TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: March 25, 2002 CMR:189:02

SUBJECT: RECOMMENDED INCREASE TO COMMERCIAL HOUSING IN-LIEU FEE; ELIMINATION OF EXEMPTIONS AND OTHER ADMINISTRATIVE CHANGES; AND INCREASE TO TRANSPORTATION IMPACT FEE FOR STANFORD RESEARCH PARK/EL CAMINO REAL SERVICE COMMERCIAL ZONE

RECOMMENDATION
The Finance Committee recommends that City Council:

1) Approve the recommended increased fee levels, administrative changes, and implementation milestone; and

2) Adopt the attached ordinance to amend Chapter 16.47 of the Municipal Code to increase the Commercial Housing In-Lieu Fee from its current level of $4.21 per square foot to an initial base fee of $15.00 per square foot, with annual revisions to account for inflation, eliminate existing square footage exemptions, and other administrative changes; and

3) Adopt the attached ordinance to amend Chapter 16.45 of the Municipal Code to increase the Transportation Impact Fee from its current level of $3.03 per square foot to an initial base fee of $8.20 per square foot, with annual revisions to account for inflation.

BACKGROUND
On February 20, 2002 staff presented the Finance Committee with a report concerning increasing development impact fees for the existing commercial in-lieu housing fee and the existing transportation impact fee for the Stanford Research Park/El Camino Real Service Commercial Zone (CMR:150:02, attached). The February report contained the results of a community forum regarding impact fees, and made recommendations for new community services fees. A report concerning potential development impact fees for
parks, community centers and libraries (CMR:146:02) was presented at the same meeting.

Discussions at the February 20, 2002 Finance Committee meeting included community reaction, evaluation of fee levels, and policy issues related to exemptions and implementation. This report forwards to the City Council recommendations made by the Finance Committee at that meeting.

**COMMITTEE REVIEW AND RECOMMENDATIONS**

**Commercial Housing In-Lieu Fee**

The Finance Committee voted 4-0 to increase the commercial housing in-lieu fee to $15 per square foot. The updated nexus study demonstrates an average cost of $57.81 per square foot to provide affordable housing as a result of commercial development. Some community members addressed the Committee, suggesting that the impact fee should be closer to the average cost.

The Committee discussed exemptions in the current ordinance, and confirmed that existing exemptions for religious organizations, child-care and public facilities should be preserved. Staff was directed to return to Council with information related to removing other land use exemptions, including colleges and universities, commercial recreation, hospitals, private education, private clubs, lodges, and fraternal organizations. If Council supports eliminating specific land use exemptions, the housing nexus costs will need to be determined based on the relative employment per square foot and associated low to moderate-income workers for each land use category.

**Administrative Changes**

The Committee directed staff to bring other administrative changes to the commercial housing in-lieu fee ordinance directly to Council, including removing the 20,000 square foot exemption, 2,500 square foot project threshold, and 2-step payment provision of the ordinance. These changes are included in the attached ordinance amendment. Staff recommends initiating a second phase of the Keyser Marston study to review and possibly revise other administrative aspects of the current ordinance and exemptions, as described in CMR:383:01. However, the recommended fee increase can be adopted now, prior to the second phase of the study.

**Transportation Impact Fee**

The Finance Committee voted 4-0 to increase the transportation impact fee for Stanford Research Park/El Camino Real Service Commercial Zone to $8.20 per square foot.

Two members of the community expressed concern about the limited use of fees collected for intersection improvements. The Committee also expressed a desire to utilize the impact fee fund beyond the scope of the current ordinance. Staff was directed
to return with a citywide transportation impact fee to address alternative transportation solutions, such as traffic calming and supporting non-vehicular modes of transit.

Implementation
The Finance Committee recommends final approval as the implementation milestone. If approved by Council, all projects with final approval after the effective date of the ordinance amendments will be required to pay the higher fees. All projects with final approval prior to the effective date of the ordinance amendments will be required to pay the current (lower) fees.

The Finance Committee considered and rejected using building permit issuance as the implementation milestone, which would have imposed the higher fee on all projects in the review or building permit process. The Finance Committee also considered and rejected complete application as the implementation milestone, which would have allowed projects without final approval as of the effective date of the ordinance to pay the current (lower) fees.

RESOURCE IMPACT
Precise revenue projections are difficult, as the amount of development in any single year varies greatly. Staff has created a revenue scenario based on development in Palo Alto over the last 4 years. The annual revenue scenario presented below differs from that presented to the Finance Committee, as the Committee recommended higher fee levels than proposed by staff.

<table>
<thead>
<tr>
<th></th>
<th>Current Fee Levels</th>
<th>Recommended Fee Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td>421,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Traffic</td>
<td>151,500</td>
<td>410,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$572,500</strong></td>
<td><strong>$1,910,000</strong></td>
</tr>
</tbody>
</table>

Actual fee collection will be a function of the year in which development occurs, and any future adjustments to fees for inflation.

POLICY IMPLICATIONS
The housing fee ordinance is based on the long-standing City policy that commercial developers should contribute to the cost of meeting the affordable housing needs of their work force. The recommended housing fee increase is intended to ensure that a significant portion of the affordable housing impacts of such projects are mitigated but, at the same time, commercial development remains viable in Palo Alto.
The transportation fee ordinance was an outcome of the Citywide Land Use and Transportation Study. The purpose of the fee was to ensure that new development collectively bears responsibility for capital expenditures needed to provide capacity improvements necessitated by the development, as defined in the ordinance. The list of capacity improvements and associated costs has been updated, and supports the recommended fee increase.

**ALTERNATIVES TO RECOMMENDATION**
Council has alternatives to adoption of the recommended ordinance amendments as specified in the attached report to the Finance Committee (CMR:150:02).

**TIMELINE**
New fees can be instituted 30 days following ordinance adoption (rather than the previously-assumed 60 days).

**ATTACHMENTS**
A. CMR:150:02 *Recommended Increase To Commercial Housing In-Lieu Fee And Transportation Impact Fee For Stanford Research Park/El Camino Real Service Commercial Zone* (presented to the Finance Committee on February 20, 2002)
B: Ordinance to amend Chapter 16.47 of the Palo Alto Municipal Code
C: Ordinance to amend Chapter 16.45 of the Palo Alto Municipal Code

PREPARED BY: Heather Shupe, Administrator

DEPARTMENT HEAD REVIEW: Lisa Grote
Chief Planning Official

CITY MANAGER APPROVAL: Emily Harrison
Assistant City Manager