

BOARD of SUPERVISORS



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November 23, 2009

**File 091251-2**

Ann Marie Aherne  
Commission Secretary  
Building Inspection Commission  
1660 Mission Street  
San Francisco, CA 94103-2414

Dear Ms. Aherne:

On November 3, 2009, Mayor Newsom introduced the following *substitute* proposed legislation:

**File No. 091251** Ordinance amending the San Francisco Building Code by adding Section 107A.13 to establish a procedure for the Department of Building Inspection (DBI) to collect development impact and in lieu fees, to provide that the fees are payable prior to issuance of the first building permit or other document authorizing construction of the project, with an option for the project sponsor to defer payment to prior to issuance of the first certificate of occupancy upon agreeing to pay a deferral surcharge on the amount owed that would be deposited into the same fund that receives the development fees, to require that any in-kind public benefit benefits required in lieu of payment of development fees are implemented prior to issuance of the first certificate of occupancy for the project, to require DBI to generate a Project Development Fee Report prior to issuance of the building or site permit for the project listing all fees due with the opportunity for an appeal of technical errors to the Board of Appeals, to establish a Development Fee Collection Unit within DBI and a fee for administering the program; adopting findings, including environmental findings.

This proposed legislation is being transmitted pursuant to Charter Section D3.750-5 for public hearing before the Building Inspection Commission. It is respectfully requested the Commission consider this item as soon as possible. This ordinance pending before the Land Use & Economic Development Committee and will be scheduled for hearing upon receipt of your response.

Angela Calvillo, Clerk of the Board

A handwritten signature in black ink that reads "Alisa Somera". The signature is written in a cursive, flowing style.

By: Alisa Somera, Committee Clerk  
Land Use & Economic Development Commit

Attachment

cc: Vivian L. Day, Director, Department of Building Inspection  
Lou Aurea, Department of Building Inspection

1 [Development Fee Collection Procedure; Administrative Fee.]

2  
3 **Ordinance amending the San Francisco Building Code by adding Section 107A.13 to**  
4 **establish a procedure for the Department of Building Inspection (DBI) to collect**  
5 **development impact and in lieu fees, to provide that the fees are payable prior to**  
6 **issuance of the first building permit or other document authorizing construction of the**  
7 **project, with an option for the project sponsor to defer payment to prior to issuance of**  
8 **the first certificate of occupancy upon agreeing to pay a deferral surcharge on the**  
9 **amount owed that would be deposited into the same fund that receives the**  
10 **development fees, to require that any in-kind public benefits required in lieu of**  
11 **payment of development fees are implemented prior to issuance of the first certificate**  
12 **of occupancy for the project, to require DBI to generate a Project Development Fee**  
13 **Report prior to issuance of the building or site permit for the project listing all fees due**  
14 **with the opportunity for an appeal of technical errors to the Board of Appeals, to**  
15 **establish a Development Fee Collection Unit within DBI and a fee for administering the**  
16 **program; adopting findings, including environmental findings.**

17 NOTE: Additions are *single-underline italics Times New Roman*;  
18 deletions are *strike-through italics Times New Roman*.  
19 Board amendment additions are double-underlined;  
Board amendment deletions are ~~strikethrough normal~~.

20 Be it ordained by the People of the City and County of San Francisco:

21 Section 1. Findings. The Board of Supervisors hereby finds that:

22 (a) The Planning Department has determined that the actions contemplated in this  
23 ordinance comply with the California Environmental Quality Act (California Public Resources  
24 Code Section 21000 et seq.). Said determination is on file with the Clerk of the Board of  
25 Supervisors in File No. \_\_\_\_\_ and is incorporated herein by reference.

