

The seal of the City of El Segundo is located in the top left corner. It features a circular design with a central figure and the words "CITY OF EL SEGUNDO" around the perimeter.

CITY OF
EL SEGUNDO

Discussion and Consideration of a Building Permit Fee and Development Impact Fee Deferral Program

City Council Meeting
February 18, 2025

Background

Building Permit Fees

- One-time charges covering staff time for permit review, processing, inspections, and maintenance of infrastructure (e.g., online systems, land use regulations). Includes state-mandated fees for seismic safety and ADA compliance.

Development Impact Fees (DIFs)

- One-time charges designed to fund infrastructure and service improvements to address increased demand from new developments (e.g., streets, sewer, parks, public safety).

Background

Development Impact Fee (DIF) Implementation

- Approved by City Council on June 21, 2022
- Phased implementation:
 - 50% in 2022
 - 75% in 2023
 - 100% effective July 1, 2024
- Fees adjusted annually based on the Consumer Price Index (CPI-U)

El Segundo Fee Collection Stages



Current Economic Conditions

- **High Lending Costs**
 - Borrowing costs have risen significantly, making it expensive for developers to finance new projects.
 - Higher interest rates increase the overall cost of development, reducing profit margins and making some projects financially unfeasible.
- **Inflation and Rising Construction Costs**
 - Material costs (steel, lumber, concrete) have been fluctuating, often trending upward, which increases overall project expenses.
 - Labor costs have also risen due to a shortage of skilled workers, further straining budgets.
- **Supply Chain Disruptions**
 - Delays in material deliveries extend project timelines, increasing holding and financing costs.
 - Uncertain availability of essential building components makes planning and budgeting difficult.

Current Economic Conditions

- Economic Uncertainty
 - Developers face unpredictability regarding consumer demand, tenant leasing rates, and long-term property values.
 - Investors and lenders are more cautious, limiting access to funding for commercial projects.
- Regulatory and Tax Burdens
 - Development fees, permit costs, and stringent zoning regulations increase upfront expenses.
 - Cities often impose impact fees that developers must pay before construction can begin, adding to financial pressures.

Current Fee Structure

ESMC15-32-6 stipulates that all DIFs be collected prior to approval of a tentative or final subdivision map, parcel map, grading permit, building permit, final inspection, or certificate of occupancy.

Recent State Fee Structure Modifications

- Senate Bill (SB) 937
 - Effective January 1, 2025
 - Allows developers to pay certain housing development impact fees later in the process—at the Certificate of Occupancy or final building inspection
 - Require the property owner or recorded lessee to sign a contract agreeing to pay the amount within the specified timeframe.
 - recorded with the county recorder's office, creating a lien on the property.
 - the local agency must record a release of the lien after fully paid.

Recent City Fee Structure Modifications

- City Council directed staff on the January 21, 2025, meeting to adjust the Cultural Development Program fee structure
 - Defer the applicable in-lieu fee of 1% of the project cost to the Certificate of Occupancy or final inspection.
 - Amendment is scheduled for City Council consideration at the March 4, 2025, City Council meeting.

Possible Fee Modifications

- Recommendation: Similar administrative process as adopted by the state legislature for housing developments
 - Require a covenant to be recorded in the form of a lien for the applicable fees
 - The lien would be removed upon payment of fees and before any final inspections or issuance of a certificate of occupancy.
- Application review fees and inspection-related permit fees (residential, commercial, mechanical, electrical, and plumbing fees) will remain unchanged.

Case Study

Assumptions: typical construction loans are intended for 6 - 36 months, 8.8% interest paid on the amount borrowed during construction (average of range between 6.125 and 11.5% as of 2025), with financing options beginning at \$100,000 or more.

Provided the above assumptions, the carry cost of accrued interest on \$126,146, is as follows:

6 Month Project: \$5,550.42
12 Month Project: \$11,100.85
18 Month Project: \$16,651.27
24 Month Project: \$22,201.70
30 Month Project: \$27,752.12
36 Month Project: \$33,302.54

Reasons to Offer Deferred Fees



Support and encourage development



Improve their cash flow during the construction phase



City delivers solution-oriented customer service



Attract and facilitate new businesses



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Questions?