



FINANCE DEPARTMENT

Council Meeting Date: December 16, 2014
Staff Report #: 14-201

CONSENT CALENDAR: **Review of the Annual Report on the Status of the Transportation Impact, Storm Drainage, Recreation In-Lieu, and Building Construction Road Impact Fees Collected as of June 30, 2014, and Make Findings Regarding Funds Collected but not Expended**

RECOMMENDATION

Staff recommends the City Council review the annual report on the status of the transportation impact, storm drainage, recreation in-lieu, and building construction road impact fees. Staff also recommends that Council make the following findings regarding funds collected but not expended:

1. Transportation impact fees, storm drainage fees, recreation in lieu fees, and building construction road impact fees are collected to mitigate direct and indirect impacts from development.
2. These funds 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.

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 (Attachment A); and
- 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. Early in fiscal year 2009-10, the City concluded a transportation impact fee study, which enabled staff to recommend an update to the existing fees and create a more systematic way for applying the fees. As a result, a new fee structure was put in place effective December 6, 2009, with the passing of an ordinance that added Chapter 13.26 to the municipal code. This fee structure is listed below and is included in the 2014 City's Master Fee Schedule:

Land Use	Unit	2014 Fee Amount
Office	Sq.Ft.	\$4.19
Research and Development	Sq.Ft.	\$3.01
Manufacturing	Sq.Ft.	\$2.06
Warehousing	Sq.Ft.	\$0.90
Restaurant	Sq.Ft.	\$4.19
Retail	Sq.Ft.	\$4.19
Single Family	Units	\$2,841.12
Multi-Family	Units	\$1,743.88
Hotel	Sq.Ft.	\$1.65
Medical Office	Sq.Ft.	\$9.73

The City received \$1,350,662 in transportation impact fees in fiscal year 2013-14. In addition, there was \$141,009 in inter-governmental revenue received from San Mateo County and City/County Association of Governments for the Alpine Road bike

improvement and Willow Road improvements at Newbridge. The following table summarizes the activity for the Transportation Impact Fee Fund from fiscal year 2009-10 through 2013-14.

	2009-10	2010-11	2011-12	2012-13	2013-14
Funds that do not qualify for AB 1600 Calculation:					
Beginning balance	\$349,484	\$353,796	\$363,261	\$1,511,565	\$1,444,903
Interest earnings	4,312	9,465	178	(1,267)	11,519
Other Intergovernmental Revenue	0	0	0	120,000	141,009
Developer Fees	0	0	1,233,000	0	0
Expenditures	0	0	(84,874)	(185,395)	(178,670)
Total	\$353,796	\$363,261	\$1,511,565	\$1,444,903	\$1,418,761
Citywide Impact Fees:					
Beginning balance	319,345	217,968	1,487,136	1,257,980	1,218,644
Developer Fees	51,520	1,419,010	57,256	176,058	1,350,662
Interest earnings	4,645	12,395	24,697	(995)	15,270
Expenditures	(222,787)	(199,226)	(164,759)	(338,765)	(65,411)
Encumbrances - prior year	104,805	39,560	2,571	148,921	24,555
Encumbrances - current year	(39,560)	(2,571)	(148,921)	(24,555)	(349,089)
Ending Balance	\$217,968	\$1,487,136	\$1,257,980	\$1,218,644	\$2,194,631
Total Unencumbered Fund Balance	\$571,764	\$1,850,397	\$2,769,545	\$2,663,547	\$3,613,392

As shown, there are two fee categories within the Transportation Impact Fee Fund's balance:

- Funds that do not qualify for Code Section 66001 Calculation:** This portion of the fund balance reflects funds that were collected prior to the 1989 effective date of the Mitigation Fee Act and are therefore not subject to it. In addition, fees negotiated as part of a development outside of Menlo Park's jurisdiction (but still creating transportation impacts) are not subject to the Act. This includes the Stanford Hospital and Lucille Packard payment of \$1,233,000 in fiscal year 2011-12, which was a part of their development agreement. These funds will be used for traffic improvement programs citywide. The corresponding interest income is allocated on the basis of the fund balance.
- Citywide:** The citywide impact fees collected after the enactment of Code Section 66001 will be used for improvements and/or to mitigate traffic issues citywide.

Project expenditures paid from these impact fees amounted to \$142,785 in fiscal year 2013-14 and included the reconfiguration of the Willow Road/Veteran's Administration Hospital Entrance, Ringwood Ave bicycle/pedestrian overcrossing and the El Camino Real/Ravenswood northbound right turn lane. Fees in the amount of \$101,296 were utilized to support certain ongoing operations dedicated to managing transportation demand in the City. These operational costs were paid from the fees that do not qualify

for the AB 1600 calculation. The remaining unencumbered balance for the Transportation Impact Fee Fund as of June 30, 2014, was \$3,613,392.

