



STAFF REPORT

City Council

Meeting Date:

12/15/2020

Staff Report Number:

20-254-CC

Consent Calendar:

Transmittal of the Annual Report on the status of the transportation impact, storm drainage, recreation in-lieu, below market rate housing in-lieu, and construction impact fees collected as of June 30, 2020

Recommendation

Staff recommends the City Council review the annual report on the status of the transportation impact, storm drainage, recreation in-lieu, below market rate housing and construction impact fees. Staff also recommends that City Council adopt the following:

1. Transportation impact fees, storm drainage fees, recreation in lieu fees, below market rate housing in-lieu, and construction impact fees are collected to mitigate direct and indirect impacts from development.
2. These fees are expended in a timely manner to fund continued improvements to public facilities related to the increased demand on the facilities resulting from development.
3. There is a reasonable relationship between these impact fees and their purpose.
4. These impact fees continue to be required to fund applicable improvements, and as such, these fees will continue to be collected and deposited into the appropriate funds for utilization solely for their intended purpose.

Policy Issues

This report does not represent any change to existing City policy and affirms the City's intention to continue to charge these impact fees to fund projects and programs that mitigate the direct and indirect impact of development in the City of Menlo Park.

Background

Cities and counties often charge fees on new development to fund public improvements to mitigate the impact of development activity. These fees are commonly known as development impact fees. In 1989, the state legislature passed Assembly Bill 1600 (AB1600), which added Sections 66000 et seq. to the California Government Code, commonly known as the Mitigation Fee Act.

As required by law, these fees are segregated from the General Fund and accounted for in special revenue funds. Government Code Section 66001 requires that the City make available to the public information regarding development impact fees for each fund within 180 days after the end of each fiscal year:

- A brief description of the fee and the fund into which the fee was deposited
- The amount of the fee
- The associated fund's beginning and ending balances for the fiscal year
- The total amount of fees collected and interest earned

- Identification of each public improvement on which impact fees were expended and the amount of expenditure on each improvement, including the total percentage of the cost of the public improvement that was funded with impact fees;
- Identification of the approximate date by which construction of a public improvement will commence if the local agency determined that sufficient funds have been collected to complete financing on an incomplete public improvement and the public improvement remains incomplete
- A description of each interfund transfer or loan made from an account or fund
- Further, Government Code Section 66000 et. seq. also requires that findings describing the continuing need for impact fees be made every five years specifying the intended use of any unexpended impact fees, regardless of whether the fees are committed or uncommitted. Failure to make such findings subjects the City to going through a refunding procedure. This report meets the requirements to comply with the Mitigation Fee Act.

Analysis

Transportation Impact Fees

Due to growth and development in San Mateo County and the City of Menlo Park, increased pressure has been put on the transportation system. The transportation impact fee methodology was put in place effective Dec. 6, 2009, with the addition of Section 13.26 to the municipal code, which created a more systematic way for applying the fees. In 2019, the City prepared an updated transportation impact fee study which updated the fees by land use, eligible projects for expenditures and the ordinance. The current fees became effective in February 2020, and are listed below:

Transportation Impact Fee		
Land Use	Unit	2020 Fee Amount*
Office	Sq.Ft.	\$ 18.55
Research and Development	Sq.Ft.	7.91
Manufacturing	Sq.Ft.	10.81
Warehousing	Sq.Ft.	3.07
Restaurant	Sq.Ft.	10.81
Retail	Sq.Ft.	10.81
Single-family	Units	15,973.62
Multifamily	Units	5,383.85
Hotel	Per Room	9,680.98
Medical Office	Sq.Ft.	55.83
Childcare	Sq.Ft.	5.01
Secondary Dwelling Unit	Units	772.43
* As of June, 2020, ENR Construction Cost Index % change for San Francisco = 5.4		
If land use is not one of the above, use this formula: \$16,134.97 * Total PM Peak Hour Trips		

For fiscal year 2019-20, the City received total revenue of \$452,254 primarily from transportation impact fees and interest income. For the same period, the City expended a total of \$588,734 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year totaled (\$136,480) and the ending balance as of June 30, 2020, is \$7,202,952. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. In the next five fiscal years, it is planned that the City will require \$21,474,285 from transportation impact fees to finance needed infrastructure projects. In addition, the City Council adopted the Transportation Master Plan on November 17, and staff anticipates new projects will be added to the future five-year capital improvement program as part of the fiscal year 2021-2022 budget cycle to align with the adopted Plan. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment A.

