



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of June 10, 2025

TO: Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Edwin Gato, Director of Finance

SUBJECT: Development Impact Fee Calculation and Nexus Report

RECOMMENDED ACTION:

Staff recommend that the City Council:

1. Review the attached Development Impact Fee Calculation and Nexus Report (Attachment A).
2. By minute order, approve the Report and instruct staff to incorporate the proposed fees into the Master Fee Schedule for final approval on June 24, 2025.

BACKGROUND:

In California, development impact fees are fees imposed by local governments on new development projects to finance public infrastructure and services required due to population growth. These assessments are instrumental in ensuring that new developments contribute equitably to the costs associated with the increased demand for essential services, including education, transportation, parks, utilities, and public safety. By collecting these fees, local authorities can better manage the challenges of growth and maintain the overall quality of life within their communities.

Key Features:

1. Legal Framework:
 - a. Governed primarily by the Mitigation Fee Act (AB 1600), enacted in 1987.
 - b. Requires that fees be legally justified, with a reasonable connection (nexus) between the fee and the impact of the development.

2. Types of Fees:

- a. Traffic and Transportation Fees
- b. Park and Recreation Fees
- c. School Impact Fees
- d. Water and Sewer Fees
- e. Public Safety and Fire Protection Fees

3. Fee Justification:

- a. Agencies must conduct nexus studies to determine the appropriate amount.
- b. Fees must be used for capital projects and not for ongoing operational costs.
- c. Regular reporting is required to show how the funds are used.

In 2024, the City of Hercules retained the services of Revenue and Cost Specialists, LLC, to perform a detailed analysis of the anticipated development impact costs for the City. This report will systematically address each of the City's five distinct infrastructure systems. The objective of these calculations is to determine the financial requirements for the additional infrastructure necessary to support sustained long-term development within the existing city boundaries, with the City preserving the current levels of service that residents and businesses currently enjoy. If the calculations in the proposed nexus report are approved, they may be formalized into a structured schedule of Development Impact Fees (DIFs) by the City Council, thus establishing a framework for funding future infrastructure enhancements.

ANALYSIS:

The following Development Impact Fee (DIF) Report provides a comprehensive assessment of the DIFs applicable to the City of Hercules, considering recent modifications and their implications for public safety, storm drainage infrastructure, and quality-of-life facilities, such as parks and public-use amenities.

The adoption of the revised DIFs will empower the City Council to effectively address the infrastructural needs arising from new development while ensuring that the existing population and business community are not disproportionately burdened by the capital costs associated with such developments.

By implementing the maximum DIFs recommended within this report and applying them to the remaining development opportunities in Hercules, it is anticipated that approximately \$28.37 million will be generated. This funding will stem from a combination of public improvement dedications and designated revenues, which are intended for the execution of various essential capital expansion projects necessary for the City's sustainable development.

Summary from the Nexus Report:

Law Enforcement Impact Fee:

Chapter 3 of the City of Hercules 2025 Development Impact Fee (DIF) Report focuses on Law Enforcement infrastructure needs resulting from future residential and commercial development. The City currently operates a 4,375-square-foot police station and utilizes a fleet of vehicles, officer-assigned equipment, and specialized equipment. To maintain current service levels amid projected growth, the City will need to hire seven additional officers, expand the police station by 1,176 sq. ft., and purchase five new vehicles and related equipment. The total cost of these improvements is \$1.75 million, with \$1.64 million proposed to be funded through development impact fees after accounting for existing funds.

The proposed DIFs are calculated based on the average number of police calls generated by each land use type, ensuring a proportional distribution of costs.

Fees include \$234 per detached dwelling, \$249 per attached dwelling, and \$2.738 per square foot for retail uses, among others. These fees are aligned with the City's existing infrastructure investment and uphold fairness through the principles of "nexus" and "rough proportionality." The chapter recommends adopting the calculated fees (Schedule 3.2) and creating a dedicated fund to support law enforcement facilities, vehicles, and equipment expansion.

