



CITY OF SAN MATEO

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Agenda Report

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TO: City Council

FROM: Alex Khojikian, City Manager

PREPARED BY: Finance Department

MEETING DATE: December 4, 2023

SUBJECT:

Receipt and Use of Development Impact Fees and In-Lieu Fees – Annual Report

RECOMMENDATION:

Adopt a Resolution to make findings and accept the annual report on receipt and use of development impact fees and in-lieu fees for the year ended June 30, 2023.

BACKGROUND:

Development Impact Fees

The City of San Mateo assesses four development impact fees – Wastewater Treatment Plant Phase II Expansion Fee, Transportation Improvement Fee, South Trunk Area Sewer Improvement Fee, and Park Impact Fee.

Local governments often charge fees as a condition of approval for development projects to fund public improvements in order to compensate for the demands that the developments have on public resources. These fees are commonly known as development impact fees. In 1989, the State Legislature passed Assembly Bill 1600 (AB 1600), which added Sections 66000 et seq. to the California Government Code, commonly known as the Mitigation Fee Act. Government Code Section 66006 requires that the City make available to the public the following information regarding development impact fees within 180 days after the end of each fiscal year:

1. A brief description of the type of fee.
2. The amount of the fee.
3. The fee's beginning and ending balances for the fiscal year.
4. Total fees collected and the interest earned, if applicable.
5. 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.
6. Identification and timeline of public improvements any unexpended fees will be used for.
 - a. This information is listed in Exhibit A to the Resolution. Exhibit A shows the five-year plan for public improvement projects and their anticipated expenditures related to the Mitigation Fee Act and Quimby Act. Specific details on each of the projects listed in Exhibit A can be found in the five-year capital improvement program section in the City's 2023-24 Budget, which was adopted by City Council on June 20, 2023.
7. Description and uses for transfers or loans of fees, if applicable.
8. Amounts of any refunds and allocations.

Further, the Mitigation Fee Act 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. If findings are not presented as scheduled, the City may be subjected to go through a refunding procedure. The City is opting to make such findings every year.

In-Lieu Fees

In-lieu fees are fees that are collected by the City instead of requiring developers to provide or construct specified improvements or amenities with their projects. The City of San Mateo assesses five in-lieu fees – Parking In-Lieu Fee, Art in Public Places Fee, Tree Replacement Fee, Below Market Rate Housing Fee, and Park In-Lieu Fee.

Park

In-Lieu Fees are assessed pursuant to the Quimby Act under Government Code Section 66477. The other in-lieu fees do not have statutory reporting requirements but are included in this report. In an abundance of caution, and based on recent caselaw, this report and resolution include the same reporting requirements and findings for in-lieu fees that apply to impact fees. Under the Quimby Act, local governments may require the dedication of land for parks or the payment of fees in-lieu of land dedication as a condition of subdivision map approval. While park in-lieu fees are exempt from the reporting requirements included in the Mitigation Fee Act, these fees have separate Quimby Act reporting requirements, specifically:

1. The City must develop a schedule specifying the use of land or fees to develop park or recreational facilities to serve the residents of the subdivision.
2. Any Quimby fees collected must be committed within five years after the payment of the fees or the issuance of building permits on one-half of the lots created by the subdivision, whichever occurs later.
3. If not committed, the fees shall be distributed and paid to the record owners of the subdivision in the same proportion that the size of the lot bears to the total area of lots within the subdivision (Gov. Code section 66477(a)(6)).

Linkage Fees

Linkage fees are exactions for social needs indirectly related to development projects. The City of San Mateo assesses two linkage fees – Child Care Development Fee and Affordable Housing Commercial Linkage Fee. While these are linkage fees, they are included in this report with reporting requirements under the Mitigation Fee Act for informational purposes and to make sure that information is available in the event that a court rules in the future that linkage fees are subject to the reporting requirements of the Mitigation Fee Act.

This report complies with requirements of the Mitigation Fee Act and the Quimby Act outlined above.

Analysis

Development Impact Fees

Wastewater Treatment Plant Phase II Expansion Fee

In April 2005, construction began to increase capacity of the wastewater treatment plant, and construction was substantially completed in the spring of 2009. Funds from the Sewer Enterprise Fund were used to pay for the expansion project. Under a Joint Powers Agreement (JPA), the treatment plant is partially owned by the Estero Municipal Improvement District (Foster City). Based on San Mateo's share of the treatment plant and based on the total projected cost attributable to development based on the 2005 expansion study, the amount that is to be recovered through development fees is \$3.52 million in total.

