

**LEGISLATIVE DIGEST**

[Development Impact and In-Lieu Fees.]

**Ordinance amending the San Francisco Planning Code by creating Article 4 for development impact fees and development impact requirements that authorize the payment of in-lieu fees; by adding Section 402 to provide that all Planning Code development impact and in-lieu fees will be collected by the Department of Building Inspection prior to issuance of the first building permit or other document authorizing construction of the project, with an option for the project sponsor to defer payment to prior to issuance of the first certificate of occupancy upon agreeing to pay a deferral surcharge on the amount owed that would be deposited into the same fund that receives the fees; by requiring that any in-kind public improvements required in lieu of payment of development fees are implemented prior to issuance of the first certificate of occupancy for the project; by moving Planning Code Sections 139, a portion of 249.33, 313-313.15, 314-314.8, 315-315.9, 318-318.9, 319-319.7, 326-326.8, 327-327.6, and 331-331.6 and Chapter 38 of the San Francisco Administrative Code (Transit Impact Development Fee) to Article 4 and renumbering and amending the sections; adding introductory sections for standard definitions, payment and collection procedures, conditions of approval, dispute resolution and appeal procedures, waivers, credits, notice, lien procedure, and development fee evaluations every five years; by providing for an appeal of technical fee calculation issues to the Board of Appeals rather than the Planning Commission; requiring the Controller to issue an annual Citywide Development Fee Report; deleting duplicative code provisions and using consistent definitions, language and organization throughout; adopting findings, including Section 302 and environmental findings; instructing the publisher to put a note at the original location of the renumbered sections stating that the text of those sections has been moved and providing the new section number.**

**Existing Law**

The Planning Code imposes a number of impact fees on development projects and also requires certain development projects to provide physical improvements, facilities or below market rate housing units ("development impact requirements") as a condition of approval of the building or site permit for the projects. These development impact fees requirements are imposed to mitigate the estimated impacts of increased demand for public services, facilities or housing caused by development projects. In many cases, the Planning Code gives project sponsors the option of paying a fee in lieu of providing physical improvements, facilities or below market rate housing units ("in-lieu fees") to mitigate the effects of new development. Development impact and in-lieu fees are distinct and different from fee for service or permit processing fees, which reimburse the City for the actual time and material expenses of City staff reviewing and approving the permits required for new development.

Most of the City's development impact fees, in-lieu fees, and development impact requirements are scattered throughout various sections of the San Francisco Planning Code.

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In addition to the Planning Code development impact fees and requirements, the Municipal Transportation Agency imposes a Transit Impact Development Fee (TIDF) on certain projects under Chapter 38 of the San Francisco Administrative Code, the San Francisco Public Utilities Commission imposes water and wastewater capacity charges and a sewer connection fee by resolution of the PUC Commission, and the San Francisco Unified School District imposes a school fee under provisions of State law.

Most of the City's development fees are collected by the Office of the Treasurer prior to issuance of the first site or building permit; some, like the TIDF, are payable prior to issuance of the first certificate of occupancy. The school fee is currently collected by the School District prior to issuance of the first site or building permit, and the PUC divides its collection between site permit and first certificate of occupancy.

#### Amendments to Current Law

The proposed legislation creates an Article 4 in the Planning Code for development impact fees, development impact requirements and in-lieu fees. It moves the following code sections into the new Article 4, and renumbers and amends them: Planning Code Sections 139, a portion of 249.33, 313-313.15, 314-314.8, 315-315.9, 318-318.9, 319-319.7, 326-326.8, 327-327.6, 331-331.6 and San Francisco Administrative Code Chapter 38. The legislation also adds introductory sections for standard definitions and provisions that are the same for all development impact fees and requirements, deletes duplicative code provisions, and amends the sections so that they use consistent definitions, language and organization throughout. A companion ordinance will amend the San Francisco Building Code to provide that a newly-created Development Fee Collection Unit at the Department of Building Inspection will collect all development impact and in-lieu fees, including fees assessed by the Public Utilities Commission and the San Francisco Unified School District if those agencies separately agree to participate in the proposed collection process.

