

**RESOLUTION NO. 22-9064**

**A RESOLUTION OF THE CITY OF SANTA CLARA, CALIFORNIA  
APPROVING THE FINDINGS OF THE PATRICK HENRY DRIVE  
SPECIFIC PLAN INFRASTRUCTURE IMPACT FEE NEXUS  
STUDY, ADOPTING THE NEXUS STUDY, AND SETTING THE  
IMPACT FEES FOR FISCAL YEAR 2021-2022**

**BE IT RESOLVED BY THE CITY OF SANTA CLARA AS FOLLOWS:**

**WHEREAS**, on March 22, 2022, the City Council adopted the Patrick Henry Drive Specific Plan (the "Project"), a specific plan for a transit-oriented neighborhood of up to 12,000 residential units with supportive retail uses, located on approximately 74-acres of land bounded by Mission College to the south, Great America Parkway to the East, the Hetch-Hetchy right-of-way to the north, and Calabazas Creek to the west that are currently developed with industrial uses;

**WHEREAS**, on March 22, 2022, the City Council adopted and certified the Environmental Impact Report ("EIR") for the Project (SCH #2019120515), as well as a set of CEQA Findings and a Statement of Overriding Considerations, in accordance with the requirements of CEQA;

**WHEREAS**, the Project and EIR specified that certain public improvements are necessary to support the Project and new level of service which include sanitary sewer facility upgrades, potable water facility upgrades, non-potable water facility upgrades, storm water facility upgrades, public and private street improvements and expansions, traffic signal installations, traffic safety device installations, traffic signal mitigations, fair-share traffic payments, emergency response vehicle and tiller aerial ladder apparatus purchases, entry monument and signs, and formation of a transportation management association, collectively the capital improvement plan;

**WHEREAS**, in 2021, the Project consultant, MIG, contracted with Economic & Planning Systems, Inc. (EPS Consultants), to prepare a nexus study to justify the creation of an infrastructure impact fee ("Infrastructure Impact Fee") to apply to new residential and office development within the Project area;

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**WHEREAS**, the intent of the of the Infrastructure Impact Fee is to create an equitable distribution of area-wide and common infrastructure costs for all new residential and office development within the Project area;

**WHEREAS**, the Department of Public Works has prepared a report entitled “Patrick Henry Drive Specific Plan Infrastructure Impact Fee Nexus Study“ (the “Study”), which provides the purpose, nexus, improvements, cost estimates, and justification for the creation of an Infrastructure Impact Fee, and is on file in the Office of the City Clerk, available for public inspection, attached hereto and incorporated herein by this reference;

**WHEREAS**, the Study proposes that the fee applies to new residential and office uses within the Project area;

**WHEREAS**, the Study recommends fee levels be adjusted annually in order to keep up with construction costs and inflation;

**WHEREAS**, the Study provides an evaluation of the need for an infrastructure impact fee and establishes the nexus between the imposition of such impact fee and the estimated reasonable cost of providing the improvements for which the fees are charged;

**WHEREAS**, The Mitigation Fee Act, California Government Code section 66000 et seq., requires that, in any action establishing a fee as a condition of approval of a development project, a local agency shall make the following findings:

A. Under Government Code Section 66001(a)(1), identify the purpose of the fee.

B. Under Government Code Section 66001(a)(2), identify the use to which the fee is to be put.

C. Under Government Code Section 66001(a)(3), determine how there is a reasonable relationship between the fee’s use and the type of development project on which the fee is imposed.

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D. Under Government Code Section 66001(a)(4), determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed.

E. Under Government Code Section 66001(b), Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed;

**WHEREAS**, the City wishes to adopt this proposed Infrastructure Impact Fee in accordance with the calculations and recommendations contained in the Study;

**WHEREAS**, pursuant to Sections 6062a and 66018 of the California Government Code, notice of a public hearing to be held on March 22, 2022 was published in the *Weekly*, a newspaper of general circulation in the City, on March 9, 2022 and March 16, 2022;

**WHEREAS**, on March 7, 2022, a notice of the public hearing to be held on March 22, 2022 was emailed to persons who requested notice of new and increased fees in accordance with Government Code Section 66019;

**WHEREAS**, on March 22, 2022, the City Council held a public hearing with respect to the Study and the proposed Infrastructure Impact Fee;

**WHEREAS**, the Study was made available for public inspection at least ten days before the public hearing by placing the data on file with the City Clerk's Office on March 7, 2022 in accordance with Government Code 66016;