Storm drainage fees

The storm drainage fee, which commenced before 1989, is levied to mitigate City storm drainage impacts either directly or indirectly resulting from development projects. Storm drainage connection fees are charged for property development as shown in the City's 2019 Master Fee Schedule:

- Single-family – per lot \$450.00
- Multifamily – per unit \$150.00
- Industrial and Commercial – per square foot of impervious area \$ 0.24

For fiscal year 2019-20, the City received total revenue of \$10,356, primarily from storm drainage fees and interest income. For the same period, the City expended \$24,978 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year for the year totaled (\$14,622) and the ending balance as of June 30, 2020 is \$160,066. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. The City plans to use the remaining funds to support a green stormwater infrastructure project at the corner of Pope and Elm Streets in conjunction with pathway improvements in Willow Oaks Park. At this time, there still exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment B.

Recreation in-lieu fees

The recreation in-lieu fee, which commenced before 1989, is collected from developers to improve and expand recreation facilities in-lieu of providing new on-site facilities. The fee is charged on new residential development as shown in the City's 2019 Master Fee Schedule:

- Single-family (RE and R-1): 0.013 (Multiplied by number of units and by market value of acreage to be subdivided)
- Multifamily development (R-2, R-3, RLU and PD): 0.008 (Multiplied by number of units and by market value of acreage to be subdivided)

For fiscal year 2019-20, the City received total revenue of \$411,006, primarily from recreation in-lieu fees and interest income. For the same period, the City expended a total of \$1,000,428 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year for the year totaled (\$589,422) and the ending balance as of June 30, 2020 is \$2,964,040. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. In the next five fiscal years, it is planned that the City will require \$9,580,829 from recreation in-lieu fees to finance needed infrastructure projects. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment C.

Below Market Rate Housing in-lieu fee

The Below Market Rate (BMR) Housing program was established in 1987 to increase the housing supply for people who live and/or work in Menlo Park and have very low, low, or moderate incomes as defined by income limits set by the California Department of Housing and Community Development for San Mateo County. The primary objective of the fee is to create actual housing units rather than generate a capital fund. However residential developers are permitted to pay an in-lieu fee if a project does not provide the following:

- All owner-occupied residential developments of five or more units are required to provide a BMR unit.
- Residential developments of 10 to 19 units are required to provide 10 percent of the housing at below market rates.
- Development projects of 20 units or more are required to provide 15 percent of the housing at below market rates.

For new commercial developments equal to or greater than 10,000 square feet that generate employment opportunities, the in-lieu fee is established as follows:

- Group A: \$18.69 per square foot of net new gross floor area for most commercial uses
- Group B: \$10.14 per square foot of net new gross floor area for defined uses that generate fewer employees

For fiscal year 2019-20, the City received total revenue of \$6,083,590, primarily from below market rate housing in-lieu fees and interest income. For the same period, the City expended a total of \$515,156 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year totaled \$5,568,434 and the ending balance as of June 30, 2020 is \$30,794,202. Of this amount, \$21,741,833 is available for use to meet current or planned projects eligible for this funding source. The remaining fund balance reflects assets held as notes receivable (BMR loan programs) and real estate held for resale. A staff report was provided to City Council (staff report 17-138-CC) on one funding opportunity, \$6,700,000, for 1317-1385 Willow Road. A second staff report was provided to City Council (staff report 19-234-CC) on another funding opportunity, \$635,502 for 1105 and 1141 Willow Road. In addition, on November 18, 2020 staff released a new NOFA for the allocation of BMR funds, in the amount of \$10,000,000, to leverage additional development of affordable housing within the plan area. It is estimated at this time that the abovementioned activities will utilize the majority of available fund balance and additional projects will be identified in coming years. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment D.

