STAFF REPORT

COMMUNITY DEVELOPMENT

DATE: December 14, 2021

TO: Justin Hess, City Manager

FROM: Patrick Prescott, Community Development Director
VIA: David Kriske, Assistant Community Development Director
BY: Beverly Ibarra, Senior Administrative Analyst

SUBJECT: Update on Development Impact Fee Nexus Study

RECOMMENDATION

1. Provide policy direction and input on the City's Development Impact Fees ordinance update; and
2. Direct staff to bring back an updated Development Impact Fee (DIF) program for adoption at a subsequent City Council meeting.

BACKGROUND

The purpose of this report is to provide the City Council with information to update the City's DIF program. Updates and new development impact fees to the City's existing adopted Citywide Fee Schedule will be proposed at a subsequent City Council meeting based on City Council direction.

Under the California Mitigation Fee Act (AB 1600) cities and counties have the authority to implement DIFs. This allows cities and counties to collect funds from new development projects to cover public infrastructure, facilities, improvements, service, and community amenity costs related to the new development's proportionate share of impact on those facilities. DIFs are prohibited from funding operation and maintenance and cannot be collected or used to cover existing capital or infrastructure deficiencies.

The City originally adopted the current DIF Ordinance in 1993, which established funding for Libraries, Parks, Police, and Fire and Transportation facilities through impact fees imposed on new developments. The fee was based on two studies that provided the reasonable relationship between the fee and purpose of the fee:

- A Community Facilities Study identified Library, Parks, Police and Fire infrastructure needed to support new development and
- A Transportation Study (called the Infrastructure Blueprint) identified a list of improvements needed to address transportation and traffic growth caused by new development.

The City of Burbank currently imposes DIFs on all new residential and non-residential development to fund transportation projects and certain community facilities (including Parks and Recreation, Police, Library, and Fire) that are needed to offset impacts caused by new development[1]. The City collects DIFs at the time building permits are issued. These funds are then held in a DIF fund to be used to construct the necessary improvements in the future.

The City's DIF program has been instrumental in ensuring that the City's transportation system and community facilities grow in concert with the new development that impacts these facilities. In addition, for several of the projects (particularly transportation projects), DIF provided local funding leverage to help the City secure much larger grants and other funding assistance for the projects. With DIFs, the City's community facilities and transportation system have been able to grow to accommodate needs caused by new development. The City uses a range of funding sources to pay for community facilities and transportation improvements. DIFs are only one source of funding and represent the share of the cost of the improvements generated by new development.

Staff is currently undertaking an update to the City's DIF program. A study session with City Council was held in February 2020 to provide general information on impact fees and to provide an update on the status of the City's development impact fee nexus study. At this study session, the City Council requested further information about the DIF program and its impact on different types of development. The purpose of this report is for staff to provide this additional requested information and for the City Council to consider directing staff to return with an updated Ordinance and recommended set of DIFs to be applied to new development.

Staff is presenting this report to cover public benefits provided from recent development projects, a comparison of Glendale and Pasadena's DIFs, and evaluate current and potential DIFs generated from medium- to higher-density projects to illustrate how different fees could affect other goals, policies, and revenue sources.

DISCUSSION

As discussed above, the City's current DIFs are based on studies completed in the 1990s. Since that time, several projects identified in the original study have been built, evolved, or are ongoing, and impacts and development patterns have changed. Thus, staff believes an important part of the impact fee update is to revise the list of infrastructure projects eligible for funding by DIFs consistent with the Burbank 2035 General Plan growth forecasts as well as pending specific plan updates

DIFs cannot be set indiscriminately. In order for the City's DIFs to be legally supported, a nexus study must be prepared that identifies the required infrastructure needed for new growth and calculates the proportionate cost share of that new infrastructure on each new development. In addition, DIFs cannot pay for the total cost of this new infrastructure,

[1] Certain categories of infrastructure improvements, like water, sewer, storm drain, and electrical system improvements, are not funded by DIFs but instead are funded through other user fees, development charges, and funding programs.

because new infrastructure also corrects "existing deficiencies" in city infrastructure that may exist regardless of new development. DIF funds must generally be combined with other city funds, or can be matched with outside regional or grant funds, to pay for improvements.

The nexus study provides the City with the necessary technical documentation to support a DIF program update. The analysis provides the reasonable connection and associated fee calculations to establish the maximum fees the City can charge for the facilities indicated, pursuant to State law. However, the City Council also considers other goals and policies when ultimately deciding to impose a DIF, and DIFs do not necessarily need to be set at the maximum allowable fee established through the nexus study. Staff has identified three policy criteria to keep in mind when considering changes to the DIF Program:

- **<u>Align</u>** fee levels with City goals - Continue to align future DIF with the City's larger goals of facilitating housing production, retaining and protecting the growth of media production, office, and industrial sectors, ensuring that new fees are consistent with City's fiscal policies, and maintaining the City's market competitiveness within the regional job market with continued job growth
- **<u>Balance</u>** fees with building neighborhoods - DIFs mitigate the impacts of new development and fund needed public facilities and infrastructure to maintain quality of life. However, DIFs are only one piece of the larger puzzle that the City is reviewing to build neighborhoods while also ensuring that new development of all types pays its fair share of infrastructure costs.
- **<u>Facilitate</u>** community benefits that build neighborhoods while not adversely impacting the financial feasibility of a project or result in the loss of future growth opportunities - DIFs add to costs to new construction and overall development costs. Therefore, it is imperative to strike a balance between providing an appropriate level of facilities/infrastructure to new residents and businesses consistent with the City's goals/vision, while avoiding excessive costs that could discourage development.

