TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER

DEPARTMENT: PLANNING AND COMMUNITY ENVIRONMENT

DATE: APRIL 17, 2007

CMR: 181:07

SUBJECT: PROPOSED CITYWIDE TRANSPORTATION IMPACT FEE

RECOMMENDATION
Staff recommends that the Finance Committee recommend that the City Council adopt the attached ordinance implementing a citywide transportation impact fee (TIF).

BACKGROUND
In 2002, when developing a work plan for its Top 5 priorities, the City Council directed the Department of Planning and Community Environment to explore creating a transportation impact fee to fund transportation projects to reduce congestion citywide. Staff met with the Planning and Transportation Commission (PTC) on June 11, 2003 and August 27, 2003 to discuss alternatives and, based on those discussions, presented a final recommendation on March 17, 2004. The recommendation included an ordinance and a supporting nexus study showing a relationship between the fee and the traffic impacts it was meant to mitigate. The PTC recommended that the City Council adopt the staff recommendation.

Following the PTC recommendation to approve, the Finance Committee reviewed the staff recommendation on April 20, 2004. The Committee was evenly divided on the staff recommendation, and did not make a recommendation to the City Council. The comments of both the PTC and Finance Committee are included in the August 9, 2004 staff report (CMR:384:04), attached.

On August 9, 2004, the City Council reviewed the staff proposal. At that meeting, the City Council voted to refer the report to the Finance Committee to reconsider the proposal following a review of all City development impact fees. Staff surveyed
surrounding cities and produced a comprehensive overview of all City impact fees, which they presented to the Finance Committee and City Council on July 19, 2005 and September 12, 2005, respectively. Of the cities surveyed, Palo Alto impact fees were in the low or middle range for residential development, and in the high range for commercial development. That report, and the minutes from those meetings, are included in Attachments I, J, and K.

**DISCUSSION**
This ordinance represents staff’s revised recommendation based on the comprehensive impact fee study, and comments from the City Council, Finance Committee, Planning and Transportation Commission, Chamber of Commerce, and other interested parties.

**Summary of Staff Recommendation**
By adopting this ordinance, the City Council would impose a fee on future development to fund transportation system improvement projects. These projects are designed to improve traffic flow throughout the City, and include enhancements to the City’s traffic signal system, the Palo Alto Shuttle, and the bicycle system. The fee would be assessed against both residential and commercial development, but would not apply to existing businesses, tenant changes, or remodeling that does not increase the floor area or number of residential units. The fee would only generate enough revenue to cover 7.9% of the cost of the projects, which is the proportionate share of vehicle trips projected to be generated by new development through 2025. The revenue from the fee would be used to obtain grants to offset the remaining costs. Staff does not recommend reducing other impact fees to offset the impact of the new fees. However, some analysis of this alternative is presented below.

**Application of the Transportation Impact Fee**
Because the nexus study was completed in July 2004, staff worked with a transportation consultant to update the nexus study to incorporate updated land use projections from the Association of Bay Area Governments (ABAG) and current project costs. The nexus study update (Attachment C) supports a maximum fee of $2,961 per net new PM peak hour trip generated by a new development subject to the fee. Staff proposes a fee of $2,601 per net new PM peak hour trip, which is the fee proposed in 2004, escalated using the Engineering News Record construction cost index.

Because the fee is assessed using net new trips, a project that generates no new traffic impacts, no matter how much new floor area or housing it generates, will not incur a fee. To determine the number of trips, an analysis would be performed based on VTA transportation impact analysis guidelines, and would be paid for by the applicant and reviewed by the City. Similar analyses are already commonly required for development applications.
Because a traffic impact analysis is required to determine the fee amount, and will be different for each project, it is difficult to convert the above fee into per-square-foot or per-unit rates without a sample project. However, some estimated fee amounts, based on the 7th Edition Institute of Traffic Engineers Trip Generation Manual, are listed in Attachment E, and a selection of those are included in the table below. The actual fee would depend on the particular traffic characteristics of the project.