Construction Impact Fees

The construction impact fee that took effect in November 2005 was adopted to recover the cost of repairing damage to streets caused by construction-related vehicle traffic. On August 5, 2008, City Council adopted a resolution extending this fee beyond the three-year sunset provision initially established. The fee is charged on the value of the construction project as shown in the 2019 Master Fee Schedule:

- The fee amounts to 0.58 percent of a construction project's value
- Residential alteration and repairs, as well as all projects under \$10,000, are exempt from the fee

For fiscal year 2019-20, the City received total revenue of \$3,046,137, primarily from construction impact fees and interest income. For the same period, the City expended a total of \$1,376,614 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year totaled \$1,669,523 and the ending balance as of June 30, 2020 is \$9,483,695. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. In the next five fiscal years, it is planned that the City will require \$13,525,792 from construction impact fees to finance needed infrastructure projects. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as

current year project expenditures are available in Attachment E.

Impact on City Resources

There is no impact on City resources resulting from this annual report, and this report meets the compliance requirements of the Mitigation Fee Act. Impact Fees collected in 2019-20 represented \$8,822,066.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines §§ 15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

Public Notice

Public notification to comply with the Mitigation Fee Act is achieved by posting the annual report on November 30, 2020, 15 days before the meeting at which the City Council is anticipated to make required findings as outlined in the recommendation.

Attachments

- A. Transportation impact fee financial report
- B. Storm drainage fee financial report
- C. Recreation in-lieu fee financial report
- D. Below Market Rate Housing in-lieu fee financial report
- E. Construction impact fee financial report

Report prepared by:

Mike Noce, Management Analyst II

Eren Romero, Business Manager

Dan Jacobson, Assistant Administrative Services Director

Approved by:

Nick Pegueros, Assistant City Manager

City of Menlo Park
Transportation Impact Fee Financial Report

Transportation Impact Fees	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning balance	\$ 4,783,010	\$ 3,680,652	\$ 3,671,623	\$ 4,827,758	\$ 7,339,432
Developer Fees	484,865	1,565,803	1,525,690	2,410,325	255,091
Interest earnings and other	671,669	27,687	36,360	404,242	197,163
Expenditures	(2,258,892)	(385,171)	(405,915)	(302,893)	(588,734)
Non-traffic impact fee transfer	0	(1,217,348)	0	0	0
Ending Balance	\$3,680,652	\$3,671,623	\$4,827,758	\$7,339,432	\$7,202,952

2019-20 Transportation Impact Fee Project Expenditures:	Total Expended
Middle Avenue Caltrain Crossing Study	\$385,837
Haven Avenue Streetscape Improvement	47,965
Pierce Road Sidewalk & San Mateo Bike Route Installation	103,984
Other projects	50,948
Total	\$588,734

Transportation Impact Fee Future Projects	2020-21	2021-25	Total
Middle Avenue Caltrain Crossing Study Design and Construction	\$ 6,009,120	\$ 8,900,000	\$ 14,909,120
Traffic Signal Modifications	1,329,322	1,400,000	2,729,322
Transportation project (minor)	193,784	700,000	893,784
Haven Avenue Streetscape Improvement	1,035,028	-	1,035,028
Willow Oaks Bike Connector	500,000	-	500,000
El Camino Real Crossings Improvements	307,087	-	307,087
Pierce Road Sidewalk and San Mateo Bike Route Installation	1,099,944	-	1,099,944
		Total	\$21,474,285

City of Menlo Park
Storm Drainage Impact Fee Financial Report

Storm Drainage Impact Fees	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning balance	\$170,220	\$172,555	\$176,446	\$168,480	\$174,688
Developer fees	783	2,250	7,270	2,250	6,150
Interest income/(expense)	1,552	1,641	2,166	3,958	4,206
Expenditures	0	0	(17,402)	0	(24,978)
Ending Balance	\$172,555	\$176,446	\$168,480	\$174,688	\$160,066

Storm Drainage Impact Fee Fund Expenditures	2019-20
All projects	\$24,978

Storm Drainage Impact Fee Future Projects	2020-21	2021-2025	Total
Green stormwater infrastructure implementation	\$0	\$82,000	\$82,000
Santa Cruz Avenue/Merrill Street and Alma Street Storm Drain Improvement	55,000	-	55,000
Santa Cruz Avenue and Middle Avenue Street Rehabilitation	23,000	-	23,000
	Total		\$160,000

