



Agenda Report

18-126

Agenda Date: 7/17/2018

REPORT TO COUNCIL

SUBJECT

Public Hearing: Action on a Resolution Approving the Findings from the Traffic Impact Fee Nexus Study and Setting the Rates for the Traffic Impact Fee, and Action on the Introduction of an Ordinance Making Corresponding Revisions to Santa Clara City Code Section 17.15.330

BACKGROUND

Impact fees are governed by State law (Assembly Bill 1600, 1989, Government Code Section 66000) and allow a City to charge one-time fees to new developments to finance capital facility and infrastructure costs needed to serve those developments. Impact fees are established based on a reasonable relationship (i.e. nexus) between the impacts caused by new development and the improvements to mitigate those impacts that will be funded by the fee. These fees cannot be used to pay for the cost of existing deficiencies and are distinct from taxes and special assessments.

In 1988, the City of Santa Clara established and adopted the Traffic Mitigation Program (TMP) to identify and finance the construction of traffic mitigation improvements resulting from existing and projected traffic demands. The TMP included two financing mechanisms. A Traffic Mitigation Assessment District (TMAD) was created to fund the 60 percent share of traffic improvement costs associated with existing development, while a Traffic Mitigation Impact Fee (TMIF) was established to fund the 40 percent share of traffic improvement costs associated with new development. Both the TMAD and TMIF were applied to the City's primary growth area at the time (i.e. area north of the existing Caltrain tracks). In 1997, the City Council approved an amendment to the TMP (also known as Phase B) which discontinued the collection of TMAD assessments as new development was expected to account for all traffic growth and associated needs for improvements. Phase B also added additional improvements located south of the existing Caltrain tracks to the TMP project list. In 2009, the City Council approved an additional amendment (also known as Phase C) which included additional improvement projects throughout the City, such as the installation of new traffic signals, pedestrian enhancements at various locations, and traffic monitoring cameras. In 2010, the City Council modified the TMIF rates charged to certain land uses, to be consistent with updated trip generation rates in the Institute of Transportation Engineers' *Trip Generation Manual*, 8th Edition. Trip generation rates estimate the amount of peak hour traffic that a proposed land use will create and are used in the calculation of traffic impact fees. The City does not require that residential and retail development pay the TMIF. The 2010 TMIF rates are still in effect today and are as follows:

- Office and R&D: \$1.00 per square foot
- Industrial: \$0.67 per square foot
- Warehousing, Utilities and Communications: \$0.20 per square foot
- Hotel/Motel: \$400.00 per room

DISCUSSION

The City contracted with a transportation consulting firm, Hexagon Transportation Consultants, Inc., to prepare a comprehensive update to the City's TMIF. In addition to determining if the current TMIF continues to reflect a reasonable estimate of a new development's fair share of the total needed transportation improvements cost, the update includes: 1) an analysis of the TMP project list, 2) consideration for the build-out of the City's General Plan, 3) determination if additional land uses should be subject to the TMIF, and 4) a review of the existing TMIF boundary limit of the existing Caltrain tracks. A full report (Attachment 1) prepared by Hexagon Transportation Consultants, Inc. entitled "Santa Clara Traffic Impact Fee Nexus Study" (Study) provides the methodology and findings of the analysis.

The City is required to identify a reasonable relationship (nexus) between an impact fee and new development, and to make findings regarding the following: the purpose of the fee; the mitigation projects the fee will be used to fund; the nexus between the needed mitigation projects and the type of development that will be charged a fee; and the nexus between the amount of the fee and the cost of the needed mitigation. The Study is designed to support these findings.

A broadly applied traffic impact fee on new development is well suited for addressing transportation capacity needs. It ensures that development projects that add new trips to the street network pay a fair share towards future transportation improvement needs. As the City collects fees under the program, it can prioritize which projects are most in need as traffic patterns change. In addition, large development projects are still required to complete independent Traffic/Operational Impact Analysis Reports and are responsible for any identified additional improvements beyond those covered in the fee.

TMIF Study Methodology

The methodology used to conduct the Study and to support the findings necessary for updating the TMIF is as follows:

- 1) Determine future growth levels:
 - a. The level of future growth of residential dwelling units and new jobs was projected in Santa Clara between 2015 to 2040.
 - b. The number of net new PM peak hour vehicle trips that would be generated by that growth was estimated.
- 2) Identify Transportation Impacts/Deficiencies due to future growth (i.e. additional PM peak hour trips).
- 3) Identify improvements that would offset anticipated deficiencies to the extent feasible, along with their associated costs.
- 4) Provide a fair share impact fee to be charged to future growth.

To determine future growth levels, the Study used the travel demand model forecasts that were developed for the City Place Environmental Impact Report (EIR) published in April 2016. This EIR represents the most recent comprehensive transportation study in the City due to the significance of the City Place project. Future growth, including the development of the City Place project, is expected to add 31,520 PM peak hour trips to the City's transportation network. Additionally, to identify the Transportation Impacts/Deficiencies due to future growth, information from the City Place

EIR was also used in the Study. Of the 125 study intersections analyzed, 72 are expected to be impacted due to future growth.

