TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: AUGUST 9, 2004

SUBJECT: PROPOSED CITYWIDE TRANSPORTATION IMPACT FEE

RECOMMENDATION
The Finance Committee recommends referral of the Citywide Transportation Impact Fee to Council without recommendation. Staff recommends the following Council actions:

1) Conduct a public hearing regarding the proposed Citywide Transportation Impact Fee (TIF) and
2) Adopt an Ordinance making certain findings regarding the TIF and adding Chapter 16.59 to the Palo Alto Municipal Code to impose and implement the TIF.

BACKGROUND
The City Council directed staff to develop a Citywide Transportation Impact Fee as part of two “Top 5” Council Priorities: Long-Range Financial Planning and Alternative Transportation/Traffic Calming. The proposed citywide TIF would fund a portion of the TIF Expenditure Plan.

The TIF Expenditure Plan comprises life-cycle costs (capital, operations, and maintenance) for the life of a project or program through the year 2025. The Expenditure Plan includes a suite of eight projects and program areas as listed below. These projects are derived from either (or both) the proposed Transportation Strategic Plan or the Council-adopted Bicycle Transportation Plan.

• Transportation Demand Management Program (expansion of the City’s Way2Go commute alternatives program)
• Computer traffic management (including traffic-adaptive automated traffic signal operation citywide and other applications of advanced electronics for traveler information, parking management, and transit operations management)
• Expanded Palo Alto Shuttle service (an additional 42 bus service hours each weekday)
• Bicycle boulevards (seven new bicycle boulevards, forming a citywide network)
• Bicycle/pedestrian undercrossings (two new and one replacement bicycle/pedestrian undercrossing)
• Bicycle lanes on major streets (new bicycle lanes on three major residential streets)
• Bicycle routes/lanes on major arterials (new bicycle lanes on five other major streets)
• Spot bicycle/pedestrian improvements (for improved bicycle and pedestrian travel at seven signalized intersections citywide that are choke-points contributing to citywide congestion).

The life cycle cost approach takes account of expected total future costs in current dollars (using a real interest, or present value, discount rate of 3 percent) to build, operate, and maintain transportation infrastructure or to operate transportation programs. Use of proposal projected life-cycle costs is based on best practices in engineering economic analysis. Hence, the TIF Expenditure Plan projects include the cost not only of building, but also operating and maintaining, a project through its useful life. City Council has final authority with respect to project approval and budget for each TIF Expenditure Plan project or program.

The TIF would be assessed on net new PM peak-hour trips (typically, those weekday vehicle trips taking place between 5 p.m. and 6 p.m.) generated by land development and re-development. The 7.6 percent share represents the proportion of all PM peak-hour vehicle trips originating and/or terminating in Palo Alto as forecast in the citywide computer travel demand forecast model as attributable to new development and re-development. A final report has been prepared to document the findings and determinations required pursuant to the Mitigation Fee Act (A.B. 1600) with respect to the TIF (Attachment B).

Figure 16 (page 27) of Attachment B displays the TIF Expenditure Plan life-cycle costs in detail. The table below presents a summary by category:

<table>
<thead>
<tr>
<th>Project</th>
<th>Total Cost to 2025</th>
<th>TIF Share</th>
<th>Percent of TIF Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation Demand Management</td>
<td>$1,225,936</td>
<td>$93,171</td>
<td>1.0%</td>
</tr>
<tr>
<td>Computerized traffic management</td>
<td>$38,490,703</td>
<td>$2,925,293</td>
<td>32.8%</td>
</tr>
<tr>
<td>Expanded shuttle service</td>
<td>$27,480,779</td>
<td>$2,088,539</td>
<td>23.4%</td>
</tr>
<tr>
<td>Bicycle boulevards</td>
<td>$1,308,006</td>
<td>$99,408</td>
<td>1.1%</td>
</tr>
<tr>
<td>Bicycle/pedestrian undercrossings</td>
<td>$38,171,358</td>
<td>$2,901,023</td>
<td>32.5%</td>
</tr>
<tr>
<td>Bicycle lanes on major streets</td>
<td>$1,222,756</td>
<td>$92,929</td>
<td>1.0%</td>
</tr>
<tr>
<td>Bicycle routes/lanes on major arterials</td>
<td>$5,994,176</td>
<td>$455,557</td>
<td>5.1%</td>
</tr>
<tr>
<td>Spot bicycle/pedestrian improvements</td>
<td>$3,562,659</td>
<td>$270,762</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total</td>
<td>$117,456,371</td>
<td>$8,926,684</td>
<td></td>
</tr>
</tbody>
</table>
DISCUSSION
The key provision of the TIF Ordinance is:

