



STAFF REPORT

City Council

Meeting Date:

1/11/2022

Staff Report Number:

22-001-CC

Consent Calendar:

Transmittal of the annual report on the status of the transportation impact, storm drainage, recreation in-lieu and construction impact fees collected as of June 30, 2021

Recommendation

Staff recommends the City Council review the City's Assembly Bill 1600 (AB1600) report providing data on the revenues collected from the transportation impact, storm drainage, recreation in-lieu and construction impact fees. The below market rate housing in-lieu fees are included in this report to inform the City Council.

Policy Issues

This report does not represent any change to existing City policy and affirms the City's intention to continue to charge these impact fees to fund projects and programs that mitigate the impact of development in the City of Menlo Park.

Background

Cities and counties often charge fees on new development to fund public improvements to mitigate the impact of development activity. These fees are commonly known as development impact fees. In 1989, the state Legislature passed AB1600, which added Sections 66000 et seq. to the California Government Code, commonly known as the Mitigation Fee Act.

As required by law, these fees are segregated from the general fund and accounted for in special revenue funds. Government Code Section 66001 requires that the City make available to the public information regarding development impact fees for each fund within 180 days after the end of each fiscal year:

- A brief description of the fee and the fund into which the fee was deposited
- The amount of the fee
- The associated fund's beginning and ending balances for the fiscal year
- The total amount of fees collected and interest earned
- Identification of each public improvement on which impact fees were expended and the amount of expenditure on each improvement, including the total percentage of the cost of the public improvement that was funded with impact fees
- Identification of the approximate date by which construction of a public improvement will commence if the local agency determined that sufficient funds have been collected to complete financing on an incomplete public improvement and the public improvement remains incomplete
- A description of each interfund transfer or loan made from an account or fund

Further, Government Code Section 66000 et. seq. also requires that findings describing the continuing need for impact fees be made every five years specifying the intended use of any unexpended impact fees, regardless of whether the fees are committed or uncommitted. Failure to make such findings subjects the City to going through a refunding procedure. This report meets the requirements to comply with the Mitigation Fee Act.

Analysis

Transportation impact fees

Due to growth and development in San Mateo County and the City of Menlo Park, increased pressure has been put on the transportation system. The purpose of the transportation impact fee is to provide adequate transportation improvements to serve cumulative development within the city. However, the fee does not replace the need for all site-specific transportation improvements that may be needed to mitigate the impact of specific projects upon the city’s transportation system.

The transportation impact fee methodology was put in place effective December 6, 2009, with the addition of Section 13.26 to the municipal code, which created a more systematic way for applying the fees. In 2019, the City prepared an updated transportation impact fee study which demonstrates the reasonable relationship between the amount of the fees and the purpose for which they are charged. In addition, the 2019 update set the fees for child care facilities and secondary dwelling units to \$0. The current fees became effective in February 2020, and are listed below:

Transportation impact fee		
Land use	Unit	2021 fee amount*
Office	Sq.Ft.	\$ 19.18
Research and development	Sq.Ft.	8.17
Manufacturing	Sq.Ft.	11.18
Warehousing	Sq.Ft.	3.17
Restaurant	Sq.Ft.	11.18
Retail	Sq.Ft.	11.18
Single-family	Dwelling units	16,516.73
Multifamily	Dwelling units	5,566.90
Hotel	Per room	10,010.13
Medical office	Sq.Ft.	57.73
Child care	Sq.Ft.	0
Secondary dwelling unit	Dwelling units	0

* As of June 2021, ENR Construction Cost Index % change for San Francisco = 3.4
 If land use is not one of the above, use this formula: \$16,683.56 * Total PM Peak hour trips

For fiscal year 2020-21, the City received total revenue of \$221,184 primarily from transportation impact fees and interest income. For the same period, the City expended a total of \$532,994 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year totaled (\$311,810) and the ending balance as of June 30, 2021, is \$6,891,142. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. In the next five fiscal years, it is planned that the City will require \$22,801,570, from transportation impact fees to finance needed infrastructure projects. The City Council adopted the transportation master plan in November 2020 and staff has included new projects to the future five-year capital improvement program. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment A.