Mayor Newsom  
BOARD OF SUPERVISORS

1 (b) In March, 2008, San Francisco published its Citywide Development Impact Fee  
2 Study Consolidated Report. The purpose of the Study was to evaluate the overall state,  
3 effectiveness, and consistency of the City's impact fee collection process and to identify  
4 improvements. Among other things, the Study cited the City's decentralized process as a  
5 problem. Centralizing the collection of development impact and in-lieu fees within the  
6 Department of Building Inspection, providing for an auditing and dispute-resolution function  
7 within DBI, generating a single record listing all the impact and in-lieu fees that the City  
8 assesses on development projects, and providing Project Development Fee Reports to project  
9 sponsors and the public listing fees owed for individual development projects will further the  
10 City's goals of streamlining the process, ensuring that fees are accurately assessed and  
11 collected in a timely manner, informing the public of the fees assessed and collected, and  
12 implementing suggestions contained in the Consolidated Report.

13 (c) The City assesses a variety of development fees on land-use development  
14 projects; the timing for collection of these fees varies. Also, typical economic cycles create  
15 volatility in the building and construction industries that has negative impacts on the  
16 availability of financing, greatly affecting the viability of a range of development projects. The  
17 current global economic crisis has exceeded both the depth and breadth of typical economic  
18 downturns. These boom-and-bust economic cycles create financial and other hardships for  
19 both project sponsors and the City's permit-issuing departments.

20 By enacting this procedure to standardize the collection and timing of payment of  
21 development impact and in-lieu fees assessed by the City and give the project sponsor the  
22 option to defer payment of the fees, the City intends not only to streamline the process but  
23 also to mitigate the financial hardships caused by economic cycles in general and the current  
24 global economic crisis in particular. This will allow project sponsors to proceed to obtain  
25

1 entitlements for development projects that would otherwise be unable to proceed under  
2 adverse economic conditions and enable a better-managed economic recovery.

3 Section 2. The San Francisco Building Code is hereby amended by adding Section  
4 107A.13, to read as follows:

5 107A.13 Development Impact and In-Lieu Fees.

6 107A.13.1 Definitions. (a) The following definitions shall govern interpretation of this Section:

7 (1) "City" shall mean the City and County of San Francisco.

8 (2) "Department" shall mean the Department of Building Inspection.

9 (3) "Development fee" shall mean either a development impact fee or an in-lieu fee. It shall not  
10 include a fee for service or any time and material charges charged for reviewing or processing permit  
11 applications.

12 (4) "Development impact fee" shall mean a fee imposed on a development project as a condition  
13 of approval by the various departments and agencies of the City and levies against development  
14 projects by the San Francisco Unified School District under Section 17620 of the California Education  
15 Code and other provisions of State law to mitigate the impacts of increased demand for public services,  
16 facilities or housing caused by the development project that may or may not be an impact fee governed  
17 by the California Mitigation Fee Act (California Government Code Section 66000 et seq.)

18 (5) "Development impact requirement" shall mean a requirement to provide physical  
19 improvements, facilities or below market rate housing units imposed on a development project as a  
20 condition of approval to mitigate the impacts of increased demand for public services, facilities or  
21 housing caused by the development project that may or may not be governed by the California  
22 Mitigation Fee Act (California Government Code Section 66000 et seq.).

23 (6) "Development project" shall mean a project that is subject to a development impact or in-  
24 lieu fee or development impact requirement.

1           (7) "First certificate of occupancy" shall mean either a temporary certificate of occupancy or a  
2 Certificate of Final Completion and Occupancy as defined in San Francisco Building Code Section  
3 109A, whichever is issued first.

4           (8) "First construction document" shall mean the first building permit issued for a development  
5 project or, in the case of a site permit, the first building permit addendum issued or other document  
6 that authorizes construction of the development project. Construction document shall not include  
7 permits or addenda for demolition, grading, shoring, pile driving, or site preparation work.

8           (9) "In-lieu fee" is a fee paid by the project sponsor in lieu of complying with a City requirement  
9 that is not a development impact fee within the meaning of the Mitigation Fee Act .