City of Menlo Park
Recreation In-Lieu Impact Fee Financial Report

Recreation In-Lieu Impact Fees	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning balance	\$1,428,915	\$1,296,910	\$1,167,732	\$3,745,549	\$3,553,462
Developer Fees	103,400	64,000	2,619,200	205,800	313,600
Interest Income/(Expense)	12,962	6,433	36,958	81,234	97,406
Expenditures	(248,367)	(199,611)	(78,341)	(479,121)	(1,000,428)
Ending balance	\$1,296,910	\$1,167,732	\$3,745,549	\$3,553,462	\$2,964,040

Recreation In-Lieu Fee Expenditures	
Park Playground Equipment at Nealon Park	999,755
Other	673
Total	\$1,000,428

Recreation In-Lieu Fee Future Projects	2020-21	2021-25	Total
Menlo Park Community Campus	\$1,570,000	\$3,750,000	\$5,320,000
Park Playground Equipment	200,000	1,150,000	1,350,000
Parks and Recreation Master Plan Implementation	-	2,000,000	2,000,000
Willow Oaks Park Improvements	910,829	-	910,829
		Total	\$9,580,829

City of Menlo Park
Below Market Rate Housing Financial Report

Below Market Rate Housing Special Fund	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning balance	\$14,135,309	\$16,884,108	\$18,652,661	\$24,669,687	\$25,225,768
Fiscal Year Activity					
Charges for Services	3,788,681	1,824,526	6,109,892	354,517	5,437,462
Use of Money and Property	149,505	125,375	125,117	517,831	646,128
Expenditures	(97,368)	(181,348)	(217,983)	(316,267)	(515,156)
Proceeds from the Sale of Assets	0	0	0	0	0
Prior period adjustment	(1,092,019)	0	0	0	0
Ending balance	\$16,884,108	\$18,652,661	\$24,669,687	\$25,225,768	\$30,794,202
Adjustment for notes and interest receivable	(\$9,106,832)	(\$8,823,986)	(\$8,861,591)	(\$8,980,996)	(\$9,052,369)
Adjusted available balance	\$7,777,276	\$9,828,675	\$15,808,096	\$16,244,772	\$21,741,833

Below Market Rate Housing Special Fund Expenditures	
BMR Housing program administration	\$515,156

Below Market Rate Housing Special Fund Future Projects	2020-21 and earlier	2020-24	Total
1317-1385 Willow Road	\$9,331,000	\$0	\$9,331,000
1105 and 1141 Willor Road	635,502.00	-	635,502.00
2020 NOFA	10,000,000.00	-	10,000,000.00
Future NOFAs		5,000,000.00	5,000,000.00
		Total	\$24,966,502

City of Menlo Park
Construction Impact Fee Financial Report

Construction Impact Fee Fund	2015-16	2016-17	2017-18	2018-19	2019-20
Beginning balance	\$5,048,723	\$4,103,887	\$6,915,392	\$5,344,627	\$7,814,172
Developer Fees	1,821,534	3,095,422	2,976,022	3,655,133	2,809,763
Interest Income/(Expense)	40,396	62,254	51,713	179,535	236,374
Expenditures	(2,792,626)	(346,171)	(4,598,500)	(1,365,123)	(1,376,614)
Transfers	(14,140)				
Ending balance	\$4,103,887	\$6,915,392	\$5,344,627	\$7,814,172	\$9,483,695

Construction Impact Fee Fund Expenditures	2019-20
Project Expenditures:	
Street Resurfacing Project	\$980,765
Santa Cruz & Middle resurfacing	350,877
Operating Expenditures:	
Street Maintenance	44,972
Total Expenditures:	\$1,376,614

Construction Impact Fee Future Projects	2020-21	2020-24	Total
Street Resurfacing	\$2,843,114	\$1,000,000	\$3,843,114
Chilco Streetscape and Sidewalk Installation	2,860,000	-	2,860,000
Willow Road (Middlefield to US-101) Street Resurfacing	1,150,000	-	1,150,000
Santa Cruz & Middle Avenue Resurfacing	2,522,678	-	2,522,678
Middlefield Road (Woodland to Ravenswood) Street Reconstruction	-	3,150,000	3,150,000
		Total	\$ 13,525,792