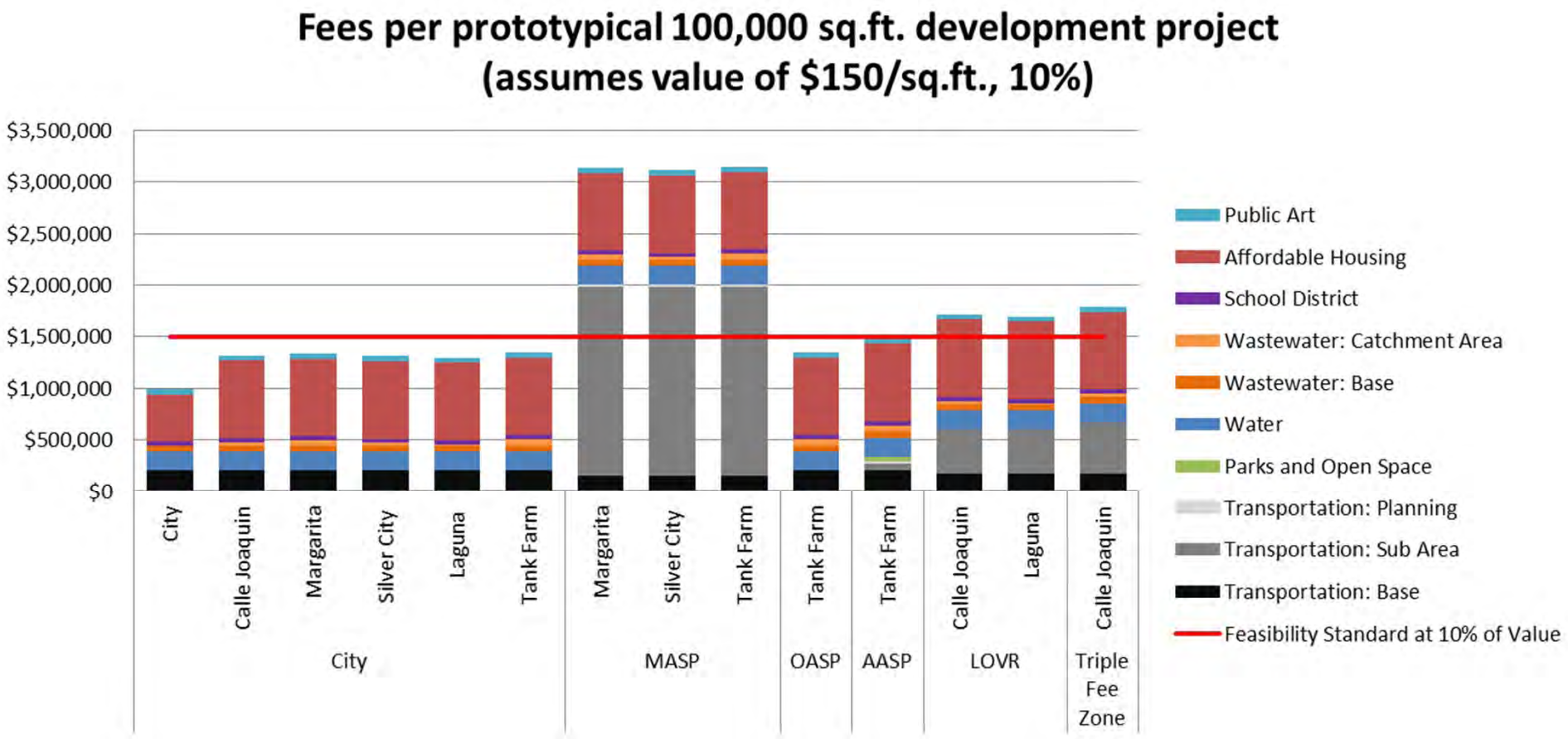
Updated Feasibility Analysis (Single Family)



Updated Feasibility Analysis (Retail)



Updated Feasibility Analysis (Industrial)



Fee Update Considerations – 1

- Are foundational policies (e.g., LOS standards in General Plan, park standards) in place?
- Should fee program be integrated with CIP?
- Are infrastructure lists complete?
- Are cost estimates accurate and current?
- Can “nexus” be established?
- How should financing be calculated?

Fee Update Considerations – 2

- Is existing fee geography appropriate?
- Should sub-area fee disparities be reduced?
- Are general feasibility standards met?
- Are any public investments justified (provision of community wide benefit)?
- Are features in place that reduce upfront impact of fees (e.g., reimbursement agreements, land-secured financing)?
- How should financing be calculated?

Next Study Session

- Review Study Session #1
- Respond to Questions
- Supplemental Funding Sources and Mechanisms

Questions and Discussion

ATTACHMENT 7:

Presentation from Study Session #2

The Economics of Land Use

Infrastructure Financing Analysis
Study Session #2

presented to

City of San Luis Obispo

City Council

presented by

Walter F. Kieser

Economic & Planning Systems, Inc.

February 18, 2014

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Review of Study Objectives

- Responding to Strategy 1.5 of Economic Development Strategic Plan (EDSP).
- Evaluate City's development impact fee programs and recommend scope of update.
- Consider economic development objectives in fee review (consistent with quality of life objectives and removal of barriers to head of household job creation).
  - See February 6, 2014 memo
- Prepare for implementation of the Land Use and Circulation Element (LUCE).
- Identify supplemental infrastructure funding sources and financing mechanisms.

