



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of March 12, 2019
TO: Members of the City Council
SUBMITTED BY: Holly Smyth, AICP Planning Director
SUBJECT: Hercules Transportation Impact Fee Update

RECOMMENDED ACTION: Hold a public hearing and consider:

- 1) Approving a Resolution a) Adopting the 2019 Hercules Transportation Impact Fee Nexus Study, b) Approving a "Transportation Impact Fee" as set by the Council at or below the maximum justified fee, and c) Amending the City's Master Fee Schedule to Replace the "Traffic Facilities Fee" with the "Transportation Impact Fee" contingent upon the adopting the companion Ordinance; and
- 2) Waiving the first reading and Introducing an Ordinance amending Title 10, Chapter 18, Article 6 – Traffic Facilities Impact Fees.

FISCAL IMPACT OF RECOMMENDATION:

The attached 2019 Hercules Transportation Impact Fee Nexus Study (aka the "Nexus Study") outlines development's maximum fair share transportation impact fees with the supporting projects necessary to accommodate growth induced environmental impacts. In most cases development's fair share of total costs is approximately 27% (as shown more specifically in Table 5 of the Nexus Study), and therefore the City is responsible to cover the outstanding amount through gas tax, grants, general fund or other sources to cover the existing community's fair share of transportation improvement costs. The fees may be adopted up to the maximum justifiable fee amount calculated by the Nexus Study or can be set by Council at a reduced percentage across the board or specific to individual land uses, as a matter of policy to be discussed at the meeting. However, any reductions in one category cannot be allocated to another land use category nor can locked in or reduced traffic fee rates through development agreements be offset by others.

The last Nexus Study for most of the current impact fees was adopted in July 2009 with all fees set to the maximum justified rate plus administration with no reductions. The adopting resolution for the 2009 nexus incorporated an annual index to be increased without further Council action starting one year after the study was adopted using the Engineering News Record's construction cost index with only decreases coming back for City Council action. In June 2010, City Council approved Resolution 10-088 adjusting the Master Fee Schedule to include a 1.7% fee increase to all the impact fees. In November 2011, City Council approved Resolution 11-132 in "response to the effect of the economic recession..." reducing all development related Impact fees to encourage development projects. At this time traffic impact fees were reduced to 20% of the then current traffic impact fee rate.

Based on past practices adjusted to today's needs, staff is recommending that Council may want to continue with the previous annual index adjustment, but in order to allow for public input, require the Council take annual action to impose the index adjustment during its annual update to the Master Fee Schedule.

The following Table 1 shows the maximum increase for the developer fees by land use type along with fees adjusted to 75 and 50 percent of the maximum to allow for initial discussion in possible fee reductions. Fees for land uses not calculated as part of the nexus analysis can be developed using Dwelling Unit Equivalents (DUEs) based on trip generation rates, average trip lengths, and percent new trips as shown in Table 2. The resulting fees by unit for fast food outlets with drive-through windows and hotels are included in Table 1 as examples.

The Building Department staff continues to collect the current transportation impact fees at the building permit stage of development and will begin to collect the new increased fees anticipated to be the effective date of the new Ordinance.

Table 1: Developer Fee Increase by Unit Type

Unit Type	Maximum Rates from 2009 Nexus Study	2009 Rates Indexed to 2019	Current Fee in Hercules**	Maximum Justified Fee (2019 Nexus Study)	75% of Justified Maximum Potential Fee	50% of Justified Maximum Potential Fee
Single Family (per	\$4,830	\$6,221	\$982	\$7,129	\$5,347	\$3,564
Multi Family (per	\$2,965	\$3,819	\$603	\$4,033	\$3,024	\$2,016
Retail (per sq. ft.)	\$7.13	\$9.18	\$1.45	\$8.35	\$6.26	\$4.17
Office (per sq. ft.)	\$9.86	\$12.70	\$2.01	\$9.59	\$7.19	\$4.80
Industrial (per sq. ft.)	\$4.69	\$6.04	\$4.77	\$7.77	\$5.83	\$3.89
Hotel (per room)*	800*	\$1106	\$176	\$3,927	\$2,945	\$1,963
Fast Food with drive-through (per sq ft.)	n/a	n/a	n/a	\$43.80	\$32.85	\$21.90
Fuel Station (per pump)	n/a	n/a	n/a	\$7,678	\$5,759	\$3,829

