



CITY OF POMONA

COUNCIL REPORT

June 21, 2021

To: Honorable Mayor and Members of the City Council

From: James Makshanoff, City Manager

Submitted By: Anita D. Gutierrez, Development Services Director

SUBJECT: DISCUSSION ON DEVELOPMENT IMPACT FEES

RECOMMENDATION:

It is recommended that the City Council review the revised Draft Development Impact Fee (DIF) Update Study ("Draft Study") prepared by Willdan Financial Services (Willdan) and direct staff to prepare an ordinance for fee adoption.

EXECUTIVE SUMMARY:

A revised Draft Study (Attachment No. 1) prepared by Willdan is presented to the Council for consideration. This Draft Study attempts to address both Council feedback and community concerns, by revising the fee schedule for residential development into three categories based on dwelling unit square footage, regardless of dwelling unit type. Responses are provided to the three main areas Council requested be addressed: 1) A revised fee structure, 2) Prioritize Parks and Recreation fee and 3) Provide fee comparisons to local cities.

FISCAL IMPACT:

Referencing Table 2 "Fee Examples" on page 4 of the staff report the current Development Impact Fees (DIFs) are consistent with amounts stated in Resolution 88-200 for DIF and Resolutions 88-122 and 2006-166 for connection fees and show a combined impact fee and connection fee of \$11,966, which uses a conservative market value of \$370,800 and equates to a fee representing 3.20% of market value. The recommended fee scenarios are as follow; Example 1 (1,400 sq. ft. home) shows a combined impact fee and connection fee of \$18,746, which uses a conservative market value of \$370,800 and equates to a fee representing 5.05% of market value, Example 2: (also 1,400 sq.ft. home) shows a combined impact fee and connection fee of \$18,746, but uses a more current market value of \$470,800, which was derived from averaging recent sales in Pomona and equates to a fee representing 3.89% of market value, and Example 3: (2,200 sq.ft. home) shows a combined impact fee and connection fee of \$22,389, which uses a recent sale of \$748,800 and equates to a fee representing 2.99% of market value. Increases or decreases to DIFs will be managed and tracked to the fund specific to each fee and expended on allowable uses as well as

be consistent with the terms stated in the Ordinance that will be brought forward to the City Council on July 19, 2021.

PREVIOUS RELATED ACTION:

The City Council requested the feasibility of increasing DIF rates be analyzed as part of the City Council Priorities and Goals established in April 2019. On October 3, 2019, a Request for Proposal (RFP) “Master Fee Schedule & Development Impact Fee Study RFP” (RFP #2019-27) was issued on the City’s electronic bidding platform. After concluding the RFP process, on June 15, 2020 the City Council authorized the execution of a contract to Willdan for the development of a citywide master fee schedule and to conduct a Development Impact Fee study in an amount not to exceed \$88,980.

On April 19, 2021, staff presented an initial draft development impact report dated April 13, 2021 which Council discussed and provided staff feedback and direction on revisions to bring back. The initial draft had an (8) eight category distribution for residential fees based on square footage, which was found to be too cumbersome and disproportionate to address true impacts. A flat rate fee option was also presented to Council during staff’s presentation on April 19th. Council directed staff to explore a flat rate fee, come back with additional comparative fee schedules for surrounding cities and prepare a revised fee schedule for Council’s consideration.

On May 17, 2021, Council adopted Resolution 2021-57 outlining policies concerning the payment of proposed developer impact fees and fee increases in the interim time between May 17, 2021 and the time new impact fees are adopted.

DISCUSSION:

The Draft Study, dated June 15, 2021 (Attachment No. 1) addresses the issues raised at the April 19, 2021 Council meeting. The three main areas Council requested be addressed were: 1) A revised fee structure; 2) Prioritize Parks and Recreation fee; and 3) Provide fee comparisons to local cities.

