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REPORT TO COUNCIL
City of Sacramento

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PUBLIC HEARING
August 2, 2005

Honorable Mayor and
Members of the City Council:

Subject: North Natomas Financing Plan 2005 Update – Development Fees and Nexus Study

Location/Council District: North Natomas Financing Plan Area, (District 1)

Recommendation:

Adopt a Resolution adopting the North Natomas Nexus Study and Financing Plan 2005 Update including the increase of development impact fees for the Public Facility Fee and the Transit Fee.

Contacts: Mark Griffin, Fiscal Manager, (916) 808-8788; Edward Williams, Development, Engineering and Finance Manager, (916) 808-5440; Carol Shearly, New Growth Manager, (916) 808-5893

Presenter: Mark Griffin, Fiscal Manager

Department: Development Services

Division: New Growth

Organization No: 4823

Summary: The City Council adopted the North Natomas Financing Plan and Nexus Study in 1994. These documents were updated in 1999 and 2002. Adoption of the attached resolution will: 1) approve the 2005 Update of the Nexus Study and Financing Plan; and 2) update the North Natomas development fees for public facilities and transit. The proposed fees are included as Exhibit A.

Committee/Commission Action: None.

Background Information: In 1994, the City Council adopted the North Natomas Financing Plan ("Financing Plan") and the North Natomas Nexus Study ("Nexus Study"). These documents are the key components of the North Natomas Development Fee Program ("Fee Program"), which supports infrastructure needed to develop the land uses

envisioned in the North Natomas 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 Sections 66000 et seq.), as implemented through Chapter 18.24 of Title 18 of the City Code.

The Financing Plan and Nexus Study require periodic revision to reflect changes in cost, land uses and projects. Two previous revisions have occurred in 1999 and 2002. For the current update, North Natomas landowners, City staff, Regional Transit staff and consultants have met for the last several months to review the proposed revisions. The recommended changes reflect the results of this process.

Proposed Fee Changes

The changes proposed in this update are both fee changes and policy changes to adapt to changing conditions as the Financing Plan evolves. The fee changes affect the Public Facilities Fee and Transit Fee, with the proposed fees shown on Exhibit A. There is consensus in support of the fees with the condition that future fee increases be limited to inflation adjustments. This policy change is discussed further below.

Fees are affected by cost, by the infrastructure to be built and by the amount and type of development remaining to pay those costs. The combined impact of these influences on the proposed fees is shown on Exhibit D.

Cost Impact

The cost element of the fee is just slightly higher that the automatic fee changes currently allowed under the Financing Plan. Costs are 9.4% higher whereas the inflationary adjustment is 7.1%. The amount above the inflationary change is due to revised costs estimates and the amounts spent on the Fire Station, the Arena Interchange and several traffic signals.

Infrastructure Impact

The proposed fees are more significantly impacted by infrastructure changes. The Park and Ride station on the Downtown-Natomas-Airport line is being moved from Truxel Road at Arco Arena to Truxel Road at the Promenade Shopping Center. This change has necessitated the addition of a parking structure. This change affects the Transit fee only.

The other instance of infrastructure changes reflects the incorporation of the Community Plan amendment for the Promenade shopping center. The roadways and signals resulting from the Promenade development have been added to the Financing Plan. Because there are new fee payers as well, the effect of this change is a slight reduction in fees for all fee payers. Incorporating the Promenade project impacts the Public Facility fee.

Remaining Land Uses

The most significant influence on the proposed Public Facility fee is the amount and type of development remaining to pay remaining costs. As of March, construction was complete on 60% of all residential properties and 25% of all commercial properties. At the same time, the majority of the remaining cost for capital improvements must be allocated to residential properties. The result of this imbalance is higher fees for residential properties and reduced fees for some commercial properties. Efforts to correct the imbalance are discussed under the "Future Challenges" heading below.

The Financing Plan also includes Land Acquisition Fees and Drainage Fees. These fees are unchanged in this update. The Land Acquisition fees were updated in May based on the annual appraisal study. Drainage fees are rarely needed as most drainage improvements are funded through Community Facilities Districts. The fees will nevertheless be revised by the end of the year.

