

## **RESOLUTION NO. 2019-0407**

Adopted by the Sacramento City Council

October 22, 2019

### **Adopting the First Annual Economic-Incentive Adjustment of the Central City Development Impact Fee**

#### **BACKGROUND**

- A. On April 19, 2018, after a duly noticed public hearing, the City Council adopted Resolution No. 2018-0133, thereby approving the Central City Specific Plan and imposing a new fee for the Central City Specific Plan Area—the Central City Impact Fee (the “Fee”)—to replace the Downtown Area Transportation Impact Fee imposed in 1998 by the adoption of Resolution No. 97-558 and Ordinance No. 98-0011.
- B. The purpose of the Fee is to fund infrastructure improvements in the Central City Specific Plan area, as identified in the Central City Specific Plan Public Facilities Finance Plan that was also adopted at the hearing on April 19, 2018 (the “Finance Plan”). Specifically, revenues from the Fee will be used to fund the design, construction, installation, improvement, and acquisition of transportation, water, storm-drainage, sewer, police, and fire public facilities (the “Public Facilities”). A copy of the Finance Plan is on file with the Public Improvement Finance Division of the City’s Department of Finance.
- C. The full amount of the Fee is set forth in the Finance Plan and was determined and calculated in a manner consistent with the Mitigation Fee Act (California Government Code sections 66000–66025).
- D. The Finance Plan provides for the phased implementation of the Fee over four years, with 25% of the approved Fee amount imposed during the first year, 50% during the second, 75% during the third, and 100% beginning in the fourth. Resolution No. 2018-0133 further requires, before each percentage increase is implemented, that City staff request the City Council’s authorization and present the following information to the City Council: (1) “[t]he benefits of the Central City Impact Fee, and savings the Central City Specific Plan Environmental Impact Report provides development” and (2) “[a]ny economic disruption, such as man-made disasters, natural disasters, or an economic recession that may affect housing production.”

- E. The Implementation Analysis attached as Exhibit A to this resolution sets out the required information for the phased percentage increase from 25% to 50% of the approved Fee amount justified by the Finance Plan.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

Section 1. Findings.

The City Council hereby finds as follows:

- A. The recitals set forth above are true and correct and are incorporated herein by reference as findings.
- B. The Finance Plan does all of the following for the Fee:
- (1) Identifies the purpose of the Fee.
  - (2) Identifies the use to which the Fee is to be put.
  - (3) Demonstrates a reasonable relationship between the Fee's use and the type of development project on which the Fee is imposed.
  - (4) Demonstrates a reasonable relationship between the need for public facilities and the type of development project on which the Fee is imposed.
  - (5) Demonstrates a reasonable relationship between the amount of the Fee and the cost of the public facilities or portion of public facilities attributable to particular development projects on which the Fee is imposed.
- C. This adjustment increases the amount charged for development to 50% of the approved amount of the Fee.
- D. The amount of the Fee was determined and calculated in a manner consistent with the Mitigation Fee Act, and the findings and determinations made in the Finance Plan remain accurate.

Section 2. Authorization of Phased Adjustment.

In accordance with the Finance Plan and Resolution No. 2018-0133, the City Council hereby authorizes and directs that the percentage of the approved Fee amount to be imposed on development within the Central City be increased from 25% to 50%.

Section 3. Effective Date.

Notwithstanding anything to the contrary in the Finance Plan, this resolution takes effect on January 1, 2020.

Adopted by the City of Sacramento City Council on October 22, 2019, by the following vote:

Ayes: Members Ashby, Carr, Hansen, Harris, Jennings, Schenirer, Warren and Mayor Steinberg

Noes: None

Abstain: None

Absent: Member Guerra

Attest: **Mindy Cuppy** Digitally signed by Mindy Cuppy  
Date: 2019.10.28 16:53:27  
-07'00'

---

Mindy Cuppy, City Clerk

*The presence of an electronic signature certifies that the foregoing is a true and correct copy as approved by the Sacramento City Council.*



## MEMORANDUM

To: City of Sacramento

From: Ellen Martin and Mark Polhemus

Subject: Central City Impact Fee Phased Implementation—Year 2;  
EPS #192082

Date: September 16, 2019

*The Economics of Land Use*



On April 19, 2018, the City of Sacramento (City) Council adopted the Central City Specific Plan (CCSP), which included a Public Facilities Finance Plan (Finance Plan) and a new Central City Impact Fee (CCIF) to fund infrastructure and public facilities needed to accommodate new CCSP development. In response to concerns regarding development feasibility, the City Council elected to implement the CCIF in over a period of 4 years, subject to annual City Council authorization of the increase. As directed in the authorizing resolution,<sup>1</sup> Council will consider the following information prior to authorizing an increase in the fee:

1. The benefits of the Central City Impact Fee, and savings the Central City Specific Plan EIR provides development.
2. Any economic disruption, such as man-made disasters, natural disasters, or an economic recession that may affect housing production.

With consideration to these criteria, the City engaged Economic & Planning Systems, Inc. (EPS) to evaluate development economics related to the phased implementation of the Central City Impact Fee (CCIF), specifically the implementation of the adopted Year 2 fees. This memorandum summarizes EPS's findings pursuant to City Council direction, offering a review of the CCIF and attendant economic incentive rates, an overview of Central City real estate market dynamics, and an evaluation of pertinent development-related cost factors.

Economic & Planning Systems, Inc.  
400 Capitol Mall, 28th Floor  
Sacramento, CA 95814  
916 649 8010 tel  
916 649 2070 fax

Oakland  
Sacramento  
Denver  
Los Angeles

---

<sup>1</sup> Resolution 2018-0133



## Summary of Key Findings

EPS's findings regarding proposed Year 2 CCIF rates relative to Central City real estate dynamics and development economics are summarized below with detailed analysis offered in the sections to follow.

1. ***The Central City real estate market remains strong.*** Despite headwinds generated by rising construction costs, the Central City real estate market continues to perform well and has not experienced a major economic disruption over the last year. Residential prototypes continue to perform very well, with declining vacancies and rising sales prices and lease rates leading the way for significant new construction. The office and retail markets are improving, with reduced vacancies and lease rate appreciation.
2. ***The proposed increase in the CCIF represents a fraction of total development costs and is needed to fund infrastructure and facilities required to accommodate new uses in the Central City.*** Intensification of the Central City will require upgrades to mobility and utility infrastructure as well as public safety facilities, which will be funded in part by the CCIF. While development costs do present feasibility challenges in the Central City, the CCIF represents a small fraction (less than 1 percent) of the overall cost burden and also serves to provide an important source of cost sharing and reimbursement for certain costs that would otherwise be borne by individual development projects. It is also important to note that CCIF credits for preexisting uses results in reduced impact fee payments for many projects in the Central City.
3. ***Central City development realizes distinct benefits from the Central City Specific Plan.*** The CCSP confers significant benefits for development occurring under its auspices. Measures to streamline environmental review and entitlement processes reduce development timelines substantially, which leads to reduced financing and holding costs. Other specific revisions to development and zoning regulations are designed to reduce costs (e.g., open space and parking) and increase development yields (e.g., building heights and density).
4. ***Central City development benefits from a number of other fee related incentive programs and policy changes.*** Over the last several years, the City has undertaken a number of initiatives to reduce costs and burdens associated with impact fees. These include reductions to the Quimby park dedication requirements, implementation of housing incentive zones and reduced fee rates for other City fees, and a fee deferral ordinance. The combined impact of these initiatives helps to ameliorate cost burdens associated with impact fees in furtherance of the City's land use objectives.
5. ***Central City infrastructure cost burdens remain lower than other, similar urban, infill development areas.*** A review of total impact fee burdens for the Central City as compared to other urban, infill development areas in the City and the City of West Sacramento reveals that the Central City fee burdens are substantially

lower than other areas. This analysis considered both incentive fee rates as well as the full fee rates for the Central City and the other development areas analyzed.

The remainder of this memorandum offers the detailed analysis and information supporting these findings, including the following sections:

- **Section 1** offers additional detail regarding the implementation of the CCIF and the proposed Year 2 rates,
- **Section 2** provides an overview of Central City real estate market characteristics,
- **Section 3** discusses Central City development cost dynamics as they relate to the proposed CCIF increase, and
- **Section 4** provides a detailed infrastructure cost burden comparison evaluating Central City infrastructure cost burdens relative to other, similarly positioned plan areas.

## 1. Central City Impact Fee Background

On April 19, 2018, the City Council adopted the CCSP, which included the Finance Plan and the CCIF to fund infrastructure and public facilities needed to accommodate new CCSP development. The CCIF applies to new development occurring within the confines of the CCSP (see **Map 1** on the following page) and funds Grid 3.0, sewer, and water infrastructure as well as public safety facilities needed to support anticipated levels of new development.

