



COUNCIL AGENDA: 8/20/19
FILE: 19-658
ITEM: 4.1

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kim Walesh
Jim Shannon

SUBJECT: SEE BELOW

DATE: August 1, 2019

Approved

D. DSyl

Date

8/5/19

COUNCIL DISTRICT: 3

SUBJECT: ADOPTION OF A BASIC INFRASTRUCTURE IMPACT FEE ON DEVELOPMENT IN THE DIRIDON STATION AREA

RECOMMENDATION

- (a) Approve an ordinance to add Chapter 14.35 to Title 14 of the San José Municipal Code in order to adopt a new Basic Infrastructure Impact Fee associated with implementation of the Diridon Station Area Plan.
- (b) Approve an ordinance amending Chapter 4.80 of Title 4 of the San José Municipal Code to add a new Part 70 to establish the Diridon Station Area Impact Fee Fund.

OUTCOME

The new basic infrastructure impact fee will create a funding mechanism that will partially fund the future construction of vital basic public infrastructure systems to support private development in the Diridon Station Area.

BACKGROUND

As one of the studies funded by a grant from California High Speed Rail Authority, the City hired the engineering firm of HMM to evaluate the public infrastructure needs identified in the full build out of the 2014 Diridon Station Area Plan (DSAP). The HMM Infrastructure Study identified approximately \$75 million in initial basic infrastructure necessary for implementation of the DSAP. This basic infrastructure includes basic streets, sanitary sewers, storm drainage and flood control, and plazas/open space. The study was coordinated with the Public Works, Parks Recreation and Neighborhood Services, and Transportation Departments; it was completed in 2017.

In July 2018, the City entered into an agreement with Strategic Economics to prepare a nexus study for implementation of the Basic Infrastructure Impact Fee for the Diridon Station area.

This impact fee is the first step in implementing a comprehensive financing plan for the infrastructure/amenities anticipated to be included in an updated DSAP. Staff is currently working on updating the DSAP. Additional fees, assessments, and/or financing mechanisms will be evaluated as part of the Diridon Station Area Plan update process.

ANALYSIS

The 2017 HMH infrastructure study was the basis for Strategic Economics’ nexus study. However, recognizing there have been changes to the development pattern envisioned in the 2014 DSAP, such as development anticipated on the Fire Training site and the SAP Center parking lots, the boundaries of the proposed Basic Infrastructure Fee study area were slightly expanded from the 2017 HMH study area. Also, the scope of infrastructure needs was re-evaluated, as these properties were not included for anticipated development in either the DSAP or the HMH study. Other properties added to the fee study area include the parcels east of Autumn Street adjacent to Los Gatos Creek and the former San Jose Water Company properties (previously entitled for development, but now owned by Google). Finally, as part of the updated evaluation of infrastructure, staff determined that it was appropriate to include in the cost model the likely cost to acquire up to one acre of land for a public plaza, as generally envisioned in the DSAP. The plaza is not necessarily a singular site, but considered one acre of public, non-park open space. A copy of the proposed Basic Infrastructure Fee boundary area is attached to this memorandum (see Attachment A).

Strategic Economics completed the nexus study in May 2019. A copy of the final nexus study is attached to this memorandum (see Attachment B). The nexus study provides the City with the technical analysis that establishes a reasonable relationship between: 1) new development in the Diridon Station Area and the need for and use of impact fees; and 2) the cost of new infrastructure and facilities and the amount of the fee charged to each development project. As shown below and in Table 1, this nexus study quantifies the connection between planned development in the Diridon Station Area and needed infrastructure or facilities in the following categories:

TABLE 1: SUMMARY OF INFRASTRUCTURE COSTS ALLOCATED TO NEW DEVELOPMENT (2017 DOLLARS)

Infrastructure Category	Scale	Estimated Cost
Streets	2.4 Miles	\$43,190,000
Plazas/Open Space	1 Acre	\$15,000,000
Sanitary Sewer	2,500 LF	\$6,960,860
Storm Drain and Flood Control	7,900 LF	\$9,200,000
Total		\$74,350,860

LF: Linear Feet

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

The nexus study calculates the maximum fee the City may charge on new development to fund certain basic infrastructure and facilities in the Diridon Station Area impact fee zone. When a city adopts a development impact fee, it must establish a reasonable relationship or connection between the development project, the fee that is charged, and the infrastructure or facilities funded by the fee. The Mitigation Fee Act (contained in Sections 66000 to 66025 of the California Government Code) permits local agencies to adopt impact fees, provided that the local agency can establish the findings listed below:

- **Purpose of the fee:** Identify the purpose of the fee.
- **Use of fee revenue:** Identify the use to which the fee is to be put. If the use is financing public facilities, the facilities shall be identified.
- **Benefit to new development:** Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed. (Show that new development benefits from the facilities.)
- **Impact of new development:** Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed. (Show that new development impacts the need for the facilities.)
- **Proportionality:** Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.¹ (Show that a new development project is paying its proportional share of the cost of improvements.)

The general methodology used in the nexus study to fulfill these requirements is to:

1. Describe the improvements to be funded by the fee;
2. Identify the estimated cost of those improvements; and
3. Allocate these costs to land uses based on demand factors specific to each land use. Demand factors by infrastructure or facility category are as follows:
 - Costs for plazas are allocated based on employee service population;²
 - Costs for transportation are allocated based on daily trip rates, pass-by rates, and trip lengths;
 - Costs for sanitary sewer are allocated based on a unit flow factor measured in gallons per day, and;

¹ Mitigation Fee Act, California Government Code, Sections 66000 to 66025, https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=1.&title=7.&part=&chapter=5.&article

² The proposed plazas/open space fee will fund the cost of land acquisition and development for plazas/open space to serve commercial uses within the Diridon Station Area. The City will continue to collect its existing parks impact fee on residential uses within the Diridon Station Area impact fee zone to accommodate the impact of new residential development on neighborhood and community parks.

- Costs for storm drainage and flood control are allocated based on an equivalent housing unit factor.

The maximum fee amounts are calculated so that revenue generated from the fees does not exceed the cost of providing the improvements needed. Table 2 shows the proposed impact fees by development type and infrastructure category, as calculated in this analysis. The City could adopt impact fees at or below the maximum levels. In the event the City elects to adopt the fees below the maximum levels identified in the nexus study, the City will need to identify other eligible funding sources to backfill the reduced fee revenues.

TABLE 2: SUMMARY OF MAXIMUM DIRIDON STATION AREA IMPACT FEES, PER SQUARE FOOT (2018 DOLLARS)

	Plazas*	Sanitary Sewer	Storm Drainage	Transportation	Total
Retail	\$0.45	\$0.24	\$0.22	\$3.07	\$3.98
Office/R&D	\$1.46	\$0.45	\$0.71	\$3.33	\$5.95
Hotel	\$0.36	\$0.61	\$0.33	\$4.14	\$5.44
Residential	N/A	\$0.62	\$0.58	\$1.47	\$2.67

*The proposed plazas/open space fee will fund the cost of land acquisition and development for plazas/open space that primarily serve non-residential (i.e., commercial, civic) uses within the Diridon Station Area. The City will continue to implement the existing Parkland Dedication (PDO) and Park Impact Ordinances (PIO) within the Diridon Station Area impact fee zone to accommodate the impact of new residential development on neighborhood and community parks.

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

Strategic Economics analyzed the total development costs with and without the maximum fees for six development prototypes, which are representative of the types of new development anticipated in the Diridon Station Area. Although mixed use buildings (i.e., residential or office with ground floor retail) are anticipated in the station area, for simplicity the prototypes were analyzed as single-use buildings. An actual development with ground floor retail would be expected to have similar development costs as the single-use buildings modeled for the purposes of this analysis. As shown in Table 3, the maximum fees add no more than one percent to the development budget for each prototype. The burden on project budgets ranges from a 0.4 percent increase for the high-rise condominium prototype to a 1.0 percent increase for the mid-rise office prototype.

TABLE 3: IMPACT FEES AS PERCENT OF TOTAL DEVELOPMENT COSTS, BY PROTOTYPE (2018 DOLLARS)

	Mid-rise Rental Apartments	Mid-rise Condo	High-rise Condo	Mid-rise Office/R&D	High-rise Office	Mid-rise Hotel
<i>(millions of \$)</i>						
Total Development Costs before Impact Fees	\$64.8	\$63.1	\$179.0	\$668.5	\$374.3	\$89.1
Total Maximum Impact Fees	\$0.3	\$0.3	\$0.7	\$7.0	\$3.2	\$0.7
Total Development Costs with Impact Fees	\$65.1	\$63.4	\$179.7	\$675.5	\$377.5	\$89.8
Impact Fees as % of Total Development Costs	0.5%	0.5%	0.4%	1.0%	0.9%	0.8%

Source: Strategic Economics, 2019.

The City has existing municipal fees and taxes on new development that would be charged in addition to the new impact fees proposed for the Diridon Station Area. For residential prototypes, existing fees include inclusionary housing requirements, park fees, construction taxes, permitting fees, and the existing citywide storm drainage and sanitary sewer connection fees. Municipal charges for commercial prototypes include construction taxes and the existing citywide storm drainage and sanitary sewer connection fees.

As displayed above, the impact of the maximum new Basic Infrastructure Impact Fee on total development costs as a whole is relatively minor. As a percent of total development costs, municipal fees would increase from approximately 10.9 percent to 11.4 percent of total development costs for mid-rise rental apartments, 10.2 percent to 10.7 percent for mid-rise condo, 8.3 percent to 8.7 percent for high-rise condominium, 1.3 percent to 2.3 percent for mid-rise office/R&D, 1.3 percent to 2.1 percent for high-rise office, and 1.5 percent to 2.3 percent for hotel.

Staff's Recommendation and Inflation Adjustment to Infrastructure Costs

Staff recommends the City Council to approve an ordinance to add a new Chapter 14.35 to Title 14 of the San José Municipal Code in order to adopt a new Basic Infrastructure Impact Fee as set forth in the nexus study and Table 2 (see previous page).

Infrastructure cost estimates in this nexus study were adjusted to 2018 dollars as necessary. The costs estimated in the *Diridon Station Area Infrastructure Analysis* are in 2017 dollars.

Infrastructure costs were inflated to 2018 dollars using the Construction Cost Index (CCI) published by Engineering News-Record, consistent with the City of San José's practice for updating other impact fees. Growth in the CCI was 2.0 percent between 2017 and 2018. The proposed ordinance will provide for an annual fee adjustment based on the CCI.

The proposed ordinance will become effective 60 days after adoption by the City Council.

Comprehensive Station Area Financing Plan

As a part of its action approving the Memorandum of Understanding with Google in 2018, the City Council directed staff to develop a Comprehensive Financing Plan as part of the updating of the Diridon Station Area Plan.

Impact fees are one-time fees used to mitigate impacts resulting from development activity. Impact fee revenue may be used only for construction or expansion of capital improvements, and may not be used to fund existing infrastructure deficiencies nor for operations and maintenance. Therefore, the City will need to identify other sources of revenue to pay existing deficiencies and operations and maintenance, as well as for additional infrastructure and facility costs that are not covered by the impact fees.

Because of the above limitations, the City may consider the role of other revenue sources to pay for infrastructure in the Diridon Station Area, such as existing fees³ and taxes, incentive zoning policies, or property-based financing tools, including Mello-Roos Community Facilities Districts (CFDs).

It should be noted that the City is currently conducting a nexus and feasibility study for a potential commercial impact fee for affordable housing, which could be implemented Citywide including the Diridon Station Area.

The need to consider additional revenue sources would be compounded if the City were to enact development impact fees at a level lower than what is legally justified in the nexus study. One common rationale for setting the fee lower than the justifiable amount is a desire to minimize the impact of the fee on development feasibility. There may be concern about any increase to development costs, particularly on retail land uses. Ground floor retail space, which may be occupied by retail stores, services, or other active uses, is often a small part of a project's square footage. However, it is key to the quality and placemaking of an area. In some cases, ground floor retail may not generate significant revenues for a development project, and other uses in a project (office or residential) may effectively subsidize the cost of developing the required amount of retail space. Staff will work closely with developers to ensure that the subject fees will not hurt San José's ability to secure great retail space.

A lower fee level, however, does not fully mitigate the impacts from new development and stopgap funding would need to be identified if the maximum fee level is not imposed.

