



CITY OF MENIFEE

SUBJECT: 2022 Development Impact Fee Nexus Study and Fee Update

MEETING DATE: November 16, 2022

TO: Mayor and City Council

PREPARED BY: Jizelle Sandoval, Financial Analyst

REVIEWED BY: Margarita Cornejo, Deputy Finance Director

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Adopt a resolution approving an updated schedule of the Development Impact Fees to replace the existing fee schedule and authorize a new fee schedule with an effective date of July 1, 2023, with a phase-in of fees for commercial/retail and office categories; and
2. Authorize the City Manager to implement an annual Construction Cost Index ("CCI") adjustment, as of December of the preceding (calendar) year and made effective for July 1 of each fiscal year, allowing for automatic annual adjustments, including increases and decreases, but not less than 0% during the phase-in period (through Fiscal Year 2027/2028), with the first adjustment effective July 1, 2024.

DISCUSSION

Background

Upon its incorporation in 2008, the City initially adopted the County's Development Impact Fee (DIF) structure to ensure an ongoing financial mechanism to meet future needs. In 2017, the City completed a comprehensive review of the DIF Program. In December 2017, the City adopted an updated DIF structure, which was implemented beginning July 1, 2018.

Within the State of California DIFs are governed by the Mitigation Fee Act, which includes AB1600 and the recently enacted AB602, which requires demonstrating the reasonable relationship that exists between new development activity and the proposed benefit. Impact fees are a mechanism for new development to pay for their proportionate share of impact upon city owned facilities and infrastructure. The primary policy objective and establishment of a DIF is to ensure that new development pays capital costs associated with growth. DIF is designed to support and fund improvements to public facilities and the purchase of equipment related to the provision of essential services based on the demands created by new growth and development.

In 2021, the Matrix Consulting Group was retained by the City of Menifee to assist in reviewing and updating the existing DIF. Given that the City's last comprehensive DIF Study was completed in 2017, Matrix Consulting Group was tasked with re-evaluating the nexus for these fees to ensure that they are still appropriate, as such the lists were updated to incorporate any completed projects and any new projects. The outcome of this study allows the City to ensure that there is still a nexus between future development and its proportionate impact on city infrastructure as well as update various cost and growth projections to verify the fee amounts established are reflective of current market conditions.

DIF Meetings & Outreach Efforts

The following dedicated meetings and outreach efforts have been incorporated as part of the 2022 DIF Nexus Study and Fee Update:

- **July 26, 2022:** DIF Nexus Study was presented to the Finance Committee for review. The Finance Committee recommended a workshop for City Council.
- **August 31, 2022:** DIF Nexus Study was presented to City Council in a public workshop setting.
- **August/September/October 2022:** staff shared the study with the Building Industry Association (BIA) and presented to the Developer Stakeholder Group (DSG) and provided responses to questions received.
- **November 2022:** Original Public Hearing set for November 2, 2022 was continued to November 16, 2022 to allow additional time for follow discussions with BIA stakeholders to address comments received on November 2nd (discussed below). In response to the formal letter from the BIA staff provided formal response, addressing all questions and concerns received and remaining concerns were addressed as part the response letter and in the final updates incorporated in the final Nexus Study (See November 2022 Update – Police Services section).

The 2022 DIF Nexus Study and Fee Update draft has been posted on the City's website. Staff also developed a GIS mapping tool to determine areas subject to the Storm Drain Impact fees, as a follow up to questions received from the development community. This GIS tool is posted on the City's website.

Strategic Plan

In July 2018, the Mayor and City Council adopted a 5-year Strategic Visioning Plan. This Plan establishes the City's vision for the future and sets a roadmap for meeting current and future needs. The Implementation Plan lists the projects identified to meet the goals and objectives. The DIF Study also completes two action tasks that are part of the Strategic Plan as follows:

- 1.4.9 - Police Department Formation – Analyze adequacy of public safety – DIF
- 2.3.1b - Community Services Parks & Trails – Recalibrate the DIF Structure

Methodology

Through the course of this analysis, the impact fees were evaluated based upon the current projected impacts between 2021 and 2045. There are two typical methodologies utilized to calculate impact fees – service level standards and specific facility projections. For the purposes of this analysis the project team has utilized the more commonly accepted and recognized service level standards approach.

The service level standard approach is based on the creation and recognition of existing service level standards provided by the jurisdiction to the users of its services (residents, employees, students, etc.). As there is new development and growth in the community, there is the potential for the service level standard to decline if appropriate measures are not taken to retain that service level standard. Therefore, the service level standard calculates the impact of each individual on the city's infrastructure and applies it to future individuals and growth. If there is an increase in the service population, there would be a corresponding impact on infrastructure, and thereby a nexus for collection of impact fees.