The maximum justified CCIF amounts established by the Finance Plan are summarized in **Table 1**, below.

**Table 1**  
**Maximum Justified Central City Impact Fee (FY 2019/20) [1]**

Item	CCSP Land Uses				Light Industrial [2]
	Residential	Retail	Office	Hotel	
	<i>per unit</i>	<i>per bldg. sq. ft.</i>		<i>per room</i>	<i>per bldg. sq. ft.</i>
<b>Total Central City Impact Fee [3]</b>	\$3,628	\$4.28	\$5.80	\$1,501	\$2.75

Source: Central City Specific Plan Public Facilities Finance Plan; City of Sacramento; EPS.

[1] CCIF rates reflect Fiscal Year 2019-2020 maximum justified fees based on the annual adjustment provisions specified in the CCSP Finance Plan.

[2] New industrial development not anticipated in the CCSP - industrial rate is calculated for purpose of estimating credits for preexisting industrial uses.

[3] Reflects all CCIF subcomponents, including administration.

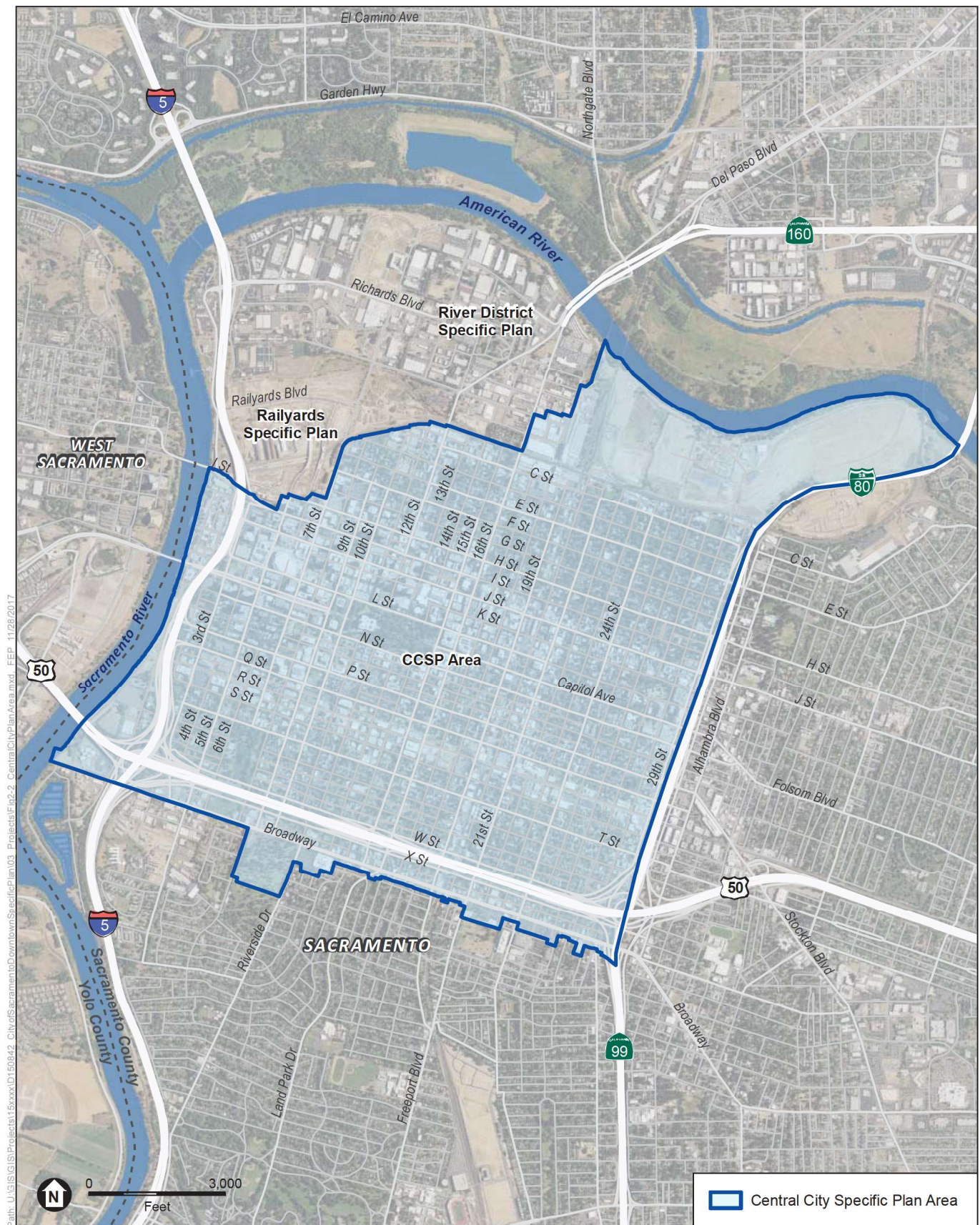
### Central City Impact Fee Reductions

The Finance Plan established the maximum justified impact fees for Central City development, but the City Council elected to implement fees at a level lower than the maximum justified fees. To assist with the resolution of issues regarding economic viability, the Finance Plan established, and the City Council implemented, two reductions to the Central City Impact Fee:

- First, the public safety components were reduced to 25 percent of the maximum justified fee component levels. This adjustment reduced the impact fee levels for all land uses.
- Second, consistent with the City's Downtown Housing Initiative, the City is interested in encouraging affordable-by-design and other entry-level residential products. The City, therefore, reduced the residential Central City Impact Fee on smaller units by calculating the fee on a per-square-foot basis for units smaller than 750 square feet.

It is important to note that the City will need to secure other, non-impact fee funding from alternative funding sources such as grants or other discretionary funding sources to backfill these reductions—these adjustments may not be reallocated to other or future land uses.





SOURCE: USDA, 2016; City of Sacramento, 2016; ESA, 2017

Central City Specific Plan

# **Map 1** Central City Specific Plan Area



## Phased Implementation

In addition to the fee reductions described above, the City Council elected to phase the Central City Impact Fee in over 4 years, subject to annual City Council authorization of the increases. The fee reductions and phasing, collectively referred to as the adjusted fee rates, for the first 4 years of development are provided below (assuming annual City Council authorization of increases):

- Year 1 (currently in effect)—25 percent (of reduced Central City Impact Fee).
- Year 2—50 percent (of reduced Central City Impact Fee).
- Year 3—75 percent (of reduced Central City Impact Fee).
- Year 4 and later—100 percent (of reduced Central City Impact Fee).

Again, the City must identify other, non-impact fee funding sources to backfill the fee program revenue shortfalls created by the economic incentive program establishing the adjusted fee rates described above.

When adopting the CCIF, the City Council expressed concern regarding ongoing development feasibility, namely as such feasibility relates to housing production. Rather than an automatic phase-in of the fee whereby rates are automatically stepped up on an annual basis, the Council instead expressed a desire to review proposed fee increases annually.

## Central City Impact Fee—Year 1

The CCIF took effect on October 1, 2018. The resulting adjusted fee rates for Year 1 are shown in **Table 2**. Based on the fee amounts presented in **Table 2** and CCSP development that has occurred since October 2018, **Table 3** offers a summary of CCIF revenues collected since the fee took effect, reporting the total amount collected relative to the estimated collections had 100 percent of the reduced fee been collected. Total fee collections approach approximately \$5,400, whereas total fee collections at 100 percent of the reduced fee would have been approximately \$21,600.

Fee collections are based on net new development activity within the CCSP. Because the purpose of the impact fee is to mitigate for new development's impact on infrastructure and public facility needs, new development is eligible for a fee credit to the extent that new development is replacing preexisting uses. Fee credits for existing uses are calculated based on the amount of fees that the preexisting use would have paid under the current impact fee schedule. Because much of Central City development is infill development that involves reuse or replacement of existing structures, many projects are therefore eligible for preexisting use credits and pay reduced fees.

