

**TO: PARKS AND RECREATION COMMISSION**

**FROM: KRISTEN O’KANE**

**DEPARTMENT: COMMUNITY SERVICES AND LIBRARY**

**DATE: FEBRUARY 23, 2021**

**SUBJECT: PARK, COMMUNITY CENTER, AND LIBRARY DEVELOPMENT IMPACT FEES**

**RECOMMENDATION**

Staff recommends that the Parks and Recreation Commission review the Park, Community Center, and Library Development Impact Fee Justification Study and recommend that City Council adopt an ordinance based on study recommendations to update the City’s Park, Community Center, and Library Impact Fee Program.

**BACKGROUND**

Under California law (AB 1600), cities have the ability to charge new development for its relative share of the cost to fund the acquisition of land and improvements to public facilities and services. Impact fees are established based on the reasonable relationship, or nexus, between impacts caused by new development and the improvements to mitigate those impacts that will be funded by the fee. Although fees are updated annually to reflect increases in the Bay Area Consumer Price Index or Engineering News Record Construction Cost Index, baseline fee levels for some of the City’s impact fees have not been reviewed or updated in nearly 20 years, nor has the actual cost inflation of land valuation in the City.

On November 8, 2019, staff released the RFP for a Parks, Library, and Community Center Development Impact Fee Nexus Study. The local firm of DTA was determined to be the most qualified consultant. DTA prepared the attached Park, Community Center, and Library Development Impact Fee Justification Study (the “Study”), found in Attachment A, which provides a detailed legal framework for the imposition of impact fees, defines the City facilities addressed in the study, illustrates the calculation methodology used, and specifies the maximum fee levels which the City could charge to new development.

On December 15, 2020, staff and DTA presented the draft study to Finance Committee in order to receive feedback prior to presenting to Council. Finance Committee passed a motion to recommend that the City Council approve any adjustments to fee levels and direct staff to return with the necessary ordinance and fee schedule updates, as well as the addition of a possible tiered approach to implement the fees. It was also recommended at this session by City Manager Ed Shikada that the study be brought to the Parks and Recreation Commission for review.

**DISCUSSION**

The City’s Park, Community Center, and Library Development Impact Fees were initially developed in 2001. Table 1 below shows the FY 2020 impact fees for new development based on land use type.

Table 1. FY 2020 Park, Community Center, and Library Development Impact Fees

City of Palo Alto FY 2019-20 Development Impact Fees				
	Park	Community Center	Library	Total Fees
<b>Residential</b>				
Single Family	\$12,436	\$3,321	\$1,126	\$16,883
Single Family > 3,000 SF	\$18,570	\$4,827	\$1,676	\$25,073
Multi-Family ≤ 900 SF	\$4,116	\$1,071	\$370	\$5,557
Multi-Family >900 SF	\$8,141	\$2,122	\$674	\$10,937
<b>Non-Residential</b>				
Commercial/Industrial (per 1,000 SF)	\$5,281	\$298	\$284	\$5,863
Hotel/Motel (per 1,000 SF)	\$2,388	\$134	\$119	\$2,641

State law requires agencies to identify a reasonable relationship, or nexus, between an impact fee and new development, and to make findings regarding: (a) the purpose of the fee; (b) what mitigation projects the fee will be used to fund; (c) the nexus between the fee’s use and the type of development on which the fee will be imposed; (d) the nexus between the need for the public facility and the type of development on which the fee will be imposed; and (e) the nexus between the amount of the fee and the cost of the public facility attributable to the development upon which the fee is imposed. The Study is designed to support these findings and is structured as shown in Table 2 below.

Table 2. Summary of Nexus Study Methodology

Step 1	Demographic Assumptions: Identify future growth that represents the increased demand for facilities
Step 2	Facility Needs and Costs: Identify the amount of public facilities required to support the new development and the costs of such facilities
Step 3	Cost Allocation: Allocate costs per equivalent dwelling unit
Step 4	Fee Schedule: Calculate the fee per residential unit or non-residential square foot

In order to develop new impact fee levels, DTA utilized the Standards-Based Fee Methodology, or Level of Service (“LOS”), which establishes impact fees based on “standards,” where costs are based on the existing LOS provided to the community. The existing LOS is based on the square feet of space, integrated unit, or number of volumes (in the case of Library) per 1,000 Persons Served for each facility, which is an industry-standard method of quantifying LOS for facilities such as Parks, Community Centers, and Libraries. The Standards-Based Methodology also relies on the concept of Equivalent Dwelling Units, or EDUs, to allocate benefit among each of the land use categories. EDUs are a mechanism that equates varying land uses to residential dwelling unit standards in order to equitably calculate fees. The Standards-Based Methodology ensures that City facilities are appropriately developed and sized so that future residents and employees do not cause a reduction in LOS by unduly burdening the infrastructure system, thus leading to decay and deterioration.

