

Memorandum

TO: HONORABLE MAYOR &
CITY COUNCIL

FROM: Albert Balagso

SUBJECT: ADJUSTMENTS TO
PARKLAND FEES

DATE: 02-22-10

Approved

Date

3-2-10

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adoption of a resolution setting forth the new Schedule of Parkland Fees to reflect the 2008 Residential Land Value Study, with the exception of fees for North San Jose and Downtown to remain the same, to be effective on May 15, 2010.

OUTCOME

Acceptance of this memorandum and adoption of a new parkland fee resolution will enable the City to collect parkland fees that reflect the land values from the latest land value survey that was completed for the year 2008, with the exception of Downtown and North San José, which will continue to pay parkland fees based on the 2007 land value survey. The net effect of this resolution will result in six of the 14 zones remaining unchanged, six additional zones having a reduction in fees to reflect declining property values, and two zones with recommended increases immediately entering into deferral and therefore remaining unchanged.

Through the first half of the 2009-2010 fiscal year, the City has collected parkland fees for nine residential projects totaling \$140,150. This is far below normal. Deferring the implementation of fee increases for North San José and Downtown would provide an incentive to development activity. This deferral would be in effect until Staff receives the 2009 Residential Land Value Study and returns to Council to set the parkland fees based on the 2009 study.

BACKGROUND

The City of San José enacted the Parkland Dedication Ordinance (“PDO”)¹ in 1988 to help meet the demand for new neighborhoods and community parkland generated by the development of new residential subdivisions. The City’s PDO is consistent with the State’s Quimby Act

¹ San Jose Municipal Code Chapter 19.38

(Government Code Section 66477). In 1992, the City Council 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.

Under the PDO and PIO, housing developers are required to dedicate land, improve parkland, and/or pay a parkland fee in lieu of land dedication for neighborhood and community parks. The amount of land to be dedicated is three acres for every 1,000 new residents added to the City by the new housing development. The number of new residents depends on the number and type of dwelling residential units included in the development. The most recent available Federal census data, when available, is used to determine the number of residents per dwelling unit.

Parkland fees may be paid in-lieu of the land dedication requirement. The amount of fees to be paid in lieu of land dedication are established by resolution of the City Council and calculated based on the type of dwelling units and the land value per an annual land value study. For projects of 50 units or less, the City can only require the associated parkland fees from developers.

The Parkland Fee adjustment recommended in this memorandum is based on the 2008 Residential Land Value Study prepared by Diaz, Diaz & Boyd, Inc. a Real Property Valuation and Consultation Company. Key milestones in the process to annually adjust the fees based on land values include:

- In March 1998, the first report was completed for the study of residential land values in the City of San José and various identified neighborhood charged pursuant to the Park Impact Ordinance and Parkland Dedication Ordinance. This report incorporated the original 1997 study and has been updated annually since it was first completed.
- In January 2007, as part of a comprehensive update of the Park Impact and Parkland Dedication Ordinances, City Council directed that any future fee adjustments to the Schedule of Parkland Fees should be brought to the Parks and Recreation Commission (PRC) and Neighborhood Services and Education (NSE) Committee, and then to City Council on an annual basis.
- In December 2007 and September 2008, City Council approved a new Schedule of Parkland Fees to reflect the 2006 and 2007 Residential Land Value Studies (Resolution Nos. 74152 and 74608 respectively) pursuant to the PDO and PIO of the San José Municipal Code.

² San Jose Municipal Code Chapter 14.25

ANALYSIS

The 2008 Residential Land Value Study (2008 Study) prepared by Diaz, Diaz & Boyd, Inc. (Real Property Valuation and Consultation) was completed on August 31, 2009. The recently completed 2008 Residential Land Value Study indicates that 2008 land values range from a low of \$25.00 per square foot in Zone 3 (Evergreen) to a high of \$120.00 per square foot in Zone 9 (Downtown). A map showing Multiple Listing zones in San José is provided as Attachment A.

Land values in six of the 14 Multi-Listing zones in San José have gone down from last year: Zone 3 (Evergreen), Zone 4 (Alum Rock), Zone 5 (Berryessa), Zone 7 (Alviso), Zone 10 (Willow Glen) and Zone 14 (Cambrian). The decrease in land values ranged from a 7% decrease in Willow Glen to a 43% decrease in Alviso.

