

TECHNICAL MEMORANDUM

To: James Lindsay
From: Walter Kieser and Rebecca Benassini
Subject: Transit Area Specific Plan 2010 Fee Update; EPS #20143
Date: March 2, 2011

The Economics of Land Use



On June 3, 2008, the Milpitas City Council adopted a resolution approving the Transit Area Specific Plan (TASP). Various types of public infrastructure improvements were identified in the Plan as necessary to serve new development in the area and to maintain or improve existing levels of service for public facilities. The TASP contains a Financing Plan that recommends a number of tools for financing the costs of infrastructure, including a Transit Area Development Impact Fee (ADIF). In September 2008, the City Council adopted a development impact fee schedule.

As indicated in the resolution which implements the ADIF, fee levels are expected to be adjusted by the City of Milpitas on a roughly annual basis. Economic & Planning Systems (EPS) prepared the fee study for the City in August 2008. Milpitas retained EPS to prepare a fee adjustment.

In order to prepare the document, EPS reviewed information which may affect the fee (documented below), and applied the various changes in the costs to the current fee. **Table 1** below summarizes the results of the analysis, indicating the current fee level and the updated proposed fee level.

Table 1. Summary of Current and Proposed Updated Fee

Fee	For-Sale, Rental, Multi-		Retail per sq. foot	Office per sq. foot	Hotel per room
	Multi-family per unit	family per unit			
Current Fee	\$23,800	\$23,800	\$16.70	\$25.00	\$9,000
Updated Fee	\$24,280	\$24,280	\$17.04	\$25.51	\$9,180
\$ Change	\$480	\$480	\$0.34	\$0.51	\$180
% Change	2.0%	2.0%	2.0%	2.0%	2.0%

Economic & Planning Systems, Inc.
2501 Ninth Street, Suite 200
Berkeley, CA 94710-2515
510 841 9190 tel
510 841 9208 fax

Berkeley
Sacramento
Denver

www.epsys.com

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Items Evaluated to Determine Fee Update

Projects Funded Through Fee Program

The TASP fee resolution included Appendix B of the Final Report Milpitas Transit Area Infrastructure Financing Technical Report issued in August 2008. This Appendix lists 42 projects, some with a non-ADIF revenue source partially or wholly funding the project. No projects have been added or deleted from the infrastructure program for the TASP. However, one item in the list was not properly calculated in the total; correcting this error resulted in a 0.3 percent increase in the total costs being distributed among the land uses.

Evaluation result: Slight increase

Development Program

The ADIF is calculated by dividing the costs to fund the required infrastructure improvements by the level of development (residential units and commercial square feet). To the extent that the TASP overall development program has changed, the fee may increase or decrease if it is spread among fewer or more development units. The development program for the TASP has not changed.

Evaluation result: No change

Land Acquisition Costs

In some cases, land will need to be purchased to provide a particular improvement. The TASP resolution notes that land cost estimated for the fee will be updated "using the fair market value for an acre of land in the city as determined by the City Council pursuant to XI-1-9.01-1 'Amount of Fee In Lieu of Land Dedication'".¹ The fair market value of an acre of land in the City of Milpitas for the purpose of determining in-lieu fee for park dedication was appraised at \$46.00 per square foot or \$2,003,760 per acre. This is a decrease from the value used in the current ADIF, \$55.00 per square foot or \$2,395,800 per acre.

Evaluation result: Fair Market Value Decrease of 16 percent

Construction Costs

Construction costs depend on various factors including costs of materials and local wages. The resolution enacting the ADIF indicates that adjustments to the fee will incorporate Engineering News Record (ENR) Construction Cost Index (CCI) for the San Francisco. Using the change in the CCI for San Francisco from the third quarter of 2008 to the fourth quarter of 2010 results in an increase in the CCI of 9 percent.

Evaluation result: Construction Cost Index increase of 9 percent

¹ See Section 9 of Resolution, page 5.

