

**DRAFT MEMORANDUM**

To: Tina Olson, City of Pleasanton

From: Jason Moody and Michael Nimon, EPS

Subject: Pleasanton Impact Fee Comparisons and Economic Implications; EPS #151111

Date: November 30, 2017

*The Economics of Land Use*



Economic & Planning Systems (EPS) is currently working for the City of Pleasanton to update its capital facility, transportation, and affordable housing impact fees. EPS has completed draft Nexus Report which calculates maximum allowable impact fee level that could be imposed by the City for each capital facility category. This memorandum focuses on the economic and associated policy implications of various fee levels to support the City Council consideration and potential approval of comprehensive Impact Fee Program.

**Fee Comparisons**

EPS has compared the preliminary maximum allowable fee developed as part of the draft Nexus Report with (1) the City's existing fees and (2) fees currently being charged by a selected set of comparable jurisdictions. **Table 1** summarizes the differences between maximum allowable fee level based on the draft Nexus Report and existing fees by land use category (further detail is provided in **Appendix A**). As shown, the maximum allowable capital facilities fee increases for all land use categories, with particularly significant increases in the nonresidential land use categories. When the maximum allowable Affordable Housing fee is included the increasing over existing levels is even more pronounced. However, jurisdictions rarely charge the full amount for affordable housing fees (the City's existing Affordable Housing fee is well below the maximum allowed).

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**Table 1 Comparison of Existing Impact Fees and Maximum Nexus-Based Fees in Pleasanton**

Land Use	Pleasanton (Existing) <sup>1</sup>	Pleasanton (Maximum Allowable)
<b>Single Family (per Unit)</b>		
Affordable Housing	\$11,627	\$44,930 - \$75,857
Public Facilities	<u>\$19,743</u>	<u>\$23,476</u>
<b>Total</b>	<b>\$31,370</b>	<b>\$68,406 - \$99,333</b>
<b>Multifamily (per Unit)</b>		
Affordable Housing	\$2,882	\$24,911 - \$46,631
Public Facilities	<u>\$14,541</u>	<u>\$15,283</u>
<b>Total</b>	<b>\$17,423</b>	<b>\$40,194 - \$61,914</b>
<b>Retail (per Sq.Ft.)</b>		
Affordable Housing	\$3.07	\$211
Public Facilities	<u>\$14.64</u>	<u>\$37.39</u>
<b>Total</b>	<b>\$17.71</b>	<b>\$248.39</b>
<b>Office (per Sq.Ft.)</b>		
Affordable Housing	\$3.07	\$83
Public Facilities	<u>\$7.61</u>	<u>\$28.55</u>
<b>Total</b>	<b>\$10.68</b>	<b>\$111.55</b>
<b>Industrial (per Sq.Ft.)</b>		
Affordable Housing	\$3.07	\$83
Public Facilities	<u>\$5.58</u>	<u>\$16.55</u>
<b>Total</b>	<b>\$8.65</b>	<b>\$99.55</b>

<sup>1</sup> The fee estimate is based on the range of Public Facilities, Traffic Impact, and Park in Lieu Fees for the City excluding North Pleasanton Fire Refunding District.

Source: City of Pleasanton and Economic & Planning Systems, Inc.

EPS has also compared the City's existing and maximum nexus-based allowable fee level for each category to those in a selected set of peer jurisdictions. **Table 2** provides a summary of the cities and fee categories included in this analysis. It should be noted that fee comparisons are challenging because of a variety of technical factors including the diverse range and manner in which fees are calculated and levied by local jurisdictions (including various fee geographies), periodic changes in fees charged by cities and other entities (e.g., special districts), and other factors (**Table A-1** provide further detail on the assumptions used in these comparisons). In order to capture the variations of development impact fees in comparable cities, this analysis presents fee ranges as opposed to specific fee levels.

**Table 2 Summary of Development Impact Fee Categories for Selected Cities**

Fee Category	Pleasanton	Dublin	Livermore	San Ramon	Fremont
Affordable Housing	X	X	X		X
Parks	X		X		X
Traffic/Transportation	X	X	X	X	X
Capital Facilities	X	X			X
Fire		X			X
Noise Mitigation		X			
Social and Human Service Facility			X		
Specific Plan Recovery Fees				X	
Tri-Valley Transportation Development	X	X	X	X	

Source: Cities of Pleasanton, Dublin, Livermore, San Ramon, and Fremont

As summarized in **Table 3**, excluding the affordable housing component, the maximum allowable fee levels supported by the draft Nexus Report are more or less in line with those of other jurisdictions. Specifically, the maximum allowable residential public facilities fee falls below those in Dublin, Livermore, and Fremont but above San Ramon. On the nonresidential side, Pleasanton's maximum allowable fee is generally higher than the comparison set, with the exception of San Ramon for the Office category only and Livermore. The maximum allowable housing fee is substantially above any other fee charged by other Tri-Valley jurisdictions or the existing fee in Pleasanton but again Cities rarely the full amount.