Fee Comparisons With Other Jurisdictions

It is the intent of the Financing Plan to recognize the necessary balance between the fee rates and the overall 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 unduly obligated 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.

Proposed Policy Changes

In addition to fee changes, there are five recommended policy changes:

- A hold harmless provision for changes in land use designations;
- Providing accelerated credits for improvements deemed a public safety concern;
- Changing the basis of support for the Transportation Management Association's Community Shuttle leases from a per bus amount to the hours of operation;
- Changing the adjustment procedure for the Regional Park Land Acquisition Fee from a land-based appraisal to an inflationary index; and
- Limiting future cost increases to inflation.

There is consensus among the North Natomas Working Group of North Natomas developers and City staff that these policy changes are appropriate.

Hold Harmless

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 caused actual revenue to be less than expected would under fund the infrastructure program. Similarly, a change in land use that required new infrastructure would require additional revenue.

The change proposed in this Nexus Update is to 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 the project stating that the applicant is subject to the North Natomas fee rates applicable under the original Community Plan land use designation and/or to pay for certain infrastructure improvements.

Accelerated Credits

In November of 2004, City Council adopted by Resolution 2004-731 a public safety credit reimbursement category with the following conditions and features:

- Public Safety Credits ("Credits") can be reimbursed to up to 97% of the Public Facility Fee;
- Projects eligible for Credits must be off-site and not required solely as a result of the development;
- Projects must be a public safety concern as determined by the City of Sacramento;
- Projects could be of any type listed in the North Natomas Financing Plan;
- Credits will be on par with 43% credits in the priority of cash reimbursements of credits.

The Nexus Study and Financing Plan update incorporates this new policy.

Basis of Shuttle Lease Support

In the 2002 Nexus Update, a provision was made to support the North Natomas Transportation Association (TMA) for shuttle bus leases for a period of eight years ending in calendar year 2009. This support of leases replaced the purchase of shuttle buses as originally planned in the North Natomas Community Plan. Support was made contingent on the number of buses operating with support set at $48,000 per bus.

The experience of the TMA to date is that it has been more economical and effective to operate shuttles a greater number of hours rather than to operate more shuttles. Accordingly, the change proposed in the 2005 Update is to maintain the same schedule of support in years and dollars but to change the criteria of support from the number of shuttles to the hours of operation. Up to 2,500 hours of operation would receive the same level of support as one bus receives under the current system ($48,000/annually).

Adjustment Procedure for the Regional Park Land Acquisition Fee

To date, the adjustment procedure for the Regional Park Land Acquisition Fee has been based on land appraisals. The fee has been set to collect sufficient funds to acquire land. Now that the land has been purchased, the fee basis needs to be changed to the debt service on the land. Fee adjustments need to ensure both the payment of debt service and the equitable payment of that debt through time. To accomplish both of these ends, the fee adjustment procedure is proposed as the consumer price index for San Francisco measured from April to April with the adjustment effective each July 1. In addition, because this fee pays debt service that is a general obligation of the City of Sacramento, it is further recommended that the annual adjustment be a minimum of two percent.

Approval of the proposed change will adjust the Regional Park Land Acquisition Fee under the new procedure 60 days following the date of adoption and each July 1 thereafter.

Limiting Cost Increases to Inflation

The North Natomas Working Group has agreed to limit future increases in the public facilities fee and transit fee to adjustments for inflation in construction costs. This is recommended for the following reasons: At this point in the development of North Natomas, there is a better understanding of costs and of needed infrastructure. There are also fewer remaining fee payers. Limiting fee increases to inflation will not unfairly burden these future fee payers.

Future Challenges

The Finance Plan is the mechanism that provides needed capital improvements as the North Natomas Community Plan area develops. The Plan has been successfully modified in the past as conditions have changed. The update before you now addresses changes that should be made now. Several issues remain that will be addressed in the coming months. The first relates to the imbalance between residential construction and the construction of improvements that the development supports through fees. The basic solution is to accelerate those capital improvements. In the Capital Improvement Program (CIP) process and Budget for the current fiscal year, capital projects were programmed that should begin to address this problem. In the 2007 process, projects will be evaluated, in part, on their contribution to reducing the fee imbalance.

