City of Bellevue

MEMORANDUM

DATE: October 2, 2008 8b

TO: Transportation Commission

FROM: Eric Miller, Implementation Planning Manager

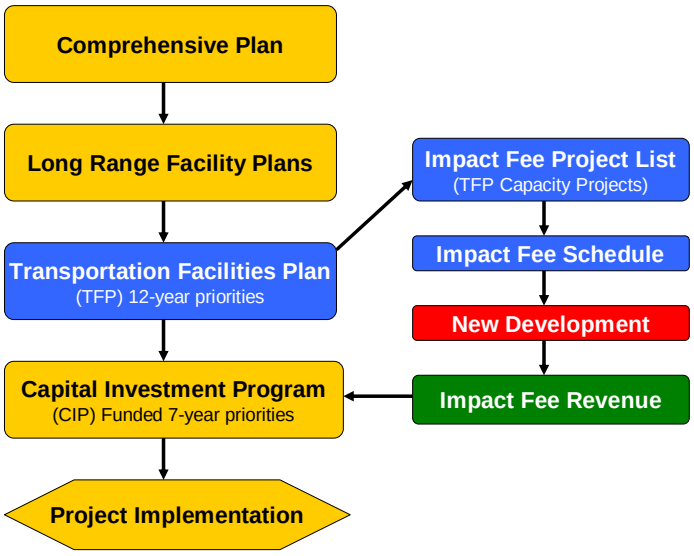
SUBJECT: Transportation Impact Fee Program Review

On October 9, 2008, staff will provide the Commission with a high-level briefing on the City's current transportation impact fee program and the results of an exercise to review the program and evaluate potential modifications or alternatives. This impact fee briefing and discussion is intended to provide Commissioners with a consistent context for reference in future capital financing strategy and impact fee program update discussions. Note: Commission is scheduled to receive a briefing October 23rd on the City Council's October 13th Capital Budget Workshop.

Background

As the Commission is aware, impact fees have been a city-wide capital funding mechanism used by the City for many years. To date, revenue generation from impact fees has provided a very limited proportion of total transportation capital funding, historically less that 5 percent. Without significant program modifications, fees will only marginally support implementation of Bel-Red Corridor Plan recommendations and other high priority transportation system capacity needs throughout the city.

The roadway capacity projects in the TFP form the basis of the City's Impact Fee Project List. The diagram below depicts the relationship between the Comprehensive Plan, long-range facility plans, the TFP, impact fee project list, impact fee schedule and the Capital Investment Program (CIP).



The Bellevue City Code (Chapter 22.16; copy attached for reference) requires the Transportation Commission to present an updated TFP, impact fee project list and impact fee schedule to the Council for approval and adoption every two years.

The purpose of the impact fee program is to assess private development for a portion of the cost of transportation improvements necessary to mitigate the cumulative impacts of growth. The impact fee project list is a subset of the transportation improvements in the TFP, including roadway and intersection capacity projects needed to accommodate additional traffic resulting from new development.

The City's original impact fee schedule was adopted by City Council in 1990 (authorized by Ordinance No. 4104, adopted Dec. 1989). Fees have been updated four times since 1990, in 1995, 1999, 2002 and most recently in 2005 (see table below).

Historical Impact Fee Comparison

Year	Dollars per Trip*	Dollars per GSF*
1990	1,446	2.66
1995	839	1.84
1999	910	1.95
2002	1,012	2.30
2004 (In Effect)	469	1.14
Historical Average	935	1.98

* Dollars per Trip and Dollars per GSF (Gross Square Foot) figures indicated in this table are calculated citywide averages, an easily comparable indicator of each fee update. Actual fees vary based on type, size and location of each development.

On October 23, 2006, staff briefed the Council on the status of the 2006 TFP and impact fee update process, including several impact fee update scenarios under consideration by the Transportation Commission at that time. Each scenario had differences in the components of project costs that were included in the fee calculation. The scenarios started with a continuation of the City's current practice, and incrementally raised fees by including various components of project costs in the fee calculations.

The main follow-up request Council made at the October 2006 meeting was that staff return with a better description of the purpose for the impact fee update scenarios – beyond simply increasing revenue. Per Chapter 82.02 of the RCW, it was the intent of the State Legislature in authorizing local impact fees "To promote orderly growth and development by establishing standards by which counties, cities, and towns may require, by ordinance, that new growth and development pay a proportionate share of the cost of new facilities needed to serve new growth and development…"

On May 14, 2007, staff returned to Council with information relating to their fundamental impact fee policy question: who should pay for the impacts of growth on the transportation system, the new development bringing that growth or the general taxpayers embodied by the existing residents and businesses of Bellevue? Staff explained that the intended purpose of impact fees is to ensure developers contribute to the cost of transportation capacity projects relative to the impact of their development.

At the May 2007 meeting the Council directed that staff work with the Commission to conduct a detailed review of the impact fee program, and further, to investigate options to simplify the program's fee calculation method. No impact fee update was approved at that time.

Impact Fee Program Review
In response to Council's direction, the Transportation Department retained the consultant team of Mirai Associates (now Fehr & Peers/Mirai) and Henderson, Young & Company to assist with a review of the City's current impact fee program. The initial phases of the program review included a technical analysis of current fee calculation methodologies, senior staff workshops, and an initial briefing/discussion with the Transportation Commission, held on January 10th. The technical review also considered the mechanics of calculating fees by district (14 districts are currently used in Bellevue's program) and the implications of simplifying to a system with a citywide approach or a very limited number of districts.

The key consultant deliverable of the impact fee program review is a 'white paper' that summarizes the current impact fee program, presents issues documented during the program review, and identifies revisions that could be made to the program. Options include shifting to a one or two district system, use of expanded project cost allocation scenarios, and the potential for implementation of innovative ideas such as including multi-modal projects within the impact fee program. A primary conclusion identified by the consultants in the initial program review is that the Growth Management Act (GMA) authorizes collection of impact fees for a significant portion of impacts directly attributable to growth. The consultants have indicated what levels of fees are likely permissible under GMA as compared to the low rates charged under Bellevue's current impact fee program. An 'Impact Fee Update Scenario', based on the GMA authority, has also been outlined in the white paper (A copy of the paper is attached to this memo for your reference).

Comparison with Other Agencies
The attached white paper includes a graphical comparison of Bellevue's current and potential fees to existing fees in neighboring cities such as Kirkland, Redmond and Issaquah. While the Commission may have seen this graphical summary previously, the white paper includes additional discussion of the reasons for such fee differences and breakdown of the fee comparisons for specific land uses, including single family, shopping center and office uses. The documentation and graphics illustrate how the current impact fee rates in Bellevue are among the lowest in the region (among agencies that use impact fees) and much lower than adjacent eastside cities.

The October 9 briefing before the Transportation Commission is intended to provide a relatively high level overview of impact fee basics and Bellevue's current program. We understand this may be the first step into the impact fee subject for some commissioners. A follow-up briefing with the Commission is tentatively scheduled for November 13th. At the second briefing we intend to delve much further into issues with the current program and options for its update, the subjects of the white paper described above.

As always, if you have questions or need additional information prior to the meeting, please contact me at 425-452-6146 (emiller@ci.bellevue.wa.us).

Attachments
1. Bellevue City Code, Chapter 22.16 – Transportation Improvement Program
2. Transportation Impact Fee White Paper, June 2008

Chapter 22.16
TRANSPORTATION IMPROVEMENT PROGRAM

Sections:

22.16.010 Authority and purpose.
22.16.020 Definitions.
22.16.030 Repealed.
22.16.040 Designation of long-term transportation plan.
22.16.050 Transportation improvements.
22.16.060 Repealed.
22.16.070 Imposition of transportation impact fees.
22.16.080 Calculating transportation impact fees.
22.16.090 Determination, collection and administration of fees.
22.16.095 Appeal of fees.
22.16.100 Refund of fees.
22.16.110 Amendments.

22.16.010 Authority and purpose.

A. This Chapter 22.16">22.16 BCC is enacted pursuant to Chapter 82.02 RCW. It is the purpose of this chapter to:

1. Adopt a program for the purpose of jointly funding, from public and private sources, system improvements necessitated in whole or in part by development and growth within the service area.

2. Provide a fair and predictable method for allocating the cost of reasonable and necessary transportation improvements between the public and private sectors.

3. Create a mechanism to charge and collect transportation impact fees from new development.

4. Provide a portion of the funding for reasonable and necessary system improvements to mitigate the cumulative impacts of growth and development in the service area.

5. Create a system for the collection and administration of transportation impact fees.

B. This Chapter 22.16 BCC supplements existing authority of the city to regulate development. This chapter does not supplant the requirements of environmental review and mitigation under the State Environmental Policy Act ("SEPA") and Chapter 22.02 BCC. Any transportation impact fees paid in accordance with the program established by this chapter shall not exceed a proportionate share of the costs of system improvements that are reasonably related to the new development. This program may serve as one method by which the developer may meet, in part or in whole, its obligations under SEPA; provided, that a developer required to pay a fee as mitigation under SEPA and Chapter 22.02 BCC for system improvements shall not be required to pay an impact fee under this chapter for those same system improvements. (Ord. 4824 § 1, 1995; Ord. 4104 § 1, 1989.)

