Statewide Transportation Needs Assessment Revenue Report Template

Revenue Generator *Local Developer Impact Mitigation Fees*

Application Local

Introduction

Development impact fees (fees) are established under California Government Code §§ 66000-66025 and were adopted as AB 1600 of 1987. Fees are required of new development by city and county jurisdictions to defray all or a portion of the public financial burden of providing transportation infrastructure improvements to mitigate impacts and support increased demand as a result of new development. AB 1600 requires jurisdictions to establish fees which have a nexus with the impact for which they are meant to mitigate. Local jurisdictions fee structure and allocation is generally applied to local, state, and federal roadway and highway expansion and/or creation projects. Local jurisdictions must understand fees shall not support mitigation of existing deficiencies and they must establish a reasonable relationship between the imposed fee and the actual increased demand on the transportation system due to development.

Fees are typically allocated for roadway/highway expansion and transit/rail facilities as these capital projects have direct correlation to population growth, travel pattern changes, and traveler intensity resulting from new development. With an increased focus on applying new performance measures such as livability/sustainability and jobs/housing balance factors combined with new development impacts such as GHG emissions and vehicle delay costs new methodologies may establish a rational nexus with development impacts and mitigation strategies for which fees can be applied. If so, local jurisdictions may experience a shift in the type of capital projects for which they can apply fees. This may include improved transportation demand services, modal options, inter and regional connectivity, and better maintenance and capacity maximization of the existing infrastructure.

Yield Potential

Impact fee revenue trends follow development trends which have declined significantly for local jurisdictions statewide. Fee revenue is dependent upon local development demand and regional growth patterns. Fortunately, fee revenue potential has been strongest during boom periods when it is most needed. Current fee revenue potential is low, but slowly improving.

One challenge in establishing the yield potential of impact fees is due to the varied impact fee structure among jurisdictions ranging from $1,100 to over $26,000 per unit in California. This combined with declining development demand has pushed local jurisdictions to reevaluate their fee structure and related capital improvement plans to more accurately understand the potential of impact fee revenue. Based on the National Impact Fee Survey completed in 2011 the average *local road* impact fee assessed in California was $6,486. The Department of Housing and Community Development California estimates that statewide housing demand may reach 123,142 units between the years 2019 and 2022. **If** this trend is realized, annual average local road impact fee revenue of nearly $200 million would be generated annually by local jurisdictions statewide to support local transportation infrastructure projects.

Use/Restrictions

Development impact fees can be required by local jurisdictions to defray all or some of the infrastructure cost directly related to new development impact. Local fees have, and will continue to

be, used primarily for roadway/highway expansion as well as some allocation toward transit facilities. Potentially development impact fees can be applied to infrastructure supporting all modes including non-motorized and rail when and if a rational nexus is determined. This may be most effectively applied in urbanized or infill multi use areas where development may increase demand for non motorized and transit modal choices. Ultimately the jurisdiction must effectively administer fee revenue in a manner which clearly establishes the connection between the development and fee imposed to mitigate development impacts.

The mode percentage split, or use of fee revenue, will vary geographically and socioeconomically. For example, in urbanized areas an 80% roadway/highway and 20% transit/alternative transportation split may be appropriate. However, in rural less developed areas a greater proportion may be invested in local roadways or rural state highways experiencing a greater share of local and tourism traffic resulting from development.

Sustainability

Development impact fee sustainability is at the mercy of the housing and growth market trends. The recent economic downtown has proven historic high fee revenue levels are not sustainable. However, because fee revenue and development fluctuate in parallel, fee revenue generally increases with development, ensuring support for infrastructure expansion when it is most needed and most cost effective. While fee revenue does ebb and flow with market trends, it continues to be a vital revenue stream for many jurisdictions. Fee revenue provides the necessary support for capital projects which may otherwise be paid for with general funds, freeing those funds to be applied elsewhere.

Pros of Development Impact Fees

- Impact fees ensure new development pays a fair share of the cost of public infrastructure.
- Impact fees are generally accepted by jurisdictions and constituents as a fair and balanced means of offsetting public cost related to impacts of new development.
- Impact fees based upon sound comprehensive and capital improvement plans have proven to be successful tools ensuring growth does not negatively impact existing infrastructure and that jurisdictions are able to accommodate growth effectively.
- Impact fees offset new infrastructure costs related to development allowing a greater proportion of general revenue funding to be used for the operation and maintenance of existing infrastructure.
- Fee programs can be established and administered through local elections, rather than legislative action providing local jurisdictions the ability to best use revenue in a manner which supports their communities.
- When incorporated into local jurisdiction capital improvement, comprehensive, and transportation planning efforts fee revenue can be used as a tool to leverage state and federal funding mechanisms to further project delivery.

Cons of Development Impact Fees

- Fee revenue is tied to the housing/development market which is volatile and poses challenges to planning and forecasting.
- High impact fees are generally passed on to homebuyers and reflected in high home prices.

- California impact fees are the highest in the country and vary greatly within the state, creating jurisdictions which have a greater or lesser development interest.
- Due to the requirement of nexus, existing deficiencies cannot be funded.

Implementation

The average effort and related cost necessary to administer an impact fee program ranges from medium to high based on jurisdiction size, development pressures, and political environments. The period necessary to implement should allow for significant planning and preparation. First the jurisdiction should rely on general planning efforts to identify where, if, and when development should occur. Jurisdiction must outline how fees will be collected, accounted for, and effectively administered well in advance of beginning a fee program. Use general and comprehensive plans to determine the level of service the community will accommodate. Establish fee schedules which will support impact mitigation, but will not deter development or impose fees which are unduly correlated with the expected infrastructure needs.

Policies and Recommendations

- Establish state enabling legislation which would identify consistent fee program standards which can be applied across all jurisdictions while allowing local jurisdictions to establish policies necessary to effectively administer fee revenue in a manner which is appropriate for a given jurisdictions desired future.
- Maintain fee programs as a means for ensuring new development supports the cost of public infrastructure demand for which it is responsible.
- Prior to fee program administration establish a rational nexus study including project examples to identify accurate and consistent metrics applied to each development type.
- Identify potential benefits accrued to the developer as a result of fee payment
- Ensure fee revenue is segregated from general fund revenue and used solely for impact mitigation purposes for which it was intended.
- Fee schedules and fee revenue forecasts should be reviewed every two years and adjusted accordingly.

Conclusion/Recommendation

Local development impact fees have been and continue to provide an effective means of offsetting impact to public infrastructure as a result of new development. Fee revenue assists local jurisdictions in funding projects and furthers economic development. While fee revenue remains volatile it continues to provide support during those times when it is most needed during peaks in development activity. When directly related to comprehensive capital improvement plans, fee programs can serve as a fundamental funding mechanism for local jurisdictions.

Reference Materials

1. Most California jurisdictions (Counties and Cities) currently administer some form of development impact fee program.
2. Documentation
    a. American Planning Association. Policy Guide on Impact Fees. Board of Directors: APA, 1997.

b. State of California Business Transportation and Housing Agency. Pay to Play Residential Development Fees in California Cities and Counties. Department of Housing and Community Development: Division of Policy Development, 2001.
c. League of California Cities. A Short Overview of Development Impact Fees. Peter N. Brown City Attorney, Graham Lyons Deputy City Attorney: City of Carpenteria, 2003.
d. Duncan Associates. National Impact Fee Survey: 2011. Clancy Mullen, 2011.
e. El Dorado County. 2012 Capital Improvement Plan. El Dorado County Department of Transportation, 2012.
f. California Housing and Community Development. California Housing Production Needs 1997-2020. 2012