
CITY OF MERCER ISLAND

COMMUNITY PLANNING & DEVELOPMENT

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PLANNING COMMISSION

To: Planning Commission
From: Alison Van Gorp, Deputy Director
Date: March 17, 2022
RE: ZTR21-007 & ZTR21-008 Transportation Impact Fee and Parks Impact Fee Code Amendments

SUMMARY

In 2015, the City Council adopted code amendments implementing transportation and parks impact fees in [MICC 19.19](#) and [MICC 19.18](#), respectively. In late 2020, the City Council budgeted for consultant work to update the rate studies for these impact fees and added to the final docket the accompanying code amendments necessary to update the fees. Code amendments are proposed to allow the City to update the impact fee rates during the annual development and construction fee schedule update.

The City contracted with Fehr and Peers to conduct an updated transportation impact fee rate study and with BERK to conduct an updated parks impact fee rate study. These consultant teams are now in the final stages of their work, and the City is ready to initiate the code amendment process.

At the March 23 meeting, Kendra Brieland, Principal at Fehr and Peers, and Jason Hennessey, Senior Associate at BERK, will provide a presentation on "Impact Fees 101" as well as an overview of the methodology for the rate study updates. At the April 27 meeting, the Planning Commission is scheduled to hold a public hearing on the proposed code amendments that are necessary to adopt the updated impact fees. At that time, the draft rate studies and recommended impact fees will also be available for review.

BACKGROUND

What are Impact Fees?

Impact fees are one-time charges assessed by a local government against a new development project to help pay for new or expanded public facilities that will directly address the increased demand for services created by that development. [RCW 82.02](#) (sections .050 - .110) and [WAC 365-196-850](#) authorize counties, cities, and towns planning under the Growth Management Act (GMA) to impose impact fees for:

- Public streets and roads
- Publicly owned parks, open space, and recreation facilities
- School facilities
- Fire protection facilities

Impact fees can only be imposed for “system improvements,” which are public facilities included in the capital facilities plan that provide service to the community at large, are reasonably related to the new development, and will benefit the new development. Impact fees cannot exceed a proportionate share of the cost of the system improvements, and municipalities must have additional funding sources and may not rely solely on impact fees to fund the improvements. Impact fees may not be used to correct existing deficiencies. Generally, impact fees must be expended within 10 years of receipt; otherwise, they must be refunded to the developer.

Impact Fees in Mercer Island

The Mercer Island City Council adopted transportation and park impact fees in 2015, and the City began collecting fees in 2016. Payment of the fees is required as a part of the permitting process for new development. The initial fees were set based on rate studies conducted on 2015; the fees are indexed to the construction cost index and have been adjusted accordingly on an annual basis. The current transportation impact fees are \$4,914.53 per single-family dwelling, \$2,801.61 per multi-family dwelling unit and \$19.56 per square foot of commercial floor area. The current park impact fees are \$2,600.31 per single-family dwelling and \$1,671.59 per multi-family dwelling unit. There is not currently a commercial impact fee for parks. Since their inception, the City has collected \$662,217 in transportation impact fees and \$189,001 in park impact fees.

The impact fees were established based on the capital facilities planned at the time of the rate studies in 2015. In the seven years since the impact fees were adopted, many of those projects have been completed, and new projects are now planned. In addition, costs for projects that remain in capital facilities plans have likely increased. So even though the impact fees have been increased relative to the index, it is a best practice to periodically update the rate studies to reflect changes in planned facilities and cost estimates to ensure the fees accurately represent the improvements needed to accommodate new development.

Rate Study Methodology

Impact fee rate studies look at the planned capital improvements that are needed to add capacity to accommodate projected new development. The total cost of development-related improvements is then pro-rated for each new residential and/or commercial development that is projected over the planning period. Development-related improvements are capital projects that add capacity that is intended to serve the needs generated by new development. For example, in areas where new development capacity is planned, improvements such as new sidewalks, bike lanes, turn lanes, traffic signals, trails or expanded park playgrounds might be needed to serve the new residents, employees and customers generated by the future development. The impact fees charged for each unit of new development would then pay for a proportional share of the cost of the needed improvements.

The rate study updates are being developed in close partnership with the City’s Parks and Public Works staff. Capital project lists included in the Transportation Improvement Plan, Parks Recreation and Open Space Plan as well as the Comprehensive Plan have been reviewed for inclusion in the parks or transportation rate studies. Staff used their professional judgement and knowledge of the planned projects to identify the projects (or portions of projects) that are development-related improvements. In addition, the consultant teams have worked closely with CPD staff to understand the City’s housing and employment growth targets and the areas in the city where development capacity exists, and future development is likely to occur. Work is still underway to refine project cost estimates, determinations of the percentage of projects that are development-related, and to finalize the findings of the rate studies. The rate studies and recommended impact fees will be completed in advance of the public hearing

scheduled for April 27.

Proposed Code Amendments

The following code amendments are recommended to enable the parks and transportation impact fee rates to be updated periodically without the need for further code amendments in the future. Instead, once a rate study is approved by City Council, the new rates would be adopted as part of the annual development and construction fee schedule update.

19.18.100 - Fee schedule and updates.

- A. ~~The parks impact fees shall be adopted in the development and construction fee schedule based on the most recent rate study approved by the city council and updated annually thereafter as described in MICC 19.18.100 (B). The following impact fees are based on the city's 2015 rate study:~~
- ~~1. Single family dwelling unit: \$2,054.00 per dwelling unit.~~
 - ~~2. Multifamily: \$1,320.00 per dwelling unit.~~
- B. Park impact fee rates shall be updated annually using the following procedures:
1. The code official shall use the Construction Cost Index for Seattle (June-June) published by the Engineering News-Record to calculate annual inflation adjustments in the impact fee rates. The park impact fees shall not be adjusted for inflation should the index remain unchanged.
 2. The indexed impact fee rates shall be effective January 1. ~~A copy of the indexed impact fee rates shall be provided to the city council but the indexed rates shall become effective without further council review.~~
- C. The code official shall review the park impact fee rates annually to determine when a new park impact fee rate study ~~should be prepared~~ is necessary and recommend to the city council when a new study should be prepared.

19.19.100 - Fee schedule, review of schedule and updates.

- A. ~~The impact fees on exhibit A to the ordinance codified in this chapter are based on the city's 2015 rate study. The transportation impact fees shall be adopted in the development and construction fee schedule based on the most recent rate study approved by the city council and updated annually thereafter as described in MICC 19.19.100 (B).~~
- B. Transportation impact fee rates shall be updated annually using the following procedures:
1. The code official shall use the Construction Cost Index for Seattle (June-June) published by the Engineering News Record to calculate annual inflation adjustments in the impact fee rates. The transportation impact fees shall not be adjusted for inflation should the index remain unchanged.
 2. The indexed impact fee rates shall be effective January 1. ~~A copy of the indexed impact fee rates shall be provided to the city council but the indexed rates shall become effective without further council review.~~
- C. The code official shall review the transportation impact fee rates annually to determine ~~when if~~ a new transportation impact fee rate study ~~should be prepared~~ is necessary and recommend to the city council when a new study should be prepared.

NEXT STEPS

The Planning Commission will receive a briefing from Kendra Breland and Jason Hennessey at the March 23 meeting. Time will also be available for questions and discussion. At the April 27 meeting, the Commission will hold a public hearing and make a recommendation to the City Council on proposed code amendments. The City Council is scheduled to review the rate studies and proposed code amendments in May and June.