22.16.020 Definitions.

A. "Affordable housing" means that housing which is affordable to families with an income up to 80 percent of the area median income, adjusted for family size, as defined by the Department of Housing and Urban Development for the Seattle Metropolitan Statistical Area. In addition, "affordable housing" shall mean those categories of affordable housing for certain projects in the downtown area which Bellevue City Code (Land Use Code) 20.20.128(B)(9) defines as affordable for households whose incomes do not exceed 105 percent, 100 percent, 90 percent, or 80 percent of the area median income.

B. “Developer” means an individual, group of individuals, partnership, corporation, association, municipal corporation, state agency, or other person undertaking development and their successors and assigns.

C. “Development” means any construction or expansion of a building, structure, or use for which a permit, approval, or other authorization is required that creates additional demand and need for public facilities; provided, that such development generates at least one new p.m. peak hour trip, when the permit, approval, or other authorization for the development is processed pursuant to Bellevue City Code (Land Use Code) Process I (20.35.100 et seq.); Bellevue City Code (Land Use Code) Process II (20.35.200 et seq.); or Bellevue City Code (Construction Code) Chapter 23.10. In the case of tenant improvement permits, “Development” means any proposed new use or expanded existing use for which SEPA review is required; the threshold for imposing the impact fee for a tenant improvement is 11:00 p.m. peak hour trips.

D. “Fair market value” means the price in terms of money that a property will bring in a competitive and open market under all conditions of a fair sale, the buyer and seller each prudently knowledgeable, and assuming the price is not affected by undue stimulus, measured at the time of the dedication to local government of land or improved transportation facilities.

E. “Gross floor area” means the sum in square feet of the area at each floor level of a building that is included within the principal outside faces of exterior walls. The gross floor area of any parking garages within the building shall not be included.

F. “Impact fee area” means one or more geographic areas within the service area, as shown on the map adopted by Section 16 of Ordinance 4824, and as such map may be amended.

G. “Impact fee project list” means those transportation improvement projects in the transportation facilities plan which are funded in part by transportation impact fees, as adopted by Section 15 of Ordinance 4824 and given Clerk’s Receiving No. 22455, and as such list may be amended.

H. “Impact fee schedule” means a schedule of impact fee rates per development unit (e.g., square footage) for specific land uses within each impact fee area, as adopted by Section 16 of Ordinance 4824 and given Clerk’s Receiving No. 22456, and as such schedule may be amended.

I. “Level of service” means a measure of traffic congestion along a roadway or at an intersection identified by a letter from A to F as defined by the Institute of Transportation Engineers.

J. “P.M. peak hour” means the 60-minute period between 3:00 p.m. to 7:00 p.m. which experiences the highest volume of traffic on a roadway or passing through a roadway intersection.

K. “P.M. peak hour trips” means the total vehicular trips entering and leaving a development during the p.m. peak hour on the adjacent roadway.

L. “P.M. peak hour trip generation rate” means the trip generation rate per unit of development, as specified in the city of Bellevue’s most recent transportation impact fee program technical report. A unit of development is the element used to describe the size of the development, e.g., gross floor area in square feet for an office building, students for a school. Other trip generation definition sources may be used where the proposal has special trip-generating characteristics, subject to approval of the transportation department.

M. “Project improvements” mean site improvements and facilities that are planned and designed to provide service for a particular development project and that are necessary for the use and convenience of the occupants or users of the project, and are not system improvements. No improvement or facility included in the capital facilities plan shall be considered a project improvement.

N. “Proportionate share” means that portion of the cost of public facility improvements that are reasonably related to the service demands and needs of new development.

O. “Reasonably related to the proposed development” means those quantifiable transportation impacts that are caused by vehicles whose trip origin or destination is the proposed development.

P. “Service or plan area” means the geographic area which is benefited by the transportation improvements proposed to be constructed with transportation impact fees collected under this Chapter 22.16">22.16 BCC and within which transportation impact fees will be imposed. The boundaries of the service area shall be the same as the legal boundaries of the city of Bellevue and shall include all unincorporated areas annexed to the city on and after the effective date of the ordinance codified in this chapter. Pursuant to the adoption of interlocal agreements with other local and regional governments, including any transportation benefit district created pursuant to Chapter 36.73 RCW, the geographic boundaries of the service area may be expanded consistent with the provisions of such interlocal agreements.

Q. “System improvements” mean public facilities that are included in the capital facilities plan and are designed to provide service to service areas within the community at large, in contrast to project improvements.

R. “Transportation facilities plan” means the 12-year program adopted by the city council by resolution for jointly funding, from public and private sources, transportation improvements necessitated in whole or in part by development within the service area. The transportation facilities plan is based on the transportation facility plans adopted in the city’s GMA comprehensive plan codified at 21.M.610 et seq.

S. “Transportation impact fee” means a payment of money imposed upon development as a condition of development approval to pay for public facilities needed to serve new growth and development, and that is reasonably related to the new development that creates additional demand and need for public facilities, that is a proportionate share of the cost of the public facilities, and that is used for facilities that reasonably benefit the new development. “Impact fee” does not include a reasonable permit or application fee.

T. “Transportation improvement” means any and all capital improvements to the transportation infrastructure of the city constructed pursuant to city design and development standards and requirements, including without limitation roads, bridges, overpasses, sidewalks, curbs, turn lanes, traffic signals, traffic signs, HOV lanes, bus shelters, and associated landscaping.

U. “Transportation management program” means a program(s) designed to increase the efficiency of existing capital transportation facilities including, without limitation, transit, ridesharing, flexible working hours, and other measures to decrease single occupancy vehicle trips. (Ord. 4824 § 2, 1995; Ord. 4104 § 2, 1989.)

22.16.030 Description of plan area.

Repealed by Ord. 4824. (Ord. 4104 § 3, 1989.)

22.16.040 Designation of long-term transportation plan.

The city designates the transportation facilities plan adopted by Resolution No. 5802 and any subsequent updates thereto as the city’s comprehensive long-term transportation plan for the purpose of identifying the proposed transportation improvements reasonable and necessary to meet the future development needs of the service area consistent with the city’s level of service policy. The transportation facilities plan is based on the transportation facility plans adopted in the city’s GMA comprehensive plan codified at 21.M.610 et seq. (Ord. 4824 § 3, 1995; Ord. 4104 § 4, 1989.)

22.16.050 Transportation improvements.

A. The transportation facilities plan is a 12-year list of transportation improvements in the service area. These transportation improvements include design, acquisition of right-of-way, and

construction. Every two years, the transportation commission shall present an update of the transportation facilities plan to the city council for approval and adoption.

B. The impact fee project list consists of the transportation improvements in the transportation facilities plan needed to provide capacity on city of Bellevue roadways, where the capacity needs are created in part or in whole by new development. The impact fee project list is adopted by the city council.

C. Within six months following the adoption of an updated transportation facilities plan, the transportation commission shall present to city council for approval and adoption an updated impact fee project list. This list shall include the costs of design, acquisition of right-of-way, and construction. (Ord. 4824 § 4, 1995; Ord. 4104 § 5, 1989.)

22.16.060 Adoption of capital funding program.

Repealed by Ord. 4824. (Ord. 4104 § 6, 1989.)

22.16.070 Imposition of transportation impact fees.

A. Any development in the service area, except a development or portion thereof specifically exempt pursuant to subsection B of this section, which is approved, permitted, or otherwise authorized after the effective date of Ordinance No. 4104, shall be required to pay a transportation impact fee to the extent and in the amount provided herein.

B. The following types of development or portion thereof are exempt from the requirement to pay a transportation impact fee as otherwise required by this Chapter 22.16 BCC:

1. Any development or portion thereof used exclusively for “child care services” as defined in Bellevue City Code (Land Use Code) Section 20.50.014; provided, that no such exemption shall be provided unless the developer has first signed a concomitant agreement satisfactory to the city which provides assurance that such “child care services” use shall continue for at least that term specified in such concomitant agreement;

2. Any development or portion thereof used exclusively for “affordable housing”; provided, that no such exemption shall be provided unless the developer has first signed a concomitant agreement satisfactory to the city which provides assurance that such “affordable housing” will continue to be made available for as long as the structure exists;

3. Public transportation facilities;

4. Public parks and recreational facilities;

5. Privately operated not-for-profit social service facilities recognized by the Internal Revenue Service under Internal Revenue Code Section 501(c)(3);

6. Public libraries;

7. Publicly funded educational institutions;

8. Hospitals, as defined in Bellevue City Code (Land Use Code) 20.50.024, if not operated for profit.

Impact fees for these exemptions shall be paid from public funds other than the impact fee fund. (Ord. 4824 § 5, 1995; Ord. 4104 § 7, 1989.)

