



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www.cityofsacramento.org

PUBLIC HEARING
October 28, 2008

**Honorable Mayor and
 Members of the City Council**

**Title: North Natomas Financing Plan 2008 Update – Approving Development Fees
 and Nexus Study and Amending the North Natomas Development
 Agreement**

Location/Council District: Council District 1.

Recommendation: Adopt a **Resolution** approving the North Natomas Nexus Study and Financing Plan 2008 Update, including an increase in the development impact fees for the Public Facilities Fee, and amending the standard-form North Natomas Development Agreement to implement changes in the procedure for adjusting the amount of the Public Facilities Fee and the mix of public facilities financed by that fee.

Contact: Mark Griffin, Fiscal Manager, 808-8788; Carol Shearly, Director, 808-5893

Presenters: Carol Shearly and Mark Griffin

Department: Planning Department

Divisions: Director and Public Improvement Financing

Organization No.: 22001411

Description/Analysis:

Issue: The North Natomas Financing Plan requires periodic updating to reflect changes in land uses, infrastructure costs, and priorities and to implement fee and policy changes. The product of numerous meeting over eleven months between staff, developers, members of the community, consultants, and other interested parties, this update makes significant changes in the list of facilities funded through the fee program; proposes fee changes that are generally acceptable to all parties; and implements policy, agreement, and procedural changes that are designed to protect the developers while also preserving the City's ability to build the facilities and adapt to changing priorities required by development patterns and community needs.

Policy Considerations: Adoption of the resolution is consistent with the 1994 Financing Plan and Nexus Study, as amended in 1999, 2002, and 2005. The resolution is also consistent with the City’s Strategic Plan 3-Year Goal to “achieve sustainability and enhance livability.” Because this resolution increases a fee, a public hearing is needed.

Environmental Considerations: Adoption of the proposed resolution is not a project for the purpose of the California Environmental Quality Act, as it concerns a government funding mechanism that does not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. (Cal. Code Regs., § 15378 [CEQA Guidelines].)

Sustainability Considerations: The update of the North Natomas Finance Plan fosters sustainability by facilitating the buildout of North Natomas in accordance with the North Natomas Community Plan, a jobs/housing balance, and a walkable and transit-oriented community.

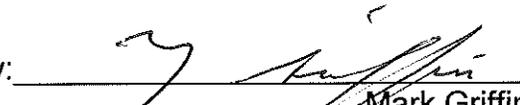
Committee/Commission: None

Rationale for Recommendation: Periodic updating is required for development fee programs to accurately reflect need, costs, and land uses. Fee changes that result must be adopted by resolution in a public hearing. The resolution also implements the cost and facility changes as well as policy, agreement, and procedural changes. As a matter of good management practice, appropriate fees and policy changes preserve the city’s ability through the Finance Plan to fund infrastructure needed to preserve and protect the public health, safety, and welfare.

Financial Considerations: There is no impact to the general fund. The North Natomas Public Facilities Fee (PFF) is paid by landowners and developers. Approval of the proposed resolution will authorize the city to collect a PFF that is appropriate to costs, land uses, and need. The proposed resolution will also address the long-term viability of the North Natomas Financing Plan by implementing policy, agreement, and procedural changes that are designed to provide assurance to developers and to preserve the City’s ability to build the facilities and adapt to changing priorities required by development patterns and the needs of the community.

Emerging Small Business Development (ESBD): Council approval of this item is not affected by city policy related to the ESBD Program.

Respectfully Submitted by: _____


Mark Griffin
Fiscal Manager, Planning Department

Approved by: 
Carol Shearly
Director, Planning Department

Recommendation Approved:

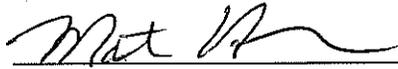
ben 
Ray Kerridge
City Manager

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BACKGROUND

The North Natomas Financing Plan and Nexus Study require periodic updating to reflect changes in land uses and infrastructure costs and to set the appropriate fees. Three previous updates were done in 1999, 2002, and 2005.

In 1994, the City Council adopted the North Natomas Financing Plan (the “Financing Plan”) and the North Natomas Nexus Study (the “Nexus Study”). These documents are the key components of the North Natomas Development Fee Program (the “Fee Program”), which supports infrastructure needed to develop the land uses envisioned in the North Natomas Community Plan (the “Community Plan”). The Financing Plan specifies needed infrastructure, financing mechanisms, and fees. The Nexus Study ensures statutory compliance of the fees by allocating infrastructure costs equitably among the Community Plan’s various land uses pursuant to the Mitigation Fee Act (Government Code section 66000 et seq.), as implemented through chapter 18.24 of the City Code. For purposes of this update, both the Financing Plan and Nexus Study are combined as one document.

In anticipation of a 2008 update, North Natomas landowners, developers, and residents have been meeting with city staff and consultants since December 2007 to review and discuss proposed revisions. The recommended changes reflect the results of this process.

