



Study Session Planned Action Transportation Impact Fee Discussion

**Study
Session
Information**



City of Ferndale

CITY COUNCIL STAFF REPORT

MEETING DATE: _____ AGENDA BILL # _____

SUBJECT: Transportation Impact Fees

DATE: February 2012

FROM: Jori Burnett

PRESENTATION BY: Jori Burnett, Greg Young, Transpo

RECOMMENDATIONS: Discuss potential modifications to the City's Transportation Impact Fee policy (FMC 15.44), in order to reflect the adoption of the Main Street Master Plan and changes to the Transportation Element of the Comprehensive Plan. The purpose of the February 6 study session will be to identify the maximum Transportation Impact Fees (TIF) that could be charged to development as well as the distribution of those fees within the City. Subsequent study sessions will examine available methods that could reduce or modify TIF through other funding sources.

The Council should be reminded that the City is not required to charge traffic impact fees, and that there is no minimum impact fee even if the City does charge for them. However, there is a maximum impact fee that can be charged, based upon the transportation modeling and the relative use of transportation improvements.

BACKGROUND: In 2011, the City revised its schedule of transportation impact fees for the first time since 1997. These revisions followed the identification of transportation projects necessary to achieve the City's overall vision for transportation and to support adopted Levels of Service (LOS). The fees were also intended to replace the previous system, which had charged impact fees that varied substantially from location to location and did not reflect an accurate representation of the actual impact development would have on new system improvements.

For example, the previous impact fee policy was based upon a philosophy that development in close proximity to Interstate Five should pay a lesser fee than development a significant distance from the freeway – in theory, development close to the freeway would utilize fewer miles of Ferndale's transportation system. This philosophy failed to account for the fact that many of the costliest transportation improvement projects will likely be located close to the freeway, as the freeway and adjacent streets are utilized by the majority of Ferndale residents.

The 2011 updates generally increased traffic impact fees, except in certain areas in the northern parts of the City. The Council adopted these increases with the understanding that potential revenue sources that had previously been assumed (grants, partnerships with other agencies such as the Washington State Department of Transportation [WSDOT], etc.) were no longer available or were increasingly competitive, that projects that had long been identified as potential transportation options (such as a Thornton Street extension) had not been funded, and that even with the increases the City and not the development community would still be responsible for a majority of transportation improvement costs, not including maintenance and operations.

The 2011 updates further anticipated the possibility that future changes would be necessary, but could not presume the specific projects or level of development that was ultimately incorporated into the Main Street Master Plan.

The Main Street Master Plan and Transportation Element have identified additional transportation improvements that will become necessary if development within the “Planned Action Area” occurs as expected. These improvements are expected to cost up to \$39 million¹ *in addition* to the approximately \$70 million already included in the Transportation Element of the Comprehensive Plan.

While new development in the Planned Action area creates new revenues, it also would create new impacts and associated costs - the BERK fiscal analysis conducted for the City of Ferndale has concluded that the existing impact fees would not be sufficient to cover the full cost of the new improvements, and that additional “gap” funding would be required in order to fully pay for the new transportation improvements.

ANALYSIS: The “gap” funding discussed by the BERK study could include one or more of a variety of sources, including increases to transportation impact fees.² While the BERK study concluded that existing cost structures were not sufficient to offset the impacts of new development, BERK determined that such future development would “bring to the table” combined revenues (sales tax, construction fees, developer contributions, increased impact fees) that would be more than sufficient to fully fund the transportation improvements, with additional surplus funding available.

Staff is reluctant to commit to funding the entire “gap” through additional sales taxes, as that strategy would substantially erase any fiscal benefit new development would have to the City. However, staff acknowledges that simply requiring new development to fully fund their proportionate share of transportation improvements (through increased impact fees) would likely have a chilling effect that would significantly restrict new development from building in the Planned Action area.

¹ Note that the \$39 million estimate represents the most conservative (highest) estimate for future transportation costs in the area, and includes not only projects necessary within the Planned Action area, but projects that may become necessary in order to mitigate transportation impacts out of the area as well.

