

The Economics of Land Use



Revised Report

Child Care Impact Fee Nexus Study

Prepared for:

City of San Carlos

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- **Must Be Based on a Rational Nexus.** An impact fee must be based on a reasonable nexus, or connection, between new growth and development and the need for a new facility or improvement. As such, an impact fee must be supported by specific findings that explain or demonstrate this nexus. In addition, the impact fee amount must be structured such that the revenue generated does not exceed the cost of providing the facility or improvement for which the fee is imposed.

2. DEMOGRAPHIC, EMPLOYMENT, AND LAND USE ASSUMPTIONS

This Chapter describes the demographic, employment, and land use assumptions utilized in this Study that are important drivers of the maximum development impact fee estimates. The estimates are used for the following primary purposes in the fee calculations:

- Population and household count data is used to relate the number of children in the City to the supply of housing units. This data is shown on **Table 2**.
- Estimates of the number of children within certain age cohorts (e.g., infant, preschool, school-age) are used to estimate potential demand from each cohort and are shown on **Table 3**.
- Estimates of parental labor force participation by age cohort are used to understand the share of households needing child care and are shown on **Table 4**.
- Estimates of the share of children whose parents/guardians need a child care arrangement and who will choose a child care center type of facility are provided in **Table 5**.
- Estimates related to population density (e.g., persons per housing unit) are shown on **Table 6** and are used to differentiate costs between residential land uses.
- Estimates related to employment density (e.g., employees per square foot) are shown on **Table 7** and are used to differentiate costs between non-residential land uses.

Current Population and Households in San Carlos

Population and household counts are shown in **Table 2** and are used to relate the number of children in the City to the overall population as well as to the supply of housing units.

Table 2. Population and Households

Item	Total
Population in Households	30,024
Total Households	11,689

Sources: U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates; Economic & Planning Systems, Inc.

Age Cohorts

EPS developed a distribution of the number of children within certain age cohorts based on data from the California Department of Finance and the U.S. Census American Community Survey (5-year estimate, 2015-2019). Because parents/guardians make different child care decisions at different times in their children’s lives, this data is used to support estimates of child care demand for different age cohorts. The Census-based age breakdown of children at the City level is not as detailed as the Department of Finance’s estimates for San Mateo County. Accordingly, EPS used the County’s age cohort distribution and applied those shares to the City’s population under 18 years of age. These estimates are provided in **Table 3**.

Table 3. Age Cohorts in City and County

Item	Number	Percent of Total
San Mateo County		
Total Population under 18 Years of Age	170,296	
Infant (Birth to 24 Months)	17,183	10.1%
Preschool (2 to 5 Years)	31,932	18.8%
School Age (5 to 18 Years)	121,182	71.2%
San Carlos [1]		
Total Population under 18 Years of Age	7,469	
Infant (Birth to 24 Months)	754	10.1%
Preschool (2 to 5 Years)	1,400	18.8%
School Age (5 to 18 Years)	5,315	71.2%

[1] County age distribution among population under age 18 (DOF, 2019) is applied to City’s total population under age 18 as reported by Census.

Source: CA Department of Finance: Total Estimated and Projected Population for California Counties: July 1, 2010 to July 1, 2060 in 1-year Increments; U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates; Economic & Planning Systems, Inc.

Labor Force Participation

The U.S. Census American Community Survey (5-year estimate, 2015-2019) reports the number of children whose parents are working. The data reports the number of children in single parent households in which that parent is working, as well as the number of children in two-parent households in which both parents are working. These estimates are provided in **Table 4**.

Table 4. Labor Force Participation

Item	Estimate
Total Children [1]	7,341
Under 6 Years	2,382
Living with Two Parents	2,238
Both Parents in Labor Force	1,587
Living with One Parent	144
Parent in Labor Force	137
All Parents in Labor Force	1,724
Labor Force Participation	72.4%
6 to 17 Years	4,959
Living with Two Parents	4,131
Both Parents in Labor Force	2,897
Living with One Parent	828
Parent in Labor Force	763
All Parents in Labor Force	3,660
Labor Force Participation	73.8%

[1] Universe of data is "Own children under 18 years in families and subfamilies."

Source: U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates; Economic & Planning Systems, Inc.

Child Care Choice

There are a range of child care options potentially available to families requiring non-parental child care, including other relatives, nanny shares, live-in au pairs, child care centers, home-based day care, etc. As such, another adjustment to the data is needed to estimate the number of children whose parents/guardians need a child care arrangement and who will choose a child care center type of facility (i.e., the type of facility for which the impact fee revenue can be used). **Table 5** draws upon data collected by the U.S. Department of Education’s National Center for Education Statistics, which reports the number of children participating in various early childhood programs.