EVALUATION AND FOLLOW-UP

Upon implementation of an impact fee, it is anticipated that staff will return annually to the City Council to report on progress of delivery of necessary projects. Further, staff envisions a regular update to the scope of projects included in the infrastructure needs of the fee area, as opportunities and need arise in response to proposed or planned development.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the August 20, 2019 Council Meeting. Staff presented to the Developer's Roundtable on June 21, 2019, and spoke directly to five developers with projects in the Diridon Station Area.

At least 14 days before the regularly scheduled Council meeting, staff mailed notice of the proposed fee to any interested party who requested notice of the adoption of new or increased

³ Note that revenue from existing fees may be used in the Diridon Station Area, but the new impact fees must fund improvements not otherwise funded by the City's existing fees. The City will review fees on a project-by-project basis to determine the amount of existing citywide fees to be credited against the new impact fees.

development fees (Gov't Code Section 66017). Further, at least 10 days before the regularly scheduled Council meeting, staff made available to the public, data and information indicating the cost of the improvements, and the revenue sources anticipated to provide the improvements (Government Code Section 66016(a)).

COORDINATION

This report was coordinated with the City Attorney's Office, the Finance Department, the Transportation Department, the Public Works Department, Planning Building and Code Enforcement, and Parks Recreation and Neighborhood Services.

COMMISSION RECOMMENDATION/INPUT

No commission recommendation or input is associated with this action.

COST SUMMARY/IMPLICATIONS

Adoption of the recommended ordinance would institute a Basic Infrastructure Impact Fee on all development in the Diridon Station Area as shown in Attachment A, raising approximately \$75 million (in 2018 dollars) for basic infrastructure related to transportation, sanitary sewer and storm drainage systems, and a public plaza/s. The fees would be adjusted annually in accordance to the CCI. These fees would be paid upon issuance of a building permit and would be deposited into the new Diridon Station Area Impact Fee Fund; the portions of the fees related to the plaza, transportation, sanitary sewer, and storm drainage uses would be separately tracked. It is important to note that revenues for the development of park-related infrastructure will continue to be funded by the Parkland Dedication (PDO) and Park Impact Ordinances (PIO); a park-related fee is not included in the Basic Infrastructure Fee.

The Basic Infrastructure Fee does not pay for operating and maintenance costs of the constructed assets. Ongoing costs to operate and maintain the sanitary and storm drainage systems would be paid by fees supplied by the users of these systems, while plaza and transportation operations and maintenance would likely be paid by the General Fund. However, staff continues to explore other mechanisms to pay for both enhanced public amenities (e.g. enhanced streetscapes, lighting, etc.) and the ongoing operations and maintenance of constructed assets, and will bring forward recommendations in the future. The nexus study did not estimate the ongoing costs for maintenance and operations of any new infrastructure assets. These costs will be identified as individual capital infrastructure projects are scoped and designed.

HONORABLE MAYOR AND CITY COUNCIL

August 1, 2019

Subject: Adoption of a Basic Infrastructure Impact Fee on Development in the Diridon Station Area

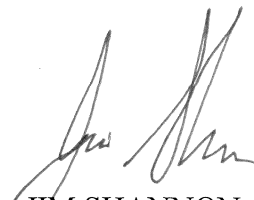
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CEQA

Determination of Consistency with the Diridon Station Area Plan Final Environmental Impact Report (Resolution no. 77096) and the Downtown Strategy 2040 Final Environmental Impact Report (Resolution no. 78942).

/s/

KIM WALESH
Deputy City Manager
Director of Economic Development



JIM SHANNON
Budget Director

For questions, please contact Bill Ekern, Diridon Project Manager, at (408) 535-7637.

FIGURE 1: DIRIDON STATION AREA IMPACT FEE ZONE



Diridon Station Area Impact Fee Zone

Sources: City of San José, 2018; Strategic Economics 2019.

0 0.1 0.2 Miles





DIRIDON STATION AREA: IMPACT FEE NEXUS STUDY FOR BASIC INFRASTRUCTURE

Prepared for:

City of San José

May 2019

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I. EXECUTIVE SUMMARY

The Diridon Station Area Plan (DSAP) envisions the area surrounding the existing Diridon Station as a high intensity, transit-oriented community, with significant amounts of new residential, office, retail, and hotel development. To facilitate implementing the DSAP, the City of San José prepared the *Diridon Station Area Infrastructure Analysis*, a report that identified the basic infrastructure and facilities needed to serve new development. The City is now proposing the establishment of an impact fee program that will provide funding for the basic needed infrastructure.

This nexus study provides the City with the technical analysis that establishes a reasonable relationship between: 1) new development in the Diridon Station Area and the need for and use of impact fees; and 2) the cost of basic new infrastructure and facilities and the amount of the fee charged each development project. This nexus study quantifies the connection between planned development in the Diridon Station Area and needed basic infrastructure or facilities in the following categories:

- Transportation;
- Plazas;
- Sanitary Sewer; and
- Storm Drainage and Flood Control.

It is anticipated that revisions to the DSAP will include additional infrastructure, amenities, and public benefits.

Report Organization

This executive summary summarizes the nexus study's approach and the results of analysis. Subsequent chapters of the report provide more detailed information on the data sources, methodology used in this analysis, and study findings.

The report is organized into eight chapters. Following this Executive Summary, Chapter II provides an introduction to the purpose of the study, and an overview of the methodology and key assumptions. Chapters III-VI describe the methodology and results of the maximum fee calculation for Plazas, Transportation, Sanitary Sewer, and Storm Drainage and Flood Control. Chapter VII discusses the extent to which the maximum fees would affect the total cost of new development in the Diridon Station Area. Chapter VIII discusses other key policy considerations that jurisdictions may weigh before implementing a nexus fee, and provides an overview of procedures for implementing the Diridon Station Area impact fees to meet the requirements of the Mitigation Fee Act.

Nexus Analysis Methodology and Results

This nexus study calculates the maximum fee on new development to fund basic infrastructure and facilities in the Diridon Station Area impact fee zone. This section describes the statutory requirements and methodology used to calculate the maximum fee amounts for each type of infrastructure or facility.

More detail on basic infrastructure and facility needs and the related fee schedule for each type is provided in the chapters that follow.

When a city adopts a development impact fee, it must establish a reasonable relationship or connection between the development project, the fee that is charged, and the infrastructure or facilities funded by the fee. The Mitigation Fee Act (contained in Sections 66000 to 66025 of the California Government Code) permits local agencies to adopt impact fees, provided that the local agency can establish the findings listed below:

- **Purpose of the fee:** Identify the purpose of the fee.
- **Use of fee revenue:** Identify the use to which the fee is to be put. If the use is financing public facilities, the facilities shall be identified.
- **Benefit to new development:** Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed. (Show that new development benefits from the facilities funded by the fee.)
- **Impact of new development:** Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed. (Show that new development impacts the need for the facilities.)
- **Proportionality:** Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.¹ (Show that a new development project is paying its proportional share of the cost of improvements.)

The general methodology used by this report to fulfill these requirements and detailed in the following chapters is to:

1. Describe the improvements to be funded by the fee;
2. Identify the estimated cost of those improvements; and
3. Allocate these costs to land uses based on demand factors specific to each land use. Demand factors by infrastructure or facility category are as follows:
 - Costs for plazas are allocated based on employee service population;²
 - Costs for transportation are allocated based on daily trip rates, pass-by rates, and trip lengths;
 - Costs for sanitary sewer are allocated based on a unit flow factor measured in gallons per day; and

¹ Mitigation Fee Act, California Government Code, Sections 66000 to 66025, https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=1.&title=7.&part=&chapter=5.&article

² The proposed plazas fee will fund the cost of land acquisition and development for parks and plazas to serve commercial uses within the Diridon Station Area. The City will continue to implement the existing Parkland Dedication (PDO) and Park Impact Ordinances (PIO) within the Diridon Station Area impact fee zone to accommodate the impact of new residential development on neighborhood and community parks.

- Costs for storm drainage and flood control are allocated based on an equivalent housing unit factor.

The maximum fee amounts are calculated so that revenue generated from the fees do not exceed the cost of providing the improvements needed. Figure 1 shows the estimated cost of providing basic infrastructure and facilities in the Diridon Station Area impact fee zone, by category.

Figures 2 and 3 show the proposed Diridon Station Area impact fees by prototype and infrastructure category in 2018 dollars, as calculated in this analysis. The fee levels are shown on a per square foot (Figure 2) and per 1,000 square foot, residential unit or hotel room basis (Figure 3) to enable comparison between prototypes. The City could adopt fees at levels below these maximum, nexus-supported levels based on policy considerations, though funding from other sources would be required to backfill the reduced fee revenues.

FIGURE 1: SUMMARY OF INFRASTRUCTURE COSTS ALLOCATED TO NEW DEVELOPMENT (2017 DOLLARS)

Infrastructure Category	Scale	Estimated Cost
Streets	2.4 Miles	\$43,190,000
Plazas	1 Acre	\$15,000,000
Sanitary Sewer	2,500 LF	\$6,960,860
Storm Drain and Flood Control	7,900 LF	\$9,200,000
Total		\$74,350,860

LF: Linear Feet

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

FIGURE 2: SUMMARY OF MAXIMUM DIRIDON STATION AREA IMPACT FEES, PER SQUARE FOOT (2018 DOLLARS)

	Plazas*	Sanitary Sewer	Storm Drainage	Transportation	Total
Retail	\$0.45	\$0.24	\$0.22	\$3.07	\$3.97
Office/R&D	\$1.46	\$0.45	\$0.71	\$3.33	\$5.95
Hotel	\$0.36	\$0.61	\$0.33	\$4.14	\$5.44
Residential	N/A	\$0.62	\$0.58	\$1.47	\$2.67

*The proposed plazas fee will fund the cost of land acquisition and development for plazas that primarily serve non-residential uses within the Diridon Station Area (i.e., a one-acre plaza that will be surrounded by commercial and civic uses). The City will continue to implement the existing Parkland Dedication (PDO) and Park Impact Ordinances (PIO) within the Diridon Station Area impact fee zone to accommodate the impact of new residential development on neighborhood and community parks.

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

FIGURE 3: SUMMARY OF MAXIMUM DIRIDON STATION AREA IMPACT FEES, PER 1,000 SQUARE FEET / UNIT / ROOM (2018 DOLLARS)

	Plazas*	Sanitary Sewer	Storm Drainage	Transportation	Total
Retail (sf)	\$446	\$243	\$217	\$3,067	\$3,973
Office/R&D (sf)	\$1,458	\$448	\$709	\$3,331	\$5,945
Hotel (Rooms)	\$189	\$320	\$175	\$2,173	\$2,856
Residential (Units)	NA	\$615	\$581	\$1,470	\$2,665

*The proposed plazas fee will fund the cost of land acquisition and development for plazas that primarily serve non-residential uses within the Diridon Station Area (i.e., a one-acre plaza that will be surrounded by commercial and civic uses). The City will continue to implement the existing Parkland Dedication (PDO) and Park Impact Ordinances (PIO) within the Diridon Station Area impact fee zone to accommodate the impact of new residential development on neighborhood and community parks.

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

Policy and Feasibility Considerations

The nexus analysis described above establishes legal justification for the maximum fees that the City of San José may impose. In establishing the actual fee levels, a jurisdiction may take into account a variety of financial and policy considerations, including: the effect of the fees on development cost and financial feasibility; the impact of the new fees on the existing City fee structure; and the role of the new fees in the City’s overall strategy to pay for basic infrastructure needed in the Diridon Station Area. This section provides a discussion of each of these policy questions for San José.

PROPOSED FEES AS A PERCENT OF TOTAL DEVELOPMENT COST

Development costs are just one of several factors to consider in making a decision regarding a potential impact fee in the Diridon Station Area. In order to provide San José with guidance on how proposed fees could affect development costs, Strategic Economics analyzed the total development costs with and without the maximum fees for six development prototypes that are representative of the types of new development anticipated in the Diridon Station Area. Figure 4 shows total development costs for each prototype and the maximum fees as a percent of total development costs.

As shown in Figure 4, the maximum fees add no more than one percent to the development budget for each prototype. The burden on project budgets ranges from a 0.4 percent increase for the high-rise condominium prototype to a 1.0 percent increase for the mid-rise office prototype.

The cost burden is higher on commercial prototypes than on residential prototypes. As shown in Figure 3, above, the highest cost impact per unit is on office prototypes, at \$5,480 per 1,000 square feet. Because commercial land uses generate more trips, commercial uses receive a higher allocation of transportation infrastructure costs. In addition, the entire cost of the planned plaza is allocated to commercial uses, further raising the relative burden on commercial uses. As described in the section below, the City’s existing municipal fees and taxes (including existing residential parks fees) are higher for residential uses than for commercial uses.