*Rate set 7/1/2010

**Fee rolled back 80% of the then current rate in Nov 2011

Table 2: Framework for Estimating DUE Rates for Unique Land Use Types

Land Use Category	PM Peak Hour Trip Rate per Unit	Default Rates		VMT per Unit	DUE per Unit
		Trip Length	Percent New Trips		
Single Family DU	0.00	5	100	4.95	1.00
Formula	A	B	C	$D=A*B*(C/100)$	$E=D/4.95$
Recreational	Rates from ITE Trip Generation	3	75		
Institutional		4.3	80		

DISCUSSION:

DKS Associates has prepared an updated Nexus Study to update the transportation impact fees (currently referred to as traffic facilities fee) charged to new development. The updated Nexus Study presented the maximum justifiable fees that could be charged for each major land use category. A workshop presentation was held on this topic at Council's February 12, 2019 Regular meeting as well as during the initial project start on 2/27/2018. A copy of the draft Nexus Study was first made available 2/7/2019 in the Council agenda packet for the workshop with follow up notifications sent to the development community on 2/26/2019 in preparation for the 3/12/2019 public hearing.

Documents:

2019 Hercules Transportation Impact Fee Nexus Study (March 2019). This report contains the analysis legally required to update the transportation impact fees. This document is provided as Exhibit A to Attachment 1.

Growth Projections

The transportation needs analysis and allocation of improvement costs for the Hercules Transportation Impact Fee program is based on land use forecasts from the countywide travel demand model developed by the Contra Costa Transportation Agency (CCTA). CCTA's latest forecasts of new development by Traffic Analysis Zone (TAZ) in the City of Hercules were summarized and reviewed with City Planning staff as part of the Circulation Element update.

The expected amount of growth was then adjusted to reflect the best local knowledge of remaining development capacity in each TAZ. The resulting growth estimate for Hercules is summarized in Table 3 below. Attachment 3 to this staff report shows an aerial map with traffic analysis zones indicating the assumed growth capacity between 2018 to 2040. These underlying assumptions tie back to our Housing and Circulation Elements of the General Plan which includes the Bayfront development (except for Block N which pulled permits in 2018), the New Town Center area from the Market Hall site to SR-4 at Willow, the Hilltown site with minor modifications, the 2014 Sycamore Crossing development with minor modifications, potential changes in the McCloud ranch area, potential minor increases to Creekside Shopping Center, and about 375,000 square feet of space in Northshore research and development park.

Table 3: Summary of Estimated Development 2018 to 2040 Growth

Land Use Category	Units	2018 Units	2040 Units	Growth in Units	DUE ² per Unit	2040 DUEs	Growth in DUEs
Single-Family	DU ¹	6,631	6,809	178	1.00	6,809	178
Multi-Family	DU	1,432	4,506	3,074	0.57	2,549	1739
Retail	KSF ³	178	802.5	624	1.35	1,080	840
Office	KSF	864.875	1,169.875	305	1.17	1,370	357
Industrial	KSF	570.6	945.6	375	1.09	1,031	409
Total:						12,838	3,522
(1) Dwelling Unit (2) Dwelling Unit Equivalent (3) 1000 square feet						Percent Growth DUEs =3,522/12,838 =27.4%	

Table 4: Selected Project List, Cost Estimates and Cost Allocation
(based on 2018 dollars)(Also see Table 5 in the 2019 Nexus Study for more specific details)