² Other gap funding strategies could include the use of Transportation Benefit District monies, the use of new sales taxes generated by development, partnerships with state and local agencies, or some combination of these alternatives.

Recognizing that the trips generated by new development within the Planned Action area will likely utilize the Ferndale transportation system differently than existing trips throughout the City, the Transpo Group and staff recommend splitting the City into two TIF funding districts. One funding district would include the Planned Action area, the other would include the remainder of the City.

Development, through transportation impact fees, is currently responsible for 23.8% of new capital improvement costs as per 2011 transportation impact fee policies. This means that the City expects to pay for 76.2% of the impact of new trips within the City with funding sources other than developer impact fees. The Council will recall that this ratio was arrived at in order to reach a \$2,300 vehicle trip fee, and was accomplished by reducing the impact fee funding for the Thornton extension project.³

Now that the transportation improvement projects have been identified (per the December 2011 adoption of the Main Street Master Plan and revisions to the Transportation Element), there are essentially two questions for Council to answer with regard to transportation impact fees:

1. Should the costs be distributed evenly throughout the City (a Citywide district), or separated into two funding areas?
2. If a two-district policy is identified (as recommended by Staff and the Transpo Group), how should costs be distributed?

The City has generated a graphic which illustrates the impact that additional trips (but no additional projects) would have Citywide (Exhibit 1). This illustration demonstrates that the cost per trip would decrease substantially if development within the Planned Action area could simply be added, without the need for additional projects. Of course, development within the Planned Action area will require the construction of new projects, and thus a likely increase in traffic impact fees.

The City Administrator has provided Council with two impact fee scenarios in his Administrator's Report, and those scenarios are shown below. Please keep in mind these are but two of countless variations that could be considered, although the \$3,358 outside of the Planned Action Area in Scenario 1 and the \$4,277 within the Planned Action Area in Scenario 2 are likely at or close to the maximum limit for TIF in the respective areas.

³ In 2011, the Council indicated that as the Thornton extension project would benefit not only new development but the primary existing residential area of the City, a voter approved bond or similar measure would likely be necessary to complete the project, once preliminary engineering was completed. This future bond, if approved, would represent additional gap funding separate from other sources, and would not include Transportation Benefit District approvals.

Scenario 1

	5,476 trips <u>PA-Area</u>	7,087 trips <u>Rest of the City</u>
To cover the \$70 million	\$927	\$2,233
To cover the \$39 million	<u>\$2,616</u>	<u>\$1,125</u>
TOTAL	\$3,543	\$3,358

The \$927 and \$2,233 (weighted for trip origination in the computer model) averages out to the \$1,661 mentioned previously (the mathematical reduction of the original \$2,300 for the new 12,500 total trips). The \$1,125 represents the maximum the City can charge outside of the PA area for PA improvements.

OR

Scenario 2

	5,476 trips <u>PA-Area</u>	7,087 trips <u>Rest of the City</u>
To cover the \$70 million	\$1,661	\$1,661
To cover the \$39 million	<u>\$2,616</u>	<u>\$1,125</u>
TOTAL	\$4,277	\$2,786

In this scenario the City would keep the \$1,661 city wide TIF shown in Exhibit 1 and would place a greater share of new costs on the Planned Action Area. Both scenarios would result in the same total revenue.

Why is there a different “maximum” TIF for the two districts? Transportation modeling shows that future development in the Planned Action area would generate a very high number of vehicle trips from out of Ferndale. A large percentage of those trips would only utilize improvements within the Planned Action area and would not travel on other City roadways. Conversely, much of the traffic outside of the Planned Action area will utilize roadways within the study area only to get from one point to another – they will not stop within the study area. This is the primary reason for the difference (and maximum fee limitations) in the two areas.

ALTERNATIVES CONSIDERED: Staff acknowledges that there are potentially limitless alternatives that could be considered. If the Council wishes to reduce impact fees to the greatest extent possible, the burden for paying for transportation improvements will be shifted to the City and the fiscal benefits of new development to the City could be substantially reduced.