Review of Study Session #1

- Presented overview of municipal infrastructure financing trends and influences.
- Provided development impact fee primer.
- Reviewed San Luis Obispo's existing development impact fees.
- Identified key topics for discussion and future consideration.

Study Session #2 Agenda

- Need for Alternative Funding Sources
- Alternative Funding Source Options
- Infrastructure Funding Source Categories
  - Developer-Based Funding
  - City Funding and Financing
- Uses and Relationships between the Funding Sources

Alternative Funding Sources Necessary

- Development impact fees are one of a range of the City's broader infrastructure funding sources.
- Other funding sources needed to fund:
  - Existing development's allocated share of new infrastructure costs.
  - Existing infrastructure deficiencies (by reference to GP level of service standards).
  - Repair and replacement of existing infrastructure.
  - "Bridge" financing for impact fee programs.
  - Economic development-related investments in infrastructure.
  - Local match requirements for grant funding.

Alternative Funding Source Options

- Purpose of this Study is determining and directing an update to the City's development impact fee programs without deterring economic development.
- Providing more options for development based funding can be an important contributor to economic development.
- Applying various other funding sources available to the City can address broad infrastructure funding requirements (benefitting new and existing development and contributing to quality of life).
- City funding sources can also be integrated with fee program funding to assure timely construction and feasible fee levels.

Developer-Based Funding

- Development Impact Fees
- Developer Exactions and Credits
- Land-Secured Financing Districts
- Statewide Community Infrastructure Program

Development Impact Fees

Types	• Can be Citywide or area-specific and be infrastructure specific or combine infrastructure types.
Establishment	• Are imposed through adoption of a City-enabling ordinance supported by a technical analysis and fee-setting resolution.
Who Pays?	• The burden of incidence is upon the developers and builders who pay the fees.
Economic Considerations	• If too high, fees may affect the financial feasibility of new development and deter otherwise desirable development.
Benefits	• Provide a comprehensive framework for allocating infrastructure costs to new development.
Limitations	• Timing of funding not matching the need for funding—infrastructure is needed “up-front”, fees are paid over time.

Development Impact Fees -- Uses

Costs and Cost Allocation	• DIF provide a comprehensive technical and policy framework for Citywide and area infrastructure financing.
PAYG Funding	• Funding is used as it becomes available - “pay as you go”.
Debt Financing	• Debt service can be included in fees (as a source of paying debt obligation), though this erodes funding potential.
Matching Funds	• DIF often a source of local “matching funds” required by State and federal grant programs.
Funding Advances	• Source of funding to reimburse developer or municipal funding advances.
Economic Development	• DIF can be set to reflect economic development objectives by keeping burdens within industry burden limits.

Developer Exactions and Credits

Types	• Includes developer conditions and exactions often secured with fee credits and reimbursement agreements.
Establishment	• Agreements are entered into by mutual consent and established by City ordinance or resolution.
Who Pays?	• Individual agreements specify the distribution of costs and other financial terms.
Economic Considerations	• Additional private sector costs increase project costs that may affect project feasibility
Benefits	• Improvements are built at time of project, no public investment, and low administrative costs
Limitations	• Require City and developer agreement and are often complex and require ongoing administrative effort.

Developer Exactions and Credits -- Uses

Costs and Cost Allocation	• Exactions typically fund project-specific infrastructure costs.
PAYG Funding	• Exactions typically provide private financing for infrastructure "up front" perhaps offset by fee credits.
Debt Financing	• Debt service on exactions is privately funded.
Matching Funds	• Typically not used.
Funding Advances	• Exactions could include "funding advances" to be reimbursed from one or another municipal funding sources.
Economic Development	• Credits and reimbursements could be conditional on meeting economic development targets.

Land-Secured Financing Districts

Types	• Include various assessment districts and community facilities districts. Such districts needed for SCIP funding.
Establishment	• California's land secured funding districts require (resident) voter or landowner approval.
Who Pays?	• The owners or users of real property pay assessments and special taxes.
Economic Considerations	• Taxes add to homeownership costs and can limit qualification for home financing and also project competitive position.
Benefits	• Reduce "up-front" costs and shift the burden from the developer to the future users of the developed property.
Limitations	• Add financing costs to the mix; funding limited by existing property taxes and related policy-based rate cap.

Land-Secured Financing Districts -- Uses

Costs and Cost Allocation	• Assessments or rate and method of apportionment reflects cost allocation.
PAYG Funding	• Financing districts an alternative to pay as you go – credit versus cash.
Debt Financing	• Financing districts allow bond issuance (debt financing) and bear issuance costs and debt service (interest).
Matching Funds	• Bond proceeds could serve as matching funds.
Funding Advances	• Bond proceeds could be used as a source of repayment for funding advances from municipal funding sources.
Economic Development	• Lowering cash costs could improve development feasibility and thus contribute to economic development targets.

