TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENTS: ADMINISTRATIVE SERVICES/PLANNING

DATE: SEPTEMBER 17, 2002 CMR: 380:02

SUBJECT: ORDINANCE FOR FOLLOW-UP ITEMS ON DEVELOPMENT IMPACT FEES

RECOMMENDATION

The Finance Committee recommends that Council:

1. Adopt the attached ordinance to:
   
   • Establish a one-time 1,500 square foot per site exemption from impact fees for new space which, by law, can only be used for retail, restaurant, automotive, or personal service;
   • Exempt new childcare facilities from development impact fees;
   • Establish a category of large new homes as those greater than 3,000 square feet, and modify the Municipal Fee Schedule to increase the fee charged for this category of homes to the full cost-recovery level;
   • Establish a category of small multi-family units as being those that are 900 square feet or less and modify the Municipal Fee Schedule to decrease the fee charged for this category of homes.

2. Direct that an Environmental Impact Report (EIR) for new development in the Stanford Research Park include an analysis of a range of transportation mitigation and traffic calming measures.

BACKGROUND

At its March 25, 2002 meeting, Council adopted ordinances related to development impact fees. The Council asked staff to do further study related to possible changes to the fee structures which could further City policies in related areas. The results of that further analysis were presented to the Finance Committee on July 16, 2002 (CMR:329:02, attached).
Discussions at the July 16, 2002 meeting were related to exemptions for small retail developments, childcare facilities and below-market rate units (BMR’s); fee differentials based on size of dwelling units; transportation mitigation in the Stanford Research Park; and a possible fee exemption for nonprofit organizations. This report forwards to the City Council recommendations resulting from that Finance Committee meeting.

COMMITTEE REVIEW AND RECOMMENDATIONS

Retail Exemption
The Committee voted 3-1 to establish a one-time 1,500 square foot exemption from impact fees for new space, which by law, can only be used for retail, restaurant, automotive, or personal service. Concerns include the fact that such an exemption would typically benefit the developer rather than the retail establishment, since most retail stores are not owned by the occupant, and that such an exemption complicates administration of the fees. Some members saw the exemption as sending a supportive message to small retail establishments, and acknowledged that retail owners may benefit when expanding their operations (rather than through new development). Since the exemption is designed to encourage small retail, any new space in excess of 1500 square feet would be subject to impact fees on 100 percent of new square footage.

Childcare exemption
The Committee voted 4-0 to continue the exemption for childcare facilities from the housing impact fee and to expand the childcare exemption to cover other impact fees.

Size of Residential Units
Staff recommended against restructuring fee levels based on the size of dwelling units, but provided the Finance Committee with appropriate justification to do so if desired. The Finance Committee voted 4-0 to increase fee levels for larger new homes and decrease fee levels for smaller multi-family units. The Committee elected to define a larger home as one greater than 3,000 square feet, and to charge such new homes the full cost-recovery fee level of $15,798 instead of $10,580. The Committee chose to define a smaller multi-family unit as one of 900 square feet or less. Such dwellings would be subject to a fee level of $3,500 rather than $6,930.

Staff’s concerns with restructuring the fee levels centered on the added complexity in administering the fee program, for changes that will not significantly affect the amount of revenue generated. Staff reiterated the fact that impact fees are charged only to new development, so these fees will not affect large replacement homes.

BMR Units
The Committee voted 3-1 not to expand the exemption for BMR units. The current ordinance for development impact fees offers an exemption only for residential housing.
projects that are 100% permanently affordable. Under consideration was offering an exemption for all BMR units. Concerns focused on the fact that most BMR units are either required by the City or are offered by the developer in negotiation with the City in exchange for increased floor area. Committee members did not think it was appropriate to reward developers for including units that were already required or for units that benefit their development in another way. Expanding the exemption did not appear to serve as an effective incentive for encouraging additional BMR units.

Transportation Fees
Council was also interested in using traffic impact fees for other than intersection improvements. A traffic engineering analysis of mitigation alternatives would be required to demonstrate that alternative improvements would meet the mitigation goals of the 1988 Citywide Land Use and Transportation Study environmental impact report (EIR). The Finance Committee recommends 4-0 that Council direct that an EIR for new development in the Stanford Research Park include an analysis of a range of transportation mitigation and traffic calming measures. A nexus study for a citywide transportation impact fee, which would evaluate alternative transportation improvements, is also planned for completion by the end of 2003.

RESOURCE IMPACT

The resource impacts of each of the proposed changes are itemized in the attached report. The net decrease in revenue received from development impact fees would total approximately $16,000 per year if the Finance Committee recommendations were adopted. In addition to the fiscal impacts, the numerous exemptions and fee levels complicate the administration and reporting of the fees.

POLICY IMPLICATIONS

The proposed recommendations are consistent with Council policies and priorities.

ALTERNATIVES TO RECOMMENDATION

Council has alternatives to these recommendations as specified in the attached report to the Finance Committee (CMR:329:02). Council may choose to adopt any or none of the recommended changes.

NEXT STEPS

The Finance Committee also requested that staff explore the idea of exempting from development impact fees any nonprofit organizations providing social services. Staff is gathering information on nonprofits and will return to the Finance Committee with that information.
ATTACHMENTS

Attachment 1: Ordinance of the Council of the City of Palo Alto Amending Sections 16.45.050, 16.47.030 and 16.58.030 of the Palo Alto Municipal Code to Create Certain Development Impact Fee Exemptions

Attachment 2: CMR:329:02  Follow-up Study on Development Impact Fees  (as presented to Finance Committee July 16, 2002)

PREPARED BY:                       _________________________________
                                      LIBBY DAME
                                      Sr. Financial Analyst, Administrative Services

                                      _________________________________
                                      HEATHER SHUPE
                                      Administrator, Planning and Community Environment

DEPARTMENT HEAD APPROVAL:                _________________________________
                                          CARL YEATS
                                          Director, Administrative Services

CITY MANAGER APPROVAL:                   _________________________________
                                          EMILY HARRISON
                                          Assistant City Manager