

TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENTS: ADMINISTRATIVE SERVICES/PLANNING

DATE: OCTOBER 16, 2001 CMR: 381:01

SUBJECT: DEVELOPMENT IMPACT FEES FOR PARKS, COMMUNITY CENTERS AND LIBRARIES

REPORT IN BRIEF

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 already charges such “development impact fees” for housing and traffic. During discussions of the City’s financial condition as part of the Long Range Financial Plan, Council raised the idea of considering additional development impact fees as a revenue source, to provide funding for mitigating the impact of new development on City services. Staff evaluated potential impact fees for parks, community centers and libraries.

In order to impose development impact fees, the City must make certain findings to establish the connection or “nexus” between the development and the public facilities or services that will be funded by the fee, and to determine the amount of the fee. A nexus study, attached to this report, provides a detailed legal framework for the imposition of impact fees, defines the City facilities addressed in the study, illustrates the calculation methodology used by staff, and specifies the maximum fee levels which the City could charge to new development.

Based on the nexus study, staff has developed proposed impact fees for parks, community centers and libraries. Finance Committee direction is requested to determine any adjustments to the proposed fee levels for recommendation to the City Council and for preparation of an ordinance to establish such fees.

RECOMMENDATION

Staff recommends that the Finance Committee:

- 1) review the attached information related to the imposition of new development impact fees for parks and community facilities;
- 2) determine any changes or adjustments to the proposed fee levels as shown in Table 1 on page 6 for recommendation to the City Council; and
- 3) direct staff to prepare an ordinance for Council adoption to establish the proposed development impact fees.

BACKGROUND

At a July 17, 2000 Council Study Session, Council was presented with a Long Range Financial Plan (CMR:321:00). Discussions pertaining to the financial challenges facing the City, as well as the existing Infrastructure Plan, pointed to the insufficiency of revenues required to meet the City's long-term needs. At a September 20, 2001 Finance Committee meeting, that scenario was re-emphasized with forecasts now showing even smaller City surpluses and greater financial challenges (CMR:355:01). At the time of the July 2000 presentation of the Long Range Financial Plan, there were also discussions surrounding a new development occurring in the downtown area at the site of the former medical clinic (PAMF/SOFA development), and the impacts that such a development would have on City services. Concerned about the eroding City infrastructure and the potential degradation of City services, Council raised the idea of considering new development impact fees as a revenue source.

A development impact fee is a fee imposed on new development to pay for the cost of public facilities and services attributable to the development. The City of Palo Alto already has a number of development impact fees in place. These include, for example, traffic impact fees in the Stanford Research Park area and housing impact fees for multi-family residential and commercial projects. Council requested that staff assess the feasibility of new development impact fees as potential revenue sources and evaluate present levels of fees.

Based upon Council's direction, staff evaluated impact fees for parks and community facilities (including libraries and community centers). The results of that study and staff recommendations are included in this report. Staff also evaluated the existing housing fee levels, which are covered in a companion report (CMR:383:01), and is in the process of examining existing traffic fees. Additional impact fees requiring extensive evaluation and a nexus study, such as those for transportation improvements and traffic calming measures, would be included in a subsequent study, should the City decide to further pursue impact fees. At the time of the current study, the consultant also completed a feasibility study for impact fees for a new police facility, to determine if the City should consider performing a nexus study to justify such a fee. Staff is continuing to evaluate that option, including revenue potential from such a fee.

DISCUSSION

Legal Setting

The ability of California cities to charge new development for its relative share of the cost of public facilities and services is regulated by the Mitigation Fee Act (Sections 66000-66008 of the Government Code), also known as AB 1600. In order to impose such fees on new development, the legislative body must make certain findings to establish the connection or “nexus” between the development and the public facilities or services that will be funded by the fee, and also to establish the connection between the development and the amount of the fee that is being imposed on the development.

The fees imposed on a development cannot be more than the cost of the relative burden on city facilities or services attributed to that development. Development fees cannot be used to cure existing deficiencies in services or facilities.

In order to support the required “nexus” findings, public agencies usually prepare nexus studies that establish the connection between different types of new development and the need for expanded or new city services or facilities. To perform the study for Palo Alto, staff retained the services of DMG-MAXIMUS, an expert in the field of impact fees, with extensive experience in California.

