UFI | Financial Solutions

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550 East 6th Street
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Re: Review of Development Impact Fee Nexus Study (dated May 31, 2024)

In 2024, the City of Beaumont (City) retained Willdan Financial Services to update the City's Development Impact Fee Nexus Study (Nexus Study) in compliance with the Mitigation Fee Act (section 66000 et. seq. of the California Government Code) and other applicable laws. The central purpose of the Nexus Study is two-fold: (1) to analyze the impacts of new development on public facilities and other capital assets needed by the City to provide municipal services, and (2) to calculate fees based on that analysis that offset the costs of the facility impacts from new development. The Nexus Study documents the data, procedures and methodologies used in the impact analysis and fee calculations. The overall policy objective of the Nexus Study is to establish a public facilities program that ensures new development pays the capital costs associated with growth.

In July 2024, the City requested Urban Futures, Inc. (UFI) perform a review of the final version of the Nexus Study, dated May 31, 2024. As confirmed with the City, the scope of UFI's engagement is to conduct an independent, third-party assessment and validation of the procedural and methodological approaches used in the Nexus Study. The engagement does not include reviewing or validating the underlying data in the study (growth projections/demographics, public facility plans, cost assumptions, etc.) or the mathematical fee calculations therein.

The Nexus Study provides the analytical basis and calculations for fifteen development impact fees that will help fund public facilities and related capital assets needed by the City to provide its municipal services:

- Park Facilities
- Recreation Facilities
- Fire Protection Facilities
- Police Facilities
- Public Facilities (City Hall, Corp. Yard, etc.)
- Transportation Facilities

- Sewer Conveyance Facilities
- Sewer Treatment Capacity
- Recycled Water Facilities
- General Plan
- Library Facilities
- Emergency Preparedness Facilities
- Storm Drainage Facilities
- Trails
- Road Maintenance Equipment

While each of the development impact fees has a distinct analysis and fee calculation in the Nexus Study, they all share a common approach and set of methodologies intended to satisfy the requirements for establishing, increasing and imposing development impact fees as prescribed by the Mitigation Fee Act and other applicable laws.

These requirements can be summarized as five required "nexus" findings that must be documented in and supported by the Nexus Study. The findings are:

1. The purpose of the fee is identified.
2. The use to which the fee will be put is identified.
3. There is a reasonable relationship between the fee's use and the type of new development on which the fee is imposed.
4. There is a reasonable relationship between the need for the public facility and the type of new development on which the fee is imposed.
5. There is a reasonable relationship between the amount of the fee and the cost of the public facility attributable to the new development on which the fee is imposed.

If the Nexus Study provides the technical and quantified foundation needed to make the five "nexus" findings for each development impact fee, then it provides a valid and defensible basis for imposing and collecting the development impact fees calculated in the study. As such, the central inquiry for our assessment and validation of the Nexus Study can be stated as follows:

> **Does the Nexus Study provide the technical and quantified foundation, using appropriate and defensible procedures and methodologies, that support the required "nexus" findings?**

To answer this question, UFI divided the analytical approach needed to support the "nexus" findings into five steps, and then assessed if the Nexus Study satisfactorily completes each step using appropriate and defensible methods. Our assessment relies upon both our in-house expertise in public finance and development impact fees, and on our peer-review of a variety of nexus fee studies prepared within the past four years by various consulting firms for cities throughout California. Additionally, we utilized some the standardized language, methodological definitions and fee

analysis approaches found in the "Impact Fee Nexus Study Templates" developed by the Terner Center for Housing Innovation at the University of California, Berkeley.[1]

Step 1: Identify the purpose of the fee and the use to which the fee will be applied.

Assessment: The analytical section for each impact fee in the Nexus Study contains a written statement identifying the purpose of the fee. Typical of most nexus fee study updates, the fee purpose statements are concise because the purpose of the fees are largely self-evident from the description of the fee, the stated uses of fee, and type(s) of public facilities the fee helps to fund.

To identify the use(s) to which each fee will be applied, the Nexus Study employs one or more of the following methods: a description of the type of public facilities and/or capital assets needed by the City for the associated municipal service; a list (inventory) of existing public facilities for which the fee will be used to help maintain, repair, and/or replace; and a description of any additional, expanded or improved public facilities planned by the City that will be funded in-part by the fee. Additionally, the analytical section for each impact fee states the generally permissible uses of the fee revenue.

Finally, Section 20 of the Nexus Study provides additional language supporting the purpose of the fees and use of the fee revenue.

