



DATE: June 19, 2018

CATEGORY: New Business

DEPT.: Community Development/
Public Works

TITLE: **Multimodal Improvement Plan and
Transportation Impact Fee Nexus
Study**

RECOMMENDATION

1. Provide direction to staff on the Draft Multimodal Improvement Plan.
2. Provide direction to staff on the Draft Transportation Impact Fee Nexus Study and key parameters of the fee.

BACKGROUND

On November 10, 2015, the City Council authorized staff to begin work on a Multimodal Improvement Plan to comply with Santa Clara Valley Transportation Authority's (VTA) Congestion Management Program (CMP). The project team consultant is TJKM, a transportation consulting firm.

The City's Multimodal Improvement Plan will include measures to address future congestion impacts, including vehicle flow improvements and improvements/programs to support travel by other modes.

Congestion Management Program (CMP)

The CMP is mandated by State law and is managed for the County by the VTA. The CMP is a comprehensive transportation improvement program with the goal to reduce traffic congestion, improve air quality, and inform land use decision-making. The VTA has established a list of major intersections monitored for congestion with level of service (LOS) standards set by the CMP statute.

According to CMP legislation, if a city fails to meet LOS standards for one or more of these intersections, it risks forfeiting roughly 25 percent of gas tax allocations from the State (about \$405,000 per year for Mountain View). Based on analyses of 2030 General

Plan growth and subsequent Precise Plan analyses, as well as regional growth, several intersections are projected to fall below the CMP LOS standard, Level of Service “E.”

Avoidance of Street Widening with Multimodal Improvement Plan

In general, LOS standards are maintained through street widening. The Mountain View 2030 General Plan’s policy direction, however, does not support street widening as a strategy (see Policy MOB 10.3: Avoidance of Street Widening, Page 114). This is due to limited space for additional right-of-way, increased crossing distances for pedestrians, induced demand, and other issues related to the City’s desired future character. Instead, the General Plan directs future efforts to include transportation demand management, operational improvements, and multimodal improvements and services.

The VTA supports multimodal policies and programs instead of street widening. However, the VTA requires cities to prepare a Multimodal Improvement Plan to document existing and future efforts to address increased congestion. If the Multimodal Improvement Plan is adopted and approved by the VTA Board of Directors, the City will be in conformance with the CMP, even if specific intersections fall below the LOS standard, and will not risk losing gas tax revenue.

Multimodal Improvement Plan Purpose

A Multimodal Improvement Plan is a key tool in the transition from vehicle-centered LOS standards toward a more multimodal future. It has the following benefits for the City:

- It documents the City’s commitment to improving transportation and air quality outcomes, and consolidates City measures to combat congestion and support sustainable transportation.
- It provides a road map for improving transportation in the City, which is fully built out and has significant space constraints to road widening.
- It allows the City flexibility when it is impossible or undesirable to meet LOS standards by improving systemwide multimodal transportation instead of strictly adhering to a traffic LOS standard that may contradict other community goals.

- It is a plan for implementing and funding these measures, with sources such as “Public Benefits” from developers, City funding sources, and developer mitigations (such as location-specific improvements or payment of an impact fee).

Multimodal Improvement Plan Process

The Multimodal Improvement Plan process began with a review of the City’s transportation plans and policies, including the 2030 General Plan, recent Change Area Precise Plans (such as El Camino Real), the Pedestrian Master Plan, the Bicycle Transportation Plan, and area studies such as the Shoreline Boulevard Corridor Study and the California Escuela Shoreline Complete Streets Study. From these plans, the project team assembled key implementation actions and proposed improvements, and assembled them into the Draft Action List, which was approved by the City Council on May 2, 2017. Actions in the Multimodal Improvement Plan are meant to improve the overall transportation system and air quality, in lieu of addressing specific roadway impacts.