Updated Fee

In order to develop the updated fee, EPS did the following:

- Noted current fee.
- Attributed a proportion of the fee to land costs and a portion to infrastructure construction costs, calculated by reviewing projects in Appendix B of the Final Report Milpitas Transit Area Infrastructure Financing Technical Report issued in August 2008.
- Calculated percent change in fair market value of land estimate from \$55 per square foot (2008 Fee schedule) to recent appraisal of \$46.00 per square foot.
- Calculated percent change in Construction Cost Index as reported by Engineering News Record, for San Francisco. The two points in time selected for comparison are Third Quarter 2008 (coinciding with the time the Final Report Milpitas Transit Area Infrastructure Financing Technical Report was issued) and Fourth Quarter 2010 (most recent data available at the time of this document).
- Applied these percentage changes to the appropriate proportion of the 2008 fee to calculate the Updated 2010 fee.

Supporting Tables

The following tables detail the updated fee.

- **Table A1:** Details the calculation of the updated fee.
- **Table A2:** Details the breakdown of fee-funded improvement costs between land and construction portions.
- **Table A3:** Documents the CCI for San Francisco between 2008 and 2010.
- **Table A4:** Documents the fair market value of land in Milpitas in 2008 and 2010.
- **Table A5:** Database of infrastructure costs included in the TASP improvement program.

Table A1
Detailed Calculation - Proposed Updated Fee
Milpitas Transit Area Specific Plan Fee Update; EPS #20143

Fee Update Item	For-Sale, Multi-family per unit	Rental, Multi-family per unit	Retail per sq. foot	Office per sq. foot	Hotel per room
Fee (Adopted in 2008) [1]	\$23,800	\$23,800	\$16.70	\$25.00	\$9,000
Proportion of Fee Attributable to: [2]					
Land Purchase	27%	27%	27%	27%	27%
Infrastructure Costs	73%	73%	73%	73%	73%
Amount of Fee Attributable to:					
Land Purchase	\$6,349	\$6,349	\$4.45	\$6.67	\$2,401
Infrastructure Costs	\$17,451	\$17,451	\$12.25	\$18.33	\$6,599
% Change, 2008-2010					
in Land Costs	-16%	-16%	-16%	-16%	-16%
in Construction Costs	9%	9%	9%	9%	9%
New Fee					
Land Portion	\$5,310	\$5,310	\$3.73	\$5.58	\$2,008
Infrastructure Cost Portion	<u>\$18,973</u>	<u>\$18,973</u>	<u>\$13.31</u>	<u>\$19.93</u>	<u>\$7,175</u>
Total Fee	\$24,283	\$24,283	\$17.04	\$25.51	\$9,183
Rounded Fee	\$24,280	\$24,280	\$17.04	\$25.51	\$9,180
Difference from Current Fee (\$)	\$480	\$480	\$0.34	\$0.51	\$180
Difference from Current Fee (%)	2.0%	2.0%	2.0%	2.0%	2.0%

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[1] See Milpitas resolution implementing Transit Area Specific Plan fee.

[2] Land costs and construction costs have not changed in a consistent manner since 2008. To account for this, the portion of the fee which is attributed to each of these items is changed separately.

Sources: Smith & Associates (land appraisal); Engineering News Record, Economic & Planning Systems

Table A2
Improvement Costs: Breakdown Between Construction and ROW/Land
Milpitas Transit Area Specific Plan Fee Update; EPS #20143

TASP Improvement Costs Supported by Fee	Amt.	%
Design, Construction, and Contingency	\$156,041,302	75%
ROW/ Land	<u>\$52,947,180</u>	<u>25%</u>
Total	\$208,988,482	100%
(less) Non-Development Sources [1]	<u>(\$10,500,000)</u>	
Net Total	\$198,488,482	
Net Design, Construction, and Contingency [1]	\$145,541,302	73%
Net ROW/ Land	<u>\$52,947,180</u>	<u>27%</u>
Net Total	\$198,488,482	100%

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[1] Non-Development sources of revenue assumed to be applied to pedestrian bridges. These improvements do not have an associated ROW/Land cost associated with them. Therefore, the \$10.5 million has been applied to the Design, Construction, and Contingency portion of the costs only.

