

TO: HONORABLE CITY COUNCIL
ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER **DEPARTMENT: PLANNING AND**
COMMUNITY ENVIRONMENT

DATE: APRIL 20, 2004 **CMR:223:04**

SUBJECT: PROPOSED CITYWIDE TRANSPORTATION IMPACT FEE

RECOMMENDATION

The Planning and Transportation Commission (PTC) recommends that the Finance Committee recommend Council approval of the proposed citywide transportation impact fee (TIF) and adoption of the ordinance amending the Palo Alto Municipal Code to establish the TIF with the following additions:

- 1) Staff should prepare criteria for giving credit to large developers for measures that implement the citywide TIF expenditure plan in-lieu of part or all of the required TIF.
- 2) Explore the feasibility of exempting from or providing credits toward desired citywide TIF land uses that generate sales tax and/or Transient Occupancy Tax (TOT) to the City; provided that net TIF revenue is not diminished as a result.
- 3) The Citywide TIF Ordinance language should clarify that City Council has authority to approve the exact nature of the projects in the Citywide TIF Expenditure Plan as well as to substitute other improvements that provide substantially similar transportation benefits and mitigations.
- 4) The Citywide TIF Ordinance should clarify that the TIF assessment requirement is triggered either when the first discretionary approval is given or application is made for a building permit.

Staff recommends one modification to the PTC recommendation: that no exemption from the TIF be provided to development or redevelopment projects solely on their magnitude of transient occupancy tax or sales tax revenues. Staff has determined it is not feasible to do so.

BACKGROUND

Creation of a citywide transportation impact fee is a task assigned by City Council to Transportation Division staff under two of the Top 5 Council Priorities: City Finances and Alternative Transportation/Traffic Calming. The proposed citywide TIF would fund an

expenditure plan consisting of a variety of transportation improvements, including computerized traffic management, key Palo Alto Bicycle Transportation Plan projects, enhanced shuttle service, travel demand management (trip reduction) program activities, and administration of the TIF (the latter projected to be 2.6 percent of TIF revenues). The TIF would fund 7.6 percent of the expenditure plan to the year 2025, with other funding provided by federal, state, and local grants, and the Street Improvement Fund. The TIF would be assessed on new PM peak-hour trips (typically those weekday vehicle trips taking place between 5 p.m. and 6 p.m.) generated by land development and re-development. The 7.6 percent share represents the proportion of all PM peak-hour vehicle trips originating and/or terminating in Palo Alto forecast in the Palo Alto Computer Travel Demand Forecast Model as assignable to new development and re-development. A Transportation Impact Fee Nexus Study Final Report has been prepared to document findings and recommendations with respect to the TIF (Attachment B).

DISCUSSION

The TIF expenditure plan comprises life-cycle costs (capital, operations, and maintenance) for the life of a project or program through the year 2025. The expenditure plan comprises a suite of eight projects and program areas as listed below. These projects are included in either the proposed Transportation Strategic Plan or the Council-adopted Bicycle Transportation Plan.

- Transportation Demand Management Program (the City’s Way2Go program)
- Computer traffic management (including traffic-adaptive automated signal operation)
- Expanded shuttle service
- Bicycle boulevards
- Bicycle/pedestrian undercrossings
- Bicycle lanes on major streets
- Bicycle routes/lanes on major arterials
- Spot bicycle/pedestrian improvements

Figure 16 (page 27) of Attachment B displays the TIF expenditure plan life-cycle costs in detail. The table below presents a summary by category:

Project	Total Cost to 2025	TIF Share
Transportation Demand Management	\$1,225,936	\$93,171
Computerized traffic management	\$38,490,703	\$2,925,293
Expanded shuttle service	\$27,480,779	\$2,088,539
Bicycle boulevards	\$1,308,006	\$99,408
Bicycle/pedestrian undercrossings	\$38,171,358	\$2,901,023
Bicycle lanes on major streets	\$1,792,781	\$136,251
Bicycle routes/lanes on major arterials	\$5,994,176	\$455,557
Spot bicycle/pedestrian improvements	\$4,436,035	\$337,139
Total	\$118,889,773	\$9,036,383

The life-cycle cost approach calculates total future costs in current dollars (using a real interest, or present value, discount rate of 3 percent) to build, operate, and maintain transportation infrastructure, as well as to operate transportation programs such as the travel demand management (trip reduction) program. It is important to note that there is provision to account for future inflation in these costs through annual adjustment of the TIF based on changes in the Dodge Construction Cost Index, the industry standard for infrastructure cost trends. The TIF proposal is the first time that the City of Palo Alto has projected life-cycle costs of any infrastructure programs based on best practices in economic analysis. Hence, the TIF expenditure plan is the first City proposal to include the cost not only of building, but operating and maintaining a project through its useful life.

This approach differs from that taken in preparation of the City's Capital Improvement Program, which focuses exclusively only on capital costs, rather than full life-cycle costs. Since the TIF expenditure plan life-cycle costs include operations and maintenance items that are traditionally reflected in the operating budget, at the most, only one or two years into the future, TIF transportation capital investment and program planning offers a more comprehensive and longer-range perspective. Nevertheless, in the case of each TIF expenditure plan project/program, the City Council has final authority with respect to project approval and budget.

The TIF funds 7.6 percent of the total life-cycle projected cost of the TIF expenditure plan projects/programs, and includes funding TIF administrative costs at a level of 15 percent of a staff year for one transportation engineer. Staff costs include verifying PM peak hour trip generation projections and calculating the resultant TIF assessment, administering the TIF expenditure plan, and verifying the conformity of any proposed in-lieu contributions by developers with the expenditure plan.

