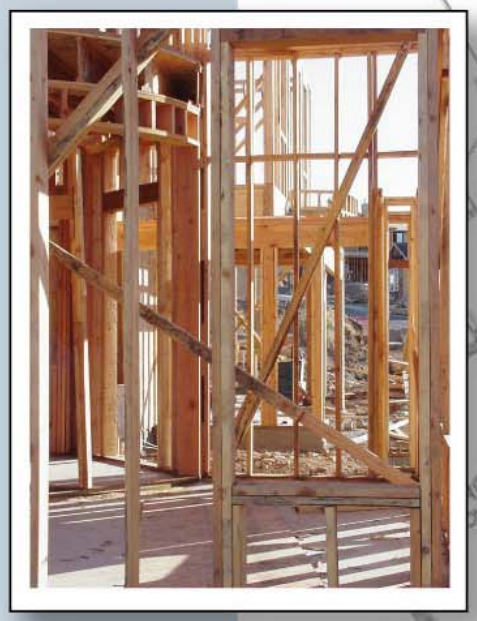

PAY TO PLAY

RESIDENTIAL DEVELOPMENT FEES IN CALIFORNIA CITIES AND COUNTIES, 1999

August 2001

Department of Housing and Community Development

DIVISION OF HOUSING POLICY DEVELOPMENT

State of California
Gray Davis, Governor
Maria Contreras-Sweet, Secretary,
Business Transportation and Housing
Julie Bornstein, Director, HCD
Judy Nevis, Chief Deputy Director, HCD

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For questions about the report, please contact the Division of Housing Policy Development (HPD) at (916) 445-4728. To view or download a copy of the report, visit our website at: www.hcd.ca.gov. The Appendix to this report is included on CD-Rom located in the back cover of the report. HPD's mailing address is: P.O. Box 952053, Sacramento, California, 94252-2053.

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STATE OF CALIFORNIA
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Business, Transportation and Housing Agency
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August 2001

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Executive Summary

In the more than 20 years since the passage of Proposition 13, development fees have become an integral part of California's fiscal landscape. Permit fees, development fees, dedications, in-lieu fees, and exactions are especially important in new and growing suburban municipalities, which commonly have high infrastructure costs but lack an established tax base. Depending on the municipality and type of project, residential development fees in California in 1999 ranged from a low of $4,000 per unit to a high of more than $60,000 per unit.

Their widespread use notwithstanding, residential development fees — which constitute the bulk of development fee revenues — are controversial on at least two counts. The first concerns the high degree of variation between jurisdictions regarding which fees are charged and their amounts. The conventional wisdom is that fees vary widely — often between adjacent jurisdictions — and that there is too little rhyme or reason to fee-setting practices. To assess this situation, a survey of 89 California cities and counties was conducted to identify typical fee amounts for subdivision homes, individual "infill" houses, and apartment buildings. Among the survey's major findings:

- **California cities and counties typically charge more than two dozen different types of planning fees, building permit and related fees, and capital facilities fees.**

- **California development fees are extremely high.** Single-family homebuilders in California in 1999 paid an average of $24,325 per unit in residential development fees, based on the results of a sample of 89 cities and counties. Owners of new infill homes paid an average of $20,327 per unit. Apartment developers paid an average of $15,531 per new apartment unit.

- **Residential fees vary significantly by region.** Among regions, production homebuilders in the Central Coast region paid the highest average fees ($29,507 per single-family unit), followed closely by Bay Area and Sacramento builders ($28,668 and $27,480, respectively). Production homebuilders in the San Joaquin Valley communities paid the lowest average fees ($18,355). Depending on the region, average fees for a single infill home were between $1,000 and $10,000 lower than average fees for subdivision homes.

- **Per unit, apartment fees are considerably lower than fees on single-family homes.** Central Coast apartment builders paid the highest average per unit fees ($19,477), followed by Bay Area apartment builders ($18,428). San Joaquin Valley apartment builders paid fees averaging only $10,929 per unit.

- **Capital facilities fees are the largest portion of local development fees.** Capital facilities fees typically account for 80 percent of subdivision and infill home fees and 86 percent of apartment fees. Building permit and plan check fees are the next largest component, accounting for 18 percent of infill home fees, 14 percent of subdivision home fees, and 11 percent of apartment unit fees. Planning fees account for the remainder, and are five percent, three percent and two percent, respectively, of total subdivision, apartment, and infill home fees.

- **Location is but one of many determinants of local fees**. Depending on the type of fee, the effects of other factors including jurisdiction population, population growth and growth rate, jurisdiction age, jurisdiction density, household income, per capita net expenditures and housing construction activity account for between four and 48 percent of inter-jurisdictional fee variation.

- **Fees do not generally substitute for public debt**. It is commonly hypothesized that fees substitute for other forms of infrastructure financing. Controlling for local expenditure levels, and except for special assessment bond debt, fees do not appear to substitute for public debt.

- **Fees are less ad hoc than is sometimes assumed**. While residential development fees in California are somewhat ad hoc (which is to say that they vary in unpredictable ways), *they are ad hoc within a range*. For planning fees, that range is between $800 and $2,000 per single-family dwelling unit. For building permit and inspection fees, the range is between $2,700 and $4,500. For capital facilities fees, it is between $15,000 and $24,000.

- **Fee-setting is not routinely linked with capital improvements planning**. Local capital facilities fees are usually determined using an average cost methodology, e.g., historical or projected capital costs are divided by the current or projected future population to yield a per capita or per household cost. As a result, the link between fees and longterm capital improvements programming (assuming such activities take place) is typically a weak one.

A second issue of concern regarding local development fees concerns their contribution to the high cost of housing. Theory suggests, and some empirical studies demonstrate, that fees contribute directly to the higher housing prices, especially during periods of strong housing demand. Among the key findings of the research in this area:

- **California's high residential development fees significantly contribute to its high housing costs and prices.** Among the sample of California jurisdictions, fees account for an average of ten percent of the median price of new single-family homes.

- **The contribution of fees to home prices is greatest in affordable markets**. Among individual communities in the sample, development fees accounted for less than five percent of new home prices in expensive communities. At the opposite end of the price spectrum, fees accounted for more than 15 percent of new home prices in many jurisdictions that provide a significant share of their respective region's affordable housing — making the fee issue all the more significant.

- **As a share of housing prices, fees are higher in fast-growing markets**. Fee-price ratios (the ratio of average single-family development fees to median single-family sales prices) among the sample communities are systematically higher in communities with high rates of housing construction; systematically higher in older cities; systematically lower in jurisdictions with expensive homes; and systematically lower in Southern California. Of these four factors, the housing supply rate matters most: for every 100 percent increase in the housing supply rate, fee-price ratio increased by 57 percent.

- **The contribution of fees to apartment construction costs and rents is more difficult to assess**. Total development fees for a 45-unit apartment building ranged from a minimum of $324,000 in Fresno to more than $920,000 in Contra Costa County. Fees as a share of total development costs ranged from an estimated low of seven percent in Los Angeles County to a high of 17 percent in Contra Costa County.

- **Reducing fees by shifting to other capital financing sources would help make ownership housing more affordable**. The effects of reduced fees on housing affordability could vary widely depending jointly on the amount of the fee reduction and on current price levels. A 50 percent fee reduction, for example, *could* reduce the median new home price to enable an increase in homeownership affordability ranging from zero to 14 percent. Most of the sample jurisdictions fell between these two extremes, where a 50 percent fee reduction could result in a four to eight percent affordability improvement.

- **Reducing fees would have a smaller effect on rents**. In Contra Costa County, for example, reducing per unit apartment fees from $20,400 to $10,200 could, depending on market conditions, permit the owners of new apartments to reduce rents by nearly eight percent. In nearby Santa Clara County, however, where apartment fees are lower, reducing them by 50 percent would potentially translate into a monthly rent reduction of only four percent.

- **Both of these affordability estimates are likely to be optimistic**. Whether builders and developers willingly pass on decreased costs to buyers depends on market conditions, which in the short-run are determined by the balance between supply and demand. With demand leading supply,

builders and sellers are able to set prices well above replacement cost levels, such that any short-term cost reduction is unlikely to translate into an equivalent price reduction. If, where, and when the market cools, prices should again approach replacement costs, resulting in lower prices and rents.

Best Practices

In the course of collecting fee information, a number of local practices clearly stood out as worth emulating. They include:

- **Consolidating Fee Schedules** - The single most effective step a jurisdiction can take to simplify fee administration is to prepare a consolidated fee schedule covering all relevant fees, including school fees and applicable special district assessments.

- **Streamlining Fee Processing** - A number of local jurisdictions operate one-stop permit centers where project sponsors can obtain fee schedules and documentation in one location.

- **Identifying District Boundaries** - To simplify fee assessments, one of the sample counties prepared a series of maps at a common scale showing the precise locations and boundaries of each of its many special assessment, capital facilities, and school districts. By specifying a single map location or address, county planners and project sponsors can quickly establish which fees apply.

- **Fee Estimating Service -** One of the cities sampled offers a free fee-estimating service to any applicant requesting it. The applicant fills out a few lines on a simple form requesting rudimentary parcel, site and project information used by staff to prepare an estimate listing the possible range of fees expected for the project.

Lack of knowledgeable staff was the single biggest problem identified when collecting fee information. The creation of a single, consolidated fee schedule, as suggested above, can go a long way to address this problem. The technology to computerize fee schedules and publish them on the Internet exists and is fairly inexpensive. A system whereby project applicants could download and complete fee templates and forms, and return them to the administering jurisdiction, either in paper form or via e-mail.

State Policy Issues and Options

In summary, despite the past best intentions of the California Legislature, the systems used by California jurisdictions to set and administer local development fees are opaque, inconsistent, and profoundly inefficient. Within jurisdictions, the processes by which agencies assess and collect fees are difficult to understand. Across jurisdictions, fees are inconsistently set and administered. Most important, the connection between fees, capital improvements programming, and longterm development planning is weak-to-non-existent. Addressing California's development fee problems should thus be seen as one of several initial steps in reforming its capital facilities planning, programming, and financing system. Several policy issues and options are described below relative to this objective.

Policy Issue #1: Development fees are higher than they should be because many California jurisdictions do not undertake long term capital improvements plans and programs. If there is one hard and fast rule of capital facilities financing, it is that capital facilities are much more expensive to build and finance after they are needed than before. Since well before Proposition 13, California governments — including cities, counties, and the State itself — have been far too late in planning, financing, and constructing needed capital facilities. Development fees and other capital financing sources are often keyed to the *last* and thus most expensive growth increment, rather than the *next* growth increment.

Policy Option: Comprehensive reductions in municipal capital facilities costs, and thus development fees, might be achieved by requiring California jurisdictions to prepare realistic capital improvements plans tied to local general plans, or as a general plan element; and to take stronger steps to make State support of municipal infrastructure construction contingent upon such plans being implemented and updated on a timely basis.

Policy Issue #2: Development fees are higher than they need to be because they are paid up-front. Spreading development fees out over a number of years can help reduce their total present-value cost and thus their financial burden on homebuyers and renters, especially when interest rates are low. The two-thirds resident vote requirement for all jurisdiction-wide general obligation bond issuances has proved to be too high for many communities, and other tools such as benefit and special assessment district bond financing and Mello-Roos bonds have not always been effective.

Policy Option: A comprehensive study of the local uses and effectiveness of infrastructure financing tools, including non-redevelopment techniques in particular, could be undertaken to identify constraints to their broader use. The possibility of amending existing mechanisms or establishing new mechanisms for financing many growth-related capital improvements could be explored. Tied to the existence of an approved capital facilities plan, such mechanisms should make it possible for cities and counties, in partnership with housing developers, to establish capital facilities districts around approved subdivisions and apartment projects.

Policy Issue #3: Fees are highest relative to housing prices in the State's fastest growing and most affordable communities. As things now stand, those jurisdictions that do the most to accommodate California's housing production needs are also the most dependent on development fees to finance growth-supporting infrastructure, and thus, can least afford to reduce their fees. Conversely, those jurisdictions in which fees are low relative to housing prices tend to be less dependent on fees and can most afford to reduce them, should they desire to.

Policy Options: This is a matter of statewide importance, and addressing it will require State-level fiscal reforms. A number of options present themselves. The first is for the State to pay some portion of the development fees charged on affordable ownership *and* rental housing projects. A related approach would have the State return an increased share of sales tax revenue to communities that reduce housing development fees. A third approach would have the State Infrastructure Bank allow cities and counties to draw on low-interest capital facilities loans, provided they reduced fees on affordable housing. In all cases, the over-riding policy goal would be *to not penalize* those jurisdictions willing and able to accommodate market-rate and affordable housing production.

Policy Issue #4: The nexus study requirements set forth in the Mitigation Fee Act are still too vague. This is a problem at two levels. By coupling impact and development fees with connection fees, many California jurisdictions have avoided a significant portion of nexus study obligations. Second, because the Mitigation Fee (Act) provides minimal substantive guidance, the methods and approaches used by local governments to estimate facilities costs vary widely. This lack of methodological consistency translates into fees that vary widely and inexplicably among neighboring jurisdictions.

Policy Options: The State should respond to each of these problems in turn. If and when connection fees are coupled with other fees, they should be subject to the Act's provisions. More important, the Act could be amended to require the use of a marginal-cost pricing methodology when setting and revising fees. Such a requirement could combine audits of previously incurred capital facilities costs with five-year projections of future capital facilities needs. Accordingly, nexus studies should be required to be updated every five years. Toward this end, an appropriate State agency should assist in the preparation of a standardized nexus study methodology.

Policy Issue # 5: Development fees are a significant revenue component of local budgets and a significant cost component of new development projects. Because the responsibility for administering fees is fragmented among multiple agencies and departments, no single agency or manager typically sees the "big picture" with regard to setting, assessing, or collecting development fees. Less than a half dozen of the nearly

90 local governments we contacted publish comprehensive fee schedules. We found that many fee-administering departments do not know the types and amounts of fees administered by sister departments. As a result, the fee assessment and collection process appears to be even more opaque, disorganized and ad hoc than it really is.

Policy Options: Transparency is extremely important in any fee or tax system. Voluntarily, or under State mandate, jurisdictions should identify a lead agency whose responsibility it is to coordinate all fee-setting and collection activities within the jurisdiction, including planning, building, capital facilities, special district, and school fees. The lead agency should publish in both paper form and on the Internet a single, consolidated fee schedule for all locations and development types within the jurisdiction.

Policy Issue #6: Jurisdictions and developers alike find it difficult to estimate total projected fee payments at the beginning of the development approval process. This needlessly complicates project planning and makes later fee collections seem arbitrary.

Policy Options: Certainty is also important. Building on the consolidated fee schedule suggested above, jurisdictions should prepare and distribute standardized "fee templates" to enable project sponsors to estimate total likely fee payments. A State agency could assist jurisdictions in preparing such templates.

Chapter 1 Introduction

In the more than twenty years since the passage of Proposition 13, fees and service charges have become an integral part of California's fiscal landscape. According to the State Controller's Office, fees and service charges account for almost 20 percent of annual local government revenues. Permit fees, development fees, dedications, in-lieu fees, and exactions are especially important in new suburban municipalities, which commonly have high infrastructure costs but lack an established tax base. Depending on the municipality and type of project, residential development fees in California range from a low of only $4,000 per unit to a high of over $60,000 per unit. Impact fees have been rising in part from the cumulative effort of paying fees for multiple purposes to multiple public entities[1].

Their widespread use notwithstanding, residential development fees — which constitute the bulk of development fee revenues — are controversial on at least two counts. The first concerns the high degree of inter-jurisdictional variation in fee amounts and assessment practices. Depending on the region and specific fee, fee amounts in neighboring jurisdictions regularly vary by as much as 30 percent. These variations are legitimate when they result from underlying differences in local public service levels or fiscal structures; or, when existing resident voluntarily choose to subsidize newcomers. When they do not — that is, when there is no nexus between the fee amount and the costs of providing services or building infrastructure — they must be regarded as ad hoc and arbitrary.

Over time, arbitrary fees lead to inefficient and inequitable development outcomes. In the absence of laws or requirements to the contrary, there may be strong incentives for local officials to boost fees to discourage all or some types of growth (e.g., apartments or starter homes). In the short-run at least, this will have the effect of increasing property values and decreasing relative service costs. The long-run effects are much less clear. In situations where residents (through their local officials) are free to set fees as they please, there may also be incentives to require new entrants to bear the costs of upgrading existing community services. In effect, new residents are asked to subsidize existing ones. The California Supreme Court has determined this practice to be illegal (*Rohn v. Visalia, 1989; 214 Cal App. 3rd 1443);* however, it is implicit to one degree or another when fees are set on the basis of average cost.

Arbitrary fees may also produce spatial distortions, at least in theory. Should fees be set too high in one community and too low in another, development will flow from the former to the latter, imposing additional financial burdens. When low-fee communities are located at or beyond the urban fringe, this may exacerbate rather than reduce sprawl. Last, when communities arbitrarily set development fees above the levels required to fund services, and then fail to deliver better or expanded services, they elicit public cynicism and resentment.

A second point of controversy regarding local development fees concerns their contribution to the high cost of housing. State housing element law requires cities and counties to include "fees and other exactions required of developers" in analyzing and removing governmental constraints to provision of housing for all income levels (California Government Code § 65583). Theory suggests, and some empirical studies demonstrate, that fees contribute directly to the higher housing prices, especially during periods of strong housing demand. (During periods of weak housing demand, fees are typically capitalized backward into lower land prices.) In California, where average home prices and rents are already extremely high, and where supply forever struggles to keep pace with demand, any factor that adds to the cost of housing — especially housing for low- and middle-income households — must be examined with particular scrutiny.

There have been numerous fee surveys conducted in California to date (see, for example, Building Industry Association of Northern California 1991; Lowry and Ferguson 1992; Sacramento County 1997; and the Public Policy Institute of California 1997). Though well intended, most are deficient in at least one of four ways for comparative analysis. Either they are too limited in scope and only cover a specific local market; or they cover some but not all fees; or they are based on locally non-standard product types; or they are based on a survey methodology which does not adequately insure an "apples-to-apples" comparison.

To enable a broader statewide perspective, the Institute of Urban and Regional Development and the California Department of Housing and Community Development (HCD) undertook a sample survey and analysis of the status of residential development fees in California in 1999. This report summarizes the key findings of that survey. The study focused on determining the level of inter-jurisdictional variation in residential development fees, and identifying the contribution of development fees to California's high housing costs.

This report is organized into seven chapters. Chapter Two presents the history of development fees in California, the economic rationale for charging development fees, and their legal basis under federal and California law. Chapter Three outlines the survey methodology. Chapter Four examines regional variations in fee assessment practices. Chapter Five more closely investigates spatial and non-spatial patterns of fee variations. Specifically, it tries to get at where and why residential development fees vary so much. Chapter Six considers the impacts of residential development fees on housing prices and rents. Chapter Seven summarizes the entire report and suggests changes in fee assessment practices designed to improve their efficiency and fairness.

This document presents an analysis of the current state of practice, but it is not a legal analysis or assessment. It is not intended to, and does not purport in any way to assess local compliance with statutory or legal provisions relative to the calculation, imposition, collection, or expenditure of development fees.

Chapter 2

Residential Development Fees - the California Context

A Brief History of Development Fees in California

The history of development fees in California can be separated into two eras, one before the 1978 passage of Proposition 13, and one after. Prior to 1978, California cities, counties, and public utilities charged development fees principally to cover the direct costs of development and building permit reviews, and on-site utility hookups. The indirect costs of development reviews — that is, the costs of maintaining local planning and building department staffs — were typically covered out of general revenues. The costs of off-site capital improvements, including roads, utility systems, public safety and school facilities, and parks were paid out of bond revenues, special assessment revenues, and general revenues; from federal and State grant funds; and, in the case of local public utilities, out of the rate base. City and county governments provided most services. Other than for drainage, irrigation, water supply, and mosquito abatement, assessment districts were relatively uncommon. Development fees were a minor part of local budgets.

A number of forces have progressively eroded public financing of infrastructure in California over the last three decades. California's strong population and economic growth have driven infrastructure demand, while the federal and State roles in infrastructure finance have declined, the autonomy of local governments' in raising public capital for infrastructure has been constitutionally and legislatively curtailed, and multiple infrastructure projects must compete for voter support.[2] Federal infrastructure grants to local governments started declining in the early 1970s, forcing communities to rely more on local revenues. The costs of building capital facilities were also rising as a result of higher interest rates. Property tax bills then started to rise, pushed upward by higher property values and increased local revenue needs.

Proposition 13, enacted in 1978, was a grassroots response to a State and local public finance system perceived to be growing out of control. Proposition 13 limited the basic property tax rate to one percent of assessed valuation and the annual rate of assessment growth to two percent. Property could be reassessed to market value only when it was sold. To prevent local agencies from raising other taxes to compensate for the declines in property tax revenues, Proposition 13 further required that all "special taxes" be approved by two-thirds of local voters.[3] By forcibly restraining the rate of revenue growth, its backers argued, Proposition 13 would force local officials to become more efficient in how they delivered services. Because it immediately rolled back assessments to 1977 levels, Proposition 13 led to modest cutbacks in city and county expenditures — cutbacks that would have been much more extreme had it not been for an immediate state bailout. Over the

longer term, it forced cities to increase their reliance on other types of revenue sources — three in particular: (1) fees and service charges; (2) earmarked debt, including revenue bonds, assessment district bonds, and lease-obligation bonds; and, (3) where redevelopment districts were in place, tax increment financing.

Responses to Proposition 13

Initially at least, many California jurisdictions were reluctant to substantially increase fees. They hoped instead that a combination of State bailouts, normal property turnover, increased property values, and downsized local services would enable them to operate within the fiscal constraints imposed by Proposition 13. By the early 1980s, with the State's economy in recession, it was clear that this strategy would no longer work. Faced with now systemic fiscal problems, California communities responded in three ways. First, they gradually began to amend their plans and permitting processes to discourage the development of high-service-cost, low-revenue-potential land uses such as housing; and to encourage instead the development of low-service-cost, high-revenue-potential land uses such as shopping centers and auto malls. Second, they sponsored the creation of benefit assessment districts to fund new and existing city services.[4] Third, and from the perspective of this report, most important, they began ratcheting up existing development and impact fees, as well as adding new ones. Builders and developers protested these increases, but without much immediate effect. When the economy recovered in 1984, and housing embarked on a five-year period of double-digit price appreciation, builders found they could pay higher fee costs and still make healthy profits. Between 1983 and 1996, development-related fees and service charges as a share local revenue rose from 13 to 18 percent .[5]

Table 1: The Contribution of Selected Fees and Service Charges to Local Revenues 1983-84 and 1996-97

	Fee Revenues		Fees per Capita		Fees as a Share of Local Revenues	
	1983-84	1996-97	1983-84	1996-97	1983-84	1996-97
CITIES						
Zoning Fees	$26,555,000	$62,063,000	$1.35	$0.23	0.20%	0.22%
Plan Check Fees	46,605,000	108,069,000	2.37	0.41	0.35%	0.38%
Engineering Fees	36,709,000	147,014,000	1.87	0.55	0.47%	0.30%
Sewer Connection & Service Fees	509,599,000	1,670,495,000	25.95	6.29	5.43%	7.05%
Water Connection and Service Fees	780,545,000	2,113,848,000	39.74	7.95	6.88%	10.08%
Total	1,400,013,000	4,101,489,000	71.28	15.43	13.33%	18.03%
COUNTIES						
Planning & Zoning Charges	$55,418,923	$80,395,407	$9.60	$13.07	0.47%	0.67%
Zoning Permits	6,353,817	12,038,213	1.10	1.96	0.05%	0.10%
Construction Permits	54,874,924	87,494,465	9.50	14.22	0.47%	0.73%

Source: California Controller's Office, *Financial Transactions Concerning Cities, Financial Transactions Concerning Counties, 1983-84, 1996-97*

Local reliance on development fees increased at the same time that many Californians were beginning to tire of growth. With new infrastructure investments, especially highway construction, lagging far behind population growth, Californians everywhere found themselves paying higher housing and real estate prices for what they perceived to be reduced public service quality. Throughout the State, indeed, throughout the country, the argument was increasingly heard that growth should be reduced, or else forced to entirely "pay its own way."

What is meant by this term varies. When economists and public finance experts say growth should be made to pay its own way, they mean that developers should pay the *marginal capital costs* directly attributable to their projects. Such costs are two-fold: they include the capital costs of providing public services to the projects themselves, as well as the costs of remedying project-based declines in public service quality (e.g., road and recreational congestion).

What citizens and public officials mean by growth paying its own way is often something different. They mean that new development projects should be required to mitigate all existing and prospective environmental and service quality deficiencies regardless of their particular sources — that is, development should be required to pay the *cumulative* costs of growth. The difference between marginal capital costs and cumulative costs can be large or small, depending on how carefully municipal governments project and plan for longterm growth needs; depending on the standards against which deficiencies are judged; and most important, depending on how capital infrastructure is financed.

To help communities and builders cope with the effects of Proposition 13, the Legislature in 1982 enacted the Mello-Roos Community Facilities Act, giving counties, cities, school districts, and special districts the additional authority to establish community facilities districts (CFD) within their jurisdictions. With two-thirds approval of the district voters, tax-exempt bonds may be issued to fund infrastructure, and special taxes levied to repay the bondholders. If, as is often the case in developing areas, there are fewer than twelve registered voters residing in a prospective CFD, approval of two-thirds of the landowners in the district is sufficient. This last provision has made it possible for groups of private landowners or developers, with the cooperation of their respective jurisdictions, to access tax-exempt (and thus lower cost) infrastructure construction financing. To the extent that Mello-Roos bonds pay for the construction of facilities that would otherwise be paid for out of development fees, they make it possible for jurisdictions to charge lower fees.[6] According to the California Debt Investment and Advisory Commission, 575 Mello-Roos bonds had been issued for capital improvements as of December 2000, with the majority in Southern California.

In 1990, the Legislature authorized infrastructure financing districts, which can issue bonds to finance public works and facilities, to be repaid from future property tax increment revenues.[7] This tool can be used outside redevelopment districts, and is not restricted to use in "predominantly urbanized" or "blighted" areas, as is the case for redevelopment tax increment financing.

AB 1600

Except for park dedication fees, California local governments had long had significant discretion regarding fee setting. This changed in 1987 when, in response to mounting concerns over the proliferation of local development fees and the general lack of accountability in fee setting, the California Legislature enacted AB 1600, also known as the Mitigation Fee Act (California Government Code §66000-66025).[8,9,10] Section 66001(a) requires that any city or county which establishes, imposes, or increases a fee as a condition of development approval do all of the following: (1) identify the purpose of the fee;(2) identify the use to which the fee is to be put; (3) determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed; and, (4) determine how there is a reasonable relationship between the need for the public facility and the type of development project upon which the fee is imposed. Section 66001(b) further requires that the city or county determine whether there is a "reasonable relationship" between the specific amount the fee imposed and the costs of building, expanding, or upgrading public facilities. Such determinations, also known as *nexus studies*, are to be made in written form and must be updated whenever new fees are imposed or existing fees are increased.

The Act also requires cities to segregate fee revenues from other municipal funds and to refund them if they are not spent within five years. Any person may request an audit to determine whether any fee or charge levied by the city or county exceeds the amount reasonably necessary to cover the cost of the service provided (California Government Code §66006(d)). Under California Government Code §66014, fees charged for zoning changes, use permits, building permits, and similar processing fees are subject to the same nexus requirements as development fees. Lastly, under California Government Code §66020, agencies collecting fees must provide project applicants with a statement of the amounts and purposes of all fees at the time of fee imposition or project approval.

Although that was not its purpose, AB 1600 did little to discourage local governments from imposing or raising development fees. What it did do, together with the U.S. Supreme Court's *Nollan* and *Dolan* decisions, was to force local governments to be more careful, deliberative, and transparent regarding their fee-setting practices.

Recent Developments

Upward pressure on fees has also come from Proposition 218, which California voters passed in November 1996. Sponsored by the Howard Jarvis Taxpayers Association—the same group that had championed Proposition 13—Proposition 218 requires that all new or increased local and statewide taxes, including those in charter cities and many types of special assessment districts, be approved by a majority of qualified voters or, depending on the provisions of the law, a two-thirds vote of the electorate. Special assessment districts formed explicitly to get around the tax limits imposed by Proposition 13 were dissolved. A limited number of benefit assessment districts formed prior to November 1996 were exempt from Proposition 218;[11] all others were to have been approved by ballot by July 1, 1997.

Proposition 218's effect on development fees, while indirect, has been significant. According to the wording of the initiative, it was not to be construed to "affect existing laws related to the imposition of fees or charges as a condition of property development." Rather, by reducing the financial resources available to local governments through the collection of assessments. Proposition 13 forced local governments to look elsewhere to cover their infrastructure and service costs. The two places they usually looked were increased sales tax revenues, pursued through fiscal zoning, and higher development fees.

School fees have emerged in recent years as a special class of development fees. In 1985, the California Supreme Court held that a city could impose fees on new construction to mitigate impacts on school districts *(Candid Enterprises, Inc. v Grossmont Union High School Dist.*, (39 Cal. 3d 878)). One year later, in an attempt to limit school fees, the Legislature enacted the School Facilities Legislation (also known as the Sterling Act), prohibiting public agencies from denying project approvals based on the adequacy of local school facilities; and capping school fees at $1.50 per square foot of residential development, and $.30 per square foot for commercial development, subject to biennial adjustments for inflation; and preempting school districts from imposing additional school fees or special taxes on developers. The 1999 cap was $1.93 per square foot.[12]

Further changes to State law occurred in 1999. SB 50, enacted in 1998 (and confirmed by the passage of Proposition 1A, also in 1998), amended California Government Code §65995(a) to prohibit the imposition of school impact fees, dedications, or other requirements in excess of the Sterling Act limit. Specifically, SB 50/Proposition 1A overturned the effects of prior court cases (Mira, Hart, and Murrieta), by providing that statutory limits on school impact fees would apply to both legislative and adjudicative acts.

Further, SB 50 updated the provisions of the Sterling Act to allow for a base amount of allowable developer fees, commonly referred to as "Level 1" fees, which are subject to adjustment every two years. In January 2000, Level 1 fees were adjusted to $2.05 per square foot of residential construction. After January 1, 2000, school districts are allowed to exceed Level 1 fees and impose higher fees only if they meet two of four conditions: (1) the school district must be on a multi-track, year-round schedule; (2) there must have been at least 50 percent voter support for prior school bond ballot issues; or, (3) of pre-specified school district thresholds for bond support; and, (4) the school district must have exceeded the minimum proportion of relocatable classrooms. Still higher fees — Level 3 — may be imposed in the event the State's bond funds are exhausted. Last, SB 50 established a down payment assistance program, administered by the California Housing Finance Agency (CHFA), whereby homeowner assistance is calculated according to the amount of school facility fees paid by the builder.

The Economic Logic of Development Fees

As the previous section suggests, the history of development fees in California is steeped in fiscal and political pragmatism rather than careful financial analysis. This caveat notwithstanding, the practice of fee-setting is not entirely ad hoc. There are sound economic arguments why jurisdictions should charge development fees and sound criteria for determining how much they should charge. Most capital infrastructure and many public services costs are economically "lumpy." That is, they are supplied in fixed increments, each of which is by declining costs (i.e., the cost of delivering the next increment of service or capacity is less than the cost of delivering the previous increment). Many service costs also vary spatially; that is, it costs more to provide services to households and businesses that are located far away than nearby. Assuming that the users of urban services must in aggregate pay the full capital and operating costs of providing them — that is, there are no subsidies—service providers must determine an appropriate schedule of prices, or fees. Two methods present themselves as appropriate; (1) *average cost pricing*, in which the cost of service provision is evenly divided among all service users; and, (2) *marginal cost pricing*, in which each service user pays only the additional cost of the added service (typically marginal cost declines as the number of users or volume of service increases).

Although average cost pricing is easier to implement, economists have long advocated the use of marginal cost pricing. Unlike average cost pricing, marginal cost pricing effectively discourages congestion or service over-use. Similarly, in the case of services whose costs vary spatially, marginal cost pricing serves to discourage sprawl or land over-use.

Notwithstanding its many theoretical advantages, marginal cost pricing is not widely used in practice. For one thing, identifying who uses how much of a given service at a given time requires an exceptionally high level of usage monitoring. Also communities may not want to distinguish between individual service users in the name of fairness or equity.

