Overview and Challenges Related to Public Facilities Financing Plan Updates

Infrastructure Committee

Wednesday, June 25, 2014

Item 12

Background

- The City's General Plan provides a long-term vision and comprehensive policy framework for how the City should grow and develop.
- The City's 46 community plans detailed policies and guidelines at the community level and identify needed public infrastructure.
- The Public Facilities Financing Plan (PFFP) is the implementation document for the community plan and identifies:
  - Public facilities infrastructure projects
  - Costs for those projects
  - Existing and potential funding sources.

Background

- At least a portion of the cost of public facilities are funded through fees assessed on developers to mitigate the impact of new development:
  - **Facilities Benefits Assessments (FBA)** - The City has 12 communities that are relatively early in their planned development and have an FBA which provides up to 100% of funds for public facilities projects included in the community's PFFP
  - **Development Impact Fees (DIF)** - More than 30 communities are at or near build out and collect DIF fees on infill or revitalization efforts which provides only 7-10% of funding needed for public facilities on the community's PFFP.
- The schedule of proposed fees included in each PFFP is developed based on whether the community is funded through FBA or DIF, which differ significantly.

Community Plan and PFFP Updates

- Many community plans and PFFPs have not been updated in the past several years or more and are considered to be significantly out of date.
- The City recently began a process to update community plans and PFFPs, which are generally updated as part of the community plan update process.
  - Currently, 10 community plans and 11 PFFPs are in various stages of the update process.
  - Three PFFP updates are coming to Council for approval in June 2014.
  - An additional 12 PFFP updates have been identified to be conducted in the next two fiscal years.

Community Plan and PFFP Updates

- Updating the PFFPs is important to ensure that they accurately reflect a community's public infrastructure needs and priorities, and provide an impact fee structure that is proportionate with the current costs of facilities.
- However, conducting PFFP updates has raised challenges for staff particularly with regard to DIF communities.
- Many PFFP updates will be coming before Council for approval in the coming months and years and challenges exist to varying degrees in each community.
- Our report highlights some of these ongoing challenges as well as issues to consider as part of the broader discussion regarding how to comprehensively fund the City's significant infrastructure needs.

PFFP Update Process

The typical process for updating PFFPs includes four primary phases and takes about 15 months to complete:

- **Initiation (90 days)** – Identify public facilities projects needed due to new or infill development, costs, and a schedule of projected development.
- **Analysis (60 days)** – Calculate impact fee for residential and non-residential development, project cash flow, and prepare draft PFFP.
- **Review (180 days)** – Conduct outreach and review with Community Planning Groups (CPGs) and the public.
- **Approval (120 days)** – Obtain approval of the proposed PFFP from Mayor, Council committee, and full Council.

Challenges – Economic Impacts on Private Development

- During the recent economic recession, impact fees were not updated due to concerns that increases would further impact declines in private development.
- As public facilities needs and costs have changed over time, many of the PFFPs are now significantly underestimated and fees being charged to developers do not reflect the cost of needed public facilities, particularly for DIF communities.
- <u>Now that PFFP updates are underway, the related fee increases are significant, ranging from 80-400%. The challenge for staff is to determine the appropriate fee that will generate revenue needed to fund public facilities, but will not negatively impact development (which would subsequently reduce fee revenue)</u>.

Challenges – Calculating Impact Fee for FBA Communities

- FBA fees are calculated by adding up the cost of facilities needed to serve the community and then dividing those facilities by the remaining development anticipated to occur in the community.
- This results in up to 100% of costs for these facilities being covered by the fee
- The challenge in calculating the fee in FBA communities <u>is to ensure that deficiencies attributable to existing development are not charged to new development.</u>
- PFFP schedules are contingent upon actual development within the community; therefore, <u>an economic downturn in the economy will result in less revenue coming in from development and cause delays to the PFFP schedule for funding projects in FBA communities.</u>

Challenges – Calculating Impact Fee for DIF Communities

- DIF fees are calculated by adding up the cost of the facilities needed to serve the community and then dividing the cost of those facilities by the total <u>existing and new</u> anticipated development in the community.
- This ultimately provides only 7-10% of the cost needed to fund new public facilities.
- This approach has the potential for not fully capturing the cost of providing public facilities to new development in DIF communities.
- <u>The fee increases in recent updates for DIF communities generally are not fully recovering the cost of the impacts of new development, because staff are striving to find a balance between generating revenue needed to fund public facilities while not providing a disincentive for development in the community.</u>

Challenges – Park & Recreation Component of DIF

- One particular challenge for DIF communities, which are mostly built out, is in meeting the General Plan park standard of 2.8 acres of parks/1,000 residents.
- This standard may not be realistically achievable in communities where land is limited or cost prohibitive to acquire.
- <u>The existing park deficiency cannot be fully funded with DIF, but park deficiencies based on this standard still contribute to higher DIF fees, even if the standard is not achievable.</u>
- Staff are developing a series of strategies to meet park needs as well as continuing to work with the public and build expertise in identifying equivalencies through the community plan update process.

Challenges – Identifying Funding to Supplement DIF

- After the PFFP update is complete and fees go into effect, revenue is generated by the fees as development permits are issued by the Development Services Department (DSD) and can be allocated for projects.
- FBA fees cover up to 100% of funding for public facilities on the community's PFFP.
- DIF only covers a small percentage of the project, so DIF is either used to fund small-scale projects or must be supplemented with other funding sources.
- Given limited resources and valid competing priorities, staff face challenges identifying funding sources to supplement DIF funds so that needed public facilities can be built.

Conclusion

- Addressing infrastructure issues is one of the highest priorities for the City, and PFFP updates and fees charged are part of a broader discussion on infrastructure needs of communities and how to fund those needs.
- Decisions made regarding the size of fees in DIF communities impact revenue available to fund needed public facilities, but we agree that determining the appropriate fee requires a balanced approach to ensure that the fee increase does not provide a disincentive for private development.

Conclusion

- The introduction of the Multi-year Capital Improvements Plan at the Infrastructure Committee meeting on July 23, 2014, will provide a catalyst for discussions regarding identifying a comprehensive approach for funding the City's significant infrastructure needs.
- The approach for determining the appropriate level of DIF fees will be an important part of the larger discussion.
- Council may want to consider providing policy direction in this area, including a more consistent approach and utilizing formal economic impact studies to guide staff in determining a balanced and appropriate fee.