To project future development and facility needs, DTA used projections of future population and development within the City outlined in the [City’s 2017 Parks, Trails, Natural Open Space and Recreation](#)

[Master Plan](#), as well as Scenario 3 of the [2017 Comprehensive Plan Update Draft Environmental Impact Report](#) (“2017 EIR”).

The attached report details the total fee amounts required to finance new residential and non-residential development’s share of the costs of new facilities as summarized in Table 3 below. The fees within this study reflect the maximum fee levels that may be legally imposed on new residential and non-residential development; however, Council may decide to adopt fee levels below this maximum.

**Table 3. Proposed Maximum Fee Levels for Park, Community Center, and Library Development Impact Fees**

<b>City of Palo Alto</b>				
<b>Proposed Development Impact Fees (Maximum)</b>				
	<b>Park</b>	<b>Community Center</b>	<b>Library</b>	<b>Total Fees</b>
<b>Residential</b>				
Single Family	\$57,420	\$4,438	\$2,645	<b>\$64,504</b>
Multi-Family	\$42,468	\$3,283	\$1,956	<b>\$47,707</b>
<b>Non-Residential</b>				
Commercial/Industrial (per 1,000 SF)	\$16,837	\$1,301	\$776	<b>\$18,914</b>
Hotel/Motel (per 1,000 SF)	\$2,866	\$222	\$132	<b>\$3,220</b>

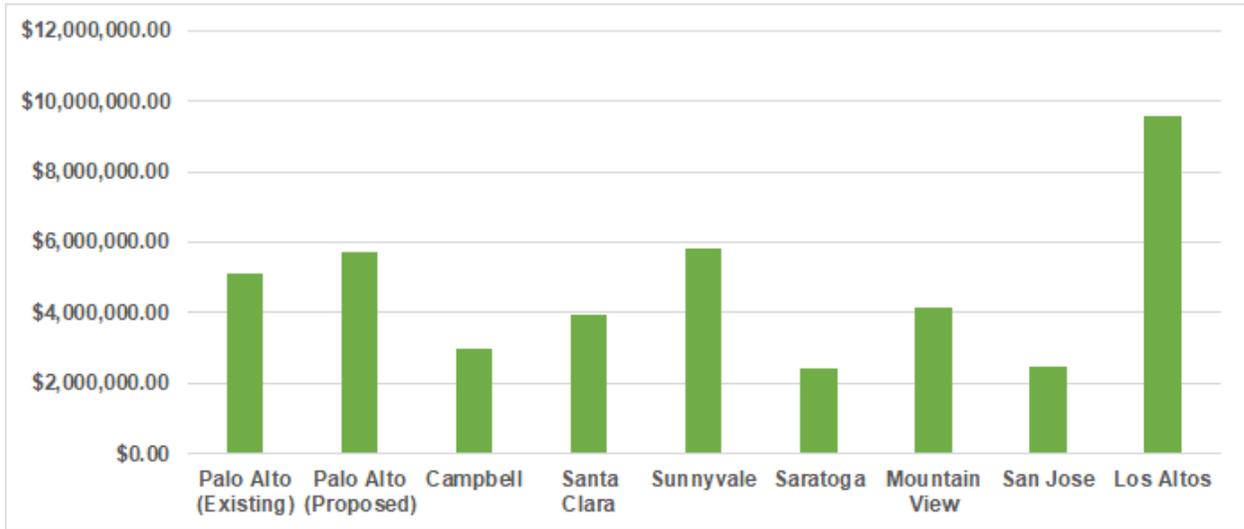
New or increased development impact fees go into effect no sooner than 60 days after adoption (Government Code § 66017). Development impact fees must be paid based on the rate in effect at the time of payment. A developer may pay fees at any point after the planning entitlement has been issued and must pay all applicable fees prior to the issuance of a building permit, unless otherwise approved by Council.

It is especially important that the City’s fees are calculated based on correct assumptions regarding the current market value of land. Using CoStar, a leading commercial real estate database, DTA has analyzed historical sales data of vacant land in the cities of Campbell, Santa Clara, Sunnyvale, Saratoga, Mountain View, San Jose, and Los Altos. DTA has provided in Table 4 and Chart 1 below a comparison of the proposed land valuation to those used in neighboring cities and communities, as well as information approximating when these local agencies last updated their land valuations.

