



City Council Agenda Item

City Council Meeting Date: October 17, 2023

TO: Dean Albro, City Manager

FROM: Christie Alarcon, Community Development Director
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SUBJECT: Adoption of Resolution No. 6611(23) Approving the Development Impact Fee Deferral Program

Recommendation:

Staff recommends the City Council adopt Resolution No. 6611(23) (Attachment 1), approving the Development Impact Fee Deferral Program.

Background

A development impact fee is a monetary exaction other than a tax or special assessment that is charged by a local governmental agency to an applicant in connection with approval of a development project for the purpose of defraying all or a portion of the cost of public facilities related to the development project.

In 1989, the City developed and imposed development impact fees to defray the costs of public facilities necessitated by development projects. Since the adoption, the fees have been periodically updated, with the most recent update in 2003 through the adoption of Resolution No. 5136(03).

Since 1989, the City has charged development impact fees for the following types of public facilities:

- Park Improvement
- Park Land
- Recreation Centers
- Libraries
- Water
- Wastewater
- Police Facilities
- Fire Facilities
- Street Improvements
- Traffic Signals
- Bike Ways
- Refuse Containers

The fees vary based on development type and are calculated based on different metrics, including number of dwelling units, square footage of development, meter sizes (for water and wastewater fees), and peak-hour trips generated (Attachment 2).

The fees that tend to be the most costly are the street improvement and traffic signal impact fees, which are calculated based on \$3,636 per peak-hour trip generated and \$345 per peak-hour trip generated, respectively.

Discussion

The cost of capital has risen considerably in the last year. Starting in March, the Federal Reserve began increasing interest rates to quell inflation, which reached the highest level seen in four decades in late 2022. Coupled with various bank failures recently, economists are seeing a pullback in bank lending — a trend that will affect commercial construction in the months ahead.

Due to the fact that development impact fees are fees that the City collects and holds for longer periods to accumulate sufficient funding levels for the public facilities which they are designed to fund, there is not an immediate need to collect those funds up front, as we currently do. Currently, development impact fees are paid at building permit issuance.

In an effort to assist developers with financing costs, staff are proposing the Development Impact Fee Deferral Program (program). The program would allow for developers to receive their building permits without paying the development impact fees at the time of permit issuance, and to instead defer payment of those fees until the issuance of a certificate of occupancy, or until the date of final inspection if a certificate of occupancy is not required. If a project has multiple units or phases, then the fees will be due on a pro-rata basis for each unit or phase that receives a certificate of occupancy or receives a final inspection if a certificate of occupancy is not required.

Only City-controlled development impact fees would be eligible for deferral. All fees not controlled by the City would still be due for payment at the time of permit issuance or as otherwise required by law. The process to participate in the program would be as simple as checking the box on the building permit application requesting to defer payment of development impact fees. Applicants requesting a deferral would also be required to enter into an agreement with the City to pay the fees prior to issuance of certificate of occupancy or final inspection. That agreement would be recorded against the project property and would give the City a lien against the property for the amount of the fees. The agreement would be subject to approval by the City Attorney and the City Manager would be authorized to execute the agreement on behalf of the City.

The amount of development impact fees paid by developers will be calculated based on the fee schedule in effect at the time of payment. The City's impact fees are adjusted annually every July 1 based on the change in the Engineering News Record's construction cost index. In addition to annual increases, it is also possible that the City could adopt new fees in the future. Therefore, if an applicant wants to defer and pay their fees at certificate of occupancy or final inspection, which may occur after a change to the impact fees, the fees will be calculated at the time it is paid, which may result in an increase to the fees. Applicants may not pay their development impact fees prior to issuance of a building permit.

Fiscal Impact

The fee deferral program would not have any cost. There is minimal impact to the City, but it would potentially result in the City receiving impact fees at a later time than it currently receives them, which could result in a delay in the City's ability to pay for capital improvements. Rather than having development impact fees collected at building permit issuance, they would be paid at the time of final inspection and/or issuance of certificate of occupancy. The deferral of fees will delay the collection of balances due, which will decrease the amount of cash the City holds – cash which could be otherwise earning interest if invested. However, staff estimates that the supplemental fee, as well as potential increased impact fees at the end of the deferral, will offset the interest opportunity loss.

Conclusion

This program would provide incentives to developers to build in Lompoc. Providing a financing mechanism that costs little to the City provides a huge benefit to the development community.

Respectfully submitted,

Christie Alarcon, Community Development Director

APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Dean Albro, City Manager

Attachments: 1) Resolution No. 6611(23)
2) Summary of Impact Fees Calculated