Related to the programming issue is the second issue of increasing developer incentives to construct credit funded projects. The adoption of the Public Safety credit category in November 2004 was a beginning by increasing the reimbursement rate for these credits from 43% to 97%. Staff will be evaluating the expansion of incentives and is anticipating a recommendation by the next CIP process.

The last issue involves the Land Acquisition Program. The Program has been highly successful in acquiring lands for rights-of-way and public buildings. The Program is close to complete. The few remaining lands can be acquired over the next several

months and the program finalized. The North Natomas Working Group is also in agreement that the Program should be closed now rather than waiting for the end of development. To accomplish this will require a recommendation to City Council, which is expected by the close of 2005.

Draft and Final Report

Ten days prior to this Council hearing, the draft Nexus Study 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 2005 Update".

Effective Date

Fee changes will become effective 60 days following adoption. Policy changes will become effective immediately.

Financial Considerations: North Natomas landowners pay for most of the infrastructure needed for development of the Finance Plan area through development impact fees and, where appropriate, through municipal bonds issued by assessment or community facilities districts.

The public facilities program does include a General Fund contribution for a second fire station and portions of a community center and police station. These contributions are unchanged by this update.

Environmental Considerations: The City Council's action in approving these resolutions is solely for the purpose of updating the Nexus Study and Financing Plan and setting development impact fees and policies to be used in funding required infrastructure, and is therefore, not a project for the purposes of the California Environmental Quality Act.

Policy Considerations: Adoption of the Nexus Study and Financing Plan 2005 Update is consistent with the intention of the 1994 Nexus Study and Financing Plan. Adoption is also consistent with the City's Strategic Plan goals to enhance and preserve the neighborhoods, improve and diversify the transportation system and support economic development.

Emerging Small Business Development (ESBD): Not applicable to this report.

Respectfully submitted:

Carol Shearly
New Growth Manager

RECOMMENDATION APPROVED:

ROBERT P. THOMAS
City Manager

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RESOLUTION NO.

Adopted by the Sacramento City Council

ADOPTING THE NORTH NATOMAS NEXUS STUDY AND FINANCING PLAN 2005 UPDATE

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: (i) conduct further analysis and studies relating to the NNFP; (ii) 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 (iii) 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.

G. 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.

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 2005 Update ("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: (i) properly and reasonably identifies the purpose of the fees and their intended use; (ii) establishes a reasonable relationship between the fee and the development on which the fee is imposed; (iii) 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 (iv) 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 2005 Update

The North Natomas Nexus Study and Financing Plan 2005 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 2005 Update shall remain on file with the City Clerk.

Table of Contents:

Exhibit A: Total Public Facilities and Transit Fee (1 page)
Exhibit B: Single Family Infrastructure Burden Comparison (1 page)
Exhibit C: Office Infrastructure Burden Comparison (1 page)
Exhibit D: Proposed Public Facility Fee and Transit Fee Changes (1 page)

Exhibit A

North Natomas Nexus Study 2005 Update
Total Public Facilities and Transit Fee

	2005 Public Facilities Fee	2005 Transit Fee
	Includes 3.0% Administration Allowance	
RESIDENTIAL		
	Fee per Unit	
Single-Family Detached/Attached		
Rural Estates	*See Note [2]*	
Lot Size > 5,000 Sq. Ft.	$6,125	$380
Lot Size 3,250 - 5,000 Sq. Ft.	$5,372	$348
Lot Size < 3,250 Sq. Ft.	$4,618	$316
Age-Restricted	$5,145	$249
Multifamily (>2 attached units)		
8-12 units per acre	$4,618	$316
>12 - 18 units per acre	$3,963	$283
> 18 units per acre	$3,309	$249
Age-Restricted Apartments	$2,064	$122
Age-Restricted Congregate Care	$947	$68
NONRESIDENTIAL		
	Fee per Net Acre	
Convenience Commercial	$188,727	$26,098
Community Commercial	$108,856	$13,444
Village Commercial	$151,287	$20,167
Transit Commercial	$152,316	$20,167
Highway Commercial	$110,324	$13,840
Regional Commercial	$98,608	$11,863
EC Commercial	$108,856	$13,444
EC 30 - Office	$56,750	$5,141
EC 40 - Office	$72,094	$7,118
EC 50 - Office/Hospital	$84,084	$8,699
EC 65 - Office	$104,481	$11,467
EC 80 - Office	$123,238	$13,840
Light Industrial with < 20% Office	$33,852	$2,373
Light Industrial with 20% - 50% Office [3]	$40,721	$3,203
Age-Restricted Convalescent Care/Skilled Nursing	$35,075	$2,754
Arena	*See Note [4]*	
Stadium	$102,327	$13,341

