Attachment 1

CITY OF MOUNTAIN VIEW

MEMORANDUM

Finance and Administrative
Services Department

DATE: October 25, 2016

TO: City Council

FROM: Rafaela Duran, Senior Financial Analyst
Helen Ansted, Principal Financial Analyst
Suzanne Niederhofer, Assistant Finance and Administrative Services Director
Patty J. Kong, Finance and Administrative Services Director

VIA: Daniel H. Rich, City Manager

SUBJECT: **Fiscal Year 2015-16 Annual Compliance Report for Development Impact Fees and Capacity Charges; and Informational Reporting of Park Land Dedication Fee**

BACKGROUND

The California Government Code (CGC) Section 66006(b)(1)(A-F) requires local agencies, within 180 days after the last day of each fiscal year (FY), to make available to the public certain information for the fiscal year and CGC Section 66006(b)(2) requires the information be made available to the public at least 15 days prior to City Council consideration of the report. This report discusses various fee programs, including Below-Market-Rate (BMR) Housing, Housing Impact, Rental Housing Impact, Downtown Parking In-Lieu, North Bayshore Development Impact, Water Development Impact, and Wastewater Development Impact. CGC Section 66001(d)(1) requires local agencies to make findings with respect to fees and investment earnings remaining unexpended, whether committed or uncommitted, for the fifth year following receipt of the first fee deposited, and every five years thereafter.

In addition, CGC Section 66013(d) requires local agencies that establish water and sewer capacity charges pursuant to CGC Section 66013 to make certain information available to the public within 180 days after the last day of each fiscal year. This report provides the required information and discusses Water and Sewer Capacity Charges.

As defined in CGC Section 66000(b), "fee" does not include fees specified in CGC Section 66477 (Quimby Act) which governs the City's Park Land Dedication (PLD) Fee and does not require annual reporting. The PLD Fund is included in this report to verify compliance with CGC Section 66477(6)(A) regarding commitment of PLD fees within five years after receipt or issuance of the building permit, whichever occurs later.

ANALYSIS

Development Impact Funds

1. **Below-Market-Rate Housing Fund**

   Description of the Type of Fee—CGC Section 66006(b)(1)(A):
   On January 12, 1999, the Council adopted Ordinance 1.99, amending Chapter 36, Article X, of the Mountain View City Code to establish a BMR Housing Program which became effective on March 15, 1999, and adopted the BMR Housing Program Administrative Guidelines on January 26, 1999 by Resolution 16316. The BMR Housing Program requires at least 10.0 percent of the units in new ownership housing developments over a certain size be provided to moderate-income households or an in-lieu fee be paid by the developer. The BMR requirement for 10.0 percent affordable rental units is not being applied due to the *Palmer* court decision. Instead of applying the 10 percent requirement, the City has established and implemented a Rental Housing Impact Fee.

   Developers of ownership projects may be allowed to pay an in-lieu fee to fund the improvement and development of low-income housing instead of providing the required BMR ownership housing units in the project.

   Amount of Fee—CGC Section 66006(b)(1)(B):

   3.0 percent of the actual sales price of each unit in the development.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$20,084,093
BMR In-Lieu Fees	$4,079,230	
Investment Earnings	250,403	
Other Revenue	500	
Total Audited Revenues		4,330,133
Total Audited Expenditures		(12,716,310)
Unexpended Balance		11,697,916
Appropriated by City Council for NOFA		
Affordable Housing Projects:		
779 East Evelyn Avenue		(4,141,273)
1701 West El Camino Real		(2,000,000)
Available Balance, June 30, 2016		$ 5,556,643

During Fiscal Year 2015-16, there were $4.1 million in fees deposited, $250,403 of investment earnings, and $12.7 million in expenditures. The 819 North Rengstorff Avenue Affordable Workforce Housing project was completed in early 2015 and the final construction payment was made by the City to ROEM/Eden in Fiscal Year 2015-16. As of June 30, 2016, there is an unexpended BMR balance of $11.7 million of which $4.1 million in appropriations is remaining (of $16.25 million total) for the 779 East Evelyn Avenue project, and $2.0 million is appropriated for the project at 1701 West El Camino Real. The June 30, 2016 available BMR balance is $5.6 million, which includes $1.0 million for the Mountain View Employee Homebuyer Program.

