



CITY OF
**PALO
ALTO**

City Council Staff Report

From: City Manager

Report Type: CONSENT CALENDAR

Lead Department: Planning and Development Services

Meeting Date: September 23, 2024

Report #:2408-3404

TITLE

Adopt an Ordinance Amending the Municipal Fee Schedule to Modify the Calculation for Park, Community Center and Library Development Impact Fees From per Unit to per Square Feet for Residential Development. CEQA Status: Exempt Pursuant to 15061(b)(3).

RECOMMENDATION

Staff recommends that City Council:

- a) Review the attached Supplement to the Development Impact Fee Justification Study (Attachment A)
- b) Adopt an ordinance amending the City's FY2025 Adopted Municipal Fee Schedule to update the Parks, Community Center, and Library impact fees from per unit to per square feet for residential development (Attachment B).

EXECUTIVE SUMMARY

Based on prior Council direction, staff recommends that the City Council adopt an ordinance amending the FY2025 Municipal Fee Schedule to modify the calculation of Park, Community Center, and Library Development Impact Fees for residential development from a per dwelling unit basis to a per square foot basis. This change is in response to AB 602, which mandates a more equitable distribution of impact fees based on development size. This amendment aligns with the City's newly certified Housing Element and addresses Program 3.1: Fee Waivers and Adjustments, aimed at balancing the need for public facility funding with the promotion of housing affordability. The new fee structure, if adopted, would take effect on November 25, 2024.

BACKGROUND

Under the Mitigation Fee Act (Assembly Bill (AB) 1600), cities can charge new development for its relative share of the cost to fund the acquisition of land and improvements to public facilities. These fees are established based on the nexus between impacts caused by new development and the improvements to mitigate those impacts that would be funded by the established fee.

In 2020, the Community Services Department retained DTA, formerly David Taussig & Associates, to prepare a nexus study to update the Parks, Community Center, and Library Impact Fees. The initial study¹ was implemented in August 2021, and in May 2022, DTA prepared and presented a supplemental analysis² to address several policy items based on Finance Committee's request. This included direction to update the fees from the initial analysis to address new legislation, AB 602, which came into effect in January 2022. AB 602 was designed to provide new statewide requirements for local jurisdictions seeking to impose development impact fees and articulated additional guidance on how local agencies comply with their impact fee obligations. In June 2022³, Council directed staff to convert residential Parks, Community Center, and Library Impact Fees to reflect a per square foot basis from a per unit basis.

In February 2024, the Planning and Development Services Department engaged with DTA to prepare an additional analysis to further comply with AB 602 for these fees. The non-residential fees for these categories are currently charged on a per square foot basis and are not subject to the new legislation as this portion of AB 602 more narrowly focuses on impacts related to residential development.

ANALYSIS

Prior to the initial nexus study that was implemented in August 2021, the City's Park, Community Center, and Library Development Impact fees had not been updated since its inception in 2001. As a result of the updated nexus study and Council adopted fee levels, beginning FY2022, the Palo Alto development community experienced a substantial increase in the Parks Impact Fee driven by the current fair market value of land as well as modest increases to the Community Center and Library Impact Fees (Table 1).

Table 1: Impact of Initial Nexus Study on Development Impact Fees - FY2021 vs FY2022

Year	Residential Land Use Type	Parks (Per Unit)	Community Center (Per Unit)	Library (Per Unit)	Total
FY2020 - 2021	Single-Family	\$ 13,103	\$ 3,499	\$ 1,187	\$ 17,789
	Single-Family > 3,000 SF	\$ 19,565	\$ 5,086	\$ 1,766	\$ 26,417
	Multi-Family ≤ 900 SF	\$ 4,337	\$ 1,128	\$ 390	\$ 5,855
	Multi-Family > 900 SF	\$ 8,577	\$ 2,235	\$ 710	\$ 11,522
FY2021 - 2022	Single-Family per unit	\$ 57,420	\$ 4,438	\$ 2,645	\$ 64,503
	Multi-Family per unit	\$ 42,468	\$ 3,283	\$ 1,956	\$ 47,707

Source: City of Palo Alto, FY2021 and FY2022 Municipal Fee Schedule

¹ <https://www.cityofpaloalto.org/files/assets/public/v/1/agendas-minutes-reports/reports/city-manager-reports-cmrs/year-archive/2021/id-12163.pdf>

² <https://www.cityofpaloalto.org/files/assets/public/agendas-minutes-reports/agendas-minutes/finance-committee/2022/20220503/20220503pfcslinked.pdf>

³ <https://www.cityofpaloalto.org/files/assets/public/v/6/agendas-minutes-reports/agendas-minutes/city-council-agendas-minutes/2022/20220613/20220613pccsm-final-amended-linked.pdf#page=53>

Conversion of the residential impact fees will support further compliance with AB 602 and more proportionately impact new residential development based on development size rather than a single amount per dwelling unit, regardless of size. For further details on the nexus study methodology and guidance on AB 602, refer to Attachment A: Second Supplement to the Development Impact Fee Justification – Assembly Bill (“AB”) 602 Compliance.

