



DATE: February 23, 2015

CATEGORY: Public Hearing

DEPT.: Community Development

TITLE: **Consideration of a Resolution to Adopt a North Bayshore Development Impact Fee**

RECOMMENDATION

Adopt a Resolution to Adopt a North Bayshore Development Impact Fee, to be read in title only, further reading waived (Attachment 1 to the Council report).

EXECUTIVE SUMMARY

The North Bayshore Precise Plan Environmental Impact Report (EIR) analyzed the potential impacts of approximately 3.4 million square feet of net new development. To accommodate this growth, the North Bayshore Precise Plan (Precise Plan) identified approximately \$225 million in necessary improvements (approximately \$194 million for transportation and \$31 million for water and sewer utility improvements). The Precise Plan includes a Funding Strategy which includes completion of a nexus study to support a new development impact fee to help fund these improvements.

A nexus study establishes a reasonable relationship between new development and the needs and costs of facilities and improvements to serve the development. Economic and Planning Systems, Inc., prepared the City's North Bayshore Development Impact Fee Nexus Study (Nexus Study), with technical assistance from Fehr & Peers (transportation consultants) and Schaaf & Wheeler (consulting civil engineers). The study allocated approximately \$163 million of the total \$225 million in needed improvements to North Bayshore development.

Funding for the required improvements could come from several sources. First, "Bonus FAR" projects (Community Benefit Resources) are planning approximately \$49 million in planned transportation improvements. Second, the recommended new impact fee would generate additional revenue, as detailed later in this report. Third, any remaining balance could come from the Shoreline Regional Park Community (Shoreline Community) for bond funding of transportation projects or the City of Mountain View

Water or Wastewater Funds for utility projects, discussed later in this report. Other potential revenue sources can include grants and development agreements.

It will take years to implement all the priority North Bayshore improvements, and will require City, Shoreline Community, and private investment. Staff will use the Precise Plan to monitor and guide this implementation.

The Nexus Study presents a maximum allowable square foot fee of approximately \$34 per square foot for new office development to fund part of the costs of North Bayshore improvements. Most of this fee would pay for transportation facilities needed to accommodate new development, while a smaller portion of the fee would be used to fund water and sewer improvements. The City Council can adopt fees less than the maximum amount supported by the Nexus Study based on policy direction or other considerations, such as regional economic competitiveness. Information on recent impact fees from surrounding cities is included in this report for reference.

BACKGROUND

The North Bayshore Precise Plan established a new vision for the area based on the City's 2030 General Plan. The vision included greater intensification of commercial land uses. The North Bayshore Precise Plan EIR studied a maximum of approximately 3.4 million square feet of net new commercial development, primarily office uses.

To accommodate this new development, the Precise Plan identified a number of facility improvements, mainly transportation related. The cost of the transportation improvements was identified as approximately \$194 million, in 2016 dollars. These include priority improvements such as a new bike and pedestrian bridge over Highway 101, new cycle tracks along North Shoreline Boulevard, and a new frontage road along Highway 101. A complete list of transportation improvements is included on Page 11 of the Nexus Study, which is Exhibit B to Attachment 1 of this report. Additionally, approximately \$31 million in water and sewer improvements are required, as described in the Schaaf & Wheeler technical appendix in the Nexus Study.

The Precise Plan's Funding Strategy outlined how needed area improvements could be funded. One source of funding is the recommended impact fee to be levied on new commercial development. Impact fees must be based on a reasonable nexus, or connection, between new development and capital facilities and improvements needed to accommodate this new development. The Analysis Section of this report includes a summary of the key findings from the Nexus Study, as well as several key questions for Council.

North Bayshore Precise Plan Update

The proposed fees only apply to commercial land uses in the adopted North Bayshore Precise Plan.

Council has directed that the Precise Plan be amended to include residential uses. This work will conclude in early 2017. Any adopted North Bayshore development fee could be later amended to include potential fees to be assessed on new residential development in the area.