Typical land values in six zones remain unchanged from 2007: Zone 2 (Santa Teresa), Zone 8 (Santa Clara), Zone 11 (South San José), Zone 12 (Blossom Valley), Zone 13 (Almaden Valley) and Zone 15/18 (West San José).

The two zones that have gone up in value according to the study were Zone 7 (North San José) which went up in value by 14% (from \$70.00 per sq. ft in 2007 to \$80.00 per sq. ft. in 2008) and Zone 9 (Downtown) which went up in value by 71% (from \$70.00 per sq. ft in 2007 to \$120.00 per sq. ft. in 2008).

As indicated above, most changes were not significant. The exceptions are the significant increases in land value in Downtown San José, reflecting the high density sales in the area and the significant decrease (43%) in land value in Alviso.

Proposed Changes

City staff has developed the attached chart (Attachment B), which indicates the proposed fees be set at 100% of 2008 land values for all MLS zones, with the exception of North San José and Downtown/Central MLS, which will remain the same. Since these are the only two areas where land values have increased from last year and parkland fees would increase as well, staff recommends keeping the parkland fees for these two areas the same and allow developers in these areas to continue to pay the current fee based on the 2007 land value study until staff comes back to Council to adjust the parkland fees based on an updated land value study. (Current fees are shown as Attachment C.) It is anticipated that staff will be back to Council later this year to set the parkland fees based on the 2009 land value study effective on or about March 1, 2011.

There is a significant decrease in housing development throughout the City as a result of the continued economic downturn. The 2008 Residential Land Value Study indicated that builders have responded to the huge inventory of unsold homes by sharply cutting back on construction and that the National Association of Home Builders is projecting the construction of new homes and apartments to be the weakest performance since 1945. The National Association of Home Builders further reported that "the homebuilders' business outlook plunged to 14 on the housing

market index in October 2009, an all time low.” (NOTE: “Index readings higher than 50 indicate positive sentiment about the market.”) Increasing the parkland fees in North San José and Downtown areas would hamper the ability for builders to bounce back and resume construction activities in these two areas. The staff recommendation in this memorandum was also discussed as part of the proposed development incentives at the February 8, 2010 Economic Strategy Update City Council Study Session

Through December 31, 2009, the first half of Fiscal Year 2009-2010, the PRNS Department has collected parkland fees for nine residential projects totaling \$140,150. This is a significant decline from Fiscal Year 2008-2009 where 42 projects paid fees for a total of \$10.3 million. Of the fees collected so far in Fiscal Year 2009-2010, two were collected in the Central/Downtown Area and none were collected in the North San José Area. By keeping the fees at current values in these areas until we go back to Council to set the fees based on the 2009 land values, we could provide an incentive for construction activity.

Based on the 2008 Study, the proposed parkland fees associated with each housing type are as follows:

| | Low | High |
|-------------------------|------------|-------------|
| Single Family Detached | \$ 11,350 | \$ 31,750 |
| Single Family Attached | \$ 10,000 | \$ 27,950 |
| Multi- Family 2-4 Units | \$ 10,450 | \$ 29,300 |
| Multi Family 5+ Units | \$ 7,450 | \$ 20,850 |

The PRC, at its February 3, 2010 meeting, and the NSE, at its February 12, 2010 meeting, supported the recommendations in this memorandum.

State law requires the adoption of a fee or increase of a fee to be effective no sooner than 60 days following the final action by the City Council to adopt the fee, or to increase the fee. Therefore, if approved by City Council on March 16, 2010, staff is proposing that the Schedule of Parkland Fees set forth in Attachment B to go into effect on May 15, 2010. Any projects that: (1) have not fully paid parkland fees on or before May 14, 2010; or (2) have not entered into a fully executed parkland or turnkey parkland agreement on or before May 14, 2010; are subject to the Schedule of Parkland Fees set forth in Attachment B. City will not enter into a parkland or turnkey parkland agreement for purposes of payment of parkland lieu fees unless a discretionary permit authorizing a particular land use has been issued for the project or the project has an approved tentative or parcel map, whichever occurs first, that will allow City to calculate parkland fees based on Attachment B.

Fees for High-Rise Multi-Family Residential Projects located in the Downtown Core Area

There is no proposed adjustment to the parkland fees associated with High-Rise Multi-Family Residential Projects located in the Downtown Core Area as defined in Section 2 of Resolution No. 73587.