The attached report, *City of Palo Alto Parks and Community Facilities Impact Fee Study* (Attachment 1), was prepared by DMG-MAXIMUS (DMG). It provides a detailed legal framework for the imposition of development impact fees, defines the facilities addressed in the study, illustrates the impact fee calculation methodology used by staff, and specifies levels of fees which the City could justifiably charge to new development. This report serves as the City’s nexus study for fees for parks, community centers and libraries.

Existing Palo Alto Impact Fees

Development impact fees are implemented in most California communities, and fund a wide variety of projects. Among the most common are housing, transportation, and park fees. The City already has development impact fees for housing, traffic mitigation and downtown parking. The Commercial Housing-in-Lieu Fund contributes to programs that increase the City’s low income and moderate income housing stock. The housing fee (\$4.21/square foot) is charged for nonresidential development. (For residential housing projects of three or more for-sale units or five or more rental units, there is a cost to developers through the Palo Alto Below Market Rate (BMR) Program. Although this is not an impact fee under AB 1600, it does constitute a cost to developers.) Traffic mitigation fees are for new nonresidential development in the Stanford Research Park (SRP)/El Camino Real commercial zone (\$3.03/square foot) and the San Antonio/West

Bayshore areas (\$1.64/square foot). In addition, there is an in-lieu parking fee in the downtown area (\$32,898/parking space).

Palo Alto's existing housing fee was established in 1985 (Chapter 16.47 of the Palo Alto Municipal Code) and the traffic fee was established in 1989. Although the fees are updated annually to reflect increases in the consumer price index or Bay Area Construction Cost Index, fee levels are not sufficient to cover the burden placed on the City's facilities by new development. Staff has completed an updated analysis of the housing fee, which is presented in CMR:383:01. An updated traffic fee study is in progress; staff expects to present the results and recommendations to Council in December 2001.

New Impact Fees

Following direction from Council, staff began researching potential new impact fees for Palo Alto and found that the process of developing impact fees can be lengthy. Council expressed strong interest in a citywide transportation fee. However, before a nexus study for such a fee can even be started, the City needs to update and upgrade its traffic models, a project that is currently underway. Therefore, staff chose to focus preliminary efforts on fees that could be implemented in a shorter timeframe: fees for parks, community centers and libraries.

The DMG report documents the relationship between new development and the need for expanded or additional facilities. The existing and proposed new impact fees are based on maintaining the existing level of service for each service type, as new development increases the number of users. Palo Alto parks, community centers and libraries are used by residents, non-resident employees and visitors. The Department of Community Services conducted surveys in July of 2001 to estimate the level of use of these facilities by each group. Survey results are summarized in Appendix 2 of the DMG report (Attachment 1).

Parks

The City of Palo Alto has 165.8 acres dedicated to neighborhood and district parks. An additional 3,781 acres is dedicated to open space. Nearly all of the neighborhood and district parks are developed (163.5 acres), while less than 8% (282 acres) of open space is developed. Table 3.1 in the attached DMG report lists Palo Alto's existing parks and shows total developed acreage for each location.

Impact fees for open space are not recommended at this time. Acquisition of new open space is not anticipated in the near term, and further development of existing open space will be limited. Information on the impact of new development on open space is included in Appendix 1 of the DMG report.

The maximum costs of providing new park facilities to meet the demands of new development were calculated based on current land acquisition and development costs, employment data, projected resident population, and the relative level of park use by residents and non-resident employees.

Community Centers

Palo Alto's community centers include Cubberly, Lucie Stern, Mitchell Park, the Junior Museum, and the Art Center. Impact fees for community centers were developed based on development costs, employment data, projected resident population, and the relative level of community center use by residents and non-resident employees.

Libraries

The City of Palo Alto currently maintains and staffs six libraries, consisting of 57,204 square feet and approximately 271,675 volumes. Impact fees for libraries were developed based on development and material costs, employment data, projected resident population, and the relative level of library use by residents and non-resident employees. Land cost was not included because new library facilities are likely to be constructed on existing library sites rather than as entirely new facilities in different locations.