Project/Description	Project Cost	Allocated Cost
1. Signalize intersection of San Pablo Avenue & Tsushima Street	\$595,000	\$449,147
2. Reconfigure Sycamore Avenue cross section from Willow to San Pablo Ave	\$232,000	\$223,205
3. San Pablo Avenue/John Muir Parkway to I-80 Improvements	\$7,167,000	\$7,166,985
4. Intersection Improvements at Willow Avenue & Sycamore Avenue	\$91,000	\$87,882
5. Add 3rd northbound through lane to San Pablo Avenue at Sycamore	\$21,000	\$11,694
6. Install pedestrian-activated signal at Market Hall crosswalk	\$23,000	\$6,310
7. Upgrade or add ADA Curb Ramps	\$273,000	\$74,900
8. Hercules Creekside Trail from Alfred Noble to Sycamore Avenue	\$1,386,000	\$380,264
9. Multiuse path at Market Hall site	\$108,000	\$29,631
10. Pedestrian connection along Palm Ave between Sycamore and Willow Ave	\$284,000	\$77,918
11. Bay Trail gap closure and lighting	\$307,000	\$84,229
12. Expand bicycle network	\$26,000	\$7,133
13. Add sidewalk along Willow Avenue to Hercules Transit Center	\$889,000	\$243,906
14. Improve pedestrian connections to Hercules Transit Center - Sycamore Avenue to Willow	\$957,000	\$262,563
15. Extend sidewalk connections to Rodeo	\$635,000	\$174,219
16. Complete bicycle facilities between Mariner's Pointe and HTC	\$29,000	\$7,956
17. Add lighting to Refugio Valley Trail	\$675,000	\$185,193
18. Remove crosswalk at north leg of San Pablo Avenue & Sycamore Avenue	\$16,000	\$4,390
19. Provide bus shelters along San Pablo Avenue	\$32,000	\$8,780
20. Parking for Intermodal Transit Center	\$8,500,000	\$2,332,064
21. Complete Intermodal Transit Center/Rail Station	\$53,600,000	\$13,494,036
Total	\$75,846,000	\$25,312,405

Transportation Impact Fee Update: New Project List

Table 4 above lists the updated 21 transportation improvement projects included in the fee program. Table 4 also shows the estimated cost for the projects and the maximum portion allocated to the transportation impact fee calculation. The Regional Intermodal Transportation Center (RITC) is also included in the newly updated West County STMP fee program. To avoid potentially double charging for this project, the allocated cost in the updated Hercules transportation impact fee has been adjusted to remove the amount expected to be collected under the STMP.

Nexus Analysis

The purpose of the Hercules Transportation Impact Fee program is to fund improvements to the City's major roadway, bicycle and pedestrian facilities needed to accommodate travel demand generated by new land development within the City over the next 22 years (through 2040).

The Hercules Transportation Impact Fee program will help meet the City's General Plan policies including maintenance of adequate levels of service and safety for roadway facilities and provision of pedestrian and bicycle infrastructure. New development in Hercules will increase the demand for all modes of travel (including walking, biking, transit, automobile and truck/goods movement) and thus the need for improvements to transportation facilities. The Hercules Transportation Impact Fee program will help fund a portion of transportation facilities necessary to accommodate new residential and non-residential development in Hercules.

The concept of the Nexus Study is to determine the proportion of the cost of each project that is reasonably attributable to new development within Hercules, and therefore could be included in the Transportation Impact Fee. The primary analytical tool available to estimate the proportion of usage on each facility coming from new growth in Hercules is the CCTA regional travel demand model.

Expected new development in Hercules is allocated a percentage of costs based on the number of new trips on a roadway segment or intersection that have either their origin or destination within the City divided by the total amount of trips from new development. The remaining percentage of costs, reflecting new trips that have neither their origin nor destination in Hercules (through trips), are not allocated to development in Hercules.

The allocated cost percentages were applied to the cost of each project and the resulting amount was then used to calculate the Transportation Impact Fee. Using these calculations, the Hercules transportation impact fee program could capture a maximum of approximately \$25 million, which is approximately 33 percent of the overall total project cost of \$75.8 million. Other funding sources would be needed to cover the remainder of the costs, to account for the travel demand generated by existing Hercules residents as well as existing and future travelers who pass through Hercules on their way to other destinations. This funding backfill could come from gas tax, grants, general fund or other funding sources.

Policy Considerations

It is important to note that the fee calculation in the Nexus Study, shown in the above Table 1, is intended to represent the maximum potential fee that is justified through this Nexus Study that could be charged to each land use type to support the list of projects based on new development's fair share. However, the setting of the actual fee level is a policy decision of the City Council. Table 1 above shows some samples of potential reduced rates that might be considered across the board. Staff will have an excel spreadsheet available at the meeting so the Council can see the impact of various reductions to specific land use categories and set the rates at the Council's meeting.

By its very nature, construction of any of the 21 projects cannot be implemented without additional funds from the City through gas tax, grants, general fund or other sources teamed up with the actual collected Transportation Facilities fees. If fees are set at lower than the maximum potential fee, the fee program would generate less revenue than the maximum estimated and cause the City to have to backfill a larger amount to construct the various projects.