Infrastructure Needed to Support New Development

As part of the proposed updated DIF program, staff determined that the City's existing fee categories (Library, Parks, Police, Fire, and Transportation) should be maintained, while proposing to add an Information Technology (IT) fee to account for the need to expand the City's IT infrastructure.[2]

Based on the updated nexus study prepared by staff to update the City's DIFs (starting on page 13 of Attachment 1), the cost needed to fund Capital Facilities and equipment necessary to accommodate projected growth totaled approximately $38.5 million. Additionally, a projected $77.5 million in Transportation improvements is needed to

[2] Because affordable housing production is an important City goal to address Burbank's high housing costs and severe jobs to housing imbalance, work is currently underway to study an affordable housing DIF on non-residential development to determine if the City can charge a fee to support new affordable housing for the local workforce. Staff will be returning to City Council at a future meeting to present the Affordable Housing Linkage Fee Nexus Study findings.

accommodate projected future impacts supporting vehicle, transit, pedestrian, and bicycle modes as a result of new development. The analysis showed that DIFs could cover about 30% of the total improvements identified by each department to serve the City through 2035. This is because new growth is expected to use about 30 percent of that new infrastructure's total capacity, while the rest of this new capacity would be serving an existing deficiency that existing development incurs on the City's infrastructure. Revenues collected from the new DIFs would be combined with other revenue sources, such as grants or the General Fund, to cover the remaining costs. Development impact fees are just one funding tool to address the City's capital and infrastructure needs. Based on this analysis, the City was able to identify the maximum levels that could be considered for community facilities and transportation fees.

As a reminder, the fees calculated by the study represent the **highest fee levels** that can be charged by the City based on the growth projections and the capital needs and corresponding costs needed to accommodate it. The maximum fee may not necessarily be supportable by current building or development costs or might have negative effects. Nor do the maximum fees necessarily support other important City goals or objectives. The City Council may wish to adopt fees at or below these maximum nexus-supported levels based on economic, policy, or other considerations.

New DIF Fee Levels

As discussed earlier, the nexus study calculates the maximum allowed fees that can be justified under State law, based on infrastructure needs, expected growth, and existing deficiencies. The highest maximum fees do not mean they are the best fees. The city can charge a lower fee than the rate calculated by the nexus study, but it cannot charge a higher rate. The updated maximum-allowable fees calculated by the new nexus study are, in some cases, significantly higher than the current fees. For these land uses, imposing the maximum fee would have dramatic, and potentially significant negative effects on City goals and policies. Tables 1 and 2 show the maximum allowed fees based on the nexus study.

Table 1: New Maximum DIFs - Residential Projects

	Residential Uses (per unit)	
Community Facilities	**Single-Family**	**Multi-Family**
Fire	$515.00	$405.00
Police	$372.00	$293.00
Parks	$2,265.00	$1,783.00
Library	$1,751.00	$1,378.00
IT (New)	$413.00	$325.00
Transportation DIF	$7,497.00	$3,332.00

Table 2: New Maximum DIFs - Non-residential Projects

Community Facilities	Non-Residential Uses (per sq. ft. or room)				
	Retail	**Office/ Institutional**	**Studio**	**Warehouse/ Industrial**	**Lodging**
Fire	$0.28	$0.47	$0.31	$0.28	$57.00
Police	$0.26	$0.44	$0.29	$0.26	$53.00
Parks	$1.61	$2.65	$1.76	$1.61	$321.00
Library	$0.74	$1.22	$0.81	$0.74	$148.00
IT (New)	$0.29	$0.48	$0.32	$0.29	$59.00
Transportation DIF	$20.19	$8.70	$6.55	$3.02	$4,543.00

Overall, DIF’s are restricted funds. While DIFs are an important revenue source for capital infrastructure, there are several limits and restrictions. They are collected and deposited into an account separate from the General Fund. The funds can only be used to address impacts from new development, not to address existing deficiencies. Additionally, revenue collected under impact fees can only be used for Capital and Infrastructure specifically identified in the nexus study. In other words, maintenance and operations cannot be paid with impact fees. DIFs alone cannot finance all of the City’s infrastructure needs. DIFs are one of many types of capital funding tools the City uses to expand its infrastructure.

And, finally, impact fees are collected proportionally over time as new development occurs. This means that projects funded with DIFs are generally long-term projects that must be financed as development occurs and revenues are collected and set aside to construct improvements.

Additional Analysis Requested by City Council

At the February 2020 DIF Study Session, the City Council asked for additional information regarding updated DIFs and how these new fees may affect previous and future development. Specifically, the City Council asked for the following:

1. Identifying the public benefits generated by recent large, approved developments and comparing the financial value of those benefits to the revenues generated from DIFs.
2. Comparing Burbank’s existing and proposed DIFs with those in Glendale and Pasadena and whether assessing DIFs in Burbank’s neighboring cities impacted planning and development.
3. Providing a profile of existing and proposed DIF assessments on medium- to high-density projects and provide an assessment of fees generated by medium- to high-density multi-family residential projects.

