



City of Palo Alto

City Council Staff Report

(ID # 7386)

Report Type: Consent Calendar

Meeting Date: 2/6/2017

Summary Title: Annual Report Development Impact Fees FY16

Title: Review and Acceptance of Annual Report on Development Impact Fees for Fiscal Year 2016

From: City Manager

Lead Department: Administrative Services

RECOMMENDATION

Staff recommends the Council review and approve the annual development impact fee report (Attachment A) and find this action exempt from the California Environmental Quality Act (CEQA) under Section 15378(b)(4) of the CEQA Guidelines.

BACKGROUND

State law (Government Code Section 66006) requires that each local agency that imposes development impact fees prepare an annual report providing specific information about those fees. This requirement is part of the law commonly referred to as AB 1600. It codifies the legal requirement that fees on new development must have the proper nexus to any project on which they are imposed. In addition, AB 1600 imposes certain accounting and reporting requirements with respect to the fees collected. The fees, for accounting purposes, must be segregated from the general funds of the City and from other funds or accounts containing fees collected for other improvements. Interest on each development fee fund or account must be credited to that fund or account and used only for the purposes for which the fees were collected.

Government Code Section 66006 contains comprehensive annual reporting requirements for development impact fees. This statute requires that, within 180 days after the close of the fiscal year, the agency that collected the fees must make available to the public the following information regarding each fund or account:

- Brief description of the type of fee in the fund.
- Amount of the fee.
- Beginning and ending balance in the fund.

- Amount of fees collected and interest earned.
- Identification of each public improvement on which fees were expended and the amount of the expenditure on each improvement, including the total percentage of the cost of the public improvement that was funded with fees.
- Identification of an approximate date by which the construction of a public improvement will commence, if the local agency determines that sufficient funds have been collected to complete financing on an incomplete public improvement.
- Description of each interfund transfer or loan made from the account or fund, including the public improvement on which the loaned funds will be expended, and in the case of an interfund loan, the date on which the loan will be repaid and the rate of interest that the account or fund will receive on the loan.
- Amount of any refunds made due to inability to expend fees within the required time frame.

This report must also be reviewed by the City Council at a regularly scheduled public meeting not less than 15 days after the information is made available to the public. In addition, notice of the time and place of the meeting shall be mailed at least 15 days prior to the meeting to any interested party who files a written request with the local agency for such a mailed notice. An early packet consisting of Attachment A only was made available to the public and included in the packet for the December 12, 2016 meeting of the City Council.

The law also provides that, for the fifth fiscal year following the first deposit into the fund and every five years thereafter, the local agency shall make findings with respect to any portion of the fee remaining unexpended, whether committed or uncommitted. The finding must:

- identify the purpose to which the fee is to be put;
- demonstrate a nexus between the fee and the purpose for which it was originally charged; and
- identify all sources and amounts of funding anticipated to complete financing of incomplete improvements along with the approximate dates on which the anticipated funding is expected to be deposited into the fund.

If the agency no longer needs the funds for the purposes collected, or if the agency fails to make required findings, or to perform certain administrative tasks prescribed by AB 1600, the agency may be required to refund to property owners a prorated portion of the monies collected for that project and any interest earned on those funds.

DISCUSSION

The City of Palo Alto development fees covered by AB 1600, and documented in Attachment A, include the following:

- Stanford Research Park/El Camino Real traffic impact fees (PAMC Ch. 16.45): Fee for new nonresidential development in the Stanford Research Park/El Camino Real Service Commercial zone, to fund capacity improvements at eight intersections.
- San Antonio/West Bayshore Area traffic impact fees (PAMC Ch. 16.46): Fee for new nonresidential development in the San Antonio/West Bayshore area to fund capacity improvements at four intersections.
- Housing impact fees imposed on commercial developments (PAMC Ch. 16.47): Fee on commercial and industrial development to contribute to programs that increase the City's low income and moderate-income housing stock.
- Parking in-lieu fees for University Avenue Parking District (PAMC Ch. 16.57): Fee on new non-residential development in the University Avenue Parking Assessment District in lieu of providing required parking spaces.
- Parks, Community Centers, and Libraries impact fees (PAMC Ch. 16.58): Fee on new residential and non-residential development to provide community facility funds for parks, community centers, libraries, public safety, and general government.
- Residential housing in-lieu fees (PAMC Ch. 16.47): Fee on residential developments in-lieu of providing required below-market rate units to low and moderate income households.
- Parkland dedication fees (Quimby Act) (California Government Code Section 66477): Fee or parkland dedication imposed on new residential and non-residential development.
- Charleston-Arastradero Corridor pedestrian and bicyclist safety fees (PAMC Ch. 16.59): Fee on new development and re-development within the Charleston-Arastradero Corridor to provide for pedestrian and bicyclist improvements.
- Citywide Transportation impact fee (PAMC Ch 16.59): Fee on development in all parts of the City to fund transportation projects and programs to reduce congestion.
- Public Art fees (PAMC 16.61): Fee on public art for private developments.
- Water and sewer capacity fees (California Government Code Section 66000): Fee on developments adding load to water and sewer systems.