Storm drainage fees

The storm drainage fee commenced before 1989. The fee is levied to mitigate impacts on the storm drainage system either directly or indirectly resulting from development projects. The fee does not cover all federally or regionally mandated stormwater permitting requirements imposed since 1990 under the National Pollutant Discharge Elimination System permits. Storm drainage connection fees are charged for property development as shown in the City's 2019 master fee schedule:

- Single-family – per lot \$450.00
- Multifamily – per unit \$150.00
- Industrial and commercial – per square foot of impervious area \$ 0.24

For fiscal year 2020-21, the City received total revenue of \$3,186, primarily from storm drainage fees and interest income. For the same period, the City expended \$68,363 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year for the year totaled (\$65,177) and the ending balance as of June 30, 2021, is \$94,899. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. The City plans to use the remaining funds to support green stormwater infrastructure projects and street storm drain improvements. At this time, there still exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment B.

Recreation in-lieu fees

The recreation in-lieu fee commenced before 1989. The purpose of the fee is to provide improved and expanded recreation facilities to serve new residential uses. The fee is assessed as an option for residential developments in-lieu of providing dedication of land for new facilities. The fee is charged on new residential development as shown Municipal Code section 15.16.020 and summarized in the City's 2019 master fee schedule:

- Single-family (RE and R-1): 0.013 (Multiplied by number of units and by market value of acreage to be subdivided)
- Multifamily development (R-2, R-3, RLU and PD): 0.008 (Multiplied by number of units and by market value of acreage to be subdivided)

For fiscal year 2020-21, the City received total revenue of \$753,147, primarily from recreation in-lieu fees and interest income. For the same period, the City expended a total of \$76,410 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year for the year totaled \$676,737 and the ending balance as of June 30, 2021, is \$3,640,777. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. In the next five fiscal years, it is planned that the City will require \$5,794,334 from recreation in-lieu fees to finance needed infrastructure projects. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as

current year project expenditures are available in Attachment C.

Construction impact fees

The construction impact fee took effect in November 2005 and was adopted to recover the cost of repairing damage to streets caused by construction-related vehicle traffic. On August 5, 2008, the City Council adopted a resolution extending this fee beyond the three-year sunset provision initially established. The fee is charged on the value of the construction project as shown in the 2019 master fee schedule:

- 0.58 percent of a construction project's value
- Residential alteration and repairs, as well as all projects under \$10,000, are exempt from the fee

For fiscal year 2020-21, the City received total revenue of \$910,784, primarily from construction impact fees and interest income. For the same period, the City expended a total of \$5,273,790 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year totaled (\$4,363,006) and the ending balance as of June 30, 2021, is \$5,120,689. Of this amount, all funds are available for use to meet current or planned projects eligible for this funding source. In the next five fiscal years, it is planned that the City will require \$10,522,990 from construction impact fees to finance needed infrastructure projects. As such, there exists a continued need for this fee. Detail of current year and historical financials as well as current year project expenditures are available in Attachment D.

Below market rate housing in-lieu fee

The below market rate (BMR) in-lieu fee is not an impact fee; therefore, staff is not required to include the following summary per Assembly Bill 1600. Staff is including this summary to solely inform City Council of housing fund activity. The BMR housing program was established in 1987 to increase the housing supply for people who live and/or work in Menlo Park and have very low, low, or moderate incomes as defined by income limits set by the California Department of Housing and Community Development for San Mateo County. The primary objective of the fee is to create actual housing units rather than generate a capital fund. Residential developers are subject to the following requirements, but may be permitted to pay an in-lieu fee for a fractional unit in certain situations:

- Residential developments of five or more units are strongly encouraged to provide a BMR unit.
- Residential developments of 10 to 19 units are required to provide 10 percent of the housing at below market rates.
- Residential developments of 20 units or more are required to provide 15 percent of the housing at below market rates.

