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Date	Ver.	Action By	Action	Result
10/29/2019	1	Council and Authorities Concurrent Meeting	Approved	Pass

REPORT TO COUNCIL

SUBJECT

Public Hearing: Action on a Resolution to Amend Resolution No. 19-8749 to establish the Park In Lieu Fee Schedule for New Residential Development and to determine the Park Improvement Cost to be used in Fee Calculations

EXECUTIVE SUMMARY

Council adopted Ordinance No.1928 in July 2014 which added Chapter 17.35 “Park and Recreational Land” to the Santa Clara City Code that requires new residential developments to provide developed park and recreational land, and/or pay a fee in-lieu of dedication (“In Lieu Fees”) pursuant to the Quimby Act (“Quimby”) and/or the Mitigation Fee Act (“MFA”). When parkland and improvements are provided at the prescribed ratio of 2.6 acres (MFA) or 3 acres (Quimby), no fees are due. Upon application, housing developers may receive credit for up to 50% of In Lieu Fees due for dedication of eligible, on-site private open space and recreational amenities. An additional 15% fee credit may be provided for housing developments for seniors, and low and moderate-income housing. The City adopted updated In Lieu Fees by Council resolution in October 2014, August 2016, and May 2017.

On August 27, 2019, Council approved Resolution No. 19-8749 (Attachment 1) which included the statutory findings required pursuant to Quimby and MFA as well as the report entitled “Santa Clara Park and Recreation Facilities Impact Fee Update Study” (“Nexus Study”) dated April 9, 2019, which computed the fair share values necessary to fund the acquisition and development of new parks and facilities at the current City standards. In summary, Resolution No. 19-8749 found that the City of Santa Clara has:

a) An existing parkland standard of 2.6 acres per thousand residents (MFA);
b) A parkland standard of 3.0 acres per thousand residents (Quimby);

c) A Multiple Family Dwelling Unit average density of 2.40 persons per household;
d) A Single-Family Dwelling unit average density of 2.98 persons per household;
e) The average per acre land value as of December 31, 2017 for each ZIP Code area of $3.738 million per acre in 95050; $3.993 million per acre in 95051; and, $4.035 million per acre in 95054 (this value is updated annually by appraisal);
f) The average per acre value for park improvements/construction as of February 2018 is $1.335 million per acre (or, $3,471 per capita) (this amount had not been updated since 2014); and,
g) The resolution maintained the existing fees as adopted in FY2017-18 (Resolution No. 17-8427) for all development project applications currently on file.

Based on the findings, the City may adopt In Lieu Fees up to 100% of cost recovery. At its meeting on August 28, 2019, Council expressed concern about the effect that a significant In Lieu Fee increase might have on new housing development projects. Therefore, staff was requested to develop policy alternatives for a phased implementation of the increased park improvement/construction portion of the In Lieu Fees for a period “longer than three years”, and to provide pros and cons associated with these alternatives.

This report provides policy alternatives for phasing in the increased park construction cost portion of the In Lieu Fees for either four or five years, provides a comparison to the 100% cost recovery and the previous staff recommendation of a 3-year phase in. The pros and cons associated with each alternative are also provided. In addition, the report also discusses an issue with longer term phase in periods and a potential long-term remedy that could be applied to the park improvement/construction value in the future, such as the application an escalation factor (+/-) based on an objective measure such as the annual California Department of Government Services California Construction Cost Index (CCCI).

The report proposes Council adoption of a Fee Resolution (Attachment 2) that will amend Resolution No. 19-8749 to establish the Parkland In Lieu Fee Schedule for New Residential Development. Per City ordinance, the Resolution provides the proposed annual fee amounts calculated for each Zip Code area. In conformance with state law, Council may implement fees for projects subject to Quimby immediately after adoption of the Fee Resolution (i.e. October 29, 2019); Council may implement fees for projects subject to MFA 60 days after adoption of the Fee Resolution (i.e. December 28, 2019). The fees would apply to new residential projects with applications deemed complete after the dates listed above.

Public Notice of the October 29, 2019 Council hearing was published in the *Weekly*, a newspaper of general circulation, on October 16, 2019 and on October 23, 2019, and an E-notify email sent to individuals whom have opted in to receive information about this topic.