10           (10) "Project sponsor" or "sponsor" shall mean an applicant seeking approval for construction  
11 of a development project subject to this Section, such applicant's successor and assigns, and/or any  
12 entity which controls or is under common control with such applicant.

13           (11) "Unit" shall mean the Department's Development Fee Collection Unit.

14           107A.13.2 Collection by Department. The Department shall be responsible for collecting all  
15 development impact and in-lieu fees, including (a) fees levied by the San Francisco Unified School  
16 District if the District authorizes collection by the Department, and (b) fees levied by the San Francisco  
17 Public Utilities Commission, if the Commission's General Manager authorizes collection by the  
18 Department, deferral of payment of any development fee, and/or resolution of any development fee  
19 dispute or appeal in accordance with this Section 107A.13.

20           107A.13.3 Timing of development fee payments and satisfaction of development impact  
21 requirements.

22           (a) All development impact or in-lieu fees owed for a development project shall be paid by  
23 the project sponsor prior to issuance of the first construction document; provided, however, that the  
24 project sponsor may elect to defer payment of said fees under Section 107A.13.3.1.

1           **(b) Any development impact requirement shall be completed prior to issuance of the first**  
2 **certificate of occupancy for the development project.**

3           **107A.13.3.1 Option to defer payment; deferral surcharge. A project sponsor may elect to defer**  
4 **payment of any development impact or in-lieu fee collected by the Department to a due date prior to**  
5 **issuance by the Department of the first certificate of occupancy. This option may be exercised by (1)**  
6 **submitting a deferral request to the Department on a form provided by the Department prior to**  
7 **issuance of the first construction document, and (2) agreeing to pay a Development Fee Deferral**  
8 **Surcharge.**

9           **The Development Fee Deferral Surcharge shall be paid when the deferred fees are paid prior to**  
10 **issuance of the first certificate of occupancy, and shall accrue at the Development Fee Deferral**  
11 **Surcharge Rate. The Development Fee Deferral Surcharge Rate shall be calculated monthly by the**  
12 **San Francisco Treasurer's Office as 60% of the Two Year U.S. FNMA Sovereign Agency Note Yield-to-**  
13 **Maturity and 40% of the Current Two-Year U.S. Treasury Note Yield-to-Maturity as quoted from the**  
14 **close of business on the last open market day of the month previous to the date when a project sponsor**  
15 **elects to defer the development fees owed on a development project. The accrual of any deferred**  
16 **development fees begins on the first day that a project sponsor elects to defer development fees, but**  
17 **never later than immediately after issuance of the first construction document. The Development Fee**  
18 **Collection Unit shall calculate the final Development Fee Deferral Surcharge by multiplying the total**  
19 **development fees otherwise due prior to issuance of the construction document by the Development Fee**  
20 **Deferral Surcharge Rate by the actual day count of the entire Development Fee Deferral Period, which**  
21 **shall be the number of days between the project sponsor's election to defer to final payment of the**  
22 **deferred development fees. The Development Fee Deferral Surcharge shall be apportioned among all**  
23 **development fee funds according to the ratio of each development fee as a percentage of the total**  
24 **development fees owed on the specific project.**

1           107A.13.4 Development Fee Collection Unit. There shall be a Development Fee Collection  
2 Unit established within the Department. The Unit's duties include: (1) receiving and organizing  
3 information from various City agencies concerning the amount of development fees owed or specific  
4 development impact requirements imposed under various sections of the San Francisco Municipal  
5 Code or other legal authority, (2) working with the project sponsor and relevant agencies to resolve  
6 any disputes or questions concerning the development fees or development impact requirements  
7 applied to specific development projects, (3) ensuring that the first construction document, or first  
8 certificate of occupancy if the project sponsor elects to defer payment, is not issued prior to payment of  
9 all development fees that are due and owing, (4) confirming with the Planning Department that any  
10 outstanding development impact requirements are satisfied prior to issuance of the first certificate of  
11 occupancy for projects subject to such requirements, (5) generating Project Development Fee Reports,  
12 (6) processing any development fee refunds, (7) publishing and updating the Citywide Development  
13 Fee Register, (8) initiating lien proceedings to collect any unpaid development impact or in-lieu fees,  
14 and (9) performing such other duties as the Building Official requires. The fee for the Department's  
15 services shall be as provided in Section 107A.13.14.