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E) (dollars in thousands):

Public Improvement	Total Project Cost	FY 2015-16 BMR Expenditures	LTD BMR Expenditures	% Project Funded by LTD BMR Fund Expenditures
779 East Evelyn Avenue NOFA	$62,406	12,047	12,108	19.4%
Administration of BMR Housing Program and Fees	N/A	669	N/A	100.0%
		$12,716	12,108	

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

ROEM Development Corporation (ROEM) received 4.0 percent tax credits for 779 East Evelyn Avenue in May 2016 and building permits on September 30, 2016. Construction has begun and is anticipated to be completed by September 2018. Palo Alto Housing (PAH) received City Council approval for its 1701 West El Camino Real project on June 21, 2016, and anticipates applying for building permits in October 2016, with construction anticipated to begin in May 2017 and be completed by February 2019. PAH applied for 9 percent tax credits and received the tax credit award on September 21, 2016.

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first BMR fee was deposited April 4, 2002, and in accordance with CGC Section 66001(d)(1), the City is making all required findings as of June 30, 2016 regarding the unexpended balance of $11,697,916.

(A) Identify the purpose to which the fee is to be put.

The unexpended BMR funds will be used to fund additional new affordable housing in Mountain View, including the affordable housing projects at 779 East Evelyn Avenue and 1701 West El Camino Real.

(B) Demonstrate a reasonable relationship between the fee and the purpose for which it is charged.

A reasonable relationship exists between the BMR fee and the purpose for which said fee was charged as demonstrated by the Jobs Housing Nexus Study (Nexus Study), dated September 2011, and prepared by Economic

Planning Systems (EPS). The Nexus Study demonstrates that a reasonable relationship exists between the need for affordable housing and the impacts of new market-rate ownership housing development within the City. A reasonable relationship also exists between the fee's use and the impacts of new market-rate ownership housing development since residents who move into new ownership housing developments will increase the demand for services provided by the public and private sectors. The Nexus Study demonstrates that some of the public- and private-sector employees needed to meet the needs of the new City residents earn incomes that only allow these employees to afford housing for moderate-, low-, very low-, and extremely low-income housing. This type of affordable housing continues to be in short supply within Mountain View. The BMR In-Lieu Fee will be used to help increase the supply of affordable housing in the City to meet the increased need generated by new ownership housing developments.

(C) Identify all sources and amounts of funding anticipated to complete financing of incomplete improvements (dollars in millions).

779 East Evelyn Avenue Project

$16.25	City of Mountain View BMR Funds
6.00	City of Mountain View Housing Impact Funds
16.53	Tax Credit Investor Capital
16.98	Permanent Loan
2.90	Citi Community Capital
0.67	Lease-Up Income
3.08	Deferred Interest and Fee Waivers
$62.41	Total Funding

1701 West El Camino Real Project

$ 2.00	City of Mountain View BMR Funds
5.00	City of Mountain View Housing Impact Funds
1.00	City of Mountain View Rental Housing Impact Funds
17.00	Tax Credit Investor Capital
4.40	VHHP Loan
$29.40	Total Funding

(D) 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 779 East Evelyn Avenue project is being developed by ROEM and the City loan documents with ROEM closed on May 31, 2016. The City is funding the loan and will fully disburse all loan proceeds by the completion of construction.

None of the outside funding sources listed in Subparagraph (C) will be deposited into the City's account. All outside funding sources have signed loan agreements with the developer and will disburse loan proceeds by reimbursing the developer during the construction phase.

The 1701 West El Camino Real project is being developed and managed by PAH. The City loan with PAH is expected to close by January 2017.

None of the outside funding sources listed in Subparagraph (C) will be deposited into the City's account. All outside funding sources will sign loan agreements with the developer and will disburse loan proceeds by reimbursing the developer during the construction phase.

2. **Housing Impact Fund**

Description of the Type of Fee—CGC Section 66006(b)(1)(A):

On January 8, 2002, the Council adopted Ordinance 01.02, amending Chapter 36 of the City Code, allowing for a nonresidential Housing Impact (HI) Fee to be imposed on all new and increased floor area on a per-square-foot basis. The fee was adopted by resolution on October 30, 2001, with an effective date of January 14, 2002. The HI fees and any investment earnings shall be used to increase and improve the supply of affordable housing to moderate- and lower-income households.

