Appendix H: Impact Fee Cost Basis Credits

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 the 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;*
>
> *(c) The availability of other means of funding public facility improvements;"*

The purpose of these RCW requirements is twofold. The first is to ensure developers do not pay duplicative fees for the same impact. By providing a credit for new-growth taxes that could help fund a cost basis project, it prevents a situation in which a development might pay for the same system improvement twice – first through an impact fee and then again through some form of taxation or user fee. Second, emphasized by RCW 82.02.050(2), the county cannot rely solely on impact fees and must provide for a balance between impact fees and other sources of public funds. This also helps ensure the county is not collecting too much money for the specific system improvements.

Credit for Taxes and Other Anticipated Payments

The requirement of RCW 82.0.060(1)(b) seems to be aimed primarily at capital facilities that are financed through special tax increases. For instance, impact fees could be used to help make up the shortfall to fund new infrastructure that is being paid for, at least in part, through the Connecting Washington legislative package. The county currently does not have infrastructure financed in this manner.

Public Works' primary funding sources are the County Road Levy property tax and the State Motor Vehicle Fuel Tax (MVFT), commonly called the gas tax. These tax revenues, combined with other taxes and fees, are collectively known as the County Road Fund. The Road Fund pays for the county's operations and maintenance (O&M) activities and is the main funding source for non-capacity capital projects, which together are projected to exceed $2 billion between 2015 and 2035. Without the need for capacity-related capital improvements necessitated by new development, or if maximum assessable fees (MAF) were assessed as calculated in the cost basis, all current and future Road Fund dollars would go toward these core jurisdictional responsibilities.

However, County Council has the discretion, and has consistently chosen, to set impact fee rates below the legal maximum assessable. This policy provides a balance between new development and existing residents, while also creating an administrative 'cushion' to absorb project cost or revenue changes. The rationale is that not all the costs of capacity improvements necessitated by new development should necessarily be borne by new development, nor should all the costs be borne by existing residents. Consequently, Road Fund is diverted from O&M and non-capacity capital to be spent instead on impact fee projects in the cost basis.

Since this policy is directed at balancing costs between existing residents (i.e. current taxpayers) and new development (i.e. future taxpayers), it is reasonable to conclude that the Road Fund diverted to impact fee projects is intended to be from existing taxpayers. Therefore, under this policy a cost basis tax credit may be unnecessary. There is no opportunity for developers to pay duplicative fees since Road Fund spent on impact fee projects is from existing taxpayers and future taxes paid by development go toward regular O&M and non-capacity capital projects.

Nonetheless, to further safeguard against assessing duplicative fees the county takes a conservative approach to impact fee calculation. As outlined below, a tax credit is applied to the cost basis to adjust for a portion of future Road Fund spent on fee projects that could come from new development. This provides additional assurance that less clear-cut examples of tax dollars spent on capacity projects are accounted for. For example, a Public Works Trust Fund loan is funded by state taxes. The county's debt service is paid out of the Road Fund and a loan is merely an acceleration of the road capital program. While this suggests that no credits are needed, the tax credit covers all impact fee projects, including those 'accelerated' by loans or bonds.

Credit for the Availability of Other Funding

The intent of RCW 82.0.060(1)(c), to consider the availability of other means of funding public facility improvements, is plainly stated in RCW 82.02.050(2):

> *"... The financing for system improvements to serve new development must provide for a balance between impact fees and other sources of public funds and cannot rely solely on impact fees."*

Consistent with RCW, the county adjusts the cost basis of impact fee projects for multiple 'other' sources of public funding. These credits also ensure that impact fees are based on the developers' proportionate share of the costs and that the county is not collecting too much revenue.