Efficient public service pricing requires not only determining *how much* to charge, it also requires determining *whom* to charge (Blewett and Nelson 1995). In a world without congestion or in which every increment of additional capacity cost the same to provide, this would not be an issue: there would be no need to charge development fees. Whether through taxes or assessments, local governments would simply charge every member of the community the same total service price, regardless of who they were, how they used land, or when they moved to the community.[13] However, in a world with congestion, or in which there are increased costs of providing additional service capacity, the total costs imposed upon the community by new members — that is, by growth — may be significantly greater than the costs of providing services to the existing resident base. [14] Similarly, because some types of activities may cause increased congestion or require higher levels of service, the costs of providing additional services may vary by activity or land use. This is the situation in which development fees make economic as well as political sense. These "new member fees," or impact fees, can, if reasonably designed, approach the efficiency of marginal cost pricing without being overly intrusive or inequitable.

In theory, an efficient and equitable development fee should include two components: (1) a pro rata share of the capital cost of producing the service; and, (2) a pro rata share of the capital costs associated with delivering the service to the consumer. The non-capital or short-run costs of service production should be included in the service price and not in the development fees (most states, including California, do not allow capital facilities fees to be used to cover operating costs). To the extent that the capital cost of producing additional service increments rises or falls over time, the development fee can be changed accordingly. Similarly, to the extent that it is more costly to serve far-flung development, or to serve specific development forms, the development fee can be set to vary spatially, or by land-use, or with density. Viewed in this way, the process of setting impact and development fees should necessarily begin with a careful analysis of the costs of providing facilities to particular growth increments, land uses, densities, and locations.

As with most financial matters, fee-setting is easier in theory than in practice. Indeed, mis-set development fees may serve to make urban development patterns less efficient, not more efficient. Three consequences are of special worry. First, lacking sufficient oversight, there may be incentives for existing residents through their local officials to boost fees to discourage the construction of building forms regarded as onerous or costly (e.g., apartments or starter homes). In the short-run, and in the presence of strong growth pressures, this will have the desired effect of increasing property values while reducing relative service costs.[15] The interests of new residents who must pay higher housing prices, or of potential residents priced-out of the community are not taken into account. Second, in situations where residents (through their elected representatives) may set fees as they please, there are incentives to require new entrants to pay the higher costs associated with upgrading existing community services. In effect, new residents are asked to subsidize existing ones.[16] The California Supreme Court has determined this practice to be illegal (*Rohn v. Visalia, 1989; [214 Cal App. 3rd 1443]*); however, it is implicit to some degree whenever fees are set on the basis of average cost.

Third, mis-set fees may also produce spatial distortions. Should fees be set too high in one community and too low in another, all else being equal, development will be attracted from the former to the latter. To the extent that low-fee communities are at, or beyond the urban fringe, this may exacerbate rather than reduce sprawl.

The Legal Basis of Fees in California

Court Determinations. The legal ability of local governments to charge development fees rests in the same body of law governing the use of development exactions. Both are based on the principle that property development in California is regarded as a privilege and not a right. Since it is the developer who seeks to acquire the economic advantages of development, he or she must comply with reasonable conditions to ease the burden of that development on the community.

This presumption notwithstanding, the ability of local governments to require exactions is not unlimited (Curtin 1999). An exaction must pass three tests in order *not to* constitute a "taking:" (1) it must advance a legitimate government interest; (2) it must substantially further the same interest; and, (3) the amount of the exaction or condition of approval cannot unreasonably exceed the burden created by the project, or deprive the owner of "economically viable use" of their property. Taken in combination, the second and third conditions require that there be an identifiable relationship, or *nexus,* between the circumstances of the fee imposition, its amount, and the burden imposed by the proposed development upon the community.

As a rule, California case law has long required a nexus. And the more direct the nexus, the better. In 1971, the California Supreme Court broke whatever direct nexus theory might have previously existed *(Associated Homebuilders v. City of Walnut Creek* (4 Cal. 3d 633)), by ruling that in the absence of a more restrictive statute, a dedication could be required based on the existence of a "reasonable relationship," between the exaction and development impacts. In defining reasonableness, the California courts, like their federal counterparts, do not apply precise rules. Rather, they rely on an ad hoc analysis and look at the facts of each case. Their determination depends on the size of the development, the demand for services, the burden that will be created by the development, and its overall effect on the city or county and surrounding communities.

For every action, there is a reaction: the very broadness of the court's nexus interpretations encouraged developers and property rights lawyers to bring cases designed to restrict it. In 1987, they persuaded the U.S. Supreme Court to hear what would become the landmark case on the law of exactions, *Nollan v. California Coastal Commission* (483 U.S. 825). In a 5-4 decision, the Supreme Court struck down the California Coastal Commission's requirement that the Nollans dedicate a public access easement across their property, ruling that there was no nexus between the impacts of the proposed project and the easement requirement. *Nollan* was not a ruling against exactions or fees. Rather, the court simply reimposed the requirement that there be a clear and direct nexus between a proposed project and any required exaction. Indeed, Justice Scalia, writing for the majority, stated that the California Coastal Commission would have been well within its rights to require the Nollans to build a public viewing deck because such a condition would have met the nexus test.

In 1994, in *Dolan v. Tigard* (512 U.S. 374), the Supreme Court added the second prong of its nexus test. In *Dolan*, a once-again divided court ruled that local governments must prove that development conditions placed on a discretionary permit have a "rough proportionality" to the development's impact. While acknowledging the merits of the "reasonable relationship" nexus test adopted by a majority of states (including California), the court nonetheless rejected it as too minimal, and instead put forth their rough proportionality test. The court stated, "No precise mathematical calculation is required, but the city must make some sort of individualized determination that the required dedication is related both in nature and extent to the impact of proposed developments."

The *Nollan* and *Dolan* cases dealt with reasonableness of exactions, and not, at least explicitly, fees. In *Ehrlich v. City of Culver City* (12 Cal. 4th 854 (1996)), the California Supreme Court turned its attention to the issue of impact fees. In 1988, Richard Erlich applied for a permit to build condominiums on a site he owned in Culver City. The City agreed to grant the permit, on the condition that Erlich pay a $280,000 recreational impact fee to mitigate the loss of four tennis courts at a club on the site, even though the club was private and had been closed for several years. Erlich sued the city, claiming that the fee amount was unfair, and thus amounted to an unconstitutional taking of his property. The California Supreme Court did not agree, admitting that while $280,000 might have been a bit excessive (and therefore remanded the determination of the fee amount back to the City Council), with respect to the legitimacy of the fee itself, the City had indeed met "its burden of demonstrating the required connection or nexus between the rezoning...and the imposition of a monetary exaction…in support of recreational purposes."[17]

Whereas the message of *Nollan* and *Dolan* was that cities would be held to a stricter "rough proportionality" test, the message of *Erlich* was that when fees are imposed as part of a broader policy scheme — as is the case for a valid general plan or specific plan — the courts, at least in California, are willing to accept the more traditional and much weaker reasonable relationship test. Curtin (1999) sums up the legal implications of *Erlich* as follows:

- The Nollan/Dolan rough proportionality test is only applicable to development fees imposed on an individual ad hoc basis in a discretionary permitting process, and not to legislatively determined fees.

- Nor is Nollan/Dolan applicable to legislative acts of a general class (e.g., housing fees imposed on commercial developers).

- If a developer wants to challenge the constitutionality of an individually applied fee, it must follow the statutory framework set forth in the Mitigation Fee Act (California Government Code §66000-66025).

- An ordinance or fee enacted for aesthetic purposes alone is well within the scope of a city's police power.

The courts have also made findings with respect to the constitutionality and applicability of specific types of fees, most notably affordable housing, transit, and school fees. In *Commercial Builders v. City of Sacramento* (941 F.2d 872 (1991)), the court upheld Sacramento's low-income housing fee on nonresidential development, finding that there was a reasonable relationship between nonresidential construction and an increased demand for affordable housing. In *Blue Jeans Equities West v. City and County of San Francisco*, (3 Cal App. 4th 164 (1992)), the court of appeals upheld San Francisco's transit linkage fee, arguing that the stricter *Nollan* "rough proportionality" test applied to possessory takings but not to regulatory takings. Specifically, the court found that "the

high court appears to make a distinction between 'regulatory takings' — i.e., economic regulation, most forms of zoning, and other restrictions on land use — and 'possessory takings,' where the government or an authorized third party physically intrudes upon or appropriates the property."

Not surprisingly, the courts give greater legitimacy to fees when they are backed by formal findings and studies. In *Russ Building Partnerships v. City and County of San Francisco* (199 Cal App. 3d 1496 (1987)), the California Appeals Court upheld San Francisco's controversial $5 per square foot transit linkage fee because it was based on a detailed study of non-residential trip generation rates. The same court, in *Bixel Association v. City of Los Angeles* (216 Cal. App. 3d 1208 (1989)), struck down Los Angeles' fire hydrant fees as undocumented. *Russ* and *Bixel* predated both *Nollan* and the Mitigation Fee Act.

The courts have been somewhat less clear in the case of school fees. In *Mira Development Corp. v. City of San Diego* (205 Cal App. 3d 1201 (1988)) and *William S. Hart Union High School Dist. v. Regional Planning Commission* (226 Cal App. 3d 1612 (1991)), the California Appeals Court ruled that the Sterling Act (limiting the amount school districts could charge for school fees) applied only to administrative approvals and not to legislative approvals; and that cities and counties could modify or even deny approvals based on inadequate school facilities. However, in a later case, *Murrieta Valley Unified School District v. County of Riverside* (228 Cal. App. 3d 1212 (1991)), the court noted that because the State Legislature through the Sterling Act had pre-empted school financing, cities and counties could not impose additional school fees, unless set forth legislatively through an adopted general plan.

California Statutes Regarding Processing Fee

In addition to capital facilities fees (which are regulated under the Fee Mitigation Act), State law allows cities and counties to collect processing fees to cover the costs associated with reviewing and processing development applications, including zoning changes, use permits, building and inspection permits, and various other discretionary and administrative permits as required by local government. California Government Code §66020 covers processing fees, and it is much more explicit regarding how tightly permitting and plan processing fees must reflect planning and permitting processing costs:

> "(a) Notwithstanding any other provision of law, when a local agency charges fees for zoning variances; zoning changes; use permits; building inspections; building permits; filing and processing applications and petitions filed with the local agency formation commission or conducting preliminary proceedings or proceedings under the Cortese-Knox Local Government Reorganization Act of 1985, Division 3 (commencing with Section 56000) of Title 5;the processing of maps under the provisions of the Subdivision Map Act, Division 2 (commencing with Section 66410) of Title 7; or planning services under the authority of Chapter 3 (commencing with Section 65100) of Division 1 of Title 7 or under any other authority*; those fees shall not exceed the estimated reasonable cost of*

providing the service for which the fee is charged, unless a question regarding the amount of the fee charged in excess of the estimated reasonable cost of providing the services or materials is submitted to, and approved by, a popular vote of two-thirds of those electors voting on the issue {italics added}. (b) Any judicial action or proceeding to attack, review, set aside, void, or annul the ordinance, resolution, or motion authorizing the charge of a fee subject to this section shall be brought pursuant to Section 66022."

Results of Prior Fee Studies

Because they vary so widely and are a sizeable component of housing production costs, development fees have been comparatively studied in California. Among the more recent study results:

- In August 1979, the Association of Bay Area Governments administered the first comprehensive fee survey in the State, covering both residential and commercial development. Forty-nine Bay Area cities and six counties responded. The survey found wide variations in local fees. Total development fees on multifamily units, for example (based on a prototypical seven-unit apartment building), were found to range from a low of $140 to a high of more than $3,500. As expected, cities with the highest ratios of retail and industrial development to residential development had the lowest fees. Cities that were growing slowly, or not at all, also had lower fees. Also as expected, fees were generally highest in fast-growing cities. Many respondents reported that their fees had doubled or even tripled in the aftermath of Proposition 13. Whereas many jurisdictions had charged developers less than the full costs of planning services, utilities, and other capital facilities prior to Proposition 13, most respondents reported that they planned to gradually raise fees to full-cost levels. Lastly, ABAG reported that cities used a wide variety of methodologies to set or raise fees, ranging from simple percentage increases, all the way to average-cost pricing.

- ABAG resurveyed its membership in 1981 to determine how the fee situation had changed. While fees had generally increased throughout the Bay Area (e.g., the range of multifamily fees, for example, had increased from $230 to $5,200 per unit), there was still tremendously wide variation in local fee rates. Fees on single-family homes were found to range from $420 per unit to $8,568. Altogether, median total development fees had increased 32 percent from 1979 and 1981 for single-family homes, 28 percent for multifamily dwellings, 46 percent for restaurants (the prototypical commercial use), and 24 percent for print shops (the prototypical industrial use). Among single and multifamily dwellings, the average fee had increased much more than the median fee, suggesting that a good number of Bay Area jurisdictions were charging much higher fees in 1981 than they had in 1979. As in 1979, fast-growing cities had both the highest fees and had increased fees the most.

- A 1991 inventory of planning, building, and growth fees in the San Francisco Bay Region (including San Benito, Monterey, Santa Cruz, San Joaquin, and Solano counties) undertaken by the Building Industry Association of Northern California (BIANC) found that single-family development fees had increased an average of 223 percent between 1981 and 1991, and 49 percent between 1987 and 1991.[18] Among the 56 Northern California jurisdictions surveyed, 1991 fees varied from a low of $7,031 in San Francisco, to a high of $28,236 in Tracy; the average fee was $13,763. Among individual fees, traffic impact fees varied the most between jurisdictions, followed by general growth fees; school impact fees varied the least. Less than one-third of the 56 jurisdictions surveyed charged fire and police impact fees, and only six (Livermore, Pleasanton, San Rafael, Tiburon, Petaluma, and Rohnert Park) charged affordable housing fees.

- A 1992 study by Lowry and Ferguson comparing development regulation and housing affordability in three U.S. metropolitan areas—Sacramento, Nashville, and Orlando—found fees to be highest in Sacramento and lowest in Orlando. Development fees among Sacramento area jurisdictions averaged $9,998 per dwelling unit, and ranged between $2,923 and $21,565. At the opposite extreme, development fees among Orlando area jurisdictions averaged just $3,772.[19]

- A 1994 study of building permit fees in 21 Central Valley jurisdictions found per home building permit and associated inspection fees to range from a low of $792 in Modesto (based on a 1991 schedule) to a high of $2,014 in Ripon (based on a 1994 schedule). The average fee $1,565. Among subdivision projects, per-unit fees were between five percent and 25 percent higher for the first home than for subsequent homes.

- A 1997 study by Sacramento County planners compared five types of residential development fees across 13 jurisdictions and planning areas in the County region. Total 1996 per-lot fees for a standard 1,800 square foot subdivision home varied from a low of $11,380 in Carmichael, to a high of $35,441 in north central Roseville. The average fee for the five locations in unincorporated County was $18,711, compared to $26,559 for the locations in nearby cities and counties. Looking past simple averages, there was as much fee variation among unincorporated areas of the County as among incorporated jurisdictions. Among individual fee categories, broad-based development fees, capital facilities fees, and school mitigation fees varied the most, while planning and area-specific fees varied the least.

- A 1997 study by the Public Policy Institute of California of fees and exactions in seven cities in central and eastern Contra Costa County during the mid-1990s found development fees to range between $20,000 and $30,000 per dwelling unit (Dresch and Sheffrin). Fees were typically lower in cities that used Mello-Roos or local assessment bonds to pay for capital improvements. In one community, fees and assessments represented 19 percent of the mean housing sales price.

Whether fees were passed forward or backward depended mostly on economic conditions. When and where the demand for housing was weak, fees were disproportionately paid by landowners and developers in the form of reduced land and housing prices. In strong-demand markets, fees were disaproportionately paid for by homebuyers in the form of higher prices.

- Every year, the Building Industry Association of Southern California/Orange County Chapter surveys Orange County jurisdictions regarding local planning, building, subdivision, capital facilities, and school fees. Fees are developed and compared on the basis of ten-acre parcels, divided into 50 single-family home lots. In its most recent publications, the BIA has refrained from comparing fees across jurisdictions. Noting the lack of transparency in setting and assessing fees, and the trend toward fee proliferation, in its 1998 report, the BIA/OC urged Orange County jurisdictions to work toward the inclusion of all development fees into a comprehensive and succinct fee schedule.

- There are a number of California communities who reported having capital improvement plans. In a survey by the State Office of Planning and Research in 1994, 180 cities and seven counties indicated they had capital improvement plans connected to their general plans.[20]

A study of over 5,800 new home sales in four Florida communities from 1971–1982 found builders were able to pass the total cost of impact fees on to the new homebuyers in the form of higher prices. In this study, 12 consecutive years of new housing prices were compared for a single community that had imposed impact fees, relative to three other communities without impact fees in the same housing market. The housing stock of the communities was similar and geographic proximity was such that new housing units could reasonably expect to be viewed as close substitutes. The study found that impact fees resulted in increases in new home sales in the subject community relative to the other communities over a significant period of time, although the price differential dissipated after approximately six years due to several factors.[21]

Chapter Summary

Development fees in California are high and getting higher: Beginning with the passage of Proposition 13 in 1978, development fees have become an ever larger and more important part of city and county budgets. Development fees are an important component of local capital facilities budgets, especially in fast-growing communities.

California communities have considerable discretion in setting most types of fees: Except for school fees and in-lieu park fees, the courts and the California Legislature give local governments substantial discretion regarding the number, type and amount of local development fees. The courts and State statutes require only that there be a "reasonable relationship" between the impacts generated by new development and the types and amounts of fees charged. Worried that school impact fees were becoming too ad hoc, the California Legislature enacted in 1985 the School Facilities Legislation (also known as the Sterling Act), prohibiting public agencies from denying project approvals based on the adequacy of local school facilities; preempting school districts from imposing additional school fees or special taxes on developers; and capping school fees at $1.50 per square foot of residential development, subject to biennial adjustments for inflation. The current cap is $2.05 per square foot.

By law, capital facilities fees must be linked to capital costs: Two years later, in 1987, the Legislature enacted AB 1600, also known as the Fee Mitigation Act, requiring cities and counties imposing capital facilities fees to conduct periodic studies documenting the relationship between the specific amount of any capital facilities fee imposed and the costs of building, expanding, or upgrading public raising development fees. What it did do, together with the U.S. Supreme Court's *Nollan* and *Dolan* decisions, was to force local governments to be more careful, deliberative, and transparent regarding their fee-setting practices facilities. The Act also requires localities to segregate fee revenues from other fund sources and to refund them if they are not spent within five years. Although that was not its explicit purpose, AB 1600 did little to discourage local governments from imposing or raising development fees. What it did do, together with the U.S. Supreme Court *Nollan* and *Dolan* decisions, was to force local governments to be more careful, deliberative, and transparent regarding their fee-setting practices.

For simplicity's sake, most fees are set on the basis of average, not marginal costs: Fees should make economic as well as legal sense. Two methods of fee-setting present themselves as appropriate: (1) *average cost pricing*, in which the cost of service provision is evenly divided among all service users; and, (2) *marginal cost pricing*, in which each service user pays his or her share of the costs of service provision. Although average cost pricing is easier to implement, economists have long advocated the use of marginal cost pricing. Marginal cost pricing effectively discourages congestion or service over-use. Similarly, in the case of services whose costs vary spatially, marginal cost pricing serves to discourage sprawl or land over-use. Its many theoretical advantages notwithstanding, marginal cost pricing is not popular in practice. Identifying who uses how much of a given service at a given time requires an exceptionally high level of usage monitoring. For equity reasons, many communities prefer not to distinguish between individual service users.

There have been many fee studies, but none are comprehensive: Both nationally and within California, development fees are a favorite subject of comparative studies. A 1991 inventory of planning, building, and growth fees in the San Francisco Bay Region undertaken by the Building Industry Association of Northern California (BIANC), found that single-family development fees varied from a low of $7,031 to a high of $28,236; the average fee was $13,763. Among individual fees, traffic impact fees varied the most between jurisdictions, followed by general growth fees; (averaging $9,998 per unit) and lowest in Orlando (averaging just $3,772 per unit). A 1997 study by the Public Policy Institute of California of fees and exactions in seven cities in central and eastern Contra Costa County during the mid-1990s found development fees to range between $20,000 and $30,000 per dwelling unit.

Chapter 3

Research Design & Methodology

Research Design & Sample Selection

Previous studies of development fees in California suffer from a variety of shortcomings. First, they have considered only selected product types — usually free-standing single-family homes — rather than a mix of housing product types. Second, they focused on a selected set of fees — typically just planning, building, and development fees — rather the full set of fees paid by developers, homebuilders, and ultimately buyers and renters. Third, they have tended to involve "apples-to-oranges" rather than "apples-to-apples" comparisons. That is, the designs and configurations have been allowed to vary between jurisdictions.[22] This has made it difficult to determine whether fee differentials are the result of inter-jurisdictional differences in fee assessment practices or differences in design. Last, and from a statewide policy perspective, perhaps most important, previous fee studies have focused on specific regions and counties and have not been statewide in scope. Within regions, moreover, the choice of which jurisdictions to compare has often depended upon data availability.

This study attempted, to the extent possible, to avoid these pitfalls. With California currently suffering an acute statewide shortage of both rental housing and, in coastal markets, ownership housing the differential contributions of fees to the costs of building single-family subdivision homes versus apartment units were identified. With so much controversy over sprawl, whether and how California jurisdictions are using fees to encourage or discourage infill housing construction was examined.

Development fees are the most visible form of local fees, but they are not the only form. Most California jurisdictions charge planning, environmental assessment, and subdivision fees. Jurisdictions with growth management programs also frequently charge growth management fees. All California jurisdictions charge building permit and building inspection fees. Development fees themselves come in various forms, including connection and hookup fees, capital facilities fees, "in-lieu" fees, and administrative fees and taxes. With the goal of identifying the precise contributions of all fee payments to local housing costs, these and all other fees associated with housing development were identified.

Under Article XI, Section 11 of the California Constitution, cities and counties are the only sub-state governmental units of government allowed to collect fees. Cities and counties may assess and collect fees on their own behalf to fund city-owned capital facilities — or, on behalf of other public agencies, including school districts, special districts, utility districts, Mello-Roos districts, and regional and State agencies.[23] As with the different fee types, above, the most complete list possible of fee-administering agencies were identified.

To insure an "apples-to-apples" comparison, a standardized survey instrument was developed and administered a standardized survey instrument. Initially administered through the mail, the survey was organized into six sections. The first section requested general respondent and contact information. The second section asked local respondents to identify which fees were charged in their jurisdictions by agencies under the umbrella of the local municipal government and other local, regional or State agencies. The third section was a comprehensive fee worksheet for three distinct residential development models: a 25-unit single-family subdivision, a single-family infill unit, and a two-story, 45-unit, multifamily townhouse development. Detailed specifications on the site layout and area, general infrastructure assumptions, unit size and components, and planning entitlement and environmental processing assumptions were supplied for each separate residential development model. These worksheets were initially divided into four sections: Planning Fees, Departmental Fees (Building, Public Works, Engineering Department Fees), Assessment District Fees, and Impact & Development Fees, with a sheet for totaling these fees at the end of the section. The fourth section provided space for the cities and counties to indicate additional jurisdictional requirements for each residential development model, as well as the opportunity to state whether these standardized models were typical for their jurisdiction, and what expected environmental determination would be given to each model. The fifth section allowed the jurisdictions to check off by percentage ranges the prevalence of Mello-Roos districts for both single and multifamily developments within their city or county. The sixth and last section requested information on nexus reports prepared for specific fees within their jurisdiction. The full survey form is included as Appendix A.

Recognizing it was not possible to survey every California jurisdiction, the most representative range of cities and counties were identified for detailed survey work. Sample jurisdictions were selected foremost by location. Specifically identified jurisdictions were in six major geographic regions: the nine-county San Francisco Bay Area, the five-county Central Coast Region, the eight-county San Joaquin Valley Region, the Sacramento Region (composed of Sacramento County and the adjacent western sections of El Dorado and Placer counties), the six-county Southern California region (including San Diego County); and a composite category composed of North Sacramento River Valley counties, and central Sierra Nevada counties. Because they are growing at a far slower rate than the rest of the State, North Coast jurisdictions, in the northern and southern Sierra Nevada Mountains, jurisdictions north or east of Mt. Shasta or Imperial County jurisdictions were not considered. To make comparisons more meaningful within these large regions, sub-regions were further identified (see Table 2):

- The Southern California region was divided into five sub-regions, including North Los Angeles (counties of Ventura and Los Angeles north of the Hollywood Hills), and the counties of Central Los Angeles, Orange, San Diego, and the Inland Empire (Riverside and San Bernardino counties).
- In the Bay Area, jurisdictions in the East Bay (counties of Alameda and Contra Costa), the South Bay (Santa Clara County), the San Francisco Peninsula (counties of San Francisco and San Mateo), and the North Bay (counties of Sonoma, Solano, and Napa) were considered separately.

- Among the counties of the San Joaquin Valley, counties in the North Valley (San Joaquin, Stanislaus, and Merced) and the South Valley (Fresno, Madera, Kern, Kings, and Tulare) were identified separately.
- The Central Coast was divided into a Monterey Bay Region (counties of Monterey, San Benito, and Santa Cruz), and the South Central Coast Region (counties of San Luis Obispo and Santa Barbara).
- The Sacramento Region served as its own sub-region.
- Within the "Other" category, jurisdictions in the Sierra Nevada mountains and foothills were separately analyzed from jurisdictions in the North Sacramento River Valley.

Within each sub-region a mix of representative jurisdiction sizes were identified. To test the hypothesis that some jurisdictions may set fees strategically — that is, either to attract growth from or divert it to neighboring communities — multiple and adjacent jurisdictions in the same housing sub-markets were identified.

The second sample selection criteria after location, was the rate and type of construction activity. Impact fees most affect the cost and price of housing in growing communities. Likewise, the things that impact fees pay for—expanded sewer and water service, new roads and parkland, and new public facilities—are typically most needed in fast-growing communities. Many communities in California also undertake some form of what is known as "fiscal zoning." They use zoning, subdivision ordinances in combination with the California Environmental Quality Act to encourage commercial development and discourage housing construction, particularly apartment and starter-home construction. Fiscal zoning is undertaken in the belief that housing development does not "pay its own way," with respect to the costs of providing public services, and that commercial development does—principally because it generates local sales tax revenues. Given the prevalence of fiscal zoning, the study attempted to determine whether communities set development fees to discourage housing construction in favor of commercial development. With these criteria in mind, the survey sample included: (1) a mix of jurisdictions with both high and low housing supply ratios (the housing supply ratio is the ratio of recent residential building permits to total housing stock); and (2) a mix of jurisdictions with both high and low ratios of residential-to-commercial building permit activity. Estimates of permit activity were obtained from the California Construction Industry Research Board.

The final sample selection criteria was product diversity. The survey included sample jurisdictions in which all three of the housing archetypes presented above (the 25-unit single-family subdivision, the single-family infill house, and the 45-unit apartment building) were being, or had recently been constructed.

Table 2: Sample Jurisdictions by Region and Sub-region
(1998 populations in parentheses)

BAY AREA	CENTRAL COAST	SAN JOAQUIN VALLEY	SACRAMENTO, SIERRAS, & NORTH STATE	SOUTHERN CALIFORNIA
East Bay Berkeley (107,800) Brentwood (17,000) Fremont (198,700) Hayward (126,500) Oakland (396,300) Walnut Creek (63,200)	Monterey Bay Monterey County (102,600) Salinas (128,300) Santa Cruz (54,600) Soledad (22,100) Watsonville (37,150)	North Central Valley Manteca (47,100) Merced (62,100) Modesto (182,700) San Joaquin County (129,400) Stockton (241,100) Tracy (47,550)	Sacramento Folsom (45,600) Lincoln (8,250) Rocklin (29,250) Roseville (66,900) Sacramento (392,800) Sacramento County (616,600)	Central LA Region Arcadia (52,500) El Monte (116,400) Long Beach (446,200) Los Angeles (3,772,500) Los Angeles County (997,000) Pasadena (140,400) Santa Monica (92,600)
Peninsula Brisbane (3,310) Half Moon Bay (11,100) Redwood City (75,200) San Francisco (789,600) San Mateo (93,600)	South Central Coast San Luis Obispo (42,650) San Luis Obispo County (239,000) Santa Barbara (91,200) Santa Barbara County (170,900) Santa Maria (70,800)	South Central Valley Bakersfield (221,700) Clovis (67,700) Delano (34,150) Fresno (411,600) Kern County (281,300) Visalia (94,000) Wasco (20,150)	North State Butte County (103,300) Chico (52,700) Redding (78,500) Shasta Lake (9,350) Yuba City (35,050)	North LA Region Moorpark (29,300) San Buenaventura (101,500) Santa Clarita (143,800) Yuba City (35,050)
North Bay Fairfield (91,600) Napa (69,300) Sonoma Co (151,800) St. Helena (5,925) Vacaville (87,700) Vallejo (111,400 Windsor (19,900)			Sierra/Foothills El Dorado County (115,600) Grass Valley (9,475) Placerville (9,175) S. Lake Tahoe (22,850) Truckee (12,200)	Orange County Dana Point (36,850) Huntington Beach (192,400) Irvine (133,200) Orange County (198,300) Santa Ana (311,200) Tustin (66,400)
South Bay Cupertino (46,700) Gilroy (37,450) Los Gatos (30,100) Saratoga (31,100)				Inland Empire Chino (64,500) Corona (111,500) Moreno Valley(137,200) Norco (25,500) Ontario (143,800) Temecula (46,550) San Diego County Carlsbad (73,700) Chula Vista (162,000) San Diego (1,224,800) San Diego County (2,794,800) Vista (82,900)

Surveying Procedures

The research survey involved three phases. First a "superset" of 150 California cities and counties meeting our sample selection criteria were identified. The survey instrument (see Appendix A) was mailed to local planning directors and directors of community development departments on June 15, 1999, with instructions on how to fill it out and a request that they return it by mail by July 15, 1999. Fourteen communities returned a completed or partially completed survey form.

It was suspected the minimal response to the superset mailing was mostly due to the length and complexity of the survey document and the time required to fill it out. This was later confirmed in the site visits to the jurisdictions. However, other factors also played a part in the poor initial response: the interdepartmental nature of fee pricing and collection; lack of local knowledge with regard to interdepartmental fee calculation methods and specific Mello-Roos, nexus report and jurisdictional requirements; fear of the resultant final fee totals and how their jurisdiction might compare to others both regionally and across the State; as well as a general fear that the specific results might come back to haunt them.

Second, on the basis of the minimal superset responses, a select sample of 89 jurisdictions, was identified, utilizing similar criteria to the selection of the superset, to ensure a representative sample from each of the 16 sub-regions. Arrangements were made to travel to each city that responded to the superset mailing, as well as to all jurisdictions in the select sample. In those jurisdictions that responded to the superset mailing, information was gathered that was missing on the survey document, collected fee schedules and publications to confirm the survey responses, and interviewed various departmental officials to supplement our understanding of jurisdictional requirements, fee pricing methods and nexus report practices.

In the select sample cases, appointments were scheduled to meet and interview appropriate staff, fill out the survey document in person, collect fee schedules and other documents, and decipher fee practices. Researchers began their site visits with the planning or community development directors of each jurisdiction or with staff persons assigned to this task by the directors. The researchers then filtered through the appropriate departments of each jurisdiction collecting the required information. Altogether the research team made over 120 site visits between July 15, 1999 and February 15, 2000. These site visits were followed up by phone calls to departments, agencies and particular staff persons who could not be reached during the site visits.

Third, on the basis of the information gathered from the returned mail surveys and site visits, the research team prepared a draft summary profile of fee assessment practices and amounts for each participating jurisdiction. These drafts were then mailed back to the respondents for error checking and verification, as well as to obtain permission to publish the results. Communities were encouraged to mark-up the draft profiles and return them by mail, rather than telephone us with comments. Still, approximately 20 percent of responding jurisdictions preferred to verify their jurisdictional profiles by phone.

This last phase of the research process was the most arduous. Most jurisdictions in California are overworked and understaffed, and this type of public service frequently often gets pushed to the back burner. In many jurisdictions, the research team had to assuage fears and justify the important need for the report and its findings. Those jurisdictions willing to proceed, despite their initial fears are to be commended. In all, 47 jurisdictions from the initial superset mailing never responded. Two jurisdictions explicitly refused to participate in the survey from the outset. Two others refused to verify their information or grant permission to publish the results after seeing the fee totals on the jurisdictional profile; their results are incorporated into the statistical analysis, but are not included in Appendix C. Additionally, five jurisdictions initially included in our sample were unable to provide timely responses to any inquiries, and are not included in any of the results or analysis. In the end, the research team was able to compile jurisdictional fee profiles for 89 jurisdictions: 16 from the North State and Sacramento areas; 22 from the Bay Area; ten from the Central Coast; 13 from the San Joaquin Valley; and 28 from Southern California. These totals include the two jurisdictions that requested their profiles not be published.[24]

Appendix C presents the detailed survey results, organized by jurisdiction. Appendix B summarizes the survey results by jurisdiction, fee assessment practice, and fee category.