Table 4. Comparable Land Valuation per Acre

Jurisdiction	Land Valuation	Land Valuation History
<b>Palo Alto (Existing)</b>	\$5,133,981.60	Based on 2008 valuation with annual escalation (land valuation shown here is based on 2019 Annual Report on Development Impact Fees)
<b>Palo Alto (Proposed)</b>	\$5,700,000.00	Potential/Proposed
<b>Campbell</b>	\$3,000,000.00	Updated November 2019
<b>Santa Clara</b>	\$3,922,000.00	Santa Clara commissioned an appraisal report with an effective date of value opinion on December 31, 2017; the new fee was adopted in August 2019
<b>Sunnyvale</b>	\$5,832,653.83	Sunnyvale City Council approved a Quimby Land Valuation adjustment and increase in September 2014 with a 3% annual escalator
<b>Saratoga</b>	\$2,395,800.00	Saratoga updated their formula from 1990 Census Data to 2010 Census Data in FY 2014-15, and updated their land valuation in FY 2015-16.
<b>Mountain View</b>	\$4,166,666.67	Mountain View's formula set in 2017 when revising their Housing Element 2015-2023; in 2020 they updated the Quimby fee to be fair market value (see Mountain View Municipal Code Section 41.8).
<b>San Jose Comp Average</b>	\$2,494,964.75	San Jose commissioned a Residential Land Values Study in 2012 and last updated their land valuations trended to 2015 and updated 2010 Census Data.
<i>San Jose - Willow Glen</i>	\$2,960,725.08	
<i>San Jose - Cambrian</i>	\$1,520,644.51	
<i>San Jose - Campbell</i>	\$2,749,244.71	
<i>San Jose - Cupertino</i>	\$2,749,244.71	
<b>Los Altos</b>	\$9,580,000.00	Los Altos commissioned an appraisal report in November 2018 to support land valuation and the new fee was adopted early 2019. Note: Proposal of \$10,780,000 land valuation was deferred to a later date at the 10/27/20 Council meeting.

Chart 1. Comparable Land Valuation per Acre



DTA also reviewed Community Center and Library Development Impact Fees in the cities of Morgan Hill, Brentwood, Paso Robles, Richmond, and Fremont. These cities were chosen for their comparable size and because they each have both Community Center and Library Development Impact Fees. DTA has provided in Table 5 and Chart 2 below a comparison of the proposed Community Center and Library fees to those used in other cities and communities.

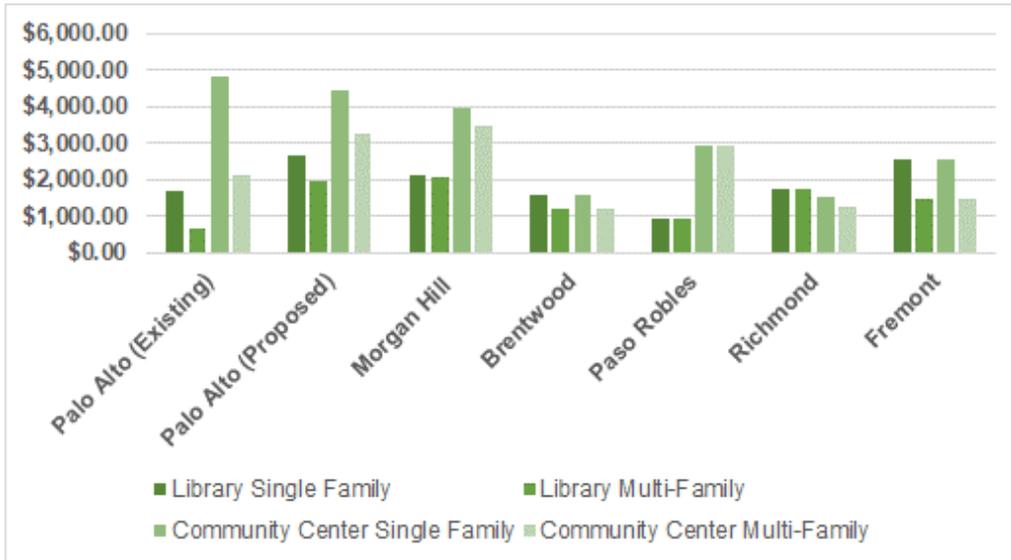
Table 5. Comparable Community Center and Library Development Impact Fees