Revised Fee Schedule Structure

Staff explored a universal single flat rate fee regardless of unit size or housing type as well as a single family/multi-family fee methodology, however the end result did not align with several of the Council’s and community’s expressed goals for the draft Housing Element, which include: to encourage the development of smaller, more affordable homes, consider micro-units and tiny homes, encourage live/work units, affordable housing and accessory dwelling units. Staff worked with Willdan to find a fee methodology that most accurately captured the impact of new residents to Pomona by ensuring a reasonable correlation between household size and housing unit as well ensuring the Council’s policy goals were met.

Staff analyzed residential development approved within the past five years and found that approximately 40% of development was built with unit sizes 1,500 square feet and below and approximately 60% were built with unit sizes 1,500 square feet and above. Therefore, it was reasonable to differentiate amongst units below 1,500 square feet and those above. This was the basis for creating a condensed tiered system based on square footage, which much more accurately

captures the development pattern in Pomona and reasonably correlates to the average number of residents per dwelling unit so that the impacts of new residents/housing units are captured at the appropriate scale. A third category of less than 500 was created to accommodate the live/work units that typically have a single occupancy and to accommodate future micro-units. Each square foot category was assigned an average number of residents per dwelling units based on the methodology described on page 10 and 11 of the Draft Study, which is important factor when considering the overcrowding in Pomona to ensure the impact from the number of people being added to the City is accounted for and reflected in the fees collected. The occupant density assumptions assigned to each residential category were: 1) Less than 500 Square Feet 2.11 Residents per dwelling unit; 2) 500 – 1,499 Square Feet 3.17 Residents per dwelling unit; and 3) 1,500 + Square Feet 3.77 Residents per dwelling unit.

The preferred fee schedule structure being presented, shown in **Table E1** below, is a three tiered system based on dwelling unit square footage in the categories that most capture existing and anticipated development in Pomona.

E.1: Maximum Justified Development Impact Fee Schedule

Land Use	Roadways ¹	Traffic Signals ¹	Public Safety	Parks (Infill) ²	Parks (Subdivisions) ³	Storm Drain ¹	Water	Recycled Water ⁴	Sewer	Total (Infill)	Total (Subdivisions)
<i>Residential - per Dwelling Unit</i>											
Less than 500 Square Feet	\$ 6,448	\$ 560	\$ 2,619	\$ 6,422	\$ 10,119	\$ 45	\$ 2,880	\$ -	\$ 2,884	\$ 21,858	\$ 25,555
500 – 1,499 Square Feet	9,674	840	3,935	9,649	15,204	45	4,321	-	4,326	32,790	38,345
1,500 + Square Feet	11,555	1,004	4,680	11,475	18,080	77	5,129	-	5,135	39,055	45,660
<i>Nonresidential - per 1,000 Square Feet or Hotel Room</i>											
Commercial	\$ 12,808	\$ 1,113	900	\$ -	\$ -	\$ 144	\$ 404	\$ -	\$ 405	\$ 15,774	\$ 15,774
Office	16,302	1,416	1,142	-	-	170	1,756	-	1,758	22,544	22,544
Industrial	9,674	840	446	-	-	204	878	-	879	12,921	12,921
Institutional	5,195	451	243	-	-	88	3,250	-	3,253	12,480	12,480
Hotel Room	6,001	521	224	-	-	63	1,756	-	1,758	10,323	10,323

¹ Assumes that units 1,500 square feet and larger are single family units for the purpose of this fee schedule summary.

² Park fees charged under the Mitigation Fee Act for infill development.

³ Fees in lieu of land dedication charged under the Quimby Act for subdivisions.

⁴ Charged on a case by case basis at \$2.05 per GPD.

Recommended Fee Scenario

The Draft Study outlines the maximum justified impact fees the City could adopt in each fee category, which if adopted in totality, would represent a 174% increase over current fees. However, based on the discussion at Council on April 19, 2021 and information from Keyser Marston Associates, Inc. (KMA) that recommended Pomona's development impact fees not exceed 4% of market value, the direction to staff was to focus potential fee increases on Park and Recreation Facilities Fee only.