If the City were to levy the maximum justifiable rate, the Bayfront Project would not pay the new fee amounts given the Development Agreement which locks them into their current rates. By paying their current rates, maximum potential collection amount is reduced by \$6.1 million from \$25 million down to \$18.9 million with no annual cost index at the maximum rate. These shortfalls cannot be collected nor can they be redistributed to the remaining development. Developments that have recently paid or are anticipated to pay the current rates include Blocks Q-R at Bayfront, the final 13 units of Muir Pointe, the Safeway project, Phase 1 of Willow-Lorenzini-mini storage project, and the remainder of the Bayfront project due to the Development Agreement. Projects subject to pay the new fee would be Phase 2 of Willow-Lorenzini auto services, Hilltown, Blocks F & H on Bayfront Blvd owned by Curry, Bio-Rad expansions, New Town Center area, McLeod ranch, and potentially some Accessory Dwelling Units.

Staff has tabulated the impact of 5 potential scenarios how the overall fee collection might be impacted based on various rollback rates. Staff will have the excel spreadsheet at the Council meeting should the Council wish to see the impact of their final decision.

Table 5: Example Fee Collection Scenarios by Unit Type and Rate Set

Unit Type	2009 Rates Indexed to 2019	100% Justified Fee (2019 Nexus Study)	75% of Justified Maximum Potential Fee	50% of Justified Maximum Potential Fee	Blend of 100% Residential, 50% Retail /Office/ Fuel / Drive Thrus, 25% Hotel
Single Family (per	\$6,221	\$7,129	\$5,347	\$3,564	\$7,129
Multi Family (per	\$3,819	\$4,033	\$3,024	\$2,016	\$4,033
Retail (per sq. ft.)	\$9.18	\$8.35	\$6.26	\$4.17	\$4.80
Office (per sq. ft.)	\$12.70	\$9.59	\$7.19	\$4.80	\$4.18
Industrial (per sq. ft.)	\$6.04	\$7.77	\$5.83	\$3.89	\$3.89
Hotel (per room)*	\$1106	\$3,927	\$2,945	\$1,963	\$982
Anticipated Collection Amount	\$18.1 million	\$18.9 million	\$14.5 million	\$10.1 million	\$14.5 million

Table 6 provides comparable traffic fees in nearby jurisdictions.

Table 6: Comparable Traffic Fees

Unit Type	El Cerrito	El Sobrante	Martinez	Pinole	Richmond	North Richmond AOB	West Contra Costa County
Single Family (per	\$3,322	\$3,178	\$2,221	\$414.8	\$1,823	\$3,790	\$5,081
Multi Family (per	\$2,325	\$2,555	\$1,528	\$294.5	\$1,457	\$3,041	\$4,067
Retail (per sq. ft.)	\$4.48	\$7.93	\$2.23	\$1.39	\$4.53	\$9.60	\$9.70
Office (per sq. ft.)	\$3.85	\$5.05	\$1.81	\$0.336	\$3.99	\$6.68	\$5,081/ pk hr trip
Industrial (per sq ft)	\$2.43	\$3,178/ peak hr trip	\$0.99	\$0.365	\$1.46	\$5.30	\$5,081/ pk hr trip

*El Cerrito also has a hotel fee set at \$3.65 per square foot

Indexing of Fee Levels

Construction costs are expected to fluctuate over the period that the fee program is in place. To help ensure that fees collected are sufficient to fund the project list as intended, programs often utilize a cost index that is applied annually, such as the San Francisco Bay Area published by Engineering News Record, to keep up with inflation. This was originally done through a Resolution adopting the last Traffic Impact fees in 2009. Staff has placed the same language in the Ordinance instead of the Resolution as was in the previous adoption but has included proposed language that it be done concurrently with the annual Master Fee update so that public input can be shared. Alternatively, Council could elect as a policy decision not to apply the construction cost index.

ATTACHMENTS:

1. Draft Resolution accepting the Nexus Study, setting the Transportation fee and modifying the Master User Fee Schedule
 - Exhibit A.1: Hercules Transportation Impact Fee Nexus Study (Revised March 1, 2019)
 - Exhibit A.2: Hercules Transportation Impact Fee Nexus Study Appendix-Cost Estimates
2. Draft Ordinance amending the Hercules Municipal Code Title 10, Chapter 18, Article 6
3. Growth Capacity Map showing assumed growth