

MEMORANDUM

To: Tyler Corey, Deputy Director of Community Development
From: Ashleigh Kanat, Principal
Subject: Effect of CCCI Increase and Implications for the Inclusionary Housing Ordinance Update; EPS #191142
Date: July 8, 2022

The Economics of Land Use



Based on Municipal Code [4.56.040](#), the Development Impact Fee schedule is evaluated and established each year (to be effective July 1 of each year) in conformance with the California Construction Cost Index (CCCI) as published by the California Department of General Services. The percent increase from April 2021 to April 2022 is 24.5%.

In the absence of market context, an annual fee increase of 24.5% is extraordinary. However, the CCCI is tied to construction cost data that is tracked by the California Department of General Services, and, in general, we are in a time of substantial inflationary pressures.

Policy Justification

The policy reason for annual indexing based on changes in construction costs is to ensure the City can continue to use fee revenue to fund required capital improvements even as construction costs increase over time. Without annual indexing, the City's ability to fund infrastructure projects to mitigate the effects of new development would erode, even though the City's obligation to deliver those projects would remain. When the City adopts an impact fee program, there is an implied commitment to deliver the identified capital improvements. If the fee revenue does not keep pace with increases in construction costs, other sources of revenue, including the General Fund, would be required.

Relationship to Residential Values and Feasibility

If the value of homes (based on transaction data) in San Luis Obispo was static (i.e., did not change during the past year), there would be particular cause for concern with the July 1, 2022 increase because residential developers would have to absorb increases in construction costs and increases in development impact fees without the possibility of recovering those cost increases in the final sales price (or through

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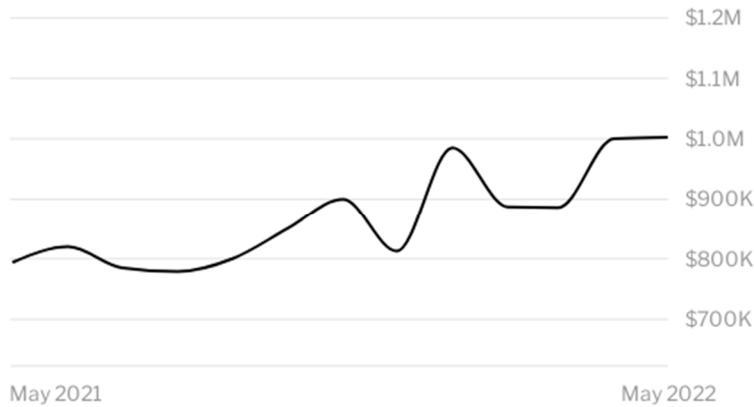
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increases in rental revenue). This would almost certainly have the effect of discouraging new development from occurring.

However, based on Redfin calculations of home data from MLS and/or public records, the median home price increased 26.3 percent year-over-year, as of May 2022. In May of 2021, the median home price was approximately \$794,000; twelve months later (in May 2022), the median home price is \$1,002,716.

San Luis Obispo, CA Median Sale Price



Based on Redfin calculations of home data from MLS and/or public records.

- San Luis Obispo, CA

While the inflationary pressures in the economy are challenging, so long as market prices of new development (residential home prices and rents and commercial rents) are also increasing, concerns about the fee increases having a negative impact on feasibility are reduced, as both costs and values are increasing proportionally.