City of Morgan Hill

Recreation and Community Center Facilities Development Impact Fee Study (Existing Facilities Standard)

Final

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1. Introduction

This report summarizes an analysis of the need for recreation and community center facilities in the City of Morgan Hill to accommodate new development. The report documents a reasonable relationship between new development and an impact fee for funding new facilities.

The focus of this study is to fund the expansion of existing facilities and the construction of new facilities that are required as a direct result of facility demand brought on by new development. The City has a number of development impact fees, but does not currently have had an impact fee for recreation and community center facilities. This study provides the documentation to establish the City's recreation and community center facilities fee program.

Background and Study Objectives

The primary policy objective of a development impact fee program is to ensure that new development pays the capital costs associated with growth. Although growth also imposes operating costs, only facilities costs can be funded by through impact fees. The primary purpose of this report is to calculate and present fees that will enable the City to expand its inventory of recreation and community center facilities, as new development creates increases in service demands.

The City imposes recreation and community center protection facilities fees under authority granted by the *Mitigation Fee Act (*the *Act)*, contained in *California Government Code* Sections 66000 *et seq*. This report provides the necessary findings required by the *Act* for adoption of the fees presented in the fee schedules contained herein.

All development impact fee-funded capital projects should be programmed through the City's five-year Capital Improvement Plan (CIP). Using a CIP can help the City identify and direct its fee revenue to public facilities projects that will accommodate future growth. By programming fee revenues to specific capital projects, the City can help ensure a reasonable relationship between the new development paying the fees and the facilities funded by the fees.

Cost Allocation Approach

There are three methods for allocating to new development its fair share of the costs of providing new facilities commonly used in impact fee studies:

- The **system plan** approach is based on a master facilities plan in situations where the needed facilities serve both existing and new development. This approach allocates existing and planned facilities across existing and new development to determine new development's fair share of facility needs. This approach is used when it is not possible to differentiate the benefits of new facilities between new and existing development. Often the system plan is based on increasing facility standards, so the City must find non-impact fee revenue sources to fund existing development's fair share of planned facilities. This approach is not used in this study.
- The **existing inventory** approach is based on a facility standard derived from the City's existing level of facilities and existing demand for services. This approach results in no facility deficiencies attributable to existing development. This approach is often used when a long-range plan for new facilities is not available.

Only the initial facilities to be funded with fees are identified in the fee study. Future facilities to serve growth will be identified through the City's annual capital improvement plan and budget process and/or completion of a new facility master plan. This approach is used to calculate the recreation and community center facilities fees in this study.

- The **planned facilities** approach allocates costs based on the ratio of planned facilities that serve new development to the increase in demand associated with new development. This approach is appropriate when specific planned facilities that only benefit new development can be identified, when the specific share of facilities benefiting new development can be identified, or when the identified planned facilities represent a lower standard than the existing standard. This approach is not used in this study.

Based on input from the City Council, it was determined that the existing facilities method is most appropriate to use in this case. A per capita value is calculated based on the existing standard of facilities per capita. The resulting costs per capita are then allocated to the future service population to ensure that facility standards are maintained as new development adds demand for recreation and community center facilities.

Recreation and Community Center Facilities Fee Schedule Summary

Table E.1 summarizes the recreation and community center facilities impact fees that meet the City's identified needs and comply with the requirements of the *Mitigation Fee Act*.

Table E.1: Recreation and Community Centers Facilities Fee - Existing Standard

	A	*B*	*C = A x B*
Land Use	**Cost Per Capita**	**Density**	**Total Fee**
Residential - per Dwelling Unit			
Single Family	$ 1,182	3.02	$ 3,570
Multi-family	1,182	2.65	3,132
Senior / Downtown / Sec	1,182	2.00	2,364

Sources: Tables 2 and 5; Willdan Financial Services.

2. Land Use Assumptions

Growth projections are used as indicators of demand to determine facility needs and allocate those needs between existing and new development. This chapter explains the source for the growth projections used in this study based on a 2015 base year and a planning horizon of 2035.

