



City of Capitola

AB 1600 Report

INTRODUCTION AND BACKGROUND

In California, State legislation sets certain legal and procedural parameters for the charging of development impact fees. This legislation was passed as AB1600 by the California Legislature and is now codified as California Government Code Sections 66000 through 66008 (“Mitigation Fee Act”). This State law went into effect on January 1, 1989.

Requirements for Development Impact Fee Reporting

The Mitigation Fee Act imposes certain accounting and reporting requirements with respect to the fees collected. The fees must be deposited in a special account to avoid comingling the fees with the City’s other revenues or funds. Interest on each development fee fund or account must be credited to that fund or account and used only for those purposes for which the fees were collected.

The Mitigation Fee Act also requires any local agency that imposes development impact fees to prepare an annual report and a five-year report that provide specific information about those fees. This report serves both of those functions and has been prepared for the City of Capitola for the fiscal year (FY) ended June 30, 2023 in accordance with the provisions of the California Government Code Section 66006 (b) and 66001 (d).

Annual Report

California Government Code Section 66006 (b) requires each local agency that imposes Development Impact Fees under the Mitigation Fee Act to prepare an annual report providing specific information about those fees for the previous fiscal year. Specifically, Section 66006 (b) requires that for each separate fund, the local agency shall make available to the public the information shown below for the most recent fiscal year.

- 66006 (b) (1) (A): A brief description of the type of fee in the account or fund.
- 66006 (b) (1) (B): The amount of the fees.
- 66006 (b) (1) (C): The beginning (July 1) and ending (June 30) balance of a particular impact fee fund.
- 66006 (b) (1) (D): The amount of the fees collected and interest earned by fund.
- 66006 (b) (1) (E): An identification of each public improvement upon which fees were expended and the amount of expenditures on each improvement including the total percentage of the cost of the public improvement that was funded with fees.
- 66006 (b) (1) (F): An identification of an approximate date by which the construction of the public improvement will commence if the local agency determines that sufficient funds have been collected to complete financing on an incomplete public improvement.
- 66006 (b) (1) (G): A description of each interfund transfer or loan made from the account or fund, including the public improvement on which the transferred or loaned fees will be expended; and, in the case of an interfund loan, the terms of the loan, including the repayment schedule for the loan, and the rate of interest that the account or fund will receive on the loan.
- 66006 (b) (1) (H): A summary of any refunds made, and their respective amount, due to sufficient funds being collected to complete financing of scheduled public improvements and the amount of reallocation of funds made due to administrative costs of refunding unexpended revenues exceeding the amount to be refunded.

State law requires the City to prepare and make available to the public the above information within 180 days after the last day of each fiscal year. The City Council must review the annual report at a regularly scheduled public meeting not less than fifteen days after the information is made available to the public. This report was filed with the City Clerk’s office and available for public review on November 29, 2023.

Five-Year Report

California Government Code Section 66001 (d) (1) requires the local agency make all of the following findings every fifth year with respect to that portion of the account remaining unexpended, whether encumbered to a specific project or remaining unencumbered in an impact fee fund.

- 66001 (d) (1) (A): Identify the purpose to which the fee is to be put.
- 66001 (d) (1) (B): Demonstrate a reasonable relationship between the fee and purpose for which it is charged.
- 66001 (d) (1) (C): Identify all sources and amounts of funding anticipated to complete financing in incomplete improvements.
- 66001 (d) (1) (D): Designate the approximate dates on which the funding is expected to be deposited into the appropriate account or fund.

Description of Impact Fee Programs

66006(b)(1)(A) and 66013(d)(1)

The City has 2 development impact fee programs.

- 1. Affordable Housing Impact Fee (CMC 18.05).** Housing development projects creating less than seven for-sale housing units pay an affordable housing impact fee that is used to provide assistance for production of affordable housing units, acquisition of at-risk units, or rehabilitation of affordable housing units for very low, low, and moderate income households.
- 2. Affordable Housing In-Lieu Fee (CMC 18.02).** Residential development projects that are subject to the City's affordable housing inclusionary requirements may elect to pay affordable housing in-lieu fees, rather than produce the required inclusionary units on site in accordance with the City's requirements. Affordable housing in-lieu fees are used to assist in the construction of new or the rehabilitation of existing affordable housing units.
- 3. Tree In-Lieu Fee (CMC 12.12.190).** The Tree In-Lieu fee is a fee that the City imposes on residential and non-residential development in-lieu of planting required trees. The purpose of this fee is to fund the community tree and forest management account, measured by the number of trees required to be planted, to maintain and plant trees for the need created when trees are removed.

