



**Economic & Planning
Systems, Inc.**
The Economics of Land Use

STEPHENS' KANGAROO RAT HABITAT CONSERVATION PLAN NEXUS STUDY

REPORT

Prepared for:

Riverside County Habitat Conservation Agency

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1. Introduction and Summary of Findings

This report provides the technical documentation required to update the Stephens' Kangaroo Rat (SKR) mitigation fee under the State of California's Mitigation Fee Act (MFA). The SKR fee is a critical component of the funding approach for SKR Habitat Conservation Plan (Plan) implementation. The fee has not been updated since 1996 and this update will help ensure the continued successful implementation of the plan and the associated benefits of the streamlined incidental take permitting it provides to new development.

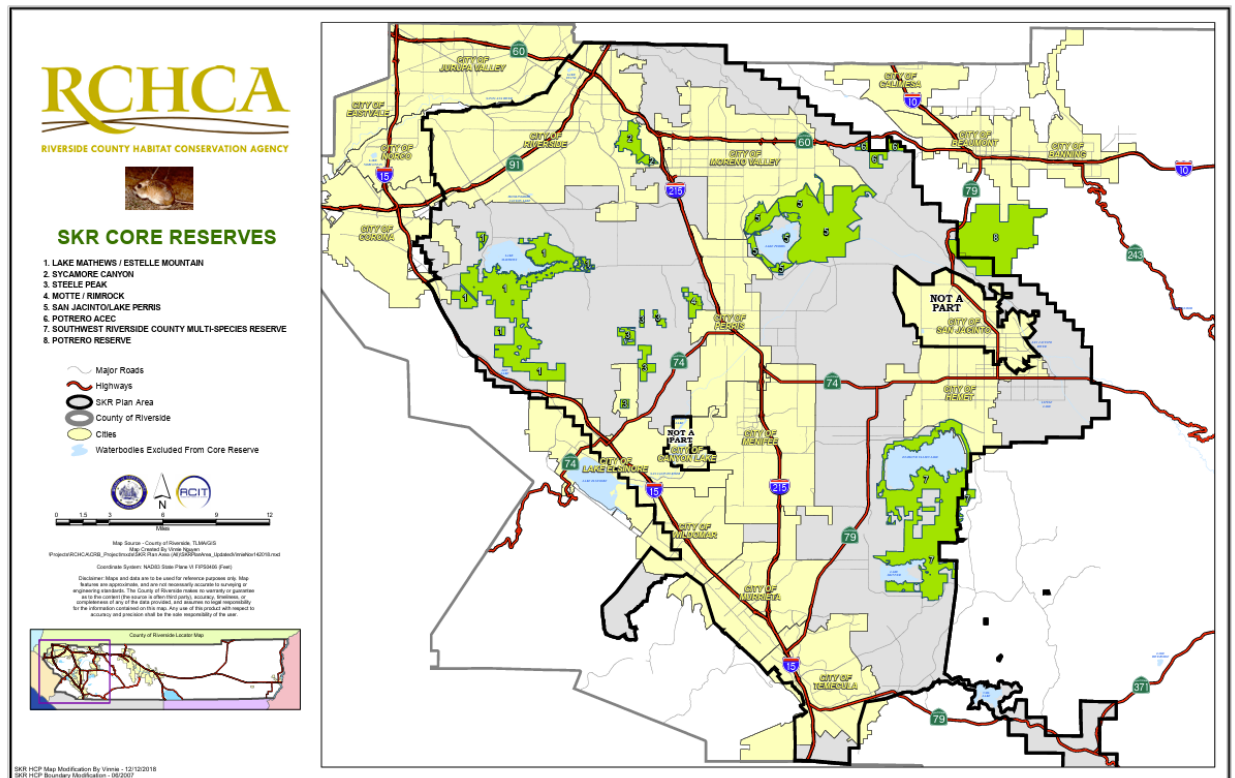
This first chapter includes background on the SKR HCP, the recommended updated fee schedule, and a summary of the technical findings. The subsequent chapters provide detailed technical analysis and the required nexus findings for fee updates under the Mitigation Fee Act.

