### "A CLOUD ON EVERY DECISION": NOLLAN/DOLAN AND LEGISLATIVE EXACTIONS

presented at

#### LEAGUE OF CALIFORNIA CITIES 2018 Annual Conference & Expo City Attorneys' Track

Friday, September 14, 2018, 8:00 a.m. – 10:00 a.m. Long Beach Convention Center, Long Beach, California



### **DEVELOPMENT FEES**

 An "exaction" imposed as a precondition for development.



- Lessens the adverse impact of new development.
- "[O]ne of the most common subjects of local police power regulations."

(Russ Bldg. Partnership v. City and County of San Francisco (1987) 199 Cal. App. 3d 1496, 1504.)

### Koontz v. St. Johns River Water Management District, 570 U.S. 595 (2013)

Supreme Court Justice Kagan (dissenting):

"At the least, the majority's refusal 'to say more' about the scope of its new rule now casts a <u>cloud</u> on every decision by every local government to require a person seeking a permit to pay or spend money."



### FIFTH AMENDMENT TO THE U.S. CONSTITUTION



"No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law;

nor shall private property be taken for public use, without just compensation."





The Takings Clause is designed...

"to secure compensation in the event of otherwise proper interference amounting to a <u>taking</u>."

First English Evangelical Lutheran Church of Glendale v. County of Los Angeles, 482 U.S. 304, 315 (1987)



#### THE "TAKING" OF PRIVATE PROPERTY

Condemnation (Eminent Domain)

**Inverse Condemnation** 



#### THE "TAKING" OF PRIVATE PROPERTY

- Direct government appropriation or physical occupation of private property.
- Regulatory taking.

"[G]overnment regulation of private property may, in some instances, be so onerous that its effect is tantamount to a direct appropriation or ouster - and that such 'regulatory takings' may be compensable under the Fifth Amendment." Lingle v. Chevron U.S.A. Inc., 544 U.S. 528 (2005).



## 4 CATEGORIES OF REGULATORY TAKINGS

### (2 PER SE & 2 THAT ARE NOT PER SE)

### Categories of *Per Se*Regulatory Takings

 A government regulation that requires an owner to suffer a permanent physical invasion of her property - however minor.

Loretto v. Teleprompter Manhattan CATV Corp., 458 U.S. 419 (1982)

### 4 TYPES OF REGULATORY TAKINGS

### Categories of Per Se Regulatory Takings

2. A government regulation that *completely* deprives an owner of all economically beneficial use of her property.

Lucas v. S.C. Coastal Council, 505 U.S. 1003 (1992)



### 4 TYPES OF REGULATORY TAKINGS

### Categories of Regulatory Takings That Are Not Per Se

- 3. Factored analysis (not a "set formula") in *Penn Central Transportation Co. v. New York City*, 438 U.S. 104 (1978).
  - The economic impact of the regulation on the claimant.
  - The extent to which the regulation has interfered with distinct investment-backed expectations.
  - The character of the governmental action.

### Additional Penn Central Factors (California Courts):

- Whether the regulation interferes with interests that are sufficiently bound up with the reasonable expectations of the claimant to constitute "property" for Fifth Amendment purposes;
- Whether the regulation affects the existing or traditional use of the property and thus interferes with the property owner's primary expectation;
- The nature of the State's interest in the regulation and whether the regulation is reasonably necessary to the effectuation of a substantial public purpose;
- Whether the property owner's holding is limited to the specific interest the regulation abrogates or is broader;
- Whether the government is acquiring resources to permit or facilitate uniquely public functions, such as government's entrepreneurial operations;
- Whether the regulation permits the property owner to profit and to obtain a reasonable return on investment;
- Whether the regulation provides the property owner benefits or rights that mitigate whatever financial burdens the law has imposed;
- Whether the regulation prevents the best use of the land;
- Whether the regulation extinguishes a fundamental attribute of ownership; and
- Whether the government is demanding the property as a condition for the granting of a permit.



### 4 TYPES OF REGULATORY TAKINGS

## Categories of Regulatory Takings That Are Not Per Se

4. Heightened standard of review articulated in

Nollan v. California Coastal Commission, 483 U.S. 825 (1987); and

Dolan v. City of Tigard, 512 U.S. 374 (1994).



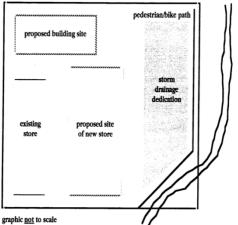
### THE NOLLAN/DOLAN TEST



## **Nollan**Essential Nexus

### Dolan

Rough Proportionality "individualized determination"





### THE TWO-PART NOLLAN/DOLAN TEST

"...[In Nollan and Dolan] we held that a unit of government may not condition the approval of a land-use permit on the owner's relinquishment of a portion of his property unless there is a 'nexus' and 'rough proportionality' between the government's demand and the effects of the proposed land use."