22.16.080 Calculating transportation impact fees.

A. Within six months following the adoption of an updated transportation facilities plan, and subsequent adoption of an updated impact fee project list, the transportation commission shall develop a new transportation impact fee schedule using the following methodology and shall present such schedule to the city council for consideration for approval and adoption:

1. For the transportation improvements listed in the impact fee project list, calculate the percentage of total future p.m. peak hour traffic attributable to development within the service area (“development percentage”). Multiply the development percentage by the total estimated cost of such transportation improvements to obtain the funding amount needed from development within the service area.

2. Specify one or more geographic areas within the service plan area as “impact fee areas.”

3. For the transportation improvements listed in the impact fee project list, calculate the percentage of projected p.m. peak hour traffic attributable to development originating from or destined to each impact fee area. Using the resulting percentage, allocate a proportionate share of the transportation cost attributable to development to each impact fee area. Within an impact fee area, sum these proportionate shares of transportation improvements. This sum constitutes the “area development cost.”

4. Divide the “area development cost” by the total number of p.m. peak hour vehicle trips generated by development in the impact fee area to obtain an “average impact fee per trip.”

5. Adjust the “average impact fee per trip” for specific land use types to account for:

a. Pass-by trips, as defined in the ITE Trip Generation Manual, current edition; and

b. Average trip length; and

c. Expected levels of ridesharing and transit usage.

6. Produce a schedule of impact fee rates per development unit (e.g., square footage, housing units) for specific land use types within each impact fee area.

B. The transportation department shall calculate the amount of the applicable transportation impact fee for each development by:

1. Determining the applicable impact fee area for the development;

2. Verifying the development land use type and units of development;

3. Determining the applicable per unit transportation impact fee from the impact fee schedule;

4. Multiplying the applicable per unit transportation impact fee by the development unit to obtain the “base transportation impact fee” for such development.

C. If the development does not fit into any of the categories specified in the transportation impact fee schedule, the department shall use the impact fee applicable to the most directly comparable type of land use specified in the fee schedule. If the development includes mixed uses, the fee shall be determined by apportioning the space committed to uses specified in the fee schedule. The transportation department shall be authorized to adjust the impact fees for any mixed development based on analysis of specific trip generating characteristics of the development.

D. Once the calculation of the “base transportation impact fee” has been made, any credit owing to the development for the fair market value of any dedication of land for, improvements to, or new construction of any system improvements provided by the developer, to facilities that are identified in the impact fee project list and that are required as a condition of approving the development activity shall be provided. The director of the transportation department shall initially determine, subject to final approval by the city council, whether the city will accept such dedication, improvements or construction. If the value of any such dedication, improvements or construction exceeds the amount of the transportation impact fee obligation, the developer shall be entitled to reimbursement from transportation impact fees that are paid by subsequent developers within the service area. To ensure that reimbursements are paid only from impact fees and not from general city funds, the reimbursement amount may not exceed the growth percentage of the impact fee project multiplied by the value of the dedication, improvement or construction. The growth percentage of a project is identified in the impact fee project list. The director of the transportation department is directed to establish rules and regulations to administer the provisions of this section.

E. Payment of the transportation impact fee entitles the developer and its successors or assigns to a credit in the amount of the impact fee against any other fee or assessment made specifically for the designated system improvements covered by the transportation impact fee imposed under this Chapter 22.16 BCC.

F. A developer shall be given a credit against a transportation impact fee in the amount of transportation impact mitigation fees already paid or improvements already constructed where a prior recorded concomitant agreement provided for the payment for or the construction of any transportation improvement or portion thereof included in the impact fee project list. This provision applies only where the property subject to the concomitant agreement is the property on which the development is proposed to be located.

G. The transportation impact fee schedule authorized pursuant to this Chapter 22.16 BCC may be revised if review shows that the estimated cost of carrying out the applicable transportation improvements to be funded under the impact fee project list has changed at the time of the review of the list. This provision shall apply prospectively only. No transportation impact fee for a specific development shall be increased or decreased once said fee has been paid.

H. No transportation impact fee shall be collected if the transportation improvements are incapable of being reasonably accomplished because of lack of public funds. No impact fee shall be imposed by the city on a development when mitigation for the same transportation impact of the development is being required by any other governmental agency pursuant to any other local, state, or federal law.

I. The transportation department may consider unusual circumstances for specific developments and may adjust the standard impact fee for specific developments in order to ensure that impact fees are imposed fairly. The department shall set forth its reasons for adjusting the impact fee in written findings. (Ord. 4824 § 6, 1995; Ord. 4104 § 8, 1989.)

22.16.090 Determination, collection and administration of fees.*

A. The transportation department shall determine the amount of the transportation impact fee required for any development pursuant to the transportation impact fee schedule.

B. No building permit, or conditional use permit where applicable, for any development requiring payment of a transportation impact fee pursuant to this Chapter 22.16 BCC shall be issued until the transportation impact fee has been paid in full.

C. There is hereby created and established a special purpose, nonoperating transportation impact fee fund (“the impact fee fund”). All transportation impact fees, and investment income received pursuant to this Chapter 22.16 BCC shall be deposited into the impact fee fund. Procedures for administration of the fund shall be established by the director of the finance department. The impact fee fund is not intended as a fund from which direct transportation capital expenditures will be made. This fund is intended to serve as an accounting device to receive revenues generated as described herein for automatic transfer to other fund(s) where expenditure purposes associated with these revenues have been budgeted. In consideration of this, appropriations in this fund may be administratively adjusted periodically; that is, without additional ordinance requirements, in order to equal revenue expectations. Appropriation changes by ordinance will continue to be provided for the funds in which expenditures will actually occur.

D. The transportation department shall pool impact fees whenever necessary to ensure that the fees are expended or encumbered for a permissible use within six years of receipt, unless there exists an extraordinary or compelling reason for fees to be held longer than six years. The city council shall adopt written findings setting forth its reasons for holding any fees longer than six years. Pooling for such purpose shall be accomplished by determining which project has the highest priority among the projects for which impact fees were collected, and the fees shall be transferred to the budget of that project. Any interest earned on impact fee installment payments, or on invested monies in the impact fee fund may be pooled and expended on any one or more of the transportation improvements for which impact fees have been collected.

E. Fees may be collected for system improvement costs previously incurred by the city to the extent that new growth and development will be served by the previously constructed

improvements; provided such fee shall not be imposed to make up for any system improvement deficiencies. (Ord. 4824 § 7, 1995; Ord. 4104 § 9, 1989.)

*Ord. 4907 § 4 provides:

> [The Impact Fee Fund] shall be consolidated into the “General Capital Investment Program Fund” and thereby closed. All assets and operations of such funds shall be transferred to the “General Capital Investment Program Fund” which shall carry out the purposes and functions for which such consolidated funds were originally created.

22.16.095 Appeal of fees.

The developer may appeal the determination of the amount of the transportation impact fee, including whether or to what extent an exemption applies or a credit should be provided. The developer must file an appeal with the city clerk within 14 days of the date that notice is given to the developer of the fee. The appeal shall be processed pursuant to the Process II appeal procedures of the LUC 20.35.250. Pending determination on any appeal, a building permit may only be issued if the developer first pays under protest the full amount of the fee, as determined by the department. (Ord. 4978 § 33, 1997; Ord. 4824 § 8, 1995.)

22.16.100 Refund of fees.

A. If a building permit or other approval expires or if the application is withdrawn or canceled and no construction has commenced, the current property owner shall be entitled to a refund of any transportation impact fee paid plus interest earned less a reasonable administrative charge for the processing of said fee. Any fee erroneously paid or collected shall be refunded in full, with interest earned.

B. All transportation impact fees not expended or encumbered within six years of collection shall be refunded in full to the property owner currently of record, with interest earned unless the city council has made written findings extending the six-year period. (Ord. 4824 § 9, 1995; Ord. 4104 § 10, 1989.)

22.16.110 Amendments.

This Chapter 22.16 BCC, and the impact fee project list may be amended at any time or from time to time to coordinate the impact fee project list with applicable local or regional transportation plans relating to the service area or the region and to otherwise revise the impact fee project list in such manner as the city shall deem necessary and advisable. (Ord. 4824 § 10, 1995; Ord. 4104 § 11, 1989.)