**WHEREAS**, on March 22, 2022 the City Council introduced an ordinance to add Section 17.15.360, "Patrick Henry Drive Specific Plan Infrastructure Impact Fee," to Chapter 17.15 ("Property Developments") of Title 17 ("Development") establishing an infrastructure impact fee for the Project area;

**WHEREAS**, the City Council adopts a Master Fee Schedule as part of its budget, fixing and establishing fees, rates, and charges for good and services provided by the City; and,

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**WHEREAS**, pursuant to the Mitigation Fee Act (California Government Code Section 66000 et seq.), the City Council now desires to approve the Study and proposed Infrastructure Impact Fee.

**NOW THEREFORE, BE IT FURTHER RESOLVED BY THE CITY OF SANTA CLARA AS FOLLOWS:**

1. That in accordance with the Mitigation Fee Act and the Report, and based on the facts and substantial evidence in the record, the Infrastructure Impact Fee is hereby adopted by the City Council based on the following findings:

A. Development projects in the Project area will create the need for improvements to support increased residential and office uses in the Project area.

B. The Project provides the analysis and justification for the need for the required improvements with new residential and office development within the Project.

C. The Study estimates the cost of each infrastructure improvement necessary to support the anticipated new residential and office development in the Project and substantiates an Infrastructure Impact Fee rate that will charge each new development project only for the portion of the costs of the improvements necessary to support that development project.

D. There is a reasonable relationship between the need for the identified improvements and the development projects on which the Infrastructure Impact Fee will be imposed.

E. The Infrastructure Impact Fee does not exceed the estimated reasonable cost of providing the facilities for which the Infrastructure Impact Fee is imposed. The Infrastructure Impact Fee is not levied, collected, or imposed for general government purposes.

F. As the purpose of this Resolution is to begin collection of an impact fee to fund improvements identified within and necessary to support development within the Project for which an EIR was adopted by the City Council, the setting and imposition of the Infrastructure Fee is exempt from environmental review under the California Environmental Quality Act (CEQA) pursuant to Section 21080(b)(8)(D) of the California Public Resources Code.

2. That the Fee is hereby imposed upon every person or entity having equitable or legal title, or other interest as owner, lessee, or otherwise who causes the development of new Multifamily Residential Use Buildings or Office Buildings within the Project area on or after June 4, 2022 at the following rate:

Multi-Family Residential	\$9,626 per dwelling unit
Office	\$21.00 per square foot


3. That unless otherwise modified by the City Council, the Infrastructure Impact Fee shall automatically adjust for inflation annually at the start of each fiscal year, based on the latest Engineering News Record Construction Cost Index. If this index ceases to exist, the Director of Public Works shall substitute another construction cost index, which in his or her judgment is as nearly equivalent to the original index as possible.

4. That the Study is hereby approved, confirmed, and adopted.

5. Effective date. This resolution shall become effective 60 days following the date of its passage and adoption.

I HEREBY CERTIFY THE FOREGOING TO BE A TRUE COPY OF A RESOLUTION PASSED AND ADOPTED BY THE CITY OF SANTA CLARA, CALIFORNIA, AT A REGULAR MEETING THEREOF HELD ON THE 22<sup>ND</sup> DAY OF MARCH, 2022, BY THE FOLLOWING VOTE:

AYES:	COUNCILORS:	Becker, Chahal, Hardy, Jain, Park, and Watanabe, and Mayor Gillmor
NOES:	COUNCILORS:	None
ABSENT:	COUNCILORS:	None
ABSTAINED:	COUNCILORS:	None

ATTEST:   
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 NORA PIMENTEL, MMC  
 ASSISTANT CITY CLERK  
 CITY OF SANTA CLARA

Attachments incorporated by reference:

1. Patrick Henry Drive Specific Plan Infrastructure Impact Fee Nexus Study

*The Economics of Land Use*



## **Final Report**

# Patrick Henry Drive Specific Plan Area Infrastructure Impact Fee Nexus Study

Prepared for:

City of Santa Clara

Prepared by:

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March 2022

EPS #171093

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# 1. INTRODUCTION AND FEE OVERVIEW

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## **Introduction**

This Nexus Report provides analysis and technical documentation to support the adoption of a development impact fee program for the Patrick Henry Drive Specific Plan (PHDSP) area (Plan Area) in the City of Santa Clara (City). Development impact fees are one-time charges on new development collected and used by the City to cover the cost of capital facilities and improvements required to serve real estate development. The PHDSP Area Infrastructure Impact Fee would be applicable to future development in the PHDSP only and will not replace or exempt development from other City-wide impact fees.

