

Appendix F.

Landscape Review of Impact Fees

MEMORANDUM

To: Rogelio Foronda and Julie Morgan, Fehr & Peers
From: Dena Belzer, President, and Madeleine Galvin, Associate
Date: January 2, 2024
Project: C/CAG VMT Model Mitigation Program
Subject: Landscape Review of Impact Fees in Four Cities in San Mateo County

This memo has been prepared to provide background context for the City/County Association of Governments (C/CAG) Vehicle Miles Traveled (VMT)/Greenhouse Gas (GHG) Model Mitigation Program. Included below: a brief introduction to impact fees, a summary of findings from four case study cities regarding the types of fees that have been enacted, and a more in-depth description of the fee programs in each of the four cities.

IMPACT FEE BACKGROUND

This section provides a basic introduction to development impact fees. It provides an overview of how impact fees are applied, their governance and regulatory requirements, and the ways in which they can be increased. It concludes with a summary of current challenges for evaluating and comparing impact fees across fee types and jurisdictions.

Impact Fee Definition

- Impact fees are levied on new development to offset the impacts new users will have on city services and infrastructure tied to that growth. These fees are imposed on a one-time basis so they can only support capital projects, not ongoing operations.
- Fee amounts are set in direct relationship to the increased demand for services or infrastructure from each new development project. Therefore, impact fees are an incremental way to pay for new facilities. In addition, these fees cannot be used to pay for any existing facility deficiencies that pre-date the construction project. Any additional costs of the improvement not generated by new development, must be funded through other methods.¹
- There are a variety of types of impact fees that fund different facilities, infrastructure, services, and capital improvement projects. These include school, transportation, environmental, fire and public safety, park and art, housing, and capital improvement impact fees.²
- These fees are separate from the service fees a city may charge to process the project as it moves through the entitlement process such as design review or plan checks, or those required to obtain certain permits or infrastructure connections and inspections. However,

¹ "Development Impact Fees." SCAG. <https://scag.ca.gov/post/development-impact-fees#:~:text=Impact%20fees%20must%20be%20adopted,new%20development%20on%20schools%2C%20parks.>

² Residential Impact Fees in California: Current Practices and Policy Considerations to Improve Implementation of Fees Governed by the Mitigation Fee Act." 2019. Turner Center. https://turnercenter.berkeley.edu/wp-content/uploads/pdfs/Residential_Impact_Fees_in_California_August_2019.pdf.

when development fee costs are calculated in a developer's proforma, these services fees may appear in the same line item as impact fees.

- Impact fees are separate from exactions or community benefits required by development agreements. In addition, impact fees are separate from other in lieu fees, such as those required by a city's inclusionary housing ordinance or through the Quimby Act. This is because these fees are regulated under other sections of the Government Code and thus have different requirements for their implementation.
- Impact fees are determined and implemented at the local level, with individual cities and counties having the authority to establish and collect these fees. Local jurisdictions have the flexibility to tailor impact fee programs to their specific needs and circumstances.

Impact Fee Adoption

- Impact fees are subject to Government Code 66000-66025, under the "Mitigation Fee Act."³ The Act was adopted in AB 1600 in 1987. Only impact fees and CEQA mitigation fees are subject to the Act; all other development fees such as those mentioned in the section above are exempt.
- The Mitigation Fee Act mandates that impact fees must demonstrate the link between the new development and its impact on infrastructure, and the fee being imposed, typically documented in a report called a nexus study. Nexus studies demonstrate the connection between new developments and their impact on city infrastructure and facilities to justify the proposed fee. Fee amounts are determined by developing a total project cost in response to existing and/or future demand, e.g., trip generation rates, then charging each project its share of that cost based on the demand the project will generate.
- Because impact fee levels are tied directly to demand for services or infrastructure, if the project cannot absorb this cost, then the project may not get built. Individual developers are responsible for evaluating whether their project can manage these costs. As a result, jurisdictions imposing an impact fee rarely conduct a financial feasibility assessment as part of developing or adopting an impact fee. Cities can choose to complete a financial feasibility study to test the impact a proposed fee could have on project feasibility. But there is not much incentive to do such an analysis because cities have so few other options for paying for new infrastructure if they do not collect impact fees.

