



City Council Agenda Report

Meeting Date: May 28, 2024

Prepared By: Nick Zornes

Approved By: Gabe Engeland

Subject: Adoption of Nexus Study for Development Impact Fees (DIF)

COUNCIL PRIORITY AREA

- Business Communities
- Circulation Safety and Efficiency
- Environmental Sustainability
- Housing
- Neighborhood Safety Infrastructure
- General Government

RECOMMENDATION

Adopt a Resolution of the City Council of the City of Los Altos Adopting a Nexus Study for Development Impact Fees in Compliance with Assembly Bill 602 (AB 602) and find that this action is exempt from environmental review pursuant to Section 15273 of the State Guidelines implementing the California Environmental Quality Act of 1970.

FISCAL IMPACT

On June 27, 2023, the Los Altos City Council authorized Professional Services Agreement with Matrix Consulting Group in an amount not-to-exceed \$198,885.00 and up to 10% contingency funds not-to-exceed \$19,888.50 for a total of \$218,773.50. The current funds expended for this study are within the original contract amount.

ENVIRONMENTAL REVIEW

Pursuant to CEQA Guidelines Section 15273 this item is exempt from environmental review. CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, and other charges by public agencies.

BACKGROUND

Development Impact Fees in California are governed by the Mitigation Fee Act, which includes AB1600 and AB602.

AB1600 specifies that there needs to be reasonable relationship or “nexus” between the fees collected and the services provided. To establish nexus the following must be analyzed:

- Purpose of Fee
- Impact Relationship

- Proportionality
- Benefit Relationship
- Use of Fee Revenue

On January 1, 2022, AB602 went into effect. The bill is applicable to all impact fees adopted or implemented after the effective date. The following are the main criteria of AB602:

- Prior to adoption of any new impact fee, the Nexus Study needs to be adopted (independently) at a Public Hearing with a 30-day notice.
- Nexus Study shall demonstrate and explain the service level accomplished by the fee.
- Impact Fees shall be proportionate and calculated on a square footage basis.

Additional key provisions and changes apart of AB602:

- Impact Fee schedule and Adopted Nexus Study shall be posted online.
- Impact Fees must be collected by the time of final inspection or certificate of occupancy.
- Members of the public or developer can contest the impact fee compliance with AB602 and AB1600.
- Impact Fee Nexus Studies are **only valid for 8 years maximum.**

Program 3.D: Evaluate and adjust impact fees.

The City will evaluate applying the park in-lieu and traffic impact fees on a per square foot basis rather than per unit to encourage the development of higher densities and smaller, more affordable housing units. Based on this evaluation, the City will modify impact fees in accordance with Assembly Bill 602 (AB 602) with completion of the comprehensive fee evaluation.

Responsible Body: Development Services Department, City Council

Funding Source: General Fund

Time Frame: Initiate comprehensive fee evaluation August 2023; complete comprehensive fee evaluation and modify fees December 2024

Maximum Justifiable Fee

It is important to note that the Nexus Study, dated May 2024 establishes the *Maximum Justifiable Fee* allowed to be collected by the City of Los Altos.

The Nexus Study calculates the maximum justifiable Development Impact Fees that can be charged on new development, and therefore, the City Council may adopt reduced Development Impact Fees below the maximum justifiable amount identified within the Nexus Study if doing so effectuates a policy of the City. Additionally, although the City of Los Altos could reduce one (or more) Development Impact Fee the City cannot then in turn raise another Development Impact Fee as each Fee is independently calculated based on the associated impact. All Development Impact Fees contained within the Final Report establish the Maximum Fees allowed.

ANALYSIS

Through the course of this analysis, the project team evaluated impact fees based upon the current projected population impacts between 2024 and 2040. Based on the results, the maximum justifiable impact fees were calculated for Parks and Recreation, Police, General Government, Fire, Library, Transportation, and Commercial Linkage. As outlined in the Mitigation Fee Act, proportional costs associated with future infrastructure impacts, along with administrative overhead, were used to calculate the full cost of the impact fees presented.

It is important to note that AB602 states that residential (single-family and multi-family) should be calculated based upon proportional square footage, rather than per dwelling unit. For compliance with this regulation, all residential fees have been converted to a per square footage calculation.

The following subsections show the results of the updated impact fees calculated for the City.

Parks and Recreation Impact Fee

The City of Los Altos currently assesses the Parks and Recreation Impact as an in-lieu fee. This means that the developer has the option to either mitigate the parks impacts or pay the City a fee. Through this study the City is considering converting it from an in-lieu fee to a development impact fee based upon the proportional impact of new development. This fee would cover capital costs as well as the acquisition of land. The following table compares the city's current fees to the full cost fee calculated through this study.

Category	Full Cost
Single-Family	\$12.12/sqft.
Multi-Family	\$44.15/sqft.

