



# CITY OF SAN MATEO

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## Agenda Report

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**TO:** City Council

**FROM:** Drew Corbett, City Manager

**PREPARED BY:** Community Development Department

**MEETING DATE:** June 7, 2021

**SUBJECT:**  
Development Impact Fee Study – Report Review

### RECOMMENDATION:

Review findings of Development Impact Fee Study and provide staff direction related to the structure and amount of development impact fees in fiscal year 2021-22.

### BACKGROUND:

In fiscal year 2019-20, the San Mateo City Council included a review of the City’s development impact fees as a priority in its strategic plan. As a result, in 2020, the City entered into a contract with two consultants, Matrix Consulting Group and Bartle Wells, to review several of the City’s development impact and in-lieu fees (**Table 1**).

<b>Table 1: Fees Included in Development Impact Fee Study</b>		
<b>Fee</b>	<b>Consultant</b>	<b>Fee Type</b>
Parks and Landscape Resources (includes Park In-Lieu and Park Impact Fees)	Matrix Consulting Group	Impact / In-Lieu
Transportation Improvement Fee	Public Works/Matrix Consulting Group	Impact
Childcare Development Fee	Matrix Consulting Group	Impact
Waste Water Treatment Plant Phase II Expansion Fee	Bartle Wells	Impact
South Trunk Area Sewer Improvement Fee	Bartle Wells	Impact
Art in Public Places	Matrix Consulting Group	In-Lieu
Tree Replacement Fee	Matrix Consulting Group	In-Lieu
Landscape In-Lieu	Matrix Consulting Group	In-Lieu

Any fees that were not included in the study were recently revised through a separate process. These include:

- **Below Market Housing Fee** – Community Development staff and Economic Planning Systems conducted a full study of the Below Market Housing fractional fee and other related requirements in 2019 and 2020. City Council adopted those revised fractional fees in February 2020.
- **Central Parking Improvement District per Space In-Lieu Fee** – Public Works staff studied and reviewed this fee in 2019 and 2020, and City Council adopted a revised fee in March 2020. It was included in the Matrix report to allow for comparisons across jurisdictions.

- **Commercial Linkage Fee** – In 2020, the City participated in a countywide analysis of the Commercial Linkage Fee. Where appropriate, fee amounts have been included in this report to illustrate aggregate impact fee costs.

### **Purpose of Study**

Development impact fees are governed by Government Code Section 66000 et seq., or AB1600, which specifies the need for a nexus between the collection of fees and new development within a city's service area. Recognizing that some of the City's fees had not been studied for several years, the City Council directed staff to review existing development impact and in-lieu fees to better align them with updated costs and infrastructure improvements.

The nexus studies (Attachments 1 and 2) outline the maximum allowable fees the City would be justified in charging based on projected future growth, the infrastructure costs the City will incur to accommodate that growth, and the City's legal requirements under AB1600. For each fee and land use, the City can charge a fee amount up to full cost. However, City Council could also set specific fees at levels below full cost should it wish to incentivize certain types of development or ensure alignment with fee amounts in neighboring jurisdictions. In those instances, the City would likely need to explore other funding sources or potentially delay some infrastructure improvements driven by future development to account for any lost revenue.

### **Key Findings**

The City continues to have the legal authority to charge all its current impact and in-lieu fees, but the nexus studies indicate that apart from the Childcare Impact Fee, the current rates across all fee types are below the full costs the City will incur to accommodate projected future growth. In addition, changes to legal parameters, infrastructure costs, or the nexus determinations themselves have led the consultants and staff to recommend some structural changes to several of the City's fees. This section outlines the major findings and recommendations from the two studies.

