



The County of El Dorado

Chief Administrative Office

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February 25, 2014

TO: Board of Supervisors
FROM: Jim Claybaugh, Economic and Business Relations Manager
SUBJECT: TIM Fee Reduction and Offset Strategies

Background

On December 17, 2013, the Board of Supervisors directed the Economic Development Strategic Investment Team to analyze and report to the Board any obstacles, opinions, benefits and consequences of reducing Traffic Impact Mitigation (TIM) fees for business within El Dorado County to stimulate business activity and reallocating Transient Occupancy Tax (TOT) revenue to the road fund to compensate for the reduced TIM fee revenue.

On January 15, 2014, the Economic Development Strategic Investment Team discussed the issues and obstacles of reducing TIM fees while allowing for a sustainable economy and infrastructure to support business types. The team identified a significant list of questions, obstacles and options to be considered and requested the Board continue this item until March 18, 2014 to allow time to conduct more research, analyze the data, and prepare the report.

On February 4, 2014, the Board of Supervisors received a staff report outlining numerous possibilities and considerations regarding a possible reduction to TIM fees for non-residential uses. Staff was directed at that time to return with further analysis and recommendations.

History

The current TIM Fee program was originally adopted on August 22, 2006, when the Board approved Resolution No. 266-2006 adopting the 2004 General Plan TIM Fee Program pursuant to a comprehensive review. Resolution 266-2006 required an annual review of the program and directed County staff to return to the Board with a recommendation to adjust the fees up or down, based upon changes in the cost of construction or other impacting factors.

On September 25, 2007, the Board adopted Resolution 243-2007 to adjust the fees based on inflation of construction costs during the year. The inflation index used in that adjustment was the Caltrans Price Index for Selected California Construction Items.

On July 29, 2008, the Board adopted Resolution 205-2008 to:

- Adjust the fees based upon inflation of construction costs during the preceding year;
- Switch the inflation cost index from Caltrans to the Engineering News Record-Building Cost Index;

- Shift the index from third quarter (October) to fourth quarter (December).

On June 2, 2009, the Board adopted Resolution 114-2009, which left the TIM Fee Program rates unchanged from the 2008 annual review.

On June 8, 2010, the Board adopted Resolution 070-2010, which also left the TIM Fee Program rates unchanged from the 2008 annual review.

On December 19, 2011, the Board directed the Transportation Department (Transportation) to update the TIM Fee Program rates commensurate with the cost reductions Transportation presented at that Board meeting, and to add Age Restricted Housing categories to Zone 8, as well as any other zones which are within community regions and have infrastructure in place. The other zones which currently meet the criteria include Zone 2 (Cameron Park, Shingle Springs) and Zone 3 (Diamond Springs, El Dorado).

The most current TIM Fee rates were set in 2012, when the Board adopted Resolution 021-2012, on February 14, 2012. The adopted fees represented an average decrease of 14% from the previously adopted rates. The reduction was based significantly on a reduction in current construction costs due to the severe decline in the economy and the resulting impact construction industry, including both residential and transportation infrastructure developers.

Current Issues

- Economic Data Analysis

As recommended from the February 4, 2014 Economic Development Strategic Investment team report (Agenda Item 21, Legistar File 13-1563), a summary of economic and business data was compiled to offer an overview of the county economy.

A 2010 study conducted by the Center for Strategic Economic Research (CSER) on behalf of El Dorado County surmised the county's overall business and population growth was slower than the rest of the region, and likely will continue through 2019. The study highlighted the unique self-employment and entrepreneurial environment in the county, and also noted the county's higher educational attainment, and per capita income. Additionally, the report identified a relatively low cost of doing business compared to other counties in the region, according to a survey conducted by the Kosmont-Rose Institute. It also noted an undersupply of industrial space and minimal availability of affordable housing.

The most current, accessible information is unemployment data from the California Employment Development Department. Currently, El Dorado County unemployment is down from its peak in 2010. The most recent data available, for December, 2013, showed the County's unemployment rate to be 7.2% - the annual unemployment rate has not yet been computed by the EDD. The table below details the drop on overall unemployment.