The Wastewater Treatment Plant Phase II Expansion Fee is imposed on all development that results in a change of use and that adds more sewage to the City's sewage treatment system. The fee took effect on July 1, 2006 and will continue to be charged until \$3.52 million is collected. Funds collected are transferred annually to the fund balance of the Sewer Enterprise Fund as a repayment to the Fund for the expansion cost. The fee is charged as shown in the 2022-23 Comprehensive Fee Schedule on page 10.8. The fees are determined by reference to site sewer study or engineering standards.

The following table shows collections in 2022-23, as well as collections to date.

Wastewater Treatment Plant Expansion Impact Fee		2022-23
Beginning Balance	\$	-
Developer Fees	\$	18,007
Interest Income / (Expense)	\$	-
Transfer to Sewer Enterprise Fund	\$	(18,007)
Ending Balance	\$	-

	Collections to Date	
Total Developer Fees Collected as of 2022-23	\$	2,864,310
Total Developer Fees Needed	\$	3,520,000
% Collected		81%

Transportation Improvement Fee

San Mateo Municipal Code Chapter 27.13 establishes a transportation improvement fee for new development to fund City-wide traffic improvements to mitigate the cumulative impacts of new development and to accommodate future development. The fee is charged as shown in the 2022-23 Comprehensive Fee Schedule:

Residential

- Single-family Per dwelling unit \$6,867.99
- Multi-family Per dwelling unit \$3,468.58

Commercial and Industrial

- Retail Per 1,000 sq. ft. \$27,735.48
- Office Per 1,000 sq. ft. \$8,366.76
- Industrial Per 1,000 sq. ft. \$4,589.64
- Hotel Per Room \$4,367.84
- Institution Per 1,000 sq. ft. \$3,568.50

The following table shows activities in 2022-23.

Transportation Improvement Fee	2022-23
Beginning Balance	\$ 257,416
Developer Fees	\$ 10,353
Interest Income / (Expense)	\$ 7,849
Expenditures	\$ (146,717)
Reclassification of Prior Years	\$ 186,802
Ending Balance	\$ 315,704

2022-23

Transportation Improvement Fee	Total Expended	Impact Fees Used	% of Total
Project Expenditures:			
460037 El Camino at Highway 92 Landscape Improvements	\$ 33,362	\$ 33,362	100%
460049 Poplar/Humboldt Signal Modify-Left Turn	\$ 470	\$ 470	100%
466600 Citywide Traffic Calming	\$ 144,531	\$ 112,631	78%
46R008 Railroad Ave Wall Enhancement	\$ 524	\$ 524	100%
Total Expenditures:	\$ 178,886	\$ 146,717	82%

The total ending balance as of the end of fiscal year was \$315,704. The fund balance and continued collection of the Transportation Improvement Fee will be utilized to fund the project(s) listed in Exhibit A.

Park Impact Fee

Under San Mateo Municipal Code Chapter 13.05, a park impact fee is imposed on the construction of new residential units to accommodate the increased demand on park and recreation facilities. The fee is charged as shown in the 2022-23 Comprehensive Fee Schedule:

Per residential unit type:	
Single family	\$29,598 per unit
Multi-family 2-4 units	\$27,172 per unit
Multi-family 5+ units	\$20,476 per unit
Mobile homes	\$17,564 per unit

The following table shows activities in 2022-23.

Park Impact Fee	2022-23
Beginning Balance	\$ 3,436,986
Developer Fees	\$ 27,172
Interest Income / (Expense)	\$ -
Expenditures	\$ -
Ending Balance	\$ 3,464,158

The total ending balance as of the end of fiscal year was \$3,464,158. The fund balance and continued collection of the Park Impact Fee will be utilized to fund the project(s) listed in Exhibit A.

The Council is asked to make the following findings regarding development impact fees collected but not expended – these findings are detailed in the proposed resolution:

1. Development impact fees are collected to mitigate direct and indirect impacts from development.
2. These funds are expended in a timely manner to fund continued improvements to public facilities related to the increased demand on the facilities resulting from development.
3. There is a reasonable relationship between these impact fees and their purpose.
4. These impact fees continue to be required to fund applicable improvements, and as such, these fees will continue to be collected for utilization solely for their intended purpose.

In-Lieu Fees

Parking In-Lieu Fee

San Mateo Municipal Code Chapter 11.62 establishes a parking in-lieu fee for new development to fund for additional parking in downtown San Mateo. Applicants for planning approval within the Central Parking Improvement District may pay a fee in lieu of providing required parking on the property site in accordance with Title 27 of the municipal code. As shown in the 2022-23 Comprehensive Fee Schedule, the fee is \$57,699.90 per space.