City Funding and Financing

- General Obligation Bonds
- Revenue Bonds
- Citywide Parcel or Special Tax Bonds
- Infrastructure Financing Districts
- Municipal Credit and Financing Programs
- State and Federal Grant Programs

General Obligation Bonds

Types	• There are no alternative types of municipal general obligation bonds.
Establishment	• Creation of general obligation bonds requires two-thirds voter approval if the issuance is for non-educational purposes.
Who Pays?	• Bond payments paid for by owners of real property as part of property tax.
Economic Considerations	• Mil rate limit on cumulative property taxes.
Benefits	• Typically preferential interest rate due to security; also large funding available.
Limitations	• Two-thirds voter approval difficult to obtain; funding available for specified improvements.

General Obligation Bonds -- Uses

Costs and Cost Allocation	• Best for Citywide benefitting improvements. Ad valorem cost allocation.
PAYG Funding	• General obligation bonds could complement PAYG sources.
Debt Financing	• General obligation bonds are debt financing that bear favorable issuance costs and debt service costs.
Matching Funds	• Bond proceeds could serve as matching funds.
Funding Advances	• Could be source of repayment of funding advances from private or other public sources.
Economic Development	• Increasing Citywide infrastructure investments could lower costs allocated to new development.

Revenue Bonds

Types	• Revenue bonds always based upon pledged enterprise revenue; may be jurisdiction-wide or for sub-area.
Establishment	• Financial planning and related effects on utility rates. Issuance does not typically require voter approval.
Who Pays?	• Ratepayers in City or affected area.
Economic Considerations	• Utility rates are “cost of ownership”; proportionately high rates may affect household’s ability to qualify for home financing.
Benefits	• Large rate base and security.
Limitations	• Can be used only for specified utility improvements.

Revenue Bonds -- Uses

Costs and Cost Allocation	• Limited to enterprise infrastructure (e.g., water and sewer) financing. Cost allocation in the rate structure.
PAYG Funding	• Revenue bonds could complement PAYG sources.
Debt Financing	• Revenue bonds are debt financing that bear favorable issuance costs and debt service costs.
Matching Funds	• Revenue bond proceeds could serve as matching funds.
Funding Advances	• Could be source of repayment of funding advances from private or other public sources.
Economic Development	• Increasing Citywide infrastructure investments could lower costs allocated to new development.

Citywide Parcel or Special Taxes

Types	• Citywide CFD, assessment district, or parcel tax-supported bonds.
Establishment	• General parcel tax can be imposed with majority voter approval; if for special purposes will require two-thirds vote.
Who Pays?	• The incidence of burden falls upon property owners; such taxes are typically “flat rate”-per parcel.
Economic Considerations	• Taxes are “cost of ownership” - proportionately high rates may affect household’s ability to qualify for home financing.
Benefits	• Parcel taxes and citywide special taxes create an opportunity for voters to decide to pay for municipal services or facilities.
Limitations	• Parcel and special taxes are limited to the purposes for which they were approved; also subject to a “sunset” date.

Citywide Parcel or Special Taxes -- Uses

Costs and Cost Allocation	• Best for Citywide benefitting improvements. Flat tax cost allocation.
PAYG Funding	• Parcel or special tax bonds could complement PAYG sources.
Debt Financing	• Parcel and special taxes can support debt financing or be used for ongoing operations and maintenance costs.
Matching Funds	• Parcel and special taxes could serve as matching funds.
Funding Advances	• Could be source of repayment of funding advances from private or other public sources.
Economic Development	• Increasing Citywide infrastructure investments could lower costs allocated to new development.

Infrastructure Financing Districts

Types	• Currently a single type; pending legislation may offer choices.
Establishment	• Establishment requires approval by every local taxing entity and requires two-thirds voter approval within the City.
Who Pays?	• The City foregoes the incremental property taxes pledged to the IFD.
Economic Considerations	• No additional cost tax burden is imposed on the participating properties.
Benefits	• IFDs redirect property taxes to project-related purposes. The value created by the project is “captured” by the project.
Limitations	• Current legislation is prohibitive. Diverting incremental property taxes reduces funding for City operations.

Infrastructure Financing Districts -- Uses

Costs and Cost Allocation	• Funds project or area-specific improvements.
PAYG Funding	• Could provide PAYG source; more commonly bond financing.
Debt Financing	• Typically provides debt service for a tax allocation bond (TAB).
Matching Funds	• TABs could provide matching funds to City-serving infrastructure.
Funding Advances	• Could be source of repayment of funding advances from private or other public sources.
Economic Development	• Increasing City investments (foregone property taxes) could lower costs allocated to new development.

Municipal Credit and Financing Programs

Types	• Many variations possible though most common is use of lease revenue bond (certificate of participation).
Establishment	• New taxes require voter approval; greater than 50 percent for general taxes and two-thirds approval for special taxes.
Who Pays?	• Varies by funding source – e.g., sales taxes are paid by residents, businesses, employees, and visitors to the City.
Economic Considerations	• May create competitive disadvantage if nearby jurisdictions have lower taxes.
Benefits	• Broad range of uses, little additional administrative effort, and is secure given the range of revenues pledged.
Limitations	• Use of existing General Fund revenues is limited by existing demands to support municipal operations.