For new commercial developments equal to or greater than 10,000 square feet that generate employment opportunities, the in-lieu fee for fiscal year 2020-21 was established as follows:

- Group A: \$19.61 per square foot of net new gross floor area for most commercial uses
- Group B: \$10.64 per square foot of net new gross floor area for defined uses that generate fewer employees

For fiscal year 2020-21, the City received total revenue of \$1,162,607, primarily from below market rate housing in-lieu fees from commercial developments and interest income. For the same period, the City expended a total of \$924,674 on projects eligible for funding under this revenue source. Accordingly, net revenue for the year totaled \$237,933 and the ending balance as of June 30, 2021, is \$31,551,159. Of this amount, \$6,942,890 is available for use to meet current or planned projects eligible for this funding source.

In May 2021, the City Council authorized \$1.2 million (staff report 21-099-CC) from the BMR housing fund to support Habitat for Humanity Greater San Francisco's proposal to create a Homeownership Preservation Program. The program will assist low income homeowners in Menlo Park with major repairs and rehabs that

address acute safety issues and enable homeowners to age in place and remain in the community they have been a part of for many years. The funding transfer for \$1.2 million is being prepared by staff and the program is scheduled to begin in 2022. In October 2021, the City Council held a study session (staff report 21-219-CC) to provide direction on the use of BMR funds for the creation of a Community Land Trust (CLT) as part of MidPen Housing's proposal to build 12 attached single family homes for low income homebuyers. City Council expressed support for the creation of CLT, and staff will return with potential recommendations in early 2022. The total funding request for this project is \$3.6 million. It is estimated at this time that the abovementioned activities will utilize the majority of available fund balance and additional projects will be identified in coming years. As such, there exists a continued need for the City to collect this fee to support the preservation and production of affordable housing. Detail of current year and historical financials as well as current year project expenditures are available in Attachment E. Previously approved proposals with completed transfer of funds, such as the \$5.5 million approved for HIP Housing's acquisition of 6-8 Coleman Place (Staff Report 21-042-CC), are reflected in Attachment E within the "adjustments for notes and receivables" line item.

Impact on City Resources

There is no impact on City resources resulting from this annual report, and this report meets the compliance requirements of the Mitigation Fee Act. Impact fees collected in 2020-21 represented \$1,643,162. As described above, the below market rate housing in-lieu fee is not an impact fee, and therefore, is not included in this total.

Environmental Review

This action is not a project within the meaning of the California Environmental Quality Act (CEQA) Guidelines §§ 15378 and 15061(b)(3) as it will not result in any direct or indirect physical change in the environment.

Public Notice

Public notification to comply with the Mitigation Fee Act is achieved by posting the annual report December 23, 2021, at least 15 days before the meeting at which the City Council is anticipated to make required findings as outlined in the recommendation.

Attachments

- A. Transportation impact fee financial report
- B. Storm drainage fee financial report
- C. Recreation in-lieu fee financial report
- D. Construction impact fee financial report
- E. BMR housing in-lieu fee financial report

Report prepared by:

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**City of Menlo Park
Transportation Impact Fee Financial Report**

Attachment A

Transportation Impact Fees	2016-17	2017-18	2018-19	2019-20	2020-21
Beginning balance	\$ 3,680,652	\$ 3,671,623	\$ 4,827,758	\$ 7,339,432	\$ 7,202,952
Developer Fees	1,565,803	1,525,690	2,410,325	255,091	106,028
Interest earnings and other	27,687	36,360	404,242	197,163	115,156
Expenditures	(385,171)	(405,915)	(302,893)	(588,734)	(532,994)
Non-traffic impact fee transfer	(1,217,348)	0	0	0	0
Ending Balance	\$3,671,623	\$4,827,758	\$7,339,432	\$7,202,952	\$6,891,142