The following table shows activities in 2022-23.

Parking In-Lieu Fee	2022-23
Beginning Balance	\$ 5,865,562
Developer Fees	\$ 515,658
Interest Income / (Expense)	\$ 130,587
Expenditures	\$ (515,658)
Ending Balance	\$ 5,996,149

The total ending balance as of the end of fiscal year was \$5,996,149. The fund balance and continued collection of the Parking In-Lieu Fee will be utilized to fund the project(s) listed in Exhibit A.

Art in Public Places Fee

San Mateo Municipal Code Chapter 23.60 establishes a fee on developers in lieu of placing approved artwork at the development sites to balance the community's physical growth and revitalization with its cultural and artistic resources. The fee is applicable to commercial and multi-family residential projects exceeding three million dollars in building permit valuation, which is computed using the latest building valuation data as set forth by the International Conference of Building Officials (ICBO) unless, in the opinion of the Building Official, a different valuation measure should be used. As shown in the 2022-23 Comprehensive Fee Schedule, the fee is charged 1.19% of total building valuation.

The following table shows activities in 2022-23.

Art in Public Places Fee	2022-23
Beginning Balance	\$ 999,947
Developer Fees	\$ 7,082
Interest Income / (Expense)	\$ 23,461
Expenditures	\$ (7,082)
Ending Balance	\$ 1,023,408

The total ending balance as of the end of fiscal year was \$1,023,408. The fund balance and continued collection of the Art in Public Places Fee will be utilized to fund the project(s) listed in Exhibit A.

Tree Replacement Fee

San Mateo Municipal Code Chapter 27.71 establishes a fee on all development requiring approval of a planning application, except for single-family dwelling design review applications, for the removal of existing trees on development sites. The fee is imposed if the trees to be removed are not made up with replacement trees on-site. As shown in the 2022-23 Comprehensive Fee Schedule, the fee is charged \$740 per landscape unit, which is a unit of measurement that indicates the value of each tree that is to be removed relative to the tree that is to be replaced.

Under San Mateo Municipal Code Chapter 13.35, the City may also impose a fee on any person or entity for removing trees that encroach on City streets. The fee is imposed if the tree to be removed is not replanted with a like tree satisfying City requirements. The fee is to be used by the City for plantings on public land. As shown in the 2022-23 Comprehensive Fee Schedule, the tree replacement cost is \$740 per tree.

The following table shows activities in 2022-23.

Tree Replacement Fee	2022-23
Beginning Balance	\$ 1,178,640
Developer Fees	\$ 149,523
Interest Income / (Expense)	\$ 87
Expenditures	\$ (149,523)
Ending Balance	\$ 1,178,727

2022-23				
Tree Replacement Fee	Total Expended	In-Lieu Fees Used	% of Total	
Project Expenditures:				
610008 Tree Planting - Parks Division	\$ 152,803	\$ 149,523	98%	
Total Expenditures:	\$ 152,803	\$ 149,523	98%	

The total ending balance as of the end of fiscal year was \$1,178,727. The fund balance and continued collection of the Tree

Replacement Fee will be utilized to fund the project(s) listed in Exhibit A.

Below Market Rate Housing Fee

The Below Market Rate Housing Fee, which became effective January 1, 2010 pursuant to City Council Resolution No. 121 (2008), is collected from developers in lieu of constructing affordable housing units onsite as required under the City's Below Market Rate program. The fee applies to developments that contain fewer than 11 residential units, and to fractional unit requirements of less than .5 for developments that contain 11 or more units. The fee is charged as shown in the 2022-23 Comprehensive Fee Schedule:

A. Fractional required units for projects consisting of 11 or more residential units		
1. Rental	0.1 housing unit	\$30,788
	0.2 housing unit	\$61,577
	0.3 housing unit	\$92,365
	0.4 housing unit	\$123,153
2. Owner	0.1 housing unit	\$27,354
	0.2 housing unit	\$54,708
	0.3 housing unit	\$82,062
	0.4 housing unit	\$109,416
B. Requirement for projects less than 11 units		
1. Rental	5 unit project	\$153,942
	6 unit project	\$184,730
	7 unit project	\$215,519
	8 unit project	\$246,307
	9 unit project	\$277,095
	10 unit project	\$307,884
2. Owner	5 unit project	\$136,770
	6 unit project	\$164,124
	7 unit project	\$191,478
	8 unit project	\$218,832
	9 unit project	\$246,186
	10 unit project	\$273,540

The following table shows activities in 2022-23.

