Affordability Impact Statement

Housing and Planning Department
Street Impact Fees
October 29, 2020

This Affordability Impact Statement summarizes the Housing and Planning Department's findings relative to an analysis of how the adoption of Street Impact Fees (SIF) may impact housing costs in Austin.

Street Impact Fee Overview

The proposed SIF would require all new development to pay toward roadway capacity improvements in a manner that is proportional to the development's impact, or newly created demand on transportation infrastructure, by using a standardized fee calculation. Fees are assessed in proportion to the size of the development (dwelling units or square footage) and at different rates depending on the land use and location within Austin. Though the Street Impact Fee Study calculated a maximum assessable fee based on the total projected cost of needed roadway capacity infrastructure over the next 10 years divided by projected growth within 17 Service Areas, staff recommends setting a flat collection rate across service areas. Fees generated by the SIF can be applied to roadway capacity projects identified in the SIF Roadway Capacity Plan, a subset of projects adopted in the Austin Strategic Mobility Plan, within the service area in which they were collected. There are proposed fee reductions available for developments that internally retain some trips (Internal Capture), as well as developments that reduce parking and are in close proximity to transit. The SIF may be waived for qualifying income-restricted affordable housing unit. The SIF can also be reduced when elements of designated roadway capacity projects are completed by the developer, in which case the value of the improvements are subtracted from the total SIF as an offset.

The current practices used to mitigate for a development's newly created demand on existing roadways are highly variable and assessed on a site to site basis. The process can be difficult to predict, time-intensive for transportation reviewers and applicants, and limited to identifying transportation infrastructure improvements within a close range of the project site. The proposed SIF requires new development to pay for the new demand on roadway infrastructure it creates, whereas the current methods of funding transportation infrastructure primarily rely on property tax-funded revenue streams like general obligation (GO) bonds to pay to increase capacity to our transportation infrastructure to keep up with new growth across the city. The SIF aims to harness the private market to supply more efficient and timely transportation investments in Austin.

Assessment of Potential Impacts on Housing Costs

The proposed Street Impact Fee will have both positive and negative impacts on the cost of housing, which will vary depending on the scale, type, and location of the project.

Positive Impacts on Housing Costs

The primary benefits of instituting a SIF are increased predictability and consistency applying and complying with transportation mitigation requirements. By adopting a standard calculation and clear guidelines, the SIF may result in more streamlined and efficient permitting and review processes, which can bring down overall development costs to some extent. These savings are difficult to quantify but may result from less time spent reviewing individual projects on a case by case basis to determine a development's roughly proportional share of necessary roadway improvements. In the development world, predictability is valuable. The current practice of assessing transportation mitigation requirements is highly variable, which creates uncertainty for many developments. Being able to calculate a standardized impact fee at the beginning of a development process is valuable to the development community for planning and financing purposes.

GO Bond Year	Transportation Funding
2010	$90,000,000
2012	$143,299,000
2016	$720,000,000
2018	$160,000,000
Total	**$1,113,299,000**

A long-term benefit of the SIF to the City of Austin and existing residents is the dedicated revenue source to fund roadway capacity expansion projects over the next decade. The SIF would shift a minor portion of the burden of funding certain transportation infrastructure from general obligation bonds, which are paid off through property taxes, to new private development. Over the past 10 years, $1.1 billion dollars in general obligation (GO) bonds have been approved for transportation and mobility improvements. The staff recommendation for the SIF including the proposed policy reductions are estimated to cover 8% of the roughly $3.2 billion in projected transportation infrastructure costs in the next 10 years.

Housing and transportation costs are typically the largest expenditures for a household, and in Austin a majority of households spend more than the recommended 15% of their income on transportation costs. The proposed SIF includes reductions for Internal Capture, reduced parking, and proximity to transit. These policies aim to improve mobility and environmental outcomes by reducing vehicle miles traveled and improve household affordability by incentivizing choices that could reduce transportation expenses. By incentivizing the development of housing near transit, encouraging multimodal solutions, and promoting the co-location of housing with other daily needs in mixed use developments, the SIF may reduce household transportation costs.

The proposed SIF also supports several community goals as described in:

Austin Strategic Housing Blueprint

- Streamline City Codes and Permitting Processes. The time and complexity involved in obtaining the necessary City approvals to build new housing can be a significant cost driver for development. To make meaningful progress toward a more efficient system, the City will be proactive and persistent in its efforts to integrate and coordinate permitting processes across all departments.

