TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES/PLANNING

DATE: JULY 19, 2005 CMR: 323:05

SUBJECT: COMPARATIVE DATA ON DEVELOPMENT IMPACT FEE LEVELS

This is an informational report and no Council action is required.

BACKGROUND
On August 9, 2004, the City Council considered a potential transportation impact fee on new development citywide (CMR 384:04), as well as a potential study of the Charleston/Arastradero Streetscape Plan (CMR 385:04) to determine if a legal nexus exists for an area-specific development fee. Council was aware that several new impact fees had been implemented over the past few years, and that there had been discussions of other potential new development-related fees. In order to consider the cumulative economic impact of all existing fees along with potential new fees, Council moved to continue discussion of new transportation impact fees until staff could prepare information on all existing and potential development-related fees for Council consideration and prioritization. This report summarizes current impact fees; presents potential citywide and Charleston/Arastradero area fees; and provides comparative data from other cities. The data reveals that while cumulative impact fees for residential development are similar to other cities, non-residential fees are high compared to other jurisdictions. These comparisons warrant further analysis of existing fee levels and policies. Staff will be examining the legal and financial issues associated with adjusting existing impact fees prior to making a recommendation on a citywide transportation impact fee.

DISCUSSION
Under California law (AB 1600), cities have the ability to charge new development for its relative share of the cost of public facilities and services. The City of Palo Alto first adopted a development impact fee in 1984. Development impact fees are not an ongoing fee or tax, but rather are one-time fees, paid at the time of construction. The City’s current impact fees are comprised of three categories: Housing, Traffic, and Community Facilities (parks, libraries and community centers). Current fee levels are summarized in Attachment A.
The City has several new development-related fees under consideration. Potential one-time development impact fees include:

- Citywide transportation (TIF)
- Charleston/Arastradero corridor fee
- Water/wastewater capacity (adopted, effective 7/1/2005)

In addition to impact fees, developers are required to pay other fees on their projects, which add to the cumulative economic effect of doing business in Palo Alto. Some of these are one-time application expenses such as permit fees, which are included in charts in this report comparing Palo Alto to other cities.

Other fees are not development-related. These are ongoing, paid by residents and businesses annually or monthly, not just with new construction. Current ongoing fees include utilities fees, the Downtown Business Improvement District fees, and the University and California Avenue Parking Assessment Districts. A storm drain fee increase was approved by voters on April 26, 2005. Other potential ongoing fees include a business license tax and emergency response or 911 fee. Ongoing fees are not included in the data presented in this report.

**Current & Potential Fees**

Chart 1 depicts each of Palo Alto’s current and potential impact fees for two types of residential projects: a new single-family home; and per multi-family dwelling. If enacted, potential impact fees will add 20% to 22% to the current impact fees charged to new residential development.
Impact fees do not apply to residential replacement homes, remodels or expansions, only to new residential units.
Chart 2 depicts each of Palo Alto’s current and potential impact fees for three types of commercial projects. Data is per square foot of development. If enacted, potential impact fees will add 12% to 30% to the current impact fees charged to new commercial development.

Impact fees apply to net new development in each land use category. A change in tenants or tenant improvements within existing space will not trigger impact fees.

**Chart 2: Current vs. Potential Impact fees – Commercial**

<table>
<thead>
<tr>
<th></th>
<th>Office +18%</th>
<th>R&amp;D +12%</th>
<th>Retail +30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$20.50</td>
<td>$29.18</td>
<td>$20.33</td>
</tr>
<tr>
<td>Potential</td>
<td>$24.17</td>
<td>$32.58</td>
<td>$26.47</td>
</tr>
</tbody>
</table>

*Charleston/Arastradero fee will apply to few lots in the Stanford Research Park, thus it is excluded from R&D figures. See Attachment C.*

**Area-Specific Fees and Fee Overlap**

Not all impact fees apply citywide. Palo Alto’s current traffic impact fees apply only to parcels developed in a specific area, like San Antonio/West Bayshore or the Stanford Research Park. The potential Charleston/Arastradero fee would only apply to parcels within a half-mile of the corridor, not citywide. Attachment C indicates parcels subject to current and potential area-specific fees.

