



CITY COUNCIL AGENDA REPORT

May 1, 2018

City Manager
Finance
Community Development

TITLE: PRESENTATION AND DISCUSSION OF AN UPDATE TO THE CITY'S CAPITAL FACILITY, TRANSPORTATION AND AFFORDABLE HOUSING DEVELOPMENT IMPACT FEES (DEVELOPMENT IMPACT FEES)

SUMMARY

The proposed update to the City's Development Impact Fees is a Council priority. Since the 1980s, the City established several development impact fees to mitigate the impact of new housing and commercial developments on the City's facilities, infrastructure, and available affordable housing. The City's development impact fees were established pursuant to AB 1600. These fees were last restructured in 1998. City staff worked with Economic & Planning Systems (EPS) to update these development impact fees based on the most current General Plan and other related planning documents. Staff and EPS has issued draft reports outlining their methodology and the maximum Development Impact Fees the City could charge. Staff and EPS will present the development impact fees methodology and results for discussion and feedback.

Staff is proposing a two-step process for Council review and consideration. Tonight's presentation is simply a presentation of the technical work and to enable a thorough discussion of the proposed changes to the impact fees. Staff is not seeking any action from the City Council with this presentation. The next formal step will involve various presentations to various stakeholders throughout the community, including the City's Economic Development Committee, Chamber of Commerce, and other related parties. Staff will return to the City Council for final review and consideration of the proposed fees along with any feedback and amended recommendations for consideration. Staff anticipates this occurring in the early-summer timeframe.

RECOMMENDATIONS

1. Receive and discuss staff's presentation on the development impact fees methodology and results.
2. Provide direction to staff to return with recommendations regarding new Development Impact Fee amounts, following outreach and presentations to various stakeholder groups within the community.

FINANCIAL STATEMENT

City staff expects to collect \$6.1 million in Development Impact fees in FY 2017/18, based on the old fee methodology. The Development Impact Fee revenues are a significant portion of the funding sources supporting the City's Capital Improvement Plan (CIP). The monies are used to fund projects that will help mitigate the impacts of development on the community such as transportation system improvements, building a new park or park facility and supporting construction of affordable housing.

The estimated revenues collected from the Development Impact fees that result from the 2018 Development Impact Fee study will depend on the fee levels ultimately chosen by City Council.

BACKGROUND

AB 1600 (California Government Code Section 66000 et. seq.) requires cities to justify and account for development fees that they enact as a condition of approval on new development. The justification, or nexus requirement, requires cities to do the following:

1. Identify the purpose of the fee;
2. Identify the use or specific project to which the fee will be applied;
3. Determine how there is a reasonable relationship between the fee's use and type of development project on which the fee is imposed; and
4. Determine how there is a reasonable relationship between the need for the public improvement and the type of development project on which the fee is imposed.

The nexus is based on the premise that new development should pay for its' pro rata share of public improvement costs. Because residents, business and their employees create the need for and benefit from the availability of public services and infrastructure improvements, new development should pay its share of public facilities/improvements impacted by development.

Since the 1980s, the City established several development impact fees to mitigate the impact of new housing and commercial developments on the City's facilities, infrastructure, and available affordable housing. The City's development impact fees were established pursuant to AB 1600. These fees were last restructured in 1998, and include the Public Facilities Fee, Traffic Development Fee, Park Dedication Fee, Water and Sewer Connection Fees¹, and Affordable Housing Fee. These fees were calculated based on assumptions of: (1) anticipated development at that time, (2) the impact that development would have on the City's facilities and infrastructure, and (3) specific projects and project costs required to mitigate those impacts.

The City's current Development Impact Fee schedule is based on the 1998 Development Impact Fee schedule with annual inflation adjustments.

¹ Staff will review Water and Sewer Connection Fees in 2019 along with an update to Water and Sewer rates.

The City's 2017-2018 Work Plan includes updating the City's Development Impact fees as a priority under the Maintain Fiscal Responsibility category. City staff initiated the project in the fall of 2015 through the award of a contract to Economic & Planning Systems ("EPS") to conduct a nexus study to update its capital facility, transportation and affordable housing impact fees based on development anticipated through build-out in the City's General Plan and other related planning documents. EPS completed its efforts in the fall of 2017 and finalized draft reports after incorporating City staff peer review and feedback in the spring of 2018.