Source: Economic & Planning Systems

Table A3
Engineering News Record, Construction Cost Index for San Francisco
Milpitas Transit Area Specific Plan Fee Update; EPS #20143

Year	Month	Construction Cost Index [1] (1913=100)	% Change
2008	Jan.	9,133.56	
	Feb.	9,133.56	
	Mar.	9,150.17	
	Apr.	9,155.17	
	May	9,174.42	
	June	9,216.42	
	July	9,286.17	
	Aug.	9,292.92	
	Sept.	9,344.67	
	2008 Average 3rd Quarter [2]		9,307.92
2010	Oct.	9,853.42	
	Nov.	9,834.67	
	Dec.	<u>9,781.67</u>	
	Jan.	9,720.42	
	Feb.	9,722.17	
	Mar.	9,728.17	
	Apr.	9,730.17	
	May	9,885.92	
	June	9,902.67	
	July	9,909.17	
Aug.	9,909.67		
Sept.	9,888.54		
Oct.	10,115.04		
Nov.	10,123.54		
Dec.	<u>10,120.29</u>		
2010 Average 4th Quarter [2]		10,119.62	

% Change, 3rd Quarter 2008-4th Quarter 2010

8.7%

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Formatting indicates quarter data used in the average.

[1] Engineering News Record's explanation of the index:

The building and construction cost indices for ENR's individual cities use the same components and weighting as those for the 20-city national indices. The city indices use local prices for portland cement and 2 X 4 lumber and the national average price for structural steel. The city's BCI uses local union wages, plus fringes, for carpenters, bricklayers and iron workers. The city's CCI uses the same union wages for laborers.

[2] The original fee was set during the third quarter of 2008 and is being revised during the fourth quarter of 2010. These are the two time periods which are compared. Their cost indices are used to increase the fee set during Q32008 to a level consistent with costs in Q42010.

Sources: Engineering News Record, Economic & Planning Systems

Table A4
Fair Market Value: Land
Milpitas Transit Area Specific Plan Fee Update; EPS #20143

Year	Source	Fair Market Value per Land Sq. Foot
2008	Est. Land Value in Transit Area at time of Fee	\$55.00
2010	Smith & Associates	\$46.00
	% Change from 2008 to 2010	-16.4%

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Source: Transit Area Specific Plan Financing Plan; Smith & Associates January 29, 2010 Appraisal