DISCUSSION

On August 27, 2019, Council adopted Resolution No. 19-8749 which included the statutory findings as required pursuant to Quimby and MFA, and the Nexus Study’s fair share values necessary to fund the acquisition and development of new parks and facilities at the current City standards. The two primary components of the In Lieu Fees are the cost for park land and the cost of park improvements. Based on the land valuation and the park improvement valuation, the fees are justified to increase significantly since the last fee update in 2017. For Council’s reference, RTC 19-800 dated August 27, 2019 (Attachment 3) provides background information in support of the proposed fee increases.

The adopted 2018 Park Improvement Value per capita is $3,471, an increase of $2,664 from the 2014 Park Improvement Value per capita of $807 ($3,471 - $807 = $2,664). Staff recommended a three-year phase in with a lower increase in the first year ($61 per capita), followed by larger increases in the following years ($868, 25% of $3,471). Prior to finalizing their approval on the implementation of the fees, Council requested policy alternatives “longer than three years” to minimize the impact of the increased park improvement/construction portion of the In Lieu Fees. Council requested that staff provide pros and cons for each alternative.

Policy Alternatives
Staff has developed three policy alternatives for Council consideration.

A. Phase in the park improvement cost over a four (4) year period at 25% per year.
B. Phase in the park improvement cost over a five (5) year period at 20% per year.
C. In two years, revisit the use of the California Construction Cost Index (increase/decrease) to adjust the Park Improvement cost basis of $3,471 per capita in the calculation of future fees due in lieu of parkland dedication.

Alternative A - Four Year Phase in Period
Under Alternative “A”, the park improvement cost per capita increase of $2,664 would be “phased in” proportionally over a four-year period increasing by 25% ($666) per year (Table 1). The computation of In Lieu Fees would use 100% of the land valuation cost per capita based on the annual land appraisal which may increase or decrease.

Table 1 Alternative A: Phase in the Park Improvement Cost Increase over a 4-Year Perioc					
Year	**2018**	**2019**	**2020**	**2021**	**2022**
100% Cost Rec	$3,471	$3,471	$3,471	$3,471	$3,471
Per capita amo	$807	$1,473	$2,139	$2,805	$3,471
Difference	$2,664	$1,998	$1,332	$666	$0

Pros

- A four (4) year phase in of the per capita increase moderates the impact of the increase on housing development which could potentially serve as an incentive for the development community to expedite their projects.
- Housing projects in the pipeline have four years of additional time to adjust and incorporate fee increase.
- Proposed fee increases will advance the City towards 100% cost recovery of current improvement costs.

Cons

- The City can expect to recover less than 100% of park construction/park improvement costs each year of the four-year phase in period.
- Without a subsidy from an additional revenue source, fewer amenities can be afforded and incorporated into future parks for new residents, lowering the standard amenity value per capita and creating inequities across the City’s parks system. At the end of a four-year phased-in implementation, it is anticipated that fees would support approximately 91% of the amenities that would have otherwise been feasible without a phased-in implementation.
- This option does not account for the additional cumulative effect of typical park construction cost escalation, which may be approximately 9.2%* by 2022, based on the average historic cost escalation of 2.3% per year. As a result, at the end of the phased-in implementation

period and collection of 100% cost recovery of the proposed 2018 fees, the City will have lost its ability to provide the level of amenities it would have been able to provide without a phased-in implementation due to cost escalation.

Alternative B - Five Year Phase In Period

Under Alternative "B", the park improvement cost per capita increase of $2,664 would be "phased in" proportionally over a five-year period increasing by 20% ($533) per year (Table 2). The computation of In Lieu Fees would use 100% of the land valuation cost per capita based on the annual land appraisal which may increase or decrease.

Table 2 Alternative B: Phase in the Park Improvement Cost Increase over a 5-Year Perio						
Year	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
100% Cost R	$3,471	$3,471	$3,471	$3,471	$3,471	$3,471
Per capita ar	$807	$1,340	$1,873	$2,405	$2,938	$3,471
Difference	$2,664	$2,131	$1,598	$1,066	$533	$0

Pros

- A five (5) year phase in of the per capita increase moderates the impact on housing development.
- Housing projects in the pipeline have five years of additional time to adjust and incorporate fee increase.

