



Agenda Date: 05/26/2015

Agenda Item: 6.2

STAFF REPORT

Approved and Forwarded to the City Council:

Bryan Montgomery, City Manager

Date: May 26, 2015
To: Bryan H. Montgomery, City Manager
From: Paul Abelson, Finance Director
Subject: City Development Fee Incentive Program

Background Information and Analysis

The economic downturn that began in 2007-2008 had a particularly significant impact on the financial viability of real estate development projects. The result of this was a slowdown of development activity; and while home building on existing finished lots continued (albeit at a much slower pace), developments requiring the construction of new lots stopped completely. Of course, quality residential development is a critical component of the growth and progress in Oakley, particularly in meeting our budget and economic development goals.

By 2011, home builders throughout California were faced with dramatically lower sales prices on the homes they built, while still facing significant development fees. For example, a home built in Oakley in 2005 might have been sold for \$500,000 with development fees totaling \$75,000 (15% of total). That same home in 2011 might have only sold for \$325,000, yet the development fees without any incentive would have been close to \$88,000 (27% of total). These high costs to develop would have likely stopped development in Oakley altogether until sales prices recovered. Through passage of the existing Incentive Program at that time, fees for that same home, were reduced to approximately \$58,000 (18% of total), and as a result, the City has experienced at least some continued homebuilding during the period. (Note that other agencies also abated some of their fees – the City's share of the overall savings was approximately \$14,400 per unit).

The City's Fee Incentive Program that began in 2011 was extended in 2013. The Program included a 40% abatement of Traffic Impact Fees, and 100% abatement of Park and Fire Facility Impact Fees, as well as 100% of the General Plan and South Oakley Infrastructure Fees. The Program is set to expire on June 30, 2015, and with the improving recovery of housing prices over the last several years, the Council has indicated its desire to allow the incentives for residential development to return to prior levels, and begin to again operate as designed. The commercial and light industrial

markets have yet to recover as quickly, so interest in continuing the Incentive Program for commercial development remains.

In May 2013, with the last extension, we reported:

“Keeping in mind that the lower fees resulting from the current incentive programs makes building homes on existing finished lots more viable at current market valuations; if the local agencies’ goal is to see construction continue over the longer-term, market values still need to appreciate between 15-20% more before development of new finished lots becomes feasible.”

Furthermore, we noted that while the City had approved maps expected to provide for several thousand new homes to be built in Oakley over the long-term, the remaining inventory of *finished* lots ready for homes at the time had declined to about 250, and these were expected to be built out over the coming two years. The City extended the Program in order to accommodate the economic environment and support continued home building for a time, hoping certainly that home prices would recover by the Program’s end – and they have.

Since the City Council instituted its Incentive Program four years ago, the residential real estate market has experienced a significant recovery, developments are now returning to active status, and comparable new home prices are again seen extending to and above \$450,000. Not quite as high as during the boom, but significantly higher than when the Program was adopted. It should be added that the commercial markets, which tend to follow residential development, have not yet seen a significant recovery.

As a result of the above, Staff is returning with this report back, and a Resolution that will extend the existing Incentive Program for commercial and light industrial projects for another two years. Given the state of the finances of the Fire District, that a new station is due to be provided in the East Cypress Corridor Specific Plan Area, and that another station in Oakley cannot be staffed, it does appear that continuing the abatement of fire facility impact fees for residential projects would also be reasonable. So, Staff has included that provision in the proposed Resolution, as well.

Fiscal Impact

Over the course of the Incentive Program to date, residential development has benefited by as much as approximately \$14,400 per housing unit. During this time, the City has used and programmed all of the Traffic and Park Impact Fees previously collected, and without restoring the fees, the City will lack sufficient funds to meaningfully carry out the programs. As proposed, the average restoration of impact fee revenue will be approximately \$13,500 per housing unit, and the City’s Preliminary Budget contemplates full restoration of Traffic and Park Impact Fees.

With adoption of the Resolution, the incentives to commercial and light industrial development will be extended for two additional years; however, the impact fees on such projects are determined per 1,000 square feet of development, and they can vary significantly in size, making it difficult to provide an overall fiscal impact analysis of extending the Program. However, for a commercial or light industrial project, the incentive amounts to approximately \$3.50/square foot, so for a 10,000 square foot building, the incentive would equal approximately \$35,000.