In response to the City Council’s request, staff conducted additional analysis to answer the three items requested above, and this information is provided in the remainder of this report.

DIFs and Community Benefits

DIFs like other City policies are only one piece of the larger puzzle that the City is reviewing to build neighborhoods while also ensuring that new development of all types pays its fair share of infrastructure costs. Under negotiated PD/DAs approved through a legislative act, the developer is not entitled to approvals so there is greater latitude to negotiate community benefits for the dramatic land use change to the proposed site. Attachment 3 compares recently approved major development projects and the DIFs and community benefits that each project has contributed to the City. These benefits have included multimillion dollar investments in new open space, long-term maintenance and development of facilities and public infrastructure, and developer funds for community improvements. These benefits are oftentimes infrastructure improvements in the immediate area of the project that results in public amenities that are available at the time the project is built and have several advantages. These PD/DA community benefits build and protect neighborhoods and do not require a nexus study. The public improvement can be funded wholly by the development and constructed up front as part of the construction of the new development, allowing the community to gain benefit from the improvements immediately. Also, community benefits through the PD/DA process are directly constructed by the developer, without using city staff resources, and is oftentimes maintained on a long-term basis, covering thousands of dollars-worth of expenses ineligible for DIF funding. Community benefits are generally negotiated as part of planned developments and development agreements (PD/DA) for large projects, but not by-right projects.

On the other hand, with code-compliant or by-right ministerial projects, the City is limited to adopted fees supported by nexus studies. With these projects, the City can only impose projects where there is a nexus and there is a proportionality to the fee. Therefore, for by-right ministerial projects, DIFs become the primary means to ensure that new development helps fund necessary infrastructure needed to support that development. In general, a combination of Conditions of Approvals and DIFs are both important tools that make the project contribute their “fair share” to mitigate impacts caused by their new development.

As requested by the City Council, Attachment 3 shows the DIFs paid by recent large development projects, along with the estimated cost of any negotiated community benefits paid or constructed as part of the project, which generally include additional infrastructure or capital improvements required by the project. As shown in the attachment, in some cases the cost of negotiated community benefits largely outweighs the cost of the DIFs, while in other cases DIFs outweigh the community benefits negotiated.

Current and New Burbank DIFs Compared to Glendale and Pasadena

When considering the appropriate DIF levels, the City Council should also consider how existing and future fee levels charged in Burbank compare to those of the City’s neighbors. As part of the first Study Session, the City Council requested information on how Burbank’s DIFs compare with those charged in Glendale and Pasadena. While each of the three cities (Burbank, Glendale, and Pasadena) charge DIFs on different land use types and collects funds for different infrastructure needs, a direct one-to-one comparison is not possible. However, a comparison can be informative in showing how Burbank's current fees and new maximum allowable fees are relative to neighboring cities (Table 3).

Table 3: Summary of Fees Charged by Land Use Type

Land Use Category	Burbank (Max Allowable)	Burbank (Existing)	Glendale (Existing)	Pasadena (Existing)
Single Family Residential (Per Unit)				
Capital Facilities	$5,316	$2,914	$21,828	$25,800
Transportation	$7,497	None	None	$9,550
Total	**$12,813**	**$2,914**	**$21,828**	**$35,350**
Multifamily Residential (Per Unit)				
Capital Facilities	$4,185	$2,156	$18,751	$20,201
Transportation	$3,332	None	None	$3,698
Total	**$7,517**	**$2,156**	**$18,751**	**$23,899**
Retail (Per Sq. Ft.)				
Capital Facilities	$3.19	$0.95	$6.50	None
Transportation	$20.19	$7.00	None	$11.57
Total	**$23.38**	**$7.95**	**$6.50**	**$11.57**
Office (Per Sq. Ft.)				
Capital Facilities	$5.26	$1.85	$7.92	None
Transportation	$8.70	$7.00	None	$8.71
Total	**$13.96**	**$8.85**	**$7.92**	**$8.71**
Industrial (Per Sq. Ft.)				
Capital Facilities	$3.19	$0.85	$3.24	None
Transportation	$3.02	$3.85	None	$1.20
Total	**$6.21**	**$4.70**	**$3.24**	**$1.20**

Pasadena's residential impact fees were created in 1988 to mitigate the impact of new residential developments on city parks and other public facilities. Because Pasadena set up their impact fee to fund park land acquisition along with park capital improvements (such as equipment, etc.), they can justify higher fee levels. For example, a 2020 nexus study found that land values in Pasadena (based on recent sales and appraisals of various properties) are $4.6 million per acre for parkland and $294,348 per acre of open space land. The study indicated that the city could adopt a park impact fee at a rate of $39,598 for a three-bedroom unit. Although, Pasadena chose not to increase their impact fees at that time based on the study.

Pasadena also added a transportation impact fee in 2006, which is used to implement the City's pedestrian, bicycle, and transit projects required to address traffic generated by new development. Aside from charging residential projects, the Pasadena transportation impact fee is more comparable to Burbank's current transportation DIF.

Glendale collects impact fees for park and library improvements. Like Pasadena, Glendale also set up their impact fee so that the DIF funds can be used for land acquisition, making their fee levels considerably higher than Burbank's. To encourage development in downtown, Glendale City Council initially set the rate below what was recommended by a consultant in 2007. But, with increased development, the City eventually adjusted their DIFs as the need to intensify demand diminished.

