



## CITY OF TACOMA

### IMPACT FEE POLICY OPTIONS STUDY

UNIVERSITY OF WASHINGTON  
EVANS SCHOOL OF PUBLIC POLICY AND  
GOVERNANCE

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LIVABLE CITY YEAR 2017–2018  
IN PARTNERSHIP WITH  
CITY OF TACOMA

WINTER 2018



LIVABLE CITY YEAR 2017-2018  
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It was an enormous privilege to work with the City of Tacoma on this project. We would like to thank Josh Diekmann and the Public Works Department as well as Lihuang Wung and Lisa Spadoni and the Planning and Development Services Department for bringing this project to Livable City Year.

While we acknowledge that it will take more work to develop an impact fee implementation plan than four graduate students can do in a single quarter, we hope that our project partners can use this report as an effective tool when they evaluate the feasibility of impact fees in Tacoma and potentially introduce a proposal to the public and City Council. We would like to thank our project partners for allowing us this opportunity.

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## ABOUT LIVABLE CITY YEAR

The University of Washington's Livable City Year (LCY) initiative enables local governments to engage UW faculty and students for one academic year to work on city-defined projects that promote local sustainability and livability goals. The program engages hundreds of students each year in high-priority projects, creating momentum on real-world challenges while enabling the students to serve and learn from communities. Partner cities benefit directly from bold and applied ideas that propel fresh thinking, improve livability for residents and invigorate city staff. Focus areas include environmental sustainability; economic viability; population health; and social equity, inclusion, and access. The program's 2017–2018 partner is the City of Tacoma; this follows a partnership with the City of Auburn in 2016–2017.

The LCY program is led by faculty directors Branden Born (Department of Urban Design and Planning), Jennifer Otten (School of Public Health) and Anne Taufen (Urban Studies Program, UW Tacoma), with support from Program Manager Teri Thomson Randall. The program was launched in 2016 in collaboration with UW Sustainability and Urban@UW, with foundational support from the Association of Washington Cities, the College of Built Environments, the Department of Urban Design and Planning, and Undergraduate Academic Affairs.

LCY is modeled after the University of Oregon's Sustainable City Year Program, and is a member of the Educational Partnerships for Innovation in Communities Network (EPIC-N), the collection of institutions that have successfully adopted this new model for community innovation and change.

For more information, contact the program at [uwlcy@uw.edu](mailto:uwlcy@uw.edu).



## ABOUT TACOMA

The third largest city in the state of Washington, Tacoma is a diverse, progressive, international gateway to the Pacific Rim. The port city of nearly 210,000 people has evolved considerably over the last two decades, propelled by significant development including the University of Washington Tacoma, the Tacoma Link light rail system, the restored urban waterfront of the Thea Foss Waterway, the expansions of both the MultiCare and CHI Franciscan health systems, and a significant influx of foreign direct investment in its downtown core.

Washington State's highest density of art and history museums are found in Tacoma, which is home to a flourishing creative community of writers, artists, musicians, photographers, filmmakers, chefs, entrepreneurs, and business owners who each add their unique flair to the city's vibrant commercial landscape. The iconic Tacoma Dome has endured as a high-demand venue for some of the largest names in the entertainment industry.

A magnet for families looking for affordable single-family homes in the Puget Sound area, Tacoma also draws those seeking a more urban downtown setting with competitively priced condos and apartments that feature panoramic mountain and water views. The city's natural beauty and proximity to the Puget Sound and Mount Rainier draws hikers, runners, bicyclists, and maritime enthusiasts to the area, while its lively social scene is infused with energy by thousands of students attending the University of Washington Tacoma and other academic institutions.

The City of Tacoma's strategic plan, Tacoma 2025, was adopted in January 2015 following unprecedented public participation and contribution. The plan articulates the City's core values of opportunity, equity, partnerships, and accountability, and expresses the City's deep commitment to apply these values in all of its decisions and programming. Each Livable City Year project ties into the principles and focus areas of this strategic plan. The City of Tacoma is proud of its 2017–2018 Livable City Year partnership with the University of Washington and of the opportunity this brings to its residents.



# TACOMA 2025 STRATEGIC PLAN

The *Impact Fee Policy Options Study* supports the Livability and Economy and Workforce goals of the Tacoma 2025 Strategic Plan and was sponsored by the City's Planning and Development Services Department and Public Works.



**Goal #1 Livability**  
The City of Tacoma will be a city of choice in the region known for connected neighborhoods, accessible and efficient transportation transit options, and vibrant arts and culture. Residents will be healthy and have access to services and community amenities while maintaining affordability.



**Goal #2 Economy and Workforce**  
By 2025, Tacoma will be a growing economy where Tacoma residents can find livable wage jobs in key industry areas. Tacoma will be a place of choice for employers, professionals, and new graduates.



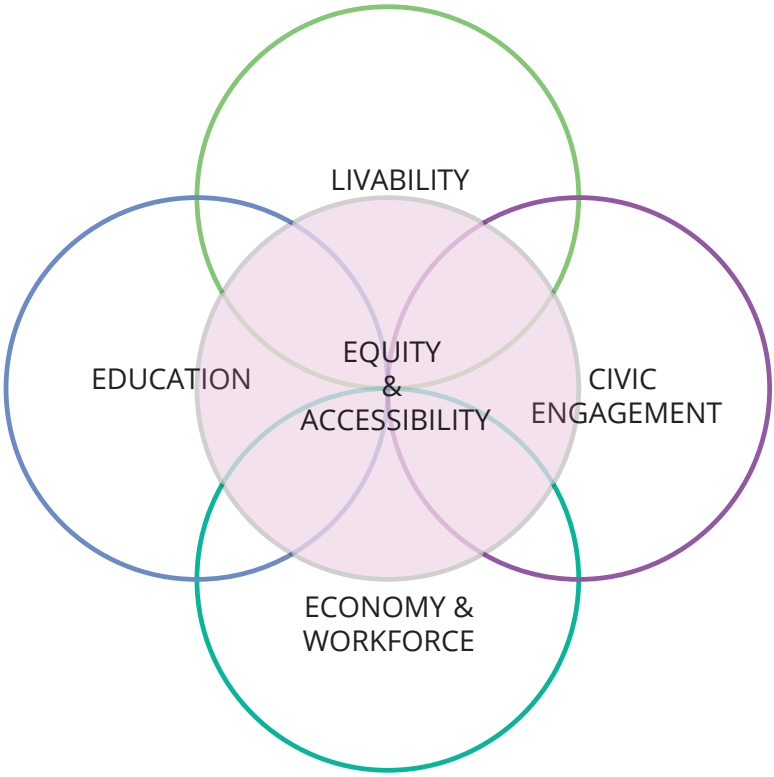
**Goal #3 Education**  
Tacoma will lead the region in educational attainment amongst youth and adults. In addition to producing more graduates from high school and college, more college graduates will find employment in the region. Lifelong learning and access to education will be prioritized and valued.



**Goal #4 Civic Engagement**  
Tacoma residents will be engaged participants in making Tacoma a well-run city. The leadership of the city, both elected and volunteer, will reflect the diversity of the city and residents and will fully participate in community decision-making.



**Goal #5 Equity and Accessibility**  
Tacoma will ensure that all residents are treated equitably and have access to services, facilities, and financial stability. Disaggregated data will be used to make decisions, direct funding, and develop strategies to address disparate outcomes.