- Funds a citywide Transportation Impact Fee Expenditure Plan.
- Addresses citywide future transportation needs with an emphasis on alternatives to the single-occupant vehicle and to both more efficient traffic flow and better travel information.
- Assessed on a net PM peak hour vehicle trip basis, calculated according to the VTA standard methodology which takes into account proximity to public transit, inclusion of mixed-use development as part of a project, and existence of on-site transportation demand management programs.
- Provision to account for future inflation in these costs through annual adjustment of the TIF based on changes in the Construction Cost Index published by The Engineering News Record, the industry standard for infrastructure cost information.
- Includes exemption for public facilities, day care centers, and 100 percent affordable housing developments (including those in the Below Market Rate program), consistent with the methodology for other development impact fees levied by the City.
- TIF not assessed if a development is projected to generate the same or less traffic than the prior use of the property to be developed.
- Does not disturb existing impact fees and improvement programs in the Stanford Research Park and the San Antonio/East Bayshore areas, which are geared toward mitigating local impacts of development rather than impacts on the citywide transportation system. Also does not disturb existing ad hoc development conditions requiring local transportation improvements in the immediate vicinity of new development.

COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Planning and Transportation Commission Review
The PTC reviewed the staff findings and recommendations regarding the TIF on March 17 (see Attachment C for the March 17 staff report to PTC and Attachment D for PTC meeting minutes).

The PTC voted 5-0-0-1 (Commissioner Bialson absent) to recommend the staff recommendation of the proposed Citywide Transportation Impact Fee and associated ordinance with the following additions, each of which have been included in the current version of the TIF Ordinance:

1) A provision permitting the City to accept certain developer-funded improvements in-lieu of payment of the TIF.
2) Clarification that the "change of use" trigger for the TIF would be activated only by an activity that requires a discretionary approval from the City, or the pulling of a building permit, and not minor changes to the operations of a business.

In addition, the Commissioners requested that staff explore the feasibility of exempting from the TIF, or providing credits against the TIF, land uses that generate sales tax and/or transient occupancy tax revenues for the City, while keeping the TIF fund whole. Staff was not able to implement this recommendation because legally the TIF methodology must be based upon impacts of development upon the City’s infrastructure, not net effect upon City revenue. A consequence of this requirement is that the fee charged to non-exempt projects cannot be increased to cover lost revenue that results from the creation of exemptions for sales and occupancy tax generators. Because it is not possible to earmark increased sales tax or transient occupancy tax revenues for a specific purpose without voter approval, it is therefore not possible to grant exemptions in a manner that will not have an effect on the amount of TIF proceeds. Additionally, the creation of exemptions for numerous projects that create substantial traffic impacts and are not traditionally exempted from such fees could negatively impact the legal defensibility of the TIF.

The Commissioners also commented that there is a need for expedient delivery of TIF expenditure plan projects, and to strike the right balance between project readiness, project delivery, and citywide geography equity in implementation of the TIF expenditure plan.

**Finance Committee Review**

The Finance Committee reviewed staff and PTC recommendations on April 20, 2004. Since the Committee was evenly divided on the staff and PTC recommendations, it did not transmit to full Council either a favorable or unfavorable recommendation regarding the proposed citywide TIF. Comments, concerns and suggestions of individual Finance Committee members included the following (see Attachment E for Finance Committee Minutes). These comments and suggestions represent views expressed by individual Finance Committee members and not the Committee as a whole.

- Why should developments that reduce traffic have to pay the TIF, even at a discounted rate?

**Staff Response:** Development and redevelopment that reduces PM peak hour traffic compared to the prior use of the land subject to development or redevelopment will not pay a fee because the fee is based on net new trips. Also, the methodology used to calculate trips takes into account the proximity of projects to public transit, inclusion of mixed uses, and implementation of transportation demand management programs.
• Developments that occurred prior to the TIF would not have to pay for the transportation problems they caused.

**Staff response:** Legally, transportation impact fees can only be assessed to meet future needs due to proposed development and redevelopment and cannot be assessed to make up for existing deficiencies in transportation facilities or services. The TIF would not charge new development for impacts of existing development, but would only charge new development for its own impacts. The City is active in obtaining regional, state, and federal grants and expending the City’s own resources, however, to assist in both improving current conditions and anticipating future needs.

• Clarify when the TIF is payable.

**Staff response:** The revised draft TIF ordinance stipulates that although the obligation to pay the TIF accrues at the time the first discretionary permit is issued; the TIF is actually payable upon issuance of a building permit.

• Why are City buildings exempt?

**Staff response:** The TIF continues the exemptions provided in all existing City development impact fees, including parks, libraries, and community centers. The City provides substantial funding for transportation improvements, including the Street Improvement Fund and from securing a variety of external grants for transportation purposes.