**Table 3 Summary of Existing Impact Fees for Selected Cities\***

Land Use	Pleasanton (Existing) <sup>1</sup>	Pleasanton (Maximum Allowable)	Dublin <sup>2</sup>	Livermore <sup>3</sup>	San Ramon <sup>4</sup>	Fremont <sup>5</sup>
<b>Single Family (per Unit)</b>						
Affordable Housing	\$11,627	\$44,930 - \$75,857	\$20,965	\$37,905	n/a	\$49,400
Public Facilities	\$19,743	\$23,476	\$32,448 - \$40,161	\$29,396	\$3,870 - \$7,390	\$30,907
<b>Total</b>	<b>\$31,370</b>	<b>\$68,406 - \$99,333</b>	<b>\$53,413 - \$61,126</b>	<b>\$67,301</b>	<b>\$3,870 - \$7,390</b>	<b>\$80,307</b>
<b>Multifamily (per Unit)</b>						
Affordable Housing	\$2,882	\$24,911 - \$46,631	\$20,965	\$23,940	n/a	\$21,000
Public Facilities	\$14,541	\$15,283	\$30,100 - \$34,728	\$24,951	\$2,673 - \$6,439	\$25,425
<b>Total</b>	<b>\$17,423</b>	<b>\$40,194 - \$61,914</b>	<b>\$51,065 - \$55,693</b>	<b>\$48,891</b>	<b>\$2,673 - \$6,439</b>	<b>\$46,425</b>
<b>Retail (per Sq.Ft.)</b>						
Affordable Housing	\$3.07	\$211	\$1.05	\$1.20	n/a	n/a
Public Facilities	\$14.64	\$37.39	\$7.48 - \$9.14	\$38.86	\$5.72 - \$7.51	\$8.03
<b>Total</b>	<b>\$17.71</b>	<b>\$248.39</b>	<b>\$8.53 - \$9.19</b>	<b>\$40.05</b>	<b>\$5.72 - \$7.51</b>	<b>\$8.03</b>
<b>Office (per Sq.Ft.)</b>						
Affordable Housing	\$3.07	\$83	\$1.30	\$0.77	n/a	n/a
Public Facilities	\$7.61	\$28.55	\$10.63 - \$11.29	\$35.23	\$6.25 - \$11.48	\$6.59
<b>Total</b>	<b>\$10.68</b>	<b>\$111.55</b>	<b>\$11.93 - \$12.59</b>	<b>\$36.00</b>	<b>\$6.25 - \$11.48</b>	<b>\$6.59</b>
<b>Industrial (per Sq.Ft.)</b>						
Affordable Housing	\$3.07	\$83	\$0.50	\$0.11	n/a	n/a
Public Facilities	\$5.58	\$16.55	\$5.23 - \$5.89	\$25.14	\$5.44 - \$7.13	\$3.45 - \$4.27
<b>Total</b>	<b>\$8.65</b>	<b>\$99.55</b>	<b>\$5.73 - \$6.39</b>	<b>\$25.24</b>	<b>\$5.44 - \$7.13</b>	<b>\$3.45 - \$4.27</b>

\*Summary table fees do not include sewage, water, or storm drain fees. Assumes that citywide fees and specific area fees are not additive unless otherwise noted.

<sup>1</sup> The fee estimate is based on the range of Public Facilities, Traffic Impact, and Park in Lieu Fees for the City excluding North Pleasanton Fire Relanding District.

<sup>2</sup> The range of total fee is based on the range of Traffic Impact Fees for the City, Eastern Dublin Outside Transit Center, Eastem Dublin Inside Transit Center, Downtown, and Dublin Crossing. Affordable housing fee based on 2016 fee schedule citing \$167,717 per new housing unit.

