COUNCIL AGENDA: 12/19/17
FILE: 17-474
ITEM: 5.1

CITY OF SAN JOSE
CAPITAL OF SILICON VALLEY

Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: Angel Rios, Jr.
Kim Walesh

SUBJECT: SEE BELOW

DATE: November 27, 2017

Approved D. DSyC   Date 12/5/17

SUBJECT: 2017/2018 ANNUAL ADJUSTMENT TO PARK IMPACT FEES AND PROPOSAL TO ESTABLISH A NEW FEE RATE FOR HIGH-RISE UNITS

RECOMMENDATION

1) Adopt a resolution effective March 1, 2018 to:

(i) Establish the annual Schedule of Parkland Fees and Credits that sets forth the fees and credits charged to residential projects subject to Municipal Code Chapters 14.25 (Park Impact Ordinance) and 19.38 (Parkland Dedication Ordinance) pursuant to Ordinance number 27949;

(ii) Authorize the City Manager to determine the applicable parkland in-lieu fees for any residential units in the City of San José that are not included in the Schedule of Parkland Fees and Credits based on the nearest Multiple Listing Service districts; and

(iii) Establish a new permanent park impact in-lieu fee rate within the Proposed Parkland Schedule of Fees and Credits for new Downtown Core Area high-rise units, based upon observed occupancy.

2) Adopt a resolution to rescind and replace resolution 78079, adopted on February 7, 2017 which set forth the Schedule of Parkland Fees and Credits charged pursuant to Chapters 14.25 and 19.38 of the San José Municipal Code (SJMC) to amend Section 2 of Exhibit B of Resolution No. 73587, as amended, temporarily setting the park impact fees charged for high-rise multi-family residential projects of twelve (12) stories or more located in the Downtown Core at fifty percent (50%) of the applicable parkland fees for multi-family 5 plus units in the Downtown Area to:

(i) Redefine the 'Downtown Core Area' in Section 2.A.1 as the boundaries depicted in Attachment D of this memorandum and to align the definition of 'Downtown Core

Area' in Section 2.A.1 to read "or as defined by the *Envision San José 2040* General Plan and the Downtown Strategy 2000, as may be amended"; and

(ii) Remove Section 2.E.2 for the Expiration of Temporary Reduction and Deferred Payment, which incorrectly set a cap on the maximum number of units eligible for the Downtown High-Rise Incentive Program, as consistent with Council direction adopted on December 13, 2016.

EXECUTIVE SUMMARY

Approval of the recommendations in this memorandum will update the Parkland Schedule of Fees to align with current property values. Fee rates will be adjusted according to the observed rate of change in sales price for properties purchased over the 2016-2017 Fiscal Year; rates range from 1.5 percent to 8.2 percent across the Multiple Listing Service (MLS) districts in San José. This memorandum also proposes to establish a new park impact fee rate for Downtown Core Area high-rise units, based upon observed occupancy of existing high-rises in Downtown San José. This memorandum corrects the adopted Downtown High-Rise Incentive Program resolution to be consistent with the Downtown Strategy Update and the results of the Rules and Open Government Committee on November 30, 2016 as adopted by City Council on December 13, 2016.

OUTCOME

The proposed resolution, effective March 1, 2018, will:

1) Result in an increased parkland obligation for new residential development projects, with increases ranging from 1.5 percent to 8.2 percent in each of the City's Multiple Listing Service (MLS) districts;

2) Establish a new permanent rate within the Parkland Schedule of Fees and Credits for new Downtown Core Area high-rise units. This fee rate shall apply to high-rise projects not eligible for the current Downtown High-Rise Incentive Program or projects opting out of the Incentive Program. The new high-rise rate will be eligible for private recreation credits, consistent with other unit fee rates under the PDO/PIO; and

3) Replace Resolution No. 78079, to address inconsistencies between the approved Downtown High-Rise Incentive program and the language in Resolution No. 78079. The proposed changes will:

    (i) Establish the definition of 'Downtown Core Area' as the boundaries depicted in Attachment D of this memorandum and set the definition of 'Downtown Core

Area' to align with the Envision 2040 San José General Plan and the Downtown Strategy 2000, as they may be amended in the future; and

(ii) Eliminate the cap on the maximum number of units that may qualify under the Downtown High-Rise Incentive Program, which was incorrectly set at 1,500 units in the Council Synopsis for the December 13, 2016 hearing and adopted at 21,500 in Resolutions No. 78039 and 78079. These corrections align with the recommendation carried forward from Rules and Open Government Committee on November 30, 2016 and as adopted by City Council on December 13, 2016.

BACKGROUND

In 1975 the State of California enacted the Quimby Act. The Quimby Act is a subsection of the Subdivision Map Act (Map Act) and authorizes cities to adopt ordinances that require the dedication of land or the payment of in-lieu fees as a condition of approval for residential subdivisions. The City of San José enacted the Parkland Dedication Ordinance (PDO)[1] in 1988 to help meet the demand for new neighborhood and community parkland as it is generated by the development of new residential subdivisions. The City's PDO is consistent with the Quimby Act (Government Code Section 66477). In 1992, the City Council also adopted the Park Impact Ordinance (PIO)[2], which is similar to the PDO, but applies to new non-subdivided residential projects such as apartment buildings. The City's PIO is consistent with the State's Mitigation Fee Act (Government Code § 66000 *et seq*). In 1998, the City Council amended the PDO/PIO to align the City's parkland fee structure with current land values.

