



Preliminary Report

# Impact Fee Deferral Programs

## **LEGISLATIVE AUDITOR CONCLUSION:**

Deferral use has been infrequent and concentrated in five local governments, with few adverse effects. Financial benefit of deferrals could increase if market conditions change in the future.

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September 2021

# Impact fees

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- One time charge developer pays at permit issuance.
- Funds help pay for new or expanded public facilities.
- State law authorizes counties, cities and towns to collect up to 4 types of impact fees.



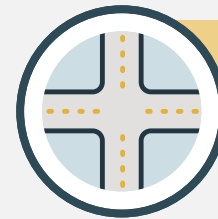
## SCHOOL IMPACT FEES

support construction of new school facilities.



## PARK IMPACT FEES

fund parks, open space, and recreation facilities.



## TRANSPORTATION IMPACT FEES

fund improvements to public streets and roads.



## FIRE IMPACT FEES

are used for fire protection facilities.

**2015 Legislature required  
local governments that  
collect impact fees to  
adopt a deferral program  
by September 1, 2016.**

**(ESB 5923)**



# Statutory Requirements



## **Payments deferred to:**

- Final inspection.
- Certificate of occupancy.
- First sale.

Builders must record a lien.

Deferred fees are fees in effect at the time of application.

# **Presentation Overview**

**Deferral  
programs and  
use**

**Financial  
impact of  
deferrals**

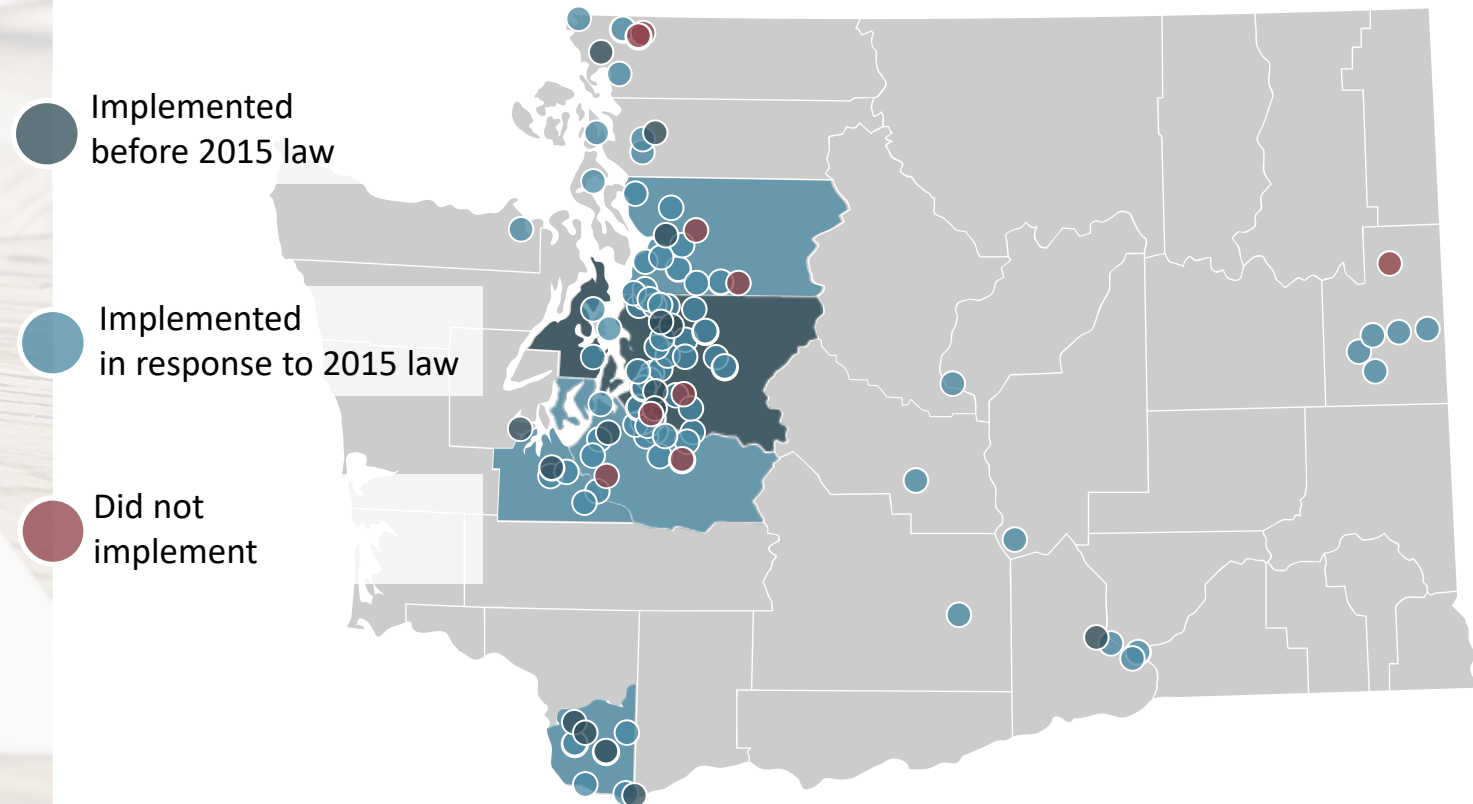


## 98 local governments have deferral programs

- ✓ 18 had a deferral program in place before the law.
- ✓ 80 implemented programs in response to 2015 law.
- ✗ 9 do not have a program.

JLARC identified **107 local governments** that collect fees.

