Statewide Transportation Needs Assessment Revenue Report

Revenue Generator *Developer Impact Fees*

Application Regional

Introduction

Regional developer impact fees are assessed on new development to pay for new transportation infrastructure needs, as governed by AB1600 (1987). Fee levels are calculated based on a selected list of projects to be funded; due to nexus rules requiring a demonstrated reasonable relationship between the impact and improvement, these are almost exclusively road and highway system expansion.

Yield Potential

Potential for revenue generation depends on the regional development demand; in some areas this may be Low, others Medium. Due to nexus considerations, funds should be assumed as capital facilities, with 80% highway and 20% transit/rail.

Based on projections from Department of Housing and Community Development, there is demand for an average of 123,142 housing units statewide through 2019-2022. Experience tells us that supply generally lags behind projections, so let's estimate 100,000 units are developed annually.

At $1000 per unit, a regional fee program implemented statewide would generate an average of just over $100M per year, or $1B over 10 years. At $2500 per unit, the fees would generate an average of $250M annually, or $2.5B in 10 years. Notably, the realities of the housing market mean that funding levels could fluctuate wildly within this average.

Use/Restrictions

Local developer impact fees have been around for many years, but regional, or multi-jurisdictional, programs are a somewhat more recent occurrence. Regional programs are customized in how the covered area is defined – some programs include all the cities and the county, others are sub-areas of a county, still others are multi-county.

Under AB 1600, there must be a demonstrated nexus between the new development and the transportation need, usually demonstrated via traffic model. Fees are generally assessed on a per Development Unit Equivalent (DUE) basis to fund a specific list of projects and dollar amounts.

Uses for the fees are somewhat limited by the requirement to connect the new development with the improvement under AB 1600. Highways, interchanges, and local road expansion are generally the use of these fees. Other projects that may meet nexus requirements are multi-modal facilities, bicycle and pedestrian facilities, and park and ride lots. Existing deficiencies are specifically prohibited from this funding. It is possible, though unlikely, that some very limited transit, system preservation, or management projects may meet the nexus standard.

Sustainability

Developer impact fees are directly tied to the issuance of building permits, which is highly sensitive to localized economies and housing demand. Current development levels are significantly depressed all over the state, but projected growth indicates some bounce-back over time, with rates differing by region.

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One challenge of fee program sustainability is cash flow. Because development rates can vary wildly over time, it is difficult to predict receipts and very costly to bond against future impact fee proceeds. As a result, most projects funded by these programs are done once sufficient monies are on hand, which can be many years after the improvement is needed to support the new development that paid for it.

The bigger issue, however, is the balance of impact fees versus larger issues such as housing affordability. Schools, water, safety, courts, and parks are amongst those entities looking to impose developer impact fees to provide funding for those needs. At some point, the total of all the fees can push the price of the home or building past what the market will bear.

Operation of a regional developer impact fee program is generally very straightforward, governed by the agreements that set up the fee program. Fee collection is generally done by the jurisdiction with land use authority at the time of building permit issuance, with fees forwarded to the operating entity. Administration costs include developing and maintaining the traffic model to support the fee nexus, cash flow projections, allocations, and financial reporting. Staff support is also needed for the Joint Powers Authority (JPA) or other entity that oversees the program. Cost to operate regional developer impact fee programs is generally 1-2% of the overall program.

<u>Pros/Cons</u>

Pros:

- Impact fees are generally popular with the public as it ensures new development to pay for itself.
- Fees can be imposed locally by vote of the governing board of the designated entity (such as JPA), rather than an act of the legislature or election
- Fees have proven to be an effective tool to fund infrastructure demands, particularly as match and/or leverage for state and federal funding

Cons:

- Funding levels are highly volatile, so bonding is impractical. Funds have to be saved up before spending on needed project, which can take years/decades after demand is established.
- Economic vitality and housing market directly affects viability of fee programs
- Impact fees cannot be used for existing deficiencies, such as maintenance, or for transit operations.

Neutral issue:

- Requires regional cooperation and consensus on project list and funding level.

<u>Implementation</u>

There is at least a medium, if not high, level of effort required to implement a regional fee. All action is done on a local/regional basis and there must be consensus on a project list and the appropriate fee level that is sustainable in the overall housing market. A nexus study, with traffic modeling, is also required. An implementing entity, usually a Joint Powers Authority (JPA) of local jurisdictions, must be formed to impose and administer the funding. Cost of implementation is generally focused on the traffic modeling/nexus study, plus the staffing and attorney costs of developing the needed consensus.

The South Placer Regional Transportation Authority (SPRTA)'s Regional Transportation and Air Quality Mitigation Fee program was put together at an inflation-adjusted cost of approximate cost of $120,000. With strong motivation and broad consensus, the implementation can be done within two years.

Conclusions/Recommendations

Regional developer impact fees are viable under existing law, but feasibility must be viewed in the overall context of the housing and development market and political will in that region.

Reference Materials

Existing Regional Fee Programs

Riverside County Transportation Uniform Mitigation Fee (TUMF)

South Placer Regional Transportation Authority (SPRTA) Regional Air Quality and Mitigation Fee Program