It is noteworthy that in some areas of town, area-specific and citywide fees overlap. For instance, a parcel subject to an area-specific fee, like the traffic impact fee in Stanford Research
Park, would also be subject to a citywide transportation fee if enacted. In portions of the half-mile Charleston/Arastradero corridor a few parcels (pending development) could be subject to the Charleston/Arastradero fee, potential citywide TIF, and San Antonio/West Bayshore fees. Fee overlap areas are indicated on Attachment C, though “citywide” is not included in the legend (since all parcels would be affected by a citywide fee).

Impact Fee Exemptions
It is important to note that development impact fees include a number of exemptions, which vary widely across fee ordinances adopted by each city. The City of Palo Alto’s impact fee exemptions are not uniform, and are summarized in Attachment B. Each exemption reflects a policy decision addressed at the time the impact fee was enacted or amended by City Council. New development may be exempt from all or some impact fees, depending upon the intended use as summarized in Attachment B. For instance, 100% affordable housing projects (not a mix of market rate and below market rate) are exempt from current impact fees.

Palo Alto Compared to Other Cities
Council has expressed an interest in comparing Palo Alto’s fee levels with those of surrounding communities. Palo Alto recently participated in two development fees surveys: one conducted by Redwood City (April 2005) and another conducted by the City of San Jose on behalf of the Home Builder’s Association (May 2004 and June 2005). These multi-city surveys calculated development-related fees and taxes, including permit, construction, and development impact fees for various project types. They did not include ongoing, non-development-related fees. Comparison data presented in this report is derived from the data in the surveys plus online research on fees in each jurisdiction.

Other jurisdictions have addressed fees in a variety of ways. The most common development fees are implemented to support parks and water/sewer systems or mitigate traffic. Other jurisdictions have fees designed to support public facilities like libraries and public safety buildings. Less common fees include those that fund housing and street trees, or are applied as a general construction tax. Table 1 depicts the array of development impact fees and taxes in a few jurisdictions in the Bay Area.

Table 1: Impact Fee Types In Various Jurisdictions

<table>
<thead>
<tr>
<th>Fee type</th>
<th>Los Gatos</th>
<th>Milpitas</th>
<th>San Jose</th>
<th>Fremont</th>
<th>Menlo Park</th>
<th>Redwood City</th>
<th>Palo Alto</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Housing</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Traffic</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X X</td>
</tr>
<tr>
<td>Water/Sewer</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Street Trees</td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Facilities</td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Construction Tax</td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
In addition to different types of fees, each jurisdiction applies fees to different types of development in different ways. Impact fees for residential projects are usually assessed by housing unit, whereas fees for commercial projects can be calculated by square foot, car trip, valuation and many other ways. For comparison purposes the data is presented per dwelling unit for residential fees (total fees divided by housing units in each survey), and on a square foot basis for non-residential projects (total fees divided by square footage of each sample project). The following charts allow Council to compare cities based on total fee levels (permit plus impact fees) and then on impact fees by fee category.

Residential Fees

It is helpful to look at the total cost of fees added to the cost of development across jurisdictions. Charts 3 and 4 compare estimated permit and impact fees for single-family and multi-family residential projects in Palo Alto to 12 other cities. Palo Alto’s current combined impact and permit fees are around the mid-range compared to other cities for residential projects.

Chart 3: Permit & Impact Fees, New Single-Family Home
Chart 4: Permit & Impact Fees, Multi-Family (per dwelling unit)
Chart 5 examines only impact fees, stratifying the fees charged on a new single family home by fee type, for Palo Alto and other cities. Fees in other cities range from $7,844 (Redwood City) to $43,717 (Gilroy). Palo Alto’s current fees total $16,452. Adding the potential Charleston/Arastradero fee of $928 would bring Palo Alto’s impact fees to $17,380. Adding the potential TIF of $2,289 would result in a total fee of $19,669, keeping single-family fees for Palo Alto within the mid-range compared to other cities.

**Chart 5: Impact Fees by Type – New Single Family Home**
Chart 6 stratifies impact fees charged per multi-family unit, by fee type, for Palo Alto and other cities. Fees in other cities range from $3,016 (Redwood City) to $31,654 (Gilroy). Palo Alto’s current fees total $10,375. Adding both the Charleston/Arastradero and TIF fees would bring Palo Alto’s impact fees to $12,708 ($10,375 + $928 + $1,405), near the mid-range compared to other cities.