Based on the peer cities comparison, Burbank currently charges less Community Facilities DIFs on residential development than both Glendale and Pasadena. However, among the three cities, Burbank collects DIFs for a wider variety of community facilities infrastructure improvements than either cities. Only Burbank's comprehensive DIF fee program charges impact fees for Police, Fire, and IT improvements. Both Glendale and Pasadena collect DIF primarily only for adding new parks (Glendale also collects for Library improvements). And these DIFs are higher than Burbank's DIFs because Glendale and Pasadena include the cost of land acquisition for new parks in their impact fee levels. Burbank also collects Park DIFs but has chosen to add park capacity by making improvements to existing parks rather than buying and clearing property for new parks.

For transportation fees, Burbank and Pasadena both impose a transportation fee, while Glendale currently does not. Burbank and Pasadena's non-residential transportation fees are comparable; however, Burbank currently does not assess a transportation fee on residential projects. Given that adding housing in a jobs-rich city like Burbank can potentially improve traffic, there is a policy case for not charging transportation fees to residential projects. Nonetheless, the new DIFs include the option to impose a transportation fee on residential developments.

Existing and Proposed DIF Assessments on Hypothetical Projects

As part of the first Study Session, the City Council asked for information on the revenue collected under the City's current and proposed DIFs for a hypothetical low-, medium- and high-density residential project. Table 4 shows the total amount of existing and new DIFs that would be charged to these three types of housing projects and shows how the DIFs collected on a housing project grows linearly with the unit size of the project. Note that for the new DIFs, this hypothetical calculation shows the revenue received if the maximum allowable fee identified through the nexus study were to be adopted by the City Council. It is possible, however, that an amount less than the maximum amount may be chosen to address the policy criteria identified at the beginning of this report.

Table 4: Existing and Proposed DIF Assessments on Hypothetical Multi-Family Projects

Project Type	DIF Revenue Existing Fees	DIF Revenue New Max-Allowable Fees
Low-Density 4-Unit Project	$8,624	$30,068
Medium-Density 40-Unit Project	$86,240	$300,680
High-Density 400-Unit Project	$862,400	$3,006,800

FISCAL IMPACT

Maintaining a DIF program and updating the fees to reflect contemporary development patterns and infrastructure needs can have a positive fiscal impact to the City. DIFs provide a stream of funding to support capital improvements resulting from new development. When implemented carefully, they do not reduce the City's competitiveness to development relative to its neighboring cities; ensure other goals, like housing production, can also be met; and provide the opportunity to still gain community benefits through the PD/DA process. The cost to the City to maintain a DIF program is the staff time required to apply the fees upon building permit issuance, monitor the program to ensure appropriate collection and use, and manage the construction of capital projects once funds are collected. Many of these costs can simultaneously be paid for by the DIF funds through the administrative charge and by charging staff time for project development as a project cost.

CONCLUSION

The City's DIF program has helped fund important City infrastructure to accommodate growth from new development, which ultimately supports the City Council's efforts to build better neighborhoods that can integrate new development while preserving the City's existing character.

In considering updates to DIF fee levels, the City Council should also consider the three policy criteria:

- **Align** fee levels with City goals.
- **Balance** fees with building neighborhoods.
- **Facilitate** community benefits that build neighborhoods while not adversely impacting the financial feasibility of a project or result in the loss of future growth opportunities.

Following direction provided by the City Council, staff will proceed with the DIF program update and Ordinance for public review while incorporating policy direction and input received from Council. The City will ensure public outreach is conducted to both residents as well as the development community to communicate the proposed impact fee changes prior to consideration by the City Council.

ATTACHMENTS

Attachment 1 – Study Session #1 Agenda Packet (February 4, 2020)
Attachment 2 – Study Session #1 PowerPoint Presentation (February 4, 2020)
Attachment 3 – Major Development Projects Contributions

CITY OF BURBANK
Community Development Department
STAFF REPORT

DATE: February 4, 2020

TO: Justin Hess, City Manager

FROM: Patrick Prescott, Community Development Department
VIA: David Kriske, Asst. Community Development Director
BY: Beverly Wong, Senior Administrative Analyst

SUBJECT: Update on Development Impact Fee Nexus Study

RECOMMENDATION

1. Provide policy direction and input on the City's Development Impact Fee ordinance update; and
2. Direct staff to bring back a refined analysis of existing and proposed DIF levels, including case studies of recently-approved development projects, at a subsequent City Council meeting.

BACKGROUND

Under the California Mitigation Fee Act (AB 1600) cities and counties have the authority to implement development impact fees (DIF). DIFs allow cities to collect fees from new development projects to fund improvements that address those projects' impacts to the City's infrastructure. To impose DIFs, a jurisdiction must prepare a study showing that reasonable connection (nexus) exists between the impacts caused by new development and the capital improvements needed to address those impacts. This study must also calculate the proportional fee that can be assessed on each project that pays for that project's share of the impact.

The City of Burbank currently relies on DIFs to help partially fund various transportation and community facility improvements, and DIFs are one of many types of capital funding the City uses to expand its infrastructure. The City's DIFs were established in 1993 and are charged to new residential and non-residential development. They were established based on two studies:

- Infrastructure Blueprint for the Twenty-first Century (Infrastructure Blueprint) identified a list of transportation improvements needed to address transportation and traffic growth and
- Community Facilities Study identified Police, Fire, Library, and Parks infrastructure needed to support new development.