Summary of Considerations and Results

The changes proposed in this update consist of fee changes, facility changes, and policy changes to adapt to changing conditions as the Financing Plan evolves. The fee changes affect the Public Facilities Fee (the “PFF”), with the proposed fees by land use shown on Exhibit A. The average fee increase is 15.0%. Facility changes have been done strategically to reflect changes in facilities given changes in land use as the community has developed. The facility changes result in reductions in fee support where appropriate but also increases as well, most notably for a fire station and a large community center.

There is general consensus in support of the fees and facility changes with the condition that future fee increases and facility changes be procedurally defined and amended into all North Natomas Development Agreements. These amendments are an advantage to both the City and the developers.

Detail of Considerations and Results

During the course of this update, developers, staff, and residents have grappled with several key problems:

- Costs increased by 74% between 2005 and 2008, making it impossible for fees to keep pace with the existing (and commonly used) automatic annual adjustment procedure. These costs increases affected everyone, including all other cities, developers, and the state. These increases in cost would have required a 66% increase in fees.
- The automatic adjustment mechanism needed revision itself, so as to avoid similar problems in the future.
- Community demands for a fire station and community center to be funded through the fee program.
- Developer concerns over adding facilities.

The following steps have been taken in this update to address the key issues:

Facility Review

The community, developers, staff, and consultants reviewed all facilities for scope, cost, need, and the relationship to actual development in North Natomas. The review shows that adjustments can be made to significantly reduce fee support for some facilities and to increase support for underfunded but high-priority projects. In particular, some roadway facilities can be shifted to non-fee sources because traffic analysis and nexus criteria indicate that traffic volumes from the Financing Plan area do not support the share of fee support currently in the plan. For example, the interchange at West El Camino and Interstate 80 has had a 50% allocation of costs to the fee program. Consultant review found the correct fair share to be 9%. As another example, Natomas Crossing Drive west of Duckhorn Drive will serve areas now in the County but was funded entirely by the fee program. This facility was removed from fee support and would be a condition on any future development on land currently in the County.

Importantly, in the above examples and in all cases, no facilities were removed from the fee program. The only change was the method of financing.

High-priority projects, in particular three of the four over crossings of I-5 and SR99, were increased to reflect true costs with funding provided entirely by fees.

Automatic Adjustment Mechanism

Under the current edition of the Financing Plan, fees and costs are automatically adjusted annually in accordance with a commonly accepted index, the Engineering News Record Cost Construction Index (the "ENR Index"). The ENR Index has proven to be highly unreliable for everyone in California over at least the last three years. It measures material costs but not gross margins in construction contracts. In a booming economy with too few contractors, actual contract cost changes far exceeded material cost changes. This has been true for governments and developers alike. Between the beginning of 2005 and the beginning of this year, the ENR Index increased 10%. For the same period, contract costs for roadways, as measured by CalTrans, increased

74%. Both developers and government agencies acknowledge, based on their own experience, that this large magnitude of change is reasonably accurate.

To make automatic adjustments more accurate, this update proposes a structure that staff believes should work in all but the most unusual circumstances. The structure utilizes the CalTrans Cost Construction Index in combination with the ENR Index and annual reviews by our engineering consultant. In recognition that the period since 2005 may have been a historic aberration, the adjustment procedure allows fees to decline if appropriate. Details of the procedure are provided on Exhibit D.

This structure is one of the first of its kind. Until now, nothing more sensitive to changes in actual costs than the ENR Index has been used, but many governments around the state are looking at doing something similar.

Fire Station and Community Center

This update includes \$9.6 million in funding from fees for a second fire station and equipment and an additional \$18 million for a community center in the Town Center/Regional Park area. The fire station would be located on the west side of I-5. The total available for the community center would be \$24 million.

Timing of the construction for the fire station and community center depends on the cash available from fee collections. Cash on hand is already adequate to construct the fire station. The community center must wait for development to resume.

Annual Cap and Facility Changes

Concerns over adding facilities in this and future updates have prompted a change that affects all future updates. This update proposes to limit future changes in the set of facilities to be funded by the PFF by placing an annual cap on the total PFF support available for all facilities. Facilities may be added or removed at the City's discretion so long as the total cost of all facilities does not change. Cost will be measured as defined by the automatic adjustment procedure described in Exhibit D. The annual cap and restriction on changing facilities are also a part of this exhibit.

Joint-Use Facility Land Swap

The City owns 1.9 acres of land on the west side of I-5 for a fire station. The City also owns a 5-acre site in the Town Center for a police substation. This update proposes that the 5 acres, or equivalent, be sold and an equivalent parcel be purchased adjacent to the fire-station site. This will allow for the possibility of a joint-use police-and-fire facility. The Financing Plan already has \$5.3 million in fee support to fund part of a police substation. These funds are available as cash on hand, therefore, approval of the proposed fire station and land swap would provide \$14.9 million for some form of joint-use facility and move the substation away from the Town Center.