**Chart 6: Impact Fees by Type, Multi-Family (per dwelling unit)**
Commercial Fees
Charts 7 and 8 stratify impact fees by type for Palo Alto and other cities for commercial development. Current impact fees in Palo Alto are high compared to other cities, primarily due to Palo Alto’s housing fee ($15.58 per square foot) and area-specific traffic fee ($8.68 per square foot in the Stanford Research Park/El Camino Real CS zone).

Chart 7: Impact Fees by Type – Office/R&D (per square foot)

Office/R&D impact fees in other cities cluster in three groups: $2 to $8 per square foot; $13 to $15; then jump to nearly $28 per square foot in San Francisco. Palo Alto’s current impact fees for office total $20.50 per square foot. Adding potential Charleston/Arastradero and TIF fees would bring Palo Alto’s office impact fees to $24.17, well above fee levels in other cities, except San Francisco.

Impact fees in the Stanford Research Park would increase from $29.18 per square foot to $32.58 if the potential TIF fee is enacted. This fee level is well above other cities, including San Francisco.
Retail impact fees at other cities cluster from $5 to $12 per square foot, then jump to the $21 to $25 per square foot range. Palo Alto’s current impact fees total $20.33 per square foot.

The key to impact fees for retail development is exemptions. Palo Alto’s current impact fees for retail are higher than other cities. However, Palo Alto’s 1,500 square foot exemption allows existing retail locations to expand moderately without paying impact fees. Also, fees only apply to new development, so an existing location that changes retail tenants will not be subject to impact fees unless space beyond 1,500 square feet is added. Adding fees could stifle new retail growth on vacant lots on El Camino Real or other parts of the city.

In light of the disparity between cumulative impact fees in Palo Alto and other cities, staff plans further study of Palo Alto’s current fee structure and exemptions. The purpose of this analysis will be to examine the legal and financial issues associated with adjusting fees prior to making a recommendation on a citywide transportation impact fee.

**RESOURCE IMPACT**

Development impact fees provide funding for capital improvements to mitigate the impacts of new development on a specific public facility. The revenues received each year vary based on the amount of development occurring in Palo Alto during that timeframe. Fees collected for various existing fee types for fiscal year 2003-04 (CMR:109:05) were:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>$345,615</td>
</tr>
<tr>
<td>Parks</td>
<td>$369,149</td>
</tr>
</tbody>
</table>

Palo Alto - Current

Palo Alto - Potential

Menlo Park

Redwood City

San Leandro

San Mateo

Sunnyvale

San Jose

Fremont

San Francisco

Milpitas

Gilroy

Sewer/Water

Water Capacity

Housing

Parks/Lib/CC

Traffic

Other

PotentialC/A

Potential TIF

Total
Libraries: $32,455  
Community Centers: $91,219  
Traffic SRP: $38,035  

Revenues for new fees are estimated at:

Water capacity: $1,000,000 to $3,000,000 per year  
Charleston/Arastradero: $819,000 (by the year 2015)  

POLICY IMPLICATIONS  
Council has the authority to charge new development for its relative share of the cost of specific public facilities and services, as calculated based on nexus studies. Council also has the authority, for policy reasons, to restructure fees based on articulated City policies. The information provided in this report allows Council to consider all existing and potential fees together to evaluate the cumulative impact on development in Palo Alto. Information provided in a future analysis will examine existing fee levels and policies, including the legal and financial issues associated with adjusting existing impact fees in order to facilitate a policy discussion related to fee levels for both new and existing fees.  

PREPARED BY: Libby Dame, Senior Financial Analyst, Administrative Services  
Heather Shupe, Administrator, Planning and Community Environment  

DEPARTMENT HEAD APPROVAL:  
CARL YEATS  
Director, Administrative Services  

DEPARTMENT HEAD APPROVAL:  
STEVE EMSLIE  
Director, Planning & Community Environment  

CITY MANAGER APPROVAL:  
EMILY HARRISON  
Assistant City Manager  

ATTACHMENTS  
Attachment A: Current Development Impact Fees  
Attachment B: Palo Alto Development Impact Fee Exemptions  
Attachment C: Areas subject to Traffic Impact Fees  
Attachment D: Additional Information on Impact Fees in Palo Alto and Other Jurisdictions