



AGENDA REPORT

Finance Department

| | |
|---------------------------------|---|
| DATE: | March 5, 2024 |
| TO: | Mayor Martinez and Members of the City Council |
| FROM: | Nickie Mastay, Deputy City Manager, Internal Services Andrea Miller, Director of Finance Mubeen Qader, Deputy Director of Finance Antonio Banuelos, Accounting Manager |
| Subject: | Proposed Developer Impact Fees Adjustments for a Revised Master Fee Schedule |
| FINANCIAL IMPACT: | <p>This update of the Master Fee Schedule adjusts Developer Impact Fees based on an analysis of the fees needed to support future development in the City of Richmond through 2040. This update does not include the Traffic Impact Fees which will be updated later this year.</p> <p>Based on the level of activity in Fiscal Year 2022-2023, the proposed fee adjustments would generate additional annual revenue totaling \$436,000 for the City of Richmond's Impact Fee Funds in year one of the phase-in approach proposal.</p> |
| PREVIOUS COUNCIL ACTION: | May 23, 2023, June 6, 2023, June 27, 2023, and September 26, 2023 |
| STATEMENT OF THE ISSUE: | Sections 2.34.040 (Schedule of fees and service charges) and 13.45.020 (Approval of adjustments by City Council) of the Richmond Municipal Code authorize periodic adjustments to all City levied fees and charges, subject to approval by the City Council. City staff is requesting adoption of a resolution adjusting the dollar amount for current Developer Impact Fees as outlined in the proposed Master Fee Schedule. |

| | |
|----------------------------|---|
| RECOMMENDED ACTION: | RECEIVE a presentation from the Finance Department and Willdan Financial Services on the proposed updates to the Developer Impact Fees in the Master Fee Schedule – Finance Department (Andrea Miller/Mubeen Qader/Antonio Banuelos 510-620- 6741). |
|----------------------------|---|

PREVIOUS COUNCIL MEETINGS:

On May 23, 2023: City Council approved first reading of Ordinance establishing Commercial Cannabis Regulatory Fees.

On June 6, 2023: City Council approved second reading of Ordinance establishing Commercial Cannabis Regulatory Fees.

On June 27, 2023: City Council approved a Resolution adjusting the dollar amount for current fees except for Recreation fees which remained as is.

On September 26, 2023: City Council provided direction to make certain adjustments to the study and to further reach out to stakeholders.

DISCUSSION:

Section 2.34.040 of the Richmond Municipal Code (RMC) (Schedule of fees and service charges) provides that “The City Manager shall review the fees and charges based upon the review schedule set forth (herein) and shall set and adjust the fees or charges so as to recover up to the ... costs reasonably necessary to provide the listed regulations, products or services.”

Additionally, Sections 13.45.010 and 13.45.020 of the RMC, as recently amended by the Richmond City Council at its May 2, 2023 meeting, further provides that:

The Director of Finance of the City shall adjust all city-levied taxes, fees and charges provided for in the Richmond Municipal Code on a yearly basis, or as needed, in accordance with any increase or decrease in the Bureau of Labor Statistics Employment Cost Index (ECI), State and Local Government Workers component, during the preceding fiscal year. Additionally, a comprehensive fee study should be conducted at least every five years.

And

Each year, the Director of Finance shall submit to the City Council a report listing all proposed adjustments for approval. No proposed adjustment shall take effect until it is approved by the City Council. The Council may reject, but may not modify, any one or more of the proposed adjustments in any report before approving the adjustments.

The Finance Department worked with Willdan Financial Services to develop the proposed Developer Impact Fees. The scope of services provided under this program was designed to produce reports used in updating the Master Fee Schedule to help better offset the impacts of new developments. The traffic impact fee section is still pending, and Finance staff will return later this year with those proposed changes.

Willdan's Development Impact Fee Nexus Study Update summarizes an analysis of development impact fees needed to support future development in the City of Richmond through 2040 (Attachment 2). It is the City's intent that the costs representing future development's share of public facilities and capital improvements be imposed on that development in the form of a development impact fee, also known as a public facilities fee. The public facilities and improvements included in this analysis are divided into the fee categories listed below:

- Sewer Facilities
- Parks
- Community Center and Aquatic Facilities
- Police Facilities
- Fire Protection Facilities
- Library Facilities
- Storm Drains

On December 13, 2023, City staff and consultants from Willdan Financial Services held a virtual meeting with interested parties to review the impact fees and answer questions. The presentation can be found here: <https://www.ci.richmond.ca.us/CivicMedia?VID=30>. The study and fees have been updated based on input received in the meeting and input previously provided by City Council.

Major changes included:

1. Updated library chapter to incorporate \$29 million cost of planned facilities. This version now uses a system standard to calculate higher fees than the previous report.
2. Community/aquatic centers fee updated to use the existing facility standard (and results in a higher fee). The City will have to identify approximately \$19 million in additional projects to maintain the existing level of service through the planning horizon.
3. Incorporated current fee fund balances where appropriate.
4. Costs of projects were updated to match latest CIP where appropriate (Martin Luther King, Jr. Community Center is now shown as \$14 million, new fire facilities, etc.)

AB 602 Requirements

On January 1, 2022, new requirements went into effect for California jurisdictions implementing impact fees. Among other changes, AB 602 added Section 66016.5 to the Government Code, which set guidelines for impact fee nexus studies. Four key requirements from that section which concern the nexus study are reproduced here:

- 66016.5. (a) (2) When applicable, the nexus study shall identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate.
- 66016.5. (a) (4) If a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee.
- 66016.5. (a) (5) A nexus study adopted after July 1, 2022, shall calculate a fee imposed on a housing development project proportionately to the square footage of proposed units of the development. A local agency that imposes a fee proportionately to the square footage of the proposed units of the development shall be deemed to have used a valid method to establish a reasonable relationship between the fee charged and the burden posed by the development.
- 66016.5. (a) (6) Large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.

One key change listed above is the fee calculation methodology for residential properties. Previously, the City of Richmond, like many other cities, calculated the fee based on the number of dwelling units. Going forward, the fee will be on a square footage basis. The goal here is to be more equitable in that smaller dwellings are charged a lower fee than larger dwellings.

Phase In Approach

Since the proposed increases to the developer impact fees are significant, City staff is proposing a phase-in approach over several years. For non-residential properties, the developer impact fees would be updated over two years. Subsequent yearly increases would be based on changes to the Employment Cost Index; that is until the next study is done in four to five years. For residential properties, the phase-in would be over four years with the next overall fee study to be completed around year five.

NEXT STEPS:

Due to recent legislation, further technical work is required to justify traffic impacts fees by developing a long-term plan that demonstrates how the City will expand its transportation resources in order to mitigate the impacts of new development. Public Works staff is updating a list of traffic projects with one of the City's on-call consultants. This list of projects may include projects which facilitate movement of traffic, mitigate safety impacts, and/or address the growing requirements for all travel modes consistent with SB 743 (e.g., complete streets, bicycle projects, pedestrian improvements, transit improvements, etc.). Staff will return with proposed updates to the developer impact fees focused on the traffic impact fees.

Additionally, City staff will return to City Council with a proposed contract focused on Recreation Department fees, which will include a comparison with nearby jurisdictions.

DOCUMENTS ATTACHED:

- Attachment 1 – Master Fee Schedule - Proposed Impact Fees
- Attachment 2 – Development Impact Fee Nexus Study Update
- Attachment 3 – Presentation
- Attachment 4 – State Audit Report – November 2022