Table 5. Child Care Choice

Age Cohort	Number of Children in Survey	Children in Parental Care Arrangements	Children in Non-Parental Care Arrangements	Children in Center-Based Care or Care in a Non-relative’s Home	
				Number	Percent
Total	21,362	8,609	12,753	7,742	60.7%
Infant					
Under 1 Year Old	4,724	2,487	2,237	888	39.7%
1 to 2 Years Old	<u>8,552</u>	<u>3,932</u>	<u>4,619</u>	<u>2,504</u>	54.2%
Weighted Average	13,276	6,420	6,856	3,392	49.5%
Preschool [1]					
3 to 5 Years Old	8,087	2,190	5,897	4,350	73.8%

Note: Numbers are in thousands.

[1] While the data suggests that 73.8% of preschoolers who need childcare will opt for center-based care or care in a non-relative’s home, the analysis assumes that 100 percent of preschool-aged children require child care. This is in support of the County’s overall policy to promote Universal Preschool.

Source: U.S. Department of Education, National Center for Education Statistics, Early Childhood Program Participation Survey of the National Household Education Surveys Program (ECPN-NHES:2016).

Population Density

EPS has developed persons per household estimates based on data from the California Department of Finance and the U.S. Census American Community Survey (5-year estimate, 2015-2019). This data has been used to develop estimates of the number of persons per occupied household specific to each residential development type. These estimates are provided in **Table 6**.

Table 6. Population and Households by Number of Units in Structure

Item	Single Family <i>1-Unit in Structure</i>	Multifamily [1] <i>2 + Units in Structure</i>	Total
Total Households	8,590	3,099	11,689
Share	73.5%	26.5%	100.0%
Population in Households	23,542	6,482	30,024
People per HH	2.74	2.09	2.57

[1] Total includes mobile homes to account for the City's total population in households.

Sources: U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates; Economic & Planning Systems, Inc.

Employment Density

The gross building square footage assumptions of workspace required on average to accommodate jobs in different land use categories are generally consistent with industry-standard employment densities and are reflected in **Table 7**. As shown, the average square feet required per job ranges from 333 square feet on average for office/R&D development to 1,000 square feet on average for industrial development. Stated in another way, office developments are assumed to have the highest employment density with about 3 jobs per 1,000 square feet relative to 1 job per 1,000 square feet of industrial development.

Table 7. Employment Density

Item	Assumption
Employment Density by Land Use Category	
Square Feet per Job	
Office/R&D	333 sq.ft. per job
Retail	667 sq.ft. per job
Hotel	1,000 sq.ft. per job
Industrial	1,000 sq.ft. per job
Jobs per Square Foot	
Office/R&D	0.0030 jobs per sq.ft.
Retail	0.0015 jobs per sq.ft.
Hotel	0.0010 jobs per sq.ft.
Industrial	0.0010 jobs per sq.ft.

Sources: City of San Carlos Linkage Fee Nexus Study, Vernazza Wolfe Associates, Inc. and Strategic Economics; Economic & Planning Systems, Inc.

3. CHILD CARE FACILITY COST ESTIMATES

The high cost of real estate and limited availability of land are factors that greatly influence the supply of child care facilities in high-cost counties, such as San Mateo. Of course, the cost of providing new child care spaces will vary on a project-by-project basis, depending on the size of the facility and the overall development program. Typical costs associated with developing new child care spaces in San Mateo County, excluding land, are provided in the 2017 San Mateo Early Learning Needs Assessment and shown below in **Table 8**. Costs range from \$27,500 to \$58,000 per space in 2021 dollars depending on the type of facility and include the structure, site design, preparation, general site improvement, and installation—but not land. The average cost is \$43,391 per space, which is considered a reasonable average planning-level cost estimate for the purposes of establishing this fee. With land costs included, the cost per space is higher, at \$80,391 per space.

Table 8. Average Cost per Child Care Space by Type of Facility

Construction Type	Avg. Cost / Space (2017) ¹	Avg. Cost / Space (2021) ²
Development Cost		
New Building	\$43,183	\$46,743
New / Existing Commercial Space	\$53,800	\$58,235
Expansion of Existing Center	\$37,003	\$40,053
Portable Building	\$25,412	\$27,507
Employer-based Center	\$41,033	\$44,415
Average, Development Cost		\$43,391
Land Cost (Rounded)³		\$37,000
Total, Land and Average Development Costs		\$80,391

[1] Average cost per early learning space for child care facilities in San Mateo County, according to the San Mateo Early Learning Needs Assessment (2017).