Based on municipal codes and fee schedules



## 9 cities without programs include:



Algona



Carbonado



Deer Park



Everson



Gold Bar



Granite Falls



Maple Valley



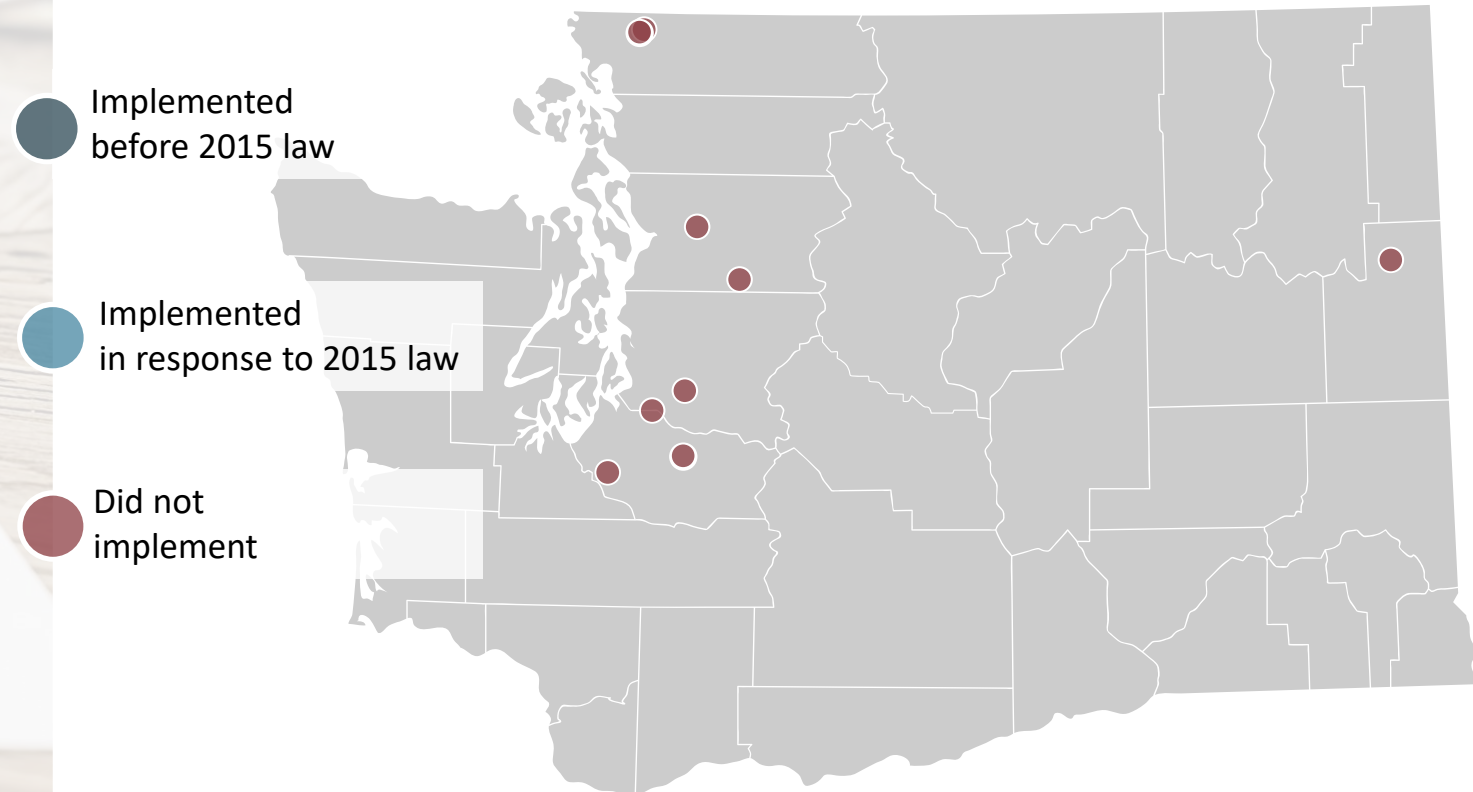
Nooksack



Roy

JLARC identified **107 local governments** that collect fees.

Based on municipal codes and fee schedules





## Legislative Auditor's Recommendation

Cities without a deferral program should pass an ordinance to adopt