Both studies forecasted growth under the City's General Plan, identified necessary infrastructure improvements needed to accommodate that growth, and calculated the maximum proportional fee that could be charged to development projects so that each project paid its fair share of the cost to build the required improvements. Since that time, the City of Burbank has been implementing projects from the Infrastructure Blueprint and Community Facilities Study in response to new development. This has helped to ensure that the City's transportation system and community facilities grow to accommodate needs caused by new development.

While DIFs are an important revenue source for capital infrastructure, there are several limits and restrictions on how these fees are spent, which means that DIFs alone cannot finance the City's infrastructure needs. DIFs are considered restricted funds and are collected outside the City's general fund. They are only eligible to pay for the initial capital costs of new infrastructure specifically identified in the nexus study, and cannot be used for the operations or maintenance of that infrastructure. Additionally, DIF funds can only be used to address the proportional impact that new development has on infrastructure. They cannot be used to pay for an existing deficiency or shortfall in infrastructure spending. This means that the City must rely on other capital funding to build required improvements in combination with DIFs. Finally, impact fees are collected proportionally over time as new development occurs. This means that projects funded with DIFs are generally long-term projects that must be financed over time as development occurs and revenues are collected and set aside to construct improvements.

<u>Reporting Requirements</u>

State law and the City's municipal code require the City to produce an annual report on the status of each development impact fee account or fund. City Council reviewed the most recent FY 2018-2019 report at the December 17, 2019 meeting.

Additionally, every fifth year the City is required to make certain findings with respect to the funds collected for development impact fees. Pursuant to Burbank Municipal Code (BMC) Section 10-1-2210, if development fees are unexpended or uncommitted five (5) or more years after deposit in a development fee account, the City Council shall make findings once each fiscal year to identify the purpose to which the fee is to be put and to demonstrate a reasonable relationship between the fee and the purpose for which it was charged. At the next DIF study session, staff will satisfy this requirement and present a report to City Council to demonstrate the need for the unexpended funds and continued need to collect DIF. The City has continually collected and spent its DIF revenue on several major infrastructure projects that have been completed or are still underway. Since its inception, DIFs have contributed to the community through partially funding a variety of capital projects, including:

- Ovrom Park facilities,
- Central Library Children's and Teens' Areas,
- Buena Vista Library improvements,
- Library operating equipment,
- Police and Fire Headquarters,
- Intersection improvements,
- Interstate 5/Empire Interchange,
- Alameda North Neighborhood Protection Plan, and
- Burbank Channel Bikeway.

DIFs alone generally do not pay for capital projects. For several of the projects, DIFs provided the required "local match" to leverage and help the City secure grants and other funding assistance. As mentioned above, DIFs can only fund the portion attributable to new growth. Therefore, additional funding sources must be identified to pay for the portion attributable to existing deficiencies.

DISCUSSION

The City currently charges the Community Facility DIF on all development and Transportation DIF on non-residential development. The fees are assessed on each new square foot of commercial development constructed and on each new unit of residential development. The fees vary by type of development based on the relative level of impact development types have on the City's infrastructure. The City's current fees are based on the original nexus study used to justify the fee, and have risen each year based on a construction cost adjustment factor. The current fees are shown in Table 1.

Table 1: Fiscal Year 2019-2020 Development Impact Fees

Land Use	Community Facilities	Transportation
Single-Family Development (per unit)	$ 2,854.05	No Charge
Multi-Family Development (per unit)	$ 2,111.65	No Charge
Institutional (sq. ft.)	$ 0.45	$ 6.85
Office (sq. ft.)	$ 1.80	$ 5.60 - 6.85[1]
Studio (sq. ft.)	$ 1.80	$ 1.95 - 5.85[2]
Retail (sq. ft.)	$ 0.95	$ 6.85
Manufacturing/Warehouse (sq. ft.) [3]	$ 0.85	$ 3.75

<u>Impact Fee Update</u>

As discussed above, the City's current DIFs are based on studies completed in the 1990s. Since that time, several projects identified in the original study have been built, and impacts and development patterns have evolved. Thus, staff believes an important part of the impact fee update is to revise the list of infrastructure projects eligible for funding by DIFs, particularly to account for the City Council's desire to include more multi-modal bicycle, pedestrian, and transit projects in the City's capital improvement program. In addition, the City Council adopted the Burbank2035 General Plan in 2013 that changed the level of development expected over the next 20-25 years and also changed the types of infrastructure projects the City expects to build to address that development. Accordingly, the impact fee program should be updated to include the revised growth forecasts adopted with Burbank2035. Because of these changes, staff undertook a comprehensive update to the City's DIF program and reviewed the infrastructure needed by the City to support the growth forecasts in the General Plan.

<u>Nexus Study</u>

The City hired the consulting team of Economic Planning Systems (EPS), with Fehr and Peers providing the transportation component, to conduct a nexus study to update the City's DIF program. The nexus study (Attachment 1) was designed to provide the City with the necessary technical documentation to support an update to the DIF program. The analysis provided the nexus argument and associated fee calculations for the maximum fees the City can charge for the facilities indicated pursuant to AB 1600.

As part of the proposed updated DIF program, staff determined that the City's existing fee categories (Transportation, Police, Fire, Library, and Parks and Recreation) should be maintained, while proposing to add an Information Technology (IT) fee for citywide IT capital improvement needs. The IT fee analysis was included to account for City infrastructure advancements and the reliance on technology.