Table 2

City of Sacramento  
Central City Impact Fee Update  
Summary of Economic Incentive Program Central City Impact Fee - Year 1 (25 Percent) [1] [2]

Adjusted Central City  
Impact Fee —  
Year 1 (25 Percent)

Item	CCSP Land Uses					
	Residential [3]		Retail [4]	Office [5]	Hotel	Light Industrial [6]
	<750 Sq. Ft. Unit	750+ Sq. Ft. Unit				
<b>Central City Impact Fee Component [7]</b>	<i>per unit sq. ft.</i>	<i>per unit</i>	<i>per bldg. sq. ft.</i>		<i>per room</i>	<i>per bldg. sq. ft.</i>
Grid 3.0	\$0.43	\$323	\$0.51	\$0.71	\$149	\$0.29
CSS	\$0.26	\$193	\$0.07	\$0.07	\$105	\$0.04
Water	\$0.20	\$152	\$0.29	\$0.40	\$61	\$0.26
<b>Subtotal (Grid 3.0, CSS, Water)</b>	<b>\$0.89</b>	<b>\$668</b>	<b>\$0.87</b>	<b>\$1.18</b>	<b>\$315</b>	<b>\$0.59</b>
Police	\$0.04	\$29	\$0.02	\$0.03	\$7	\$0.01
Fire	\$0.03	\$24	\$0.02	\$0.03	\$6	\$0.01
<b>Subtotal (Police, Fire)</b>	<b>\$0.07</b>	<b>\$53</b>	<b>\$0.04</b>	<b>\$0.06</b>	<b>\$13</b>	<b>\$0.02</b>
<b>Total All Components</b>	<b>\$0.96</b>	<b>\$721</b>	<b>\$0.91</b>	<b>\$1.24</b>	<b>\$328</b>	<b>\$0.61</b>
<i>Plus 3% Administration</i>	<i>\$0.03</i>	<i>\$22</i>	<i>\$0.03</i>	<i>\$0.04</i>	<i>\$10</i>	<i>\$0.02</i>
<b>Total Including Administration</b>	<b>\$0.99</b>	<b>\$743</b>	<b>\$0.94</b>	<b>\$1.28</b>	<b>\$338</b>	<b>\$0.63</b>

- [1] Economic Incentive Program fee rates reflect reductions to Public Safety fee components and implementation of per square foot fee for units less than 750 square feet.  
For Year 1, 25 percent of this adjusted total was charged to CCSP land uses.
- [2] Reflects Table 6-3 from the Central City Specific Plan Public Facilities Finance Plan.
- [3] Dwelling units under 750 square feet will be charged on a square foot basis, based on dividing the Central City Impact Fee component per unit by 750, as reflected in this table.

[4] Includes Retail and Service land uses.

[5] Includes Office and Medical Office land uses.

[6] No additional industrial development is anticipated in the CCSP. The industrial fee rate is calculated to provide new development replacing the existing industrial development a basis to calculate the difference between the existing industrial land use and the additional impact of the proposed new land use.

[7] For credit and reimbursement purposes, the calculation for each fee component reduction is rounded to the nearest cent for fees collected by square foot, and rounded to the nearest dollar for fees collected by unit or room. The total fee amount may not precisely equal 25 percent of the adjusted rates because of this rounding.



**Table 3**  
**City of Sacramento**  
**Central City Impact Fee Update**  
**Central City Impact Fees Charged (October 2018 to July 2019)**

Item	Year 1		Difference
	Base Fee [1]	Economic Incentive Fee [2]	
Central City Impact Fee Component			
Grid 3.0	\$9,543	\$2,387	(\$7,156)
Combined Sewer System	\$5,271	\$1,330	(\$3,941)
Water	\$4,604	\$1,138	(\$3,467)
Public Safety Facilities (Police/Fire)	\$1,494	\$374	(\$1,120)
Subtotal All Components	\$20,913	\$5,230	(\$15,684)
Administration	\$644	\$162	(\$482)
Total Including Administration	\$21,557	\$5,391	(\$16,166)
fees charged			

fees charged

Source: City of Sacramento.

- [1] Reflects the Central City Impact Fees that would have been collected at the "Year 4+ Adjusted Rates" as indicated Table 6-6 in the Central City Specific Plan Public Facilities Finance Plan.
- [2] Economic Incentive Program fee rates reflect reductions to Public Safety fee components and implementation of per square foot fee for units less than 750 square feet. For Year 1, 25 percent of this adjusted total will be charged to CCSP land uses.
- See Table 2 for details.

## **Proposed Central City Impact Fee—Year 2**

**Table 4** identifies the proposed Year 2 CCIF rates, which if approved by City Council, would take effect January 1, 2020. These fee amounts reflect 2 adjustments—the phased increase from 25 percent to 50 percent of the reduced fees as well as an annual adjustment for inflation. The annual inflation adjustment is based on the percent change in the Construction Cost Index (CCI) and amounts to a negligible 0.28 percent.

Impact fee amounts on a development project are established upon acceptance of a building permit application. Therefore, the Year 2 CCIF amounts shown in **Table 4** would apply to projects submitting complete building permit applications subsequent to January 1, 2020.

To evaluate the viability of the proposed increase on CCSP development, the following sections offer a brief overview of the Central City real estate market as well as the effect of the Year 2 CCIF on development economics.

Table 4

## City of Sacramento

## Central City Impact Fee Update

## Summary of Economic Incentive Program Central City Impact Fee - Year 2 (50 Percent) [1]

Adjusted Central City Impact Fee — Year 2 (50 Percent)
--

Item	CCSP Land Uses						
	Assumption	Residential [2]		Retail [3]	Office [4]	Hotel	Light Industrial [5]
		<750 Sq. Ft.	750+ Sq. Ft.				
		Unit	Unit				
YEAR 2 - ESCALATED TO FY 2019-2020 [6]							
Annual Inflation Adjustment Factor	0.279%						
Central City Impact Fee Component [7]		<i>per unit sq. ft.</i>	<i>per unit</i>	<i>per bldg. sq. ft.</i>		<i>per room</i>	<i>per bldg. sq. ft.</i>
Grid 3.0		\$0.86	\$648	\$1.02	\$1.41	\$299	\$0.57
CSS		\$0.52	\$387	\$0.14	\$0.14	\$212	\$0.07
Water		\$0.41	\$305	\$0.59	\$0.81	\$122	\$0.51
Subtotal (Grid 3.0, CSS, Water)		\$1.79	\$1,340	\$1.75	\$2.36	\$633	\$1.15
Police		\$0.08	\$58	\$0.05	\$0.07	\$14	\$0.03
Fire		\$0.07	\$48	\$0.04	\$0.05	\$11	\$0.02
Subtotal (Police, Fire)		\$0.15	\$106	\$0.09	\$0.12	\$25	\$0.05
Total All Components		\$1.94	\$1,446	\$1.84	\$2.48	\$658	\$1.20
Plus 3% Administration		\$0.06	\$43	\$0.06	\$0.07	\$20	\$0.04
Total Including Administration		\$2.00	\$1,489	\$1.90	\$2.55	\$678	\$1.24

sum econ 2

[1] Economic Incentive Program fee rates reflect reductions to Public Safety fee components and implementation of per square foot fee for units less than 750 square feet. For Year 2, 50 percent of this adjusted total will be charged to CCSP land uses, if approved by City Council.

[2] Dwelling units under 750 square feet will be charged on a square foot basis, based on dividing the Central City Impact Fee component per unit by 750, as reflected in this table.

[3] Includes Retail and Service land uses.

[4] Includes Office and Medical Office land uses.

[5] No additional industrial development is anticipated in the CCSP. The industrial fee rate is calculated to provide new development replacing the existing industrial development a basis to calculate the difference between the existing industrial land use and the additional impact of the proposed new land use.

[6] Reflects Table 6-4 from the Central City Specific Plan Public Facilities Finance Plan, escalated to FY 2019-2020.

[7] For credit and reimbursement purposes, the calculation for each fee component reduction is rounded to the nearest cent for fees collected by square foot, and rounded to the nearest dollar for fees collected by unit or room. The total fee amount may not precisely equal 50 percent of the adjusted rates because of this rounding.



## 2. Real Estate Market Dynamics

In 2015, the City launched the Downtown Housing Initiative with the objective of bringing 10,000 new places to live to Downtown Sacramento within 10 years, as part of the City's overall General Plan housing goal of nearly 23,000 total units in the Central City by 2035.

The Central City Specific Plan was developed to implement the Downtown Housing Initiative. The CCSP serves as a bridge between individual Central City projects and the City's General Plan and Central City Community Plan, customizing the planning process and land use regulations to the unique characteristics of the Central City.

Planned development in the CCSP includes approximately 13,400 new housing units, 1.8 million square feet of commercial uses, 1.5 million square feet of office uses, 300,000 square feet of medical office uses, and 750 hotel rooms.

With these land use objectives in mind, this section documents key Central City real estate market dynamics for the residential, commercial and office markets. As documented by the trends discussed below, the residential real estate market continues to perform strongly, while commercial and office markets are improving but face headwinds generated by structural market forces.