Past Meetings

November 7, 2016 Council Transportation Committee

On November 7, 2016, the Council Transportation Committee (CTC) reviewed key questions related to preparation of the Multimodal Improvement Plan’s Action List. Two members of the public spoke and both mentioned the importance of metrics, such as vehicle miles traveled (VMT), in tracking success. The CTC’s direction included the following:

- The Multimodal Improvement Plan should not strive to bring deficient facilities up to LOS standards (although the City can continue to work toward that goal through other means). A goal of the Multimodal Improvement Plan should be to give the City flexibility in complying with the CMP, and continued adherence to LOS would not achieve that goal.
- Actions in the Action List should be considered based on priority, effectiveness, cost and certainty, as well as simultaneous benefits to multiple modes.
- The CTC provided additional direction to develop actions on a range of topics.

May 2, 2017 City Council Study Session and May 2017 VTA Advisory Committees

On May 2, 2017, the City Council reviewed and expressed support for the proposed projects in the draft Action List. In addition, the City Council confirmed their support for an impact fee, and had the following direction for implementing the fee:

- Exempt North Bayshore commercial and office uses from the fee because they are already subject to a transportation impact fee.
- Exempt affordable housing from the fee, to limit constraints on creating additional affordable housing.
- Consider lower impact fees for retail and service uses, to limit constraints on retail development.

In May 2017, the Draft Action List was presented to VTA advisory committees, including the Policy Advisory Committee, the Technical Advisory Committee, and the Congestion Management Program & Planning Committee. These committees did not have any requested changes to the Draft Action List, although there was direction to continue coordinating with agency staffs.

November Tax Measure

On June 5, 2018, the City Council expressed support for a measure restructuring the business license tax to be placed on the November 2018 ballot, and indicated that the bulk of funds would be used to help fund transportation services and improvements. The tax measure and this impact fee are not redundant. The tax measure revenue can be used to fund operational or maintenance costs, while the impact fee (levied only once on new development) can only be used for one-time costs. In addition, several new projects identified since staff began work on the Multimodal Improvement Plan, such as the automated guideway transportation system and the Bernardo Avenue undercrossing of Caltrain/Central Expressway, cannot be funded with the impact fee without updating the nexus study. Plus, several projects are very large and require funding from multiple sources. Lastly, as described below, the transportation impact fee alone cannot cover the costs of projects in the nexus study, due to legal requirements for how the fee must be calculated and the projects will require funding from other sources, such as a tax measure.

ANALYSIS

Draft Multimodal Improvement Plan

The project team has developed the Draft Multimodal Improvement Plan based on City Council direction, discussion with neighboring jurisdiction and other agencies, and the VTA requirements. The Draft Multimodal Improvement Plan is provided as Attachment 1.

Key elements of the Plan include:

- An **Executive Summary** that describes the purpose of the Plan and each of its parts.
- Chapter 1 is an **Introduction** that provides more detail on the purpose of the Plan, its statutory requirements, and its effect on transportation analysis.
- Chapter 2 includes information about the **existing physical conditions** in the community.
- Chapter 3 includes information about the **projected roadway deficiencies**, and a brief analysis of the constraints at these facilities. In general, roadway widening is the primary way to correct these deficiencies. There is limited space to do so, and doing so would also conflict with the General Plan.
- Chapter 4 is the **Action Plan**, which includes all offsetting actions from the Action List, including project timing, cost estimates, funding responsibility, and standards and approval criteria. Staff developed the implementation details based on the goals of feasibility and consistency with other documents, such as the CIP.
- Chapter 5 is the Plan's **CEQA-compliance** statement.
- Chapter 6 includes **coordination and monitoring** requirements. Regular monitoring of the Plan is a requirement of the CMP and staff will send a report on the status of uncompleted actions to VTA. Since Mountain View development is projected to impact neighboring jurisdictions, this chapter documents the actions staff has taken to include other jurisdictions' staff in the development of the Plan, as well as ongoing requirements for studying impacts outside Mountain View's jurisdiction.