On January 9, 2007, the City Council adopted Resolution No. 73587 to establish a temporary program providing incentives for the development of high-rise multi-family residential projects located in Downtown Core Area east of Highway 87. Certain residential projects of 12 stories or more located in the specified area are eligible to pay a reduced fee of \$8,950 per high-rise unit until the temporary program automatically expires with the issuance of 2,500 building permits under the program. To date, approximately 873 high-rise multi-family residential units have been completed by four residential housing developments. These projects are listed below.

| Multi- Family Residential Projects in Downtown Core Area | | |
|---|---|---------------------|
| Project Name | Street Location | No. of Units |
| <u>Completed Projects</u> | | |
| Axis Condos | SW/c Carlisle & Notre Dame | 330 |
| The 88 Condos (Phase 1) | S/s E. San Fernando bet S. 2nd & S. 3rd | 206 |
| City Heights at Pellier Park | NW/c San Pedro & St. James predated | 124 |
| Mesa 360 Condos | NE/c Market & San Salvador | 213 |
| | Total | <u>873</u> |

Fees for Secondary Units (Granny Units)

Parkland fees for secondary units will be adjusted based on 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 (50%) of applicable fees for single-room occupancy (SRO) units.

EVALUATION AND FOLLOW-UP

As directed by City Council in January 2007, staff will continue to bring forward any future fee adjustments to the Schedule of Parkland Fees to the PRC and the NSE, and then to City Council on an annual basis.

POLICY ALTERNATIVES

Alternative #1: Adjust all fees to reflect the 2008 land values including Downtown and North San José.

Pros: Setting all parkland fees based on the 2008 land values will allow City to purchase parkland based on current market value to meet the standard of 3.0 acres per 1000 residents.

Cons: No incentive to spur construction activity in the Downtown and North San José areas is provided and slow construction activity is likely to continue.

Reason for Not Recommending: This alternative is not consistent with the City's goal to encourage construction activity.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

While this recommendation does not fit the above criteria, proposed fee adjustments were presented to the PRC at its February 3, 2010 meeting, and to the NSE at its February 12, 2010 meeting to provide opportunity for public input. These meetings were announced in the Local News section of the February 2 and February 14, 2010 San José Mercury News. In addition, staff sent an e-mail notification of these meetings to all stakeholders involved in the previous adjustments to these fees. This memorandum will be posted online for the March 16, 2010 Council Meeting. Additionally, the March 16, 2010 City Council meeting will be announced in the March 7 and March 14, 2010 San José Mercury News.

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the City Manager's Office, and the Department of Planning, Building and Code Enforcement.

FISCAL/POLICY ALIGNMENT

This recommendation is consistent with the Council-approved Budget Strategy Economic Recovery section in that it will spur construction spending in our local economy. It is consistent with the City's guiding principles for housing in that it will contribute towards providing housing opportunities to meet the needs of all economic segments of the community.

COST SUMMARY/IMPLICATIONS

Not Applicable

BUDGET REFERENCE

Not Applicable

CEQA

Not a project.