16           107A.13.5 Citywide Development Fee Register. The Unit shall publish a Citywide  
17 Development Fee Register that lists all current San Francisco development impact and in-lieu fees. The  
18 Unit shall update the Register whenever a development impact or in-lieu fee is newly enacted,  
19 rescinded or amended. The Unit shall make the Register available to the public upon request, including  
20 but not limited to posting it on the Department's website.

21           107A.13.6 Required City Agency or Department Notice to Development Fee Collection Unit.  
22 Prior to issuance of any building or site permit for a project, any department or agency responsible for  
23 calculating a development fee collected by the Unit or imposing a development impact requirement  
24 shall send written or electronic notification to the Development Fee Collection Unit that (i) identifies  
25 the development project, (ii) lists which specific development fees and/or development impact



1 requirements are applicable and the legal authorization for their application, (iii) specifies the amount  
2 of the development fee or fees that the department or agency calculates is owed to the City or that the  
3 project sponsor has elected to satisfy a development impact requirement through the direct provision of  
4 public benefits, and (iv) lists the name and contact information for the staff person at each agency or  
5 department responsible for calculating the development fee or monitoring the development impact  
6 requirement.

7 107A.13.7 Project Development Fee Report. Prior to the issuance of the building or site  
8 permit for a development project that owes a development fee or fees or is subject to development  
9 impact requirements, and at any time thereafter, the Development Fee Collection Unit shall prepare  
10 and provide to the project sponsor, or any member of the public upon request, a Project Development  
11 Fee Report. The Report shall: (i) identify the development project (ii) list which specific development  
12 fees and/or development impact requirements are applicable and the legal authorization for their  
13 application, (iii) specify the amount of the development fee or fees that the department or agency  
14 calculates is owed or that the project sponsor has elected to satisfy a development impact requirement  
15 through the direct provision of physical improvements, (iv) list the name and contact information for  
16 the staff person at each agency or department responsible for calculating the development fee or  
17 monitoring the development impact requirement, and (v) state whether the development fee or fees are  
18 due and payable prior to issuance of the first construction document or whether the project sponsor has  
19 requested deferral under Section 107A.13.3.1, and note the status of payment. A copy of the Project  
20 Development Fee Report shall always be made available to the project sponsor immediately prior to  
21 issuance of the site or building permit for a development project subject to any development fee or fees  
22 to provide adequate notice of the proposed development fee or fees.

23 107A.13.8 Failure to give notice of a development fee owed or development impact  
24 requirement. The failure of the Unit or a fee-assessing department or agency to give any notice of a  
25 development fee owed or development impact requirement shall not relieve the project sponsor of the

1 obligation to pay the development fee when it is due. The procedure set forth in this Section is not  
2 intended to preclude enforcement of the development fee or development impact requirements pursuant  
3 to any other section of this Code, the Planning Code or other parts of the Municipal Code or under the  
4 laws of the State of California.

5 107A.13.9 Development fee dispute resolution; appeal to Board of Appeals.

6 107A.13.9.1 Procedure for resolution by Development Fee Collection Unit. If a dispute or  
7 question arises concerning the accuracy of the final Project Development Fee Report, including the  
8 mathematical calculation of any development fee listed thereon, the Development Fee Collection Unit  
9 shall attempt to resolve it in consultation with the department or agency affected by the disputed fee  
10 and the project sponsor. A person protesting the accuracy of the Report must submit the issue or issues  
11 in writing to the Unit with a copy to the department or agency whose development fee is in dispute.  
12 Any public notice of the issuance of the building or site permit shall notify the public of the right to  
13 request a copy of the Project Development Fee Report and of the right of appeal to the Board of  
14 Appeals under Section 107A.13.9.2.

