Street Impact Fee: Responses to Council Questions from the November 12, 2020 Council Discussion

In response to questions posed at the November 12, 2020 City Council meeting during the discussion of the Street Impact Fee (Items #73 and #74), staff have developed the following document.

Q1. What happens if the percentage of fees collected (i.e., collection rate) is lowered? Upon whom does the burden of a low impact fee collection rate fall?

Ultimately, the City and its taxpayers will be responsible for funding the capacity needs resulting from new development. The City pays the deficit amount, that is costs attributable to demand from existing development for which impact fees cannot be collected (see $1.2B in Figure 1), as well as the delta between the maximum assessable fee per service area and the collected fee (see $1.02B in Figure 2).

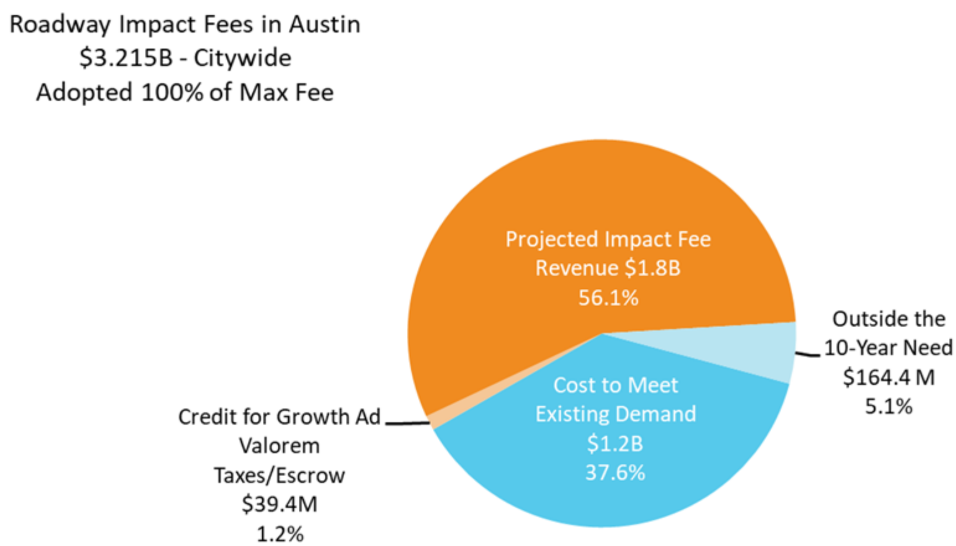

Figure 1. Roadway Capacity Plan and Street Impact Fee Revenue, 100% of Maximum Assessable Fees

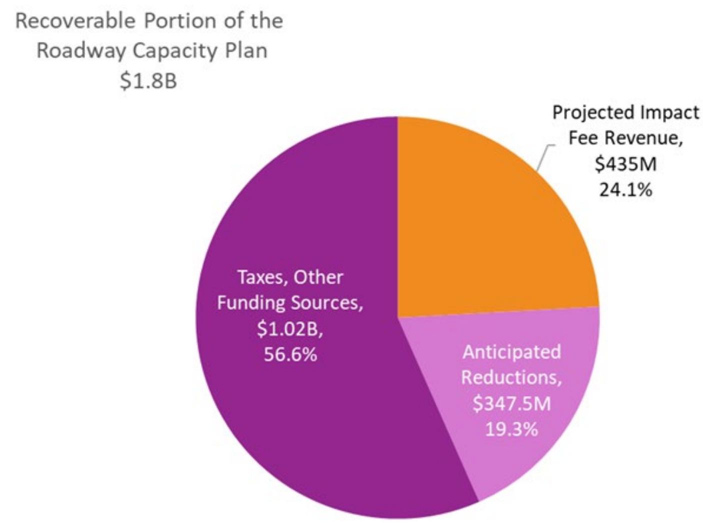

Figure 2. Recoverable Portion of the Roadway Capacity Plan $1.8B at Recommended Collection Rate: $850/vehicle-mile Residential, $1,215/vehicle-mile Non-Residential

Further, when bonds are issued to fund such capital expenditures, the financial responsibility is on all taxpayers, not just the taxpayers in a particular service area.

Q2. What effect does a new fee have on the affordability of housing and the potential disincentive to new developments of all types, resulting in overall lower tax revenues in the future?

An Affordability Impact Statement (AIS) was developed for this proposed policy. As part of the AIS, a review of a sample set of past developments was conducted. The ultimate costs for transportation mitigation to large developments would be similar to what they are today under the recommended collection rates for residential and non-residential development, and considering the eligible fee reductions.

