



## STAFF REPORT

### City Council

**Meeting Date:** 5/14/2019  
**Staff Report Number:** 19-096-CC

**Study Session:** Study session on the transportation impact fee program update

### Recommendation

Staff recommends that City Council receive a study session on the transportation impact fee program and provide direction on the following questions for preparation of the draft study:

- Is there other background data needed prior to seeing a draft transportation impact fee update and ordinance in the fall?
- Is the proposed funding level of 12 percent (typical amount for local match for grant funding) for regional projects appropriate?
- Are there specific land uses that we should consider fee exemptions or reductions, such as continuing incentives for retail, restaurant and child care uses, or considering reductions for affordable housing and/or secondary dwelling units?

### Policy Issues

The development of a transportation master plan (TMP) and update of the transportation impact fee (TIF) Program was included as one of the top six priority projects in the City Council's adopted 2018 work plan and was included again as one of the top five priorities in the 2019 work plan. The TIF was also a program identified in the circulation element to "Require new and expanded development to pay a transportation impact fee, and update the fee periodically to ensure that development is paying its fair share of circulation system improvement costs for all modes of transportation." The TIF is adopted by City ordinance (Section 13.26 of the Municipal Code) which will need to be updated by the City Council for any changes in the fee program to take effect.

### Background

Transportation infrastructure modifications are needed to accommodate the existing local and regional traffic, as well as new travel demands generated by development within Menlo Park. To fund these infrastructure modifications, the City uses three funding sources:

1. Local funds – general, San Mateo County Measure A, gas taxes
2. Grant funds – federal, state and regional sources
3. Contributions from new developments

State Government Code Sections 66000 through 66008 (also known as AB1600 or the Mitigation Fee Act) set requirements for establishing and using impact fees for funding public improvements, amenities and services. The City must follow a prescribed process and make certain determinations regarding the purpose and use of the fees and establish a "nexus" or connection between a development project or class of project and the public improvement being financed with the fee. In addition, the fee revenue must be segregated from the general fund in order to avoid the commingling of public improvement fees. Other impact fees

imposed by the City include storm drainage fees and recreation-in-lieu fees, which must also comply with the above-referenced government code sections. Staff issues an annual report in December for City Council review on the revenues, expenditures, and balances of each of these funds. According to the latest report dated December 4, 2018, the City received a total revenue of \$1,562,050 during the 17-18 fiscal year from traffic impact fees and interest income.

The City Council adopted the current TIF program in 2009 with an ordinance that added Chapter 13.26 to the municipal code. [Attachment A](#) (Hyperlink) includes the TIF study that was prepared for the TIF program. The current fees are listed below:

Table 1: Current transportation impact fee		
Land use	Unit	2018 fee amount
Office	Sq. Ft.	\$4.87
Restaurant	Sq. Ft.	\$4.87
Retail	Sq. Ft.	\$4.87
Research and development	Sq. Ft.	\$3.50
Manufacturing	Sq. Ft.	\$2.40
Warehousing	Sq. Ft.	\$1.05
Medical office	Sq. Ft.	\$11.31
Single family	Dwelling units	\$3,301.30
Multi-family	Dwelling units	\$2,026.34
Hotel	Room	\$1,928.24
Child care	Sq. Ft.	\$4.87
Secondary dwelling unit	Units	\$751.39

\* If land use is not one of the above, use this formula: \$3,268.05 \* Total PM Peak Hour Trips

The City also approved a supplemental TIF in 2015 for projects that are located within the El Camino Real and Downtown specific plan area. The current rate for projects located in this area is \$398.95 per p.m. peak hour trip. Both fees are subject to change each year July 1 according to the engineering news record construction price index for the San Francisco Bay Area.

### Analysis

The City is currently undergoing a process to develop a citywide TMP. The TMP will include multi-modal transportation infrastructure improvements to enhance the transportation network and support planned future development. W-Trans, the consultant team leading the TMP work, is also tasked with updating the TIF program. The TIF study would establish a nexus between the trips associated with development projects, their impacts on the transportation system, and the cost to build the projects identified in the TMP. The analysis would determine the proportional share of the cost of the transportation infrastructure improvements that are attributed to future developments in the City of Menlo Park.