### Residential

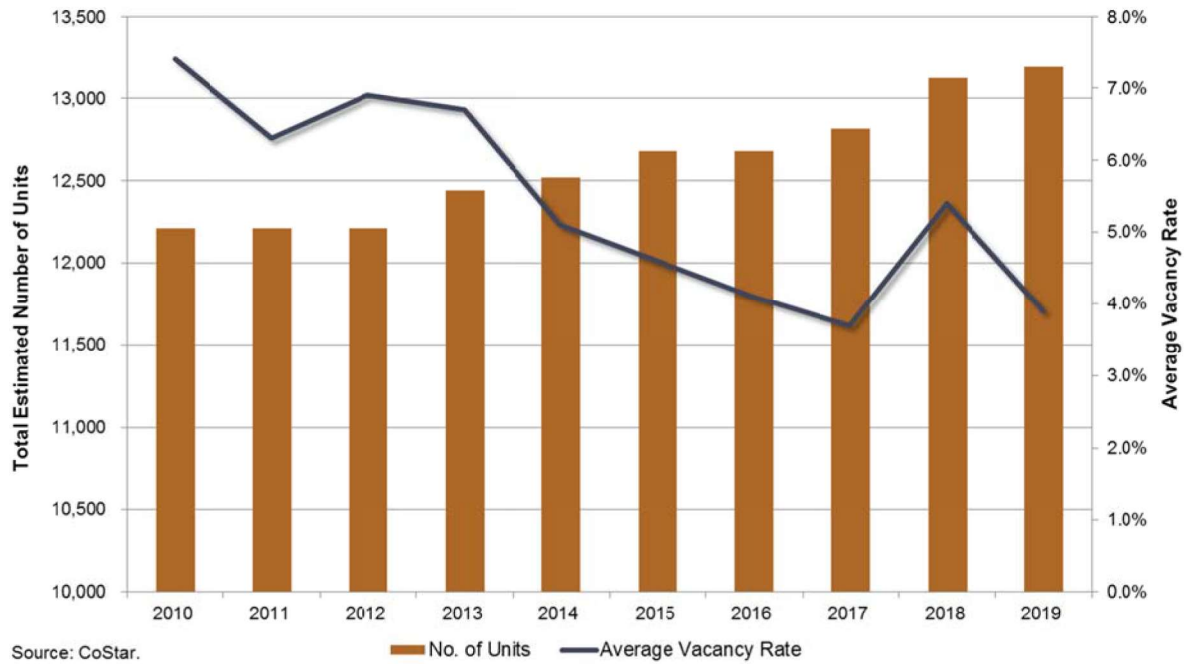
Single-unit housing in the CCSP represents a small but healthy market segment. Anecdotal evidence and a review of the market performance of select new single-unit residential projects suggest that this segment continues to perform strongly. The Creamery project in the Alkali Flat neighborhood offers small lot, detached units, and absorbed more quickly than originally anticipated, with 117 of 122 units sold with average sales prices exceeding \$600,000. The California Brownstones project offered 12 units which have all been sold. The Icon @ 14&C project is planned for 21 single-unit homes, and is now selling first phase units with prices ranging from \$580,000 to \$600,000.

Overall, average home sales prices in the Central City increased by 6 percent between 2017 and 2018.

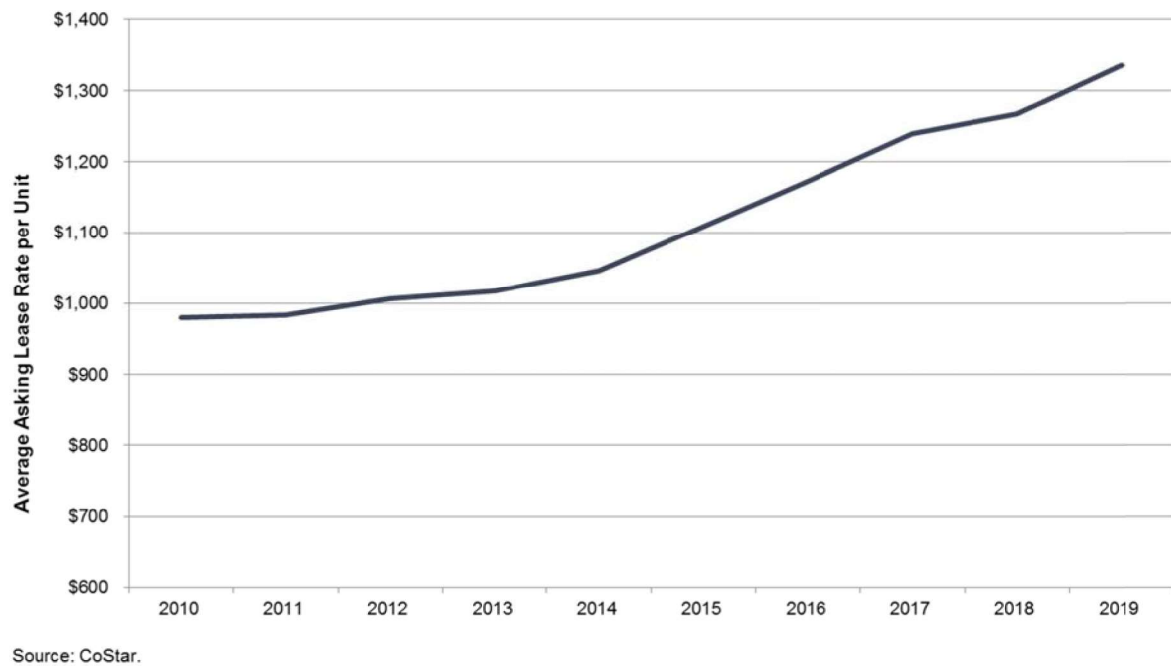
Multi-unit housing in the Central City is also performing strongly, as evidenced by construction activity, lease rate and vacancy trends. The multi-unit housing inventory in the CCSP has increased by 8 percent over the past nine years, adding close to 1,000 units into the area. At the same time, vacancy rates are decreasing while rents are increasing substantially. See **Figure 1** and **Figure 2**.

Construction activity and pipeline development in the Central City remains robust, with approximately 711 residential units under construction and around 1,405 planned units in the development pipeline.

**Figure 1: Estimated Central City Multi-Unit Inventory and Average Vacancy Rate**



**Figure 2: Central City Multi-Unit Average Asking Lease Rate per Unit**

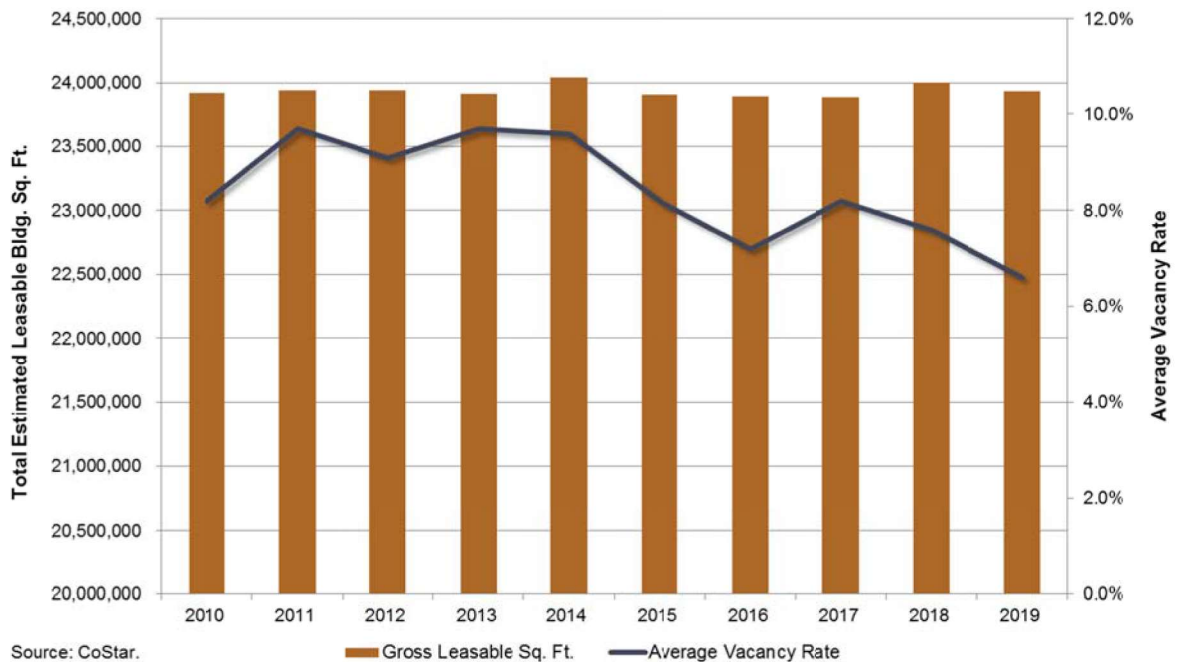


## Office

With close to 24 million square feet of office space, the Central City comprises almost half of all office space offered citywide. The Central City office market has exhibited declining vacancies and increasing lease rates over much of the last decade. The market for Class A office space in the Central City, in particular, is tightening notably, with vacancy rates below 4 percent, and projected to decline further. However, lease rate appreciation and base sector job growth prospects remain insufficient to justify speculative office construction, as indicated by the lack of new construction of significant scale over the same time period. See **Figure 3** and **Figure 4**.