Amount of Fee—CGC Section 66006(b)(1)(B):

Type	FY 15-16 Fees	FY 16-17 Fees
High-Tech/Industrial/Office		
First 10,000 SF	$12.50/net SF	$12.79/net SF
10,000+ SF	$25.00/net SF	$25.58/net SF
Commercial/Entertainment/Hotel/Retail		
First 25,000 SF	$1.34/SF	$1.37/net SF
25,000+ SF	$2.68/SF	$2.74/net SF

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$ 8,524,062
Housing Impact Fees	$4,592,939	
Investment Earnings	146,823	
Other Revenue	500	
Total Audited Revenues		4,740,262
Total Audited Expenditures		(680,072)
Unexpended Balance		12,584,252
Appropriated by City Council for NOFA		
Affordable Housing Projects:		
779 East Evelyn Avenue		(5,711,420)
1701 West El Camino Real		(4,713,891)
Available Balance, June 30, 2016		$ 2,158,941

During Fiscal Year 2015-16, there were $4.6 million in fees deposited, $146,823 of investment earnings, and $680,072 in expenditures. As of June 30, 2016, there is an HI unexpended balance of $12.6 million, $5.7 million of which has been appropriated for the 779 East Evelyn Avenue affordable housing project and $4.7 million for the project at 1701 West El Camino Real.

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E) (dollars in thousands):

	Total Project Cost	FY 2015-16 HI Expenditures	LTD HI Expenditures	% Project Funded by LTD HI Fee Expenditures
779 East Evelyn Avenue NOFA	$62,406	248	289	0.46%
1701 West El Camino Real	29,408	286	286	0.97%
Administration of Housing Impact Program and Fees	N/A	146	N/A	100.0%
		$680	575	

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

ROEM received 4 percent tax credits for the project at 779 East Evelyn Avenue in May 2016 and building permits on September 30, 2016. Construction has begun and is anticipated to be completed by September 2018. PAH received City Council approval for its 1701 West El Camino Real project on June 21, 2016, and anticipates applying for building permits in October 2016 with construction anticipated to begin in May 2017 and be completed by February 2019. PAH applied for 9 percent tax credits and received the tax credit award on September 21, 2016.

Description of Each Interfund Transfer or Interfund Loan Made From the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first HI fee was deposited February 13, 2003, and in accordance with CGC Section 66001(d)(1), the City is making all required findings as of June 30, 2016 regarding the unexpended balance of $12,584,252.

(A) Identify the purpose to which the fee is to be put.

The HI funds will be used to fund additional moderate- and lower-income housing in Mountain View, including the affordable housing projects at 779 East Evelyn Avenue and 1701 West El Camino Real.

(B) Demonstrate a reasonable relationship between the fee and the purpose for which it is charged.

A reasonable relationship exists between the HI fees and the purpose for which said fees were charged as demonstrated by the Jobs Housing Nexus Study (Nexus Study), dated November 2012, and prepared by Keyser Marston Associates, Inc. The Nexus Study demonstrates that a reasonable relationship exists between the need for affordable housing and the impacts of new commercial office development within the City. A reasonable relationship also exists between the fee's use and the impacts of new commercial and office development since the developments will create new jobs. The Nexus Study demonstrates that some of the new jobs created would be filled by lower-income workers in need of affordable housing. This type of affordable housing continues to be in short supply within Mountain View. The HI Fee will be used to help increase the supply of affordable housing in the City to meet the increased need generated by new commercial and office developments.

(C) Identify all sources and amounts of funding anticipated to complete financing of incomplete improvements (dollars in millions).

779 East Evelyn Avenue Project

$16.25	City of Mountain View BMR Funds
6.00	City of Mountain View Housing Impact Funds
16.53	Tax Credit Investor Capital
16.98	Permanent Loan
2.90	Citi Community Capital
0.67	Lease-Up Income
3.08	Deferred Interest and Fee Waivers
$62.41	Total Funding

1701 West El Camino Real Project

$ 2.00	City of Mountain View BMR Funds
5.00	City of Mountain View Housing Impact Funds
1.00	City of Mountain View Rental Housing Impact Funds
17.00	Tax Credit Investor Capital
4.40	VHHP Loan
$29.40	Total Funding

(D) 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 779 East Evelyn Avenue project is being developed by ROEM and the City loan documents with ROEM closed on May 31, 2016. The City is funding the loan and will fully disburse all loan proceeds by the completion of construction.