## Methods

The work involved in the development of the TIF will include the following and is summarized in Attachment B using the example of the 2009 Study:

1. Project the growth in vehicular trips on the City's transportation network attributable to new development. The City's traffic model developed as part of the general plan update will be used to determine the growth within the City.
2. Estimate the costs to implement transportation improvement projects currently identified in the TMP process. This cost estimation exercise is currently underway.
3. Establish a maximum fee based on a nexus between the additional trips generated from new development and the costs associated with transportation improvement projects.
4. Refine the fee, if necessary, to take into consideration the fees charged by surrounding cities and other fees charged by the city.

The first step in the analysis is to review year 2040 traffic volumes from the City's traffic model. These volumes will be compared to existing conditions to determine the traffic growth generated by new development. The ratio of existing to future volumes establishes the proportion of the cost that can be recouped from new development. The 2009 fee program allocates 25 percent of improvement costs to new development.

The next step in the analysis is to estimate the costs for projects identified in the TMP. Those projects include elements such as new traffic signals, signal modifications (e.g., adding a right-turn overlap phase or adding bicycle signals), bicycle projects and sidewalk projects. For more information on the proposed projects, as part of a separate agenda item before City Council May 14, staff is presenting the latest project list and a draft prioritization strategy for affirmation.

The TMP has also identified regional and larger infrastructure projects such as the Ravenswood Caltrain grade separation and the Dumbarton rail project. Due to the significant cost of each regional project, these large infrastructure projects would need a variety of funding sources beyond local funds to implement. It is expected that these types of projects will be funded by grants sources that are often subject to local match of at least 12 percent. As such, staff is considering the TIF program would assume the City's share of these projects would be 12 percent.

The cost estimates will be based on reviewing the improvement measures on a preliminary level. A more detailed design would need to be developed for each improvement measure prior to implementation. The detailed designs are not required to establish the impact fee and would only be completed when a project is selected by the City Council in a future year for implementation. The City Council will have the authority to approve the exact nature of the projects as they are selected for implementation.

The proposed fee will be determined by dividing the total cost of the developer's share of the improvements by the total growth in new trips within the City. The cost would be converted to a per dwelling unit or square footage fee for implementation purposes. The conversion will use the standard trip rates in the Institute for Transportation Engineers (ITE) trip generation manual for the number of trips generated by various land use types.

## Fee credits and reductions

As described above, the draft TIF would be calculated based on a per trip basis, meaning that uses that generate more vehicle trips have a higher fee per square foot as they are adding more traffic to the roadways. Currently, the TIF program provides fee reductions for several land uses. For example, trip rates for retail and restaurant uses are typically higher than for office uses. When the TIF study was prepared in 2009, the City Council decided that the fees for retail and restaurant uses should be set at the same level as

office use, thereby lowering the fees for retail and restaurant uses to encourage these types of uses. The loss in fees for the retail and restaurant uses was to be offset by the general fund. Similarly, the City Council modified the TIF in 2016 to encourage child care facilities and tied those fees to the office land use. Staff is seeking confirmation that City Council desires to continue the reduced rates for retail, restaurants and child care. Staff would also like City Council direction on whether to include fee reductions for affordable housing and/or secondary dwelling units.

In addition, new development receives a credit toward the TIF based on prior uses on the site. If the existing uses are still active, then a credit is be applied for the current active use. If the development site has been vacant but still contains the existing buildings, the development will receive credit for the last occupied use.

Some of the transportation projects in the current TIF have been constructed as part of a development project. The developer may have been required to construct the improvement as a mitigation measure. When a developer constructs the projects identified in the TIF program, they are given credit on their TIF for construction of all or portions of improvements that are included in the TIF calculation.

Summary of fees from other Cities

Many communities in the area have completed similar nexus studies related to TIF. Other communities include similar improvements measures with a variety of direct and indirect improvements. These range from improvements to intersections, bicycle facilities, sidewalks, transit and freeway interchanges. The following table provides a summary of TIF charged by other communities for several different uses:

City	Residential (per dwelling unit)	Office (per sq. ft.)	Retail (per sq. ft.)	Last updated
Redwood City, downtown area	\$1,212.00	\$1.79	\$2.96	2012
Redwood City, non-downtown	\$1,615.00	\$2.38	\$3.94	2012
San Carlos	\$3,052.00	\$4.55	\$11.32	2015
Sunnyvale, south of Route 237	\$3,114.00	\$4.64	\$5.78	2017
Sunnyvale, Moffett Park area <sup>1</sup>	n/a	\$6.38	\$5.53	2017
Menlo Park	\$3,301.30	\$4.87	\$4.87	2009
San Mateo	\$3,422.00	\$3.14	\$5.89	2014
Mountain View	\$4,671.00	\$4.99	\$12.83	2018
Palo Alto <sup>2</sup>	n/a	n/a	n/a	2019

<sup>1</sup> Moffett Park Area of Sunnyvale does not have any residential or office rates and separates retail into Destination and Neighborhood retail. The rate for research & development uses is shown under office and the rate for neighborhood retail is shown under retail.

<sup>2</sup> Palo Alto recently approved updating their TIF fees and move to a per PM peak hour trip rate. The new rate is \$7,886.00 per net PM peak hour trip.

City Council direction requested

Staff is requesting direction from City Council as part of the study session in order to advance the TIF updates. These items will help answer policy questions for the TIF including the proposed funding level for regional projects, whether any fee adjustments areas are appropriate, and any additional information that may be requested.

Specifically, staff is seeking City Council's direction on the following:

- Is there other background data needed prior to seeing a draft TIF update and ordinance in the fall?
- Is the proposed funding level of 12 percent (typical amount for local match for grant funding) for regional projects appropriate?
- Are there specific land uses that we should consider fee exemptions or reductions, such as continuing incentives for retail, restaurant and child care uses, or considering reductions for affordable housing and/or secondary dwelling units?

Next steps and schedule

The proposed project schedule is shown below. Staff is currently working with the consultant team on the cost estimates and to prepare a draft TIF for City Council review in September 2019. In addition, staff plans to reach out to members of the development community about the changes to the TIF program especially those who currently have development applications into the City. Following the review of the draft TIF program, staff will work with the consultant team to finalize the TIF update. Adoption of the TIF program update will require two readings of the ordinance. After the second reading, the fees would take effect 30 days later. An important consideration to the schedule is upcoming state law changes that take effect next year that could reduce the City's ability to require environmental mitigation under CEQA.

Table 3: Proposed project schedule	
Task	Schedule
City Council study session of draft TIF program update	14-May-19
City Council review of draft TIF program update	Sep-19
City Council adoption of TIF program	October/November 2019

**Impact on City Resources**

The cost to complete the TIF program update is included in the city budget as part of the TMP project. No additional resources are being requested at this time. The study would establish the TIF for the City to receive revenue dedicated to transportation improvements within the City from new developments. The new fee would not cover the full cost of the improvements and some improvements would potentially require additional funding to implement. This funding could include other City funding sources, regional funds, federal sources and grants. Fees in the program will accumulate prior to construction of the projects. The new fee does not require that all the improvements in the plan be constructed and the program will need to be evaluated on a regular basis to assess changes in growth projections, improvements modifications and cost information.

**Environmental Review**

This TIF study is not considered a project under the California Environmental Quality Act. Individual improvements identified in the study will be required to undergo the applicable environmental review process prior to implementation.

**Public Notice**

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

**Attachments**

- A. Hyperlink - Final City of Menlo Park TIF study dated September 9, 2009:  
[menlopark.org/DocumentCenter/View/21522/PW2---Transportation-impact-fee---Att-A](http://menlopark.org/DocumentCenter/View/21522/PW2---Transportation-impact-fee---Att-A)
- B. TIF methodology exhibit

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# PURPOSE

## Transportation Master Plan

*General Plan Circulation – 2.C*

- Community engagement on key issues
- Identify projects
- Cost estimates
- Prioritize improvements



## Adopt Impact Fee program

*General Plan Circulation – 6.C*

- Establish connection between new development and new infrastructure
- Update fee program
- Set fee rates by land use



## Development pays new fees

- Fees due at building permit stage
- Improvements constructed as funds accumulate



## 2009 FEE PROGRAM EXAMPLE

### Cost of improvements

- Identify Improvements
- Determine total cost of needed infrastructure

**\$40M**

### Allocate to new development

- Determine future growth
- Divide into portion that benefits
  - New development **25%**
  - Existing users **75%**

### Determine fee by use

- E.g., by housing unit or square foot of office space
- Can lower or waive fees to incentivize certain uses

**\$3300 per home**  
**\$4.87 / sf office**