DISCUSSION

The Development Impact Fee nexus study ("Nexus Study") is divided into three categories as described in more detail below:

1. **Affordable Housing Impact Fees** – New development in Pleasanton will generate the need for services and therefore jobs that require housing for lower income households. The City addresses this need through its Inclusionary Zoning Ordinance (IZO) and Lower Income Housing Fees. The IZO requires that new residential development provide 15 to 20 percent of the units at affordable levels. It also provides for the payment of in-lieu fees (payment of a Lower Income Housing Fee) at the City's discretion to meet this obligation. The Lower Income Housing Fee is also charged to residential projects not subject to the IZO and non-residential projects. The maximum amount that the City can justify for these fees by each type and size of development have been determined by the Nexus Study and are illustrated in Table 4 in this report, although as with all the fees addressed in this report, the City can choose to charge a lesser amount. It should be noted that based on the California Supreme Court opinion in *California Building Industry v City of San Jose*, the City is not required to complete a Nexus Study to charge such fees, but rather has the right to do so under the City's "...general broad discretion to regulate the use of real property to serve the legitimate interests of the general public and the community at large." However, the Nexus Study is helpful in establishing a justifiable ceiling for any such fees the City wishes to implement.
2. **Capital Facility Impact Fees** – New development in Pleasanton will create demand for public facilities and parks. The Nexus Study identified parks, recreational facilities and public facilities that the City plans to undertake through build-out of the General Plan that serve new development. The Nexus Study includes project cost estimates and allocates a portion of those costs to development depending on the extent to which the facility or improvement is required to serve new development. For the Capital Facility Impact Fees, EPS estimated that 18% of the majority of the project costs is attributed to new development. One project – the Police Training Facility – is 100% attributed to new development. As described in the summary table below, the total cost of Capital Facility projects identified is \$474,244,000, of which new development's share is \$90,000,200 (rounded).

Table 2 Summary of Capital Facility Projects

Project	Estimated Total Cost (rounded)
<i>Existing Parks & Recreation Facilities</i>	
Facility Improvements	\$45,374,000
Bicycle/Pedestrian Trail Improvements	35,895,600
Subtotal	\$81,269,600
<i>New Parks and Recreation Facilities</i>	
Civic Center Park & Amphitheater	\$18,858,000
Bernal Community Park - Phase 3	3,640,000
East Pleasanton Park	98,800,000
Vineyard Corridor Park	52,000,000
Alviso Adobe Park	5,460,000
Callippe Trails	650,000
Staples Ranch Community Park	15,470,000
Subtotal	\$194,878,000
Total Parks and Recreation Facilities	\$276,147,600
Downtown Beautification Improvements	\$3,742,778
<i>Public Facilities Costs</i>	
Fire Station Projects	\$7,222,000
Police Training Facility	4,200,000
Downtown Parking Structure	5,500,000
Civic Center Relocation	181,175,000
Total Public Facilities	\$198,097,000
Total Capital Facilities	\$477,987,378

EPS allocated the \$90,000,200 to future Residential (single and multi-family) and Commercial (office, retail, industrial/R&D, and hotel/motel) development land uses based on expected population serviced by the improvement. Those allocations range from 0.8% for Hotel to 65.7% for Single Family residential development which also vary depending on project category.

3. Transportation Impact Fees

New development in Pleasanton will create demand for transportation improvements on city roadways to accommodate future traffic. The Nexus Study identifies a list of improvements necessary to maintain acceptable levels of service on the circulation network.

Over 100 transportation projects are identified in the Study totaling nearly \$250 million dollars, with \$153 million attributed to new development. These projects were identified using the City of Pleasanton Travel Demand Model ("Traffic Model") as well as recent studies and plans that identified the needs for future improvements including the

General Plan and the Bicycle and Pedestrian Master Plan. The cost estimates were developed by a combination of City staff and consultants. The Nexus Study includes project cost estimates and allocates a portion of those costs to development depending on the extent to which the facility or improvement is required to serve new development.

