

# City of Capitola



AB 1600 Report

## *INTRODUCTION AND BACKGROUND*

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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 et. seq. (“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 special accounts 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 on Development Impact Fees (“Report”), containing annual findings and five-year findings 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, 2024, in accordance with the provisions of the California Government Code Section 66006 (b) and 66001 (d).

### **Annual Findings**

California Government Code Section 66006 (b) requires each local agency that imposes Development Impact Fees under the Mitigation Fee Act to prepare annual findings 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 and an identification of each public improvement identified in a previous report and whether construction began on the approximate date noted in the previous report.

- 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.

### **Five-Year Findings**

California Government Code Section 66001 (d) (1) requires the local agency make 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.

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 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 December 20, 2024.

ANNUAL REPORT

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**Description of Impact Fee Programs**

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

The City has 5 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.
- 4. Public Art Fee (CMC 2.58).** Eligible private and public construction projects are subject to fee for public art. The City of Capitola wishes to enhance the cultural and aesthetic environment of the city, to encourage creativity, the appreciation of the arts and our cultural heritage. Through the establishment of a program of public art funded by eligible development projects, the city will promote the general welfare through balancing the community's physical growth and revitalization with its cultural and artistic resources.

## 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, 2024, 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, 2024, are presented below in **Table 2**.

**Table 2 Affordable Housing 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<br>Square foot  |
| 14  | 2             | \$0  |
| 15-20   | 2             | Total # units minus 14 @<br>\$25 Square foot |
| 21  | 3             | \$0  |
| 22-27   | 3             | Total # units minus 21 @<br>\$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, 2024, are presented below in Table 3.

**Table 3 Tree In-Lieu Fee**

|                                     |                |
|-------------------------------------|----------------|
| Tree <b>replacement</b> in-lieu fee | \$600 per tree |
|-------------------------------------|----------------|

### Public Art Fee

The Public Art Fee in effect during the fiscal year ending June 30, 2024, are presented below in **Table 5**.

**Table 4 Public Art Fee**

|                                      |                                       |
|--------------------------------------|---------------------------------------|
| Eligible Private Development Project | 1% of total building permit valuation |
| Eligible Public Project              | 2% of total project budget            |

## Annual Financial Summary

**Table 5. Annual Financial Summary  
Statement of Affordable Housing Fee Program  
Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Year Ending June 30, 2024**

| Description                                 |                           | FY 2023/24       |
|---|---------------------------|------------------|
| <b>REVENUES</b>                             |                           |                  |
| Fees  |                           | \$ 74,175        |
| Interest                                    |                           | 0                |
| <b>Total Revenues</b>                       |                           | <b>\$ 74,175</b> |
|   |                           |                  |
| Interfund Transfers                         |                           | \$0              |
| Interfund Loans                             | Interest rate of loan: 0% | \$0              |
| Refunds                                     |                           | \$0              |
|   |                           |                  |
| <b>EXPENDITURES -- Capital Improvements</b> | Amount                    | Percent          |
| None  | \$0                       | 0%               |
| <b>Total Expenditures</b>                   |                           | <b>\$0</b>       |
|   |                           |                  |
| <b>REVENUES OVER (UNDER)</b>                |                           |                  |
| <b>EXPENDITURES</b>                         |                           | \$ 74,175        |
|   |                           |                  |
| <b>Fund Balance, Beginning of the Year</b>  |                           | <b>\$0</b>       |
| <b>Fund Balance, End of Year</b>            |                           | <b>\$ 74,175</b> |

This was the first year that the City received Affordable Housing Impact fees and therefore no expenditures were incurred.

## Annual Financial Summary

**Table 6. Annual Financial Summary**  
**Statement of Affordable Housing In-Lieu Program**  
**Revenues, Expenditures, and Changes in Fund Balance**  
**For the Fiscal Year Ending June 30, 2024**

| Description                                 |                           | FY 2023/24          |
|---|---------------------------|---------------------|
| <b>REVENUES</b>                             |                           |                     |
| Fees  |                           | \$ 4,013            |
| Interest                                    |                           | \$ 17,599           |
| <b>Total Revenues</b>                       |                           | <b>\$ 21,612</b>    |
|   |                           |                     |
| Interfund Transfers                         |                           | \$ 201,000          |
| Interfund Loans                             | Interest rate of loan: 0% | \$0                 |
| Refunds                                     |                           | \$0                 |
|   |                           |                     |
| <b>EXPENDITURES -- Capital Improvements</b> | Amount                    | Percent             |
| Pacific Cove Resident Relocation Program    | \$201,000                 | 100%                |
| <b>Total Expenditures</b>                   |                           | <b>\$ 201,000</b>   |
|   |                           |                     |
| <b>REVENUES OVER (UNDER)</b>                |                           |                     |
| <b>EXPENDITURES</b>                         |                           | <b>(\$ 179,388)</b> |
|   |                           |                     |
| <b>Fund Balance, Beginning of the Year</b>  |                           | <b>\$ 382,336</b>   |
| <b>Fund Balance, End of Year</b>            |                           | <b>\$ 202,948</b>   |

The Pacific Cove Resident Relocation Program loan with an outstanding balance of \$670,000 was paid off during the fiscal year. Affordable Housing In-Lieu Fees in the amount of \$201,000, representing 30% of the outstanding balance, were combined with \$469,000 of general funds to retire the loan.



