



AGENDA REPORT

Date: June 7, 2016

To: City Manager for Council Action

From: Director of Parks & Recreation

Subject: Adopt Supplemental Instructions for the Appraisal of the Fair Market Value of land used in the Parkland Dedication In Lieu Fee Formula and process for setting the Fee Schedule

EXECUTIVE SUMMARY

On January 26, 2016, after considering the 2015 fair market value land appraisal report and concerns raised by the Building Industry Association (BIA) regarding the appraisal methodology, Council created a “task force to recommend, by consensus, the process for setting the Fee Schedule and recommending the fees for 2016 noting that the fees should not be decreased.” The task force members included: two City Council members, two Parks & Recreation Commissioners, two representatives of parks & open space (Committee for Green Foothills, Ulistac Natural Area Restoration and Education Project), and two representatives of the housing development community (BIA, and California Apartment Association). The eight-member task force met in February, April and May 2016. The task force meetings were publicly noticed and information was available on the City's website. Staff and subject matter experts were also present at the meetings. Most of the task force discussion focused on understanding the appraisal approach, use of comparable sales data, the definitions of “fair market value” and “average value”, and the weight property types should have in arriving at an average value for each Zip Code area.

At the May 5, 2016 meeting, a majority of the task force recommended that Council approve the Supplemental Instructions (see Attachment A) for use by a professional appraiser in determining the “fair market value” for an average acre of land (hypothetical, rectangular, useable) in the City of Santa Clara in each of the City's Zip Code areas. The valuation opinion should conform to the Uniform Standards of Professional Appraisal Practice. The valuation date of the report should be December 31 of each year, and use sales data from January 1 to December 31. All property types should be included in the data set: single family (low and very low density), medium and high density residential, commercial, industrial, lots and land. A “weighted average” of each property type should be based on the percentage of land area sold. If there are insufficient, credible data points (sales), then the appraiser should use comparable sales from the local competitive market area, preferring closer, more recent data. Sales transactions with clouded title, non-arms-length transactions, environmentally impaired sites or more than 3 years old should not be used. Comparable data of 1 to 3 years old should have an inflation factor applied at the professional discretion of the appraiser to reconcile value differences. While the instructions provide a reasonable interpretation of the ordinance language and provide a standardized approach to minimize potential bias and increase confidence in the fair market value results, the Building Industry Association was not in support of the proposed Attachment A—Supplemental Instructions for appraisal, Guideline “a” (found in Attachment A, page 2 of 3).

The proposed process for the annual implementation schedule is:

January to February 15	Collect prior year's sales data, research comparable information
February 16 to March 15	Develop a draft appraisal report
March 16 to 30	Provide draft report for public review /comment
April	Use valuations to compute proposed fees due in lieu of dedication
May-June	Council consideration and adoption of annual Fee Schedule

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Implement new Quimby and Mitigation Fees

However, for the fiscal year 2016-17, if Council approves the Supplemental Instructions, staff will proceed to complete the valuation task by approximately July 5, 2016. Following a two-week public review of the draft report from July 6-19, 2016, and a public notice for the proposed fee resolution incorporating the updated land valuation, fee calculations and necessary findings, Council could consider a fee resolution on August 23, 2016. If approved, new Quimby Act fees would become effective immediately, and the Mitigation Fee Act fees 60 days after adoption for projects whose applications are not yet "deemed complete." Completed housing development project applications would not be affected and remain subject to the prior fee amounts.

ADVANTAGES AND DISADVANTAGES OF ISSUE

City Code 17.35 calls for the fair market valuation of land to be reviewed by Council on an annual basis and for use in calculating fees due in lieu of parkland dedication. Developers may have an independent appraisal done on a per project basis. Adoption of the Supplemental Instructions will provide the City with a standard set of instructions for appraiser use on an annual basis. The alignment of the valuation process with the City's annual Fee Schedule calendar will provide predictability and transparency. There are no known disadvantages.

ECONOMIC/FISCAL IMPACT

If approved, the Supplemental Instructions will be used to provide a valuation with an effective date of December 31, 2015 for fiscal year 2016-17, at an estimated contract cost of \$25,000. The contract cost is allocated in Capital Improvement Project 3181.

The 2015 valuation report will reflect more current market conditions. Changes in valuation do not increase or decrease the City's parkland dedication standards per 1000 residents of 2.53 acres for the Mitigation Fee Act, and 3 acres for the Quimby Act. There is no change in fee amounts for projects already "deemed complete." Projects that meet the parkland dedication requirement, or provide a combination of necessary parkland and private recreational space/amenities do not pay in lieu fees. Projects with 50 or less units and those not providing sufficient parkland pay in lieu fees. The proposed fees and the amounts projected to be collected are unknown at this time.

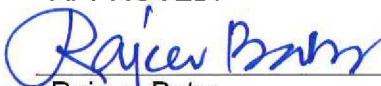
RECOMMENDATION

That the Council adopt Supplemental Instructions for the Appraisal of the Fair Market Value of land used in the Parkland Dedication In Lieu Fee Formula and process for setting the Fee Schedule.



James Teixeira
Director of Parks & Recreation

APPROVED:



Rajeev Batra
Acting City Manager

Documents Related to this Report:

- 1) Supplemental Instructions for the Appraisal of the Fair Market Value of Land

Attachment A
Supplemental Instructions
for the Appraisal of the Fair Market Value of Land

The following information and instructions will be used by the City when setting the land value used in the formula for determining the impact fees due in lieu of park and recreational land dedication pursuant to Santa Clara City Code 17.35.