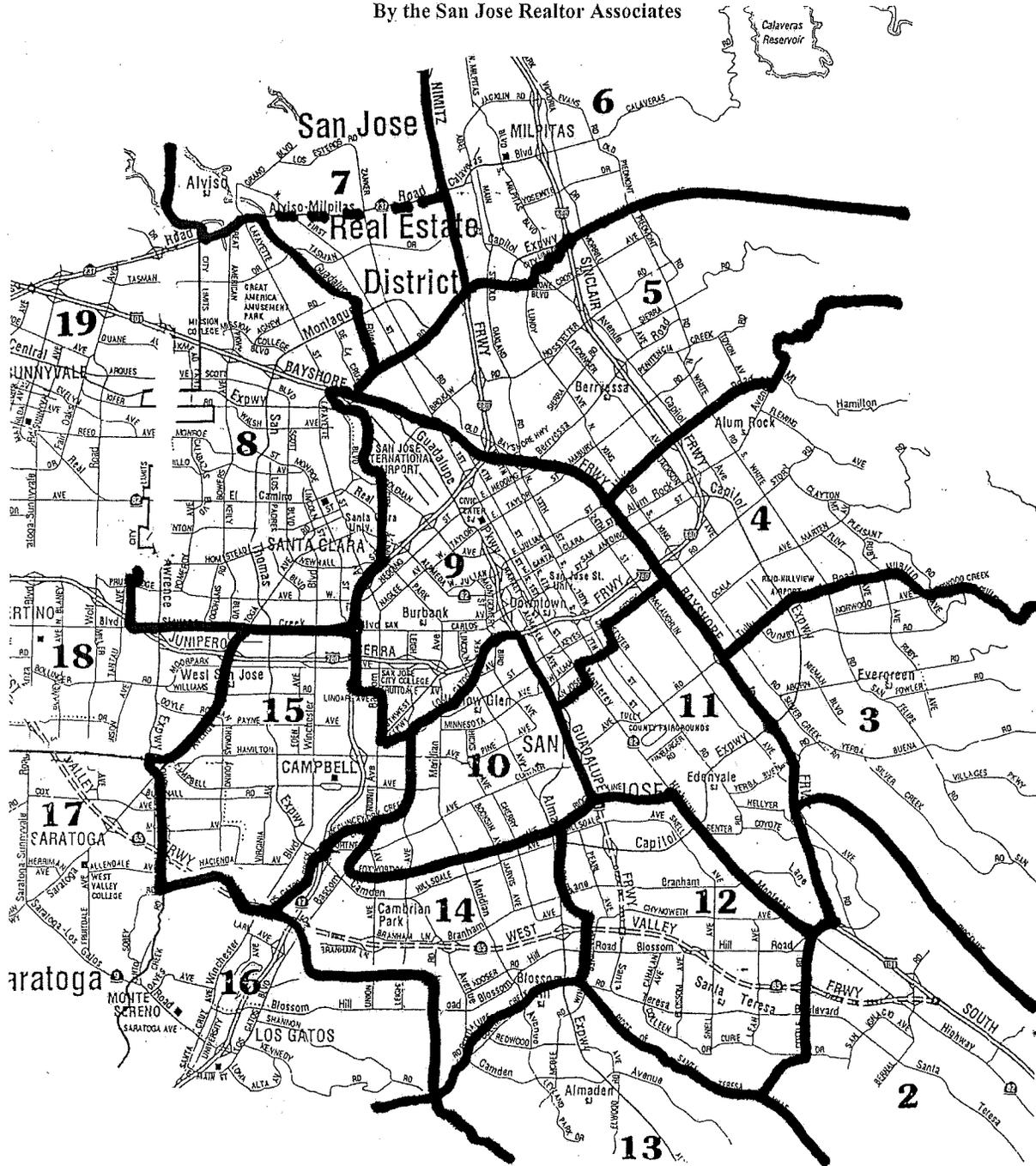
ALBERT BALAGSO
Director of Parks, Recreation and
Neighborhood Services

- Attachments: A) Multiply Listing Service Zones
B) Proposed Fees
C) Current Fees

For questions please contact Matt Cano, PRNS Capital Division Manager, at 408-535-3580.

ATTACHMENT A

Multiply Listings Service Zones
By the San Jose Realtor Associates



PDO – PIO MAP

- | | | |
|-----------------------|---------------------|---------------------|
| 2 – Santa Teresa | 3 – Evergreen | 4 – Alum Rock |
| 5 – Berryessa | 7 – Alviso | 7 – North San Jose |
| 9 – Downtown | 10 – Willow Glen | 11 – South San Jose |
| 12 – Blossom Valley | 13 – Almaden Valley | 14 – Cambrian |
| 15/18 – West San Jose | | |

Attachment B PROPOSED FEES

Set at 2008 Land Values for all MLS Zones except Zones 7 and 9 which are set at 2007 Land Values