Municipal Credit and Financing -- Uses

Costs and Cost Allocation	• Funds Citywide, area-specific, or project improvements. Cost allocation to the General Fund.
PAYG Funding	• More commonly bond (i.e., COP) financing.
Debt Financing	• Typically provides debt service for a certificate of participation (COP) financing.
Matching Funds	• COPs could provide matching funds to Citywide-serving or area specific infrastructure.
Funding Advances	• Could be source of repayment of funding advances from private or other public sources.
Economic Development	• Increasing City investments (General Fund sources) could lower costs allocated to new development.

State and Federal Grant Programs

Types	• Numerous grant programs are available from the federal or State governments. Transportation is the largest category.
Establishment	• Grants are typically competitive and must be applied for with convincing application.
Who Pays?	• Federal or State taxpayers.
Economic Considerations	• Directing grant funding to projects otherwise difficult to fund reduces funding requirement from developer or City sources.
Benefits	• Substantial funding may be available that allows key projects to proceed when other funding is insufficient.
Limitations	• Grant funding is opportunistic and uncertain due to competitive nature.

State and Federal Grants -- Uses

Costs and Cost Allocation	• Typically funds Citywide improvements; transportation is largest grant category
PAYG Funding	• Grants provide PAYG funding
Debt Financing	• Grants reduce portion of costs from other PAYG or debt financing
Matching Funds	• Grant programs tend to favor “local match” contributions to infrastructure cost
Funding Advances	• Could be source of repayment of funding advances from private or other public sources
Economic Development	• Grant funding lowers costs otherwise allocated the City or new development

Funding Alternatives Costs and Risks

- Funding alternatives each bear unique costs and risks.
- Comparative costs of issuance and administration can be a factor in choice.
- Risks to City can be managed through financial analysis, prudent structuring, and security enhancements.
- Available alternatives form a “tool box” and thus should all be considered given the particular infrastructure being funded and incident of benefits received.

Developer-Based Funding Sources

- See Handout #1.

City-Based Funding Sources

- See Handout #2.

Study Session #3 -- March 18, 2014

- Will be a business item
- Will review key findings from Study Session #1 and #2
- Will focus on the way forward by:
  - Seeking direction for updating the City's development impact fees
  - Seeking direction for future use of alternative funding sources

Questions and Discussion

ATTACHMENT 8:

Handout #1_Study Session #2

Study Session #2
Handout #1
Developer-Based Funding

Funding Source	Uses	Costs				Risks	
		Formation	Administration	Issuance	Financing	Construction Timing	Financial Liability
Development Impact Fees	Citywide and area infrastructure; debt service can be included; often a source of local "matching" funds; can be used to advance or reimburse funds	Nexus study, ordinance and resolution	Annual costs for fund auditing and reporting, and periodic updating	None	None, unless fee accounts are loaned funding	Fund flows may not match need for infrastructure (development timing)	None
Development Conditions and Exactions	Project-specific costs; private financing for up-front improvements; could include funding advances to be reimbursed	Conditions of project approval or special agreement	Implementing costs typically covered by fees and charges	None	None, unless City is advancing funding subject to reimbursement	None	None, unless City is advancing funding subject to reimbursement
Community Facility District Bonds	An alternative to "pay-as-you-go;" bond proceeds could be used to repay funding advances; lowering cash costs could improve feasibility	District formation, financing plan, and rate and method of apportionment	Annual rate-setting, auditing, and reporting	Typically 10 to 20 percent of bond issue face value	Interest cost will equal two to three times face value of issue	Issue value may not match need for infrastructure	City may have contingent liability in event of special tax default

Source: Economic & Planning Systems, Inc.

ATTACHMENT 9:

Handout #2_Study Session #2

Study Session #2
Handout #2
City-Based Funding

Funding Source	Uses	Costs				Risks	
		Formation	Administration	Issuance	Financing	Construction Timing	Financial Liability
General Obligation Bond	Best for Citywide benefitting improvements; favorable issuance and debt service costs; could be a source of repayment of funding advances; could lower costs allocated to new development	Program development, 2/3 voter approval, and election costs	Administered by County Assessor and underwriter	Typically 10 percent of bond issue face value	Interest cost will equal two to three times face value of issue	None	Very limited due to large financial base (assessed value of City)
Revenue Bond	Limited to enterprise infrastructure (e.g., water and sewer); favorable issuance and debt service costs; could be a source of repayment of funding advances; could lower costs allocated to new development	Progam development and related rate-setting decisions	Administered by City utility and underwriter	Typically 10 percent of bond issue face value	Interest cost will equal two to three times face value of issue	None	Typically very limited due to large financial base (Rate base of City)
Citywide Parcel or Special Tax Bond	Best for Citywide benefitting improvements; flat tax cost allocation; can support debt financing or be used for ongoing O&M; could lower costs allocated to new development	District formation, financing plan, and rate and method of apportionment	Annual rate-setting, auditing, and reporting. Adminstered by County Assessor and underwriter	Typically 10 to 20 percent of bond issue face value	Interest cost will equal two to three times face value of issue	None	Very limited due to large financial base (parcel or special tax base)
Infrastructure Financing District	Project or area-specific improvements; most commonly bond financing; could lower costs allocated to new development	Financing planning and (currently) 2/3 voter approval	Administered by County Assessor	Typically 10 to 20 percent of bond issue face value	Interest cost will equal two to three times face value of issue	May not match as size of issuance dependent upon tax increment available	Contingent liability in event of loss of assessed value
Municipal Credit (General Fund-supported)	Citywide, area-specific or project improvements; most commonly bond (COP) financing; could lower costs allocated to new development	Budget decision; use of special taxes may require 2/3 voter approval	Administered by City and underwriter	Typically 10 percent of bond issue face value	Interest cost will equal two to three times face value of issue	None	Issues linked to specific revenues may require augmentation if revenue declines

Source: Economic & Planning Systems, Inc.