15 107A.13.9.2 Appeal to Board of Appeals. (a) If the Development Fee Collection Unit is unable  
16 to resolve the dispute or question, the project sponsor or a member of the public may appeal the  
17 Project Development Fee Report to the Board of Appeals within 15 days of the issuance of the building  
18 or site permit under Article 8 et seq. of the San Francisco Business & Tax Regulations Code.

19 (b) In cases where a project sponsor is not using the site permit process and is required to  
20 pay a development fee or fees prior to issuance of the development project's building permit, and  
21 chooses not to defer payment under Section 107A.13.3.1, the sponsor may pay a disputed fee under  
22 protest and file an appeal within 15 days of the issuance of the permit.

23 (c) In order to appeal to the Board of Appeals under this Section, a project sponsor  
24 appellant must first have attempted to resolve the dispute or question by following the procedure in  
25 Section 107A.13.9.1. Evidence of this prior attempt must be submitted to the Board of Appeals in order

1 for the Board to accept the appeal. Members of the public may file an appeal under this Section without  
2 providing such evidence if they lacked adequate notice to raise the issues by following the procedures  
3 in Section 107A.13.9.1.

4 (d) Promptly after an appeal has been filed, the Board of Appeals shall notify the  
5 department or agency whose development fee or development impact requirement is at issue of the fact  
6 that an appeal has been filed and the date scheduled for hearing. A representative of the Department of  
7 Building Inspection and of the department or agency whose development fee or development impact  
8 requirement is in dispute must be present at the appeal hearing.

9 (e) In hearing any appeal of the Project Development Fee Report, the Board's jurisdiction  
10 is strictly limited to determining whether the mathematical calculation of the development fee or the  
11 scope of a development impact requirement is accurate and resolving any technical disputes over the  
12 use, occupancy, floor area, unit count and mix, or other objective criteria that calculation of the  
13 challenged development fee or development impact requirement is based upon.

14 (f) If a decision by the Board of Appeals requires a refund of all or any portion of the  
15 disputed development fee, the refund shall be processed promptly by the Development Fee Collection  
16 Unit under Section 107A.13.11. If a decision requires a new determination regarding the scope of a  
17 development impact requirement, such new determination shall be made by the relevant City agency or  
18 department prior to issuance of the first certificate of occupancy. Where the Board determines that an  
19 additional amount of the fee or fees is due and owing, the additional amount shall be paid prior to  
20 issuance of the first certificate of occupancy for the development project.

21 107A.13.10 Violation of this Section deemed a violation of the Building Code. In addition to  
22 the lien proceedings authorized by Section 107A.13.14, a violation of this Section 107A.13 shall be  
23 deemed a violation of the Building Code and subject to the provisions of Section 103A and any  
24 investigation or other fees authorized under other sections of this Code to compensate the Department  
25 for the cost of abating violations.

1           107A.13.11 Development fee refunds. Upon notification by the property owner or project  
2 sponsor and confirmation by the applicable department or agency that a fee refund is due, the Unit  
3 shall process the refund. The fee for processing the refund shall be as set forth in Table 1A-D – Other  
4 Building Permit and Plan Review Fees.

5           107A.13.12 Development fee information a public record. Any notice of development fees due  
6 or development impact requirements imposed sent to the Development Collection Unit by any fee-  
7 assessing departments and agencies, the Project Development Fee Report issued by the Unit, and any  
8 development fee refunds or development impact requirement revisions made are a matter of public  
9 record.

10           107A.13.13 Administrative fee. The fee for services provided by the Department under this  
11 Section 107A.13 shall be the Standard Hourly Rate for Administration set forth in Table 1A-D of this  
12 Code. The administrative fee is payable within 30 days' of the Department's notice that payment is  
13 due.