The largest credit is for estimated future grant revenues that would help fund impact fee projects. Grants are a fundamental source of revenue for transportation infrastructure improvements. The county uses historical grant revenues for completed impact fee projects to forecast likely grant awards for future fee projects. Recently, available grant dollars have decreased while grant competitiveness has increased. Public Works closely monitors changes in federal and state grant programs to confirm the grant credit is reasonably aligned with funding availability and successful awards. If grant funding declines it could necessitate an impact fee increase to ensure enough funding exists for capacity infrastructure and development can continue.

Snohomish County has reciprocal traffic mitigation interlocal agreements with the following cities: Arlington, Bothell, Gold Bar, Granite Falls, Marysville, Mill Creek, Monroe, Mukilteo, Stanwood, and Sultan. Assessed pursuant to chapter 30.66B SCC and SEPA, these agreements provide that city developments generating traffic that impacts county fee basis roads shall pay traffic mitigation fees to the county, and county developments generating traffic that impacts the city's fee basis roads shall pay traffic mitigation fees to the city. The credit is based on historical revenue from the cities and is expected to continue to decline over time.

Credits are also applied to account for existing impact fee fund balance and interest earned on fund balance. Transportation impact fees are authorized under RCW 82.02 which requires they be obligated or spent within 10 years of collection. By accounting for fees that have been collected for improvements in a Transportation Service Area (TSA) and not yet spent or obligated, it reduces the amount to be collected from future development through impact fees. Lastly, administration of the impact fee program places fee revenues into separate interest-bearing accounts for each TSA. The cost basis is adjusted for projected interest revenue, again to ensure the fees are not set too high and the county does not collect too much money for fee projects.

Other Adjustments

When necessary, the county may make other adjustments to the total cost of infrastructure in the impact fee cost basis.

First, total project costs are based only on the county portion of the project costs. For example, if WSDOT were paying for 75% of the cost 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.

Per RCW 82.02.050(8), the county may impose impact fees for system improvement costs previously incurred by the county provided such fees are not imposed to make up for any system improvement deficiencies. When projects are completed that require substantial investment of Road Fund, local dollars spent on a project may remain in the cost basis to be repaid by future development until 1) the local funding is reimbursed, or 2) capacity no longer remains on the arterial, i.e. it becomes deficient. Cost basis credits are generally not applicable for completed projects, though credits for TSA-wide revenues, such as fee revenue from cities, may apply.

When a project is added to the cost basis for an arterial already operating below its adopted level-of-service (LOS) standard, it is considered to have an existing deficiency. When this occurs, the total project cost is reduced by the amount required to bring the arterial back to its LOS standard. Only the portion of the project cost that would provide additional capacity is included in the cost basis. At the time of the adoption of the Transportation Element there were no arterials operating below the county's adopted LOS standards, thus no existing deficiencies are identified.

Credit Amounts

Impact fee cost basis credits are calculated for each of the six TSAs. As outlined below, the five different credits total $152.6 million, or 40 percent of the total project costs. The following table illustrates how the county credits revenues that may contribute towards impact fee projects.

		CREDITS							
TSA	Total Project Costs	Mitigation Interest	City ILA Revenue	Grant Forecast	Mitigation Fund Balance	Tax Credit	Net Project Costs	Total Credits	Percent Credited
A	11,747,000	54,209	1,116,955	3,993,980	1,439,000	1,199,022	**3,943,834**	7,803,166	66%
B	7,000,000	-	329,376	-	-	-	**6,670,624**	329,376	5%
C	5,584,570	50,806	-	1,898,754	588,000	426,112	**2,620,898**	2,963,672	53%
D	221,185,503	1,084,751	1,190,555	75,203,071	3,896,000	2,786,170	**137,024,956**	84,160,547	38%
E	45,801,269	264,248	-	15,572,431	3,955,000	802,109	**25,207,481**	20,593,788	45%
F	92,784,658	275,815	412,258	31,546,784	3,857,000	663,918	**56,028,883**	36,755,775	40%
	384,103,000	1,729,829	3,049,144	128,215,020	13,735,000	5,877,331	231,496,676	152,606,324	40%