The Police and Fire Departments both support this proposal.

Changes in Land-Use Designations

Changes in Community Plan land-use designations present unique problems for the Fee Program when a change would result in reduced revenue and/or increased infrastructure requirements. Because fees vary by land use, a change in land use that causes actual revenue to be less than expected would under fund the infrastructure program. Similarly, a change in land use that requires new infrastructure would require additional revenue.

The change proposed in this update will formalize the policy that any change in land use designation cannot result in increased costs or reduced revenues to the Fee Program. To implement this policy, each proposed change will be evaluated as a whole for its impact on the Fee Program. As appropriate, conditions of approval will be placed on a project stating that the applicant is subject to the North Natomas fee rates applicable under the original Community Plan land-use designation and/or is obligated to pay for certain infrastructure improvements.

Implementation – Financing Plan and Development Agreements

The updated Financing Plan and Nexus Study will contain all of the changes discussed above. The attached resolution implements these changes and directs staff to amend the North Natomas Development Agreements to include the new automatic-adjustment procedure, the annual cap on the PFF, and the restriction on changing facilities (Exhibit D).

Fee Comparisons With Other Jurisdictions

The Financing Plan recognizes the necessary balance between the fee rates and the overall long-term feasibility of development. If the fees are too high, development may be slowed, and the City will not benefit from the growth of a new community. If the fees are too low, the City may be compelled to find other funding sources to cover the cost of infrastructure necessary in later years.

The proposed fees will fund needed infrastructure while at the same time remaining competitive with cost burdens elsewhere in the region. This balance is demonstrated on the Single Family and Office Fee comparative charts that are attached as Exhibits B and C respectively.

Future Challenges

The Financing Plan is the mechanism that funds needed capital improvements as the North Natomas Community Plan area develops. The Financing Plan has been successfully modified in the past as conditions have changed. The update before you now addresses changes that should be made now. The proposed changes balance the

interests of residents, developers, and the City; funds needed facilities now; and creates a highly viable plan when the area emerges from the FEMA restrictions and the severe economic downturn.

Draft and Final Report

Ten days prior to this Council Hearing, key tables from the draft Financing Plan and Nexus Study, indicating the amount of cost, or estimated cost, required for which the fee is levied and the revenue sources anticipated to fund the facilities, was made available on file with the City Clerk. The Nexus Study contains an overview of the history of the Financing Plan and details the basis for, and the necessity of, the proposed fee and policy revisions. The Nexus Study amends the Financing Plan. There is no stand-alone Financing Plan report with this update. Upon City Council action the Nexus Study will be finalized and made available to the public under the title "North Natomas Nexus Study and Financing Plan 2008 Update".

Effective Date

Fee changes will become effective 60 days following adoption. Policy changes will become effective immediately. Fee adjustments will be collected back to April 11 of this year in accordance with "catch up" agreements entered into under Ordinance No. 2008-017 adopted on April 10, 2008, and Ordinance No. 2008-047 adopted on October 7, 2008.

RESOLUTION NO.

Adopted by the Sacramento City Council

ADOPTING THE NORTH NATOMAS NEXUS STUDY AND FINANCING PLAN 2008 UPDATE AND AMENDING THE FORM OF THE NORTH NATOMAS DEVELOPMENT AGREEMENT

BACKGROUND

- A. On May 3, 1994, the City Council approved and adopted the North Natomas Community Plan by Resolution No. 94-259.
- B. On August 9, 1994, the City Council approved and adopted the North Natomas Financing Plan (“NNFP”) by Resolution No. 94-495. The Financing Plan set forth the methods by which infrastructure required by the North Natomas Community Plan will be funded.
- C. In Resolution 94-495, the City Council acknowledged that the completion of additional studies and measures was required prior to implementation of the NNFP, including, without limitation, studies and measures which would refine the cost of necessary public infrastructure and the allocation of said cost among the various land uses within the NNFP Area.
- D. On August 9, 1994, the City Council also adopted Resolution No. 94-496, which directed City staff to (1) conduct further analysis and studies relating to the NNFP; (2) conduct a nexus study to analyze the development impact fee program set forth in the NNFP, identify the cost of the required public infrastructure, and allocate those costs to the various land uses within the Community Plan area; and (3) follow specified guidelines for the preparation of a nexus study that would support the development impact fee program. The portion of the development impact fee program analyzed by the study relates to the Public Facilities Fee and Transit Fee.
- E. On October 31, 1995, the City Council approved the North Natomas Nexus Study (“Nexus Study”) dated October 31, 1995, by Resolution No. 95-619, and established development impact fees for the North Natomas area by adoption of Ordinance No. 95-058 and Resolution No. 95-620. The development impact fees adopted included a Public Facilities Fee and Transit Fee.
- F. Review and revision of the Nexus Study and the development impact fees is legally appropriate and was contemplated by the City Council at the time of its approval of the Nexus Study and the impact fees. Section 1(e) of Resolution No.