<table>
<thead>
<tr>
<th>Example Land Use</th>
<th>PM Peak Hour Trips Generated</th>
<th>Transportation Impact Fee</th>
<th>Fee with Proposed Cap (see “Changes to the Original Ordinance”, below)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-family, detached</td>
<td>1.01 / unit</td>
<td>$2,627 / unit</td>
<td>$2,627 / unit</td>
</tr>
<tr>
<td>Apartment</td>
<td>.62 / unit</td>
<td>$1,613 / unit</td>
<td>$1,613 / unit</td>
</tr>
<tr>
<td>General Office</td>
<td>.00149 / sf</td>
<td>$3.88 / sf</td>
<td>$3.88 / sf</td>
</tr>
<tr>
<td>Retail Center</td>
<td>.00271 / sf</td>
<td>$7.05 / sf</td>
<td>$3.88 / sf</td>
</tr>
</tbody>
</table>

The fee amount is based on the July 2004 Transportation Impact Fee Nexus Study (Attachment B), as updated by the March 2007 Technical Addendum (Attachment C), which updates the numbers in the original nexus study using land use projections that have become available since the original nexus study was completed.

Projects to be Funded
The nexus study includes a list of projects to be funded by the TIF. The list was developed based on the City’s Transportation Strategic Plan. The projects listed would not be initiated until included in an approved City budget, with all funding sources identified. The list may be changed, so long as the requirements of AB1600 for reporting are met, which may include revisions to the nexus study. The project list proposed in the nexus study includes the following:

- Computerized traffic management: This project would extend the traffic-adaptive automated traffic signal system currently installed on Charleston/Arastradero to the rest of Palo Alto. Traffic-adaptive technology has been used successfully to improve traffic flow in other cities throughout the country. This project also includes other uses of electronics to improve transportation flow, including transit information kiosks and dynamic message signs for parking management and special events.
- Shuttle Service Expansion: The TIF would also provide funding for an expansion of the popular Palo Alto Shuttle service, including service to the Stanford Research Park, service along San Antonio Road, and enhancements to the existing routes.
- Bicycle and Pedestrian Projects: The remainder of the TIF would fund high priority bicycle and pedestrian projects from the City’s Bicycle Strategic Plan, including:
  - Bicycle boulevards
  - Bicycle and pedestrian undercrossings
  - Bike lanes on major streets
Bike lanes and bike routes on major arterials
Spot bicycle and pedestrian improvements

Citywide Transportation Demand Management Program

Appendix C of the Nexus Study (Attachment B) includes a detailed list of the projects to be funded by the TIF. Updated project costs are included in Figures C-1 through C-3 of the Nexus Addendum (Attachment C).

Exemptions to the Fee
The ordinance exempts the following development from the fee:

1. City buildings
2. Public school buildings
3. One-hundred percent affordable housing and below market rate (BMR) housing units in excess of those required by the City
4. Retail services, eating establishments, personal service, and automobile service uses where the total square footage is 1,500 square feet or less
5. Day care centers

In addition, the ordinance does not apply to tenant changes or projects that do not increase floor area or involve demolition of the existing building.

Application to Projects in Process
This fee would only apply to projects that had not submitted a development application prior to the effective date, sixty days from the date of adoption of this ordinance. This fee would apply to the Stanford Medical Center and Stanford Shopping Center expansions unless an application is filed prior to the effective date.

Changes to the Original Ordinance
City staff is recommending one change to the ordinance proposed August 9, 2004. The first is a cap on the fee for commercial projects. Unlike other impact fees, which are calculated based on the net new building area, and treat all commercial uses equally, this fee is based on net new trips generated. Calculating the fee requires a traffic analysis, and will typically result in higher fees for retail projects, which traditionally generate more traffic. To avoid discouraging retail uses, and to facilitate financial planning for development projects, this ordinance proposes to cap any fee imposed on non-residential development at $3.88 per square foot, the fee that an average general office use would incur. By imposing this cap, the fee would be consistent with the City’s Comprehensive Plan Goal B-3 of “encouraging new businesses that provide needed local services and municipal revenues, contribute to economic vitality, and enhance the city’s physical environment.”
Alternatives: Reducing Other Fees
One way to reduce the total fee load on businesses would be to reduce other impact fees. It is staff’s judgment that Palo Alto’s total impact fee load is not unreasonable, even when compared to other cities surveyed (see Attachment J, CMR:323:05, Comparative Data on Impact Fee Levels). An analysis of several alternatives, namely reducing the parks impact fee on commercial uses or reducing the commercial housing in-lieu fee, follows:

Parks Impact Fee (Commercial Fee Only)

The City currently has two parks fees that apply to new development, the Parks Impact Fee and the Parkland Dedication Fee. The former was adopted in 2002, and applies to both commercial and residential development. The latter was adopted in July 2006 under the State’s Quimby Act, and applies only to residential subdivisions. The Parkland Dedication Fee is higher than the Parks Impact Fee, and will generate significantly more revenue. With this additional revenue stream for parks projects, The City Council could consider reducing or eliminating the commercial Parks Impact Fee to offset the impact of the proposed Citywide Transportation Impact Fee.