For these developments, the land development code requirements for on-site system improvements and contributions to off-site improvements would result in street impact fee offsets (Item #52 Draft Ordinance § 25-6-669). In these cases, many large developers will not pay impact fees, because the fees will be offset by the developer's costs of constructing the system improvements. Staff believes this will not result in a disincentive for such developments, but potentially an incentive for developments to construct those improvements, rather than paying a street impact fee.

In reviewing smaller development projects, which are typically not contributing to the costs of roadway capacity under the current system, these projects will see an increase in fees. However, if they are infill redevelopment projects, they may be able to qualify for a 100 percent fee reduction per § 25-6-667 (C) [note: staff has proposed to move this provision to the fee schedule ordinance Part. 2 (D) in alignment with other fee exemptions].

Additionally, staff proposes the additional context of how the combined costs of housing and transportation affect household affordability. As discussed in the Austin Strategic Mobility Plan's

Affordability Chapter, housing and transportation are typically the two single largest expenditures for a household, affecting overall affordability. While the AIS correctly identifies a potential increase in housing costs for some development types due to the implementation of a new street impact fee, it does not address, due to the Council-required purpose of the statement to focus on the impacts to the cost of housing, the long-term mobility benefits and potential reduced transportation costs that the SIF should generate.

With affordability in mind, the Impact Fee Advisory Committee's and staff's recommendations specifically call for a fee that is lower than the maximum allowable rate per the Street Impact Fee Study, and for a rate that is lower for residential land uses as compared to non-residential uses. The staff recommendation for the SIF does not impose fees on existing homes that are resold, on additions of accessory dwelling units or other small infill projects, nor on qualifying affordable housing units. There are also fee discounts for housing and other land uses that are proximate to transit service, providing greater access to mobility options and reducing demand on the roadway system. Where new development replaces existing land uses (i.e., redevelopment), only the differential impact of new trip generation is used to calculate the street impact fee.

A new street impact fee would provide the benefit of building transportation infrastructure in the immediate area concurrent with the development versus a future bond election. The fee revenue and constructed improvements (via fee offsets) can also reduce the amount needed for future mobility bond programs that could be used for other equally important capital programming priorities, including affordable housing.

Lastly, the new structure will provide a more predictable, transparent, and equitable approach to transportation mitigation for developers while improving upon the prior system that did not often capture the true cost of transportation impacts from all new developments. As the AIS notes, these efficiency and predictability improvements in the process can reduce overall development costs to some extent, and the reevaluation of the Street Impact Fee every five year allows the City to review the outcomes of the fee and its impact on affordability.

Q3: How does this fee affect downtown? What improvements could be funded?

Fees collected in the DT Service Area can be spent on projects in the Roadway Capacity Plan for DT, see page 32 of Exhibit A. Improvements include roadway extensions in the Rainey neighborhood, as well as two-way conversions and intersection projects throughout downtown. Development projects in the DT Service Area are eligible for Mobility Related Reductions of the street impact fee up to 60 percent (per § 25-6-667 (A) and (B) of the draft ordinance) and for Affordability Related Reductions up to 100 percent for qualifying units (per § 25-6-668 of the draft ordinance). See draft ordinance for Item #52.

Q4: Does the SIF amendment for downtown include Rainey? If so, would staff have concerns about excluding it from the 60% reduction?

Yes, Rainey is included in the DT Service Area. Staff would not recommend excluding the Rainey neighborhood from eligibility for the up to 60% fee reduction for Mobility Related Reductions. The fee reductions are based on estimated trip reductions for mixed use developments and TDM strategies, should the development qualify for those reductions based on their proximity to transit and amount of parking provided. There is not a technical basis for excluding the Rainey area.

Qualifying for a 60% fee reduction will require receiving the maximum reduction in each category of Mobility Related Reductions: Internal Capture (20%), Transit Proximity (20%), and Parking (20%). These percentages are found in § 25-6-667 in the draft ordinance.

Q5: What is the relationship between this and current "fees"? How is this different from what we do today?

Street Impact Fees are one-time fees based on the demand a development places on the roadway system. We do not currently have an impact fee program for transportation. However, mitigation of impacts is required in the land development code.

It is anticipated the SIF and transportation review process would complement each other, with the SIF offering predictability for traffic-related mitigation. The SIF does not remove the Transportation Impact Analysis (TIA) requirement triggered by code, but would improve and simplify the TIA process. The street impact fee predetermines the fee due for a development before a TIA process would begin, and thus a TIA would determine which improvements are most beneficial system improvements to be constructed by the development. The TIA would also address other issues not specific to Street Impact Fees, such as safety, site-related improvements, transportation demand management, and multimodal elements.