Conclusion: The Nexus Study utilizes appropriate and defensible methods to satisfy Step 1 needed for the nexus findings.

Step 2: Project new growth by the various types of development.

Assessment: Section 2 of the Nexus Study contains the growth projections that are used as indicators of demand to determine facility needs and allocate those needs between existing and new development and among various land use types. To create the growth projections, the Nexus Study develops demographic assumptions for growth in residents, employment

[1] *Impact Fee Nexus Study Templates: Nexus Study and Residential Feasibility Calculation Templates in Fulfillment of AB 602*, Terner Center for Housing Innovation at UC Berkeley, December 2023. The Impact Fee Nexus Study Templates are an outgrowth of the Terner Center for Housing Innovation's in-depth research series that examines the array of costs associated with building housing in California—from construction costs to impact and service fees, regulation, and affordable housing requirements—and how they have changed over time. See also, *Improving Impact Fees in California: Rethinking the Nexus Study Requirements*, Terner Center for Housing Innovation at UC Berkeley, November 2020; *Residential Impact Fees in California: Current Practices and Policy Considerations to Improve implementation of Fees Governed by the Mitigation Fee Act*, Terner Center for Housing Innovation at UC Berkeley, August 2019 (Raetz, Garcia and Decker).

and building square feet based on the following data sources: land use plans and buildout projections in the City's General Plan; base year employment data from the United States Census Bureau; and base year estimates of residents and dwelling units from the Department of Finance. The data sources used in the Nexus Study are standard sources of data for developing growth projections in nexus fee studies.

The Nexus Study disaggregates the growth projections among four different types of development within the City: residential, commercial, industrial/business park, and industrial/high-cube warehouse (see Table 2.1, Nexus Study).

Conclusion: The Nexus Study utilizes appropriate and defensible methods to satisfy Step 2 needed for the nexus findings.

Step 3: Identify the city standard or metric used to determine the scale of city facilities (size, amount, capacity, etc.) needed to provide the established level of city service to new development, accounting for the differing impact/demand on public facilities due to the type and size of new development.

Assessment: Because the demands placed on public facilities differ among various types of development, the Nexus Study utilizes several methods to ensure a reasonable relationship between each fee and the type of development paying the fee. First, the Nexus Study develops a common "occupancy density" metric that allows for the differing demands on the public facilities to be stated in relative terms across the four types of development identified in Step 2 (see Table 2.2, Nexus Study). "Occupant density" is an appropriate common metric because most of the fees in the Nexus Study are calculated based on dwelling units or building square feet. Using an occupant density calculated for each type of development creates a "per capita demand standard" that ensures a reasonable relationship between the size of a development project, the increase in service population and public facility demand created by the project, and the amount of the fee. As stated in the Nexus Study, the occupant density metric and resulting per capita demand standard "ensure[s] that the fee per unit of new development is roughly proportional to the demand for facilities from various types of development" (see Page 17, Nexus Study).

Second, for three distinct public facilities, the Nexus Study identifies and uses demand metrics more strongly correlated with the unique service impacts/demands on these public facilities from various types of development. For transportation related facilities, the Nexus Study uses demand metrics based on trip generation by development type. For storm drainage facilities, the Nexus Study uses a demand metric based on impervious surface

generated by development type. For sewer and recycled water facilities, the Nexus Study uses a demand metric based on increased wastewater flow generated by development type.

Conclusion: The Nexus Study utilizes appropriate and defensible methods to satisfy Step 3 needed for the nexus findings.

Step 4: Based on the projected new development and the city's facility standard, determine total facilities needed and the costs thereof.

Step 5: Allocate the fair (proportionate) share of the total facilities costs to the projected new development and calculate the maximum justified fee per applicable unit/increment of new development.

Assessment: Steps 4 and 5 are assessed collectively because the Nexus Study accomplishes these steps by utilizing four different methodologies, depending on the characteristics of city service, the relationship of service provision to the public facilities requirements, and the planning requirements for the design, construction and expansion of such public facilities. Section 1 of Nexus Study contains a detailed description of each methodology and the considerations used in determining which methodology to use for the various public facilities. Importantly, each methodology describes the input variables and formula for calculating the total facility costs attributable to new development and the associated fee per unit of new development. This is often referred to as the facility "cost per unit of demand" or "cost per unit of development" (CUD) and it is a critical component for ensuring the fee study appropriately and defensibly allocates only the fair (proportionate) share of public facility costs attributable to the new development.