Austin Strategic Mobility Plan

- Improve the Transportation Network Through Private Development. Seek opportunities to coordinate with and harness private capital investments to rehabilitate, expand, and connect transportation infrastructure.
- Ensure long-term, viable funding models to plan, finance, and maintain the transportation network. Identify and implement sustainable funding strategies to supply, operate, and maintain transportation assets and programs that meet the community’s mobility needs.
- Plan and promote transit-supportive densities along the Transit Priority Network. Use all planning tools to establish transit-supportive densities along Transit Priority Network corridors.
- Minimize the impact of development on the roadway system by prioritizing multimodal solutions. Safely connect people to the transit, sidewalk, bicycle, and urban trail systems to offset the vehicular demand generated by development.
- Partner with the public and private sectors to expand and improve mobility solutions for historically underserved communities. Support the creation and integration of mobility solutions that address equity and access to opportunity and that maximize user choice and freedom of movement.

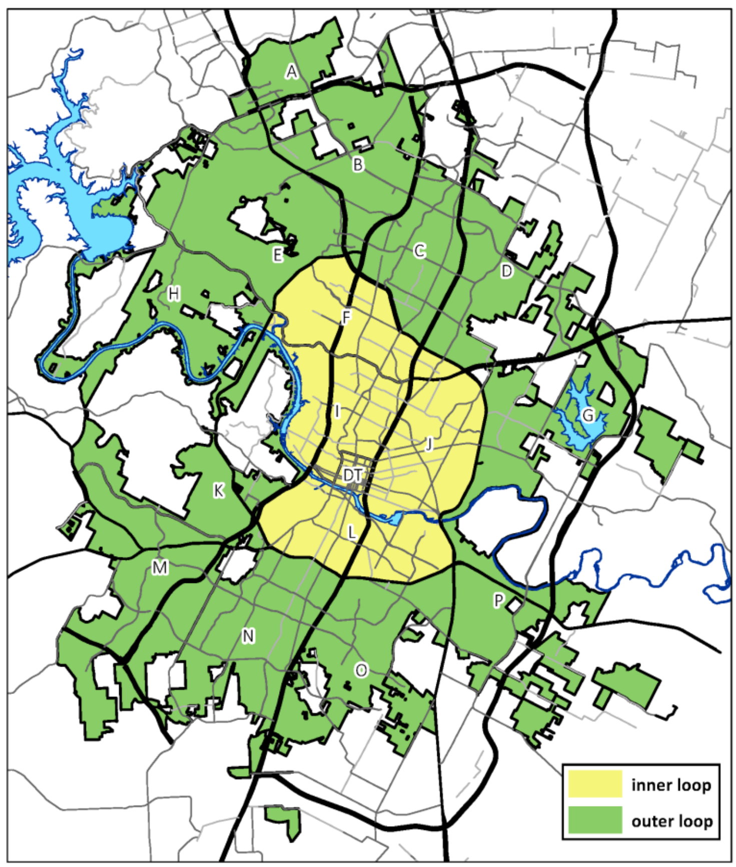
Negative Impacts on Housing Costs

The SIF will increase the cost to build most medium- and large-scale market-rate housing and add a new cost to build most small-scale, market-rate housing.

For smaller projects that would not currently trigger a Transportation Impact Analysis (TIA), the SIF will in many instances impose a new fee on development. With some exceptions, many recent small-scale residential developments have paid little to no transportation mitigation costs beyond transportation-related items already required by code such as sidewalks on roadways bounding the development and driveway improvements. Under the SIF proposal, these types of developments would be required to pay $2,440 or $3,621 per single family home depending on if the development was located outside or inside the loop (Service Areas contained within the highway boundaries of SH71, US183, and SL360 are considered "inside the loop"). The cost per multifamily unit under the SIF can vary depending on the development's location inside or outside the loop as well as the number of stories in the building and range from $884 to $2,049. See Exhibit A: SIF Effective Rates for Residential Land Uses by Service Area.