Staff recommends adopting the maximum fee amount for the Park and Recreation Facilities Fee, as well maximums for the Water and Sewer connection fees. The Water and Sewer connection fees end up being slightly lower than existing fees based on the methodology and analysis of capacity. The Park and Recreation Facilities Fee is a significant increase from the current fee, however there are several factors to consider that contribute to the need for parkland, which justify

the focus on the Parks and Recreation Fee: 1) the 2040 Southern California Association of Governments (SCAG) 2016-2040 Regional Growth Forecast indicates the City of Pomona's population is forecast to increase by 26.3 percent through 2040. Compared to the rest of the County, Pomona's population will grow by approximately 10 percent more than surrounding cities; 2) The 6th Cycle Housing Element is required by State Law to accommodate Pomona's Regional Housing Needs Allocation (RHNA) of 10,558 units within the next 8 years; and 3) Based on Pomona's existing parkland inventory, the City currently provides 1.25 acres of parkland per 1,000 residents, however the City strives to achieve a higher ratio of 3 acres per 1,000 residents as stated in the adopted General Plan (Goal 7C.G2 and Policy 7C.P3).

Table 2 below, displays three examples utilizing the fee methodology described above, which leaves the Road and Highway, Traffic Signal and Control Device and Public Safety Improvement impact fees at current rates and updates the Parks and Recreation Improvement impact fee and the water and sewer connection fees. Each example also details the percent of market value the total fees represent. **Example 1:** (1,400 sq. ft. home) shows a combined impact fee and connection fee of \$18,746, which uses a conservative market value of \$370,800 and equates to a fee representing 5.05% of market value, **Example 2:** (also 1,400 sq.ft. home) shows a combined impact fee and connection fee of \$18,746, but uses a more current market value of \$470,800, which was derived from averaging recent sales in Pomona and equates to a fee representing 3.89% of market value, and **Example 3:** (2,200 sq.ft. home) shows a combined impact fee and connection fee of \$22,389, which uses a recent sale of \$748,800 and equates to a fee representing 2.99% of market value.