Chapter 4

Who Charges Which Fees?

A Typology of Fees

California municipalities typically charge more than two dozen different types of development-related fees. Most fall into three broad categories: (1) *planning fees*, which cover the administrative costs associated with reviewing requiring planning documents; (2) *building permit, plan check, and inspection fees*, which cover the costs of reviewing building permit and other site specific permit applications; and, (3) *capital facilities fees*, which cover the up-front costs of providing capital infrastructure.[25]

To understand how these various fees differ, think about the housing development process as having three stages. The first involves gaining land-use approvals. This is the stage covered by planning fees. The second stage involves getting various site preparation and architectural approvals to build one or more structures. This is the stage covered by building permit and plan check fees. The third stage involves connecting the structure to infrastructure systems and public services. This is the stage covered by capital facilities fees. Put yet another way, planning fees and building permit fees mostly cover *on-site* services and documents; capital facilities fees generally cover *off-site* improvements and services.

Planning Fees

Planning fees cover the costs of reviewing planning applications and associated documents, including: applications for annexations, general plan amendments, zoning changes, tentative and final subdivision map reviews, environmental impact reviews, and in some California communities, growth management and design reviews. Planning and processing fees are typically due at application filing and are not refundable if or when planning approvals are not forthcoming.

By law (California Government Code § 66014) planning fees must be charged on a cost-of-service basis. If they are charged on a flat fee basis, or on the basis of construction cost or value, a nexus study must be performed to validate the relationship between construction costs and processing costs.[26] Flat fees, when charged, are usually charged as a fixed amount, often through a schedule, on a per project, per acre, per lot, per unit, per square foot, or per bedroom basis.

Following State law, processing fees are charged on the basis of staff review time and materials cost, often with an initial deposit, followed up by hourly charges, or sometimes coupled with a flat fee. Deposits for service based fees are also due at application filing. The amount of these deposits has typically been calculated on the basis of staff performance and hourly inputs gauged against previous projects to estimate expected time and materials inputs. When a specific project does not

accrue the time and materials involved with the corresponding deposit, the unused portion is typically refunded to the applicant. According to most planning staffs, however, most project approvals require additional payments to cover staff time and materials in excess of the hours allowed within the deposit, which are then charged on an hourly basis at the specific rate of the staff person performing these tasks.

Many cities also charge developers for the in-house costs of preparing environmental documents as required under the California Environmental Quality Act (CEQA), including negative declarations, mitigated negative declarations, and environmental impact reviews (EIRs). Planning fees are set by local planning departments, subject to planning commission and city council (or board of supervisors) review. They are typically due at application filing and are not refundable if or when planning approvals are not forthcoming.

Building Permit, Plan Check, and Inspection Fees

Whereas planning fees are oriented around the land entitlements process, building permit, plan check, and related inspection fees cover the issuance of permits for physical site improvements and building construction. Depending on the jurisdiction, these fees may include: general filing fees; building permit and architectural plan check fees; grading filing, plan check, and permit fees; electrical, plumbing, mechanical, and septic plan filing, check, and permit fees; energy conservation plan and permit; ground motion monitoring fees; fire and public safety plan check fees; and public improvement plan check and inspection fees. Planning fees not previously collected, such as final subdivision map filing and review fees may be also be collected at this point.

Building fees, like planning and processing fees, are supposed to be charged on a cost-of-service basis. If charged on a construction cost or construction value basis, a nexus study must be prepared relating construction costs to service costs.

On a day-to-day basis, most California cities and counties set their building permit fees — including building permit and plan check fees, grading fees, and electrical, plumbing and mechanical fees — according to procedures outlined in California Building Standards Code (CBSC). The CBSC, in turn, is generally consistent with either the Uniform Building Code (UBC) or the Uniform Administrative Code (UAC), which are used throughout the western United States. These codes and the fees outlined within them are revised every three years by an independent agency which makes recommendations to a state review committee, and to the California Building Standards Commission, which may adopt them as a set of California-specific amendments. Subsequent to state adoption and amendment, local governments must also adopt these documents and independently approve the corresponding fee increases. All California jurisdictions are supposed to automatically update their codes and fee schedules upon receipt of the statewide update.

Capital Facilities Fees

When people talk about "development fees," they are usually referring to capital facilities fees. These fees come in even more varieties than planning, building permit, and inspection fees. Capital facilities fees may only be used to construct or upgrade capital infrastructure. They may not be used to pay maintenance or operation costs.[27] Although exact terminology varies, California jurisdictions charge essentially four types of capital facilities fees:

1. Connection and Meter Fees are charged by utility providers (including, in the case of publicly-owned utilities, local governments) to cover the *on-site* costs of connecting residential buildings to the existing utility system. Connection and meter fees are most commonly charged for sewer and water service and are less commonly charged for electric power and stormwater drainage. Connection and meter fees may be charged regardless of whether the utility or the developer does the actual construction work (in some cases, the cost of the work undertaken by the developer is credited against the fee). Connection and meter fees are set administratively, usually on a per unit, meter, building, bedroom, or square foot basis. Connection and meter fees may also differ depending on the building occupancy, size of meter and service required for the new development. Connection fees are not covered under the Mitigation Fee Act.

2. Impact Fees, Development Fees, and Capacity Charges are charged by municipalities, assessment districts, and local utilities to cover the *off-site* costs associated with new residential development. Impact fees, development fees, and capacity charges are charged for a wide variety of capital infrastructure, including sewer system trunk mains, capacity and treatment; water system trunk mains, capacity and storage; stormwater drainage systems; roads, highways, and transit services; police stations, firehouses, and public buildings; open-space and park land acquisition (and development), and schools.

   Impact and development fees vary because infrastructure costs vary, even within particular infrastructure categories. Most infrastructure systems are designed to a fixed capacity or for a specific service area. The costs of using up that capacity and replacing it depends on how much capacity remains, on the fixed and variable costs of providing the next increment of capacity, and on how past and future capacity is to be financed. For example, if a local sewage treatment plant has existing available capacity equivalent to 500 new houses, then the marginal cost of providing sewage treatment service to 499 new homes is essentially zero. The marginal cost associated with providing sewage treatment service to 501 new homes, however, could conceivably be the full cost of constructing a new sewage treatment plant.

   Depending on which marginal cost amount is charged — zero or the full cost of new capacity — fees could conceivably vary from zero to millions of dollars. Municipalities deal with the difficulties of marginal cost pricing for lumpy infrastructure in two ways: by charging the long term average cost instead of the marginal cost of capacity additions; and second, through long term financing. In practice, impact and development fees are usually set on a per unit basis, and secondarily on a per acre or square foot basis.

Except for school fees, which are currently capped under the Sterling Act at $2.05 per square foot, California municipalities have broad discretion in setting local impact and development fees. As noted in Chapter Two, both the Legislature and courts give California municipalities relatively free rein in setting impact and development fees, provided that there is a nexus and the resulting charges are reasonably related to the actual costs of providing the facility or benefit. Infrastructure, impact and development fees may be charged by cities, counties, special assessment districts, municipal utilities, and in some cases, by state and regional agencies.

Ongoing property-related charges and assessments are subject to a weighted-majority vote of property owners under the terms of Proposition 218, but initial impact and development fees are not.[28] Impact fees may be charged solely to cover initial capital costs, and under limited circumstances, to pay for later rehabilitation and upgrading costs. They may not be used to pay operating or maintenance costs.

3. Mitigation Fees are similar to impact fees in that they mostly cover off-site improvements and impacts. But whereas impact fees are charged to cover the costs of providing capital facilities, mitigation fees are paid to compensate existing service users for declines in service quality associated with growth or development. Mitigation fees must be adopted by ordinance and are subject to the same nexus documentation requirements as impact and development fees. Although the Mitigation Fee Act does not distinguish between impact and mitigation fees, some local governments do. Mitigation fees are commonly charged to cover environmental impacts (such as habitat loss), school over-crowding, road congestion, and affordable housing. Technically, funds raised through payment of mitigation fees must be deposited in specific earmarked-fund accounts, and may not be co-mingled with other local funds. Mitigation fees are generally set on a per unit basis.

4. In-Lieu Fees are payments made in-lieu of required dedications as set forth in local subdivision or growth management ordinances. Many California jurisdictions charge Quimby Act fees — fees in-lieu of park land dedications. The formula for determining Quimby Act fees is determined by State legislation and is typically used only on projects that require land subdivision. This formula takes into account the following factors: gross acreage of project land, number of units, number of persons per unit, number of persons per acre, and valuation per acre. Land valuation amounts are typically determined from comparable land sales in the area, or from estimates provided by county assessor's offices or parks departments. Depending on valuation, these in-lieu fees can vary widely. Quimby Act fees are not charged on single-family dwellings where a land subdivision has not taken place. They are, however, charged in some jurisdictions on multifamily projects, even though no land subdivision has occurred.

   A much smaller number of jurisdictions charge fees-in lieu of affordable housing dedications as required by state and local inclusionary housing laws. While some jurisdictions charge flat fees per required unit, include them in other fees, or do not accept in-lieu fees at all, other jurisdictions use

formulas for determining these fee amounts. Where formulas exist for determining affordable housing in-lieu fees, they vary widely. Affordable housing in-lieu fee formulas typically take into account the following factors: locally determined price thresholds for very low-, low- or moderate-income earners; the difference between market rate units of comparable size and maximum affordable housing prices for these lower-income earners; and the percentage of units required under the inclusionary housing provision. In-lieu fees are subject to the same nexus requirements as impact fees.

In addition to these four principle fee types, some jurisdictions also charge administrative fees and development taxes, to cover general permit processing and review costs, or to cover general government costs associated with new development and growth. Administrative charges and taxes are typically charged as overhead on particular fees, or as a percent of project value. Administrative charges are subject to State nexus laws; development taxes are not.

Impact Fees By Any Other Name

California does not preclude jurisdictions from combining different fees, and indeed, many do. The combined fee is usually referred to as an impact or development fee. Common sets of combined fees include: (1) school impact fees with school mitigation fees; (2) utility connection and metering fees with facilities and impact fees; (3) park, park land acquisition, or open space fees with recreation facilities fees; (4) traffic facilities fees with traffic congestion fees; and (5) various types of capital facilities fees. Because they are tied to specific reviews and inspections, individual planning fees and building permit fees are rarely combined. Some jurisdictions also combine fees across infrastructure categories.

Combining fees makes it easier to levy them, but it also reduces transparency and comparability. It makes it particularly difficult to determine what portion of a fee is meant to cover on-site versus off-site improvements. For those concerned with setting the right fee amounts, combining different types of fees makes it difficult to evaluate the nexus between fees and costs. Indirectly, it encourages sloppiness and reduced legislative oversight. If one regards transparency as an essential characteristic of a valid system of local fees—and we do—then the practice of combining different types of fees serves ultimately to undermine their legitimacy.

Who Charges Which Fees?

Not every California jurisdiction charges every possible fee. Depending on their location, history, governance form, and level of service provision, some jurisdictions charge fewer fees and some charge more. The following Table 3 contains the distribution of housing fees by type and region.

Table 3: Fee Distribution by Type of Fee, Jurisdiction Type, and Region

Fee Type	California			Region and Sample Size					
	All Jurisdictions (n=87)	Cities (n=76)	Counties (n=11)	Bay Area (n=22)	Central Coast (n=10)	Central Valley (n=13)	Sacramento (n=5)	Southern California (n=27)	North State, Sierras (n=10)
Zoning and Subdivision	100%	100%	100%	100%	100%	100%	100%	100%	100%
Plan Check	69%	67%	82%	77%	70%	85%	60%	63%	50%
Environmental Impact Assessment	94%	95%	91%	95%	100%	100%	100%	90%	90%
Building Plan Check	100%	100%	100%	100%	100%	100%	100%	100%	100%
Building Permit	99%	99%	100%	100%	90%	100%	100%	100%	100%
Public Works	98%	97%	100%	100%	100%	85%	100%	100%	100%
Grading Permit	96%	96%	100%	100%	100%	92%	100%	97%	90%
Electrical Permit	98%	97%	100%	100%	90%	100%	80%	87%	100%
Mechanical Permit	98%	97%	100%	100%	90%	100%	80%	87%	100%
Plumbing Permit	98%	97%	100%	100%	90%	100%	80%	87%	100%
Utility Connection	44%	43%	45%	0%	40%	8%	40%	87%	40%
Sewer Connection & Impact	97%	97%	91%	95%	100%	100%	100%	84%	90%
Storm Drainage Impact	60%	61%	55%	45%	30%	62%	100%	61%	70%
Water Connection & Impact	91%	92%	82%	91%	100%	77%	100%	81%	90%
Watershed/Aquifer	10%	9%	18%	5%	10%	38%	20%	3%	0%
Local Traffic Mitigation	80%	83%	64%	73%	80%	92%	100%	61%	100%
Regional Traffic Mitigation	26%	20%	73%	14%	20%	38%	40%	23%	40%
Fire Service	55%	54%	64%	50%	70%	69%	80%	32%	70%
Police Service	25%	26%	18%	14%	30%	38%	60%	13%	40%
Public Safety	6%	7%	0%	9%	0%	8%	20%	0%	10%
School Construction	99%	99%	100%	95%	100%	100%	100%	87%	100%
School Mitigation Fees	24%	22%	36%	18%	20%	50%	80%	10%	10%
Community & Capital Facilities	48%	50%	36%	50%	50%	46%	100%	35%	40%
Park	87%	86%	100%	73%	90%	92%	100%	81%	90%
Open Space	14%	13%	18%	18%	0%	23%	60%	3%	10%
Affordable Housing	25%	25%	27%	36%	80%	8%	20%	13%	0%
Special District	59%	55%	82%	55%	70%	77%	100%	29%	80%
Affordable Housing Fee Reduction	37%	36%	45%	36%	30%	15%	20%	45%	40%
Affordable Housing Fee Waiver	36%	37%	27%	36%	50%	15%	40%	42%	10%
Senior Housing Fee Reduction	33%	32%	45%	36%	30%	15%	20%	35%	40%
Senior Housing Fee Waiver	23%	24%	18%	72%	40%	15%	0%	23%	10%

Planning Fees

The most common planning fees charged on residential projects can be categorized as follows: (1) entitlement application fees, which include general plan amendment, rezoning, and planned unit development/planned development fees; (2) tentative map fees required of most subdivision applications; (3) final map fees, also required of most subdivision applications, but typically collected by public work departments; (4) planning department plan check, site, design or landscape review fees; and, (5) environmental review fees.

- Planning Entitlement and Zoning Fees. With regard to entitlement and zoning application fees, 99 percent (of the 89 jurisdictions surveyed) levied these fees,[29] with only one jurisdiction not charging for planning entitlements. Fifty-eight percent of the jurisdictions charged these fees using predominantly flat fees, 26 percent used deposits or hourly-based fees, and 16 percent used a mix of flat fees with other fee calculation methods. Regionally, the Central Valley and Sacramento area relied more heavily on flat fees, while the North State and Bay Area utilized deposits and hourly-based fees more.

- Subdivision Fees. In terms of tentative map fees for the purposes of subdivision approval, only two jurisdictions did not report charging these fees. Forty-five percent of the jurisdictions used a mix of flat per-project and flat per-unit fees, 37 percent used flat project-based fees only, 16 percent used deposit or hourly based fees, and two percent used other means of fee calculation. Regionally, Sacramento and the Central Valley again relied slightly more on flat fees; Southern California, the North State and the Central Coast used a slightly higher percentage of mixed fees; and the Bay Area had a higher percentage of jurisdictions using fee-for-service methods--six of the sample's ten jurisdictions using fee-for-service pricing were found in the Bay Area.

- Considering final map fees, which are levied to formally legalize a subdivision of land, 81 of 89 jurisdictions collected these fees. The Bay Area and North State were the only regions where jurisdictions were found that did not assess these fees. For those jurisdictions that charged final map fees: 62 percent used a mix of flat and unit-based fees, 15 percent used deposit or hourly based fees, 14 percent used flat fees only, five percent included these fees in other applications, and four percent used other methods of fee calculation. Regionally, all public works departments in Sacramento jurisdictions used a mix of flat and unit-based fees, and these were also more common in the North State; flat fees were used more heavily in the Central Valley; and in the Bay Area, Central Coast and Southern California, deposit or hourly based final map fees were used just slightly more than the State as a whole.

- Plan Check and Design Review Fees. Planning department plan check, design review, site review or landscape review fees are charged to cover local staff costs of reviewing subdivision plans, maps, select projects, and planned unit development master plans. They are charged in addition to zoning and subdivision fees. Sixty-eight percent of the 89 jurisdictions in the sample charged plan check fees.

Planning department plan check or design review fees were used in 87 percent of the jurisdictions on these residential projects. Jurisdictions in the Central Valley, North State and Sacramento area were less likely than the Bay Area, Central Coast and Southern California to charge these fees.

For those jurisdictions charging these fees, 60 percent used flat project-based fees, 16 percent used a mix of flat fees with fees based on other criteria, 14 percent used fee-for-service methods, five percent used unit-based fees, and five percent used other methods of fee determination. Regionally, Southern California, the Central Coast, and the Central Valley were more likely to use flat per-project fees, while 35 percent of Bay Area jurisdictions used deposit or hourly-based fees, more than twice the rate of the State as a whole.

- Environmental Assessment and Review Fees are charged to cover local staff costs of reviewing required environmental documentation, including required initial study documents and environmental impact reports (EIR). They are charged in addition to CEQA processing fees and are independent of any initial study or EIR preparation costs. Ninety-four percent of the 89 jurisdictions in the sample charged environmental assessment and review fees. Jurisdictions outside metropolitan areas were only half as likely to assess these fees as metropolitan jurisdictions. Environmental review fees were charged in every jurisdiction. Sixty percent charged these fees on a flat per-project basis, 16 percent utilized fee-for-service pricing, 16 percent included these fees in other entitlement applications, three percent used a mix of flat and other fees, and percent used other methods of fee calculation. Regionally, Sacramento, the Central Valley, and the Central Coast had higher percentages charging environmental review fees on a flat fee basis; the North State and Central Valley included these fees in other applications at a higher rate — both at almost twice the State's rate — and once again, Bay Area jurisdictions used fee-for-service pricing methods at a higher use rate than did the State as a whole. Southern California roughly paralleled the State's pattern.

Building Permit, Plan Check and Inspection Fees

The most common permit, plan check and inspection fees charged on these residential projects can be categorized as follows: (1) building permit; (2) building plan check; (3) energy plan check; (4) electrical; (5) plumbing and mechanical (which are charged on a slightly different basis than electrical fees); (6) improvement plan check fees; (7) improvement inspection fees; and, (8) grading permit and plan check fees. Building departments traditionally are responsible for assessing the first five categories while public works departments are responsible for assessing public improvement plan check and inspection fees, as well as grading fees.

- Building Permit Fees are charged to cover local staff costs of processing building permit applications and issuing building permits, as well as performing building permit inspections. All of the jurisdictions in the sample reported charging building permit fees. Ninety-three percent of the surveyed jurisdictions charged building permit fees on the basis of either a valuation multiplier or a valuation schedule; seven percent charged building permit fees on a square foot basis. Construction valuation is determined on the basis of a valuation table published periodically by an independent agency for various building and construction types on a square foot basis. This table also breaks down commonly used building types into good or standard categories that differentiate construction costs.

  Additionally, regional multipliers are provided by this same independent agency to account for variations and changes in construction cost in certain parts of the State. Many jurisdictions simply adopt these regional multipliers. However, some jurisdictions increase or decrease them depending on the circumstances of local construction, labor, and material costs. For these projects, we assumed Type V-unrated wood construction and utilized the following three building types from this valuation table: residences, apartments, and garages. We followed the recommended practices of the building department from each jurisdiction as to whether they used the good or standard construction valuation designation. Regionally, all Sacramento and Central Coast jurisdictions used a valuation schedule specifically, either directly taken from the Uniform Building Code (UBC) or amended. The other regions used a mix of valuation multipliers and per square foot calculation.

- Building Plan Check Fees are charged to cover the staff resources required to conduct architectural design, structural engineering and site reviews. Only two of the surveyed jurisdictions did not assess plan check fees. Among the majority of jurisdictions charging check fees, two used per-square-foot multipliers, six jurisdictions included these fees within the building permit itself, one used flat fees mixed with a construction valuation multiplier.

  The other 78 jurisdictions calculated building plan check fees as a percentage of the building permit itself. The UBC caps recommended plan check fees at 65 percent of building permit cost. Most California municipalities use a lower percentage. A few, however, use a higher percentage, based on the increased costs of conducting energy conservation reviews as mandated under Title XXIV. Of the 78 jurisdictions that levy building plan check fees, 47 percent set them at the recommended 65 percent-of-building permit-cost level, 17 percent charged a lower percentage, and 36 percent charged a higher one.

- Energy Review Fees allowed under Title 24 for plan check and energy calculation review were used in only 31 percent of the jurisdictions, or 28 jurisdictions. Of these, 16 charged energy review fees as a percentage of the building permit fee, eight charged energy review fees on a per-unit basis, and four used other methods of energy review fee calculation. We assume that those not charging the energy review fee as a separate line item include it within their building plan check fees. However, jurisdictional data suggests this is not always the case.

As with plan check fees, it is recommended that energy review fees be capped at 65 percent of building permit fees. Of the 27 jurisdictions levying energy review fees, 19 had building plan check fees less than or equal to the recommended level, while eight charged more.

- Electrical, Plumbing, and Mechanical Fees cover the local staff costs of issuing the respective permits, reviewing any electrical, mechanical, and plumbing fixture plans (submitted as part of the building permit application), as well as the costs of electrical, mechanical, and plumbing inspections. The methods for assessing electrical permit, plan check and inspection fees are outlined by the state in the (UBC), and are generally consistent with those in the Uniform Administrative Code. While all jurisdictions charged electrical permit and/or plan check fees, or at least included them in other applications, the methods of fee calculation vary widely.

  Twenty-seven percent used electrical fixture counts to determine appropriate fees, another 27 percent used a mixture of flat fees, fixture counts, per unit and per square foot fees; 27 percent included these fees in a combined fee either with the building permit fee or together with plumbing and mechanical fees; 13 percent used a multiplier on a square-foot basis only; and seven percent used per unit fees only. Regionally, the North State, Sacramento area, the Central Valley, and the Central Coast are all more likely to include electrical fees in other combined permits or within the building permit. There were no other patterns noticed due to the wide variety of fee calculation methods.

  Again, all jurisdictions charged plumbing and mechanical permit and/or plan check fees or included them elsewhere. While plumbing and mechanical fees are almost always presented as separate fees, they are most often calculated on the same basis within each jurisdiction — and often on a different basis than electrical fees. Thirty-one percent used fixture counts to determine fees; 30 percent included these fees in a combined fee either with the building permit fee or together with electrical fees; 24.5 percent used a mixture of flat fees, fixture counts, per unit and per square foot fees; seven percent used a multiplier on a square foot basis only; and seven percent used per unit fees only. Regionally, the North State and Sacramento area were more likely to include plumbing and mechanical fees with other applications. There were no other patterns noticed.

- Public Works Improvement Plan Check Fees are charged to ensure public health and safety and typically cover the local staff or consultant costs of reviewing plans for on-site public or private infrastructure, including streets, curbs, gutters and sidewalks, sewerage and water trunk mains, laterals and hydrants, drainage systems, street lighting, traffic signals, tree planting, irrigation, landscaping, and other utility installations. These fees are often the most expensive of all the building and public works department fees. Improvement plan check fees were charged in 88 percent of the jurisdictions, 78 of 89 jurisdictions. These fees were most often charged on the 25-unit subdivision and 45-unit multifamily development models, and rarely on the infill house.

  For those places charging these fees, 55 percent used a valuation multiplier or a valuation schedule, 15 percent used a mix of flat fees with other methods, 14 percent used a deposit or hourly-based fee calculation method, eight percent used per project flat fees, and eight percent used other methods. Valuation-based fee calculation methods typically range from one to five percent of total improvement

valuation estimates, although some departments use ten percent multipliers. Most departments depend on the applicant or the applicant's engineer to provide this valuation information. Regionally, six of the 11 jurisdictions not charging these fees were located in the Bay Area. The Bay Area, along with the Central Coast, was also much more likely to use fee-for-service calculation methods. The only other notable regional exception to the State averages was that jurisdictions in the Sacramento region were more likely to use valuation-based methods.

- Public Works Improvement Inspection Fees are charged to cover the local staff or consultant costs of site inspection and testing of new infrastructure installations. These were charged in 78 percent of the jurisdictions. Sixty-one percent of those jurisdictions charging this fee assessed them on the basis of improvement valuation multipliers or schedules; 13 percent included this fee along with improvement plan check fees; 11 percent used deposits or hourly-based fees; nine percent used a mix of fee types; and six percent used other methods of fee calculation. Regionally, 50 percent of Sacramento jurisdictions included this fee with other applications, and Bay Area jurisdictions had twice the State's rate of fee-for-service based charges.
- Grading Permit and Plan Check Fees cover the local staff costs of reviewing and approving grading permit applications. Grading plan check and permit fees were charged in 92 percent of the jurisdictions. These fees are typically charged on the basis of cubic yardage of earth moved from or within the site. Forty-six percent of the 82 jurisdictions charging these fees used either the (UBC) schedule or a local schedule adapted from it; 33 percent used predominantly flat fees; nine percent included this fee along with other review fees (chiefly site improvement plan check fees); six percent used a mix of flat fees and schedules; and six percent used other fee calculation practices. Regionally, North State and Sacramento jurisdictions were much more likely to include this fee in other applications. Southern California governments were more likely to use schedules. Central Coast and Central Valley jurisdictions relied more heavily on flat fees. Bay Area jurisdictions paralleled the State's averages.

Capital Facilities

The following categories were determined to be the most common categories of capital facilities fees. Differences in fee calculation methods were measured as well as use.

- Electricity and Gas Service Connection Fees cover administrative costs of connecting and inspecting new electricity and gas connections by utility companies. While the hard cost items commonly associated with installation and service provision were not included within our survey, administrative and connection fees were. Few jurisdictions themselves are in the business of providing electricity or gas service, and thus do not charge fees. The use of electricity and gas service connection fees varies widely by region, due in large part to the practices of the utility providers themselves. Southern California Edison and Southern California Gas provide service to most Southern California jurisdictions as well as parts of the Central Valley and Central Coast. In these jurisdictions, nominal meter fees are charged. In the North State, Sacramento area, Bay Area, and parts of the Central Coast and Central Valley, Pacific Gas and Electric Co. is the primary utility provider. PG&E routinely charges hard costs

for installation but does not charge any administrative, meter or connection fees. Electricity and gas connection fees are usually charged on a per meter basis, depending on the size of the service.

- Sewer Connection and Impact Fees cover local staff costs of permitting and inspecting building sewer connections, and depending on the project type and location, many communities also collect sewer impact fees to cover the off-site costs of expanding and upgrading existing sewer and sewage treatment facilities.[30] The distinction between these two fee types, and what they specifically include, is often difficult to determine.

  All of the jurisdictions in the State charge some form of sewer fee, whether called a connection fee or some other impact fee moniker. For those jurisdictions assessing sewer connection fees, 91 percent used per unit fees, three percent used per bedroom fees, and six percent used other means of fee calculation. For those jurisdictions charging sewer impact fees, 93 percent used per unit fees, four percent used per bedroom, and three percent used other criteria.

  Statewide, 35 percent of the jurisdictions collected both sewer connection and impact fees as separate fee items, 36 percent collected only connection fees, and 29 percent collected only impact fees. Regionally, the Central Coast and the Central Valley are slightly more likely to charge both fees; the North State and Sacramento areas are more likely to only charge connection fees; and the Bay Area and Southern California are slightly more likely to charge impact fees for sewer services.

- Storm Drainage Fees cover local costs associated with storm drainage facilities and citywide systems. These fees include both connection fees, which cover the local staff costs of permitting and inspecting on-site facilities and connections, and impact fees, which are collected to cover the *pro-rated* off-site costs of expanding and upgrading existing storm drainage facilities. As with sewer facilities, local subdivision ordinances generally require project developers to provide on-site storm drainage facilities. Only 45 percent of the sample jurisdictions charged storm drainage fees of any sort. These were most frequently charged by jurisdictions in the Sacramento area, the Bay Area, the Central Valley and Southern California. Storm drainage fees were charged less frequently by North State and Central Coast jurisdictions. Approximately two-thirds of the responding jurisdictions in the Central Valley and Sacramento area reported charging storm drainage fees, compared to just over half of responding Bay Area and Southern California jurisdictions. Statewide, storm drainage fees were collected in the following ways: 54 percent of jurisdictions collected fees per housing unit, 30 percent per acre, eight percent per square foot, and eight percent by other methods of fee calculation.

- Water Connection and Impact Fees cover local staff costs of permitting and inspecting building water connections, and, as permitted by law, the off-site costs of expanding and upgrading existing water supply facilities and plants. The distinction between these two fee types and what they specifically include is, again, often difficult to determine. Many of these fees are simply a pass-through for the local municipal utility. As with sewer and storm drainage facilities, local subdivision ordinances uniformly require project developers to provide on-site water service.

  Statewide, 36 percent of the jurisdictions collected both water connection and water impact fees as separate line items, 31 percent collected only connection fees, and 24 percent collected only impact fees, and nine percent (eight jurisdictions) collected neither water connection nor impact fees. Three of these jurisdictions (Kern County, Bakersfield, and Chico) are in agricultural areas serviced by Cal Water, an investor-owned utility, which does not charge connection or impact fees. Sonoma County uses wells at the locations where they sited these residential models. For those jurisdictions assessing water connection fees, 91 percent used per unit fees, four percent used per square foot fees, and five percent used other means of fee calculation. For those jurisdictions charging water impact fees, 97 percent used per unit fees, and three percent used other criteria.

  Regionally, the Central Coast, Sacramento area, and Central Valley are more likely to charge both water connection and impact fees. The North State jurisdictions are more likely to charge only connection fees, and Southern California communities are more likely to levy only impact fees. Other than those three cities not charging any water fees, the Bay Area parallels the State averages.

- Watershed & Aquifer Fees cover the costs of preserving, maintaining and, in some instances, expanding existing watershed lands and groundwater aquifers. Only 11 percent of the responding jurisdictions currently charge watershed and aquifer fees. These fees are most popular among Central Valley and North State communities. Only five percent and three percent, respectively, of responding Bay Area and Southern California jurisdictions assess watershed and aquifer fees. Watershed and aquifer fees are charged on a per unit or acreage basis.

- Local Traffic Mitigation Fees cover the off-site costs of maintaining and upgrading existing local roads (and in a few cases, transit service) to accommodate the incremental demands associated with new development. Local subdivision ordinances uniformly require project developers to provide on-site circulation. Approximately three out of four responding jurisdictions charge traffic mitigation fees. Seventy-two percent of those communities charging these fees used per unit calculation methods; 20 percent explicitly used per vehicle trip methods; and eight percent used other means of calculation. Surprisingly, local traffic mitigation fees were slightly less popular among Bay Area and Southern California jurisdictions than among Central Coast, Sacramento, North State or Central Valley jurisdictions.

- Regional Traffic Mitigation Fees, like local traffic mitigation fees, cover the costs of maintaining and upgrading existing State and regional roads to accommodate new development. Local governments collect regional traffic mitigation fees as a pass-through to regional and State agencies. These fees are often lumped together with local traffic mitigation fees. Only 27 percent of the responding jurisdictions charge regional traffic mitigation fees. Regional traffic mitigation fees are less common among Bay Area and Central Coast jurisdictions and more popular among Central Valley and Sacramento area jurisdictions particular counties and large cities.

- Fire Service Fees cover the costs of maintaining and upgrading existing local fire facilities to accommodate new growth; these facilities include water mains, fire stations, and in some cases, vehicles and equipment. Slightly more than half of the responding jurisdictions charge fire service fees. Fire service fees are most popular among jurisdictions in the Central Coast, Sacramento, and Central Valley regions. Counties are somewhat more likely than cities to charge fire service fees. Fire service fees are typically charged on a per unit basis.