"adj fee"

[1] Includes 3.0% adjustment for administration

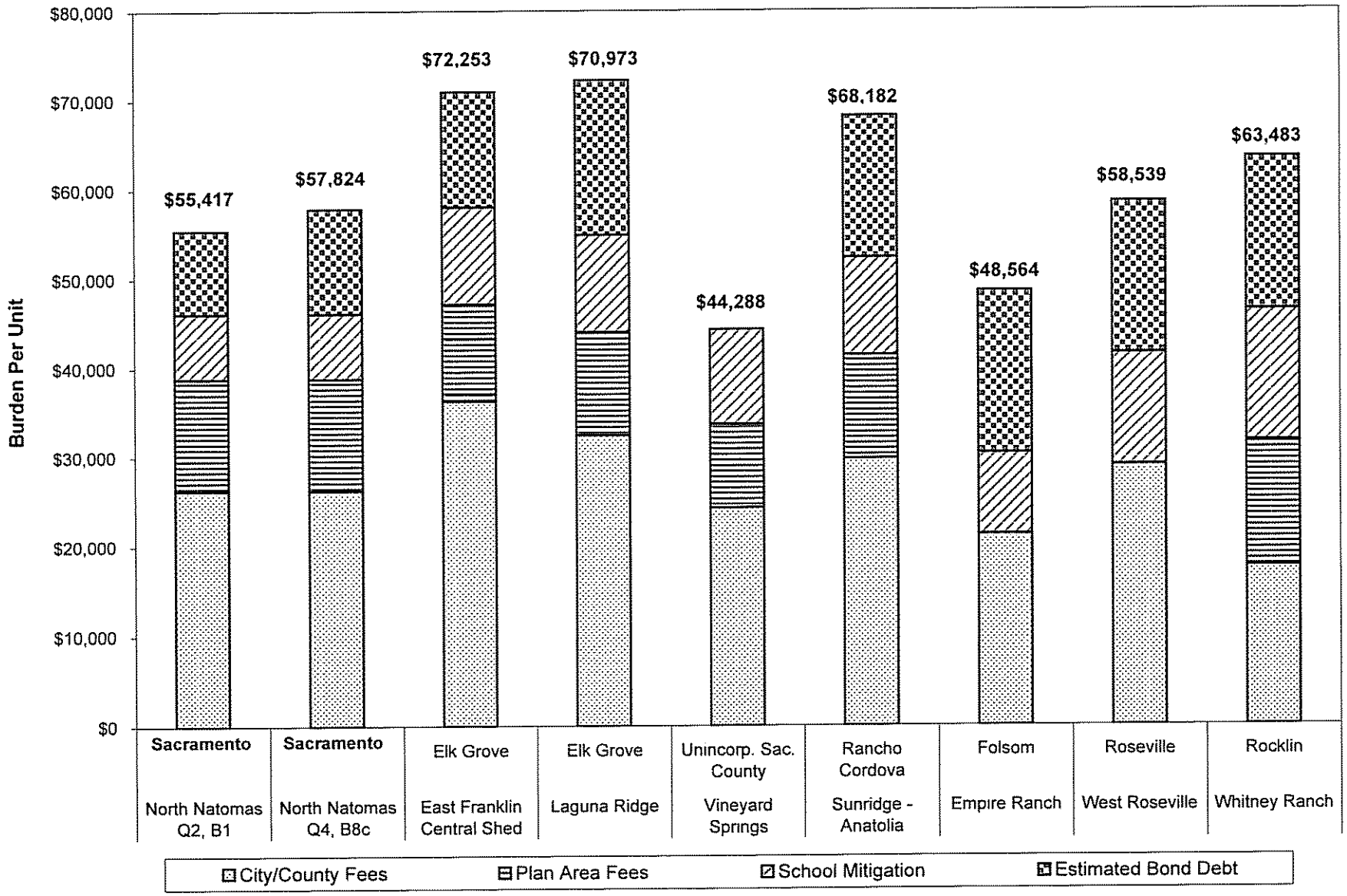
[2] Currently, there is no land designated as Rural Estates in the Finance Plan Area. In the event that such a land use is approved for development, the fee program will updated to include a fee for Rural Estates.

