City of Alameda

Staff Report

File Number: 2014-615

City Council

Agenda Date: 7/1/2014

File Type: Regular Agenda Item

Agenda Number: 6-B

Summary: Consider Updating the City's Development Impact Fees (DIF) and Related Sections of the Alameda Municipal Code

Public Hearing to Consider Introduction of Ordinance Amending Alameda Municipal Code Chapter XXVII, Section 27-3 (Citywide Development Fees); Adding Section 27-4 (Alameda Point Development Impact Fees); Introduction of Ordinance Amending the Alameda Municipal Code by Amending Charter XXVII (Development Fees) by Repealing Section 27-2 (Police and Fire Fee Requirements) in Its Entirety and by Amending Chapter III (Finance) by Repealing Section 3-60 (Residential Dwelling Unit Tax) in Its Entirety; and Approving Willdan Financial's City of Alameda Development Impact Fees Update and Nexus Study, dated June 2014. (City Manager 2110)
To: Honorable Mayor and Members of the City Council

From: John A. Russo, City Manager

Re: Hold a Public Hearing to Consider Introduction of Ordinance Amending Alameda Municipal Code Chapter XXVII, Section 27-3 (Citywide Development Fees); Adding Section 27-4 (Alameda Point Development Impact Fee); Introduction of Ordinance Amending the Alameda Municipal Code by Amending Charter XXVII (Development Fees) by Repealing Section 27-2 (Police and Fire Fee Requirements) in Its Entirety and by Amending Chapter III (Finance) by Repealing Section 3-60 (Residential Dwelling Unit Tax) in Its Entirety; and Approving Willdan Financial's City of Alameda Development Impact Fees Update and Nexus Study, dated June 2014. (City Manager 2110)

BACKGROUND

Staff proposes an ordinance amending various sections of the Alameda Municipal Code (AMC) relevant to development impact fees, and holding a public hearing to consider updating the City's development impact fees.

In 2001, the City Council of the City of Alameda approved a Citywide Development Fee for financing transportation, park, public safety, and other public improvements. Commonly called development impact fees, these are one-time charges to new development that fund the portion of capital improvements needed to serve new development.

Most cities charge development impact fees (DIF), although not always for the same type of public improvements. For example, the City of Berkeley charges a Childcare Impact Fee and the City of Dublin charges a Freeway Interchange Fee. Development impact fees are collected at the time a building permit is applied for, and are typically paid by developers, builders, or property owners seeking to develop their property. DIF are a method by which new development pays its "fair share" of the costs for needed public capital facilities.
The City's DIF must be updated. The current DIF have no fee customized to, and do not account for, Alameda Point's public infrastructure and facilities' needs. Given the backbone infrastructure at Alameda Point is old and insufficient to serve new development, development impact fees will be one of the main tools to finance the street, sewer, park, and

other public improvements required for Alameda Point's development. In addition, significant new development is proposed for the rest of the City given the strong regional economy, and, as a result, it is important that the DIF for the rest of the City are up-to-date and reflect the City's most current public capital facility needs.

Staff proposes updating various sections of the AMC related to these fees and retitling section 27-3 to "Development Impact Fees Ordinance." Pursuant to the Mitigation Fee Act, Government Code sections 66000 et seq., the update also requires the City to identify the purpose of the fees proposed, identify the facilities required to serve new development, and ensure there is a nexus between the fee's use and future developments' impacts. Willdan Financial's City of Alameda Development Impact Fees Update and Nexus Study, dated June 2014 ("Nexus Study"), at Exhibit 1, is intended to satisfy the Mitigation Fee Act's requirements.

DISCUSSION

Staff proposes one DIF for Alameda Point, and one DIF for the rest of the City. For both, the Nexus Study at Exhibit 1 sets out the maximum fees permitted under the state's Mitigation Fee Act.

DIF for Alameda Point. The Master Infrastructure Plan (MIP), approved by the City Council on February 4, 2014, identified $594 million in public infrastructure needed at Alameda Point. To calculate the DIF, site specific preparation and demolition costs are subtracted, as developers handle these on a site-by-site basis. The remaining $479 million in backbone infrastructure costs are spread among Alameda Point's 467 developable acres.