and maintain an impact fee deferral program for single-family residential construction as required by statute.

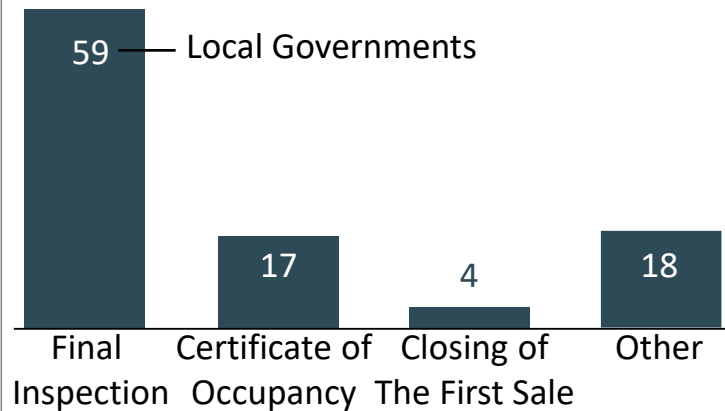


# Deferral programs vary among local governments

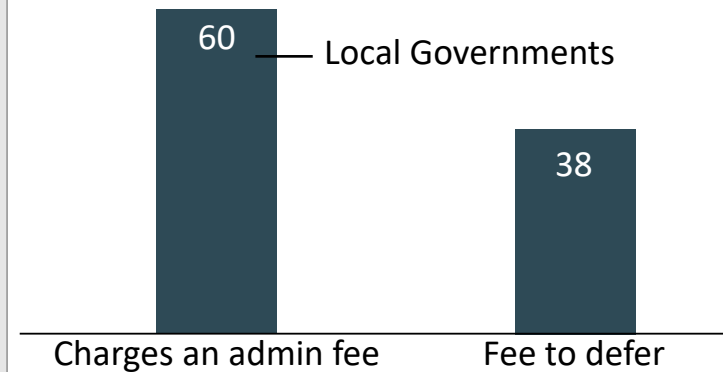
*Statute provided local governments with options in developing deferral programs.*

- When to collect deferred fees.
- Whether to impose a reasonable admin fee.
- Whether to limit the number of deferrals to 20.

