

MEMORANDUM

To: Steve Mayo, San Joaquin Council of Governments

From: Teifion Rice-Evans and Jason Moody

Subject: San Joaquin County Multi-Species Habitat Conservation and Open Space Plan Financial Analysis Update; EPS #15126

Date: January 10, 2007

Economic & Planning Systems, Inc. (EPS) and Jones & Stokes (J&S) were retained by the San Joaquin Council of Governments (SJCOG) to update the financial analysis determining the mitigation fees charged under the San Joaquin County Multi-Species Habitat Conservation and Open Space Plan (SJMSCP). The results of this update are included in the attached financial model. The completion of this fee update included three public workshops as well as several meetings of the SJMSCP's Habitat Technical Advisory Committee (HTAC) financing subcommittee. This memorandum summarizes the purpose, approach, and results of the financial update.

PURPOSE AND APPROACH

- **Update Purpose.** The original financial analysis was completed in 1997 and established a fee schedule to cover mitigation requirements and costs. Since that time, changes in costs have rendered the current fees too low. The purpose of the update was to establish a new fee schedule that could cover costs based on current conditions and provide a fee updating process that would tie annual fee adjustments more closely with cost changes through time.
- **Mitigation Ratios and Conservation Requirements.** The original financial analysis was based on several key components of the SCMSCP, including the amount of take permitted, the required mitigation ratios, and the associated conservation requirements. These key components were approved by the relevant regulatory agencies as part of SJMSCP adoption in 2001. This financial update maintains these key components of the SJMSCP and does not alter the SJMSCP's linkage between land conversion and the mitigation required.



- **Financial Model and Cost Updates.** The financial update provides revised estimates of mitigation costs based on current conditions and integrates these costs into the original financial model to identify the new set of fees required to cover mitigation costs. The attached financial model shows the new unit costs and their application to the SCMSCP's original mitigation requirements. Cost estimates and the associated fee calculations are divided into the three major cost categories: (1) acquisition costs, (2) assessment and enhancement costs, and (3) management and administrative costs.
- **Updated Cost Estimates.** The updated cost estimates are based on current information concerning the three cost components. Acquisition costs, the majority of mitigation costs, are based on recent land sales in San Joaquin County. Relevant sales comparables were identified based on conversations with appraisers, real estate brokers, and others active in the San Joaquin County land market.

Assessment and enhancement costs are based on the current costs of assessing and enhancing habitat both in San Joaquin County and elsewhere. Management and administration costs are based on the current SJCOG, Inc., costs of managing and administering the Conservation Plan as well as estimates of endowment contributions required to ensure continued SJMSCP implementation beyond the acquisition phase of the plan.

- **Fee Structure.** Consistent with the SJMSCP and the original financial analysis, different fees are charged for the conversion of four different land types: natural/agricultural lands, vernal pool grasslands, vernal pool wetted, and other open space.
- **Annual Fee Adjustments.** An appropriate approach to updating fees is critical to avoid funding shortfalls. The original financial analysis included annual fee updates based on the California Construction Cost Index. This index has not reflected changes in mitigation costs. As a result, a new approach to annual fee adjustments was developed.

RESULTS

FEE SCHEDULE

The table below shows the new fee schedule. In addition, it shows the fee schedule when originally estimated in 1996 and the current fee schedule, adopted in January 2006, which incorporated the annual fee adjustments as well as a correction concerning the level of non-mitigation funding available. The new fee schedule represents the fees required at the current time to generate sufficient funding to cover mitigation costs.

Habitat Type	Original Fees (1997)	2006 Interim Fees	Updated Fees
Other Open Space	\$750	\$1,651	\$6,511
Natural/Agricultural	\$1,500	\$3,304	\$13,022
Vernal Pool (Grassland)	\$5,000	\$10,081	\$34,958
Vernal Pool (Wetted)	\$30,000	\$60,379	\$69,858

ANNUAL FEE ADJUSTMENTS

Annual fee adjustments that reflect the relevant drivers of mitigation costs are a critical part of the fee program. To reflect the different factors driving changes in the different components of mitigation costs, the following updated approach was developed:

- **Acquisition Costs.** The acquisition cost component of the fee will be adjusted by tracking relevant, recent land sales. Specifically, on an annual basis, SJCOG, Inc., will develop a list of its own acquisitions in addition to other arms-length acquisitions in the County that are between 40 and 500 acres in size, represent suitable mitigation under the SJMSCP, and are not improved with vineyards or orchards. Combining this data with data from the prior year, new per acre land cost estimates will be estimated and used to adjust the acquisition cost component of the fee. A minimum of ten acceptable comparables will be required for this calculation. If ten comparables are unavailable within the last two years, the time frame will be shifted back in three month intervals until ten comparables are identified.
- **Other Costs.** The other cost components of the fee, including the assessment and enhancement costs and the management and administration costs, will be adjusted annually using the Consumer Price Index (CPI). At the end of each fiscal year (July through June), the fees will be adjusted based on the change in the CPI over the fiscal year.