



COMMUNITY DEVELOPMENT SERVICES LONG RANGE PLANNING

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TO: Board of Supervisors

FROM: Natalie K. Porter, P.E., T.E., Traffic Engineer

Subject: Proposed Fiscal Year 2018 Residential Permit Forecast

PURPOSE AND SUMMARY

Community Development Services (CDS), Long Range Planning, recommending the Board approve the proposed 2018 ten-year residential permit forecast. This forecast will be used in the development of the 2018 Capital Improvement Program (CIP).

BACKGROUND/DISCUSSION

General Plan Policy TC-Xb and Implementation Measures TC-A and TC-B require the annual update of the CIP, specifying expenditures for roadway improvements within the next ten years. The residential permit forecast kicks off the CDS annual updating cycle for both the CIP and the Traffic Impact Mitigation (TIM) Fee Program.

One of the major funding sources for the CIP is revenue from the TIM Fee Program. The majority of the TIM Fee Program's revenue comes from residential building permits. The CDS residential permit forecast process initiates the annual updating cycle for both the CIP and the TIM Fee Program. Long Range Planning uses the residential permit forecast to estimate TIM Fee revenues programmed in the ten-year CIP. General Plan policies require that the forecast is evaluated each year for the annual update of the CIP program.

There are consequences of forecasting too high or too low. If the projected estimate is too high, the revenue forecast assumes the capacity to finance additional roadway projects in the ten-year CIP. Including additional CIP projects could cause a lack of sufficient revenue to repay existing and reimbursement agreements. Conversely, if the estimate is too low, the County could potentially miss the opportunity to include CIP projects needed in the County.

On August 23, 2010 (Legistar File 10-0835, No. 1), the Board approved the "Long Slow Climb" permit forecast scenario. This forecast was developed by applying the growth rate implied by the Sacramento Area Council of Government's current household projections between 2008 and 2020. On December 3, 2013 (Legistar File 13-1453, No. 31), the Board approved a continuation of the approved "Long Slow Climb" forecast based on the following factors:

- Slow recovery of the housing market
- Higher cost of homes
- Not much new construction
- Goal to keep cash on hand available to repay current and prior obligations

- Potential revised growth trend during the major update to the CIP and TIM Fee programs.

The major update to the CIP and TIM Fee programs was adopted on December 6, 2016.

Proposed Forecast Options:

The County received a total of 755 residential building permits during Fiscal Year (FY) 2016/17, which exceeded the 228 permits forecasted in the “Long Slow Climb” scenario. Between July 1, 2017 and September 30, 2017 (i.e., one quarter of the way through the current fiscal year), the County has received 152 permit applications of the 297 permits forecasted in the “Long Slow Climb” scenario. This is equivalent to 51% of the forecast for this fiscal year. Lower TIM Fees may have contributed to the higher than expected permit activity for FY 17/18. However, the winter season is beginning, which historically has resulted in fewer permit applications, and the economy is not yet out of the woods.

The permit activity the County saw last year, and is currently seeing, exceeds the Ten-Year permit forecast approved on December 3, 2013. Three options are provided below to enable the Board to determine which growth trend the County will use in the 2018 Annual CIP Updates. Although 755 total permits were received in FY 2016/17, 288 of those were prepaid permits for the Blackstone development. In the forecast trends below, we used 467 permits as the actual starting point, as it excludes the Blackstone prepaid permits.

Fiscal Year	RESIDENTIAL PERMIT FORECAST TABLE - 10 Year Total											Total 17/18 - 26/27
	16/17	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	
Board Approved Forecast	467*	481**	495	510	526	541	558	574	592	609	628	5,514
Developer Trend	467*	467**	467	467	467	467	467	467	467	467	467	4,670
Permit Actuals	467*	500**	535	572	612	655	701	750	802	859	919	6,904

*Actual permits minus Blackstone prepaid permits.
 **Projected permits minus Blackstone prepaid permits.

“Board Approved” Forecast –

A growth forecast is an assumption about how and where the County will grow in the future. Identifying an appropriate growth forecast entails reviewing both past and projected future trends, as well as considering the County’s goals for how and where it wants to grow. Forecasting growth is an iterative and ongoing process – forecasts are reviewed and adjusted annually (as part of the annual CIP and TIM Fee updates) as well as every five years (as part of the Major Five-Year CIP and TIM Fee program updates). Routinely verifying and updating growth forecasts allows the County to account for new information and adjust its assumptions and plans accordingly.