<sup>3</sup> The range of total fee is based on the range of Traffic Impact Fees for the City and Downtown. For multi-family 10+ unit development, fee must be approved by Council; for this analysis, EPS uses the \$19.95/Sq.Ft. fee applicable to single family development.

<sup>4</sup> The range of total fee is based on the range of Traffic Impact Fees for the City, Contra Costa JEPA, and Southern Contra Costa JEPA. Fees also range for the area specific fees of Specific Plan Recovery costs in the Westside, Crow Canyon, and North Camino Ramon.

<sup>5</sup> The range of industrial fee is based on the range for the categories of "manufacturing" and "light industrial."

Source: Cities of Pleasanton, Dublin, Livermore, San Ramon, and Fremont

## Economic Implications

Cities are often concerned about the effect that development impact fees may have regional competitiveness. Specifically, if Pleasanton's fees are substantially higher, the additional cost may provide a competitive disadvantage when trying to attract new regional development. However, if fees are too low, the City may miss out on potential infrastructure funding opportunities. The following section describes a general framework by which the economic implications of Pleasanton's proposed capital facility fees may be viewed and then provides an overview of potential implications by land use type.

### General Considerations

On an economic and financial level, development impact fees should be considered from two perspectives:

- 1. Fee Revenues and Economic Benefits.** Development impact fees provide an important contribution to funding for development of infrastructure and capital facilities. As such, they support the policy goals of a jurisdiction in terms of providing adequate public facilities and infrastructure such as transportation infrastructure, parks and recreation amenities, and public safety facilities/equipment. These improvements mitigate the impacts of new development help in maintaining the quality of life that both residents and employers seek. Development impact fees can also help overcome infrastructure development obstacles by providing an opportunity to spread the cost burden of improvements over a broader range of developments where substantial upfront infrastructure investment is required.
- 2. Development Costs and Economic Impacts.** Development impact fees directly add to the costs to construct new residential and commercial buildings (i.e., vertical development costs). In the short term, development impact fees increase overall development costs, reducing the expected return on investment/profit margin on an individual development project at a particular point in time. Over the medium to long term, a portion of these vertical development cost increases is absorbed by reductions in land value, while improvements in the quality of infrastructure support higher property values. As a result, under normal market conditions, reductions in development impacts fees can, in the short term, bring forward the timing on projects that are close to showing the level of return required to support financing and risk.

As a general principle, these competing benefits and costs associated with development impact fees point to the importance of establishing aggregate fee levels that strike a balance between providing an appropriate level of facilities/infrastructure to new residents and businesses consistent with jurisdiction's goals/vision, while avoiding excessive costs on development and thereby slowing the pace of growth.

### Implications by Land Use

#### *Residential*

In general, residential development is less reactive to fee increases than nonresidential uses. While employment opportunities create residential demand, residential development is also dependent on the presence of other amenities such as schools, parks, cultural institutions, natural beauty, and other quality of life characteristics. To the extent that impact fees help finance these other amenities, they can actually improve the market performance of residential development over the long run. Given that the proposed residential fees provide funding for public facilities and improvements, it is not expected that the adoption of the maximum traffic,

public facilities, and parks and recreation facilities fees would significantly affect Pleasanton's competitiveness for future residential development. While these fees are shown to increase modestly in aggregate, the subcomponents of the fee actually decrease in some categories (e.g., parks and recreational facilities) while increasing in others (e.g., traffic improvements).

### **Retail**

Retail development is generally closely linked to residential development and as such is highly "place" or location dependent. Consequently, small differences in fee levels among jurisdictions are unlikely to affect the location of retail development. However, the maximum retail impact fees are substantially higher than those charged in any other jurisdiction surveyed except Livermore, and could potentially affect Pleasanton's regional competitiveness for future retail development. However, a modest increase is likely to be supported as Pleasanton's existing retail development impact fees are roughly on par with the average of jurisdictions surveyed. To the extent that the City has remained a competitive retail location under this fee structure, this may offer a useful indication of how the proposed fees might be received by retail developers.

### **Office and Industrial**

In contrast to residential and retail development, office and industrial development (defined as a combination of industrial, light industrial, and R&D for the purpose of this analysis) is tied more to the economic characteristics of a location, such as the cost of land, taxes, and the cost of new development. Consequently, development impact fees may have a greater effect on the type and amount of industrial, and to a lesser extent office, development in the City than on residential development. If the total cost of development is much higher in one jurisdiction than other competitive areas, the imposition of higher fees can cause demand to shift to those other lower-cost locations. Existing development impact fee in Pleasanton is on par with the regional average for industrial and slightly below regional average for office uses. This suggests that a moderate increase is likely to be supported with minimal adverse impact on these uses. However, the maximum office and light industrial impact fees are substantially higher than averages of those in other Tri-Valley jurisdictions and would put Pleasanton as the second highest fee burden only to Livermore for both office and light industrial land uses.