Table 2: Fee Examples

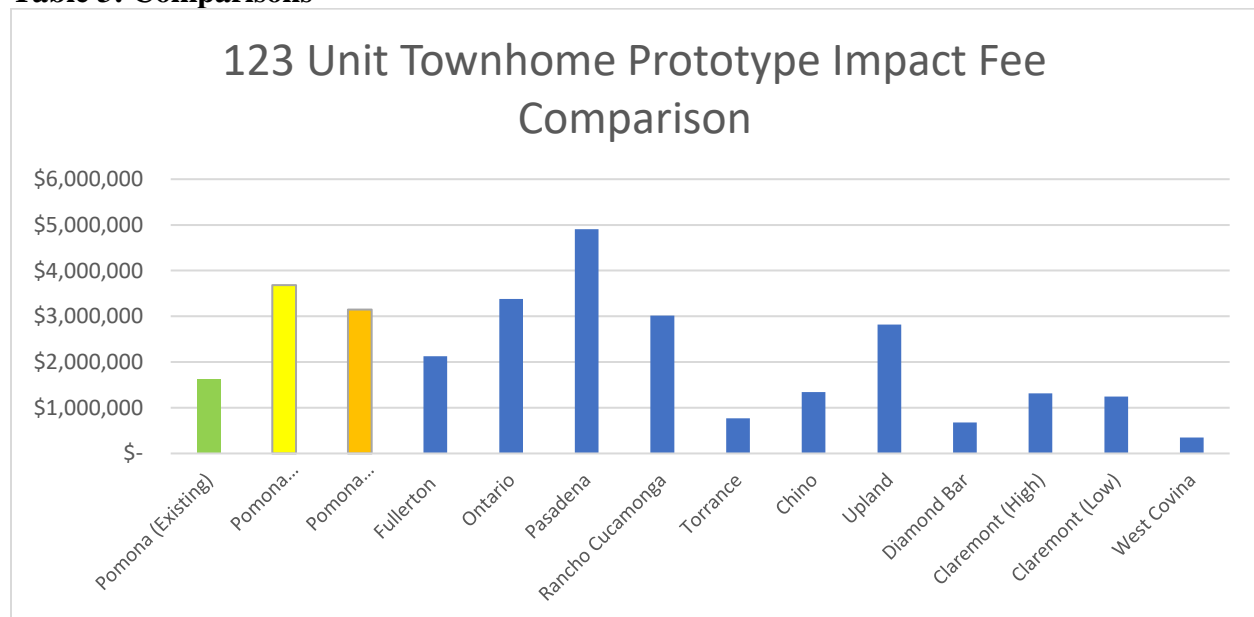
Table 2: Fee Examples		Example 1	Example 2	Example 3
Development Impact Fees (DIF)	Current Fees Per Resolution 89-200	1400 Sq. Ft. Home (using conservative market value)	1400 Sq. Ft. Home (using current market value)	2,200 Sq foot home
Roadways and Highway Fees	\$50	\$50	\$50	\$50
Traffic Signal and Control Device	\$50	\$50	\$50	\$50
Public Safety Improvement Fee	\$350	\$350	\$350	\$550
Park and Recreation Improvement Fee	\$675	\$9,649	\$9,649	\$11,475
Total 4 DIF Fees	\$1,125	\$10,099	\$10,099	\$12,125
DIF Water/Sewer/Storm Drain Connection Fees	Current Fees Per Resolution 88-122 & 2006-166	Maximum Fee Per Wildan Study for Water and Sewer only	Maximum Fee Per Wildan Study for Water and Sewer only	Maximum Fee Per Wildan Study or Water and Sewer only
Storm Drain	\$0			
Water Connection	\$7,841	\$4,321	\$4,321	\$5,129
Recycled water	\$0			
Sewer Connection	\$3,000	\$4,326	\$4,326	\$5,135
Total 4 DIF Water/Sewer/Storm Drain Fees	\$10,841	\$8,647	\$8,647	\$10,264
Combined DIF Fees	\$11,966	\$18,746	\$18,746	\$22,389
Impact Fee as % of Market Value	3.20%	5.05%	3.89%	2.99%
⁽¹⁾ Example 1: Based on the sale price of \$370,800 for a 1,400 sq. ft. home				
⁽²⁾ Example 2: Based on the sale price of \$480,800 for a 1,400 sq. ft. home				
⁽³⁾ Example 3 Based on the sale price of \$748,000 for a 2,200 sq. ft. home				

KMA's report (included in Attachment No. 2) recommended the City development impact fees not exceed 4% of market value, however after discussion the Council indicated they felt the market could handle slightly more than 4% and expressed a desire to keep fees at approximately 5% of market value as to not overburden the market and cause a chilling effect on development. The examples demonstrate that based on a conservative estimate of house sales the roughly 5% of market value is achieved and that in a more robust housing market such as what Pomona experienced during the pandemic a roughly 3% to 4% can be expected. Both scenarios depending on the housing market fall in line with the maximum Council wanted to consider.

Fee Comparison

The Council requested fee comparisons with specific surrounding cities, shown in **Table 3** below. The chart displays the total impact fees that would be associated with a prototype 123-unit townhome project by City. The first three columns on the left depict the total fees Pomona would expect to collect under three scenarios: 1) under the existing fee schedule (\$1.6M), 2) under the maximum justified fees under the Willdan report (\$3.6M) and, 3) under staff's recommended fee methodology (3.1M). If staff's recommendation is adopted, Pomona's fees would be most similar to those of Rancho Cucamonga, Upland and Ontario.

Table 3: Comparisons



POLICY DIRECTIVES:

The following policy directives are presented for Council consideration. These directives aim to align the Development Impact Fee program with the City's housing goals.

1. **Affordable Housing** - Adopt a deferral and waiver program to 1) waive fees for inclusionary units required under the City Inclusionary Housing Ordinance and 2) Defer

fees for 100% affordable projects, including but not limited to cost limits for low and very low income households in rental housing. The deferment method would allow City Council and staff to negotiate certain development impact fees as long term, low interest loans to count as city contribution towards the affordable housing project. Loans would be repaid through residual receipts distributions on an annual basis through property operations and major future capital events such as refinancing of the affordable property and/or re-syndication of the tax credits to extend the affordability of the housing project. This approach benefits the City and affordable housing projects in several ways: 1) the loan counts as leveraging which allows the project to be more competitive for financing sources; 2) it's a way of subsidizing an affordable housing project without using City cash that may be needed for other priorities; and 3) the loan is secured by real estate collateral.