Exhibit A. SIF Effective Rates for Residential Land Uses by Service Area	Service Areas	
	Inner Loop (DT, I, F, J, L)	Outer Loop (A, B, C, D, E, G, H, K, M, N, O, P)
Single Family Unit	$2,440	$3,621
Duplex, townhouse, ADU, and Small-Multifamily Unit	$1,377	$2,049
Medium-Scale Multifamily Unit	$1,088	$1,607
High-Rise Multifamily Unit	$884	$1,318

Exhibit B. Street Impact Fee Service Areas



For projects that would generate more than 2,000 daily trips and trigger a TIA today, the change in transportation mitigation costs would generally be smaller for projects closest to the 2,000 daily trips threshold and could be significantly higher for larger projects that far exceed 2,000 trips per day. Recent practices in assessing transportation mitigation costs often yield extremely variable results whereby similar projects could see vast differences in their required mitigation. The proposed SIF will standardize results across projects but in most cases also increase the cost of transportation mitigation requirements. Exhibit C: Example Development Comparisons contains numerous housing developments from the past three years and compares their actual traffic mitigation costs alongside proposed SIF estimations.

Neutral Impacts on Housing Costs

When a project redevelops on a site where the current land use remains the same, the SIF may have minimal impact on housing costs. The SIF is calculated to only cover the impact of the *newly created* demand, so reviewers will deduct existing demand generated by the current land use from the SIF for the proposed development. The SIF policy recommendation includes a 100% reduction for developments that do not change land uses and generate a small number of additional vehicle trips during peak hours. This exemption will preclude some small residential infill developments such as ADUs from paying a SIF. The SIF for a redevelopment project where the land use remains similar or of less intensity could be zero.

Impact on Income-Restricted Affordable Housing

The SIF will decrease or not change the cost to build predominantly affordable housing developments. A waiver of the SIF for 100% income-restricted affordable housing developments will improve the development feasibility, provide consistency between projects, and help to stretch public funds for affordable housing development assistance. However, Texas state law restricts the waiver of impact fees to only the income-restricted affordable units, which limits the City's ability to incentivize mixed-income projects.

The SIF could have a negative impact on market-driven affordable housing incentive programs such as density bonus programs. In Texas, many tools for funding and creating affordable housing, including impact fees, are prohibited due to legislative constraints leaving market-based solutions as one of the few ways to generate non-subsidized, long-term affordable housing. One such tool is a voluntary incentive-based program such as the S.M.A.R.T. Housing fee waiver or the Vertical Mixed-Use (VMU) density bonus program. Participation in these programs would make a development eligible for a SIF reduction only for the income-restricted units in the project. Most current affordable housing incentive programs are already structured to encourage the siting of affordable housing near transit, which could set them up to take advantage of other SIF reductions. The mixed-use requirement of some of the programs could allow the development to receive a SIF reduction for internal capture as well. While these programs could benefit from leveraging the additional cost-saving policies to incentivize participation and therefore affordable housing production, it is not apparent that the value of the proposed SIF reduction will outweigh the overall additional costs the SIF will incur to the development.

Conclusions

The proposed SIF could have some positive impacts on housing costs in Austin in the long-term due to the decreased need for general obligation bonds for roadway expansion, but the near-term impacts to housing costs will likely be negative overall. The improvements to the permitting and review process will increase predictability and efficiency, which will positively affect financial planning for developments and streamline the permitting process. The revenue stream created through the SIF will partially relieve the need to fund future transportation infrastructure through general obligation bonds and positively impact the City's financial health while decreasing the taxpayer burden. A decrease in the amount of bond funding for transportation infrastructure may also allow for more funding to be proposed for affordable housing, which has fewer options for revenue generation in Texas. The incentivization of housing near transit and mixed-use developments may also reduce some households' transportation costs and improve household affordability while helping achieve broader environmental goals. The SIF reduction for predominantly affordable housing may improve development feasibility and help limited housing development assistance funds stretch further.

However, the increased costs for most new residential developments will exacerbate the rising unaffordability of market-rate housing for many low- and moderate-income households in Austin. Most costs incurred in the development process are passed on to homebuyers and renters and compound over time with mortgage interest and property taxes. Pricing out lower income households also creates its own strains on transportation infrastructure and the environment by driving patterns of sprawl. In that way, the long-term consequences of housing unaffordability may work in direct opposition to larger City mobility goals.