None of the outside funding sources listed in Subparagraph (C) will be deposited into the City's account. All outside funding sources have signed loan agreements with the developer and will disburse loan proceeds by reimbursing the developer during the construction phase.

The 1701 West El Camino Real project is being developed and managed by PAH. The City loan with PAH is expected to close by January 2017.

None of the outside funding sources listed in Subparagraph (C) will be deposited into the City's account. All outside funding sources will sign loan agreements with the developer and will disburse loan proceeds by reimbursing the developer during the construction phase.

3. **Rental Housing Impact Fund**

Description of the Type of Fee—CGC Section 66006(b)(1)(A):

On December 11, 2012, the Council adopted Resolution No. 17748 allowing for a Rental Housing Impact (RHI) Fee to be imposed on all new market-rate rental housing developments effective February 9, 2013. With City Council approval, a developer may pay the fee or choose an equivalent alternative to the fee that may include construction of affordable housing units, dedication of land, or other equivalent options. The RHI fees and any investment earnings shall be used for increasing and improving the supply of moderate- to very low-income rental housing.

Amount of Fee—CGC Section 66006(b)(1)(B):

$17.00 per net new habitable square foot for Fiscal Year 2015-16 and the Council approved an increase to $17.39 effective August 21, 2016.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$ 2,875,373
Rental Housing Impact Fees	$ -0-	
Investment Earnings	32,477	
Total Audited Revenues		32,477
Total Audited Expenditures		-0-
Unexpended Balance		$ 2,907,850
Appropriated by City Council for NOFA Affordable Housing Projects:		
1701 West El Camino Real		(1,000,000)
Available Balance, June 30, 2016		$ 1,907,850

The RHI Fund had $32,477 of investment earnings and no RHI fees or expenditures for Fiscal Year 2015-16. As of June 30, 2016, there is an unexpended RHI balance of $2.9 million, $1.0 million of which has been appropriated for the 1701 West El Camino Real project.

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E):

As noted above, there were no expenditures of RHI funds during Fiscal Year 2015-16.

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

PAH received City Council approval for its 1701 West El Camino Real project on June 21, 2016, and anticipates applying for building permits in October 2016, with construction anticipated to begin in May 2017 and be completed by February 2019. PAH applied for 9 percent tax credits and received the tax credit award on September 21, 2016.

Description of Each Interfund Transfer or Interfund Loan Made From the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first RHI fee was deposited February 12, 2013, and in accordance with CGC Section 66001(d)(1), the City will make all required findings as of June 30, 2018, the end of the fifth fiscal year following deposit of the first fee into the Rental Housing Impact Fund.

Reservation of $6.3 million in housing funds for an additional low-income housing project, the Shorebreeze Apartments expansion, was discussed with Council on September 13, 2016. Determination of which fee program (BMR, HI, or RHI) will contribute to this funding reservation will be decided after the project has completed the entitlement process, about 9 to 12 months.

4. **Downtown Parking In-Lieu Fund**

Description of the Type of Fee—CGC Section 66006(b)(1)(A):

The Parking In-Lieu fee was established in 1988 with the adoption of the Downtown Precise Plan in order to provide additional public parking facilities. The Downtown Precise Plan requires, as a condition of approval for development within the Downtown Parking District, that the developer or owner shall provide the required on-site parking, pay the one-time Parking In-Lieu Fee established by Council, or a combination of the two.

Amount of Fee—CGC Section 66006(b)(1)(B):

For Fiscal Year 2015-16, the fee was $26,000 per parking space, and effective August 21, 2016, the fee was increased to $48,000 per parking space. The percentage of required parking that can be met with payment of the Parking In-Lieu fee varies depending upon the location of the property and its use, as set forth in the City's Downtown Precise Plan. In addition, depending upon the use and application type, the fee may be 50 percent of the fee amount per parking space.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$5,729,566
Parking In-Lieu Fees	$26,000	
Investment Earnings	64,889	
Total Audited Revenues		90,889
Total Audited Expenditures		-0-
Unexpended/Available Balance, June 30, 2016		$5,820,455

During Fiscal Year 2015-16, there were $26,000 in fees deposited, $64,889 of investment earnings, and no expenditures, resulting in an unexpended available balance of $5.8 million as of June 30, 2016. If approved, the $5.8 million is expected to be used for the Hope Street Lots project to create additional shared and new public parking supply in the Downtown Parking District.