Attachment 2

Transportation Impact Fee

White Paper

Draft

June 2008

Prepared for:

City of Bellevue

Prepared by:

Fehr & Peers / Mirai
Henderson Young & Company

Summary of Options

Cost Allocation Process

- Switch to 'marginal' cost allocation approach.
- Calculate growth shares based on total project cost (Do not remove Grants first)
- Use 12-year project list and 12-years of growth. Consider expanding to 20 years

Project List

- 12-year TFP is a good basis for impact fees
- Start keeping completed projects on the TIF list if they provide ongoing capacity
- Expand project list to include more multi-modal elements. Ideas include:
- BRT treatments; LRT rail infrastructure, bike lanes
- Tie multi-modal elements to street classifications and design standards (e.g. multi-modal or transit corridor)

Project Costs

- Revise cost calculation to include full project costs (Do not constrain to TFP revenue projections)
- Include cost inflation factor to be applied in years when impact fee program costs are not updated

Districts

- Reduce the number of districts to maximum of 5 (or as few as 1-citywide)
- Option: Create citywide rate plus create a subarea overlay for Bel-Red sub-area
- Continue the trip generation rate differential for the downtown activity center

Impact Fee Schedule

- Review current land use categories. Add or remove categories based upon city experience
- Update trip generation rates
- Update pass-by rates- ITE and other national studies
- Review adjustment factors for uses that are expected to have higher mode shares in activity centers
- Update relative trip lengths

Chapter One

Review of Current TIF Program

COST ALLOCATION PROCESS (STRUCTURE, TIME HORIZON)

The City's cost allocation process has evolved since the inception of the impact fee program in 1990. This process, shown in Figure 1, features the following steps:

- Starts with a 12-year TFP project list and costs
- Removes the portion of costs funded by grants and other sources.
- Calculates the growth share of the remaining cost by dividing six-years of traffic growth on a facility by the total future traffic forecasted on that facility.
- Allocates the resulting facility growth cost to be paid by impact fees

Decisions made at several of these steps are based on city policy; the city code provides the framework for the impact fee calculations, but does not specify details at each step.

Observations

The cost allocation process meets the intent of the growth management act, but applies a very conservative set of decisions at each step. The current structure yields growth paying less than 10 percent of total project costs. Other cities typically charge between 25 to 60 percent of costs to impact fees using basically similar programs but different assumptions.

The low percentages of impact fee revenues in Bellevue are highlighted by the following situations:

Cost Allocation Key Issues

►Include full project costs or Cost less grants and other sources?

►What is the best time horizon?

►What should be the calculation method for growth shares?

►How should outside-city growth be handled?

Subtraction of other funds from Project Costs - City code allows capturing of full project costs, with grants and other funding sources being used to pay for the non-growth share. However, city policy has specified that the revenue from these other funding sources be subtracted out, up front, before the growth cost allocation is performed. Historically, the other funds have equaled around 40 percent of the impact fee project costs.

Calculations of Growth Shares - There are two primary methods to calculate the growth share of a project- the 'average cost method' and the 'marginal cost method'.

The current structure uses the 'average' cost approach, in which growth only pays for its share of the total usage of the facility. For example, if a street is forecasted to carry 1,000 vehicles in the future, and the existing traffic volume is 800, then the future (growth) share would be 200/1000= 20 percent. This method presumes that the need for the street improvement is proportionally shared between existing and future travelers; in most cases, the existing traffic share is much higher than the growth

traffic share. In Bellevue, the growth share has averaged approximately 15 percent based upon using a 6-year amount of growth (see **Figure 1**).

An alternative method is called the 'marginal cost' approach. This approach calculates the marginal growth cost of the project by determining, up front, the proportion of the project associated with growth. The presumption used is that the need for the future projects is created by the new growth, and that absent the growth there would be minimal need to build the project. This method requires an analysis to explicitly account for existing deficiencies on the transportation system; new growth would not be charged for the portion of the costs attributable to existing deficiencies.

Figure 2 documents the marginal cost approach as it could be applied to Bellevue. The eligible growth cost of the current TIF projects could be in the range of 90 to 100 percent, based on our review of the city's 2007 *Concurrency Report*. These results demonstrate that the need for the identified projects is due to expected new growth rather than to address existing deficiencies.

Calculation of Non-City Growth- Impact fees can be charged only to the growth in trips related to new development within the City of Bellevue. Therefore, the analysis must exclude the portion of growth due to trips generated outside of the city. The current program does not explicitly adjust for the portion of traffic growth that is due to non-Bellevue growth. This is not likely to be a major concern given the conservative nature of the other assumptions built into the 'average cost' approach.

In the alternative 'marginal cost' approach (Figure 2), an analysis is performed with the travel model to separate the city growth from the 'outside city' growth. An initial examination of the 12-year travel data indicates that the outside city growth ranges from 10 to 50 percent of the travel growth on the impact fee facilities. Therefore, the city growth portion would range between 50 and 90 percent. Overall, this approach could yield impact fee revenues equaling 40 to 80 percent of total project costs.

Other observations relate to the time horizon used for the cost allocation process. As previously indicated, the city currently uses the 12-year TFP as the source from which to select capacity-related transportation projects for impact fees. However, the amount of trips used to allocate the costs only represent the final six years of the TFP. We are not clear why 6-years of growth have been used in this calculation, rather than 12-years of growth matching the 12-year TFP project list. The city could consider an even longer time-horizon for the TIF program, matching with the adopted Transportation Element time-frame or other target year. A longer time horizon could have the effect of spreading out the project costs among a larger pool of growth trips; conversely, using a longer time horizon could result in the addition of more projects and higher costs within the TIF list.

Figure 1. Current City Impact Fee Structure

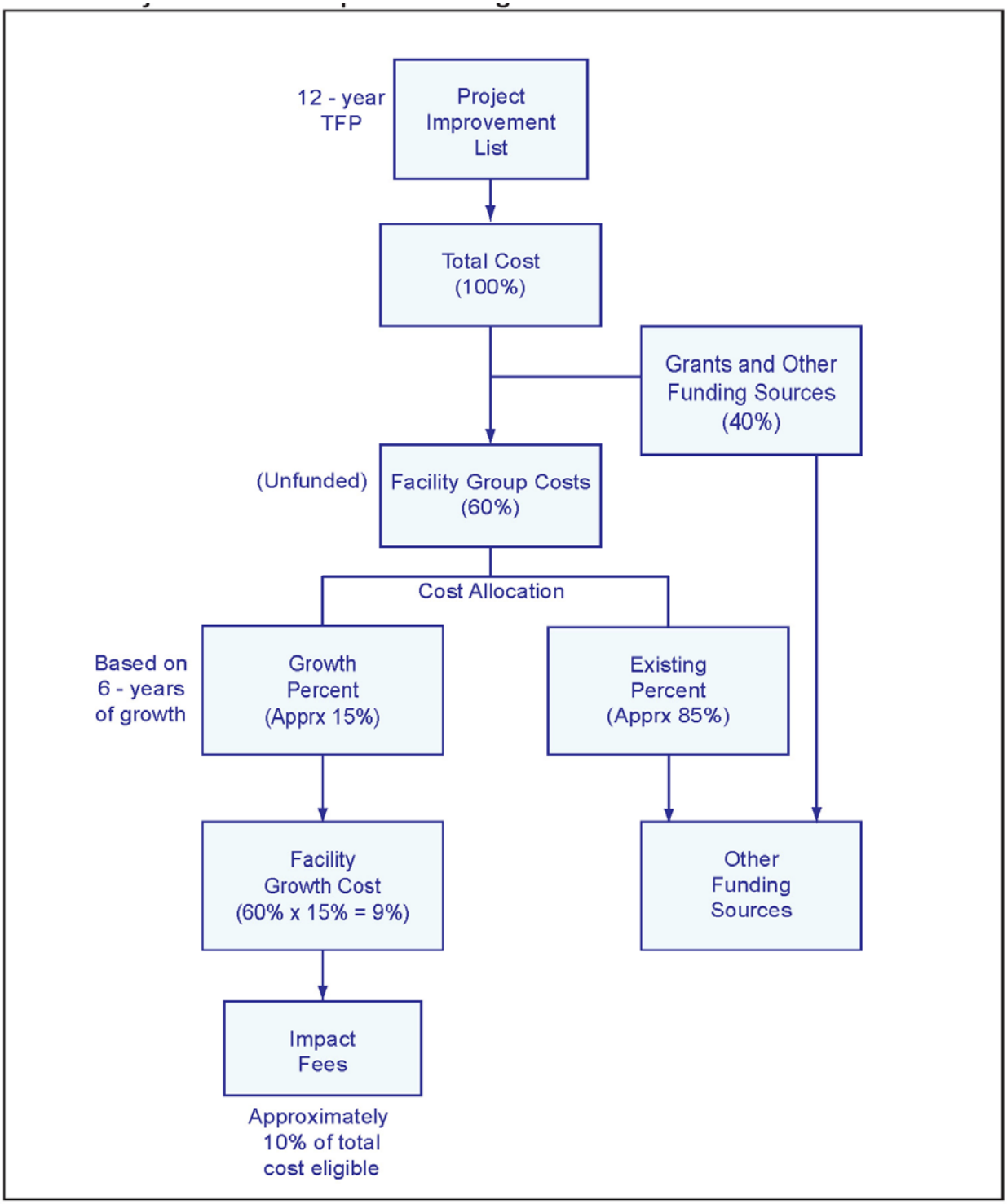
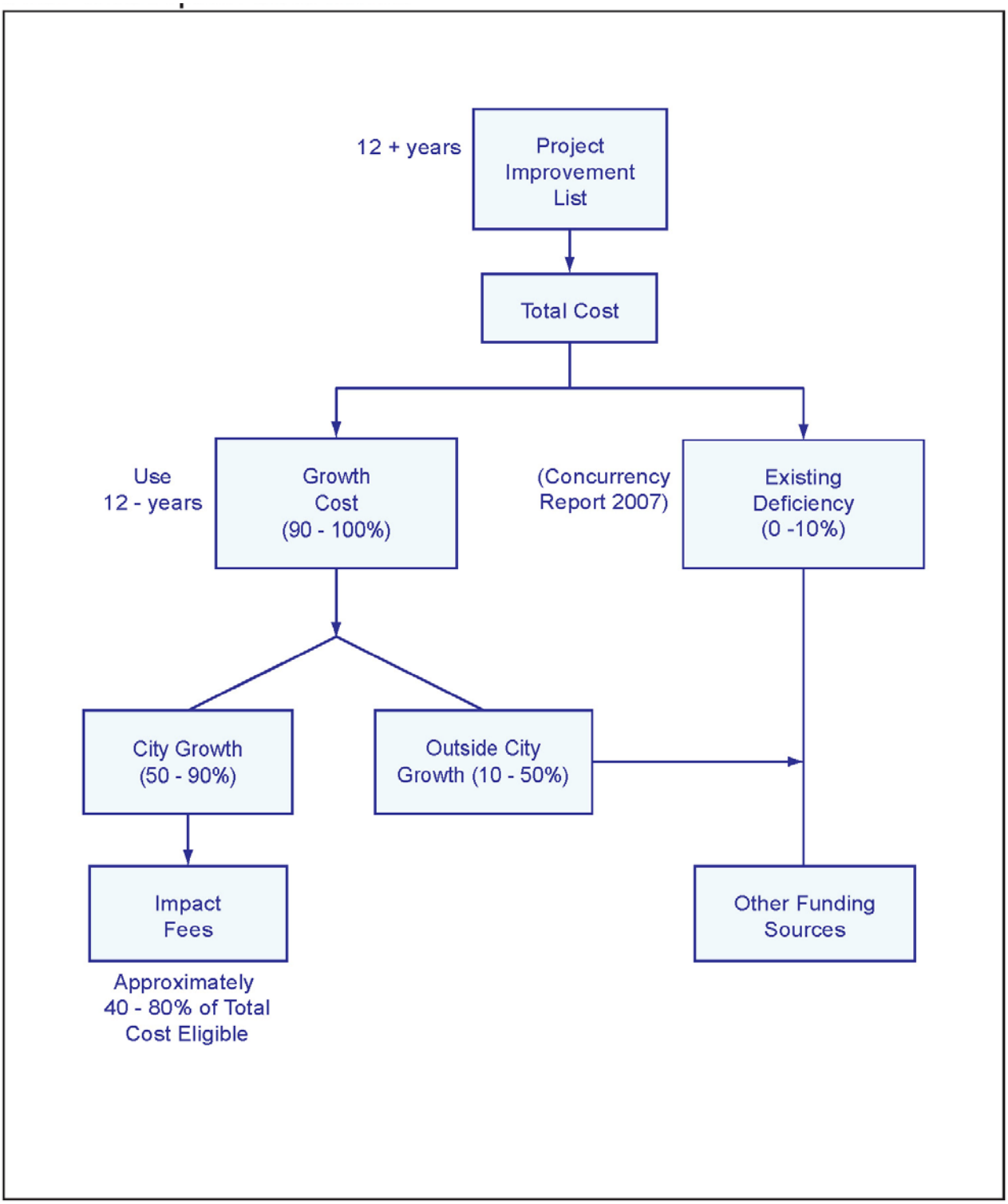