The following table identifies specific expenditures of the Transportation Impact Fee Fund in 2013-14.

Transportation Impact Fees	Total Expended	Impact Fees Used	% of Total
<u>Project Expenditures:</u>			
Elder Ave/ Santa Cruz Ave Signal	154	154	100%
ECR/Ravenswood NB Right Turn Lane	7,696	7,696	100%
ECR Lane Reconfiguration Study	57,107	1,559	3%
Ringwood Ave Bicycle/Pedestrian Overcrossing	6,466	6,466	100%
Willow Road/VA Hospital Entrance	49,690	49,690	100%
Willow Road Improvement at Newbridge	77,220	77,220	100%
<u>Operating Expenditures:</u>			
Right-of-Way	666,238	34,907	5%
Development Services	645,290	59,419	9%
Safe Routes to Schools	61,298	2,913	5%
Neighborhood Traffic Management	53,796	4,057	8%
Total Expenditures:	\$1,624,955	\$244,081	15%

Storm Drainage Fees

The storm drainage fee, which commenced prior to 1989, is levied to mitigate City storm drainage impacts either directly or indirectly resulting from development projects. The fees are charged for property development as shown in the 2014 City’s Master Fee Schedule:

Storm drainage connection fees

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

Storm drainage fees in the amount of \$4,495 were collected from developers in 2013-14. The following table captures the activities associated with storm drainage fees from fiscal year 2009-10 through 2013-14.

	2009-10	2010-11	2011-12	2012-13	2013-14
Storm Drainage Impact Fees:					
Beginning balance	\$253,843	\$258,670	\$184,451	\$188,015	\$101,114
Developer Fees	900	23,235	2,594	5,945	4,495
Interest Income/(Expense)	3,927	2,546	970	(94)	936
Expenditures	0	(100,000)	0	(80,973)	(1,503)
Encumbrances - prior year	0	0	0	0	11,779
Encumbrances - current year	0	0	0	(11,779)	(10,694)
Ending Balance	<u>\$258,670</u>	<u>\$184,451</u>	<u>\$188,015</u>	<u>\$101,114</u>	<u>\$106,127</u>
Total Unencumbered Fund Balance	\$258,670	\$184,451	\$188,015	\$101,114	\$106,127

The Storm Drainage Impact Fee Fund has provided for improvements that were identified in the Storm Drain Master Plan as high priority. When the preliminary design of the storm drainage system is complete, this revenue will contribute to the construction of a project in fiscal year 2015-16 that prevents flooding on Middlefield Road from the San Francisquito Creek. The total Storm Drainage Impact Fee Fund unencumbered balance available as of the end of fiscal year 2013-14 was \$106,127.

The following table identifies specific expenditures of the Storm Drainage Impact Fee Fund in 2013-14.

Storm Drainage Impact Fee Fund	Total Expended	Impact Fees Used	% of Total
<u>Project Expenditures:</u>			
Strom Drain Improvements and Cleaning	\$14,458	\$1,086	8%
Middlefield Road Storm Drain	\$417	\$417	100%
Total Expenditures:	\$14,875	\$1,503	10%

Recreation In-Lieu Fees

The recreation in-lieu fee, which commenced prior to 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 2014 City's Master Fee Schedule:

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

The amount of recreation in-lieu fees collected in 2013-14 totaled \$276,000 from two residential developments and two multi-family developments. The following table captures the activities associated with recreation in-lieu fees from fiscal year 2009-10 through 2013-14.

	2009-10	2010-11	2011-12	2012-13	2013-14
Recreation In-Lieu Impact Fees:					
Beginning balance	\$3,585,116	\$3,905,058	\$557,893	\$470,091	\$1,164,503
Developer Fees	256,000	89,847	212,000	896,000	276,000
Interest Income/(Expense)	61,379	28,151	(6,026)	(1,588)	9,373
Expenditures	(1,457)	(439,951)	(3,325,127)	(200,000)	(67,222)
Encumbrances - prior year	10,159	6,139	3,031,351	0	0
Encumbrances - current year	(6,139)	(3,031,351)	0	0	(56,147)
Ending Balance	\$3,905,058	\$557,893	\$470,091	\$1,164,503	\$1,326,507
Total Unencumbered Fund Balance	\$3,905,058	\$557,893	\$470,091	\$1,164,503	\$1,326,507

The outstanding unencumbered fund balance in the Recreation In-Lieu Fee fund at the end of fiscal year 2013-14 was \$1,326,507. The following table identifies specific expenditures of the Recreation In-Lieu Fee Fund, which consists of \$50,000 for Hillview School field renovation and \$17,222 for a portable concert stage trailer for recreation events.