SKR HCP Background

The Riverside County Habitat Conservation Agency (RCHCA) was formed as a Joint Powers Authority to implement the SKR HCP. Today, there are eleven member jurisdictions in the SKR Plan Area (see **Figure 1**). RCHCA's activities include managing approximately 46,000 acres of reserve lands in Riverside County and biological research to study and protect the SKR population. As of 2022, the SKR is considered a federal and state threatened species, downlisted from its original federal endangered status. The SKR mitigation fee is a critical funding source for RCHCA's ongoing activities.

The original SKR mitigation fee was set at \$1,950 per acre in 1988 and was decreased to \$500 per acre in 1996 at the time of completion and approval of the Plan. Unlike many mitigation fees, no adjustments have been made for inflation, reducing the fee level in inflation-adjusted terms over time.

Figure 1 Map of SKR Plan Area



Source: Riverside County Habitat Conservation Agency

Recommended Fee Program Updates

This technical analysis indicates that the SKR fee on most forms of new private development should be increased from \$500 per acre to \$900 per acre. The fees on the development of large lot single family residences and on new agriculture uses would remain unchanged. Fees on the development of single homes on single lots by individual households would also pay the lower fee. **Table 1** summarizes the proposed changes, where applicable, between the current fee and the recommended updated fee.

Table 1 Summary of Existing and Proposed SKR Mitigation Fees

Use Type	Fee Basis	Existing Fee	Proposed Fee
Individual Single-Family Home Construction (Single Parcel) ¹	per dwelling unit	\$250	\$250
Agriculture ²	per gross acre	\$100	\$500
All Other Development ³	per gross acre	\$500	\$900

[1] This fee category applies only to the construction of a single-family residence on a single legally created lot, where the building permit is issued to an individual property owner and is not part of a subdivision, tract development, or any coordinated multi-unit residential development. This category may include one accessory dwelling unit (ADU) constructed in conjunction with the primary residence. This category shall not apply to any subdivision or parcel map creating multiple residential lots, tract or master-planned developments, or any development involving multiple residential units constructed pursuant to a common development plan, whether built simultaneously or in phases. All such developments shall be subject to the applicable per gross acre fee.

[2] Agriculture developments pay an existing fee of \$100 per development 1% of the valuation of a building, whichever is greater and not to exceed \$500 per gross acre.. The proposed updated mitigation fee is simplified to \$500 per gross acre of development.

[3] This fee category applies to all development not otherwise classified as agricultural development or qualifying under Footnote 1. Nonprofit development projects may qualify for a fee reduction of up to seventy-five (75) percent, as determined by the implementing jurisdiction, provided that the reduction is supported by findings that the remaining mitigation costs are funded through other available sources and that the reduction does not create a funding shortfall for implementation of the Habitat Conservation Plan.

As a point of reference, the cumulative level of inflation based on the Consumer Price Index for All Urban Consumers in the United States (CPI-U) between 1996 and 2025 was 106 percent, equivalent to an average annual inflation rate of about 2.5 percent. If automatic annual inflationary adjustments had been integrated into the fee, the \$500 per acre SKR mitigation fee would have been over \$1,000 per acre in today's dollar terms. To avoid falling behind in the future, it is recommended that the RCHCA update the fee annually and automatically based on an inflation index.

Summary of Technical Findings

- 1. The revised, required SKR Mitigation Fee is calculated at \$900 per acre.** This is the mitigation fee estimated required to ensure new development in the SKR Plan area provides sufficient average annual funding to cover the annual HCP implementation costs. This represents an 80 percent increase from the current fee set in 1996, an increase which remains below the overall level of inflation since that time.
- 2. RCHCA requires approximately \$1.9 million annually (in 2025 dollars) in funding to cover its ongoing activities and obligations under the Plan.** The RCHCA is responsible for a broad range of ongoing reserve management activities and biological research under the Plan and has annual costs associated with staffing, consultants, services, and supplies.