Public Art Development Fee

The City implemented a Public Art Development Fee in 2018. Unlike other impact fees, in lieu fees are only applicable if an applicant is unable to meet the public art installation requirements outlined within the City's General Plan and Municipal Code. Through this analysis, the project team calculated the full cost as a percentage of new construction valuation as the concept is the larger the project, proportionately the greater the public art impact, which is consistent with the City's current in-lieu fee calculation. The full calculation is shown as follows:

Category	Full Cost
All Development	1% of Construction Cost

Public Safety Impact Fee

The City is interested in establishing a Public Safety impact fee to help recover costs of Police and Fire facility and equipment within the city, which benefits both existing and future population. Through this analysis, the project team calculated the full cost to be as follows.

Category	Full Cost
Single-Family	\$0.09/sqft.

Multi-Family	\$0.34/sqft.
Commercial/Retail	\$1.22/sqft.
Office	\$1.62/sqft.

General Government Impact Fee

The City is interested in establishing a General Government impact fee to help recover costs of City Hall, Library, and other General City Facilities, which benefits both existing and future population. Through this analysis, the project team calculated the full cost to be as follows.

Category	Full Cost
Single-Family	\$0.13/sqft.
Multi-Family	\$0.48/sqft.
Commercial/Retail	\$2.14/sqft.
Office	\$2.86/sqft.

Transportation Impact Fee

The City currently charges a Transportation Impact Fee (TIF). However, this fee hasn't been updated since 2014. An updated TIF schedule has been calculated based on the historical level of investment in the citywide circulation network or existing facilities standard. The following table compares the city's current fees to the full cost fee calculated through this study.

Category	Full Cost
Single-Family	\$1.55/sqft.
Multi-Family	\$6.29/sqft.
Commercial/Retail	\$10.71/sqft.
Office	\$9.45/sqft.

Commercial Linkage Fee

The City is interested in establishing a Commercial Linkage fee to help recover costs related to funding the need for affordable housing due to new commercial development. Through this analysis, the project team calculated the full cost to be as follows.

Category	Full Cost
Commercial/Retail	\$702/sqft.
Office	\$245/sqft.

According to the analysis provided above and as enclosed in the comprehensive report provided by Matrix Consulting Group, the previously noted fees are the Full Cost Development Impact Fees allowable within the City of Los Altos. The above noted Development Impact Fees are provided after following rigorous requirements to establish essential nexus.

DEVELOPMENT IMPACT FEE SCENARIOS

Contained within the Agenda Item, Attachment #3 is a Development Impact Fee Scenario, which was requested at the April 30, 2024, City Council meeting.

The Development Impact Fee Scenarios have been structured in such a manner to simulate the actual DIF collection in future years for projects similar to completed development within the City. It is important to note that the DIF collected in future years will depend on the actual construction that is proposed, and the unit sizes created. A foundational principle of AB 602 is to allow for the construction of smaller units without the same associated price tag that is triggered by the per unit formula previously applied. Additionally, although some projects may see a reduction in the DIF collected on one line item, such as Park Impact Fee, it will see an increase in all other line items.

Lastly, the sixth and final scenario that is provided accounts for the DIF collection of Single-Family Developments on a non-vacant parcel, with an existing habitable structure and square footage. Previously the city has never collected DIF on this type of redevelopment within the city, however it is the single largest development application the city sees. What this means is that when a Single-Family parcel is purchased with an existing structure that is approximately 2,000 square feet, and the new property owner proposes to scrap and build a new 4,000 square foot residence, the project will be required to pay for the NEW and ADDITIONAL square footage that is created. As noted above, the City has never previously collected development impact fees for a project such as this because historically the city has only charged an collected fees on a per unit basis which does not create a mechanism to collect such fees.

RECOMMENDATION

Based on the Comprehensive Nexus Study conducted by Matrix Consulting Group, City staff proposes establishing all Development Impact Fees at the Full Cost identified for each impact fee except for the Commercial Linkage Fee. Full implementation of this recommendation does necessitate subsequent action to modify existing Municipal Code chapters, which will be amended and brought back to the City Council to ensure the implementing Ordinance is consistent with the Development Impact Fee schedule.

Parks and Recreation Impact Fee	
Category	Full Cost
Single-Family	\$12.12/sqft.
Multi-Family	\$44.15/sqft.
Public Art Development Fee	
All Development	1% of Construction Cost
Public Safety Impact Fee	
Single-Family	\$0.09/sqft.
Multi-Family	\$0.34/sqft.
Commercial/Retail	\$1.22/sqft.
Office	\$1.62/sqft.
General Government Impact Fee	
Single-Family	\$0.13/sqft.
Multi-Family	\$0.48/sqft.
Commercial/Retail	\$2.14/sqft.
Office	\$2.86/sqft.
Transportation Impact Fee	
Single-Family	\$1.55/sqft.
Multi-Family	\$6.29/sqft.

Commercial/Retail	\$10.71/sqft.
Office	\$9.45/sqft.
Commercial Linkage Fee	
Commercial/Retail	\$35.10/sqft.
Office	\$12.25/sqft.
*Commercial Linkage Fee is set at 5% of the Full Cost allowed.	

ATTACHMENTS

- 1. Draft Resolution**
- 2. Exhibit A – Nexus Study, dated May 2024**
- 3. Development Impact Fee Scenarios**