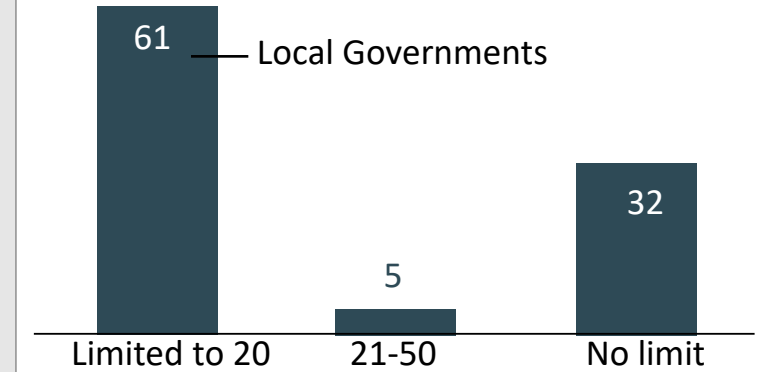
TIMING OF FEE COLLECTION



NUMBER OF LOCAL GOVERNMENTS THAT CHARGE ADMIN FEES



DEFERRAL LIMITS



## 22 local governments issued 3,741 deferrals

### CITIES AND COUNTIES:

With most deferrals

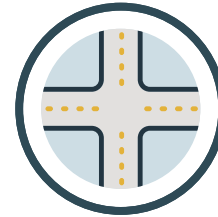
With at least one deferral



## Calendar Years 2018-2019



1,236 park fee deferrals



1,189 traffic fee deferrals



1,109 school fee deferrals



207 fire fee deferrals

# 91%

Of deferrals occurred in  
Ferndale, Redmond, La Center,  
Ridgefield and Kitsap County

Do not require  
a lien.

Do not charge  
admin fees.

Do not have  
additional steps  
or paperwork.



# Deferrals appear unrelated to permit activity

## Permits with deferrals

Of the five local governments that issued the most building permits, **1 permit with deferrals was issued by Pierce County.**

1  
0  
0  
0  
0

PIERCE COUNTY  
CLARK COUNTY  
SNOHOMISH COUNTY  
WEST RICHLAND  
PASCO

139  
650  
123  
167  
63

RIDGEFIELD  
KITSAP COUNTY  
FERNDALE  
REDMOND  
LA CENTER

## Permits without deferrals

3,097  
2,805  
2,066  
1,263  
1,074

600  
229  
139  
92  
59

The five local governments that issued the most deferrals, together **issued 8% of building permits.**



# 99%

Of deferrals repaid on time

3 out of 3,741 were not paid on time or in full.