95-619 provides: “The Nexus Study may be revised over time and under future circumstances in order to achieve the purposes and policies of the North Natomas Community Plan and the NNFP.” Since 1994 the City Council has revised the NNFP in 1999, 2002, and 2005.

- G. In connection with the 2008 revision of the NNFP, the City undertook an update of the Nexus Study and Financing Plan, taking into account current development conditions within the North Natomas Community and NNFP area, as well as modifications to the financing programs and policies that are appropriate to the achievement of the purposes of the North Natomas Community Plan.
- H. To implement the modifications to the financing programs and policies, the North Natomas Development Agreement must be amended by adding a revised procedure for (1) adjusting the amount of the Public Facilities Fee and (2) changing the mix of public improvements financed by the fee.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL
RESOLVES AS FOLLOWS:**

SECTION 1. Findings.

The City Council hereby finds as follows:

- (a) The recitals set forth above are true and correct and are incorporated herein by reference as findings.
- (b) The North Natomas Nexus Study and Financing Plan 2008 Update (the “Update”) sets forth a rational, fair, and equitable method by which the cost of necessary public infrastructure in the NNFP area is to be allocated to the various land uses.
- (c) The Update properly and reasonably allocates the burden of financing NNFP public infrastructure among development projects within the NNFP Area. The burden is allocated in a manner that achieves proper proportionality in light of those impacts that may reasonably be anticipated from those projects.
- (d) The Update (1) properly and reasonably identifies the purpose of the fees and their intended use; (2) establishes a reasonable relationship between the fee and the development on which the fee is imposed; (3) establishes a reasonable and rational relationship between the need for the public infrastructure and the type of development activity on which the fee is imposed; and (4) forms the basis for the further finding that the imposition of the fees described therein is necessary in order to protect the public health, safety, and welfare within the NNFP Area and the city.

- (e) The Nexus Study and Financing Plan may be revised over time under future circumstances in order to achieve the purposes and policies of the North Natomas Community Plan.
- (f) The findings, conclusions, and methodologies set forth in the Update are consistent with the North Natomas Community Plan.

SECTION 2. Adoption of Nexus Study and Financing Plan 2008 Update

The North Natomas Nexus Study and Financing Plan 2008 Update and other supporting data referred to in the Update are integral to the conclusions reached therein and are hereby approved and adopted. A copy of the North Natomas Nexus Study and Financing Plan 2008 Update shall remain on file with the City Clerk.

SECTION 3. Approval of New Fee-Adjustment Procedure

The City Council hereby approves the new procedure for adjusting development fees that is attached to this resolution as Exhibit E.

SECTION 4. Amendment of Resolution No. 94-494

The standard form of the North Natomas Development Agreement was approved on August 9, 1994, by Resolution No. 94-494 (the "1994 Resolution"). Section 2 of the 1994 Resolution provides, among other things, that "[n]o change to the form of agreement adopted by the [1994 Resolution] shall be made without specific advance approval by the City Council, which approval shall be in the form of an amendment to [the 1994 Resolution]."

- (a) The City Council hereby amends the 1994 Resolution by revising the definition of "North Natomas Finance Plan" in the standard-form North Natomas Development Agreement, which is attached as Exhibit A to the 1994 Resolution, so that it reads as follows:

"North Natomas Finance Plan: the plan, as it may be amended from time to time, which establishes methods for financing required Infrastructure and public facilities through a combination of land transfers, dedications, contributions, fees, assessment districts, community facilities districts, and other measures. As to development fees, the North Natomas Finance Plan, as amended from time to time, will provide for adjustment of fee amounts in accordance with the principles set forth in the procedure attached hereto as Exhibit I and incorporated herein by reference."

The Exhibit I referred to in the amended definition is the new procedure for adjusting development fees that is attached to this resolution as Exhibit D.

- (b) The City Council hereby directs staff to offer the foregoing amendment to all landowners that are already parties to a North Natomas Development Agreement.
- (c) Except as amended by Subsection 4(a) above, the 1994 Resolution remains in full effect.