This Nexus Report has been prepared by Economic & Planning Systems, Inc. (EPS), with direction and input from City staff. It provides a legal basis for requiring payment of a PHDSP area-wide development impact fee consistent with Mitigation Fee Act (AB 1600/ Government Code Section 66000 et seq.) and subsequent related legislation. The PHDSP Area Infrastructure Impact Fee Program must be approved by the City Council and will be effective 60 days following the City's final action on the ordinance authorizing collection of the fee.

The PHDSP, to be adopted by the Santa Clara City Council before the approval of the PHDSP Infrastructure Area Impact Fee, provides the land use and regulatory framework for the development of a high-density, mixed-use neighborhood. This PHDSP Area Infrastructure Impact Fee is based on the land use program and level of service standards/requirements described in the PHDSP (and supporting environmental documents) as well as current estimates of the infrastructure and improvement costs needed to accommodate these land uses and standards.

## **Legal Context**

This Nexus Study is designed to provide the necessary technical analysis to support a PHDSP Area Infrastructure Impact Fee to be established by a City Ordinance and Resolution. The Mitigation Fee Act allows the City to adopt, by resolution, the PHDSP Area Infrastructure Impact Fee consistent with the supporting technical analysis and findings provided in this Nexus Report. The Resolution approach to setting the fee allows periodic adjustments of the fee amount that may be necessary over time, without amending the enabling ordinance.

Impact fee revenue are used to cover the cost of constructing capital and infrastructure improvements required to serve new development and growth in the City. As such, impact fees must be based on a reasonable nexus, or connection, between new development and the need for specific capital facilities and improvements. Impact fee revenue cannot be used to cover the operation and maintenance costs of these or any other facilities and infrastructure. In addition, impact fee revenue cannot be collected or used to cover the cost of pre-existing infrastructure needs or deficiencies.

In establishing, increasing, or imposing a fee as a condition for the approval of a development project, Government Code 66001(a) and (b) state that the local agency must:

1. Identify the purpose of the fee;
2. Identify how the fee is to be used;
3. Determine how a reasonable relationship exists between the fee use and type of development project for which the fee is being used;
4. Determine how the need for the public facility relates to the type of development project for which the fee is imposed; and
5. Show the relationship between the amount of the fee and the cost of the public facility.

In September 2021, the State of California adopted Assembly Bill (AB) 602, which includes several new requirements related to the development and implementation of impact fee programs. The key provisions related to the calculations documented in this Nexus Report are summarized below.

- **Capital Improvement Plan:** AB 602 requires that jurisdictions adopt a capital improvement plan as part of the nexus study process. This adoption can occur at the same time as the fee ordinance adoption. Accordingly, this Nexus Report relies on a PHDSP Area Long-Term Capital Improvement Plan to be approved by the City Council in conjunction with the PHDSP Area Infrastructure Impact Fee Program.
- **Explanation of Level of Service and Fee Increase:** AB 602 requires that the nexus study provide explanations if the fee calculation is based on a change in existing levels of service. Since the PHDSP Area Infrastructure Impact Fee will be new to the City and only apply to a defined area, existing or city-wide service standards are not used as a basis for the fee calculation. This Nexus Report is based on service standards that have been developed for, and are unique to, the PHDSP area, as documented in the Plan and referenced as appropriate in this document.

All State statutory requirements have been followed in establishing this PHDSP Area Infrastructure Impact Fee, as documented in subsequent chapters. **Chapter 3** summarizes the specific findings that explain or demonstrate this nexus.

If the PHDSP Area Infrastructure Impact Fee is adopted, this Nexus Report and the technical information it contains should be maintained and reviewed periodically by the City to ensure Impact Fee accuracy and to enable the adequate programming of funding sources. To the extent that infrastructure requirements, costs, and development potential changes over time, the PHDSP Infrastructure Impact Fee Program (Fee Program) will need to be updated. Further information on the implementation and administration of the Fee program is provided in **Chapter 4**.

## PHDSP Area Infrastructure Impact Fee

**Table 1** shows the PHDSP Area Infrastructure Impact Fee supported by the nexus findings and analysis contained in this Nexus Report. As currently calculated, the fee would be applied to all new multifamily residential and office development projects within the PHDSP area (retail uses will be exempt and PHDSP does not include single-family development). The PHDSP Area Infrastructure Impact Fee Program will be independent and separate from all other City, Santa Clara County, other agency, or regional development impact fees that may also be applicable to the PHDSP development.