TMIF Update Study Results

The purpose of the TMP is to identify and finance the construction of traffic mitigation improvement projects resulting from projected traffic demands. Based on projected growth, the TMP list has been expanded to include new projects such as new trails and bicycle lanes, Intelligent Transportation System (ITS) improvements, and various intersection improvements. These additional projects are listed as Phase D improvements. A complete list of projects that offset anticipated deficiencies along with their associated costs is included as Attachment 2. The total cost of all the projects is estimated at approximately \$60 million. After deducting TMIF that have already been expended on these projects (\$6.35 million) and the current balance of traffic impact fees held by the City (\$8.71 million) the remaining amount to be funded is \$44.9 million. The \$44.9 million will be funded with \$37.2 million from Traffic Impact Fees and approximately \$7.7 million from the City. The City's share would be expected to be mostly funded from outside sources such as grant funds, Measure B, and regional funds.

Options Related to Applicability

The Study also evaluated five different options related to applicability. The options varied in terms geographical areas and types of land uses that should be subject to the TMIF as listed below:

- **Option 1: Status Quo.** Continue to charge the TMIF only north of the Caltrain tracks and on the same land uses that are currently subject to the TMIF (Office, R&D, Industrial, Warehousing, Hotel/Motel).
- **Option 2: Same area plus residential and retail.** Continue to charge the TMIF only north of the Caltrain tracks. Expand the land uses subject to the TMIF to include residential and retail development.
- **Option 3: Citywide and existing land uses only.** Expand the area subject to the TMIF to the entire city, but continue to exempt both residential and retail uses from the TMIF.
- **Option 4: Citywide plus residential.** Expand the area subject to the TMIF to the entire city, and expand the land uses subject to the TMIF to include residential development.
- **Option 5: Citywide plus residential and retail (Preferred Option).** Expand the area subject to the TMIF to the entire city, and expand the land uses subject to the TMIF to include residential and retail development.

Staff is recommending Option 5 as the preferred option. This option for the TMIF update includes expanding the area subject to the TMIF to the entire city and expanding the land uses currently subject to the TMIF to include residential and retail development. This allows for all land uses to be responsible for their impacts and pay their fair share towards traffic mitigation. It also recognizes that land use development patterns within the City reflect a broader mix of uses citywide. Lastly it provides for a more equitable distribution of TMIF costs amongst all land uses that have an impact on the citywide transportation system. One key item as part of the preferred option is that it also includes exemptions for affordable housing and local serving retail in an effort to support City land use and housing policies and priorities. The preferred Option 5 is further described below.

Proposed TMIF Changes

The updated TMIF to be charged for future growth was calculated by dividing the \$37,223,018 in

unfunded improvements in the TMP by the 31,520 net new PM peak hour vehicle trips which equals \$1,181 per PM peak hour trip. For simplicity of application, this fee is then converted to a fee per square foot, per hotel room, or per dwelling unit, based on the trip generation rates in the latest ITE *Trip Generation Manual*. Thus the recommended citywide traffic impact fees which include retail and residential development are shown below with the respective changes to the TMIF as shown in the table below.

Land use	Existing	Recommended	% Change
Office and R&D (per S.F.)	\$1.00	\$1.36	36%
Industrial (per S.F.)	\$0.67	\$0.74	10%
Warehousing, Utilities and Communications (per S.F.)	\$0.20	\$0.22	10%
Hotel/Motel (per room)	\$400.00	\$708.60	77%
Multi-Family Residential (per unit)	-	\$519.64	-
Single-Family Residential (per unit)	-	\$1,169.19	-
Retail (per S.F.)	-	\$4.50	-

These fees are slightly higher than the adopted existing traffic impact fees for the land uses currently subject to the TMIF with the exception of the TMIF charged to Hotel/Motel uses. The 77% increase in the Hotel/Motel per room fee is due to the use of more appropriate trip generation rate for this type of use and the recommended fee is still low as compared to other local cities. Overall, these fees are in the lower range of fees for neighboring Cities such as Sunnyvale, Mountain View, Palo Alto, Menlo Park and Fremont and are the lowest fees on a cost per trip basis. A comparison of current adopted fees of surrounding jurisdictions is shown in Attachment 3. If the City wanted to consider a decrease to the proposed fees, and maintain the same list of projects, it would require an equivalent increase to the proposed City contribution of \$7.7 million. It is important to note that in recent community research efforts, traffic was ranked as one of the highest priorities for the City to address and this action responds directly to the community's interest of improving quality of life by assembling funds to implement key projects as discussed above.