Table of Contents:

- Exhibit A: Total Public Facilities Fee and Changes (1 page)
- Exhibit B: Single Family Infrastructure Burden Comparison (1 page)
- Exhibit C: Office Infrastructure Burden Comparison (1 page)
- Exhibit D: New Procedure for Adjusting Development Fees (1 page)

Exhibit A
North Natomas Nexus Study 2008 Update
Total Public Facilities Fee

Land Use	Current 2008 Fee Rate	Proposed 2008 Fee Rate	Percent Increase
RESIDENTIAL			
	<u>Fee per Unit</u>	<u>Fee per Unit</u>	
<i>Single-Family Detached/Attached</i>			
Rural Estates [2]	See Note [2]	See Note [2]	
Lot Size > 5,000 Sq. Ft.	\$6,812	\$8,126	19.3%
Lot Size 3,250 - 5,000 Sq. Ft. [3]	\$5,975	\$6,847	14.6%
Lot Size < 3,250 Sq. Ft.	\$5,136	\$5,567	8.4%
Age-Restricted	\$5,723	\$6,549	14.4%
<i>Multifamily (>2 attached units)</i>			
8-12 units per acre	\$5,136	\$5,567	8.4%
12 - 18 units per acre [4]	\$4,408	\$4,833	9.6%
> 18 units per acre	\$3,680	\$4,098	11.4%
Age-Restrict. Apartments	\$2,295	\$2,683	16.9%
Age-Restrict. Congregate Care	\$1,053	\$1,246	18.3%
NONRESIDENTIAL			
	<u>Fee per Net Acre</u>	<u>Fee per Net Acre</u>	
Convenience Commercial	\$209,901	\$236,619	12.7%
Community Commercial	\$121,069	\$140,978	16.4%
Village Commercial	\$168,261	\$191,787	14.0%
Transit Commercial	\$169,405	\$193,452	14.2%
Highway Commercial	\$122,702	\$142,302	16.0%
Regional Commercial	\$109,670	\$128,595	17.3%
EC Commercial	\$121,069	\$140,978	16.4%
EC 30 - Office	\$63,117	\$77,563	22.9%
EC 40 - Office	\$80,182	\$98,698	23.1%
EC 50 - Office/Hospital	\$93,512	\$115,457	23.5%
EC 65 - Office	\$116,203	\$143,446	23.4%
EC 80 - Office	\$137,064	\$169,833	23.9%
Lt. Industrial w/ < 20% Office	\$37,649	\$48,536	28.9%
Lt. Ind. w/ 20% - 50% Office [5]	\$45,290	\$57,244	26.4%
Age-Restricted Convalescent Care/Skilled Nursing	\$39,009	\$46,290	18.7%
Arena [6]	See Note [6]	See Note [6]	
Stadium	\$113,808	\$125,838	10.6%
Average Increase			15.0%

[1] Includes 3.0% administrative allowance.

[2] Currently, no land is designated as Rural Estates in the Finance Plan Area. In the event that such a land use is approved for development, the fee program will be updated to include a fee for Rural Estates.

[3] SFR - 3,250-5,000 sq. ft = 50% Low-Density and 50% Medium-Density.

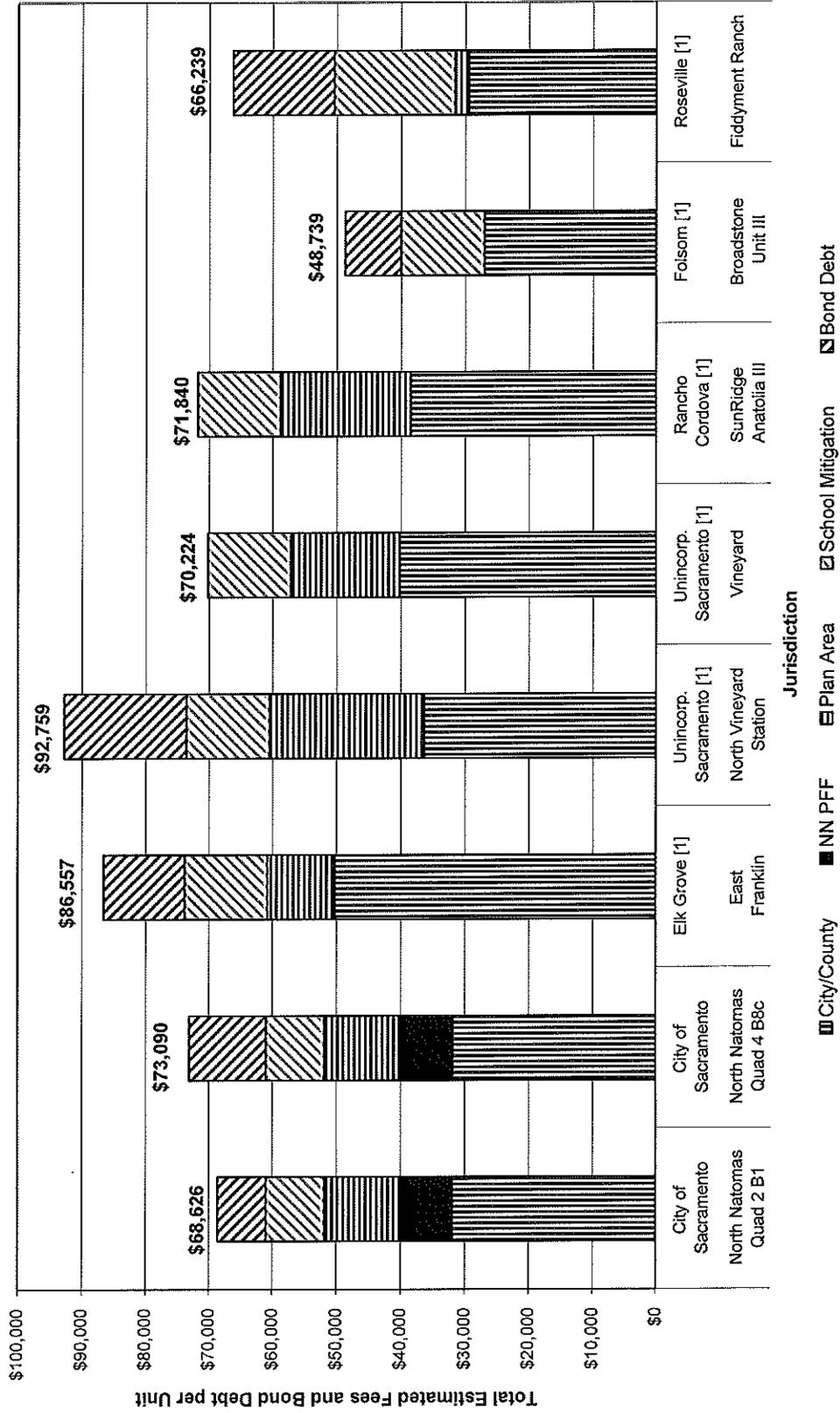
[4] MFR 12-18 dwelling units/acre = 50% Medium-Density and 50% High-Density.

