



City Council Agenda Report

Meeting Date: June 11, 2024

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Approved By: Gabe Engeland

Subject: Development Impact Fee and In-Lieu Fee Ordinance & Resolution

COUNCIL PRIORITY AREA

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

RECOMMENDATION

Two (2) separate actions for City Council consideration:

Introduce an Ordinance of the City Council of the City of Los Altos Adding Chapter 3.60 to Title 3 Revenue and Finance of the Los Altos Municipal Code Enacting Regulations for Development Impact and In-Lieu Fees and find that this Ordinance is exempt from environmental review pursuant to Section 15378(b)(4) and 15273(a)(1) and (a)(2) of the State Guidelines implementing the California Environmental Quality Act of 1970.

Introduce a Resolution of the City Council of the City of Los Altos Adopting Development Impact and In-Lieu Fees Based on the Adopted Nexus Study and find that this Resolution is exempt from environmental review pursuant to Section 15378(b)(4) and 15273(a)(1) and (a)(2) of the State Guidelines implementing the California Environmental Quality Act of 1970.

FISCAL IMPACT

No Applicable.

ENVIRONMENTAL REVIEW

Pursuant to CEQA Guidelines Section 15378(b)(4) and 15273(a)(1) and (a)(2) 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

On May 28, 2024, the Los Altos City Council adopted a Development Impact Fee Nexus Study to provide a comprehensive review and support for the establishment of Impact Fees within the City.

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.

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 modification to existing Municipal Code chapters, which are included as a part of this recommendation.

The following table identifies the recommended Development Impact Fees:

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.

ATTACHMENTS

- 1. Draft Ordinance – Adopting Chapter 3.60**
- 2. Appendix A – Chapter 3.60 Text**
- 3. Draft Resolution – Adopting Development Impact & In-Lieu Fees**
- 4. Draft Ordinance – Repealing Chapter 3.48**
- 5. Appendix A – Chapter 3.48 Text**
- 6. Draft Ordinance – Amending Chapter 3.49**
- 7. Appendix A – Chapter 3.49 Text**