If the Council wishes to increase impact fees to the greatest extent possible, it is likely that there could be a chilling effect on future development both within the Planned Action area and within the City in general. The Council should also recognize that while certain large businesses may be able to pay higher impact

fees, the impact fees apply to smaller businesses as well. The philosophy of extracting the maximum mitigation possible from large businesses cannot legally be applied unless small businesses are included as well.

The results of the Transportation Benefit District vote on February 14th could have a significant impact on the City's impact fees, as a substantial portion of those fees could be utilized for capital improvements within the Planned Action area, thereby allowing the City additional flexibility to modify the structure of the impact fee program.

For these reasons, staff is not requesting that Council attempt to resolve all TIF-related issues during the February 6 study session. Instead, the Council should focus on understanding the methodology that has developed to this point, as well as the maximum TIF that could be charged.

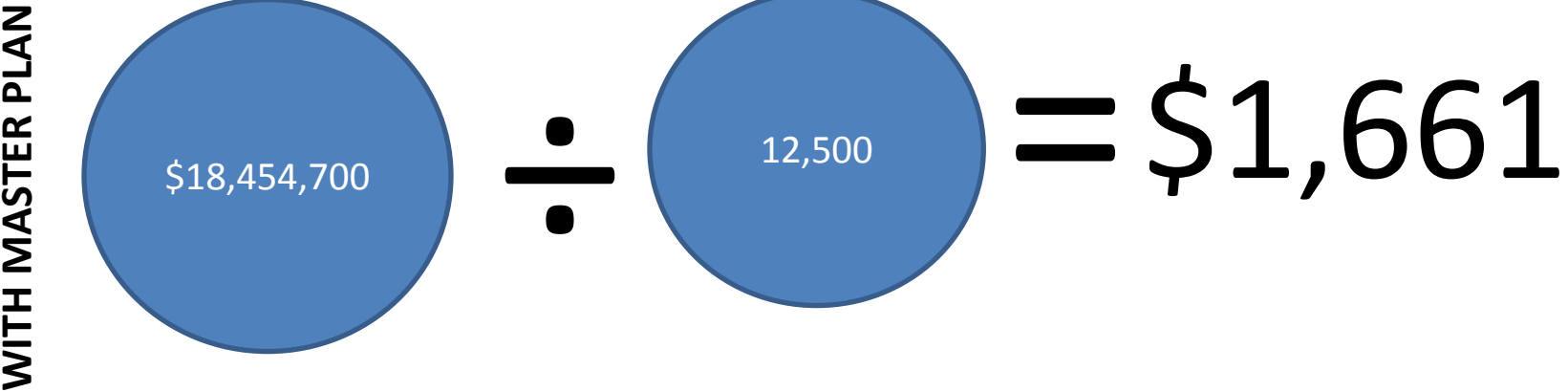
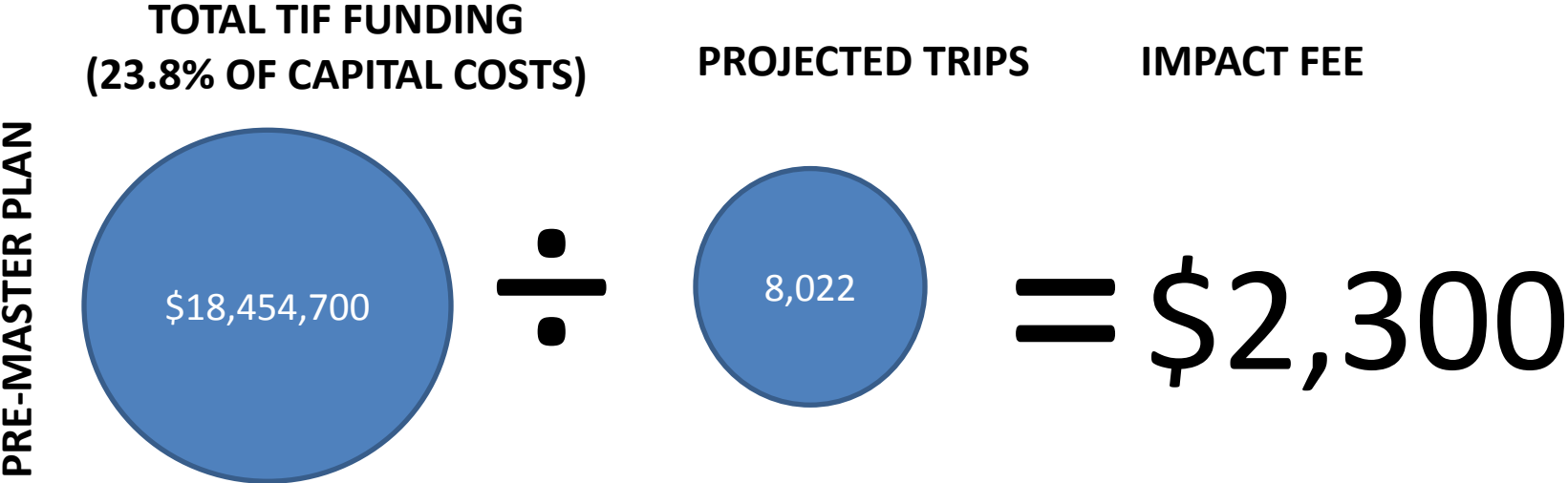
FISCAL REVIEW: The City is well-positioned to identify a transportation fee structure that responds to multiple interests. The BERK study has concluded that total revenues will exceed total expenditures, and the additional of a TBD sales tax would improve this fiscal outlook.