2020-21 Transportation Impact Fee Project Expenditures	Total Cost 2020-21	Total TIF Expended	Other Funding Sources	Fee % Share	Construction start date ¹
Haven Avenue Streetscape	\$ 113,360	\$ 4,787	\$ 108,573	4%	2022
Middle Avenue Caltrain Crossing Study	\$ 65,567	\$ 65,567	\$ -	100%	2025
Marsh Road/Constitution Drive- Independence Drive Improvements	\$ 177,480	\$ 177,480	\$ -	100%	April 2017
Traffic Signal Modifications	\$ 17,084	\$ 17,084	\$ -	100%	April 2021
Pierce Road Sidewalk & San Mateo Bike Route Installation	\$ 470,260	\$ 245,311	\$ 224,949	52%	August 2020
Haven Avenue Hotel Development*	\$ -	\$ 18,670	\$ -	100%	n/a
Other	\$ -	\$ 4,096	\$ -	100%	n/a
Total	843,751	553,994			

*Expense to be reimbursed by developer

¹ Construction start dates are shown as month and year of construction contract authorization for projects that have commenced construction. For future projects, the year construction is expected to commence is noted.

² There were no interfund loans nor interfund transfers from impact fee to other funds this year.

Transportation Impact Fee Future Projects	Total budget 2021-22	TIF funding 2021-22	Other Funding sources 2021-22	TIF Funding 2022-26	Total TIF future needs
Middle Avenue Caltrain Crossing Study Design and Construction	\$ 5,954,095	\$ 5,954,095	\$ 6,000,000	\$ 8,900,000	\$ 14,854,095
Traffic Signal Modifications	\$ 1,319,013	\$ 1,319,013	\$ -	\$ 1,400,000	\$ 2,719,013
Transportation project (minor)	\$ 866,457	\$ 368,784	\$ 497,673	\$ 700,000	\$ 1,068,784
Transit Improvemets	\$ 37,278	\$ 37,278	\$ -	\$ -	\$ 37,278
Willow Oaks Bike Connector	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ 500,000
Willow Road/Newbridge St Bicycle and Pedestrian Improvement	\$ -	\$ -	\$ -	\$ 2,800,000	\$ 2,800,000
El Camino Real Crossings Improvements	\$ 307,087	\$ 307,087	\$ -	\$ -	\$ 307,087
Pierce Road Sidewalk and San Mateo Bike Route Installation	\$ 630,626	\$ 315,313	\$ 315,313	\$ -	\$ 315,313
Middle Avenue Complete Streets Study	\$ 200,000	\$ 200,000	\$ -	\$ -	\$ 200,000
			Total		\$22,801,570

Collected Developer Fees	2020-21
1800 El Camino Real	\$ 15,308
1072 Del Norte Avenue	\$ 772
870 Santa Cruz Avenue	\$ 89,947
Total	\$ 106,028

**City of Menlo Park
Storm Drainage Impact Fee Financial Report**

Attachment B

Storm Drainage Impact Fees	2016-17	2017-18	2018-19	2019-20	2020-21
Beginning balance	\$172,555	\$176,446	\$168,480	\$174,688	\$160,066
Developer fees	2,250	7,270	2,250	6,150	900
Interest income/(expense)	1,641	2,166	3,958	4,206	2,286
Expenditures	0	(17,402)	0	(24,978)	(68,363)
Ending Balance	\$176,446	\$168,480	\$174,688	\$160,066	\$94,889

Storm Drainage Impact Fee Fund Expenditures	Total Cost 2020-21	Total SDIF Expended	Other Funding Sources	Fee % Share	Construction start date¹
Santa Cruz Avenue/Merrill Street and Alma Street Storm Drain Improvement	\$ 67,814	\$ 67,814	\$ -	100%	November 2020
Other	\$ 549	\$ 549	\$ -	100%	n/a
Total	\$ 68,363				

¹ Construction start dates are shown as month and year of construction contract authorization for projects that have commenced construction.

² There were no interfund loans nor interfund transfers from impact fee to other funds this year.