3. **The required annual funding from the SKR mitigation fee is about \$1.6 million annually.** Through interest revenues from its funding balances and payments for contract services, the RCHCA accrues about \$300,000 annually in non-fee revenues. As a result, the net annual funding required from SKR fees to ensure the HCP can cover its implementation obligations is about \$1.6 million annually.
4. **The required \$900 per acre fee level is derived from the required fee funding and the expected level of annual development.** Within the Plan Area, the forecast, average annual development is estimated to be about 1,770 acres per year. Spreading the net HCP implementation costs evenly and proportionately across this expected level of development results in a required fee of \$900 per acre. The level of future development and fee payment should be tracked carefully by the RCHCA. Variations by year are to be expected, but systematic differences from the forecasts may require further review and update of the nexus study.
5. **To keep up with the effects of cost inflation on annual HCP implementation costs, the SKR mitigation fee should be automatically updated annually based on an inflation index.** The updated fee level is expected to provide the necessary fee revenues in 2025 dollar terms. Inflation will increase the costs of Plan implementation annually and to keep pace, the SKR fee should be updated automatically each year based on an inflation index.

2. Technical Analysis

This chapter provides the more detailed technical analysis and associated process, assumptions, and calculations that were used to derive the updated SKR fee. The fee analysis is designed to reflect the need for and planned use of fee revenues as well as to establish their reasonableness and proportionality with the impacts of new development consistent with the Mitigation Fee Act. It also helps establish the “essential nexus” and “rough proportionality” under the US Supreme Court Nollan/ Dolan decisions. The legal context and specific nexus findings are described in more detail on **Chapter 3**.

Step 1. Determine RCHCA Ongoing Plan Implementation Costs

The RCHCA undertakes a broad set of reserve management and oversight activities each year as required by the HCP. EPS reviewed the most recent RCHCA budget from FY 2024-2025 and worked with District staff to determine which of the 2024/2025 costs are ongoing HCP implementation costs (versus one-time costs). As shown in **Table 2**, the estimated annual ongoing costs of implementing the HCP are **\$1.925 million**. This includes the personnel, consultant, services, supplies and other expenditures requires to ensure plan implementation. About 70 percent of these costs are associated with Plan implementation as a whole, while the other 30 percent are reserve-specific costs associated with the Lake Matthews Reserve Fund.

Table 2 Ongoing Annual RCHCA Expenditures (2025 Dollars)

Expenditure Item	General Fund (3)	Lake Matthews Reserve Fund (3)	FY2025 Total	%
Ongoing 2025 Expenditures (1)				
RCHCA Salaries and Wages	\$315,310	\$364,619	\$679,929	35%
Fringe Benefits	\$152,726	\$172,338	\$325,064	17%
Overhead (2)	\$351,495	\$0	\$351,495	18%
Consulting Labor	\$250,000	\$0	\$250,000	13%
Insurance	\$65,000	\$0	\$65,000	3%
Weed Abatement	\$27,500	\$0	\$27,500	1%
All Other (Services, Supplies, etc.)	<u>\$201,650</u>	<u>\$25,000</u>	<u>\$226,650</u>	<u>12%</u>
Total	\$1,363,681	\$561,957	\$1,925,638	100%

(1) Excludes \$84,612 one-off expenditure on field equipment funded by a grant.

(2) Overhead encompasses payments to WRCOG for overhead services, including HR/ admin etc.

(3) Lake Matthews costs are reserve-specific and include reserve manager and techs.

General Fund covers administrative and management personnel and other costs.

Source: RCHCA Fiscal Year 2024/2025 Budget; Economic & Planning Systems, Inc.

Step 2. Identify Consistent Ongoing Non-Fee Revenues

To the extent that the RCHCA has consistent sources of other non-fee revenues to help fund some of the implementation costs estimated in Step 1, these revenues are subtracted from the overall HCP implementation costs to determine the net fee revenue required.

RCHCA currently has two secure funding sources that it can apply to help fund a portion of the ongoing HCP implementation costs. These include interest revenues from the General Fund and Lake Matthews reserve funds as well as payment for contract services by the Metropolitan Water District for RCHCA work efforts on their reserves. To fill funding gaps in the past, RCHCA has competed for and, in some cases, won grant funding. However, because of the uncertainty of grant funding, the regulatory agencies do not accept grant funding when reviewing funding assurances for HCPs.