Fee Updates

- Cities may adjust their impact fees annually to keep pace with changes in the costs of providing the services or infrastructure covered by the fees. Cities often use a readily available cost factor to index the fees; examples may include the Consumer Price Index (CPI), the Employment Cost Index (ECI), which sometimes is used for childcare fees, or the Construction Cost Index (CCI).⁴ The cost factor is chosen at the discretion of each jurisdiction.
- The state legislature passed AB 1483 in 2019 to increase transparency around fees and address those that might be excessive. These reforms involved a new requirement that nexus studies be made publicly available and that fee schedules be posted to each

³ California Legislative Information.
https://leginfo.ca.gov/faces/codes_displaySection.xhtml?sectionNum=66000.&nodeTreePath=11.1.20&lawCode=GOV.

⁴ "Development Impact Fee and In-Lieu Fee Study, San Mateo, CA." 2021. Matrix Consulting.
<https://www.cityofsanmateo.org/DocumentCenter/View/86331/Final-Impact-Fee-Study-Report--Matrix-Consulting-Group>.

- jurisdiction's website. The fee schedules include current information on fee levels, adjusted for the cost factor chosen by the jurisdiction.
- AB 602, passed in 2021, requires that jurisdictions update their nexus studies every eight years. However, cities are not obligated to update their fee based on findings of the new nexus study, as long as it demonstrates a reasonable relationship between the impacts of new development and the current charge. Jurisdictions are also on different timelines for nexus study updates, as past studies were completed in different years.

Case Studies

Strategic Economics reviewed the impact fees collected by four cities in San Mateo County: South San Francisco, East Palo Alto, Redwood City, and Pacifica. In addition, the Consultant Team also compiled details on transportation-specific impact fees and the types of projects they fund.

Transportation-Related Impact Fees

- Several of the cities assessed in this review had more than one transportation related impact fee. Table 1 presents a summary of the specific goals and project types funded through the transportation-related fees in each city.
- This is relevant to the possible implementation of a VMT/GHG mitigation impact fee because it demonstrates the range of transportation-related fees currently being levied by jurisdictions in San Mateo. It also may highlight potential gaps in project funding to which a VMT mitigation fee might be applicable.

Summary of Transportation Related Fees and Project Types Funded

City	Fee Name	Purpose	Types of Projects Funded
South San Francisco	Transportation Impact	Fund transportation improvements and facilities needed to serve the City.	Improvements to roads, sidewalks, traffic lights, bicycle lanes and pathways, curbs and gutters, and medians.
	East of the 101 Traffic Impact	Fund new and expanded roadway and intersection improvements to serve the area of the city located east of US 101.	Road and intersection improvements.
	Bicycle and Pedestrian Impact	The fee supports the implementation of the Bicycle Master Plan adopted in 2011.	Capital projects that complete the City's existing network of bicycle paths, lanes, and routes.
East Palo Alto	Transportation Impact	Provide adequate roads for the City's citizens and workforce to improve general transportation and safety. Provide traffic mitigation measures through transportation infrastructure improvements and strengthen the condition of streetscapes and public areas.	Public roads and multi-modal streetscape facility improvements, street tree planting, street lighting, benches, and furniture upgrades.
Redwood City	Transportation Impact	Fund transportation system improvements that address traffic congestion and other negative impacts of increased traffic volumes caused by new development.	Intersection improvements, bicycle/pedestrian improvements, School District Safe Routes to School, development of a TDM policy, active transportation corridor improvements, streetscape projects, and road extensions.
Pacifica	Highway 1 Improvements	Fund improvements to Highway One.	Road improvements.
	Manor Drive/Palmetto Avenue/Oceana Boulevard Intersections	Fund improvements that alleviate traffic congestion at intersections.	Intersection improvements.

Source: City of South San Francisco, 2021; AECOM, 2019; City of Redwood City, 2022; City of Pacifica 2021; Strategic Economics, 2023.