Other Agencies Participating

Key to the Program's success has been the participation of other affected local agencies. Many of them need development to continue in an ongoing manner in order to best serve our citizens. In addition to the City, three other agencies have participated with their own Incentive Programs, and two have actively reviewed their state mandated programs for opportunities to reduce their fees. An update on their status is shown below:

- Diablo Water District - DWD has an incentive program in place, operative through July 2015.
- The East County Regional Fee and Financing Authority- ECRFFA extended its incentive program for 2015. They reduced their rebate from 50% to 29%, operative through December 2015
- Ironhouse Sanitary District - ISD had an incentive program that was operative through September 2013 – Now Expired
- Oakley Elementary School District – The school district already had capacity for additional near term growth, and reduced its fees. Fees are evaluated each year independent of the state of the economy – No Change.
- Liberty High School District – The school district has a backlog of capacity needs, but continues to evaluate ways to reduce its fees where possible – No Change.

Recommendation and Alternatives

Staff recommends that the City Council adopt the attached resolution,

- Extending the City's current Incentive Program for commercial and light industrial developments for two additional years, and
- Allowing the Traffic Impact Fee, Park Impact fee, and the General Plan and South Oakley Infrastructure Fee incentives to expire, but extending the Fire Impact Fee incentive for two additional years.

Subject: City Development Fee Reduction Incentive Program

Date: May 26, 2015

Page 4 of 4

As with the Council's prior actions, the proposed continuing incentives would be temporary and expected to sunset when the market recovers sufficiently to support the collection of increased amounts. The incentives are not modifications to our impact fee programs or studies; but abatements as a local economic incentive.

Alternatives the Council could consider include either a shorter or longer extension, smaller or larger incentives, or to let the program expire in full at June 30, 2015.

Staff believes the recommended actions are reasonable, and a meaningful approach to phasing out the prior residential program, while continuing to incent commercial development, which remains challenged.

Attachments

1. Resolution

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OAKLEY
CONTINUING THE CITY'S "DEVELOPMENT FEE
INCENTIVE PROGRAM"**

WHEREAS, the economic downturn dramatically affected the viability of both residential and commercial development (including light industrial development); and

WHEREAS, a Development Summit was held in 2011 that brought together local agencies and the development community to discuss continued home building in the City during the recession; and

WHEREAS, as a result of the Summit, the City of Oakley instituted a Development Fee Incentive Program in June 2011; and

WHEREAS, a second Summit was held in 2013, resulting in an extension of the Program through June 30, 2015; and

WHEREAS, since that time, the residential market has recovered significantly from recession lows, though the commercial market has not; and

WHEREAS, without action to continue or modify the Program, the current program will expire on June 30, 2015; and

WHEREAS, the City Council deems it is in the best interests of the City to continue the Development Fee Incentive Program, as described below, for an additional two years.

NOW, THEREFORE, BE IT RESOLVED that the City Council hereby continues the Development Fee Reduction and Incentive Program that includes the following terms and conditions:

For Residential Development:

1. The prior Program abatements shall all expire, save continuation of the temporary abatement of 100% of the Fire Facilities Fee.

2. If a building permit is pulled during the term of the Program, but expires; then an extension would require not only the regular permit extension fee, but also payment of any development fees previously reduced.
3. The Program will extension will sunset on June 30, 2017.

For Commercial or Light Industrial Development:

1. Temporary abatements of 100% of the Fire Facilities Impact Fee, Park Impact Fee, General Plan Fee, the South Oakley Infrastructure Fee; and 40% of the Oakley Traffic Impact Fee.
2. If a building permit is pulled during the term of the Program, but expires then an extension would require not only the regular permit extension fee, but also payment of any development fees previously reduced.
3. The Program extension will sunset on June 30, 2017.

BE IT FURTHER RESOLVED that the City Council encourages all entities requiring development fees of residential developers in Oakley to adopt and/or continue a similar fee reduction program.

PASSED AND ADOPTED by the City Council of the City of Oakley at a meeting held on the 26th of May, 2015 by the following vote:

AYES:
NOES:
ABSENT:
ABSTENTIONS:

APPROVED:

Doug Hardcastle, Mayor

ATTEST:

Libby Vreonis, City Clerk

Date