<table>
<thead>
<tr>
<th>Projected Revenue from Parks Fees 2010-2025</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Before adoption of Parkland Dedication Fee (Park Impact Fee only)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Current Fees (Parkland Dedication + Park Impact Fee)</td>
</tr>
<tr>
<td>Alternative Proposal (eliminate commercial Parks Impact Fee)</td>
</tr>
</tbody>
</table>

The above projections are based on 2010-2025 growth projections by ABAG. See Attachment F for more details.

There are two drawbacks to reducing the Parks Impact Fee. First, with the market for commercial space beginning to strengthen, and the market for residential investment slowing, commercial projects will be the most likely source of parks fees in the short term. Second, the Parkland Dedication Fee was adopted because revenue from the Parks Impact Fee was insufficient to fund significant park upgrades and parkland acquisition. It will take some time before the City begins to receive revenues from this new fee. Staff recommends waiting to see whether the new fee generates enough revenue to achieve the City’s parkland goals.
Commercial Housing In-Lieu Fee

At $16.01 per square foot, the commercial housing in-lieu fee is the most significant contributor to the total development fee load for new commercial projects. However, this fee is a major source of funding for the City’s affordable housing goals set forth in the Comprehensive Plan Housing Element. Reducing this fee would mean that affordable housing would have to compete with other priorities in the City’s budget process each year, or less funding would be available for affordable housing.

Other Impact Fees

No other impact fees are large enough to have a significant impact on the total development fees for commercial development. Community center and library fees are approximately $0.20 per square foot, and water capacity fees are even less.

POLICY IMPLICATIONS

The proposed Citywide TIF implements the following 1998-2010 Palo Alto Comprehensive Plan Transportation policies and programs:

- Program T-4: Consider the use of additional parking fees and tax revenues to fund alternative transportation projects.

In addition, projects to be funded by the TIF will implement several Comprehensive Plan Goals, including:

- Goal T-1 (Less Reliance on Single-Family Vehicles)
- Goal T-2 (A Convenient, Efficient, Public Transit System that Provides a Viable Alternative to Driving)
- Goal T-3 (Facilities, Services, and Programs that Encourage and Promote Walking and Bicycling)
- Goal T-4 (An Efficient Roadway Network for All Users)

RESOURCE IMPACT

The Citywide Transportation Impact Fee is designed to recover 7.9% of projected project costs, for a total of $10.2 million dollars through 2025. To provide this amount of capital project funding through General Fund contributions, rather than an impact fee, would require an average contribution of nearly $570,000 per year.
ENVIRONMENTAL REVIEW
The creation of a government funding mechanism that does not involve commitment to a specific project is exempt under the California Environmental Quality Act.

PREPARED BY:  
JON ABENDSCHEIN  
Administrator

LIBBY DAME  
Senior Financial Analyst

DEPARTMENT HEAD REVIEW:  
STEVE EMSLIE  
Director of Planning and Community Environment

CITY MANAGER APPROVAL:  
EMILY HARRISON  
Assistant City Manager

ATTACHMENTS
A. Draft Citywide Transportation Impact Fee Ordinance
B. Draft Transportation Impact Fee Nexus Study (July 2004)
C. Draft Addendum to Nexus Study (April 2007)
D. Comments from Chamber of Commerce Government Action Committee meeting December 7, 2007
E. Estimate of Transportation Impact Fee for Specific Uses
F. Estimate of Future Park Impact Fee Revenue
G. CMR:384:04, Proposed Citywide Transportation Impact Fee
H. Minutes, City Council, August 9, 2004
I. CMR:323:05, Comparative Data on Impact Fee Levels
J. Minutes, Finance Committee, July 19, 2005
K. Minutes, City Council, September 12, 2005
L. Sample Project Calculation
COURTESY COPIES
Sandra Lohnquist, Palo Alto Chamber of Commerce
Jean McCown, Stanford University
Beverley Bryant, Home Builder’s Association
Lee Wieder