Recreation In-Lieu Fee Fund	Total Expended	Impact Fees Used	% of Total
Project Expenditures:			
Hillview School Field Renovation	\$50,000	\$50,000	100%
Portable Concert Stage Trailer	74,447	17,222	23%
Total Expenditures:	\$124,447	\$67,222	54%

Building Construction Road Impact Fees

The building 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, 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 2014 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.

\$1,725,457 in building construction impact fees were collected in 2013-14 from approximately 500 construction projects. The following table captures the activities associated with building construction road impact fees from fiscal year 2009-10 through 2013-14.

	2009-10	2010-11	2011-12	2012-13	2013-14
Building Construction Road Impact Fees:					
Beginning balance	\$2,455,467	\$2,836,121	\$1,419,552	\$1,304,667	\$1,763,212
Developer Fees	357,162	534,041	680,152	691,793	1,725,457
Street Department Fees	0	0	2,800	0	0
Interest Income/(Expense)	46,918	21,275	15,921	(2,792)	16,069
Expenditures	(23,426)	(1,255,643)	(217,521)	(1,205,493)	(219,871)
Encumbrances - prior year	2,422	2,422	718,664	1,314,899	339,862
Encumbrances - current year	(2,422)	(718,664)	(1,314,901)	(339,862)	0
Ending Balance	<u>\$2,836,121</u>	<u>\$1,419,552</u>	<u>\$1,304,667</u>	<u>\$1,763,212</u>	<u>\$3,624,729</u>
Grand Total - Fund Balance	\$2,836,121	\$1,419,552	\$1,304,667	\$1,763,212	\$3,624,729

The City's Street Resurfacing Project and the Street Resurfacing of Federal Aid Route Resurfacing Project, were both funded in part with building construction impact fees. In addition, to maintain key services to the community, a portion of these funds were utilized to maintain medians, parking plazas, and 13 miles of right-of-way. The outstanding available balance in the Building Construction Road Impact Fees Fund as of the end of fiscal year 2013-14 was \$3,624,729.

Building Construction Road Impact Fee Fund	Total Expended	Impact Fees Used	% of Total
Project Expenditures:			
Street Resurfacing Project	\$1,711,531	\$147,861	9%
STPL Federal Aide Resurfacing	35,473	9,132	26%
Operating Expenditures:			
Street Maintenance	521,393	62,878	12%
Total Expenditures:	\$2,268,397	\$219,871	10%

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.

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.

ENVIRONMENTAL REVIEW

This report is not subject to the California Environmental Quality Act.

PUBLIC NOTICE

Public notification to comply with the Mitigation Fee Act was achieved by posting the availability of the report 15 days prior to the meeting.

ATTACHMENTS

- A. Public Improvement Projects Related to the Mitigation Fee Act (AB1600) Five-Year Plan

Report prepared by:

Drew Corbett

Finance Director

**Public Improvement Projects Related to the Mitigation Fee Act (AB1600)
Five-Year Plan**

Projects	Funding Source	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Street Resurfacing	Building Construction Impact Fees	\$60,000	\$60,000	\$3,330,000	\$60,000	\$2,330,000	\$5,840,000
Belle Haven Pool Analysis	Rec-in-Lieu	\$100,000	\$0	\$0	\$0	\$0	\$100,000
Belle Haven Pool Deck Lighting	Rec-in-Lieu	\$0	\$30,000	\$0	\$0	\$0	\$30,000
Belle Haven Youth Center Playground Replacement	Rec-in-Lieu	\$0	TBD	\$0	\$0	\$0	\$0
Jack Lyle Park Restrooms Construction	Rec-in-Lieu	\$0	\$40,000	\$200,000	\$0	\$0	\$240,000
Playground Equipment Assessment & Replacement	Rec-in-Lieu	\$30,000	TBD	\$0	TBD	\$0	\$30,000
Relocation of Dog Park at Nealon Park	Rec-in-Lieu	\$0	\$0	\$0	\$25,000	\$125,000	\$150,000
Willow Oaks Dog Park Renovation	Rec-in-Lieu	\$50,000	\$250,000	\$0	\$0	\$0	\$300,000
Caltrain Bike/Ped Undercrossing Design	Transportation Impact Fee	\$0	\$0	\$0	\$500,000	\$0	\$500,000
El Camino Real/Ravenswood NB Right Turn Lane Design and Construction	Transportation Impact Fee	\$1,020,000	\$0	\$0	\$0	\$0	\$1,020,000
Laurel St/Ravenswood Signal Modification	Transportation Impact Fee	\$0	\$195,000	\$0	\$0	\$0	\$195,000
Sand Hill Road Signal Interconnect	Transportation Impact Fee	\$1,495,000	\$0	\$0	\$0	\$0	\$1,495,000
Sand Hill Road Signal Modification Project	Transportation Impact Fee	\$0	\$0	\$0	\$250,000	\$0	\$250,000

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