Park impact fees help to mitigate the impact that new residents will have on existing recreational facilities and help to sustain the City's parkland level of service consistent with population growth. PDO/PIO fee revenue helps the City to achieve the service level objectives of the *Envision San José 2040* General Plan (General Plan). The service level objectives promote the ideal park acreage and community center square footage that should be provided. The service levels are incorporated in the Greenprint. The Greenprint is a subset of the General Plan and is the City's 20-Year Strategic Plan for parks, recreational facilities, and community programs.

The City's General Plan service level goals for providing High Quality Facilities and Programs (Goal PR-1) are:

- Provide 3.5 acres per 1,000 population of neighborhood/community serving parkland through a combination of 1.5 acres of public park and 2.0 acres of recreational school grounds open to the public per 1,000 San José residents. (General Plan Policy PR-1)

[1] San José Municipal Code Chapter 19.38
[2] San José Municipal Code Chapter 14.25

- Provide 7.5 acres per 1,000 population of citywide/regional park and open space lands through a combination of facilities provided by the City of San José and other public land agencies. (General Plan Policy PR-2)

- Provide 500 square feet per 1,000 population of community center space. (General Plan Policy PR-3)

- Provide access to an existing or future neighborhood park, a community park, recreational school grounds, a regional park, open space lands, and/or a major City trail within a 1/3-mile radius of all San José residents by either acquiring lands within 1/3 mile; or providing safe connections to existing recreation facilities outside of the 1/3-mile radius. This is consistent with the United Nation's Urban Environmental Accords, as adopted by the City for recreation open space (PR-3.2).

Implementation of the PDO/PIO

The PDO/PIO are land-based ordinances consistent with State Law. Residential projects in San José are required to satisfy a parkland obligation under the PDO and PIO that is equivalent to providing three acres of parkland for every 1,000 new residents attributable to the development. Residential projects can comply with this obligation through several mechanisms or a combination thereof, including:

- The dedication of land for public parks
- Payment of in-lieu fees
- Construction of new (turnkey) park facilities
- Installation of (turnkey) improvements at existing recreational facilities
- Development of certain private recreational amenities

A project's parkland obligation must be satisfied prior to the issuance of a Parcel Map, Final [subdivision] Map, or Building Permit. This obligation may be satisfied through payment of fees in full or by executing and fulfilling a Parkland Agreement, which contractually obligates the project to fulfill one or more of the options above and complete actions necessary to satisfy the PIO/PDO. Revenues generated through the collection of park impact fees are restricted by state law and cannot be used for operations or maintenance of the City's recreational facilities.

As a land based ordinance, the goal and primary currency of the PDO/PIO is new parkland. As such, the City prioritizes the dedication of parkland over other compliance options, but must also balance the need to generate revenue for park development. Where the dedication of parkland is not feasible, or for projects with 50 or fewer units, park impact fees in-lieu of land dedication are often required. The City Council annually adjusts the Parkland Schedule of Fees, which prescribes the amount of in-lieu fees for each new residential unit, based upon best available data. Since 1998, parkland fees in-lieu of land dedication have been tied to current land values. This helps ensure that when parkland is unavailable, the fees paid in-lieu may be sufficient to purchase an equivalent amount of land at market rates. The Parkland Schedule of Fees and

Credits is based upon current estimated land value, and the number of persons per household published in the Census for certain designated unit types. Fees for each project are calculated from rates in the Parkland Schedule of Fees and the number and type of new housing, less any credits for deed restricted affordable housing units, land dedication, turnkey improvements, or private recreational amenities.

In fiscal year 2016-2017, the City collected over $13.5 million in parkland fees from 103 residential projects compared to $13.8 million collected during fiscal year 2015-2016.

Since 2013, land value estimates for the Parkland Schedule of Fees have been re-calculated annually by compounding the rate of change observed in residential real estate prices to baseline raw land valuations. These base land values were published in the Smith & Associates appraisal report, which was prepared for the City in 2012. This approach is consistent with current market conditions, as evidenced by real estate sales data from July 1 to June 30 of each fiscal year. As part of this methodology, the observed change in property values are localized to each MLS district and then applied as adjustments to the City's corresponding estimate of land value for each MLS district. Park impact fee rates are then modified for consistency with these changes and to ensure that fees are sufficient to provide three (3) acres of parkland per 1,000 residents.

Downtown High-Rise Incentive Program

On December 13, 2016, the City Council adopted Resolution No. 78039 to allow qualifying 12 story high-rise projects located within the 'Downtown Core' (a.k.a. Downtown Growth Area) to pay 50 percent of the applicable parkland fees. To be eligible for the Downtown High-Rise Residential Incentive Program a project must:

- Be located in the Downtown Core Area.
- Be at least 12 stories in height.
- Secure a foundation permit by July 2018.
- Complete final inspection for occupancy of at least 80 percent of the units by December 2020.
- Pay deferred fees and taxes prior to the final inspection of 80 percent of the units.
- Retain contractors licensed by the State of California for the construction of the project.
- Employ only construction workers who possess necessary licenses and certifications required by the State of California.

Additionally, project developers should make a good faith effort to 1) comply with the State of California's apprenticeship program requirement and 2) ensure that 25 percent of those apprentices are identified as having an employment barrier.

Under this new Downtown High-Rise Incentive Program, the parkland fees for these projects are due and payable to the City prior to scheduling a residential occupancy inspection for 80 percent of the residential units. Projects that qualify for this program do not qualify for other credits. The program automatically expires on December 31, 2020. This program is not applicable towards and does not retroactively apply to any parkland agreements or parkland obligations that were entered or satisfied prior to the effective date of the adopted resolution for the program.

