

**CITY COUNCIL**

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Reso No. \_\_\_\_\_ File No. \_\_\_\_\_

Ord No. \_\_\_\_\_

**Agenda Item No.:** \_\_\_\_\_

**Date:** March 5, 2008

**TO:** Honorable Mayor and Members of the City Council  
**FROM:** Edward Domingue, Acting Director of Public Works  
**SUBJECT:** REGIONAL TRANSPORTATION CONGESTION IMPROVEMENT PROGRAM (RTCIP)  
IMPACT FEE NEXUS STUDY AND REVISED TRAFFIC IMPACT FEE SCHEDULE

RECOMMENDATION:

It is requested that City Council adopt Resolution No. R2008-10:

1. Adopting a revised traffic impact fee schedule adjusted for inflation from 1997 to present; and,
2. Approving the City of Escondido's participation in the RTCIP program administered by SANDAG as part of the San Diego Transportation Improvement Program Ordinance and Expenditure Plan (SDCRTC Ordinance 04-01) more commonly known as the Transnet Extension Ordinance approved by County of San Diego voters in November of 2004.

FISCAL ANALYSIS:

A review of the last seven fiscal years shows that traffic impact fees collected annually by the City ranged from \$171,000 to \$952,000 with an average of \$599,000 over the seven year period. The wide variation relates directly to building permit activity from year to year. These annual amounts do not include the value of several major roadway improvement projects undertaken pursuant to development agreements over this period.

Participation in SANDAG's RTCIP program is a prerequisite to the City's continued collection of Transnet funds when the Transnet Extension Ordinance becomes effective on July 1, 2008. The City's share of Transnet revenues for FY 2008/2009 and FY 2009/2010 are forecast as \$3,022,000 and \$3,154,000, respectively, by SANDAG staff. These annual amounts are expected to gradually increase over the 40-year life of the extended Transnet Ordinance. The first five years of the extended Transnet Ordinance is forecast to provide over \$16 million of Transnet funds directly to Escondido for street CIP and maintenance projects. Failure to participate in the RTCIP program will cause our community to lose this entitlement.

### PREVIOUS ACTION:

The City currently collects a traffic impact fee of \$1693 per single family dwelling unit (SFD) with a surcharge of \$500 per SFD in the General Plan Tier II and Tier III areas. This fee structure is based on a comprehensive nexus study conducted by City staff and approved by City Council as part of the adoption of City-wide Quality of Life standards in October of 1997.

### BACKGROUND:

The original Transnet program, approved by San Diego area voters in 1987, was a 20-year program which expires in July of 2008. Recognizing the value of the original Transnet ½ cent sales tax measure, and the support for regional transportation projects that it provided, SANDAG undertook to seek an extension of the sales tax measure to become effective on July 1, 2008. This was achieved by a public election in November of 2004.

### Transnet Extension Ordinance

SANDAG conducted a very sophisticated and thorough process to ascertain the opinions of the likely voters in the 2004 election and structured the Transnet Extension Ordinance to attract and appeal to as many voters as possible. A two-thirds majority was needed to enact the measure, so broad popular support and limited opposition was critical to a successful election. Consequently, in order to ensure the two-thirds voter threshold could be met and, so that stakeholders and other interested parties would endorse and publicly support the proposed extension, the Extension Ordinance was far more complex than the original measure approved in 1987. As a result, the new measure contains many new provisions related to environmental mitigation, expanded public transit, bicycle/pedestrian programs, a taxpayer oversight committee, smart growth programs, and other provisions not included in the original 1987 measure. Among these new provisions is the Regional Transportation Congestion Improvement Program (RTCIP), Section 9 of SDCRTC Ordinance 04-01, related to new development exactions. The RTCIP program was designed to address concerns of voters who feared that the extension ordinance would merely become a bailout for new development projects and who desired some provisions in the extension ordinance which ensured that new development would continue to pay a fair share toward the expansion of the regional transportation system.

