



DATE: January 22, 2024

TO: Honorable Mayor and Members of the City Council through City Manager

FROM: Jessie Gooch, Finance Director
Corey Garberolio, Assistant Director of Finance

SUBJECT: Resolution Accepting the Fiscal Year 2023 Annual Development Impact Fee Report and Making Five-Year Findings Pursuant to the Mitigation Fee Act

RECOMMENDATION

It is recommended that the City Council adopt the attached Resolution Accepting the Fiscal Year 2023 Annual Development Impact Fee Report and Making Five-Year Findings Pursuant to the Mitigation Fee Act.

BACKGROUND

The Mitigation Fee Act, Government Code §§66000 *et seq.* (the “Act”), governs the establishment and administration of development impact fees paid by development projects which defray all or a portion of the cost of public facilities related to those projects. Fees must be separately accounted for and used for the specific purpose for which they are imposed. Expenditures of collected fees are generally authorized through the annual Capital and Operating Budgets and the City's Capital Improvement Program. The annual adopted City Budget is on file with the City Clerk.

The Act requires the City to make an annual report that account for the fees held by the City. Pursuant to Government Code Section 66006(b), the City has prepared the Fiscal Year 2023 Annual Development Impact Fee Report, which details the account balances and other required information for all six of the City’s development impact fees: the Parkland Acquisition Impact Fee, the Parkland Development Impact Fee, the Open Space Acquisition Impact Fee, the City Facilities Development Impact Fee, the Storm Drainage Impact Fee, and the Traffic Development Impact Fee.

In addition, the Mitigation Fee Act requires that the fifth fiscal year following the first deposit into a development fee fund, and every subsequent five years, local agencies must make specified findings regarding unexpended development fee funds. (Government Code § 66001(d)). Such findings are to be made in connection with the annual development impact fee report. The City last adopted these findings approximately five years ago, for the five-year

period through Fiscal Year 2018, and so it is now again time for the City to make these “five-year findings.” The required findings are contained in the resolution included as Attachment 1 to this agenda report.

DISCUSSION

Pursuant to Government Code section 66006(b), the City’s annual impact fee report is required to contain the following information for each fee:

1. A brief description of the type of fee;
2. Amount of the fee;
3. Beginning and ending balance of the fee account;
4. Amount of fees collected and interest earned;
5. Identification of each public improvement on which fees were expended and the amount of expenditures on each improvement, including the total percentage of the cost of the public improvement that was funded with fees;
6. Identification of an approximate date by which the construction of the public improvement will commence if the City determines that sufficient funds have been collected to complete financing on an incomplete improvement;
7. Description of each interfund transfer or loan, including the public improvement on which the transferred or loaned fees will be expended and, in the case of an interfund loan, the date on which the loan will be repaid, and the rate of interest that the account or fund will receive on the loan; and
8. Amount of refunds made pursuant to the Act’s requirements.

The annual development impact fee report for the year ending June 30, 2023 provides this information and is included as Exhibit A to this agenda report. The report covers five development impact fees (city facilities, parkland development, parkland acquisition, open space acquisition and traffic). These collected fees are then used to fund or partially fund a number of capital projects such as bridge renovations, intersection improvements and fire station upgrades that have been selected during the development of a 5-year capital improvement project plan (CIP), which was most recently adopted by City Council in June 2023. The attached report identifies projects that the City is actively planning as part of the adopted 5-year CIP. The report also lists projects that have been recently completed such as the Old Redwood Highway Interchange Improvements, as well as projects that have not been included in the current CIP.

Pursuant to Government Code section 66001(d), for the fifth fiscal year following the first deposit into the account or fund, and every five years thereafter, the City shall make all of the following findings with respect to that portion of the account or fund remaining unexpended, whether committed or uncommitted:

1. Identify the purpose to which the fee is to be put.

2. Demonstrate a reasonable relationship between the fee and the purpose for which it is charged.
3. Identify all sources and amounts of funding anticipated to complete financing in incomplete improvements identified in paragraph (2) of subdivision (a).
4. Designate the approximate dates on which the funding referred to in subparagraph (C) is expected to be deposited into the appropriate account or fund.

The five-year development impact fee report for the year ending June 30, 2023, provides this information and is included as Exhibit A to this agenda report.