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E):

As noted above, there were no expenditures of Parking In-Lieu funds during Fiscal Year 2015-16.

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

A potential project has been identified; however, insufficient funds have been collected at this time to complete financing on a public improvement.

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first Parking In-Lieu Fee was deposited during Fiscal Year 1988-89, and in accordance with CGC Section 66001(d)(1), the City is making all required findings as of June 30, 2016 regarding the unexpended balance of $5,820,455.

(A) Identify the purpose to which the fee is to be put.

The Parking In-Lieu funds are anticipated to be used for the Hope Street Lots project to provide additional new public parking supply.

(B) Demonstrate a reasonable relationship between the fee and the purpose for which it is charged.

The City completed a comprehensive Downtown Parking Study (Parking Study) in June 2011. While there was sufficient parking at that time, the study concluded that over the next 5 to 15 years, development and improved commercial activity in downtown would lead to a parking deficit. In addition, staff collects parking occupancy data in the spring and fall to understand current parking conditions. The most recent parking counts took place in April 2016 and indicate an increase in parking demand compared to the Parking Study.

(C) Identify all sources and amounts of funding anticipated to complete financing of incomplete improvements.

As discussed previously, the $5.8 million unexpended balance will be used for additional new public parking supply and other sources of possible City funding are being considered.

(D) 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 timing of receipt of the additional funding is unknown at this time.

5. **North Bayshore Development Impact Fund**

Description of the Type of Fee—CGC Section 66006(b)(1)(A):

The North Bayshore Precise Plan (Precise Plan), adopted November 25, 2014, identified significant transportation and water and sewer utility improvements necessary to accommodate the anticipated development. An important component of funding for the required infrastructure improvements to support this development is a development impact fee. EPS prepared the City's North Bayshore Development Impact Fee Nexus Study (Nexus Study) dated February 3, 2016, with technical assistance from Fehr & Peers (transportation consultants) and Shaaf & Wheeler (consulting civil engineers). On February 23, 2016, the Council considered the Nexus Study and adopted the North Bayshore Development Impact fees (NBS Impact Fees) with an effective date of April 23, 2016.

Amount of Fee—CGC Section 66006(b)(1)(B):

Office/R&D:	
Transportation	$22.47/SF net new gross floor area
Water	$6.35/SF net new gross floor area
Sewer	$1.18/SF net new gross floor area
Retail:	
Transportation	$2.35/SF net new gross floor area
Water	$0.01/SF net new gross floor area
Sewer	$0.79/SF net new gross floor area
Hotel:	
Transportation	$2,000/Guest Room
Water	$3,929/Guest Room
Sewer	$707/Guest Room

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$ 881,102
North Bayshore Development Impact Fees	$578,033	
Investment Earnings	13,081	
Total Audited Revenues		591,114
Total Audited Expenditures		-0-
Unexpended/Available Balance, June 30, 2016		$1,472,216

In September 2014, prior to adoption of the fee, Intuit deposited an estimated fee in the amount of $881,065 as the company wanted to proceed with their development. The $578,033 fee deposited in Fiscal Year 2015-16 is the balance of the amount owed by Intuit. There were no expenditures and as of June 30, 2016, there is an unexpended balance of $1.5 million in the North Bayshore Development Impact Fund (NBS Development Impact Fund).

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E):

As noted above, there were no expenditures of NBS Development Impact funds during Fiscal Year 2015-16.

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

Insufficient funds have been collected at this point to complete financing on a public improvement.

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first NBS Impact Fee was deposited in September 2014, and in accordance with CGC Section 66001(d)(1), the City will make all required findings as of June 30, 2020, the end of the fifth year following deposit of the first fee into the NBS Development Impact Fund.

6. **Water Development Impact Fund**

Description of the Type of Fee—CGC Section 66006(b)(1)(A):

These fees are assessed as a condition for new developments in order to mitigate a future deficiency in specific areas beyond the planned capacity of the water system.