\$323 million in impact fees



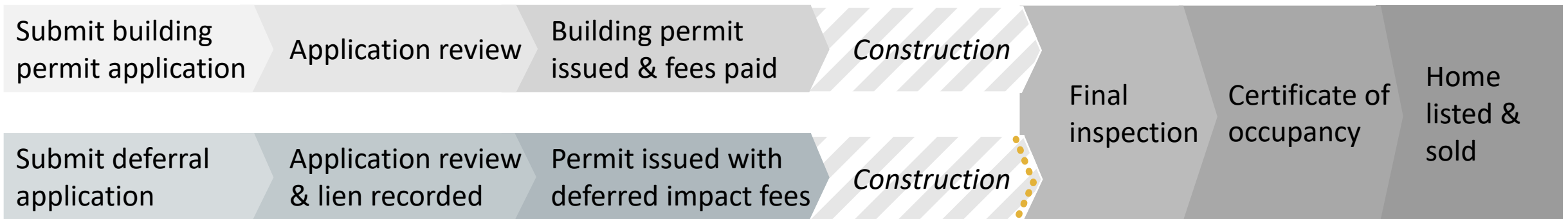
\$11 million deferred



\$13,000 not timely paid

*No reported delays in capital improvement planning or construction.*

# Local governments implemented internal controls to help ensure deferred fees are paid



*All other fees must be paid*

**Deferred fees paid**

*The term of a deferral cannot exceed 18 months from permit issuance.*

# Law requires builders to record a lien

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*Stakeholders reported:*



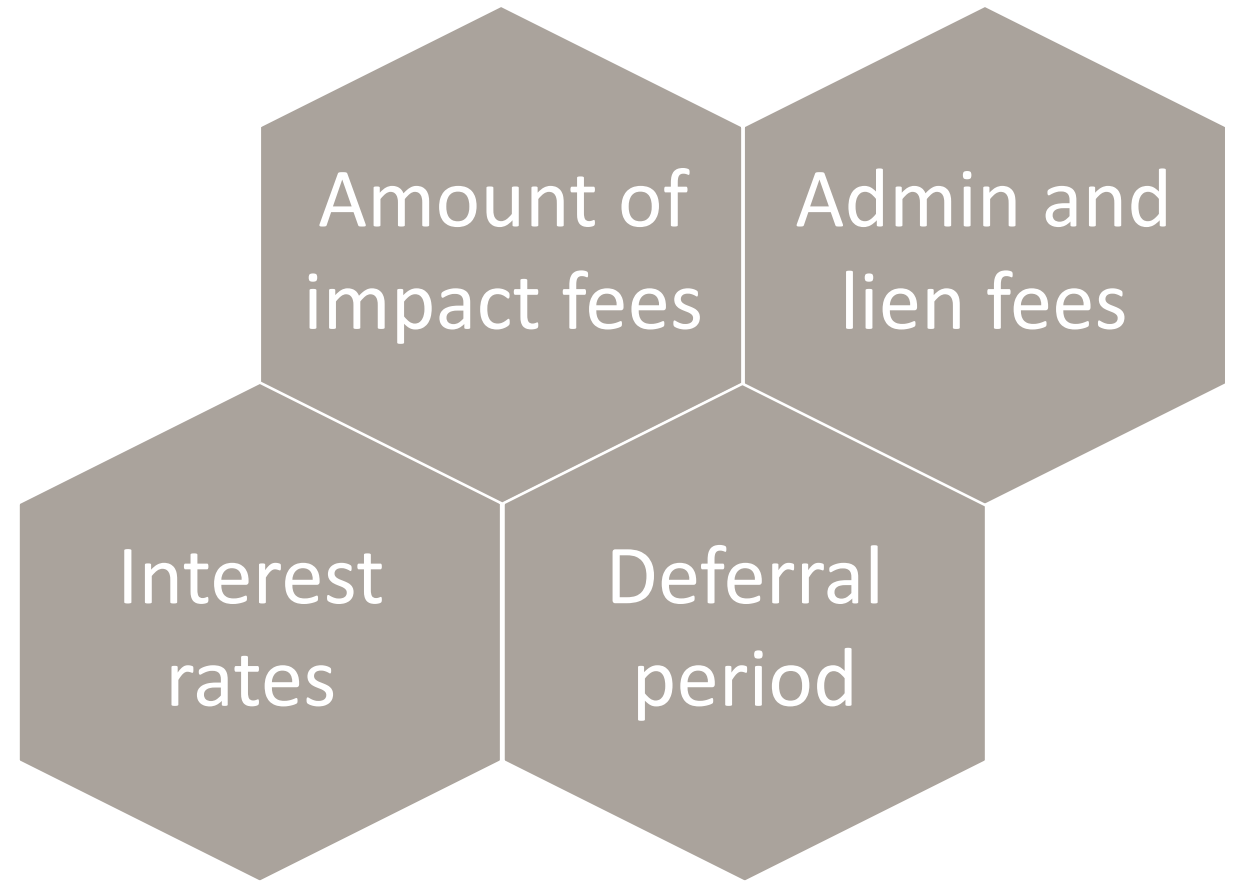


# Legislative Auditor's Recommendation

Legislature should consider whether liens are a necessary tool to ensure that deferred fees are paid.