ANALYSIS

Overview of Development Impact Fees

Per State law, development impact fees can be used to finance capital facility and infrastructure costs needed to serve new development. These fees cannot be used to pay for the operation and maintenance costs of any facilities or infrastructure. These fees also cannot be used to pay for the cost of existing deficiencies. Improvements that will serve both new development and the existing population and employment are allocated using a fair-share approach based on proportionality.

Any impact fee must be based on a reasonable nexus between the new development and the costs of new facilities and improvements needed to serve such growth and must be supported by specific findings that demonstrate this nexus. Recommended findings are included in Attachment 1.

North Bayshore Net New Development

The 2030 General Plan and North Bayshore EIR analyzed the following net new development increases among several broad land use categories for North Bayshore. These land use amounts were used in the Nexus Study analysis.

Table 1: North Bayshore Net New Development

Land Use	Net New Building Square Footage
Office/R&D	3,310,000
Retail and Services	10,000
Hotel	145,000
TOTAL	3,465,000

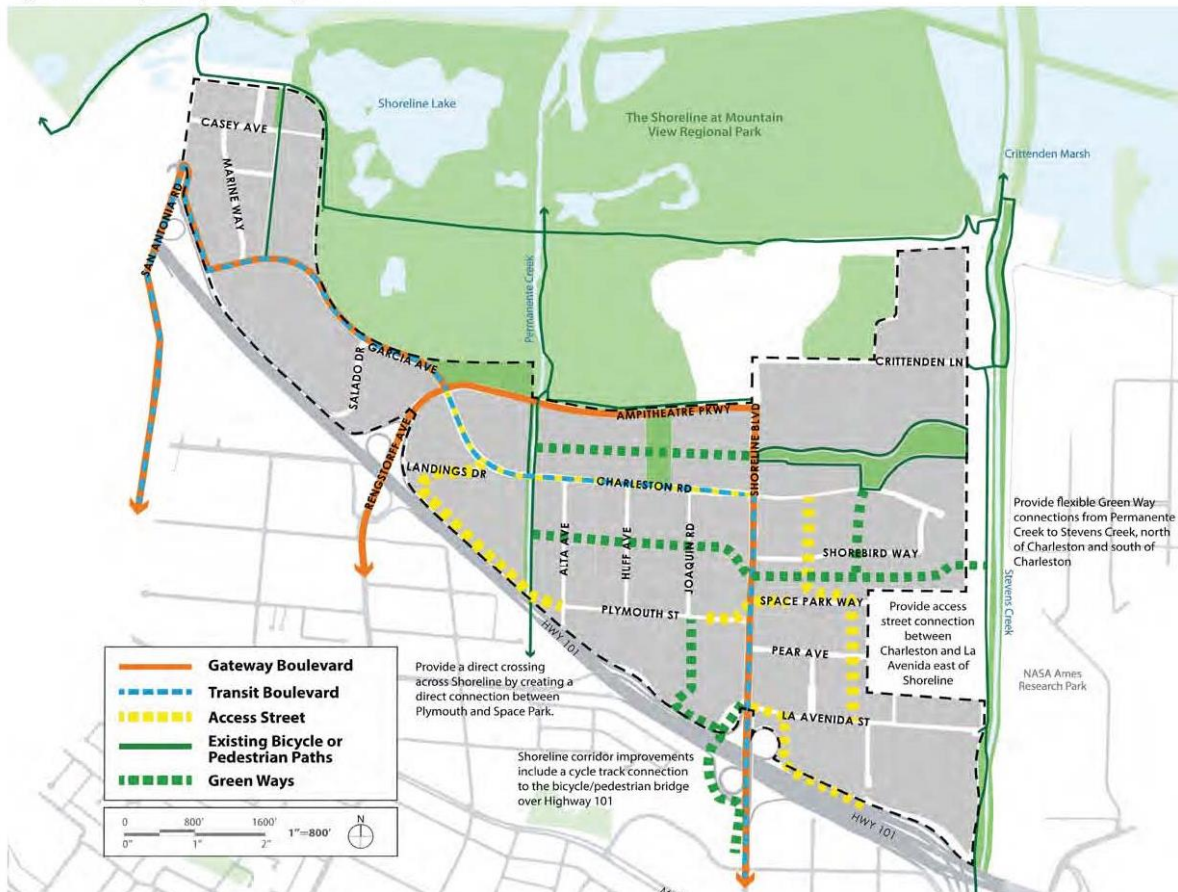
In May 2015, the Council authorized the remaining amount of North Bayshore developable square footage (approximately 2.2 million square feet) as “Bonus FAR” applications as allowed by the Precise Plan. Bonus FAR applications submitted to the City are currently in the development review process. No additional commercial building square footage can be allocated under the existing Precise Plan without further Council authorization and environmental review.