AB 1600 requires the City to make specified findings in the event any funds are not expended within five fiscal years of collection and every five years thereafter. While there are several funds containing collected fees that have not been expended in five years, the required statutory carryover findings have already been made for those funds and no further findings are required.

RESOURCE IMPACT

Council approved the required findings with respect to unexpended fees in fiscal years 2012 and 2013. There were no required findings for fiscal year 2014, and there are none for fiscal years 2015 and 2016. The next finding date will be fiscal year 2017, and the unexpended balances for each fee type are noted at the bottom of each section in Attachment A.

Attachments:

- Attachment A: Development Impact Fees FY16

Attachment A

**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

FUND	Stanford Research Park/ El Camino Fund	San Antonio/West Bayshore Fund
Purpose and Authority for Collection	Traffic impact fees imposed on new nonresidential development in the Stanford Research Park/El Camino Real CS zone to fund improvements at eight identified intersections. PAMC Ch. 16.45	Traffic impact fees imposed on new nonresidential development in the San Antonio/West Bayshore Areas to fund capacity improvements at four identified intersections. PAMC Ch. 16.46
Amount of the Fee	\$11.94 per square foot	\$2.46 per square foot
Fund Balance July 1, 2015	\$3,183,028	\$865,227
<u>Activity in 2015-16</u>		
Revenues		
Fees Collected	0	0
Interest Earnings	60,220	16,373
Unrealized Gain/Loss Investments	36,275	9,619
Total Revenues	\$96,495	\$25,992
Total Expenditures	0	0
Ending Balance June 30, 2016	\$3,279,523	\$891,219
Other Commitments/Appropriations Reserve for unrealized gain on investments	(55,874)	(14,656)
Net Funds Available	\$3,223,649	\$876,563
Unexpended balance at next finding date (FY 2017-18)	\$2,343,008	\$823,819
	USE OF FEES: No expenditures have been made from this fund in Fiscal Year 2016. Funds will support intersection improvements at Page Mill Road/Hanover and Page Mill Road/Hansen concurrent with construction of the project at 1050 Page Mill Road under a cooperative agreement currently being negotiated with the developer and the County.	USE OF FEES: No expenditures have been made from this fund in Fiscal Year 2016.

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**City of Palo Alto
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FUND	Commercial Housing In-Lieu Fund	University Avenue Parking In-Lieu Fund
Purpose and Authority for Collection	Fees imposed on large commercial and industrial development to contribute to programs that increase the City's low income and moderate-income housing stock. PAMC Ch.16.47	Fees collected from non-residential development within the University Ave. Parking Assessment District in lieu of providing the required number of parking spaces. PAMC Ch 16.57
Amount of the Fee	\$19.85 per square foot	\$65,475 per space
Fund Balance July 1, 2015	\$14,642,107	\$4,963,059
<u>Activity in 2015-16</u>		
Revenues		
Fees Collected	48,156	
Prior year fees refunded		(209,616)
Sale of Property	78,651	
Interest Earnings	244,973	81,572
Unrealized Gain/Loss Investments	121,424	54,653
Operating Transfers		
Transfer from Housing In-Lieu Fund	375,000	
Transfer from SUMC	1,720,488	
Total Revenues	2,588,692	(73,391)
Expenditures		
Planning	(500)	
Other Contract Services	(2,777)	
Transfer to Capital Projects		(1,300,000)
Reclassify prior year expense to loan	500,000	
Total Expenditures	496,723	(1,300,000)
Ending Balance June 30, 2016	\$17,727,522	\$3,589,668
Other Commitments/Appropriations		
Reserve for Notes Receivable include:\$1,290,000 for 2811 Alma, and \$4,137,254 for 801 Alma.	(5,427,254)	
Reserve for Buena Vista	(7,700,000)	
Reserve for Encumbrance	(12,278)	
Reserve for unrealized gain on investments	(171,287)	(75,110)
Net Funds Available	\$4,416,704	\$3,514,558

