File #: 19-563, **Version:** 2

Report regarding an Ordinance amending Chapter 8.67 of the South San Francisco Municipal Code revising the method of calculation for the Parkland Acquisition Fee and a Park Construction Fee for new development projects, and revising the timing for calculation of Fees (Sharon Ranals, Director of Parks and Recreation)

RECOMMENDATION

It is recommended that the City Council waive reading and introduce an Ordinance amending Chapter 8.67 of the South San Francisco Municipal Code revising the method of calculation for the Parkland Acquisition Fee and a Park Construction Fee for new development projects, and revising the timing for calculation of Fees.

BACKGROUND

In recognition of the fact that parks and recreational facilities are vital to the health and welfare of a community, the State of California has passed two pieces of legislation which authorize cities to adopt fees applicable to development projects to offset the impact of new development and provide sufficient levels of parks and recreational facilities to serve residents and employees working within the City. Under the Quimby Act, South San Francisco enacted Chapter 19.24 of the Municipal Code, which applies to residential subdivision projects. Fees collected under this Ordinance may be used for the purpose of developing new or rehabilitating existing neighborhood or community park or recreational facilities. The Mitigation Fee Act, which was passed in 1987, broadened the authority of cities to collect a variety of development impact fees, including park fees. Under the Mitigation Fee Act, the City adopted Chapter 8.67 of the Municipal Code in 2016, amended in 2017 and 2018, adopting a Parkland Acquisition Fee and a Park Construction Fee. Chapter 8.67 applies to all development projects, both residential and commercial, that are not subject to fees under the Quimby Act. Chapter 8.67 is the subject of this report and Ordinance amendment. Note that development projects subject to the Quimby Act also pay Park Construction Fees pursuant to Chapter 8.67 because Quimby Act fees only account for the cost of acquiring new park land, not constructing improvements on that land.

Guiding Policy 5.1-G.1 of the South San Francisco General Plan provides that the City should “[d]evelop additional parkland in the city, particularly in areas lacking these facilities, to meet the standards of required park acreage for new residents and employees.” Policy 5.1-1-2 provides that the City should “[m]aintain parkland standards of 3.0 acres of community and neighborhood parks per 1,000 new residents, and 0.5 acres of parkland per 1,000 new employees.” Goal #1 of the Parks and Recreation Master Plan provides that the City “should provide a minimum of 3 acres of developed park land per 1,000 residents and 0.5 acres of parkland per 1,000 new employees.” The Master Plan states that new development projects attract new residents and new employees to the city, which generates increased demand for parks and recreational facilities and impacts existing park service levels.

In 2016 the City contracted with the Municipal Resources Group (MRG) to analyze the relationship between

new development in the City and the cost of public facilities to serve that growth, and determined that there is a reasonable nexus between the Parkland Acquisition Fee and Park Construction Fee and the types of new development that are responsible for paying the fee (*Park Land Acquisition and Park Construction Fees Report 2016*, hereafter "2016 Study"). In 2016, the City adopted Ordinance 8.67 imposing a Parkland Acquisition Fee and a Park Construction Fee ("Park Fee Ordinance") to pay for the cost of acquiring and constructing park facilities needed to support new development under the authority of the Mitigation Fee Act.
The City subsequently amended the Park Fee Ordinance in 2017 and 2018 to impose fees on non-residential development projects and to adjust the discount factors applied to the fees, as well as other refinements.

Purpose of Proposed Ordinance Amendments and Updated Fee Study

The existing Ordinance provides formulas for calculating and collecting park fees in two separate categories: the Park Acquisition Fee and the Park Construction Fee. The Park Acquisition Fee calculates the cost of acquiring new park land and the Park Construction Fee calculates the cost of constructing improvements on said land. In determining the fee applicable to a particular development project, both fee calculations account for the number of employees or residents that a particular development project is expected to generate in light of the number of residential units or square footage of commercial space. These formulas set the maximum amount of fees that the City may charge, with City Council having the authority to set the fees lower. South San Francisco has elected to discount the maximum fees, with construction and acquisition fees discounted by 30%, and commercial fees discounted by 75%. During the past year it became apparent that the way the formulas were being calculated, park fees for land acquisition were being generated at a higher rate than Park Construction Fees. However, given the scarcity of land appropriate for park land in South San Francisco, staff determined that improvement and expansion of certain existing land and facilities, which are reaching capacity, is a cost-effective and efficient way to serve future residents and employees, and to maintain existing levels of service.