Current Impact Fee Schedules

66006(b)(1)(B)

Affordable Housing Impact Fee

The Affordable Housing Impact Fee in effect during the fiscal year ending June 30, 2023, are presented below in **Table 1**.

Table 1 Affordable Housing Impact Fee

For sale housing development of six or less units	\$25 per square foot
Rental multi-family	\$6 per square foot
Addition to housing units of 50% or more	\$2.50 per square foot

Affordable Housing In-Lieu Fee

The Affordable Housing in-Lieu Fee in effect during the fiscal year ending June 30, 2023, are presented below in **Table 2**.

Table 2 Affordable Housing In-Lieu Fee

Tree In-Lieu Fee

For sale housing developments of two to six units		\$25 per square foot
For sale housing development of seven or more units		Total Units
# Units	# Units Built	
7	1	\$0
8-13	1	Total # units minus 7 @ \$25 Square foot
14	2	\$0
15-20	2	Total # units minus 14 @ \$25 Square foot
21	3	\$0
22-27	3	Total # units minus 21 @ \$25 Square foot
28	4	\$0
Rental Multi-Family		\$6 per square foot

Tree In-Lieu Fee

The Tree In-Lieu Fee in effect during the fiscal year ending June 30, 2023, are presented below in **Table 3**.

Table 3 Tree In-Lieu Fee

Tree replacement in-lieu fee	\$600 per tree
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Annual Financial Summary

**Table 4. Annual Financial Summary
 Statement of Affordable Housing Fee Program
 Revenues, Expenditures, and Changes in Fund Balance
 For the Fiscal Year Ending June 30, 2023**

Description	FY 2022/23	
REVENUES		
Fees		\$ 41,240
Interest		0
Total Revenues		\$ 41,240
Interfund Transfers		\$0
Interfund Loans	Interest rate of loan: 0%	\$0
Refunds		\$0
EXPENDITURES -- Capital Improvements	Amount	Percent
None	\$0	0%
Total Expenditures		\$0
REVENUES OVER (UNDER) EXPENDITURES		\$0
Fund Balance, Beginning of the Year		\$0
Fund Balance, End of Year		\$41,240

Annual Financial Summary

**Table 5. Annual Financial Summary
 Statement of Affordable Housing In-Lieu Program
 Revenues, Expenditures, and Changes in Fund Balance
 For the Fiscal Year Ending June 30, 2023**

Description	FY 2022/23
REVENUES	
Fees	\$ 0
Interest	\$11,718
Total Revenues	\$11,718
Interfund Transfers	\$25,000
Interfund Loans Interest rate of loan: 0%	\$0
Refunds	\$0
EXPENDITURES -- Capital Improvements	
Pacific Cove Resident Relocation Program	\$25,000 16%
Total Expenditures	\$25,000
REVENUES OVER (UNDER)	
EXPENDITURES	\$11,718
Fund Balance, Beginning of the Year	\$354,378
Fund Balance, End of Year	\$342,660

**Table 6. Annual Financial Summary
 Statement of Tree In-Lieu Fee Program
 Revenues, Expenditures, and Changes in Fund Balance
 For the Fiscal Year Ending June 30, 2023**

Description	FY 2022/23	
REVENUES		
Fees		\$5,086
Interest		\$0
Total Revenues		\$5,086
Interfund Transfers		\$0
Interfund Loans	Interest rate of loan: 0%	\$0
Refunds		\$0
EXPENDITURES -- Capital Improvements		
None	Amount	Percent
	\$0	0%
Total Expenditures		\$0
REVENUES OVER (UNDER)		
EXPENDITURES		\$5,086
Fund Balance, Beginning of the Year		\$33,356
Fund Balance, End of Year		\$38,442

FIVE-YEAR REPORT AND FINDINGS

California Government Code Section 66001(d)(1) requires the City to make findings every fifth year with respect to that portion of each impact fee account that remains unexpended, whether encumbered to a specific project or remaining unencumbered in an impact fee fund. As of June 30, 2023, 3 funds have unexpended balances totaling \$420,778. Therefore, the City is reporting the following findings relating to each of the fee programs.