14           107A.13.14 Administrative procedures. The Building Official is empowered to adopt such  
15 administrative procedures as he or she deems necessary to implement this Section. Such administrative  
16 procedures shall be generally consistent with the procedural requirements set forth in this Section  
17 107A.

18           107A.13.15 Wrongful Issuance of First Construction Document or Certificate of Occupancy;  
19 assessment lien; notice. In addition to any other remedy established in this Code or under other  
20 authority under the laws of the State of California, if DBI inadvertently or mistakenly issues the first  
21 construction document or first certificate of occupancy, whichever applies, for a development project  
22 that has not paid a development fee that is due and owing and payment has not been received within 30  
23 days following notice that payment is due, or, in the case where a sponsor has elected to satisfy a  
24 development impact requirement through direct provision of physical improvements and where non-  
25 compliance with any such requirement is not corrected within 30 days following notice, the Department

1 shall initiate proceedings in accordance with Article XX of Chapter 10 of the San Francisco  
2 Administrative Code to make the entire unpaid balance of the fee that is due, including interest at the  
3 rate of one and one-half percent per month or fraction thereof on the amount of unpaid fee, a lien  
4 against all parcels used for the development project. The penalty fee provisions of this section shall  
5 also apply to projects that have elected to provide physical improvements in lieu of paying a  
6 development fee, as if they had elected to pay the relevant development fee.

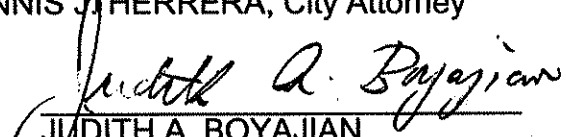
7 The Department shall send all notices required by Article XX to the owner or owners of the  
8 property and to the project sponsor if different from the owner. The Department shall also prepare a  
9 preliminary report, and notify the owner and sponsor of a hearing by the Board of Supervisors to  
10 confirm such report at least ten days before the date of the hearing. The report shall contain the owner  
11 and sponsor's names, a description of the development project, a description of the parcels of real  
12 property to be encumbered as set forth in the Assessor's Map Books for the current year, a description  
13 of the alleged violation of this Section, and shall fix a time, date, and place for hearing. The  
14 Department shall mail this report to the sponsor and each owner of record of the parcels of real  
15 property subject to the lien.

16 Any notice required to be given to an owner or sponsor shall be sufficiently given or served  
17 upon the owner or sponsor for all purposes in this Section if personally served upon the owner or  
18 sponsor or if deposited, postage prepaid, in post office letterbox addressed to the owner or sponsor at  
19 the official address of the owner or sponsor maintained by the Tax Collector for the mailing of tax bills  
20 or, if no such address is available, to the sponsor at the address of the development project, and to the  
21 applicant for the site or building permit at the address on the permit application.

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Except for the release of the lien recording fee authorized by Administrative Code Section 10.237, all sums collected by the Tax Collector under this Section shall be held in trust by the Treasurer and deposited in the City's appropriate fee account.

APPROVED AS TO FORM:  
DENNIS J. HERRERA, City Attorney

By:   
JUDITH A. BOYAJIAN  
Deputy City Attorney

**LEGISLATIVE DIGEST**

[Development Fee Collection Procedure; Administrative Fee.]

**Ordinance amending the San Francisco Building Code by adding Section 107A.13 to establish a procedure for the Department of Building Inspection (DBI) to collect development impact and in lieu fees, to provide that the fees are payable prior to issuance of the first building permit or other document authorizing construction of the project, with an option for the project sponsor to defer payment to prior to issuance of the first certificate of occupancy upon agreeing to pay a deferral surcharge on the amount owed that would be deposited into the same fund that receives the development fees, to require that any in-kind public benefits required in lieu of payment of development fees are implemented prior to issuance of the first certificate of occupancy for the project, to require DBI to generate a Project Development Fee Report prior to issuance of the building or site permit for the project listing all fees due with the opportunity for an appeal of technical errors to the Board of Appeals, to establish a Development Fee Collection Unit within DBI and a fee for administering the program; adopting findings, including environmental findings.**