Cons

- The City can expect to recover less than 100% of park construction/park improvement cost over the five-year implementation.
- Fewer park amenities can be afforded and incorporated into future parks for new residents lowering the standard amenity value per capita. At the end of the five-year phased-in implementation, it is anticipated that fees would support approximately 88% of the amenities that would have otherwise been feasible without a phased-in implementation.
- This option does not account for the additional cumulative effect of typical park construction cost escalation, which may be approximately 11.5%* by 2023, given the average historic cost escalation of 2.3% per year.

Summary

The following table (Table 3), discussion, and scenarios summarize and illustrate the relative impact of the identified policy alternatives.

Table 3 Comparison of Policy Alternatives						
Phase in	**Per capita Increase/Ye**	**Improvement Value used in Fee Calculation**				
		2019	**2020**	**2021**	**2022**	**2023**
Five Year 20 $2,664	$553	$1,340	$1,873	$2,405	$2,938	$3,471
Four Year 2 $2,664	$666	$1,473	$2,139	$2,805	$3,471	$3,471

Three Year 2 $3,471	$61; $868	$868	$1,736	$2,604	$3,471	$3,471
No phase in of $3,471	$2,664	$3,471	$3,471	$3,471	$3,471	$3,471

When fees due in-lieu of parkland dedication are calculated using both the most current cost of land acquisition (valuation determined by appraisal) and the current costs of park construction/improvements (value determined by cost to design and build parks with similar assets as included in the existing park system), then the program fees will be appropriately set to achieve a 100% cost recovery rate. The actual amount of In Lieu Fees revenue collected will vary based on: the actual amount of land dedicated by each housing project; the valuation of land used when the fees are set and updated; the value of existing developed parkland used in the formula; the density, number and type of new housing units built; and the amount of financial credit developers receive for eligible on-site private open space and recreation amenities (reduces remaining fees due in lieu of parkland dedication by 50%-65%).

Since the exact number and type of new housing units to be built in any particular year is unknown, an exact amount of In Lieu Fees revenues cannot be calculated at this time. However, a hypothetical scenario, where several variables remain constant, can help illustrate the differences between immediate implementation of full cost recovery versus the alternatives of partial cost recovery through a phased in fee increase. The following scenarios assume a 100-unit housing development each year over the next four or five years.

Fee Scenarios

- Policy Alternative A-Four Year 25% per year implementation would result in less total In Lieu Fees paid in the amount of approximately $978,221 for each multi-family unit project, or approximately $1,214, 624 for each single-family unit project; with most of the lost revenue in the first year. This is the equivalent to the cost for park amenities such as a playground, or small park restroom.

- Policy Alternative B-Five year 20% per year implementation would result in less total In Lieu Fees paid in the amount of approximately $1,304,294 for each multi-family unit project, or approximately to $1,619,498 for each single-family unit project; with most of the lost revenue in the first two years. This is the equivalent to the cost for a small park building.

Additional funds from the General Fund or other sources of capital will be needed to fill the funding gap, or construction of new parks will be at a lower level of service than found in the existing parks inventory, and less funds would be available to reimburse developers for park improvements pursuant to Quimby. The policy alternatives A and B also do not address the issue of future park improvement cost escalation which has averaged approximately 2.3% per year over the past 10 years.

Additional Considerations.

Policy alternatives A and B are intended to address the Council's interest in minimizing the impact of construction cost increases on housing developers. By adopting a phased approach, the City would be making incremental progress on the per capita park improvements/park construction cost from the low 2014 value of $807 per capita ($319,000 per acre) to the 2018 value of $3,741 per capita ($1.335 million per acre) over a period of more than 3 years. Use of this updated amount will, over time, result in the collection of fees to construct new park site improvements and recreational assets to serve new residents at the 2018 average park service level.

However, while the land acquisition cost is to be updated annually as prescribed by City Code, and may go up or down, the park construction cost is different. It has not been updated since 2014, and currently does not account for construction cost escalation (increase/decrease).   The cumulative effect is that a large increase in fees is now necessary to account for the change in value. Per Council's request, alternatives to implement smaller annual increases over a time period longer than three years has been provided.