The City commissioned an additional park fee analysis to supplement the 2016 Study. The purpose of updated study is to confirm the method for utilizing park fees for refurbishment and expansion projects; analyze the types of refurbishment and expansion projects for which the City can utilize park fees; restructure the existing park fee reduction factors to increase Park Construction Fees to fund refurbishment projects, and reduce Park Acquisition Fees commensurately, while not increasing the total amount of park fees; and to update the average construction cost per acre to reflect current market conditions ("2019 Supplemental Report").

As noted above, the 2019 Supplemental Report calculated how to adjust the discount rates to maximize Park Construction fees, and adjust Parkland Acquisition fees commensurately, keeping the total fee to be paid by developers the same. This result was accomplished by updating the average construction park construction cost per acre; changing the current discount for Parkland Acquisition fees from 30% to 90.4%; and changing the current discount for Park Construction fees from 30% to zero, i.e. set the Park Construction Fee at the maximum justified amount. Again, note that adoption of the proposed fees outlined below do **not** result an increase in the current total park fees. Adopting the proposed fees would simply readjust the fee revenue generated by each fee with Park Construction Fee revenue increasing and Park Acquisition Fee revenue decreasing commensurately.

Proposed Park Fees per Unit for Residential Development

Residential Units In Structure	Park Construction Fee/Unit	Parkland Acquisition Fee/Unit	Total Park Fees/Unit
Discount Factor	none	.904	
1 (single-family residential unit)	$26,148	$2,976	$29,124
2 to 4 (duplex to four-plex)	$22,586	$2,571	$25,157
5 to 19	$19,175	$2,183	$21,358
20 to 49	$15,462	$1,759	$17,221
50 or more	$13,491	$1,535	$15,026
Mobile home	$20,085	$2,286	$22,371

Source: 2019 Supplemental Report, Table IV-6: Proposed Park Fees for Residential Development

Proposed Park Fees per Non-Residential Per 1,000 Square Feet

Non-Residential Land Use Type	Park Construction Fee/1,000 Sq. Ft.	Parkland Acquisition Fee/1,000 Sq. Ft.	Total Park Fees
Discount Factor	.602	1.0 (or 100%)	
Commercial/Retail	$1,257	$0	$1,257
Hotel/Visitor	$1,196	$0	$1,196
Office/R&D	$1,116	$0	$1,116
Industrial	$ 528	$0	$ 528

Source: 2019 Supplemental Report, Table IV-7: Proposed Park Fees per Non-Residential 1,000 Square Feet

Average Construction Cost per Acre

The current Ordinance includes a provision for the periodic update of the average construction cost per acre for use in the calculation of the Park Construction Fee. This was last done in 2016 when Chapter 8.67 was adopted. As permitted under Chapter 8.67, the average construction cost per acre was adjusted by applying a 3.94% inflation escalator in 2018, but the City has not conducted a comprehensive construction cost per acre assessment since the Ordinance was originally adopted. Consequently, as permitted by the Municipal Code, the 2019 Supplemental Report includes a new estimate of $2,526,395 per acre, compared to the prior value of $1,019,911. The higher cost reflects significant increases in construction costs since the original assessment, as well as an analysis of the specific types of projects which the City expects to construct.

Park Fee Revenue Estimate/Estimated Park Refurbish Projects

The 2019 Supplemental Report concludes that under the proposed fee structure outlined above, which provides for collection of the maximum Park Construction Fee and a.904 discount factor for the Parkland Acquisition Fee for residential development projects; and a .602 discount factor for the Park Construction Fee, and a 1.0 (100%) discount factor for the Parkland Acquisition Fee for non-residential development projects; the estimated Park Construction Fee revenue over the next five years may total approximately $16.6 million, and Parkland Acquisition Fee revenue may total approximately $7.0 million (including Quimby Act In-lieu Fees). This would be an increase of $11.3 million in Park Construction Fee revenue through fiscal year 2023-2024 (and a commensurate decrease in Parkland Acquisition Fee revenue).

Source: 2019 Supplemental Report, Table IV-8: Summary of Current and Proposed Reduction Factors, and Estimated Fee Revenue.

The City has estimated the costs to refurbish and expand facilities in eleven existing parks. Including replacement of the Orange Memorial Swimming Pool, the total cost at a planning level exceeds sixty-five million dollars. The report concludes that, “While the Park Construction Fee alone will not be sufficient to fund all of the refurbish projects, the fees will provide partial funding to offset the impact of new development, to serve new residents and employees, and to maintain existing levels of service.” For more detail regarding these cost estimates, please refer to the 2019 Supplemental Report, Table IV-1, Page 15.