The list of actions is largely unchanged since the Council reviewed them last year, except for the following additions:

- **Stevens Creek Transit Bridge**—This project was added since it was a recommended action within the North Bayshore Precise Plan, adopted in December 2017. The total project cost is estimated at approximately \$50 million, but staff does not expect a significant portion to be funded by the City, and is assuming a future obligation of about \$2 million. Other funding sources may include private entities and VTA.
- **State Route 85 Corridor**—This project involves coordination and participation in the State Route 85 corridor planning process, which will identify potential transit alternatives for the corridor. There is negligible cost associated with this action. There may be future capital costs from the program, but the Multimodal Improvement Plan does not include these improvements.
- **Downtown Paid Parking Study**—This project is already funded and responds to VTA comments to provide more robust parking management projects. The study will provide direction for implementing paid parking in downtown.

Question 1: Does the City Council have any comments or questions on the Draft Multimodal Improvement Plan?

Funding the Multimodal Improvement Plan Actions

Many of the actions in the Multimodal Improvement Plan have already been funded, a previous commitment of approximately \$42.5 million. However, unfunded actions in the Multimodal Improvement Plan could cost approximately \$450 million. Some outside funding sources may help fund these projects, including Measure B funding, grants, and public/private partnerships. Nonetheless, the City's requirement to implement unfunded actions in the Multimodal Improvement Plan is a new fiscal obligation that could cost the City up to \$100 million over the life of the Plan.

To implement these projects, a range of funding resources are currently available, including existing CIP funding sources (such as the CIP Reserve and Construction/Conveyance Tax), developer community benefits, developer mitigations and frontage improvements, and other sources. However, these sources have not been historically large enough to cover the total estimated cost above. The transportation impact fee is proposed to cover that shortfall.

Transportation Impact Fee: Draft Nexus Study Methodology

Impact Fees are allowed by State law, but the State sets legal requirements on how they can be calculated. 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. Lastly, they can only apply to projects that increase traffic; for example, rebuilding a single-family home would not be subject to a fee.

New development is responsible for the additional trips that trigger the CMP facility impacts. Prior to adoption of the General Plan, these facilities were operating above LOS "F," in conformance with the CMP requirements. Therefore, development since the adoption of the General Plan may be considered responsible for these costs.

Any impact fee must be based on a reasonable nexus (or relationship) between the impact of the new development and the costs of new facilities and improvements needed to serve such growth. Individual developments cannot be required to pay more than their fair share of those costs. The fee must be supported by specific findings that demonstrate this nexus. The nexus and findings are documented in a nexus study, a draft of which is provided as Attachment 2.

The following steps were used to calculate the nexus between development growth and the cost to provide the projects in the Multimodal Improvement Plan:

1. **Transportation Project Costs.** The project team estimated the total future cost to the City of the most significant projects in the Multimodal Improvement Plan. Completed and funded projects, costs covered by other agencies, and projects funded through the North Bayshore impact fee were excluded from this sum. The remaining total is about \$100 million.
2. **Trip Generation Estimate.** An estimate was prepared of the total peak-hour trip generation resulting from new development expected under the General Plan (starting in 2012), about 36,600. This is consistent with the number of trips that may result in LOS impacts, triggering the Multimodal Improvement Plan.
3. **Cost Per Trip.** The total cost from No. 1, above, was divided by the expected trips generated in No. 2 to find a cost per trip. This value per peak-hour trip is \$2,700.¹

¹ Since the City has robust Transportation Demand Management programs and requirements, average TDM rates were applied to the land uses and trips in Steps 3 and 4.

4. **Development Nexus Fee.** Each land use has an expected trip generation per unit or per square foot. The final nexus fee value is found by multiplying the cost per trip by the expected trip generation of the proposed development's land use. These are shown in Table 1, below.¹

Table 1: Nexus Study Fee Amounts by Land Use

Single-Family Residential, Attached and Detached	\$4,671 per unit
Multi-Family Residential, including stacked condominiums	\$2,616 per unit
Hotels/Motels	\$2,889 per room
Retail/Service	\$12.83 per square foot
Office/R&D/Industrial	\$4.95 per square foot

The amounts above are the maximum defensible amount the City can charge for this fee. If the City Council wishes, the fee can be reduced or exempted for some categories. The City Council has already directed staff to lower the fee for retail and to exempt it for North Bayshore office, hotel and commercial, and for affordable housing. For the fee reductions and exemptions, the City must find alternate funding sources and cannot shift that cost burden to other development. More information about the cost of these reductions and exemptions is provided later in the report.