Additionally, the code provision for traffic mitigation establishes requirements in the land development code for a development to mitigate its impact on the system, whether or not a development is required to conduct a TIA. Any improvements required by the code as mitigation that are also included in the Roadway Capacity Plan for SIF would be credited to the development's impact fees otherwise due, per the fee offsets provision in the draft ordinance (§ 25-6-669 of the draft ordinance).

Q6: If the focus of the street impact fee is on roadway capacity, how is it supporting our multimodal goals?

Chapter 395 of the Texas Local Government Code constrains the use of an impact fee to roadway capacity. Section 395.001 defines a capital improvement as a roadway facility. The roadway facility is further defined as an arterial or collector street that has been designated on an officially adopted roadway plan of the political subdivision, together with all necessary appurtenances. Chapter 395 also allows for a facility expansion. A facility expansion means the expansion of the capacity of an existing facility that serves the same function as an otherwise necessary new capital improvement, in order that the existing facility may serve new development. The term does not include the repair, maintenance, modernization, or expansion of an existing facility to better serve existing development.

However, the law does allow for roadway appurtenances to be included as part of Roadway Capacity Plan projects to be funded by impact fees. Necessary appurtenances would include all elements of the street cross-section, including the sidewalk, street trees, bicycle facilities, and even the pavement necessary to make the street ready for high-frequency transit service.

The City's standard street cross-sections were updated and are included in the Transportation Criteria Manual (draft available for review and public comment now on SpeakUp Austin). These updated street designs were developed to meet the multimodal and Vision Zero safety goals of the Austin Strategic Mobility Plan.

Additionally, the Street Impact Fee can fund new roadway connections, which add connectivity in the transportation network and provide multimodal access and transportation options to areas of the city that have more limited options. A more connected street grid allows transit to be more viable in more suburban parts of the community and provides more opportunities for active transportation.

Lastly, the use of impact fee revenue and construction of system improvements, as a result of fee offsets, reduces the demand for bond programs for new roadway capacity, freeing up the City's bonding capacity for other capital programs, such as sidewalks or affordable housing.

Q7: What's the collective impact of development fees in Austin?

Even with recent development fee increases over the last several years in response to the comprehensive review of fees by DSD to align with the cost of service, development has not slowed. The following graphs show the square footage of new non-residential development building permits and new residential building permits from 2015-2019.

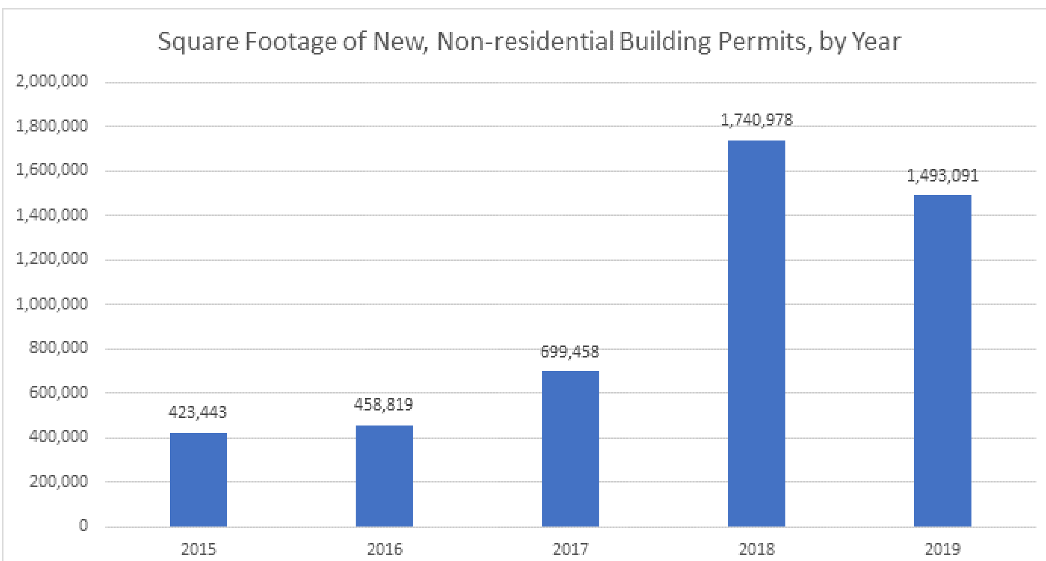

Figure 3. New Non-Residential Square Footage, 2015-2019.