Transportation Improvements

The Precise Plan identifies transportation improvements needed to accommodate the planned growth in the area. These improvements include new bike and pedestrian infrastructure, several new streets, a new Shoreline Boulevard/Highway 101 off-ramp, and a reversible transit-only lane along Shoreline Boulevard, among other improvements.

The Nexus Study breaks down these improvements into High-Priority, Medium-Priority, and Shoreline Corridor categories. The Precise Plan includes the following map which highlights several major priority improvements:

Figure 37: Priority Transportation Improvements



The High-Priority and Medium-Priority improvements are internal to North Bayshore Area while the Shoreline Corridor improvements extend beyond the North Bayshore Area. As noted, the total cost of these improvements is approximately \$194 million. A complete list of these improvements is included in Exhibit B, Page 11, Table 4.

The Nexus Study uses the North Bayshore Precise Plan Transportation Impact Analysis (TIA) to establish the nexus relationship between new development and the assessment of a new fee. The following is a summary of this analysis from the Nexus Study.

The Nexus Study first accounts for existing transportation deficiencies. The concept is that new development should not be charged the full cost of improving a transportation facility if that facility is not meeting current operating standards. Thus, an adjustment

factor was calculated to determine the proportion of the project cost attributable to accommodating existing demand (i.e., the existing deficiency). The Nexus Study arrived at a factor of 14 percent, which means that 14 percent of the demand served by the future improvement is existing demand, while the remaining 86 percent is future demand. This factor was then applied to three priority transportation improvements that are the most deficient area based on the Precise Plan TIA. Additional information on this is included in Exhibit B, Page 14, Table 6.

Secondly, the Nexus Study determined the proportion of transportation costs attributable to new development in North Bayshore. The High- and Medium-Priority projects, which are internal to North Bayshore, were assigned 100 percent of the project costs (after accounting for existing deficiencies noted above), since these projects would be needed to accommodate all of the projected Precise Plan growth. The new Shoreline corridor bus lane was also assigned 100 percent (after the 14 percent adjustment described above) because this improvement will directly serve travel to and from North Bayshore. For Shoreline Corridor projects that benefit the entire City, such as the Transit Center expansion, North Bayshore development was assigned 35 percent of the costs of these projects. This is calculated based on the North Bayshore service population growth (13,313 residents and employees) divided by the Citywide service population growth (38,332 residents and employees).

Based on the adjustment factor for existing deficiencies and cost allocation for North Bayshore and Shoreline Corridor areas, approximately \$137 million in needed transportation improvements is due to new North Bayshore development (see Exhibit B, Page 14, Table 6).

Utility Improvements

The Precise Plan also identifies approximately \$31 million in utility improvements needed to accommodate planned growth in North Bayshore. These improvements include 28 potable water improvements and 6 recycled water improvements totaling approximately \$25 million, and sewer improvements totaling approximately \$6 million. The potable water deficiencies are a direct result of North Bayshore growth, and therefore, there is no discount on costs to account for existing deficiencies. As detailed in the Nexus Study, of the total \$31 million in utility improvements, approximately \$26 million is due to new North Bayshore development.

The consultants reviewed the City's existing water and sewer capacity charges and concluded that there would be no overlap between the existing capacity charges and the water and sewer components of the North Bayshore Development Impact Fee. That is

because the existing charges are based on having a new developer buy in to the *existing* water and sewer system, while the new water and sewer components of the North Bayshore Development Impact Fee would pay for *future* water and sewer improvements needed to accommodate growth.