Background.

On July 15, 2014, Council added Chapter 17.35 "Park and Recreational Land" to the Santa Clara City Code to ensure that new residential development provides adequate community and neighborhood park land for active recreational uses and/or pays a fee in-lieu of parkland dedication to mitigate the impacts of the new growth pursuant to the California Quimby Act and/or Mitigation Fee Act.

17.35.040 Formula for calculation of fee in lieu of land dedication.

(a) When a fee is required to be paid in lieu of parkland dedication, the maximum amount of such fee shall be determined by the fair market value of the amount of land that would otherwise be required to be dedicated pursuant to SCCC 17.35.030, as set forth below. The date of valuation of the property for in-lieu fee purposes shall be the date that the City determines that the developer's application for a parcel map or tentative subdivision map, or application for projects not involving a subdivision, is complete.

(b) Fair Market Value.

(1) The City shall determine the fair market value of the property by using the average per acre land value for property in the City of Santa Clara, based upon a survey of land values and sale records in the City. The City Council shall set a minimum of three such average values, one for each of the three existing Zip Codes in the City (95050, 95051, 95054). The City Council may, at its discretion, set average values for additional subregions of the City. The City Council shall review the fair market values not less than annually and set the values in a Council resolution.

(2) If the developer objects to this determination of fair market value, the developer may elect to have the value established by appraisal. If the developer chooses this option, the developer shall deposit with the City an amount sufficient to cover the cost of an appraisal, which the City shall conduct. The appraisal shall be completed prior to approval of the tentative or parcel map or, for developments not involving a subdivision, prior to the issuance of a building permit.

(c) Based on the determination of fair market value set forth in subsection (b)(1) of this section, for each of the dwelling unit categories, the City Council shall set the amount of fees to be paid in lieu of parkland dedication in a Council resolution, which the Council shall review annually. (Ord. 1928 § 3, 7-15-14).

Guidelines for Appraiser:

(As recommended by Park In Lieu Fee Task Force—May 5, 2016)

- a. *Appraiser is to provide a "Fair Market Value" for an average acre of land (hypothetical, rectangular, useable site) for property in each of the three existing City of Santa Clara Zip Codes 95050, 95051, 95054. The opinion will conform to Uniform Standards of Professional Appraisal Practice.*
- b. **Valuation Date:** *December 31 of each year.*
- c. **Location & Property Sales Data Set Boundaries:** *Data set will begin with sales data from within Santa Clara City limits.*
- d. **Data Set Date Range:** *Use data from January 1st to December 31st of each year. Example: January 1, 2015 to December 31, 2015 for "December 31, 2015 Valuation Date." See contingencies below.*
- e. **Property Types:** *Use all of the following property types: Single Family (low and very low density), High Density Residential, Medium Density Residential, Commercial, Industrial, Lots and Land.*
- f. **Contingencies for Limited Data Set of each Property Type:** *If there are insufficient, credible data points or sales of a particular property type, then appraiser will explore and use comparable sales from the local competitive market area, adjacent to City of Santa Clara. A fixed distance from City of Santa Clara city limit is not given, however a compelling, rational basis for the selection of the competitive market area must be given by the appraiser in the report. Preference is for closer, more recent, and comparable; discretion is given to the appraiser.*
- g. **Sales Transactions Data not to be used:** *Do not use transactions if they are not an arms-length transaction, have encumbered/clouded title, are environmentally impaired site, or are more than three (3) years old.*
- h. **Inflation factors for Comparable between 1 and 3 years:** *An inflation factor will be computed and applied to comparable sales over one year based on reasonable and rational considerations such as sales and rental trends or other appropriate methods.*
- i. **Sales Transactions Data that may be included:** *May use real estate sales transactions by the City of Santa Clara for additional neighborhood or community parkland.*
- j. **Data Values excluded:** *No values or set of values at the high or low end of the data set are to be excluded from consideration in the average values on the sole basis of being relatively high or low; however, a check for consistency among comparable values will be done, and a rational basis should be provided for credible comparable transactions if not used.*

- k. **Research Factors to be considered for Comparable sales:** *The factors to be used to compare property values include, but are not limited to physical factors, economic factors, market conditions verification to parcel maps, public records, CoStar data bank. Additional factors may be used provided there is a rational basis for doing so.*
- l. **Reconciliation of value differences:** *The approach will be comparative, iterative, qualitative and quantitative, and will be made at the appraiser's discretion.*
- m. **Weight to be applied to Property Types:** *The weighted average of each property type will be based on the percentage of land area in the sales transactions, for example, if 25% of total acreage is high density residential, then the relative weight of that property type will be 25%. (The weight will not be done by the quantity of sales of each type or the percent of value of sales of each type).*
- n. **Reporting:** *A draft valuation report will be generated by March 15. City will provide for a two week circulation and comment period. The valuations included the final valuation report will be used in the calculation formula for fees prepared by staff to be reviewed by Council as part of the annual City budget process and Municipal Fee Schedule adoption by June 30. Fees will be implemented on or after July 1 depending upon Quimby Act or Mitigation Fee Act provisions of the Council resolution.*