ATTACHMENT 10:

Presentation for Study Session #3

The Economics of Land Use

EPS

Infrastructure Financing Analysis
Study Session #3

presented to

City of San Luis Obispo

City Council

presented by

Walter F. Kieser

Economic & Planning Systems, Inc.

March 18, 2014

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Review of Study Objectives

- Responding to Strategy 1.4 of Economic Development Strategic Plan (EDSP).
- Evaluate City's development impact fee programs and recommend scope of update.
- Consider economic development objectives in fee review (consistent with quality of life objectives and removal of barriers to head of household job creation).
- Prepare for implementation of the Land Use and Circulation Element (LUCE).
- Identify supplemental infrastructure funding sources and financing mechanisms.
- Receive direction from the City Council.

Review of Study Session #1

- Overview of municipal infrastructure financing trends and influences
- Development impact fee primer
- San Luis Obispo's existing development impact fees and issues for consideration

Review of Study Session #2

- Need for Alternative Funding Sources
- Alternative Funding Source Options
- Infrastructure Funding Source Categories
  - Developer-Based Funding
  - City Funding and Financing
- Uses and Relationships between the Funding Sources

What We Heard from the Council and the Community…

- …and how we responded:
  - Economic development effectiveness
    - Prepared 2/6/14 memo outlining types of economic investments
  - Other performance and risk considerations
    - Prepared Study Session #2 handouts
  - Public art fee and affordable housing inclusionary policy
    - Added to feasibility and burden analysis for commercial prototypes (revised graphs)

Study Session #3 Agenda

- Review key findings from fee review
- Request Council discussion and direction regarding the 6 following items:
  1. Identifying preferred financing options
  2. Updating the AB 1600 development impact fee program(s)
  3. Developing a prioritized list of infrastructure projects
  4. Including the major infrastructure projects in the Capital Improvement Plan (CIP)
  5. Evaluating the use of the Construction Cost Index (CCI) for automatic, annual “indexing” of existing fees
  6. Evaluating and revising the current land use definitions.

Types of Economic Investment

1. Providing high quality municipal services and infrastructure
2. “Streamlining” land use regulations and development review procedures
3. Prioritizing infrastructure investments and assuring reasonable infrastructure financing burdens on the private sector investors
4. Identifying cooperative efforts with private business groups and other government agencies in general business attraction activities
5. Providing targeted public subsidies to private companies (not being considered by the City)