The City Council also adopted Ordinance No. 29847 (passed for publication December 13, 2016, adopted January 10, 2017, effective February 10, 2017) amending Chapter 4.46 of Title 4 of the San José Municipal Code to allow these same qualifying downtown high-rise projects to suspend 50 percent of the Building and Structure Construction Tax (JMC 4.46) when a building permit is issued between February 10, 2017 through July 31, 2018. Qualifying projects must also meet certain criteria listed in Ordinance No. 29847. On February 7, 2017, Council adopted Resolution No. 78079 to include recommendations for developers receiving such incentives to hire apprentices and advertise contracts/ bids in ways that encourage local hiring.

To date, no projects have completed the required units to fully qualify for the discounted fees. However, two projects have met the first criteria and will likely secure a building permit by July 1, 2018; The Graduate (file nos. H16-036/3-22145) for 260 units and the SJSC "car wash site" (file nos. SP17-009/3-16618) for 610 units. Two additional projects are also tracking to qualify for the Incentive Program soon: Parkview Towers (file nos. H14-009/3-06679) for 220 units and North San Pedro Tower 3 (file nos. H14-037/3-18928) for 313 units. It is estimated that there are an additional 1,300 residential units in the development pipeline that could also potentially qualify under the program.

ANALYSIS

Annual Parkland Fee Adjustment

Sales data from the purchase of residential properties provide the basis for the City's annual reevaluation of park impact fees. Each year, the prior year land value estimates are modified by the rate of change observed in sales price for properties sold over the prior year in each MLS district of the City. Park impact fees are updated when a new Parkland Schedule of Fees and Credits (Attachment B) is adopted each year. Per state law, new fees must wait at least 60 days after Council Approval to go into effect.

The proposed attached Schedule of Fees and Credits (Attachment B), accounts for an average citywide increase of 5.4 percent in land values. The rate of land value change for each MLS district is shown in Table 1 along with the current and proposed per square foot land valuations. Park impact fees are based upon this land valuation in the ratio of three acres per 1,000 residents.

Table 1 - Proposed 2017/18 Land Valuations ($ per square foot)

District	District Name	2016-2017 Change (%)	2016 Adopted Land Value	2017 Proposed Land Value
2	Santa Teresa	6.2%	$ 32	**$ 34**
3	Evergreen	4.3%	$ 41	**$ 43**
4	Alum Rock	7.6%	$ 28	**$ 30**
5	Berryessa	8.2%	$ 42	**$ 45**
7a	Alviso	6.7%	$ 24	**$ 26**
7b	North San José	6.7%	$ 127	**$ 136**
8	Santa Clara	4.6%	$ 35	**$ 37**
9	Central San José	5.2%	$ 70	**$ 74**
10	Willow Glen	4.3%	$ 65	**$ 68**
11	South San José	6.8%	$ 28	**$ 30**
12	Blossom Valley	6.0%	$ 32	**$ 34**
13	Almaden Valley	1.5%	$ 39	**$ 40**
14	Cambrian	2.2%	$ 34	**$ 35**
15	Campbell	7.7%	$ 60	**$ 65**
18	Cupertino	3.5%	$ 61	**$ 63**

<u>Modifications to the Downtown High-Rise Incentive Program and Downtown Core Area</u>

When the Downtown High-Rise Incentive Program was adopted, City Council also approved staff recommendations related to implementation. These recommendations included alignment of the "Downtown Core Area" with the Downtown Growth Area outlined in the Downtown Strategy and *Envision San José 2040 General Plan*. Resolutions No. 78039 and 78079 did not update the definition of Downtown Core Area as intended. As such, eligible incentive areas in these resolutions remained tied to the boundaries of the prior Downtown High-Rise Incentive Program that expired on June 30, 2016. With adoption of the *Diridon Specific Area Plan* and pending reviews of both the *Downtown Strategy* and *Envision San José 2040 General Plan*, boundaries of the Downtown Core Area already differ significantly from the prior program and will likely change in the future. Staff recommends establishing the incentive area boundary as depicted in Attachment D and including language to ensure the 'Downtown Core Area' remains consistent with the 'Downtown Growth Area' as defined by the General Plan and may change over time.

The Council Synopsis for the December 13, 2016 approval of the current High-Rise Incentive Program incorrectly recorded staff's prior recommendation that the program sunset at the maximum number of 1,500 downtown high rise units. A unit cap was then erroneously inserted in Resolutions No. 78039 and 78079. The Resolutions should have actually aligned with the motion by Vice Mayor Herrera at the Rules and Open Government Committee on November 30, 2016. The Committee approved the motion unanimously and removed the unit cap maximum. Staff recommends correcting the unit cap discrepancy to remove the cap as Council intended.

<u>Proposed High Rise Unit Rates and Occupancy Estimates</u>

During development of the new Downtown High-Rise Incentive Program, an interdepartmental team worked to evaluate potential high-rise development incentives. The City also engaged Keyser Marston (Consultant), for an independent assessment of the need for an incentive program. Market and policy research was conducted to ensure that the incentive program would be effective, while also protecting the public interest. It is believed that the approved incentives are the minimum needed to accelerate construction.