However, if there is no increased population or use of those services, impact fees would not be justifiable or applicable. For the purposes of calculating impact fees, the project team reviewed a variety of data elements from the state, regional organizations, county, and city staff. The following points highlight the data reviewed through the course of this analysis:

- **Ordinances:** The project team reviewed the City's ordinances to ensure that there was the legal authority to assess and increase current impact fees.
- **General Plan, Facilities Assessment, Department Master Plans, and CIP Plans:** Data was reviewed from a variety of City specific documents regarding the potential growth in the community, the goals for the City and the departments, as well as future capital projects.
- **Growth and Projection Data:** Population, household, dwelling units, and employment information for current and future years was obtained from the U.S. Census Bureau, the Southern California Association of Governments and internal City General Plan projection documents.
- **Service Level Standards:** Information such as police facilities, fire equipment, general equipment, park needs, and transportation projects were collected, reviewed, and applied for calculation regarding future impacts.
- **Revenues and Expenses:** Revenue collected for impact fees was reviewed to ensure compliance with reporting practices as well as to calculate an administrative overhead percentage. Expense information was reviewed for cost estimates for infrastructure as well as overhead allocation to the impact fees.

The above elements were utilized to develop and calculate updated impact fees for the City.

In addition, the Study was prepared in compliance with the Mitigation Fee Act, described above. More specifically, the recently enacted, AB 1600 requires that there be certain findings that must be met in order for there to be a reasonable relationship or nexus between new development and the need for new facilities or infrastructure. The following points highlight each of the key finding requirements:

- **Purpose of Fee:** The specific types of facilities, infrastructure, equipment, and projects for which the impact fee will be utilized. It is important to note, it cannot be utilized for operational purposes.

- **Use of Fee Revenue:** The revenue collected from the impact fees can only be used to fund specific facility expansions, infrastructure improvements, or to purchase new equipment.
- **Benefit Relationship:** The benefit relationship requires that the use of the impact fee revenue and the type of development project upon which it is imposed is reasonable.
- **Impact Relationship:** To establish an impact relationship there needs to be a clear and reasonable relationship between the need for the public facility or infrastructure, and the type of development project upon which the fee is imposed.
- **Proportionality:** The proportionality requirement states that the impact fee established must be directly related to the proportionate impact of the type of development project.

Results of Study

Based upon the results of this Study, the project team has calculated updated or new impact fees for Animal Shelter, General Government, Fire, Law Enforcement, Parks and Recreation, Transportation, and Storm Drainage. Based on the analysis, the fees associated with Library and Master Planning were eliminated. Proportional costs associated with future infrastructure impacts, along with administrative overhead, were used to calculate the full cost of the impact fees presented. The following tables (Table 1 & Table 2) show the results of the updated impact fees calculated for the City:

Table 1: Impact Fee Services Reviewed

Impact Fees	Service Area/Description
Animal Shelter	JPA Debt Service
General Government	City Hall, PW Corp Yard, and General Vehicles
Fire	Fire Facilities and Equipment
Law Enforcement	Police Facilities and Equipment
Parks	Park Amenities and Facilities
Circulation (Transportation)	Signals, Street Improvements, At Grade Separations, etc.
Storm Drainage	Storm Drain Infrastructure by Watershed and Sub-Basin

***Table 2: DIF Schedule**

Land Use	Animal Shelter	General Govt.	Fire	Law Enf.	Parks & Rec	Transportation Impact Fees	Total Maximum Fee, Excluding Storm Drain
Residential Fee Per Dwelling Unit							
Single Family Unit	\$ 94	\$ 1,176	\$ 647	\$ 925	\$ 1,723	\$ 7,097	\$ 11,662
Multi-Family Unit	\$ 74	\$ 920	\$ 506	\$ 724	\$ 1,348	\$ 3,585	\$ 7,157
Nonresidential Fee Per Sq. Ft.							
Commercial / Retail	\$ -	\$ 0.68	\$ 0.85	\$ 0.47	\$ -	\$ 17.29	\$ 19.29
Commercial / Service / Office	\$ -	\$ 1.87	\$ 2.36	\$ 1.32	\$ -	\$ 8.24	\$ 13.79
Industrial / Business Park	\$ -	\$ 0.25	\$ 0.32	\$ 0.17	\$ -	\$ 4.66	\$ 5.40