FIGURE 4: IMPACT FEES AS PERCENT OF TOTAL DEVELOPMENT COSTS, BY PROTOTYPE (2018 DOLLARS)

	Mid-rise Rental Apartments	Mid-rise Condo	High-rise Condo	Mid-rise Office/R&D	High-rise Office	Mid-rise Hotel
<i>(millions of \$)</i>						
Total Development Costs before Impact Fees	\$64.8	\$63.1	\$179.0	\$668.5	\$374.3	\$89.1
Total Maximum Impact Fees	\$0.3	\$0.3	\$0.7	\$7.0	\$3.2	\$0.7
Total Development Costs with Impact Fees	\$65.1	\$63.4	\$179.7	\$675.5	\$377.5	\$89.8
Impact Fees as % of Total Development Costs	0.5%	0.5%	0.4%	1.0%	0.9%	0.8%

Source: Strategic Economics, 2019.

COMPARISON TO EXISTING CITY FEES

The City of San José has existing municipal fees on new development that would be charged in addition to the new impact fees proposed for the Diridon Station Area. For residential prototypes, existing fees and taxes include affordable housing fees; park fees; construction taxes; permitting fees; and the existing, citywide storm drainage and sanitary sewer connection fees. Municipal charges for commercial prototypes include permitting fees, construction taxes, and the existing citywide storm drainage and sanitary sewer connection fees.

As discussed above, the impact of the maximum Diridon Station Area impact fees on total development costs is relatively minor. However, the impact fees represent an increase over the current municipal fee levels. As a percent of total development costs, municipal fees would increase from 10.9 percent to 11.4 percent of total development costs for mid-rise rental apartments, 10.2 percent to 10.7 percent for mid-rise condo, 8.3 percent to 8.7 percent for high-rise condo, 1.3 percent to 2.3 percent for mid-rise office/R&D, 1.3 percent to 2.1 percent for high-rise office, and 1.5 percent to 2.3 percent for hotel.

ROLE OF THE FEE IN THE CITY'S INFRASTRUCTURE FINANCING STRATEGY FOR THE DIRIDON STATION AREA

Impact fees are one-time fees used to mitigate impacts resulting from development activity. Impact fee revenue may be used only for construction or expansion of capital improvements, and may not be used to fund existing infrastructure deficiencies nor for operations and maintenance. The City will therefore need to identify other sources of revenue to pay existing deficiencies and operations and maintenance, as well as for additional infrastructure and facility costs that are not covered by the impact fees.

Because of the above limitations the City may consider the role of other revenue sources to pay for infrastructure in the Diridon Station Area, such as existing fees³ and taxes or property-based financing tools, including Mello-Roos Community Facilities Districts (CFDs). CFDs are a type of special taxing district formed when registered voters or property owners⁴ within a geographic area agree to impose a new tax on property in order to fund infrastructure improvements, the development of public

³ Note that revenue from existing fees may be used in the Diridon Station Area, but the new impact fees must fund improvements not otherwise funded by the City's existing fees. The City will review fees on a project-by-project basis to determine the amount of existing citywide fees to be credited against the new impact fees.

⁴ The district must be approved by 2/3 of property owners if there are fewer than 12 registered voters living within proposed district, or by 2/3 of voters if there are 12 or more voters registered within the district.

facilities, or ongoing maintenance, repair, or services. CFD revenues can be saved in a fund for use on a pay-as-you-go basis or used to issue a bond.

Another possible source of funding for infrastructure needs in the Diridon Station Area is revenues from Measure T, a \$650 million general obligation bond authorization passed in November 2018. Measure T is a citywide measure intended to repair existing deficiencies in streets, flood control, and other deficiencies. Some of the projects in the Diridon Station Area that are not covered by impact fees may be eligible for funding under Measure T.

The need to consider additional revenue sources would be compounded if the City were to enact development impact fees at a level lower than the maximum rate set forth in this nexus study. One common rationale for setting the fee lower than the maximum amount is a desire to minimize the impact of the fee on development feasibility. As described above, the fee levels determined in this study would be a relatively minor component of development costs in the tested prototypes. However, there may be concern about any increase to development costs, particularly on retail land uses. While retail is an important component of the land use mix in the transit-oriented community envisioned for the Diridon Station Area, it often struggles to remain financially viable. A lower fee level, however, does not fully mitigate the impacts from new development and stopgap funding would need to be identified if the maximum fee level is not imposed.

Eligible Use of Fee Revenues

To remain consistent with this nexus analysis, Diridon Station Area impact fee revenues must be deposited in separate accounts for each fee (plazas, sanitary sewer, storm drainage, and transportation). Funds in each account may only be used for the following purposes:

- Capital projects, including land, buildings, vehicles, furnishings, equipment and all related infrastructure for the specific types of infrastructure described in this nexus analysis for each fee (plazas; sanitary sewer; transportation infrastructure; and storm drain infrastructure).
- Upgrade or expansion of existing infrastructure or facilities, but not ongoing maintenance of existing assets.
- Developer reimbursement for infrastructure or facilities that otherwise would be eligible for impact fee revenue, and that exceed the developer's fee obligation.
- Administrative costs related to compliance with the Mitigation Fee Act including collecting, accounting, and managing expenditure of fee revenues in accordance with the Act, as well as preparing financial reports and nexus studies required to make any necessary findings and determinations under the Act.

The basic infrastructure and facilities and related cost estimates presented in this nexus study represent the best available information at the time of this report. However, in response to changed circumstances the City may revise the capital projects identified in the DSAP or include additional infrastructure, amenities, and public benefits that serve new development within the Diridon Station Area. The City may use revenue from the impact fees documented in this report to fund capital projects within the Diridon Station Area as long as projects are consistent with the criteria listed in the "Use of Fee Revenue" sections of this report associated with each fee.

II. INTRODUCTION

The City of San José is considering adopting development impact fees in the Diridon Station Area for basic public infrastructure. Impact fees provide a mechanism for new development to contribute to the one-time cost of improving and expanding the infrastructure and facilities needed to accommodate that development. This “nexus study” provides the City of San José with the technical analysis that establishes a reasonable relationship between new development and the need for and use of impact fees, as well as between the cost of new infrastructure and facilities and the amount of the fee charged to each development project.

Background

In 2014 the San José City Council approved the Diridon Station Area Plan (DSAP) and certified the EIR. The Diridon Station Area is the area surrounding the existing Diridon Station, a transit hub with service currently provided by Altamont Corridor Express (ACE), Capitol Corridor, Amtrak, Caltrain, VTA light rail and bus, Monterey Salinas Transit Bus, Greyhound, Megabus, and private employer shuttles. The BART Silicon Valley Extension is also planned to serve Diridon Station, with passenger service expected to begin in 2026. Diridon Station is also one of the proposed stations for California High Speed Rail.

The DSAP envisions higher intensity, transit-oriented development (TOD) in the area, including significant amounts of new residential, office, retail, and hotel development. To assist in the implementation of the DSAP, the City has prepared the *Diridon Station Area Infrastructure Analysis* that identified the basic infrastructure and facilities needed to serve new development. The City is proposing the establishment of an impact fee program that will provide funding for this basic infrastructure.

Diridon Station Area Impact Fee Zone

The proposed Diridon Station Area impact fee zone is consistent with the DSAP boundaries with the addition of one adjoining area. The area bounded by the Guadalupe River and West Santa Clara, West San Fernando, and South Autumn Streets was added to the fee zone because the basic infrastructure and facility improvements needed to enable development within the DSAP overlap with the improvements needed for this adjacent area (Figure 5). The proposed fee zone thus will spread costs more reasonably across new development benefiting from the funded improvements.

FIGURE 5: DIRIDON STATION AREA IMPACT FEE ZONE



Diridon Station Area Impact Fee Zone

Sources: City of San José, 2018; Strategic Economics 2019.



Nexus Methodology

This nexus study calculates the maximum fee on new development to fund basic infrastructure and facilities in the Diridon Station Area impact fee zone. This section describes the statutory requirements and development assumptions used to calculate the maximum fee amounts for each type of land use and basic infrastructure or facility. More detail on the basic public infrastructure and facility needs and the related fee schedule for each type of use is provided in the chapters that follow.

MITIGATION FEE ACT REQUIREMENTS

When a city adopts a development impact fee, it must establish a reasonable relationship or connection between the development project, the fee that is charged, and the infrastructure or facilities funded by the fee, as described further below. Studies undertaken to demonstrate this connection are called nexus studies. This nexus study quantifies the connection between planned development in the Diridon Station Area and needed basic public infrastructure or facilities in the following categories:

- Transportation, including facilities for private vehicles, transit vehicles, bicycles, and pedestrians;
- Plazas, including the acquisition of land and capital improvements for public plaza facilities primarily for the benefit of non-residential development;
- Sanitary Sewer, including sanitary sewer pipes, manholes, lateral connections, and pipe removal; and
- Storm Drainage and Flood Control, including flood control facilities, storm drain pipes, manholes, lateral connections, outfalls, and pipe removal.

Based on the nexus analysis the report provides a schedule of maximum fees by land use for each of the basic public infrastructure or facility categories. The City of San José may adopt fees up to the maximum fee amount for each fee category and land use.

The Mitigation Fee Act (contained in Sections 66000 to 66025 of the California Government Code) permits local agencies to adopt impact fees, provided that the local agency can establish the findings listed below:

- **Purpose of the fee:** Identify the purpose of the fee.
- **Use of fee revenue:** Identify the use to which the fee is to be put. If the use is financing public facilities, the facilities shall be identified.
- **Benefit to new development:** Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed. (Show that new development benefits from the facilities.)
- **Impact of new development:** Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed. (Show that new development impacts the need for the facilities.)
- **Proportionality:** Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the

development on which the fee is imposed.⁵ (Show that a new development project is paying its proportional share of the cost of improvements.)

The general methodology used by this report to fulfill these requirements and detailed in the following chapters is to:

1. Describe the improvements to be funded by the fee;
2. Identify the estimated cost of those improvements; and
3. Allocate these costs to land uses based on demand factors specific to each land use.

The maximum fee amounts calculated in the last step would generate revenue not to exceed the reasonable cost of providing the improvements needed based on the impacts created by new development.

GROWTH AND INFRASTRUCTURE NEEDS IN THE DIRIDON STATION AREA

This section describes expected development for the Diridon Station Area. It also provides an overview of the *Diridon Station Area Infrastructure Analysis*, which provides the basis for the improvements included in the cost allocation analysis.

LAND USE ASSUMPTIONS

Land use designations are used to distinguish the impacts of different types of development on the need for infrastructure and public facilities. The land use designations used here are consistent with the General Plan and Diridon Station Area Plan. The land use designations used in this nexus analysis are described below:

- Residential – Apartments, townhomes, and condominiums (no single family detached development is anticipated)
- Office/R&D – Office uses including tech office, research & development and medical office
- Retail – Retail stores, restaurants, and retail services
- Hotel – Full-service hotels, limited-service hotels, motels, and other lodging

EXPECTED GROWTH

The land use scenario used in this nexus study is based on the maximum build-out totals described in the General Plan, Chapter 4 of the DSAP, and the *Diridon Station Area Infrastructure Analysis*⁶, revised based on additional input from the City of San José to reflect proposed projects within the plan area and the future development potential of the additional acreage added to the impact fee zone. This land use scenario is the basis of the analyses that identified the infrastructure and facility needs in the fee zone and in the calculation of the impact fees. Figure 6 summarizes expected growth by land use used in this nexus study.

⁵ Mitigation Fee Act, California Government Code, Sections 66000 to 66025, https://leginfo.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=1.&title=7.&part=&chapter=5.&article

⁶ While the DSAP included a new Major League Baseball stadium, the Diridon Station Area Infrastructure Analysis and this nexus study assume the stadium site will instead be developed as Commercial Downtown.

FIGURE 6: DIRIDON STATION AREA LAND USE SCENARIO

Retail (Sq. Ft.)	1,062,624
Office/R&D (Sq. Ft.)	10,000,000
Residential (Units)	3,171
Hotel (Rooms)	1,300

Sources: Diridon Station Area Infrastructure Analysis, Table 3.1.3, 2017; City of San José, 2019.

EMPLOYMENT DENSITY ASSUMPTIONS

The plaza component of the impact fee is based on the number of employees per thousand square feet of nonresidential space. The assumptions, shown in Figure 7, are based on survey data for nonresidential land uses from other jurisdictions.