Koontz v. St. Johns River Water Management District, 570 U.S. 595, 599 (2013).



### THE KOONTZ CASE

 Koontz involved an adjudicative (administrative) ad hoc exaction.



 Held (9-0): Nollan/Dolan applies to permit approvals and denials.

 Held (5-4): Nollan/Dolan applies to monetary exactions (development fees).

## WHAT ABOUT LEGISLATIVE EXACTIONS AFTER *KOONTZ*?

### **Supreme Court Justice Thomas:**

"... property owners and local governments are left <u>uncertain</u> about what legal standard governs legislative ordinances and whether cities can legislatively impose exactions that would not pass muster if done administratively."



California Building Industry Assn. v. City of San Jose, 136 S.Ct. 928 (2016) (J.Thomas, concur. in den. cert.)

### MEANWHILE, IN CALIFORNIA...

- Nollan/Dolan governs adjudicative (ad hoc) fees. (Ehrlich v. City of Culver City (1996) 12 Cal.4th 854.)
- Legislatively prescribed and generally applied fees are not governed by Nollan/Dolan.
   (San Remo Hotel v. City and County of San Francisco (2002) 27 Cal.4th 643.)



### **CURRENT ARGUMENTS IN LITIGATION**

27	82. The United States Supreme Court recently held that all monetary exactions in
28	development permits issued by local government agencies, including monetary exactions imposed
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Na Fixor	PETITION FOR WRIT OF MANDATE AND COMPLAINT FOR DECLARATORY RELIEF, INJUNCTIVE
	RELIEF AND DAMAGES
1	by ordinances of general applicability, are subject to the heightened and strict scrutiny standards
2	articulated in Nollan and Dolan. Koontz, 133 S.Ct. at 2598-2600, 2603. The Court stated that



### **CURRENT ARGUMENTS IN LITIGATION**

Second, the United States Supreme Court's latest decision applying the unconstitutionalconditions doctrine in the land-use context—*Koontz v. St. Johns River Water Management District*—
leaves little room for doubt that *Nollan* and *Dolan* apply to *all* permit exactions regardless of which
government body or official happens to impose them. *Koontz* affirms that *Nollan* and *Dolan* "provide

b. Respondent failed to proceed in the manner required by law, because a development fee may be imposed as a permit condition under the federal unconstitutional conditions doctrine, as applied in the context of the Fifth and Fourteenth Amendments to the U.S. Constitution, only if Respondent makes an individualized determination that an essential nexus and rough proportionality exist between the public impacts of Mr. Sheetz's proposed project and the need for improvements to state and local roads. Here,



### **Justice Thomas:**

# There are "compelling reasons for resolving this conflict at the earliest practicable opportunity."

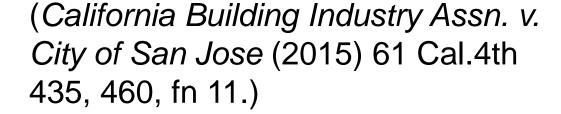
California Building Industry Assn. v. City of San Jose, 136 S.Ct. at 929 (2016) (J.Thomas, concur. in den. cert.)

### **LEGAL QUESTION #1:**

### DID KOONTZ OVERRULE THE CALIFORNIA SUPREME COURT'S LEGISLATIVE / ADJUDICATIVE DISTINCTION?

### After Koontz:

Repeated that adjudicative fees are governed by the *Nollan/Dolan* test, but legislative fees are not.





### **LEGAL QUESTION #1**:

### DID KOONTZ OVERRULE THE CALIFORNIA SUPREME COURT'S LEGISLATIVE / ADJUDICATIVE DISTINCTION?

### Why?

- The facts in Koontz did not involve a legislative fee.
- Koontz did not decide "whether the Nollan/Dolan test is applicable to legislatively prescribed monetary permit conditions that apply to a broad class of proposed developments."



Superior Court of California, County of El Dorado:

"...the California Supreme Court has held that the Koontz opinion did not disturb the case authorities that held legislative enactment of generally applicable development fees were not subject to the Nollan/Dolan test."



## LEGAL QUESTION #1: WHAT ABOUT OTHER COURTS...

## U.S. District Court, Northern District of California

One Judge applied Nollan/Dolan to a legislative exaction.