This evaluation raised questions about the occupancy rate of high-rise housing. The Keyser Marston Report noted that the park impact fees are tied to occupancy estimates for certain unit categories in the U.S. Census, but do not include any scaling mechanism such as unit 'square footage' or bedroom count, metrics which might provide more fair assessments of occupancy rates and impact fees. The Report also suggested that elevated high-rise construction costs and uncertain capital market conditions, have made the success of new high-rise developments increasingly dependent on an accurate and proportional alignment of impact fees with the real impacts that they are intended to mitigate (Nexus). Drawing from precedent in San Francisco and Oakland, along with case studies of projects in San José, the Consultant noted that high-rise developments typically include a higher percentage of studios and one-bedroom apartments as compared to lower density housing types. This observation of recent high-rise projects suggests that real occupancy of new high-rises may also be lower than the 2.34 residents/unit figure cited from the 2010 Census for all multi-family developments citywide (5 plus units in structure).

PRNS is currently updating the Greenprint, which is the long-term strategic plan guiding the future of San José's parks, recreation facilities and community building programs. Once the Greenprint update is complete (expected in 2018), PRNS will analyze how park impact fees are assessed under the current PIO/PDO. The study will evaluate all park fees and may address such occupancy concerns through the inclusion of a scaling mechanism like housing square footage, occupancy by bedroom, or other appropriate and defensible metric. Any adjustment of park impact fees must be consistent with the Quimby Act and supported by defensible data. Annual adjustments must also be easy to implement and update. The study will include a community engagement plan including Parks, Recreation and Neighborhood Services (PRNS) stakeholder groups, park advocates, and the development community.

The current Downtown High-Rise Incentive Program was intended to help more high-rises secure financing and break ground. During the February 7, 2017 City Council Hearing (Item 5.1), PRNS committed to exploring the creation of a permanent high-rise unit category within the Parkland Schedule of Fees.

The primary unit categories currently in the Parkland Schedule of Fees (i.e. single family attached, multi-family, etc.) come from U.S. Census definitions of housing type, with published occupancy data easily available. The U.S. Census does not currently publish data specific to high-rise units in any of its known products. Pursuant to authority in the Municipal Code

(Section 19.38.310.C), the City Council may, and has from time to time, adopted park impact fee rates for units not included in the federal census (i.e. single resident occupancy (SRO) and accessory dwelling units (ADU)). Any rates established, must have a strong defensible basis with supporting evidence and should be easily updateable with accessible data.

Staff has investigated several data collection methods to arrive at a proposed rate. Two methods appear to have the strongest supporting evidence; (1) a rate based upon sampling statistics provided by the U.S. Census American Community Survey (ACS) 2011-2015; and (2) a rate based upon direct survey of occupancy for existing downtown high-rises, with data provided by leasing companies in those buildings. The two methods are compared in Table 2.

Table 2 – Comparison of Analysis Techniques

Method	Positives	Concerns
ACS [1] *1/38 households per year x 5 years*	• Respected source • Should include condo units • Easy to update	• Uncertainty ~10% • Includes some non-high-rise units • Pre-dates/excludes some towers • Boundaries will change over time
Direct Survey *57% of high-rise units included*	• Real time • Specific to San José high-rises • Updatable (some effort)	• 57% of high-rise units covered • Does not include condos • Self-reported • Real occupancy may exceed those on leases or reported

1. U.S. Census American Community Survey – 5-year estimates 2011-2015 – Block Group 5008.01estimates.

The ACS is a demographic supplement to the familiar ten (10) year U.S. Census. Unlike the U.S. Census, the ACS is an *ongoing* survey containing additional questions, sampling approximately one in 38 households each year. The ACS is combined with data from other agencies and the U.S. Census to provide statistically valid *annual* estimates of certain population characteristics. The particular ACS estimates used for the proposed rate, combine data from five years and are considered the most accurate for studying small geographic areas, outside of the 10-year Census. The ACS has limited capacity to capture specific moments in time, and may not account well for rapid change. At least two towers, Centerra and One South Market, are known to have opened after the ACS sampling period. Published 'margins of error' within the ACS also compound uncertainty when multiple statistics are cited. The range of uncertainty, as well as the results from both the published ACS and Direct Survey method are published in Table 3. For these reasons, staff conducted the Direct Survey to validate and ground truth the rates published in the ACS.

Table 3 - Occupancy Analysis Results

Source of Data	**Occupied Units**	**Residents**	**Occupancy Rate**
ACS Margin of Error Range[1, 2]	642-846	937-1281	1.13-2.00
ACS Published Estimates[1, 2]	734	1109	1.51
Direct Survey *(sampled apartment units only)*	999	1522	1.52
Total Downtown High-Rise Units	1684		
Recommended High-Rise Rate	***1.51 persons per unit***		

1. U.S. Census American Community Survey – 5-year estimates 2011-2015 – Block Group 5008.01estimates.
2. Block group contains the following high-rise projects: Axis, City Heights, 360 Residences, Casa de Pueblo (Senior affordable) – total 828 units; Centerra and One South Market are in block group, but began occupancy after Census data was collected for this period. Other significant housing in block group is 301 South 1st Street (36 units); 9% of units remain undefined.

It is worth noting, that observed occupancy is not the same as allowed occupancy. The City does not enforce restrictions on occupancy for most residential projects; however leasing companies often do. Self-imposed occupancy limits by certain leasing companies suggest that the average occupancy of high-rises could reach as high as 3.0 residents per unit, however this is unlikely. This underscores the need for occupancy assessments that are easily and regularly updateable.

