

Policy Briefing Memo



City of Seattle
Edward B. Murray, Mayor

POLICY BRIEFING MEMO

Date: April 28, 2015

To: Seattle City Council Transportation Committee

From: Ben Noble (Budget), Robert Feldstein, (OPI), Brennon Staley (DPD), Mei Tan (OPI), Tracy Krawczyk (SDOT), Michael Shiosaki (Parks), Holly Miller (DEEL)

Subject: SLI GS 106-1-A-2 Response - Impact Fee Policy Assessment & Work Plan

Objective

This briefing memo 1) provides background on impact fees as a tool to fund new development and growth 2) describes how the city currently funds capital projects 3) provides recommendations for the use of Council's \$300,000 appropriation to fund an impact fee proposal and 4) outlines policy items for Seattle to consider as it develops an impact fee proposal.

Background

Seattle is one of the fastest growing cities in the country, with a projected 120,000 new residents and 115,000 new jobs expected to arrive in the next 20 years. As Seattle grows, the city will need to make additional capital investments to support its new growth. Impact fees are a common tool used by many local jurisdictions to help finance capital improvements necessitated by new development and growth.

Under Washington State Law, cities may charge impact fees to fund transportation, parks and recreation, schools, and fire facilities. Impact fees can only fund the cost of public capital facilities that are necessitated by new development and reasonably benefit new development. They cannot fund major maintenance, operations, or projects to address existing deficiencies. Lastly, impact fees can be assessed at a city-wide or district scale if impacts at that scale can be demonstrated.

Last September, Council appropriated \$300,000 from the Transportation Operating Fund to fund the evaluation and development of an impact fee proposal and requested that the Executive present a work plan for achieving this request. In response to Council's Statement of Legislative Intent, OPI, CBO, DPD, SDOT, Parks, and DEEL convened an interdepartmental workgroup and steering committee to develop a policy assessment and work plan.

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How Seattle Currently Funds Capital Improvements

While many adjacent cities require impact fees, the City of Seattle has never charged them. Rather, Seattle uses development fees and non-development sources to pay for capital improvements.

Among development fees, the city pays for “impact fee eligible” improvements through State Environmental Policy Act (SEPA) mitigation for transportation impacts, including the voluntary Transportation Mitigation Payment program. Overall, SEPA mitigation has a limited ability to generate significant and consistent revenue. The Transportation Mitigation Payment program requires significant upfront work, similar to impact fees, but is voluntary and results in less revenue than an impact fee. Additionally, the voluntary revenues must be earmarked for individual projects (rather than pooled and targeted to a few priority projects), requiring the city to be able to fully fund each of those projects within 5 years or return the payments.

Outside development fees, the city funds capital improvements through a variety of sources including levies, general fund, real estate excise taxes, transportation benefit district sales, commercial parking taxes, use taxes, and local improvement districts. Outside of levies, these options provide limited revenue and cannot generally be expanded. Upcoming levies include:

- Transportation Levy – potential August 2015 authorization, November 2015 vote
- School Buildings, Technology and Academics/Athletics (BTA) Levy – February 2016 vote
- Housing Levy – November 2016 vote

Recommendations

Since January, the steering committee and workgroup have reviewed the policy implications of pursuing impact fees. We recommend that the \$300,000 appropriation be used to fund an impact fee proposal for transportation and parks, with additional assessment conducted for schools in partnership with the Seattle Public Schools. An initial assessment for each impact fee option (transportation, parks, schools, fire) and an overview of the work plan are attached.

Key Policy Considerations:

In addition to the recommendations, the steering committee and workgroup has noted that the any impact fee proposal must consider how impact fees will affect current development activities and other funding mechanisms. These considerations include:

- Impact fees may initially increase costs to renters/tenants/buyer and eventually reduce land values; however it is not possible to quantify the extent of these impacts.
- Additional fees could affect cost competitiveness with other cities; however, use of impact fees is common throughout region.
- Annual impact fee revenue will vary with development cycles; however, cities have up to 10 years to spend the fees.
- If the city institutes fees to support affordable housing or child care, it will have to consider the cumulative impact of these fees along with impact fees on the cost of new housing development.
- Impact fees can only be used for system improvements needed to support new growth, while the levies are intended to fund a broader range of needs, including maintenance, operations and/or existing needs. Education may be needed to clarify that impact fees can complement but not replace levies as they will only fund a portion of capital needs and improvements.

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Cumulative Effect:

Impact fees in other cities tend to be in the following range per gross square foot:

- Transportation: \$1-5/square foot
- Parks: \$1-3/square foot
- Schools: \$2-4/square foot (residential only)

Additionally, the Council passed a resolution supporting linkage fees:

- Affordable Housing: Council Recommendation of \$4-18/square foot
- Child Care: Nexus study suggests maximum of \$1-4/square foot

The total cost of new development (land + construction + soft cost + financing) tends to be \$300-400/gross square foot. Consequently, the combined impact of implementing all these options could be a 3-9% increase in the cost of development.

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Supporting Materials: Initial Assessments by Issue Area

Transportation

Existing Funding	Levy (focused predominately on maintenance, but also funds transit, pedestrian and bicycle improvements) General Fund REET Commercial Parking Tax Various State and Federal Grants Transportation Benefits District (including transit service hours) SEPA Mitigation
Pros	<ul style="list-style-type: none">• Clear connection between growth and additional need• Significant need and limited funding alternatives available
Cons	<ul style="list-style-type: none">• Focus on streets and roads is a challenge (for example, transit operating hours cannot be funded through an impact fee)• Complicated to develop and maintain
Geography	City-wide need, but project list would need to be locally focused
Assessment	Recommend to proceed with work plan.

Parks

Existing Funding	Parks District General Fund (currently, nothing goes to capital) REET County, State, and Federal Grants Donations Incentive Zoning (no money, generates privately-owned public spaces)
Pros	<ul style="list-style-type: none">• Good alignment between areas of growth and areas of need
Cons	<ul style="list-style-type: none">• Long-term cost of maintenance of new parks must be considered• Land cost is high in growth areas
Geography	Might be most viable as a citywide program with district-wide project lists, but could also be limited to select urban villages
Assessment	Recommend to proceed with work plan.

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Supporting Materials: Initial Assessments by Issue Area (continued)

Schools

Existing Funding	Levy State and Federal Funding
Pros	<ul style="list-style-type: none">• Could complement next school levy to meet Seattle Public School needs.
Cons	<ul style="list-style-type: none">• Current data shows growth in student population is not well aligned with new development• Primarily impacts renters who tend to have fewer children• Ability to fund pre-k is unclear
Geography	Determining geography will be challenging since current data shows areas of growing student population are not aligned with new development
Assessment	Given current analysis of growth patterns, impact fee may be minor source of funds compared to levy and may not be the right tool for addressing the need. But to ensure potential is fully understood, recommend partnering with Seattle Public Schools to discuss possibility and refine the analysis.

Fire

Existing Funding	Levy (previous Fire Facilities levy expired; new Public Safety levy under consideration) General Fund (minimal funding for capital facilities)
Pros	<ul style="list-style-type: none">• Could help support or offset next levy
Cons	<ul style="list-style-type: none">• Need of new stations or additional engines is minimal
Geography	South Lake Union is only area that has been identified as needing a new or expanded fire station
Assessment	Fire's needs are primarily operational and major maintenance, which cannot be addressed through an impact fee. Recommend NOT to proceed.

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CITY OF SEATTLE IMPACT FEE DEVELOPMENT TIMELINE