Storm Drain Impact Fee	A_A	A_B	A_C	B_A	B_B	F_A	F_C	F_E
Residential Fee Per Dwelling Unit								
Single Family Unit	\$ 9,995	\$ 260	\$ 4,694	\$ 658	\$ 1,906	\$ 139	\$ 2,029	\$ 474
Multi-Family Unit	\$ 3,621	\$ 95	\$ 1,700	\$ 238	\$ 691	\$ 50	\$ 735	\$ 172
Nonresidential Fee Per Sq. Ft.								
Commercial / Retail	\$ 8.36	\$ 0.22	\$ 3.93	\$ 0.56	\$ -	\$ 0.11	\$ -	\$ 0.40
Commercial / Service / Office	\$ -	\$ 0.14	\$ 2.61	\$ 0.37	\$ -	\$ 0.08	\$ -	\$ 0.27
Industrial	\$ -	\$ -	\$ -	\$ 0.31	\$ -	\$ -	\$ -	\$ -

November 2022 Update - Police Services:

Additionally, at the request of the BIA for additional information and opportunity to discuss the methodology used in the 2022 DIF Nexus Study, staff and Matrix Consulting Group met with the BIA. As a follow up to the discussions, staff and Matrix Consulting Group reviewed the original methodology applied for police services. While the original methodology meets the nexus requirement, the project team and City staff determined that since the previous nexus analysis did not consider any police equipment, there was the potential of new development to subsidize existing development. Therefore, to ensure the most appropriate nexus it was determined that the methodology should be altered.

The project team issued a revised final report on November 9, 2022. This revised report incorporates an update to the methodology only for the Police Impact Fees. This methodology resulted in two changes:

1. **Proportion of Calls for Service between Residential & Commercial:** The August Draft Report utilized CY 2021 (Jan-November) calls for service numbers. The project team obtained full CY 2021 information and also CY 2022 YTD (Jan-Oct) calls for service information. This shifted the percentage from 21% to commercial to 22% to commercial.
2. **Proportion to be Borne by New Development:** Based upon the revised methodology, the project team took the expected growth in the service population and divided it by the overall projected population. This reduced the proportion to be borne by new development from 41% to 27%.

The attached DIF Nexus Study – August 2022 (Exhibit A) reflects changes accordingly, and within the following pages 4-5, 8, 37-38, 40-41, and 43. Additionally, Impact Fee Report Update provides a summary of the revised proposed methodology for the police services.

August 31, 2022 City Council Workshop and Follow Up Items

During the City Council workshop, the Council collectively reviewed the draft Nexus Study as well as options for implementation. Two items requiring follow up based on feedback received from the workshop include: the Animal Shelter fee component and the removal of the Senior Housing/Assisted Living fee category. The Animal Shelter fee is confirmed as is proposed per the Study and reflects the City's proportionate share of the JPA's bond debt for the existing Animal Shelter. The City Attorney's Office has confirmed this is a legal and eligible use of DIF and the Study confirms the nexus. The Senior/Assisted Living fee category in the current DIF was established based on the analysis that these uses create impacts as a proportion of Single-Family Residential density. However, because it is difficult to project specific proportionality and land use, designations do not regulate age-restrictions of residents, the consulting team

felt it was best to exclude this fee category from the analysis. For both of these items, should the Council decide to make a policy decision to adjust the final version of the DIF this is an option the Council can further discuss.

In terms of implementation, the Council provided feedback that supported a phased implementation date of July 2023. In addition, there was support for a phased-in approach for Commercial/Retail and Office land uses as an economic development incentive tool. The phase-in approach would include incremental increases as listed in Table 3 with an annual Construction Cost Index (CCI) adjustment beginning July 1, 2024. The annual CCI adjustment will be calculated against the full phased in fees. It is also important to note, that during the proposed phased in period which covers the period through Fiscal Year (FY) 2027/2028, the annual adjustment would be the CCI, but not less than 0%, to allow for the maximum rates fees to be realized, without a negative adjustment unintentionally eroding the phased in increases.

***Table 3: Phased-In DIF Schedule**

Phased-In DIF Fees (Per Sq. Ft.)		Current	Year 1	Year 2	Year 3	Year 4	Year 5	Difference between the Current Fee and New Fee (J)
		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	
Cumulative % Increase (Column J)			5%	25%	50%	75%	100%	
General Government	Commercial / Retail	\$ 0.28	\$ 0.30	\$ 0.38	\$ 0.48	\$ 0.58	\$ 0.68	\$ 0.40
	Commercial / Service / Office	\$ 0.37	\$ 0.45	\$ 0.75	\$ 1.12	\$ 1.50	\$ 1.87	\$ 1.50
Fire	Commercial / Retail	\$ 0.46	\$ 0.48	\$ 0.56	\$ 0.66	\$ 0.75	\$ 0.85	\$ 0.39
	Commercial / Service / Office	\$ 0.61	\$ 0.70	\$ 1.05	\$ 1.49	\$ 1.92	\$ 2.36	\$ 1.75
Law Enforcement	Commercial / Retail	\$ 0.06	\$ 0.08	\$ 0.16	\$ 0.27	\$ 0.37	\$ 0.47	\$ 0.41
	Commercial / Service / Office	\$ 0.08	\$ 0.14	\$ 0.39	\$ 0.70	\$ 1.01	\$ 1.32	\$ 1.24
Transportation Impact Fees	Commercial / Retail	\$ 8.38	\$ 8.83	\$ 10.61	\$ 12.84	\$ 15.06	\$ 17.29	\$ 8.91
	Commercial / Service / Office	\$ 6.44	\$ 6.53	\$ 6.89	\$ 7.34	\$ 7.79	\$ 8.24	\$ 1.80