SANDAG does not have authority to directly charge development exactions like traffic impact fees to new development projects in the region. However, the 18 Cities and the County of San Diego, who make up the regional body, do have that ability through local agency land use regulations. These same 18 Cities and County also operate, maintain, and develop the Regional Arterial System (RAS), a network of major arterial roadways formally adopted and recognized by SANDAG as major roadway segments critical to regional circulation supplementing the Federal Interstate and State Highway systems. The RAS network is a formal part of the 2030 Regional Transportation Plan (RTP) as

adopted by SANDAG. Figure 6.6 of the RTP, a map showing the region-wide RAS system, is attached for reference. Also enclosed is a more detailed map showing the RAS system and its relationship with the City's Circulation Element.

Consequently, the RTCIP program targeted local agencies and the RAS system to make the desired commitment of development fees supporting regional transportation a part of the Transnet Extension Ordinance. A preliminary estimate of the RTCIP fee of \$2,000 per SFD, to be enacted by each local agency in the San Diego area, was written into the Transnet Extension Ordinance as it was presented to voters in 2004. The RTCIP traffic fees collected by each local agency must be expended on some segment of the RAS system. These fees cannot be used to improve some other portion of the local agency's street system. Any local agency that does not participate in the RTCIP program at this minimum level is not eligible for their local agency share of Transnet funds after July 1, 2008.

#### SANDAG Nexus Study

To legally collect a developer exaction like the RTCIP traffic fee, a local agency must prepare and approve a nexus study establishing a reasonable basis for the fee. The essence of a nexus study is to establish the developer fee or exaction based on reasonable estimates of impacts from new development and the fair share cost to improve the impacted public facility. Most local agencies, including Escondido, already collect a traffic impact fee similar to the RTCIP program. To do so, each agency must have prepared and approved a nexus study in the past to be able to collect the exactions currently in place. Some local agencies do not have a similar fee program; or, have a program that does not collect the minimum of \$2,000 per SFD required by the RTCIP program. To ensure that all local agencies are able to participate in the RTCIP program, SANDAG committed to prepare a region-wide nexus study for the RAS system suitable for adoption by each local agency. Each agency can either rely on its own nexus study that allows the agency to collect the required RTCIP fees; or, can adopt the region-wide study prepared by SANDAG to facilitate the RTCIP program.

SANDAG's RTCIP Impact Fee Nexus Study was completed in November of 2007. It is a region-wide nexus study covering all RAS roadway segments and all local agencies in the San Diego region. The November 2007 Nexus Study concludes that each new single family dwelling in the region could be assessed up to \$3,552 for participation in the improvement of the RAS system. This result is based on a fee calculated to be \$320 per trip and a single family unit trip rate of 11.10 daily trips per SFD. The November 2007 Nexus Study concluded that the required RTCIP fee of \$2,000 per dwelling unit was justified since it was well below the calculated fair share of \$3,552 per SFD. In short, by adopting the SANDAG Nexus Study, a local agency can collect a fee of up to \$3,552 per SFD but must collect a fee of \$2,000 per SFD to comply with the RTCIP required minimum. The required RTCIP fee of \$2,000 per SFD would be adjusted annually for inflation using an appropriate construction cost index.

Fees for non-residential land uses are also computed in the SANDAG Nexus Study but collection of non-residential fees by local agencies are not mandatory to remain in compliance with the RTCIP program. The computed non-residential fees for industrial, commercial, and office/services are \$2,519, \$2,704, and \$6,002 per 1,000 square feet of new building area, respectively.

### Traffic Impact Fees in Escondido

Traffic impact fees were first enacted in Escondido in the late 1970's or early 1980's and have been revisited by City Council on a number of occasions up to October of 1997. In 1997, the City of Escondido rigorously studied all of the Quality of Life Standards of the General Plan and established a fee structure to address future needs for each type of public facility. This comprehensive review included all Circulation Element streets in our community.