Storm Drainage Impact Fee Future Projects	Total Budget 2021-22	SDIF Funding	Other funding Sources 2021-22	2022-2026	Total
Green stormwater infrastructure implementation	\$ -	\$ -	\$ -	\$ 82,000	\$ 82,000
Santa Cruz Avenue and Middle Avenue Street Rehabilitation	\$ 23,000	\$ 23,000	\$ -	\$ -	\$ 23,000
Total					\$ 105,000

Collected Developer Fees	2020-21
1010 Mallet Court	\$ 150
115 El Camino Real	\$ 600
617 Partridge Avenue	\$ 150
Total	\$ 900

**City of Menlo Park
Recreation In-Lieu Impact Fee Financial Report**

Attachment C

Recreation In-Lieu Impact Fees	2016-17	2017-18	2018-19	2019-20	2020-21
Beginning balance	\$1,296,910	\$1,167,732	\$3,745,549	\$3,553,462	\$2,964,040
Developer Fees	64,000	2,619,200	205,800	313,600	705,600
Interest Income/(Expense)	6,433	36,958	81,234	97,406	47,547
Expenditures	(199,611)	(78,341)	(479,121)	(1,000,428)	(76,410)
Ending balance	\$1,167,732	\$3,745,549	\$3,553,462	\$2,964,040	\$3,640,777

Recreation In-Lieu Fee Expenditures	Total Cost 2020-21	Total RIL Expended	Other Funding Sources	Fee % Share	Construction start date ¹
Willow Oaks Park Improvements	\$ 11,909	\$ 809	\$ 11,100	7%	2022
Park Playground Equipment	\$ 75,601	\$ 75,607	\$ -	100%	2022
Total	\$ 87,510	\$ 76,416	\$ 11,100	87%	

¹ Construction start dates are shown as month and year of construction contract authorization for projects that have commenced construction. For future projects, the year construction is expected to commence is noted.

² There were no interfund loans nor interfund transfers from impact fee to other funds this year.

Recreation In-Lieu Fee Future Projects	Total budget 2021-22	RIL funding 2021-22	Other funding Sources 2021-22	RIL funding 2022-26	Total RIL future needs
Menlo Park Community Campus	\$ 15,752,425	\$ 1,570,000	\$ 14,182,425	\$ -	\$ 1,570,000
Park Playground Equipment	\$ 725,414	\$ 725,414		\$ 600,000	\$ 1,325,414
Parks and Recreation Master Plan Implementation	\$ -	\$ -	\$ -	\$ 2,000,000	\$ 2,000,000
Willow Oaks Park Improvements	\$ 898,920	\$ 898,920	\$ -	\$ -	\$ 898,920
	\$ 17,376,759	\$ 3,194,334	\$ 14,182,425	\$ 2,600,000	\$ 5,794,334

Collected Developer Fees	2020-21
661 Partridge Avenue	\$ 156,800
966 Menlo Avenue	\$ 78,400
908 Menlo Avenue	\$ 78,400
1010 Mallet Ct	\$ 78,400
115 El Camino Real	\$ 313,600
Total	\$ 705,600

**City of Menlo Park
Construction Impact Fee Financial Report**

Attachment D

Construction Impact Fee Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Beginning balance	\$4,103,887	\$6,915,392	\$5,344,627	\$7,814,172	\$9,483,695
Developer Fees	3,095,422	2,976,022	3,655,133	2,809,763	830,634
Interest Income/(Expense)	62,254	51,713	179,535	236,374	80,150
Expenditures	(346,171)	(4,598,500)	(1,365,123)	(1,376,614)	(5,273,790)
Transfers					
Ending balance	\$6,915,392	\$5,344,627	\$7,814,172	\$9,483,695	\$5,120,689

Construction Impact Fee Fund Expenditures	Total Cost 2020-21	Total CIF Expended	Other Funding Sources	Fee % Share	Construction start date ¹
Street Resurfacing Project	\$ 1,741,176	\$ 390,405	\$ 1,350,771	22%	July 2020
Chilco Streetscape & Sidewalk Installation ²	\$ 2,855,541	\$ 2,853,410	\$ 2,131	100%	May 2019
Santa Cruz & Middle Resurfacing	\$ 2,405,256	\$ 1,967,895	\$ 437,361	82%	April 2020
Willow Road Resurfacing	\$ 8,205	\$ 8,205	\$ -	100%	September 2021
Operating Expenditures:					
Street Maintenance	\$ 2,623,800	\$ 53,876	\$ 2,569,924	2%	July 2020
Total Expenditures:	\$ 9,633,978	\$ 5,273,790	\$ 4,360,188	55%	

¹ Construction start dates are shown as month and year of construction contract authorization for projects that have commenced construction. For future projects, the year construction is expected to commence is noted.