- Police Service Fees cover the growth-associated costs of maintaining and upgrading existing local police facilities, including police stations, and in some cases, vehicles and equipment. A quarter of the responding jurisdictions charge police facilities fees. Like fire facilities fees, police fees are most popular (although not as popular) among jurisdictions in Sacramento, and Central Valley regions. Fewer than one out of six Bay Area or Southern California jurisdictions charge police facilities fees.

- Public Safety Fees cover the combined costs of maintaining and upgrading existing local police, fire, and emergency facilities necessary to accommodate growth. Only five of the responding jurisdictions (St. Helena, Windsor, Tracy, Grass Valley, and Roseville) charge public safety fees.

- School District Fees cover the combined costs of maintaining and upgrading existing local schools to accommodate additional population growth. School fees are collected either by local governments as a pass-through to local school districts, or by the school districts themselves. Beginning in 1999, school fees were capped by State law at $1.93 per residential square foot (not including garage space).[i] All but one of the jurisdictions in our sample collect school fees, the City of Berkeley being the lone standout. For those jurisdictions and districts collecting school fees, 64 percent collected the State-allowed $1.93/sf, 18 percent collected less than $1.93/sf, 11 percent collected more than $1.93/sf, and seven percent collected fees on a per unit basis as part of a Mello-Roos or special assessment district.

[i] The cap was increased to $2.05/sf in January 2000.

Many of the districts collecting school fees at amounts less than the State allowed cap, were collecting them in typical amounts of $1.50/sf, $1.65/sf, or $1.72/sf, which indicates they simply had not yet raised their rates in accordance with the State allowance or had declined to do so. School districts collecting fees on a per unit basis or in amounts greater than those allowed under the Sterling Act are doing so under the rubric of mitigation fees.

Regionally, the Bay Area and Central Coast regions are much more likely to collect school fees at the State allowed cap or below it. In fact, 38 percent of Bay Area and 30 percent of Central Coast jurisdictions were charging less than $1.93/sf, roughly twice the State's percentage collectively. North State communities are more likely to charge the State allowed $1.93. And Southern California, Sacramento and San Joaquin Valley communities are all slightly more likely to collect school fees at or above the allowable cap.

- School District Mitigation Fees cover the combined costs of mitigating existing school facility deficiencies. School district mitigation fees are separate from school district fees. Under the Sterling Act (1985), and consistent with the California Appeals Court's *Murrieta* decision (1992), school district mitigation fees may only be charged if deficiencies are pre-identified as part of an adopted plan or if they are required under CEQA. A quarter of the surveyed jurisdictions indicated they collect school district mitigation fees, however, only 18 percent located their sample projects in school districts where this was the case. School district mitigation fees are most popular among Sacramento and Central Valley jurisdictions and least popular among Bay Area, Central Coast, North State, and Southern California jurisdictions.

- Community/Capital Facilities Fees cover the growth-related costs of maintaining and upgrading existing community facilities, including civic and government centers, libraries, public works depots, and some small parks. Half of the sample jurisdictions (including all Sacramento area jurisdictions, but none of those in the North State) collect community and capital facilities fees.

- Parks Fees cover the costs of maintaining and upgrading existing local parks, as well as acquiring new park land. Park *in-lieu* fees, also known as Quimby Act fees, are paid by project sponsors in place of required park land and open space dedications on projects requiring land subdivisions. Some jurisdictions call their park fees in-lieu fees, while charging on a per unit basis, disregarding the Quimby Act formula outlined in State legislation. Approximately nine out of ten of the sample jurisdictions charge park or in-lieu fees. Park fees are least popular in the Bay Area and the Central Valley, where 23 percent of communities do not charge them, and most popular in the Sacramento area where every jurisdiction in the sample uses them.

Statewide, 71 percent of those communities charging park fees use per unit fees, 17 percent use a Quimby Act-based formula for park land dedication in-lieu fees only, five percent use both in-lieu fees and unit-based fees, four percent use per bedroom fees, and three percent use other methods of fee determination. Regionally, Quimby Act based in-lieu fees are used by 50 percent of jurisdictions in the Sacramento sample (along with some jurisdictions in the Sierra foothills outside of Sacramento), 33 percent of communities in Southern California (especially in the north Los Angeles County/Ventura area), and least in the Bay Area where no jurisdictions use them. Bay Area and Central Valley jurisdictions were much more likely to use per unit fees. There does not appear to be any great difference in fee amounts between those paying in-lieu fees and those using Quimby Act-based in-lieu fee formulas.

- Open Space Fees cover the growth-related costs of maintaining existing open space reserves as well acquiring new ones.[31] Open space *in-lieu* fees may be paid by project sponsors in place of required open space dedications. Only 14 percent of the sample jurisdictions charge open space or in-lieu fees. Open space fees are most popular among Sacramento area jurisdictions and least popular among Central Coast and Southern California jurisdictions.

- Affordable Housing Dedication and In-Lieu Fees. Some local governments allow developers to pay fees in-lieu of meeting locally mandated inclusionary housing requirements.[32] Nearly a quarter of the sample jurisdictions (20 communities), including almost all the Central Coast jurisdictions, either assess these fees or require the inclusionary housing set-aside. Whether this low rate of fee collection is the result of a high degree of developer compliance with inclusionary requirements we cannot say. In discussions with staff across the State, many jurisdictions solve their inclusionary housing requirements through single project components within Master Planned communities, rather than requiring inclusionary housing set-asides across the board.

  Statewide, eight of the 20 jurisdictions mandated the construction of affordable housing with no option for the payment of in-lieu fees. The other 12 allowed in-lieu fee payments:[33] two included these fees within other master planned community fee payments, five used a formula, and five communities used either per unit, per square foot, flat or negotiation methods of in-lieu fee calculation. No jurisdictions in the North State or Sacramento area samples require inclusionary housing or in-lieu fees, and only one jurisdiction in the San Joaquin Valley negotiated for inclusionary housing or in-lieu fees through developer agreements. Southern California jurisdictions are only slightly more likely than their Bay Area counterparts to assess affordable housing fees or require the inclusionary set-aside. The high inclusionary housing requirements and detailed in-lieu fee provisions in the Central Coast area are largely responsible for the high fee totals in this region.

- Special District Fees cover the initial pay-in amounts to locally established special districts. Special districts include local water and sewer districts, park districts, and community facility districts. The collection of the fees themselves is frequently contracted out to financial consultants who are able to manage large databases and billings of varied amounts to specific parcels, and who normally set and collect property taxes for the jurisdictions. Although sixty percent of the sample jurisdictions indicate they collect special district fees, only 49 percent reported that they either did or would collect special district fees based on the specific locations of the model projects. Special district fees are almost always collected on a per unit basis and infrequently on an acreage basis. Special district fees are most frequently collected by Sacramento jurisdictions, where all of the sample communities collected these fees, and least frequently by Bay Area (32 percent) and Central Coast (40 percent) jurisdictions. Southern California, Central Valley and North State jurisdictions collect these fees at about the same rate as the State as a whole.

Fee Waivers

State law generally allows local jurisdictions to reduce or waive fees for affordable and senior housing projects.[34] Thirty-five percent of responding jurisdictions report that they reduce or waive fees for affordable housing projects. Affordable housing fee reductions and waivers are most common among Southern California jurisdictions and least common among Central Valley jurisdictions. A third of Bay Area jurisdictions report that they sometimes waive fees for affordable housing projects; only a quarter of Bay Area communities frequently reduce them.

Fee waivers and reductions for senior housing are slightly less popular. Thirty-two percent and 23 percent of the sample jurisdictions, respectively, report reducing and waiving fees for senior housing projects. Senior housing fee waivers and reductions (like affordable housing fee waivers and reductions) are most popular among Southern California jurisdictions and least popular among Sacramento area and Central Valley jurisdictions, with Bay Area and Central Coast jurisdictions in the middle.

Statistical Analysis

Is there any pattern to fee assessment and waiver practices beyond simple geography? To find out, a statistical technique known as logistical regression was used to compare fee assessment practices among the sample jurisdictions with various community characteristics. For each jurisdiction in the sample, it was compared whether or not a specific fee was charged (as indicated by a value of either 1 or 0 with the following community characteristics: (1) whether the fee-levying jurisdiction was a city or county; (2) its population in 1997, population growth between 1990 and 1997, and percentage population growth; (3) its housing supply ratio, computed by dividing 1994-96 residential permit activity by the number of 1990 housing units; (4) its age, as determined by the year of municipal incorporation; (5) its land area and gross density, both as of 1990; (6) its per capita net expenditures as of fiscal year 1996-97; and, (7) its median household income as of 1989 and median home price as of 1999.[35]

Separate regression models were tested for each fee type. To control for location, five regional dummy variables were included (one each for the Bay Area, the Central Coast, the San Joaquin Valley, the Sacramento area, and Southern California) in each model. Table 4 summarizes the model results. Fees are listed in the left-hand column. Only those factors found to be statistically significant as they influence fee-levying practices are listed in the right-hand column.

Table 4: Fee Distribution by Region and Community Characteristics: Statistical Results

Factors Affecting Likelihood of Fee Being Levied	
Plan Check	Central Valley location (+)
Environmental Impact Assessment	None
Building Plan Check	All respondents impose fees
Building Permit	All respondents impose fees
Public Works	All respondents impose fees
Grading Permit	1990 Gross density (+)
Electrical Permit	None
Mechanical Permit	None
Plumbing Permit	None
Utility Connection	Southern California location (+)
Sewer Connection & Impact	None
Storm Drainage Impact	None
Water Connection & Impact	1990-97 Change in population (-), 1999 Median Housing Price (-)
Watershed/Aquifer	Central Valley location(+)
Local Traffic Mitigation	Southern California location (-) 1997 Population (-), 1999 Median housing price (-)
Regional Traffic Mitigation	None
Fire Service	1997 Population (-), 1990 Gross density (-), 1990 Median household income (-)
Police Service	1996 per capita net expenditures (+)
Public Safety	None
School Construction	All respondents impose fees
School Mitigation Fees	1990-97 Population change (+)
Community & Capital Facilities	1994-96 Housing supply rate (+)
Park	1995 Ratio of Democrats to Republicans (-)
Open Space	Housing supply rate (+)
Affordable Housing	Housing supply rate (-), 1999 Median housing price (-)
Special District	Bay Area location (-), Southern California location (-)
Affordable Housing Fee Reduction	Central Valley location (-)
Affordable Housing Fee Waiver	None
Senior Housing Fee Reduction	1997 Population (-), Central Valley location (-)
Senior Housing Fee Waiver	1990-97 Population Change (+)

The fact that so few factors consistently appear in the right-hand side of Table 4 indicates the inherently ad hoc and political nature of local fee-levying practices. There are four types of fees, (building plan check, building permit, public works, and school construction) which are levied by all or almost all of the sample communities, regardless of location, size, income, density, or spending. Nine more types of fees which charged by a significant share of the sample jurisdictions, but in ways that have no relationship to location, population, or any other community characteristic. Among the fees that are linked to community characteristics, plan check fees, and watershed and aquifer fees are slightly more likely to be charged by

Central Valley jurisdictions. Utility connection fees are slightly more likely to be charged in Southern California jurisdictions. Local traffic mitigation fees and special district fees are less likely to be charged in Southern California.

Water service connection and impact fees are more likely to be levied by growing jurisdictions and by jurisdictions with more affordable housing. Large jurisdictions are less likely to levy fire-related impact fees and traffic mitigation fees. Communities that spend more per capita on local services are also more likely to levy police-related impact fees. Housing-friendly jurisdictions are generally more likely to impose community facilities and open space fees, but less likely to levy affordable housing in-lieu fees. High-growth communities are more likely to assess school mitigation fees in addition to school construction fees.

Fee waiver and reduction practices are similarly difficult to explain statistically. When they charge them, Central Valley jurisdictions are somewhat less likely to reduce fees for senior and affordable housing projects. Large jurisdictions are less likely to reduce fees imposed on senior projects, whereas growing jurisdictions are more likely to waive them altogether.

The lack of consistency among the model results may be explained a number of ways. First, except for affordable housing fees, watershed fees, police and fire fees, open space fees, and community facilities fees, most of the sample jurisdictions charge all the fees listed in Table 4. Thus, there is not much more variation to be explained statistically. Second, the variation in fee-levying practices that *is* to be explained may have more to do with local politics and with community budgeting and administration practices than with demographic characteristics, growth, or location. Put simply, when it comes to levying fees, people and politics may matter more than anything else. Third, because jurisdictions are free to combine some types of fees, funds collected for one use may be spent in another. Last, the results of Table 4 reinforce what many of those who argue for tighter fee regulation have long been saying: that fee-levying and fee-setting decisions in California are simply too political and ad hoc.

Nexus Studies

The word nexus means to connect. California Government Code §66001(a)(2) and (4) — enacted as the Mitigation Fee Act under AB 1600 — requires jurisdictions charging fees to demonstrate that there is a reasonable connection between specific fee amounts and the cost of the public facilities as set forth in local planning documents. These may include the general plan, specific plans, or a capital improvements plan.[36] Such relationships are to be documented in the form of written "nexus studies" and then certified by ordinance or resolution as findings. Both endeavors must be completed prior to the imposition or updating of all development fees. Cities and counties collecting development fees must issue findings demonstrating their compliance with these and other provisions of AB 1600 every five years. Other State laws cover the levying of regulatory processing fees, fees collected under development agreements, or fees collected pursuant to redevelopment agency agreements (California Government Code §66000(b)).

As summarized by Abbott et al. (2001, pp. 96-97), a valid fee-setting process or nexus report should include:

(1) projections of the future residential and non-residential population to be served by the proposed facilities;

(2) an identification of current and future service levels for each public facility needed;

(3) determination of additional facilities or additional capacity needed in each facility category to serve the projected population at the desired level of service;

(4) estimates of the projected costs of additional facilities or service capacity;

(5) apportionment of the costs of additional facilities or capacity between the existing population and new residents and businesses, proportionate to their contribution to the need for the facility and adjusted such that costs of upgrading current deficiencies or improving existing service levels is not levied on new development;

(6) a procedure for notifying affected project applicants in writing a statement of the amount of fees owed and of the 90-day protest period.

It is far beyond the scope of this effort to evaluate the adequacy of local nexus studies. Nonetheless, as part of our fee survey, we asked responding jurisdictions to: (1) identify whether any of their nexus studies were available to the public; (2) if, when, and how their nexus studies had last been updated; and (3) which, if any, of their fees had been updated in 1998 or 1999.

The results of our queries are presented as Table 5. A few notes of caution are in order. The listings included in Table 5 are meant to be illustrative and not conclusive. A number of the local planners we interviewed or corresponded with were unsure of the locations or currency of their jurisdiction's nexus studies. This is as much a comment on the frequency with which interested parties wish to view local nexus studies, as it is upon local compliance with AB 1600. Also, nexus studies are prepared under a variety of names, including impact fee studies, capital facilities studies, departmental fee studies, and AB 1600 compliance studies. Lastly, nexus studies vary widely in scope. A very few are truly comprehensive — that is, they include the basis for setting all local fees, including regulatory fees, building permit fees, connections fees, development fees, and mitigation fees. Most nexus studies are much more limited in scope, focusing only on one or a few types of capital facilities, as required by the Mitigation Fee Act.

These caveats notwithstanding, a number of conclusions can be drawn from Table 5:

- Most of the responding communities had undertaken some type of nexus study. Twenty of the ninety jurisdictions surveyed could not produce, cite, or refer to at least one nexus study. In a number of these cases, it is possible that the particular respondent simply did not know of completed studies.

- Few nexus studies are comprehensive. Reflecting the vagueness of the Mitigation Fee Act regarding the necessity of nexus studies covering regulatory (planning, zoning, building permit, and inspection) and utility connection fees, most jurisdictions do not prepare them. When necessary, they rely on city council findings and resolutions. Nexus studies are most commonly prepared for capital facilities, traffic mitigation, park land and recreational facilities, and sewer and water impact fees.

- As of 1999, most nexus studies were between two and five years old. There were numerous cases, however, in which a new nexus study had not been prepared for more than a decade. As permitted under AB 1600, most nexus studies include provisions (and in some cases, schedules) allowing jurisdictions to increase development fees without undertaking entirely new studies. In most such cases, fees are increased by means of a city council finding, resolution, or ordinance that refers back to a prior study. Alternately, a number of jurisdictions update their fees based on research revealed as part of a specific or area plan. While many jurisdictions recognize the usefulness of updating their nexus studies more frequently, few have the resources to do so.

- State law does not require communities to prepare nexus studies for school or park dedication in-lieu (Quimby Act) fees, and none do.

- A number of responding jurisdictions helpfully provided examples of nexus studies and AB 1600 compliance reports. In the former cases, fees are usually determined on an average cost basis. Specifically, historical or projected capital costs are divided by the current or projected future population to yield a per capita or per household cost. Put another way, the link between fees and longterm capital improvements programming (assuming such activities take place) is typically a weak one. In the case of compliance reports, jurisdictions typically compare anticipated fee collections (by type of facility) with updated cost and need estimates.

Table 5 : Nexus Study Availability and Currency Among the Survey Sample

Jurisdiction	Available Nexus Studies	Most Recent Nexus Study	Fees Updated in 1998 or 1999?					
			Planning & Env. Fees	Building & Inspection Fees	Sewer/ Water Connection Fees	Capital Facilities Fees	School Fees	Park In-lieu Fees
Arcadia	None available		No	No	No	No	Yes	No
Bakersfield	Traffic fee report, 1992; Habitat conservation study, 1994	1994	Yes	Yes	Yes	No	No	Yes
Brisbane	City council ordinance 386 (1993) based on 1992 nexus study	1992	No	No	No	No	No	No
Brentwood	1999 Processing fees study; 1998 capital facilities study	1998	Yes	Yes	Yes	Yes	Yes	Yes
Butte County	1988 Chico area urban fee study; 1993 Durham recreational study (parks & recreation); other fees by ordinance, 1993	1993	No	No	Yes	No	Yes	No
Carlsbad	Local facilities management and financing plans (no date given)		No	Yes	Yes	No	Yes	No
Chico	Development impact fee analysis study, 1998	1998	Yes	Yes	Yes	Yes	Yes	Yes
Chino	Sewage, park and other fees updated by ordinance (1999) and resolution (1988, 1989)		Yes	Yes	Yes	Yes	Yes	No
Chula Vista	Master fee study, 1994	1994	No	No	No	No	Yes	No
Clovis	None available		No	Yes	Yes	Yes	Yes	Yes
Cupertino	Housing mitigation fee study undertaken (no date given)		Yes	Yes	No	Yes	No	No
Corona	South Corona development impact fee study (1999); prior city-wide study (1996)	1999	Yes	Yes	Yes	No	Yes	Yes
Dana Point	Nexus study (1994)	1994	No	Yes	Yes	Yes	Yes	Yes
Delano	None available		No	No	No	No	Yes	No
El Dorado County	Planning department fee study, 1998	1998	Yes	Yes	Yes	Yes	Yes	Yes
El Monte	None available		No	No	No	Yes, traffic	Yes	Yes
Fairfield	Development fee nexus study, 1995	1995	Yes	Yes	Yes	No	Yes	Yes
Fremont	Capital facilities fee report, 1999; traffic impact fee study,1996	1999	No	No	Yes	Yes	Yes	Yes
Fresno	1997 Urban growth management fee report; 1998 wastewater report	1997	Yes	Yes	Yes	Yes	Yes	Yes
Folsom	City council master fee resolution, 1998		No	Yes	Yes	Yes	Yes	No
Gilroy	City council resolutions, 1998		Yes	Yes	Yes	Yes	No	Yes
Grass Valley	Development fee analysis and capital improvements program (annually)	1998	Yes	Yes	Yes	Yes	No	Yes
Half Moon Bay	City council findings updating master fee list, 1998		Yes	No	No	No	Yes	No
Hayward	City council resolution updating master fee schedule, 1999		No	No	Yes	No	Yes	No
Huntington Beach	Planning, building and engineering cost update, 1997		Yes	Yes	Yes	No	Yes	Yes
Irvine	None available		No	Yes	Yes	Yes	Yes	Yes
Kern County	N. Bakersfield Park District, 1997; Habitat conservation plan report, 1994; Traffic impact fee study, 1992, 1993; Departmental fee update by resolution, 1995;	1997, 1993	Yes	No	Yes	Yes	Yes	Yes

Jurisdiction	Available Nexus Studies	Most Recent Nexus Study	Fees Updated in 1998 or 1999?					
			Planning & Env. Fees	Building & Inspection Fees	Sewer/ Water Connection Fees	Capital Facilities Fees	School Fees	Park In-lieu Fees
Los Angeles	None available		No	No	No	No	Yes	No
Los Angeles County	Library fee study, 1999; others underway		Yes	Yes	Yes	No	Yes	Yes
Long Beach	None available		Yes	Yes	Yes	Yes, traffic	Yes	Yes
Los Gatos	City council resolution, 1998		No	No	No	No	Yes	No
Lincoln	Lincoln public facilities plan and cost study, 1998	1998	No	Yes	Yes	Yes	Yes	No
Merced	Public facilities financing plan, 1998	1998	No	Yes	No	Yes	No	No
Modesto	Capital facilities financing plan, 1999	1999	No	No	No	Yes	Yes	Yes
Monterey County	Bd. of supervisors resolution updating departmental fees, 1998		Yes	Yes	Yes	Yes	No	Yes
Moorpark	None available		Yes	No	No	Yes	Yes	Yes
Moreno Valley	Fee study update underway in 1999		Yes	No	No	No	No	No
Napa								
Norco	Impact fees reviewed annually		No	Yes	No	Yes	Yes	No
Oakland	None available		No	No	No	No	Yes	No
Ontario	City council resolution updating department fees, 1990		No	Yes	Yes	No	No	No
Orange County	Planning and development services department fee study, 1999	1999	No	Yes	Yes	Yes	Yes	Yes
Pasadena	None available		Yes	No	Yes	No	No	No
Placerville	Water, sewer, and capital facilities fee study, 1997; Traffic mitigation fee study (1999)	1998-99	No	Yes	Yes	Yes	Yes	No
Redding	Fee study update underway in 1999		Yes	Yes	Yes	Yes, traffic	Yes	Yes
Redwood City	None available		No	No	No	Yes	No	No
Roseville	Undertaken as part of area specific plans		Yes	Yes	Yes	Yes	Yes	Yes
Sacramento	Undertaken as part of North Natomas and downtown plans, 1998		Yes	Yes	Yes	No	Yes	No
Sacramento County	Undertaken as part of area specific plans		Yes	Yes	Yes	Yes	Yes	Yes
Salinas	None available		Yes	Yes	Yes	Yes, traffic	Yes	
San Diego	44 separate area assessment schedules		No	No	No	No	No	No
San Diego County	None available		Yes	Yes	Yes	No	Yes	Yes
San Joaquin County	Traffic impact fees, 1995		No	Yes	Yes	Yes	Yes	Yes
San Luis Obispo	Transportation impact fee study, 1993; water/wastewater fee study, 1991	1993	Yes	Yes	Yes	Yes, traffic	No	Yes
San Luis Obispo County	Public facilities financing plan, 1998	1998	Yes	Yes	Yes	Yes, traffic	Yes	Yes
San Mateo	City council findings updating master fee list, 1999		Yes	Yes	Yes	No	Yes	Yes
Santa Ana	None available		Yes	Yes	Yes	Yes, traffic	Yes	No
Santa Barbara	City council findings updating master fee list, 1999		Yes	Yes	Yes	No	Yes	No
Santa Barbara County	Goleta area development fee study, 1999; Orcutt infrastructure; financing program, 1997; Affordable housing in-lieu study	1999	No	No	No	Yes	Yes	Yes

Jurisdiction	Available Nexus Studies	Most Recent Nexus Study	Fees Updated in 1998 or 1999?					
			Planning & Env. Fees	Building & Inspection Fees	Sewer/ Water Connection Fees	Capital Facilities Fees	School Fees	Park In-lieu Fees
Santa Clarita	None available		Yes	No	No	Yes, traffic	Yes	Yes
Santa Cruz	City council findings updating master fee list, 1999		Yes	Yes	Yes	Yes	Yes	Yes
Santa Maria	AB 1600 annual compliance study, 1997	1997	Yes	Yes	Yes	Yes	Yes	No
Santa Monica	None available		Yes	Yes	No	No	Yes	No
Saratoga	Park in-lieu fee study, 1998		Yes	No	No	No	No	No
Shasta Lake	City council findings updating departmental fees, 1994		No	Yes	No	No	Yes	No
Simi Valley	Road fees currently being updated, 1999		Yes	Yes	Yes	Yes	No	No
Soledad	City of Soledad fee study, 1992	1992	No	No	No	No	No	No
Sonoma County	AB 1600 annual report and compliance study, 1999	1999	Yes	Yes	Yes	Yes	No	Yes
S. Lake Tahoe	City council findings updating departmental fees, 1993; TRPA environmental analysis, 1986		Yes	Yes	No	Yes	Yes	No
St. Helena	City council findings updating departmental fees, 1997		No	No	Yes	Yes	Yes	No
Stockton								
Tracy	City council findings updating fees, 1999		Yes	No	No	No	No	No
Temecula	City council ordinance updating development fees, 1997		No	No	Yes	Yes	Yes	No
Truckee	Town council resolution updating fees, 1998; traffic fee study, 1999; Prior parks and fire studies	1999	Yes	Yes	Yes	Yes, traffic	No	No
Tustin	Transportation impact fee study, 1992		No	Yes	Yes	No	Yes	Yes
Vacaville	City council findings updating departmental fees, 1997; prior studies in 1992, 1993	1993	No	Yes	Yes	Yes	Yes	Yes
Vallejo	None available		No	No	No	No	No	No
Ventura	Fees updated by city council ordinance and resolution, 1999		No	Yes	Yes	Yes	No	No
Visalia	City council resolution updating development fees, 1999		Yes	Yes	Yes	Yes, traffic	Yes	Yes
Walnut Creek	None available		No	No	No	No	No	No
Wasco	None available		Yes	Yes	Yes	Yes	Yes	No
Watsonville	City council resolutions updating department fees, 1995		Yes	Yes	Yes	Yes	Yes	Yes
Windsor	AB 1600 fee study and update, 1999	1999	No	Yes	No	Yes	No	Yes
Yuba City	AB 1600 fee study and update, 1995	1995	No	Yes	No	No	Yes	No

These caveats notwithstanding, a number of conclusions can be drawn from Table 5:

- Most of the responding communities had undertaken some type of nexus study. Twenty of the 90 jurisdictions surveyed could not produce, cite, or refer to at least one nexus study. In a number of these cases, it is possible that the particular respondent simply did not know of completed studies.

- Few nexus studies are comprehensive. Reflecting the vagueness of the Mitigation Fee Act regarding the necessity of nexus studies covering regulatory (planning, zoning, building permit, and inspection) and utility connection fees, most jurisdictions do not prepare them. When necessary, they rely on city council findings and resolutions. Nexus studies are most commonly prepared for capital facilities, traffic mitigation, park land and recreational facilities, and sewer and water impact fees.

- As of 1999, most nexus studies were between two and five years old. There were numerous cases, however, in which a new nexus study had not been prepared for more than a decade. As permitted under AB 1600, most nexus studies include provisions (and in some cases, schedules) allowing jurisdictions to increase development fees without undertaking entirely new studies. In most such cases, fees are increased by means of a city council finding, resolution, or ordinance that refers back to a prior study. Alternately, a number of jurisdictions update their fees based on research revealed as part of a specific or area plan. While many jurisdictions recognize the usefulness of updating their nexus studies more frequently, few have the resources to do so.

- State law does not require communities to prepare nexus studies for school or park dedication in-lieu (Quimby Act) fees, and none do.

- A number of responding jurisdictions helpfully provided examples of nexus studies and AB 1600 compliance reports. In the former cases, fees are usually determined on an average cost basis. Specifically, historical or projected capital costs are divided by the current or projected future population to yield a per capita or per household cost. Put another way, the link between fees and longterm capital improvements programming (assuming such activities take place) is typically a weak one. In the case of compliance reports, jurisdictions typically compare anticipated fee collections (by type of facility) with updated cost and need estimates.

- About half of the responding jurisdictions reported raising their planning and environmental review fees in 1998 or 1999. About 60 percent reported having increased some type of building permit or inspection fee. More than two-thirds of responding jurisdictions reported having increased their sewer, water, or stormwater drainage connection fees during 1998 or 1999. Significantly, none of these three types are explicitly covered under the Mitigation Fee Act. Fast-growing, affordable suburban communities were much more likely than slower-growing, expensive ones to have recently increased their regulatory and connection fees.

- Fewer than half of all responding jurisdictions reported having raised capital facilities fees during 1998 or 1999. Most of those that did, also report having recently updated one or more nexus studies. Traffic and transportation fees were the most frequently increased capital facilities fees. Capital facilities fees are explicitly covered by the Mitigation Fee Act. As above, fast-growing jurisdictions were more likely than slower-growing ones to have recently raised their capital facilities fees.

- Many responding jurisdictions did not raise school impact fees in 1998 or 1999, mostly because they already charged the maximum fee allowable under the Sterling Act. A number of jurisdictions that did not charge the maximum school fee did increase it to the (then) allowable maximum of $1.93 per square foot.

- Only about half of the jurisdictions that charge in-lieu park dedication fees increased them in 1998 or 1999.

In summary, most of the jurisdictions examined seem to meet the letter, if not the spirit, of the Fee Mitigation Act. Most have prepared (or had prepared for them) some form of capital facilities nexus study in the recent past. Moreover, as documentation, the nexus studies reviewed seemed reasonably thorough. California jurisdictions appear to be opportunistically, but not arbitrarily, imposing or raising development fees.

Also apparent is that the determination of development fees occurs mostly outside the longterm land-use planning or capital improvements programming process. Land-use approval and capital improvements programming decisions are made first, then fees are set to cover the incremental facilities costs inherent in those decisions. This is obliquely contrary to the reasonable relationship requirement set forth in California Government Code §66001(a)(2) and (4). Cities raise their fees either when they need to, or when a strong real estate market allows them. The process of analyzing, documenting and setting development fees never really serves as a check on the land-use planning or capital improvements programming process. In short, unlike the private market where prices and costs function as efficiency signals, development fees appear to play no part in encouraging efficient local land-use or capital improvements planning.

Chapter Summary

California cities and counties typically charge more than two dozen different types of development-related fees. Most fall into three broad categories: (1) planning fees, which cover the administrative costs associated with reviewing required planning documents; (2) building permit, plan check, and inspection fees, which cover the costs of reviewing building permit and other site specific permit applications; and, (3) capital facilities fees, which cover the up-front municipal costs of providing required public infrastructure and related-services.

Fee assessment practices vary widely by fee type and region. Storm drainage impact fees, for example, are commonly collected by Sacramento area jurisdictions, and not so commonly by Bay Area jurisdictions. Likewise, traffic mitigation, school mitigation, park, and special assessment district fees are more frequently collected by Central Valley and Sacramento area jurisdictions. Central coast jurisdictions regularly collect affordable housing in-lieu fees but not park fees. Bay Area and Southern California jurisdictions collect fewer types of fees than jurisdictions in other parts of the State, but there is also much more variation among individual Bay Area and Southern California cities.

Fee waiver practices also vary. Thirty-five percent of responding jurisdictions report they reduce or waive fees for affordable housing projects. Affordable housing fee reductions and waivers are most common among Southern California jurisdictions and least common among Central Valley jurisdictions. Fee waivers and reductions for senior housing are slightly less popular. Thirty-two percent and twenty-three percent of the sample jurisdictions, respectively, report reducing and waiving fees for senior housing projects. Senior housing fee waivers and reductions (like affordable housing fee waivers and reductions) are most popular among Southern California jurisdictions and least popular among Sacramento area and Central Valley jurisdictions.

Most California municipalities meet the letter if not the spirit of the Mitigation Fee Act. California Government Code §66001(a) (2) and (4) — enacted as the Mitigation Fee Act under AB 1600 — requires jurisdictions charging fees to demonstrate that there is a reasonable connection between specific fee amounts and the cost of the public facilities as set forth in local planning documents. Such relationships are to be documented in the form of written "nexus studies" and then certified by ordinance or resolution as findings. Most of the jurisdictions in the sample had undertaken some type of nexus study. Only twenty of the ninety jurisdictions surveyed could not produce, cite, or refer to at least one nexus study. Very few nexus studies cover more than one or two separate fees. Most nexus studies are between two and five years old. As permitted under AB 1600, most nexus studies include provisions (and in some cases, schedules) allowing jurisdictions to increase development fees without undertaking entirely new studies. State law does not require communities to prepare nexus studies for school or park dedication in-lieu (Quimby Act) fees, and none do.