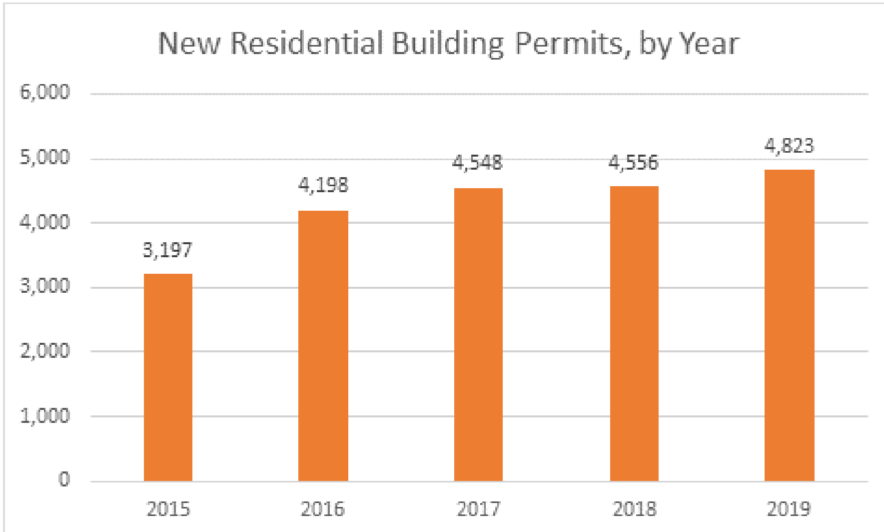

Figure 4. New Residential Building Permits, 2015-2019.

While housing development is not slowing, it is also not keeping up with demand. High demand and limited supply are the factors repeatedly cited by the Austin Board of Realtors as the drivers of increasing housing costs.

> *"Market demand for new homes in the Austin area continues to be robust …Factors such as inclement weather have slowed development, and a lack of available lots has pushed the housing market farther out from Austin proper. However, the* ***fundamentals in Austin have not changed. The demand for housing is so great that if the product is priced correctly and in a desirable location, it's going to sell****." – ABOR October 2018*

> *"***High demand across the city and limited inventory pushed the median price** *for residential homes to $395,000, a 14% increase from February 2019." – ABOR February 2020*

> *"In the city of Austin,* ***critically low levels of inventory drove the median home price up*** *14.9% year over year to $435,000—an all-time high for any month on record." – ABOR August 2020*

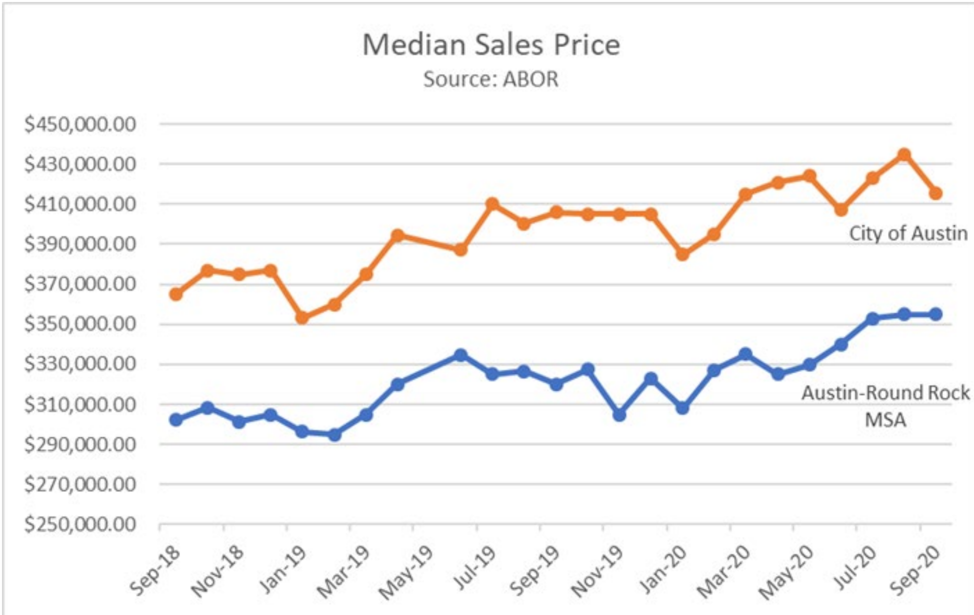

Figure 5. Median Home Sales Price, Austin and Austin-Round Rock MSA. Source: Austin Board of Realtors.