[2] Average cost per early learning space has been adjusted for inflation at an annual rate of 2%.

[3] Assumes 175 square feet of land area per child care space, reflecting the indoor, outdoor, administrative, public, and mechanical functions. The per acre land value assumption is \$9 million based on current land values in San Carlos.

Sources: San Mateo Early Learning Needs Assessment (2017); Economic & Planning Systems, Inc.

4. CHILD CARE FEE CALCULATIONS

The Mitigation Fee Act maximum child care development impact fee calculations are driven by (1) demand for child care from residential and nonresidential development, (2) child care facility cost estimates, and (3) persons per household and employment density assumptions. The residential fees are shown in **Table 9** and the nonresidential fees are shown in **Table 10**.

Residential Fees

Table 9. Child Care Fees for Residential Development

Item	Assumption	Amount	Notes
Total Population		30,024	See Table 2
Total Households		11,689	See Table 2
Population Under Age 18		7,469	See Table 3
Infant (Birth to 24 Months)	10.1%	754	See Table 3
Preschool (2 to 5 Years)	18.8%	1,400	See Table 3; Includes 1/2 of 5-year olds
Population per Household			
Infant (Birth to 24 Months)		0.06	
Preschool (2 to 5 Years)		0.12	
Population per Household, Needing Childcare			
Infant (Birth to 24 Months)	72.4%	0.05	See Table 4
Preschool (2 to 5 Years)	72.4%	0.09	See Table 4
Population per Household, Choosing Center-based Care or Non-relative Care in Someone Else's Home			
Infant (Birth to 24 Months)	49.5%	0.02	Reflects weighted average of under 1 and 1-2 year olds cohorts; See Table 5
Preschool (2 to 5 Years)	100.0%	0.12	Reflects Countywide Universal Preschool Policy Objective
Childcare Spaces Needed in Licensed Centers		1,670	Spaces needed for every 11,689 households
Childcare Spaces per Resident		0.0556	
Cost per Childcare Space	\$80,391		See Table 8
Cost per Resident		\$4,472	
Number of people per Single Family Household		2.74	See Table 6
Number of people per Multifamily Household		2.09	See Table 6
Cost per Single Family Household		\$12,257	
Cost per Multifamily Household		\$9,355	

Sources: CA Department of Finance: Total Estimated and Projected Population for California Counties: July 1, 2010 to July 1, 2060 in 1-year increments; U.S. Census Bureau, 2015-2019 American Community Survey 5-Year Estimates; U.S. Department of Education, National Center for Education Statistics, Early Childhood Program Participation Survey of the National Household Education Surveys Program (ECP-P-NHES:2016), Table was prepared December 2017; Economic & Planning Systems, Inc.

As shown in **Table 9**, the demand for child care spaces resulting from new residential development is approximately 6 spaces per 100 residents. At a cost of \$80,391 per space, the cost per resident is \$4,472. Based on the residential density assumptions, the cost per resident can be expressed as a cost per residential unit.

Nonresidential Fees

As shown in **Table 10** and based on data reported in the 2017 San Mateo County Early Learning Facilities Study, the demand for child care spaces resulting from new nonresidential development is approximately 4 spaces per 100 employees. At a cost of \$80,391 per space, the cost per employee is \$3,352. Based on the employment density assumptions, the cost per employee can be expressed as a cost per square foot.

Table 10. Child Care Fees for Nonresidential Development

Item	Assumption	Notes
Cost per Childcare Space	\$80,391	See Table 8
Childcare Space Demand per Employee	0.0417	San Mateo County ELF Study, 2017
Cost per Employee	\$3,352	
Jobs per Square Foot		
Office/R&D	0.0030 jobs per sq.ft.	
Retail	0.0015 jobs per sq.ft.	
Hotel	0.0010 jobs per sq.ft.	
Industrial	0.0010 jobs per sq.ft.	
Fee by Land Use Category		
Office/R&D	\$10.07 per sq.ft.	
Retail	\$5.03 per sq.ft.	
Hotel	\$3.35 per sq.ft.	
Industrial	\$3.35 per sq.ft.	

Sources: Brion Economics Team; City of San Carlos Linkage Fee Nexus Study, Vernazza Wolfe Associates, Inc. and Strategic Economics; Economic & Planning Systems, Inc.

As shown, the maximum development impact fees are:

- **Single-Family.** \$12,257 per single family unit.
- **Multifamily.** \$9,355 per multifamily/apartment unit.
- **Accessory Dwelling Units.** Note that Senate Bill 13 (effective 1/1/2020 – 12/31/2024) precludes jurisdictions from charging impact fees on ADUs under 750 square feet.
- **Office/R&D.** \$10.07 per office/R&D building square foot.
- **Retail.** \$5.03 per retail building square foot.
- **Hotel.** \$3.35 per hotel building square foot.
- **Industrial.** \$3.35 per industrial building square foot.