## RESOURCES

**Tacoma 2025 Strategic Plan:** [https://www.cityoftacoma.org/tacoma\\_2025](https://www.cityoftacoma.org/tacoma_2025)

**Department of Planning and Development Services Department:**  
[https://www.cityoftacoma.org/government/city\\_departments/community\\_and\\_economic\\_development](https://www.cityoftacoma.org/government/city_departments/community_and_economic_development)

**Public Works:**  
[https://www.cityoftacoma.org/government/city\\_departments/public\\_works](https://www.cityoftacoma.org/government/city_departments/public_works)

**Livable City Year:** <https://www.washington.edu/livable-city-year/>

**University of Washington: School of Environmental and Forest Sciences:**  
<http://www.sefs.washington.edu/>

**University of WashingtonEvans School of Public Policy & Governance:**  
<https://evans.uw.edu/>

In the face of anticipated economic and population growth and the expansion of regional transit to the South Sound region, the City of Tacoma has identified a need to develop more transportation infrastructure capacity to meet the demands of a growing population: by some estimates, the city's population will grow by 52% over the next 22 years.

In 2018, the City of Tacoma's Public Works Department partnered with the University of Washington's Livable City Year program and requested a study assessing the feasibility of implementing transportation impact fees in Tacoma. This report represents our findings and includes an overview of transportation impact fee policy, structural considerations, economic implications, and Tacoma-specific context regarding the City's current revenue streams for transportation infrastructure projects.

Transportation impact fees help local governments to address increased demand for transportation infrastructure by assessing one-time fees against a new development project. Established in Washington State in 1990 following the adoption of the Growth Management Act, transportation fees have now been implemented by over 70 municipalities in Western Washington.

**Primary Findings:**

- Tacoma has a significant funding gap for capital projects related to transportation. Impact fees can help cover a portion of the unfunded costs of projects directly caused by new growth and development.
- Transportation impact fees have become common in Western Washington: many municipalities that have seen significant growth over the past five years have transportation impact fees in place, suggesting that the area's market resiliency has created a climate in which transportation impact fees and urban growth are not mutually exclusive.
- There are a variety of structural considerations and modifications that the City of Tacoma can incorporate when instituting impact fees. These modifications can alleviate constituent concerns around sustainability and affordability impacts: exemptions can be used to incentivize the development of mixed-use centers, affordable housing, green infrastructure, and other projects that might further Tacoma's priorities.

**RECOMMENDATIONS**

Based on our research into regional trends and in consideration of Tacoma's current funding gap for capital projects related to urban growth, we recommend that the City of Tacoma move forward with implementing transportation impact fees. We believe that the City of Tacoma has a tremendous opportunity to implement transportation impact fees in the near future, improving the city's infrastructure, livability, and financial health.

Should Tacoma decide to take action on transportation impact fees, we recommend the following steps:

- Hire an expert consultant to **conduct a trip rate analysis** to determine the City's base rate.
- Communicate with both developers and residents to **assess constituent concerns**.
- Outline the **policy structure**, which might include a phase-in period, multiple zones, and exemptions.
- **Conduct a trip rate analysis**—an assessment of the number of trips per hour along different roadways—to determine the maximum allowable base rate for developers.
- **Bring a base rate estimate to the public and developers** and proactively work to address and mitigate any constituent concerns.
- **Construct a transportation impact fee structure** that includes a schedule of rates that categorizes the separate building types and offers distinct units of measure for these categories.
- **Use one service area**, rather than multiple areas throughout the city, to keep administrative costs low.
- **Include exemptions for affordable housing and environmental justice**.
- **Incentivize multimodal transportation projects** that support non-motorized transportation.
- **Create a streamlined system for developers to introduce their own trip rate data for mixed-use structures**.

Transportation impact fees allow municipalities to raise needed revenue for transportation infrastructure by charging a one-time fee for new development projects. Increasingly common in Washington State, impact fees contribute to a larger financial portfolio that will fund new capital projects and help cover the costs of new growth. Transportation impact fees were first established in Washington State in 1990 following the Growth Management Act; today, over 70 municipalities in Western Washington have transportation impact fees in place (City of Bellingham 2017).

Though the City of Tacoma does not currently have transportation impact fees in place, the tool offers an opportunity to raise revenue alongside expected population growth to cover the city's existing and future transportation budget shortfall. The Vision 2040 plan forecasts regional growth to be 1.7 million people by 2040, a 52% increase from today's population (Puget Sound Regional Council 2009, 3). Additionally, Tacoma currently faces a nearly \$105 million funding gap for transportation projects (City of Tacoma Office of Management & Budget 2016). In the face of this anticipated growth and the expansion of transit infrastructure in the South Sound, including the Link Light Rail, Tacoma will need to develop more infrastructure capacity and revenue streams to meet the demands of current and future residents.

#### **CITY OF TACOMA INITIAL PROBLEM STATEMENT**

We were asked to study transportation impact fees and what implementing these fees in Tacoma would potentially look like. The City's initial problem statement (see callout box) highlights the potential benefits for Tacoma if the City determines that an impact fee is feasible.

As we will outline throughout this report, we believe impact fees are an effective tool that the City of Tacoma can use to help finance the costs associated with growth. Used along with other funding sources to cover the cost of new capital projects, transportation impact fees are a feasible option for Tacoma.

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**Tacoma will need to develop more infrastructure capacity to meet the demands of current and future residents.**

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#### **City of Tacoma: Next Steps**

The City of Tacoma has a long-standing policy interest in exploring the potential of an impact fee program. The City of Tacoma, like all jurisdictions, continuously works to stretch its transportation funding resources to meet the current and future needs. Tacoma has been very effective leveraging limited funds to attract transportation grant funding from federal and state sources. More recently, the voters approved new funding for street maintenance which has begun to address that backlog. The next step is to develop a method to pool development resources to grow and improve Tacoma's multi-modal capacity to handle increasing transportation needs as the City grows. An impact fee program could put Tacoma in a better position to attract and support jobs and housing consistent with its role as a metropolitan city and the "downtown" of the South Puget Sound region.

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**The City of Tacoma could use impact fees to finance new transportation costs associated with growth.**

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At the start of the quarter, we worked closely with our project partners at the City to turn the problem statement into some basic research questions that would help us determine the scope of the work:

### Research Questions

1. What other transportation infrastructure funding opportunities are available?
2. Will impact fees encourage or discourage future development?
3. What are the administration costs for an impact fee program?
4. What type of transportation impact fee program would work best for Tacoma (phases, zones, other)?
5. Do some areas of the city (e.g., regional growth centers) have special needs? What other strategic policy priorities should be considered (e.g., affordability, sustainability, and livability)?
6. What impact fees are currently in place across the region and what are some examples of how different jurisdictions calculate their fees?

To answer these questions, we used a policy analysis approach. We examined twelve case studies of other municipalities, mostly in Washington, that have implemented transportation impact fees. We also looked at the relevant literature in urban policy, economic theory, and policy research to identify potential policy effectiveness.



*A sunrise view of downtown Tacoma captured from the Greater Tacoma Convention Center. CITY OF TACOMA*



In this section, we provide an overview of impact fees and their origin, legal structure, and considerations for Washington State communities. Next, we look at Tacoma transportation infrastructure projections and potential impact fee eligibility. Finally, we review the potential impact on affordability, one of the frequent economic critiques of impact fees, and gauge the relevance for the Tacoma context.

**IMPACT FEES IN WASHINGTON STATE**  
**Background of Impact Fees**

Impact fees originated in the post-WWII suburban boom in the United States (Reich 1964). This boom was accompanied by a question of who was going to pay for the community facilities—parks, schools, and streets—that the growth mandated. Cash-strapped municipalities that felt the pressure to modernize and upgrade public services and facilities while facing a decrease in federal grants, state revenue constraints, and a public distaste for taxation needed to find a way to finance growth. Initially, local governments imposed new rules on developers, requiring them to dedicate park and school sites, widen streets, and even contribute funds (mandatory dedications) for public use. Courts began to wrestle with the question of whether public spaces were privileges or rights, and if municipalities were to charge fees, what was a legal way to do so (Nicholas & Nelson 1988).