Proposed TMIF Project Exemptions

The Study also discussed certain development projects that could be exempt from paying the TMIF. These projects include individual retail establishments below 50,000 square feet, 100% affordable housing developments and any affordable units built as defined in Santa Clara City Code Chapter 17.40 (Citywide Affordable Housing Requirements). Staff supports this limited retail exemption as retail below 50,000 square feet is generally considered neighborhood-serving. The City typically encourages neighborhood serving retail which serves nearby residents and provides opportunity to reduce the number of vehicle miles which in turn minimizes traffic impacts. Additionally, an exemption for all affordable units would support the City's General Plan goal of increasing the number of affordable housing units within the City.

Proposed TMIF Annual Adjustments

The Study recommends that fee levels be adjusted annually, subject to Council approval, in line with the latest Construction Cost Index for San Francisco, published by Engineering News Record (ENR) or equivalent. The automatic fee adjustment will occur when the City conducts its annual update of

the Municipal Fee Schedule. Indexing the fees will allow the fees collected to increase over time in order to keep up with construction costs and inflation.

The current TMIF is set forth in Section 17.15.330 of the Santa Clara City Code. In order to add the additional land use categories to the TMIF, provide for the additional exemptions, and establish the annual adjustment process, an amendment to Section 17.15.330 will be necessary.

ENVIRONMENTAL REVIEW

The action being considered is subject to a statutory exemption from the California Environmental Quality Act ("CEQA") pursuant to Public Resources Code section 21080(b)(8)(D) as the purpose of the Fee is to continue collection and expand the application of an impact fee to fund capital projects necessary to maintain traffic circulation service within the City's existing service areas. The approval of this Fee does not authorize any capital projects to be funded by this fee; such projects will undergo separate review under CEQA, if applicable, at such time as the City considers those capital projects for approval. Individual development projects will also be required as necessary to perform traffic analysis, CEQA, and mitigate transportation impacts.

FISCAL IMPACT

The nexus study identifies a list of projects that would cost approximately \$60 million to complete. After deducting the impact fees that have already been expended on these projects and the current impact fee balance, it is estimated that impact fee revenues totaling approximately \$37 million and approximately \$7.7 million in outside funding will be required to fully fund the improvements listed in the TMP. Funding for these projects will be included in the Capital Improvement Program and are subject to annual review and approval in future budget cycles. If all development projected to occur in 2040 does not proceed as predicted or depending on the level of the TMIF adopted, additional funding for the projects would be required and may be provided from other sources such as direct developer funding and state/federal grants.

COORDINATION

This report has been coordinated with the Finance Department and 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 Notices of this agenda item were advertised twice in the Santa Clara Weekly 2 weeks prior to this meeting. In addition, staff notified members of the City's development community about a public meeting on June 12, 2018, to inform and solicit feedback on the proposed TMIF program changes. Ten individuals attended this meeting. On July 6, 2018, staff posted the draft Study on the City's web page and notified the development community that it was available.

ALTERNATIVES

1. Approve Option 5 from the Traffic Impact Fee Nexus Study which expands the fee area to

Citywide; includes retail and residential land uses into the TMIF; exempts retail establishments below 50,000 square feet and any affordable housing units built as part of a development; and adjust fees annually in line with the latest Construction Cost Index for San Francisco, as published by Engineering News Record or equivalent, in order to keep up with construction costs and inflation.

2. Adopt a Resolution Approving the Findings from the Traffic Impact Fee Nexus Study and Setting the Rates for the Traffic Impact Fee.
3. Approve the Introduction of an Ordinance making corresponding revisions to Santa Clara City Code Section 17.15.330.
4. Do not approve Option 5 from the Traffic Impact Fee Nexus Study, do not adopt a Resolution Approving the Findings from the Traffic Impact Fee Nexus Study and Setting the Rates for the Traffic Impact Fee, do not approve the Introduction of an Ordinance making corresponding revisions to Santa Clara City Code Section 17.15.330, and provide direction to staff for next steps.

RECOMMENDATION

Alternative 1, 2 and 3:

1. Approve Option 5 from the Traffic Impact Fee Nexus Study which expands the fee area to Citywide; includes retail and residential land uses into the TMIF; exempts retail establishments below 50,000 square feet and any affordable housing units built as part of a development; and adjust fees annually in line with the latest Construction Cost Index for San Francisco, as published by Engineering News Record or equivalent, in order to keep up with construction costs and inflation;
2. Adopt a Resolution Approving the Findings from the Traffic Impact Fee Nexus Study and Setting the Rates for the Traffic Impact Fee; and
3. Approve the Introduction of an Ordinance making corresponding revisions to Santa Clara City Code Section 17.15.330.

Reviewed by: Craig Mobeck, Director of Public Works

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Traffic Impact Fee Nexus Study
2. Traffic Mitigation Program Improvements, Phase D
3. Comparison of Traffic Impact Fees for Neighboring Jurisdictions
4. Resolution
5. Ordinance