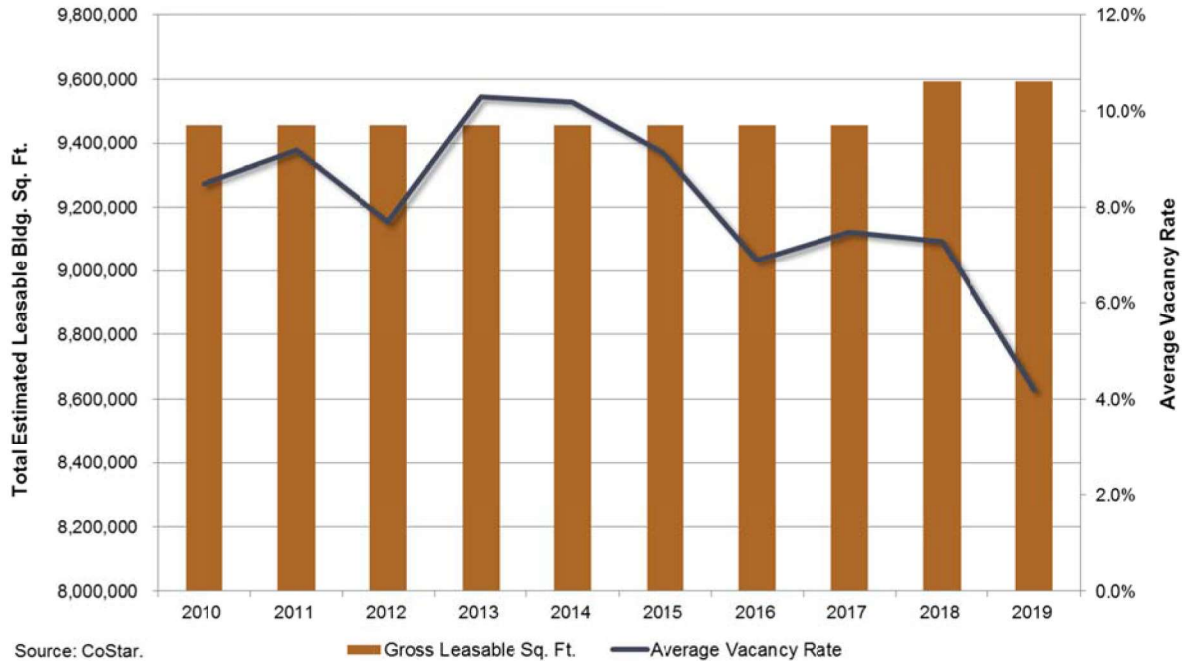
It should be noted, however, that the City is currently processing entitlements for the Tower 301 project, a 33-story office mixed-use project in the heart of the Central Business District. Underscoring findings regarding the viability of speculative office development, the developer of Tower 301 has indicated that construction of the project will hinge on attraction of a major anchor tenant and significant preleasing activity.

**Figure 3: Estimated Central City Office Inventory and Average Vacancy Rate**





**Figure 4: Estimated Central City Class A Office Inventory and Average Vacancy Rate**



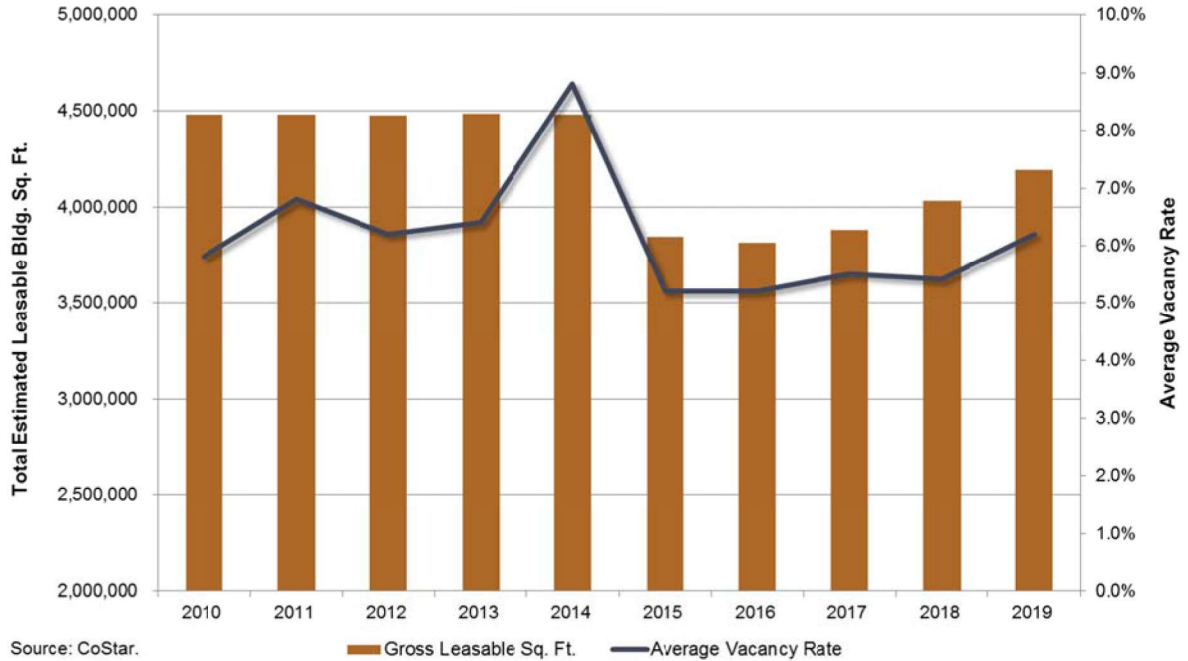
### Commercial Retail Market

Trends related to the decline of bricks and mortar retail as a result of the rise of e-commerce and changing consumer expenditure patterns are well documented. These trends have led to a shift from shopping destinations to lifestyle and experiential-based retail options, with a primary focus on dining and entertainment uses.

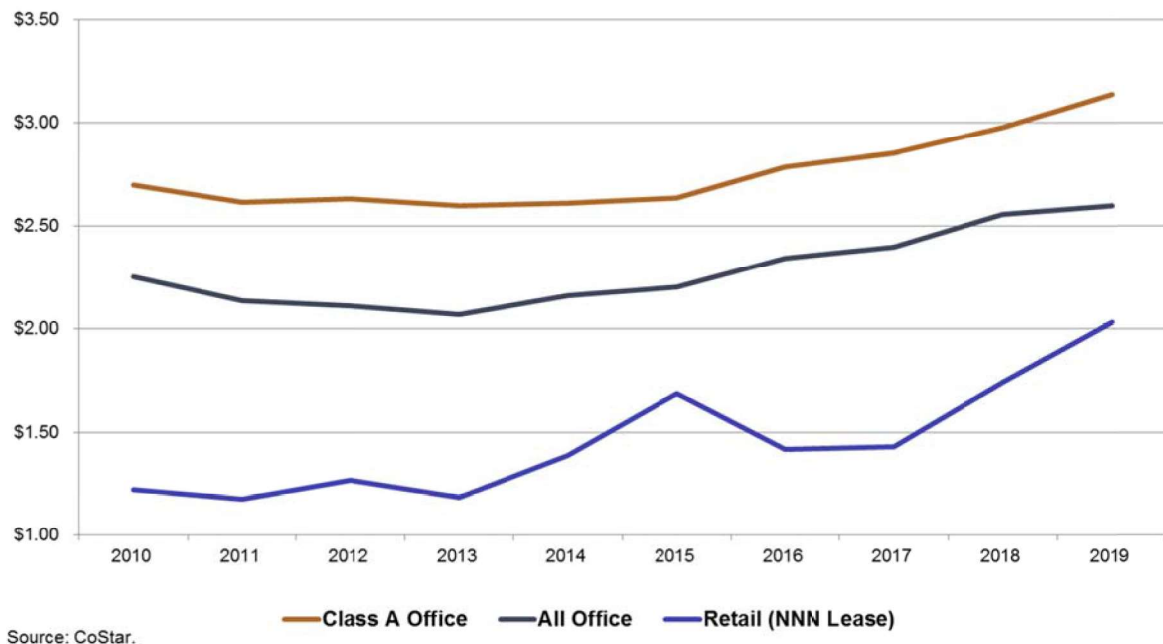
Central City retail development trends are consistent with these larger trends, as noted with the loss of over half of a million square feet of retail inventory resulting from the demolition of the Downtown Plaza. However, the introduction of the Golden 1 Center to Downtown Sacramento has led to a notable increase in dining and entertainment uses downtown.