Table 1 summarizes the infrastructure costs as allocated between residential/mixed use and commercial. The Alameda Point DIF include replacement of current, deteriorated infrastructure and all new wet and dry utilities (i.e., sewer, water, electrical, storm drain, etc.), as well as major flood protection improvements (i.e., levee) that are not included in the rest of the City's DIF program.

Table 1: Summary of Infrastructure Costs and Area Development Impact Fee Burdens

Facility Type	Total Infrastructure Costs	Residential / Mixed Use Allocation	Commercial Allocation
Demolition and Site Prepa	$55,657,293	$20,358,191	$35,299,101
Flood Protection and Roac Grading	$70,805,813	$25,899,181	$44,906,632
Street Work and Transport	$145,813,090	$17,933,572	$127,879,518
Water System	$20,366,000	$8,939,531	$11,426,469
Sewer System	$22,611,150	$7,956,102	$14,655,047
Storm Drainage	$37,969,000	$12,734,430	$25,234,570
Dry Utilities	$21,066,192	$8,875,930	$12,190,263
Parks/Open Space	$79,955,000	$75,957,250	$3,997,750
Public Facilities	$24,927,000	$10,502,624	$14,424,376
Total Infrastructure Cost	**$479,170,538**	**$189,156,811**	**$290,013,726**

[1] This amount includes the cost of preparation and demolition for *public land* while excluding the cost of *site* preparation and demolitic of the developers of each site.

Sources: Nexus Study; Carlson, Barbee & Gibson; City of Alameda Table 7.3, Appendix Tables C.1 - C.12, Willdan Financial Service

Table 2 shows how the impact fees are calculated by dividing the allocated cost in each use type by that use type's developable acres.

Table 2: Impact Fees per Acre Calculation		
Item	**Residential / Mixed Use**	**Commercial**
Total Allocated Costs per Acre	$189,156,811	$290,013,727
Developable Acres	171	296
Total Cost per acre	**$1,107,121**	**$978,965**
Sources: Nexus Study Tables 7.2 and 7.3, Willdan Financial Services.		

The Alameda Point DIF are fees of $1,107,121 per residential/mixed use acre and $978,965 per commercial acre. The per-acre fee difference primarily results from residential/mixed use paying a greater share of park improvements.

The City's policy considerations for the Alameda Point DIF are different from those governing the rest of the City. For the rest of the City, the DIF must be in line with comparable cities to ensure new development is not treated unfairly. For Alameda Point, the City must ensure that later development phases are not over-burdened with infrastructure obligations, even if that means new development happens more slowly or not at all . As both the property owner and local regulator for Alameda Point, the City can control the pace and amount of new development and, at the City's discretion, invest proceeds from the sale of public land to offset the burden of paying for this new infrastructure. In fact, the City's agreement with the Navy mandates that proceeds from any sale or lease of public land at Alameda Point can only be used at Alameda Point.

In addition, development at Alameda Point will involve other City Council-approved financing mechanisms not as readily available to smaller developments, including community facilities district bonds supported by special taxes, grants, land sale proceeds, and other infrastructure financing. Among these financing mechanisms, the Alameda Point DIF are an important tool to make certain that, over the next two to three decades, the City collects the minimum amount per acre to ensure the entire MIP is funded. By doing so, the DIF will not only protect later phases at Alameda Point from being overburdened, but will also guard against burdening the rest of Alameda with infrastructure costs that primarily serve Alameda Point.

DIF for the rest of the City. The DIF for the rest of the City have four categories: public safety, general public facilities, parks, and transportation. These fees have not been updated since 2001. While each fee category has its own methodology for determining fees, three main principles apply throughout:

1) The City aims to continue the existing level of service through the City's growth;
2) New development should pay its fair share of the City's infrastructure needs; and
3) The fee amounts should be calibrated against the fees charged by other cities so the fee amounts are not unfair.

Residential Development

In Table 3, the column labeled "Proposed Total" is the staff recommendation for residential development impact fees. Residential fees are charged per dwelling unit. The column labeled "Max. Justified" are the highest fees justified by the Nexus Study. The column labeled "Current Total" shows the City's current fees. The proposed fees are an increase from current fees, although, as shown in Table 4, remain below the average of comparable cities.