Storm Drain Impact Fee Phased-In DIF Fees		Current	Year 1	Year 2	Year 3	Year 4	Year 5	Difference between the Current Fee and New Fee (J)
		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	
Cumulative % Increase (Column J)			5%	25%	50%	75%	100%	
A_A	Commercial / Retail		\$ 0.42	\$ 2.09	\$ 4.18	\$ 6.27	\$ 8.36	\$ 8.36
A_B	Commercial / Retail		\$ 0.01	\$ 0.06	\$ 0.11	\$ 0.17	\$ 0.22	\$ 0.22
	Commercial / Service / Office		\$ 0.01	\$ 0.04	\$ 0.07	\$ 0.11	\$ 0.14	\$ 0.14
A_C	Commercial / Retail		\$ 0.20	\$ 0.98	\$ 1.97	\$ 2.95	\$ 3.93	\$ 3.93
	Commercial / Service / Office		\$ 0.13	\$ 0.65	\$ 1.31	\$ 1.96	\$ 2.61	\$ 2.61
B_C	Commercial / Retail		\$ 0.03	\$ 0.14	\$ 0.28	\$ 0.42	\$ 0.56	\$ 0.56
	Commercial / Service / Office		\$ 0.02	\$ 0.09	\$ 0.19	\$ 0.28	\$ 0.37	\$ 0.37
F_A	Commercial / Retail		\$ 0.01	\$ 0.03	\$ 0.06	\$ 0.08	\$ 0.11	\$ 0.11
	Commercial / Service / Office		\$ 0.00	\$ 0.02	\$ 0.04	\$ 0.06	\$ 0.08	\$ 0.08
F_E	Commercial / Retail		\$ 0.02	\$ 0.10	\$ 0.20	\$ 0.30	\$ 0.40	\$ 0.40
	Commercial / Service / Office		\$ 0.01	\$ 0.07	\$ 0.14	\$ 0.20	\$ 0.27	\$ 0.27

***Beginning July 2024, maximum fees will be subject to an annual CCI adjustment, including increases and decreases, but not less than 0% during the phase in period (through FY 2027/2028).**

STRATEGIC PLAN OBJECTIVE

Accessible and Interconnected Community

FISCAL IMPACT

Based upon the Nexus Study, the City has a need of approximately \$777.9 million in infrastructure, and if all fees were adopted at full cost, then new development would cover \$311.09 million. The remaining \$466.7 million gap would need to be recovered through other funding means. It is important to note, should the City Council choose to include any of the alternative implementation options, the gap/additional funding sources amount will increase.

Fee Name	Total Infrastructure Need (\$)	New Development Infrastructure** (\$)	Funding Gap (\$)
Animal Shelter	\$3,207,926	\$1,379,408	\$1,828,518
General Government	55,306,008	22,675,463	32,630,545
Fire	38,127,912	16,395,022	21,732,890
Police	64,498,152	17,414,501	47,083,651
Parks	58,798,000	25,283,140	33,514,860
Transportation	516,823,346	201,561,105	315,262,241
Storm Drainage	41,122,000	26,390,700	14,731,300
TOTAL	\$777,883,344	\$311,099,339	\$466,784,005

** The Animal Shelter is an existing facility, with remaining bond payments owed by the City. The existing DIF is used to recover the bond payments. The updated DIF will do the same, at a lower cost per dwelling unit.

The proposed fees will also adopt the CCI adjustment, as of December of the preceding (calendar) year and made effective July 1 of each fiscal year, allowing for Council's approval of annual adjustments, including increases and decreases, but not less than 0% during the phase in period through FY 2027/2028, with the first adjustment effective July 1, 2024.

ATTACHMENTS

1. Resolution - DIF
2. Exhibit A - DIF Nexus Study
3. Impact Fee Report Memo – Police Department Revision
4. BIA Letter, November 2, 2022
5. Response to BIA Letter, November 2, 2022