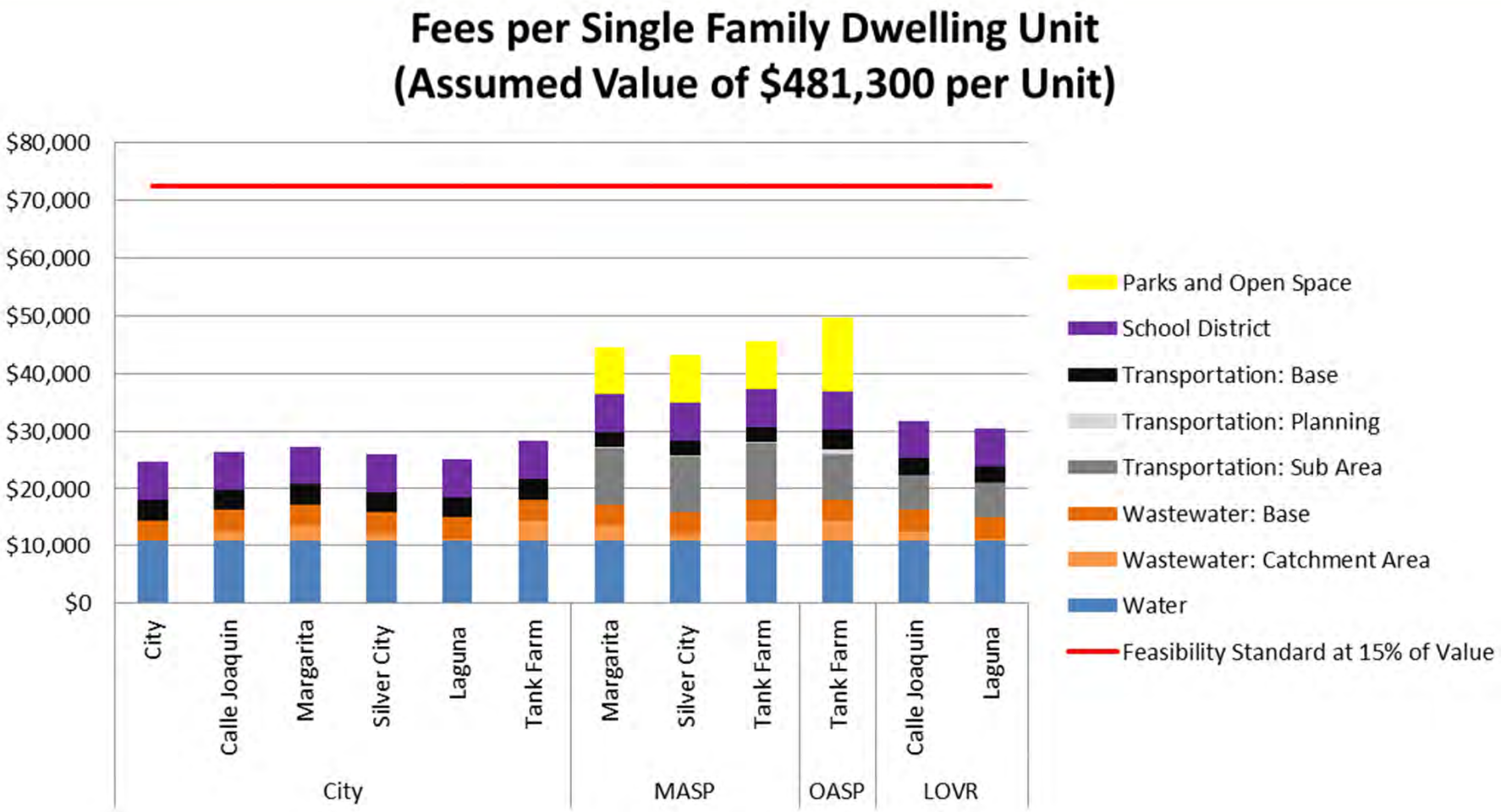
Key Fee Review Findings

1. Incremental evolution in the City's existing development impact fee programs have resulted in a complex system of base fees, sub area fees, and geographic fee variation.
2. Geographic "overlaps" in the City's fees cause a significant difference in fee levels in various parts of the City.
3. Citywide, aggregate fee levels are consistent with fees levied by other cities, though some specific area fees appear to be high by industry standards.
   - In particular, aggregate fees in the MASP may deter certain types of development.

Key Fee Review Findings, continued

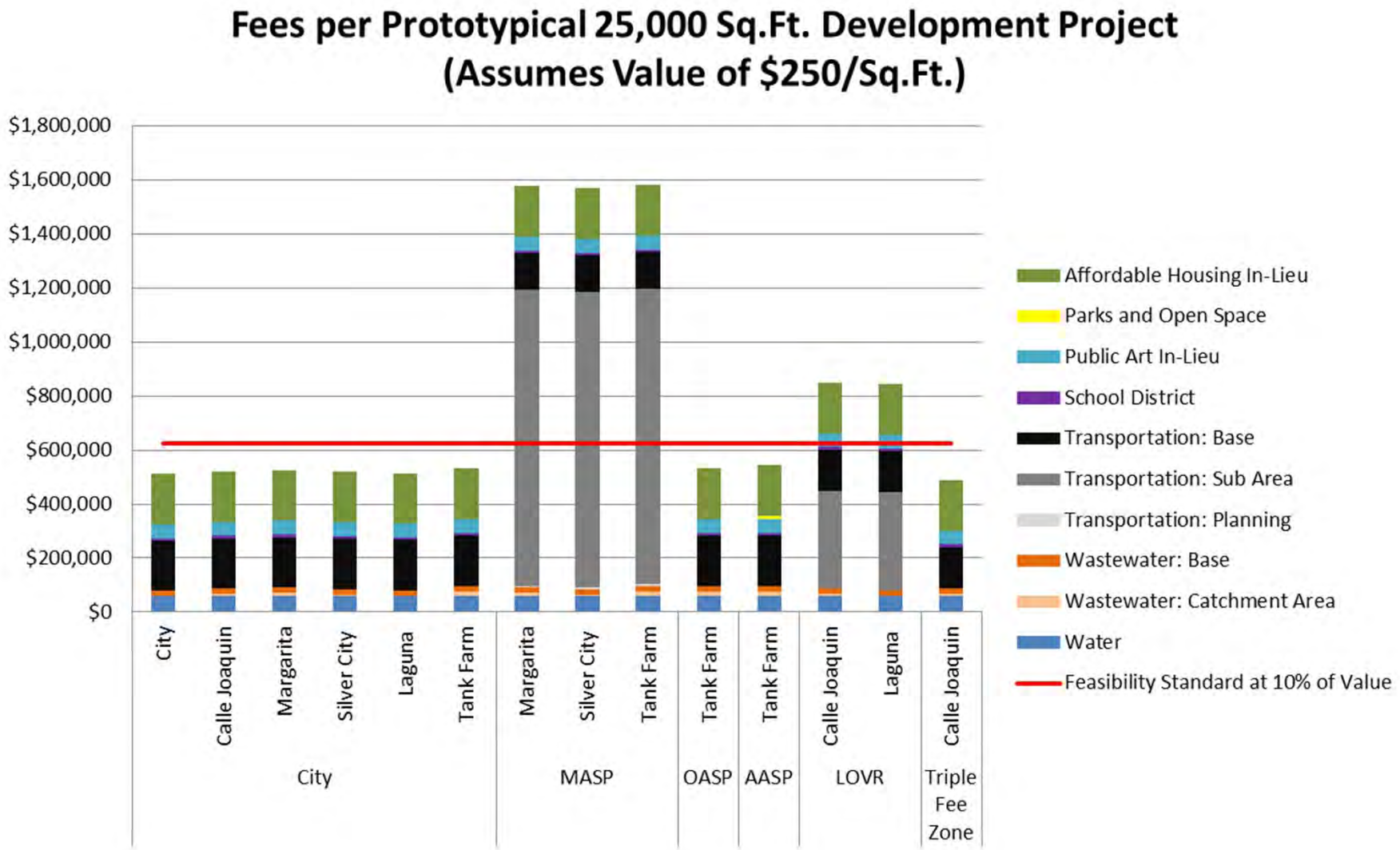
4. There is a lack of consistency between land use categories used to compute fees between fee programs (e.g., business park).
5. Fees do not contain a cost component for administration and updating
6. Fees are increased by CPI rather than CCI, or other more appropriate indices.
7. The City does not charge fees for all municipal infrastructure categories, such as general government or public safety.
8. Fee-funded infrastructure items not integrated into City's CIP.