Staff has had some informal discussions with developers and property owners about the fee and the nexus methodology. In general, no developers stated any objection to the methodology, but some had the following comments:

- Concern about the escalating fee obligations on new development, especially after project submittal.
- While impact fees can be a burden, they can be better than mitigation improvements, which can be more expensive, less equitably levied, and less predictable.

Comparison with Neighboring Jurisdiction Fees

The City can charge a lower fee than the nexus amount. One possible basis for the lower fee is a comparison with other jurisdictions as the fee may reduce Mountain View development feasibility relative to the City's peers.

Table 2 below compares the draft nexus fee values with other jurisdictions’ adopted transportation impact fees. The table shows that the nexus value is roughly within the range of most other transportation impact fees in the area.

Table 2: Transportation Impact Fees in Nearby Cities

	Single-Family (per Unit)	Multi-Family (per Unit)	Hotel (per Room)	Retail (per Square Foot)	Office (per Square Foot)
Mountain View Nexus Study	\$4,671	\$2,616	\$2,889	\$12.83	\$4.95
Sunnyvale	\$3,114	\$1,931	\$1,868	\$5.78	\$4.64
Palo Alto	\$3,139 ^a	\$1,927 ^a	\$2,135	\$13.20	\$4.63 ^a
Los Altos	\$6,152	\$3,777	\$0	\$11.27	\$9.08
Santa Clara	-0-	-0-	\$400	-0-	\$1.00
Menlo Park	\$3,139	\$1,927	\$1,834	\$4.63	\$4.63
North San Jose	\$9,677	\$7,742	\$4,299	\$19.88	-0-

^a Estimated; fee is based on trips.

Residential Fees

The City of San Jose recently presented a Cost of Development study to their City Council (Agenda date: May 1, 2018, Item 4.5), which compared the cost of all fees for housing developments among Santa Clara County cities. The results of that study are shown in Figure 1.

The chart shows actual development costs for multi-family residential projects in 2014. Since then, development costs have risen, especially for parks and affordable housing. For housing, San Jose has added an Inclusionary Housing Ordinance Fee, as high as \$25,000 per unit, and Mountain View has increased requirements for affordable housing on rental projects. Most cities’ park fees reflect the value of land, so when land values increase, these fees do as well. In Mountain View’s case, fees have increased from approximately \$25,000 per unit to approximately \$50,000 per unit in the last few years. For example, the Madera Development at 425 West Evelyn Avenue, constructed in 2014, paid \$23,400 per unit, while the 555 Walker Drive Rowhouse Project, reviewed by the City Council on June 12, would pay an estimated \$48,000 per unit. A similar increase has occurred in Sunnyvale.