In 1965, the Wisconsin Supreme Court adopted the Rational Nexus Test (see callout box) as a way to determine appropriate fee structure to fund development (Leitner & Schoettle 1993; Mucahy & Zimet 1996). The test was soon adopted throughout the country as the best tool to use for impact fees and is still used today to determine the legality of impact fee structures. The test can be found in the section of the Washington Growth Management Act that dictates how impact fees should be implemented in the state of Washington (Growth Management Act 1990).

**The Washington State Growth Management Act**

The Washington State Growth Management Act (GMA), first adopted in 1990, requires fast-growing cities and counties in the state to develop a comprehensive plan to manage that growth. The Act outlines a series of guidelines for impact fees, stating that they may be used for the following:

- 1. Public streets and roads;
- 2. Publicly owned parks, open space, and recreation facilities;
- 3. School facilities; and
- 4. Fire protection facilities.

The Growth Management Act adopts some of the same language of the Rational Nexus test: impact fees must be used for “system improvements,” such as public capital facilities that are designed to serve the community at large, are reasonably related to the new development, and will benefit the new development. Impact fees also cannot exceed a “proportionate share” of system improvement costs, though this number is typically calculated based on the fee structure put in place by municipalities themselves. Municipalities may not rely solely on impact fees and must have additional funding sources to fund the improvements. According to the GMA, impact fees must be used for new projects and may not be used to correct existing deficiencies.

Transportation impact fees must be used for “public streets and roads.” Though the GMA does not specifically guide the implementation of multimodal impact fees—it looks instead at multiple transportation uses including bus lanes, sidewalks, and bike lanes—the general consensus is that it may be acceptable if it is within the street right-of-way and there is a strong transportation-related justification.

**Calculating Impact Fees**

Cities and counties that implement impact fees must create a rate schedule that specifies the fee to be imposed for each type of system improvement. In general, impact fees are calculated by identifying a gap in funding, identifying eligible projects, and creating a trip rate analysis that helps determine the maximum allowable base rate for development—for example, see Figure 13, an example from Kent, WA on how the City calculates its impact fees (Fehr & Peers and Henderson, Young & Company 2010). Many cities recalculate their fees often—for example, Bellingham recalculates its fees every year. (To read more about how Bellingham implements its impact fees, see callout box on page 14).

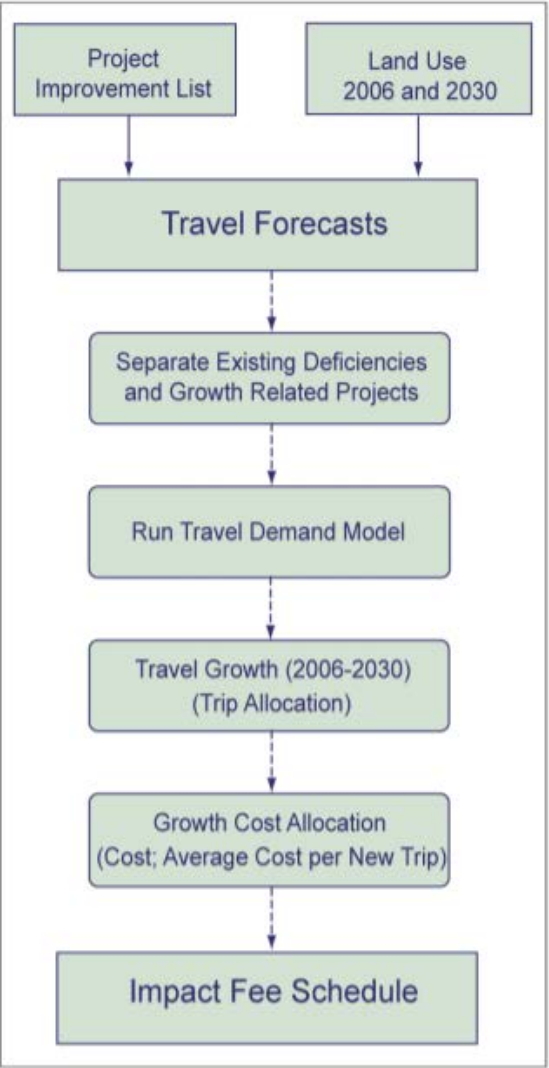
**Rational Nexus Test**

The Rational Nexus Test asks that an impact fee follow the following criteria:

- 1. There must be a reasonable connection between community growth and the need for additional facilities to serve that growth.
- 2. There must be a connection between expenditure of fees and benefits to the community.

Impact fees must be used for system improvements, serve the community at large, and be related to new development.

While each community calculates impact fees differently, they are generally based on existing funding gaps and a list of eligible projects.



*This example from Kent, Washington, shows one possible process for calculating fees.*

**Case Study: Bellingham, Washington**



Bellingham has perhaps the longest and most well-documented transportation impact fee program in Washington. Initiated in 1995 after the City's first GMA-compliant Comprehensive Plan was put into place, Bellingham's first transportation impact fee (TIF) was a 10-zone plan. By 2006, the TIF encompassed 18 zones, at which point the City government solicited an outside consulting firm to review and recommend next steps for the program. In 2007, the firm advised Bellingham to follow Olympia's move to a city-wide TIF. This decision was grounded in the belief that a city-wide TIF is more equitable and more predictable for developers. From 2005 to 2017, Bellingham's TIF covered 8.2% to 21.7% of local construction costs.

In 2010, Bellingham introduced the Urban Village TIF Reduction Program. This fee reduction model was designed to account for the decline in vehicle trips in mixed-use and high-density areas. The fee model was structured to incentivize an infill land use strategy in Bellingham's densest regions, and to motivate developers to design with a multimodal transportation network in mind. The City reassesses the TIF base rate annually basis to ensure that the fee structure accurately matches planned projects. As of 2018, the TIF is \$2,017 per evening traffic trip, representing a 5.6% decrease in cost from the previous year. There is much to be learned from Bellingham's decision to 1) initially grow the number of zones, 2) subsequently move away from a zoned policy to a city-wide rate to reduce administrative costs and be more predictable, and 3) use reductions in transportation impact fees as a tool to encourage certain types of development practices, such as infilling urban zones, fronting buildings on public transit routes, and participating in employee programs like a car share and public transit passes.

The schedule of impact fees outlines the amount a developer should expect to pay, sorted by building category.

Base Rate Calculation

From municipalities like Bellevue, Olympia, and Kirkland, common categorical groupings for rates include residential, restaurants, services land use, commercial, retail shopping, office, and industrial (City of Bellevue 2018, City of Olympia 2016, City of Kirkland 2018). Other programs do not specify categories and simply list out each type of development.

The average base rate for the schedule of cities and counties in western Washington is \$3,740.82, with a range of \$515 in Kitsap County to \$14,707 in Sammamish (Comeau et al. 2017). Municipalities regularly update this rate and adjust it yearly for inflation.

STRUCTURAL CONSIDERATIONS

There are several structural considerations that municipalities must take into account when deciding how to implement impact fees. These considerations include the schedule of impact fees, or the amount a developer should expect to pay for each category of structure; the service areas, or areas in which developers should expect to pay impact fees on new developments; phase-in periods, or when and how impact fees will be introduced; credits, adjustments, and exemptions; payment schedule and deferrals; refunds and appeals; and multimodal transportation options.

Schedule of Impact Fees

The schedule of impact fees outlines the amount a developer should expect to pay for each of the proposed structures, sorted by building category. Depending on the type of building, these rates are broken up by one or several units of measure, such as square feet, number of dwellings, units, rooms, students, or seats. The more specific the units of measurement, the more control the municipality has over the kind of developments they seek to incentivize. In addition, this specificity can indicate to builders that the municipality designed the schedule as to not overburden one category of development, helping to reduce pushback from these groups. These schedules can also be separated out by each service area.

Service Areas

While the GMA requires that municipalities outline the impact fee service areas, the legislation does not require a certain number of service areas. Jurisdictions in Washington have seen issues with maintaining too many service areas or with service areas that do not follow clear jurisdictional lines. With more areas, the costs are not as transparent to the developer, and it can create further complications for administering the program.