FIGURE 7: EMPLOYEE DENSITY BY LAND USE

Retail	1.65	workers per 1,000 square feet
Office/R&D	5.41	workers per 1,000 square feet
Hotel	1.33	workers per 1,000 square feet

Sources: Vallen and Vallen, "Chapter 1: The Traditional Hotel Industry," Check-In, Check-Out, 2012; A.C. Nelson, "Reshaping Metropolitan America," 2013; Gensler, "What the Tech? Ratios and Metrics;" Norm Miller, "Estimating Office Space per Worker: Implications for Future Office Space Demand," 2012; Strategic Economics, 2019.

INFRASTRUCTURE NEEDS AND COST ESTIMATES

The nexus study relies on the needs analysis and estimated improvement costs provided in the *Diridon Station Area Infrastructure Analysis*, prepared by HMH for the City of San José in 2017. Additional cost estimates for sanitary sewer, storm drainage and flood control, and plazas were provided by City of San José.

The basic infrastructure and facilities and related cost estimates presented in this nexus study represent the best available information at the time of this report. However, in response to changed circumstances the City may revise the capital projects identified in the DSAP or include additional infrastructure, amenities, and public benefits that serve new development within the Diridon Station Area. The City may use revenue from the impact fees documented in this report to fund capital projects within the Diridon Station Area as long as projects are consistent with the criteria listed in the "Use of Fee Revenue" section in subsequent chapters of this report associated with each fee.

COST ALLOCATION ANALYSIS

This nexus study allocates the costs of the needed improvements to land uses based on demand factors specific to those land uses. Demand factors for sanitary sewer are based on the *Diridon Station Area Infrastructure Analysis*. Additional demand factors were provided by the City of San José and drawn from published sources as outlined in this report. Demand factors by infrastructure or facility category are as follows:

- Plaza costs are allocated based on employee service population;
- Costs for transportation are allocated based on daily trip rates, pass-by rates, and trip lengths;
- Costs for sanitary sewer are allocated based on a unit flow factor measured in gallons per day; and
- Costs for storm drainage and flood control are allocated based on an equivalent housing unit factor.

The maximum fee amounts are calculated so that revenue generated from the fees do not exceed the reasonable cost of providing the improvements needed.

INFLATION ADJUSTMENT TO INFRASTRUCTURE COSTS

Infrastructure cost estimates in this nexus study were adjusted to 2018 dollars as necessary. The costs estimated in the *Diridon Station Area Infrastructure Analysis* are in 2017 dollars. Infrastructure costs were inflated to 2018 dollars using the Construction Cost Index (CCI) published by Engineering News-Record, consistent with the City of San José's practice for updating other impact fees. Growth in the CCI was 2.0 percent between 2017 and 2018.

III. PLAZAS

This chapter provides the nexus findings, cost allocation analysis and maximum fee schedule for the plazas impact fee, which will fund the cost of land acquisition and development for plazas to serve commercial uses within the Diridon Station Area.

Nexus Findings

This section summarizes the findings required by the Mitigation Fee Act for adoption of the plazas impact fee. These findings are supported by the technical analysis that follows.

PURPOSE OF THE FEE

The purpose of the plazas impact fee is to fund land acquisition and development of park and plaza facilities to accommodate the impact of new non-residential development within the Diridon Station Area impact fee zone.

USE OF FEE REVENUE

Fee revenue will provide funding for the acquisition of land and capital improvements for plazas and other facilities for public gathering. Fee revenue may be used for:

- The specific improvements identified in this chapter;
- Any capital improvement that provides new or expanded plaza or public gathering facilities primarily for the benefit of non-residential development within the Diridon Station Area impact fee zone;
- Upgrade or enhancement of existing plaza facilities to support more intensive use primarily by non-residential development within the Diridon Station Area impact fee zone, excluding capital improvements for deferred maintenance or rehabilitation of existing facilities; and
- Plaza capital improvements located outside the Diridon Station Area impact fee zone if the share of the total improvement cost funded by fee revenue is not more than the share that is reasonably proportional to the benefit provided by the improvement to non-residential development within the impact fee zone.

IMPACT OF NEW DEVELOPMENT

New non-residential development in the Diridon Station Area impact fee zone will result in new employment that will increase the demand for plazas and other public gathering facilities, providing a reasonable relationship between this type of development and the need for plaza facilities. The City will continue to implement the existing Parkland Dedication (PDO) and Park Impact Ordinances (PIO) within the Diridon Station Area impact fee zone to accommodate the impact of new residential development on neighborhood and community parks.

BENEFIT TO NEW DEVELOPMENT

Facilities for plazas funded by fee revenue will provide gathering space and connectivity to transit for workers and others using the non-residential development within the Diridon Station Area impact fee

zone providing a reasonable relationship between the type of development paying the fee and the use of fee revenue.⁷

PROPORTIONALITY

The number of employees in a development project is a reasonable indicator of the demand for park and plaza facilities. The plazas impact fee is based on the cost of plaza facilities per employee so there is a reasonable relationship between the amount of the fee on a development project and the cost of the plaza facilities attributable to that development project.

Cost Allocation Analysis

This section provides the technical analysis and fee schedule for the plazas fee.

NEEDED INFRASTRUCTURE

An overall theme of the DSAP is to “foster a vibrant public realm throughout the Station area that supports pedestrian activity and integrates public spaces into development with new plazas, parks, and public spaces.” The *Diridon Station Area Infrastructure Analysis* outlines two parks and plaza projects envisioned to satisfy the DSAP’s parks theme:

- An 8-acre community park that will provide existing residents, new residents, and the surrounding Downtown neighborhoods with a place for community gathering and a broad range of outdoor recreation activities.
- Approximately one-acre of public plaza or a network of plazas that will provide gathering space for the “central core area and create a highly active and lively pedestrian environment with connectivity to transit.”⁸ The plaza is expected to primarily serve civic and commercial uses focused at the center of the Station Area.

San José’s Park Impact Ordinance and Parkland Dedication Ordinance require new residential projects to either dedicate parkland, pay a park impact in-lieu fee, or a combination thereof. The *Diridon Station Area Infrastructure Analysis* assumes that the residential park impact in-lieu fee will fund the planned 8-acre community park, but not the one-acre public plaza. Instead, the proposed plazas impact fee will fund that plaza because of its benefit to non-residential development that is concentrated in the central core area.

The proposed plaza is envisioned to include the following features:

- Central, large multi-use space open for flexible set ups and large public gatherings;
- Built-in audio/ visual infrastructure for events;

⁷ Park user surveys in multiple cities have shown that approximately 20 percent or more of the use of parks comes from workers as compared to residents on a per capita basis. Usage by workers is higher for parks located near employment centers such as the plazas to be funded by the plaza impact fee. The per capita revenue to be generated by this impact fee compared to the revenue to be generated by the City’s park impact in-lieu fee on residential development reflects a cost burden on non-residential development that is well within these survey results.

⁸ Diridon Station Area Infrastructure Analysis, 2017.
(footnote continued)

- Restrooms;
- Smaller, quieter, subzones with trees, shade and seating; and
- Integrated bicycle and pedestrian circulation through the plaza, connecting with adjacent bicycle and pedestrian routes.

Estimated costs for land acquisition and improvements for the one-acre plaza are shown in Figure 8.⁹

FIGURE 8: PLAZA FACILITIES COSTS (2017 DOLLARS)

	Cost per Acre
Land Acquisition	\$10,900,000
Plaza Improvements	\$4,100,000
Total Cost	\$15,000,000

Sources: City of San José, 2019; Strategic Economics, 2019.

COST ALLOCATION BY LAND USE

The plaza facilities described above will be located at the core of the Diridon Station Area, where employment uses will be focused, and are expected to primarily serve the non-residential development. Employees are a reasonable indicator of demand for such facilities. The \$15 million in costs were allocated among non-residential land uses using an employee service population methodology. Employee service population was estimated based on the build out development and employee density assumptions by land use presented in Chapter II.

Figure 9 summarizes expected non-residential development and resulting employee service population in the Diridon Station Area and allocates the costs for the new plaza space based on the employee service population.

As shown in the figure, a proportionate allocation of the \$15 million in costs results in a 3 percent share for retail uses, 95 percent share for office/R&D uses and 2 percent share for hotel uses based on the number of estimated employees for each land use. The allocated shares are then multiplied by the total cost amount to arrive at the allocated cost by land use category.

⁹ A cost estimate included in the Diridon Station Area Infrastructure Analysis did not reflect current costs for land acquisition and improvements and was revised by City of San Jose staff based on recent land prices and other parks projects.

FIGURE 9: COST ALLOCATION BY LAND USE (2017 DOLLARS)

	SF / Units / Rooms	Employee Density	Estimated Employees	Allocation (percent)	Allocated Cost
Retail (SF)	1,062,624	605	1,756	3%	\$464,489
Office/R&D (SF)	10,000,000	185	54,054	95%	\$14,294,857
Hotel (Rooms)	1,300	750	910	2%	\$240,654
Totals			56,720	100%	\$15,000,000

Sources: City of San José, 2019; Strategic Economics, 2019.

MAXIMUM FEE

The maximum fee is calculated on a per square foot basis and on a per 1,000 square foot and hotel room basis based on the expected development by land use category (Figure 10).

FIGURE 10: MAXIMUM PLAZAS IMPACT FEE

	<u>2017 Dollars</u>		<u>2018 Dollars</u>	
	Cost per SF	Cost per 1,000 SF / Hotel Room	Cost per SF	Cost per 1,000 SF / Hotel Room
Retail	\$0.44	\$437	\$0.45	\$446
Office/R&D	\$1.43	\$1,429	\$1.46	\$1,458
Hotel	\$0.35	\$185	\$0.36	\$189

Sources: City of San José, 2019; Engineering News-Record, 2018; Strategic Economics, 2019.

IV. TRANSPORTATION

This chapter provides the nexus findings, cost allocation analysis and maximum fee schedule for the transportation impact fee, which will fund multimodal transportation facilities, including facilities for private vehicles, transit vehicles, bicycles, and pedestrians, that serve the Diridon Station Area.

Nexus Findings

This section summarizes the findings required by the Mitigation Fee Act for adoption of the transportation impact fee. These findings are supported by the technical analysis that follows.

PURPOSE OF THE FEE

The purpose of the transportation impact fee is to fund capital improvements to accommodate the impact of new development on transportation infrastructure that serves the Diridon Station Area impact fee zone.

USE OF FEE REVENUE

Fee revenues will provide funding for the cost of street extensions, widening, pavement treatments, pedestrian and bicycle accommodations, and other transportation infrastructure. It is anticipated that multimodal transportation improvements will be designed and implemented in conformance with the City standards and policies (such as the San José Complete Streets Design Standards & Guidelines) that are in place at the time the improvements are made. Fee revenue may be used for:

- The specific improvements identified in this chapter;
- Any capital improvement that provides new or expanded transportation infrastructure primarily for the benefit of development within the Diridon Station Area impact fee zone;
- Upgrade or enhancement of existing transportation infrastructure to support more intensive use primarily by development within the Diridon Station Area impact fee zone, excluding capital improvements for deferred maintenance or rehabilitation of existing facilities; and
- Transportation capital improvements located outside the Diridon Station Area impact fee zone if the share of the total improvement cost funded by fee revenue is not more than the share that is reasonably proportional to the benefit provided by the improvement to development within the impact fee zone.

IMPACT OF NEW DEVELOPMENT

New residential and commercial development in the Diridon Station Area impact fee zone will result in new trips that will increase the demand for transportation infrastructure providing a reasonable relationship between new development and the need for transportation infrastructure.

BENEFIT TO NEW DEVELOPMENT

Transportation infrastructure funded by fee revenue will primarily accommodate trips to or from new development within the Diridon Station Area impact fee zone providing a reasonable relationship between the type of development paying the fee and the use of fee revenue.

PROPORTIONALITY

The number of trips generated by a development project is a reasonable indicator of the demand for transportation infrastructure. The transportation impact fee is based on the cost of transportation infrastructure per average daily person trip so there is a reasonable relationship between the amount of the fee on a development project and the cost of transportation infrastructure attributable to that development project.

Cost Allocation Analysis

This section provides the technical analysis and fee schedule for the transportation fee.