As shown in **Table 3**, based on the average annual interest rate over the last 10 years and the expected reserves at the start of the 2025/2026 fiscal year, an average annual of about \$183,400 in interest revenues is estimated. The payments for contract services can fluctuate by year and are assumed to average about 75 percent of the total allowable charge, or \$150,000 each year. Together, these revenue sources are expected to provide about **\$333,400** in annual revenues to cover a portion of the HCP implementation costs.

Table 3 Potential Non-Fee Ongoing Revenues

Item	Assumption	General Fund	Lake Matthews Fund	Total
Annual Interest Revenues				
2023/2024 Fund Balance		\$11,006,233	\$2,914,748	\$13,920,981
2024/2025 Proposed Use of Fund Balance		<u>\$518,715</u>	<u>\$304,961</u>	<u>\$823,676</u>
2025/2026 Remaining Fund Balance		\$10,487,518	\$2,609,787	\$13,097,305
Annual Interest Revenues [1] (nominal dollars)	1.4%	\$146,825	\$36,537	\$183,362
Contract Services				
Contract Services (nominal dollars)	75% of Max Contract	\$105,000	\$45,000	\$150,000
Total Non-Fee Ongoing Revenue (nominal dollars)		\$251,825	\$81,537	\$333,362

[1] Interest rate represents historical 10-year average (for 2014-2024) annual interest rate for the state's Local Agency Investment Fund (LAIF) in which RCHCA funds are invested.

Source: RCHCA Fiscal Year 2024/2025 Budget; Economic & Planning Systems, Inc.

Step 3. Annual Fee Funding Required

The calculation of the required habitat mitigation fee is based on the level of fee revenue required. As shown in **Table 4**, the average annual fee revenue required is about **\$1.6 million**, representing the total annual costs (\$1.925 million) minus the estimated annual non-fee revenues (\$333,400). This is the level of fee funding required from new development to ensure the RCHCA can implement the HCP and provide new development with incidental take permitting.

Table 4 Annual Fee Funding Required

Item	General Fund	Lake Matthews Fund	Total
Annual Expenditures	\$1,363,681	\$561,957	\$1,925,638
Potential Non-Fee Funding			
Interest Revenues	\$146,825	\$36,537	\$183,362
Contract Services Revenues	<u>\$105,000</u>	<u>\$45,000</u>	<u>\$150,000</u>
Subtotal	\$251,825	\$81,537	\$333,362
Fee Funding Required	\$1,111,856	\$480,420	\$1,592,276

Source: RCHCA Fiscal Year 2024/2025 Budget; Economic & Planning Systems, Inc.

Step 4. Forecast of Annual Fee-Paying Development

Like all habitat mitigation fees, the fee revenues collected from new development will depend on the level of new development each year. Annual development in the SKR Fee Area (like other areas) will fluctuate based on economic cycles, the availability of developable land, and a host of other factors. To establish a mitigation fee, it is necessary to forecast an average annual pace of development and then track it over time to see if it is generating sufficient revenues and/or whether any refinements in the fee program are appropriate.

As shown in **Table 5**, EPS developed an annual forecast of about 1,770 acres of new development in the SKR Plan Area based on a combination of historical fee revenue generation and SCAG household/ job projections and development density assumptions.

Historical data provided by the RCHCA indicated an average annual fee revenue collection of about \$950,000 over the last four (4) fiscal years. Divided by the current fee level of \$500/ acre on most development, this implies an average of about 1,900 acres paid the fee each year.

To provide a forward-looking perspective, EPS reviewed the SCAG forecasts of households and jobs in the SKR Plan Area. As shown, an average of 5,200 new households and 6,800 new jobs are forecast annually in the SKR Plan Area. The developed area required to support these forecasts depends on the development densities of new housing and new workspaces. Using 4 dwelling units/acre for residential development and 20 jobs/acre for non-residential development suggests an average annual development of about 1,640 acres annually, comprised of 1,300 acres of residential development and 340 acres on non-residential. To the extent the average densities vary from these estimates, the level of fee-paying development will vary.