[5] Modified Light industrial PFF equals 1.35 times Road portion of PFF for Light Industrial plus 70% of the non-Road PFF for Light industrial and 30% of the non-Road PFF for EC-30.

[6] Arena site is already developed. The City of Sacramento and Arco Arena owners have an agreement regarding PFF and Transit Fees. Outstanding revenue represents deferred payments.

Exhibit B
Infrastructure Burden Comparison for Single-Family Development
(2,200-Sq. Ft. Unit, 5 Units per Acre)

Single-Family
Development



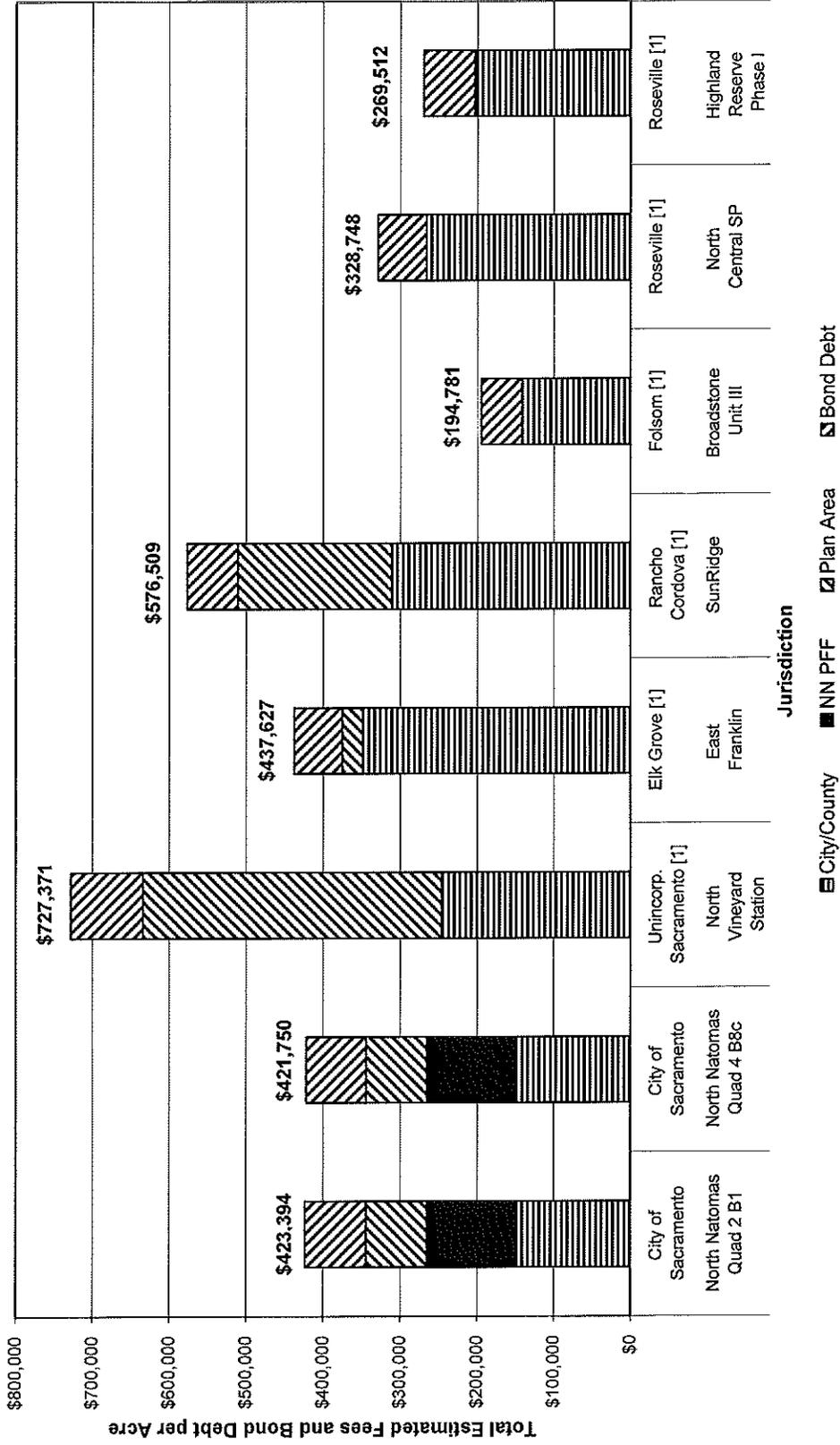
[1] All competitive fee comparisons are as of January 2008.