NEEDED INFRASTRUCTURE

The *Diridon Station Area Infrastructure Analysis* identified the need for transportation improvements to support new development in the Diridon Station Area and estimated the costs associated with these improvements for a total cost of \$43.2 million (Figure 11). The estimated costs for the approximately 2.4 miles of planned transportation improvements shown below include costs for signals, streetlights, conduits, joint trench at locations where overhead utilities exist, an allowance of 5 percent for special features such as special signage, benches, and other street furniture to enhance the character of the Diridon Station Area, and 40 percent for engineering, inspection, and construction management. The improvements also include \$5.4 million in “fair share” contributions to two “offsite” facilities (Coleman Avenue and San Carlos Underpass) located outside of the Diridon Station Area impact fee zone.

Note that the cost estimates presented here represent the best available information at the time of this report. The City may use the fee revenues for transportation infrastructure consistent with the projects described under “Use of Fee Revenue,” above.

FIGURE 11: TRANSPORTATION COST ESTIMATES (2017 DOLLARS)

Transportation Improvement	Estimated Cost
Julian Street	\$3,710,000
Park Avenue	\$8,330,000
San Carlos Street	\$7,810,000
Autumn Street	\$15,120,000
Montgomery Street	\$1,180,000
Bird Avenue	\$1,640,000
Contribution to Coleman Avenue	\$1,700,000
Contribution to San Carlos Underpass	\$3,700,000
Total	\$43,190,000

Source: Diridon Station Area Infrastructure Analysis, 2017.

COST ALLOCATION BY LAND USE

The \$43.2 million in costs were allocated between land uses using a transportation demand methodology that considers average daily trip rates, pass-by rates, and trip lengths. This analysis uses pass-by rates (trip ends that do not result in additional demand on transportation infrastructure) and trip lengths to adjust trip rates so that allocated costs by land use category better reflect the level of demand based on the type of new development. The City of San José provided average daily person

trip rates by land use based on the City's travel demand model for the downtown. Average trip lengths are based on the San Diego Association of Governments (SANDAG) *(Not So) Brief Guide of Vehicular Traffic Generation Rates for the San Diego Region*.¹⁰ Though the absolute value of these trip length factors may vary for San José, the relative value among land use categories is likely to be reasonably consistent for urban areas within California, supporting use of these trip length factors for cost allocation among land use categories.

Figure 12 summarizes build out development as described in Chapter II and resulting daily miles of travel associated with development within the Diridon Station Area impact fee zone. The daily miles demand factor considers average daily trip rates, pass-by rates and average trip lengths by land use category.

FIGURE 12: AVERAGE DAILY TRIP RATES, PASS-BY RATES, AND TRIP LENGTHS

	SF / Units / Rooms	Average Daily Person Trip Rate*	Pass-by Rate	Average Daily Person Trips	Average Trip Length (miles)	Demand Factor (daily miles)
Retail (sf)	1,062,624	37.75	34%	26,475	3.60	95,311
Office/R&D (sf)	10,000,000	9.74	0%	97,400	10.00	974,000
Hotel (Rooms)	1,300	8.36	0%	10,868	7.60	82,597
Residential (Units)	3,171	5.44	0%	17,250	7.90	136,277

* Trips per 1,000 sf for retail, office; per unit for residential; per room for hotel
Sources: City of San José, 2018; San Diego Association of Governments, 2002.

Figure 13 summarizes allocated costs for the new transportation improvements by land use category based on the daily miles demand factor.

As shown in the figure, a proportionate allocation of the \$43.2 million in costs results in a 7 percent share for retail uses, 76 percent share for office/R&D uses, 6 percent share for hotel uses, and 11 percent share for residential uses based on the daily miles estimated for each land use. The allocated shares are then multiplied by the total cost amount to arrive at the allocated cost by land use category.

FIGURE 13: COST ALLOCATION BY LAND USE (2017 DOLLARS)

	Demand Factor (daily miles)	Allocation (percent)	Allocated Cost
Retail	95,311	7%	\$3,195,568
Office/R&D	974,000	76%	\$32,656,078
Hotel	82,597	6%	\$2,769,289
Residential	136,277	11%	\$4,569,065
Totals	1,288,185	100%	\$43,190,000

Sources: City of San José, 2018; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

¹⁰ Provided by the City of San José; San Diego is similar in size, economics and cultural diversity to San José.

MAXIMUM FEE

The maximum fee is calculated on a per square foot basis and on a per 1,000 square foot, per residential unit and hotel room basis based on the expected development by land use category (Figure 14).

FIGURE 14: MAXIMUM TRANSPORTATION FEE

	<u>2017 Dollars</u>		<u>2018 Dollars</u>	
	Cost per SF	Cost per 1,000 SF / Unit / Hotel Room	Cost per SF	Cost per 1,000 SF / Unit / Hotel Room
Retail	\$3.01	\$3,007	\$3.07	\$3,067
Office/R&D	\$3.27	\$3,266	\$3.33	\$3,331
Hotel	\$4.06	\$2,130	\$4.14	\$2,173
Residential	\$1.44	\$1,441	\$1.47	\$1,470

Sources: City of San José, 2018; Diridon Station Area Infrastructure Analysis, 2017; Engineering News-Record, 2018; Strategic Economics, 2019.

V. SANITARY SEWER

This chapter provides the nexus findings, cost allocation analysis and maximum fee schedule for the sanitary sewer impact fee, which will fund new sewer facilities, including sanitary sewer pipes, manholes, lateral connections, and pipe removal, that serve the Diridon Station Area.

Nexus Findings

This section summarizes the findings required by the Mitigation Fee Act for adoption of the sanitary sewer impact fee. These findings are supported by the technical analysis that follows.

PURPOSE OF THE FEE

The purpose of the sanitary sewer impact fee is to fund capital improvements to accommodate the impact of new development on sewer infrastructure that serves the Diridon Station Area impact fee zone.

USE OF FEE REVENUE

Fee revenues will provide funding for sanitary sewer pipes, manholes, lateral connections, pipe removal, and other sewer facilities. Fee revenue may be used for:

- The specific improvements identified in this chapter;
- Any capital improvement that provides new or expanded sanitary sewer infrastructure primarily for the benefit of development within the Diridon Station Area impact fee zone;
- Upgrade or enhancement of existing sanitary sewer facilities to support more intensive use primarily by development within the Diridon Station Area impact fee zone, excluding capital improvements for deferred maintenance or rehabilitation of existing facilities; and
- Sanitary sewer capital improvements located outside the Diridon Station Area impact fee zone if the share of the total improvement cost funded by fee revenue is not more than the share that is reasonably proportional to the benefit provided by the improvement to development within the impact fee zone.

IMPACT OF NEW DEVELOPMENT

New development in the Diridon Station area will generate additional sanitary sewer flows within the sanitary sewer system, providing a reasonable relationship between new development and the need for sewer facilities. The sanitary sewer impact fee will fund sanitary sewer improvements not otherwise funded by the City's citywide sewer connection and excess unit fees. The City will review these fees on a project-by-project basis to determine the amount of existing citywide fees to be credited against the sanitary sewer impact fee, if any.

BENEFIT TO NEW DEVELOPMENT

Sanitary sewer improvements will primarily accommodate new development within the Diridon Station Area impact fee zone, providing a reasonable relationship between the type of development paying the fee and the use of fee revenue.

PROPORTIONALITY

The amount of sanitary sewer flow generated by a development project is a reasonable indicator of the demand for sanitary sewer facilities. The sanitary sewer impact fee is based on the costs of sanitary sewer improvements per average daily gallon of flow so there is a reasonable relationship between the amount of the fee on a development project and the cost of sewer facilities attributable to that project.

Cost Allocation Analysis

This section provides the technical analysis and fee schedule for the sanitary sewer fee.

NEEDED INFRASTRUCTURE

The *Diridon Station Area Infrastructure Analysis* identified the need for sanitary sewer improvements to support new development in the Diridon Station Area and estimated the costs associated with these improvements at a total cost of \$6.4 million. Additional analysis by the City of San José Public Works Department of the nexus study development scenario¹¹ identified one additional pipe segment (Autumn St, N of Santa Clara St) that will require upsizing, for a total cost of \$7.4 million (Figure 15). The total estimated costs include costs for \$546,000 in costs for existing deficiencies, so these costs are excluded from the cost allocation analysis, resulting in \$6,960,860 in allocated costs attributable to new development in the Diridon Station Area. The sanitary sewer cost estimates include a total of 3,077 linear feet of pipes, of which 650 linear feet are for conditionally deficient pipes that are excluded from the cost allocation analysis.

Note that the cost estimates presented here represent the best available information at the time of this report. The City may use the fee revenues for sanitary sewer infrastructure consistent with the projects described under “Use of Fee Revenue,” above.

FIGURE 15: SANITARY SEWER COST ESTIMATES (2017 DOLLARS)

Type	Location	Quantity	Unit	Fully Burdened Unit Cost	Total Cost
24" VCP	Cinnabar St, W of Stockton Ave	110	LF	\$1,690	\$185,900
42" VCP	Autumn St, S of St John St	330	LF	\$2,880	\$950,400
42" VCP	Autumn St, S of Santa Clara St	290	LF	\$2,880	\$835,200
42" VCP	Autumn St, S of Santa Clara St	530	LF	\$2,880	\$1,526,400
42" VCP	Park Ave, W of Autumn St	130	LF	\$2,880	\$374,400
42" VCP	Sunol St, S of Park Ave	80	LF	\$2,880	\$230,400
42" VCP	Lincoln Ave, S of Park Ave	290	LF	\$2,880	\$835,200
42" VCP	Autumn St, N of Santa Clara St*	367	LF	\$2,880	\$1,056,960
48" VCP	St John St, W of Pleasant St	300	LF	\$3,220	\$966,000
Subtotal					\$6,960,860
Conditionally Deficient Pipes in DSAP					
8" VCP	Julian St, E of Montgomery St	300	LF	\$840	\$252,000
8" VCP	Julian St, W of Montgomery St	350	LF	\$840	\$294,000
Subtotal					\$546,000
Total Sanitary Sewer Cost in DSAP					\$7,506,860

*The Autumn St, N of Santa Clara St segment was added to the original project list included in the *Diridon Station Area Infrastructure Analysis*, based on analysis by the City of San José Public Works Department.
Source: Diridon Station Area Infrastructure Analysis, 2017.

COST ALLOCATION BY LAND USE

The \$6.96 million in costs were allocated between land uses using unit flow factors from the *Diridon Station Area Infrastructure Analysis*. Figure 16 summarizes the cost allocation analysis for the new sanitary sewer improvements by land use category based on the unit flow factor.

The unit flow factor is measured in gallons per day (GPD) to calculate daily flow attributable to new development in each land use category. As shown in the figure, a proportionate allocation of the \$6.96 million in costs results in a 4 percent share for retail uses, 63 percent share for office/R&D uses, 6 percent share for hotel uses, and 27 percent share for residential uses based on the daily flow or GPD estimated for each land use. The allocated shares are then multiplied by the total cost amount to arrive at the allocated cost by land use category.

FIGURE 16: COST ALLOCATION BY LAND USE (2017 DOLLARS)

	SF / Units / Rooms	Unit Flow Factor	Daily Flow (gpd)	Allocation (percent)	Allocated Cost
Retail (SF)	1,062,624	0.076	80,759	4%	\$253,125
Office/R&D (SF)	10,000,000	0.140	1,400,000	63%	\$4,388,032
Hotel (Rooms)	1,300	100	130,000	6%	\$407,460
Residential (Units)	3,171	192.4	610,100	27%	\$1,912,243
Totals			2,220,860	100%	\$6,960,860

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

MAXIMUM FEE

Based on the cost allocation above, the maximum fee is calculated on a per square foot basis and on a per 1,000 square foot, per residential unit and hotel room basis based on the expected development by land use category (Figure 17).

FIGURE 17: MAXIMUM TRANSPORTATION FEE

	<u>2017 Dollars</u>		<u>2018 Dollars</u>	
	Cost per SF	Cost per 1,000 SF / Unit / Hotel Room	Cost per SF	Cost per 1,000 SF / Unit / Hotel Room
Retail	\$0.24	\$238	\$0.24	\$243
Office/R&D	\$0.44	\$439	\$0.45	\$448
Hotel	\$0.60	\$313	\$0.61	\$320
Residential	\$0.60	\$603	\$0.62	\$615

Sources: City of San José, 2019; Diridon Station Area Infrastructure Analysis, 2017; Engineering News-Record, 2018; Strategic Economics, 2019.