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**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

**Unexpended balance at next finding
date (FY 2017-18)**

7,263,289

\$0

USE OF FEES:

Expenditures of funds have been made in Fiscal Year 2016 for \$3K housing nexus study. The \$500K previously reported as expenditure for 801 Alma St. in fiscal year 2006 was reclassified to notes receivable. The \$7.7 million Reserve for Buena Vista is included for unexpended balance calculation purposes because this was only set aside by council motion.

USE OF FEES:

Expenditures of funds have been made in Fiscal Year 2016 for \$1.3M to PE-15007 (New Downtown Parking Garage).

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**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

FUND	Residential & Non-Residential Housing Community Facilities Parks	Residential & Non-Residential Housing Community Facilities Community Centers
Purpose and Authority for Collection	Fees imposed on new residential and non-residential development approved after Jan 28, 2002 for Parks. PAMC Ch. 16.58	Fees imposed on new residential and non-residential development approved after Jan 28, 2002 for Community Centers. PAMC Ch. 16.58
Amount of the Fee	Residential: Single family \$11,465/residence (or \$17,120/residence larger than 3,000 sq ft); Multi-family \$7,505/unit (or \$3,794/unit smaller than or equal to 900 sq ft) Nonresidential: Commercial/industrial \$4,869 per 1,000 sq ft; Hotel/Motel \$2,202 per 1,000 sq ft	Residential: Single family \$2,972/residence (or \$4,450/residence larger than 3,000 sq ft); Multi-family \$1,956/unit (or \$987/unit smaller than or equal to 900 sq ft) Nonresidential: Commercial/industrial \$275 per 1,000 sq ft; Hotel/Motel \$124 per 1,000 sq ft
Fund Balance July 1, 2015	\$3,830,075	\$5,222,588
Activity in 2015-16		
Revenues		
Fees Collected	62,771	428,903
Interest Earnings	73,349	105,611
Unrealized Gain/Loss	46,961	64,277
Total Revenues	\$183,081	\$598,791
Total Expenditures	0	0
Ending Balance June 30, 2016	\$4,013,156	\$5,821,379
Other Commitments/Appropriations		
Reserve for unrealized gain on investments	(66,866)	(94,345)
Net Funds Available	\$3,946,290	\$5,727,034
Unexpended balance at next finding date (FY 2016-17)	446,005	\$843,809
	USE OF FEES: No expenditure of funds have been made from this Fund in Fiscal Year 2016.	USE OF FEES: No expenditure of funds have been made from this Fund in Fiscal Year 2016.

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**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

FUND	Residential & Non-Residential Housing Community Facilities Libraries	Residential Housing In-Lieu Fund
Purpose and Authority for Collection	Fees imposed on new residential and non-residential development approved after Jan 28, 2002 for Libraries. PAMC Ch. 16.58	Fees collected from residential developments of three or more units in lieu of providing the required below-market rate unit(s) to low and moderate income households. PA Comprehensive Plan and PAMC Chapter 18
Amount of the Fee	Residential: Single family \$1,038/residence (or \$1,545/residence larger than 3,000 sq ft); Multi-family \$620/unit (or \$341/unit smaller than or equal to 900 sq ft) Nonresidential: Commercial/industrial \$262 per 1,000 sq ft or fraction thereof; Hotel/Motel \$110 per 1,000 sq ft or fraction thereof	Varies
Fund Balance July 1, 2015	\$803,697	\$17,620,964
<u>Activity in 2015-16</u>		
Revenues		
Fees Collected	142,591	2,035,025
Monroe Litigation Settlement		2,801,474
Webster Wood Property Rental		5,650
Interest Earnings	17,481	382,924
Unrealized Gain/Loss Investments	11,060	148,702
Total Revenues	\$171,132	\$5,373,775
Expenditures		
Legal		(36,730)
Housing Program Expense		(147,698)
Interest Expense		(7,106)
Principal Retired		(135,060)
Transfer to SUMC		(720,220)
Transfer to Housing Commerical		(375,000)
Total Expenditures	0	(1,421,814)
Ending Balance June 30, 2016	\$974,829	\$21,572,925