Levin v. City and County of San Francisco,71 F. Supp.3d 1072 (N.D. Cal. 2014).



## LEGAL QUESTION #1: WHAT ABOUT OTHER COURTS...

U.S. District Court, Northern District of California

 Another Judge found that Koontz did not hold that Nollan/Dolan applies to legislative exactions.

Building Industry Association - Bay Area v. City of Oakland, 289 F.Supp.3d 1056 (N.D.Ca. 2018).



# Building Industry Association - Bay Area v. City of Oakland 289 F.Supp.3d 1056 (N.D.Ca. 2018):

Case 3:15-cv-03392-VC | Document 72 | Filed 02/05/18 | Page 1 of 7

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

BUILDING INDUSTRY ASSOCIATION RAY AREA,
Plainiff,
v.
ORDER GRANTING MOTION TO
DISMISS
Re: Dkt. No. 62

The City of Oakland's motion to dismiss is granted. Dismissal is with prejudice.

Oakland is one of at least twelve cities in California that have ordinances requiring developers to display or fund art as a condition of project approval. Under the current version of Cakland's ordinance, which was encated in July 2017, a developer of a multifurnity project with over twenty units must either: (3) speed 0.5 percent of building everlopment costs or art displays on the site of the development or a nearby fight-of-way; or (ii) pay an equivalent ammunt, as a city-operated fund for public art instablations. A developer of certain commercial projects must purchase and install net valued at one percent of building development costs or pay an equivalent fact to Oakland's public-art fund. This requirement applies generally to all development projects that fit the Ordinance's criteria, although there are ways for some developers to get out of the requirement or reduce the ammunit they need to spend. For example, a developer of affordable housing doosn't need to comply with the ordinance if it can show that compliance costs would make the project economically infloatible. And the ordinance is necleudes a mechanism to

"The [U.S. Supreme] Court did **not** hold in *Koontz* that generally applicable land-use regulations are subject to facial challenge under the exactions doctrine."



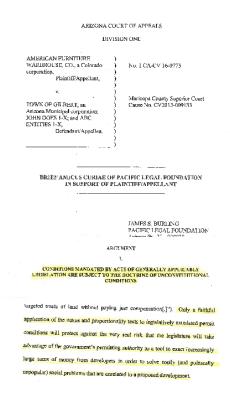
### **LEGAL QUESTION #1**:

### WHAT ABOUT OTHER COURTS...

American Furniture Warehouse Co. v. Town of Gilbert (July 10, 2018) 2018 Ariz.App.LEXIS 110.

Pacific Legal Foundation argued *Nollan/Dolan* applies to a traffic signal fee imposed by ordinance.

Arizona Court of Appeal: Nollan/Dolan does not apply to "generally applicable legislative development fees."





### **LEGAL QUESTION #2**:

# SHOULD NOLLAN/DOLAN APPLY TO GENERALLY-APPLIED LEGISLATIVE EXACTIONS?

"Let's Be Reasonable: Why Neither Nollan/Dolan nor Penn Central Should Govern Generally-Applied Legislative Exactions After Koontz," 34 PACE ENVIRONMENTAL LAW REVIEW 237 (Spring 2017)

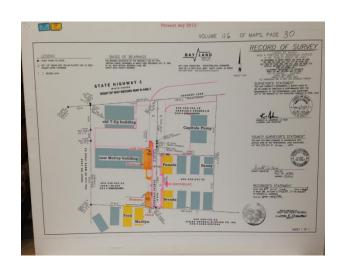


### NOLLAN/DOLAN SHOULD NOT APPLY TO GENERALLY-APPLIED LEGISLATIVE EXACTIONS, if...

### Two Key Criteria:

 The exaction is generallyapplied;

and



II. The exaction is applied based on a set legislative formula without any meaningful administrative discretion in that application.



# NOLLAN/DOLAN SHOULD NOT APPLY TO GENERALLY-APPLIED LEGISLATIVE EXACTIONS

### Potential Arguments:

1) Both *Nollan* and *Dolan* did not involve generally-applicable legislative exactions.

 The language in *Dolan* distinguishes legislative and adjudicative decisions.



# Building Industry Association - Bay Area v. City of Oakland 289 F.Supp.3d 1056 (N.D.Ca. 2018):

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"...the [U.S. Supreme] Court has consistently spoken of the [Nollan/Dolan] doctrine in terms suggesting it was intended to apply only to discretionary decisions regarding individual properties."