It may be that individual councilmembers believe that a 23.8% developer burden is low, but at the same time believe that a \$2,300 per trip fee is high. Both are a reflection of the adopted LOS identified by the City and the limited revenue sources available to communities at this time.

LEGAL REVIEW: The City is authorized to identify transportation impact fees, provided that the fees are based on development's proportionate share of overall costs.

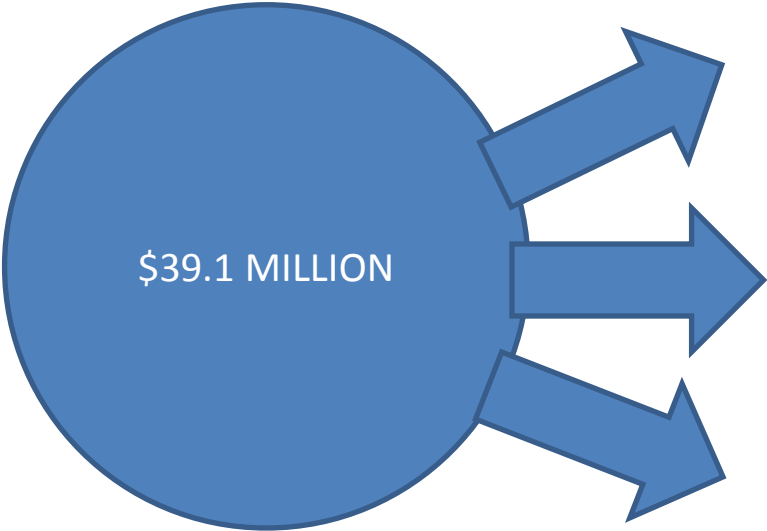
CONCLUSION: Staff seeks general direction from the City Council with regard to a two-district impact fee structure. Further discussion is required to determine an impact fee per trip charge that responds to a variety of issues, and these discussions are scheduled for February 21st and March 5th. Staff intends to schedule a public hearing following the February 14th TBD vote, and to hold a public hearing on the Planned Action Ordinance the same day (March 5, 2012).

CITYWIDE TIF COMPARISON: NO NEW PROJECTS



CITYWIDE TIF COMPARISON: WITH NEW PROJECTS

NEW MASTER PLAN COSTS



% CHARGED TO DEVELOPMENT

% ASSUMED FROM GRANTS, WSDOT

% CITY SHARE (TBD, SALES TAX, GENERAL FUND)