• The TIF expenditure plan improvements funded by a development should be located near the development providing the funding.

**Staff response:** In contrast with the City’s existing development fees, the TIF is designed to mitigate the impacts that a development in one part of the City may have on the transportation system throughout the City. These impacts occur because vehicles commuting to or from points within the City typically must traverse many parts of the citywide transportation network before leaving the City. In practice, proximity of the development project to the location at which the TIF funds obtained would be spent will be an important consideration in allocating funds. Since Council will have authority to approve each TIF project prior to its implementation, Council can evaluate the geographic equity in use of TIF funds on a case-by-case basis. Other factors to be considered include project readiness (some projects will be nearer to “launch” than others) and the relative benefit of different types of improvements from a citywide perspective. The citywide benefit perspective is important since the TIF expenditure plan addresses future citywide transportation impacts and needs.
• How will the TIF affect single-family residences?

Staff response: New single-family residences would be assessed a TIF of $2,289 since single-family homes generate approximately one vehicle trip in the PM peak hour. No TIF would be assessed in the case of an addition to or re-model of an existing single-family home since the PM peak hour trip rate would remain the same.

• How will the TIF affect secondary (residential) units?

Staff response: Secondary units are subject to the TIF and will be assessed at a lower rate than a single-family house, since their projected vehicle trips generation rates will also be lower.

• How does the TIF assessment on the PM peak-hour basis compare to a fee assessment on a square foot basis?

Staff response: The TIF assessment is based on a conversion of PM peak hour trip generation rates given in the Institute of Transportation Engineer’s (ITE) Trip Generation Handbook, 7th Edition and typically expressed in terms of trips per 1,000 square feet. Expressing trip generation directly in terms of trips per PM peak hour, rather than trips generated during the PM peak hour per 1,000 square feet, provides a more direct link between the land use cause and the transportation effect.

• Why is the PM Peak Hour Metric the TIF assessment unit?

Staff response: Citywide, the PM peak hour represents the peak demand or stress on the transportation system. Since the TIF expenditure plan addresses transportation needs citywide, the PM peak demand hour is the most meaningful measure of these needs.

• How does the proposed Citywide TIF relate to the existing traffic impact fees imposed in the Stanford Research Park and the San Antonio/East Bayshore area?

Staff response: The two existing TIF ordinances only cover traffic engineering improvements (e.g. new lanes and/or traffic signalization improvements) for motor vehicle movements at specific intersections, based on impacts of new development in a circumscribed geographic area. The proposed citywide TIF addresses future citywide, multi-modal (bicycle, pedestrian, shuttle, vehicular traffic signal system) transportation improvement needs and development impacts. In addition, these two existing fees only apply to commercial, not residential, development.
• How do Palo Alto’s existing and proposed traffic and transportation impact fees compare to other California jurisdictions? Could Palo Alto set a higher TIF level than that proposed?

**Staff response:** Palo Alto’s traffic and transportation impact fee will be in or somewhat below the mid-range among jurisdictions imposing such fees. The proposed TIF fee level is the most that can be justified through the legally required “nexus” or AB 1600 study, which is presented in Attachment A.

• Will the TIF be imposed on a development or redevelopment that reduces traffic compared to the use it replaces?

**Staff response:** The proposed TIF will not be assessed on development or re-development projects that generate less PM peak hour traffic than the use being replaced.

• Will developments on previously vacant or unoccupied properties have to pay the proposed citywide TIF?

**Staff response:** There is no “vacancy” time limit in the revised citywide TIF ordinance, so the basis for assessing the citywide TIF will be the difference between the projected PM peak-hour trip generation rate of the proposed development and the trip generation rate of the previous use. Developments generating fewer PM peak-hour trips than the use being replaced will not have to pay the citywide TIF.

• Will larger single-family homes pay a larger citywide TIF than smaller ones?

**Staff response:** All new single-family homes would be assessed the same TIF amount since the average PM peak-hour trip generation rate for single-family home is the same regardless of home size.

• Could non-profits be exempt from the citywide TIF?

**Staff response:** The TIF must be based on the transportation impacts caused by a development. As non-profit developments cause similar transportation impacts to for-profit developments of a similar land use, it is not appropriate to make a differentiation on this basis. The current fee methodology exempts certain uses from the fee, such as childcare service providers. However, it does so based on (1) the different transportation impacts they cause, and (2) the importance of such uses to achieving other important City goals, rather than their for-profit or not-for-profit status. Creating a blanket exemption for non-profits is also problematic from an administrative standpoint because (1) non-profits are often project tenants, rather than developers and, therefore, their existence cannot be known at the time building permits are pulled, and (2) a blanket exemption would cause the TIF to be subject to a different set of exemptions than other impact fees administered by the City.
• Will the proposed TIF “chill” housing development?