Breaking up the fees into zones also raises questions about whether the use of the funding from those zones should be limited to improvements in these zones. Bellingham, Washington addressed the potential inequity between each of its zones when it downsized from 18 zones to one transportation impact fee base rate for the entire city in 2007 (see callout box on page 15). Following this trend, newer impact fee programs in Washington, such as the City of Shoreline and the City of Bellevue, use only one or up to a few service areas (see callout box on page 16.)

Case Study: Shoreline, Washington

Shoreline is a city of 53,007 people located immediately to the north of Seattle. While significantly smaller than Tacoma, it is similar to some of Tacoma’s growth centers by being densely populated and urban in character, but without a strong central nexus of business and commerce.

The City of Shoreline began implementing transportation impact fees in January, 2015 to “help recover the costs the City incurs for transportation system improvements to accommodate the higher travel demand added by the new development” (City of Shoreline). Shoreline also has active Fire Department and park impact fees.

Shoreline opted not to implement multiple growth zones, citing its compact geographic size and the importance of central transportation arteries as reasons. Shoreline’s TIF per-unit rates are \$5,567 for single family homes, \$3,607 for apartments, and \$3,662 for condominiums. The study also estimated \$38,087,220 in unmet costs eligible for impact fees by 2030. In 2016, the City recorded \$1,201,065 in revenue from transportation impact fees. Shoreline offers fee exemptions to a variety of projects, including low-income and community-based housing services agencies.





Depending on local economic growth projections, a phase-in period for impact fees may be more or less appealing.

**Phase-In Period**

While some municipalities, such as the City of Kent, Washington, introduce the entire impact fee at once, other governments have utilized a phase-in fee structure over multiple years when introducing impact fees, offering developers time to adjust (City of Kent 2016). While a gradual ramp-up in impact fees will look attractive to developers, a protracted phase-in period has caused dissatisfaction in places like Oakland, California (see callout box), where residents wanted developers to pay for the explosive growth the city was experiencing by charging them the full rate faster than the planned four-year phase-in period (Swann 2016). A phase-in period may be more or less appealing, depending on local economic growth projections.

**Credits, Adjustments, and Exemptions**

As stated in RCW 39.92.040, a developer who makes improvements to the transportation infrastructure surrounding a building site can receive credit against its impact fee; if the cost of the construction improvements

exceeds that of the impact fee for the site, the developer receives compensation for this work from the transportation impact fee fund.

Developers can also conduct their own study to calculate the traffic impact their building will create and propose an alternative impact fee rate for their project. In many jurisdictions, reducing the number of trips or the length of trips through mixed-use and other innovative developments can enable developers to lower their impact fees (Salemann 2013). For example, RCW 82.02.060 enables developers to conduct their own study and offer a different trip rate than that of the standard table. This allows certain types of developments, such as mixed-use buildings, to justify a lesser rate because these structures have the potential to reduce the number of future trips by combining housing and other uses in one place. In addition, many other municipalities exempt accessory units built on properties (City of Burien 2009).

The Growth Management Act allows for exemptions from the transportation impact fee for developments that fall under the definition of “broad public service,” such as affordable housing. If the exemption amounts to up to 80%, the code does not call for the governments to make up that payment. If the municipality offers a full waiver, they must reimburse the transportation impact fee fund from other public funds matching the amount of the exemption. The code also does not allow these exemptions to be made up by raising impact fee rates on other properties.

**Payment Schedule and Deferrals**

The transportation impact fee must detail when developers must pay the fee in the permitting and construction process. In Washington, the payment of the transportation impact fee is usually required at the time of land subdivision, the issuance of the building permit, the receipt of the certificate of occupancy, or at the closing sale (Salemann 2013). The county, city, or town can require payment in a lump sum or in installments over a period of at least five years with a “reasonable interest rate;” as an example, Clark County offers an installment package over five years (Clark County 2015).

The 2015 legislative update to the GMA, ESB 5923, requires local governments to include a provision that allows developers to defer impact fee payments for up to 18 months for the first 20 single-family residential building permits.

**Case Study: Oakland, California**

Oakland, California introduced impact fees in 2016. Located across the bay from San Francisco and in one of the most rapidly changing and economically-booming areas in the nation, Oakland implemented transportation impact fees to make sure that developers and development projects pay their “fair share” to compensate for the increased demand for transportation infrastructure. There are two things to note when looking at Oakland’s impact fees: first, they are intentionally designed to pay for multimodal transportation cost, and second, they make a distinction between residential and nonresidential projects, charging residential impact fees based on zones and housing type.

Oakland’s heavy emphasis on multimodal transportation reflects the region’s support for this kind of transportation, as well as different requirements from the State of California. Oakland’s fees can be used to cover public right-of-way for pedestrians, bicyclists, and motor vehicles.

In addition, the fees are divided by zone, by housing type (multi-family, townhome, and single family), and by residential and non-residential developments. While residential fees are based on type and zone and are applied per housing unit, nonresidential fees are charged per square foot and differ based on use.



**Refunds and Appeals**

RCW 82.02.080 requires that funds from transportation impact fees not spent on capital projects within ten years be refunded. It also allows counties, cities, or towns to choose a time period shorter than that if desired; for example, the City of Olympia refunds any fee not used within six years. According to the legislation, every transportation impact fee program must also include a process for appealing the fee.

**Multimodal Transportation Option**

As mentioned previously in this report, it is generally acceptable to use impact fees for multimodal infrastructure (e.g., bus lanes and sidewalks) as long as it is within the street right-of-way and there is a strong case for it being transportation-related. However, the City of Seattle has interpreted that the GMA guidelines mandate transportation impact fees be used exclusively to fund roadway projects, leading the City to rely on the “voluntary agreement” provision of the State Environmental Policy Act (SEPA), which allows developers to pay a mitigation fee instead of undergoing a more extensive environmental review (Samdahl 2016). This fee then funds projects constructed for pedestrian, bicycling, public transportation, and vehicular traffic along roadways. Though this approach could provide dedicated funding for multimodal transportation efforts, Seattle has not seen many developers choose this option, and revenue from this policy remains low (see callout box, page 27).

In an alternative approach, Bellingham offers impact fee reductions for developers in its urban village region who provide multimodal incentives, such as bus passes, car sharing memberships for occupants, or installation of City-approved bike racks (Comeau and AICP 2013).

**TACOMA TRANSPORTATION INFRASTRUCTURE CONTEXT  
Regional Priorities**

Community members and our project partners at the City of Tacoma have emphasized that livability, affordability, and environmental justice are important as Tacoma looks forward to its anticipated growth. This is in keeping with the City’s strategic priorities and comprehensive plan (City of Tacoma 2015). In particular, continued community input—including the information in existing subarea plans that guide development in Regional Growth Centers—will be important as the City moves forward with designing and implementing transportation impact fees, as reflected

by the subarea plans that guide development in Regional Growth Centers, is taken into consideration if the City moves forward with designing and implementing a transportation impact fee.

Other factors that may play a role in the City’s structuring of an impact fee policy include job growth and economic revitalization in urban centers, Mixed-Use Centers that integrate ground floor retail with residential and commercial living and work spaces, socioeconomic diversity maintained through affordable housing even with gentrification and increased residential development, environmentally sound development, and multimodal transportation infrastructure that promotes public transit access, bikeability, and safe pedestrian walkways.

As Tacoma discusses the feasibility and consequences of implementing transportation impact fees, the City has an opportunity to use fee exemptions to encourage building projects that further residents’ priorities around housing affordability and environmental justice (see our Recommendations section for a further discussion of this point).