Estimates of existing development and projections of future growth are critical assumptions used throughout this report. These estimates are used as follows:

- The estimate of existing residents in 2015 is used as an indicator of existing facility demand and to determine existing facility standards.
- The estimate of total residents at the 2035 planning horizon is used as an indicator of future demand to determine total facilities needed to accommodate growth and remedy existing facility deficiencies, if any.
- Estimates of growth from 2015 through 2035are used to (1) allocate facility costs between new development and existing development, and (2) estimate total fee revenues.

Growth Projections for City of Morgan Hill

The base year for this study is the year 2015. The planning horizon for this analysis is 2035. The estimate of existing residents is based on the latest data from the California Department of Finance (CA DOF). The estimate for residents in 2035 is based on data provided by the City, and is consistent with other impact fee studies being investigated by the City at this time.

Table 1 shows estimates of the growth in residents between 2015 and 2035.

Table 1: Recreation and Community Center Facilities Service Population

	Residents
Existing (2015)	41,400
Growth (2015 - 2035)	18,600
Total (2035)	60,000

Note: Figures rounded to the hundreds.

Sources: California Department of Finance (DOF) Table E-5, 2015; City of Morgan Hill Community Development Department; Willdan Financial Services.

Land Use Types

To ensure a reasonable relationship between each fee and the type of development paying the fee, growth projections distinguish between different land use types. The land use types that impact fees have been calculated for are defined below.

- **Single family:** Detached and attached one-unit dwellings. Per *Municipal Code Section 18.04.155*, a single family detached dwelling unit is defined as, "a dwelling designed to contain a single dwelling unit situated on a single lot." Per *Municipal Code Section 18.04.154*, a single family attached dwelling unit is defined as, "a dwelling attached to another dwelling on at least fifty percent of the length of the attached side of the building, sometimes called a townhouse, duet, or row house."
- **Multi-family:** All attached multi-family dwellings including duplexes and condominiums. Per *Municipal Code Section 18.04.150*, a multi-family unit is defined as, "a building designed and used as a residence for three or more families living independently of each other and containing three or more dwelling units. Per *Municipal Code Section 18.04.157*, a duplex is defined as, "a structure which is designed and used as a residence for two families living independently of each other and containing two dwelling units."
- **Senior / Downtown / Secondary Units:** All senior housing units, any multi-unit residential development occurring in the downtown area (as defined by the Downtown Specific Plan) and any secondary dwelling units less than 900 square feet in size per unit.

The City should have the discretion to impose the recreation and community center facilities fee based on the specific aspects of a proposed development regardless of zoning. The guideline to use is the probable occupant density of the development. The fee imposed should be based on the land use type that most closely matches the probable occupant density of the development.

Occupant Densities

Occupant densities ensure a reasonable relationship between the increase in service population and amount of the fee. Developers pay the fee based on the number of additional housing units for residential development. The fee schedule must convert service population estimates into these measures of housing units. This conversion is done with average occupant density factors by land use type, shown in **Table 2**. The residential occupant density factors for both the various types of dwelling units were derived from the most recently available data from US Census' American Community Survey.

Table 2: Occupant Density

Residential		
Single Family	3.02	Residents per dwelling unit
Multi-family	2.65	Residents per dwelling unit
Senior / Downtown / Secondary Unit	2.00	Residents per dwelling unit

Sources: U.S. Census Bureau, 2008-2012 American Community Survey, Tables B25024 and B25033; City of Morgan Hill; Willdan Financial Services.

3. Recreation and Community Center Facilities Fee Analysis

The following chapter documents the nexus analysis, demonstrating the need for new recreation and community center facilities demanded by new development.

Existing Recreation and Community Center Facilities Inventory

The City of Morgan Hill maintains several recreation and community center facilities. **Table 3** summarizes the City's existing recreation and community center facilities inventor. All facilities are located within the City limits. In total, the City owns approximately $48.9 million in recreation and community center facilities.

