

**TO:** Andrew P. Powers, City Manager

**FROM:** Jaime Boscarino, Finance Director

**DATE:** October 10, 2023

**SUBJECT:** City Development Impact Fee Deferral Program

**RECOMMENDATION:**

1. Authorize City staff to implement a temporary City Development Impact Fee Deferral Program.
2. Find that this action is not a project as defined under the California Environmental Quality Act (CEQA).

**FINANCIAL IMPACT:**

**Financial Impact to be Determined.** Minimal staff time to develop and implement the temporary City Development Impact Fee Deferral Program (Program). It is unknown at this time how many development projects will apply to the Program. An interest fee will be charged for participation in the Program.

**BACKGROUND:**

The Mitigation Fee Act (the Act) is contained in the California State Government Code Section 66000 et seq. and governs the establishment and administration of Development Impact Fees (Impact Fee). These Impact Fees are charged to new development projects. Impact Fee revenue is required to be used for new public capital facilities, which are necessitated by new development, such as intersection improvements, traffic signals, street widening, interchange improvements, and additional water and wastewater infrastructure necessary to support new development. Impact Fee revenue must be separately accounted for and used for the specific purpose for which the Impact Fee was collected. The City has 13 active Impact Fees that have been established via City Council resolutions.

In addition to City Impact Fees, there are other fees charged by outside agencies. These include, but are not limited to, Quimby fees charged by Conejo Recreation and Parks District (CRPD), school fees charged by Conejo Valley

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Unified School District (CVUSD), and fees charged by Ventura County Fire Protection District (VCFD).

**DISCUSSION/ANALYSIS:**

The Federal Reserve voted at its September meeting to keep the federal funds rate at 5.25 percent – 5.50 percent. Although the federal funds rate was not further increased, it is at a 22-year high and was the first pause on rate increases since the Federal Reserve began increasing rates in March 2022. The Federal Reserve also signaled that there may be an additional rate hike this year with no cuts likely until 2024.

The federal funds rate is an important factor in the overall economy. This is especially important in the construction industry as the higher the rates, the higher the borrowing costs. As one economist from Raymond James stated, “High mortgage rates, elevated construction costs, and supply-side challenges are likely to continue to trouble builders in the near future.”

Current policy requires that City Impact Fees charged on development projects are payable prior to building permit issuance. For larger development projects, the total fees charged can easily reach \$5.0 million. Some development projects have a Development Agreement (DAGR) that is negotiated with the City. The DAGR may provide alternative payment schedules including the deferral of City Impact Fees until Certificate of Occupancy (C of O).

In response to the pressures facing the construction industry and the City’s goal to provide more housing and high-quality revitalization projects, City staff worked on developing a temporary City Development Impact Fee Deferral Program. As part of the Program, a developer that has not yet paid City Impact Fees may apply for a deferral of the City Impact Fees only. City Impact Fees may be deferred until C of O, similar to what has previously been approved in DAGRs. The developer will be required to pay interest on the Fee deferral at the current five-year Treasury Rate. The deferral would only apply to City Impact Fees, not fees charged by other agencies, fees related to planning and building permits, or required by law. Attachment #1 includes the list of Impact Fees that are eligible for deferral. As this is a temporary Program to deal with the extraordinary impacts of the current interest rate climate, the Program would expire after one year.

Since the City Impact Fees will not be waived but simply delayed, are to be paid as a requirement for C of O, and interest will be charged; it is not anticipated that there will be a negative impact to the City’s ability to complete capital improvement projects in a timely manner. It is recommended that City Council approve the temporary Program.

**COUNCIL GOAL COMPLIANCE:**

Meets the following City Council goals:

C. Operate City government in a fiscally and managerially responsible and prudent manner to ensure that the City of Thousand Oaks remains one of California's most desirable places to live, work, visit, recreate, and raise a family.

J. Implement high quality revitalization projects within Thousand Oaks Boulevard and Newbury Road Areas; Develop a pedestrian-oriented, viable, and self-sustaining "Downtown;" and, continue to support production of long-term affordable housing.

Attachment:

Attachment #1 – City Development Impact Fee Summary