Figure 2. Alternative Marginal Cost Approach to Impact Fees



Summary of Cost Allocation Options

Impact fee programs can be constructed using several methodologies. The city's current program yields conservatively low percentage cost allocations to impact fees with commensurately low impact fee rates. Options that could be considered to adjust these ratios include moving to a 'marginal' cost allocation method and using total project costs in the impact fee calculations. Both of these options would result in higher impact fee percentages of revenue and higher impact fee rates.

Another option to consider would be to adjust the travel growth time horizon to a full 12 years- matching the time frame of the TFP project list. Even longer time horizons, such as 20+ years, could also be used, consistent with the city's transportation element of the Comprehensive Plan. Both of these options would lead to spreading the project costs over more growth, but could also lead potentially to a larger impact fee project list and costs.

Cost Allocation Options to Consider

►Switch to 'marginal' cost allocation approach

►Calculate growth shares based on total project cost

►Use 12-year project list and 12-years of growth- consider expanding to 20 years

PROJECT LIST AND COSTS

Project List

The impact fee project list is the starting point for creating an impact fee program. This list establishes the range of projects for which impact fees can be charged and the cost basis for the impact fee calculations. The Current Bellevue program uses street capacity projects in the city's 12-year Transportation Facilities Plan (TFP) and shown in **Figure 3**. Some of these projects include multi-modal elements, such as sidewalks, bicycle lanes, or transit shelters. The city removes projects from the TIF list once they are completed.

Project List Issues

►What projects are eligible (e.g. multi-modal)?

►Include completed projects?

►Use a 12-year TFP or longer time frame?

Project List Observations

Bellevue's impact fee project list is similar to other agencies with impact fee programs. The 12-year window provides a reasonable time frame to identify project needs. State law allows projects to be retained on an impact fee project after completion list if capacity is still available for future growth. By policy, Bellevue has chosen to remove completed projects after completion; this is a relatively common practice among other agencies.

The city's TFP is well established and provides a sound basis for an impact fee project list. Since many of the projects on this list are designed to meet capacity needs well into the future, we suggest that the city consider a policy to keep completed projects on the impact fee list for a period of time (e.g. 3 to 5 years) since capacity is still being used by future growth. For simplicity, we suggest that this policy look ahead and not go back in time to add projects previously removed.

Finally, we suggest that the city consider expanding the eligible TFP project list to explicitly include multi-modal elements. This could be accomplished by identifying specific street corridors for transit and/or non-motorized uses. We believe that these projects would still need to be located within the basic city street envelope. It would more difficult to include multi-modal projects outside of the street envelope, such as multi-purpose trails or BRT on exclusive alignment.

Project List
Draft Options

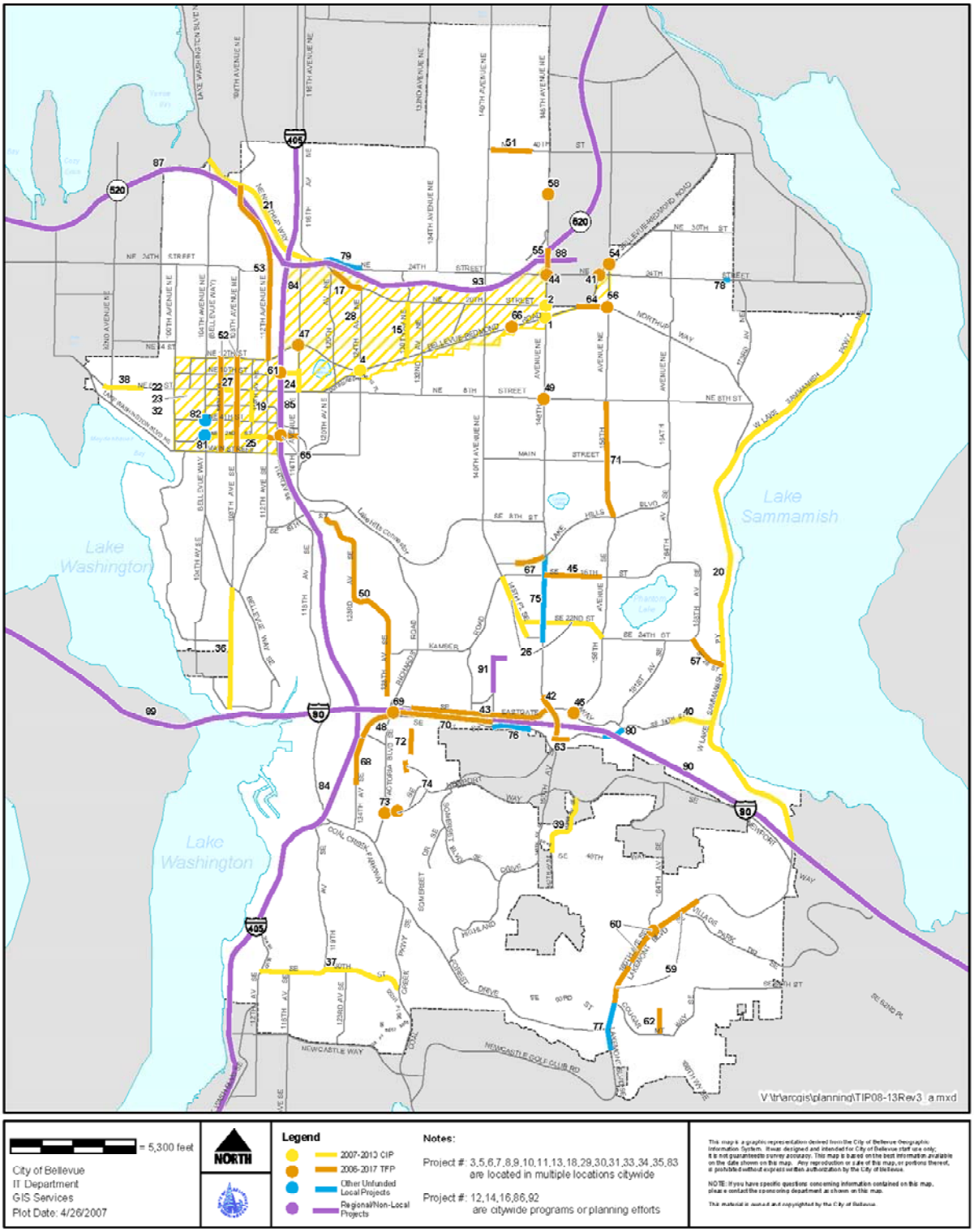
►12-year TFP is a good basis for impact fees