The legislation simplifies the existing law by requiring that all development fees be payable prior to issuance of the first building permit or other document authorizing construction of the project, but provides that a project sponsor has the option to defer payment to a date prior to issuance of the first certificate of occupancy if the sponsor agrees to pay a deferral surcharge equivalent to the effective interest that the City would have accrued on the funds if it collected the fees at the earlier date. The Development Fee Collection Unit at DBI will enforce compliance with the development impact requirements and ensure that all development impact fees have been paid and/or development impact requirements have been implemented to the satisfaction of the responsible department or agency before issuing any building permit, other construction document, or certificate of occupancy for a development project. The Unit will also institute lien proceedings, if necessary, to collect any unpaid development impact or in-lieu fees.

### Background Information

In March, 2008, San Francisco published its Citywide Development Impact Fee Study Consolidated Report. The purpose of the Study was to evaluate the overall state, effectiveness, and consistency of the City's development impact fee collection process and to identify improvements. Among other things, the Study cited the City's decentralized process as a problem. Centralizing the collection of development impact and in-lieu fees within DBI and providing a process whereby DBI can ensure that building permits, other documents that authorize construction, and certificates of occupancy for the project are not issued before all development fees are paid and/or development impact requirements are satisfied will: (1) centralize and streamline the process, (2) ensure the consistency and accuracy of fee collection and the enforcement of development impact requirements, and (3) provide information to both the sponsors of development projects and the public concerning the application and imposition of the City's myriad development fee and development impact requirements on development projects.

Another central goal of the legislation and its companion ordinance is to lessen the financial burden of the City's current development impact fee requirements in order to improve the financial viability of development projects on the margin so that they are comparatively easier to finance when economic conditions improve and construction lending is once again available. Working with the affected City agencies, the Office of Economic and Workforce Development developed these specific changes as part of a larger set of stimulus policies designed to spur construction jobs and development revenues for the City. This will be done through a variety of policy changes.

Under current rules, the majority of the City's development impact fees are due prior to issuance of the first building or site permit. Allowing a project sponsor to defer collection of development impact fees to much later in the permitting process should lower initial equity participation requirements and/or the carrying costs of construction loans. The farther back in time the City can defer collection, the greater the financial benefit to individual development project pro-formas and the more likely a project will commence construction earlier than would be the case under the current system. Because most developers pay higher interest rates on commercial loans or equity to finance early payment of impact fees than the City Treasurer by collecting these fees early in the process, both the public and private project sponsors should benefit from a system that makes the City whole while allowing project sponsors to save the margin of difference between the private and public interest rates.

In addition to reducing the overall financial feasibility of individual projects, the requirement to pay development impact fees at the beginning of the permitting process also prevents many project applicants from paying the permit processing fees necessary for Planning Department and other City staff to review and approve individual building permits. This, in turn, exacerbates staff lay-offs in recessions by restricting the flow of permit processing fees to an even greater degree than might otherwise occur but for the requirement that impact fees be paid up-front. For larger projects, the cost of permit processing fees is relatively insignificant

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compared to the cost of development impact fees. When the business cycle eventually rebounds and developers can once again finance up-front development impact fees, City agencies must re-hire staff to handle the increased permit load and a processing backlog ensues, adding further to delays. As a result, the construction of many projects that could have been "shovel ready" is further delayed.

The cost to the City of delaying fee collection is off-set by a deferral surcharge that would be required if a project sponsor elects to defer payment, the amount of which is equivalent to the effective interest the City would have accrued on the funds if it collected the fees at the earlier date. Allowing payment deferral is also off-set by the following factors: (1) the City cannot safely spend development impact fees when it collects them early in the permitting process because the fees will have to be refunded if the project is never actually built or occupied, (2) most, if not all, development impact fees are used for long-range planning efforts so delaying their collection is not necessarily delaying delivery of public infrastructure and affordable housing, (3) in any given fiscal year, once a project commences substantial construction, the City can assume, for budgetary reasons, that development impact fees will be available for capital projects and plan to spend that money accordingly, and (4) any "opportunity costs" attributable to deferring collection of development impact fees would be off-set with economic gains from earlier collection of property and transfer tax proceeds due to projects commencing and selling or leasing sooner than under the current impact fee collection system.