While these maximum child care development impact fees are driven by marginal demand and average costs (rather than the City's capital improvement list), Appendix A provides some examples of how it may use the revenue to invest in child care facility expansion throughout San Carlos. More detailed plans will be developed as part of the City's future planning efforts and/or through negotiations with prospective developers.

- **Child Care Space Reimbursement:** City may use impact fee revenue to reimburse applicants who choose to meet the child care impact fee requirement by building child care onsite rather than by paying the fee and who oversize the child care space provided relative to the value of the impact fee requirement.

The amount of the reimbursement will not reduce the value of the applicant's child care obligation; rather, it can partially or fully subsidize the cost incurred by the applicant in excess of what the fee obligation would have been.

- **Family and Commercial Daycare Grant Program:** City may make child care impact fee revenue available as a grant to at-home and commercial day care providers. The revenue would need to be used to develop new child care facilities or improve existing child care facilities, such that the operator is able to serve more children.

Goal is to fund up to 4 opportunities per year, up to \$25,000 per grant initially. Amount per grant could be increased, based on demand and available revenue. The City will develop an outreach program to let child care operators know that funding is available.

- **New Child Care Facility Development:** City may use impact fee revenue to develop new child care space in the City. This may include acquiring, adapting, rehabilitating, renovating, etc. existing space and converting to child care or developing new child care space. The space would then be available to be operated by a licensed, child care operator/provider. The amount invested may vary depending on the availability of revenue and opportunities.

5. MITIGATION FEE ACT NEXUS FINDINGS

Development impact fees can be charged to new development under the Mitigation Fee Act. Nexus findings are provided below addressing (1) the purpose of the fee, (2) the specific use of fee revenue, (3) the relationship between the facility improvements and the type of development, (4) the relationship between the need for the facility improvements and the type of development, and (5) the relationship between the amount of the fee and the proportionality of cost specifically attributable to development. The technical information and calculations provided support these nexus findings/requirements.

Purpose

The fee will support provision of adequate levels of child care facility spaces in the City as new development occurs and will help ensure that new development pays its fair share of child care facility costs.

Use of Fee

Fee revenue will contribute funding towards the creation or expansion of new child care spaces in the City. Child care facilities are a community amenity and, therefore, qualify as public facilities per Government Code section 66000 (d).

Relationship

New residential and nonresidential development and the associated new residents and workers in San Carlos will increase demand for child care spaces. Fee revenue from this new development will be used to increase the number of child care spaces in the City, thereby increasing the availability of child care spaces and addressing demand from the new residents and workers.

Need

There is a demonstrated shortage of child care spaces in the City, and each new residential and nonresidential development project adds to the need for quality child care spaces. While this fee program cannot be used to address existing deficiencies, new child care spaces are necessary to avoid exacerbating the current shortage. The residential fee calculation is based on an analysis of current demographic data, which is used to calculate the marginal demand for new child care spaces in the City as new residential development occurs. The nonresidential fee calculations are based on survey data from the 2017 San Mateo County Early Learning Facilities Study. The survey found that on average, for every 100 employees, four child care spaces were filled (0.0417 child care spaces per employee). Consistent with Government Code section 66001 (g), this existing level of service is used to estimate the future impact of new nonresidential development on the need for child care. Applying the existing level of service to new development in San Carlos ensures that new development is mitigating its demand on the need for child care and that the current shortage of child care spaces is not exacerbated as new development occurs.

Proportionality

The marginal demand for child care spaces from new residents and employees in the City and the average cost of developing those spaces are used to ensure that new development funds a sufficient number of child care spaces to mitigate its own demand, but no more. In this way, the contribution of new development is proportional to its impact and is not expanded beyond its appropriate share.

6. AB 602 REQUIREMENTS

AB 602 went into effect on January 1, 2022 and adds additional requirements for development impact fee programs and updates adopted under the Mitigation Fee Act. Three topics that must be addressed in or in association with a Nexus Study, include (1) the adoption of a capital improvement plan; (2) a discussion of the level of service; and, (3) a review of the original nexus study (if applicable). These topics are discussed below.

Capital Improvement Plan

AB 602 notes that “large jurisdictions shall adopt a capital improvement plan as a part of the nexus study.” Because San Carlos is located in the County of San Mateo, which has a population of greater than 250,000, the City of San Carlos falls under the definition of a large jurisdiction. As a result, the City prepared a Child Care Impact Fee Project List for adoption as shown in **Appendix A**.