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**City of Palo Alto
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Reserve for Reappropriations		(375,000)
Reserve for Encumbrances		(65,937)
Reserve for Buena Vista		(6,800,000)
Reserve for unrealized gain on investments	(15,572)	(195,102)
Reserve for Notes Receivable include \$375,000 for 3053 Emerson, \$3,804,850 for Tree House Apts, \$68,033 for Oak Manor, \$747,734 for Sheridan Apts., \$2,285,026 for 801 Alma, \$1,000,000 for Palo Alto Housing Project, \$600,000 for 2811-2825 Alma St., and \$203,561 for Colorado Park Housing.		(9,084,204)
Net Funds Available	\$959,257	\$5,052,683
Unexpended balance at next finding date (FY 2016-17-Residential & Non Residential Housing Communities Facilities Libraries, FY2017-18-Residential Housing In-Lieu)	\$541,529	\$2,316,406
USE OF FEES:		USE OF FEES:
No expenditure of funds have been made from this Fund in Fiscal Year 2016.		Expenditures in Fiscal Year 2016 include \$148K to Palo Alto Housing Corp for BMR fees, \$135K for Oak Manor Apts. loan forgiveness, \$37K for legal fees, and \$720K and \$375K return of funds to SUMC and Housing Commercial, respectively. The \$6.8 million Reserve for Buena Vista is included for unexpended balance calculation purposes because this was only set aside by council motion

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**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

FUND	Parkland Dedication	Charleston-Arastradero Corridor Pedestrian and Bicyclist Safety
Purpose and Authority for Collection	Fees on parkland dedication imposed on new residential and non-residential development Govt Code Sec.66477 (Quimby Act)	Fees collected from new development and re-development within the Charleston-Arastradero Corridor to provide for pedestrian and bicyclist safety improvements. PAMC Ch. 16.60
Amount of the Fee	Single Family: \$58,812 per unit; Multi-Family: \$40,103 per unit. This applies only to residential projects that require a subdivision or parcel map. Land dedications is required for subdivisions resulting in more than 50 parcels. Parkland Dedication Fee -Land: Single Family: 531 sq. ft, per unit; Multi-Family: 366 sq. ft. per unit. When parkland dedication applies, park impact fees do not apply.	Residential: \$1,256 per unit; Commercial: \$0.37 per sq ft
Fund Balance July 1, 2015	\$2,553,156	\$254,690
Activity in 2015-16		
Revenues		
Fees Collected	624,270	1,225
Interest Earnings	51,478	4,268
Unrealized Gain/Loss	34,929	357
Total Revenues	\$710,677	\$5,850
Expenditures		
Operating Transfer to Capital Projects Fund	0	(250,000)
Total Expenditures	0	(250,000)
Ending Balance June 30, 2016	\$3,263,832	\$10,540
Other Commitments/Reappropriations Reserve for unrealized gain on investments	(49,462)	(1,832)
Net Funds Available	\$3,214,370	\$8,708
Unexpended balance at next finding date (FY 2016-17-Parkland Dedication, FY2017-18-Charleston)	\$757,744	\$0
	USE OF FEES:	USE OF FEES:
	No expenditure of funds have been made from this Fund in Fiscal Year 2016.	Expenditure have been made in Fiscal Year 2016 for \$250K to PL-13011 (Charleston Arastadero).

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**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

FUND	New Public Safety Facilities	General Government Facilities
Purpose and Authority for Collection	Fees imposed on residential and non-residential development to fund police and fire facilities (including fire apparatus and vehicles) PAMC Ch. 16.58	Fees imposed on residential and non-residential development to fund facilities associated with municipal administration.
Amount of the Fee	Residential: Single family \$996 per unit; Multi-family \$797 per unit Nonresidential: Commercial \$557 per 1,000 sq ft. or fraction thereof; Industrial \$186 per 1,000 sq. ft. or fraction thereof; Hotel/Motel \$743 per 1,000 sq ft or fraction thereof	Residential: Single family \$1,255 per unit; Multi-family \$1,004 per unit Nonresidential: Commercial \$702 per 1,000 sq ft. or fraction thereof; Industrial \$234 per 1,000 sq. ft. or fraction thereof; Hotel/Motel \$937 per 1,000 sq ft or fraction thereof
Fund Balance July 1, 2015	\$1,596	\$2,011
Activity in 2015-16		
Revenues		
Fees Collected	19,139	24,105
Interest Earnings	248	314
Total Revenues	\$19,387	\$24,419
Total Expenditures	0	0
Ending Balance June 30, 2016	\$20,983	\$26,430
Other Commitments/Reappropriations		
Net Funds Available	\$20,983	\$26,430
Unexpended balance at next finding date FY 2019-20	\$1,596	\$2,011
	USE OF FEES:	USE OF FEES:
	No expenditure of funds have been made from this Fund in Fiscal Year 2016.	No expenditure of funds have been made from this Fund in Fiscal Year 2016.