Updated Feasibility Analysis (Single Family*)

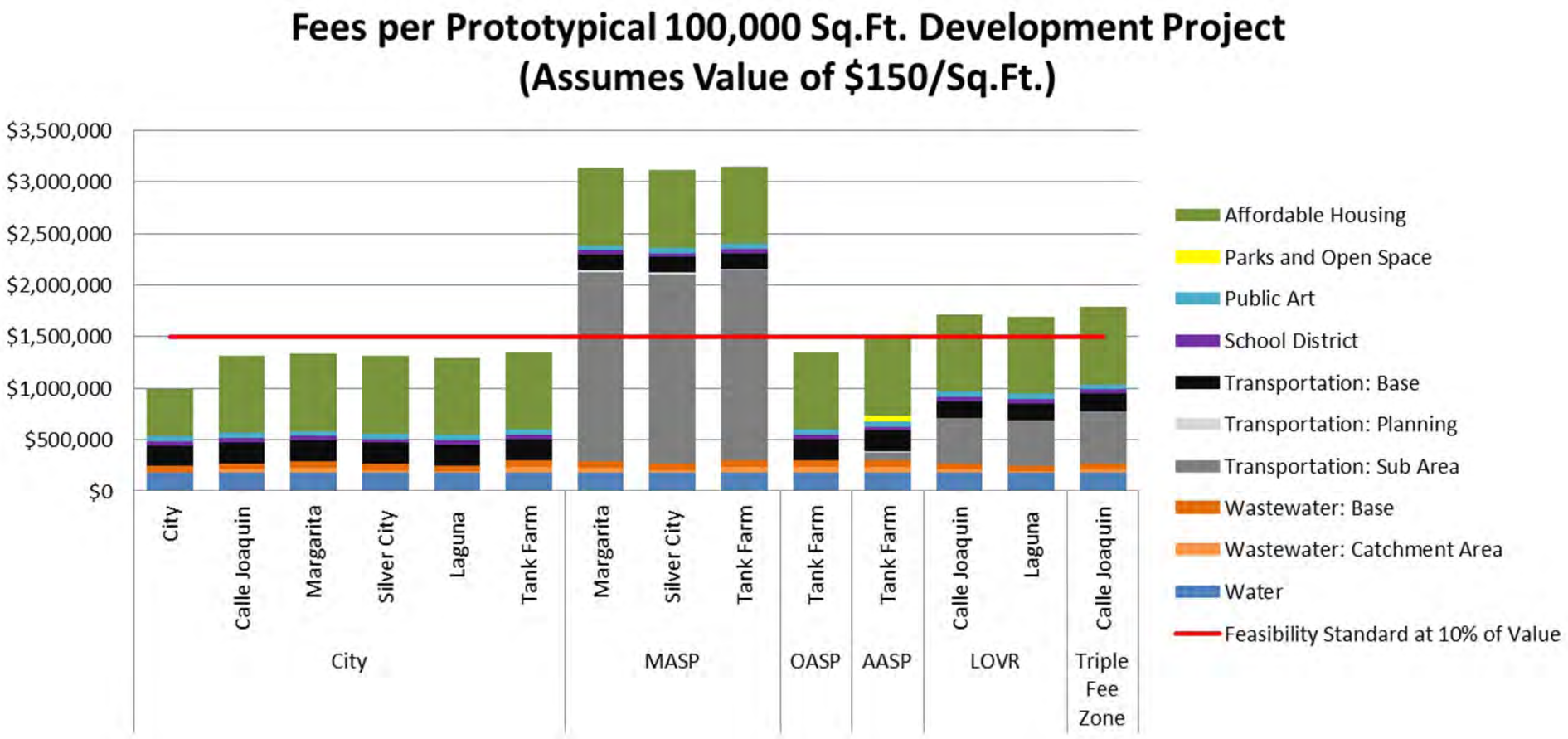


* Analysis assumes one single family home that is not part of a subdivision of more than four units. A single family home developed as part of a subdivision of more than four units and located in an expansion area would need to comply with the City's affordable housing inclusionary policy.