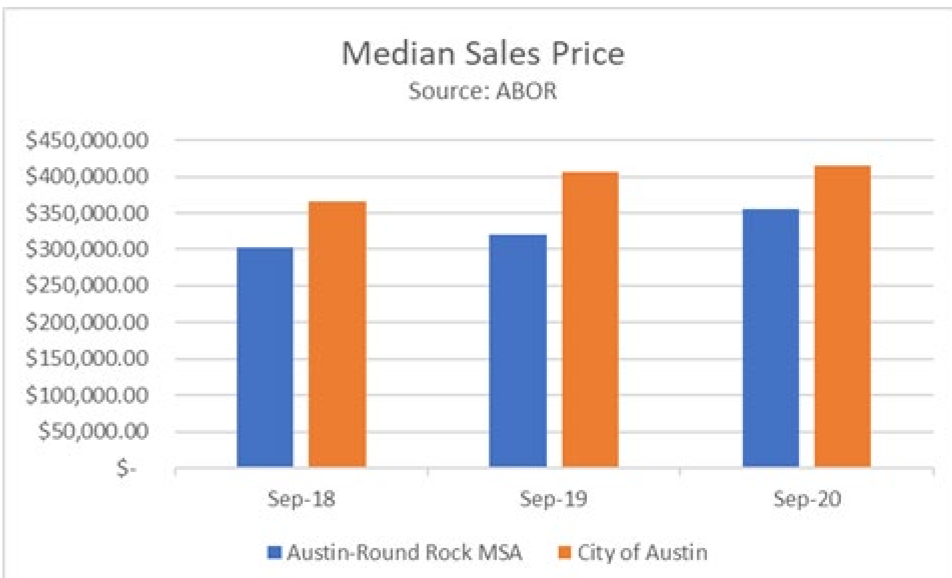

Figure 6. Median Home Sales Price, Austin and Austin-Round Rock MSA. Source: Austin Board of Realtors.

The permitting and development review process has a role in how quickly new housing supply can be provided by developers. Stakeholders have expressed concerns about the speed of the development process. In an article[1] from Community Impact on October 28, 2020, David Glenn, the senior director of

[1]Aldridge, O. (2020, October 28). South Austin developer sues city in ongoing saga to improve permitting process. From Community Impact: https://communityimpact.com/austin/central-austin/development/2020/10/28/south-austin-developer-sues-city-in-ongoing-saga-to-improve-permitting-process/

government relations for the Home Builders Association of Greater Austin said that the city's permitting process "is absolutely a barrier to housing [supply]." The article cites the lack of housing inventory as a driver of increasing housing costs and the need for efficiency in permitting to improve the ability to provide housing faster.

> *"Greater efficiency in permitting would not only make developers' jobs easier, Glenn said, but would also benefit the city by getting housing—and thus additional tax dollars and accompanying infrastructure—online sooner."*[1]

Staff believes, from a transportation review perspective, the SIF will improve the efficiency of the review process, reducing the amount of time required to determine transportation mitigation for a development.

Q8: Are there any duplicate development fees between DSD and ATD?

ATD staff has been providing review services on traffic impact analyses (TIAs) and waivers on zoning, subdivisions, and site plan cases to the Development Services Department (DSD) for many years. In December 2018, a Coalition Agreement was signed between ATD and DSD to formalize the transportation review service responsibilities for permit applications. This was done to provide efficient, timely, and transparent customer service. A recent addendum was signed on August 27, 2020 to further refine and add additional review responsibilities to ATD's Transportation Development Services (TDS) division.

ATD staff had several meetings over the last few years with DSD staff regarding fee adjustments to reflect changes in the transportation review responsibilities. The first fee schedule was developed and approved for FY18 for limited review services, primarily for TIAs. As TDS staff added more review responsibilities, the fee scheduled was revised accordingly. The TDS review fees were developed based on average hours spent by staff based on the type of application.

The review fees for the following were recently removed from DSD's fee schedule in FY21 to reflect the recent agreement between ATD and DSD:

- Transportation Impact Analysis (TIA),
- Neighborhood Traffic Analysis (NTA), and
- Transportation Engineering waivers

Transportation zoning review has been transferred to ATD from DSD and DSD has reduced their overall zoning fees to reflect this change in DSD's fee schedule for FY21.

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[1] Aldridge, O. (2020, October 28). South Austin developer sues city in ongoing saga to improve permitting process. From Community Impact: https://communityimpact.com/austin/central-austin/development/2020/10/28/south-austin-developer-sues-city-in-ongoing-saga-to-improve-permitting-process/