[1] Fee amount varies based on project gross floor area.
[2] Fee amount varies based on type of Studio use (i.e. Office, Technical, or Stage).
[3] Current fee schedule applies $0.85 per sq. ft. community facilities impact fee on industrial development and a $3.75 per sq. ft. transportation impact fee on warehouse and manufacturing development.

Because affordable housing production is an important City goal to address Burbank's high housing costs and severe imbalance between housing and jobs, work is currently underway to study an affordable housing DIF on non-residential development to determine if the City can charge a fee to support new affordable housing for the local workforce. Under this rationale, new non-residential development can be asked to share in the cost of providing affordable housing since the construction of the new development generates new jobs and some of the workers filling these jobs will have low- or moderate-incomes who need affordable housing options in Burbank. Staff will be returning to City Council at a future study session this year to present the Affordable Housing Linkage Fee Nexus Study findings.

Methodology

In general, each fee category used the following steps to calculate the nexus-supported maximum fee amounts:

1. Staff and consultants referred to the Burbank2035 General Plan, which is the blueprint for the future development of the City, to estimate existing and future population and employment;
2. Staff provided a list of their department's new capital improvements needed to serve both existing and future residents and employees during the General Plan horizon year;
3. Staff and consultants developed cost estimates for the projected capital needs;
4. Consultants allocated the costs between existing and new development to determine the DIF share;
5. Consultants distributed the costs further among residential and non-residential uses;
6. Consultants calculated cost per resident or employee. This calculation provides the maximum fee that can be justified by the nexus study;
7. Staff and consultants added a 5% administrative fee to cover the cost of administering the DIF fee program.

These steps provided the necessary technical analysis to support a fee update. It is important to note that the fees calculated by the study represent the *highest fee levels* that can be charged by the City based on the projected new development and the needs and corresponding costs of the capital facilities and improvements needed to accommodate it. The maximum fee may not necessarily be supportable by current building or development costs. Charging the maximum fee may also not necessarily support other important City goals or objectives, or it could reduce other community benefits received as part of the development process. The City Council may wish to adopt fees at or below these maximum nexus-supported levels based on economic, policy, or other considerations.

Maximum Allowable Fees

Based on the nexus study, the cost needed to fund Capital Facilities and equipment necessary to accommodate projected growth totaled approximately $38.5 million. Additionally, a projected $77.5 million in Transportation improvements is needed to accommodate projected future impacts supporting vehicle, transit, pedestrian, and bicycle modes as a result of new development. The analysis showed that DIF would cover about 30% of the total improvements identified by each department to serve the City through 2035. The City must find other revenue sources, such as grants or the General Fund, to cover the remaining costs.

Using the infrastructure cost attributable to new development and the projected growth assumed in the Burbank2035 General Plan, the nexus study determined the maximum per-square foot or per-unit fee that may be legally charged for each fee category. These maximum-permitted fees are shown in Table 2.

Table 2: 2020 Nexus Fee Study Update: Maximum Allowable Fees by Land Use Type

New Community Facilities Maximum Allowable Fees[4]

	Residential (per unit)		Non-Residential (per sq. ft. or room)				
Community Facilities DIF	**Single-Family**	**Multi-Family**	**Retail**	**Office/ Institutional**	**Studio**	**Warehouse/ Industrial**	**Lodging[5]**
Fire	$ 515.00	$ 405.00	$ 0.28	$ 0.47	$ 0.31	$ 0.28	$ 57.00
Police	$ 372.00	$ 293.00	$ 0.26	$ 0.44	$ 0.29	$ 0.26	$ 53.00
Parks	$ 2,265.00	$ 1,783.00	$ 1.61	$ 2.65	$ 1.76	$ 1.61	$ 321.00
Library	$ 1,751.00	$ 1,378.00	$ 0.74	$ 1.22	$ 0.81	$ 0.74	$ 148.00
IT (New)	$ 413.00	$ 325.00	$ 0.29	$ 0.48	$ 0.32	$ 0.29	$ 59.00
DIF Update Max Allowable	**$ 5,316.00**	**$ 4,184.00**	**$ 3.18**	**$ 5.26**	**$ 3.49**	**$ 3.18**	**$ 638.00**
Existing FY 19-20 Fee	**$ 2,854.05**	**$ 2,111.65**	**$ 0.95**	**$ 1.80**	**$ 1.80**	**$ 0.85**	**$ 475.00**

4 Fees include 5% administrative fee.

5 Hotel projects are currently charged the retail impact fee based on the total square feet of the hotel. The proposed separate new fee on hotels would be calculated on each hotel room instead. Staff derived an Existing FY 19-20 Lodging Fee for comparison purposes by converting the per-square-foot retail fee to a per-room fee assuming a 500 sq. ft. per room average.