VI. STORM DRAINAGE AND FLOOD CONTROL

This chapter provides the nexus findings, cost allocation analysis and maximum fee schedule for the storm drainage and flood control impact fee, which will fund storm drain and flood control facilities, including storm drain pipes, manholes, lateral connections, outfalls, and pipe removal, that serve the Diridon Station Area.

Nexus Findings

PURPOSE OF THE FEE

The purpose of the storm drainage and flood control impact fee is to fund capital improvements to accommodate the impact of new development on storm drainage and flood control infrastructure that serves the Diridon Station Area impact fee zone.

USE OF FEE REVENUE

Fee revenues will provide funding for the cost of storm drain pipes, manholes, lateral connections, pipe removal, and other storm drain or flood control infrastructure. Fee revenue may be used for:

- The specific improvements identified in this chapter;
- Any capital improvement that provides new or expanded storm drainage or flood control infrastructure primarily for the benefit of development within the Diridon Station Area impact fee zone;
- Upgrade or enhancement of existing storm drainage or flood control infrastructure to support more intensive use primarily by development within the Diridon Station Area impact fee zone, excluding capital improvements for deferred maintenance or rehabilitation of existing facilities; and
- Storm drainage or flood control capital improvements located outside the Diridon Station Area impact fee zone, if the share of the total improvement cost funded by fee revenue is not more than the share that is reasonably proportional to the benefit provided by the improvement to development within the impact fee zone.

IMPACT OF NEW DEVELOPMENT

New development in the Diridon Station Area impact fee zone will generate additional storm drain flows, providing a reasonable relationship between new development and the need for storm drainage and flood control infrastructure. The nexus between new development and the need for storm drainage and flood control improvements is based on maintaining the City's existing level of investment per capita in existing storm drainage and flood control facilities as new development occurs within the Diridon Station Area impact fee zone. The storm drainage and flood control impact fee will fund storm drainage and flood control improvements not otherwise funded by the City's citywide storm drainage connection fee. The City will review these fees on a project-by-project basis to determine the amount of existing citywide fees to be credited against the storm drainage and flood control impact fee, if any.

BENEFIT TO NEW DEVELOPMENT

Storm drainage and flood control infrastructure funded by fee revenue will benefit new development within the Diridon Station Area impact fee zone by reducing the risk of overflows that could interrupt activities associated with and cause property damage to this development, providing a reasonable relationship between the type of development paying the fee and the use of fee revenue.

PROPORTIONALITY

The service population associated with new development is a reasonable indicator of the benefit received from storm drainage and flood control facilities. The storm drainage and flood control impact fee is based on the cost of planned capital improvements per capita, with the non-residential (worker) population weighted to reflect a lower level of benefit relative to the residential population, so there is a reasonable relationship between the amount of the fee on a development project and the cost of storm drainage and flood control infrastructure attributable to that development project.

Demand for Storm Drainage and Flood Control Infrastructure

This section estimates existing and projected demand for storm drainage and flood control infrastructure in the Diridon Station Area fee zone.

INVENTORY OF STORM DRAINAGE AND FLOOD CONTROL INFRASTRUCTURE

The impact of new development is based on maintaining the City's existing level of investment per capita in storm drainage and flood control infrastructure in the Diridon Station Area impact fee zone. The City-owned storm drainage and flood control inventory is shown in Figure 18.

FIGURE 18: EXISTING INVENTORY OF STORM DRAINAGE AND FLOOD CONTROL INFRASTRUCTURE IN THE DIRIDON STATION AREA IMPACT FEE ZONE (2018 DOLLARS)

Existing Pipe Diameter (inches)	Existing Pipe Length (linear feet)	Replacement Unit Cost	Value
8	1,232	\$580	\$714,667
10	3,595	\$600	\$2,157,058
12	2,162	\$620	\$1,340,440
14	283	\$640	\$181,120
15	5,581	\$650	\$3,627,827
16	160	\$660	\$105,600
18	5,399	\$680	\$3,671,619
20	35	\$700	\$24,500
21	327	\$720	\$235,440
24	1,045	\$810	\$846,450
27	1,819	\$920	\$1,673,480
30	100	\$1,020	\$102,000
33	779	\$1,090	\$849,357
36	120	\$1,180	\$141,600
48	1,371	\$1,460	\$2,001,721
54	765	\$1,600	\$1,224,000
60	160	\$1,740	\$278,400
Total	24,934		\$19,175,279

Source: City of San José, 2018.

As shown in Figure 18, the replacement value of 24,934 linear feet of storm drainage and flood control infrastructure in the Diridon Station Area fee zone is \$19.2 million. The estimated replacement value is based on the current cost of a replacement pipes that are similar in size as those in place.

EQUIVALENT HOUSING UNITS

The level of investment analysis shown below and the cost allocation analysis shown in the following section are based on an “equivalent housing unit” (EHU) factor. EHU factors allow relative demand for infrastructure to be calculated across differing land uses by equating the demand generated by one housing unit to the demand generated by 1,000 square feet for non-residential land uses.

As shown in Figure 19, the EHU factors are based on the resident or worker density by land use type (residents per housing unit and workers per 1,000 building square feet) and a worker weighting factor. The worker weighting factor is based on the assumption that service demand from one worker is typically less than demand from one resident because non-residential buildings are typically occupied for fewer hours of the day. This analysis assumes a worker weighting factor of 0.7 for storm drain infrastructure, based on industry standard.

Figure 19 calculates existing demand for storm drainage and flood control infrastructure in the Diridon Station Area fee zone based on EHUs. There are 3,106 total existing EHUs in the Diridon Station Area fee zone.

FIGURE 19: STORM DRAINAGE AND FLOOD CONTROL EQUIVALENT HOUSING UNITS (EHU)

Land Use	Resident/ Worker Density	Worker Weighting Factor	Equivalent Housing Unit Factor	Housing Units/ 1,000 SF	Equivalent Housing Units (EHUs)
Residential (Units)	3.1	1.0	1.0	1,302	1,302
Retail (sf)	1.65	0.7	0.37	1,083	404
Other Commercial	1.65	0.7	0.37	88	33
Office/R&D (sf)	5.41	0.7	1.22	233	285
Industrial	0.54	0.7	0.12	1,946	238
Hotel/Accommodation	1.33	0.7	0.30	61	18
Quasi-public	1.65	0.7	0.37	2,215	825
Total					3,106

Sources: City of San José, 2018; ACS 5-year estimates 2012-2016; Vallen and Vallen, Check-In, Check-Out, 2012; A.C. Nelson, "Reshaping Metropolitan America," 2013; Energy Information Administration, 2012 Commercial Buildings Energy Consumption Survey: Building Characteristics Tables, Revised June 2016; Strategic Economics, 2019.

LEVEL OF INVESTMENT

As explained above, the nexus between new development and the need for storm drainage and flood control infrastructure is based on maintaining the City's existing, per capita level of investment in this infrastructure as new uses are added to the Diridon Station Area impact fee zone. The City's level of investment in storm drainage and flood control infrastructure on a cost per EHU basis is shown in Figure 20. The total cost per EHU of \$6,174 represents the maximum amount that new development could be required to contribute to maintain the existing level of investment in storm drainage and flood control infrastructure serving the Diridon Station Area fee zone. Figure 21 converts that cost per EHU to a maximum fee schedule based on the EHU factors by land use category.

FIGURE 20: STORM DRAINAGE AND FLOOD CONTROL INFRASTRUCTURE LEVEL OF INVESTMENT (2018 DOLLARS)

Total Replacement Cost of Existing System	\$19,175,279
Existing Level of Investment (linear feet)	24,934
EHUs	3,106
Level of Investment per EHU (linear feet per EHU)	8
Unit Cost (per linear square foot)	\$769
Cost per EHU	\$6,174

Sources: City of San José, 2018; Strategic Economics, 2019.

FIGURE 21: STORM DRAINAGE AND FLOOD CONTROL INFRASTRUCTURE LEVEL OF INVESTMENT (2018 DOLLARS)

	Investment per EHU	EHU Factor	Investment per 1,000 SF / Unit / Hotel Room
Retail	\$6,174	0.37	\$2,304
Office/R&D	\$6,174	1.22	\$7,536
Hotel	\$6,174	0.30	\$1,859
Residential	\$6,174	1.0	\$6,174

Sources: City of San José, 2018; Strategic Economics, 2019.

Cost Allocation Analysis

This section provides the technical analysis and fee schedule for the storm drainage and flood control fee. Because the maximum fee calculated above would be higher than the amount necessary to pay for the needed infrastructure in the Diridon Station Area fee zone, this section calculates a fee schedule based on the cost allocation analysis.

NEEDED INFRASTRUCTURE

The *Diridon Station Area Infrastructure Analysis* identified the need for storm drainage and flood control improvements to support new development in the Diridon Station Area and estimated the costs associated with these improvements for a total cost of \$9.2 million (Figure 22). The estimated costs for the approximately 7,900 linear feet of planned storm drainage pipe improvements shown below include costs for storm drain pipes, manholes, lateral connections, outfalls, and pipe removal. In some cases, the new pipes will connect to an appropriately sized existing outfall, while in other cases the projects will require new outfalls to Los Gatos Creek, as summarized in the figure.

Note that the cost estimates presented here represent the best available information at the time of this report. The City may use the fee revenues for storm drainage and flood control infrastructure consistent with the projects described under “Use of Fee Revenue,” above.

FIGURE 22: STORM DRAINAGE AND FLOOD CONTROL COST ESTIMATES (2017 DOLLARS)

Storm Drain Pipes	Existing Pipe Diameter (inches)	Proposed Pipe Diameter (inches)	Pipe Length (linear feet)	Fully Burdened Unit Cost	Outfall Cost	Total Cost
Santa Clara St, Diridon Station to Guadalupe River	18	24	1,150	\$810	\$40,000	\$971,500
San Carlos St, Gifford Ave to Woz Way	18	24	1,000	\$810	\$0	\$810,000
Autumn St at Park Ave	NA	24	150	\$810	\$40,000	\$161,500
San Fernando St, Diridon Station to Guadalupe River	18	24	670	\$810	\$40,000	\$582,700
The Alameda at Stockton Ave	18	30	60	\$1,020	\$0	\$61,200
Stockton Ave, The Alameda to Cinnabar St	18	36	1,740	\$1,180	\$0	\$2,053,200
Cinnabar St, Stockton Ave to Autumn St	24	42	1,220	\$1,310	\$0	\$1,598,200
Autumn St, Cinnabar to Julian St	27	48	980	\$1,460	\$0	\$1,430,800
San Carlos St, Sunol St to Los Gatos Creek	33	54	930	\$1,600	\$40,000	\$1,528,000
Storm Drain Improvement Grand Total						\$9,200,000

Source: Diridon Station Area Infrastructure Analysis, 2017.

COST ALLOCATION BY LAND USE

To determine projected demand, the land use scenario was converted into EHUs (Figure 23). The projected number of EHUs is 16,165.

FIGURE 23: PROJECTED DEMAND (EHUs)

	SF / Units / Rooms	Equivalent Housing Unit Factor	EHUs
Retail (Sq. Ft.)	1,062,624	0.37	397
Office/R&D (Sq. Ft.)	10,000,000	1.22	12,206
Hotel (Rooms)	1,300	0.30	391
Residential (Units)	3,171	1.00	3,171
Total EHUs			16,165

Sources: City of San José, 2018; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

The cost per EHU was then calculated by dividing \$9.2 million in costs by the projected 16,165 EHUs. As shown in Figure 24, the cost per EHU is \$569 (or \$581 in 2018 dollars). This amount is less than the maximum amount that can be charged to new development based on maintaining the existing level of investment as shown in Figure 21.

FIGURE 24: STORM DRAINAGE AND FLOOD CONTROL
COST PER EHU (2017 DOLLARS)

Total Cost of Improvements	\$9,200,000
EHUs	16,165
Cost per EHU	\$569

Sources: City of San José, 2018; Diridon Station Area Infrastructure Analysis, 2017; Strategic Economics, 2019.

The costs for storm drainage and flood control were allocated between land uses based on the cost per EHU and EHU factor. Figure 25 summarizes the recommended fee schedule for the new storm drainage and flood control improvements by land use category based on the cost per EHU and EHU factor. Based on the cost allocation, the fee is calculated on a per square foot basis and on a per 1,000 square foot, per residential unit and hotel room basis based on the EHU factors (Figure 25).