**Table 1 Proposed PHDSP Area Infrastructure Impact Fee (FY\$21-22)**

Use	Measure	Fee <sup>1</sup>
Multi-family Residential <sup>2</sup>	per Unit	\$9,626
Office	per Square Foot	\$21

[1] Fee is set to cover full costs of required PHDSP infrastructure facilities and includes a two (2) percent administrative fee to cover City costs of reporting, managing, and updating fee program.

[2] Single family residential use is not permitted in the PHDSP area.

Source: BKF; City of Santa Clara; Hexagon Transportation Consultants; Economic & Planning Systems, Inc.

The calculated PHDSP Area Infrastructure Impact Fee amounts of \$9,626 per multifamily residential unit and \$21.00 per office square foot includes a program administration fee equal to 2 percent of the program costs, consistent with other Mitigation Fee Act program administrative costs in many other California jurisdictions.<sup>1</sup> It covers the cost of infrastructure needed to serve build-out of the Plan Area, as specified in more detail in Appendix A for the PHDSP Area Long-Term Capital Improvement Plan. In particular, the PHDSP Area Infrastructure Impact Fee covers the following infrastructure items:

- On-Site and Off-Site Roadway Facilities (i.e., traffic signals, traffic safety devices, pavement).
- Sanitary Sewer Facilities and associated structures.
- Potable Water Facilities.
- Monuments and Signage.
- Formation of a Transportation Management Association.
- Non-potable Water Facilities (i.e., Recycled Water).
- Storm Drainage Facilities.
- Emergency Response Apparatus/Equipment.
- All land right of way acquisition costs needed to support on-site public infrastructure.

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<sup>1</sup> The 2 percent administration cost is designed to cover expenses for preparing subsequent updates to the impact fee technical report as well as the required reporting, auditing, collection and other annual administrative costs involved in overseeing the program. Development impact fee programs throughout California have applied similar administrative charges. The cost of preparing this Nexus Report has been paid directly by the developers in the Specific Plan area outside of this fee.

## 2. PHDSP LAND USE AND INFRASTRUCTURE ASSUMPTIONS

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This chapter documents the land use growth projections and infrastructure improvement costs used to calculate the PHDSP Area Infrastructure Impact fee. The assumptions are based on information from the PHDSP and cost analysis developed by City of Santa Clara staff, with support from transportation and civil engineering consultant firms Hexagon and BKF, respectively.

### Existing and Planned Development

The PHDSP covers an approximately 74-acre area in the City of Santa Clara bounded by Mission College to the south, Great America Parkway to the East, the Hetch-Hetchy right-of-way to the north, and Calabazas Creek to the west (see **Figure 1**). Before approval of the PHDSP, the area is primarily zoned as “Light Industrial” (or ML), which allows for manufacturing, processing, repair, and storage uses. Consistent with this zoning, existing uses include electrical supply stores and several office and warehouse buildings housing R&D labs and software training institutes. A nine-acre section of the Plan Area is currently zoned as “Planned Development” (PD). The existing street, utilities and related infrastructure is sufficient to accommodate this level of development.