*Tacoma’s Existing Transportation Infrastructure Funding*  
Presently, Tacoma has a \$104,474,556 gap in the capital budget for transportation infrastructure projects (City of Tacoma 2016). In other words, the City has not yet determined how they are going to fund a significant portion of the transportation infrastructure projects they have prioritized in the next six years. Tacoma’s existing revenue streams for transportation infrastructure funding include the Real Estate Excise Tax (REET), Fund Reserve 1085 - Voted Streets Initiative, Federal Grants, the City-Gas Tax Fund, and Debt-LTGO Bonds. These existing funding streams do not meet the current need, much less the potential need that might arise with future population growth, currently projected at 52% by the year 2040 (Puget Sound Regional Council 2009).

Tacoma’s REET is 1.78%, 0.5% of which goes to the city and 1.28% of which goes to the WA Department of Revenue. Tacoma has the option to increase this rate up to 2.28%—doubling the revenue that the City collects from property sellers at the point of sale. While historically unpopular among home-purchasers, real estate agents, and other property developers, this is a potential additional revenue stream that the City could consider.

The City of Tacoma  
has prioritized  
environmental  
justice and  
affordability.

Additionally, Fund Reserve 1085, commonly referred to as the Voted Streets Initiative, was approved in 2015 and is slated to sunset in 2025. A multi-part initiative, Fund Reserve 1085 included both Proposition 3, a property tax increase of \$0.20/\$1000 of assessed value and a 1.5% increase in the gross earning tax for power, telephone, and natural gas utilities, and Proposition A, a 0.01% increase in the City's sales tax. The Voted Streets Initiative funds maintenance for 70% of Tacoma's residential streets, an issue that had historically been a sore point for residents, who frequently complained about the potholes, lack of ADA-compliant curb cuts, and general disrepair of roads in residential neighborhoods. The fact that Tacoma's voting base elected to incur costs to improve street maintenance suggests that the current residential population is receptive to City intervention in maintenance and proactive improvement of infrastructure.

**Potential Impact-Fee-Eligible Projects**

In our analysis of Tacoma's Capital Facilities Program, we found a number of unfunded or partially unfunded transportation projects planned through 2022 that are potentially eligible for transportation impact fees. In total, the unfunded amount of these projects is almost \$105 million (City of Tacoma 2016). Because transportation impact fees can only apply to costs accrued by new growth, an impact fee project will most likely not cover this full amount, as some of these projects are simply maintenance on existing roads and some do not involve street right-of-ways or have other transportation-related justifications. However, the total revenue potential is high: other Washington cities have found that impact fees can cover a range of the total cost of capital projects (Kent, WA: 49%; Mercer Island, WA: 57%; Vancouver, WA: 33.5–40.8%; and Shoreline, WA: 97%).

Tacoma has not yet determined how to fill the gap in the capital budget for transportation infrastructure projects.

**Case Study: Renton, Washington**

In 1994, the City of Renton (population 100,953) introduced impact fees to help fund the strains placed on its fire, parks, and transportation divisions by the growth of its population. The rates of these fees did not change until the City commissioned a study of its impact fees in 2011. This report led to a five-year phase-in period for an increase in impact fees, which began in 2012.



Renton breaks down the structure types for its impact fees into many categories, but it highlights four categories as examples for its phase-in structure: single family (per dwelling), multi-family (per dwelling unit), office (per square foot), and retail (per square foot). There was no scheduled rise in fees for the first two years of the plan, so 2014 marked the first year of a rate increase, resulting in a fee increase ranging from 18% to as much as 165%. Overall, the increase amounted to a 280%, 273%, 330%, and 54% rise for the single family, multi-family, office, and retail impact fees, respectively. During this same time, from 2012 to 2016, the City of Renton expected to grow by 9.5%, or by 8,800 residents. In actuality, the City of Renton experienced a 12.1% population growth rate (City of Renton 2011).

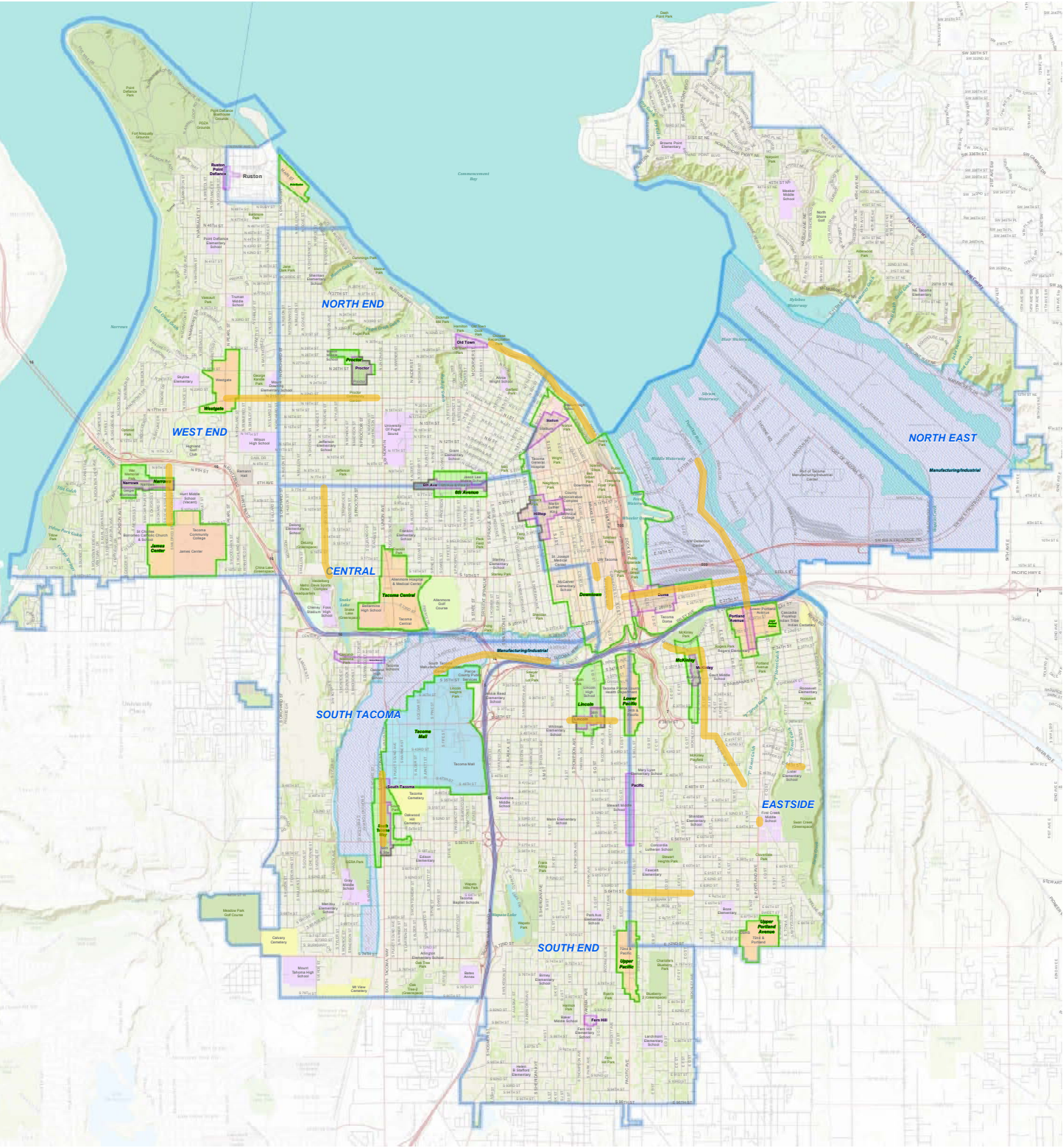
The increased rate of the transportation impact fees was based on finding the growth share of the eligible costs for the future street projects eligible for impact fees, which amounted to \$134,330,224. Based on the anticipated increase in PM peak hour trips from the growth, the City found the cost of each of those trips (\$7,517.08), and attributed these costs to a specific category of development. In 2016, the City of Renton's Transportation Impact Mitigation Fund gained \$672,356 in revenue, amounting to a year-end balance of \$1,498,461.