The Traffic Model was used to project the future usage of transportation facilities attributable to development in Pleasanton, based on the existing and future land use. The model results were then used to calculate the proportion of the cost of each improvement to be included in the Traffic Impact Fee (“TIF”) program (as shown in Table 17 of the Nexus Study, Attachment 1). This total cost was then allocated to each land use category based on the trip generation characteristics of each land use, as shown in Table 18 of the Nexus Study (see Attachment 1). A summary of the transportation costs allocated to each land use generated by the model is included in Table 2 below:

Table 2 Transportation Impact Fee - Allocation of Costs to Land Uses

Allocation to Land Uses	Percent Allocated Based on PM Peak Hour Trips	Amount (Rounded)
Single Family	14.3%	\$21,868,518
Multi Family	6.4%	9,787,309
Office	26.0%	39,760,942
Retail	15.9%	24,315,345
Industrial/R&D	36.3%	55,512,392
Hotel/Motel	1.1%	1,682,194
Totals	100.0%	\$152,926,700

Maximum Development Impact Fees and Comparable Fees

Based on the analyses described above, the maximum development impact fees the City could charge are shown in Tables 3 and 4 below:

Fee Summaries and Comparisons to Other Jurisdictions

Table 3 – Maximum Development Impact Fees (Capital Facilities & Transportation)

Land Use	Pleasanton Existing	Pleasanton Max (2018 Study)	Percent Difference
Single Family (per unit)	\$20,944	\$28,901	38%
Multi-Family (per unit)	14,770	19,640	33%
Retail (per sq ft)	15.15	26.66	76%
Office (per sq ft)	7.88	18.51	135%
Hotel/Motel (per room in Max Fee and per sq ft in Existing)	0.47	7,782	
R&D (per sq ft)	5.97	13.61	128%
Industrial (per sq ft)	5.78	9.45	63%

(1) Assumes average hotel room size of 325 sq ft

Table 4 – Maximum Affordable Housing Impact Fees

Land Use	Pleasanton Existing	Pleasanton Max (2018 Study)	Percent Difference
Single Family (per 1,500 sq ft unit)	\$20,291	\$44,930	121%
Multi-Family (per 2-bedroom unit)	20,291	37,358	84%
Retail (per sq ft)	3.07	211.08	6776%
Hotel/Motel	3.07	49.69	1519%
Office (per sq ft)	3.07	82.56	2589%
Industrial (per sq ft)	3.07	82.56	2589%

As described in the tables above, the maximum fees that the City could set represent an increase of between 33% in Capital Facilities Fees for multi-family land uses to 6776% in Affordable Housing fees for Retail land uses.

For a variety of reasons the City Council may set development impact fees less than the maximum calculated through the Nexus Study. To help determine a reasonable amount to charge, EPS compiled development impact fees from surrounding jurisdictions. The following tables includes a comparison of Pleasanton’s existing fees, maximum fees and those of Dublin, Livermore, San Ramon and Fremont:

Table 5 – Comparative Development Impact Fees – Parks, Facilities & Transportation

Land Use	Pleasanton Existing	Pleasanton Max (2018 Study)	Dublin (Avg)	Livermore	Ramon (Avg)	Fremont
Single Family (per unit)	\$20,944	\$28,901	\$36,305	\$29,396	\$5,630	\$30,907
Multi-Family (per unit)	14,770	19,640	32,414	24,951	4,556	25,425
Retail (per sq ft)	15.15	26.66	7.81	38.86	6.62	8.03
Office (per sq ft)	7.88	18.51	10.96	35.23	8.87	6.59
Hotel/Motel (per room in Max Fee and per sq ft in Existing) (1)	0.47	7,782				
R&D (per sq ft)	5.97	13.61				
Industrial (per sq ft)	5.78	9.45	5.56	25.14	6.29	3.86

(1) Assumes average hotel room size of 325 sq ft

Highest fee

Lowest fee

As described in Table 5 above, compared to Dublin, Livermore, San Ramon and Fremont, the maximum fees calculated in the Nexus Study for Parks, Facilities and Transportation are less than the highest fees in the surrounding cities.