[3] 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. Total includes 3.0% for administration.

[4] Arena site is already developed, and the City of Sacramento and Arco Arena owners have an agreement regarding PFF and Transit Fees.

07/27/2005

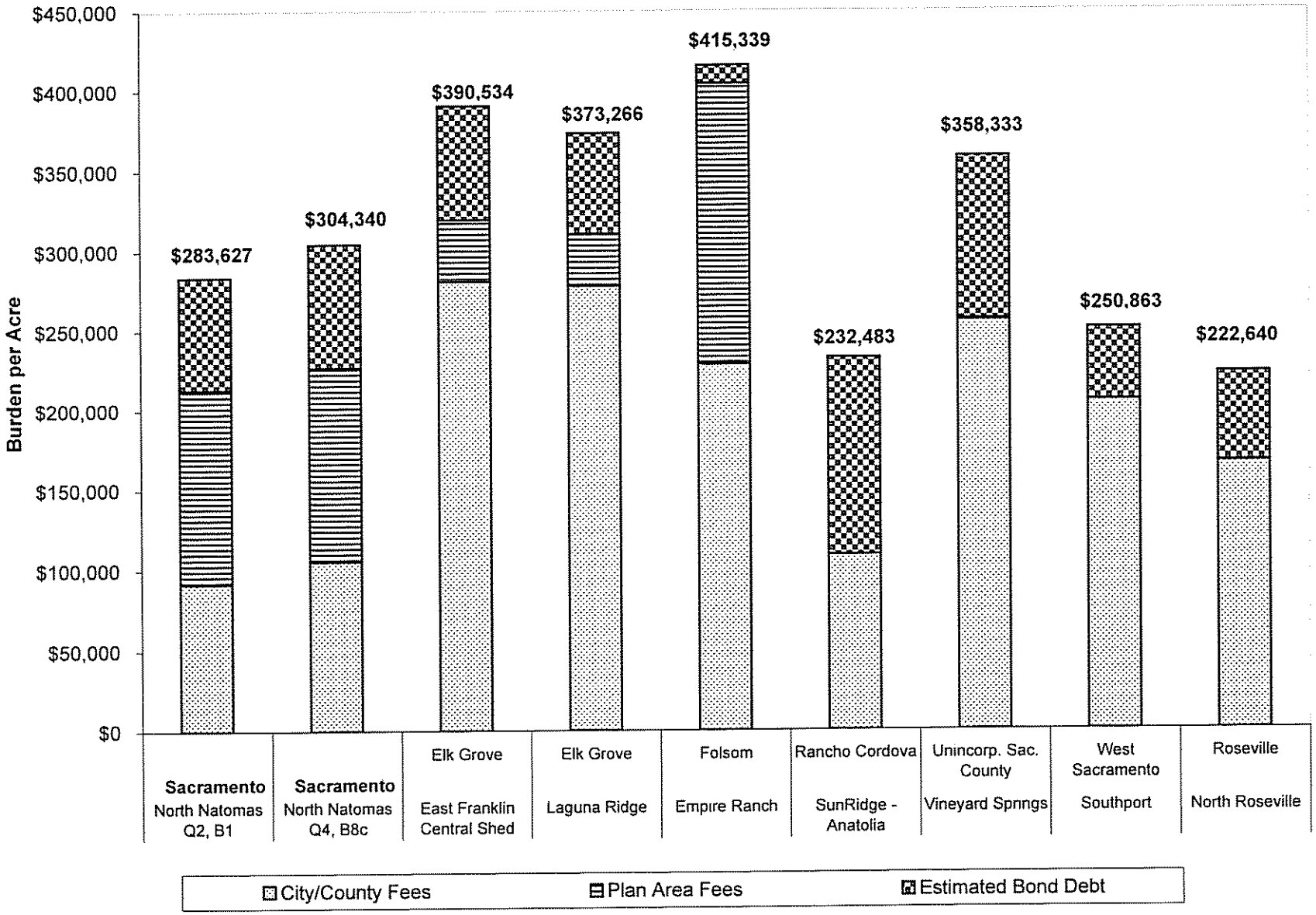
Exhibit B
Infrastructure Burden Comparison
Single Family Units (2,200 Sq. Ft.)