The future cost to improve the entire classified street system was estimated in 1997 dollars by analyzing each roadway segment. Street widening, median improvements, right-of-way costs, bridge structures, and traffic signals were all accounted for in the study. The portion of this future improvement cost associated with new development was identified and system-wide trips associated with existing versus new development were calculated. This effort formed the basis of our nexus study and resulted in a traffic impact fee of \$169 per trip. Since a trip generation rate of 10 trips per SFD was used in the study, our traffic fee for each new dwelling unit became \$1,690 per SFD. Other land use types were assessed at the same \$169 per trip using an appropriate trip generation rate for each land use. Consistent with past City Council traffic impact fee policies, the non-residential land uses were assessed at 25% of the computed rate recognizing the job creation and sales tax benefits that accrue from commercial and industrial developments. Non-residential uses therefore were assessed a fee of \$42 per trip applied to an appropriate trip generation rate for each non-residential land use.

The City's General Plan divides the community into three tier areas. Tier I is the older central portion of town where the street system is largely complete. Tiers II and Tier III are the outer areas with significantly greater needs for future circulation improvements. A map showing the three tier areas is attached for reference. Since most of the street deficiencies in 1997 were in Tier II and Tier III areas, a surcharge of \$50 per trip (\$500 per SFD) was assessed in these areas to advance construction of the most critical roadway segments. The traffic impact fee was then set at \$2,193 (\$1,693 base fee plus \$500 surcharge) for each SFD in the Tier II and Tier III areas. Other residential land uses in the Tier II and Tier III areas were similarly treated with a prorated surcharge based on \$50 per trip. Non-residential land uses were subject to a surcharge of \$12.50 per trip, 25% of the residential rate. A complete copy of the City-wide traffic fee structure, as developed in 1997 and still in place today, is attached for reference.

The current fee structure satisfies the RTCIP program for the Tier II and Tier III areas but is inadequate in the Tier I area. Some adjustment of the fee structure to reach the RTCIP required minimum of \$ 2,000 per SFD will be required in the Tier I area to continue to receive Escondido's share of local Transnet funds.

