



## **CITY OF SALINAS COUNCIL STAFF REPORT**

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**DATE:** JULY 2, 2019

**DEPARTMENT:** PUBLIC WORKS DEPARTMENT

**FROM:** DAVID JACOBS, PUBLIC WORKS DIRECTOR

**TITLE:** ANNUAL INDEX ADJUSTMENT TO THE CITY TRAFFIC  
IMPACT FEE

**RECOMMENDED MOTION:**

A motion to approve a Resolution approving an annual adjustment to the Salinas Traffic Impact Fee.

**RECOMMENDATION:**

Staff recommends approving the annual index adjustment to the Traffic Impact Fee in support of the City's Traffic Fee Ordinance (TFO) and Traffic Improvement Program for the provision of future city infrastructure, with said adjustment to take effect immediately.

**EXECUTIVE SUMMARY:**

The City's Ordinance calls for an annual adjustment of the traffic impact fee, which helps implement the City's program for providing street infrastructure in support of future development. On April 2, 2019, the City Council rejected a 3% index adjustment of traffic impact fee and requested staff return the item with responses to Council's questions on traffic fees.

**BACKGROUND:**

The City's Traffic Improvement Program is the plan for providing a transportation network needed to meet the needs of the City as the city builds out as envisioned by the General Plan. The traffic analysis for the General Plan was the basis for the listing of projects in the Transportation Improvement Program. Attached is the map from the Traffic Improvement Program that identifies the new transportation network that is needed when the city is built out. The map enumerates the network projects—transportation infrastructure improvements that include new streets, widening of existing streets, and other improvements that will add required capacity to the city's roadways. Also attached is Table 6.2 from the Traffic Improvement Program that shows the breakdown of estimated costs of these projects in 2002 dollars. For most of this report, staff will continue to use 2002 dollars in discussion of the fee program for simplicity of presentation. Current costs can be estimated using the Engineering News Record (ENR). The total cost of the 76 projects in the Traffic Improvement Program is \$461,136,000.

The Traffic Improvement Program meets the following policies of the General Plan:

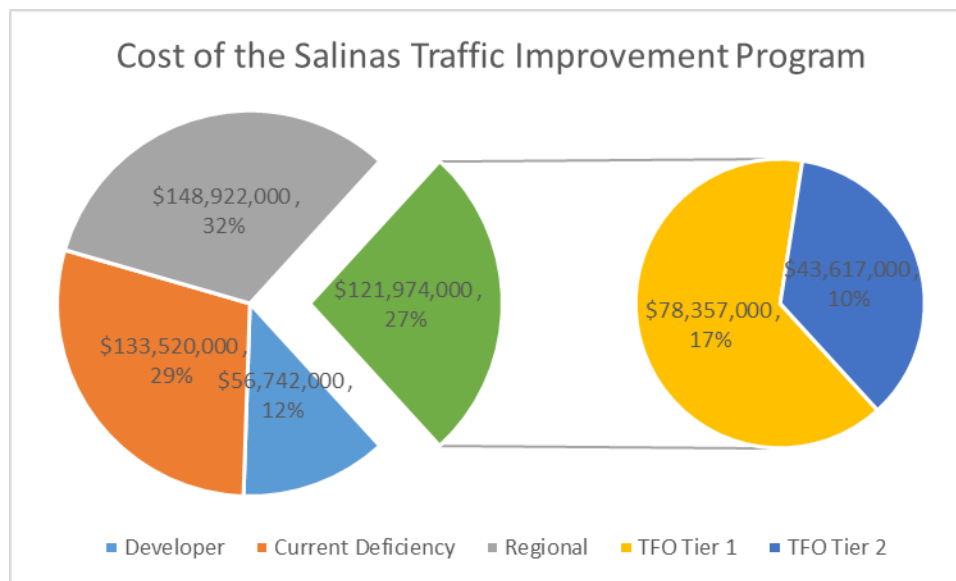
**Policy C-1.3.** *Require that new development and any proposal for an amendment to the Land Use Element of the General Plan demonstrate that the traffic service levels meeting established General Plan standards will be maintained on arterial and collector streets.*

**Policy C-2.8.** *Pursue a variety of funding sources to implement circulation system improvements.*

The work to update the Traffic Improvement Program in 2005 met the **Implementation Plan Goal C-9-Identify available funding sources and establish a financing plan to guide construction and funding of transportation system improvements. Require new development projects to construct and/or fund in whole or in part necessary traffic improvements associated with the proposed project. Transportation improvements should include both automotive as well as alternative means of transportation.**

#### Financing the Future Traffic Network.

As mentioned, the 2002 cost of the total TIP is \$461 million. The City, in approving the General Plan, required a financing strategy to satisfy traffic impacts identified. Thirty-two percent (~\$149M) of the total cost is assumed to come from regional, State or Federal funding sources for portions of the needed improvements on County roads, State (SR 68 & 183) and federal highways (US 101). The remaining costs will be provided by future development, the City and the Traffic Impact Fees.