Staff recommends that the City Council consider a new Downtown Core Area high-rise fee rate based upon the ACS estimates and supported by findings of the Direct Survey method. The estimated rate of occupancy within the ACS estimate is closely reflected by the Direct Survey, but is felt to be the more defensible due to rigorous standards within the Census Bureau. The proposed estimate of 1.51 residents per high-rise unit has been used to calculate a corresponding park fee value depicted in Attachment B. All park in-lieu fees are based upon average unit occupancy and the City's PDO/PIO level of service at 3 acres per 1,000 residents. The proposed high-rise rate would apply to new high-rises only in the designated Downtown Core Area and would be eligible for Private Recreation Credits consistent with other unit types already in the Parkland Schedule of Fees and Resolution No. 73587, as amended. Projects participating the Downtown High-Rise Incentive Program, will be assessed park fees under the discounted multi-family rate (50 percent) and will not be eligible for the proposed high-rise fee rate.

Table 4 compares the proposed high-rise rate with standard park fees and the current Downtown High-rise Incentive Program (proposed 2017-2018 rates) for a hypothetical project of 300 units in Downtown San José (MLS District 9).

Table 4 - Comparison of Fees for Example Downtown Project

	Dwelling Type	**Persons Per Unit**	**Total Population**	**PIO/PDO Obligation *(acres)***	**Unit Fee Rate**	**Total Fee**
FY 16/17 Fee Schedule	Multi-family 5+	2.34	702	2.106	\$22,600	\$6,780,000
DT Incentive Program	Multi-family 5+	2.34	702	2.106	\$11,300	\$3,390,000
Proposed High Rise Fee Rate	High Rise (12+ floors)	1.51	453	1.359	\$14,600	\$4,380,000
High Rise Fee Rate w/ 20% Private Rec. Credit	High Rise (12+ floors)	1.51	453	1.359	\$14,600	\$3,504,000

At this time, staff is only recommending this high rise fee for Downtown Core Area projects as this is the area where the reliable information has been gathered. A rate for high-rises outside of the Downtown Core Area will be analyzed as part of the overall PDO/PIO Program evaluation or nexus study in 2018. If a high rise outside of the Downtown Core Area moves forward prior to the establishment of a fee, the high rise outside of the Downtown Core Area will continue to use the multi-family 5+ category.

<u>Fees for Secondary Units (Granny Units)</u>

Parkland in-lieu fees for secondary units will be adjusted based on occupancy identified in Resolution No.74314 adopted by Council on April 8, 2008. Pursuant to Resolution No. 74314, parkland fees for secondary units are set at fifty percent of applicable fees for single-room occupancy (SRO) units. On June 13, 2017, the City Council adopted Resolution No. 78200, implementing a change to the maximum square footage for secondary units in the Parkland Schedule of Fees and setting the maximum at 800 square feet to comply with state law.

<u>Fees for Low Income Units</u>

The park impact fees charged for deed-restricted affordable housing or "low income units" as defined in SJMC Chapters 14.25 and 19.38, are set at fifty percent of the applicable parkland fees for each residential unit type pursuant to Resolution No. 75540 adopted by Council on August 24, 2010.

Additionally, on October 17, 2017 the Mayor and City Council voted to place "Impact Fee Deferred Payment for Housing" on the Council priority list. PRNS staff will work with collaboratively with other departments on this issue which could impact the timing of park impact fee payments.

EVALUATION AND FOLLOW-UP

On an annual basis, staff will continue to bring forward any future fee adjustments to the Parkland Schedule of Fees and Credits to the Parks and Recreation Commission and then to the City Council reflecting updated land values and census data for that year.

Staff expects to begin a study to evaluate the PDO/PIO Program in 2018 after completion of the Greenprint Update.

POLICY ALTERNATIVES

***Alternative #1*:** Do not adjust fees and continue to use the 2016 Parkland Fee Schedule.

Pros: Maintaining current fees will not reflect the updated land values in all MLS districts and may incentivize more residential development by reducing the relative cost of development impact fees.

Cons: Adjusting the fees annually based on the latest year's land values allows the City to provide new parkland and park improvements for existing residents and those who will occupy new housing units. If the fees remain unchanged, the City would have to account for a greater difference between revenue and land value in order to compete for land at market rates.

Reason for Not Recommending: This alternative is not consistent with the City Council's prior direction to update the fees on an annual basis to reflect the most recent land value study. This would put a fiscal burden on the City and make it difficult to acquire new parkland, provide parkland at a rate of 3 acres per 1,000 population, and meet General Plan service level goals.

***Alternative #2*:** Adopt the Parkland Schedule of Fees for 2017/2018 park impact fees based on current market value as discussed above without adopting a new Downtown Core Area high-rise type of dwelling for the Parkland Schedule of Fees.

Pros: Would update the current Schedule of Fees. Any high-rise projects not eligible for the current incentive, would continue to pay fees based on the same rates as other multi-family units.

Cons: High-rise projects would continue to pay fees based upon current estimates of occupancy for multi-family 5 plus projects, potentially delaying the construction of new high-rise projects under challenging market conditions.

Reason for Not Recommending: This alternative is not consistent with the City Council's prior direction to explore a new park in-lieu fee rate for high rise units.

PUBLIC OUTREACH

At the February 7, 2017 City Council hearing, staff committed to exploring a 'permanent' high-rise unit (Item 5.1)[3].

This item was presented at the Planning, Building and Code Enforcement (PBCE) Developer's Roundtable on October 20, 2017.

This item will be posted to the City Council Agenda website for the November 28, 2017 meeting.

Hearing notices were published in the *San Jose Mercury News* for the Parks and Recreation Commission hearings on November 1, 2017 and December 6, 2017, as well as the December 19, 2017 Council hearing for this memorandum.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office; Department of Planning, Building, and Code Enforcement; Office of Economic Development; and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

This item was heard by the Parks and Recreation Commission (PRC) on November 1, 2017. At that meeting, the PRC requested additional information regarding the potential impact of the newly proposed high-rise fee category on future revenue streams for PRNS capital needs. The PRC also indicated that, in the future, they would like for the Department to evaluate whether commercial development can participate in the park impact fee program to provide an additional revenue stream. PRNS has re-agendized this item for the December 6, 2017 PRC meeting to provide further information on the newly proposed high-rise fee category to the PRC. Any additional feedback received on December 6th will be provided to the Mayor and City Council at or before the December 19, 2017 city council meeting.