Using Palo Alto’s building permit data from 2013 to 2024, DTA calculated the average residential square footage for single-family and multi-family residential units constructed in the Palo Alto within the last 11 years. The average square footage per single-family and multi-family unit was determined to be 3,602 and 1,124 square feet, respectively. These units were divided into the Park, Community Center, and Library Impact Fee per dwelling units (Table 2) to generate the new per residential square foot fee.

Table 2: FY2025 Council-Approved Development Impact Fees – Current Fees

Current Fees	Parks	Community Center	Library	Total
Single-Family (Per Unit)	\$ 67,650	\$ 5,229	\$ 3,116	\$ 75,995
Multi-Family (Per Unit)	\$ 50,034	\$ 3,868	\$ 2,304	\$ 56,206

DTA’s analysis resulted in two frameworks for implementation – distinct rates and a consolidated rate. Both options are AB 602 compliant and reflect the current maximum justifiable fee levels that may be imposed by the City on new development under the new statutory requirements.

A distinct residential fee structure for single-family and multi-family fees is generally used when (1) there is sufficient building permit data available and (2) a jurisdiction can anticipate the number of projected units per residential land use type. This framework more proportionately reflects the size and impact of the residential units. Table 3 provides the recommended fees in this framework as well as sample impact fees based on residential land use type and square footage.

Table 3: Framework 1 – Distinct Rates and Sample Impact Fees

Distinct Fees	Parks	Community Center	Library	Total
Single Family (Per Sq. Ft.)	\$ 18.78	\$ 1.45	\$ 0.87	\$ 21.10
3000	\$ 56,340.00	\$ 4,350.00	\$ 2,610.00	\$ 63,300.00
3602	\$ 67,645.56	\$ 5,222.90	\$ 3,133.74	\$ 76,002.20
4000	\$ 75,120.00	\$ 5,800.00	\$ 3,480.00	\$ 84,400.00
Multi-Family (Per Sq. Ft.)	\$ 44.50	\$ 3.44	\$ 2.05	\$ 49.99
850	\$ 37,825.00	\$ 2,924.00	\$ 1,742.50	\$ 42,491.50
1124	\$ 50,018.00	\$ 3,866.56	\$ 2,304.20	\$ 56,188.76
1400	\$ 62,300.00	\$ 4,816.00	\$ 2,870.00	\$ 69,986.00

A single consolidated residential fee structure is generally used when (1) a jurisdiction may not have sufficient building permit data or (2) may not be able to project the type of future development. Table 4 provides the recommended fee in this framework as well as sample impact fees based on residential square footage, regardless of land use type.

Table 4: Framework 2 – Consolidated Rate and Sample Impact Fees

Consolidated Fees	Parks	Community Center	Library	Total
Residential (Per Sq. Ft.)	\$ 22.68	\$ 1.75	\$ 1.04	\$ 25.47
850	\$ 19,278.00	\$ 1,487.50	\$ 884.00	\$ 21,649.50
1124	\$ 25,492.32	\$ 1,967.00	\$ 1,168.96	\$ 28,628.28
2000	\$ 45,360.00	\$ 3,500.00	\$ 2,080.00	\$ 50,940.00
3602	\$ 81,693.36	\$ 6,303.50	\$ 3,746.08	\$ 91,742.94
4000	\$ 90,720.00	\$ 7,000.00	\$ 4,160.00	\$ 101,880.00

DTA was able to evaluate and present both frameworks due to the large sample of building permit data available from Palo Alto. Because these are proposed maximum fee levels, City Council has the discretion to determine which framework and fee level to adopt, including imposing a lower fee.

Staff recommends implementation of the Parks, Community Center, and Library Impact Fees using the distinct rate fee structure because this framework more proportionately reflects the size and impact of the land use type and is in further compliance with AB 602. The intent of AB 602 is to ensure that impact fees are more proportional to the size of new development and distinguishing the rates by land use type allows for a more precise assessment of impact fees.

Both frameworks will lower the fees for smaller developments regardless of land use type. As illustrated in Table 3 and 4 above, DTA’s analysis demonstrates that when imposing a consolidated fee, the financial magnitude of the impact is more beneficial to multi-family compared to single-family development. Although the consolidated framework may encourage multi-family development and increase housing inventory in Palo Alto, it may also result in the under-collection of impact fees necessary to finance planned facilities

As noted in the City’s newly certified Housing Element⁴, high fees can impede housing production by increasing the per unit cost of development, impacting projected returns and potentially discouraging new home building. Conversion of this fee will complete one of the objectives under Program 3.1: Fee Waivers and Adjustments in the Housing Element.