Traffic fees are collected from development projects that add new trips to the transportation system in accordance with the Ordinance. The City started collecting traffic impact fees in 1987 with the establishment of the Traffic Fee Ordinance. The fee program was updated in 2005 to meet the General Plan California Environmental Quality Act (CEQA) requirements. The update include a two-tier fee which was requested by stakeholders. The program update process included

consultation with the Chamber of Commerce, the Salinas Builder's Association, and developers. The 2005 update was supported by stakeholders because there was an understanding that having a fee program helps development with mitigating impacts and assessment of the costs of development in Salinas.

The work with stakeholders provided features of the fee program that provides added value to development:

1. Two-Tier Zones. Encourages infill development with lower rates for the citywide zones.
2. Downtown Trip generation rates that are lower for downtown land uses. Encourages infill development.
3. Added pass by trip reductions to trip table. Provided lower trip rates.
4. Installment Plan to pay fees.
5. Trip Credits for 20 years for land uses in existence in the year 2000 and after. Provided a broad time frame for trip credits from previous land uses.
6. Allows development to conduct traffic study if a lower trip rate can be justified.
7. Allows development to construct program improvements and receive trip credits against fees.

The City Traffic Fee program was updated again in 2010 to include the anticipated traffic impacts for the Salinas Ag Industrial Center development. Two other minor updates were made for traffic impacts related to the Gateway Development project and the Northridge Mall Expansion. Other than these updates, an annual update of fees based on an index is made periodically to account for inflation.

The basis of the Traffic Improvement Program and the TFO program on the general plan's projected growth is important to note. The improvements do not need to be built if the projected development does not happen. Consequently, fees are not collected unless new trips are added to the transportation system. It is also important to understand that traffic impact fees collected can only be used on the projects in the Traffic Improvement Program.

The Traffic Improvement Program and Traffic Fee Program are tools not only needed to satisfy the city's sustainability and transportation goals, but these tools also help enable new development to mitigate traffic impacts of new traffic in the City.

#### Annual Index Adjustment

The Traffic Fee Ordinance is codified in Article V-B of the Salinas Municipal Code. Section 9-50.79 of the City code anticipates an annual adjustment of the program to keep up with costs:

#### ***Sec. 9-50.79. - Fees—Indexing.***

- (a) *The fee levels established by Section 9-50.77 shall be adjusted annually in accordance with the procedures set forth in Section 9-42 of this Code.*

- (b) The fees established by Section 9-50.77 of this chapter may be revised periodically by the city council to reflect changes in traffic and project needs.*

***Sec. 9-42. - Indexing.***

*(a) The fee levels established by Section 9-41 shall be reviewed on July 1 of each year. The fees levels shall be compared to the Engineering News Record (ENR) Construction Cost Index.*

*(b) The development impact fee levels may be changed in accordance with the percentage change in the ENR index from January 1 to January 1 of each preceding year, but in no case shall the indexing increase or decrease in development impact fees allowed by this section fee exceed that shown in the ENR index.*

*(c) When calculating the fee level to be charged for the coming fiscal year, increments of less than one dollar shall be rounded to the nearest dollar.*

*(d) Before June 1 of each year, the director of public works shall prepare a report to the city council containing the calculations required by this section. If any index adjustments and fee changes are appropriate, the same shall be adopted by resolution of the city council to be effective the following July 1.*

The annual update of fees is necessary to keep up with the rising costs of construction. If these adjustments are not made then the City will be collecting less than what is required for the infrastructure that supports growth. When buildout happens, the City is obliged to construct these projects in the program. Failing to collect enough fees for the program will mean the City will have to use existing sources of street funds to provide the needed roadways. There are also the legal requirements of CEQA regarding these mitigating improvements for growth. If the City is not collecting enough for the mitigating infrastructure, then the City will not be able to meet its CEQA requirements for the growth the City wants to see happen.

**ENR Index**

The Engineering News Record index, similar to the Consumer Price Index, is a collection of costs tracked that estimates construction costs and is an industry measure for inflation. The City has been annually updating the traffic impact fee to ensure that the City is collecting enough fees to fund the Traffic Improvement Program projects. Council had questions regarding the use of the ENR 20-city index instead of a local index. For local comparisons, the San Francisco ENR index is sometimes used to show what construction costs are in California. However, the general index from 20 cities is recognized to provide a smoother curve since it takes into account other areas and more elements. A local index such as the San Francisco index is prone to reflect limited factors influencing costs relative to the area and using these to monitor change in costs may have wider fluctuations.

Staff recommended a 3% index adjustment based on the annual average of the 20-city ENR index to be effective by July 1, 2019. Staff continues to recommend approval of the annual rate adjustment for the reasons mentioned, namely

- 1) The adjustment is recommended by City policies and the city code;
- 2) The adjustment allows the City's fee program to keep up with cost of improvements that the city needs to deliver;
- 3) The adjustment helps prevent the use of other city funds to provide mitigation; and
- 4) The recommended adjustment keeps the City traffic mitigation program effective with regard to CEQA.