Figure 1: San Jose Study of Comparative Permitting Costs

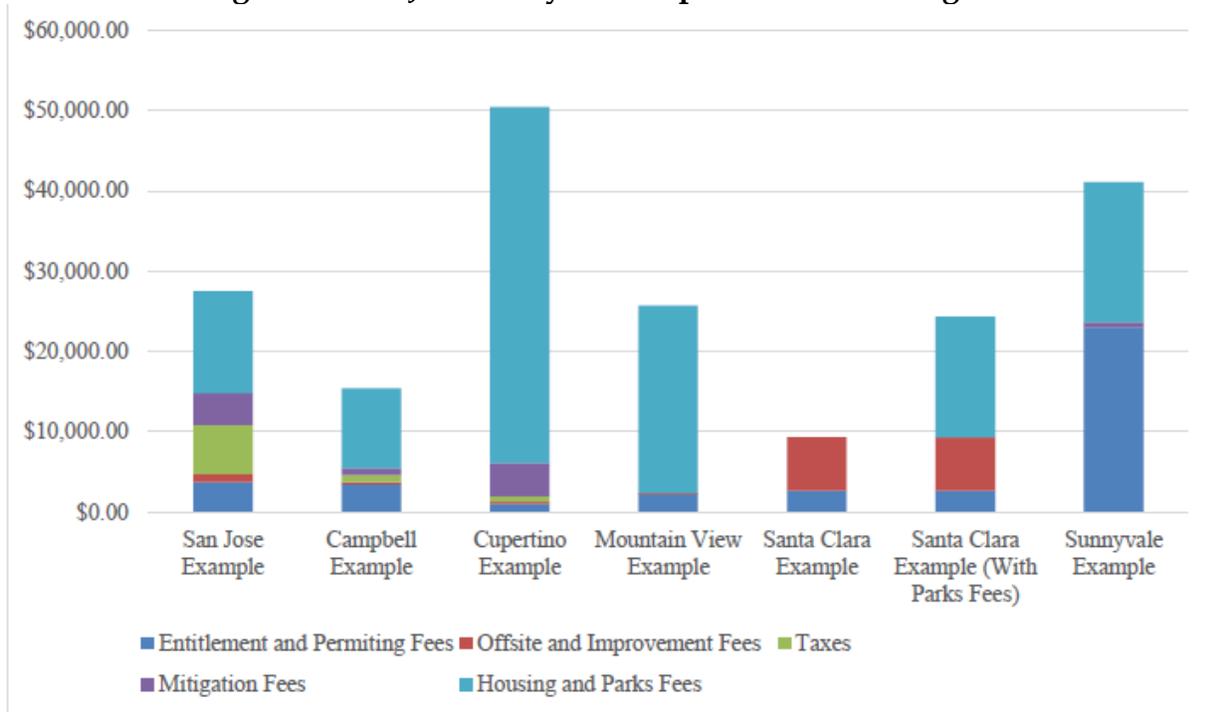


Chart is from San Jose City Council Report, May 1, 2018, Item 4.5.

The San Jose report stated that 2018 fees and taxes for residential development in San Jose range from approximately \$40,000 per unit to approximately \$63,000 per unit. Based on recent projects and discussion with Sunnyvale staff, Mountain View and Sunnyvale’s fee and affordable housing requirements may be \$80,000 to \$90,000 per unit, while Santa Clara’s fees remain lower. The proposed fee of \$2,616 per multi-family unit would be a small percentage of development’s overall fees, but would be in addition to fees and requirements that are already higher than nearby cities like San Jose or Santa Clara.

Office Fees

In 2015, the City Council adopted the North Bayshore transportation impact fee on nonresidential uses. The data in Table 3 are summaries of fees for office uses from that time, updated with known changes. Based on the information in the table, the total fees for office development with implementation of this impact fee would be higher than Sunnyvale or San Jose, but lower than Palo Alto.

Table 3: 2015 Estimated Fees on Office Development

City	Estimated Total Fees, per Square Foot
Mountain View	\$ 28.57 \$ 33.52, with new fee
Sunnyvale	\$ 24.30
Palo Alto	\$ 44.00
San Jose	\$ 18.72

Fee Exemptions and Expected Funding

Developments will not pay more than their fair share of the improvements, based on the Nexus Study amounts and methodology. This means any exemptions will result in less funding for the Multimodal Improvement Plan actions. In addition, development cannot be required to pay for existing deficiencies, so the fair share from recent development that did not pay the fee cannot be recovered from new development. This section describes the cost of these exemptions and recent development.

North Bayshore Residential

Currently, North Bayshore office, hotel, and retail uses are required to pay a North Bayshore transportation impact fee for transportation improvements serving North Bayshore. North Bayshore development is also causing impacts to the transportation system outside North Bayshore, so the City is legally allowed to levy the Citywide fee on this development, in addition to the North Bayshore impact fee. However, the Council recommended not applying the new Citywide transportation impact fee to North Bayshore commercial development at the May 2017 meeting because they are already subject to a transportation impact fee.