Regrettably, fee-setting is not directly linked from capital improvements planning. Local capital facilities fees are usually determined using an average cost methodology; historical or projected capital costs are divided by the current or projected future population to yield a per capita or per household cost. As a result, the link between fees and longterm capital improvements programming (assuming such activities take place) is typically a weak one. In the case of compliance reports, jurisdictions typically compare anticipated fee collections (by type of facility) with updated cost and need estimates.

Chapter 5 How Much Are Local Fees?

California is a large and diverse State with many types and sizes of local governments, so it is reasonable to expect development fees to vary. But the variation in development fees should represent some predictability. If the Mitigation Fee Act is working as intended — that is, if there is truly a nexus between development fees and capital facilities costs — then development fees should vary in ways that are both recognizable and explainable. Chapter 5 begins by comparing the range of fees charged in ten growing and suburban communities from around the State. Next, the chapter considers how fees differ, whether by building type or location. Statistical techniques including regression are used to identify whether and why development fees are consistently higher in some jurisdictions and lower in others. Lastly, whether development fees substitute for other forms of public financing is considered.

Surveying the Range of Fees

We start our analysis of fee amounts not by looking at averages and statistics, but by considering the types and amounts of fees charged in ten suburban communities from around the State. From north to south, they include: Roseville, Fairfield, Brentwood, Tracy, Salinas, Fresno, unincorporated Los Angeles County, Corona, Irvine, and Carlsbad. All ten are growing; the average number of new residential building permits issued between 1996 and 1998 ranged from a low of 524 in Fairfield to a high of 3,104 in Los Angeles County (see Table 6).

All ten include a range of land uses, with Brentwood and Tracy being the most residential in character, and Salinas, Fresno, and unincorporated Los Angeles County having the largest shares of commercial land uses. Except for Brentwood (1998 population: 17,000), all are medium-sized and larger; their 1998 populations ranged from 47,550 in Tracy to 997,000 in unincorporated Los Angeles County. All provide a wide variety of urban services, though not necessarily the same services. Most important, in all ten, development fees account for a substantial portion of local capital improvements funding. For simplicity's sake, only fees charged on subdivision homes were considered.

Planning Fees

1999 planning fees among the ten case study communities fell mostly in the range of $1,000 to $2,000 per subdivision home. Roseville charged the lowest per unit planning fees ($110) and Tracy the highest ($2,294). Individual types of planning fees varied much more widely. Planning and zoning fees, for example, varied from a low of only $22 per unit in Roseville, to a high of $788 in Irvine. Environmental review and documentation fees averaged $453 per unit in Tracy, but were much lower elsewhere; Fresno

and Irvine did not charge environmental documentation fees. Subdivision fees — including tentative and final map fees and planned unit development fees ranged from as little as $69 per unit in Roseville to as much as $1,271 in Irvine.

Other planning-related fees were fairly low, except in Tracy, which regularly imposes development agreement fees and general-purpose development review fees; and in Corona, which charges design review fees. In summary, based on a small and select sample, planning fees seem to be higher in places where local planning departments are run on a full cost recovery basis (e.g., Tracy and Irvine), and lower in places with less extensive and more standardized plan and subdivision review procedures (Fairfield, Roseville, Salinas, and Los Angeles County).

Building Permit and Inspection Fees

Building permit and inspection fees also vary widely among the case study communities. This is somewhat surprising considering that such fees are supposed to be tied to the statewide California Building Standards Code (CBSC). On the high side, Corona, Salinas, Tracy, unincorporated Los Angeles County and Brentwood each charge total building permit and inspection fees totaling in excess of $3,500 per subdivision home. Corona charges subdivision inspection, public improvement plan check and occupancy fees, and property development taxes totaling more than $2,000 per unit. Tracy and Salinas also charge sizeable public improvement plan check fees, as well as much higher than typical building permit and plan check fees. Brentwood and unincorporated Los Angeles County both charge very high engineering inspection and permit fees (covering electrical, mechanical, and plumbing permits), together with moderately-high building permit fees.

At the very opposite extreme, Fresno charges much lower than average building permit, building plan check, and engineering fees. Total building permit and inspection fees in Fresno add up to less than $1,200 per subdivision home. In summary, State law allows local governments wide discretion in charging building and inspection fees, both in the setting of fairly standardized types of fees such as building permit and plan check fees, and in the imposition of additional fees covering subdivision and public improvements. Judging from the case study jurisdictions, many California communities make active use of such discretion.

Capital Facilities Fees

As wide as the variations between the case study jurisdictions are in categories of planning and building fees, they are nothing compared to the differences among capital facilities fees. Among the ten case study jurisdictions, per unit 1999 capital facilities fees ranged from a minimum of just over $10,100 in unincorporated Los Angeles County to more than $41,500 in Brentwood. Moreover, as Table 6 reveals, wide variations in fee amounts occur among every capital facilities fee category except for schools. Under the provisions of the Sterling Act and SB 50, school impact fees re capped statewide. As allowed by law, eight of the ten case study jurisdictions

Table 6: Residential Development Fees in Selected Suburban Communities

	Brentwood	Carlsbad	Corona	Fairfield	Fresno	Irvine	LA County	Roseville	Salinas	Tracy
1998 Population	17,000	73,700	111,500	91,600	411,600	133,200	997,000	66,900	128,300	47,550
1996-98 Avg. New Residential Permits	694	1,129	1,817	524	1,685	1,530	3,104	2,033	673	674
Planning & Zoning Fees	$172	$219	$304	$207	$639	$788	$657	$22	$420	$192
Env. Documentation Fees	73	41	35	41	0	0	26	6	12	453
Subdivision and Related	618	935	403	205	1,198	1,271	241	69	329	704
Other Planning	280	174	419	185	134	60	2	13	105	945
TOTAL PLANNING FEES	**1,143**	**1,369**	**1,161**	**639**	**1,971**	**2,119**	**927**	**110**	**866**	**2,294**
Building Permit	$949	$477	$588	$1,492	$327	$692	$1,392	$1,422	$2,462	$1,291
Building Plan Check	617	310	590	116	18	143	1,252	835	1,527	853
Engineering Fees (Plumbing, Mech., Elec.)	1,335	240	459	260	366	512	1,083	0	98	508
Other Building & Public Works Fees	676	971	3,010	57	488	1,110	259	262	857	2,320
TOTAL BUILDING PERMIT AND CHECK FEES	**3,577**	**1,997**	**4,647**	**1,926**	**1,199**	**2,456**	**3,986**	**2,519**	**4,944**	**4,973**
School Fees	$4,825	$0	$4,825	$4,785	$4,825	$4,825	$4,825	$7,283	$4,825	$4,825
School Mitigation Fees	5,603	783	0	0	0	0	0	3,525	0	0
Highway, Road, Traffic & Transit	12,278	0	11,400	2,183	716	3,831	0	1,355	1,330	1,670
Water, Wastewater, Sewer & Drainage Fees	8,630	8,357	2,727	10,193	6,136	1,055	3,848	7,568	5,226	3,368
Park & Recreation Fees (including Quimby)	6,456	1,755	4,311	4,230	338	4,084	1,049	2,487	2,128	4,958
Public Safety Fees	296	0	248	0	326	0	0	1,033	0	0
General-purpose Capital Facilities Fees	1,628	870	493	3,356	0	0	0	925	490	1,616
Other Facility & Impact Fees	1,786	30	6,185	2,480	0	35	535	1,730	162	0
TOTAL CAPITAL IMPROVEMENTS FEES	**41,502**	**11,795**	**30,189**	**27,227**	**12,341**	**13,830**	**10,257**	**25,906**	**14,161**	**16,437**
TOTAL FEES	$46,221	$15,161	$35,997	$29,792	$15,511	$18,405	$15,169	$28,536	$19,971	$23,704

charged the maximum school impact fee allowable in 1999; $4,825 per subdivision home (Roseville charged school impact fees totaling $7,283 per subdivision home, while Carlsbad did not impose any school impact fees.).

SB 50 also tightened up the use of supplemental school mitigation fees. Only three of the case study jurisdictions charged such fees as of 1999: Brentwood, which charged $5,603 per subdivision unit, Roseville, which charged $3,525 per unit (bringing total 1999 school fees in parts of Roseville to over $10,800 per unit); and Carlsbad, which charged $783 per unit.

It has become popular in recent years, especially in fast-growing suburban communities, to charge residential developers a pro-rated share of the cost of new and expanded road and transit facilities. Depending on the location, such charges may be imposed by municipal, county (and regional), or State agencies; or some combination of the three. All but two of the case study communities, Carlsbad and Los Angeles County, charged road or transit fees in 1999. Road fees among the other cases study communities varied widely depending on the amount and type of their outstanding transportation needs. At the top end, Brentwood and Corona charged road fees totaling $12,278 and $11,400 respectively. Both are fast-growing communities that are relatively new to the challenge of having to finance their own longterm roadway needs. Irvine and Fairfield, on the other hand, have long charged road fees, and so have fewer incremental transportation facility needs. In still another category, Tracy and Salinas, have yet to plan financing of their longterm highway and transportation improvement needs.

Local water, wastewater, sewer and drainage facility fees vary almost as widely as road and transit fees, ranging from a 1999 high of nearly $10,200 in Fairfield to a low of $1,055 in Irvine. Some jurisdictions charge one or two consolidated fees, others charge a multitude of fees.

The amount charged bears little relationship to the number and type of fees charged. Generally speaking, northern California and coastal jurisdictions charge higher water, sewer and drainage fees than their southern California and Central Valley counterparts.

Park and recreation fees, including Quimby Act fees, vary over a slightly narrower range than road and water fees. Among the cases study communities, Brentwood charged by far the most ($6,456 in 1999), while Fresno charged the least ($338); the other eight communities charged amounts ranging between $1,750 and $5,000. Park and recreation fees vary partly according to the level of outstanding need — like road fees, partly according to local preferences, and in part to what other recreation facilities and parks are available. Brentwood, for example, charges high park and recreation fees because city officials, presumably reflecting the desires of residents, have decided to significantly upgrade the quantity and quality of local parks and recreation facilities. Carlsbad, by contrast, already has significant recreation facilities and parks (as well as ocean beaches), and can set their fees lower accordingly. Open space requirements are generally handled as a matter of land dedication (subject to local subdivision ordinances) and none of the ten case study communities charge separate open space fees.

Seven of the case study communities charge general-purpose capital facilities to cover the costs of new public buildings such as libraries, city halls, and police and fire stations. General-purpose capital facilities fees range from a low of $493 per subdivision home in Corona, to more than $3,356 per home in Fairfield. The faster-growing communities among the ten case studies are more likely to charge general-purpose capital facilities fees. The amounts of such fees, however, are more a function of local budgetary practices than of population growth rates. Brentwood, Fairfield, and Roseville, for example, all charge higher fees across the board, including general-purpose capital facilities fees. Corona, on the other hand, while a high-fee jurisdiction in other categories, charges comparatively low general-purpose capital facilities fees. Four case study communities — Brentwood, Corona, Fresno, and Roseville — also charge separate public safety fees to pay for police and fire facilities. Brentwood, Corona and Roseville are all high-fee, fast-growing communities with rapidly expanding and identifiable public safety facilities needs.

Because State law does not specify particular categories for which capital facilities fees may be charged, jurisdictions are free to establish their own fee categories and types. The City of Corona, for example, charges emergency facilities and tree and landscaping fees, and property development taxes totaling over $2,600 per subdivision home. Another high-fee jurisdiction, Fairfield, charges development license taxes and an urban design fee totaling more than $2,400 per home. Brentwood, a third high-fee city, charges development allotment fees and administrative impact fees in excess of $1,700 per unit. Roseville, likewise, charges additional capital fees totaling $1,700 per unit, including a fire service construction tax and in-lieu affordable housing fees. In 1999, Los Angeles County, Salinas, Irvine, and Carlsbad charged additional per unit capital facilities fees of $535, $162, $35, and $30, respectively.

Total Single-family Subdivision Home Fees

In many jurisdictions, planning, building permit inspection and capital facilities fees are all set independently, (total fees are the sum of individual fees). In other jurisdictions, fee schedules are linked to community growth and fiscal policies. This is certainly the case for two of the case study cities, Brentwood and Corona, both of which see growth (and high fees) as a vehicle for upgrading the quality of their planning and public facilities. In a similar vein, Fairfield and Roseville charge high capital facilities fees (but not planning or permit fees) to maintain their existing public facilities quality in the face of continued growth. Tracy takes a different approach. It operates its planning and building departments on a cost-recovery basis, charging higher fees for those activities. The other five case study jurisdictions — all in Southern California or the Central Valley — typically approach fee-setting on a fee-by -fee, cost-by-cost basis. The results are lower fees than in other places around the State and possibly closer to true marginal cost.

Average Fees

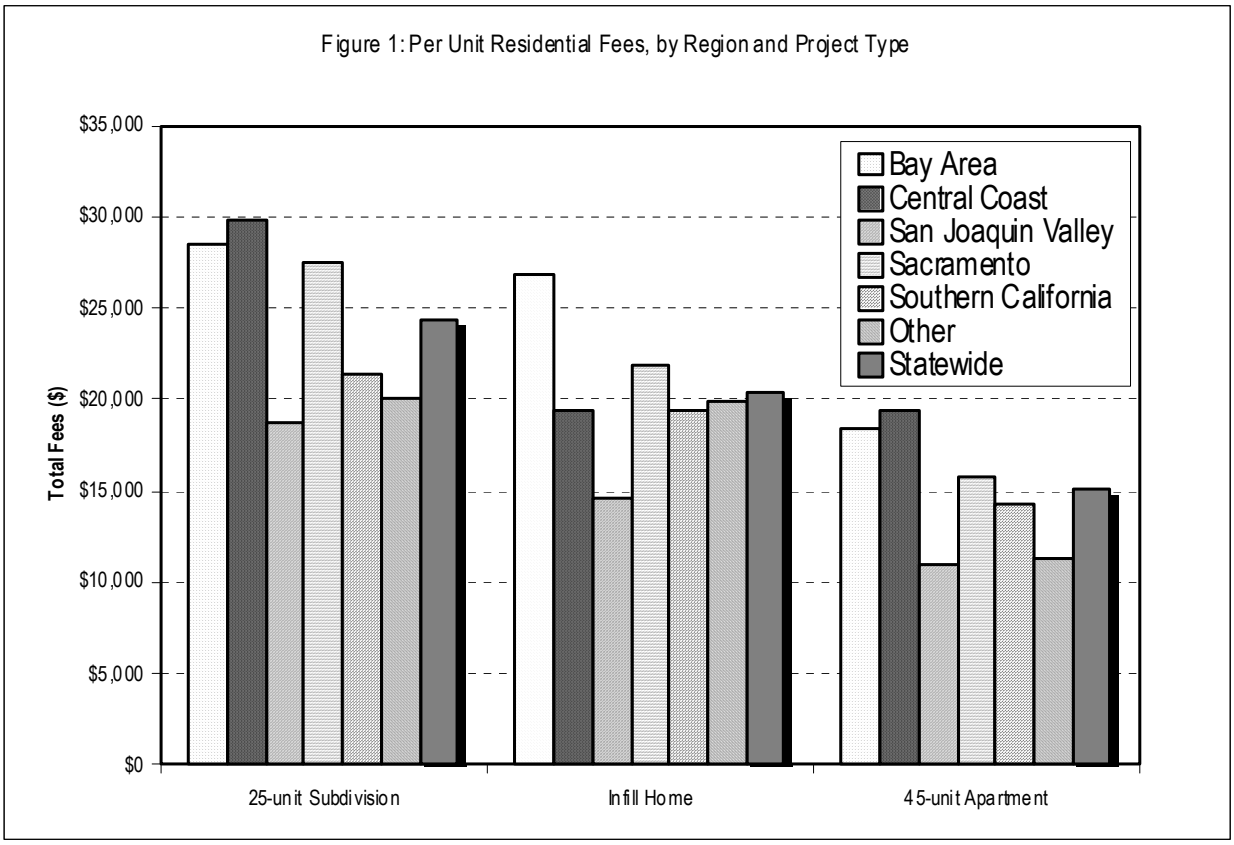
From this brief glimpse into the range of fees charged, now turn to an analysis of typical and atypical fee amounts. Among the 89 jurisdictions surveyed, single-family homebuilders in 1999 paid an average of $24,325 per unit in residential development fees. Owners of new infill homes paid an average of $20,327 per unit. Apartment developers paid an average of $15,531 per new apartment unit (see Table 7 and Figure 1). These estimates include planning fees, building permit and plan check fees, and all manner of connection fees, infrastructure and capital facilities fees, in-lieu fees, and residential development taxes.

Table 7: Average Residential Development Fees by Project Type and Region

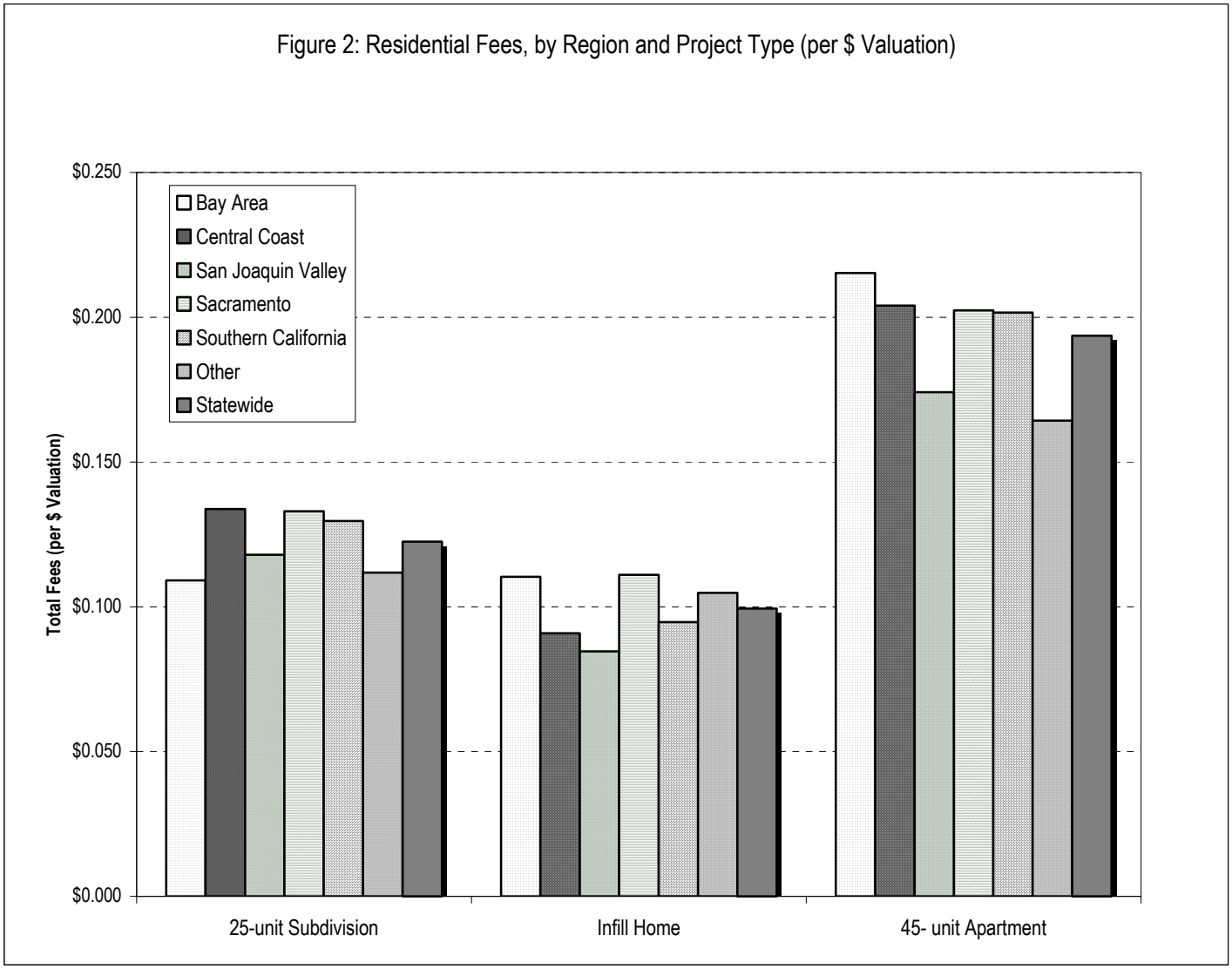
PROJECT TYPE	Statewide Sample	Bay Area Sample	Central Coast Sample	San Joaquin Valley	Sacramento Sample	Southern California Sample	North State; Sierras
AVERAGE. RESIDENTIAL FEES PER UNIT							
25-unit Single-family Subdivision	$24,325	$28,526	$29,799	$18,728	$27,480	$21,410	$20,005
Infill House	20,327	26,819	19,448	14,631	21,834	19,377	19,853
45-unit Apartment Building	15,531	18,428	19,477	10,929	15,793	14,360	11,367
AVERAGE RESIDENTIAL FEES PER $ VALUATION							
25-unit Single-family Subdivision	$0.12	$0.11	$0.13	$0.12	$0.13	$0.13	$0.11
Infill House	0.10	0.11	0.09	0.08	0.11	0.09	0.10
45-unit Apartment Building	0.19	0.22	0.20	0.17	0.20	0.20	0.16

Among production homebuilders, those in the Central Coast region paid the highest average fees ($29,799 per unit), followed closely by Bay Area and Sacramento builders ($28,526 and $27,480, respectively). Homebuilders in San Joaquin Valley communities and more rural northern and Sierra communities paid the lowest average fees ($18,728 and $20,005 per unit, respectively), followed by those in Southern California ($21,410).

Owners of new infill homes paid the highest average fees in 1999 in the Bay Area ($26,819) and the lowest average fees in the San Joaquin Valley ($14,631). Elsewhere in the State, infill builders paid fees ranging between $19,377 and $21,834. Depending on the region, average infill home fees were between $1,000 and $10,000 lower than average subdivision home fees. The infill–subdivision fee gap was biggest among Central Coast jurisdictions and smallest among rural and Southern California jurisdictions.



When compared on a unit basis, apartment fees are generally lower than fees on single-family homes. Comparing regional averages, Central Coast apartment builders paid the highest per unit apartment fees ($19,477), followed by Bay Area apartment builders ($18,428), Sacramento apartment builders ($15,793), and Southern California apartment builders ($14,360). San Joaquin Valley apartment builders paid fees averaging only $10,929 per unit.



A different picture emerges if fees are compared on a per dollar valuation basis instead of per unit (Figure 2). Compared in terms of construction value, apartment fees are considerably higher than subdivision and infill home fees. The former range from a low of $.16 per dollar of construction valuation (averaged among Sierra and North State jurisdictions) to a high of $.22 per dollar of construction valuation (averaged across Bay Area jurisdictions). The latter range from a low of $.08 (San Joaquin Valley) to a high of $.13 per dollar of building value.[37] The higher per-dollar-value fees charged for apartments mostly reflect their lower unit construction costs. Among subdivision homes, the Bay Area's lower per-dollar-value fee amounts reflect that region's higher construction costs. Table 8 lists total fees for each of the three profiled housing forms and sample jurisdictions.

Table 8: Development Fees by Project Type, Jurisdiction, and Region

Jurisdiction	Total Fees per Unit			Total Fees per $ Valuation		
	25-unit Subdivision	Infill House	45-unit Apt. Bldg.	25-unit Subdivision	Infill House	45-unit Apt. Bldg.
Berkeley	$10,891.0	$16,247.0	$6,744.7	$0.046	$0.069	$0.064
Brentwood	46,221	52,219	41,198	0.245	0.277	0.618
Fremont	36,128	30,814	18,753	0.133	0.114	0.206
Hayward	17,661	18,944	na	0.081	0.087	na
Oakland	17,013	19,423	9,495	0.052	0.059	0.098
Walnut Creek	35,798	29,969	25,883	0.142	0.119	0.285
EAST BAY AVG	27,285	27,936	20,415	0.117	0.121	0.254
Fairfield	29,792	30,814	18,753	0.158	0.163	0.240
Napa	35,170	28,662	20,293	0.158	Na	0.252
Sonoma County	18,435	24,298	14,242	0.076	0.100	0.146
St. Helena	36,225	36,713	15,676	0.144	0.146	0.155
Vacaville	23,382	31,103	19,517	0.105	0.140	0.255
Vallejo	33,113	29,351	23,742	0.163	0.144	0.321
Windsor	28,693	27,721	21,080	0.116	0.112	0.265
NORTH BAY AVG	29,258	29,809	19,043	0.131	0.132	0.233
Brisbane	14,053	11,543	7,616	0.056	0.046	0.084
Half Moon Bay	43,502	40,223	35,207	0.129	0.119	0.304
Redwood City-na		13,711	18,171	0.000	0.060	0.220
San Francisco	18,237	15,476	5,233	0.091	0.077	0.083
San Mateo	24,926	22,660	8,680	0.102	0.117	0.088
PENINSULA BAY AVG	25,179	20,723	14,981	0.076	0.086	0.156
Cupertino	32,427	28,591	14,464	0.131	0.174	0.123
Gilroy	33,989	29,567	21,286	0.131	0.114	0.288
Los Gatos	23,505	22,899	12,148	0.102	0.100	0.131
Saratoga	21,170	18,819	6,603	0.064	0.057	0.079
SOUTH BAY AVG	27,772	24,969	13,625	0.107	0.101	0.155
BAY AREA AVG	27,374	25,859	17,016	0.108	0.110	0.200
San Luis Obispo County	20,266	17,979	21,133	0.112	0.091	0.265
San Luis Obispo City	32,840	19,225	12,726	0.167	0.106	0.200
Santa Barbara City	15,683	14,806	7,332	0.071	0.067	0.082
Santa Barbara County	36,284	37,218	22,161	0.190	0.195	0.290
Santa Maria	16,300	16,430	9,497	0.084	0.074	0.114
SOUTH CENTRAL COAST AVG	25,217	21,132	14,784	0.120	0.104	0.187
Monterey County	39,203	16,078	45,695	0.171	0.070	na
Salinas	19,971	18,696	17,374	0.087	0.081	0.209
Santa Cruz	38,561	21,616	26,458	0.156	0.098	0.297
Soledad	16,262	16,469	10,786	0.073	0.074	0.134
Watsonville	59,703	15,962	22,398	0.242	0.065	0.254
MONTEREY BAY AVG	34,740	17,764	24,542	0.146	0.077	0.224
CENTRAL COAST AVG	29,979	19,448	19,663	0.133	0.091	0.205
Manteca	23,304	20,670	17,429	0.135	0.090	0.249
Merced	20,068	14,457	12,054	0.136	0.098	0.188
Modesto	29,572	18,931	17,673	0.210	0.134	0.326
San Joaquin County	18,218	14,662	12,264	0.111	0.092	0.193
Stockton	26,623	20,986	15,726	0.167	0.131	0.243
Tracy	23,704	22,302	12,322	0.151	0.099	0.198

Table 8: Development Fees by Project Type, Jurisdiction, and Region

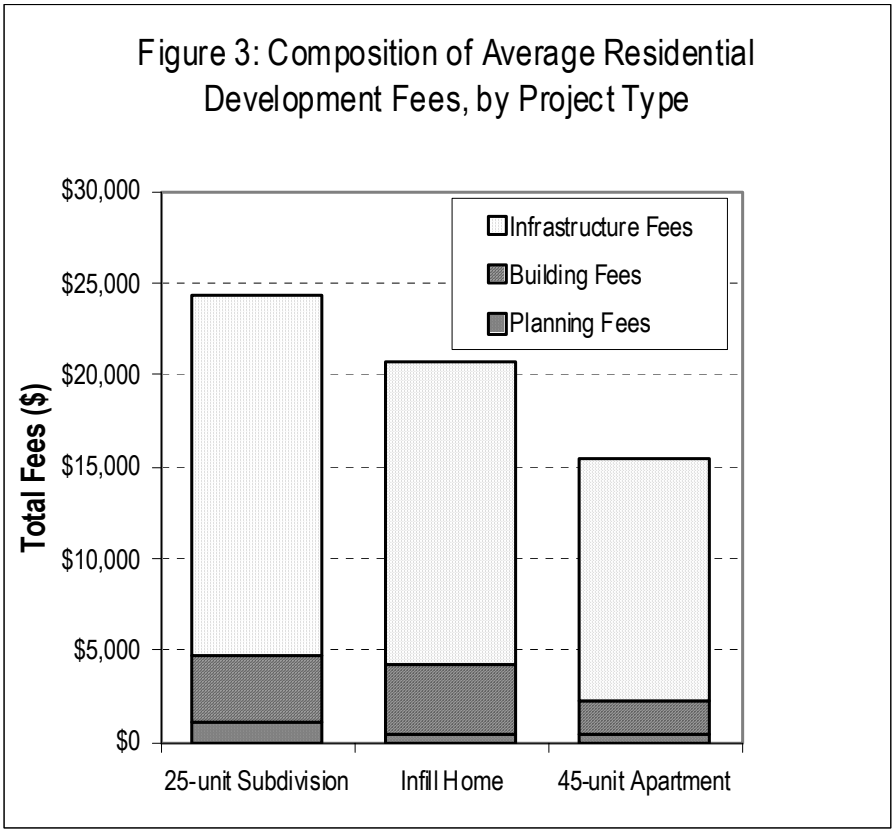
Jurisdiction	Total Fees per Unit			Total Fees per $ Valuation		
	25-unit Subdivision	Infill House	45-unit Apt. Bldg.	25-unit Subdivision	Infill House	45-unit Apt. Bldg.
Clovis	22,354	18,003	14,702	0.120	0.097	0.195
Delano	13,184	10,746	8,184	0.075	0.079	0.134
Fresno	15,511	11,572	4,215	0.096	0.071	0.099
Kern	11,887	11,710	6,780	0.080	0.079	0.119
Visalia	11,648	10,586	5,652	0.072	0.049	0.091
Wasco	11,176	10,478	5,391	0.076	0.071	0.099
SOUTH VALLEY AVG	13,875	10,593	7,280	0.084	0.064	0.115
SAN JOAQUIN VALLEY AVG	18,728	14,631	10,929	0.118	0.085	0.174
Butte County	11,857	10,708	10,967	0.083	0.075	0.194
Chico	17,355	17,167	6,708	0.100	0.099	0.094
Redding	15,684	14,862	8,686	0.097	0.062	0.139
Shasta Lake	13,770	13,599	9,693	0.104	0.103	0.191
Yuba City	16,161	12,989	7,578	0.087	0.070	0.118
NORTH STATE AVG	14,965	13,865	8,726	0.094	0.079	0.147
El Dorado County	35,654	29,916	22,799	0.174	0.146	0.308
Grass Valley	24,603	20,001	0	0.134	0.109	0.000
Placerville	22,238	25,937	14,776	0.102	0.119	0.187
South Lake Tahoe-na	na	36,520	20,308	na	0.167	0.230
Truckee	17,681	16,829	12,159	0.107	0.102	0.182
SIERRA AVG	25,044	25,841	14,008	0.129	0.130	0.181
NORTH STATE & SIERRA AVG	20,005	19,853	11,367	0.112	0.105	0.164
Folsom	31,026	24,986	15,534	0.137	0.123	0.168
Lincoln	32,429	24,503	20,315	0.148	0.112	0.258
Roseville	28,536	26,061	23,455	0.138	0.126	0.288
Sacramento	19,922	11,334	5,781	0.125	0.071	0.087
Sacramento County	28,358	14,514	11,218	0.131	0.078	0.166
SACRAMENTO AVG	27,480	21,834	15,793	0.133	0.111	0.202
Chino	22,769	21,761	15,397	0.141	0.135	0.247
Corona	35,997	23,194	14,968	0.189	0.122	0.210
Moreno Valley	20,933	8,082	14,338	0.127	0.035	0.226
Norco	23,352	21,492	na	0.116	0.107	na
Ontario	17,056	17,223	11,580	0.078	0.107	0.147
Temecula	20,721	18,214	12,117	0.162	0.142	0.241
INLAND EMPIRE AVG	23,471	18,328	13,680	0.136	0.102	0.214
Arcadia	15,010	14,167	8,603	0.059	0.055	0.115
El Monte	11,836	12,217	8,714	0.749	0.077	0.136
Long Beach	17,809	18,212	10,931	0.080	0.082	0.121
Los Angeles	15,169	13,753	6,362	0.072	0.066	0.075
Los Angeles County	28,506	17,234	8,764	0.118	0.082	0.143
Pasadena	15,051	18,299	10,672	0.078	0.094	0.168
Santa Monica	25,817	15,444	13,167	0.116	0.069	0.155
CENTRAL LOS ANGELES AVG	18,457	15,618	9,602	0.182	0.074	0.131
Dana Point	26,625	27,852	16,136	0.115	0.100	0.231
Huntington Beach	28,229	21,047	11,979	0.127	0.095	0.148
Irvine	18,405	12,911	17,819	0.114	0.080	0.286
Orange County	23,821	12,283	13,210	0.175	0.065	0.247
Santa Ana	20,473	18,650	na	0.125	0.114	na
Tustin	22,609	23,605	19,602	0.100	0.104	0.209

Table 8: Development Fees by Project Type, Jurisdiction, and Region

Jurisdiction	Total Fees per Unit			Total Fees per $ Valuation		
	25-unit Subdivision	Infill House	45-unit Apt. Bldg.	25-unit Subdivision	Infill House	45-unit Apt. Bldg.
ORANGE COUNTY AVG	23,360	19,391	15,749	0.126	0.094	0.224
Carlsbad	15,161	25,696	31,257	0.071	0.107	0.408
Chula Vista	26,489	25,675	17,282	0.137	0.133	0.253
San Diego	19,464	15,728	14,193	0.107	0.071	0.181
San Diego County	13,888	24,966	7,611	0.068	0.123	0.097
SAN DIEGO AVG	18,751	23,016	17,586	0.096	0.107	0.235
Moorpark	20,354	17,880	13,090	0.088	0.077	0.155
Santa Clarita	28,565	21,400	20,602	0.154	0.116	0.320
Simi Valley	18,809	18,698	13,835	0.082	0.081	0.172
Ventura	24,319	24,143	13,214	0.112	0.111	0.169
NORTH LA AVG	23,012	20,530	15,185	0.109	0.096	0.204
SOUTHERN CALIFORNIA AVG	21,410	19,377	14,360	0.130	0.095	0.202
SAMPLE AVERAGE	$24,325	20,327	15,531	0.123	0.099	0.194

Fee Composition and Variability

Capital facilities fees are the largest component of development fees, accounting for 80 percent of subdivision and infill home fees, and 86 percent of apartment fees (see Figure 3). Building permit and plan check fees are the next largest component, accounting for 18 percent of infill home fees, 14 percent of subdivision home fees, and 11 percent of apartment unit fees. Planning fees account for the remainder, and are five, three, and two percent, respectively, of total subdivision, apartment, and infill home fees. The Mitigation Fee Act notwithstanding, tremendous fee variation remains among California jurisdictions.