Table 3: Recreation Facilities Inventory

Facility	Building Square Feet	Unit Cost	Value
Centennial Recreation Center	52,135	450	$ 23,470,000
Aquatics Center	8,825	450	3,973,000
Community and Cultural Center	31,610	450	14,225,000
Gavilan College	11,057	300	3,317,000
Community Playhouse	7,100	425	3,018,000
Friendly Inn Non-Profit Center[1]	6,800	-	-
El Toro Youth Center	4,600	200	920,000
Total	122,127		$ 48,923,000

Note: Figures have been rounded.

[1] No value shown for this facility since fee revenue will be used to improve the building. Improvement costs are included in Table 4.

Sources: City of Morgan Hill; Willdan Financial Services.

Planned Recreation and Community Center Facilities

The City has planned a number of recreation and community center facilities to serve new development. Included in the plans are both expansions to existing facilities and the new construction of facilities. In total, the City has identified $13.3 million of recreation and community center facilities to serve new development. **Table 4** details the City's planned recreation and community center facilities.

Table 4: Planned Recreation and Community Center Facilities

Name	Amount	Units	Unit Cost	Amount
CRC Fitness Expansion	5,000	sq. ft.	$ 200	$ 1,000,000
CIP Administration				120,000
Design/Studies/Pre Construction				120,000
FF&E				180,000
Subtotal				$ 1,420,000
Gymnasium				
New Facility	18,000	sq. ft.	$ 200	$ 3,600,000
CIP Administration				100,000
Architectural Design				200,000
FF&E				50,000
Subtotal				$ 3,950,000
Parking Facilities				
CRC/Community Park Parking	100	spaces	$ 4,000	$ 400,000
OSC/AC Parking	400	spaces	5,023	2,009,000
Land Purchase - 3 Acres	3	acres	400,000	1,200,000
Subtotal				$ 3,609,000
Expand Friendly Inn Space				
Construction - Conversion for Community Center Use	4,000	sq. ft.	$ 200	$ 800,000
CIP Administration				60,000
Design/Studies/Pre Construction				80,000
FF&E				50,000
Subtotal				$ 990,000
Expand El Toro Youth Center				
Construction	4,000	sq. ft.	$ 200	$ 800,000
CIP Administration				60,000
Design/Studies/Pre Construction				80,000
FF&E				20,000
Subtotal				$ 960,000
Aqautics Center Regional Use Locker Room/Restroom Facilities				
Meeting Room, Improved Locker Room Facilities	3,000	sq. ft.	$ 200	$ 600,000
CIP Administration				30,000
Design/Studies/Pre Construction				50,000
FF&E				20,000
Subtotal				$ 700,000
Additional Lap Swimming Pool at CRC or AC				
Meeting Room, Improved Locker Room Facilities	3,500	sq. ft.	$ 175	$ 612,500
4,000 sq ft Building	4,000	sq. ft.	200	800,000
CIP Administration				90,000
Design/Studies/Pre Construction				100,000
FF&E				20,000
Subtotal				$ 1,622,500
Total - All Projects				$ 13,251,500

Source: City of Morgan Hill.

Cost Allocation

Table 5 calculates the existing cost per capita facility standard by dividing the value of the existing facilities inventory by the existing service population. The resulting cost per capita is the basis of the impact fee. Funding facilities at this level will ensure that as development occurs, new development will contribute to aquatic facilities at the same standard that existing development has contributed thus far. By definition, using the existing standard methodology assumes no existing deficiencies.

Table 5: Recreation and Community Center Facilities Existing Standard

Value of Existing Facilities	$	48,923,000
Existing Service Population		41,400
Facility Standard per Resident	$	1,182

Sources: Tables 1 and 3, Willdan Financial Services.

Fee Schedule

Table 6 shows the proposed recreation and community center facilities fee schedule. The cost per capita is converted to a fee per unit of new development based on dwelling unit densities (persons per dwelling).