[3] (http://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2670&meta_id=614586

CEQA

Statutorily Exempt, File No. PP17-005, CEQA Guidelines Section 15273 – Rates, Tolls, Fares, and Charges.

/s/
ANGEL RIOS, JR.
Director, Parks, Recreation
Neighborhood Services

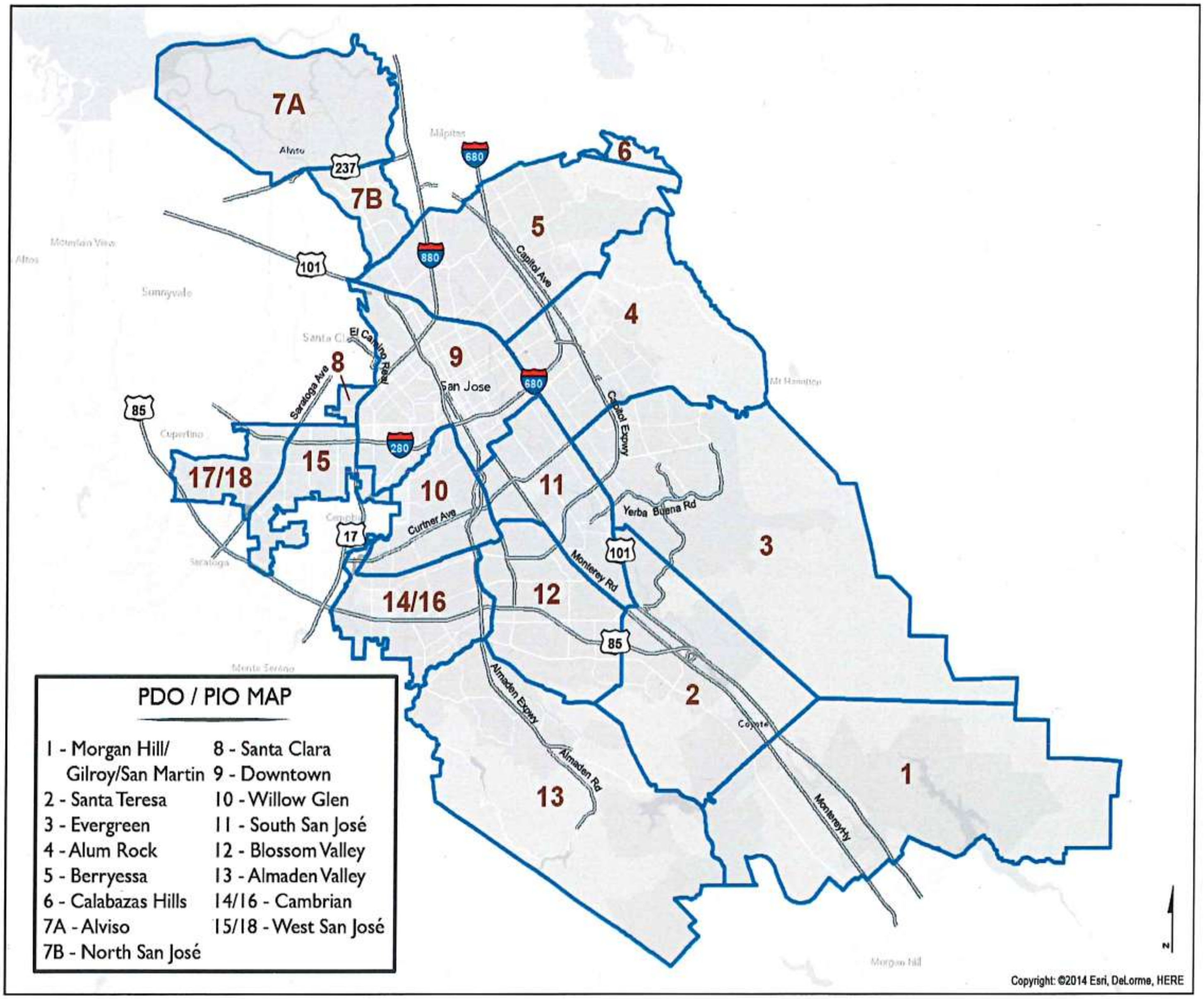
/s/
KIM WALESH
Deputy City Manager
Director of Economic Development

For questions, please contact Matt Cano, Assistant Director, at (408) 793-5553.