Period	Labor Force	Employed	Unemployed	Rate
December 2013	89,200	82,800	6,400	7.2%
December 2012	89,600	81,100	8,500	9.5%
December 2011	90,600	80,500	10,100	11.2%
December 2010	91,400	80,000	11,400	12.5%
December 2009	91,500	80,300	11,100	12.2%
December 2008	91,100	83,400	7,800	8.5%
December 2007	90,800	85,600	5,200	5.7%
December 2006	92,700	88,500	4,200	4.5%

The most recent Census Bureau business data for El Dorado County is from 2011. According to this data, there were nearly 500 fewer businesses between 2006 and 2011, with the majority of the reduction in the Construction and Retail sectors. Total payroll for all sectors during this period decreased more than \$57 million. It should be noted that during this same period, the total number of Manufacturing businesses decreased, however, total employment and payroll in that sector increased significantly, by nearly 20%.

The Census Bureau Non-Employer data showed similar trends for the County. Non-employers are defined as businesses that have no employees but do have federal business income tax. From 2006 to 2011, El Dorado County lost more than 200 non-employer enterprises in the Construction sector, and more than 400 in the Real Estate-Rental-Leasing sector. Of note, also, is that the number of manufacturers in this category increased by 57, with a net increase in sales of more than \$1.2 million.

- **TIM Fee Comparison with Other Jurisdictions**

It is generally accepted that TIM fees in El Dorado County tend to calculate higher than nearby jurisdictions. Staff conducted a preliminary analysis comparing fees with adjacent jurisdictions, collecting data from each jurisdiction’s website, and computing on a “per square foot” basis.

Comparing two fairly common non-residential land uses – Light Industrial and Large Shopping Center (greater than 500,000 square feet) – the results indicated that El Dorado County fees for the commercial use were within the range of fees for the other jurisdictions. Fees for industrial use ranged well below most of the other jurisdictions.

Some of the jurisdictions’ fees range widely, based on region. A table summarizing traffic impact fee costs for adjacent jurisdictions is below:

Jurisdiction	Traffic Fee per Square Foot	
	Light Industrial	Large Commercial Center
El Dorado County	\$1.25 – 1.70	\$7.64 – 10.49
Sacramento County (Excluding Mather)	\$2.07 – 4.19	\$1.47 – 9.97
Placer County	\$3.05 – 4.05	\$3.49 – 10.26
Amador County	\$1.62 – 3.24	\$8.34
City of Folsom	\$4.80	\$11.80

Additionally, a national impact fee survey, conducted in 2012 by Duncan Associates, showed El Dorado County to have total impact fee costs for industrial uses well below the cities of Rocklin, Sacramento, Elk Grove, and Citrus Heights. http://www.impactfees.com/publications%20pdf/2012_survey.pdf

There are many other considerations, including various land uses, to compute when comparing these types of costs, and staff is using only very specific land uses for comparison.

- **Available Resources**

The County currently has a number of policies developed and resources available to assist business address their TIM Fee requirements:

- Economic Development Grant Funding – Through the State CDBG program and the federal Department of Commerce, grant funding is available for infrastructure improvements targeting

businesses. The process can be lengthy, and there are job creation or retention requirements, but between \$2-3 million in grant funding may be available for worthy projects. Additionally, the California Infrastructure and Economic Development Bank offer loans for infrastructure projects for public agencies.