Table 5 Historical and Projected Growth Metrics

Item	Total
Historical Fee Revenues	
Average Annual Mitigation Fee Revenues (FY 2021 - 2024)	\$953,090
Implied Developed Mitigation Acres (assume \$500/ acre)	1,906
SCAG Growth Projections	
SKR Plan Area: SCAG Annual Household Projections (2019 - 2045)	5,191
SKR Plan Area: SCAG Annual Job Projections (2019 - 2045)	6,784
Residential Acres (4 units/ Acre)	1,298
Non-Residential Acres (20 jobs/ Acre)	<u>339</u>
	1,637
Average Growth Projection	
Developed Acres (1)	1,772

(1) For purposes of this fee calculation, developed acres average the historical and projected growth estimates.

Source: SCAG; Economic & Planning Systems, Inc.

To develop a reasonable forecast of future fee-paying development in the SKR Plan Area, this analysis takes the average of the developed acre estimates from the recent history and from available forecasts. This results in a forecast of about 1,770 acres of development each year.

Step 5. Mitigation Fee Calculation and Inflator

The updated mitigation ratio is about **\$900 per acre** in 2025 dollar terms as shown in **Table 6**. This is the fee level required for the forecasted 1,772 annual average developed acres to generate the \$1.59 million in fee revenue required to ensure the RCHCA, in combination with the other revenues sources noted, can cover the annual costs of implementing the HCP.

Table 6 Annual Fee Funding Required

Item	Total
Fee-Funding Required	\$1,592,276
Development Forecast scenarios	
Annual Development Forecast (acres)	1,772
Mitigation Fee per Acre	\$900

Source: Economic & Planning Systems, Inc.

Similar to most fee programs, it is recommended that an automatic annual inflation index is integrated into the fee program so the fee level is adjusted for inflation each year and avoids falling behind implementation costs.

As noted above, fluctuations in the level of development are likely each year and it is important for the RCHCA to track revenue levels to make sure sufficient revenues are generated on average over time. The RCHCA could use its reserve balances in cases where fee revenues drop below the average required (for example, during economic or development downturns) though this is not a sustainable approach over the long term and any ongoing under-provision of fee revenues would require a fee update. Mitigation fee programs are typically expected to do periodic fee program updates (typically every 5 to 8 years) to confirm or refine the fee program, though more frequent updates are undertaken when there is a significant change in circumstances.

Step 6. Per Acre Mitigation Fee Basis

Recent updates to the Mitigation Fee Act due to the passage of AB 602 require that new and updated fee programs consider whether it is possible and appropriate to adopt fees on new residential development on a per square foot basis. For habitat mitigation fees, a per acre of development approach is typically the preferred approach. For these fees, the scale of land development provides a more direct and proportional connection/ nexus to impacts (on habitat) while also ensuring smaller developments pay lower fees. The square footage of new residential development on the land can vary substantially even for the same amount of land development, making it a less strong basis for the nexus and fee collection.

3. Legal Context and Nexus Findings

This chapter provides the legal context for this fee update and describes the nexus findings required to support the update to the SKR mitigation fee under the Mitigation Fee Act.

Legal Context

Riverside County's Ordinance No. 663 Section 12 states that: "The Board of Supervisors may periodically review and cause an adjustment to be made to the Mitigation Fee. By amendment to this ordinance, the fee may be increased or decreased to reflect changes in estimated costs for the development, preparation and implementation of a Habitat Conservation Plan. The adjustment in the fee may also reflect changes in estimated revenues received pursuant to this ordinance, as well as the availability or lack thereof of other funds with which to prepare and implement the Habitat Conservation Plan".

The SKR mitigation fee can be adjusted under the Mitigation Fee Act (MFA) through the development of a nexus study. Recent court cases (Sheetz case) have also concluded that mitigation fees must be consistent with the US Supreme Court's Nollan and Dolan tests. Overall, the nexus study must describe the need for and use of the fee revenues as well as the relationships between the fee amount and fee need/ use. The nexus study/ findings should also establish the "essential nexus" under the US Supreme Court's Nollan test and the "rough proportionality" required under the US Supreme Court's Dolan test.

Mitigation Fee Act

Mitigation fees are utilized in California to finance public facilities necessary to mitigate impacts stemming from new development. In 1987, the California Legislature adopted the Mitigation Fee Act to provide a framework for the application and administration of such fees. Current prevailing practice among the majority of approved and permitted regional Habitat Conservation Plans is that any habitat mitigation fees are to be adopted by the relevant jurisdictions consistent with the Mitigation Fee Act. The adoption of fees under the Mitigation Fee Act includes a number of auditing and reporting requirements.