- System Plan Method. Used for public facilities that are part of an integrated city-wide system of existing and future planned public facilities that serve/benefit both existing and new development. In this method, the CUD is a ratio of the cost of existing and planned facilities to demand from existing and new development. The proportional costs of facility improvements that address an existing deficiency or provide improved service levels to existing development are removed from consideration.
- Planned Facilities Method. Used for new public facilities or discrete expansions of existing public facilities that will only serve projected new development. In this method, the CUD is the ratio of the costs of the new facilities to the demand for the new facilities created by the new development.
- Existing Inventory Method. Used for existing public facilities expected to scale and serve both existing and new development but for which no long-range plan is currently available. In this method, the CUD is a ratio of the value of existing facilities (e.g., replacement cost) to demand from existing development.

- Buy-in Method. Used for existing public facilities that have existing capacity to serve new development. In this method, the CUD is a ratio of the depreciated value of existing facilities to existing system capacity. While this method is similar to the Existing Inventory Method, it is used to improve fee accuracy for public facilities that have discrete service capacities and limits (e.g., utility infrastructure).

All four methodologies used in the Nexus Study are commonly used in development impact fee nexus studies throughout California. The Nexus Study explains and applies appropriate criteria for determining which methodology is used to determine the impact fee for the City's various types of public facilities. UFI has reviewed the methodology selected for each impact fee in the Nexus Study and agrees with the rationale for its use and the specifics of its application.

Finally, the Nexus Study consistently utilizes the following analytical approach for each impact fee calculation that satisfies important substantive and procedural requirements:

1. Existing and Projected Service Population. The existing and projected future service populations for the affected service/public facilities are separately described, quantified and disaggregated by development type (if applicable).
2. Existing and Planned Facilities. A description and/or inventory of the existing public facilities is provided with the associated costs (e.g., replacement cost, depreciated value, etc.), and any planned new facilities or discrete facility expansions are identified with the associated costs and existing dedicated fund balance for facility acquisition/construction.
3. Existing Level and Future Level of Service. The existing level of service provided by the existing public facilities is expressed as a function of the applicable facility standard. As discussed above, for most impact fees, the facility standard is a cost per capita, but for transportation, storm drainage, and sewer/recycled water facilities, more appropriate and refined facility standards are used. For public facilities with planned additional improvements or expansions, the future level of service provided by the existing and planned facilities is separately expressed as a function of the applicable facility standard. This methodology of separately determining the existing level of service and any planned future level of service is important to satisfying Section 66016.5 to the Mitigation Fee Act (AB 602). This section of the Act requires that the level of service used in an impact fee study must be the level of service provided by existing public facilities. If the service level used in the impact fee study exceeds the existing level of service (i.e., additional facility improvements or expansions are planned), an explanation is required, and the impact fee can only include the fair (proportionate) share of the increased level of service attributable to new development. It should also be noted, Section 18 of the Nexus Study contains a separate and complete analysis of how the Nexus Study complies with Section 66016.5 to the Mitigation Fee Act.

4. Non-Fee Funding Required. Although not required, as a best practice and to enhance compliance with Section 66016.5 to the Mitigation Fee Act, for each impact fee that is calculated based on a planned improved level of service, the Nexus Study provides a separate calculation of the additional facility costs attributable existing development for which the City must use alternative (non-fee) sources of funds.
5. Fee Schedule. Each impact fee is represented as a cost per unit/increment of new development to ensure the total fee scales proportionately to size and impact of the proposed new development. The inputs and calculation of the maximum justified impact fee (including any administrative charge) are shown clearly and concisely, and where applicable, separately for each type of development.

Conclusion: The Nexus Study utilizes appropriate and defensible methods to satisfy Steps 4 and 5 needed for the nexus findings.

Overall Conclusion and Validation: The Nexus Study satisfies the key elements and requirements of the Mitigation Fee Act, using appropriate and defensible methods, to establish the maximum amount of fifteen development impact fees that can be imposed and collected by the City on new development as applicable. The approach and methodologies used in Nexus Study provide a strong foundation for supporting the five required "nexus" findings as established by the Mitigation Fee Act and other applicable laws. Finally, please be advised that our technical assessment and validation of the Nexus Study is not intended to replace the need for specific legal review and advice on the legal adequacy and sufficiency of the Nexus Study.

Please contact us with any questions, concerns or additional follow-up that may be needed from this review and validation summary. We appreciate the opportunity to continue serving the City of Beaumont.

Sincerely,

James P. Morris
Managing Director

cc: Michael Busch, Chief Strategy Officer, Urban Futures, Inc.