Appendix H: Credits for Taxes Paid by New Development for Projects in Impact Fee Cost Basis

RCW 82.02.060 (1) states:

> *"... In determining proportionate share, the formula or other method of calculating impact fees shall incorporate, among other things, the following:*
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> *(b) An adjustment to the cost of public facilities for past or future payments made or reasonably anticipated to be made by new development to pay for particular system improvements in the form of user fees, debt service payments, taxes, or other payments earmarked for or proratable to the particular system improvement;"*

The purpose of the RCW requirement is to prevent a situation in which a new development might pay for the same system improvements twice, first through some kind of impact fee and then through some other form of taxation or user fees.

Types of Revenues

To meet the requirements of RCW 82.02.060 (1) the County first looks at the types of revenues that contribute to the capacity improvements included in the impact fee cost basis (referred to as the "impact fee projects"). The six categories of funding sources used for the impact fee projects and the approximate percentage of the funding of current impact fee projects by each source are as follows:

Revenue Source	Percent of funding of current impact fee projects by each source
County Road Fund	15%
Community Infrastructure Development Initiative (CIDI) Councilmanic Bonds	10%
Federal and State Grants	28%
Impact Fees and Developer Contributions	30%
Other Sources: RIDs, City Revenues, WSDOT, etc.	10%
Real Estate Excise Tax (REET)	7%

Relevance to Snohomish County Funding Sources

The sources and amounts of funding are analyzed to determine if adjustments are needed to the impact fee cost basis. As summarized in the table below based on the categories called out by the statute, taxes, debt service payments and other payments are relevant to the funding of impact fee projects in Snohomish County.

Type of Funding	Relevance to Snohomish County
Other Payments Earmarked for or Proratable to the Particular System Improvement	May include revenue from RIDs, Cities, WSDOT, etc.
Debt Service Payments	In 2006 Snohomish County launched its Community Development Infrastructure Initiative (CIDI) which will help to accelerate the construction of some impact fee projects.
Taxes	Various tax revenues are used to fund impact fee projects including fuel taxes, property taxes, and real estate excise taxes.
User Fees	Not used at this time to finance transportation projects in Snohomish County.

Adjustment for "Other" Funding

Consistent with the RCW, the County adjusts the cost basis of impact fee projects for "Other" funding (e.g., RIDs, Cities, WSDOT, etc.) by basing the cost basis only on the County portion of the costs. For example, if WSDOT were paying 75% of the costs of a project and the County was paying 25%, the cost basis of the project would only be 25% of the cost of the project.

Adjustment for Debt Service Payments

RCW 82.02.060(c) states that the method of determining impact fees shall incorporate the availability of other means of public funding for improvements, including any that are financed by government bonds. Specifically, it is important to determine the extent development will already be paying for the improvement through the payment of increased local taxes to pay off any bonds. In the case of Snohomish County's Community Infrastructure Development Initiative (CIDI) the debt service on these bonds is being paid out of the county road fund and no increased taxing has been implemented. The CIDI program is really just an acceleration of the road capital program. This suggests that no additional credits are needed to offset taxes paid by development towards projects in the impact fee cost basis. The tax adjustment credit described below covers all impact fee projects, including those 'accelerated' by the CIDI program.

Adjustments for Credits for Taxes Paid by New Development

The County Road Fund, State/Federal Grants, CIDI and REET account for approximately 60% of the funding for impact fee projects. These revenues derive primarily from state and federal fuel taxes, but include some revenues from property or real-estate excise taxes. The portion of County Road Fund used for impact fee projects comes primarily from state fuel tax revenues. Various federal programs provide funding for system capacity projects. These revenues derive from federal fuel taxes. State revenues from the Transportation Improvement Account (TIA) and other state funding programs used for the County's system capacity projects derive from state fuel taxes.

As shown in the following example, the County reduces the amount of the cost basis by the estimated maximum percentage of taxes that may be paid by new development. This ensures that development does not pay twice for impact fee projects, first through impact fees, and second through taxes.

Example of Credit for Taxes

The following example illustrates how the County credits taxes that may contribute towards impact fee projects.

1. Assume that the cost of impact fee projects for 1999-2012 in TSA X is $50,000,000.
2. Assume that by 2012 there will be 500,000 daily trips in TSA X of which 100,000 will be new trips added since 1999 as a result of new development.
3. Assume that the new residents and businesses pay impact fees, either directly or indirectly, for the new trips they generate.
4. Assume that as new residents and businesses purchase and occupy their new homes or buildings they also commence paying taxes. A portion of their taxes will be involved in the funding of the impact fee projects for which they may have already paid impact fees.
5. To calculate the adjustment credit, 100,000 (new trips) is divided by 500,000 (total trips). This equals 20%, which is a reasonable estimate of the percentage of taxes that will be paid by new residents and businesses. Meanwhile, the other 400,000 trips which are not new trips, or 80%, represents an estimate of the amounts paid by existing residents.
6. 20% of $50,000,000 is $10,000,000. That is a reasonable estimate of the maximum costs of the impact fee projects in TSA X paid by taxes from new residents or businesses.
7. The adjusted impact fee cost basis is $40,000,000 derived by subtracting the $10,000,000 from the $50,000,000. $40,000,000 is a reasonable estimate of the revenues from existing residents and businesses needed for impact fee projects. It is appropriate to use impact fees to reduce this burden on existing residents and businesses because the impact fee projects are necessitated by new development. Impact fees collected on the $40,000,000 adjusted cost basis allow County Road Fund dollars to be spent on safety and operational improvements to existing roads rather than capacity improvements to support new development.

Consideration of the Timing of New Development

The example above illustrates the basic concept of the credit that is made to adjust the cost basis to account for taxes possibly paid by new development. However, in determining the credit, one other factor has to be considered: the time frame in which the revenues from new residents and existing residents will be received. Obviously, not all development is going to occur in 1999. In reality it will be spaced out over the years. The amount of taxes from new residents will generally increase over time.

For the sake of estimating the credit it is assumed that the new growth between now and the year 2012 occurs equally in each year. The County's transportation model projected approximately 900,000 trip ends for the year 1990 and approximately 500,000 new trip ends by the year 2012. This averages out to be approximately 22,800 new trip ends each year.

Specific Example With Graph

In the base year, prior to the addition of any new trip ends, there would be no credit. In the first year after the base year, there would be 22,800 new trip ends and 900,000 existing trip ends. The credit would be 22,800 / (900,000 + 22,800) or approximately 2%. In year two the credit would be (22,800+22,800) / (900,000 + 22,800 + 22,800) or approximately 4%. In each subsequent year the proportion of new trip ends to existing trip ends would increase

(See chart below). The total credit is therefore comprised of the sum of the credits for each of the years. Note that a different credit is determined for each TSA based on the data for that TSA.