Table 6: Recreation and Community Centers Facilities Fee - Existing Standard

Land Use	*A* Cost Per Capita	*B* Density	*C = A x B* Total Fee
Residential - per Dwelling Unit			
Single Family	$ 1,182	3.02	$ 3,570
Multi-family	1,182	2.65	3,132
Senior / Downtown / Sec	1,182	2.00	2,364

Sources: Tables 2 and 5; Willdan Financial Services.

Use of Fee Revenue

The City plans to use recreation and community center facilities fee revenue to construct improvements to add to the system of recreation and community center facilities that serves new development. The preliminary list of facilities to be funded by the fee is detailed above in Table 4. **Table 7** details a projection of fee revenue, based on the growth increment identified in Table 1. The City will have to identify $8.7 million worth of additional recreation and community center facilities in order to ensure that the existing standard is maintained through the planning horizon.

Table 7: Revenue Projection - Existing Standard

Cost per Capita	$	1,182
Growth in Service Population (2015 - 2035)		18,600
Fee Revenue	$	21,985,000
Less Cost of Planned Facilities		13,251,500
Value of Facilities to be Identified	$	8,733,500

Sources: Tables 1, 4 and 5.

4. Implementation

Impact Fee Program Adoption Process

Impact fee program adoption procedures are found in the *California Government Code Section 66016*. Adoption of an impact fee program requires the City Council to follow certain procedures including holding a public meeting. A fourteen day mailed public notice is required for those registering for such notification. Data, such as an impact fee report, must be made available at least 10 days prior to the public meeting. Your legal counsel should inform you of any other procedural requirements as well as advice regarding adoption of an enabling ordinance and/or a resolution. After adoption there is a mandatory 60 day waiting period before the fees go into effect. This procedure must also be followed for fee increases.

Inflation Adjustment

Appropriate inflation indexes should be identified in a fee ordinance including an automatic adjustment to the fee annually. Separate indexes for land and construction costs should be used. Calculating the land cost index may require the periodic use of a property appraiser. The construction cost index can be based on the City's recent capital project experience or can be taken from any reputable source, such as the *Engineering News-Record*. To calculate prospective fee increases, each index should be weighed against its share of total facility needs represented by land or improvements, as appropriate.

Reporting Requirements

The City should comply with the annual and five-year reporting requirements of the Mitigation Fee Act. For facilities to be funded by a combination of public fees and other revenues, identification of the source and amount of these non-fee revenues is essential. Identification of the timing of receipt of other revenues to fund the facilities is also important.

Fee Accounting

The City should deposit fee revenues into separate restricted fee accounts for each of the fee categories identified in this report. Fees collected for a given facility category should only be expended on new facilities of that same category.

Programming Revenues and Projects with the CIP

The City should commit all projected fee revenues and fund balances to specific projects in a Capital Improvements Program. These should represent the types of facilities needed to serve growth and described in this report. The use of the CIP in this manner documents a reasonable relationship between new development and the use of those revenues. The CIP also provides the documentation necessary for the City to hold funds in a project account for longer than five years if necessary to collect sufficient monies to complete a project.

The City may decide to alter the scope of the planned projects or to substitute new projects as long as those new projects continue to represent an expansion of the City's facilities. If the total cost of facilities varies from the total cost used as a basis for the fees, the City should consider revising the fees accordingly.

5. Mitigation Fee Act Findings

Fees are assessed and typically paid when a building permit is issued and imposed on new development projects by local agencies responsible for regulating land use (cities and counties). To guide the imposition of facilities fees, the California State Legislature adopted the *Mitigation Fee Act* with Assembly Bill 1600 in 1987 and subsequent amendments. The *Act*, contained in *California Government Code* §§66000 – 66025, establishes requirements on local agencies for the imposition and administration of fees. The Act requires local agencies to document five statutory findings when adopting fees.

The five findings in the Act required for adoption of the maximum justified fees documented in this report are: 1) Purpose of Fee, 2) Use of Fee Revenues, 3) Benefit Relationship, 4) Burden Relationship, and 5) Proportionality. They are each discussed below and are supported throughout this report.