Since then, the City adopted updates to the North Bayshore Precise Plan to allow almost 10,000 new housing units (of which approximately 8,000 are expected to be market-rate). Currently, a transportation impact fee in North Bayshore only applies to nonresidential uses. If the City Council wishes, the Citywide impact fee can apply to new residential uses in North Bayshore. If this is the case, it may reduce the feasibility of housing in North Bayshore, particularly since new residential in North Bayshore applying for Bonus FAR must develop a local school strategy, which will likely include

some financial contributions to schools. The 1255 Pear Avenue project (Sobrato) has been continued, in part to resolve feasibility concerns about the amount of fees related to their project. If the City Council does not wish to include North Bayshore residential in the Citywide transportation impact fee, the City may lose the opportunity for up to approximately \$21 million and will need to find another funding source for these funds.

Question 2: Should the Citywide transportation impact fee apply to North Bayshore residential?

Effective Date of Fee

One key policy consideration for the new fee is its effective date. Applicants who have already submitted a development application may not have anticipated this fee, and it may not be reflected in their expected costs. This issue was most recently discussed by the City Council in adopting the new Below-Market-Rate housing requirements in February 2018. In that case, Council exempted projects that were almost done with their Planning review. However, Council did not wish to exempt Gatekeeper projects.

In considering the cutoff date for projects, the City Council must weigh the potential lost fees from exempted projects against the potential for making pipeline developments less feasible. Generally, fees' effective dates apply upon issuance of Building Permits. In other words, if this fee's effective date is in November 2018 (60 days after the expected second reading), any project that has not received their Building Permit by then would be subject to the fee. That would affect a significant number of projects that have already received their Planning approval and all the projects that are currently approaching approval.

Staff divided under-review projects into several groups to give an idea of the lost fees if these projects are exempted, which is shown in Table 4, below. The first group is non-Gatekeeper projects expected to be approved in the next year or so. Examples include the Greystar project at California Street and San Antonio Road and the Robert Green Company Hope Street Lots hotel and office project. The second group is Gatekeeper projects expected to be approved in the next year or so. Examples include the LinkedIn campus on Middlefield Road and the Prometheus housing project on Villa Street. Most other projects (like the Los Altos School District Transfer of Development Rights projects) have not yet submitted formal applications.

Building Permits can reasonably be expected 12 to 24 months after Planning approval. Therefore, projects approved in early 2019 could be expected to receive their Building Permit by the end of 2020.

Table 4: Under-Review Projects and Estimated Fees

Group	Effective Date (Building Permit)	Estimated Lost Fee
Non-Gatekeepers, approval within 6 months to 1 year	January 1, 2021 (non-Gatekeepers)	\$5 million
Gatekeepers, approval within 6 months to 1 year	January 1, 2021 (Gatekeepers)	\$7 million
TOTAL	January 1, 2021 (all projects)	\$12 million

As the table shows, if the City Council wishes to exempt projects that may have submitted complete or substantially complete applications, it may result in lost revenues of \$5 million to \$12 million, depending on how Gatekeeper projects are considered.

Question 3: Should some or all of the projects under review be exempted from the fee? Should Gatekeepers be exempted? Should staff study other timing thresholds and dates?

Summary of Expected Impact Fee Funding

The nexus study is based on a total funding obligation of approximately \$100 million. However, not all this funding will be covered by anticipated development. If the City Council reduces or exempts the fee for some developments, that cost burden cannot be shifted to other developments, and the City must find other funding sources (such as community benefits, or the November transportation tax measure). In addition, the impact is spread across all development under the General Plan. This means development since 2012 has not paid the fee, but that cost burden cannot be shifted to other developments either. Based on these factors, and the factors identified in the sections above, Table 5 shows a summary of the expected amount the impact fee may generate for future development.