The proposed TIF is \$2,293 per PM peak hour trip, which represents an increase of from 12 percent (commercial/industrial development in the existing Stanford Research Park intersection-based Traffic Impact Fee area) to 39 percent (for non-commercial development outside the existing Stanford Research Park and San Antonio Bayshore intersection-based Traffic Impact Fee area) in total impact fees (including existing fees for parks, community centers and libraries; housing in-lieu; and the existing Stanford Research Park and San Antonio/East Bayshore Traffic Impact Fee, both of which would stay in place). The TIF assessment for a single-family house would be \$2,316 (compared to a parks impact fee of from \$8,071 to \$12,050, depending on home size, and community centers impact fee of from \$2,093 to \$3,132, again depending on home size). Figures 18 and 19 (pp. 29-30) of Attachment A provide additional detail on these and other illustrations. Staff believes this level of TIF is unlikely to affect development or redevelopment location, scope, or pace.

BOARD/COMMISSION REVIEW AND RECOMMENDATIONS

The Planning and Transportation Commission (PTC) reviewed the staff findings and recommendations regarding the TIF on March 17 (see Attachment C for the March 17 staff

report to PTC and Attachment D for PTC meeting minutes). The Commission concluded that the Nexus Study is clearly written and meets all the requirements of the California Code relating to development impact fees, and the citywide nature of the TIF Expenditure Plan is well designed to meet citywide impacts of new development and redevelopment.

Commissioners comments, concerns, and suggestions included the following:

- Need for expedient delivery of TIF Expenditure Plan projects.
- Strike the right balance between project readiness, project delivery, and citywide geography equity in implementation of the TIF Expenditure Plan.

The PTC voted 5-0-0-1 (Commissioner Bialson absent) to recommend the staff recommendation of the proposed Citywide Transportation Impact Fee and associated ordinance with the following additions:

- 1) That staff prepare criteria for use when the City negotiates with large developers for possible use of the TIF funds expected of that development, including terms and conditions under which credit is given for measures that implement the citywide TIF Expenditure Plan in-lieu of payment of all or part of the required citywide TIF.
- 2) Staff exploration of the feasibility of exempting from or providing credits toward the Citywide TIF land uses that are desired as a result of their generation of sales tax and/or Transient Occupancy Tax (TOT) to the City, provided that the net revenue to the TIF (Expenditure) Program is in no way diminished as a result.
- 3) That the TIF ordinance clarify that the TIF Expenditure Plan projects, as approved by Council, may not exactly replicate their description in the TIF Expenditure Plan (for example as respect to new shuttle routes), since Council has final approval prerogative on project scope. Thus the projects defined in the TIF Expenditure Plan should be understood as being somewhat conceptual, although they will be implemented largely, although not always exactly, as defined in the Expenditure Plan.
- 4) That the TIF ordinance make clear that the citywide TIF obligation regarding change of use—if associated with new PM vehicle trip generation—is triggered by the requirement for issuance of a discretionary permit such as a building permit.

Staff has included provision in the draft Citywide TIF Ordinance, under prescribed conditions, for acceptance of developer-funded improvements in-lieu of payment of the TIF. Staff has determined, however, that it is not feasible to provide an exemption from the Citywide TIF to land developments or redevelopments solely on their magnitude of transient occupancy tax or sales tax revenues, due to legal concerns regarding equal treatment of all types of land uses and to practical concerns regarding the feasibility of earmarking by the

current and future Councils of sales taxes or transient occupancy taxes specifically to “back fill” the Citywide TIF Expenditure Plan.

RESOURCE IMPACT

The TIF Expenditure Plan will add resources to City of Palo Alto transportation project and program priorities. TIF funds will supplement grant resources obtained and City resources programmed in annual/biennial operations budgets and Capital Improvement Program budgets. City Council has sole authority over annual and biennial budgets for both capital and operating expenses, as well of approval of individual projects and programs prior to their implementation.

POLICY IMPLICATIONS

The proposed Citywide TIF carries out two of the Council’s Top 5 priorities: City Finances and Alternative Transportation/Traffic Calming, and helps implement the Bicycle Transportation Plan and draft Transportation Strategic Plan. The TIF Expenditure Plan implements the following 1998-2010 Palo Alto Comprehensive Plan Goals:

- T-1: Less Reliance on Single-Occupant Vehicles
- T-2: A Convenient, Efficient, Public Transit System that Provides a Viable Alternative to Driving
- T-3: Facilities, Services, and Programs that Encourage and Promote Walking and Bicycling
- T-4: An Efficient Roadway Network for All Users
- T-5: A Transportation System with Minimal Impacts on Residential Neighborhoods
- T-6: A High Level of Safety for Motorists, Pedestrians, and Bicyclists on Palo Alto Streets

ENVIRONMENTAL REVIEW

The TIF expenditure plan comprises a set of projects from the Palo Alto Comprehensive Plan and Bicycle Transportation Plan. The proposed Transportation Strategic Plan is in turn comprised of projects from both the Comprehensive Plan and Bicycle Transportation Plan. The Bicycle Transportation Plan was the subject of an addendum to the Comprehensive Plan EIR. Each project in the TIF expenditure plan would be subject to a project-level environmental analysis prior to implementation. The TIF itself is a funding mechanism, not a project subject to environmental review.

ATTACHMENTS

- A. Draft Citywide Transportation Impact Fee Ordinance
- B. Transportation Impact Fee Nexus Study Revised Draft Final Report
- C. March 17, 2004 Planning and Transportation Commission Staff Report
- D. March 17, 2004 Planning and Transportation Commission Meeting Minutes

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