As well as being a requirement of AB 602, the Child Care Impact Fee Project List helps demonstrate that there is a need for the anticipated impact fee revenue based on the impact of new development and how the City intends to spend the revenue. The discussion below describes the potential revenue that could be raised through the recommended impact fee levels based on the City’s current development pipeline and compares the revenues to the estimated costs in the Child Care Impact Fee Project List.

The City’s current development pipeline (as of December 2021 and based on an analysis conducted by RSG) anticipates more than 2.7 million square feet of net new development by 2030 (the current General Plan horizon (2030)). As indicated in the RSG study, this level of new development would result in approximately 6,627 new employees.

Applying the child care demand ratio of 0.0417 spaces per employee¹ to 6,627 new employees suggests a need for approximately 276 new child care spaces (beyond the existing deficiency in the City) to meet future child care demand between now and 2030. The total cost to develop these spaces, based on the estimated cost per child care space of \$80,391 used in the Nexus Study, is estimated at more than \$22 million.

Because this demand would result in fee levels that could not be feasibly charged to new development, the City expects to reduce the maximum, nexus-based fees by approximately 50 percent. The reduced fee levels applied to the development pipeline could generate approximately \$16.4 million, although it is possible that not all of this development will materialize. In addition, the City anticipates that a portion of this pipeline development (particularly the larger projects) will comply with the child care impact fee requirement by building child care onsite. For these projects, child care impact fee revenue will not be generated.

¹ The maximum child care development impact fee established in this Nexus Study is based on a child care space demand of 0.0417 spaces per employee, or approximately four spaces per 100 employees. This amount is based on data reported in the 2017 San Mateo County Early Learning Facilities Study.

The level of anticipated revenue (assuming 50 percent of the development pipeline either does not emerge or provides child care onsite) is approximately \$8.2 million, which is consistent with the envisioned potential investments identified in **Appendix A**.

The Child Care Impact Fee Project List, shown in **Appendix A**, indicates a range of potential investments and includes general project location, estimated size, estimated cost, and timeline. Further detail regarding the planned projects included in the Project List will be provided as the City begins to collect impact fee revenues and begins pursuing child care facility projects. To that end, the Project List will be updated annually with the City's impact fee AB 1600 reports.

Levels of Service

AB 602 notes that "when applicable, the nexus study should identify the existing level of service for each public facility, identify the proposed new level of service, and include an explanation of why the new level of service is appropriate." The City is considering a Child Care Development Impact Fee to be charged to new, non-residential development for the first time. The level of service that is used in the Nexus Study and that underpins the fee calculations is based on survey data from the 2017 San Mateo County Early Learning Facilities Study. The survey evaluated several large employers in San Mateo County with onsite child care facilities, and this study has presumed that the survey results would apply to large employers offering onsite child care in San Carlos. The survey found that on average, for every 100 employees, four child care spaces were filled (0.0417 child care spaces per employee). This existing level of service is used to estimate the future impact of new nonresidential development on the need for child care and varies by land use category based on employment density (i.e., the average number of jobs per square foot), as shown on **Table 10**. Applying the existing level of service to new development in San Carlos ensures that new development is mitigating its demand on the need for child care and that the current shortage of child care spaces is not exacerbated as new development occurs.

Original Nexus Study

AB 602 also notes that "if a nexus study supports the increase of an existing fee, the local agency shall review the assumptions of the nexus study supporting the original fee and evaluate the amount of fees collected under the original fee." Because the City is considering a Child Care Development Impact Fee for the first time, there is no original nexus study or amount of fees collected under the original fee to review.

7. FEE PROGRAM IMPLEMENTATION AND ADMINISTRATION

The child care development impact fee will need to be adopted by City Resolution as enabled by a new Ordinance. The Ordinance will allow the City Council to adopt, by Resolution, a fee schedule consistent with supporting technical analysis and findings provided in this Report. The Resolution approach to setting the fee allows periodic adjustments of the fee amount that may be necessary over time, without amending the enabling Ordinance. It is anticipated that the City will develop a new Ordinance as part of this study process. This new Ordinance addresses the primary implementation and administrative issues and procedures associated with the fee program. A brief summary of the key implementation and administrative elements is provided below.

Fee Collection and Amount

Applicable Land Uses

All new development that occurs within the City of San Carlos, except as specifically exempted by the Ordinance, shall pay the child care development impact fee. While the maximum fee amount will be determined by the Mitigation Fee Act Nexus Study, the City may elect to charge less for a variety of reasons and under certain circumstances, as [will be] described in the Ordinance. In any case, the applicable fees will be published in a Fee Schedule made available by the City and updated periodically. The amount will vary by land use, as shown in **Table 1**.