Amount of Fee—CGC Section 66006(b)(1)(B):

The fee is the developers' contribution for their proportional share of the required infrastructure improvements due to the developer's project exceeding the capacity of the water system anticipated in the 2030 General Plan and is required as a condition of development.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$ -0-
Water Development Impact Fees	$3,613	
Investment Earnings	20	
Total Audited Revenues		3,633
Total Audited Expenditures		-0-
Unexpended/Available Balance, June 30, 2016		$3,633

During Fiscal Year 2015-16, there were $3,613 of fees deposited, $20 of investment earnings, and no expenditures. As of June 30, 2016, there is an unexpended balance of $3,633 in the Water Development Impact Fund.

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E):

As noted above, there were no expenditures of Water Development Impact funds during Fiscal Year 2015-16.

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

When it is necessary to increase the capacity of the system and a water infrastructure improvement project is adopted for the areas of the City in which fees have been collected, the fees will be utilized for project funding.

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first Water Development Impact Fee was deposited April 20, 2016, and in accordance with CGC Section 66001(d)(1), the City will make all the required findings as of June 30, 2021, the end of the fifth fiscal year following deposit of the first fee into the Water Development Impact Fund.

7. **Wastewater Development Impact Fund**

Description of the Type of Fee—CGC Section 66006(b)(1)(A):

These fees are assessed as a condition for new developments in order to mitigate a future deficiency in specific areas beyond the planned capacity of the Wastewater system.

Amount of Fee—CGC Section 66006(b)(1)(B):

The fee is the developers' contribution for their proportional share of the required infrastructure improvements due to the developer's project exceeding the capacity of the wastewater system anticipated in the 2030 General Plan and is required as a condition of development.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66006(b)(1)(C and D):

Beginning Balance, July 1, 2015		$57,718
Wastewater Development Impact Fees	$3,003	
Investment Earnings	468	
Total Audited Revenues		3,471
Total Audited Expenditures		-0-
Unexpended/Available Balance, June 30, 2016		$61,189

During Fiscal Year 2015-16, there were $3,003 of fees deposited, $468 of investment earnings, and no expenditures. As of June 30, 2016, there is an unexpended balance of $61,189 in the Wastewater Development Impact Fund.

Identification of Each Public Improvement on Which Fees Were Expended in FY 2015-16—CGC Section 66006(b)(1)(E):

As noted above, there were no expenditures of Wastewater Development Impact funds during Fiscal Year 2015-16.

Identification of Approximate Date by Which Construction Will Commence Once Sufficient Funds Have Been Collected—CGC Section 66006(b)(1)(F):

When it is necessary to increase the capacity of the system and a wastewater infrastructure improvement project is adopted for the specific areas of the City in which fees have been collected, the fees collected for the specific area will be utilized for project funding.

Description of Each Interfund Transfer and Interfund Loan Made from the Fund—CGC Section 66006(b)(1)(G):

No Interfund Transfers or Interfund Loans were made from this Fund.

Amount of Refunds Made—CGC Section 66006(b)(1)(H):

No refunds were made from this Fund.

Findings for Amounts Remaining Unexpended—CGC Section 66001(d)(1):

The first Wastewater Development Impact Fee was deposited November 14, 2013, and in accordance with CGC Section 66001(d)(1), the City will make all the required findings as of June 30, 2019, the end of the fifth fiscal year following deposit of the first fee into the Wastewater Development Impact Fund.

Capacity Charges

Capacity charges are governed by CGC 66013 and are a charge for existing public facilities or for new public facilities to be acquired or constructed in the future that are of proportional benefit.

8. **Water Capacity Charges Fund**

Description of the Charges Deposited in the Fund—CGC Section 66013(d)(1):

The City retained a consulting firm, Bartle Wells Associates (Bartle Wells), to review the existing fee systems and recommend updates based on the current development patterns of infill, redevelopment, and land use intensification. On April 8, 2014, the City Council adopted Water Capacity Charges with an effective date of July 1, 2015. These fees are to capture the increased demand from all development projects by assessing a capacity-based charge that is calculated proportional to the increased demand each project places on the City's water system.