Tacoma has \$105 million in potentially eligible unfunded transportation projects.

List of Transportation Projects					
Project Name	Project #	Total Cost	Unfunded Amount	Potential Impact Fee Eligibility	Description
Historic Water Ditch Trail - Phase III & IV	PWK-00561	9,642,223	6,615,395	Partial	Pedestrian/Multimodal improvements
First Creek Middle School Safe Routes to School	\$PWKE-00003	399,000	399,000	Partial	School route safety improvements
Puyallup Avenue Improvements	PWK-G0020	22,000,000	21,800,000	Partial	Pedestrian/Multimodal improvements
Lincoln Business District Streetscape	CIP-00036	7,986,039	2,858,179	Partial	Street rehab and upgrade
Mildred Street Improvements from South 12th to North 9th	PWK-NEW-1245	3,500,000	3,500,000	Partial	Street rehab and upgrade
North 21st Street: Adams to Pearl	PWK-G0019	17,625,500	17,425,500	Partial	Street reconfiguration
Pipeline Trail/Cross County Commuter Connector - Phase III	\$PWKS-00002	50,000	50,000	Partial	Pedestrian/Multimodal improvements
East 64th Street: Pacific to McKinley	PWK-G0018	8,635,000	7,785,000	Partial	Street rehab and upgrade
Fawcett Avenue: South 19th to South 21st	\$PWKE-00006	800,000	800,000	Partial	Pedestrian/Multimodal improvements
South Tacoma Way: 47th to 56th Street	\$PWKS-00007	6,000,000	4,400,000	Partial	Pedestrian/Multimodal improvements
Portland Avenue: East 11th Street to South 28th Street	\$PWK-00001	7,837,000	7,837,000	Yes	Street reconfiguration
LED Streetlight Conversion	\$PWE4-00001	10,060,000	10,060,000	Yes	Streetlight upgrade
Lister Elementary School Safe Routes to School	\$PWKE-00004	520,000	520,000	Yes	School route safety improvements
Schuster Parkway Promenade	PWK-00564	15,635,436	14,167,650	Yes	Pedestrian/Multimodal improvements
South Stevens/Tyler/66th Bike and Pedestrian Connector	CIP-00034-01-10-04	1,673,310	156,832	Yes	Pedestrian/Multimodal improvements
Prairie Line Trail - Phase II	PWK-G0014	7,165,511	6,100,000	Yes	Pedestrian/Multimodal improvements

Projects Potentially Eligible for Impact Fees



All of the street-specific, potential impact-fee-eligible projects are outlined in yellow in this map of Tacoma infrastructure projects. As evidenced by this illustration, Tacoma's planned transportation infrastructure projects span the geographic range of the city, suggesting that a single zone might work best for the city, as projects—and consequently, growth—are not limited to one neighborhood. (More information on this is available in our Recommendations section.) CITY OF TACOMA COMMUNITY & ECONOMIC DEVELOPMENT DEPARTMENT GIS ANALYSIS & DATA SERVICES

# ECONOMIC ANALYSIS OF TRANSPORTATION FEES

## Will Impact Fees Inhibit Growth?

Our research on the structure of impact fees in Washington State and the Tacoma context suggests that transportation impact fees are a viable option for Tacoma during this projected period of economic and population expansion. However, this funding method has drawn criticism, largely from two parties: the homebuilding industry and housing affordability advocates. To evaluate these concerns, we turn toward a discussion of the theoretical and applied historical impacts of transportation impact fees. We then draw on literature on the topic and regional growth trends to provide historical and local context to this consideration.

## Economic Theory

### Standard

A fundamental challenge to transportation impact fees is founded in standard economic theory. In general, it is understood that fees constitute a housing price increase. At a higher price, the effect could price certain buyers out of the market. This could result in both a loss in economic benefit from reduced home sales and a social equity problem as individuals with less wealth tend to be the first to leave the market as prices rise.

The National Association of Home Builders (NAHB), one of America’s largest trade associations, provides an analysis of the theoretical effects of impact fees in its “Impact Fee Handbook”(Development Planning and Finance Group 2008). In this resource, the NAHB finds that the use of impact fees is an inefficient policy that tends to increase housing costs to homebuyers and

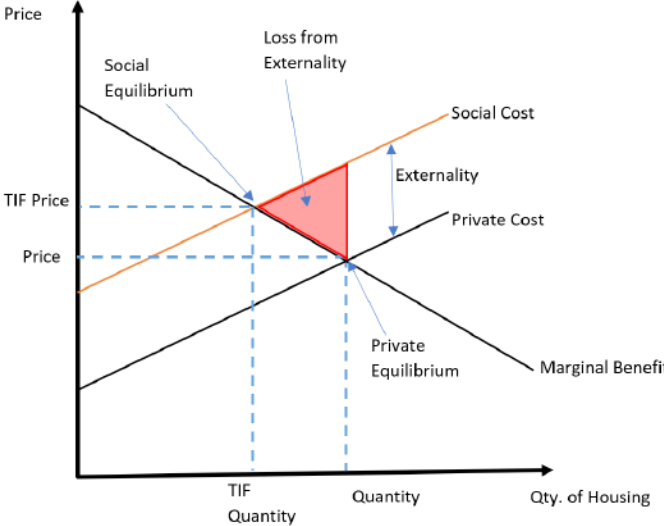
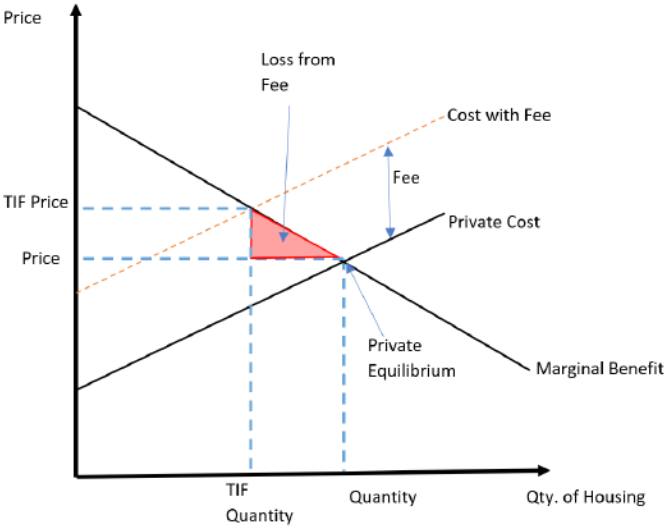
unnecessarily hinder growth natural to an unregulated market. The following analysis makes use of the NAHB stance opposing impact fees to consider the validity of these arguments. We conclude that NAHB uses valid economic models but makes several key assumptions that do not adequately consider a complete range of economic concepts and prevailing market factors.

NAHB lays out the standard economic model of supply and demand, with a government-imposed fee (see figure on page 25). The intersection of Supply and Demand represents the supposed market equilibrium Price and Quantity of home sales (“P” and “Q,” respectively). With the imposition of an impact fee, prices increase to P<sub>f</sub>, driving down demand and resulting in a new equilibrium quantity of Q<sub>f</sub>. The fee causes a market distortion, resulting in lost net benefit represented by the red triangle. While this model of market behavior is broadly accepted as realistic, it also fails to capture an important set of more complex realities.

### Alternate

The concept of externalities builds from the standard theory used by NAHB, but seeks to consider wider, indirect effects of markets. An externality is a cost (negative) or benefit (positive) resulting from market behavior, but not reflected in market prices. A classic example is air pollution as a byproduct of congested urban roads. In this case, the “negative” externality to be considered is the impact that growth has on public infrastructure, and increased demand for capacity as a result of development. Figure (below) is a representation of the negative externality model.