Subdivision Homes

Among subdivision homes, planning fees ranged from a minimum of $53 per unit in Delano to just over $6,700 in Monterey County (see Table 9). Building permits and check fees ranged from a low of $1,199 in Fresno to a high of $9,194 in Watsonville. Building permit fees are generally more uniform than planning fees, they ranged from $327 to $3,703 per home. Capital facilities fees varied the most, from a low of $6,783 in Brisbane to a high of $47,742 in Watsonville. Despite being capped at $1.93 on a per square foot basis, school impact and mitigation fees ranged from only $750 in Vacaville to nearly $12,000 in Folsom. At $22,319, the maximum combination of utility fees (including water, sewer and drainage fees) was nearly four times the average utility fee. Likewise, at $18,733, the maximum combination of transportation and park fees was more than five times the average. Quimby Act, in-lieu, and special fees and taxes ranged from a low of $0 through an average of $2,349, up to a maximum of $28,246 in Watsonville. Altogether, per unit subdivision home fees ranged from a low of $11,176 in Wasco to nearly $60,000 in Watsonville.

Infill Homes

Fees for infill homes also varied widely, from a low of only $1,059 in Bakersfield to an average of $20,326 to more than $52,000 in Brentwood. As with subdivision homes, and depending on the fee category, maximum fee amounts for infill homes were five to ten times the amount of minimum fees.

Apartment Fees

Among our sample, apartment fees varied from less than $5,000 per unit to more than $45,000 per unit. At $5,333, Half Moon Bay charged the maximum planning fees, while Roseville charged the minimum at $31. Cupertino charged the highest building permit and plan check fees ($5,704); Chula Vista, the minimum ($302). School fees per apartment unit varied from $0 to $19,609. Total capital facilities fees ranged from $2,840 per apartment unit in Saratoga to more than $41,300 in Monterey County.

Regional and Sub-Regional Fee Variations

To the extent that planning and building services are organized differently in each region, or to the extent that different capital infrastructure is required in each region, it could be expected that development fees would vary consistently by region. In statistical terms, there should be more variation in fees between regions than within regions.

Among subdivision home fees, this was somewhat the case for total fees, but not for individual fee categories. Subdivision home fees were consistently higher (than the statewide average) among Bay Area communities and consistently lower among San Joaquin Valley and Southern California communities. Fees varied much more widely among Central Coast and Sacramento area jurisdictions. Although fees in rural areas were generally lower, there was also plenty of fee variation:

- Planning fees were consistently lower in the Sierra and North State rural sub-regions than elsewhere in the State.
- Building permit and plan check fees were consistently lower among San Joaquin Valley communities than among communities in other regions. Building permit fees alone were consistently higher among Central Coast communities.
- Capital facilities fees were also consistently lower among San Joaquin Valley communities. Comparing the components of this category, school fees were consistently lower among Central Coast communities; utility fees were consistently lower in the San Joaquin Valley; Quimby, in-lieu and special fees and taxes were also consistently lower amongst San Joaquin Valley and rural communities. Capital facilities fees were consistently lowest among Southern California jurisdictions.

Generally speaking, the higher the regional fee average, the more variation there was within the region. This was particularly true among Bay Area, Central Coast, and Sacramento area jurisdictions. In Southern California, by contrast, individual jurisdiction fees were somewhat more likely to cluster around the regional average.

Table 9: Average, Minimum, and Maximum Residential Development Fees by Project Type

Fee Type	25-unit Single-family Subdivision			Infill House			45-unit Apartment Project		
	Per unit Average	Per unit Minimum	Per unit Maximum	Per unit Average	Per unit Minimum	Per unit Maximum	Per unit Average	Per unit Minimum	Per unit Maximum
PLANNING FEES	$1,175	$53	$6,702	$457	$0	$3,557	$510	$31	$5,333
BUILDING PERMIT & CHECK FEES	3,608	1,199	9,194	3,783	1,116	10,988	1,737	302	5,704
Building Fees	1,388	327	3,703	1,423	438	3,703	na	na	na
CAPITAL FACILITIES FEES	19,552	6,783	47,742	16,547	5,600	48,478	13,268	2,840	41,328
School Fees	5,583	750	11,892	5,135	683	10,850	2,300	0	19,609
Utility Fees	6,357	0	22,319	Na	na	na	na	na	na
Transportation and Park Fees	3,628	0	18,733	Na	na	na	na	na	na
Quimby Fees, Special Fees & Taxes	2,349	0	28,246	Na	na	na	na	na	na
Other Infrastructure and Impact Fees	1,633	0	14,930	Na	na	na	na	na	na
TOTAL FEES	24,325	11,176	59,703	20,326	1,059	52,219	15,351	4,214	45,695

Table 10: Average Subdivision Home Fees by Region and Fee Type

Fee Type	Statewide	Region					
		Bay Area	Central Coast	San Joaquin Valley	Sacramento	Southern California	North State, the Sierras
PLANNING FEES	$1,121	$1,521	$2,032	$825	$831	$960	**$411**
BUILDING PERMIT & CHECK FEES	3,664	4,418	4,464	**2,700**	2,983	3,632	3,206
Building Fees	1,370	1,480	**1,668**	1,143	1,340	1,314	1,332
CAPITAL FACILITIES FEES	18,931	22,730	23,012	**14,829**	23,667	16,844	15,828
School Fees	5,299	4,710	**4,595**	5,923	7,912	5,098	5,212
Utility Fees	6,133	7,893	6,396	**4,345**	7,237	5,266	6,763
Transportation and Park Fees	3,821	6,275	3,431	**2,081**	3,271	3,783	2,336
Quimby Fees, Special Fees & Taxes	2,217	2,153	7,469	**630**	1,856	1,720	**528**
Other Infrastructure and Impact Fees	1,463	1,698	1,120	1,850	3,391	**977**	987
TOTAL FEES	23,697	**28,668**	29,507	**18,355**	27,480	**21,379**	19,444

Note: Bold entries indicate regional average is significantly different than the statewide average at .05 probability level.

Given the size and diversity of California regions, it is not surprising that many inter-regional fee differentials — although evident — are not statistically significant. What of sub-regions? Both as a matter of competition and fiscal structure, fees may be expected to be somewhat more comparable within sub-regions. Nearby jurisdictions are more likely to face similar capacity constraints and planning issues than faraway ones. Nearby cities are also more likely to want to look over their shoulders to see how neighboring cities set their fees, so as not to price themselves either in or out of the marketplace. Tables 10 and 11 compare average fees by sub-region and type.

Bay Area

Among Bay Area sub-regions, subdivision home fees range from $27,772 per unit among the four Peninsula jurisdictions to $30,654 in the East Bay. These differences, however, are not statistically significant, meaning that there is as much variation within the sub-regions as between them. Average planning fees vary among North Bay and East Bay jurisdictions and are consistently lower than the Bay Area average. Single-family building permit and plan check fees in the Bay Area range from a low of $3,762 per unit in the North Bay to a high of $6,052 in the South Bay. As is the case for total fees, these differences are not statistically significant. Single-family capital facilities fees among Bay Area sub-regions range from a low of $19,3930 in the South Bay to a high of $25,843 in the East Bay, although again, the differences are not statistically significant.

For infill homes, total fees vary among Bay Area sub-regions from a low of $22,034 for Peninsula jurisdictions to a high of more than $30,000 in the East and North Bay. Planning fees for infill homes are highest in the South Bay sub-region, as are plan check fees. Capital facilities fees charged on infill homes, by contrast, are highest among East Bay and North Bay jurisdictions. As is the case for single-family homes, above, none of these differences is statistically significant.

Apartment fees in the Bay Area range from a per-unit low of $13,625 among South Bay communities to a high of $23,832 in the East Bay. Among the major fee types, planning fees for apartment units are lower in the East Bay and North Bay, while capital facilities fees are lower in the South Bay.

Central Coast

Among the two Central Coast sub-regions, average total, average planning, average building, and average capital facilities fees are all generally higher among Monterey Coast jurisdictions than among South Central Coast jurisdictions. This is true for all three product types. Except for planning fees, however, these differences are not statistically significant — meaning that there is as much fee variation within sub-regions as between them.

San Joaquin Valley

A similar north-south, high-low fee pattern is also evident in the Central Valley. Regardless of the type of fee or structure, fees in the North Valley sub-sample are 50-75 percent higher than fees in the South Valley sub-sample. Single-family fees among North Valley jurisdictions, for example, average $23,581, compared to only $13,874 among South Valley jurisdictions. Infill fees among North Valley jurisdictions average $18,668, compared to $10,593 in the South Valley. Average apartment fees in the North Valley are more than double those in the South Valley. These north-south differences are consistent among all three fee types. In the case of capital facilities fees, they are statistically significant.

Southern California

Single-family development fees vary least among Southern California sub-regions. Total fees are somewhat bi-modal — higher among Inland Empire, Orange County, and North Los Angeles communities, and lower among Central Los Angeles and San Diego County communities. Care should be taken not to over-interpret these differences, as few are statistically significant.

Fees for infill homes are consistently lower in the Central Los Angeles sub-region than elsewhere in Southern California. At the upper end, infill and apartment fees are consistently higher in San Diego County. Sub-regional differences in total fees closely follow differences in capital facilities fees.

Table 11: Average Fees by Region, Sub-Region and Fee Type

REGION & SUB-REGION	Subdivision House				Infill House				Apartment Unit			
	Total Fees	Planning Fees	Building Permit & Plan Check Fees	All Capital Facilities Fees	Total Fees	Planning Fees	Building Permit & Plan Check Fees	All Capital Facilities Fees	Total Fees	Planning Fees	Building Permit & Plan Check Fees	All Capital Facilities Fees
BAY AREA	$28,668	$1,521	$4,417	$22,729	$27,335	$793	$5,080	$21,734	$18,473	$825	$2,219	$15,851
East Bay	30,654	**659**	4,061	25,843	30,273	532	4,075	26,702	23,832	**193**	2,294	22,769
North Bay	28,273	**632**	3,762	23,878	30,000	580	3,855	25,564	18,835	**313**	**1,551**	16,970
Peninsula	27,493	3,659	4,142	19,691	22,034	418	6,354	15,260	17,418	1,941	1,699	13,776
South Bay	27,772	2,326	6,052	19,393	24,969	1,815	6,898	16,254	13,625	1,109	3,668	9,330
CENTRAL COAST	$29,507	$2,031	$4,463	$23,011	$19,447	$406	$4,542	$15,331	$19,555	$884	$1,955	$16,716
Monterey Coast	34,740	3,280	5,158	26,300	21,131	209	4,188	16,734	14,569	**186**	1,801	12,581
South Central Coast	24,274	**783**	3,768	19,722	17,764	604	4,895	13,929	24,542	1,581	2,109	20,850
SACRAMENTO	$27,480	$831	$1,340	$25,309	$21,834	$170	$2,774	$18,890	$15,793	$358	$1,298	$14,137
SAN JOAQUIN VALLEY	$18,354	$825	$2,700	$14,828	$14,320	$218	$2,656	$12,432	$10,648	$315	$1,205	$9,127
North Valley	**23,581**	1,125	3,303	19,150	**18,668**	425	3,181	15,699	**14,578**	404	1,430	**12,742**
South Valley	13,874*	567	2,183	**11,123**	10,593	**40**	2,206	**9,632**	**7,280**	239	1,011	**6,028**
NORTH STATE/the SIERRAS	$19,444	$410	$3,206	$15,827	19,852	322	2,795	16,735	11,367	418	1,531	9,916
North State	**14,965**	310	3,199	**11,455**	**13,865**	112	2,366	**11,387**	**8,726**	**125**	1,355	**7,245**
Sierra Nevada	25,044	536	3,214	21,293	25,840	532	3,224	22,084	14,008	712	1,706	12,586
SO. CALIFORNIA	$21,379	$959	$3,632	$16,884	$18,882	$687	$4,599	$14,282	$13,817	$341	$2,053	$11,422
Inland Empire	23,471	1,038	3,905	18,526	18,327	603	4,052	15,836	13,680	341	2,481	10,858
Central Los Angeles	18,456	771	3,986	13,698	**15,618**	**284**	5,333	**10,000**	**9,601**	281	2,362	**6,957**
Orange County	23,360	1,042	3,586	18,836	19,391	520	4,032	14,837	15,749	403	1,988	13,357
San Diego	18,750	1,237	**2,065**	15,675	23,016	2,281	5,304	16,816	17,585	430	**870**	16,284
North Los Angeles/Ventura	23,011	**765**	4,238	18,007	20,530	**172**	4,279	16,078	15,185	280	2,240	12,664

Notes: Bolded entries are significantly different from regional average at .05 level

Fee Comparability Across Housing Types

To what extent are fees within jurisdictions comparable across different housing types? To find out correlation coefficients comparing (per unit) fees for subdivision homes with fees for infill homes with fees for apartment units. The results are presented in Table 12 for total, planning, plan check and building permit, and capital facilities fees. Correlation coefficients vary between –1.0 and 1.0. A correlation coefficient of 0 would mean that fees for one housing type (e.g., subdivision homes) are unrelated to another housing type (e.g., infill homes); a correlation coefficient of 1.0 would mean that fees are perfectly correlated across housing types. Correlation coefficients are non-linear. Coefficient values above .8 are indicative of strong correlations. Coefficient values between .6 and .8 are indicative of moderate relationships. Coefficient values less than .6 are indicative of weaker relationships.

Given basic structural similarities, we might expect subdivision home fees to be closely correlated with infill home fees, and less closely correlated with apartment fees. As Table 12 shows, this is not the case. Among the sample communities, total subdivision home fees are more closely aligned with apartment fees than with infill home fees. Among specific fee types:

Planning Fees. Per unit planning fees for subdivision homes track closely with per unit planning fees for apartments, but not with infill homes. The entitlements process is typically much simpler and less expensive (although not necessarily quicker) for infill homes than for subdivisions or apartments.

Plan Check and Building Permit Fees. Per unit plan check and building permit fees track closely between subdivision homes and apartment units, and moderately between subdivision homes and infill homes. Given that such fees are typically charged on a per square foot, per dollar value, or per fixture basis, this is not unexpected.

Capital Facilities Fees. Per unit capital facilities fees are only moderately correlated across the three housing types. This is due to the fact that subdivision homes are typically charged more and higher impact fees than infill homes and apartment units. Likewise, single-family homes, whether developed in a subdivision or as infill, are generally charged higher school fees than apartment units.

Table 12: Fee Correlations Across Housing Types

		Subdivision House	Infill House	Apartment Unit
Total Fees	Subdivision House	1.00	0.64	0.70
	Infill House	0.64	1.00	0.63
	Apartment unit	0.70	0.63	1.00
Planning Fees	Subdivision House	1.00	0.29	0.84
	Infill House	0.29	1.00	0.17
	Apartment unit	0.84	0.17	1.00
Plan Check & Building Permit	Subdivision House	1.00	0.70	0.83
	Infill House	0.70	1.00	0.69
	Apartment unit	0.83	0.69	1.00
Infrastructure & Impact	Subdivision House	1.00	0.72	0.69
	Infill House	0.72	1.00	0.69
	Apartment unit	0.69	0.69	1.00

Fees & Community Characteristics

It is simplistic to assume that fees should only vary by region, sub-region, or housing type. More likely, individual jurisdictions set their fees based on their own particular circumstances, with only an occasional look at neighboring fees. To test this hypothesis, a regression analysis was used to compare each jurisdiction's subdivision home fees with various physical and growth characteristics, including:

- 1997 Jurisdiction Population. All else being equal, larger communities should be better able than smaller ones to exploit service economies of scale and scope. Thus, fees would be expected to be lower in large jurisdictions than in small ones.

- 1990-97 Population Change, and 1990-97 Percent Population Change. Pursuant to the passage of Proposition 13, California jurisdictions have increasingly shifted the burden of paying for new infrastructure and services from the existing tax base to new development. In order to "play," housing developers in particular have had to "pay." This suggests that all types of residential fees should be higher in high-growth and fast-growing jurisdictions.

- Housing Supply Ratio. The housing supply ratio for each jurisdiction is calculated by dividing 1994-96 residential permit activity by the number of 1990 housing units. The higher this ratio, the greater the contribution of new homes to the community's housing supply. Based on the "pay-to-play" idea articulated above, fees would be expected to be higher in communities with higher housing supply ratios.

- City Age. Older cities face higher infrastructure maintenance and reinvestment expenses than younger ones. All else being equal, this suggests capital facilities fees should be higher in older cities, and lower in cities that incorporated more recently.

- 1990 Gross Density. Does it really cost more to serve less dense development forms? If so, capital facilities and impact fees should be higher in less dense jurisdictions.

- 1999 Per Capita Net Expenditures. Jurisdictions that provide higher public service levels or spend more on their public services, may find it necessary to charge higher development fees.

- 1989 Median Household Income. Renters and buyers of homes in wealthy communities are likely to demand a higher level of public services, infrastructure capacity, and environmental quality than renters and homebuyers in less wealthy communities. Wealthy homebuyers and renters are also better able to afford higher fees. For both reasons, fees would be expected to be systematically higher in upper-income communities.

Regression results are presented for subdivision homes in Table 13.[38] Overall, the regression models do a poor job explaining the variation in fees. In the best case, the transportation and parks fee regression, the eight explanatory factors account for 48 percent of the variation in local fees. In the worst case, the in-lieu fee regression, the same eight factors explain only four percent of the sample-wide variation in fees. For the total fee regression, the eight explanatory factors accounted for 24 percent of the variation in fees. Taking a closer look at each fee type:

- Planning Fees. None of the included variables accounted for local variations in local planning fees. At .1 (out of 1), the model's "goodness-of-fit" was extremely poor. The significance of the constant term suggests that planning fees are somewhat consistent across jurisdictions regardless of their growth characteristics, size, age, income, or density.

- Building Permit and Plan Check Fees. Three of the included variables — population change between 1990 and 1997, city age, and 1989 median household income — contributed significantly to explaining sample variations in local building permit and plan check fees. The negative sign of the population change coefficient suggests that building permit and plan check fees are lower in high-growth communities, not higher as expected. The sign of the household income coefficient is positive, as expected. The positive sign associated with city age is more difficult to explain.

- Building Permit Fees. Building permit fees are a subset of the previous fee category, building permit and plan check fees. Two of the included variables, 1997 population and 1990-97 population growth, accounted for 22 percent of the variation in building permit fees. The positive sign of the population coefficient indicates that building permit fees are consistently higher in jurisdictions with large populations. The negative sign of the population change coefficient indicates that, all else being equal, building permit fees are actually lower in high-growth jurisdictions. The significance of the constant term suggests that building permit fees are moderately consistent across many different jurisdictions.

Table 13: Regression Results:

Single-Family Fees as a Function of Jurisdiction Growth and Characteristics

Jurisdiction Characteristics	Total Fees	Planning Fees	Building & Plan Check Fees	Building Permit Fees	All Capital Facilities Fees	School Fees	Water, Sewer, and Drainage Fees	Transportation and Parks Fee	Capital Improvement Fees	Quimby & In-lieu Fees
Population in 1997	0.0032	0.0020	2.2110	**0.0020**	-0.0011	-0.000034	0.0015	-0.0017	0.0013	-7.1200
Change in Population,1990-970	-0.1859	-0.0333	**-0.0495**	**-0.0290**	-0.1010	0.0135	-0.0825	0.0277	-0.0270	-0.0330
Percent Pop. Change, 1990-97	-1653.5	189.5	-98.3	570.5	-1803.6	-1329.8	1380.6	-1752.9	389.95	-491.50
Age of City	**99.72**	4.54	**14.41**	2.35	**80.45**	5.92	14.73	**41.45**	5.94	12.42
Gross Density	-0.3020	-0.1178	0.0987	0.0052	-0.2770	0.0277	**-0.4780**	0.2238	-0.1680	0.1170
Housing Supply Ratio	**103335.5**	-669.7	652.1	-2858.3	**103544.1**	**38695.3**	-4999.3	**75906.6**	4760.1	-10818.5
1989 Median Household Income	**0.320**	0.027	**0.050**	0.004	**0.242**	0.0016	0.014	**0.219**	-0.005	0.012
Per capita Net Expenditures, 1996	0.086	0.0	-0.0115	-0.0023	0.0850	0.0037	0.0214	0.0835	-0.0425	0.0
Constant	3955.8	152.8	783.0	**1073.2**	3077.2	**3844.1**	**6533.3**	**-10284.4**	1779.6	1204.6
Number of Observations	73	73	73	73	73	73	73	73	73	73
R-squared	0.24	0.10	0.32	0.22	0.20	0.26	0.11	0.48	0.06	0.04
F-significance	0.02	0.51	0.00	0.03	0.06	0.01	0.46	0.00	0.85	0.943

Note: Bold entries indicates coefficient is statistically significant at the .05 probability level

All Capital Facilities Fees. Three factors — city age, 1989 median household income, and the housing supply ratio — explain 20 percent of the variation in total capital facilities fees among the sample jurisdictions. As expected, the signs of all three coefficients are positive, indicating that total infrastructure fees are consistently higher in older and wealthier jurisdictions, as well in jurisdictions issuing lots of building permits.

- School Fees. This fee category is a subset of the previous one. Only one of the included variables, housing supply ratio, is significantly related to local school fees. School fees were (at the time of the survey) capped by State law at $1.93 per square foot, this result indicates that some slower growing communities charge less than the allowable maximum.

- Sewer, Water and Drainage Fees. This fee category is also a subset of the broader capital facilities fee category. Only one of the included variables, gross city density, was significantly related to local sewer, water and drainage fees. As expected, the relationship is a negative one, indicating that per unit sewer, water, and drainage fees tend to be somewhat higher in low density cities and somewhat lower in high density ones. Altogether, only 11 percent of the variation in local sewer, water, and drainage fees are explained by gross densities.

- Transportation and Park Fees. This fee category is a also a subset of the capital facilities fee category. As noted above, this is the most robust of all the regression models: three factors — city age, 1989 median household income, and the housing supply ratio — explain 48 percent of the variation in transportation and park impact fees. The coefficients of the city age and household income variables are positive, indicating that transportation and park fees are systematically higher in older and wealthier jurisdictions. The positive relationship between transportation and parks fees and the housing supply ratio indicates that jurisdictions issuing large numbers of building permits also charge higher transportation and park fees. It is unclear whether this is because they are able to, or because they have to.

- Capital Improvements Fees. This fee category is also a subset of the capital facilities fee category. None of the included variables were significantly related to per unit capital improvement fees. This indicates that such fees are charged in a manner specific to each jurisdiction.

- Quimby Act, In-Lieu, Special District Fees, and Taxes. This composite category is also a subset of the capital facilities fee category. None of the included variables, including the constant term, is statistically significant. This suggests that the fee amounts in this category are specific to each jurisdiction and ad hoc.

Taken together, the results of these ten regression models indicate that local development fees, with the exception of transportation and parks fees, are relatively invariant with respect to community characteristics. Might they be jointly sensitive to community characteristics and location?

To find out, another set of regression models was tested comparing subdivision home fees (by category) to the same set of community characteristics specified above as well as to a set of regional "dummy variables." A dummy variable can take on one of two values: a "1" indicating that the observation has a particular characteristic (e.g., is located in a particular region), and a "0" indicating that it does not. To reduce the effects of multi-collinearity between the location and community characteristic variables, step-wise regression was used.

The results for the combined location-community characteristics, step-wise regression models (listed in Table 14) reaffirm previous results:

Table 14: Regression Results: Single-Family Fees as a Function of Community Characteristics & Region

Jurisdiction Characteristics	Only variables that entered the stepwise regression model (at .05 probability level) are listed							
	Total Fees	Planning Fees	Building & Plan Check Fees	Capital Facilities Fees	Water, Sewer, & Drainage Fees	Transportation & Parks Fees	Capital Improvement Fees	Quimby & In-lieu Fees
City Age		no variables entered			no variables entered	46.1		
Percent Pop. Change, 1990-97							2473.9	
Change in Population 1990-97			-0.0469					
Housing Supply Ratio				71285.4		74162.8		
1989 Median Household Income						0.2247		
1996 per capita Net Expenditures						0.0878		
Bay Area Dummy Variable	5953.8							
Central Coast Dummy Variable								3092.9
Sacramento Dummy Variable						-3550.0	2272.4	
Constant	22713.0		4363.5	17806.2		1615.2		
Observations	73		73	73		73	73	73
R-squared	0.07		0.16	0.06		0.51	0.06	0.05
F-significance	0.0265		0.0006	0.0400		0.0000	0.0450	0.049

- Compared to other parts of California, total fees (per subdivision home) are an average of $5,900 higher among Bay Area jurisdictions. Controlling for location, community characteristics do not seem to matter.

- Neither location nor community characteristics have any effect on per unit planning fees.

- Per unit building permit and plan check fees are slightly lower in slower-growing communities. Other community characteristics, including location, do not seem to matter.

- Per unit capital facilities fees were significantly higher in cities issuing more residential building permits (evaluated as a share of the number of housing units in the community in 1990). Other community characteristics, including location, do not seem to matter.

- Neither location nor community characteristics had any effect on per unit utility fees.

- Per unit transportation and parks fees were higher among jurisdictions issuing more residential building permits, as well as among wealthier communities and communities that spent more (per capita) on public services. Controlling for these factors, transportation and parks fees were an average of $3,550 lower among Sacramento jurisdictions than among jurisdictions in other regions of the State.

- Per unit capital improvements fees were higher among Sacramento area communities and in communities that grew at a faster rate during the 1980s. Other community characteristics had no statistically consistent effect.

- Quimby and in-lieu fees did not vary by location or according to community characteristics except among Central Coast jurisdictions, where they were significantly higher.

Do Fees Substitute for Debt?

Fees are not the only ways municipalities pay for capital infrastructure. Prior to 1978, most communities paid for needed capital infrastructure through a combination of longterm debt financing and current year general revenues. Only after the passage of Proposition 13, which limited the ability of California cities and counties to draw on their tax base as a source of debt financing, did they begin to increase development and impact fees. Even today, local governments still have a wide variety of financing vehicles available to pay for capital infrastructure. These include general obligation, revenue and special assessment bonds, infrastructure financing districts, integrated financing districts, redevelopment tax allocation bonds, certificates of participation (CoPs), lease-revenue bonds, construction-financing bonds, and Mello-Roos Act, and Marks Roos Act bonds.[39] Information is not available about the extent of use of all of these financing techniques, however. Infrastructure financing districts, for example, although authorized by statute in 1990, were not widely used before a 1998 Attorney General Opinion clarified their status.[40]

Since bond revenues and infrastructure fees mostly go for the same items, in theory, the greater a municipality's bonding effort, the less it must collect in fees. Is this also true in practice? To find out, a regression analysis was again used to compare per unit infrastructure fees with various (per capita) measures of local debt effort, including:

- Outstanding General Obligation Bond Debt. General obligation bonds are backed by the full faith and credit of the issuing agency, and as such, are the least restrictive and least costly form of public debt. They can be used to finance a variety of infrastructure types, including roads, utilities, parkland acquisition, and public buildings. All else being equal, it would be expected that jurisdictions with higher outstanding general obligation debt levels would charge lower fees, particularly infrastructure development and impact fees.

- Outstanding Revenue Bond Debt. Revenue bonds are backed by earmarked revenue stream associated with a particular asset (e.g., parking garages, water and sewer facilities). Thus, their use is much more limited than general obligation bonds. They may not be used, for example, for general-purpose infrastructure construction. To the extent that all fund sources are to some degree substitutable, jurisdictions with higher outstanding revenue bond debt levels might be expected to charge lower fees.

- Improvement Bond Debt. Improvement bonds are backed by the earmarked tax or revenue stream associated with a particular capital improvement. Improvement bonds are difficult to use to finance residential-serving infrastructure. Even so, to the extent that different bond funds are substitutable, jurisdictions with higher outstanding improvement bond debt levels might be expected to charge lower fees.

- Benefit Assessment and Special District Bond Debt. Benefit assessment/special district bonds are backed by property-owner approved benefit assessment districts. Benefit assessment/special district bond revenues may be used for a wide variety of capital infrastructure projects, provided that the benefit assessment district is substantially smaller than the municipality in which it is located. As with general obligation bonds, jurisdictions with higher outstanding benefit assessment/special district bond levels might be expected to charge lower fees.

Lease-revenue bonds or construction financing bonds were not considered since, by statute, they are directly not substitutable for residential fees. Financial information for California cities was obtained from the 1996-97 edition of *Financial Transactions of California Cities*, published by the California Controller's Office.[41] All amounts are expressed per capita. Omitting from the analysis counties and cities for which data are unavailable reduced the number of observations from 85 to 64. To control for intra-jurisdictional differences in capital infrastructure and public service preference levels, per capita net expenditures were included as a fifth independent variable.

Table 15 reports the various regression results. In terms of explaining variations in capital facilities fees, the four regression models performed very poorly. With or without the per capita net expenditure variable included in the regressions, only one of the four per capita debt financing measures — per capita benefit/special assessment bond indebtedness — is significantly associated with local fee levels. Its sign, in the one case where it is statistically significant, is positive, indicating that jurisdictions with higher levels of benefit assessment/special district

indebtedness tend to charge higher, not lower, infrastructure fees. We offer two hypotheses regarding this finding. First, cities might establish benefit and special districts to pay for specific infrastructure improvements in slow-growing areas, complementing development fees paid in high growth neighborhoods. Alternately, to maintain desired infrastructure levels, city officials may impose higher fees as well as designate special assessment districts.[42]

Table 15: Single-Family Infrastructure Fees as a Function of Per Capita Indebtedness

Indebtedness Characteristics	All Capital Facilities Fees	Water, Sewer, & Drainage Fees	Transportation & Parks Fees	Capital Improvement Fees
Per Capita General Obligation Indebtedness, 1996	-20.27	-3.64	-4.89	-2.61
Per Capita Revenue Bond Indebtedness, 1996	1.28	0.16	0.26	0.10
Per Capita Improvement Bond Indebtedness, 1996	-1.76	-3.93	9.39	-2.42
Per Capita Special Assessment District Bond Indebtedness, 1996	2.26	0.51	**1.96**	0.10
Per Capita Net Expenditures, 1996	0.0463	0.0108	0.0413	-0.0420
Constant	**18311.0**	**5718.0**	**3271.0**	**1432.0**
Number of Observations	64	64	64	64
R-squared	0.04	0.01	0.04	0.04
F-significance	0.7810	0.9754	0.1789	0.8680

Note: Bold entries indicate coefficient is statistically significant at the .05 probability level

Sometimes, as Sherlock Holmes first observed, it is more notable when the dog does not bark. In this case, the various regressions, simple as they are, indicate that there is no consistent relationship among cities between debt levels and fees. While theory suggests the two are substitutable, practice indicates they are not.