Choosing a growth forecast does not approve or deny any new development. See Attachment B for the cycle the County uses in updating the CIP and TIM Fee programs on an annual and five-year basis.

On July 30, 2013, staff presented a growth forecast based on the BAE Urban Economics, Inc. (BAE) report dated March 12, 2013, which included an updated set of housing and employment growth projections through 2035.

Subsequent Board workshops were held on February 24, 2014 and April 8, 2014 (Legistar File 14-0245 No. 12) to discuss the growth forecast and distribution to be used for the Major CIP and

TIM Fee Update. On April 8, 2014, the Board identified the 1.03% residential average annual growth rate, with 75% of that growth anticipated to occur within the Community Regions and 25% of the growth anticipated to occur outside the Community Regions, as the starting point for the Major CIP and TIM Fee Program Update. The “Board Approved” Forecast is based on the BAE report dated March 12, 2013.

“Permit Actuals” Forecast – This option estimates a more optimistic forecast for the next 10 years. The “Permit Actuals” option was developed by calculating the growth percent per year beginning in FY 1997/98 through FY 2016/17. It estimates a consistent growth rate, starting from the actual number of permits received during the 2016/17 Fiscal Year, and assuming 1.07% growth through Fiscal Year 2026/27. The historical trend projection is more consistent with the actual number of permits received to date. However, housing production in the County had rapidly increased during the housing bubble of 2000 to 2006, and then bottomed out in the recession. Some of the increases in Fiscal Years 2011/12 through 2016/17 might be attributed to pent-up demand due to the recession in prior fiscal years. Therefore, this forecast may be too aggressive.

In the “Permit Actuals” Forecast scenario, the County will have received 30% of the anticipated 500 permits for FY 17/18 during the first quarter of the fiscal year.

Developer Trend Forecast – The CDS has discussed estimates of permit projections as they relate to the approved Tentative Maps in the development community. The majority of these Tentative Maps are in Zone 8 (El Dorado Hills) and Zone 2 (Cameron Park), and include Serrano, Saratoga Estates, Hawk View, Carson Creek, and Silver Springs. Projects on the horizon include Bass Lake Hills, Eastridge and Shinn Ranch. Approval or implementation of any General Plan amendment projects may require updates during the next permit forecast cycle.

However, several factors that discourage growth in the area must be considered. Whereas population and job growth rates are trending up after the recession, new housing growth lags. The National Homebuilders Association showed a decline in production due to construction labor shortages. Many construction trade workers left the area during the recent recession. In addition, developers have focused more of their recent efforts in Folsom, Sacramento County and Placer County. El Dorado County is competing with these areas for the same construction labor resources, which may also be compounded by the reconstruction needed for homes lost in recent wildfires. There are also restrictions on development in the County due to environmental issues relating to rare plant species.

Staff anticipates that the County may see an average of approximately 467 permits per year for a two to three year period starting in the FY 2017/18. After the two to three year period, the permit activity may decline. At this point, staff is assuming a flat revenue forecast of 467 permits per year for the Developer Forecast.

Reason for Recommendation:

Staff recommends the “Board Approved” Forecast for the 10-Year update based on the following factors:

- The Board approved the 1.03% growth trend on April 8, 2014
- Housing production in the County has increased, but has not yet returned to pre-bubble levels

- The “Board Approved” Forecast pattern of 1.03%, as presented within the 10-year Residential Permit Forecast table above, is in the middle range of the three forecasts presented.

Given the uncertainty in the economy and the housing market, staff recommends a conservative forecast for now. A breakdown of projected permits by zone is included in Attachment C, and actual permit revenue from FY 15/16 through first quarter of FY 17/18 is included in Attachment D.

RECOMMENDATION

Staff is recommending the “Board Approved” Forecast for use in the updating the 2018 CIP and TIM Fee Program. Staff will prepare the 2018 CIP using the approved permit forecast as a component of the overall revenue forecast to program capital improvement projects.

NEXT STEPS

Based on Board direction, staff will prepare a preliminary 2018 CIP workshop, tentatively scheduled for February 2018. Staff will present the next permit forecast workshop to the Board during the next 5-Year Major CIP and TIM Fee Program Update. Annual permit forecasts will be developed, but only presented to the Board if major changes are expected in permit activity.

CONTACT

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