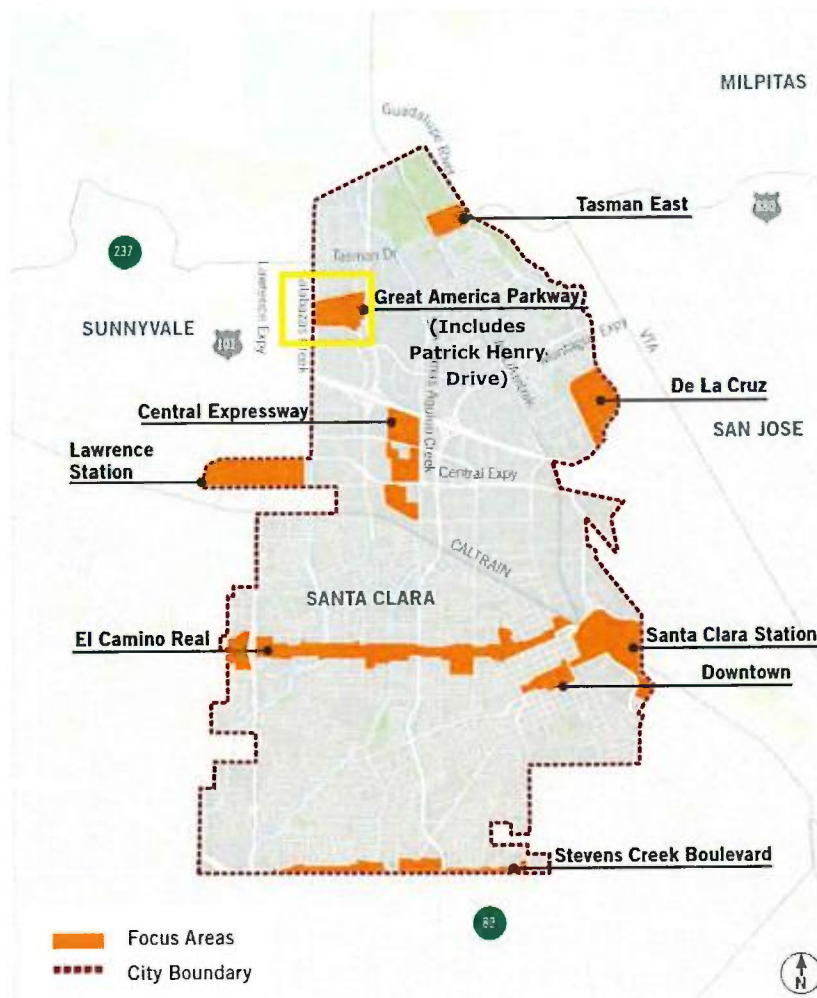
**Figure 1 PHDSP Area Boundaries**



Source: City of Santa Clara

With expected adoption in 2022, the PHDSP is designated by the City's 2010-2035 General Plan as one of nine Focus Areas in the City with potential to contribute to the City's Regional Housing Needs Allocation (RHNA) goals (see **Figure 2**). The PHDSP Plan Area provides an opportunity to develop higher-density residential homes supported by local amenities and accessible jobs, cultivating a vibrant and diverse mixed-use neighborhood.

**Figure 2** City of Santa Clara Focus Areas



Source: City of Santa Clara

Implementation of the PHDSP involves updating the zoning from ML to Residential, Flex, and Mixed-Use designations, which would allow for a high-density, residential mixed-use neighborhood. As summarized in **Table 2**, the PHDSP considers two development scenarios for the Plan Area. Scenario A allows for up to 12,000 residential units at full build-out, along with 310,000 square feet of neighborhood-serving commercial and community space (e.g., retail, fitness, and public uses such as a library). Scenario B would include 785,000 square feet of office in place of 1,700 residential units, reducing the number of units to 10,300. The current level of public infrastructure (e.g., streets, utilities, storm drainage, and the like) is not sufficient to serve this level of development.

**Table 2 PHDSP Buildout Scenarios**

PHD Specific Plan Alternative	Multi-Family Residential Units	Office Square Feet	Other Commercial / Community-Serving Square Feet
<b>Scenario A</b>			
Maximum Allowable	12,000	-	310,000
Amount Assumed in Fee Calculation <sup>1</sup>	11,000	-	-
<b>Scenario B</b>			
Maximum Allowable	10,300	785,000	310,000
Amount Assumed in Fee Calculation <sup>1</sup>	9,300	785,000	-
<b>Difference (Scenario B - Scenario A)</b>	1,700	785,000	-

[1] As a conservative assumption, the impact fee is calculated based on 1,000 units less than the maximum development allowed under the PHDSP. This assumption is designed to assure that new development will cover the total cost of required infrastructure even if the maximum build-out potential is not achieved.

While the PHDSP designates the maximum allowable development that can occur within the PHDSP Plan Area, actual development may be less and will likely unfold over many years. To be conservative, the impact fee calculation assumes that the amount of development that is likely to occur in the Plan Area will be less than the maximum allowable. In particular, the fee calculation assumes slightly more than 90 percent of the total allowable residential development will be achieved within the Plan Area, or 1,000 less units than what is permitted. This assumption is designed to ensure that adequate fee revenue is generated to cover the full cost of required infrastructure needed to serve new development in the Plan Area.