The Mitigation Fee Act, defined in California Government Code Sections 66000 to 66025, requires all public agencies to document five findings when establishing or increasing a fee as a condition for new development.

This section describes how the proposed increase in the fee is based on the appropriate nexus between new development and the imposition of a mitigation fee and satisfies the five statutory findings required by the Mitigation Fee Act. The nexus findings also indicate the essential nexus and rough proportionality as required under Nollan/ Dolan. These nexus findings are summarized below and supported by the technical analysis in **Chapter 2**.

Purpose of Fee

Identify the purpose of the fee.

The purpose of the SKR mitigation fee is to contribute to the funding required to implement the SKR Plan and, as a result, help maintain the incidental take permits for new private and public development in the SKR Plan Area under the federal and State Endangered Species Acts. Maintaining the incidental take permit is necessary to allow for future development, and without the development community paying for the cost of the SKR HCP, individual applicants would need to apply independently for development approval under federal and State law if the project impacts a threatened or endangered species. The federal Endangered Species Act specifically requires that the applicant for incidental take permit “ensure that adequate funding for the plan will be provided.” In addition, the Mitigation Fee helps provide the regional benefit of streamlined economic development in the SKR Plan Area as well as the management of the contiguous open spaces that serve as a community amenity.

Use of Fee Revenues

Identify the use to which the fee is to be put.

The SKR HCP is the public document that outlines the actions required as a whole and the particular set of actions required by the local permittees (and RCHCA as their agent) to obtain incidental take permits—associated with State and federal Endangered Species Act requirements—for new public and private development in the SKR Plan Area. The actions required by the SKR Plan remain the same. Failure to meet the requirements of the SKR HCP will result in an inability to obtain or maintain incidental take permits through the SKR HCP, which would require future development to secure individual take authorization if the project impacts the SKR.

Revenues from the SKR Mitigation Fee will be used, in conjunction with other sources of revenue, to fund the reserve management actions identified as the responsibility of local permittees in the SKR HCP. The specific cost components of these actions are summarized in **Chapter 2** and based on published budget documents.

Relationship

Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed.

The implementation of the MSHCP, and the mitigation fee as a fundamental part of it, will benefit all new development by mitigating their collective impacts on the protected Stephens' kangaroo rat species and associated habitat. All new public and private development in the Plan Area will affect habitat and species either directly, indirectly, or as a cumulative effect. All new development in the Plan Area will also benefit from the incidental take permits obtained through the SKR HCP and via the use of the mitigation fee revenues.

Need

Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

Without new development, no SKR HCP would be necessary and no further habitat conservation would be required under the federal and State Endangered Species Acts. To allow for any future development under the Plan, the SKR HCP must be fully funded. New development in the Plan Area, as noted above, will directly, indirectly, or cumulatively affect the species and its habitat in Riverside County. Because of this, development of the SKR HCP was undertaken to provide an approach to benefit future development in the Plan Area. The requirements of the SKR HCP are a direct result of the mitigation that is engendered by all new development in the Plan Area under the pertinent environmental regulations. Meeting the requirements of the SKR HCP is necessary to obtain the necessary federal authorization to develop within the Plan Area. Together, purpose, need, and relationship findings also indicate a clear "essential nexus" under the Nollan test.

Proportionality

Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.

The SKR HCP includes detailed conservation requirements based on the scientific evaluations that form the basis of the SKR HCP. Based on these evaluations, local permittee conservation responsibilities were identified. The mitigation fee provides funding towards the fulfillment of the local permittee conservation requirements. After subtracting out non-fee funding sources from the implementation costs, the remaining implementation costs are all allocated to new development and allocated proportionately between new development on an acreage basis. As such, the mitigation fee calculations (as laid out in **Chapter 2**) are

carefully calibrated to fund only the proportionate share of costs attributable to the new development on which the fee is imposed and to allocate the fee levels proportionally across all new development. This proportionality finding also establishes the required “rough proportionality” under the Dolan test.