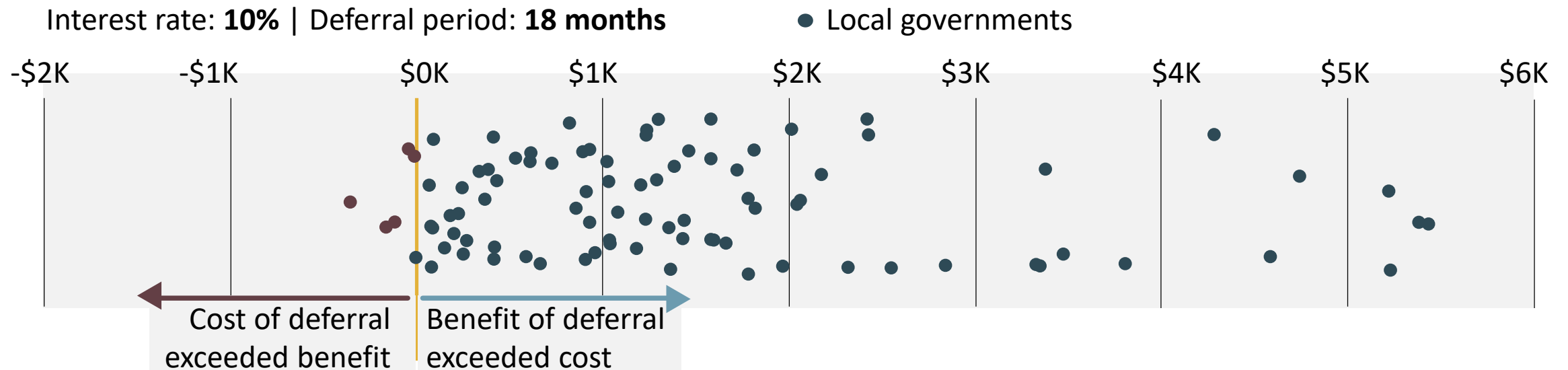
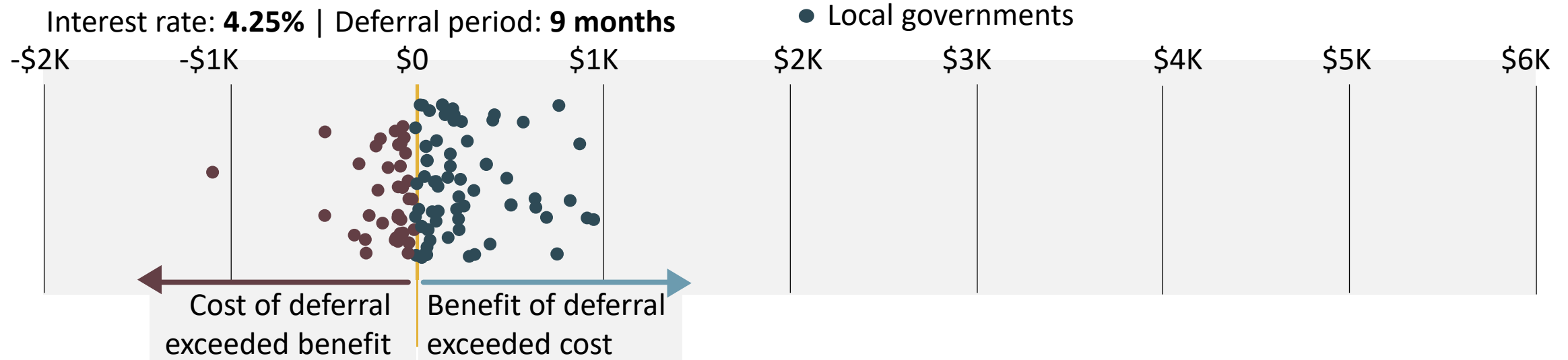


There may be a financial benefit to builders who defer fees



*Model does not include possible additional costs incurred by builders.*

# Benefit increases when interest rates and deferral periods increase



# Impact fee savings calculator

Impact fee, administrative fee and lien fee data was obtained from local government municipal codes and fee schedules for 2020-2021.



Select local government, interest rate, and months of deferrment to calculate savings

Local government	Interest rate	Months of deferrment
Kitsap County	4.25	9

This interactive calculator allows users to input values to determine whether a deferral is of net benefit to a builder by local government. By changing the local government, the interest rate or the deferral period, the calculator allows us..

## Impact fee costs

Impact fees	Financing costs	Total impact fee after interest
\$2,809.00	\$89.07	\$2,898.07

## Administrative and lien fees

Administrative and lien fees
\$0.00

## Net savings

Net savings
\$89.07



Washington State  
Department of  
**Commerce**

# Commerce directed to monitor use of deferrals



NUMBER OF DEFERRALS  
REQUESTED



NUMBER OF DEFERRALS  
ISSUED



NUMBER OF DEFERRALS  
NOT PAID ON TIME OR IN  
FULL





# Legislative Auditor's Recommendation

The Legislature should either repeal Commerce's data collection or identify which measures Commerce should collect that would be helpful for evaluating program use.

# Legislative Auditor's Recommendations

- 1 Cities should adopt required deferral programs.
- 2 The Legislature should consider necessity of lien requirement.
- 3 The Legislature should repeal or modify Commerce's data collection.



## Next Steps

Proposed Final Report | **December 2021**





# Contact Us

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