## **Policy Options**

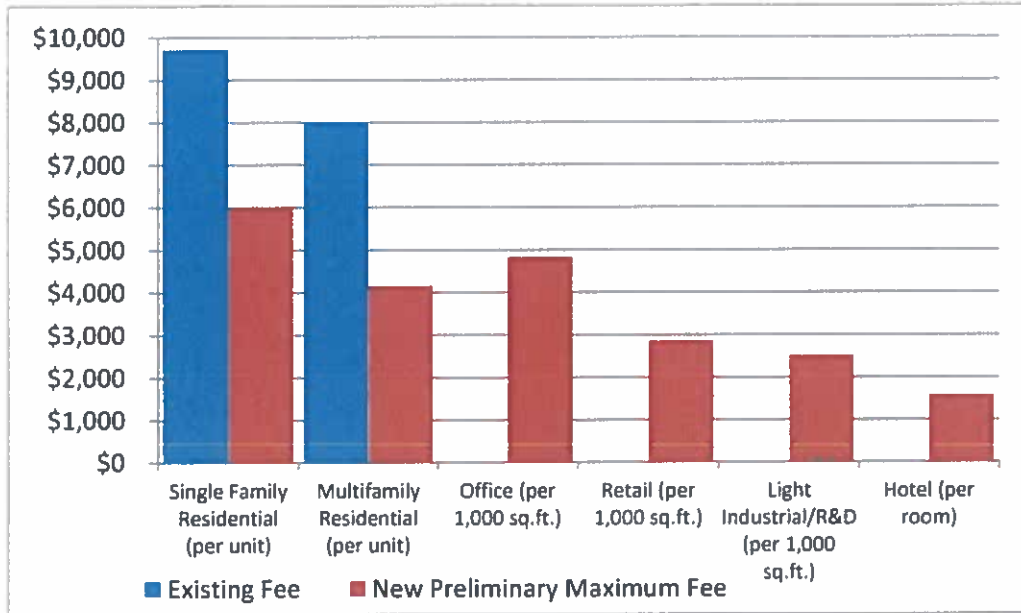
The City may consider a variety of implementation options to mitigate real or perceived economic implications of the fees. If the City chooses to adopt the proposed fees, the Pleasanton City Council maintains the discretion to waive all or a portion of the adopted fee for any given project. If the City is at risk of losing a particularly desirable future project as a result of the adopted fee level, the Council may exempt that project from the fee for economic development reasons. Alternatively, the City could decide to reduce the overall fee either by removing individual projects or by imposing a fixed-percent reduction to the fee.

The decision of how to set the ultimate fee level should be made following discussions with key stakeholders including developers, real estate brokers, and knowledgeable City staff. This decision can also be informed by focused studies of current conditions and trends by development type. In any case, the City will have to make a "judgment call" based on as comprehensive an assessment as possible of local and regional market conditions, recognizing that no standard "formula" exists.

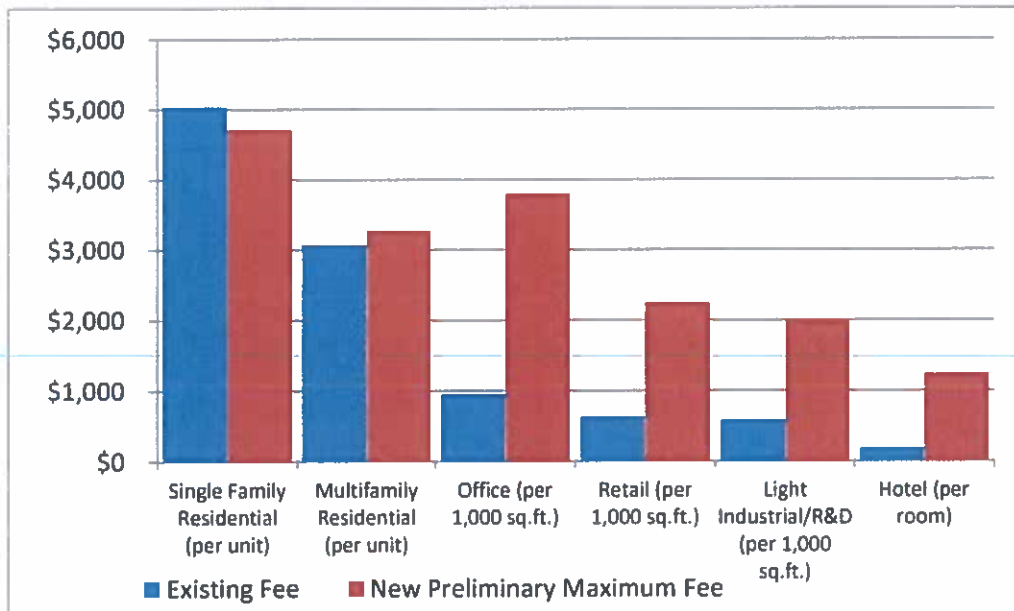
**APPENDIX A:**  
**Detailed Results and Assumptions**