It is possible that certain projects may not fit neatly into the identified categories. In cases where such ambiguity exists, the City's Community Development Director will need to make a determination as to the applicable fees. The Fee Ordinance articulates guidelines for resolving discrepancies and/or disputes.

Exemptions

The City may also elect not to impose fees for certain categories of development, though alternative funding sources to offset a loss in fee revenue would need to be provided. For example, the City may elect to exempt developers from paying fees on any affordable housing units they build. Likewise, the City may enter into a Development Agreement that specifically exempts all or a portion of the City fees.

Alternative Means of Satisfying Fee Requirement

As described in the Ordinance, the City may specify alternative means of satisfying the child care fee requirement, when doing so accelerates or enhances the number of child care spaces available in the City. New nonresidential projects may meet the child care impact fee obligation by building appropriately-sized and feasible child care space onsite and contracting with a licensed child care provider. Any onsite child care provided through this option would need to meet state licensing requirements and local regulatory requirements (as specified in Section 18.23.090 of the Municipal Code) and would need to be mutually agreed upon by the Developer and the City.

If mutually agreed upon by the Developer and the City, alternative means of satisfying the fee obligation may be identified and articulated in a Development Agreement, or similar mutually agreed upon Agreement.

Timing of Establishing Effective Fees

Senate Bill 330, the "Housing Crisis Act of 2019," requires jurisdictions to charge the fees in effect at the time an application for development is submitted, regardless of when the fees are to be paid. Jurisdictions may not increase fees during a project's application period, unless the increase is related to an annual fee adjustment as described below.

Fee Escalation

The ordinance allows for an automatic adjustment of the fee to keep pace with inflationary increases in construction costs. This allows the fee level to keep pace with inflation without requiring an annual approval process. This adjustment is based on the Construction Cost Index (CCI) published by the Engineering News-Record (ENR), a source widely used in the construction industry, and by many jurisdictions as a basis for making annual inflation adjustments to their development impact fees. ENR's CCI has been published consistently every month since 1967. As such ENR is one of the most reliable and consistent indices that track trends in construction costs.

Senate Bill 330, the "Housing Crisis Act of 2019," allows fee increases during a project's application period if the fee increases are the result of an annual fee adjustment based on an independently published cost index and referenced within the relevant establishing ordinance or resolution.

Timing and Manner of Payment

The City's Ordinance addresses issues related to the timing and manner of payment for the fee including the potential for fee deferrals, payment plans, credits and reimbursements, exemptions, and related adjustments.

Annual Review and Five-Year Review

Annual Review

This Report and the technical information contained herein should be maintained and reviewed periodically by the City as necessary to ensure alignment of facility needs and new development and to enable the adequate programming of funding sources. To the extent that improvement requirements, costs, or development potential changes over time, the Fee Program may need to be updated. Specifically, AB 1600 (at Gov. Code §§ 66001(c), 66006(b)(1)) stipulates that each local agency that requires payment of a fee make specific information available to the public annually within 180 days of the last day of the fiscal year, including:

- A description of the type of fee in the account
- The amount of the fee
- The beginning and ending balance of the fund
- The amount of fees collected and interest earned
- Identification of the improvements constructed
- The total cost of the improvements constructed

- The fees expended to construct the improvement
- The percentage of total costs funded by the fee

If sufficient fees have been collected to fund the construction of an improvement, the agency must specify the approximate date for construction of that improvement. Because of the dynamic nature of growth and infrastructure requirements, the City should monitor development activity, the need for improvements, and the adequacy of the fee revenues and other available funding. Formal annual review of the fee program should occur, at which time adjustments should be made.

Five-Year Review

Fees will be collected from new development within the City immediately; however, use of these funds may need to wait until a sufficient fund balance can be accrued. Per Government Code Section 66006, the City is required to deposit, invest, account for, and expend the fees in a prescribed manner. The fifth fiscal year following the first deposit into the Fee account or fund, and every five years thereafter, the City is required to make all of the following findings with respect to that portion of the account or fund remaining unexpended:

- Identify the purpose for which the fee is to be put;
- Demonstrate a reasonable relationship between the fee and the purpose for which it is charged;
- Identify all sources and amounts of funding anticipated to complete financing in incomplete improvements; and
- Designate the approximate dates on that the funding referred to in the above paragraph is expected to be deposited in the appropriate account or fund.

Once sufficient funds have been collected to complete the specified projects, the City must commence construction within 180 days. If they fail to do this, the City is required to refund the unexpended portion of the fee and any accrued interest to the then current owner.