Storm Drainage Impact Fee:

Chapter 4 of the Report addresses the need for expanded Storm Drainage infrastructure to accommodate future development. As vacant land is developed with impervious surfaces like rooftops and pavement, stormwater runoff increases, placing greater demand on the existing storm drainage system. To meet this demand, the City has identified a \$1 million Storm Drainage Master Plan project, which will be entirely funded through development impact fees. The plan focuses on expanding drainage capacity to prevent flooding, maintain public safety access, and protect roadbeds from storm damage.

Development impact fees are calculated based on runoff coefficients specific to each land use type, reflecting the volume of runoff they generate. For example, detached dwellings are assigned a fee of \$504 per unit, while commercial lodging is assessed at \$1,332 per unit, and retail uses at \$0.851 per square foot. These fees ensure that new development pays its fair share of infrastructure costs without overburdening existing residents. The report recommends adopting the proposed fee schedule (Schedule 4.2) and establishing a dedicated Storm Drainage DIF fund to finance necessary improvements.

General Facilities Impact Fee:

Chapter 5 of the Report focuses on General Government Facilities, Vehicles, and Equipment needed to support a growing population and business community. As the City develops, increased demand will be placed on administrative services, requiring facility expansions, additional pool vehicles, and upgraded computer systems. Key projects include remodeling City Hall, expanding the Corporation Yard, and enhancing technology infrastructure. The total cost for these improvements is estimated at \$1.99 million, with approximately \$1.44 million allocated to new development through DIFs.

Fees are distributed evenly across land uses based on acreage to reflect the broad, citywide benefit of general government services. The proposed impact fees include \$148 per residential unit, \$1,803 per commercial lodging unit, and \$1.017 per square foot for business uses. These fees are significantly lower than the City's existing infrastructure investment, highlighting that the current community has already provided a solid foundation. The chapter recommends adopting the minimum needs-based fee schedule (Schedule 5.2) and creating a dedicated fund to ensure future development contributes proportionally to general government infrastructure needs.

Public Use Impact Fee:

Chapter 6 of the Report addresses the need for expanded Public Use Facilities—such as community centers, senior centers, and recreational buildings—to serve the city's growing population. The City currently provides approximately 2.221 square feet of public use space per resident, totaling 57,878 square feet. To maintain this standard as new residents move in, an additional 14,261 square feet of facility space is needed. The total estimated cost to construct this space is based on a rate of \$708.50 per square foot, including building and site improvements.

To fund this expansion, the report proposes development impact fees of \$5,509 per detached dwelling unit and \$3,564 per attached unit, based on the average number of residents per household. These fees ensure that new residential development contributes its fair share to maintaining the City's level of service for community space. The chapter recommends adopting the proposed fee schedule (Schedule 6.1) and creating a dedicated Public Use Facilities DIF fund to support future facility development tied directly to residential growth.

Parkland Acquisition Impact Fee:

Chapter 7 of the Report focuses on Parkland Acquisition and Park Infrastructure development to support recreational needs driven by future residential growth. The City currently maintains 58.19 acres of developed parkland, equating to 2.233 acres per 1,000 residents. However, under the Quimby Act, the City is allowed to use a higher standard of 3.0 acres per 1,000 residents for new development. To maintain this standard as the population grows, an additional 19.26 acres of parkland must be acquired and developed, with associated costs for land, improvements, and support facilities estimated at \$287,500 per acre.

To finance these improvements, the report recommends development impact fees of \$7,706 per detached dwelling unit and \$4,986 per attached unit. These fees are based on per-resident park needs and average household sizes, ensuring a proportional contribution from new development. The chapter suggests adopting these fees through both the Quimby Act and Mitigation Fee Act mechanisms and recommends creating a “Quality of Life Infrastructure” fund to manage revenues for parkland, public use facilities, and related amenities.

FISCAL IMPACT:

At this time, there is no fiscal impact related to this report. Should the Council proceed with the implementation of the maximum recommended Development Impact Fees (DIFs) and apply them to the remaining development opportunities in Hercules, the nexus report anticipates generation of approximately \$28.37 million.

ATTACHMENTS:

1. Development Impact Fee Calculation and Nexus Report