Even with substantial inventory recovery, vacancy rates are fairly stable, remaining around 5 percent to 6 percent (see **Figure 5**) and retail lease rates have rebounded since a drop in 2016 (see **Figure 6**). Central City lease rates are increasing at a higher rate than citywide lease rates, which have remained fairly stable since 2016.

**Figure 5: Estimated Central City Retail Inventory (Leasable Sq. Ft.) and Average Vacancy Rate**



**Figure 6: Central City Office & Retail Average Asking Monthly Lease Rate per Sq. Ft.**



## Central City Development Activity

The following offers a partial list of Central City projects currently under construction or in planning stages:

- **E@16** is a 5-story, 95-unit midrise apartment project west of Boulevard Park.
- **1430Q** is an 8-story, 73-unit midrise mixed-use project.
- **19J** is an 11-story, 175 multi-unit project featuring affordable by design micro units.
- **The Press** is a 5-story midrise apartment project consisting of 277 market-rate units.
- **1600 H Lofts** is a 5-story midrise apartment project including 95 market-rate units.
- **Sacramento Commons** is the redevelopment of the Capitol Towers apartment community planned to include two 7-story midrise residential buildings with 412 residential, 24 live/work units and 8,000 square feet of retail.
- **The Icon @ 14&C** project is planned for 21 single-unit homes, and is now selling first phase units with prices ranging from \$580,000 - \$600,000.
- **800K/L** is a mixed-use project planned to comprise 148 residential units and 20,000 square feet of retail.
- **1717 S Street** is planned for 159 mixed-income units and approximately 11,000 square feet of retail.
- **17 Central** is an 8-story mixed-use residential and retail project planned for 111 apartments and approximately 1,600 square feet of ground-floor retail.
- **601 Capitol** is a proposed 8-story residential project with 162 apartments above 5,800 square feet of ground-floor retail.
- **Vantage Condominiums** is a planned 9-story, 86-unit condominium development with 1,600 square feet of ground-floor retail located at 14th and N Streets.
- **The Mansion Inn** is the planned redevelopment of the former Clarion Hotel into a 190-unit apartment building with 3,000 square feet of ground floor retail.
- **Tower 301** would be a 33-story mixed-use office project, comprising approximately 800,000 square feet of office space, 100 high-end apartments, and 25,000 square feet of retail space.
- **Hyatt Centric Hotel** reuses the façade of the historic, five-story Marshall Hotel and adds an 11-story ground-up building including 173 rooms and ground-floor retail.
- **California Fruit Building Hotel** is a conversion of the historic California Fruit Building from office to a 102 room hotel with 4,500 square feet of retail.
- **Fort Sutter Hotel** is a 6-story, 105 room boutique hotel under construction adjacent to the recently completed Sofia Tsakopoulos Center for the Arts located in Midtown.
- **10K** is a planned 15-story mixed-use development including 220 hotel rooms, 186 residential units, and 7,600 square feet of retail.



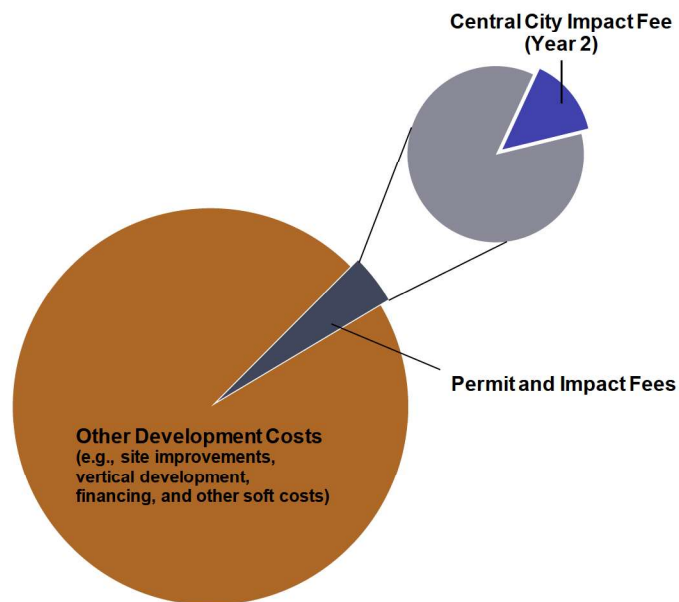
### 3. Development Cost Dynamics

Trends related to construction cost increases are well understood, as both materials and labor costs have increased substantially in the aftermath of the Great Recession and continue to rise as factors such as federal trade policies add additional burdens (i.e., tariffs). Increasing construction costs are an oft-cited issue relative to the pace and momentum of development in the Central City. As discussed in the previous section, in many cases, lease rate potential is insufficient to overcome construction costs and to justify new speculative development.

With these dynamics in mind, this section attempts to place the proposed CCIF increase in the context of the overall structure of development costs in the Central City. CCIF costs relative to the overall costs of construction are discussed, as are features of the Central City Specific Plan that are designed to mitigate costs associated with the CCIF.

#### Central City Impact Fee Share of Development Costs

A review of development cost assumptions relative to the proposed Year 2 CCIF suggests that CCIF costs are a very small fraction of overall development costs. On average, EPS estimates that CCIF payments (at Year 2 rates) would comprise roughly 0.5 percent of total development costs (site improvements, vertical development, financing and other soft costs) for a prototypical office development project. Similarly, Year 2 CCIF payments would amount to only 0.3 percent to 0.5 percent of multi-unit development construction costs. While development costs remain an issue, key structural cost drivers such as materials prices and labor shortages are much larger factors driving financial feasibility issues.



It is also critical to note that the CCIF provides an important source of reimbursement for improvements to the sewer and water system that benefit multiple properties. In the absence of the CCIF, the project that instigates the need for the improvement may be required to advance-fund the improvement without assurances that reimbursement from the development of other benefitting properties will be forthcoming. By establishing the CCIF, the City sought to limit cost burdens on and accelerate reimbursement to individual development projects that are required to install those utility improvements.

### Benefits Associated with Central City Specific Plan

As discussed previously, the CCSP was developed as an implementation measure associated with the Downtown Housing Initiative, with the objective of creating a predictable and welcome environment for development. The CCSP focused on measures designed to streamline CEQA, entitlement, and other regulatory requirements as well as to improve the certainty and predictability associated with development costs and timeframes. Specific benefits that have been utilized by development projects since the CCSP was adopted include the following provisions:

- **Streamlined Environmental Review.** The ability to rely on the Central City Specific Plan EIR and utilize a statutory exemption offers the opportunity for streamlined environmental review for housing and mixed-use projects.
- **Infrastructure Funding Sources.** The CCSP Finance Plan and CCIF provide an important source of funding for utility infrastructure improvements that would otherwise be the sole responsibility of development. In addition, the CCIF provides funding to help effect Grid 3.0 improvements, which will ensure adequate multimodal circulation to facilitate intensification of the Central City.
- **Reduced Regulatory Requirements and Costs.** The CCSP implemented reduced open space requirements for new multi-unit dwellings and eliminated the open space requirement for the conversion of non-residential buildings to multi-unit dwellings.
- **Increased Maximum Height and Density Provisions.** The CCSP also included several changes to increase development by right within the Specific Plan. Maximum heights for general commercial, low-rise office and residential mixed-use development were increased. Allowable densities for low-rise office as well as residential mixed-use development projects within 0.25 miles of light rail stations were also increased.
- **Streamlined Entitlement Review Process.** CCSP development projects in the Central Business District over 65 feet in height are no longer automatically subject to commission level review, offering significant time savings for projects.

The above CCSP provisions combine to offer substantial cost and time savings to the benefit of Central City development. To the extent that development can avoid commission level review and completion of an EIR, City staff estimates that development timelines can be reduced by 4 to 6 months, resulting in reduced holding and financing costs in addition to the potential for reduced development costs associated with regulatory requirements.