Case Study Methodology

- When full nexus studies were available, Strategic Economics compared the maximum impact fee calculated with the fee implemented by the city to determine what percentage of the fee was adopted relative to its computed maximum.
- As past landscape reviews of impact fees have noted,⁵ fees were difficult to find, compile, and compare due to several reasons. These include the lack of standardization in methods and metrics, inconsistencies in the availability of nexus studies, and different means of increasing fees year over year.
- Since nexus studies are legally required for the adoption of a new impact fee, all fees have an associated study, even if these studies are not available on city websites.

⁵ "Improving Impact Fees in California: Rethinking the Nexus Study Requirement." 2020. Terner Center for Housing Innovation. <https://ternercenter.berkeley.edu/blog/improving-impact-fees-in-california-rethinking-the-nexus-studies-requirements/>.

- Key takeaways from this review of all impact fees include:
 - Impact fees are frequently adopted at a rate lower than the maximum calculated fee that a project could absorb and still be feasible in the nexus analysis. This can be due to a variety of reasons, such as a local priority to encourage new development by not setting fees at their maximum.
 - Park fees are the most common fee type across the four cities.

South San Francisco

- The City of South San Francisco has several impact fees that are applied to a variety of land uses. The land uses are not standardized across fees, nor is the methodology to apply the fee. Fees can be applied on a per square foot, per unit, or per room basis, or using a formula that calculates projected usage rates.
- Table 2 summarizes the impact fees charged by the City. Note that these are not all of the development fees charged by the City.
- Table 3 shows the fee amounts currently being charged.
- In general, the city has adopted fees on residential uses at a level lower than the maximum calculated in the nexus studies. The fees applied to non-residential uses tend to be set at levels that are closer to the maximum nexus calculation.

Table 2. South San Francisco Impact Fee Summary Table

Impact	Year Adopted	Nexus Study Publicly Available⁶	Year
Childcare	2001	Y	2020
Library	2020	Y	2020
Public Safety	2012	Y	2020
Transportation	2020	Y	2020
Commercial Linkage	2018	N	2018
East of the 101 Traffic	2001	N	N/A
Bicycle and Pedestrian	2017	N	N/A
East of 101 Sewer	2007	N	N/A
Park Construction	2017	N	N/A
Park Acquisition Fee	2017	N	N/A
Oyster Point Interchange	1984	N	N/A

Sources: City of South San Francisco, 2021; Strategic Economics, 2023.

⁶ Study available at: <https://ci-ssf-ca.legistar.com/LegislationDetail.aspx?ID=4611122&GUID=FA10A4FE-50BC-4B20-B859-53D9560DEFA1&FullText=1>.

Table 3. Current City of South San Francisco Fee Rates

Fee	Year Fee Updated	Mobile Home (d/u)	Low Density Res. (d/u)	Medium Density Res. (d/u)	High Density Res. (d/u)	Office (sf)	Industrial (sf)	Commercial/Retail (sf)	Hotel (sf)
Childcare	2021-2022	-	\$3,626	\$3,176	\$2,703	\$1.32	\$0.52	\$0.71	\$0.26
Library	2021-2022	-	\$726	\$635	\$541	\$0.13	\$0.04	\$0.07	\$0.03
Public Safety	2021-2022	-	\$1,452	\$1,371	\$1,081	\$1.15	\$0.42	\$0.46	\$0.27
Transportation	2021-2022	-	\$7,039	\$4,056	\$4,045	\$30.53	\$13.77	\$26.62	\$2,565**
Traffic	2021-2022	-	-	-	-	\$6.66	-	\$27.63	\$1,552**
Bicycle and Pedestrian	2021-2022	\$127	\$243	\$170	\$170	\$0.09	\$0.12	\$0.36	\$0.24
Commercial Linkage	2021-2022	-	-	-	-	\$16.55	-	\$2.76	\$16.55
Park Land Acquisition	2021-2022	\$2,286	\$2,183 to \$2,976*	\$1,759	\$1,535	\$3.10	\$1.47	\$1.32	\$1.26
Park Construction	2021-2022	\$21,029	\$20,076 to \$27,376*	\$16,188	\$14,125	\$3.10	\$1.47	\$1.32	\$1.26
East of 101 Sewer Impact	2021-2022	\$5.87/Gallon, with standard assumption of 400 gallons per day per 1,000 sf of building area.							
Oyster Point	2021-2022	-							
						(total sf/1000 sf) x \$154 x (ENR CCI)/\$6,552***			

Source: City of South San Francisco, 2021; Strategic Economics, 2023.