Accounting, Reporting, and Updates

Accounting

Surplus Funds

AB 1600 also requires that if any portion of a fee remains unexpended or uncommitted in an account for five years or more after deposit of the fee, the City Council shall make findings once each year: (1) to identify the purpose to which the fee is to be put, (2) to demonstrate a reasonable relationship between the fee and the purpose for which it was charged, (3) to identify all sources and amounts of funding anticipated to complete financing of incomplete improvements, and (4) to designate the approximate dates on which the funding identified in (3) is expected to be deposited into the appropriate fund.

If adequate funding has been collected for a certain improvement, an approximate date must be specified as to when construction on the improvement will begin. If the findings show no need for the unspent funds, or if the conditions discussed above are not met, and the administrative costs

of the refund do not exceed the refund itself, the local agency that has collected the funds must refund them.

Credits and Reimbursements

It is recommended that, under certain and limited circumstances as determined by the City, the Impact Fee Ordinance allow developers subject to the fee to obtain credits, reimbursements, or exemptions. Fee credits, reimbursements, or exemptions should not be allowed by right but rather should be subject to a case-by-case review by City staff and Council to ensure that such credits or reimbursements are warranted and appropriate.

A fee credit—as defined by an annual cost review or other recent evaluation of cost—may be allowed if a developer provides a particular off-site facility or improvement that is of citywide benefit. For example, the City may elect to offer a fee credit to developers who develop child care facilities off-site and of citywide benefit. In the event there is a discrepancy between the estimated and actual costs of construction for a project where a fee credit is being provided, if the actual construction costs are less than the estimate, the City will not reimburse the developer for any difference between the actual and estimated costs; and if the actual construction costs are more than the estimate, the City will not provide any additional funding to the developer.

Reimbursements should be considered for developers who contribute more funding and/or build and dedicate infrastructure items that exceed their proportional obligation if the project funded is of high priority. Such reimbursements should be provided as fee revenue becomes available and should include a reasonable factor for interest earned on the reimbursable amount. It should not compromise the implementation of other priority capital projects. A provision for including such interest payments as additional costs in subsequent fees can be included in the Ordinance. Reimbursements would be granted on a discretionary basis only and not granted as a right.

Internal Loaning of Funds

Loans between the impact fee funds may be used from time to time to facilitate the construction of needed facilities and assure adequate cash flow. Any such loan shall be made in accordance with applicable law, as interpreted by the City Attorney of the City of San Carlos, and all funds shall be placed in separate accounts.

Reporting

AB 1483 (at Gov. Code §§ 65940.1(a)) requires all jurisdictions make available on their website the following:

- A current schedule of fees, exactions, and affordability requirements;
- All zoning ordinances and development standards;
- The current and five previous annual fee reports or annual financial reports; and
- An archive of impact fee nexus studies conducted on or after January 1, 2018.

Updates

In addition, it is common for cities to undertake a comprehensive update of nexus studies and associated development impact fee programs every five to eight years to account for changes in facility development costs among other factors.



APPENDICES:

Appendix A: Child Care Impact Fee
Capital Improvement Plan

Appendix B: Estimate of Potential Fee Revenue



APPENDIX A:
**Child Care Impact Fee
Capital Improvement Plan**

**Table A-1
Capital Improvement Project Identification, as of August 2022
Child Care Impact Fee**

Project Reference	Project Name	Project Description	Project Size	Project Location	Estimated Timing	Total Project Cost Estimate
A	Child Care Space Reimbursement	<p>City may use impact fee revenue to reimburse applicants who choose to meet the child care impact fee requirement by building child care onsite rather than by paying the fee and who oversize the child care space provided relative to the value of the impact fee requirement.</p> <p>The amount of the reimbursement will not reduce the value of the applicant's child care obligation; rather, it can partially or fully subsidize the cost incurred by the applicant in excess of what the fee obligation would have been.</p>	Will vary depending on applications received.	The East Side is most likely, but funds may be spent anywhere in the City.	Within ten years of impact fee adoption. [1]	\$8,000,000 [2]
B	Family and Commercial Daycare Grant Program	<p>City may make child care impact fee revenue available as a grant to at-home and commercial day care providers. The revenue would need to be used to develop new child care facilities or improve existing child care facilities, such that the operator is able to serve more children. [3]</p> <p>Goal is to fund up to 4 opportunities per year, up to \$25,000 per grant initially. Amount per grant could be increased, based on demand and available revenue. The City will develop an outreach program to let child care operators know that funding is available.</p>	Will vary depending on size of grants and applications received.	Funds may be spent anywhere in the City where child care is a permitted use.	As soon as sufficient funding is available. [4]	\$800,000 [5]
C	New Child Care Facility Development	<p>City may use impact fee revenue to develop new child care space in the City. This may include acquiring, adapting, rehabilitating, renovating, etc. existing space and converting to child care or developing new child care space. The space would then be available to be operated by a licensed, child care operator/provider.</p> <p>The amount invested may vary depending on the availability of revenue and opportunities.</p>	Will vary depending on the opportunity.	Funds may be spent anywhere in the City where child care is a permitted use.	As an appropriate opportunity emerges and as soon as sufficient funding is available.	\$4,000,000 [6]