### **Park In-Lieu and Impact Fees**

The City currently assesses two separate park-related impact fees, the Park In-Lieu Fee and the Park Impact Fee. The Park In-Lieu Fee is governed by the Quimby Act and applies to residential projects that require the subdivision of land. The revenue generated from this fee allows the City to purchase land to maintain the City's standard of 2 park acres per 1,000 residents. The Park Impact Fee is levied on new residential units that do not require the subdivision of land and can be used for all capital-related purchases, including land, facilities, and equipment related to parks and recreation. Upon reviewing these two fees, Matrix and staff recommend the following:

#### **Eliminate In-Lieu (Quimby) Fee and Incorporate the Acreage Standard into the City's Park Impact Fee**

The current Parks In-Lieu Fee can only be assessed on projects that require land subdivisions, which is a rarity in cities that are largely built-out. In addition, the fee itself is based on the need to purchase additional parks or open space in the City to maintain the standard of 2 acres of parkland per 1,000 residents. However, the cost of land alone does not capture the full impact of future development on the City's park resources. The Parks Impact Fee, which is more broadly applicable, can also be used to fund infrastructure improvements from the City's Capital Improvement Plan (CIP). By eliminating the In-Lieu Fee and incorporating the parks standard into the Impact Fee, the City can account for the broader impact future development will have on parks resources and eliminate the need for a standalone fee utilized only on subdivided land.

#### **Consider Expanding the Park Impact Fee to Mitigate the Impacts of Future Commercial Development**

Currently, the Park In-Lieu and Park Impact Fees are assessed only on residential developments. However, because future employees would also utilize the City's parks, the Matrix study establishes a nexus between future commercial development and park maintenance and improvement costs. The study indicates the maximum allowable fee the City can charge for a variety of commercial uses and accounts for the fact that future employees would put less strain on the City's park resources than future residents.

### **Transportation Improvement Fee**

The Transportation Improvement Fee was last updated in 2017 and allows the City to charge new developments to mitigate their impact on the City's transportation network. This fee is assessed on both residential and commercial projects, and subsequent revenue can be used to fund a number of transportation-related improvements. The

Transportation Improvement Fee was included in this study to allow Public Works to include updated cost estimates and project listings (Appendix A in Attachment 1) for future infrastructure improvements. However, Public Works also plans to undertake a more comprehensive review of the Transportation Improvement Fee once the General Plan Update is complete to account for updated growth projections and circulation improvements identified through that process.

Based on the Matrix nexus study, the City is currently under-recovering for all Transportation Improvement Fee categories. In addition, while the City currently charges only industrial, retail, and office uses within the commercial category, a nexus exists to also charge hotels and institutions should Council decide to do so.

### **Childcare Impact Fee**

Adopted in 2004, the Childcare Impact Fee allows the City to charge a fee to commercial projects greater than 10,000 square feet to account for future childcare needs driven by that development. The City can utilize revenue generated from this fee to fund the construction and expansion of future and existing childcare facilities. Based on projected future childcare needs and updated construction costs, the nexus study indicates two important structural changes for Council consideration:

1. The City must reduce the per square foot fee for all commercial uses but has the option to levy the fee on all commercial developments, regardless of size. This means that although future developments will pay less per square foot, developments smaller than 10,000 sq. ft. would also be subject to the fee.
2. There is a nexus between future residential growth and the need for childcare. The study indicates the maximum allowable fee for single family and multi-family units to account for future childcare costs, and Council may decide to charge future residential projects any amount up to and including that amount.

### **Sewer Development Fees**

The City currently has three sets of sewer fees that are applied to new developments to mitigate their impacts on the sewer system infrastructure. These include the sewer connection fees, the Wastewater Treatment Plan Phase II Expansion Fee and the South Trunk Area Sewer Improvement fees, which are only levied on new developments located in the area served by the City's South Trunk sewer line. Staff last updated the sewer fees in 2014, with an update to the South Trunk Area Sewer Improvement fee.

City staff hired Bartle Wells to review the sewer development fees because of its specific experience developing water and wastewater fees. Following its review, Bartle Wells recommended that staff adopt a single set of wastewater capacity charges that would be applied uniformly throughout the City. Section 66013 of the Government Code specifically governs water and wastewater capacity charges and defines a "capacity charge" to mean "*a charge for public facilities in existence at the time a charge is imposed or charges for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged.*" The proposed new capacity charges would replace all three existing development fees.

Bartle Wells developed the proposed capacity charges using an average cost approach in which new developments pay for their proportionate share of the average cost of facilities, both existing and planned, needed to meet the demands of the City's service area. As part of this approach, the report recommended that redevelopment projects continue to receive a credit for their existing sewer connections and only pay for the incremental demand generated by new development. About 90% of the revenues collected from the proposed wastewater capacity charges can be used to fund capital improvements for wastewater repair, rehabilitation, and replacement. The remaining revenues are eligible to fund capital improvements that represent upgrades and expansions to the City's sewer system infrastructure.