However, it is important to note that while the phased-in implementation will result in 100% cost recovery of the 2018 value by the end of the implementation period, a phased in approach, regardless of time period, will result in the need for additional revenue from other sources in order to maintain the current standard level of amenities. If not, newer parks will have fewer amenities. A phased in implementation will also not address the ongoing cumulative effect of annual construction cost variations (increase/decrease) which may be amplified particularly in timeframes more than three-years duration. Normally, a project contingency would be applicable and used when planning for future construction project costs. However, for Quimby and MFA, the City may not use an arbitrary measure or one that would potentially recover more than 100% of the justifiable cost.

To address this issue, it is recommended that the City consider the use of a specific, objective, historical measure that could be applied annually to the established 2018 park improvement cost. One such objective measure of change in construction costs is the California Department of Government Services annual (December through December) California Construction Cost Index (CCCI). The CCCI is based upon the Building Cost Index for the San Francisco and Los Angeles areas as produced by Engineering New Record (ENR BCI). The data is publicly accessible, verifiable and released monthly.

According to the CCCI, construction costs have increased on average 2.7 % annually over the past eleven years, 2.3% over the past ten years, within a range of minus 1.1% to plus 6.8%, and a cumulative increase of 30% (Table 4).

Table 4 California Construction Cost Index 2008-2018										
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
6.8%	-1.1%	6.3%	1.5%	1.5%	2.3%	1.3%	2.2%	4.4%	3.5%	1.3%

The annual review and use of the Construction Cost Index applied to the 2018 park construction value is a worthwhile consideration. Its use in the annual In Lieu Fee calculation going forward would potentially make minor adjustments to the park improvement cost basis (up or down) and help to avoid the less frequent but potentially more significant adjustments in In Lieu Fees calculations. Its use would also help keep fees in line with future changes in park improvement/construction costs and be visible and transparent to developers long before fees were adopted.

Alternative C - Revisit the annual Construction Cost Index in Two Years.
Under Alternative C, the City will revisit the annual construction cost index (increases/decreases) in two years, and consider implementation of a construction cost escalation factor to the 2018 park improvement value. The Construction Cost Index could be applied to annually adjust (increase/decrease) the 2018 park improvement cost per capita value of $3,471 while still

implementing the lower base amounts contemplated under policy alternatives A and B above. In the near term, the cost index would be applied to a lower park improvement per capita amount such that the effect would be minimized and still less than 100% cost recovery. After several years, the cost index would help the City achieve and remain at 100% cost recovery with no erosion of value due to cost escalation. Also, if the construction cost index is a negative number, then the park improvement value would go down.

Pros

- The CCCI is an objective measure from which to gauge future variations (increases and decreases) in the park construction cost basis.
- Historically, the variation in construction cost year over year has been relatively small, on average between 2.3% and 2.7% and based on the park improvement value of $3,471, would be approximately $80 per capita ($30,705 per acre).
- Effects should be minimal and both City and developers will be able to anticipate future cost increases/decreases since the California Construction Cost Index is updated monthly, publicly available on-line and the annual index is published annually in December.
- City will be able to address future park construction cost escalation.
- Developers will be able to benefit from lower fees if/when construction costs go down.

Cons

- None identified at this time.

Table 5 below shows the potential cumulative effect of cost escalation on the City's 2018 park improvement cost per capita of $3,471 using the average historical CCCI and a timeframe similar to Alternative B for ease of comparison.

Table 5 Potential effect of construction cost escalation*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cost escalati	$79.83	$81.67	$83.55	$85.47	$87.44	$89.45
Cumulative a	$79.83	$161.50	$245.05	$330.52	$417.96	$507.41
$3,471 basis	$3,551	$3,633	$3,716	$3,802	$3,889	$3,978

**CCCI 10-year historic average escalation 2.3%. Future CCCI may be higher or lower.*

Fee Implementation.

Based on state law, Council may implement fees for projects subject to Quimby immediately after adoption of the Fee Resolution (i.e. October 29, 2019); Council may implement fees for projects subject to MFA 60 days after adoption of the Fee Resolution (i.e. December 28, 2019). The fees would apply to projects with applications deemed complete after the dates listed above.