Table 2: 2020 Nexus Fee Study Update: Maximum Allowable Fees by Land Use Type (continued)

New Transportation Maximum Allowable Fees[4]

	Residential (per unit)		Non-Residential (per sq. ft. or room)				
Transportation DIF	**Single-Family**	**Multi-Family**	**Retail**	**Office/ Institutional**	**Studio**	**Warehouse/ Industrial**	**Lodging[5]**
DIF Update Max Allowable	$ 7,497.00	$ 3,332.00	$ 20.19	$ 8.70	$ 6.55	$ 3.02	$ 4,543.00
Existing FY 19-20 Fee	None	None	$ 6.85	$5.60 - 6.85	$1.95 - 5.85	$ 3.75	$ 3,425.00

Setting Fee Levels

As discussed above, the nexus study calculates the maximum allowed fees that can be justified under nexus fee law, based on infrastructure needs, expected growth, and existing deficiencies. This represents the maximum legal fee that may be charged but does not take into account other considerations the City Council should keep in mind when setting fees. These considerations include:

- How could revenue from impact fees offset other one-time and recurring revenue generated from development?
- How would development impact fee levels encourage appropriate development for the City, such as commercial/office development versus housing?
- How do development impact fee levels relate to other important City Goals?

In setting an appropriate level of development impact fee, the City Council should carefully consider all of these variables to strike a balance between generating important revenue for needed infrastructure while at the same time supporting other City goals required to build and protect neighborhoods, such as the need to maintain a healthy local economy and maintain economic resiliency by providing a variety of different City revenue sources.

As shown in Tables 1 and 2, the updated maximum-allowable fees calculated by the new nexus study are, in some cases, dramatically higher than the current fees. For these land uses, imposing the maximum fee would have dramatic, and potentially catastrophic, effects on City goals and policies. Because setting new fees can be complex, staff recommends the City Council direct staff to return with specific case-studies to illustrate how different changes in fees could affect other goals, policies, and revenue sources, and how different fee levels compare to neighboring jurisdictions who have also recently updated their development impact fees.

The City Council recently approved two large development projects (the Avion Burbank commercial development and the 777 North Front Street residential / mixed-use development) that could serve as good examples for comparing how setting new development impact fee levels would affect development projects versus the current fee schedule. They also provide important examples of how fees imposed to construct capital infrastructure under DIF compare to other revenue sources and community benefits that are provided by new development projects (e.g., new open space, development and long-term maintenance of adjacent bike lanes and sidewalks, developer funds for neighborhood protection, public services, et cetera).

Comparison Analysis

When considering the appropriate DIF levels, the City Council should consider how fee levels charged in Burbank compare to those of the City's neighbors. Thus, the nexus study examined Pasadena and Glendale's DIF and compared them with Burbank's existing and Maximum Allowable fees (Table 3). While each of the three cities charges DIFs on different land use types and collects funds for different infrastructure needs, a direct one-to-one comparison is not possible. Nonetheless, examining the total fee levels charged by the three cities is instructive in showing how Burbank's current fees and new maximum allowable fees compare to neighboring cities.

Table 3: Fee Comparison to Glendale and Pasadena

Land Use Category	Burbank (Max Allowable)	Burbank (Existing)	Glendale (Existing)	Pasadena (Existing)
Single Family Residential (Per Unit)				
Capital Facilities	$5,316	$3,296	$21,828	$25,800
Transportation	$7,497	-	-	$9,228
Multifamily Residential (Per Unit)				
Capital Facilities	$4,185	$2,256	$18,751	$20,201
Transportation	$3,332	-	-	$3,573
Retail (Per Sq. Ft.)				
Capital Facilities	$3.19	$0.96	$6.50	-
Transportation	$20.19	$6.85	-	$11.18
Office (Per Sq. Ft.)				
Capital Facilities	$5.26	$1.79	$7.92	-
Transportation	$8.70	$6.85	-	$8.42
Industrial (Per Sq. Ft.)				
Capital Facilities	$3.19	$0.85	$3.24	-
Transportation	$3.02	$3.75	-	$1.17

Table 3 shows Burbank's existing fees, 2020 nexus study new maximum allowable fees, and peer-city fees for Transportation and Community Facilities. In reviewing the comparison table above, Burbank currently charges less Transportation and Community Facilities DIFs on residential development than both Glendale and Pasadena. Further, Burbank's new maximum allowable fee for residential development are still lower among the three cities. On the other hand, Burbank currently charges a comparable amount of DIF on non-residential development as compared to its neighbors, but could charge more than Glendale and Pasadena given the maximum fee identified in the new nexus study. This is mostly due to the higher transportation fee that could be justified given Burbank's status as a major jobs center and, consequently, the amount of commuter traffic that burdens Burbank streets.

Alternatives to DIF Funding

In considering DIF fee levels, the City Council should also consider other methods the City has to meet its infrastructure needs through new development. The most important alternative method the City has to fund new infrastructure is through the Planned Development/Development Agreement (PD/DA) process. When developers request PD/DA's for projects, they are asking for concessions to the City's zoning standards. In response, the City may ask for community benefits in exchange for those concessions, and those benefits are oftentimes infrastructure improvements in the immediate area of the project that results in publicly accessible amenities that are available at the time the project is built.

Infrastructure built as community benefits negotiated through the PD/DA process have several benefits over DIFs. First, community benefits can be funded wholly by the new development because the justification for the improvement is much broader through the PD/DA process versus the nexus required for impact fees. Consequently, the City often does not need to secure complementary funding to build improvements through a PD/DA process. Second, community benefits are constructed up front as part of the construction of the new development, allowing the community to gain benefit from the improvements immediately. As discussed above, projects funded with impact fees are long-term projects that must be planned over time as development occurs and revenue is collected. Third, community benefits through the PD/DA process are constructed by the developer usually using developer-sourced labor for design and construction. This reduces the burden on City staff to take on the capital project as a City improvement. Additionally, under the PD/DA, the developer oftentimes agrees to maintain the improvement on a long-term basis, covering thousands of dollars-worth of expenses ineligible for DIF funding.