**Staff response:** The TIF for an individual housing unit in Palo Alto with a sales price of $750,000 would amount to approximately three-tenths of one percent of the purchase price. In the case of a sales price of $1,000,000, the TIF would amount to about two-tenths of one percent of the purchase price and a new home priced at $2,000,000 would be assessed a TIF of about one-tenth of one percent of sales price. Moreover, the TIF will fund improvements that enhance residential quality of life, such as bicycle lanes and bicycle boulevards, improved Palo Alto shuttle service, and more efficient traffic management.

• Will the TIF discourage transit-oriented development?

**Staff response:** The trip methodology used to calculate vehicle trip generation takes into account a number of “transit-oriented” features of development. Consequently, transit-oriented development and will be subject to a lower fee. This provides an incentive for transit-oriented features.

• The cumulative impact of all development fees is a concern.

**Staff response:** One developer consulted by City staff described the financial impact of proposed citywide TIF as being “equivalent to one month’s rent for one of the tenants in an office building we own.” An important consideration is “value for money.” Do the benefits in terms of enhancing community quality of life, as well as improving transportation safety, choice, and convenience (thus the economic value of developing in Palo Alto) of the projects funded by the TIF outweigh the cost of the fee? Staff believes that they do.

**RESOURCE IMPACT**

The TIF is expected to raise a projected $8.9 million dollars over the next 20 years and fund 7.6 percent of the TIF to the year 2025, with other funding provided by federal, state, and regional grants, and the City’s Street Improvement Fund. Annual revenues from the TIF are projected to be approximately $450,000.

The proposed TIF is $2,266 per PM peak hour trip. The Citywide TIF assessment for a single-family house would be $2,289, or the proposed Citywide TIF ($2,266 per peak hour trip) times the single-family trip generation rate of 1.01, compared to a Parks impact fee of from $8,071 to $12,050, depending on home size, and Community Center impact fee of from $2,093 to $3,132, again depending on home size). Figures 18 and 19 on pp. 29-30 of Attachment B provide additional detail on these and other illustrations.

Administrative costs included in the TIF Program are 15 percent of a staff year of one transportation engineer. Expected staffing burdens in connection with the TIF include verifying PM peak hour trip generation projections and calculating the resultant TIF assessment, administering the TIF expenditure plan, annual reporting and updating of the

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TIF based on the Construction Cost Index, and verifying the conformity of any proposed in-lieu contributions by developers to the TIF expenditure plan.

**POLICY IMPLICATIONS**
The proposed citywide TIF carries out two of the Council’s Top 5 priorities: City Finances and Alternative Transportation/Traffic Calming, and helps implement both the Bicycle Transportation Plan and draft Transportation Strategic Plan. The TIF expenditure plan implements the following 1998-2010 Palo Alto Comprehensive Plan Transportation Goals:

T-1: Less Reliance on Single-Occupant Vehicles  
T-2: A Convenient, Efficient, Public Transit System that Provides a Viable Alternative to Driving  
T-3: Facilities, Services, and Programs that Encourage and Promote Walking and Bicycling  
T-4: An Efficient Roadway Network for All Users  
T-5: A Transportation System with Minimal Impacts on Residential Neighborhoods  
T-6: A High Level of Safety for Motorists, Pedestrians, and Bicyclists on Palo Alto Streets

**ENVIRONMENTAL REVIEW**
The TIF expenditure plan comprises a set of projects from the Palo Alto Comprehensive Plan and Bicycle Transportation Plan. The proposed Transportation Strategic Plan is in turn comprised of projects from both the Comprehensive Plan and Bicycle Transportation Plan. The Comprehensive Plan was the subject of the Comprehensive Plan Update Final Environmental Impact Report approved by Council on July 30, 1998 (Resolution No. 7780). The Bicycle Transportation Plan was the subject of an addendum to the Comprehensive Plan EIR approved by Council on November 24, 2003 (Resolution No. 8372). Each project in the TIF expenditure plan would be subject to a project-level environmental analysis prior to implementation. The TIF itself is a funding mechanism, not a project subject to environmental review.

**ATTACHMENTS**
A. Draft Citywide Transportation Impact Fee Ordinance  
B. Transportation Impact Fee Nexus Study Revised Draft Final Report  
C. March 17, 2004 Planning and Transportation Commission Staff Report  
D. March 17, 2004 Planning and Transportation Commission Meeting Minutes  
E. April 20, 2004 Finance Committee Minutes  
F. Development Fees in Selected Bay Area Cities