- Infrastructure Financing Districts (IFD) – An IFD is a tax increment financing tool allowed by the State of California to help fund infrastructure improvements on undeveloped land. Currently, creating an IFD requires two-thirds voter approval, but there is proposed legislation that may reduce that requirement, or eliminate it altogether.
 - Current Land Use Policies – If a business is moving into a developed business or industrial park, and the use of the space will comply with current zoning and permits (no change in occupancy type), the business is not required to pay additional TIM fees.
 - The Traffic Impact Fee Deferral program (Board Policy B-3) encourages the development of non-residential projects in El Dorado County. Program One allows the TIM fee to be repaid over a five year period when the fee equals \$10,000 or more. Program Two allows the TIM fee up to \$9,999 to be deferred until the developer has obtained permanent financing or prior to the final sign off on the building permit.
 - The Missouri Flat Master Circulation and Financing Plan (MC&FP) - The Missouri Flat MC&FP was adopted by the County to provide a comprehensive and coordinated approach to address both existing traffic congestion in the Missouri Flat Area and the issue of providing capacity for future development in the Missouri Flat Area. The MC&FP does not reduce TIM fees, instead uses tax increment to offset direct costs of road construction. The MC&FP generates roughly \$900,000 per year from property and sales tax. Sales tax is a small percentage of the total. Eighty-five percent of property and sales tax revenues are used for infrastructure. Source - *El Dorado County Zoning Ordinance, Ch 17.9, pg 79-82*
 - Economic Development Incentive Policy – Adopted by the Board in February 2014, the policy creates the opportunity to offer tax rebates or deferrals to new and expanding businesses in the county, and formalizes many business assistance processes already being implemented by the County.
- Impact of TIM Fee Adjustments on Economic Development

The site selection process in economic development is lengthy, and takes into consideration a wide variety of factors, including development costs, operating costs, available infrastructure, labor costs, labor skills and educational attainment, access to markets, tax and regulatory environment, housing affordability and availability, quality of life, and many other factors. Developing these various factors makes a community or region more amenable to business growth, assisting existing businesses while encouraging new business formation.

Conventional wisdom in economic development is to decrease costs and regulatory burden to businesses to the most feasible degree, in order to assist more businesses start and expand, but also to make a community or region more able to attract additional companies. That objective, however, must be weighed against the responsibility of local governments to effectively provide services to residents and infrastructure for businesses.

While transportation infrastructure is only one component of the infrastructure needed to support business growth, it is one of the more important types of physical infrastructure required for economic

development. Various economic studies have concluded investment in public infrastructure results in lowered business costs, increased permanent employment, and increased economic output.

(http://www.csus.edu/calst/government_affairs/reports/financing_california.pdf)

The TIM Fee program is intended to address the funding gap between the objectives of the General Plan and Capital Improvement Plan, and the resources available to meet those objectives. Identifying means of funding that expansion is only part of the equation – once constructed, expanded transportation infrastructure must also be maintained.

- Input from Strategic Investment Team and CEDAC

Both the Economic Development Strategic Investment Team, at its February 26, 2014 meeting, and the Community & Economic Development Advisory Committee, at its February 27 meeting, reviewed these options and offered input on several topics. Input from the Investment Team included, for a future revision, separating hotel/motel from the General Commercial category and incorporating that into a future nexus study.

Input from CEDAC and members of the public ranged over a wide variety of issues, including consideration of various sources of public revenue for road improvements, the feasibility of new highway interchange innovations, the impact of TIM fees on “moderate” or inclusionary housing, and the importance of accurate population growth models.

Recommendation

Given the most recent Board of Supervisors agenda items relating to El Dorado County’s General Plan Travel Demand Model and population growth forecasts, staff recommends continuing the TIM Fee Program in its current structure and rates, until a new nexus study can be conducted and the Capital Improvement Plan can be updated based on direction from the Board. A comprehensive update to the TIM Fee Program would be appropriate and effective after those issues are covered and a new nexus study can be completed.

Until that time, staff from the Chief Administrative Office can support economic development and assist with cultivating business growth in the County in two primary ways:

1. Assist individual businesses to address the cost of startup or expansion through the negotiation of financial incentives, pursuant to Board Policy J-7, Economic Development Incentives. This may include deferral or offset of impact fees, however, staff recommends offsets should be backfilled from other revenue sources.
2. Address broader infrastructure needs for economic development by pursuing grant and loan opportunities when appropriate. County economic development staff has met with key staff in the Community Development Agency, Long Range Planning and Transportation Divisions, and will pursue economic development funding for road and other infrastructure improvements when necessary.