Jurisdiction	Library Single Family	Library Multi-Family	Community Center Single Family	Community Center Multi-Family
<b>Palo Alto (Existing)<sup>1</sup></b>	<b>\$1,676</b>	<b>\$674</b>	<b>\$4,827</b>	<b>\$2,122</b>
<b>Palo Alto (Proposed)</b>	<b>\$2,645</b>	<b>\$1,956</b>	<b>\$4,438</b>	<b>\$3,283</b>
Morgan Hill	\$2,132	\$2,054	\$3,955	\$3,470
Brentwood <sup>2</sup>	\$1,595	\$1,179	\$1,595	\$1,179
Paso Robles <sup>3</sup>	\$942	\$942	\$2,920	\$2,920
Richmond	\$1,744	\$1,744	\$1,543	\$1,267
Fremont <sup>4</sup>	\$2,569	\$1,483	\$2,569	\$1,483

**Notes:**

1. Reflects fees for Single Family homes greater than 3,000 sq. ft. and Multi-Family homes greater than 900 sq. ft.
2. Community Facilities Fee may include Library and Community Centers.
3. General Government Fee may include Community Facilities.
4. General Capital Facilities Fee may include Library and Community Centers.

Chart 2. Comparable Library and Community Center Development Impact Fees



If Council were to decide to adopt a tiered approach to implementation, fee levels could be gradually increased over a four year period as shown in Table 6.

Table 6. Tiered Fee Approach

Land Use	25% of Proposed Maximum Fee				50% of Proposed Maximum Fee			
	Park Fee FY 2021-22	Community Center Fee FY 2021-22	Library Fee FY 2021-22	Total Fees FY 2021-22	Park Fee FY 2022-23	Community Center Fee FY 2022-23	Library Fee FY 2022-23	Total Fees FY 2022-23
Single Family	\$14,355	\$1,110	\$661	<b>\$16,126</b>	\$28,710	\$2,219	\$1,323	<b>\$32,252</b>
Multi-Family	\$10,617	\$821	\$489	<b>\$11,927</b>	\$21,234	\$1,641	\$978	<b>\$23,853</b>
Commercial/Industrial (per 1,000 SF)	\$4,209	\$325	\$194	<b>\$4,728</b>	\$8,418	\$651	\$388	<b>\$9,457</b>
Hotel/Motel (per 1,000 SF)	\$717	\$55	\$33	<b>\$805</b>	\$1,433	\$111	\$66	<b>\$1,610</b>

Land Use	75% of Proposed Maximum Fee				100% of Proposed Maximum Fee			
	Park Fee FY 2023-24	Community Center Fee FY 2023-24	Library Fee FY 2023-24	Total Fees FY 2023-24	Park Fee FY 2024-25	Community Center Fee FY 2024-25	Library Fee FY 2024-25	Total Fees FY 2024-25
Single Family	\$43,065	\$3,329	\$1,984	<b>\$48,378</b>	\$57,420	\$4,438	\$2,645	<b>\$64,504</b>
Multi-Family	\$31,851	\$2,462	\$1,467	<b>\$35,780</b>	\$42,468	\$3,283	\$1,956	<b>\$47,707</b>
Commercial/Industrial (per 1,000 SF)	\$12,628	\$976	\$582	<b>\$14,185</b>	\$16,837	\$1,301	\$776	<b>\$18,914</b>
Hotel/Motel (per 1,000 SF)	\$2,150	\$166	\$99	<b>\$2,415</b>	\$2,866	\$222	\$132	<b>\$3,220</b>

Timeline

Staff plan to prepare a proposed ordinance based on the Committee’s discussion and recommendation(s) for consideration by the City Council, to be adopted as part of the FY 2022

annual budget process. Impact fee ordinances require formal public notice and do not become effective until 60 days after adoption on a second reading.

**Resource Impact**

Development Impact Fees provide funding for capital improvements to mitigate the impacts of new development in the community. The revenues received each year vary based on the amount of residential and non-residential development occurring in Palo Alto during that timeframe. Recommended changes to the fees will be presented to Council for approval in future meetings. Revenue adjustments will be brought forward in the annual budget process as appropriate to recognize the impacts of any fee updated and adopted by the City Council.

According to the FY 2019-20 Annual Status Report on the Development Impact Fees Schedule ([CMR #11746](#)), a total of approximately \$583,573 was collected in Park, Community Center, and Library fees. DTA projects that the total fee revenues will increase by a minimum of two times should the maximum fee levels be approved and adopted as new fees. Please see Table 6 below for more detail.

**Table 7. Current and Projected Revenues**

<b>Fee Category</b>	<b>Total Revenues Collected FY 2019-2020<sup>1</sup></b>	<b>Total Projected Annual Revenues<sup>2</sup></b>
Park	\$402,902	\$1,208,706
Community Center	\$134,638	\$201,957
Library	\$46,033	\$69,050
<b>Total</b>	<b>\$583,573</b>	<b>\$1,479,713</b>

Notes:

1. Total revenues collected reflect last available report as of period ending June 30, 2020.
2. Figures are an approximation and subject to change.