Purpose of Fee

- *Identify the purpose of the fee (§66001(a)(1) of the Act).*

We understand that it is the policy of the City that new development will not burden the existing service population with the cost of facilities required to accommodate growth. Policy 16.4(c) of the Morgan Hill General Plan states that the City will "Fully utilize existing strategies to achieve an urban level of public services throughout the city, including requiring developers to dedicate land and/or pay to offset the costs relating to the provision and expansion of public services and facilities." The purpose of the fees proposed by this report is to implement this policy by providing a funding source from new development for capital improvements to serve that development. The fees advance a legitimate City interest by enabling the City to provide recreation and community center facilities to new development.

Use of Fee Revenues

- *Identify the use to which the fees will be put. If the use is financing facilities, the facilities shall be identified. That identification may, but need not, be made by reference to a capital improvement plan as specified in §65403 or §66002, may be made in applicable general or specific plan requirements, or may be made in other public documents that identify the facilities for which the fees are charged (§66001(a)(2) of the Act).*

Fees proposed in this report, if enacted by the City, would be available to fund expanded facilities to serve new development. Facilities funded by these fees are designated to be located within the City. Fees addressed in this report have been identified by the City to be restricted to funding recreation and community center facilities.

A list of the preliminary facilities needed to serve new development is identified in Table 4 of this report. More thorough descriptions of certain planned facilities, including their specific location, if known at this time, are included in master plans, capital improvement plans, or other City planning documents or are available from City staff. The City may change the list of planned facilities to meet changing needs and circumstances of new development, as it deems necessary. The fees should be updated if these amendments result in a significant change in the fair share cost allocated to new development.

Benefit Relationship

- *Determine the reasonable relationship between the fees' use and the type of development project on which the fees are imposed (§66001(a)(3) of the Act).*

We expect that the City will restrict fee revenue to the acquisition of land, construction of facilities and buildings, and purchase of related equipment, furnishings, vehicles, and services used to serve new development as described above under the "Use of Fee Revenues" finding. The City should keep fees in segregated accounts. Facilities funded by the fees are expected to provide a City-wide network of facilities accessible to the additional residents associated with new development. Under the *Act*, fees are not intended to fund planned facilities needed to correct existing deficiencies. Thus, a reasonable relationship can be shown between the use of fee revenue and the new development residential and non-residential use classifications that will pay the fees.

Burden Relationship

- *Determine the reasonable relationship between the need for the public facilities and the types of development on which the fees are imposed (§66001(a)(4) of the Act).*

Facilities need is based on a facility standard that represents the demand generated by new development for those facilities. For each facility category, demand is measured by a single facility standard that can be applied across land use types to ensure a reasonable relationship to the type of development. For the recreation and community center facilities impact fee, service population standards are calculated based upon the number of residents associated with residential development.

The standards used to identify growth needs are also used to determine if planned facilities will partially serve the existing service population by correcting existing deficiencies. This approach ensures that new development will only be responsible for its fair share of planned facilities, and that the fees will not unfairly burden new development with the cost of facilities associated with serving the existing service population.

Chapter 2, Land Use Assumptions provides a description of how service population and growth projections are calculated. Facility standards are described in the *Cost Allocation* section of *Chapter 3*.

Proportionality

- *Determine how there is a reasonable relationship between the fees amount and the cost of the facilities or portion of the facilities attributable to the development on which the fee is imposed (§66001(b) of the Act).*

The reasonable relationship between each facilities fee for a specific new development project and the cost of the facilities attributable to that project is based on the estimated service population growth the project will accommodate. Fees for a specific project are based on increases in the number of dwelling units. Single family dwelling units are occupied more intensely than multifamily dwelling units, and the fees reflect these differences in demand, by type of unit. Thus, the fees can ensure a reasonable relationship between a specific new development project and the cost of the facilities attributable to that project.

See *Chapter 2, Land Use Assumptions* for a description of how service population and dwelling unit occupancy are determined for this analysis. See the *Fee Schedule* section of *Chapter 3* for a presentation of the maximum justified facilities fees.