# NOLLAN/DOLAN SHOULD NOT APPLY TO GENERALLY-APPLIED LEGISLATIVE EXACTIONS

### Potential Arguments:

- Generally-applied legislative exactions are "financial burdens on property owners" exempt from Nollan/Dolan.
- The "extortionate" constitutional rationales in Koontz do not apply to legislative exactions.



# NOLLAN/DOLAN SHOULD NOT APPLY TO GENERALLY-APPLIED LEGISLATIVE EXACTIONS

### Potential Arguments:

- 5) Avoid judicial scrutiny of "the wisdom of myriad government economic regulations."
- 6) Not blind deference to legislative exactions.



## CALIFORNIA'S MITIGATION FEE ACT (Government Code §66000 et seq.)

- Concerns that development fees were unrelated to development projects.
- Creates uniform procedures for imposing, collecting, accounting for, and using development fees.



### **Creation of a "Development Fee**



(Govt. Code §66001, subd. (a).)

### Local agency must:

- ➤ Identify the purpose of the fee;
- ➤ Identify the use to which the fee will be put; and

#### RESOLUTION NO 021-2012

THE BOARD OF SUPERVISORS OF THE COUNTY OF EL DORADO

Amending the 2004 General Plan Traffic Impact Mitigation (TIM) Fee Program and Adopting TIM Fee Rates

WHEREAS, the County Board of Supervisors has long recognized the need for new development to help fund the roadway and bridge improvements necessary to serve that new development; and

WHEREAS, starting in 1984 and continuing until the present time, the Board has adopted and updated various fee resolutions to ensure that new development on the western slope pay to fund its fair share of the costs of improving the county and state roadways necessary to serve that new development; and

WHEREAS, the County prepared a new General Plan entitled "2004 El Dorado County General Plan: A Plan for Managed Growth and Open Roads; A Plan for Quality Neighborhoods and Traffic Relief", and in July of 2004 adopted that plan; and

WHEREAS pursuant to Public Resources Code Section 21000 et seq., on August 22, 2006, with Resolution 265-2006, the County certified the Traffic Impact Mitigation Fee Program Supplement to the 2004 General Plan Environmental Impact Report, issued a Supplemental Statement of Overriding Considerations, and made Supplement Findings of Fact; and

WHEREAS pursuant to Government Code Section 66001 et seq., the County adopted the 2004 General Plan Traffic Impact Mitigation Fee (TIM) Program on August 22, 2006, with Resolution 266-2006; and

WHEREAS Resolution 205-2008 adopted on July 29, 2008, provided that said fees shall be adjusted annually by an increase or decrease in the project costs by updating improvement cost estimates using actual construction costs of ongoing and completed projects, the most current cost estimates for those projects that are far enough along in the project development cycle to have project specific cost estimates, and for all other projects, the Engineering News Record-Building Cost Index; and

WHEREAS Resolution 114-2009 adopted on June 2, 2009, amended the 2004 General Plan Traffic Impact Mitigation Fee Program and left the TIM Fee Rates unchanged from 2008; and

WHEREAS Resolution 070-2010 adopted on June 8, 2010, amended the 2004 General Plan Traffic Impact Mitigation Fee Program and left the TIM Fee Rates unchanged from 2009; and

Determine that both "the fee's use" and "the need for the public facility" are *reasonably related* to the type of development project on which the fee is imposed.

Initial "Nexus Study" (Govt. Code §66001, subd. (a)):

- ✓ Not the impact of a particular project, but a class of development projects;
- ✓ Involves projections;
- ✓ Valid methodology of evaluating data;
- ✓ Consider all relevant factors;
- ✓ Reasoned analysis.





Initial "Nexus Study" (Govt. Code §66001, subd. (a)):

- "Be fair."
- "Plan ahead."
- "Avoid over-generalizing."
- "Don't be greedy."
- "Consider alternatives to exactions."

(William W. Abbott, *et al.*, "Overview of the Fee Adoption Process – AB 1600 Nexus Legislation," in Abbott, *et al.*, *Exactions and Impact Fees in California* (3d ed. 2012, Solano Press), p. 100.)

### What About The Individualized Analysis?

(Government Code section 66001, subdivision (b))

### Subdivision (b):

"In any action imposing a fee as a condition of approval of a development project by a local agency, the local agency shall 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."



### What About The Individualized Analysis?

Government Code section 66001, subdivision (**b**)

 Applies to ad hoc adjudicative fees, not legislative fees.

Not a mandated two-stage process.



### "A CLOUD ON EVERY DECISION": NOLLAN/DOLAN AND LEGISLATIVE EXACTIONS

Q & A



### **THANK YOU**

### Glen Hansen Abbott & Kindermann, Inc.

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