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**City of Palo Alto
Annual Report on Development Impact Fees
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FUND	Citywide Transportation	
Purpose and Authority for Collection	Transportation impact fees imposed on new development in all parts of the City to fund congestion reduction projects. PAMC Ch. 16.59	
Amount of the Fee	\$3,439 per net new PM peak hour trip	
Fund Balance July 1, 2015		\$2,460,395
<u>Activity in 2015-16</u>		
Revenues		
Fees Collected		482,832
Interest Earnings		54,426
Unrealized Gain/Loss Investments		28,085
Total Revenues		\$565,343
Total Expenditures		0
Ending Balance June 30, 2016		\$3,025,738
Other Commitments/Reappropriations		
Reserve for unrealized gain on investments		(46,715)
Net Funds Available		\$2,979,023
Unexpended balance at next finding date (FY 2017-18)		\$1,216,124
USE OF FEES:		
No expenditure of funds have been made from this Fund in Fiscal Year 2016.		

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**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

(INFORMATION ONLY)

FUND	Public Art Fund	
Purpose and Authority for collection	Fees imposed on new commercial developments (including mixed use projects), including new construction, remodels, additions and reconstruction that (i) have a floor area of 10,000 square feet or more, and (ii) have a construction value of \$200,000, or more, exclusive of costs for architecture, design, engineering, and required studies; and all new residential projects of five or more units to fund public art for private developments. PAMC Ch. 16.61	
Amount of the Fee	1% of first \$105.21 million construction valuation and .9% of construction valuation for valuation in excess of \$105.21 million	
Fund Balance July 1, 2015		\$154,716
Activity in 2015-16		
Revenues		
Fees Collected		141,206
Interest Earnings		8,812
Unrealized Gain/Loss Investments		4,866
Operating Transfer from General Fund		107,000
Total Revenues		\$261,884
Expenditures		
Salaries and benefits		(135,051)
Total Expenditures		(135,051)
Ending Balance June 30, 2016		\$281,548
Reserve for unrealized gain on investments		(6,412)
Net Funds Available		\$275,136
This fund is not subject to AB1600 requirements and is listed only for information purposes		

Attachment A

**City of Palo Alto
Annual Report on Development Impact Fees
for Period Ending June 30, 2016**

(INFORMATION ONLY)

FUND	Water and Wastewater Collection
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Purpose and Authority for Collection	Capacity fees charged to developers that are adding load to the water and sewer systems effective July 1, 2005. California Government Code Sect 66000
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Amount of the Fee	<p>Water Capacity Fees: 5/8 in., 3/4 in E-Meter. \$5,000, 1 in. E-Meter \$9,400, 1 1/2 in. E-Meter \$18,850, 2 in. E-Meter \$56,250 , 4 in. Compound Meter by est. \$125/FU (min. 5,000 FU) , 6 in. Compound Meter by est. \$125/FU (min. 7,000 FU)</p> <p>Fire Service Capacity Fees: 2 in. \$750, 4 in. \$9,000, 6 in. \$22,530, 8 in. \$43,080, 10in. \$69,510</p> <p>Sewer Capacity Charges: 4 in. connection with 5/8 in Water Meter (WM) \$5,250, 4 in connection. with 1-in WM \$15,750, 4 or 6 in. connection with 1-1/2 in WM \$31,668, 6 in. connection with 2 in. WM \$94,500, 6 in. and larger connection with 4 in. or larger WM by est. at \$210/FU</p>
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Activity in 2015-16

Capacity Fees Collected	
Water	\$641,283
Wastewater Collection	<u>288,206</u>
Total	\$929,489

USE OF FEES:

The fees are used exclusively for water and sewer system improvements