In conformance with City Code, the City will conduct its next annual land valuation in early 2020. The land valuation report with a date of 12-31-2019 will be available in March 2020 for use in the FY2020/21 In Lieu Fee Schedule. The July 1, 2020 In Lieu Fee Schedule will incorporate those values and the policy alternative(s) adopted by Council on October 29, 2019.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of the California Environmental Quality Act ("CEQA") pursuant to CEQA Guidelines section 15378(b)(4) in that it is a fiscal activity that does not involve commitment to a specific project which may result in potential significant impact on the environment. In addition, the requirement of parkland dedication or collection of fees in-lieu may assist in the mitigation of impacts on the environment from new housing development projects.

FISCAL IMPACT

In adopting Resolution No. 19-8749 on August 27, 2019, the Council established an average land value by ZIP Code area in Santa Clara of $3.738 million per acre in 95050, $3.993 million per acre in 95051 and $4.035 million per acre in 95054 as well as an average park construction/park improvement cost per acre value of $1.335 million per acre (or $3,471 per capita). These values if implemented without a phased-in approach would result in a 100% cost recovery of fees for new parkland and improvements. As noted in this report, a phased-in approach will result in a cost recovery rate of less than 100% in the near term as well as the need to address the issue of cost escalation in order to maintain the current standard of amenities in new parks. The initial lower fees may provide an incentive for developers to expedite their projects to address the critical housing needs in the City of Santa Clara and the potential increase in available housing would have a positive impact in the City. However, until housing development applications are approved and construction permits are issued, it is difficult to ascertain the degree to which a phased-in approach to the In Lieu Fees increase will actually benefit new housing production or fiscally impact the City. As such, this report limits the benefit to the direct savings for developers resulting from a phased-in implementation.

COORDINATION

This agreement has been coordinated with the Finance Department and the City Attorney's Office.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov <mailto:clerk@santaclaraca.gov> or at the public information desk at any City of Santa Clara public library.

Public Notice of the October 29, 2019 Council hearing was published in the *Weekly*, a newspaper of general circulation, on October 16, 2019 and on October 23, 2019, and an E-notify email sent to individuals whom have opted in to receive information about this topic. A copy of this report was posted on October 18, 2019 on the City website and in the City Clerk's Office.

POLICY ALTERNATIVES

A. Adopt a Resolution Amending Resolution No. 19-8749 to establish the Parkland In Lieu Fee Schedule for New Residential Development for FY2019/20 In Accordance with Title 17 ("Development") Chapter 35 ("Park and Recreational Land") of the Code of the City of Santa Clara including the "phase in" of the per capita park improvement cost increase over a four-year period at 25% ($666) per year and adjust land valuation (increase/decrease) based on the annual appraisal at 100% cost recovery.

B. Adopt a Resolution Amending Resolution No. 19-8749 to establish the Parkland In Lieu Fee Schedule for New Residential Development for FY2019/20 In Accordance with Title 17 (“Development”) Chapter 35 (“Park and Recreational Land”) of the Code of the City of Santa Clara including the “phase in” of the per capita park improvement cost increase over a five-year period at 20% ($533) per year and adjust land valuation (increase/decrease) based on the annual appraisal at 100% cost recovery.

C. In two years, revisit the use of the California Construction Cost Index (increase/decrease) to adjust the Park Improvement cost basis of $3,471 per capita in the calculation of future fees due in lieu of parkland dedication.

RECOMMENDATION

Alternatives A and C:
A. Adopt a Resolution Amending Resolution No. 19-8749 to establish the Parkland In Lieu Fee Schedule for New Residential Development for FY2019/20 In Accordance with Title 17 (“Development”) Chapter 35 (“Park and Recreational Land”) of the Code of the City of Santa Clara including the “phase in” of the per capita park improvement cost increase over a four-year period at 25% ($666) per year and adjust land valuation (increase/decrease) based on the annual appraisal at 100% cost recovery; and
C. Revisit the annual Construction Cost Index (increases/decreases) in two years, and consider application of a construction cost escalation factor to the per capita park construction/improvement cost basis of $3,471 for use in the annual fee calculation.

Prepared by: James Teixeira, Director of Parks & Recreation
Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution No. 19-8749 Fees Due In Lieu of Parkland Dedication 08-27-2019
2. Resolution Amending Resolution No. 19-8749
3. Report to Council 19-800 dated August 27, 2019