### Other Applicable Fee Related Incentives

Over the last several years, the City has adopted a number of additional fee and development related provisions that are intended to reduce costs for targeted development projects. **Table 5** offers a summary of these provisions as well as the categories of benefitting development.



**Table 5**  
**City of Sacramento**  
**Central City Impact Fee Update**  
**List of Economic Incentives Applicable to Central City Development**

Item	Description	Applicable Use(s)
<b>Central City Impact Fee Economic Incentive Program</b>	<p>Reductions to the maximum justified fees calculated in the Central City Specific Plan Public Facilities Finance Plan.</p> <p>Incentives include reductions to public safety (e.g., police/fire) fee components and fee reductions in the initial years of implementation.</p>	All land uses subject to the Central City Impact Fee.
<b>Reduced Quimby Dedication Requirement</b>	Reduced LOS standard for Neighborhood and Community Parks that lessens the burden on new development by lowering the amount of parkland to be dedicated or fees paid in-lieu of required parkland dedication.	Residential land uses.
<b>Park Impact Fee Central City and Housing Incentive Zone</b>	Reduced PIF rates for the Central City Community Plan Area and for "Housing Incentive Zone" qualifying Census tracts.	Residential and nonresidential land uses subject to the PIF.
<b>Transportation Development Impact Fee Housing Incentive/Transit Center Fee</b>	60-percent reductions to the Transportation Development Impact Fee for the Central City Community Plan Area, parcels with area falling within one-half mile of an existing or planned light rail station, and "Housing Incentive Zone" qualifying Census tracts.	Residential and nonresidential land uses subject to the TDIF.
<b>Housing Impact Fee</b>	\$0 rates for single-unit and duplex dwellings that 20 dwelling units per net acre or greater; and \$0 rates for multi-unit dwellings that are 40 dwelling units per acre or greater.	Residential land uses.
<b>Fee Deferral Program</b>	The City may defer payment of development impact fees (See City Code Chapter 18.52.010 for a list of applicable fees) until whichever occurs first: prior to the initiation of final inspection, prior to the expiration of the building permit for the project, or 3 years from the effective date of the deferral agreement.	See City Code Chapter 18.52 for more information.
<b>Reduced Development Impact Fees for New Affordable Units</b>	Reduction of certain development impact fees for new affordable units to a zero-dollar rate for building permit applications accepted on or after December 30, 2018. Projects must be confirmed from an appropriate agency (e.g., SHRA, CADA) that the affordable dwelling units meet certain criteria per Resolution No. 2018-0428.	New qualifying affordable units. See City Resolution No. 2018-0428 for more information.
<b>Parking Ordinance</b>	Reduced or eliminated minimum parking requirements in the Central Business District and Commercial Corridors	See City Ordinance No. 2012-043 for more information.
<b>TOD Ordinance</b>	Incentivizes transit supportive uses near light rail stations, and to preserve transit areas for appropriate development opportunities. The TOD Ordinance reduces or eliminates parking requirements near light rail stations.	See Council Report Hearing File ID: 2018-01636 for more information.

*Incentives*

Source: City of Sacramento.



## 4. Infrastructure Cost Burden Comparison

This section presents a comparison of the Central City infrastructure cost burden to that of comparable development projects in the City and West Sacramento. This analysis provides a framework evaluate the CCSP's competitive position relative to other, similarly positioned projects elsewhere in the region.

The infrastructure cost burden presented in this section includes current and proposed fees, estimated plan area infrastructure costs, and taxes and assessments based on a series of assumptions related to development prototype, building valuations, and other key variables.<sup>2</sup> This analysis compares the standard development impact fees and the present value of special taxes for the following land uses:

- Class I Office
- Multi-Unit Development

Regional areas comparable to proposed development in the CCSP are the Railyards Specific Plan Area, the River District Specific Plan, the 65th Street area, and the Bridge District Specific Plan in West Sacramento; other areas in the Region are not comparable to the type of infill development proposed in the CCSP. Note that several plan areas included in this comparison have incentive programs and associated rates similar to the CCIF – EPS has therefore reported both current and full rates for those areas.

Caution should be exercised in using these comparisons because the infrastructure items paid for by these fees and special taxes may be different for the various projects. Moreover, these costs represent estimates meant only to be used for general planning and comparison purposes. Actual fees and assessments likely will vary from these estimates for specific parcels.

In some projects, a portion of the infrastructure costs are privately funded, rather than being funded through fees and assessments. The amount of privately funded infrastructure is not included in any of these comparisons. Land prices will be affected not only by the amount of fees and assessments on a parcel but also by the amount of privately funded infrastructure required.

These infrastructure burden comparisons are current as of September 2019.<sup>3</sup> Fees are constantly being changed, which will affect the comparison results over time. A summary of the infrastructure burden is provided below:

---

<sup>2</sup> The actual costs, unit mix, Mello-Roos bond proceeds, fees, and other factors may vary according to the market conditions at the time of development.

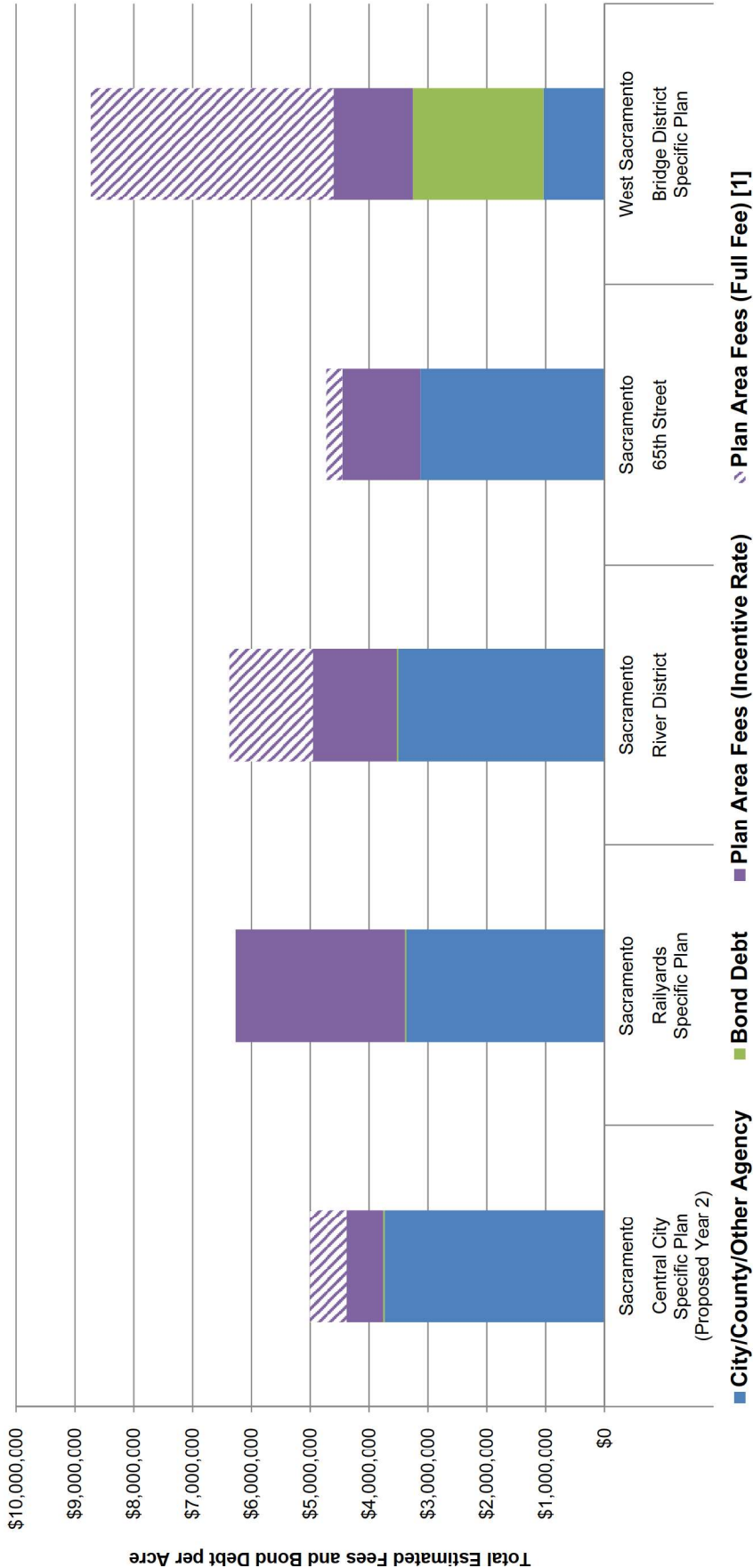
<sup>3</sup> Please note the 65th Street plan area fee reflects the fee that will be imposed beginning October 1, 2019.