Beginning and Ending Balances, Amount of Fees Collected, and Interest Earned—CGC Section 66013(d)(2)-(3):

Beginning Balance, July 1, 2015		$ -0-
Water Capacity Charges	$1,895,903	
Investment Earnings	(6,437)	
Total Audited Revenues		1,889,466
Total Capital Project Funding		(1,848,000)
Unexpended/Available Balance, June 30, 2016		$ 41,466

During Fiscal Year 2015-16, there were $1.9 million of fees deposited, negative investment earnings of $6,437 (due to timing of capital project funding prior to receiving fees), and capital project funding of $1.8 million, resulting in a June 30, 2016 unexpended balance of $41,466 in the Water Capacity Charges Fund. The $1.8 million provides funding for three projects and the funds will be expended over the life of the capital improvement projects (CIP).

Identification of Each Public Improvement on Which Charges Were Expended in FY 2015-16—CGC Section 66013(d)(4)(A)-(B) (dollars in thousands):

	Total Project Cost	FY 2015-16 Water Capacity Expenditures	LTD Water Capacity Charges	% Project Funded by LTD Water Capacity Charge Expenditures	Project Completed
Misc. Water Main Repl. (16-21)	$2,415	4	4	0.17%	No
Shoreline Blvd. Interim Bus Lane and Utility Imp., Design (16-58)	2,955	10	10	0.34%	No
Total		$14	14		

Identification of Each Public Improvement Anticipated to be Undertaken in Future Fiscal Years—CGC Section 66013(d)(4)(C):

Preliminary work has been done on the above projects and the approximate dates for construction to commence are listed below:

16-21 Miscellaneous Water Main Replacement—Summer 2017
16-58 Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design—Late 2017

The project below was adopted with the Fiscal Year 2015-16 CIP and work is anticipated to begin as indicated.

16-61 Water and Sewer Main Replacement Crossing Highway 101—Late 2018

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66013(d)(5):

No Interfund Transfers or Interfund Loans were made from this Fund.

9. **Sewer Capacity Charges Fund**

Description of the Charges Deposited in the Fund—CGC Section 66013(d)(1):

The City retained a consulting firm, Bartle Wells, to review the existing fee systems and recommend updates based on the current development patterns of infill, redevelopment, and land use intensification. On April 8, 2014, the City Council adopted Sewer Capacity Charges with an effective date of July 1, 2015. These fees are to capture the increased demand from all development projects by assessing a capacity-based charge that is calculated proportional to the increased demand each project places on the City's sewer system.

Beginning and Ending Balances, Amount of Charges Collected, and Interest Earned—CGC Section 66013(d)(2)-(3):

Beginning Balance, July 1, 2015		$ -0-
Sewer Capacity Charges	$2,793,864	
Investment Earnings	(35,017)	
Total Audited Revenues		2,758,847
Total Capital Project Funding		(4,271,000)
Available Balance, June 30, 2016		($1,512,153)

During Fiscal Year 2015-16, there were $2.8 million in charges deposited, $35,017 of negative investment earnings (due to the timing of capital project funding prior to receiving charges), and capital project funding of $4.3 million. As of June 30, 2016, there is a deficit balance of $1.5 million in the Sewer Capacity Charges Fund. The Fiscal Year 2015-16 Adopted Budget anticipated $3.2 million in capacity charges would be collected based on development in the pipeline. However, the projects were not permitted in the time frame anticipated and the charges were $440,000 lower than budget. In addition, the $4.3 million of CIP funding was $1.1 million higher than the budgeted capacity charges. The $4.3 million provides funding for four projects and the funds will be expended over the life of the CIP.

Identification of Each Public Improvement on Which Charges Were Expended in FY 2015-16—CGC Section 66013(d)(4)(A)-(B) (dollars in thousands):

	Total Project Cost	FY 2015-16 Sewer Capacity Expenditures	LTD Sewer Capacity Charges	% Project Funded by LTD Sewer Capacity Charge Expenditures	Project Completed
Misc. Storm/Sewer Main Repl. (16-22)	$1,523	2	2	0.13%	No
Shoreline Blvd. Interim Bus Lane and Utility Imp., Design (16-58)	2,955	9	9	0.30%	No
Total		$11	11		

Identification of Each Public Improvement Anticipated to be Undertaken in Future Fiscal Years—CGC Section 66013(d)(4)(C)

Preliminary work has been done on the above projects and the approximate dates for construction to commence are listed below:

16-22 Miscellaneous Water Main Replacement—Summer 2017
16-58 Shoreline Boulevard Interim Bus Lane and Utility Improvements, Design—Late 2017

The projects below were adopted with the Fiscal Year 2015-16 CIP and work is anticipated to begin as indicated.