**Existing Law**

The City and County of San Francisco imposes a number of impact fees on development projects and also requires certain development projects to provide physical improvements, facilities or below market rate housing units ("development impact requirements") as a condition of approval of the building or site permit for the project. These development impact fees and requirements are imposed to mitigate the estimated impacts of increased demand for public services, facilities or housing caused by development projects. In many cases, the Planning Code gives project sponsors the option of paying a fee in lieu of providing the physical improvements, facilities or below market rate housing units ("in-lieu fees") to mitigate the effects of new development. Development impact and in-lieu fees are distinct and different from fee for service or permit processing fees, which reimburse the City for the actual time and material expenses of City staff in reviewing and approving the permits required for new development.

Most of the City's development impact fees, in-lieu fees, and development impact requirements are scattered throughout various sections of the San Francisco Planning Code. In addition to the Planning Code development impact fees and requirements, the Municipal Transportation Agency imposes a Transit Impact Development Fee (TIDF) on certain projects under Chapter 38 of the San Francisco Administrative Code, the San Francisco Public Utilities Commission imposes water and wastewater capacity charges and a sewer connection fee by resolution of the PUC Commission, and the San Francisco Unified School District imposes a school fee under provisions of State law.

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Most of the City's development fees are collected by the Office of the Treasurer prior to issuance of the first site or building permit; some, like the TIDF, are payable prior to issuance of the first certificate of occupancy. The school fee is currently collected by the School District prior to issuance of the first site or building permit, and the PUC divides its collection between site permit and first certificate of occupancy.

#### Amendments to Current Law

The proposed legislation adds Article 107A.13 to the San Francisco Building Code to provide that the Department of Building Inspection ("DBI") will collect all development impact and in-lieu fees, including fees assessed by the Public Utilities Commission and the School District if those agencies separately agree to participate in the new collection process proposed by this legislation. A companion ordinance will amend the Planning and Administrative Codes to relocate into one Article of the Planning Code all development impact fees, in-lieu fees, and development impact requirements and authorize DBI to collect development fees and enforce compliance with development impact requirements.

The legislation simplifies the existing law by requiring that all development fees be payable prior to issuance of the first building permit or other document authorizing construction of a development project, but provides that a project sponsor has the option to defer payment to a date prior to issuance of the first certificate of occupancy if the sponsor agrees to pay a deferral surcharge equivalent to the effective interest that the City would have accrued on the funds if it collected the fees at the earlier date.

A Development Fee Collection Unit will be established within DBI that will be funded by a fee for administrative services. The Unit will (1) receive and organize information from various City agencies concerning the amount of development fees owed or specific development impact requirements imposed, (2) work with the project sponsor and relevant agencies to resolve any disputes or questions concerning the development fees or development impact requirements, (3) ensure that the first construction document or first certificate of occupancy, if the sponsor has elected to defer payment, is not issued prior to payment of all development fees that are due, (4) confirm with the Planning Department that any outstanding development impact requirements are satisfied prior to issuance of the first certificate of occupancy, (5) generate Project Development Fee Reports that will inform both project sponsors and the public of the applicability and application of the development impact fees and requirements and the status of compliance, (6) process any development fee refunds, (7) publish and update a Citywide Development Fee Register of all development impact and in-lieu fees that the City imposes for the benefit of project sponsors and the public, (8) initiate lien procedures to collect outstanding development impact and in-lieu fees, and (9) perform such other duties as the Building Official requires. Any development fee disputes over the calculation of the fees that the Unit is unable to resolve may be appealed to the Board of Appeals.