FIGURE 25: COST ALLOCATION BY LAND USE AND FEE SCHEDULE

	<u>2017 Dollars</u>				<u>2018 Dollars</u>	
	Cost per EHU	EHU Factor	Cost per SF	Cost per 1,000 SF / Unit / Hotel Room	Cost per SF	Cost per 1,000 SF / Unit / Hotel Room
Retail	\$569	0.37	\$0.21	\$212	\$0.22	\$217
Office/R&D	\$569	1.22	\$0.69	\$695	\$0.71	\$709
Hotel	\$569	0.30	\$0.33	\$171	\$0.33	\$175
Residential	\$569	1.0	\$0.57	\$569	\$0.58	\$581

Sources: City of San José, 2018; Diridon Station Area Infrastructure Analysis, 2017; Engineering News-Record, 2018; Strategic Economics, 2019.

VII. DEVELOPMENT COST ANALYSIS

The nexus analysis described in previous sections of this report establishes legal justification for the maximum potential fees that the City may impose. In establishing the actual fee levels, a jurisdiction may take into account a variety of financial and policy considerations, including the effect of the fees on development cost and financial feasibility. This chapter provides a discussion of the extent to which the maximum fees would affect the total cost of new development in the Diridon Station Area and, by extension, development feasibility. The following chapter discusses other key policy questions.

Total Development Costs

Strategic Economics analyzed the total development costs with and without the maximum fees for six development prototypes, which are representative of the types of new development anticipated in the Diridon Station Area. The prototypes, development cost assumptions, and results of the analysis are described below.

PROTOTYPES

Strategic Economics worked with City staff to arrive at a set of prototypes to model for this study. The specifications for each prototype are based on the scale and type of development envisioned in the DSAP, as well as comparable projects currently underway or proposed in the Diridon Station Area and Downtown San José. Two of the prototypes are high rise buildings that exceed the existing height restrictions for the area but may be allowed through a rezoning at some point in the future. As shown in Figure 26, a total of six prototypes were modeled, including:

- A mid-rise apartment development on one acre, including 120 rental units in six stories over a parking podium.
- A mid-rise condominium development on one acre, including 96 for-sale units over a parking podium.
- A high-rise condominium development on $\frac{3}{4}$ acre, including 220 units over podium and basement parking. (This prototype is not currently allowed by zoning.)
- A mid-rise office or R&D development on 6.8 acres, including 1 million square feet of rentable building area over podium and underground parking.
- A high-rise office development on 1.5 acres, including 459,000 square feet of rentable building area over podium and underground parking. (This prototype is not currently allowed by zoning.)
- A mid-rise hotel development on $\frac{3}{4}$ acre, including 250 rooms over a parking podium.

Although mixed use buildings (i.e., residential or office with ground floor retail) are anticipated in the station area), for simplicity the prototypes were analyzed as single-use buildings. An actual development with ground floor retail would be expected to have similar development costs as the single-use buildings modeled for the purposes of this analysis.

The quantity of parking for each prototype is based on the parking ratios assumed in the DSAP. In support of the transit-oriented development goals for the station area, these parking ratios are generally lower than what is typically provided elsewhere in San José. Other assumptions for the

prototypes, such as average dwelling unit size and average hotel room size are based on comparable developments in the Diridon Station area and Downtown San José and industry standards.

FIGURE 26: DESCRIPTION OF PROTOTYPES

	Mid-rise Rental Apartments	Mid-rise Condominium	High-rise Condominium	Mid-rise Office/R&D	High-rise Office	Mid-rise Hotel
Stories	7	7	24 + 1 below ground	7 + 1 below ground	20 + 3 below ground	7
Building Description	6 stories apartments over parking podium	6 stories of condos over parking podium	22 stories of condos over podium / basement parking	6 stories of office over podium / basement parking	18 stories of office over podium / basement parking	6 stories hotel over parking podium
Construction Type	Apartments: wood- or steel-frame Parking: concrete	Condos: wood- or steel-frame Parking: concrete	Concrete	Office: steel-frame Parking: concrete	Concrete	Concrete
Building Height (ft)	75	75	250	105	300	87
Site Area (acres)	1.0	1.0	0.75	6.8	1.5	0.75
Building Area (gsf)	112,941	112,941	275,000	1,176,471	540,000	131,250
Floor Area Ratio (FAR)	2.6	2.6	8.4	4.0	8.3	4.0
Rentable/Saleable Area (nsf)	96,000	96,000	220,000	1,000,000	459,000	n/a
Residential Program						
Number of Units	120	96	220	n/a	n/a	n/a
Average Unit Size (nsf)	800	1,000	1,000	n/a	n/a	n/a
Unit Density (du/acre)	120	96	293	n/a	n/a	n/a
Hotel Program						
Number of Rooms	n/a	n/a	n/a	n/a	n/a	250
Average Hotel Room Size (gsf)	n/a	n/a	n/a	n/a	n/a	525
Parking Program						
Parking Spaces	120	96	220	1,500	689	50
Parking Ratio*	1.0	1.0	1.0	1.5	1.5	0.2

nsf = net square feet

gsf = gross square feet

* Parking ratio is per unit for residential; per room for hotel; per 1000 net square feet for office. Parking ratio assumptions are based on Diridon Station Area Plan.

Source: Strategic Economics, 2019.

DEVELOPMENT COST ASSUMPTIONS

To estimate development costs, Strategic Economics drew upon a variety of sources, including:

- Previous research on development costs performed by Strategic Economics for VTA's BART Phase II TOD and Access Study in fall 2018, which included developer interviews and a review of recent pro formas for similar development projects in Santa Clara County and elsewhere in the Bay Area.
- A conceptual pro forma analysis of the financial feasibility of high-density apartment development in San José, performed by Keyser Marston Associates for the City of San José in April 2018.
- Information provided by City staff on costs associated with existing municipal fees.
- Additional developer interviews and analysis of recent land transactions.

Development cost assumptions used for this analysis are described below and summarized in Figure 27.

LAND COSTS

As shown in Figure 27, Strategic Economics assumed land values that ranged from \$175 to \$600 per square foot, depending on the type and intensity of development for each prototype. These values reflect typical land sale values from recent transactions in the Diridon Station Area and Downtown San José. The land costs account for approximately 7 to 12 percent of total development costs, which is typical of recent projects in Silicon Valley.

HARD COSTS

“Hard” or “direct” costs include all costs associated with the actual work on the development site, such as preparing the site, demolishing existing buildings, constructing new buildings and parking facilities, and installing finishes and tenant improvements. Figure 27 shows the hard cost assumptions. Building construction costs per square foot of buildings vary by use and building type. High-rise construction (which uses concrete) generally has a higher construction cost than mid-rise construction (usually steel or wood frame). Parking costs are another major driver of costs. Above ground (podium) parking was assumed to cost \$35,000 per space, while below ground parking was assumed to cost \$50,000 per space.

SOFT COSTS

Estimated “soft” or “indirect” costs include project expenses such as permits, architectural fees, engineering fees, insurance, taxes, legal, accounting fees, environmental review, and a contingency allowance. Soft costs are generally assumed to be a percentage of hard costs – in this case summing to nine percent of the hard costs plus a five percent contingency, as shown. Existing municipal fees were calculated separately.

EXISTING MUNICIPAL FEES

Strategic Economics worked with City staff to estimate the municipal fees that would be charged for each prototype under the current fee schedule. For residential prototypes these include Inclusionary

Housing requirements (assuming the developer would satisfy the affordable housing requirement by paying in-lieu fees); park fees; construction taxes; permitting fees; and the existing, citywide storm drainage and sanitary sewer connection fees. Municipal charges for commercial prototypes include construction taxes and the existing citywide storm drainage and sanitary sewer connection fees.

CONSTRUCTION FINANCING

Most new developments finance development costs with a short-term construction loan. Based on similar developments in the Bay Area, financing costs were assumed to add about 6 percent (of total hard costs and soft costs) to the project budget.

DEVELOPER OVERHEAD

Developers generally charge a fee for overhead expenses during development. The fee is typically about four percent of total development costs. Developer profit, which is collected to top of the developer fee for overhead, is generally not considered part of total development costs.

FIGURE 27: DEVELOPMENT COST ASSUMPTIONS (2018 DOLLARS)

	Unit of measure	Mid-rise Rental Apartments	Mid-rise Condo	High-rise Condo	Mid-rise Office/R&D	High-rise Office	Mid-rise Hotel
Land Costs							
Land Costs	per square foot	\$175	\$175	\$400	\$300	\$600	\$300
Hard Costs							
Demolition and Site Work	per sf land	\$35	\$35	\$35	\$35	\$35	\$35
Building Area Construction	per gross sf	\$300	\$300	\$400	\$275	\$375	\$450
Parking							
Podium	per space	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000	\$35,000
Below Grade	per space	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000
Interior / Tenant Improvement Allowance	per net sf	n/a	n/a	n/a	\$60	\$60	n/a
Soft Costs							
Architecture, Engineering & Consulting	% of hard costs	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Taxes, Insurance, Legal & Accounting	% of hard costs	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<u>Other Soft Costs</u>	<u>% of hard costs</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>	<u>2.0%</u>
Total Soft Costs (Excluding Fees)	% of hard costs	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Existing Municipal Fees [a]	total cost (millions)	\$7.1M	\$6.5M	\$14.8M	\$9.0M	\$5.0M	\$1.3M
Contingency	% of hard costs	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Financing							
Construction Financing	% of hard + soft costs	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Developer Share							
Developer Overhead	% of TDC [b]	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%

[a] The total cost of existing municipal fees was estimated for each development prototype using the fee schedule applicable in 2018.

[b] TDC = Total Development Costs.

Source: Strategic Economics, 2019.

Proposed Fees as a Percent of Total Development Cost

Figure 28 shows the maximum potential Diridon Station Area impact fees that could be charged to the prototypes. Figure 29 shows total development costs for each prototype, by cost category.

As shown in Figure 29, the nexus fees add no more than one percent to the development budget for each prototype. The burden on project budgets ranges from a 0.4 percent increase for the high-rise condominium prototype to a 1.0 percent increase for the mid-rise office prototype.

The cost burden is higher on commercial prototypes than on residential prototypes. As shown in Figure 29, the highest cost impact per unit is on office prototypes, at \$5,480 per 1,000 square feet. Because commercial land uses generate more trips, commercial uses receive a higher allocation of transportation infrastructure costs. In addition, the entire cost of the planned park is allocated to commercial uses, further raising the relative burden on commercial uses.

FIGURE 28: MAXIMUM NEXUS FEES BY PROTOTYPE (2018 DOLLARS)

	Mid-rise Rental Apartments	Mid-rise Condo	High-rise Condo	Mid-rise Office/R&D	High-rise Office	Mid-rise Hotel
Plazas	\$0	\$0	\$0	\$1,715,383	\$787,361	\$47,205
Transportation	\$165,991	\$165,991	\$404,170	\$3,917,647	\$1,798,200	\$543,207
Sanitary Sewer	\$69,470	\$69,470	\$169,153	\$526,564	\$241,693	\$79,925
<u>Storm Drainage</u>	<u>\$65,565</u>	<u>\$65,565</u>	<u>\$159,644</u>	<u>\$833,613</u>	<u>\$382,628</u>	<u>\$43,695</u>
Total Maximum Nexus Fees	\$301,026	\$301,026	\$732,966	\$6,993,207	\$3,209,882	\$714,032

Source: Strategic Economics, 2019.

FIGURE 29: DEVELOPMENT COSTS BY PROTOTYPE (2018 DOLLARS)

	Mid-rise Rental Apartments	Mid-rise Condo	High-rise Condo	Mid-rise Office/R&D	High-rise Office	Mid-rise Hotel
<i>(millions of \$)</i>						
Land Costs	\$7.6	\$7.6	\$13.1	\$88.2	\$39.2	\$9.8
Direct Costs						
Demolition and Site Work	\$1.5	\$1.5	\$1.1	\$10.3	\$2.3	\$1.1
Building Area	\$33.9	\$33.9	\$110.0	\$323.5	\$202.5	\$59.1
Parking	\$4.2	\$3.4	\$8.8	\$59.9	\$30.3	\$1.8
<u>Tenant Improvements</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$0.0</u>	<u>\$60.0</u>	<u>\$27.5</u>	<u>\$0.0</u>
Subtotal Direct Costs	\$39.6	\$38.8	\$119.9	\$453.7	\$262.6	\$62.0
Indirect Costs						
Soft Costs	\$3.6	\$3.5	\$10.8	\$40.8	\$23.6	\$5.6
Municipal Fees	\$7.1	\$6.5	\$14.8	\$9.0	\$5.0	\$1.3
Contingency	\$2.0	\$1.9	\$6.0	\$22.7	\$13.1	\$3.1
Financing	\$2.4	\$2.3	\$7.2	\$27.2	\$15.8	\$3.7
<u>Developer Fee</u>	<u>\$2.6</u>	<u>\$2.5</u>	<u>\$7.2</u>	<u>\$26.7</u>	<u>\$15.0</u>	<u>\$3.6</u>
Subtotal Indirect Costs	\$17.6	\$16.7	\$46.0	\$126.5	\$72.5	\$17.3
Total Development Costs before Nexus Fees	\$64.8	\$63.1	\$179.0	\$668.5	\$374.3	\$89.1
<u>Total Maximum Nexus Fees</u>	<u>\$0.3</u>	<u>\$0.3</u>	<u>\$0.7</u>	<u>\$7.0</u>	<u>\$3.2</u>	<u>\$0.7</u>
Total Development Costs with Nexus Fees	\$65.1	\$63.4	\$179.7	\$675.5	\$377.5	\$89.8
<i>Nexus Fees as % of Total Development Costs</i>	0.5%	0.5%	0.4%	1.0%	0.9%	0.8%

Source: Strategic Economics, 2019.