Table A5
Infrastructure Cost Database
Milpitas TASP, Financing Plan; EPS# 17107

DB No.	Dev. Phase	General Improvement	Improvement Item	2008 Baseline Costs			Non-Development Revenue Sources <i>d</i>	Net Development Share <i>e = c - d</i>	2010 Adjusted Costs Net Dev. Share after Land/Const. Cost Change Applied <i>[1]</i>
				Design, Constr. Contingency <i>a</i>	ROW or Land <i>b</i>	Total Costs <i>c = a + b</i>			
1	1	Roadway/Intersection - Backbone	Phase 1 TASP share of regional, traffic mitigations. See "Transportation Impact Fee Study" Kimley-Horn. [2]	\$5,207,500	--	\$5,207,500	\$0	\$5,207,500	\$5,661,623
2	2	Roadway/Intersection - Backbone	Phase 2 TASP share of regional, traffic mitigations. See "Transportation Impact Fee Study" Kimley-Horn.	\$35,785,000	--	\$35,785,000	\$0	\$35,785,000	\$38,905,655
3	2	Roadway/Intersection - Backbone	Re-configured roads: Falcon Drive, as described in Transit Area Specific Plan	\$922,560	--	\$922,560	\$0	\$922,560	\$1,003,012
4	2	Roadway/Intersection - Backbone	Re-configured roads: Trade Zone Blvd as described in Transit Area Specific Plan	\$2,801,400	--	\$2,801,400	\$0	\$2,801,400	\$3,045,698
5	1	Streetscape Improvements	Great Mall Parkway and Capitol Avenue	\$6,204,584	--	\$6,204,584	\$0	\$6,204,584	\$6,745,659
6	2	Streetscape Improvements	Montague Expressway	\$9,286,008	--	\$9,286,008	\$0	\$9,286,008	\$10,095,801
7	2	Roadway/Intersection - Backbone	Pedestrian Bridges over Montague Expressway.	\$18,000,000	--	\$18,000,000	\$9,000,000	\$9,000,000	\$9,784,851
8	2	Roadway/Intersection - Backbone	Pedestrian Walkway over future BART Trench; at Piper Drive	\$1,500,000	--	\$1,500,000	\$1,500,000	\$0	\$0
9	2	Roadway/Intersection - Backbone	Vehicle bridges over Penitencia Drive, at Penitencia	\$3,000,000	--	\$3,000,000	\$0	\$3,000,000	\$3,261,617
10	1	Sewer	#11A: Replace 370 LF of 12-inch with 27-inch #11A: Replace 590 LF of 18-inch with 27-inch	\$1,101,750	--	\$1,101,750	\$0	\$1,101,750	\$1,197,829
11	1	Sewer	#11B: Replace 360 LF of 15-inch with 18-inch #11B: Replace 1,820 LF of 10-inch with 18-inch #11B: Replace 450 LF of 10-inch with 15-inch	\$697,000	--	\$697,000	\$0	\$697,000	\$757,782
12	1	Sewer	#11C: Replace 885 LF of 10-inch with 12-inch #11C: Replace 30 LF of 8-inch with 15-inch #11C: Replace 325 LF of 8-inch with 12-inch	\$226,000	--	\$226,000	\$0	\$226,000	\$245,708
13	1	Sewer	#11D: Replace 2,060 LF of 8-inch with 12-inch	\$749,000	--	\$749,000	\$0	\$749,000	\$814,317
14	1	Sewer	Additional capacity	\$8,000,000	--	\$8,000,000	\$0	\$8,000,000	\$8,697,645
15	1	Sewer	Main Sewer Pump Station	\$4,356,000	--	\$4,356,000	\$0	\$4,356,000	\$4,735,868
16	1	Water	12" pipe to eliminate dead ends @ Pectin Ct	\$273,000	--	\$273,000	\$0	\$273,000	\$296,807
17	1	Water	SC Turnout @ Montague	\$2,756,000	--	\$2,756,000	\$0	\$2,756,000	\$2,996,339

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Milpitas TASP, Financing Plan; EPS# 17107**

DB No.	Dev. Phase	General Improvement	Improvement Item	2008 Baseline Costs			Non-Development Revenue Sources <i>d</i>	Net Development Share <i>e = c - d</i>	2010 Adjusted Costs Net Dev. Share after Land/Const. Cost Change Applied <i>[1]</i>
				Design, Constr. Contingency <i>a</i>	ROW or Land <i>b</i>	Total Costs <i>c = a + b</i>			
18	1	Water	SC Tank & PS; SCVWD Zone	\$17,435,500	--	\$17,435,500	\$0	\$17,435,500	\$18,955,974
19	1	Water	Land for SC Tank & PS; SCVWD Zone	--	\$4,192,650	\$4,192,650	\$0	\$4,192,650	\$3,506,580
20	1	Water	Recycled water: Complete distribution system with 8" pipe to eliminate dead ends	\$5,400,000	--	\$5,400,000	\$0	\$5,400,000	\$5,870,911
21	1	Parks/Plazas/Community Facilities	Park in Subdistrict: McCandless/Centre Point, Southwest area	\$3,350,000	--	\$3,350,000	\$0	\$3,350,000	\$3,642,139
22	1	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: McCandless/Centre Point, Southwest area	--	\$8,025,930	\$8,025,930	\$0	\$8,025,930	\$6,712,596
23	1	Parks/Plazas/Community Facilities	Park in Subdistrict: McCandless/Centre Point, Southeast area	\$3,590,000	--	\$3,590,000	\$0	\$3,590,000	\$3,903,068
24	1	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: McCandless/Centre Point, Southeast area	--	\$8,600,922	\$8,600,922	\$0	\$8,600,922	\$7,193,498
25	1	Parks/Plazas/Community Facilities	Park in Subdistrict: McCandless/Centre Point, North area	\$344,000	--	\$344,000	\$0	\$344,000	\$373,999
26	1	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: McCandless/Centre Point, North area	--	\$2,060,388	\$2,060,388	\$0	\$2,060,388	\$1,723,234
27	2	Parks/Plazas/Community Facilities	Park in Subdistrict: Trade Zone/ Montague, Central area	\$2,550,000	--	\$2,550,000	\$0	\$2,550,000	\$2,772,374
28	2	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: Trade Zone/ Montague, Central area	--	\$12,218,580	\$12,218,580	\$0	\$12,218,580	\$10,219,176
29	2	Parks/Plazas/Community Facilities	Park in Subdistrict: Trade Zone/ Montague, Just north of Penitencia	\$1,004,000	--	\$1,004,000	\$0	\$1,004,000	\$1,091,554
30	2	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: Trade Zone/ Montague, Just north of Penitencia	--	\$6,013,458	\$6,013,458	\$0	\$6,013,458	\$5,029,438
31	2	Parks/Plazas/Community Facilities	Park in Subdistrict: Piper/Montague, North area	\$636,000	--	\$636,000	\$0	\$636,000	\$691,463
32	2	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: Piper/Montague, North area	--	\$3,809,322	\$3,809,322	\$0	\$3,809,322	\$3,185,978
33	2	Parks/Plazas/Community Facilities	Park in Subdistrict: Piper/Montague, South area	\$676,000	--	\$676,000	\$0	\$676,000	\$734,951
34	2	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: Piper/Montague, South area	--	\$4,048,902	\$4,048,902	\$0	\$4,048,902	\$3,386,354
35	2	Parks/Plazas/Community Facilities	Park in Subdistrict: BART Station Area	\$664,000	--	\$664,000	\$0	\$664,000	\$721,905