*Varies based on the density of units.

**per room

***ENR CCI is the Construction Cost Index published in the Engineering News Record (ENR)

East Palo Alto

- The City of East Palo Alto adopted a set of impact fees in 2019 to plan for expected growth in the residential and worker population (see Table 4)
- Prior to 2019, impact fees were assessed on a case-by-case approach.
- The 2019 nexus study was accompanied by a pro forma to determine the level at which to implement the fees. This was not a legally required step in implementing the fee, however, gave the City more information about how the fees influenced development feasibility. The results of the pro forma indicated that the City could adopt the maximum level of the fee without rendering development unfeasible. The City chose to implement the fees at the maximum level supported in the nexus analysis, with the exception of the transportation impact fee on new retail development which was set somewhat lower than the maximum nexus level. Since the fees were implemented in 2019, they have been indexed on a yearly basis.
- The City had commissioned a Commercial Linkage Fee study in 2015 that was not adopted until 2020. When it was adopted, the fee level was set at a relatively low level and was only applied to new industrial development, despite having been calculated for several non-residential land uses.
- The Storm Drainage Impact Fee was adopted at different rates for two areas of the city, highlighting the customizable nature of fees to the local planning and development context.
- All current fees are shown in Table 5.

Table 4. East Palo Alto Impact Fee Summary Table

Impact Fee	Year Adopted	Nexus Study Available ⁷	Year
Parks & Trails	2019	Y	2019
Public Facilities	2019	Y	2019
Transportation Infrastructure	2019	Y	2019
Storm Drainage - Citywide	2019	Y	2019
Storm Drainage - Within RBD*	2019	Y	2019
Commercial Linkage Fee	2020	Y	2015

Sources: City of East Palo Alto, 2021; Strategic Economics, 2023.

*RBD stands for the Ravenswood Business District, which is under the planning guidance of a specific plan.

Table 5. Current City of East Palo Alto Fee Rates

Impact Fee	Year Fee Updated	ADU (d/u)	Single Family (d/u)	Multifamily (d/u)	Office (sf)	Industrial (sf)	Retail (sf)
Parks & Trails	2023	\$1,942	\$4,856	\$3,345	\$1.36	\$0.54	\$0.9
Public Facilities	2023	\$3,406	\$8,516	\$5,866	\$2.36	\$0.96	\$1.57
Transportation Infrastructure	2023	\$1,107	\$2,770	\$2,085	\$8.6	\$5.6	\$8.6
Storm Drainage - Citywide	2023	\$1,316	\$3,290	\$82,246*	\$82,246*	\$82,246*	\$82,246*
Storm Drainage - Within RBD	2023	\$2,274	\$5,686	\$142,169*	\$142,169*	\$142,169*	\$142,169*
Commercial Linkage	2023	-	-	-	\$11.4	-	-

Sources: City of East Palo Alto, 2023; Strategic Economics, 2023.

*This is charged per impervious acre.

Redwood City

- The City of Redwood City has only a few impact fees regulated by the conditions of the Mitigation Fee Act (see Table 6). However, there are other fees charged to new development, such as a public art fee and a parking in lieu fee in the downtown area that raise the cost of development.
- The city may only have a few impact fees because it has a robust community benefits program that also funds capital projects.
- The city elected to set the parks impact fee at the maximum level calculated in the nexus analysis, while the affordable housing fee was set at levels lower than the maximum nexus.
- A new transportation impact fee nexus study was published in November 2023. The City has yet to update its fee rates, however.
- All current fees are shown in Table 7.

⁷ Studies available at:

https://www.cityofepa.org/sites/default/files/fileattachments/public_works/page/4101/epa_allocation_methods_technical_memo_-_final_2019_02_28_201903051337056622.pdf, and

https://www.cityofepa.org/sites/default/files/fileattachments/housing/page/20967/nexus_study_commercial_linkage_fee.pdf.