### **Peer Jurisdiction Comparison**

In order to understand how the City's current and maximum allowable fees compare to impact fees in peer jurisdictions, consultants and staff prepared a comparison for each fee individually and for all impact fees in aggregate. Staff will explore these comparisons in greater detail during the staff presentation, but **Table 2** below shows the aggregate fee comparison across several land use categories.

**Table 2: Fee Comparisons Across Land Use Types and Peer Jurisdictions**

<b>Land Use Category</b>	<b>Description</b>	<b>Current San Mateo Development Impact Fees</b>	<b>Maximum Allowable Development Impact Fees*</b>	<b>Average Impact Fees of Peer Jurisdictions**</b>
Single Family	2,250 sq. ft. single family home	\$36,743	\$61,762	\$42,509
Multi-family	180 unit multi-family development (144,000 sq. ft.)	\$4,706,708	\$7,836,120	\$6,183,064
Office	150,000 sq. ft. office building	\$4,987,035	\$8,054,233	\$4,467,993
Retail	2,500 sq. ft. retail development	\$24,503	\$83,388	\$52,583
Hotel	60,000 sq. ft. hotel with 120 rooms	\$1,192,740	\$2,796,600	\$1,057,697

\*Maximum allowable fees includes highest fee in commercial linkage feasibility study rather than full cost linkage fee

\*\*Peer jurisdictions include: Belmont, Burlingame, Daly City, Millbrae, Mountain View, Palo Alto, Redwood City, San Bruno, San Carlos, Santa Clara, and South San Francisco

The Council may wish to use this aggregate comparison (or the individual fee comparisons included in the nexus studies) to make decisions about appropriate fee levels. However, it should be noted that the fees charged by peer jurisdictions do not necessarily reflect the full costs attributable to future development.

**Developer Outreach**

On May 13, staff hosted a virtual meeting with several members of San Mateo’s development community to provide a high-level overview of the studies. This meeting provided background on the fees being studied, an explanation of the methodology used to review the fee amounts, and presented the maximum justifiable cost based on the updated nexus evaluations. Several developers asked questions about the implementation timeline, and the letter from Mike Field of Windy Hill Property Ventures (Attachment 3) proposes applying fee changes only to those projects that have not already been submitted in a Pre-Application or formal Planning Application. In addition, there were additional concerns raised about how these fee changes might impact multi-family developments and the availability of affordable housing, a sentiment also echoed in the attached letter.

**CITY COUNCIL GUIDANCE REQUESTED:**

1. Is the Council comfortable with the proposed structural changes to the Park Impact/In-Lieu, Childcare Impact, and Sewer Fees?
2. Does the Council wish to subsidize any of the fees, either to promote certain types of development or to maintain a fee structure aligned with peer jurisdictions?
  - a. Council has the flexibility to set the fees below cost recovery for certain land uses and at full cost for others, as long as no fee amount exceeds the maximum allowable cost in the nexus studies.
3. When would the Council like any changes to go into effect, and how should they apply to projects currently in the pipeline?
  - a. For example, Council could decide to allow projects with pre-applications or formal planning applications that have been deemed complete to pay fees at existing levels. Alternatively (or in addition), Council could choose to make changes to the fees effective at a future date or implement any fee increases in phases, allowing additional time for the development community to adjust to the changes.
4. Does the Council have any additional direction or concerns with the information presented in the nexus studies?

Following the Study Session, staff will incorporate any changes requested and return to Council at a future meeting for further discussion. Depending on Council direction, staff will also bring any necessary revisions to the City’s Municipal Code and an amended Master Fee Schedule for adoption.

**BUDGET IMPACT:**

The nexus reports included as Attachments 1 and 2 provide details on the types of infrastructure and services that the City could fund with each impact or in-lieu fee. Exact revenues will depend on the amount of future construction.

**ENVIRONMENTAL DETERMINATION:**

This report review 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**

All meeting noticing requirements were met.

**ATTACHMENTS**

Att 1 – Draft Development Impact Fee and In-Lieu Fees Study

Att 2 – Final San Mateo Sewer Capacity Charge Report

Att 3 – Letter from Mike Field, Windy Hill Property Ventures

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