Table 5: Cost of Reduced or Exempted Fees (in thousands)

Total Cost of Improvements	\$98,849
Legal Requirements and Previous Direction	
Projects 2012 through 2018	\$22,800
Affordable Housing Exemption	\$6,500
North Bayshore Office and Commercial Exemption	\$17,600
Lower Retail Fee (assumes fee = \$3 to \$8/square foot)	\$2,000 to \$5,000
TOTAL REDUCED OR EXEMPTED, PREVIOUS	\$48,900 to \$51,900
For Consideration in this Report	
North Bayshore Residential Exemption	Up to \$21,000
Additional Exempted Projects Based on Effective Date	\$5,000 to \$12,000
TOTAL EXEMPTED, FOR CONSIDERATION	Up to \$33,000
EXPECTED FEE FUNDING	\$13,949 to \$49,949

With the exemptions noted above, there may be a revenue shortfall for these projects of \$49 million to as much as \$85 million, depending on Council direction and the pace and type of development. As a basis of comparison, over the last few years, the City has spent approximately \$5 million each year to fund large transportation projects, using funds from the CIP Reserve, community benefits, Construction/Conveyance Tax, and other sources. In other words, the nexus study shortfall could be met by the 2030s with existing spending rates, but other, new projects would need additional funding sources (such as the November tax measure).

These funding estimates also assume that development will happen consistent with the General Plan. While some unanticipated additional growth may happen (for example, from General Plan amendments), other growth may not happen at the expected rate. If development is slower than anticipated, City staff will work with VTA on adjusting MIP timelines during the monitoring and reporting process.

FISCAL IMPACT

The Multimodal Improvement Plan includes future projects that may cost approximately \$450 million. Most of these projects were previously identified in other planning documents and the Capital Improvement Program. Approximately \$350 million may be available from regional, private and grant-giving sources. This leaves

approximately \$100 million that the City may need to fund, though other sources (such as community benefits) can also be leveraged.

If the City Council adopts a transportation impact fee, it is expected to provide approximately \$14 million to \$50 million over the life of the 2030 General Plan, depending on exemptions or reductions for developments. This fee can be used to pay for the Multimodal Improvement Plan projects.

CONCLUSION

Adoption of a Multimodal Improvement Plan will maintain City compliance with the Congestion Management Program. The Plan includes actions that will improve systemwide, multimodal transportation, in lieu of road widening. The Draft Multimodal Improvement Plan is included as Attachment 1.

The City may also adopt a transportation impact fee to help fund the Multimodal Improvement Plan. This fee must be proportional to the impact generated by the new development it would be levied upon. This proportionality and relationship (nexus) is demonstrated in the attached Draft Nexus Study (Attachment 2).

Staff is seeking Council feedback on these two documents, and specifically the following questions.

COUNCIL QUESTIONS

1. Does the City Council have any comments on the Draft Multimodal Improvement Plan?
2. Should the Citywide transportation impact fee apply to North Bayshore residential?
3. Should some or all of the projects under review be exempted from the fee? Should Gatekeepers be exempted? Should staff study other timing thresholds and dates?

ALTERNATIVES

1. Provide other direction on the Multimodal Improvement Plan and/or transportation impact fee, such as modifying the projects in the Action Plan and/or Nexus Study.

2. Discontinue work on the transportation impact fee. If so directed, staff would need to identify other funding sources for the Multimodal Improvement Plan, or work with VTA to reduce the number of projects in the Multimodal Improvement Plan.
3. Provide other direction.

NEXT STEPS

Based on this direction, the project team will revise the Multimodal Improvement Plan and Nexus Study, and finalize a draft Transportation Impact Fee. Adoption of both by the City Council is expected in the fall. Final approval of the Multimodal Improvement Plan by the VTA Board of Directors is expected immediately after Council approval.

PUBLIC NOTICING

Agenda posting, and interested parties were notified of the meeting. In addition, a website is maintained for public comment.

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EA/2/CAM
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- Attachments:
1. Draft Multimodal Improvement Plan
 2. Draft Nexus Study