North Natomas Financing Plan 2008 Update –
Development Fees and Nexus Study

October 28, 2008

Office Building

Exhibit C
Infrastructure Burden Comparison for Office Building
74,923 Sq. Ft. building and 5 Acre Site



[1] Fee comparison is as of January 2008.

EXHIBIT D
First Amendment to
North Natomas Development Agreement

•••
[Project Name]
[Developer Name]

This amendatory agreement is between the **City of Sacramento**, a California municipal corporation (the “City”); and [Developer name], a [Developer’s status, e.g., California corporation] (the “Developer”).

Background

- A. The City and the Developer are parties to a North Natomas Development Agreement that is dated _____, ____; designated as City Agreement No. ____ - ____; and recorded in the Official Records of Sacramento County at Page ____ of Book ____ (the “Original Agreement”).
- B. Under the Original Agreement, the Developer agrees to participate in, and to faithfully and timely comply with, the North Natomas Finance Plan as it is amended from time to time (the “Finance Plan”).
- C. Among other things, the 2008 amendment of the Finance Plan establishes a new procedure for adjusting the amount of Public Facilities Fee. By entering into this amendatory agreement, the parties incorporate the new procedure into the Original Agreement.

With these background facts in mind, the City and Developer agree as follows:

1. **Amendment to Definition of “North Natomas Finance Plan.”** The definition of “North Natomas Finance Plan” in Article I of the Original Agreement is amended to read as follows in its entirety:

North Natomas Finance Plan: the plan, as it may be amended from time to time, which establishes methods for financing required Infrastructure and public facilities through a combination of land transfers, dedications, contributions, fees, assessment districts, community facilities districts, and other measures. As to development fees, the North Natomas Finance Plan, as amended from time to time, will provide for adjustment of fee amounts in accordance with the principles set forth in the procedure attached hereto as **Exhibit I** and incorporated herein by reference.

2. **Addition of New Exhibit I.** The procedure attached to this amendatory agreement as an exhibit is hereby added to the Original Agreement as Exhibit I.
3. **All Other Terms Remain in Force.** Except as amended by sections 1 and 2 above, all terms and conditions of the Original Agreement remain in full force.
4. **Effective Date.** This amendatory agreement takes effect on the effective date of the ordinance that approves it (Gov. Code, § 65868; Sacramento City Code, §§ 18.16.120 & 18.16.130).
5. **Recording.** Either party may record this amendatory agreement with the Sacramento County Recorder.
6. **Counterparts.** The parties may execute this amendatory agreement in counterparts, each of which will be considered an original, but all of which will constitute the same agreement.
7. **Entire Agreement.** This amendatory agreement sets forth the parties' entire understanding regarding the matters set forth above. It supersedes all prior or contemporaneous agreements, representations, and negotiations regarding those matters (whether written, oral, express, or implied) and may be modified only by another written agreement signed by all parties.

City of Sacramento

[Developer's Name]

By: _____

John Dangberg, Assistant City
Manager, for Ray Kerridge, City
Manager

Date: _____, 20__

By: _____

[Name]
[Title]

Date: _____, 20__

Approved as to Form
City Attorney

By: _____

Senior Deputy City Attorney

[Attach Certificate of Acknowledgment – Civil Code § 1189]

EXHIBIT I

PROCEDURE FOR ADJUSTING DEVELOPMENT FEES

When amending the North Natomas Finance Plan, the City shall set the amount of the Public Facilities Fee by using the estimated cost of the facilities to be financed, determined in accordance with the following procedure:

1. Definitions.

- (a) "CalTrans Index" means the Highway Construction Cost Index published by the California Department of Transportation.
- (b) "ENR Index" means the Engineering News Record Construction Cost Index for San Francisco.
- (c) "Facility" means a public improvement or segment of a public improvement that is in the North Natomas Community Plan and is identified in the Finance Plan as being funded in whole or part by the PFF.
- (d) "Funding Adequacy" means the comparison of re-evaluated cost of remaining Facilities with the prior estimate of costs adjusted for changes in cash on hand, including interest, and outstanding fee credits.
- (e) "PFF" means the Public Facilities Fee established by subsection A.1 of Sacramento City Code section 18.24.050, as amended.
- (f) "PFF Share" means the portion of a Facility's cost that the PFF funds in whole or part.
- (g) "Finance Plan" means the North Natomas Finance Plan, as amended.