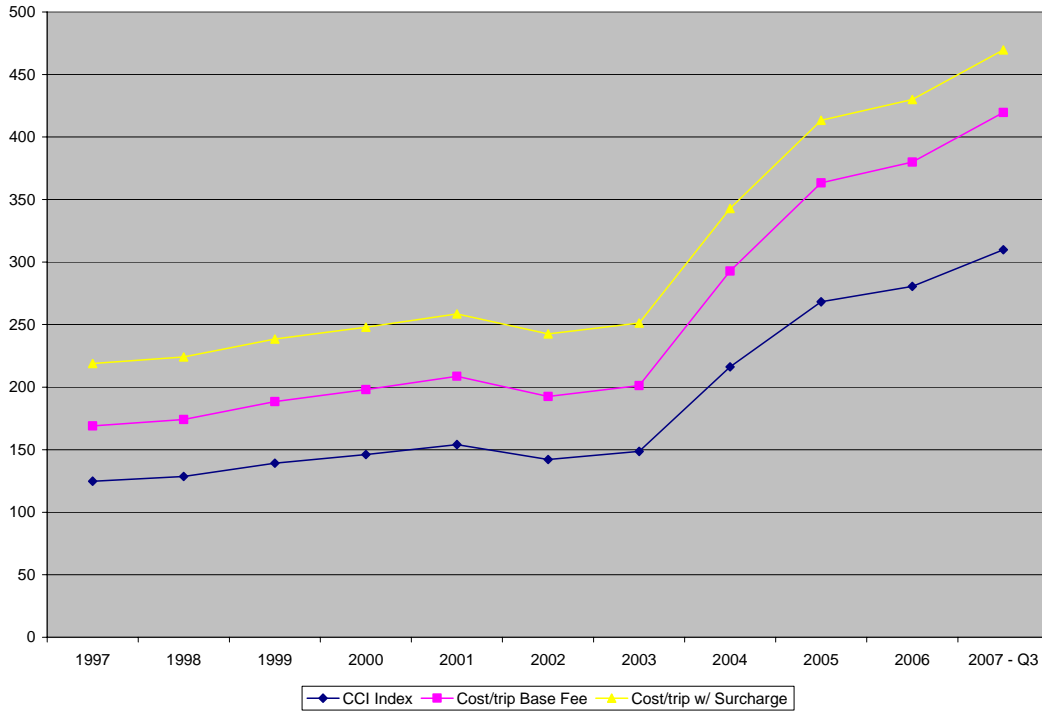
Inflation of Construction Costs

With the passage of time, construction costs have increased considerably since 1997. The fee structure in place now, as developed in 1997, will no longer generate sufficient revenues to pay for the construction of the improvements upon which they were based. The fee structure has been static for ten years while construction costs have increased steadily.

Adjustments for years of inflation are commonly made through the application of a closely related index. Caltrans maintains a road and highway construction cost index, known as the California Construction Cost Index (CCI). The CCI dates back to 1972 and is updated quarterly by Caltrans based on roadway construction costs throughout the State of California. This is the index that SANDAG will most likely use when the RTCIP minimum fee of \$2,000 per SFD is annually updated. The CCI index applied to the City's base fee, and \$50/trip surcharge, is shown in the table below:

Year	CCI Index	Cost/trip Base Fee	Cost/trip w/ Surcharge
1997	124.8	\$169	\$219
1998	128.6	\$174	\$224
1999	139.2	\$189	\$239
2000	146.2	\$198	\$248
2001	154.1	\$209	\$259
2002	142.2	\$193	\$243
2003	148.6	\$201	\$251
2004	216.2	\$293	\$343
2005	268.3	\$363	\$413
2006	280.6	\$380	\$430
2007 - Q3	309.9	\$420	\$470

The table shows that if adjusted for inflation, the \$169 per trip base fee becomes \$420 per trip and the base fee with the \$50/trip surcharge added, \$219 per trip, becomes \$470 per trip. The equivalent fee per SFD becomes \$4,200 for the base fee and \$4,700 for the base fee with the surcharge. This table has been converted to the following line chart to graphically illustrate the effects of inflation:



This graphic representation of the CCI over time shows fairly benign inflation from 1997 to 2003. Since 2003 construction costs have risen dramatically. Construction costs for the 2003 to 2007 period have essentially doubled.

### Reconciling Current Traffic Impact Fees with the RTCIP Program

Escondido could continue to rely on the traffic impact fee nexus study and traffic impact fee schedule as established in 1997, and comply with the RTCIP program, simply by adjusting the 1997 fee (\$169 per trip) to reflect 2007 construction costs (\$420 per trip) through the application of the CCI index; and, by accounting for the RTCIP portion of the newly adjusted fee separately from the balance of the collected fees. Using this approach, each SFD would be assessed a traffic impact fee of \$4,200; and, \$2,000 of the collected fee would be accounted for separately and expended only on RAS system CIP projects. The balance of \$2,200 per SFD could be spent on other circulation element roadways and capacity increasing projects just as the current fee is used today. Other residential uses, like mobile homes, apartment units, and retirement communities, would pay an equivalent fee adjusted for trip generation rates peculiar to these particular types of residential units with a prorated RTCIP portion accounted for separately also used exclusively on RAS streets. To be consistent with current City policy, non-residential fees would become \$105 per trip, 25% of the computed per trip fee. The RTCIP program does not require non-residential fees so these funds, collected primarily from

commercial and industrial projects, could be spent on any capacity increasing project similar to the non-RTCIP portion of the residential fees. They would not be limited to the RAS system.

The surcharge program of \$50 per trip for residential land uses, and \$12.50 per trip for non-residential land uses, were established in 1997 to address elements of the General Plan's Growth Management Provisions on a City-wide basis. City staff believes this surcharge program should be reconsidered with the coming update of the General Plan and that no changes to the surcharge program should be made until it can be considered in the wider context of growth management issues peculiar to our community. The surcharge program and related general plan considerations do not need to be addressed to conform to the RTCIP program.