Table 6. Redwood City Impact Fee Summary Table

Impact Fee	Year Adopted	Nexus Study Available ⁸	Year
Parks	2022	Y	2022
Affordable Housing	2018	Y	2015
Transportation	2012	Y	2023

Source: City of Redwood City, 2021; Strategic Economics, 2023.

Table 7. Redwood City Current Impact Fee Rates

Impact Fee	Year Fee Updated	Single Family/Low Density (d/u)	Multifamily (d/u)	Office (sf)	Industrial (sf)	Retail (sf)	Hotel (per room)
Parks	2022	\$47,414	\$40,710	\$7.86	\$2.54	\$5.40	\$3,326
Transportation	2021	\$1,617	\$992	\$2.38	\$1.55	\$3.94	\$945
Affordable Housing	2021	\$20 to \$25*	-	\$23.62	-	\$5.91	\$5.91**

Sources: City of Redwood City 2021; Economics and Planning Systems, 2022; Strategic Economics, 2015; Strategic Economics, 2023.

*condos and apartments are on the low end; single family homes, townhomes, duplex, and triplexes are on the high end

**per sf

Pacifica

- The City of Pacifica has several impact fees that were established before the Mitigation Fee Act but are now administered according to its guidelines (see Table 8).
- Based on the sole nexus study available online (for the park facilities fee program), the city elected to set the fee levels substantially below the maximum amount calculated in the nexus analysis.
- Table 9 lays out the current fee rates and basis for their applicability. Unlike other cities surveyed, Pacifica’s impact fees vary substantially in how they are applied.

Table 8. Pacifica Impact Fee Summary Table

Impact Fee	Year Adopted	Nexus Study Available ⁹	Year
Park Facilities	2012	Y	2021
Highway 1 Improvements	1982	N	N/A
Manor Drive/Palmetto Ave/Oceana Boulevard	1984	N	N/A
Planned Drainage Facilities	1986	N	N/A
Capital Projects	1984	N	N/A
In Lieu Parking Facilities	2020	N	N/A
Sewer Facility Construction	1984	N	N/A

Sources: City of Pacifica, 2022; Strategic Economics, 2023.

⁸ Studies available at: <https://www.redwoodcity.org/home/showpublisheddocument/23515/637568852846170000>, <https://www.redwoodcity.org/home/showpublisheddocument/27445/638388322844730000>, and <https://www.redwoodcity.org/home/showpublisheddocument/5385/635791385557430000>.

⁹ Study available at: <https://www.cityofpacifica.org/home/showpublisheddocument/2482/637839080799230000>.

Table 9. Current City of Pacifica Fee Rates

Impact Fee	Year Fee Updated	Basis
Park Facilities	2021-2022	Charges per unit based on the number of bedrooms. Studios are \$2,263, 1-bedrooms are \$3,581, 2-bedrooms are \$5,011, 3-bedrooms are \$6,205, 4-bedrooms are \$7,638, and 5-bedrooms are \$8,830. Each additional bedroom over 5 has an added cost of \$1,433.
Highway 1 Improvements	2021-2022	Development in the primary area is charged \$2,100 for each new residential unit above 1,000 sf, and \$840 for each 1,000 sf of commercial area per unit. In the secondary area, these charges drop to \$700, and \$275, respectively.
Manor Drive/Palmetto Ave/Oceana Boulevard	2021-2022	\$180 per trip generated, according to rates provided by the City Engineer. All residential trips are fully charged, while commercial, office, and retail development is charged at 40% of all trips.
Planned Drainage Facilities	2021-2022	Development is charged based on rate associated with area of the city.
Capital Projects	2021-2022	Each bedroom in every new residential unit is charged \$110, each new hotel/motel unit is charged \$55, and all other new structures are charged an amount equal to one percent of the permit valuation.
In Lieu Parking Facilities	2021-2022	Each in lieu parking space is charged \$40,260.
Sewer Facility Construction	2021-2022	This fee is composed of several different charges that are applied to residential, commercial units, as well as to some specific industrial and manufacturing developments.

Sources: City of Pacifica, 2022; Strategic Economics, 2023.