2. Annual Adjustment for All Facilities. When amending the Finance Plan, the city shall set the amount of the PFF by using the estimated cost of the Facilities, which will be determined by a third-party professional engineer under contract to the City and will be adjusted each July 1 in accordance with sections 3 and 4 below.

3. Freeway Improvements, Roadways, Bridges, Signals, and Bikeways.

- (a) For all Facilities except the police station, fire station, and community center, the adjustment is the greater of the following (but in no event less than 0%):
 - (1) the ENR Index; or
 - (2) the CalTrans Index 3-year moving average

(b) Index measurement:

- (1) ENR Index: Year-over-year change as of each March
- (2) CalTrans Index: 12-quarter average through quarter 1 over 12-quarter average through quarter 1 of the prior year

(c) Precision: All calculations will be carried out to three decimal places.

(d) **Benchmarking.**

- (1) Each calendar year prior to April 1, all projects will be re-evaluated for Funding Adequacy. All projects will be evaluated by a third-party professional engineering consultant under contract to the City. Significant variance from the index approach (defined as equal to, or more than, plus or minus 5% in aggregate) will be automatically amended to the Finance Plan with associated fees as of July 1.
- (2) Cost estimates will anticipate costs changes over the period to the next July 1. This estimate will be included and identified as additional contingency in the cost estimate.

(e) **Comprehensive Review and Nexus Study.** The City will perform a comprehensive review and nexus study for the PFF at least every three years unless the City determines that prevailing market conditions do not justify doing so (e.g., if development is lacking or the remaining development is limited).

(f) **Sample cost adjustments for freeway improvements, roadways, bridges, signals, and bikeways:**

- | | |
|--|---|
| <ul style="list-style-type: none">• Funding Adequacy <i>increase</i> of 4%
ENR Index <i>increase</i> of 2%
CalTrans Index <i>increase</i> of 3.1%
Fee Change: plus 3.1%
• Funding Adequacy <i>increase</i> of 4%
ENR Index <i>increase</i> of 1%
CalTrans Index <i>decrease</i> of 1%
Fee Change: plus 1% | <ul style="list-style-type: none">• Funding Adequacy <i>decrease</i> of 4%
ENR Index <i>decrease</i> of 0.5%
CalTrans Index <i>decrease</i> of 1%
Fee Change: 0%
• Funding Adequacy <i>decrease</i> of 5%
ENR <i>increase</i> of 0.5%
Cal Trans Index <i>decrease</i> of 1%
Fee Change: minus 5%
• Funding Adequacy <i>increase</i> of 6%
ENR Index <i>increase</i> of 3.5%
CalTrans Index <i>decrease</i> of 1%
Fee Change: plus 6% |
|--|---|

4. Police Station, Fire Station, and Community Center.

For the police station, fire station, and community center, the portion of the cost for each Facility that is funded by the Public Facilities Fee will not exceed that established in the 2008 update to the Finance Plan, except as follows: the City will adjust the cost of each Facility by using the change in the ENR Index from March to March, effective each July 1.

5. Annual Cap; change in list of Facilities.

- (a) The Finance Plan shows not just the estimated cost of each Facility but also the PFF Share for the Facility. Each year, after adjusting costs in accordance with sections 1 through 4 above, the City shall determine the aggregate PFF Share for all Facilities, and that aggregate amount will be the maximum funding obligation of the PFF for that year (the “Annual Cap”).
- (b) Each year, the City may revise the list of public improvements that qualify as Facilities, as follows:
 - (1) If a public improvement is removed from the list because it will no longer be funded by the PFF (a “Removed Facility”), then the City may allocate the Removed Facility’s PFF Share (determined in accordance with subsection 3(d)(1) above) to another public improvement with the Finance Plan, whether or not that improvement is already a Facility.
 - (2) If a public improvement that is in the North Natomas Community Plan but previously was not a Facility is added to the list (a “New Facility”), then a third-party professional engineering consultant, under contract to the City, will determine the PFF Share for the New Facility.
 - (3) Revisions to the list of Facilities may not increase the Annual Cap for the year. Thus, the total PFF Share for New Facilities in a year cannot be more than the total PFF Share of Removed Facilities during the same year.