Standard economic model of supply and demand with an imposed fee, as used by the National Association of Home Builders to analyze impact fee costs. In this model, fees are seen as a burden on private development.



Alternate economic model, taking into account the negative externalities caused by growth. In this model, the impact fee helps to cover the social cost of increased transportation demand.



### Case Study: Seattle, Washington

The City of Seattle, current population 705,000, is currently considering implementing impact fees to supplement current funding to cover the cost of growth. They began considering impact fees in 2014 and are currently working to formulate a concrete proposal. The City Council appropriated \$300,000 from the 2015 budget to fund evaluation and development of an impact fee proposal. Some of the money went towards the formation of a workgroup comprising the Department of Planning and Development, Department of Transportation, the Parks and Recreation Department, Office of the Mayor, Department of Finance and Administrative Services, and the City Budget Office.



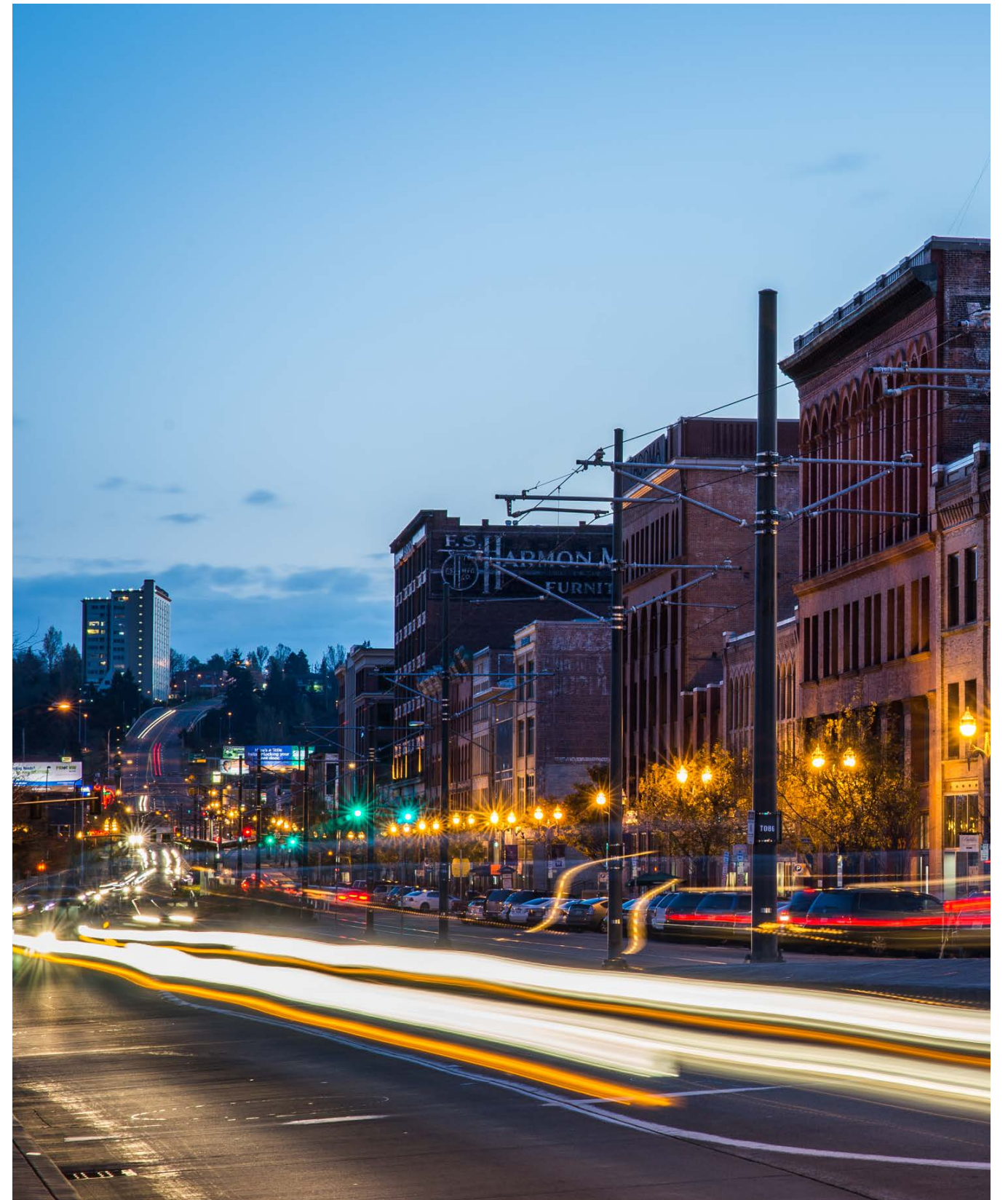
Currently, the City uses State Environmental Policy Act (SEPA) Alternative Mitigation fees in certain neighborhoods, but these fees are only assessed if specific environmental impacts are found, and they do not apply to SEPA-exempt projects. The City of Seattle is looking at impact fees as a complementary source of funding to SEPA, and it hopes to use the fees to address existing facility deficiencies.

Seattle is also looking to use the impact fees for street widening, installation of bike lanes, new and coordinated traffic signals, and improvements to crosswalks. However, before a plan can be proposed, the City has stated that it needs to assess and update citywide travel models of current and future projected transportation demand.

Seattle also offers an opportunity to witness the debate around the relationship between impact fees and affordability. An opinion piece in the Seattle Times—penned by City Council members Lisa Herbold, Sally Bagshaw, and Mike O'Brien—argues that Seattle is long overdue for developer impact fees, pointing to the fees already being implemented in Bellevue, Kirkland, Bothell, Issaquah, and Renton. So far, the only negative criticism in the press has come from Dan Bertolet of the Sightline Institute, who argues that “red tape” will raise housing costs. He writes:

Across an entire metropolis, when homebuilding is cheaper, homebuilding speeds up. And in booming, housing-short cities such as Seattle, the more new homes built, the less prices rise—that is, the lower the price the market will bear.... For housing, the rules that govern development often conflict with cheaper production. Drawn-out permitting processes and legal challenges add cost because time is money (2017).

Eric Shields, Kirkland’s planning and building director, points out that in more expensive markets, such as those found in many parts of the Puget Sound region, impact fees are a relatively low share: “With high housing prices, impact fees are not a huge chunk of the cost,” he says in an article for Crosscut. “When the houses are selling for \$1 million, it doesn’t seem to make a difference” (Giordano 2017).



Impact fees collected from commercial developers enable fast-growing cities, like Tacoma, to fund important transportation projects. CITY OF TACOMA.



In the externality scenario, the starting point is identical. Private Cost here is equated with Supply in Figure 1, as is Marginal Benefit with Demand. The market equilibrium exists at the intersection of Marginal Benefit and Private Cost; the key distinction is that this model assumes there is a negative societal cost that is not incorporated in the cost of housing: the cost of providing transportation infrastructure. In the presence of a negative externality, the “natural” market settles at an inefficient equilibrium. Because the societal cost of infrastructure is not included in home prices, housing is over-produced and this creates a loss of societal benefit represented by the red triangle. The result is an oversupply of housing and unmet public transportation costs. In this case an impact fee still would increase the cost of housing as in Figure 1. But the ideal fee would be calculated such that the cost of the negative externality is internalized into the cost of housing, thus eliminating the loss that occurs from the failure of the market to naturally include the cost of transportation impacts.

While the “real world” scenario is more complex than the framing in either of these scenarios, the externality interpretation is useful in pointing to a world in which markets do not perfectly self-regulate (Nelson et. al. 2008). Washington’s provision for impact fees in the Growth Management Act is informed by the recognition that growth imposes significant cost on cities and counties, which face pressure to provide increased levels of service. Beyond theoretical models, we turn to existing data on population and economic growth for more specific insight into the question of whether impact fees will discourage development in Tacoma.