**Table 7. Annual Financial Summary  
Statement of Tree In-Lieu Fee Program  
Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Year Ending June 30, 2024**

| Description                                 |                           | FY 2023/24        |
|---|---------------------------|-------------------|
| <b>REVENUES</b>                             |                           |                   |
| Fees  |                           | \$ 7,200          |
| Interest                                    |                           | \$0               |
| <b>Total Revenues</b>                       |                           | <b>\$ 7,200</b>   |
|   |                           |                   |
| Interfund Transfers                         |                           | \$0               |
| Interfund Loans                             | Interest rate of loan: 0% | \$0               |
| Refunds                                     |                           | \$0               |
|   |                           |                   |
| <b>EXPENDITURES -- Capital Improvements</b> | Amount                    | Percent           |
| None  | \$0                       | 0%                |
| <b>Total Expenditures</b>                   |                           | <b>\$ 11,115</b>  |
|   |                           |                   |
| <b>REVENUES OVER (UNDER)</b>                |                           |                   |
| <b>EXPENDITURES</b>                         |                           | <b>(\$ 3,915)</b> |
|   |                           |                   |
| <b>Fund Balance, Beginning of the Year</b>  |                           | <b>\$ 38,442</b>  |
| <b>Fund Balance, End of Year</b>            |                           | <b>\$ 34,527</b>  |

During fiscal year 2023-24 the City utilized \$2,500 for the tree supply program and \$8,615 towards tree planting and maintenance on City property. The remaining \$27,885 programed towards tree planting and maintenance is anticipated to be spent during fiscal year 2024-25.

**Table 8. Annual Financial Summary  
Statement of Public Art Fee  
Revenues, Expenditures, and Changes in Fund Balance  
For the Fiscal Year Ending June 30, 2024**

| Description                                 |                           | FY 2023/24        |
|---|---------------------------|-------------------|
| <b>REVENUES</b>                             |                           |                   |
| Fees  |                           | \$ 0              |
| Interest                                    |                           | \$ 0              |
| <b>Total Revenues</b>                       |                           | <b>\$ 0</b>       |
|   |                           |                   |
| Interfund Transfers                         |                           | \$0               |
| Interfund Loans                             | Interest rate of loan: 0% | \$0               |
| Refunds                                     |                           | \$0               |
|   |                           |                   |
| <b>EXPENDITURES -- Capital Improvements</b> | Amount                    | Percent           |
| None  | \$0                       | 0%                |
| <b>Total Expenditures</b>                   |                           | <b>\$ 7,731</b>   |
|   |                           |                   |
| <b>REVENUES OVER (UNDER)</b>                |                           |                   |
| <b>EXPENDITURES</b>                         |                           | <b>(\$ 7,731)</b> |
|   |                           |                   |
| <b>Fund Balance, Beginning of the Year</b>  |                           | <b>\$ 166,236</b> |
| <b>Fund Balance, End of Year</b>            |                           | <b>\$ 158,505</b> |

During fiscal year 2023-24 \$2,500 of public art fees was paid as the final payment for the tree stump art project in the lower pacific cove parking lot started in the prior fiscal year, \$1,500 was paid to begin the Begonia Festival Commemorative sculpture, and \$3,431 to begin the Monterey Avenue Railing Art Project. Both projects started in fiscal year 2023-24 are anticipated to be completed during fiscal year 2024-25 with funding sources identified in table 12 of this report.

## *FIVE-YEAR REPORT AND FINDINGS*

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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, 2024, 5 funds have unexpended balances totaling \$471,355. 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 9: 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 | Amount funded with other sources |
|---|----------------------|--------------------|----------------------------------|---------------------------------------|----------------------------------|
| First time home buyer down payment assistance | 2024/2025            | \$150,000          | 49%                              | \$74,175                              | \$75,825                         |

## 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 10: 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 | Amount funded with other sources |
|---|----------------------|--------------------|----------------------------------|---------------------------------------|----------------------------------|
| First time home buyer down payment assistance | 2024/2025            | \$150,000          | 53%                              | \$78,948                              | \$71,052                         |
| Housing Element Implementation                | 2025/2026            | \$124,000          | 100%                             | \$124,000                             | \$0                              |

## 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 began in FY 2023/2024. The balance of the project costs is expected to be funded with grants and other revenue.

**Table 11: 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 | 2024/2025            | \$32,027           | 100%                             | \$32,027                              |
| Tree Supply Program                            | 2024/2025            | \$2,500            | 100%                             | \$2,500                               |

## Public Art Fee

- The purpose of the Public Art Fee is to enhance the cultural and aesthetic environment of the city, to encourage creativity, the appreciation of the arts and our cultural heritage.
- 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 mitigating new developments' impact on public art projects.
- There is an unexpended balance in the Public Art fund, which is expected to be used to fund future public art projects.
- The estimated timing and cost of the project are shown below. These projects began in FY 2023/2024. The balance of the project costs is expected to be funded with grants and other revenue.

• **Table 12: Public Art Fee Project Identification**

| Project Name                           | Estimated Start Year | Total Project Cost | % Funded with Impact Fee Revenue | Amount funded with Impact Fee Revenue | Amount funded with other sources |
|--|----------------------|--------------------|----------------------------------|---------------------------------------|----------------------------------|
| Begonia Festival Commemorative Project | 2023/2024            | \$58,000           | 65.5%                            | \$38,000                              | \$20,000                         |
| Monterey Avenue Railing Project        | 2023/2024            | \$55,000           | 100%                             | \$55,000                              | \$0                              |
| Future Public Art                      | 2025/2026            | \$65,505           | 100%                             | 65,505                                | \$0                              |

Capitola Municipal Code Chapter 2.56 – Art and Cultural Commission states that the Art & Cultural Commission shall advise the City Council on the allocation of public funds for the support & encouragement of public art. In January 2025 new Art & Cultural Commissionaires will be appointed to develop the public art program for the remaining \$65,505 in the public art fund.