The Street Impact Fee Study calculated the maximum SIF rate to reflect the cost of roadway capacity expansion projects within each of the Service Areas divided by the projected growth within the same area. The staff recommendation strives to minimize variability in proposed SIF rates across Service Areas in order to acknowledge and account for the historically unequal landscape of investment in transportation infrastructure that has created higher levels of unmet needs in some communities than others. The result of standardizing fees despite variation in infrastructure needs is that the SIF will cover a smaller portion of the total cost to provide the necessary roadway capacity expansion projects in some Service Areas leaving the City to cover the remaining expenses through other revenue streams. If the need remains underfunded, it may in effect leave some parts of town with greater unmet infrastructure needs.

The Street Impact Fee is designed to be re-evaluated every five years. This timeline offers the opportunity to revisit the outcomes of the SIF and its impact. Further research of the impact of the SIF on property values and rents over time as well as participation rates for the various reductions should be conducted at that time. These analyses may inform a recalibration of the SIF to better implement the community goals in the Austin Strategic Housing Blueprint as well as the Austin Strategic Mobility Plan.

Exhibit C. Example Development Comparisons

These values reflect illustrative examples of actual traffic mitigation costs since 2017 and do not constitute a standard rule. The proposed SIF calculations assume development on vacant land and no reductions unless otherwise noted.

		Proposed Street Impact Fee		
Example Development	**Traffic Mitigation Cost Today**	**Reductions**	**Inside Loop**	**Outside Loop**
6 Multifamily Units	$0		$8,262	$12,291
20 Single Family Units	$0		$48,790	$72,420
24 Multifamily Units	$0		$33,048	$49,164
100 Single Family Units	$0		$137,700	$204,850
113 Multifamily Units 3,200 sqft Office **(VMU)**	$55,822	10% Affordable Housing + 5% Internal Capture + 20% TDM reduction	$94,437	$134,596
120 Multifamily Units 3,200sqft Office	$82,972	5% Internal Capture	$139,764	$197,473
153 Single Family Units 7,700 sqft Retail 7,700 sqft Office	$260,000		$373,244	$554,013
170 Multifamily Units **(100% affordable)**	$110,000	100% Affordable Housing	$0	$0
205 Multifamily 25,000 sqft Shopping Center	$270,123	5% Internal Capture	$422,539	$543,139
227 Multifamily Units 5,800 sqft Retail **(VMU)**	$0	10% Affordable Housing + 5% Internal Capture + 20% TDM reduction	$184,284	$279,165
250 Multifamily Units 100 Hotel Rooms 397,000 sqft Office 46,700 sqft Restaurant	$561,000	5% Internal Capture	$3,381,863	$3,332,245
258 Multifamily Units	$0		$280,704	$414,477
262 Multifamily Units	$0		$285,056	$420,903
288 Multifamily Units	$109,850		$396,576	$589,968
297 Multifamily Units 143,000 sqft Office 2,500 sqft Shopping Center 1,500 sqft Supermarket 5,000 sqft Restaurant	$312,100	5% Internal Capture	$1,149,420	$1,237,997
298 Multifamily Units	$87,500		$324,224	$478,737
299 Multifamily Units	$33,540		$325,312	$480,344
300 Multifamily Units	$0		$326,400	$481,950
300 Multifamily Units	$151,200		$326,400	$481,950

309 Multifamily Units 3,900 sqft Restaurant	$14,696	5% Internal Capture	$312,699	$440,133
325 Multifamily Units 4,100 sqft Office	$15,710	5% Internal Capture	$445,484	$651,000
327 Multifamily Units 1,100 sqft Grocery Store 3,200 sqft Restaurant	$196,540	5% Internal Capture	$403,558	$566,762
328 Multifamily Units 90,700 sqft Office 11,300 sqft Restaurant	$244,957	5% Internal Capture	$875,715	$971,535
350 Multifamily Units	$285,000		$309,400	$461,125
350 Multifamily Units 1.2m sqft Office 19,500 sqft Retail	$1,531,587	5% Internal Capture	$6,543,946	$6,196,104
354 Multifamily Units	$71,700		$385,152	$568,701
386 Multifamily Units 106,100 sqft Office 37,600 sqft Shopping Center	$274,370	5% Internal Capture	$1,238,718	$1,411,826
400 Multifamily Units 12,900 sqft Shopping Center 5,300 sqft Winery	$233,125	5% Internal Capture	$594,255	$801,617
555 Multifamily Units 20,400 sqft Shopping Center	$129,450	5% Internal Capture	$745,766	$1,035,178
750 Multifamily Units	$1,344,169		$816,000	$1,204,875
1,516 Single Family Units	$93,863		$3,698,282	$5,489,436