Attachments: A) Multiple Listing Service Districts in San José
B) 2017 Proposed Fees
C) 2016 Adopted Fees
D) Downtown Core Area

Attachment A

MULTIPLE LISTING SERVICE DISTRICTS IN SAN JOSÉ



Rates are effective March 1, 2018

Attachment B
2017/2018 Proposed Parkland In-Lieu Fees

MLS ZONE	AREA COVERED	100% OF COST/ SQUARE FOOT	PROPOSED FEE PER UNIT*						
			SINGLE FAMILY DETACHED	SINGLE FAMILY ATTACHED	MULTI-FAMILY 2-4 UNITS	MULTI-FAMILY 5+	HIGHRISE (12+ Stories)	SINGLE RESIDENCY OCCUPANCY UNIT (SRO)	SECONDARY RESIDENTIAL UNIT (Granny Unit) Maximum of 800 sq feet
Number of Persons Per Unit - 2010 Census Data; ACS; Survey			3.31	3.31	2.96	2.34	1.52	1.00	50% of SRO
Number of Dwelling Units to create 1 acre of Raw Parkland			100.7	100.7	112.6	142.5	219.3	333.3	n/a
1 & 2	**SANTA TERESA**	$ 34.00	$ 14,700	$ 14,700	$ 13,200	$ 10,400	$ 6,800	$ 4,400	$ 2,200
3	**EVERGREEN**	$ 43.00	$ 18,600	$ 18,600	$ 16,600	$ 13,100	$ 8,500	$ 5,600	$ 2,800
4	**ALUM ROCK**	$ 30.00	$ 13,000	$ 13,000	$ 11,600	$ 9,200	$ 6,000	$ 3,900	$ 1,950
5 & 6	**BERRYESSA**	$ 45.00	$ 19,500	$ 19,500	$ 17,400	$ 13,800	$ 8,900	$ 5,900	$ 2,950
7A	**ALVISO (North of 237)**	$ 26.00	$ 11,200	$ 11,200	$ 10,100	$ 8,000	$ 5,200	$ 3,400	$ 1,700
7B	**NORTH SAN JOSE (So. of 237)**	$ 136.00	$ 58,800	$ 58,800	$ 52,600	$ 41,600	$ 27,000	$ 17,800	$ 8,900
8	**SANTA CLARA**	$ 37.00	$ 16,000	$ 16,000	$ 14,300	$ 11,300	$ 7,300	$ 4,800	$ 2,400
9	**DOWNTOWN**	$ 74.00	$ 32,000	$ 32,000	$ 28,600	$ 22,600	$ 14,700	$ 9,700	$ 4,850
10	**WILLOW GLEN**	$ 68.00	$ 29,400	$ 29,400	$ 26,300	$ 20,800	$ 13,500	$ 8,900	$ 4,450
11	**SOUTH SAN JOSE**	$ 30.00	$ 13,000	$ 13,000	$ 11,600	$ 9,200	$ 6,000	$ 3,900	$ 1,950
12	**BLOSSOM VALLEY**	$ 34.00	$ 14,700	$ 14,700	$ 13,200	$ 10,400	$ 6,800	$ 4,400	$ 2,200
13	**ALMADEN VALLEY**	$ 40.00	$ 17,300	$ 17,300	$ 15,500	$ 12,200	$ 7,900	$ 5,200	$ 2,600
14 & 16	**CAMBRIAN**	$ 35.00	$ 15,100	$ 15,100	$ 13,500	$ 10,700	$ 7,000	$ 4,600	$ 2,300
15	**CAMPBELL**	$ 65.00	$ 27,300	$ 27,300	$ 24,400	$ 19,300	$ 12,500	$ 8,200	$ 4,100
17 & 18	**CUPERTINO**	$ 63.00	$ 27,300	$ 27,300	$ 24,400	$ 19,300	$ 12,500	$ 8,200	$ 4,100
9 - DC	**Downtown Core - East of Hwy 87 HighRise 12+ Stories****					$ 11,300			

* *Fees for Low Income Units shall be at the rate of 50% of the applicable parkland fees for each residential unit type per Section 1 of Resolution No. 75540*

** *Fees for eligible Downtown Area Highrises shall be set at 50% of the Multifamily 5+ rate within the Downtown MLS district, as set forth in Resolutions 78039 and 78079, as may be amended.*