►Start keeping completed projects on the TIF list if they provide ongoing capacity

►Expand project list to include more multi-modal elements. Ideas include:

- BRT treatments; LRT rail infrastructure, bike lanes
- Tie multi-modal elements to street classifications and design standards (e.g. multi-modal or transit corridor)

Figure 3. 2008 -2013 Transportation Improvement Program Projects



Project Costs

The current practice for cost estimating constrains the project cost increases to not exceed TFP revenue projections. In situations where this could occur, staff inserts 'placeholder' costs to not exceed projections. There is no annual adjustment for cost changes.

Project Costs Issues

- Costs are not updated regularly
- Includes only 'placeholder' costs to avoid going beyond total TFP 12-year projection

Project Cost Observations

Bellevue's City code allows capturing of full project costs. The current practice focuses primarily on making sure that the impact fee costs and the TFP revenue projections are in synch. Since the impact fees can only cover a portion of the costs, the net effect of this practice is to substantially understate the total eligible impact fee costs.

For example, assume a project costs $5 million but is constrained to $2 million to match the TFP revenue. Further assume that the growth share of this project is 15 %. Applying this percent to the full project cost would produce an eligible impact fee based on $750,000 (i.e. $5M * 0.15), while using the constrained 'placeholder' cost the eligible fee would be based on only $300,000. Using a full-cost approach, impact fees could pay for up to $750,000 of this project, still less than the $2M revenue limit in the TFP. Such an approach would allow more impact fee revenues to be obtained without substantially altering the overall structure of the impact fee program.

The city's impact fee project list and costs are only updated periodically, which is a common practice among jurisdictions. For those intermediate years that do not include a full update, many cities are now including automatic cost adjustments tied to inflation. These adjustments allow the impact fee rates to stay reasonably current and they avoid having large rate changes when the full program is updated.

The city could utilize full project costs as a basis for the impact fee cost allocation. Since the impact fees revenues only constitute a portion of the total project costs, it is unlikely that the TFP revenue limits would be exceeded. The city could also consider including a cost inflation adjustment within the impact fee code to allow the rates to be modified to meet annual cost changes.

IMPACT FEE DISTRICTS

Issues Regarding Impact Fee Districts

►Keep existing 14 districts or reduce number of districts?

►Keep small rate differences among districts or allow greater differences?

Bellevue has 14 districts for transportation impact fees. Originally, the City based the impact fee on the cost per trip for each district. Now, the City still identifies projects in districts, but averages their costs per trip as the basis for transportation impact fees. Therefore, there is no difference among districts in the cost of transportation improvement projects. There is some variation in the impact fee rates among the districts due to different trip lengths among districts. Longer trips use more overall street capacity; therefore it is logical that the impact fee is higher in districts with longer trip lengths.

Bellevue's transportation impact fee is typical of the earliest transportation impact fees adopted in Washington, in that it uses multiple impact fee districts. Multiple districts have been used by jurisdictions to address the statutory requirements that impact fees be "reasonably related" to and "reasonably needed" by new development. Impact fee districts are based on the idea that these statutory requirements were fulfilled in part if impact fees were spent in some proximity to the development that paid the fees. The belief was that proximity indicated use and benefit, therefore the impact fee was "related" and "needed" by development in the district.

Observations about Impact Fee Districts

Impact fee districts have experienced a number of problems. Multiple districts are more complex for the development community. Multiple districts mean some districts may not generate or receive enough impact fee revenue to pay for a transportation project. Multiple districts cost the City more to administer.

Also, the measure of benefits to development is broader than geographic proximity. While some benefits derive from presumed use due to proximity, traffic models show that actual use of a street can be traced to trips originating from, or destined to locations that are not proximate to the development. These trips provide substantial benefit to the development's residents, owners, visitors, or customers, and are thus "reasonably related" and "reasonably needed" by new development. In other words, new development benefits from trips on the street network, not just the streets near the development.

Washington law allows flexibility in determining impact fee districts. RCW 82.02.060(6) authorizes each city that adopts an impact fee to "…include one or more reasonable service areas…" for impact fees, and leaves the determination of the number, size and location of service areas (e.g., districts) to each city.

The current trend is to use a single citywide district for impact fees or to use very few districts. All cities on the Eastside, except Woodinville, now use the citywide approach.

There are reasons to identify more than one impact fee district. For example, cities may want to differentiate the trip generation characteristics of development in specific areas, such as high density urban centers. Bellevue has identified special needs and conditions within certain areas (e.g. downtown and Bel-Red) that may be good candidates for impact fee districts.

We suggest that the City consider reducing the number of impact fee districts to no more than 5, and as few as 1 (i.e. citywide). Fewer districts would reduce complexity and administrative costs, while larger district sizes would improve the potential of each district to generate and receive enough impact fee revenue to pay for transportation improvements that benefit new development.

Draft Options

►Reduce the number of districts to maximum of 5
(or as few as 1-citywide)

- Option: Create citywide rate with a subarea overlay for Bel-Red sub-area

►Continue the trip generation rate differential for the downtown activity center

The City could develop a different rate basis for downtown that reflects different trip generation characteristics and different transportation project needs.

The City could create a special overlay district for the Bel-Red area that charges an additional impact fee for the projects that could not be blended with the average cost per trip that is used for the City's existing impact fee.

IMPACT FEE SCHEDULE

The impact fee schedule displays the impact fee rates for each unit of development, for each of the 14 geographic areas in the city. The fee schedule is constructed by first identifying land use categories. The current program contains 41 land use types. For each land use type, the fee schedule contains the following trip generation information:

- Basic trip rate (PM peak hour) - obtained from the ITE Trip Generation report.
- Percent new trips (adjustment to remove trips just 'passing by' the development)
- Trip length adjustment (to adjust for certain land uses generating shorter or longer trips on the city's street system)

Once the trips are generated for each land use, they are multiplied by a 'cost per trip' derived from the impact fee cost allocation process. Finally, a conversion is done to produce a 'cost per unit of development', such as cost per dwelling or cost per square foot. These are the rates that are shown within the adopted impact fee schedule.

Impact Fee Schedule Observations

Bellevue's impact fee schedule is typical of most fee schedules around the region. The number of land use types is representative, although it could be updated to include some more recent land use categories found within the ITE Trip Generation report. The trip rates should also be reviewed against current data.

Key Impact Fee Schedule Issues

► Are the Land Use Categories still adequate?

► Are the Trip generation rates updated?

A feature of the City's fee schedule is the inclusion of reduced trip generation rates for certain land use types within downtown Bellevue. These rates reflect the lower vehicle trip generation expected within the downtown environment. Adjustable trip rates are becoming a more common feature in other impact fee programs and make sense in heavily mixed use, transit –focused areas.

The city's impact fee schedule provides a good format and structure for the impact fee program. We suggest that the specific land use categories be reviewed to see if some uses should be removed, or other uses added to the table. The trip generation rates should be updated to use the most current ITE *Trip Generation* report and other current research on mixed-use development trip rates. Some land use categories (e.g. shopping center, office) could be consolidated into a single value for simplicity. Other trip generation characteristics (e.g. pass-by rates, trip lengths) should also be updated as needed.

Impact Fee Schedule Draft Options

► Review current land use categories

► Add or remove categories based upon city experience

► Update trip generation rates

- Update pass-by rates- ITE and other national studies
- Review adjustment factors for uses that are expected to have higher mode shares in activity centers
- Update relative trip lengths

Chapter Two

Impact Fee Comparisons to Other Cities

REASONS THAT COSTS PER TRIP AND IMPACT FEE RATES ARE DIFFERENT

There are several reasons that costs per trip and impact fee rates differ among cities.

First, each city sets its own level of service standard for its streets and intersections. The higher the standard, the more costly it is to maintain the standard, and therefore impact fees tend to be higher.

Second, each city has other revenues that it may use to pay for a portion of the cost of transportation projects needed to serve new development. The sources and amounts of such revenues differ from city to city. Furthermore, each city has its own priorities for how much of such revenues are used for transportation projects as opposed to other priorities in each city.

Finally, the combined effects of these factors directly influence differences in the cost per trip. Low costs per trip do not indicate that a city is more efficient than another. Low costs per trip typically indicate that a city is charging a smaller portion of its transportation costs to new development, and is paying the rest with taxes and other sources of revenue.