Table 6- Comparative Affordable Housing Impact Fees

Land Use	Pleasanton Existing	Pleasanton Max (2018 Study)	Dublin (Avg)	Livermore	Ramon (Avg)	Fremont
Single Family (per 1,500 sq ft unit)	\$20,291	\$44,930	\$20,965	\$37,905	\$0	\$49,400
Multi-Family (per 2-bedroom unit)	20,291	37,358	20,965	23,940	-	21,000
Retail (per sq ft)	3.07	211.08	1.05	1.20	-	-
Hotel/Motel (1)	3.07	49.69			-	
Office (per sq ft)	3.07	82.56	1.30	0.77	-	-
Industrial (per sq ft)	3.07	82.56	0.50	0.11	-	-

(1) Assumes average hotel room size of 325 sq ft

Highest fee

Lowest fee

The maximum affordable housing development impact fee calculated in the Nexus Study would be the highest in the area except for Fremont's Single Family residential fee of \$49,400. Dublin has the lowest fees for Single Family residential, Multi-Family residential and Retail development.

Table 7 – Comparative Development Impact Fees – Parks, Facilities and Transportation

Land Use	Pleasanton Existing	Pleasanton Max (2018 Study)	Pleasanton - Pleasanton -			
			Median	Average	Percent of Median	Percent of Average
Single Family (per unit)	\$20,944	\$28,901	\$30,152	\$25,559	96%	113%
Multi-Family (per unit)	14,770	19,640	25,188	21,837	78%	90%
Retail (per sq ft)	15.15	26.66	7.92	15.33	337%	174%
Office (per sq ft)	7.88	18.51	9.91	15.41	187%	120%
Hotel/Motel (per room for max and per sq ft for existing)	0.47	7,782				
R&D (per sq ft)	5.97	13.61				
Industrial (per sq ft)	5.78	9.45	5.92	10.21	160%	93%

Table 8 – Comparative Affordable Housing Development Impact Fees

Land Use	Pleasanton Existing	Pleasanton Max (2018 Study)	Pleasanton - Pleasanton -			
			Median	Average	Percent of Median	Percent of Average
Single Family (per 1,500 sq ft unit)	\$20,291	\$44,930	\$29,435	\$27,068	153%	166%
Multi-Family (per 2-bedroom unit)	20,291	37,358	20,983	16,476	178%	227%
Retail (per sq ft)	3.15	211.08	0.53	0.56	40206%	37525%
Hotel/Motel	3.15	49.69	-	-		
Office (per sq ft)	3.15	82.56				
Industrial (per sq ft)	3.15	82.56	0.06	0.15	150109%	54138%

Another way to evaluate the maximum Development Impact Fee calculations is to compare them to the average and median fees of surrounding jurisdictions. Using this approach the maximum Parks, Facilities and Transportation fees are 96% of the median and 113% of the average in the area for Single Family residential development and 78% of the median and 90% of the average for Multi-Family residential development. In terms of commercial development, only the fees for Industrial development fall under the average of the area at 93%. The remaining commercial maximum fees are 120% to 337% of the average and median for the area.

The maximum Affordable Housing Impact fee of \$44,930 for Single Family residential development is 153% of the median 166% of the average in the area. The maximum of \$82.56 per square foot for Industrial development is 150,109% of the median and 54,138% of the average in the area.

CONCLUSION

This nexus study simply provides an analysis regarding the maximum limits the City can collect for each development impact fee category; ultimately the fee amounts are determined by City Council policy and can be set lower than the maximum amounts identified in the nexus reports. However, in setting those new fees it is important to note that the City will need to ensure that fee amounts are sufficient to fund new amenities and mitigate future impacts resulting future development as proposed in the General

Plan and other City planning documents. It also important to consider economic impacts and regional comparisons when establishing new fee amounts.

Staff will present the Nexus Study more in depth at the May 1, 2018 City Council meeting. Prior to bringing a staff recommendation to set the Development Impact fees forward to the City Council, staff will seek input on the Nexus Study from the City's Economic Vitality Committee (EVC) and other stakeholders throughout the community. Staff anticipates bringing to the City Council a policy recommendation for the revised fees in the early-summer timeframe.

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Attachments:

1. Pleasanton Development Impact Fee Nexus Study
2. Nexus-Based Affordable Housing Fee Analysis For-Sale Housing
3. Nonresidential Development Housing Linkage Fee Nexus Study
4. Nexus-Based Affordable Housing Fee Analysis for Rental Housing
5. Pleasanton Impact Fee Comparisons