Prepared by EPS

14533 fee comp1.xls 7/25/2005

Exhibit C
Infrastructure Burden Comparison
Office (Approx. 75,000 Sq. Ft., 0.34 Floor Area Ratio)



Prepared by EPS

14533 fee comp1.xls 7/25/2005

Exhibit D

North Natomas Nexus Study 2005 Update
Proposed PFF and Transit Fee Changes

	Public Facilities Fee			Transit Fee		
Land Use	Current 2005 Fee Rate	2005 Proposed Rate	*Percent Increase*	Current 2005 Fee Rate	2005 Proposed Rate	*Percent Increase*
RESIDENTIAL						
		Fee per Unit			***Fee per Unit***	
Single-Family Detached/Attached						
Rural Estates	$0	$0	*0.00%*	$0	$0	*0.00%*
Lot Size > 5,000 Sq. Ft.	$4,933	$6,125	*24.17%*	$324	$380	*17.06%*
Lot Size 3,250 - 5,000 Sq. Ft.	$4,349	$5,372	*23.51%*	$297	$348	*17.17%*
Lot Size < 3,250 Sq. Ft.	$3,766	$4,618	*22.63%*	$270	$316	*17.29%*
Age-Restricted	$4,093	$5,145	*25.71%*	$213	$249	*16.94%*
Multifamily (>2 attached units)						
8-12 units per acre	$3,766	$4,618	*22.63%*	$270	$316	*17.29%*
>12 - 18 units per acre	$3,226	$3,963	*22.86%*	$241	$283	*17.14%*
> 18 units per acre	$2,688	$3,309	*23.09%*	$213	$249	*16.94%*
Age-Restricted Apartments	$1,609	$2,064	*28.26%*	$104	$122	*17.27%*
Age-Restricted Congregate Care	$807	$947	*17.37%*	$59	$68	*16.40%*
NONRESIDENTIAL						
		Fee per Net Acre			***Fee per Net Acre***	
Convenience Commercial	$196,568	$188,727	*-3.99%*	$22,281	$26,098	*17.13%*
Community Commercial	$108,650	$108,856	*0.19%*	$11,478	$13,444	*17.13%*
Village Commercial	$155,357	$151,287	*-2.62%*	$17,216	$20,167	*17.14%*
Transit Commercial	$155,805	$152,316	*-2.24%*	$17,216	$20,167	*17.14%*
Highway Commercial	$110,951	$110,324	*-0.57%*	$11,815	$13,840	*17.14%*
Regional Commercial	$97,545	$98,608	*1.09%*	$10,128	$11,863	*17.13%*
EC Commercial	$108,650	$108,856	*0.19%*	$11,478	$13,444	*17.13%*
EC 30 - Office	$51,052	$56,750	*11.16%*	$4,389	$5,141	*17.13%*
EC 40 - Office	$66,072	$72,094	*9.11%*	$6,076	$7,118	*17.14%*
EC 50 - Office/Hospital	$77,974	$84,084	*7.84%*	$7,427	$8,699	*17.13%*
EC 65 - Office	$98,536	$104,481	*6.03%*	$9,790	$11,467	*17.13%*
EC 80 - Office	$116,722	$123,238	*5.58%*	$11,816	$13,840	*17.13%*
Light Industrial with < 20% Office	$27,134	$33,852	*24.76%*	$2,026	$2,373	*17.11%*
Light Industrial with 20% - 50% Office	$34,309	$40,721	*18.69%*	$2,735	$3,203	*17.12%*
Age-Restricted Convalescent Care/Skilled Nursing	$31,455	$35,075	*11.51%*	$2,351	$2,754	*17.12%*
Arena		NA			NA	
Stadium	$105,248	$102,327	*-2.77%*	$11,389	$13,341	*17.14%*
Average Increase			*11.77%*			*17.10%*

"fee change"

07/27/2005