Development Projects to Pay Fees in Effect at Time of Approval

The proposed Ordinance includes a minor change to Section **8.67.050 (c)** to make it clear that development projects must pay the park fees in effect at the time the project is approved. The current ordinance says that developers pay the fees in effect at the time the application is filed with the City. This change will ensure that projects are paying the most up to date fees.

Remove Specific Discount Factors and Set by Resolution

The City has adjusted the discount factors on several occasions and may likely do so in the future. It is more efficient to set the discount rates by resolution of the City Council outside the ordinance text. The proposed Ordinance includes language that allows City Council to adopt a discount rate, and if such a rate has been adopted it will be accounted for when calculating the fee. Language has also been added stating that discount rates may be adjusted or eliminated at any time, and such discount rate resolution shall be posted on the City Council website.

If the proposed Ordinance is adopted by the City Council at a future meeting, staff will recommend that the City Council adopt a resolution setting the new fee at that meeting. The new discount rates contemplated in the 2019 Supplemental Report and discussed above will be included in the fee setting resolution. A draft of that proposed resolution is attached to this staff report.

Annual Adjustment for Fair Market Value of Land

Currently, Chapter 8.67 includes an annual adjustment based on inflation for construction costs, but not for the average fair market value of land. In order to maintain total fees at the current levels, staff is not proposing an inflationary adjustment in the fair market value of land at this time. However, language has been added to the proposed Ordinance allowing for an annual adjustment to ensure that land value increases are accounted for in the fees, and can be updated in the future as desired.

Noticing Requirements/CEQA

In accordance with the Mitigation Fee Act, proper notice has been provided for this public hearing, at which the proposed Ordinance is being introduced. Notice of the time and place of the hearing was mailed at least fourteen (14) days prior to interested parties who filed written requests with the City for mailed notice of meetings on new or increased fees or service charges; ten (10) days' advance notice of this public hearing was given by publication; and the 2019 Supplemental Report was made available to the public for review at least ten (10) days prior to this public hearing.

The City seeks to adopt this proposed Ordinance to refine the park fee calculations in order to better mitigate the impacts caused by new development by providing for the payment of revised development impact fees necessary for the City to acquire property and construct, refurbish, and expand new and existing parks and recreational facilities and to maintain desirable levels of parks and recreational facilities for new and existing residents and employees.

The action taken by the introduction and subsequent adoption of the proposed Ordinance has no potential for physical effects on the environment because it involves an adoption of park fees and/or charges imposed by the City, does not commit the City to any specific project, and said fees and/or charges are applicable to future development projects and/or activities, each of which future projects and/or activities will be fully evaluated in full compliance with the California Environmental Quality Act ("CEQA") when sufficient physical details regarding said projects and/or activities are available to permit meaningful CEQA review. Therefore, approval of the fees and/or charges is not a "project" for purposes of CEQA, and, even if considered a "project" under CEQA, is exempt from CEQA review pursuant to CEQA Guidelines Section 15061(b)(3) because it can be seen with certainty that there is no possibility that approval of the updated fees and/or charges may have a significant effect on the environment.

<u>FISCAL IMPACT</u>

The proposed revisions to SSFMC Chapter 8.67 Parks and Recreation Impact Fee will generate the same total amount of park fees estimated to be collected through 2023-24, which is $23.5 million. However it will reduce the estimated funding collected from the Parkland Acquisition Fee from $18.3 million to $7.0 million; and increase the estimated funding collected from Park Construction Fee from $5.3 million to $16.6 million.

Source: 2019 Supplemental Report, Table ES-7: Summary of Current and Proposed Reduction Factors, and Estimated Fee Revenue.

<u>RELATIONSHIP TO STRATEGIC PLAN</u>

Priority Area 2: Quality of Life: Refinement of the Parks and Recreation Impact Fee will enable the City to obtain additional funding to refurbish and expand park and recreation facilities to better serve the residents of South San Francisco.

<u>CONCLUSION</u>

Introduction and subsequent adoption of the proposed revisions to Chapter 8.67 Parks and Recreation Impact

Fee and the associated fee setting resolution will restructure the existing park fee reduction factors to increase the Park Construction Fee to fund refurbishment and expansion projects, and reduce the Parkland Acquisition Fee commensurately, while not increasing the total amount of park fees. The proposed revisions also clarify that development projects must pay the park fees in effect at the time a project is approved, and simplify the process of setting discount factors in the future to allow City Council to set them by resolution.

Attachments:

1. Draft Resolution to Set Fee
2. 2019 Supplemental Report; Management Advisory Services, June 2019
3. 2016 Fee Study; Municipal Resource Group, LLC, March 2016

3237831.1