Below Market Rate Housing Fee		2022-23
Beginning Balance	\$	253,820
Developer Fees	\$	461
Interest Income / (Expense)	\$	-
Expenditures	\$	-
Ending Balance	\$	254,281

The total ending balance as of the end of the fiscal year was \$254,281. A public improvement project is not currently identified in the five-year plan. The Below Market Rate Housing Fee will continue to be collected to build its fund balance, and potential housing related projects will be identified as the fund balance reaches to an appropriate level.

Park In-Lieu Fee

San Mateo Municipal Code Chapter 26.64 establishes a park in-lieu fee on subdivisions in residential planning application projects. Pursuant to the authority of the Subdivision Map Act, and in conformity with the parks and recreation element of the General Plan, the fee is imposed as a condition of final approval of a subdivision or parcel map for park and recreation

facilities to serve the subdivision. The fee is charged as shown in the 2022-23 Comprehensive Fee Schedule:

Per residential unit type:	
Single family	\$29,598 per unit
Multi-family 2-4 units	\$27,172 per unit
Multi-family 5+ units	\$20,476 per unit
Mobile homes	\$17,564 per unit

The following table shows activities in 2022-23.

Park In-Lieu Fee	2022-23
Beginning Balance	\$ 9,048,433
Developer Fees	\$ -
Interest Income / (Expense)	\$ -
Expenditures	\$ -
Ending Balance	\$ 9,048,433

No fees were collected or expended in 2022-23, and the total ending balance as of the end of the fiscal year was \$9,048,433. The fund balance and continued collection of the Park In-Lieu Fee will be utilized to fund the project(s) listed in Exhibit A.

Linkage Fees

Child Care Development Fee

The Child Care Development Fee, which became effective on July 1, 2004 pursuant to City Council Resolution No. 34 (2004), is collected to mitigate the impact of commercial development on the need for child care facilities. The fee is charged as shown in the 2022-23 Comprehensive Fee Schedule:

Per Dwelling unit:	
Single family	\$4,412.54
Multi-family	\$3,182.51
Per Sq. Ft.:	
Retail	\$0.37
Office	\$0.63
Industrial	\$0.21
Hotel	\$0.13

The following table shows activities in 2022-23.

Child Care Development Fee	2022-23
Beginning Balance	\$ 2,156,369
Developer Fees	\$ 2,400
Interest Income / (Expense)	\$ 50,584
Expenditures	\$ (2,400)
Ending Balance	\$ 2,206,953

2022-23

Child Care Development Fee	Total Expended	In-Lieu Fees Used	% of Total
Project Expenditures:			
310600 Child Care Facilities	\$ 2,400	\$ 2,400	100%
Total Expenditures:	\$ 2,400	\$ 2,400	100%

The total ending balance as of the end of the fiscal year was \$2,206,953. The fund balance and continued collection of the Child Care Development Fee will be utilized to fund the project(s) listed in Exhibit A.

Affordable Housing Commercial Linkage Fee

San Mateo Municipal Code Chapter 23.61 establishes an Affordable Housing Commercial Linkage Fee to mitigate the impact that developments have on the demand for affordable housing in the City. The fee is imposed on commercial projects over 5,000 sq. ft. and is charged as shown in the 2022-23 Comprehensive Fee Schedule:

Hotels	Per square foot	\$12.46
Retail, restaurants, and services	Per square foot	\$ 6.23
Office, research & development uses, and medical offices	Per square foot	\$31.14

The fee does not apply to public use developments such as hospitals, nonprofit and government facilities, as well as churches, schools, and child care centers. Developers who enter written agreements to pay area standard wages to all construction workers on the project are entitled to a 25% reduction of the fee. Additionally, developers may provide construction of affordable housing units in lieu of the fee payment.

The following table shows activities in 2022-23.

Affordable Housing Commercial Linkage Fee	2022-23
Beginning Balance	\$ 3,159,518
Developer Fees	\$ -
Interest Income / (Expense)	\$ 91,269
Miscellaneous items	\$ (4,936)
Expenditures	\$ -
Ending Balance	\$ 3,245,851

The total ending balance as of the end of fiscal year was \$3,245,851. The fund balance and continued collection of the Affordable Housing Commercial Linkage Fee will be utilized to fund the project(s) listed in Exhibit A.

BUDGET IMPACT:

There is no budget impact resulting from this report.

ENVIRONMENTAL DETERMINATION:

This report is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

In accordance with Government Code Section 66006, all meeting noticing requirements were met. This information was made available to the public at least 15 days before the meeting.

ATTACHMENTS

Att 1 - Proposed Resolution - Exhibit A: Public Improvement Project Expenditures Related to the Mitigation Fee Act and Quimby Act Five-Year Plan

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