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				Design, Constr. Contingency <i>a</i>	ROW or Land <i>b</i>	Total Costs <i>c = a + b</i>			
36	2	Parks/Plazas/Community Facilities	Land for Park in Subdistrict: BART Station Area	--	\$3,977,028	\$3,977,028	\$0	\$3,977,028	\$3,326,242
37	2	Linear Parks/Trails	Linear Parks/ Trails in Subdistrict: Piper Montague; Throughout subdistrict (See Fig. 3-6, TASP)	\$216,000	--	\$216,000	\$0	\$216,000	\$234,836
38	2	Linear Parks/Trails	Linear Parks/ Trails in Subdistrict: BART Station area; Throughout subdistrict (See Fig. 3-6, TASP)	\$402,000	--	\$402,000	\$0	\$402,000	\$437,057
39	2	Linear Parks/Trails	Linear Parks/ Trails in Subdistricts: Montague Corridor and Trade Zone/Montague; Throughout subdistrict (See Fig. 3-6, TASP)	\$717,000	--	\$717,000	\$0	\$717,000	\$779,526
40	1	Linear Parks/Trails	Linear Parks/ Trails in Subdistrict: McCandless/Centre Point; Throughout subdistrict (See Fig. 3-6, TASP)	\$1,860,000	--	\$1,860,000	\$0	\$1,860,000	\$2,022,203
41	1	Parks/Plazas/Community Facilities	Community Facilities at Park in McCandless/Centre Point Subdistrict, Southeast area; McCandless Dr, just south of Great Mall Parkway	\$15,000,000	--	\$15,000,000	\$0	\$15,000,000	\$16,308,085
42	1	Planning	Specific Plan Preparation	<u>\$1,331,000</u>	--	<u>\$1,331,000</u>	<u>\$0</u>	<u>\$1,331,000</u>	<u>\$1,331,000</u>
TOTAL				\$156,041,302	\$52,947,180	\$208,988,482	\$10,500,000	\$198,488,482	\$202,400,353

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[1] To calculate the revised cost, ENR increase of 9% applied to column "a" amounts and land acquisition cost decrease of 16 percent applied to column "b" amounts.

[2] Phase 1 TASP share of regional, traffic mitigations include the following projects, as described in Kimley Horn report:

- Convert NB center left-turn lane to shared left-turn/right-turn lane.
- Provide signal coordination with adjacent ramps.
- Build ½ for access to new developments, VTA would build-out fully for BART Station access.
- Regional fair share: Expressway Improvements
- Regional fair share: Montague Widening Project
- Regional fair share: Calaveras Blvd Widening: Abel St to Milpitas Blvd.
- Regional fair share: Capitol Av San Jose Traffic Improvements