Fee Levels

The development impact fees presented in the DMG report represent the maximum impact fee amounts justified by the analysis. Fee levels were reviewed by the interdepartmental staff Land Use Committee, which considered them in light of other potential impact fees proposed by the City. The Committee recommended fee levels for parks, community centers and libraries at 2/3 of those supported by the nexus study, rather than at the maximum levels allowed by the nexus study. Although the nexus study utilizes the most recent information in terms of land acquisition and development costs, these costs may be reduced in the current economic downturn.

The following table displays the maximum fee levels for parks, community centers and libraries justified by the nexus study. Staff's recommended fee levels are also listed. To see the effect of these new fees on the total amount of impact fees that would be paid by new commercial and hotel development, the table also includes potential revised fees for housing and traffic, although the exact levels of these fees are still being determined.

Table 1
Maximum versus Recommended Impact Fee Levels

	Maximum Fee Level	Staff Recommendation
Single Family (per home)		
Parks	\$ 11,884	\$ 7,960
Community Centers	2,844	1,900
Libraries	1,070	720
sub-total	\$ 15,798	\$ 10,580
Multi-Family (per unit)		
Parks	\$ 7,770	\$ 5,210
Community Centers	1,860	1,250
Libraries	699	470
sub-total	\$ 10,329	\$ 6,930
Commercial/Industrial (per sq. ft)		
Parks	\$ 3.38	\$ 2.26
Community Centers	0.19	0.13
Libraries	0.18	0.12
Housing (est.)	12.00	12.00
SRP Traffic (est.)	6.10	6.10
sub-total	\$ 21.85	\$ 20.61
Hotel/Motel (per sq. ft)		
Parks	\$ 1.53	\$ 1.03
Community Centers	0.09	0.06
Libraries	0.08	0.05
Housing (est.)	12.00	12.00
sub-total	\$ 13.70	\$ 13.14

Note: Residential developers of for-sale housing projects with three or more units or rental projects of five or more units must comply with Palo Alto's BMR requirements. Although these are not impact fees, they do represent a cost to the developers of either dedicating BMR units or paying an in-lieu fee. Those costs are not included in this chart.

A comparison of the recommended impact fees to those of other municipalities is also useful in determining where to establish Palo Alto's fees. However, this is difficult to accomplish. Every city has its own array of types of fees, and many are applied on a "case-by-case" basis rather than as a set fee. Staff researched impact fees covering parks, facilities, libraries, and traffic for cities throughout California, but could find none with the exact fee categories as those proposed. Therefore, staff found communities with similar fees, and, for purposes of comparison, looked at the aggregate of fees faced by

developers, rather than comparing fees on a one-to-one basis. Table 2 summarizes this comparison. A more complete description of fees in other California cities is available in Attachment 2.

Table 2
Total Impact Fee Comparison

	Single Family	Multi-Family	Commercial
Palo Alto – current	\$ 0.0	\$ 0.0	\$ 7.24
Palo Alto – proposed¹	\$ 10,580	\$6,930	\$20.61
San Francisco ²	\$ 0.0	\$ 0.0	\$22.00
Gilroy ³	\$ 28,872	\$ 24,228	\$ 17.69
San Jose ⁴	\$ 9,499 + tax	\$2,440 + tax	\$ 0.08 + tax
Morgan Hill ⁵	\$ 5,236	\$ 4,179	\$ 6.51

1. *Proposed Palo Alto fees include parks, libraries, community centers, housing, and SRP area traffic.*
2. *San Francisco fees include parks, housing and citywide transit.*
3. *Gilroy fees include Police and fire facilities, plus citywide traffic and parks.*
4. *San Jose fees include Parks and Buildings, plus 1-1.54% construction tax 1% Art tax in selected areas only*
5. *Morgan Hill fees include Parks, Library, Traffic, Police, Fire, and “General”.*

RESOURCE IMPACT

New development impact fees could provide badly-needed funding for capital improvements for parks, community centers and libraries in order to mitigate the impact of new development. The attached report specifies potential revenues associated with each development impact fee at the maximum level allowable under the nexus study. The study’s revenue forecasts assume that all increases in population and employment would be attributable to new development and thereby subject to the fees. Such an approach over-estimates the revenue potential of the fees. Staff has analyzed the correlation between historical increases in population and residential development, and applied that factor to a census-based forecast of population increases in Palo Alto. Those adjusted levels are reflected as a “Census-based Projection” in the table below to portray the potential revenues for staff’s proposed fee levels, based on anticipated population increases and their corresponding development. The table also shows projected revenues based on last year’s actual level of development activity under “activity-based projection”. (This figure excludes the Stanford Cancer Center, which was an exceptional, one-time project.)