- 66001(d)(1)(A): Identify the purpose to which the fee is to be put.
- 66001(d)(1)(B): Demonstrate a reasonable relationship between the fee and purpose for which it is charged.
- 66001(d)(1)(C): Identify all sources and amounts of funding anticipated to complete financing in incomplete improvements.
- 66001(d)(1)(D): Designate the approximate dates on which the funding is expected to be deposited into the appropriate account or fund.

Affordable Housing Impact Fee

- The purpose of the Affordable Housing Impact Fee is to mitigate the impact of new development on the need for affordable housing infrastructure and facilities and to provide affordable housing to serve new growth as the City’s population increases.
- There is a reasonable relationship between the fee and the purpose for which it is charged because the fee does not exceed the reasonable costs of meeting the demand for affordable housing generated by new housing development projects.
- There is an unexpended balance in the Affordable Housing Impact Fee fund, which is expected to be used to fund improvements to housing stock, which will provide affordable housing for Capitola residents.
- The estimated timing and cost of the project are shown below. This project is expected to begin in FY 2024/25. The balance of the project costs is expected to be funded with grants and other revenue.

Table 7: Affordable Housing Impact Fee Project Identification

Project Name	Estimated Start Year	Total Project Cost	% Funded with Impact Fee Revenue	Amount funded with Impact Fee Revenue
Rehabilitation of Existing Units occupied by low income households	2024/2025	\$50,000	33%	\$50,000

Affordable Housing In-Lieu Fee

- The purpose of the Affordable Housing In-Lieu Fee is to mitigate the impact of new development on the need for affordable housing infrastructure and facilities and to maintain existing and provide new affordable housing to serve new growth as the City’s population increases.
- There is a reasonable relationship between the fee and the purpose for which it is charged because the fee does not exceed the reasonable costs of meeting the demand for affordable housing generated by new housing development projects.
- There is an unexpended balance in the Affordable Housing In-Lieu Fee fund, which is expected to be used to fund improvements to housing stock, which will provide affordable housing for Capitola residents.
- The estimated timing and cost of the project are shown below. This project is expected to begin in FY 2024/25. The balance of the project costs is expected to be funded with grants and other revenue.

Table 7: Affordable Housing Impact Fee Project Identification

Project Name	Estimated Start Year	Total Project Cost	% Funded with Impact Fee Revenue	Amount funded with Impact Fee Revenue
Rehabilitation of Existing Units occupied by low income households	2024/2025	\$100,000	66%	\$100,000
First time homebuyer assistance for Capitola’s Inclusionary Units	2024/2025	\$50,000	100%	\$50,000
Pacific Cove Resident Relocation Program	2023/2024	\$201,000	30%	\$201,000

Tree In-Lieu Fee

- The purpose of the Tree In-Lieu Fee is to mitigate the impact of tree removals to accommodate development in the City.
- There is a reasonable relationship between the fee and the purpose for which it is charged because the fee does not exceed the reasonable costs of meeting the demand for replacing trees removed by new development projects.
- There is an unexpended balance in the Tree In-Lieu Fee fund, which is expected to be used to fund the planting and maintenance of trees.
- The estimated timing and cost of the project are shown below. This project is expected to begin in FY 2023/2024. The balance of the project costs is expected to be funded with grants and other revenue.

Table 8: Tree In-Lieu Fee Project Identification

Project Name	Estimated Start Year	Total Project Cost	% Funded with Impact Fee Revenue	Amount funded with Impact Fee Revenue
Tree planting and maintenance on City property	2023/2024	\$36,500	100%	\$36,500
Tree Supply Program	2024/2025	\$2,500	100%	\$2,500