

TECHNICAL MEMORANDUM

To: Steven McHarris, City of Milpitas

From: Teifion Rice-Evans, Michael Nimon, and Walter Kieser

Subject: 2019 Update to Transit Area Development Impact Fee;
EPS #181167

Date: May 20, 2019

The Economics of Land Use



This memorandum calculates the potential new 2019 Transit Area Development Impact Fee. The updated 2019 fee schedule is based on changes in the cost consistent with the adjustment approach described in City Resolution No. 8344, Section 9: Annual Adjustments. Because the City has not adjusted its fees since 2014, this adjustment reflects the 5-year period, 2014 to 2019.¹

Context

The City of Milpitas (City) adopted the Transit Area Specific Plan (TASP) in 2008. The Specific Plan sets forth land use policies which allow for the intensification of development in the 437-acre Transit Area with multifamily housing, office, and retail development. To support more residents and workers with appropriately scaled utilities, parks, and community facilities, the City developed a Basic Infrastructure Program (BIP) of improvements. To ensure new development in the TASP paid its fair share of the costs of these improvements, the City enacted the Transit Area Development Impact Fee (TADIF) in 2008 with allowances for periodic adjustments as costs change.

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¹ As a point of reference, it is estimated that the City would have received an additional \$14.6 million in TASP infrastructure fee revenues if it had made annual adjustments in the years following 2014.

The TADIF is a development impact fee adopted by the City of Milpitas pursuant to the provisions of Government Code Section 66000 (the Mitigation Fee Act) and per the City Code Title VIII-4.2.01. The TADIF fees were authorized by ordinance and were set and adopted by resolution, based on the technical analysis in the *Milpitas Transit Area Infrastructure Financing Technical Report*, dated August 2008.

Since 2008, the City has updated the TADIF, both through the process of annual adjustment as well as through more comprehensive periodic updates. The last comprehensive update occurred in 2014 with a new TADIF schedule adopted through Resolution No. 8344 and supported by the technical analysis in the *Transit Area Development Impact Fee Report*, dated February 2014. That Resolution was passed and adopted in March 2014 and the fees were effective immediately with the subsequent passage that evening of an emergency resolution (Resolution 8345). No annual adjustments or comprehensive periodic updated have been conducted since 2014.

Updated 2019 Fees

Table 1 shows the potential fee increase under the annual adjustment approach outlined in Resolution No. 8344, Section 9: Annual Adjustments. As shown, the cumulative annual adjustments for 2014 to 2019 result in an increase of 16.2 percent for nonresidential uses (retail and office development) and 23.5 percent for residential uses. The supporting technical calculations are provided below.

Table 1 Potential Increase in TADIF Fees

Item	2014 Fee Schedule*	Escalation Factor	2019 Fee Schedule*
Residential	\$32,781	23.5%	\$40,487 per unit
Retail	\$22.80	16.2%	\$26.49 per sq. ft.
Office	\$36.60	16.2%	\$42.52 per sq. ft.
Hotel (1)	\$0.00	na	\$0.00 per sq. ft.

*Note: includes a 2% admin component.

(1) The 2014 analysis discontinued a fee on hotels.

The City has the option to increase the fees to this new level, to increase them by a smaller proportion, or to leave them as is. Previously, the City has decided to increase fees to their maximum allowable levels to require new TASP development to fully cover its proportionate share of the infrastructure/ improvement costs in the Basic Infrastructure Program. To the extent, the City enacts fees at a below the full/ maximum level, the City would need to “fill the gap” by providing infrastructure/ improvement funding from the General Fund or others sources.

Fee Update Calculations

The 2014 Resolution No. 8344 (TADIF Resolution) describes the process for fee adjustments in Section 9: Annual Adjustments. Section 9 of the TADIF Resolution states the following:

“The total design, construction, and contingency costs of each infrastructure item in the Basic Infrastructure Program shall be automatically adjusted each fiscal year by the Finance Director or his or her designee using the Engineering New Record (ENR) Construction Cost Index for the San Francisco Bay Area. The right of way or land costs of each item shall be automatically adjusted each fiscal year using the fair market value for an acre of land in the City as determined by the City Council pursuant to XI-1-9.07.1 “Amount of Fee In Lieu of Land Dedication.””

The technical calculations described below follow this methodology, applying the change in the ENR Construction Cost Index to the 2014 estimates of non-land infrastructure/ improvement costs and applying the change in the estimated land values to the 2014 estimates of parkland costs. Because the Basic Infrastructure Program’s Park/ Plaza/ Community Facilities costs are only allocated to residential development, the change in parkland values/ costs only affects the residential fee. To account for this, the analysis shows the distribution of costs between residential development and non-residential development and applies distinct percentage fee adjustments for each.

Table 2 shows the percent changes in costs between 2014 and 2019 based on the ENR Construction Cost Index and the estimated land values. As shown, the increase in the construction cost index was 16.2 percent and the increase in land values was 43.8 percent. The average land value in the TASP area in 2014 was estimated at about \$2.8 million per acre. The new land value of about \$4.0 million per acre in the TASP area was provided by Associated Right of Way Services Inc. in an April 2019 appraisal.

Table 2 Basic Infrastructure Program Cost Change Indices

Item	Unit of Measure	2014	2019	Total Increase 2014-2019
Engineering News Record (1)	Indexed Number	6,232	7,240	16.2%
Land Appraisal (2)	Land Value per Acre	\$2,787,840	\$4,007,520	43.8%

(1) Represents June 2014 and May 2019 (latest available) Engineering New Record (ENR) construction cost index for the San Francisco metro area.

(2) Land value estimates in TASP area provided by Associated Right of Way Services, Inc.