Subsequently, as part of the Housing Element program implementation, the City will be preparing an economic feasibility study to analyze implications that all development impact fees may have on housing production. These fees will be included in the assessment, and based

⁴ <https://paloaltohousingelement.com/wp-content/uploads/2024/07/Palo-Alto-Housing-Element-6.pdf>

on the study, Council may adjust fees and/or development standards to enable a reasonable return on investment and ensure sufficient fee collection to support city services.

FISCAL/RESOURCE IMPACT

Development impact fees provide funding for capital improvements in parks, community facilities, and libraries to mitigate the impacts of new development in the community. Revenues fluctuate each year based on the amount of residential and non-residential development occurring in Palo Alto. Currently, staff and DTA is not able to forecast revenue impacts due to the variability of development and changing economic conditions. DTA has provided an illustrative example using last fiscal year's permitting data to demonstrate the financial impact of the fee conversion. Although the likely outcome of this transition is decreased revenue for the parks, community facilities, and library impact fees, the updated fee model will also likely incentivize greater housing production in support of the affordability of residential development.

Table 5: Estimated Revenue Calculation – Current Fee Schedule

Fee Category	Land Use Type	Proposed Fee per Unit	Total Est. Revenues¹
Park	SFD	\$67,650.00	\$1,353,000.00
Community Center	SFD	\$5,229.00	\$104,580.00
Library	SFD	\$3,116.00	\$62,320.00
		Total SFR²	\$1,519,900.00
Park	MFD	\$50,034.00	\$0.00
Community Center	MFD	\$3,868.00	\$0.00
Library	MFD	\$2,304.00	\$0.00
		Total MFR³	\$0.00
Total Estimated Residential Revenues			\$1,519,900.00

Notes:

1. Estimate, subject to change based on actual new development that occurs in FY 2024-25.
2. Assumes approximately 20 new single-family residential units in FY 2023-24.
3. Based on actual number of new multi-family units in FY 2023-24; however, these figures are for illustrative purposes only, as the City anticipates that MFD will increase in future fiscal years and subsequently, the revenues for multi-family development.

Table 6: Estimated Revenue Calculation – AB 602 Compliant Fee

Fee Category	Land Use Type	Proposed Fee per Sq. Ft.	Total Est. Revenues ¹
Park	SFD	\$18.78	\$699,273.30
Community Center	SFD	\$1.45	\$53,990.75
Library	SFD	\$0.87	\$32,394.45
		Total SFR²	\$785,658.50
Park	MFD	\$44.50	\$0.00
Community Center	MFD	\$3.44	\$0.00
Library	MFD	\$2.05	\$0.00
		Total MFR³	\$0.00
Total Estimated Residential Revenues			\$785,658.50

Notes:

1. Estimate, subject to change based on actual new development that occurs in FY 2024-25.
2. Assumes approximately 37,235 square feet of new single-family residential development occurred in FY 2023-24.
3. Based on actual number of new multi-family square footage in FY 2023-24; however, these figures are for illustrative purposes only, as the City anticipates that MFD will increase in future fiscal years and subsequently, the revenues for multi-family development.

POLICY IMPLICATIONS

City Council has the authority to charge new development for its relative share of the cost of specific public facilities, as calculated based on a nexus study and pursuant to state law requirements. Council also has the authority to restructure fees based on articulated City policies within legal limits and economic feasibility. The information provided in this report allows Council to evaluate and adjust the City's Development Impact Fees for Parks, Community Centers, and Libraries.

Based on Government Code § 66017, new or increased development impact fees go into effect no sooner than 60 days after adoption. Should Council adopt the recommended fee conversion, these fees are expected to be effective on November 25th.

STAKEHOLDER ENGAGEMENT

The Community Services Department presented the initial nexus study and supplemental report for review to the Parks and Recreation Commission and Finance Committee between December 2020 and May 2022. On June 13, 2022, Council directed supplemental work related to the conversion of fees outlined in this report.

ENVIRONMENTAL REVIEW

The recommended actions are not considered a project as defined by the California Environmental Quality Act pursuant to CEQA regulation 15061(b)(3). The projects in the original 2021 nexus study associated with these fees have been fully analyzed as part of City's 2030 Comprehensive Plan and its Environmental Impact Report as well as the City's Parks and Open Space Master Plan and its Mitigated Negative Declaration; no further CEQA analysis is necessary.

ATTACHMENTS

Attachment A: Second Supplement to the Development Impact Fee Justification – Assembly Bill (“AB”) 602 Compliance

Attachment B: Impact Fee Conversion Ordinance

APPROVED BY:

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