² The scope of this project includes Phases 5 and 6 according to the Facebook Campus Expansion project development agreement. The expenditures shown include funds expended by the City, but do not include costs for work completed by the applicant beyond the City's contributions.

³ There were no interfund loans nor interfund transfers from impact fee to other funds this year.

Construction Impact Fee Future Projects	Total budget 2021-22	CIF Funding 2021-22	Other Funding sources 2021-22	CIF Funding 2022-26	Total CIF future needs
Middlefield Rd (Woodland to Ravenswood)	\$ 150,000	\$ 150,000	\$ -	\$ 4,050,000	\$ 4,200,000
Street Resurfacing Project	\$ 5,162,140	\$ 2,479,000	\$ 2,683,140	\$ 1,400,000	\$ 3,879,000
Willow Road Resurfacing	\$ 1,150,000	\$ 1,150,000	\$ -	\$ -	\$ 1,150,000
Chilco Streetscape & Sidewalk Installation	\$ 926,695	\$ 926,695	\$ -	\$ -	\$ 926,695
Santa Cruz & Middle Ave Resurfacing	\$ 367,295	\$ 367,295	\$ -	\$ -	\$ 367,295
			Total		\$ 10,522,990

Collected Developer Fees	2020-21
4025 Bohannon Dr	17,400
2775 Sand Hill Rd	17,400
1800 Bay Laurel Dr	18,560
2250 Tioga Dr	19,117
328 Central Ave	19,570
1190 Bellair Way	19,720
212 Hedge Rd	31,900
247 Hedge Rd	38,773
495 permits less than \$17,000	648,194
Total	830,634

**City of Menlo Park
Below Market Rate Housing Financial Report**

Attachment E

Below Market Rate Housing Special Fund	2016-17	2017-18	2018-19	2019-20	2020-21
Beginning balance	\$14,135,309	\$15,903,862	\$21,920,888	\$22,476,969	\$31,313,226
Fiscal Year Activity					
Charges for Services	1,824,526	6,109,892	354,517	5,437,462	808,964
Use of Money and Property	125,375	125,117	517,831	646,128	272,111
Expenditures	(181,348)	(217,983)	(316,267)	(515,156)	(924,674)
Proceeds from the Sale of Assets	0	0	0	0	0
Prior period adjustment	0	0	0	3,267,823	0
Adjustment for accounts payable					81,532
Ending balance	\$15,903,862	\$21,920,888	\$22,476,969	\$31,313,226	\$31,551,159
Adjustment for notes and interest receivable	(\$8,823,986)	(\$8,861,591)	(\$8,980,996)	(\$9,052,369)	(\$24,608,269)
Adjusted available balance	\$7,079,876	\$13,059,297	\$13,495,973	\$22,260,857	\$6,942,890

Below Market Rate Housing Special Fund Expenditures	
BMR housing program administration	\$ 924,674

Below Market Rate Housing Special Fund Future Projects	2021-25	Total
HGSF Homeownership Preservation Program (approved)	\$ 1,200,000	\$ 1,200,000
335 Pierce Road (pending)	\$ 3,600,000	\$ 3,600,000
Non-earmarked funds (expenditures, NOFAs, etc.)	\$ 2,142,890	\$ 2,142,890
		\$ 6,942,890

Collected Developer Fees¹	2020-21
1305 O'Brien Drive commercial in-lieu fee	\$ 410,414

¹ Included within "Charges for Services" line item