The 2014 estimate was used in the 2014 TADIF fee analysis. The 2019 estimate was determined in April 2019.

Sources: Engineering News Record; Associated Right of Way Services, Inc.; 2014 2014 Transit Area Development Impact Fee Report (February 2014); Economic & Planning Systems, Inc.

To determine the appropriate increases in the fee levels, these indexed increases in costs were applied to the detailed 2014 estimates of Basic Infrastructure/ Improvement costs by category with costs allocated by residential and non-residential use. As shown in **Table 3**, the total net TASP Basic Infrastructure/ Improvement program totaled \$233.8 million (this represented the

appropriate allocation of Basic Infrastructure Program costs to new TASP development). About \$209.5 million of these costs were allocated to residential development, including about \$97.8 million in Parks/ Plazas/ Community Facilities costs (of which \$55.7 million were associated with park-related land acquisition costs). About \$24.3 million of these costs were allocated to nonresidential development; nonresidential development did not have any Parks/ Plaza/ Community Facilities or Linear Parks/ Trails costs allocated to it.

Table 3 2014 Basic Infrastructure Program Costs and Allocations (2014 \$\$)

Infrastructure Category	Net TASP Cost in 2014 \$\$		
	Residential Total	Commercial Total	Total
Roadway	\$36,611,862	\$10,278,905	\$46,890,766
Sewer	\$14,835,780	\$2,535,401	\$17,371,181
Water	\$30,342,702	\$4,427,762	\$34,770,464
Parks/Plazas/Community Facilities			
Right of Way Acquisition	\$55,735,145	\$0	\$55,735,145
Other Parks and Comm. Facility Costs	\$42,183,080	\$0	\$42,183,080
Linear Parks/Trails	\$3,739,634	\$0	\$3,739,634
Specific Plan Preparation & PFP Update	<u>\$1,586,273</u>	<u>\$123,723</u>	<u>\$1,709,995</u>
Subtotal	\$185,034,475	\$17,365,790	\$202,400,265
Regional Traffic Mitigation	\$24,504,177	\$6,883,758	\$31,387,935
Total Costs	\$209,538,652	\$24,249,548	\$233,788,200

Source: 2014 Transit Area Development Impact Fee Report (February 2014); Economic & Planning Systems, Inc.

Table 4 illustrates how the indexed increases calculated in **Table 2** are applied to the 2014 infrastructure cost schedule to adjust Basic Infrastructure Program costs to 2019 dollars and to determine the appropriate percentage increases in fees in proportion to the increase in costs. As shown in **Table 4**, the 16.2 percent construction cost index is applied to all infrastructure cost items, except parkland/ right of way acquisition, where the 43.8 percent increase in land values is applied. The resulting total Basic Infrastructure Program cost estimate in 2019 dollars is about \$287 million, representing an overall increase of 22.75 percent in net TASP costs between 2014 and 2019. The residential component of the net TASP infrastructure costs increased from \$209.5 million to \$258.8 million, an increase of 23.5 percent. The commercial component of the net TASP infrastructure costs increased from about \$24.3 million to about \$28.2 million, an increase of 16.2 percent. These increases in costs represent the appropriate maximum adjustments in the residential and nonresidential fees respectively and are applied in **Table 1** (above) to indicate the potential increase in TADIF fees.

Additional Steps

Beyond the fee adjustment associated with this analysis, the City is also conducting a broader assessment of the TASP. This is expected to include a review of all infrastructure/ improvement items in the Basic Infrastructure Program, an assessment of the costs of these improvements, as well as a broader consideration of the potential to include more development in the TASP and/or to expand the geographic boundary of the TASP. This review and evaluation may result in the need for a more comprehensive update to the TASP infrastructure program and associated fees. If that is the case, the TASP fees would be updated again at the appropriate time.

Table 4 Adjusted 2019 Infrastructure Program Costs and Overall Increases

Infrastructure Category	Indexed Increase (1)	Net TASP Cost in 2019 \$\$		
		Residential Total	Commercial Total	Total
Roadway	16.2%	\$42,532,928	\$11,941,264	\$54,474,192
Sewer	16.2%	\$17,235,102	\$2,945,439	\$20,180,541
Water	16.2%	\$35,249,886	\$5,143,843	\$40,393,729
Parks/Plazas/Community Facilities				
Right of Way Acquisition	43.8%	\$80,119,270	\$0	\$80,119,270
Other Parks and Comm. Facility Costs	16.2%	\$49,005,153	\$0	\$49,005,153
Linear Parks/Trails	16.2%	\$4,344,428	\$0	\$4,344,428
Specific Plan Preparation & PFP Update	16.2%	<u>\$1,842,813</u>	<u>\$143,732</u>	<u>\$1,986,545</u>
Subtotal		\$230,329,580	\$20,174,278	\$250,503,858
Regional Traffic Mitigation	16.2%	\$28,467,123	\$7,997,036	\$36,464,160
Total Costs		\$258,796,703	\$28,171,315	\$286,968,018
% Increase Over 2014 Cost (2)		23.5%	16.2%	22.75%

(1) All cost categories are escalated based on the ENR construction cost index with the exception of the parkland/ right of way acquisition cost subcategory, which is escalated based on the land value increase. See Table 2 for derivation of % increases.

(2) Represents total 2019 costs divided by the total 2014 costs shown in Table 3. These percentage cost increases for the 2014 and 2019 period for residential and commercial development are then applied to the existing 2014 fees to determine the updated 2019 fee schedule shown in Table 1.

Sources: 2014 Transit Area Development Impact Fee Report (February 2014); and Economic & Planning Systems, Inc.