2. **Live/Work Units** - The Downtown Pomona Specific Plan and the Pomona Corridors Specific Plan encourage live/work units, consisting of both commercial space or office and a residential component that is occupied by the same resident, as a means to activate street level frontages and provide residential units for people that want to combine their living and working space, which primarily are artists. A typical live/work unit is no more than 1,200 square feet and is required to be 50% split of live/work space. These units function as a studio as 50% of the space is used as work space, therefore in order to both capture the appropriate impact of these units and not overburden a typically one person unit with excessive fees, it recommended to tie live/work units to the 500 square foot unit size or below, which already accounts for 2.11 persons per dwelling unit, where they would otherwise be charged the 2nd tier category for a unit size of 1,200 square feet.
3. **Accept fee payment at Certificate of Occupancy vs. Building Permit issuance** - The timing of fee collection varies widely among jurisdictions. Some jurisdictions collect fees when permits are issued and others collect when the certificate of occupancy is issued. Collecting fees earlier extends the length of time developers must carry the cost of fees (Turner Center, 2019). The City of Pomona currently collects impact fee at the time of building permit issuance. Staff recommends as a matter of policy we shift to collecting impact fees when the certificate of occupancy is issued. The Building Industry has requested this change as well and has expressed this change would help the building industry better manage increased fees.
4. **Accessory Dwelling Units (ADUs)** - As previously discussed with Council at the April 19, 2021 Council meeting, ADUs greater than 750 square feet can be assessed impact fees as a percentage of the single family impact fee. The formula is:

$$\frac{ADU\ Square\ Feet}{Primary\ Residence\ Square\ Feet} \times Single\ Family\ Impact\ Fee = ADU\ Impact\ Fee$$

In the case of an 800 square foot ADU and a 1,600 square foot primary residence, the impact fees for the ADU would be 50 percent (800 square feet / 1,600 square feet = 50%) of the impact fees charged for that size single family dwelling unit. No capacity fees would be charged, since no new single family unit was constructed.

5. **Pursue participation in the Statewide Community Infrastructure Program (SCIP)** – SCIP was instituted by the California Statewide Communities Development Authority (CSCDA), a joint powers authority founded and sponsored by the League of California Cities and the California State Association of Counties that the City of Pomona has been a member of since 1991. SCIP was instituted by CSCDA in 2002 to allow owners of property in participating cities and counties to finance the development impact fees that would be payable by property owners upon receiving development entitlements or building permits through pooled special assessment districts program. If a property owner chooses to participate, and the City approves the application, the selected public capital improvements, facilities and/or development impact fees owed to the City will be financed by the issuance of tax-exempt bonds by CSCDA. CSCDA will form the district and impose an assessment or special tax, as applicable, on the owner's property to repay the portion of the bonds issued to finance the fees paid with respect to the property (no one developer within the SCIP pool is responsible for the payment related to any other project).

NEXT STEPS

Upon receiving final direction from Council, staff will bring forward an ordinance for adoption at the July 19, 2021 City Council meeting. Fees would become effective 60 days following adoption.

COUNCIL PRIORITIES & GOALS:

This item supports the 2019-2020 City Council Priority 1: Fiscal and Operational Responsibility – Goal C: Obtain additional grant funding and other revenues to help achieve City goal; Step 2 Issue a Request for Proposal (RFP) by July 2019 to select a consultant to study and recommend changes to the City's Development Impact Fees and to create a Master Fee Schedule for all City fees.

Prepared by:

Anita D. Gutierrez, AICP
Development Services Director

Attachments:

1. Revised Draft Willdan Study dated June 15, 2021
2. April 19, 2021 Staff Report and Attachments