- **Class I Office:** As shown in **Figure 7**, the CCSP narrowly has the lowest infrastructure cost burden per acre based on the Year 2 CCIF and current rates in place in the other plan areas. Central City and 65<sup>th</sup> Street burdens are roughly comparable. Current burdens in the River District are slightly higher and will be comparable to the Railyards burdens when full fee rates are implemented. Central City therefore remains competitive with 65<sup>th</sup> Street, the Railyards and River District in terms of infrastructure cost burdens associated with office development. The Tier 1 Bridge District infrastructure cost burden is just slightly higher than the Central City burden, whereas the Tier 2 Bridge District infrastructure cost burden is significantly higher than the Sacramento projects.
- **High-Density Multi-Unit Residential:** As shown in **Figure 8**, the CCSP has the lowest per-unit infrastructure cost burden for multi-unit development. This is followed by the River District and 65th Street areas, which have nearly identical infrastructure cost burdens. The infrastructure burden for the Railyards Area is approximately 15 percent higher than the River District and 65th Street. Bridge District Tier 1 development has a slightly to moderately higher cost burden than the Sacramento project areas, and Tier 2 development carries a significantly higher cost burden than the Sacramento projects.

As mentioned previously, myriad other factors will affect the financial feasibility of project development. Market positioning, valuation, and absorption all factor into the viability of vertical development and competitive advantages or disadvantages relative to other projects in the Region. This infrastructure cost burden comparison offers one metric by which the competitive position and financial feasibility of the project may be evaluated.

CLASS I OFFICE  
DEVELOPMENT:  
Summary of Total  
Infrastructure Burden

Figure 7  
City of Sacramento  
Central City Development Impact Fee Update  
Infrastructure Cost Burden for Class I Office Building  
Based on a 243,680-Sq.-Ft. Building, 1-Acre Site



office chart

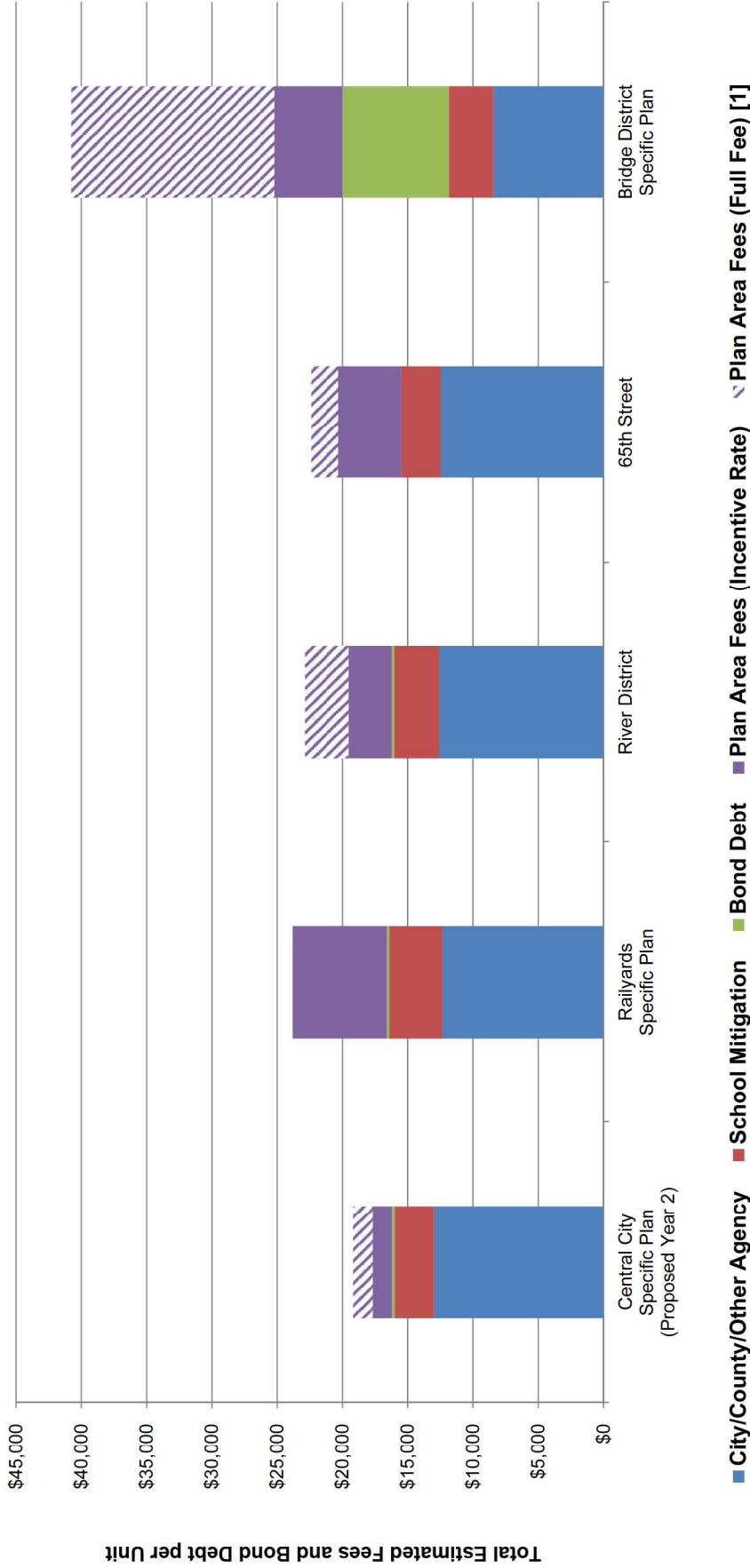
[1] Most of the development areas included in this analysis are subject to Plan Area Fees that are reduced as a policy objective (Incentive Rates) to decrease financial burden on new development. The solid purple area in this column chart reflects the currently imposed Incentive Rate (as of October 1, 2019), whereas the purple hashed portion indicates the remaining Plan Area Fee amount if the fee was charged at its full base rate. Below provides more detail on the Incentive Rates for each applicable plan area.  
Central City: The Central City Impact Fee includes an Economic Incentive Program that reduces the maximum justifiable fees for public safety facilities (Base Fee), and phases in the fee over a 4-year period. The solid portion reflects the Proposed Year 2 Economic Incentive Fee, whereas the hashed portion reflects the remaining amount of the Base Fee. Railyards: Not applicable.  
River District: The River District Impact Fee is valid until June 30, 2020 or until 500,000 office building sq. ft. has been developed that is eligible for the Incentive Rate.  
65th Street: The 65th Street Impact Fee includes a phase-in over a 5-year period. The solid portion reflects Year 3 of the 65th Street Impact Fee.  
Bridge District: The Bridge District One-Time Special Tax (OTST) is tiered to provide lower fee burdens to the earlier phases of development. The current fee imposed reflects Tier 1 (of 3) which is applied to the first 1 million square feet of Bridge District new development (for all land uses).



Figure 8

City of Sacramento  
Central City Development Impact Fee Update  
Infrastructure Burden Comparison for Multi-Unit Development  
Based on a 2 Acre, 200 Unit Complex (900 Sq. Ft. Per Unit)

MULTI-UNIT DEVELOPMENT:  
Summary of Total  
Infrastructure Burden



mf chart

[1] Most of the development areas included in this analysis are subject to Plan Area Fees that are reduced as a policy objective (Incentive Rates) to decrease financial burden on new development. The solid purple area in this column chart reflects the currently imposed Incentive Rate (as of October 1, 2019), whereas the purple hashed portion indicates the remaining Plan Area Fee amount if the fee was charged at its full base rate. Below provides more detail on the Incentive Rates for each applicable plan area.

Central City: The Central City Impact Fee includes an Economic Incentive Program that reduces the maximum justifiable fees for public safety facilities (Base Fee), and phases in the fee over a 4-year period. The solid portion reflects the Proposed Year 2 Economic Incentive Fee, whereas the hashed portion reflects the remaining amount of the Base Fee. Railroads: Not applicable.

River District: The River District Impact Fee is valid until June 30, 2020 or until 1,000 residential units have been developed that are eligible for the Incentive Rate.

65th Street: The 65th Street Impact Fee includes a phase-in over a 5-year period. The solid portion reflects Year 3 of the 65th Street Impact Fee.

Bridge District: The Bridge District One-Time Special Tax (OTST) is tiered to provide lower fee burdens to the earlier phases of development. The current fee imposed reflects Tier 1 (of 3) which is applied to the first 1 million square feet of Bridge District new development (for all land uses).