Table 3: Residential Impact Fees (Excluding Alameda Point)							
	Public Safety	General Public Facilities	Transp.	Parks	Proposed Total	Max. Justified	Current Total
Residential - Dwelling Unit							
Single Famil	$1,880	$1,217	$1,976	$11,528	$16,601	$18,445	$4,057
Multi-family U	$1,492	$965	$1,534	$9,149	$13,140	$13,140	$3,082

[1] Proposed fees for single family are reduced by 10% compared to maximum justified fees.

[2] Proposed fees for multifamily charged at maximum justified amount.

Sources: Nexus Study Tables 3.5, 4.5, 5.5, and 6.9; Willdan Financial Services.

Table 4 applies impact fees for residential uses in nine comparable cities. The comparable cities are Berkeley, Hayward, San Leandro, Dublin, Emeryville, Walnut Creek, Fremont, Newark, and Union City, selected because these are cities with which a developer is most likely to compare the City of Alameda. Oakland was not included, as reliable impact fee calculations could not be retrieved from its website or staff. The column labeled "Survey City Average" shows the averaging of nineteen different types of impact fees across these nine jurisdictions. This table shows the proposed increase in the context of the overall impact fee burden for those seeking to build a single family, townhome, or multifamily unit in these cities, including all impact fees that could be charged under the Mitigation Fee Act.

Table 4: Residential Fees Comparison				
	Alameda			
	Current	Maximum	Proposed	Survey City Average
Development Prototy Unit[1]				
Single Family	$18,287	$30,904	$29,060	$29,357
Townhome	$17,819	$30,904	$29,060	$27,584
Multifamily	$10,578	$19,004	$19,004	$19,624

[1] Survey city average for residential units includes all public facilities related fees except for those related to affordable or inclusiona

Sources: Cities of Berkeley, Hayward, San Leandro, Dublin, Emeryville, Walnut Creek, Fremont, Newark, and Union City; Willdan F

The proposed fees are below the survey cities' average on single family and multifamily and very near the average for townhomes. To get to the proposed amount, fees for single family development were reduced by 10% of the maximum justified fee.

It is important to note that Table 4 subtracts out the impact fees for affordable or inclusionary housing. The cities of Berkeley, Hayward, Dublin, Newark, and Walnut Creek have affordable (or inclusionary) housing fees, and these fees are as much as $20,000 and $30,000 per dwelling unit. Cities vary in their administration of inclusionary programs, e.g., the mix of low- and moderate-income units required, whether in-lieu fees can be paid, at what size project requirements change, etc. For example, in 2003, the City of Alameda passed an Inclusionary Housing Ordinance, AMC section 30-16, that requires 15% of all residential units be affordable to very low-, low-, and moderate-income households. Developments with five to nine units can pay a fee in lieu of providing an affordable unit. Developments with ten or more units must include affordable units in their project and there is no provision for an in-lieu fee.

Since the ordinance passed in 2003, there have not been any developments of five to nine units, thus no development in the City of Alameda has paid the in-lieu fee. Given the fee has never been charged and the varying administration of these programs, staff subtracted out **all** affordable or inclusionary housing fees from the survey of comparable cities in order to make a more appropriate comparison.

Non-Residential Development

For nonresidential development, Table 5 shows the proposed development impact fees. These fees are charged per 1,000 square feet of development. The Proposed Fees are the staff recommendation. Each of the proposed fees are also the maximum justifiable fees with the exception of retail, which is kept at the current fees' amount to attract more retail development and increase the City's sales tax base.

Table 5: Nonresidential Fees (Excluding Alameda Point)

	Public Safety	General Public Facilities	Transp.	Parks	Proposed Totals	Max. Justified	Current Total
Nonresidential fees per 1,000 square fe							
Retail[1]	$415	$268	$3,700	$0	$4,383	$6,140	$4,383
Commercial/(	$761	$490	$3,641	$0	$4,892	$4,892	$4,245
Warehouse/N	$283	$183	$3,064	$0	$3,530	$3,530	$2,898

[1] Proposed fee for retail set to match existing retail fee.