Table 3
Revenue Projections for Proposed Fee Levels*

Potential Annual Revenues	Census-based Projection	Activity-based Projection
Parks	601,695	281,590
Community Centers	109,620	34,343
Libraries	44,680	25,249
	\$ 755,995	\$ 341,181

**Proposed fee levels are approximately 2/3 of the maximum justified in the nexus study*

Administration of new impact fees has not yet been fully evaluated. This includes fee collection, fund administration, and reporting. Staff has yet to determine if these tasks can be absorbed by existing personnel. If not, additional resources may be required.

POLICY IMPLICATIONS

Development impact fees increase the cost of new development. Adding new fees and increasing existing fees increase developers’ costs if they elect to build in Palo Alto, which in turn may raise costs for buyers and renters of the new properties. The fee levels proposed by this report are easily justified based on the impacts that new development has on City services and facilities. Staff is recommending fees that will provide funding to offset these impacts while ensuring that developing in Palo Alto is not prohibitively expensive relative to other California communities. These fees should also be considered in conjunction with other actions impacting development costs in Palo Alto (such as impending changes to the City’s Housing Element of the Comprehensive Plan).

Council could elect to exempt specific types of development from these proposed fees, but would need to articulate the rational policy basis for each exemption. Staff recommends exemptions only for public schools and public facilities for purposes of parks, community centers, and library impact fees. City facilities would be partially funded by impact fees, therefore collecting fees which will be returned to these projects creates an unnecessary administrative expense. Staff recommends an exemption for public schools due to community concern regarding escalating costs for school renovations and maintenance.

It should be noted that the current housing fee exempts churches; colleges and universities; commercial recreation; hospitals and convalescent facilities; private clubs, lodges and fraternal organizations; private education facilities; and public facilities. As part of Phase II of the Housing Fee Study, staff will examine the basis for existing exemptions relative to current council priorities and policies. Staff recommends that the eventual fee structures and exemptions become uniform among impact fees to simplify administration for both the City and developers.

The nexus study prepared for the proposed fees demonstrates the amount of justifiable fees that could be charged to different types of development (e.g., single-family, multiple-family, commercial/industrial and hotel) based on each type's relative usage or burden on the facilities for which the fee would be used. Staff recommends that the fees imposed be relatively consistent for all types of development; however, the City Council, for policy reasons, could elect to charge relatively less to one type of development, effectively subsidizing that development through the General Fund. An example of such a policy might be to reduce or waive impact fees as a means to encourage the construction of multiple-family housing or dedicated low-income multiple family housing.

ALTERNATIVES TO STAFF RECOMMENDATION

The following are possible alternatives to staff's recommended adoption of the proposed development impact fees:

- 1) Decide not to implement new impact fees at this time. The expected revenues from development impact fees are only a small portion of the funds needed for the City to meet its infrastructure needs. Because Palo Alto is effectively built-out, there is not a lot of new development anticipated. Impact fees are charged only on new development. That includes new residences on vacant land (but not new construction following demolition of an existing home), and only the incremental increases in commercial development.
- 2) Elect to implement fees at a higher (or lower) level than those suggested in this report. The attached nexus study justifies potential impact fees at a level higher than those proposed by staff. Council could choose to set individual fee levels for parks, community centers or libraries at the legally allowed maximums or at any lower level.
- 3) Select types of development that would be exempt from the requirements of any new impact fees. (As noted above, each exemption must include a rational policy basis.)

TIMELINE

Once the Finance Committee recommends specific fee levels to staff, staff will prepare an ordinance for Council to adopt to establish the new development impact fees. The new fees can be instituted 60 days following adoption of the ordinance. Staff also intends to hold discussions with local building groups prior to the first public hearing on the fees.

ENVIRONMENTAL REVIEW

This report does not require California Environmental Quality Act (CEQA) review.

ATTACHMENTS

Attachment 1: DMG-Maximus report: *City of Palo Alto: Parks and Community Facilities Impact Fee Study* (September 18, 2001)

Attachment 2: Development Impact Fees in Other California Cities

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