Council wanted to understand what the 3% adjustment would look like for development projects. The following table shows a variety of land uses and the costs for comparison should the annual adjustment be approved. Please note that the City's fee program has a two-tier rate, a citywide rate for development within the city limits in 2002 and a future growth area rate for development anticipated outside of the 2002 city limits.

Traffic Impact Fees		Existing Rates		Proposed Rate Update - ENR (3%)	
	Trip Rate	City Wide /Trip	Future Growth/Trip	City Wide /Trip	Future Growth/Trip
		\$ 379	\$ 548	390	564
Residential (fees per house/apt)					
Single Family (Detached)/DU	10	\$ 3,790	\$ 5,480	\$ 3,900	\$ 5,640
Mutli-Family (attached)/DU	7	\$ 2,653	\$ 3,836	\$ 2,730	\$ 3,948
Non-residential (fees per 1,000 square feet)					
Commercial (supermarket)/KSF	51	\$ 19,329	\$ 27,948	\$ 19,890	\$ 28,764
Industrial Park/KSF	7	\$ 2,653	\$ 3,836	\$ 2,730	\$ 3,948
General Office/KSF	11	\$ 4,169	\$ 6,028	\$ 4,290	\$ 6,204

Note that the Non-residential uses reflect traffic fees calculated per 1,000 square feet of development. These would have to be multiplied by the actual area of development. Also note that the fee is paying for trips in the network, which is how the fee relates to roads.

A 5,000 square foot new office building would therefore pay \$18,400 (\$4290 x 5) in traffic impact fees if built on land where there had not been a previous use. If the same office is built where a bank once stood (existing bank in the year 2000), then there would be no fees to be paid because the office would get credits for the greater number of trips associated with a bank. On the other hand, the same office constructed where a previous use was a warehouse would generate twice the number of trips and would therefore pay \$9,200 for the net new trips because it would get credit for existing trips in the network generated by the former warehouse.

Following the same index adjustment on the Traffic Improvement Program, the table below shows the estimated costs of improvements using the ENR. The last column shows the effect of holding the fee program without the annual adjustment through General Plan buildout assuming no inflation after 2019.

		2002	2018	Est 2018	Proposed 2019	Deficiency
Total Program		\$ 461,136,000	69%	\$ 780,221,234.63	\$ 803,627,871.67	
TFO Portion		\$ 121,974,000	69%	\$ 206,374,485.78	\$ 212,565,720.35	\$ 6,191,234.57
FY 2018-19 Estimated				\$ 620,701.25	\$ 639,322.29	\$ 18,621.04

The calculations show a \$6.2 Million estimated funding need that need to be backfilled with other city funds. The last row is an estimate of the city's obligation to fund improvements (\$18,621) based on actual fees collected this past fiscal year through February 2019 (\$620,701).

### Updating the TFO

The Council requested staff to return with cost and schedule estimates to update the TFO. Staff estimates the cost to be \$780,000 to update the fee program and this would take 2-3 years which includes meetings with the community and stakeholders. The scope of the update includes updating cost estimates of projects in the fee program, re-evaluate the nexus analysis, confirming the city growth assumptions, addressing concerns of fee distribution of the two-tier fee and potentially develop new incentive zones for infill development.

Staff recommends updating the TFO with the General Plan (GPU) update since there will be new considerations for growth anticipated. Furthermore, new metrics may be required for assessing transportation related impacts. Updating the fee program today as the City considers the General Plan update, will necessitate another update of the fee program after the GPU.

### CEQA CONSIDERATION:

**Not a Project.** City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA).

### STRATEGIC PLAN INITIATIVE:

The Salinas Traffic Improvement Program and Traffic Fee Ordinance serve as a financing tool to ensure adequate infrastructure is provided to serve residents, businesses and visitors to the City and good transportation systems help promote new development. The City's program also provides a measure of sustainability for systems the City will need. These programs help implement the Council's goal of Excellent Infrastructure and supports the economic development needs of the City and interested businesses who wish to locate to our City.

### DEPARTMENTAL COORDINATION:

Public Works staff has consulted with other City Departments to develop the recommendation for development impact fees, including Administration, Finance, and Legal. In addition, the City's traffic fee program was presented to the City Council Finance Committee.

#### FISCAL AND SUSTAINABILITY IMPACT:

Increasing the fee commensurate with the ENR index only allows revenue to keep pace with construction cost inflation to not impact the General Fund. Review/update of the City's Traffic Fee Ordinance (TFO) Program will occur concurrent with the next General Plan update, if not sooner.

#### ATTACHMENTS:

Resolution

Traffic Improvement Map and Cost Estimates

Trip Generation Rates