Given that the Plan Area consists of multiple property owners and existing uses, the timing of future development, and thus generation of fee revenue, will depend on economics and a variety of other factors. Existing property owners may wish to continue to operate under the current light industrial zoning for the foreseeable future while others may seek to pursue residential development in the short-term. For the initial set of property owners who are interested in residential development, funding for any required up-front infrastructure may need to come from sources other than the Plan Area Infrastructure Impact Fee. Consequently, infrastructure phasing will likely require a process for developer credits and reimbursements, as described further in **Chapter 4**.

## Plan Area Capital Improvements and Costs

Development impact fees are derived from a list of specific capital improvement projects and associated costs that are needed in part or in full to accommodate new growth. These infrastructure improvements, in turn, are based on the amount of new growth and corresponding public level of service standards/requirements defined in the PHDSP. The capital improvements included in the fee program need to be described in sufficient detail to generate cost estimates.

The cost of capital improvements included in the PHDSP Area Infrastructure Impact fee are based on information provided by City staff, working in consultation with civil engineers (BKF and Hexagon) and input from local property owners/developers. None of the capital projects included in the PHDSP Area Infrastructure Impact Fee address existing deficiencies (e.g., these improvements are not required by existing land uses in the area). The specific infrastructure and improvement categories include:

- On-Site Roadway
- Sanitary Sewer
- Potable Water
- Non-potable Water
- Emergency Response
- Monuments & Signage
- Transportation Management Association Formation

**Table 3** summarizes the costs defined in the PHDSP Area Long-Term Capital Improvement Plan to be approved by the City Council in conjunction with the PHDSP Area Infrastructure Impact Fee Program. As shown, the estimated infrastructure hard and soft costs amount to a total of \$105.9 million (additional cost detail is provided in **Appendix A Table A-2**). A 2 percent administrative charge is included to account for program administration.

The infrastructure items shown in **Table 3** represent improvements that will be needed to address new development in the PHDSP Plan Area. Moreover, the infrastructure analysis underlying the fee program suggests that these improvements will be needed regardless of whether Scenario A or Scenario B is ultimately developed. This means that the 785,000 square feet of office is expected to generate the same demand for infrastructure, and associated costs, as 1,700 multifamily residential units. In addition, the analysis finds that the PHDSP Plan Area is likely to require a similar level of infrastructure even if full build-out does not occur. Specifically, a level of development representing about 90 percent maximum allowable development is



expected to require the full array of transportation, utilities and related infrastructure items defined in the PHDSP Area Long-Term Capital Improvement Plan.

**Table 3 PHDSP Area Long-Term Capital Improvement Plan (FY\$21-22)**

Item	Description	Category	Total Costs <sup>1,2</sup>
1	Sanitary Sewer Upgrades	Sanitary Sewer	\$9,570,000
2	Water Line Replacement	Water	\$5,220,000
3	New Recycled Water Line	Water	\$4,060,000
4	Stormwater Treatment Facilities	Storm Water	\$4,142,800
5	New Roadways Improvement Cost	Roadway	\$21,914,000
6	Roadway Pavement Treatment	Roadway	\$2,973,000
7	Specific Plan Traffic Improvements	Roadway	\$1,305,000
8	Non-Specific Plan Traffic Improvements	Roadway	\$8,468,000
9	Traffic Fair Share Payments	Roadway	\$11,520,000
10	EMS Response Vehicle or Ambulance (2 each) and Tiller Aerial Ladder Apparatus	Emergency Response	\$3,120,000
11	Entry Monument & Signs	Monuments & Signage	\$334,000
12	Transportation Management Association Formation	Roadway	\$150,000
	<b>Subtotal</b>		<b>\$72,776,800</b>
	Real Estate (Land) Cost <sup>3</sup>		\$31,031,240
	2% Administrative Cost <sup>4</sup>		<u>\$2,076,161</u>
	<b>Total Infrastructure Cost</b>		<b>\$105,884,201</b>

[1] Includes a 15 percent contingency cost when applicable.

[2] Delivery costs are calculated as a percentage of construction costs. 20 percent is for Design, 10 percent for Administration and Permitting, 5 percent to Construction Management, and 10 percent to Inspection.

[3] Real estate costs and market land values are assumed at \$155/SF and includes a 1 percent administrative cost.

[4] The 2 percent administration cost is designed to cover expenses for subsequent updates to the development impact fee technical report and as well as the required reporting, auditing, collection and other annual administrative costs involved in overseeing the program. Development impact fee programs throughout California have applied similar administrative charges.

Source: BKF; City of Santa Clara; Hexagon Transportation Consultants; Economic & Planning Systems, Inc.