DO IMPACT FEE DIFFERENCES MAKE OTHER DIFFERENCES TO CITIES?

Common sense indicates that buyers want lower costs. Applied to impact fees, this common sense should mean that development goes where impact fees are lower.

But there is something missing in the common sense assumption described above. What is missing is the qualifier, "all else being equal."

So the real common sense about costs is that buyers want lower costs, all else being equal. And the real common sense about impact fees is that development goes where impact fees are lower if all else is equal.

But in real estate development decisions, all else is rarely equal. Here are some examples of how other critical variables are not equal:

- The old, but still valid, axiom of "location, location, location" is far more important than the amount of an impact fee
- Availability of land is a primary consideration compared to the secondary consideration of impact fees
- Land costs (which often track the location and availability variables) are many times more than the cost of an impact fee
- Regulatory differences and associated costs typically have a much greater effect than impact fees on development decisions.

Nevertheless, impact fees cannot be ignored, and they are not irrelevant to development decisions. Several recent studies examined many communities to determine the effect of impact fees on residential and commercial development. These studies conclude that impact fees are more than a cost of development. Impact fees also create value that increases the marketability of property and thus offset increased costs. For example, higher transportation impact fees produce more money for transportation capital improvements than lower impact fees. More money for transportation produces better infrastructure that supports development. And better infrastructure attracts development. Thus impact fees pay for things that are significant incentives to development.

Finally, in addition to the results of studies, there are the following practical observations about impact fees:

- Impact fees are charged in places that are growing, because the fees are charged only to the growth. If there was no growth, there would be no revenue from the impact fees.
- Hundreds of local governments in at least 33 states charge impact fees and collect significant amounts of revenue from those fees.
- Impact fees in those growing communities have not stopped development. If the fees stopped development, there would be no impact fee revenue collected by the local governments.
- It is probably impossible to determine whether or not there would have been even more development if those communities had not charged impact fees. What is known is that growing communities with impact fees continued to experience growth, and the impact fees helped pay at least a portion of the infrastructure needed for that growth.

Impact fee revenue provides millions of dollars for infrastructure needed by development.

COMPARING BELLEVUE'S IMPACT FEE RATES TO OTHER CITIES

Bellevue's transportation impact fees are the lowest among Eastside cities.

Figure 4 compares Bellevue's rates for a single family house to the rates of Kirkland, Issaquah, Redmond and Sammamish. Bellevue's rates are less than one-fourth of the next lowest rate (Issaquah).

Figure 5 compares Bellevue's rates for a shopping center to the rates of Kirkland, Issaquah, Redmond and Sammamish. Bellevue's rates are less than one-fourth of the next lowest rate (Kirkland).

Figure 6 compares Bellevue's rates for an office building to the rates of Kirkland, Issaquah, Redmond and Sammamish. Bellevue's rates are about one-third of the next lowest rate (Issaquah).

Bellevue's transportation impact fees are second lowest of 43 cities in the State of Washington that have such fees. Poulsbo has lower rates, and Bellevue's rates are at the same end of the range as Gig Harbor, Gold Bar, Washougal, and Stanwood.

Transportation impact fee rates are based on the portion of the cost per trip that a city calculates it will charge to new development. **Figure 7** compares the costs per trip of Bellevue, Kirkland, Issaquah, Redmond and Sammamish. The cost per trip that Bellevue charges new development is less than one-seventh of the next lowest cost per trip (Kirkland).

Does Seattle Charge Impact Fees?

The City of Seattle currently does not impose transportation impact fees. Historically the city has used SEPA to require new development to mitigate its impact on the City's transportation infrastructure. More recently, Seattle introduced an alternative voluntary mitigation fee program within the South Lake Union area. Fees collected must be spent on the identified projects within that subarea. The South Lake Union area does not have single family housing, so there is no rate to compare to other cities, but the South Lake Union mitigation rate for shopping centers is $3.55 per square foot, and for office buildings the rate is $1.95 per square foot.

This alternative fee, imposed under SEPA, covers a developer's proportional share of mitigation for impacts to transportation infrastructure only within the South Lake Union area. The city may impose additional mitigation requirements for development impacts outside of the South Lake Union area. The City plans to soon offer the program in Northgate