The legislation also sets up a process by which City agencies notify the Development Fee Collection Unit at DBI of any development project that owes development impact or in-lieu



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fees and the dollar amounts owed so that the Unit may ensure that building permits or other construction documents, or certificates of occupancy if the project sponsor has elected to defer payment, are not issued prior to payment of all development fees that are due. If a development project is required to construct any physical improvements, facilities or below market rate housing units, the Unit will notify the agency or department responsible for monitoring implementation of the improvements prior to issuing the first certificate of occupancy for any project subject to such requirements to ensure that the requirements have been implemented to the satisfaction of the responsible department or agency.

### Background Information

In March, 2008, San Francisco published its Citywide Development Impact Fee Study Consolidated Report. The purpose of the Study was to evaluate the overall state, effectiveness, and consistency of the City's development impact fee collection process and to identify improvements. Among other things, the Study cited the City's decentralized process as a problem. Centralizing the collection of development impact and in-lieu fees within DBI and providing a process whereby DBI can ensure that building permits, other documents that authorize construction, and certificates of occupancy for the project are not issued before all development fees are paid and/or development impact requirements are satisfied will: (1) centralize and streamline the process, (2) ensure the consistency and accuracy of fee collection and the enforcement of development impact requirements, and (3) provide information to both the sponsors of development projects and the public concerning the application and imposition of the City's myriad development fees and development impact requirements on development projects.

Another central goal of the legislation and its companion ordinance is to lessen the financial burden of the City's current development impact fee requirements to improve the financial viability of development projects on the margin so that they are comparatively easier to finance when conditions improve and construction lending is once again available. Working with the affected City agencies, the Office of Economic and Workforce Development developed these specific changes as part of a larger set of stimulus policies designed to spur construction jobs and development revenues for the City. This will be done through a variety of policy changes.

Under current rules, the majority of the City's development impact fees are due prior to issuance of the first building or site permit. Allowing a project sponsor to defer collection of development impact fees to much later in the permitting process should lower initial equity participation requirements and/or the carrying costs of construction loans. The farther back in time the City can defer collection, the greater the financial benefit to individual development project pro-formas and the more likely a project will commence construction earlier than would be the case under the current system. Because most developers pay higher interest rates on commercial loans or equity to finance early payment of impact fees than the City Treasurer by collecting these fees early in the process, both the public and private project sponsors should

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benefit from a system that makes the City whole while allowing project sponsors to save the margin of difference between the private and public interest rates.

In addition to reducing the overall financial feasibility of individual projects, the requirement to pay development impact fees at the beginning of the DBI permitting process also prevents many project applicants from paying the permit processing fees necessary for DBI and the staff of other City agencies to review and approve individual building permits. This, in turn, exacerbates staff lay-offs in recessions by restricting the flow of permit processing fees to an even greater degree than might otherwise occur but for the requirement that impact fees be paid up-front. For larger projects, the cost of permit processing fees is relatively insignificant compared to the cost of development impact fees. When the business cycle eventually rebounds and developers can once again finance up-front development impact fees, DBI and other City agencies must re-hire staff to handle the increased permit load and a processing backlog ensues, adding further to delays. As a result, the construction of many projects that could have been "shovel ready" is further delayed.

The cost to the City of delaying fee collection is off-set by a deferral surcharge that would be required if a project sponsor elects to defer payment, the amount of which is equivalent to the interest the City would have earned on the funds. Allowing payment deferral is also off-set by the following factors: (1) the City cannot safely spend development impact fees when it collects them early in the permitting process because the fees will have to be refunded if the project is never actually built or occupied, (2) most, if not all, development impact fees are used for long-range planning efforts so delaying their collection is not necessarily delaying delivery of public infrastructure and affordable housing, (3) in any given fiscal year, once a project commences substantial construction, the City can assume, for budgetary reasons, that development impact fees will be available for capital projects and plan to spend that money accordingly, and (4) any "opportunity costs" attributable to deferring collection of development impact fees would be off-set with economic gains from earlier collection of property and transfer tax proceeds due to projects commencing and selling or leasing sooner than under the current impact fee collection system.