ANTICIPATED FUTURE POPULATION GROWTH WITHIN THE CITY

The City collects development impact fees from new development within the City in order to have the funds necessary for future public infrastructure that will be necessary to serve the needs of population growth from new development. In accordance with the Mitigation Fee Act, the City has prepared various nexus studies and other analyses demonstrating the continuing need for new infrastructure to serve such growth. The City anticipates preparing updated nexus studies within the next few years.

The City has experienced long-term population growth, and such growth will continue. Data from the U.S. Census Bureau does indicate that, in the last few years, the City has experienced a slight reduction in population, due in part to conditions following the pandemic. However, the City's planning staff expects this trend to reverse in the near future, as there are strong indicators that the City will experience a surge in population in the next few years. These indicators include the following:

- **ABAG Growth Projections.** Growth projections for the San Francisco Bay region are prepared by the Association of Bay Area Governments (ABAG). The most recent ABAG projections are for 2050. The ABAG growth projections did not identify specific figures for the City but rather for the South Sonoma County super district. The super district encompasses the cities of Petaluma, Cotati, Sonoma, and Rohnert Park, plus surrounding unincorporated areas. From the 2015 base year of the projections to 2050, super district households are projected to increase by 30 percent and jobs by 11 percent. The City of Petaluma comprised approximately 36 percent of the households and 35 percent of the jobs within the super district in 2015. Applying the City's share of super district 2015 land use to the ABAG projections suggests approximately 71,000 residents and 28,000 jobs in 2050 within the City.
- **City of Petaluma 2023-2031 Housing Element.** The City's Housing Element, recently adopted in May 2023 demonstrates the City's capacity for near term growth. The City's Regional Housing Needs Allocation (RHNA) is 1,910 new units and the Housing

Element estimates that the City can accommodate 3,241 new housing units by 2031. Given the City's current average household size of 2.45 persons per household (based on California Department of Finance estimates) this represents a population growth of between 4,680 to 7,940 new residents within the next eight years, or a total population by 2031 of between 62,339 and 65,599. This pace of growth would result in achieving the ABAG projections and buildout before 2050.

- **Development Pipeline.** The City implements its local Inclusionary Housing program that requires 15 percent of the units in new development (of five or more units) to be rented or sold at prices affordable to lower low and very low and/or low and moderate income households. The City currently has 419 affordable units in its development pipeline with a total of 1,760 total units of housing.
- **New SMART rail station (Petaluma North).** The current Downtown Petaluma Station is SMART's busiest station, and the new Petaluma North Station is expected to open in 2024. As key stations along the North Bay's regional public rail system, both Petaluma stations will attract further investment and interest for transit-oriented redevelopment. To that end, Metropolitan Transportation Commission awarded the City of Petaluma \$1.5M to develop a Petaluma North Station Area Specific Plan.

PUBLIC OUTREACH

The Act requires that the City Council review the annual development impact fee report at the next regular meeting that is no less than 15 days after the report is presented to the public. The FY 2022-2023 report was made available to the public on the City of Petaluma website on December 29, 2023, posted at City Hall, and a copy of the report also was mailed on December 29, 2023 to all persons who had requested mailed notice relating to City fees in accordance with Government Code Section 66006(b)(2). Additionally, this agenda item appeared on a tentative agenda in the previously-published agenda packet, which was publicly noticed through appropriate City communications channels.

COUNCIL GOAL ALIGNMENT

N/A

CLIMATE ACTION/SUSTAINABILITY EFFORTS

There is no climate action or sustainability impacts associated with this item.

ENVIRONMENTAL REVIEW

The City's review and acceptance of the report is not a project under the California Environmental Quality Act pursuant to Public Resources Code sections 21065 and 21080 and CEQA Guidelines Sections 15378 and 15061(b)(3) as reviewing and accepting the report will not result in any direct or indirect physical change in the environment.

FINANCIAL IMPACTS

There are no financial impacts directly related to the recommended action. Depending on development activities there may or may not be direct expenditures for some of these funds. There are, however, fixed costs related to the administration and accounting of the development fees, which have been reported as “City Administrative Costs” and which occur regardless of whether direct expenses have occurred. A summary of all impact fee expenditures during FY 2022-2023 is also included in Exhibit A.

ATTACHMENTS

1. Resolution Accepting the Annual Development Impact Fee Report
2. FY22-23 Annual Development Impact Fee Report, including Development Impact Fee Program Five-Year Findings