VIII. POLICY CONSIDERATIONS AND IMPLEMENTATION ISSUES

As discussed in the preceding chapter, the effect of impact fees on development cost and financial feasibility is one important factor to examine in considering new impact fees. In addition, there are a number of other policy questions to consider, such as:

- How much total municipal fees would increase with new impact fees;
- How the impact fees fit into San José's overall strategy to pay for infrastructure needed in the Diridon Station Area.

This chapter discusses key policy considerations and provides an overview of procedures for implementing the Diridon Station Area impact fees to meet the requirements of the Mitigation Fee Act.

Policy Considerations

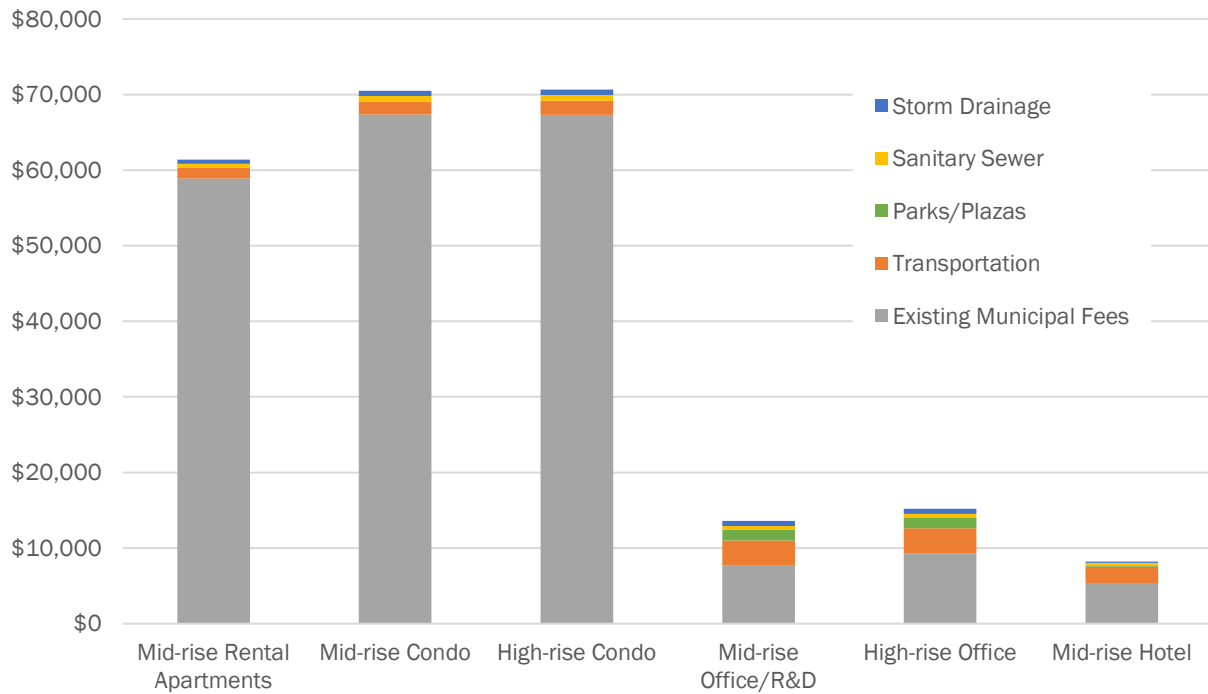
INCREASE TO EXISTING MUNICIPAL FEES

Strategic Economics worked with City staff to estimate the municipal fees that would be charged for each prototype under the current fee schedule. For residential prototypes these include affordable housing fees (assuming the developer would satisfy the City's inclusionary housing requirement with in-lieu fees); park fees; construction taxes; permitting fees; and the existing, citywide storm drainage and sanitary sewer connection fees. Municipal charges for commercial prototypes include construction taxes and the existing citywide storm drainage and sanitary sewer connection fees. These existing fees were used in the analysis of total development costs.

As discussed in the preceding chapter, the impact of the Diridon Station Area impact fees on total development costs as a whole is relatively minor. However, the impact fees represent an increase over the current municipal fee levels, particularly for commercial developments (Figure 30). As a percent of total development costs, municipal fees would increase from 10.9 percent to 11.4 percent of total development costs for mid-rise rental apartments, 10.2 percent to 10.7 percent for mid-rise condo, 8.3 percent to 8.7 percent for high-rise condo, 1.3 percent to 2.3 percent for mid-rise office/R&D, 1.3 percent to 2.1 percent for high-rise office, and 1.5 percent to 2.3 percent for hotel.

The relative difference in increase over the current municipal fee levels is partly due to the higher impacts resulting from certain land uses: commercial land uses generate more trips and therefore receive a higher allocation of transportation infrastructure costs. In addition, the entire cost of the planned park is allocated to commercial uses, further raising the relative burden on commercial uses. Because existing fees as a percent of total development costs are significantly higher for residential uses, the Diridon Station Area impact fees represent a relatively smaller increase over existing fees for residential land uses (Figure 30).

FIGURE 30: EXISTING MUNICIPAL FEES AND NEXUS FEES PER UNIT* BY PROTOTYPE (2018 DOLLARS)



* One unit is equivalent to one residential unit for residential, 1000 gross square for office/R&D, and one hotel room for hotel.
Source: Strategic Economics, 2019.

ROLE OF THE FEE IN THE CITY’S STRATEGY TO PAY FOR INFRASTRUCTURE IN THE DIRIDON STATION AREA

As discussed in preceding chapters, impact fees are one-time fees used to mitigate impacts resulting from development activity. Impact fee revenue may be used only for construction or expansion of capital improvements, and may not be used to fund existing infrastructure deficiencies nor for operations and maintenance. The City will therefore need to identify other sources of revenue to pay existing deficiencies and operations and maintenance, as well as for additional infrastructure and facility costs that are not covered by the impact fees.

Because of the above limitations the City may consider the role of other revenue sources to pay for infrastructure in the Diridon Station Area, such as existing fees¹² and taxes and property-based financing tools, including Mello-Roos Community Facilities Districts (CFDs). CFDs are a type of special taxing district formed when registered voters or property owners¹³ within a geographic area agree to impose a new tax on property in order to fund infrastructure improvements, the development of public

¹² Note that revenue from existing fees may be used in the Diridon Station Area, but the new impact fees must fund improvements not otherwise funded by the City’s existing fees. The City will review fees on a project-by-project basis to determine the amount of existing citywide fees to be credited against the new impact fees. This issue is further discussed under “Credits and Reimbursements,” below.

¹³ The district must be approved by 2/3 of property owners if there are fewer than 12 registered voters living within proposed district, or by 2/3 of voters if there are 12 or more voters registered within the district.

facilities, or ongoing maintenance, repair, or services. CFD revenues can be saved in a fund for use on a pay-as-you-go basis or used to issue a bond.

Another possible source of funding for infrastructure needs in the Diridon Station Area is revenues from Measure T, a \$650 million general obligation bond authorization passed in November 2018. Measure T is a citywide measure intended to repair existing deficiencies in streets, flood control, and other deficiencies, and may therefore help pay for some of the costs that will not be covered by impact fees. Some of the projects in the Diridon Station Area that are not covered by impact fees may be eligible for funding under Measure T

The need to consider additional revenue sources would be compounded if the City were to enact development impact fees at a level lower than what is legally justified in this nexus study. One common rationale for setting the fee lower than the justifiable amount is a desire to minimize the impact of the fee on development feasibility. The previous chapter outlined how the fee levels determined in this study would be a relatively minor component of development costs in the tested prototypes. However, there may be concern about any increase to development costs, particularly on retail land uses. While retail is an important component of the land use mix in the transit-oriented community envisioned for the Diridon Station Area, it often struggles to remain financially viable. A lower fee level, however, does not fully mitigate the impacts from new development and stopgap funding would need to be identified if the maximum fee level is not imposed.

Implementation Issues

This section summarizes implementation issues and procedures to meet the requirements of the Mitigation Fee Act.

REPORTING REQUIREMENTS AND FEE ADJUSTMENTS

The City of San José must comply with annual and five-year reporting requirements included in the Mitigation Fee Act. If infrastructure will be funded by revenues in addition to impact fee revenues, the City should identify the source and amount of the non-fee revenues.

The Diridon Station Area impact fees should be adjusted annually for cost inflation. Most of the costs associated with the fee are related to transportation infrastructure and public buildings. Strategic Economics recommends that the City adjust its impact fees annually by using an annual adjustment mechanism. An adjustment mechanism updates the fees for inflation in development costs. To simplify annual adjustments, it is recommended that the City continue to use the Construction Cost Index (CCI) published in the Engineering News Record (ENR), which is used to update existing City impact fees.

In addition to revising the fee annually for inflation, we recommend that the City update the Diridon Station Area nexus study every five years, and/or when significant changes are made to the proposed development program. The purpose of these updates is to ensure that the fee is still representative of development forecasts, infrastructure costs and needs, and market conditions. These updates may be conducted concurrent with the five-year review required by the Mitigation Fee Act.

CREDITS AND REIMBURSEMENTS

The City of San José may allow developers subject to the Diridon Station Area impact fees to qualify for credits and reimbursements, in certain circumstances. Developers may be credited for infrastructure that they pay for or build and dedicate to the City. The fee obligation should be credited

at the current cost estimate for the infrastructure, rather than the actual cost to construct. The City may elect to accept land dedication in-lieu of the plaza impact fee, on a case by case basis.

Developers may be reimbursed from fee revenue when they build infrastructure whose cost exceeds the amount of their fee obligation. Reimbursements should be provided as fee revenue becomes available.

The City will need to review the sanitary sewer and storm drainage impact fees on a project by project basis. In some cases, the existing Citywide sanitary sewer and storm drainage connection fees will be waived or credited.

FEE ACCOUNTING

The City should deposit all Diridon Station Area impact fee revenues into separate restricted capital improvements impact fee accounts. Interest earned on fund balances should be credited to the relevant account.

ELIGIBLE USE OF FUNDS

To remain consistent with this nexus analysis, Diridon Station Area impact fee revenues must be deposited in separate accounts for each fee (plazas, sanitary sewer, storm drainage, and transportation). Funds in each account may only be used for the following purposes:

- Capital projects, including land, buildings, vehicles, furnishings, equipment and all related infrastructure for the specific types of infrastructure described in this nexus analysis for each fee (plazas; sanitary sewer; transportation infrastructure; and storm drain infrastructure).
- Upgrade or expansion of existing infrastructure or facilities, but not ongoing maintenance of existing assets.
- Developer reimbursement for infrastructure or facilities that otherwise would be eligible for impact fee revenue, and that exceed the developer's fee obligation.
- Administrative costs related to compliance with the Mitigation Fee Act including collecting, accounting, and managing expenditure of fee revenues in accordance with the Act, as well as preparing financial reports and nexus studies required to make any necessary findings and determinations under the Act.

The basic infrastructure and facilities and related cost estimates presented in this nexus study represent the best available information at the time of this report. However, in response to changed circumstances the City may revise the capital projects identified in the DSAP or include additional infrastructure, amenities, and public benefits that serve new development within the Diridon Station Area. The City may use revenue from the impact fees documented in this report to fund capital projects within the Diridon Station Area as long as projects are consistent with the criteria listed in the "Use of Fee Revenue" sections of this report associated with each fee.