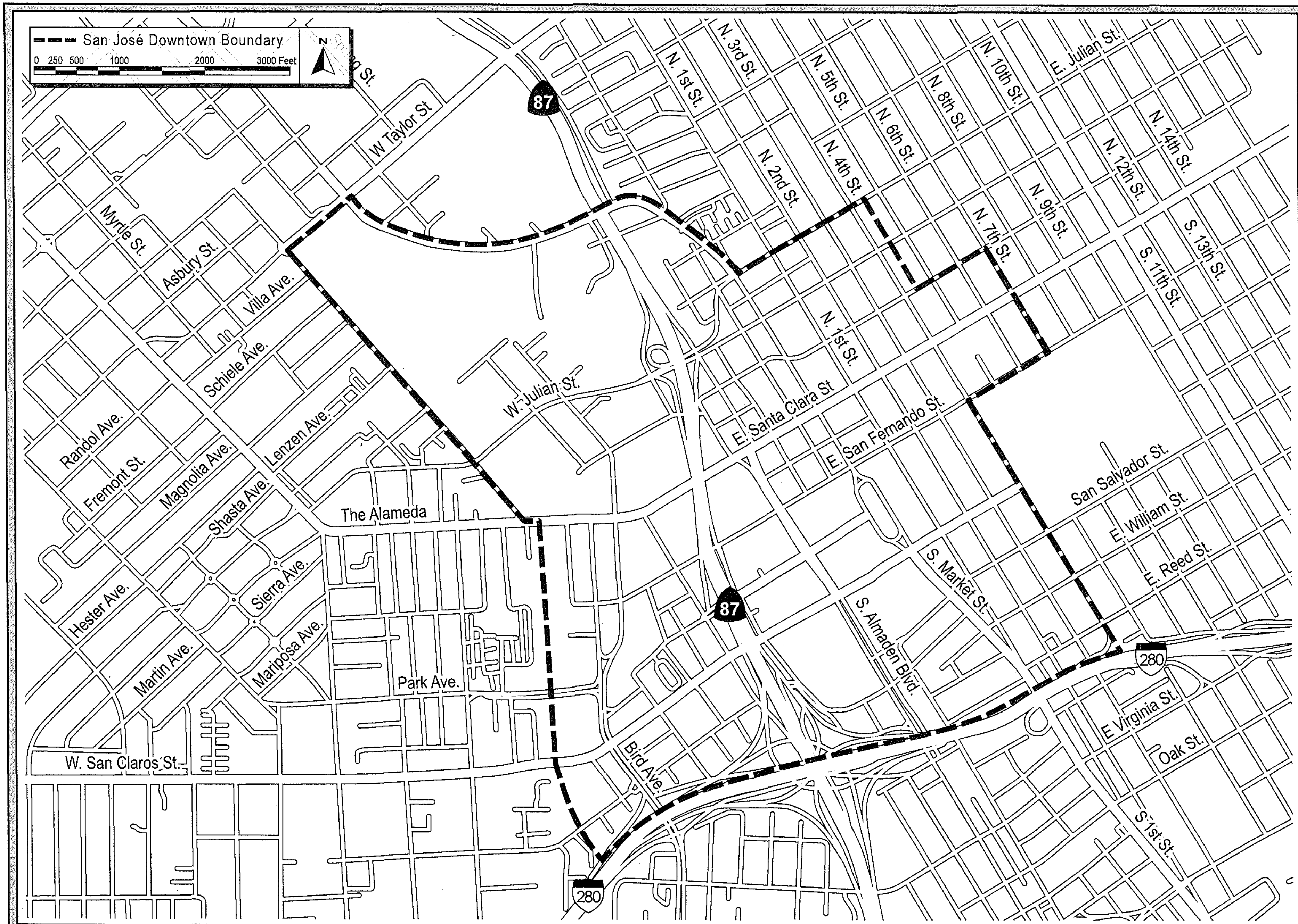
Rates are effective December 1, 2016

Attachment C
2016 Adopted Parkland In-Lieu Fees

MLS ZONE	AREA COVERED	100% OF COST/ SQUARE FOOT	PROPOSED FEE PER UNIT*					
			SINGLE FAMILY DETACHED	SINGLE FAMILY ATTACHED	MULTI-FAMILY 2-4 UNITS	MULTI-FAMILY 5+	SINGLE RESIDENCY OCCUPANCY UNIT (SRO)	SECONDARY RESIDENTIAL UNIT (Granny Unit) Maximum of 700 sq feet
Number of Persons Per Unit - 2010 Census Data			3.31	3.31	2.96	2.34	1.00	50% of SRO
Number of Dwelling Units to create 1 acre of Raw Parkland			100.7	100.7	112.6	142.5	333.3	n/a
1 & 2	SANTA TERESA	$ 32.00	$ 13,800	$ 13,800	$ 12,400	$ 9,800	$ 4,200	$ 2,100
3	EVERGREEN	$ 41.00	$ 17,700	$ 17,700	$ 15,900	$ 12,500	$ 5,400	$ 2,700
4	ALUM ROCK	$ 28.00	$ 12,100	$ 12,100	$ 10,800	$ 8,600	$ 3,700	$ 1,850
5 & 6	BERRYESSA	$ 42.00	$ 18,200	$ 18,200	$ 16,200	$ 12,800	$ 5,500	$ 2,750
7A	ALVISO (North of 237)	$ 24.00	$ 10,400	$ 10,400	$ 9,300	$ 7,300	$ 3,100	$ 1,550
7B	NORTH SAN JOSE (So. of 237)	$ 127.00	$ 54,900	$ 54,900	$ 49,100	$ 38,800	$ 16,600	$ 8,300
8	SANTA CLARA	$ 35.00	$ 15,100	$ 15,100	$ 13,500	$ 10,700	$ 4,600	$ 2,300
9	DOWNTOWN	$ 70.00	$ 30,300	$ 30,300	$ 27,100	$ 21,400	$ 9,100	$ 4,550
10	WILLOW GLEN	$ 65.00	$ 28,100	$ 28,100	$ 25,100	$ 19,900	$ 8,500	$ 4,250
11	SOUTH SAN JOSE	$ 28.00	$ 12,100	$ 12,100	$ 10,800	$ 8,600	$ 3,700	$ 1,850
12	BLOSSOM VALLEY	$ 32.00	$ 13,800	$ 13,800	$ 12,400	$ 9,800	$ 4,200	$ 2,100
13	ALMADEN VALLEY	$ 39.00	$ 16,900	$ 16,900	$ 15,100	$ 11,900	$ 5,100	$ 2,550
14 & 16	CAMBRIAN	$ 34.00	$ 14,700	$ 14,700	$ 13,200	$ 10,400	$ 4,400	$ 2,200
15	CAMPBELL	$ 60.00	$ 26,400	$ 26,400	$ 23,600	$ 18,700	$ 8,000	$ 4,000
17 & 18	CUPERTINO	$ 61.00	$ 26,400	$ 26,400	$ 23,600	$ 18,700	$ 8,000	$ 4,000
9 - DC	Downtown Core - East of Hwy 87 HighRise 12+ Stories					$ 7,650 **		

* *Fees for Low Income Units shall be at the rate of 50% of the applicable parkland fees for each residential unit type per Section 1 of Resolution No. 75540*

** *Downtown Core HighRise fees remain set at $7,650 as part of the downtown incentives. The maximum number of units eligible to receive the incentive is 2,564 and limited to specific projects that had a fully executed parkland agreement by the June 30, 2016 sunset date.*



ATTACHMENT D - DOWNTOWN CORE AREA