Updated Feasibility Analysis (Retail)



Updated Feasibility Analysis (Industrial)



Recommendation #1

- Provide guidance on range of options the Council is willing to consider for financing the City's long term infrastructure requirements.
  - Key policy considerations include the use of tools such as land based financing to provide a higher level of service to certain residents (e.g., landscape and lighting districts) or to use the same tools to have certain residents pay more for the same level of service (e.g., public safety CFD in the growth areas). If Council is willing to consider such land-based financing tools, Staff would recommend a future study session to address the implications of these tradeoffs from a policy perspective.

Recommendation #1, Continued

Developer-Based Funding

Funding Source	Used in Past?	Use in Future?	Uses
Development Impact Fees	Yes		Citywide and area infrastructure; debt service can be included; often a source of local "matching" funds; can be used to advance or reimburse funds
Development Conditions and Exactions	Yes		Project-specific costs; private financing for up-front improvements; could include funding advances to be reimbursed
Community Facility District Bonds	No		An alternative to "pay-as-you-go;" bond proceeds could be used to repay funding advances; lowering cash costs could improve feasibility

Recommendation #1, Continued

City-Based Funding

Funding Source	Used in Past?	Use in Future?	Uses
General Obligation Bond	Yes		Best for Citywide benefitting improvements; favorable issuance and debt service costs; could be a source of repayment of funding advances; could lower costs allocated to new development
Revenue Bond	Yes		Limited to enterprise infrastructure (e.g., water and sewer); favorable issuance and debt service costs; could be a source of repayment of funding advances; could lower costs allocated to new development
Citywide Parcel or Special Tax Bond	No		Best for Citywide benefitting improvements; flat tax cost allocation; can support debt financing or be used for ongoing O&M; could lower costs allocated to new development
Infrastructure Financing District	No		Project or area-specific improvements; most commonly bond financing; could lower costs allocated to new development
Municipal Credit (General Fund-supported)	Yes		Citywide, area-specific or project improvements; most commonly bond (COP) financing; could lower costs allocated to new development

Recommendation #2

- Evaluate and potentially replace the current development impact fee structure.
  - Scope: Hire a consultant to prepare an updated AB1600 nexus study to help fund transportation, parks and open space, affordable housing, and perhaps other types of capital improvements. Study will consider use of sub-areas, incorporation of an admin. component, and most appropriate annual inflation index. Will include a fee comparison with relevant industry standards and benchmark cities.
  - Impact: Results in a comprehensive fee program that reduces sub-area variations and considers development feasibility impacts
  - Cost: Staff and Council time, ~$125,000 to $150,000
  - Timing: 2015/17 Financial Plan

Recommendation #3

- Develop a prioritized list of infrastructure projects for the City to invest in from an Economic Development and Quality of life perspective.
  - Scope: Hire a consultant to develop a prioritized list of infrastructure projects, using a criteria-based assessment
  - Impact: Will prioritize and guide City infrastructure investments
  - Cost: Staff and Council time, ~$60,000
  - Timing: 2014/15 Financial Plan, prior to fee update

Recommendation #4

- Include the major infrastructure projects in the Capital Improvement Plan (CIP).
  - Scope: Expand CIP to include major infrastructure projects and ensure that all cost estimates are current
  - Impact: Results in consistency between CIP and fee programs and allows all major infrastructure projects to be included in the goal setting and budget processes
  - Cost: Staff time
  - Timing: Next CIP update

Recommendation #5

- Use the Engineering News Record's Construction Cost Index (CCI), or other more appropriate index, for automatic, annual "indexing" of existing fees.
  - Scope: Consider most appropriate method for indexing annual cost increases, which could vary by fee
  - Impact: Results in fee increases tracking most appropriate cost indices (e.g., construction costs, land costs)
  - Cost: included in fee update
  - Timing: 2015/17 Financial Plan, as part of fee update

Recommendation #6

- Evaluate and revise the current land use definitions.
  - Scope: Evaluate current land use categories and prepare a revised list for use in the fee update
  - Impact: Results in improved consistency, simpler administration and comparability
  - Cost: Included in fee update
  - Timing: 2015/17 Financial Plan, as part of fee update

Summary of Recommendations

1. Guidance re: financing options
2. Evaluate and potentially replace the current development impact fee structure.
3. Develop a prioritized list of infrastructure projects for the City to invest in from an Economic Development and Quality of life perspective.
4. Include the major infrastructure projects in the Capital Improvement Plan (CIP).
5. Use the Engineering News Record's Construction Cost Index (CCI) for automatic, annual "indexing" of existing fees.
6. Evaluate and revise the current land use definitions.

Next Steps

- EPS will prepare a complete "training packet" of the information reviewed prior to and covered during the Study Sessions, including:
  - SLO Impact Fee Review Memo
  - Infrastructure Financing Alternatives Memo
  - Economic Development Considerations Memo
  - Study Session #1 Presentation
  - Study Session #2 Presentation and Handouts
  - Study Session #3 Presentation
  - Summary of Council direction and recommendations

Questions and Discussion