Fee Scenarios

Table 2 below lists the maximum allowable transportation impact fee by North Bayshore land use category, from the Nexus Study analysis. There are three scenarios shown. All scenarios include the same water and sewer fees. The difference between the scenarios is the amount of transportation fees.

The **Baseline** scenario includes the maximum transportation fees generated from office, retail, and hotel land uses. **Alternative Scenarios #1** and **#2** include a lower transportation fee rate for retail and hotel uses, and allocates some or all of the transportation fees to office uses. Each scenario would generate the same amount of revenue, approximately \$114 million. The total needed infrastructure (transportation, water, and sewer) is approximately \$225 million.

Maximum Fee

The Nexus Study identifies a total maximum supportable per-square-foot fee of up to approximately \$34 per square foot, as detailed below in Table 2. The City Council could adopt the maximum fee amount, or could adopt a lower fee depending on other Council policy considerations. Any fee adopted lower than \$34 per square foot will require funding from other City and/or outside sources to fund all the identified projects.

Table 2: Summary of Maximum Fee Scenarios

Fee Scenario	Fee Type	Land Use		
		Office/R&D (per sq. ft.)	Retail (per sq. ft.)	Hotel (per room)
Baseline	Transportation	\$25.82	\$ 9.42	\$ 8,002
	Water	6.35	0.01	3,929
	Sewer	1.18	0.79	707
	Total Fee	\$33.35	\$10.22	\$12,638
Alternative #1	Transportation	\$26.55	\$0.00	\$ 0
	Water	6.35	0.01	3,929
	Sewer	1.18	0.79	707
	Total Fee	\$34.08	\$ 0.80	\$ 4,636
Alternative #2	Transportation	\$26.18	\$ 4.71	\$ 4,001
	Water	6.35	0.01	3,929
	Sewer	1.18	0.79	707
	Total Fee	\$33.71	\$ 5.51	\$ 8,637

Any of these three scenarios is supportable. For example, Council may prefer the Baseline Scenario to distribute transportation fees across all land uses. Alternatively, Council may prefer Alternative #1, which assumes that all retail and hotel uses are internal to North Bayshore and therefore does not assess a transportation fee to these uses, or Alternative #2, which assumes 50 percent of such trips are internal to North Bayshore and assesses a 50 percent transportation fee from the Baseline Scenario to these uses. Council may also prefer one of these Alternative Scenarios because they would help incentivize retail and hotel uses in the area, thereby helping implement a key Precise Plan objective to support more diverse commercial uses in the area.

Council Question No. 1: Does Council support the **Baseline Scenario** which assesses a transportation impact fee across all North Bayshore commercial land uses, Alternative #1, which does not assess a transportation impact fee to retail and hotel uses, or Alternative #2, which assesses a 50 percent transportation impact fee from the Baseline Scenario?

Fee Comparison of Surrounding Cities

As part of the Nexus Study work, the City’s consultant team surveyed fees from other cities as shown in Table 3.

Table 3: Surrounding City Fee Scenarios, Per Square Foot of Building

City	Sewer and Water Connection	Government Facilities and Affordable Housing Fees ¹	Transportation Fee/Special Area Fee	Taxes Based on Valuation ²	Taxes Based on Construction Size	Total Fee, Per Net Building Sq. Ft.
Mountain View ³	\$2.30	\$24.00	–	–	–	\$26.30
Mountain View – North Bayshore ⁴	\$2.30	\$24.00	\$34.08	–	–	\$60.38
Palo Alto ⁵	\$0.40	\$26.40	\$17.20	–	–	\$44.00
Sunnyvale ⁶	\$0.04	\$15.00	\$3.08	\$3.00	\$0.62	\$21.73
Santa Clara ⁷	\$1.97	–	\$1.00	–	–	\$2.97
North San Jose ⁸	\$0.05	–	\$5.00	\$13.59	\$0.08	\$18.72

Table 3 shows that the City’s North Bayshore Area fee, if adopted at the maximum amount, would result in the highest per square foot of fees when compared to surrounding cities.