Chapter Summary

Capital facilities fees are the largest portion of local development fees. Capital facilities fees typically account for 80 percent of subdivision and infill home fees and 86 percent of apartment fees. Building permit and plan check fees are the next largest component, accounting for 18 percent of infill home fees, 14 percent of subdivision home fees, and 11 percent of apartment unit fees. Planning fees account for the remainder, and are five percent, three percent and two percent, respectively, of total subdivision, apartment, and infill home fees.

California development fees are extremely high. Single-family homebuilders in California in 1999 paid an average of $24,325 per unit in residential development fees, based on the results of our sample of 89 cities and counties. Owners of new infill homes paid an average of $20,326 per unit. Apartment developers paid an average of $15,531 per new apartment unit. These estimates include planning fees; building permit, inspection and plan check fees; and all manner of infrastructure, impact, in-lieu and connection fees, as well as residential development taxes.

Total fees vary significantly by region. Among regions, home builders in the Central Coast region paid the highest average fees ($29,507 per single-family unit), followed closely by Bay Area and Sacramento builders ($28,668 and $27,480, respectively). Production homebuilders in the North State and Sierra regions paid the lowest average fees ($21,379). Depending on the region, average fees for single infill homes were between $1,000 and ($19,444 per unit), followed by builders in San Joaquin Valley communities ($18,355) and Southern California $10,000 lower than average fees for subdivision homes. The infill-subdivision fee gap was biggest among Central Coast jurisdictions and smallest among rural and Southern California jurisdictions.

Per unit, apartment fees are considerably lower than fees on single-family homes. Central Coast apartment builders paid the highest average per unit fees ($19,477), followed by Bay Area apartment builders ($18,428), Sacramento apartment builders ($15,793), and Southern California apartment builders ($14,360). San Joaquin Valley apartment builders paid fees averaging only $10,929 per unit. A different picture emerges if fees are compared on a per-dollar valuation rather than a per-unit basis. Compared in terms of construction valuation, apartment fees are considerably higher than subdivision and infill home fees. The range had been between $.16 and $.22 per dollar of construction valuation, the latter range between $.08 and $.13 per dollar of building value. The higher per- dollar-value fees charged for apartments mostly reflect their lower unit construction costs.

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Individual fees also vary by region and area. Some types of fees are higher (or lower) in particular areas. Planning fees are consistently lower in the Sierra and North State sub-regions than elsewhere in the State. Building permit and plan check fees are lower among San Joaquin Valley communities than among communities in other regions. Building permit fees alone are higher among Central Coast communities. Capital facilities fees are also consistently lower among San Joaquin Valley communities. Among specific infrastructure categories, school fees are lower among Central Coast communities; utility fees are lower in the San Joaquin Valley; Quimby, in-lieu and special fees and taxes are also lower in the San Joaquin Valley and rural communities. Capital facilities fees are consistently lowest among Southern California jurisdictions. Although evident when comparing regional averages, many fee differences are not statistically significant. This means there is as much fee variation among the individual jurisdictions within a region as between regions.

Location is but one determinant of local fees. Regression analysis was used to attempt to account for the effects of other factors including, jurisdiction population, population growth and growth rate, jurisdiction age, jurisdiction density, household income, per capita net expenditures (as a measure of public service levels) and housing construction activity. Depending on the type of fee, these factors explain between 4 percent and 48 percent of inter-jurisdictional fee variation — more in the cases of building permit, school and transportation and parks fees; and less in the cases of capital improvement, in-lieu, and planning fees.

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Fees do not generally substitute for public debt. Regression analysis was also used to test the commonly-argued hypothesis that fees substitute for other forms of infrastructure financing, including (outstanding) general obligation debt, revenue, improvement bond debt, and special assessment bond debt. All comparisons were made per capita. Controlling for local expenditure levels, and except for special assessment bond debt — which, contrary to expectations, was associated with higher fee amounts—fees do not appear to substitute for public debt.

Fees vary less than frequently assumed. In sum, while fees for residential developments in California are fairly ad hoc (which is to say that they vary in unpredictable ways), *they are ad hoc within a range*. Planning fees have a range of between $800 and $2,000 per single-family dwelling unit. Building permit and inspection fees range between $2,700 and $4,500. Capital facilities fees are between $15,000 and $24,000.

Chapter 6

Fees and Housing Prices

Fees as a Share of New Home Prices

California's high residential development fees significantly contribute to its high housing costs and prices. Among the sample of California jurisdictions, fees account for an average of ten percent of the median price of new single-family homes. Not surprisingly, fees account for a lower share of housing prices in more expensive housing markets, and a higher share in less expensive markets. Among individual communities, development fees accounted for less than five percent of new home prices in Arcadia, Carlsbad, Irvine, Los Gatos, Pasadena, Santa Barbara, and Santa Monica. (Table 16). At the opposite end of the price spectrum, fees accounted for more than fifteen percent of new home prices in Sacramento County, Brentwood, Lincoln, Merced, Modesto, Sacramento County, Santa Barbara County, Stockton, Vallejo, and Watsonville. Many of these latter jurisdictions provide a significant share of their respective region's affordable housing — making the problem of high fees all the more onerous.

Table 16: Sample Jurisdictions by 1999 Fee-Price Quartile

Fee-Price Ratios: Lowest Quartile Jurisdictions	1999 Fee-Price Ratio	Fee-Price Ratios: Second Quartile Jurisdictions	1999 Fee-Price Ratio	Fee-Price Ratios: Third Quartile Jurisdictions	1999 Fee-Price Ratio	Fee-Price Ratios: Highest Quartile Jurisdictions	1999 Fee-Price Ratio
Saratoga	0.02	San Diego	0.07	Visalia	0.10	Sacramento	0.13
Arcadia	0.03	Ventura	0.07	Santa Cruz	0.10	Fairfield	0.13
Los Gatos	0.03	Orange County	0.07	Vacaville	0.10	Yuba City	0.13
Santa Monica	0.03	Truckee	0.07	Folsom	0.10	Moreno Valley	0.14
Santa Barbara Co.	0.04	Oakland	0.07	Redding	0.10	El Dorado Co.	0.14
Pasadena	0.04	Butte Co.	0.07	Kern	0.10	Roseville	0.15
Carlsbad	0.04	Huntington Beach	0.08	Salinas	0.10	San Luis Obispo	0.15
Irvine	0.04	Santa Maria	0.08	Chula Vista	0.10	Corona	0.15
Los Angeles	0.05	Sonoma	0.08	Grass Valley	0.10	Sacramento Co.	0.16
El Monte	0.05	Santa Ana	0.08	Wasco	0.10	Merced	0.16
San Diego Co.	0.05	Ontario	0.08	Placerville	0.10	Vallejo	0.17
Cupertino	0.05	Chino	0.08	Rocklin	0.11	Monterey Co.	0.17
Dana Point	0.05	Gilroy	0.08	Walnut Creek	0.11	Santa Barbara Co.	0.18
Simi Valley	0.05	Temecula	0.08	San Joaquin Co.	0.11	Watsonville	0.18
Moorpark	0.05	Bakersfield	0.09	Delano	0.11	Modesto	0.2
San Mateo	0.06	Shasta Lake	0.09	Soledad	0.11	Stockton	0.2
Hayward	0.06	Long Beach	0.09	Chico	0.11	Lincoln	0.2
Tustin	0.06	Tracy	0.09	Fresno	0.11	Brentwood	0.2
		Fremont	0.09	St. Helena	0.11		
		Los Angeles Co.	0.09	Windsor	0.12		
		Santa Clarita	0.09	Clovis	0.12		
		Norco	0.09	Manteca	0.12		
		San Luis Obispo	0.09				
		Half Moon Bay	0.09				

As Table 17 shows, the ratio of fees to new home prices varies widely between regions — again, more as a function of home prices than fees. As a percent of estimated new home prices, fees are highest in the Sacramento region (at 14 percent), followed by the Central Valley (12.3 percent) and Central Coast (11.8 percent) regions. Fees were lowest as a percent of new home prices in Southern California (seven percent) and the San Francisco Bay Area (9.5 percent). As large as these inter-regional variations are there is even more variation within regions. Indeed, the only regions in which fee-price ratios were consistently higher or lower than the sample-wide average were Sacramento (higher) and Southern California (lower). Elsewhere, there was significant intra-regional variation.

Table 17: Average Fee-Price Ratios by Region

Region	1999 Single-Family Fee-Price Ratio
Statewide Sample	0.10
Bay Area	0.09
Central Coast	0.12
Central Valley	0.12
North State/Sierras	0.10
Sacramento	0.14*
Southern California	0.07*
Note: * indicates difference between statewide and regional fee-price ratio is statistically significantly	

How Housing Fee-Price Ratios Were Estimated

Development fees are only charged for new housing. Thus, all of the ratios reported in Tables 16 and 17 are based on estimates of the median price of *new* single-family homes. Since such price information is published by county but not by jurisdiction, it was necessary to estimate. We did so in the following way. First, we obtained 1999 median home prices by jurisdiction *and* county for resale of existing homes from the California Association of Realtors. Second, we obtained 1999 median home prices by county for sales of new homes from the Construction Industry Research Board. Thirdly, we computed a county new home percentage price premium by dividing county median new home prices by county median existing home prices. Next, we multiplied the estimated new home percentage price premium by the existing median home price (by jurisdiction) to yield an estimate of median new home prices by jurisdiction. Lastly, we divided this price estimate into total single-family home fees to yield a fee-to-median new-home price ratio. It is worth noting that since all the price estimates are medians, the ratio of fees to the price of an individual house may vary significantly from what is reported here.

The contribution of fees to home prices varies temporally as well as spatially. When times are good, as they are today in most parts of California, housing production tends to lag demand, especially in coastal markets. Housing prices during such periods are chiefly affected by the balance between supply and demand and are much less affected by construction and development costs. When economic times are bad and demand is weak, housing prices are more sharply affected by the prices of construction inputs, including fees.

The strength of the economy and housing market also determines the degree of fee shifting and who ultimately pays fees. During strong economic times, it is the final homebuyer or renter who ends up paying housing development fees; the builder or developer is mostly an intermediary. During recessionary periods, the burden of paying of fees may be shifted backwards to the landowner.

Housing Fee-Price Ratios & Community Characteristics

As noted above, fee-price ratios vary intra-regionally as well as inter-regionally. To what extent do they also vary according to community growth rates or other characteristics? To find out, we used step-wise regression analysis to compare single-family fee-price ratios with several measures of community growth, age, fiscal effort, and density. To control for the fact that fee ratios are lower in higher-priced housing markets simply by virtue of arithmetic, we also included 1999 median new home price as an independent variable.

The step-wise regression results are presented in Table 18. Four independent variables enter the regression model: the age of the city, 1999 median new home price, the housing supply rate (the ratio of residential permits between 1994 and 1996 to the total housing stock), and a dummy variable indicating whether the jurisdiction was in Southern California. Altogether, these four variables explained 43 percent of the variation in fee-price ratios among the sample.

Table 18: Regression Results

1999 Fee-Price Ratios as a Function of Community Characteristics			
Community Characteristic	1999 Single-family Fee-Price Ratio		Beta-weight
Entered variables			
1999 Median New Home Price	-0.00001496	-3.4	-0.33
City Age	0.0000250	2.0	0.22
Housing Supply Ratio	0.575	3.7	0.37
Southern California Dummy Variable	-0.022	-2.1	-0.22
Constant	0.11058	5.6	
Observations	72		
R-squared	0.43		
F-significance	0.0000		

Notes: The variables that did not enter the step-wise equation were 1997 population, 1990-97 population change, 1990 - 97 percent population change, 1990 gross density, 1989 median household income, 1996 per capita net expenditures, and Bay Area, Central Coast, Central Valley, and Sacramento dummy variables.

Of the four included variables, the housing supply rate matters most (based on the calculated beta coefficient, which is not shown). For every 100 percent increase in the housing supply rate, the fee-price ratio increased by 57 percent. This is another way of saying that fee-price ratios were highest in jurisdictions with volumes of housing construction activity. To put it yet another way, jurisdictions that are focal points of developer interest, are able to charge fees. Fee-price ratios were also positively correlated with city age.

To the extent that older jurisdictions are more established and offer more stability, services, amenities, and perhaps sense of place, local governments are able to charge for those advantages. As expected, fee-price ratios were negatively correlated with new home price levels. Also, confirming the results reported in Table 13, fee-price ratios were systematically lower among jurisdictions in Southern California. Whether this is the result of greater inter-jurisdictional competition for development, structurally lower infrastructure and planning costs, or better oversight of fee-setting procedures, we cannot say. We suspect all three considerations play a role.

Also listed at the bottom of Table 18 are the variables that did *not* enter the regression model as statistically significant. They include various size and growth measures, the density measure, the fiscal effort measure, and the dummy variables for the Bay Area, Sacramento, the Central Coast, and the Central Valley regions.

Fees as a Share of Apartment Costs

Because apartment data is difficult to come by, the contribution of fees to apartment construction costs and rents is more difficult to assess. Lacking comparable construction cost and rent data for the sample jurisdictions, we used what information we did have to construct a simple financial simulation model of apartment investment in six California counties: Santa Clara, Contra Costa, Los Angeles, San Bernardino, Sacramento, and Fresno. The inputs to this model include local development costs, particular assumptions regarding financing and operating costs, rent estimates, and estimates of average development fees (see Table 19). The model outputs are an estimate of total project development cost, the amount of cash the developer must provide to build the project (that is, the difference between total development cost and the supportable mortgage, based on 1997 rent levels), fees as a share of total development cost, and fees as a share of the developer's initial cash-in.

None of the simulated projects are real. Instead, they are archetypes of the broad apartment market in each county. Some of the input assumptions are common across all six markets. For the sake of simplicity, we assume that all six projects consist exclusively of two-bedroom units. We also assume that every project would be financed with an 8.5 percent, 30-year mortgage, underwritten on a 1.1 debt-coverage ratio. The number of parking spaces required per unit, two, is also the same in all six markets. Operating expense ratios (the annual share of rental income required to pay taxes, utilities, insurance, management expenses, maintenance, reserves, and contingencies) range between 30 and 35 percent, depending on the market. Each project includes 45 units.

Other project parameters vary by market. Land costs range from a high of $40 per square foot in Santa Clara County to a low of $10 per square foot in Fresno County. Reflecting the variation in land costs, project densities vary from a high of 40 units per acre in Santa Clara County to a low of 18 units per acre in Sacramento and Fresno counties. Reflecting differences in density and land cost, parcel sizes also vary, from a low of 1.3 acres in Santa Clara County to a high of 2.5 acres in Fresno and Sacramento. At 850 square feet, average unit sizes are slightly higher in Santa Clara and Los Angeles counties than in San Bernardino, Sacramento, and Fresno counties.

Construction "hard costs" range from a high of $95 per square foot in Santa Clara and Los Angeles counties to a low of $60 per square foot in Fresno County. Reflecting different difficulties of development, "soft costs" range from a low of 20 percent in Fresno and Sacramento counties to a high of 35 percent in Santa Clara County. Parking requirements also vary depending on local zoning codes and market conditions. Because of its higher density, the Santa Clara County project is assumed to be constructed using a podium-parking design; projects in the other markets are assumed to be developed with on-grade parking.

The most widely ranging input is rents. Rents were presumed to vary from a high of $1,500 per month in Santa Clara County to a low of $650 per month in Fresno County. Market rents for existing properties were obtained from RealFacts as of 1997, and then increased by $125 to $200 to account for the higher rent associated with new projects.

Total Development costs were calculated by adding land, hard, soft, and parking costs. To estimate the amount of developer cash required, we first estimated net operating income (based on prevailing rent, vacancy, and expense rate levels) and then estimated the supportable mortgage based on a 1.1 debt-coverage ratio and 8.5 percent permanent loan rate. Total development costs vary from a high of $7.8 million (for 45 units) in Santa Clara County to a low of $4.1 million in Fresno County. Depending on local rent levels, between 49 and 62 percent of total development cost would be permanently financeable.

Based on the sub-regional totals reported in Appendix B, total development fees range from a minimum of $324,000 in Fresno to more than $920,000 in Contra Costa County. Note that variation in development fees corresponds only slightly to the variation in total development costs. As a result, fees as a share of total development costs range from an estimated low of seven percent in Los Angeles County to a high of 17 percent in Contra Costa County. In the worst-case scenario, in which the project developer could not use either construction or permanent financing to cover fee costs — and so would have to pay them entirely out of pocket — fees would account for between 16 and 52 percent of the developer's initial cash costs.

The most widely ranging input is rents. Rents were presumed to vary from a high of $1,500 per month in Santa Clara County to a low of $650 per month in Fresno County. Market rents for existing properties were obtained from Real Facts as of 1997, and then increased by $125 to $200 to account for the higher rent associated with new projects.

Apartment development is a very complicated business and these comparisons are extremely simplified. Nonetheless, they make two important points. The first is that for apartments as well as for single-family housing, development fees account for a substantial portion of development costs. The second and more important point is that high fees add substantially to the risks associated with multifamily housing development. Given current neighborhood and political biases against multifamily construction, increased development risk translates directly into reduced supply. By lowering apartment fees, or by pushing fee payments back to the point of occupancy (when a permanent loan is in place), California jurisdictions could significantly reduce the risks associated with apartment construction. By doing so, they would attract new investors to the apartment market and help encourage needed new supply.

Table 19: Fees as a Share of Total Development Costs in Six California Apartment Markets, 1997

	Item	Santa Clara County	Contra Costa County	Los Angeles County	San Bernardino County	Sacramento County	Fresno County
PROJECT OUTLINE	Parcel size (acres)	1.13	1.50	1.80	2.25	2.50	2.50
	Density (units per acre)	40	30	25	20	18	18
	Parking spaces per unit	2	2	2	2	2	1.5
	Average unit size (square feet)	850	825	850	800	800	800
	Common area (%)	10%	10%	10%	10%	10%	10%
DEVELOPMENT COST STRUCTURE	Land cost/SQFT	$35.00	$20.00	$25.00	$15.00	$15.00	$10.00
	Construction cost/SQFT	$95.00	$75.00	$70.00	$67.00	$65.00	$60.00
	Soft costs percentage	35%	30%	25%	20%	20%	20%
	Parking cost/space	$8,000	$3,000	$5,000	$2,000	$3,000	$2,000
FINANCING STRUCTURE	Debt-coverage ratio	1.10	1.10	1.10	1.10	1.10	1.10
	Mortgage interest rate (%)	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
	Term (years)	30	30	30	30	30	30
OPERATING COST STRUCTURE		$1,500	$1,100	$1,050	$750	$700	$650
	Average vacancy rate	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	Expense Ratio (%)	35.0%	30.0%	35.0%	30.0%	30.0%	30.0%
DEVELOPMENT COST SUMMARY	Land cost	$1,712,813	$1,305,000	$1,957,500	$1,468,125	$1,631,250	$1,087,500
	Hard costs	$3,997,125	$3,062,813	$2,945,250	$2,653,200	$2,574,000	$2,376,000
	Soft costs	$1,398,994	$918,844	$736,313	$530,640	$514,800	$475,200
	Parking Costs	$640,000	$180,000	$250,000	$80,000	$108,000	$54,000
	Total development cost	$7,833,126	$5,548,376	$5,973,258	$4,811,210	$4,907,295	$4,071,945
	- Supportable mortgage	$4,906,423	$3,772,142	$3,323,706	$2,571,915	$2,400,454	$2,228,993
	Required initial cash	$2,926,704	$1,776,234	$2,649,552	$2,239,295	$2,506,841	$1,842,952
FEES	Total Fees (from Appendix B)	$607,500	$922,500	$432,000	$616,500	$706,500	$324,000
	Fee as a Share of Total Development Cost	8%	17%	7%	13%	14%	8%
	Fee as a Share of Required Initial Cash	21%	52%	16%	28%	28%	18%

Sources: 1997 Rents from RealFacts; see text for additional notes.

Would Reducing Fees Help Restore Housing Affordability?

Would reducing fees, either all or on a selective basis, help make housing in California more affordable? To find out, we developed a simple numerical model relating changes in housing price to changes in affordability levels. We first calculated the minimum household income level required to buy the median-priced new home in the sample communities, assuming a 20 percent downpayment, a lender qualifying ratio of .30, a 30-year fixed mortgage interest rate of 7.5 percent, and monthly property taxes and insurance payments equivalent to 20 percent of monthly mortgage costs.[43] These are all fairly standard assumptions. We next reduced the home price by an amount equivalent to 50 percent of total development fees and recalculated the minimum required household income based on the reduced price.[44] This assumes that lower fees would translate into reduced prices on a one-to-one dollar basis—an unlikely occurrence in today's overheated housing markets. The resulting price and income levels for most of the sample jurisdictions are shown in Table 20.

Table 20: Simulated Effects of 50% Fee Reduction on Homebuyer Affordability

	Median New Home Price		Minimum Qualifying Income		
Jurisdiction	**1999**	**with 50% Fee Reduction**	**1999**	**with 50% Fee Reduction**	**% Difference**
Brentwood	$170,000	$146,889	$46,061	$39,799	13.6%
Stockton	103,000	89,689	$27,908	$24,301	12.9%
Lincoln	141,000	124,785	$38,204	$33,810	11.5%
Vallejo	145,000	128,444	$39,287	$34,802	11.4%
El Dorado County	160,000	142,173	$43,352	$38,522	11.1%
Sacramento County	130,000	115,821	$35,223	$31,381	10.9%
Watsonville	285,000	255,148	$77,220	$69,132	10.5%
Corona	176,000	158,001	$47,687	$42,810	10.2%
Moreno Valley	113,000	102,534	$30,617	$27,781	9.3%
Sacramento	110,000	100,039	$29,804	$27,105	9.1%
Fairfield	167,000	152,104	$45,248	$41,212	8.9%
Fresno	87,000	79,245	$23,572	$21,471	8.9%
Placerville	134,000	122,881	$36,307	$33,294	8.3%
Roseville	173,000	158,732	$46,874	$43,008	8.2%
Wasco	69,000	63,412	$18,695	$17,181	8.1%
Kern	77,000	71,057	$20,863	$19,253	7.7%
Santa Clarita	199,000	184,718	$53,919	$50,049	7.2%
Los Angeles County	200,000	185,747	$54,190	$50,328	7.1%
San Joaquin County	130,000	120,891	$35,223	$32,755	7.0%
Long Beach	129,000	120,095	$34,952	$32,540	6.9%
Bakersfield	85,000	79,319	$23,031	$21,491	6.7%
Chula Vista	200,000	186,756	$54,190	$50,601	6.6%
Vacaville	177,000	165,309	$47,958	$44,790	6.6%
Ontario	134,000	125,472	$36,307	$33,996	6.4%
Norco	191,000	179,324	$51,751	$48,588	6.1%
Rocklin	205,000	192,695	$55,544	$52,210	6.0%
Temecula	180,000	169,640	$48,771	$45,964	5.8%
Fremont	315,000	296,936	$85,349	$80,454	5.7%
Tracy	207,000	195,148	$56,086	$52,875	5.7%

Table 20: Simulated Effects of 50% Fee Reduction on Homebuyer Affordability

	Median New Home Price		Minimum Qualifying Income		
Jurisdiction	**1999**	**with 50% Fee Reduction**	**1999**	**with 50% Fee Reduction**	**% Difference**
Ventura	216,000	203,841	$58,525	$55,230	5.6%
Santa Cruz	345,000	325,719	$93,477	$88,253	5.6%
Gilroy	314,000	297,006	$85,078	$80,473	5.4%
Santa Ana	190,000	179,763	$51,480	$48,707	5.4%
Half Moon Bay	420,000	398,249	$113,798	$107,905	5.2%
Oakland	179,000	170,493	$48,500	$46,195	4.8%
Orange County	257,000	245,089	$69,634	$66,406	4.6%
Moorpark	231,000	220,823	$62,589	$59,832	4.4%
San Diego	222,000	212,268	$60,150	$57,514	4.4%
Tustin	259,000	247,696	$70,176	$67,113	4.4%
Simi Valley	218,000	208,596	$59,067	$56,519	4.3%
Hayward	225,000	216,170	$60,963	$58,571	3.9%
El Monte	155,000	149,082	$41,997	$40,393	3.8%
Los Angeles	210,000	202,415	$56,899	$54,844	3.6%
Dana Point	393,000	379,688	$106,483	$102,876	3.4%
San Diego County	215,000	208,056	$58,254	$56,372	3.2%
Cupertino	507,000	490,787	$137,371	$132,978	3.2%
San Mateo	414,000	401,537	$112,172	$108,796	3.0%
Irvine	306,000	296,797	$82,910	$80,417	3.0%
Carlsbad	275,000	267,419	$74,511	$72,457	2.8%
Santa Monica	480,000	467,092	$130,055	$126,558	2.7%
Arcadia	292,000	284,495	$79,117	$77,083	2.6%
Los Gatos	553,000	541,248	$149,834	$146,650	2.1%
Saratoga	900,000	889,415	$243,853	$240,985	1.2%

Notes See text for data sources and assumptions

The effects of reduced fees on housing affordability vary widely depending jointly on the amount of the fee reduction and on current price levels. In some cases, the increase in affordability is quite large. Consider the case of Brentwood, the top-listed jurisdiction in Table 19. The median-priced new home in Brentwood in 1999 sold for $170,000 and was affordable to households earning $46,060 annually — based on the financing and qualifying criteria discussed above. At over $46,000 per unit, development fees in Brentwood are extremely high, so reducing them by 50 percent would result in a significant decline in housing costs. Based on a one-to-one fee to price reduction, a 50 percent fee reduction would reduce the median new home price in Brentwood from $170,000 to $146,900. Such a home would be affordable to households earning $39,800, resulting in a nearly 14 percent increase in homeownership affordability.

The other sample jurisdictions in which fee reductions could significantly improve homeownership affordability are Stockton, Lincoln, Vallejo, Watsonville, Corona, Moreno Valley, Sacramento, and Sacramento County. All of these jurisdictions, with the exception of Watsonville, have high fees and are relatively affordable; none, to our knowledge, currently directly restricts growth. Fee reductions in these jurisdictions would thus generate two related housing benefits: (1) they would make new homes more affordable; and (2) the resulting affordability benefits would be available to more buyers.

At the opposite end of the spectrum, and down at the bottom of Table 20, are the sample jurisdictions in which 50 percent fee reductions would have little effect on housing affordability, either because current fees are already low (e.g., Santa Monica) or because housing prices are extraordinarily high (e.g., Saratoga, Los Gatos, Carlsbad, San Mateo). Most of the sample jurisdictions lie between these two extremes where a 50 percent fee reduction would result in a four to eight percent affordability improvement.

We took a similar approach to estimate the effects of a 50 percent fee reduction on apartment rents. Starting with the same prototypical apartment projects and costs presented in Table 18, we first estimated the break-even rent required to generate a ten percent cash-on-cash return for the property owner.[45] The monthly break-even rent for a new two-bedroom, 45-unit apartment complex in Santa Clara County, for example, would be about $2,250. The break-even rent for a similar project in Contra Costa County would be about $1,500 per month. A similar project in Fresno County would require a $1,075 monthly rent to generate a competitive return. Next, to simulate the effects of a fee reduction on rents, we reduced total development costs by an amount equivalent to 50 percent of local development fees. We then re-estimated break-even rents based on the newly reduced total development cost. This last set of calculations is presented at the bottom of Table 21.

Consider the Santa Clara County example where multifamily development fees currently average about $13,600 per unit. Reducing these fees by 50 percent for a 45-unit apartment building would reduce total development costs from just over $8 million to just under $7.7 million. Still allowing for a ten percent return, monthly rents could then decline by four percent, from $2,250 to $2,160. The greater the fee reduction, the larger the rent cut. In Contra Costa County, for example, reducing per unit apartment fees from $20,400 to $10,200 would permit the owners of new apartments to reduce rents by nearly 8 percent, from $1,470 to $1,360.

The simulations presented in Tables 20 and 21 are a trifle misleading in their simplicity. They assume, perhaps naively, that builders and developers will willingly pass on decreased construction costs to buyers and renters the same way they would pass on increased construction costs. How builders actually respond will depend on current market conditions, which in the short-run are entirely determined by the balance between supply and demand. With demand currently leading supply, especially in the State's coastal markets, builders and sellers are able to set prices well above replacement cost levels.

Given these conditions, any short-term cost reduction, whatever the source, is unlikely to translate into an equivalent price reduction. If, where, and when the market cools, prices should again approach replacement costs. Then and only then reductions in costs will result in lower prices. Should the California housing market go into recession, fee reductions would ultimately be capitalized into land prices.

We note also that new houses and apartments are only part of the market. Housing supply rates — that is, the number of new homes as a share of the housing stock — can range from less than one percent in slow-growth jurisdictions to three or four percent in fast-growth communities. The higher the housing supply rate, the bigger the effect construction cost reductions will have on overall price levels. The lower the supply rate, the smaller the effect. Thus, a fee reduction in a fast-growing community will likely have a more immediate and far-reaching effect on housing prices than the equivalent fee reduction in a slow-growing community.

Table 21: Simulated Effects of 50% Fee Reduction on Rent Levels in Six Prototype Apartment Projects

	Item	Santa Clara County	Contra Costa County	Los Angeles County	San Bernardino County	Sacramento County	Fresno County
PROJECT OUTLINE	Parcel size (acres)	1.13	1.50	1.80	2.25	2.50	2.50
	Density (units per acre)	40	30	25	20	18	18
	Parking spaces per unit	2	2	2	2	2	1.5
	Average unit size	850	825	850	800	800	800
	Common area (%)	10%	10%	10%	10%	10%	10%
DEVELOPMENT COST STRUCTURE	Land cost/SQFT	$40.00	$20.00	$25.00	$15.00	$15.00	$10.00
	Construction cost/SQFT	$95.00	$75.00	$70.00	$67.00	$65.00	$60.00
	Soft costs percentage	35%	30%	25%	20%	20%	20%
	Parking cost/space	$8,000	$3,000	$5,000	$2,000	$3,000	$2,000
FINANCING STRUCTURE	Maximum loan-to-value (cost)-ratio	0.75	0.75	0.75	0.75	0.75	0.75
	Mortgage interest rate (%)	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
	Term (years)	30	30	30	30	30	30
	REQUIRED CASH-ON-CASH RETURN	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
OPERATING COST STRUCTURE	Average vacancy rate	3.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	Expense Ratio (%)	35.0%	30.0%	35.0%	30.0%	30.0%	30.0%
DEVELOP SUMMARY	Land cost	$1,957,500	$1,305,000	$1,957,500	$1,468,125	$1,631,250	$1,087,500
	+ Hard cost	$3,997,125	$3,062,813	$2,945,250	$2,653,200	$2,574,000	$2,376,000
	+ Soft cost	$1,398,994	$918,844	$736,313	$530,640	$514,800	$475,200
	+ Parking cost	$720,000	$270,000	$450,000	$180,000	$270,000	$135,000
	Total development cost	$8,073,619	$5,556,656	$6,089,063	$4,831,965	$4,990,050	$4,073,700
	- Supportable mortgage (cost* L/V)	$6,055,214	$4,167,492	$4,566,797	$3,623,974	$3,742,538	$3,055,275
	Required initial cash	$2,018,405	$1,389,164	$1,522,266	$1,207,991	$1,247,513	$1,018,425
BREAK-EVEN RENT CALCULATION	Required (before-tax) cash flow	$201,840	$138,916	$152,227	$120,799	$124,751	$101,843
	+ Debt service	$563,441	$387,788	$424,943	$337,213	$348,245	$284,295
	Net operating income	$765,282	$526,704	$577,170	$458,012	$472,997	$386,138
	+ Operating expenses	$412,075	$225,730	$310,784	$196,291	$202,713	$165,488
	Rent revenue after vacancies	$1,177,356	$752,434	$887,953	$654,303	$675,709	$551,625
	+ Vacancy losses	$36,413	$39,602	$46,734	$34,437	$35,564	$29,033
	Scheduled gross income	$1,213,769	$792,036	$934,688	$688,740	$711,273	$580,658
	REQUIRED MONTHLY RENT	$2,248	$1,467	$1,731	$1,275	$1,317	$1,075
BREAK-EVEN RENT CALCULATION BASED ON 50% FEE REDUCTION		$13,600	$20,400	$9,600	$13,700	$15,700	$7,200
	Total Development cost less with % fee reduction cost less with % fee reduction	7,767,619	5,097,656	5,873,063	4,523,715	4,636,800	3,911,700
	REQUIRED RENT WITH FEE REDUCTION	2,163	1,346	1,670	1,194	1,224	1,033
	Percent rent reduction based on fee reduction	4%	8%	4%	6%	7%	4%

Chapter Summary

California's high residential development fees significantly contribute to its high housing costs and prices. Among our sample of California jurisdictions, fees account for an average of ten percent of the median price of new single-family homes. Fees account for a lower share of housing prices in more expensive housing markets and a higher share in less expensive markets.