### Other Options

#### Option 1, Exercise Council Discretion-

Ultimately, setting of a traffic impact fee is a matter of Council's judgment as to the appropriate public policy for this particular community. Just as the SANDAG nexus study *justifies* a SFD fee of \$3,552 per SFD, each public agency does have discretion to charge a lower fee if it determines the lower fee to be in the community's best interest. As noted previously, the lower limit for the SFD fee, per the SANDAG nexus study and RTCIP program, is the \$2,000 per unit minimum fee that was written into the Transnet Extension Ordinance. An agency relying on the region-wide nexus study could set the SFD rate anywhere between \$2,000 and \$3,552 per unit. Similarly, our City Council could rely on an inflation adjustment applied to the 1997 nexus study to *justify* an SFD rate of \$4,200 but could decide, as a matter of public policy, to set the fee at some lower rate due to other public policy considerations. To remain eligible for continued Transnet local funds, the lowest rate that can be considered must be at least \$2,000 per SFD which is required by the Transnet Extension Ordinance. This option allows the City to continue to base the fee structure on the City's 1997 nexus study and allow City Council to set the traffic impact fee at whatever level deemed appropriate by Council between the range of \$2,000 and \$4,200 per SFD.

#### Option 2, Adopt SANDAG's Region-wide Nexus Study-

City Council could decide to abandon the City-wide nexus study approved in 1997 and adopt the region-wide nexus study prepared by SANDAG in November of 2007. This would allow Council to approve a fee rate of at least \$2,000 and up to \$3,552 per SFD. Other residential uses would be charged a similar fee using appropriate trip rates for each land use and the computed trip rate of \$320 per trip in the SANDAG nexus study. Collection of fees from non-residential uses are optional in the SANDAG nexus study but have been computed to be \$246 per trip for office/services and industrial uses and \$97 per trip for commercial uses. These are the non-residential per trip rates that are *justified* in the SANDAG nexus study so they would become the upper limit of Council's discretion for

fees for non-residential land uses. Council could continue our current policy of assessing non-residential land uses at 25% of the computed rate reducing these fees to \$62 per trip for office/services and industrial and \$24 per trip for commercial. To adopt the SANDAG nexus study, Council would need to enact an implementing ordinance and resolution at a noticed public hearing by April 1, 2008 so the RCTIP program would become effective before July 1, 2008 when the Transnet Extension Ordinance becomes effective. Using the SANDAG nexus study does limit the use of the collected traffic impact fees to certain capacity improving projects on the SANDAG approved RAS street system only. Any improvement to other circulation element streets would need to be funded from some other source, like gas tax funds or Transnet local funds.

#### Option 3, Select a Different Inflation Index-

There are several other indexes that could be used instead of the Caltrans CCI index. For example, the Engineering News Record (ENR), a national engineering publication, compiles and maintains a number of building and general engineering construction indexes. The ENR indexes are for several different types of construction and several geographic regions. The likely ENR index for this particular application is the ENR Los Angeles Area CCI (LA CCI). Over the period of 1997 to late 2007, the LA CCI has moved from 6664 to 9179. If applied to the 1997 base fee of \$169 per trip, the adjusted base fee rate becomes \$233 per trip. The SFD equivalent is \$2,330 per residential unit compared with the 1997 base fee of \$1,690 per residential unit.

The US Department of Labor also maintains a comprehensive series of consumer price indexes (CPI) throughout the nation. These are compiled for the US nation-wide, the four census regions, and 26 local areas. They are also available for a number of groups of consumer expenditures like food, housing, apparel, transportation, and many others. From 1997 to mid-2007, the San Diego area CPI for all urban consumers rose from 163.70 to 231.87. Applied to the 1997 base trip rate of \$169 per trip, the adjusted 2007 fee becomes \$239 per trip which corresponds to a \$2,390 fee per SFD. Bear in mind that using a *consumer price* index rather than a *construction cost* index relies on the argument that the fee charged to new development should be adjusted based on the relative value of *consumer purchasing power* over time rather than on *increasing construction costs*. It becomes a decision to make the inflation adjustment based on what consumer goods a dollar will buy today rather than what a dollar will buy in roadway improvements at today's construction costs.