[2] Proposed fee for Commercial/Office and Warehouse/Manufacturing charged at maximum justified amount.

Sources: Nexus Study Tables 3.5, 4.5, 5.5, and 6.9; Willdan Financial Services.

Table 6 applies the various impact fees for nine comparable cities to four nonresidential development prototypes: office, research and development, retail, and hotel. This comparison includes all twenty-two impact fees, including affordable housing, because the City has charged these fees on nonresidential development and there is more uniformity across cities in how nonresidential affordable housing fees are administered. Table 4 confirms the proposed nonresidential fees for office, retail, and hotel are near or below the survey city average.

Table 6: Nonresidential Fees Comparison

	Current	Maximum	Proposed	Survey City Averag
Nonresidential - per				
Office	$11,864	$12,391	$12,391	$12,464
R&D [2]	$12,336	$12,863	$12,863	$11,658
Retail	$10,461	$12,099	$10,342	$16,257

Hotel [2]	$11,965	$12,492	$12,492	$15,062
1. Survey city average for nonresidential building square feet includes all public facilities related fees, including those related to affor				
Sources: Cities of Berkeley, Hayward, San Leandro, Dublin, Emeryville, Walnut Creek, Fremont , Newark, and Union City; Willdan F				

Public Input. Staff held a public meeting on May 21, 2014, to which the Chamber of Commerce's members, local developers, realtors, and commercial brokers were invited. Participants raised three main concerns. One, homebuilders were concerned with the increased fee amounts for residential projects. Staff believes this concern has been mitigated by ensuring residential fees are near or below the average of surveyed cities.

Two, participants were concerned about increased fees being applied to projects already in the entitlement process. State law requires the fees take effect no earlier than 60 days from the date the City Council approves them. With final action (second reading) on July 15, 2014, the fee amounts would be effective September 19, 2014. Between now and then, any developer who submits an application for a building permit will pay the current fees. Beginning September 19, 2014, all developers applying for a building permit would pay the updated fees. Altogether, developers will have had nearly four months to either apply for a building permit or prepare for the new fee amounts.

Three, several homebuilders pointed out that the equivalency of fees between the single family and townhome prototypes might result in building of only single family homes-and not townhomes-because single family projects would be more profitable. Staff believes that market conditions, and not impact fees, are much more likely to dictate the type of construction that will be built. In addition, the fee equivalencies reflect that single-family and townhome developments generate the same impacts, as they have the same average square footage, bedroom count, occupancy levels, etc.

Municipal Code Changes. Staff proposes amendments to AMC section 27-3, Citywide Development Fees. These amendments retitle the ordinance, introduce definitions, and clarify the process for handling fee credits and reimbursements, among other updates. (See Exhibit 3 for proposed changes to section 27-3.) A new section 27-4 authorizes the Alameda Point DIF and largely mirrors the amended Section 27-3. With approval of this update, two AMC sections become obsolete and are repealed: section 27-2, Police and Fire Fee, and section 3-60, Residential Dwelling Unit Tax.

FINANCIAL IMPACT

The Nexus Study identifies $600+ million in future public improvements at Alameda Point and the rest of the City that are needed to help serve new development. If the updated fees are not adopted, a portion of these improvements either will not be built or will be built using other funds, including the General Fund.

MUNICIPAL CODE/POLICY DOCUMENT CROSS REFERENCE

Guiding Policies 2.4.q, 2.5.zzz, 2.7.f and 2.8.i of the City's General Plan Land Use Element "require that all new development pay appropriate development impact fees."

ENVIRONMENTAL REVIEW

This project is statutorily exempt under California Environmental Quality Act Guidelines section 15273 (a)(1) "Rates, Tolls, Fares and Charges," as well as sections 15061(b)(3) and 15378 (b)(4).

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RECOMMENDATION

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Respectfully submitted,
Elizabeth D. Warmerdam, Assistant City Manager

By,
Liam Garland, Administrative Services Manager

Financial Impact section reviewed,
Fred Marsh, Finance Director

Exhibits:
1. Willdan Financial's Development Impact Fees Update and Nexus Study
2. Willdan Financial's Fee Comparison Surveys with Detail
3. Proposed changes to AMC section 27-3