¹ Government Community Fees include park in-lieu fees, community center, libraries, public safety facilities, general government, and housing impact fees.
² Valuation of project is assumed to be \$37.5 million; taxes include Public Art Fees; Commercial, Residential, and Mobile Home Park Construction tax; Building and Structure Construction tax; Strong Motion Instrumentation Program Assessment; and Building Standard Administration Special Revolving Fund.
³ Mountain View’s current Citywide fees include the recently updated Housing Impact Fee and water and sewer capacity charges.
⁴ In addition to the Citywide fees, the North Bayshore fee row above includes the maximum \$34.08 North Bayshore Development Impact Fee (\$26.55 traffic impact fee component and \$7.53 for water and sewer component) which could be applied to development in the Precise Plan area.
⁵ Assumes 625 net new daily p.m. peak-hour trips for Traffic Impact Fee.
⁶ Assumes transportation fee for the area south of Route 237; construction tax based on recently constructed office buildings in the City.
⁷ Traffic Impact Fee is based on conversation with the City of Santa Clara.
⁸ Frequently waived.

To provide some context, the recent Intuit project included a condition of approval for a North Bayshore improvement fee of up to \$15 per square foot. A fee in the range of \$15 to \$25 per square foot would result in a total North Bayshore Area fee between \$41.30 per square foot and \$51.30 per square foot, which would be similar to the City of Palo Alto's fee. Any difference in the total adopted fees will be adjusted to transportation costs, and will not be divided proportionally among transportation, sewer, and water categories.

Council should note that any adopted fee could potentially be reduced once the amended Precise Plan includes residential uses, since the new fees could be spread across both commercial and residential uses.

North Shoreline Regional Park Community

The Shoreline Community Fund has been identified as a funding source for transportation projects that will benefit the Shoreline Community. In the 10-Year Forecast of the Shoreline Community (Forecast) included in the Fiscal Year 2014-15 Narrative Budget Report, approximately \$100 million of transportation projects were potentially identified to be funded from bond proceeds. The Forecast indicated the Shoreline Community Fund could support the debt service for these bond proceeds in two phases. A minimum fee of \$21 would be required to keep the bond funding at the approximate \$100 million level and provide funding for all of the required transportation projects.

Council Question No. 2: What North Bayshore development impact fee amount does Council support?

Council Question No. 3: Does Council support funding the remaining cost of North Bayshore infrastructure improvements with Shoreline Community funds, possibly by issuing bonds?

Nexus Findings

The Nexus Study contains the required findings that justify the North Bayshore Development Impact Fee which includes transportation, water, and sewer components (see Pages 15 and 18 of Exhibit B). The Council resolution also includes these required findings. These findings are supported by the technical transportation and utilities studies completed for the Nexus Study which are appendices to the study.

FISCAL IMPACT

Fees collected from a new North Bayshore development impact fee will be used to fund transportation and utility improvements identified in the Precise Plan. Depending on the level of the fee adopted, additional funding for transportation projects could be funded from the Shoreline Community, including available balances and potential issuance of approximately \$100 million of bonds. A minimum fee of \$21 per square foot would be needed to fund the remaining transportation projects with potential Shoreline Community bonds. Additional funding for the recycled water and waste water projects would be funded from the respective Utility Fund and potential grants, or other fees.

CONCLUSION

In conclusion, the Council report presents several key questions for the City Council to consider regarding the North Bayshore Nexus Study and options for funding new public improvements.

ALTERNATIVES

1. Do not adopt a North Bayshore Area fee.
2. Provide other direction to staff.

PUBLIC NOTICING

Agenda posting and notices of this meeting, including a summary of the proposed fee and costs in accordance with State law, were sent to all North Bayshore property owners in addition to those on the North Bayshore interested parties mailing list, and to interested parties requesting a notice of any action regarding fees. The notices were sent at least 14 days in advance of the meeting, as required by Government Code Sections 66016 and 66019. Notice of the Council hearing was also published twice as required by Government Code Section 66018. The Nexus Study was made public at least 10 days in advance of the meeting.

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Attachment: 1. Resolution
Exhibit A: Fee Schedule
Exhibit B: North Bayshore Development Impact Fee Nexus
Study