#### Option 4, Expand the SANDAG Nexus Study-

The City could elect to engage the same consultant team that prepared the November 2007 RTCIP Nexus Study and have the same methodology that was used on the region-wide study applied to the non-RAS circulation streets in Escondido that were omitted in the November 2007 work effort. The RTCIP fee would fund CIP projects on RAS roadways in Escondido and the supplemental nexus study, prepared using the same methodology, will establish an appropriate fee for the balance of the

non-regional arterial roads in Escondido. City Council could then adopt a RTCIP fee between \$2,000 and \$3,552 per SFD and follow that with a supplemental fee based on the second study for the balance of the City's circulation system.

#### Staff Recommendation-

The staff recommendation has been developed taking as much direction from current City policy as possible. The 1997 study was very comprehensive and specific to Escondido. Since the City's General Plan Land Use Element and Circulation Element have not changed significantly, the fee computed in 1997 is still valid today. What has changed is the cost of construction with the passage of ten intervening years. This increase is reasonably accommodated by adjusting the 1997 fee to reflect current construction prices using an appropriate index. SANDAG staff has advised City staff that the most appropriate index is the California Construction Cost Index as developed and updated quarterly by Caltrans. It is our understanding that the CCI is the index that SANDAG staff intends to use to conduct annual updates of the RTCIP program. Staff recommends that the current policy of assessing non-residential uses at 25% of the computed fee be continued; and, also recommends that the Tier II and Tier III surcharges be continued at their current levels. Further, City staff recommends that Council direct staff to account for and expend the collected fees in accordance with the RTCIP program, enacted with the Transnet Extension Ordinance, as needed for the City to remain eligible for local Transnet funds as entitled by the Transnet Extension Ordinance.

The conclusion of SANDAG's November 2007 Nexus Study can be seen as validating the City's 1997 Nexus Study. Since it analyzes only a portion of Escondido's circulation system, one would expect SANDAG's 2007 result to be somewhat less than that of the inflation adjusted 1997 City Nexus Study. As expected, the November 2007 result of \$3,552 per SFD falls reasonably below the City's 1997 conclusion of \$4,200 per SFD after the inflation adjustment. Further, since the 2007 study looks at the entire San Diego region as a whole, all local communities wind up with the same result even though they may have very different local policies and roadway improvement needs. The result for Escondido is the same as Chula Vista, Del Mar, San Diego and all the other 18 Cities and the County. City staff believes the 1997 study is the best basis for Escondido's traffic fee structure since it is specific to Escondido's infrastructure needs and, after being adjusted for inflation, compares very well with the more recent 2007 SANDAG study.

In summary, these specific recommendations are-

- Raise the current traffic impact fee for residential land uses from \$169 per trip to \$420 per trip reflecting inflation increases from 1997 to the third quarter of 2007 as evidenced by the Caltrans CCI index.

- Raise the current non-residential traffic impact fee from \$42 per trip to \$105 per trip so the non-residential fee remains 25% of the inflation adjusted rate of \$420 per trip for residential land uses.
- Continue the current surcharge fee for all Tier II and Tier III areas at the current level of \$50 per trip until the General Plan update is complete.
- Direct staff to participate in the RTCIP program of the Transnet Extension Ordinance, as administered by SANDAG, by collecting and accounting for an equivalent of \$2,000 per single family dwelling unit, from the collected traffic impact fees applied to residential units, and expend this portion of the collected fees on eligible RAS system projects only.

The attached Resolution No. R2008-10 has been drafted to implement these recommendations and is offered for Council's consideration.

Respectfully submitted,

Robb Zaino  
Deputy Director of Public Works

Fred Luedtke  
Department Specialist