**Prevailing Economic and Population Growth Trends**

A 2017 Population Trends report from the Washington State Office of Financial Management (OFM) shows healthy growth since 2012. 2017 saw the highest population growth since before the recession in 2007. The majority of growth came from outside the state and settled into urban centers. Statewide, housing stock grew by nearly 15% over the same period, in response to increased demand.

In 2017, the OFM increased its regional growth projections, with the highest growth expected in urban centers and along the I-5 corridor, including the greater Tacoma area (Growth Management Act 2017 Update). From 2012–2017, Pierce County exceeded growth projections by 1.1% (OFM, Forecasting and Research Division 2017).

**Case Study: Pierce County, Washington**

Pierce County has implemented its own transportation impact fee program for unincorporated areas in the county. A county of 843,954 people, and growing, Pierce County passed its Traffic Impact Fee (TIF) program in 2007 to reduce the time it took for new development to proceed through the review process and allow for more predictability in the imposition of mitigation associated with traffic impacts. In addition to the TIF, developers in this region pay a parks and school impact fee for every new building. Pierce County’s 2006 Rate Study showed a \$189 million net cost deficit for road and intersection improvement costs, and the County sought to close this gap through its TIF program. Due to its size, Pierce County broke down its TIFs by zones, named Transportation Service Areas. In 2016, the County greatly increased its park impact fee to more closely match the state average, and in 2017, Pierce County initiated a review process of its impact fees, although no further action has been taken at this time. From 2007 until 2015, it collected \$32 million in these fees, 81% from residential builders and 19% from commercial developers (Pierce County 2017).



Growth trends in housing cost and demand reflect resiliency in Tacoma’s housing market.

US Housing and Urban Development's Tacoma-Lakewood Comprehensive Housing Market Analysis (HMA) points to growth in the housing industry and general economic growth in Tacoma since 2011. According to the report, "Economic conditions in the Tacoma-Lakewood HMA are strengthening...and are approaching a pace of growth observed before the national recession." The report cites growing incomes, demand for and cost of housing, and increased employment. Specifically, the construction industry is experiencing growth in the area in response to decreased vacancy rates and growing demand for new homes and apartments. Simultaneous growth trends in housing cost and housing demand reflect resiliency in the housing market to sustain cost increases (2015).

All of these numbers indicate the region is experiencing strong growth that is expected to continue. Additionally, the strength of Seattle's housing market and economy have a positive effect on housing demand and economic conditions in Tacoma. With the light rail expected to connect Tacoma and Seattle, these effects can be expected to increase (Sound Transit 2018). In addition, these prevailing economic factors point to conditions that may prove to be stronger than historic consumer distaste for price increases resulting from impact fees.

Finally, the "normalcy" of transportation impact fees should also be considered. Over 70 Washington cities have active impact fee programs, including several with significant demographic and economic similarities to Tacoma, such as Everett, Bellevue, Olympia, and Bellingham (Comeau et al. 2017). As adopters of this funding type continue to grow in number, impact fees are becoming a more standard avenue to finance important infrastructure. In the context of limited State and Federal funds, transportation impact fees may become a pillar of localized transportation

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**In Tacoma, transportation impact fees could effectively shift the cost of new infrastructure to the sources of development that drive demand for these new transportation assets.**

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**Impact fees are a stable and proactive form of funding for local transportation infrastructure and can provide leverage for attracting additional capital resources.**

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funding, leaving cities that choose not to adopt at a disadvantage for inability to self-fund transportation infrastructure. Further, local funding matches may increase competitiveness of applications for state and federal transportation funding. Impact Fees are a stable and proactive form of funding for local transportation infrastructure, and may be instrumental leverage to attract additional outside funding.

**Summary of Economic Analysis**

In the current and projected Tacoma market, housing cost increases from impact fees are unlikely to stymie positive effects from economic and population growth. While transportation impact fees will contribute to rising housing costs, other prevailing factors are likely to override the effect this may have to discourage new construction or homebuyers. Transportation impact fees will effectively shift the cost of new infrastructure to the sources of development that drive demand for transportation infrastructure. In addition, strategies to incentivize affordability can help to offset the impact of transportation impact fees.

Based on our research and precedent set by other cities across Washington State, we suggest the following regarding the potential for transportation impact fees in the City of Tacoma to help bridge the funding gap for its infrastructure plan.

- **Transportation impact fees are a good fit for the City of Tacoma.** Over 70 other municipalities in Washington State have implemented and administered transportation impact fees for over two decades; within that time, these governments conducted research on their impacts and success, and decided to not only keep the fees, but to raise the base rates. This continued buy-in shows their success around the region and helps prove that development would not be negatively impacted by the implementation of transportation impact fees in Tacoma
- **Conduct a trip rate analysis.** We recommend that the City of Tacoma continues to pursue transportation impact fees by commissioning a study to determine the maximum allowable base rate for developers.
- **Gauge community's reaction.** After deciding on a specific rate, Tacoma should take this number, along with the arguments for and against impact fees, to the public and developers and proactively work to address and mitigate any prevalent concerns.
- **Construct the transportation impact fee structure.** We suggest creating a schedule of rates that categorizes the separate building types and offering distinct units of measure for these categories to make the process as transparent and relevant to specific developments.

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Transportation impact fees are a good fit for the City of Tacoma, bridging the funding gap for local infrastructure.

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- **Use one service area to keep administrative costs low.** This will justify the argument that growth in an area will pay for the growth in that same area. Lessons from other cities (see full Bellingham case study on page 14) suggest that the fewer service areas, the better—both in terms of administrative feasibility in implementation and in the distribution of equitable cost-burden sharing among developers in the region. Should Tacoma decide to use multiple service areas, the City should delineate the zones along clear jurisdictional lines and have a strong rationale for these distinctions.
- **Include exemptions for affordable housing and environmental justice.** Should Tacoma move forward with implementing transportation impact fees, we recommend the City intentionally structure exemptions into the program to mirror the City's priorities. Specifically, we advise that Tacoma incorporate exemptions for projects involving affordable housing and environmental justice—likely reflected in green infrastructure building standards and environmentally sound landscaping. If Tacoma wishes to prioritize social justice across the development process, the implementation and administration of the transportation impact fees program will need to adequately incorporate and further the City's initiatives around socioeconomic diversity and environmental justice. We recommend the policy include up to 80% exemptions for the above projects.
- **Incentivize multimodal transportation.** Tacoma could use the same public broad service provision in the GMA as the affordable housing and environmental exemptions to encourage developers to introduce multimodal functionality within their projects, which the GMA restricts to street right-of-ways through these types of exemptions.
- **Create a streamlined system for developers to introduce their own trip rate data for mixed-use structures.** Mixed-use structures can be integrated into the policy through an easy way to account for a reduction in trips. This could not only reduce traffic but also incentivize entrepreneurship by creating spaces for residents to live and work.



Transportation impact fees are a growing and innovative way that municipalities are using to cover the cost of growth caused by new development. In the face of anticipated growth, Tacoma will need to develop more transportation infrastructure capacity to meet the demands of a growing population. We found that, in Tacoma, impact fees would likely cover a portion of the unfunded partial costs related to projects directly caused by new growth and development. The region, we found, is also experiencing a growth rate that will prove resilient even with the introduction of a new fee. There are a variety of structural considerations and modifications that the City can incorporate when considering impact fees and we recommend several ways to look at those. We believe that the City of Tacoma has a tremendous opportunity to implement transportation impact fees in the near future, improving the city's infrastructure, livability, and financial health.

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The City of Tacoma has an opportunity to implement transportation impact fees, to improve infrastructure, livability, and financial health.

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*Tacoma can account for the cost of its trending growth, and supply adequate transportation infrastructure to serve its residents, by implementing a transportation impact fee program. CITY OF TACOMA.*

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