The contribution of fees to home prices is greatest in affordable markets. Among individual communities in our sample, development fees accounted for less than five percent of new home prices in Saratoga, Arcadia, Los Gatos, Santa Monica, Santa Barbara, Pasadena, Carlsbad, and Irvine. At the opposite end of the price spectrum, fees accounted for more than fifteen percent of new home prices in Sacramento County, Merced, Vallejo, Santa Barbara County, Watsonville, Modesto, Stockton, Lincoln, and Brentwood. Many of these latter jurisdictions provide a significant share of their respective region's affordable housing — making the problem of high fees all the more onerous.

As a share of housing prices, fees are higher in fast-growing markets. Fee-price ratios (the ratio of average single-family development fees to median single-family sales prices) among the sample communities are systematically higher in communities with high rates of housing construction; systematically higher in older cities; systematically lower in jurisdictions with expensive homes; and systematically lower in Southern California. Of these four factors, the housing supply rate matters most: for every 100 percent increase in the housing supply rate, fee-price ratio increased by 57 percent.

The contribution of fees to apartment construction costs and rents is more difficult to assess. Lacking comparable construction cost and rent data for the sample jurisdictions, we used what information we did have to construct a simple financial simulation model of apartment investment in six California counties: Santa Clara, Contra Costa, Los Angeles, San Bernardino, Sacramento, and Fresno. The inputs to this model include local development costs, particular assumptions regarding financing and operating costs, rent estimates, and estimates of average development fees.

The model outputs are an estimate of project total development cost, the amount of the cash the developer must provide to build the project (that is, the difference between total development cost and the supportable mortgage, based on 1997 rent levels), fees as a share of total development cost, and fees as a share of the developer's initial cash-in.

Total development fees for a 45-unit apartment building range from a minimum of $324,000 in Fresno to more than $920,000 in Contra Costa County. Fees as a share of total percent in Los Angeles County to a high of 17 percent in Contra Costa County. In the worst-case scenario, in which the project developer could not use either construction or permanent financing to cover fee costs — and so would have to pay them entirely out of pocket — fees would account for between 16 and 52 percent of the developer's initial cash costs.

High fees translate into more risk. High fees not only add to the cost of building apartments, they also add to the risk. Given current neighborhood and political biases against multifamily construction, increased development risk translates directly into reduced supply. By lowering apartment fees, or by pushing fee payments back to the point of occupancy (when a permanent loan is in place), California jurisdictions could significantly reduce the risks associated with apartment construction and, by doing so, attract new participants to the development business and help encourage needed new supply.

Reducing fees by shifting to other capital financing sources would help make ownership housing more affordable. Using a simple underwriting model of homeownership affordability, we estimated the effects of a 50 percent reduction in single-family development fees on the income levels required to buy the median-priced new home in the sample communities. (This assumes that lower fees would translate into reduced prices on a one- to-one dollar basis — an unlikely occurrence in today's overheated housing markets.) The effects of reduced fees on housing affordability vary widely depending jointly on the amount of the fee reduction and on current price levels.

In Brentwood, for example, a 50 percent fee reduction would reduce the median new home price in Brentwood from $170,000 to $146,900. Such a home would be affordable to households earning $39,800, resulting in a nearly 14 percent increase in homeownership affordability. At the opposite end of the spectrum, in high priced, low supply cities like Saratoga, Los Gatos, Carlsbad, or San Mateo, a 50 percent fee reduction would have virtually no impact on housing affordability levels. Most of the sample jurisdictions lie between these two extremes where a 50 percent fee reduction would result in a four-eight percent affordability improvement.

Reducing fees would have a smaller effect on rents. We took a similar approach to estimating the effects of a 50 percent fee reduction on apartment rents. The greater the fee reduction, the larger the rent cut. In Contra Costa County, for example, reducing per unit apartment fees from $20,400 to $10,200 would permit the owners of new apartments to reduce rents by nearly eight percent, from $1,470 to $1,360. In nearby Santa Clara County, however, where apartment fees are lower, reducing them by 50 percent would translate into a monthly rent reduction of only four percent.

Chapter 7

Conclusions and Policy Options

Summary of Key Findings

Findings Regarding Fee Assessment and Collection

California cities and counties typically charge more than two dozen different types of development-related fees. Most fall into three broad categories: (1) planning fees, which cover the administrative costs associated with reviewing required planning documents; (2) building permit, plan check, and inspection fees, which cover the costs of reviewing building permit and other site specific permit applications; permit applications; and, (3) capital facilities fees, which cover the up-front municipal costs of providing required public infrastructure.

Planning fees cover the costs of reviewing planning applications and associated documents, including: applications for annexations, general plan amendments, zoning changes, tentative and final subdivision map reviews, environmental impact reviews, and in some California communities, growth management and design reviews. Planning fees are typically charged on a flat-fee basis or a fee-for-service basis. Many municipalities also charge developers for the in-house costs of preparing environmental documents as required under the California Environmental Quality Act (CEQA), including negative declarations, mitigated negative declarations, and environmental impact reviews (EIR). All of the 89 California jurisdictions contacted through an extensive mail and interview survey charge rezoning and subdivision fees; more than 90 percent regularly charge environmental impact assessment fees, and about two-thirds charge general plan check fees.

Building permit, plan check, and related inspection fees cover the issuance of permits for physical site improvements and building construction and, depending on the jurisdiction, may include: general filing fees; building permit and architectural plan check fees; grading filing, plan check, and permit fees; electrical, plumbing, mechanical, and septic plan filing, check, and permit fees; energy conservation plan and permit; ground motion monitoring fees; fire and public safety plan check fees; and public improvement plan check and inspection fees. Virtually all of the communities surveyed report charging building permit, plan check, electrical, mechanical, and plumbing fees. Most also charged public works plan check fees and grading fees. Less than a third charged energy conservation and seismic monitoring fees. Given that the methods of calculating many of these fees (including building permit and plan check fees, grading fees, and electrical, plumbing and mechanical fees), are fairly standardized, as outlined in the California Building Standards Code, the wide range of fees charged for these services remains something of a mystery.

Capital facilities fees come in even more varieties than planning, building permit, and inspection fees. Although exact terminology varies, California jurisdictions charge essentially four types of capital facilities fees: (1) connection and meter fees, which are typically charged by utility providers; (2) impact fees, development fees, and capacity charges, which are charged to cover the costs *off-site* improvements; (3) mitigation fees, which are charged to cover the costs of environmental damage and to compensate existing residents for declines in service quality associated with growth or development; and, (4) in-lieu fees, or payments made in-lieu of required dedications. Many California jurisdictions charge Quimby Act fees — fees in-lieu of park land dedications. A much smaller number charge fees in-lieu of affordable housing dedications.

Fee setting practices vary widely by fee type and region. Storm drainage impact fees, for example, are commonly collected by Sacramento area jurisdictions, and not so commonly by Bay Area jurisdictions. Likewise, traffic mitigation, school mitigation, park, and special district fees are more frequently collected by Central Valley and Sacramento area jurisdictions. Central Coast jurisdictions regularly collect affordable housing in-lieu fees but not park fees. Bay Area and Southern California jurisdictions collect fewer types of fees than jurisdictions in other parts of the state, but there is also much more variation among individual Bay Area and Southern California cities.

Local capital facilities fees are usually determined using an average cost methodology, instead of the more robust but more difficult marginal cost methodology. Historical or projected capital costs are divided by the current or projected future population to yield a per capita or per household cost. As a result, the link between fees and longterm planning and capital improvements programming is typically much weaker than it should be to insure sound capital facilities planning.

Thirty-five percent of responding jurisdictions report that they reduce or waive fees for affordable housing projects. Affordable housing fee reductions and waivers are most common among Southern California jurisdictions and least common among Central Valley jurisdictions. Fee waivers and reductions for senior housing are slightly less popular. Thirty-two percent and 23 percent of the sample jurisdictions, respectively, report reducing and waiving fees for senior housing projects. Senior housing fee waivers and reductions (like affordable housing fee waivers and reductions) are most popular among Southern California jurisdictions and least popular among Sacramento area and Central Valley jurisdictions.

California Government Code §66001(a) (2) and (4) — enacted as the Mitigation Fee Act under AB 1600 — requires jurisdictions charging fees to demonstrate that there is a reasonable connection between specific fee amounts and the cost of the public facilities as set forth in local planning documents. Such relationships are to be documented in the form of written "nexus studies" and then certified by ordinance or resolution as findings. Most of the jurisdictions surveyed had undertaken some type of nexus study. Twenty of the 89 jurisdictions surveyed could not produce, cite, or refer to at least one nexus study. Very few nexus studies cover more than one or two separate fees. Most nexus studies are between two and five years old. As permitted under AB 1600, most nexus studies include provisions (and in some cases, schedules) allowing

jurisdictions to increase development fees without undertaking entirely new studies. State law does not require communities to prepare nexus studies for school fees or park dedication in-lieu (Quimby Act) fees, and none do.

Findings Regarding Fee Amounts

Based on the results of a sample survey of 89 cities and counties, California home builders in 1999 paid fees averaging $24,325 per single-family home. Builders of infill homes paid an average of $20,327 per unit. Apartment developers paid an average of $15,531 per new apartment unit. These estimates include planning fees; building permit, inspection and plan check fees; and all manner of infrastructure, impact, in-lieu and connection fees, as well as residential development taxes.

Fees range widely, from a low of $11,176 (per single-family subdivision home) to a high of $59,703. Compared by region, subdivision home fees are highest in the Central Coast region ($29,526 per single-family unit), followed closely by the Bay Area and Sacramento ($28,526 and $27,480, respectively). Home builders in the North State and Sierras region pay the lowest average fees ($20,005 per unit), followed by builders in San Joaquin Valley communities ($18,728) and Southern California ($21,410). Fees for infill homes, depending on the jurisdiction, are $1,000 to $10,000 lower than subdivision home fees. Apartment fees are $8,000 to $10,000 lower (per unit) than single-family home fees.

Capital facilities fees are the largest portion of local development fees, accounting for 80 percent of subdivision and infill home fees and 86 percent of apartment fees. Building permit and plan check fees are the next largest component, accounting for 18 percent of infill home fees, 14 percent of subdivision home fees, and 11 percent of apartment unit fees. Planning fees account for the remainder, and are five, three and two percent, respectively, of total subdivision, apartment, and infill home fees.

Fees vary by region, but not consistently. Planning fees are lower in the Sierra and North State sub-regions than elsewhere. Building permit and plan check fees are lower among San Joaquin Valley communities than among communities in other regions. Capital facilities fees are also lower among San Joaquin Valley communities. These findings aside, there is generally as much fee variation within regions as between them.

Nor do fees vary consistently by community size, age, density, growth rate, or public service levels. Depending on the type of fee, community characteristics explain between four and 48 percent of inter-jurisdictional fee variation — more in the cases of building permit, school and transportation and parks fees; and less in the cases of capital improvement, in-lieu, and planning fees. Nor do development fees appear to substitute consistently for public debt.

Findings Regarding Fees and Housing Costs

Measured as a proportion of average new single-family home prices, local development fees range from a low of two percent to a high of 20 percent. That the fee-price ratio varies so widely is due more to local variations in housing prices than in fees. Indeed, the more expensive the housing market, the smaller the contribution of fees to housing costs. Conversely, the more affordable the housing market — the greater the level of housing construction activity — the greater the share of housing costs attributable to development fees. This puts affordable housing advocates, including the authors of this report, in the difficult position of having to argue for fee reductions in the very same communities who are already disproportionately shouldering the State's affordable housing burden.

Because comparable cost and price data are not available for apartments, we used a simple financial feasibility model to estimate the contribution of development fees to apartment construction costs in six California counties: Santa Clara, Contra Costa, Los Angeles, San Bernardino, Sacramento, and Fresno. Fees varied from a low of seven percent of total development costs in Los Angeles County to a high of 17 percent in Contra Costa County. In the worst-case scenario, in which an apartment developer could not use either construction or permanent financing to cover fee costs — and so would have to pay them entirely out of pocket — fees would account for between 16 and 52 percent of the developer's initial cash costs. High fees not only increase the costs of apartment construction, they also magnify the risks.

Would reducing fees, either all or on a selective basis, help make housing in California more affordable? In jurisdictions where housing is already fairly affordable and fees are high, the answer to this question is yes, absolutely. We estimate, for example, that a 50 percent fee reduction in suburban Brentwood in Contra Costa County could potentially increase homeownership affordability by almost 14 percent. Elsewhere, in hot markets and supply-constrained markets, fee reductions would have little effect on homeownership affordability. Equivalent fee reductions would have a smaller direct effect on rents, mostly because apartment fees are already lower than single-family fees. Yet to the extent that fee reductions might make it easier for apartment developers to access financing by reducing up-front risks, they would likely lead to increase in apartment production, and thus indirectly, to a reduction in apartment rents.

Best Practices

In the course of collecting fee information, a number of local practices clearly stood out as worth emulating. They include:

- Consolidated Fee Schedules. The single most effective step a jurisdiction can take to simplify fee administration is to prepare a consolidated fee schedule covering all relevant fees, including school and special district fees. The **City of Roseville** excels in this respect. In a simple 20-page document, Roseville lists every fee collected by every governmental agency, utility, and service provider within its boundaries; the purpose of each fee; the fee rate and rating basis; where and when the fee is applicable; and when the fee is collected. Roseville's consolidated fee schedule also includes cross-references to completed nexus studies. In a similar manner, the **City of**

San Mateo has produced a consolidated fee schedule, called a "Fee Calculator," that explains exactly how each fee is calculated and provides worksheet space for the applicant to determine the amount of each fee. Easy to read and use, San Mateo's Fee Calculator provides information on fee applicability, time of payment, and fee calculation, as well as a full fee schedule for each fee. Where fees are calculated on an individual parcel basis, they provide the phone number for the agency responsible for calculating that specific fee.

- Streamlining Fee Processing. The cities of **Chico, Napa, Redwood City, Gilroy, Carlsbad, Irvine,** and **Tustin**, as well as **Sonoma County**, all operate one-stop permit centers where project sponsors can obtain fee schedules and documentation in one location.

- Identifying District Fees. **San Joaquin County** has many special districts, capital facilities, and school districts, each of which charges fees. To simplify the fee calculation and collection process, the County has prepared a series of maps at a common scale showing the precise locations and boundaries of each district. By specifying a single map location or address, county planners and project sponsors can quickly establish which fees apply where. The **City of Corona** has established a staff position responsible for managing all information regarding special assessment districts. In a related vein, **Sacramento County** has established a separate permitting counter for impact and special assessment district fees.

- Fee Estimating Service. The **City of Carlsbad's Community Development Department** understands that fees can be complicated and offers an estimating service to any requesting applicant. The applicant fills out a few a simple form requesting rudimentary parcel, site and project information. The form is left with permit center staff that prepares an estimate listing the possible range of fees expected for the project.

Systems only work when there are people who know how to use them. With fees collected by many agencies, normal staff turnover in any single agency can slow the entire process. Indeed, lack of knowledgeable staff was the single biggest problem identified when collecting fee information. The creation of a single, consolidated fee schedule, as suggested above, can go a long way to address this problem. Going further, California jurisdictions should computerize their fee schedules and publish them on the Internet. The technology to do so exists and is fairly inexpensive. Project sponsors could download fee templates and complete and return them to the administering jurisdiction, either in paper form or via e-mail. Such a system would have a number of benefits. By centralizing fee administration, jurisdictions would have to be more explicit and consistent regarding how fees are calculated. By standardizing and simplifying fee calculation, errors would be reduced and staff freed for other tasks. By de-personalizing fee administration, the process would become less sensitive to staff turnover. In rural areas, fee collection (but not necessarily fee assessment) could be consolidated at the county level. Ultimately, the databases created through the cumulative use of such a system would make it easier for jurisdictions to update fees, as well as to relate them to their capital improvements programs.

State Policy Issues and Options

The purpose of this study is to establish the comparability of development fees across California jurisdictions and to assess the contribution of development fees to California's high housing prices and costs. Like many empirically based policy studies, however, this one also suggests new issues and highlights new ways of looking at old ones.

Despite the best intentions of the California Legislature, the systems used by California cities and counties to set and administer local development fees are opaque, inconsistent, and profoundly inefficient. Within jurisdictions, the processes by which agencies assess and collect fees are difficult to understand. As noted below, this problem should be relatively easy to address. Across jurisdictions, fees are inconsistently set and administered. Consistency may, as the saying goes, "be the hobgoblin of little minds," but when it comes to assessing and spending millions of dollars of development fees, it is nonetheless important. Most important, despite the nexus study provisions of the Mitigation Fee Act, the connection between fees, capital improvements programming, and longterm development planning is weak-to-non-existent. This creates additional unneeded problems for a State that is already systematically infrastructure-deficient. Solving California's development fee problem should be seen as one element — albeit a critical one — in a broader program of reforming the State's capital facilities planning, programming, and financing system.

Policy Issue #1: Development fees are higher than they should be because many California jurisdictions do not undertake long-term capital improvements plans and programs. If there is one hard and fast rule of capital facilities financing, it is that capital facilities are much more expensive to build and finance after they are needed than before. Since well before Proposition 13, California governments — including cities, counties, and the State itself — have been far too late in planning, financing, and constructing needed capital facilities. This oversight is difficult to explain given the incredible regularity, and thus predictability, of population growth throughout California. State law requires California jurisdictions to develop general plans to locate anticipated growth, but does not require them to develop realistic, longterm capital improvements plans to serve anticipated growth. As a result, development fees and other capital financing sources are keyed to the last and thus most expensive growth increment, rather than the next growth increment.

Policy Options: Comprehensive reductions in municipal capital facilities costs, and thus development fees, might be achieved by requiring California jurisdictions to prepare realistic capital improvements plans tied to local general plans, or as a general plan element; and to take stronger steps to make State support of municipal infrastructure construction contingent upon such plans being implemented and updated on a timely basis. Only by "programming-out" anticipated infrastructure and capital facilities needs, and then devising appropriate capital financing strategies as needed, can California jurisdictions ever hope to make growth pay its own way *and* its true fair share.

Policy Issue #2: Development fees are higher than they need to be because they are paid entirely up-front. Spreading development fees out over a number of years can help reduce their total present-value cost and thus their financial burden on homebuyers and renters, especially when interest rates are low. This, of course, is the essence of capital financing. Since the end of the 19th Century, all jurisdiction-wide general obligation bond issuances have been subject to a two-thirds resident vote, a hurdle that has proved to be too high for many communities. Benefit and special assessment district bond financing are one way around this limitation, but they generally apply to all residents of a given area, not just residents of new homes and apartments. Mello-Roos bonds, which were enabled by the Legislature in 1982 and are essentially special district bonds for new housing subdivisions, have had their own problems.

Policy Options: A comprehensive study of the local uses and effectiveness of infrastructure financing tools, including non-redevelopment techniques in particular, could be undertaken to identify constraints to their broader use. The possibility of establishing new mechanisms for financing many growth-related capital improvements could be explored. Tied to the existence of an approved capital facilities plan, such mechanisms should make it possible for cities and counties, in partnership with housing developers, to establish capital facilities districts around approved subdivisions and apartment projects.

Policy Issue #3: Fees are highest relative to housing prices in the State's fastest growing and most affordable communities. This is the "catch-22" of development fees and housing affordability. As things now stand, those jurisdictions that do the most to accommodate California's housing production needs are also the most dependent on development fees to finance growth-supporting infrastructure, and thus, can least afford to reduce their fees. Conversely, those jurisdictions in which fees are low relative to housing prices tend to be less dependent on fees and can most afford to reduce them, should they desire to.

Policy Options: This is a matter of statewide importance, and addressing it will require state-level fiscal reforms. A number of options present themselves, short of repealing Proposition 13. The first is for the State to pay some portion of the development fees charged on affordable ownership *and* rental housing projects. SB 50 created such a program relative to school fees, but with limited eligibility. A related approach would have the state return an increased share of sales tax revenue to communities that reduce housing development fees. A third approach would have the State Infrastructure Bank allow cities and counties to draw on low-interest capital facilities loans, provided they reduced fees on affordable housing. Whatever the approach, program eligibility standards would have to be carefully determined. In all cases, the over-riding policy goal would be *to not penalize* those jurisdictions willing and able to accommodate market-rate and affordable housing production.

Policy Issue #4: **The nexus study requirements set forth in the Mitigation Fee Act are still too vague.** This is a problem at two levels. By coupling impact and development fees with connection fees — which are exempt from the nexus study requirements — many California jurisdictions are able to escape a significant portion of their nexus study obligations. Second, because the Mitigation Fee Act provides minimal substantive guidance, the methods and approaches used by local governments to estimate facilities costs vary widely. This lack of methodological consistency translates into fees that vary widely and inexplicably among neighboring jurisdictions.

Policy Options: The State should respond to each of these problems in turn. If and when connection fees are coupled with other fees, they should be subject to the Act's provisions. More important, the Mitigation Fee Act could be amended to require the use of a marginal-cost pricing methodology when setting and revising fees. Nexus studies should be required to be updated every five years. Toward this end, an appropriate State agency should assist in the preparation of a standardized nexus study methodology.

Policy Issue # 5: **Development fees are a significant revenue component of local budgets and a significant cost component of new development projects.** Yet because the responsibility for administering fees is fragmented among multiple agencies and departments, no single agency or manager typically sees the "big picture" with regard to setting, assessing, or collecting development fees. As a result, the fee assessment and collection process appears to be even more opaque, disorganized and ad hoc than it really is.

Policy Options: Transparency is extremely important in any fee or tax system. Voluntarily, or under state mandate, jurisdictions should identify a lead agency whose responsibility it is to coordinate all fee-setting and collection activities within the jurisdiction, including planning, building, capital facilities, special district, and school fees. The lead agency should publish in both paper form and on the Internet, a single consolidated fee schedule for all locations and development types within the jurisdiction.

Policy Issue #6: **Jurisdictions and developers alike find it difficult to estimate total projected fee payments at the beginning of the development approvals process.** This needlessly complicates project planning and makes later fee collections seem arbitrary.

Policy Options: Certainty is also important. Building on the consolidated fee schedule suggested above, jurisdictions should prepare and distribute standardized "fee templates" to enable project sponsors to estimate total likely fee payments. A State agency could assist jurisdictions in preparing such templates.

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1 A Planner's Guide to Financing Public Improvements, Fees and Exactions, State of California, Governor's Office of Planning and Research, Chapter 4, page 1.

2 Abbott, Williams A., et. Al., *Exactions and Impact Fees in California, A Comprehensive Guide to Policy, Practice, and the Law,* Solano Press Books, Point Arena, CA, *2001 Edition, pp. 2-4.*

3 State law already required that general obligation bond issuances be approved by a 2/3 voter majority.

4 Benefit assessment districts are exempt from the 2/3 voting requirement. Benefit assessment districts are also relatively easy to establish. In the absence of a majority protect, they can be created by a majority vote of the local city council or county board of supervisors.

5 These percentages and the estimates listed in Table 1 are based on summary data published annually by the California Controller's Office. Since California cities and counties are not required to account for development fees separately from other types of fees and service charges, the published data combines one-time service fees (e.g., zoning building permit fees) and one-time development fees (e.g., capital facilities fees).

6 Note on Marks-Roos districts.

7 Government Code Sections 53395 – 53397.11.

8 AB 1600 was strongly backed by the California Building Industry Association (CBIA), who had long led the charge against increased development fees. In 1981, the CBIA sponsored SB 1005, which established standards for fee-setting.

9 The California Legislature had previously ventured into the realm of fees when it enacted the Quimby Act in 1965, authorizing municipalities to assess park and recreation fees as an alternative to land dedication. Many California municipalities still collect "Quimby Act" fees.

10 For a detailed discussion of the provisions of the Mitigation Fee Act, see William A. Abbott, et al., *Public Needs and Private Dollars: A Guide to Dedications and Development Fees* (Solano Press Books, 1993).

11 Exempt benefit assessment districts included those formed prior to November 1996 exclusively to finance sidewalks, streets, sewers, water, flood control, drainage systems or vector control; assessments imposed pursuant to a petition signed by all the owners of the parcels subject to the assessment; and assessments previously approved by a majority vote of the local electorate.

12 When surveyed, the sample jurisdictions were subject to the 1999 $1.93 per square foot school fee cap. Except as noted, reference is made to $1.93 as the maximum school fee.

13 This said, there are significant theoretical and legal differences between taxes and assessments. Taxes are charged on a unit, value, or ability-to-pay basis. Assessments are based on the benefits principle – how much one pays depends on the specific benefits they receive.

14 The costs of providing additional services may be higher for reasons of increasing standards, higher cumulative maintenance and replacement costs, higher wages, preferences for rising service quality, higher financing costs, or general price inflation.

15 Should localities limit growth too much, they may find themselves unable to finance normal infrastructure upgrading and maintenance. In the long-run, this may limit their ability to attract more desirable forms of development. This last worry is mostly theoretical. Other than schools, there is little empirical evidence that development is sensitive to infrastructure quality.

16 Using similar logic, communities may set fees well below costs precisely to attract certain types of development. Whether such subsidy practices are economically efficient will depend upon whether such communities are ultimately successful.

17 In fact, the court explicitly cited the Culver City's art fee schedule as an example of how the city had met its nexus requirement.

18 The BIANC survey based its fee calculations on a hypothetical 100-home, 25-acre, single-family detached subdivision. Each home consisted of three bedrooms and two baths with 1,500 square feet of living space, and an attached 400 square foot garage. The BIANC compared its 1991 results with those from a 1987 survey undertaken by the Bay Area Council and a 1981 survey undertaken by the Association of Bay Area Governments.

19 Lowry, Ira S. and B.W. Ferguson, Development Regulation and Housing Affordability, Washington, D.C., ULI The Urban Land Institute, 1992.

20 1994 Planners Book of Lists, State of California, Governors Office of Planning and Research.

21 Charles J. Delaney and Marc T. Smith, "Impact Fees and the Price of New Housing: An Empirical Study," *AREUEA Journal,* Vol. 17, No. 1, 1989.

22 Studies by the Association of Bay Area Governments (1981), the Bay Area Council (1987), and the Building Industry Association of California (1991) are notable precisely because they did attempt to identify a common set of fees across a single, standardized home design. The BIANC study, moreover, covered 15 Northern California counties.

23 Special districts and Mello-Roos Districts are created by local agencies, and have no independent authority to levy fees. Special assessment districts are permitted to levy assessments but not fees or taxes.

24 As a group, Southern California jurisdictions were much more helpful and forthcoming than Bay Area and Sacramento area jurisdictions.

25 Although conceptually and empirically convenient, this is certainly not the only way to categorize fees. The Fee Mitigation Act divides fees into two types: planning and building fees, and public facilities fees. Alternatively, Abbot, et al, identify three types of fees: connection fees and service fees, regulatory fees, and development fees.

26 This is stipulated in Government Code Section 66014, and has been interpreted by the California Attorney General as follows: "If a local agency charges building permit and similar fees based upon the Uniform Building Code Valuation Tables without supporting evidence regarding the relationship between the fees and the services rendered, such fees are invalid to the extent that they exceed the reasonable costs of providing the services rendered."

27 According to California Government Code Section 65913.8, "A fee, charge, or other form of payment imposed by a governing body of a local agency for a public capital facility improvement related to a development project *may not include an amount for the maintenance or operation of an improvement when the fee, charge, or other form of payment is required as a condition of the approval of a development project, or required to fulfill a condition of the approval* (italics added). However, a fee, charge, or other form of payment may be required for the maintenance and operation of an improvement meeting the criteria of either subdivision (a) or (b), as follows: (a) The Improvement is: (1) designed and installed to serve only the specific development project on which the fee, charge, or other form of payment is imposed, (2) the improvement serves 19 or fewer lots or units, and (3) the local agency makes a finding, based upon substantial evidence, that it is infeasible or impractical to form a public entity for maintenance of the improvement or to annex the property served by the improvement to an entity as described in subdivision (b)."

28 Proposition 218 voting scheme.

29 To maintain an "apples-to-apples" comparison and to gauge the costs of these entitlement fees, this study assumed that general plan amendment, rezone and planned-unit development applications would all be necessary on the 25-unit subdivision model, and the 45-unit multifamily development model. Many jurisdictions noted these applications would not be necessary, much less allowed. We did not measure how many jurisdictions would actually require these applications.

30 Impact fees revenues may only be used for capital facilities upgrading as made necessary through new project approval. Even so, the amount of the impact fee available to pay for upgrading must be pro-rated across the entire user base. New projects may not be charged with the entire costs of capital facilities upgrading.

31 These do not include the cash value of open space exactions, or habitat, wetland, or hillside mitigations as determined under CEQA or other federal and state environmental reviews.

32 Most California jurisdictions have not enacted inclusionary housing requirements.

33 Where in-lieu fee formulas were available, we used these to calculate the in-lieu fee rather than just assuming the developer would build the units.

34 Government Code §65915(h); §65589.5(a); §65589.7; §65583(c)(b)(4).

35 1990 population, housing unit, land area, and income estimates were obtained from the US Census. Population estimates for 1997 were obtained from the California Department of Finance. The Construction Industry Research Board provided information on building permit activity, and the California Association of Realtors supplied estimates of median home prices for 1998 and 1999. Per capita net expenditure data was compiled from reports published by the California Controller.

36 Note that the Mitigation Fee Act does not require the preparation or adoption of a capital improvements plan.

37 At least one school of thought suggests this is as it should be, since apartments are typically developed at higher densities than single-family homes, and thus generate higher service costs per unit lot area.

38 Regression results for infill homes and apartments are included as Appendix D.

39 See, for example, Abbott, et. al., 2001 Edition, pp. 8 – 12.

40 Office of the Attorney General, State of California, Opinion No. 97-906, January 16, 1998.

41 Note on how the Controller's Office classifies debt.

42 Special assessment districts within jurisdictions may be established by a majority vote of the city council or board of supervisors.

43 The qualifying ratio is used to set maximum monthly mortgage payments. It is determined by dividing monthly principle, interest, property tax, and insurance payments by monthly (before-tax) income. Lender qualifying ratios for conventional mortgages typically vary between .28 and .33.

44 The only way to actually reduce fees would be for local governments to find substitute other revenue sources, or for the state to directly fund local capital facilities. Neither is particularly likely. More likely, and given appropriate state enabling legislation, local governments might convert some portion of local fees to annual assessments. Much like any other type of financing, this would reduce initial fee costs but result in higher overall payments.

45 Most apartment investors currently require a cash-on-cash return of at least 12 percent. The effect of stipulating a lower return requirement is to reduce the break-even rent.

Appendix of Fee Surveys for Pay to Play
Searchable CD-ROM

The complete text of the "Pay to Play" report and appendix files are contained on the enclosed CD-ROM. The files are as follows:

Pay to Play Report ..... fee_rpt.pdf
Appendix of Fee Surveys ..... appendix.pdf
Appendix A: Survey Instrument ..... app_a.pdf
Appendix B: Fees by Type and Region ..... app_b.pdf
Appendix C: Fee Surveys by Jurisdiction* ..... app_c.pdf

The documents on this CD-ROM require Adobe Acrobat Reader to view and print. The latest versions of the Acrobat Reader software can be obtained from Adobe's web site at www.adobe.com.

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* contains direct links to the jurisdiction fee survey.