Figure 4. Single Family Home Transportation Impact Fee Rate Comparison

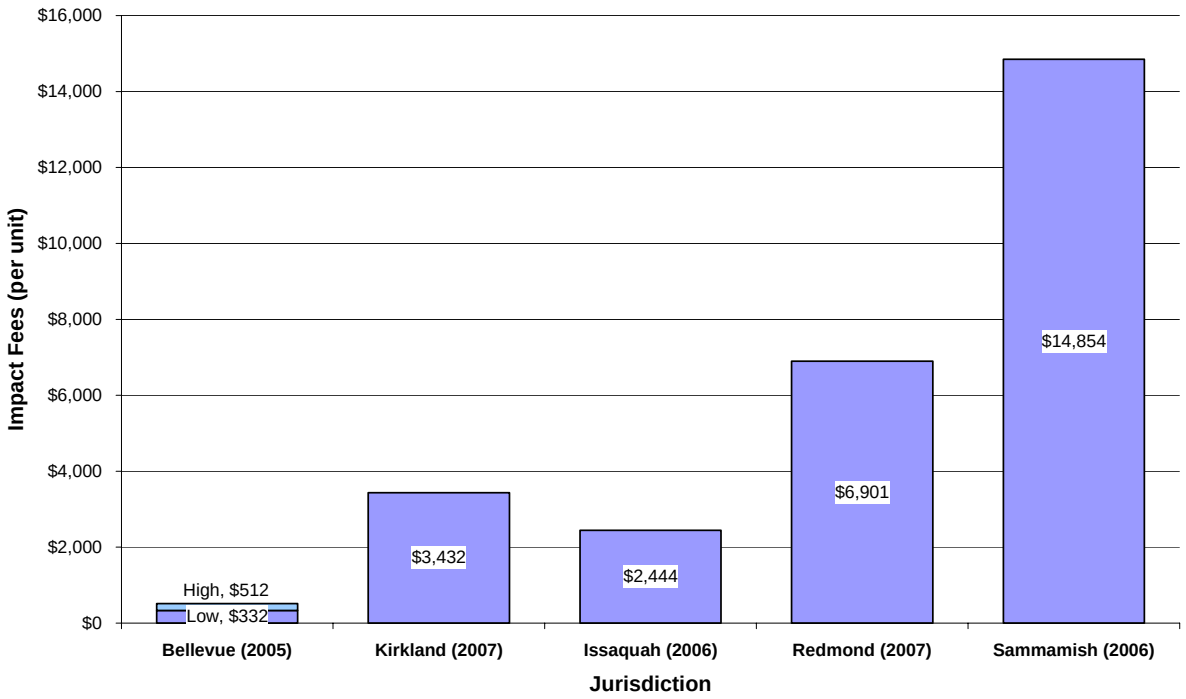


Figure 5. Shopping Center Transportation Impact Fee Rate Comparison

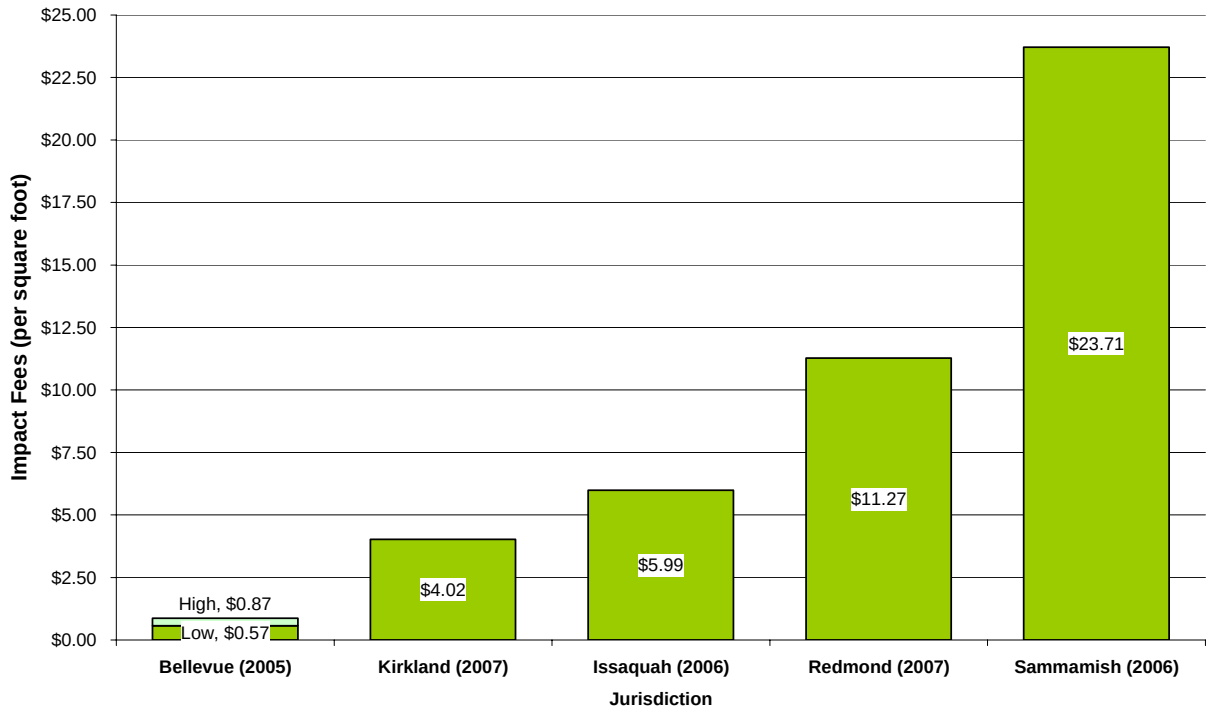


Figure 6. Office Transportation Impact Fee Rate Comparison

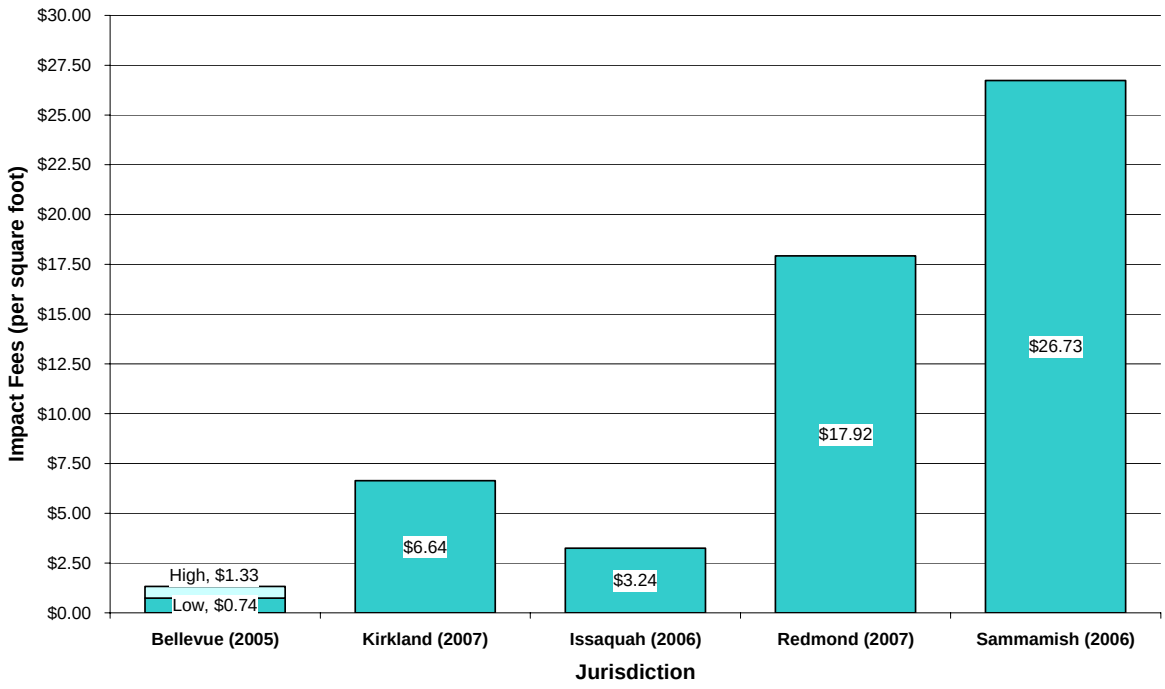
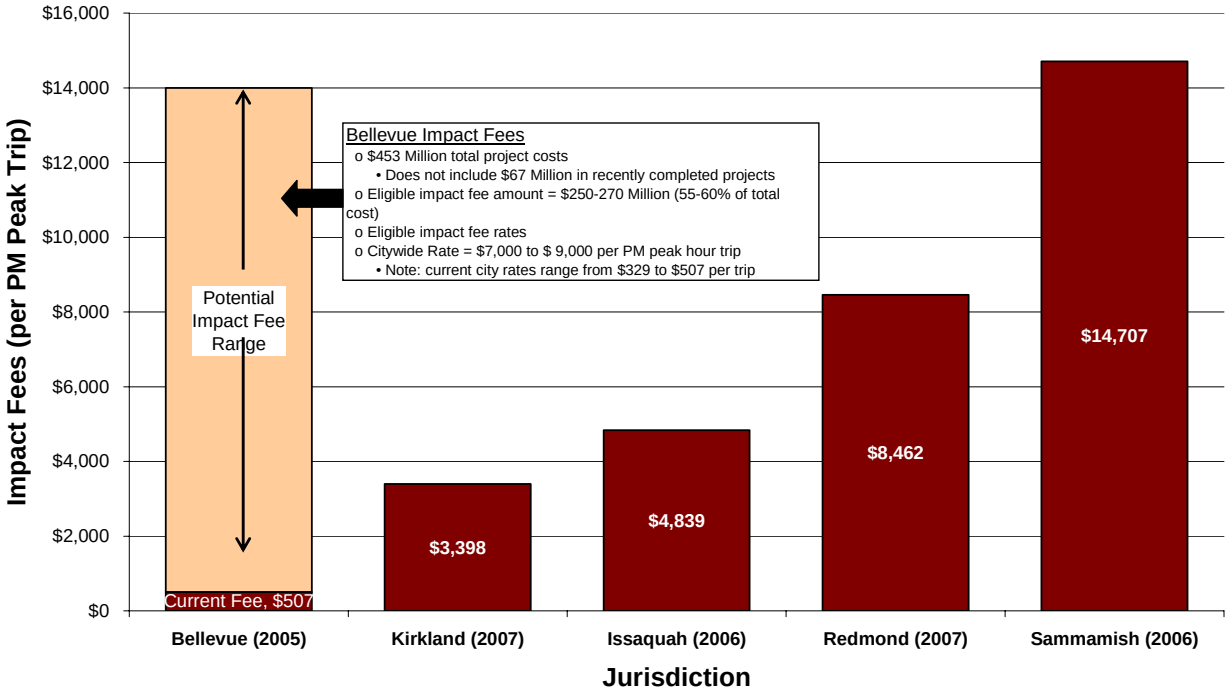


Figure 7. Cost per PM Peak Hour Trip



Addendum 1: Potential Impact Fee Scenario

The Key Question: Can City Council support a fundamental reshaping of the City's transportation impact fee program?

PRINCIPLES/POLICY ISSUES:

- Should new development pay the maximum it may be legally required to pay for the impact it generates to the transportation system?
- How will the remaining portion of capacity project costs (non-impact fee) be obtained?
- Should the impact fee project list include recently completed projects which have unused capacity available for future growth?
- Should there be a single, citywide impact fee program or should the Bel-Red Corridor Area be separated out to have its own impact fee structure?

PROCESS

Establishing the impact fee program starts with the capital projects that provide street capacity in the city's Transportation-Facilities Plan. In the next step, the city must analyze what share of these project costs could be charged to new development growth in Bellevue. Next the costs associated with the Bel-Red area would be separated out. At that point, a range of potential transportation impact fee rates associated with the growth-related costs would be calculated. The fee program assumes that the costs are spread among growth occurring to the year 2030.

POTENTIAL IMPACT FEE REVENUE GENERATION (BY 2030)

Based on a scenario using 2030 land use growth projections and 2030 estimated project cost of about $450 million (includes Bel Red projects), impact fee revenue could exceed $250 million. With a two tier system (Citywide and Bel Red):

- In Bel Red, about 60% of the trips are generated by development. To recover those costs, impact fees would have to approach $13,000/trip unless other transportation funding mechanisms are implemented
- Outside Bel Red, impact fees would approach $5000/trip in order to recover the costs of trips generated by new development.
- In both areas, general tax sources would have to be used to pay for the capacity (trips) not generated by new development.
- See **Figure 3 (**TFP Map**)** of potential impact fee project locations.

Some initial findings are shown in **Table 1.**

Table 1. Initial Findings of Revised Impact Fee Program

	Citywide (Includes Bel-Red)	Bel-Red Portion
Project Costs (Street capital projects)	$453 Million	$280 Million
What portion of the project costs are related to new growth in Bellevue?	$250-$270 Million (55-60% of total cost)	$160 Million
Who pays for what portion?	All growth in city pays its share of these costs	Bel-Red growth would pay $110-115 million, while other citywide growth would pay the remainder of the $160 Million. Bel-Red development would also pay its share of impacts to street projects elsewhere in the city (about $25-30 Million).
What would the impact fee rates be like citywide to generate these revenues?	$7,000 to $9,000 per PM peak hour trip	Bel-Red rates would be the same as citywide rates
What if a separate impact fee district in the Bel-Red area is created?	Rates elsewhere in the city would go down, in the range of $5,000 per trip. [1]	Rates in Bel-Red = $13,000 to $ 15,000 per PM peak hour trip

[1] Note: current city rates range from $329 to $507 per trip