Imposing higher DIFs reduces the ability for the City to seek community benefits through PD/DA's because the ability for a private development project to fund both DIFs and the community benefits is limited. If the City increases DIF, consequently, PD/DA community benefits requests will need to decrease or the project will become economically infeasible. Community benefits garnered through the PD/DA process have a greater potential to build better neighborhoods that are more immediately enjoyed by the public, so the imposition of DIFs must be considered thoughtfully so as not to preclude this other important method that the City has been successful in using to help build better neighborhoods.

Because DIF revenue is collected as development occurs, the funds take time to accumulate before sufficient funds are available to build the improvements. Furthermore, City improvements funded with DIFs are not guaranteed to occur because funds have to be collected over time and are directly related to the rate of development. Consequently, DIF revenue stream is unpredictable.

Considering these factors, the City needs to find a balance between providing an appropriate level of facilities/infrastructure to new residents and businesses consistent with Burbank's goals, while avoiding excessive costs on development that impact other City goals like building more housing with supporting public amenities. Community benefits that can be achieved through other means have the potential to act as an alternative to charging DIF that impose a heavy restriction on developments.

Next Steps

Given the complexity of setting new DIF rates and how new fee levels impact other policies and revenue streams, staff recommends that the City Council direct staff to return to the City Council with a more detailed analysis of different fee levels and their impacts on development projects, other funding sources, and current City policies. In particular, staff recommends the City Council consider the following DIF policies:

1. How should the City set DIF levels to account for other City goals and policies (including the City's fee cost recovery policy, 12,000 units housing goal, and Burbank2035 General Plan compliance)?
2. In charging DIF, how should the City balance different infrastructure needs (community facilities, transportation, affordable housing) while avoiding excessive fees that discourage new development?
3. How do DIF levels affect the City's efforts to facilitate other important development-related community benefits?

Based on the information in this report and direction from the City Council, it is staff's intent to return to the City Council with a more detailed analysis of different DIF levels, how those levels would relate to actual development projects through case studies (including Avion Burbank and 777 North Front Street development projects), and a comparison of the revenue expected to be raised through DIF to other revenues generated by development, such as transient occupancy taxes, community benefits, and other revenue. As part of this process, the City would ensure public outreach is conducted throughout the DIF update process to both residents as well as the development community to communicate the proposed impact fee changes prior to consideration by the City Council. Subsequent to the City Council's review of this future information, and if directed by the City Council, staff would return a third time with a specific ordinance amending the Burbank Municipal Code to update the DIF program for City Council adoption. Staff's goal would be to present this proposed ordinance by June 2020 for adoption before the start of the 2020-2021 Fiscal Year, pending City Council direction.

FISCAL IMPACT

Maintaining a DIF program and updating the fees to reflect contemporary development patterns and infrastructure needs can have a positive fiscal impact to the City. DIFs provide a stream of funding to support capital improvements resulting from new development. When implemented carefully, they do not reduce the City's competiveness to development relative to its neighboring cities; ensure other goals, like housing production, can also be met; and provide the opportunity to still gain community benefits through the PD/DA process. The cost to the City to maintain a DIF program is the staff time required to apply the fees upon building permit issuance, monitor the program to ensure appropriate collection and use, and manage the construction of capital projects once funds are collected. Many of these costs can simultaneously be paid for by the DIF funds through the administrative charge and by charging staff time for project development as a project cost.

CONCLUSION

Development impact fees allow the City to provide one way of offsetting the cost of funding capital and infrastructure projects needed to support new development. These funds are restricted and cannot be used for operations or maintenance or to address existing deficiencies. The City's DIFs were established over twenty years ago and created a funding source for Transportation facilities and community facilities including Parks and Recreation, Police, Library, and Fire. Since its inception, DIFs have helped fund significant capital and infrastructure projects. Over the past two decades, the types of development projects have changed along with the capital and infrastructure demands and costs associated with these projects or in support of these projects. Therefore, the City needs to update the DIFs now to reflect new infrastructure projects, include land use forecasts expected in the General Plan, and to account for other city goals and policies.

As previously stated, staff prepared a nexus study designed to provide the City with the necessary technical documentation to support an update to the DIF program and meets the procedural requirements that must be undertaken by the City pursuant to AB 1600. This entailed reviewing the infrastructure needed by the City to support projected growth of the Burbank2035 General Plan. The nexus study maintains the City's existing fee categories (Transportation, Police, Fire, Library, and Parks and Recreation) and proposes adding an IT fee to the community facilities category.

Based on the information presented, staff is seeking City Council direction and input to update the City's DIF program. It is important to take into account several factors including maintaining market competitiveness by taking into consideration our neighboring cities' fees, alternative methods the City has to meet its infrastructure needs to support new development (such as PD/DA's), and striking a balance between charging the appropriate DIF while avoiding excessive fee levels that deter development and prevent building neighborhoods.

ATTACHMENT

Attachment 1 – Burbank Development Impact Fee Nexus Study
Attachment 2 – Development Impact Fee Program Comparison Analysis Draft Memorandum