Note: This CIP identifies several options for the use of the child care impact fee revenue. The City will prioritize use of the fee revenue based on emerging opportunities and available resources. If another project concept emerges that would more effectively or efficiently result in new child care spaces in the City and is consistent with the requirements set forth in the Mitigation Fee Act, the City may consider such alternative projects.

[1] Timing will depend on whether applications to provide onsite child care (rather than pay the child care impact fee) emerge.

[2] A \$4 million child care project is expected to be able to serve approximately 50 children at a cost per space of approximately \$80,000. Two such projects are anticipated during the time horizon of the current General Plan (2030). Projects of this scale are expected to be funded primarily by the developer with reimbursement for oversizing from the City.

[3] The grant application will document the number of new spaces that are expected to be created through use of the grant.

[4] The City will develop an outreach program to let child care operators know that funding is available as the account balance allows.

[5] Assumes four \$25,000 grants for eight years (remainder of current General Plan time horizon).

[6] A \$4 million child care project is expected to be able to serve approximately 50 children at a cost per space of approximately \$80,000.



APPENDIX B:
Estimate of Potential Fee Revenue

**Table B-1
Development Pipeline, as of December 2021
Child Care Impact Fee**

Proposed New Developmnet	Existing Sq.Ft.	Existing Use	Proposed Sq.Ft.	Proposed Use	Net New Sq.Ft.	Child Care Impact Fee (at Recommended Levels)	Total Estimated Childcare Impact Fee Revenue [1]
887 Industrial (Alexandria)	134,187	Commercial/industrial	528,520	Life Science	394,333	\$5.00 per sq.ft.	\$2,307,133
1091 Industrial	40,067	Commercial/industrial	138,710	Life Science	98,643	\$5.00 per sq.ft.	\$593,383
1030 Brittan Avenue (MBC Bio Labs)	0	Vacant (parking)	96,175	Life Science	96,175	\$5.00 per sq.ft.	\$480,875
987 Commercial Street (Alexandria)	610,907	Commercial/industrial	1,520,774	Life Science	909,867	\$5.00 per sq.ft.	\$6,076,603
888 Bransten Road (Black Mountain Properties)	57,068	Commercial	211,000	Life Science	153,932	\$5.00 per sq.ft.	\$912,330
800 Old County Road (Sobrato)	29,723	Commercial	300,000	Life Science	270,277	\$5.00 per sq.ft.	\$1,425,693
405 Industrial Road (Menlo Equities)	16,445	Public storage	166,000	Life Science	149,555	\$5.00 per sq.ft.	\$803,688
777 Industrial Road (Presidio)	44,000	Car sales/repair (Honda)	120,000	Life Science	76,000	\$5.00 per sq.ft.	\$490,000
501 Industrial Road (Hotel)	26,000	Construction yard	119,000	Hotel - 188 guest rooms	93,000	\$3.35 per sq.ft.	\$553,400
1021 Howard Avenue	44,812	Commercial/industrial	190,869	Life Science	146,057	\$5.00 per sq.ft.	\$842,315
642 Quarry Road	80,038	Industrial	410,092	Life Science	330,054	\$5.00 per sq.ft.	\$1,922,399
Total Proposed [2]			3,801,140		2,717,893		\$16,407,817

[1] Estimate of child care impact fee revenue is based on net new square footage, and calculated as follows: proposed square footage multiplied by proposed land use fee level, less existing square footage multiplied by existing land use fee level.

[2] Based on recent child care development activity observed in other nearby jurisdictions (Redwood City, South San Francisco, San Mateo), a portion of this pipeline development (particularly the larger projects) is likely to comply with the child care impact fee requirement by building child care onsite. For these projects, child care impact fee revenue will not be generated. In addition, some of this development may not occur as planned. The level of anticipated revenue (assuming 50 percent of the development pipeline either does not emerge or provides child care onsite) is approximately \$8.2 million, which is consistent with the envisioned potential investments identified in Appendix A.

Source: City of San Carlos.