**Figure A-1 Parks and Recreation Facilities and Downtown Beautification Fee Comparison by Land Use**



**Figure A-2 Public Facilities Fee Comparison by Land Use**

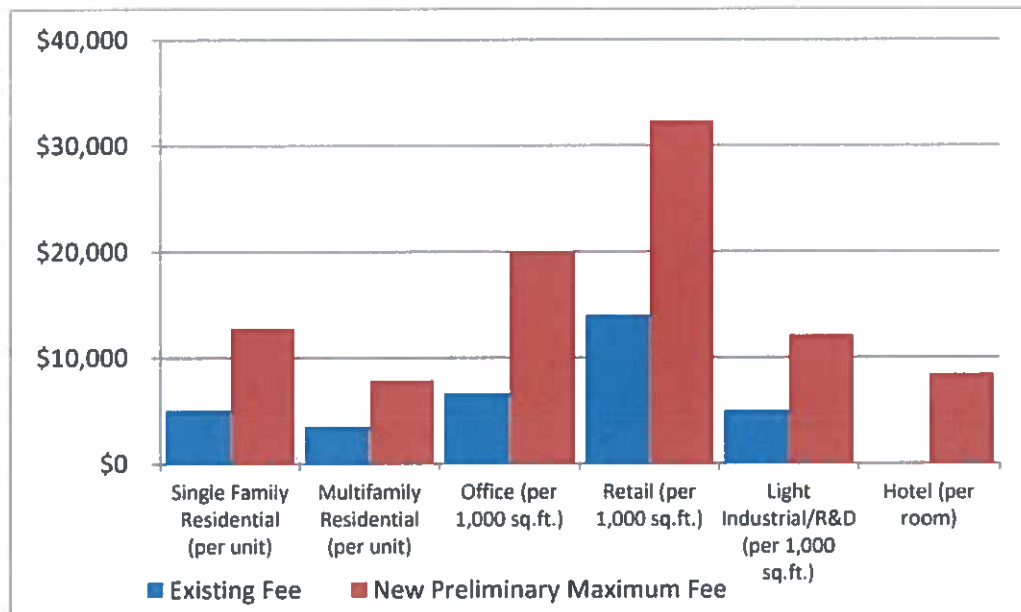




**Table A-1 Prototypes and Assumptions for Fee Calculations**

<b>Prototypes and Assumptions</b>	
<b>Single Family Development (Detached Unit)</b>	
Unit Size (Sq.Ft.)	1,900
No. of Bedrooms	3
No. of Bathrooms	2.5
Lot Size (Sq.Ft.)	5,500
Sale Price	\$1.0 M
<b>Multifamily Apartment Unit (Rental)</b>	
Avg. Unit Size (Sq.Ft.)	1,200
No. of Bedrooms per Unit	2
No. of Bathrooms per Unit	2
No. of Units	50
Lot Size (Acres)	
<b>Retail</b>	
Size (Sq.Ft.)	5,000
Lot Size (Acres)	0.3
<b>Office</b>	
Size (Sq.Ft.)	25,000
Lot Size (Acres)	1.3
<b>Industrial (Warehouse/Distribution)</b>	
Size (Sq.Ft.)	265,000
Total Lot Size (Acres)	15

**Figure A-3 Traffic Improvements Fee Comparison by Land Use**



**Figure A-4 Affordable Housing / Commercial Linkage In Lieu Fee Comparison by Land Use**