| MLS ZONE | AREA COVERED | 100% OF COST/ SQUARE FOOT | 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** |
| <i>Number of Persons Per Unit- 2000 Census Data</i> | | | 3.50 | 3.06 | 3.23 | 2.29 | 1.00 | 0.50 |
| <i>Number of Dwelling Units to create 1 acre of Raw Parkland</i> | | | 96 | 109 | 104 | 146 | 336 | na |
| 2 | SANTA TERESA | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 3 | EVERGREEN | \$ 25.00 | \$ 11,350 | \$ 10,000 | \$ 10,450 | \$ 7,450 | \$ 3,250 | \$ 1,625 |
| 4 | ALUM ROCK | \$ 30.00 | \$ 13,600 | \$ 12,000 | \$ 12,550 | \$ 8,950 | \$ 3,900 | \$ 1,950 |
| 5 | BERRYESSA | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 7 | ALVISO (North of 237) | \$ 30.00 | \$ 13,600 | \$ 12,000 | \$ 12,550 | \$ 8,950 | \$ 3,900 | \$ 1,950 |
| 7 | NORTH SAN JOSE (So. of 237) | \$ 70.00 | \$ 31,750 | \$ 27,950 | \$ 29,300 | \$ 20,850 | \$ 9,050 | \$ 4,525 |
| 8 | SANTA CLARA | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 9 | DOWNTOWN | \$ 70.00 | \$ 31,750 | \$ 27,950 | \$ 29,300 | \$ 20,850 | \$ 9,050 | \$ 4,525 |
| 10 | WILLOW GLEN | \$ 70.00 | \$ 31,750 | \$ 27,950 | \$ 29,300 | \$ 20,850 | \$ 9,050 | \$ 4,525 |
| 11 | SOUTH SAN JOSE | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 12 | BLOSSOM VALLEY | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 13 | ALMADEN VALLEY | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 14 | CAMBRIAN | \$ 35.00 | \$ 15,850 | \$ 14,000 | \$ 14,650 | \$ 10,450 | \$ 4,550 | \$ 2,275 |
| 15 & 18 | WEST SAN JOSE | \$ 70.00 | \$ 31,750 | \$ 27,950 | \$ 29,300 | \$ 20,850 | \$ 9,050 | \$ 4,525 |
| 9- DC | Downtown Core- East of Highway 237 High Rise Projects 12+ Stories | | NA | NA | NA | \$ 8,950* | NA | NA |

* These fees are subject to provisions of Section 2 of Resolution No. 73587

** These fees are subject to Resolution No. 74314

ATTACHMENT C CURRENT FEES

FEES SET AT 100% OF 2007 LAND VALUES

| MLS ZONE | AREA COVERED | 100% OF COST/ SQUARE FOOT | FEE PER UNIT | | | | | |
|-----------------------------------|--|------------------------------|------------------------|------------------------|------------------|-----------------|------------------------------------|--|
| | | | SINGLE FAMILY DETACHED | SINGLE FAMILY ATTACHED | MULTI-FAMILY 2-4 | MULTI-FAMILY 5+ | SINGLE RESIDENTIAL OCCUPANCY (SRO) | SECONDARY RESIDENTIAL UNIT (Granny Unit)** |
| <i>Number of Persons Per Unit</i> | | | 3.50 | 3.06 | 3.23 | 2.29 | 1.00 | 0.50 |
| 2 | SANTA TERESA | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 3 | EVERGREEN | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 4 | ALUM ROCK | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 5 | BERRYESSA | \$40.00 | \$18,150 | \$16,000 | \$16,750 | \$11,900 | \$5,200 | \$2,600 |
| 7 | ALVISO | \$70.00 | \$31,750 | \$27,950 | \$29,300 | \$20,850 | \$9,050 | \$4,525 |
| 7 | NORTH SAN JOSE | \$70.00 | \$31,750 | \$27,950 | \$29,300 | \$20,850 | \$9,050 | \$4,525 |
| 8 | SANTA CLARA IN SJ | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 9 | DOWNTOWN | \$70.00 | \$31,750 | \$27,950 | \$29,300 | \$20,850 | \$9,050 | \$4,525 |
| 10 | WILLOW GLEN | \$75.00 | \$34,000 | \$29,950 | \$31,400 | \$22,350 | \$9,700 | \$4,850 |
| 11 | SOUTH SAN JOSE | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 12 | BLOSSOM VALLEY | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 13 | ALMADEN VALLEY | \$35.00 | \$15,850 | \$14,000 | \$14,650 | \$10,450 | \$4,550 | \$2,275 |
| 14 | CAMBRIAN | \$40.00 | \$18,150 | \$16,000 | \$16,750 | \$11,900 | \$5,200 | \$2,600 |
| 15&18 | WEST SAN JOSE | \$70.00 | \$31,750 | \$27,950 | \$29,300 | \$20,850 | \$9,050 | \$4,525 |
| 9-DC* | Downtown Core -East of Hwy 87 High Rise Projects 12+ Stories | | na | na | na | \$8,950 | na | na |

*These fees are subject to provisions of Section 2 of Resolution No. 73587- Fees set at \$8,950 per High Rise Unit.

**These fees are subject to Resolution No. 74314- Fees set at 50% of SRO Unit