16-29 Inter Force Trunk Main Rehabilitation—Not yet determined
16-61 Water and Sewer Main Replacement Crossing Highway 101—Late 2018

Description of Each Interfund Transfer or Interfund Loan Made from the Fund—CGC Section 66013(d)(5):

No Interfund Transfers or Interfund Loans were made from this Fund.

Park Land Dedication Fee Not Subject to Annual Reporting

The Park Land Dedication (PLD) Fee discussed below is not subject to CGC Section 66006 or 66013 requiring annual reporting, but is subject to CGC Section 66477(6)(A) and is included to report the commitment of PLD fees within five years after receipt or issuance of the building permit, whichever occurs later.

10. **Park Land Dedication Fund**

PLD fees are collected as a condition of approval for any new residential development and used for park or recreational purposes. PLD fees are not subject to annual reporting under CGC Section 66477. However, staff will continue to report on this fee for informational purposes.

On November 28, 2006, the City Council amended the Park Land Dedication In-Lieu Fee ordinance to establish objectives for use of Park Land Dedication In-Lieu fees as detailed below:

- Priority No. 1—Acquisition
- Priority No. 2—Development
- Priority No. 3—Rehabilitation

Within each priority, first consideration goes to projects that are located within one mile of the development generating the fee and the next consideration is for projects that provide a communitywide asset. The Parks and Recreation Commission continues to review projects and forwards a recommendation to the City Council regarding commitment of both the available in-lieu fees received and the available investment earnings generated each fiscal year. On October 13, 2015 and June 14, 2016, the City Council adopted ordinances amending Chapter 41 (Park Land Dedication In-Lieu Fee) to exclude affordable housing units from the PLD requirement; and to establish a new dwelling density and In-Lieu Fee calculation for companion units, respectively.

The beginning balance, revenues, expenditures, and available balance of the Park Land Dedication Fund for Fiscal Year 2015-16 are as follows:

Beginning Balance, July 1, 2015		$43,425,193
Audited Revenues:		
Park Land Dedication Fees	$7,641,136	
Investment Earnings	650,106	
Capital Projects Refunds	392	
Total Audited Revenues		8,291,634
Total Available		51,716,827
Audited Expenditures:		
FY 2015-16 Adopted Capital Improvement Projects (CIPs)	(4,287,000)	
2015-16 Midyear CIPs	(383,500)	
General Fund Administration	(14,617)	
Miscellaneous Expenditures	(5,513)	
Total Audited Expenditures		(4,690,630)
Unexpended Ending Balance		47,026,197
Total Committed by City Council for Specific Future Projects		(34,218,267)
Available Balance, June 30, 2016		$12,807,930

Development fees, investment earnings, and capital project refunds total $8.3 million and expenditures total $4.7 million. After deducting $34.2 million in funds committed for future projects, there is an available balance of $12.8 million as of June 30, 2016. This $12.8 million is comprised of fees deposited during Fiscal Years 2014-15 and 2015-16. As required by CGC Section 66477(6)(A), all Park Land Dedication fees have been committed within five years after deposit of the fees or the issuance of building permits, whichever occurs later.

The Fiscal Year 2016-17 Adopted CIP includes appropriations for projects and commitments for future projects which utilized a portion of the committed and available Park Land Dedication funds indicated above.

CONCLUSION

The development impact funds discussed in this report comply with the requirements of the CGC Section 66000 for annual reporting regarding the collection and use of development fees. In addition, this report makes findings that the BMR, Housing Impact, and Parking In-Lieu funds are still needed for the purposes specified.

The Water and Wastewater Capacity Charges are in compliance with the CGC Section 66013 for annual reporting regarding the collection and use of capacity charges. The Park Land Dedication Fund is in compliance with CGC Section 66477(6)(A) regarding the commitment of fees within five years of receipt.

HA-SN-PJK/7/FIN
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cc: AAII—Goedicke, APWD—Solomon, OAIII—Doan, PMAH, SMA—Ruebusch, USM, WCC