

PUBLIC TESTIMONY SUMMARY

I-900 STATE AUDITOR'S PERFORMANCE AUDIT:

Use of Impact Fees in Federal Way, Olympia, Maple Valley, Redmond and Vancouver (October 14, 2008)

As Heard by the Joint Legislative Audit & Review Sub-Committee on I-900 Performance Audits
on October 22, 2008

The performance audit being discussed at this hearing was conducted solely and independently by the office of the State Auditor, under the authority of legislation approved by the voters in Initiative 900. The State Auditor is elected directly by the people of the State of Washington and operates independently of the Legislature and the Joint Legislative Audit & Review Committee. Staff to the Joint Legislative Audit & Review Committee prepare a summary of public testimony on State Auditor reports. These summaries are for informational purposes only, and do not serve as an assessment by committee staff of the findings and recommendations issued by the State Auditor nor do they reflect a staff opinion on legislative intent.

Title: Use of Impact Fees in Federal Way, Olympia, Maple Valley, Redmond and Vancouver

Audit Scope and Objectives:

The audit was designed to determine:

1. The method each city uses to calculate impact fees based on the direction in state law (RCW 82.20.050);
2. How each city demonstrates that these fees are appropriate; and
3. How effectively each city uses impact fees to pay for public facilities that:
 - Correspond to the demand for public facilities from new development.
 - Benefit new development proportionate to its share of the financing of new or expanded facilities; and are consistent with a comprehensive plan or a capital element of a comprehensive land use plan that has been adopted in accordance with state law.

If the city does not meet these objectives, what are the resulting costs to all residents and what can be done to reduce those costs?

Additionally, the audit addressed the nine elements contained in Initiative 900.

The audit reports that the selection of the five cities was based on the highest impact fee revenue from fiscal years 2004 to 2006.

<p>SAO Findings: The audit includes findings in the following nine areas:</p> <ol style="list-style-type: none"> 1. Capital facilities 2. Fire districts 3. Park zoning 4. Interest-bearing accounts 5. School impact fee interest 6. Fire impact fee schedule/calculation 7. School impact fee schedule/calculation 8. Transportation impact fee schedule/calculation 9. Permit system <p>The three main conclusions are:</p> <ul style="list-style-type: none"> • Lack of clarity in state law may be causing some cities to calculate and spend impact fees in a manner that could be inappropriate. • One city is charging builders higher impact fees than they should and their fees are not supported by a capital facilities plan as prescribed by law. The audit recommends that city discontinue charging the fees until they are supported. • New developments in some cities are receiving questionable benefits for the impact fees paid. 	<p>SAO Recommendations: The audit includes specific recommendations to each city.</p> <p>The audit includes the following two recommendations to the Legislature:</p> <ul style="list-style-type: none"> • The Legislature should amend RCW 82.02.090 to better define capital facilities and alleviate ambiguity. • The Legislature should consider modifying RCW 82.02.070 to better define “separate interest-bearing accounts.”
<p>Agency Responses in Audit Report?</p>	<p>Yes; responses from the cities are in Appendix H.</p>
<p>Legislative Action Requested?</p>	<p>Yes; see above.</p>

Staff Summary of Testimony from Audited Agencies:

We have had a lot of growth in the city since we incorporated ten years ago, and one of the areas of concern has been transportation. We have used transportation impact fees to try to improve the city. The audit raised one issue for our city with respect to capital facilities. As we improved roads in the city, we also wanted to add sidewalks and bike lanes for alternative modes of transportation. Based on the language of the law, we thought it was an appropriate use of the funds.

We had some initial reservations and concerns about the process and scope of this audit, but we were eager to see the results. However, the audit did not identify significant cost savings for the city. The audit was unclear in terms of criteria to determine effectiveness and best practices. The audit did highlight areas in state law that are unclear or ambiguous, but then turned to policy issues that are within the discretion of cities to interpret and implement to meet local needs. It was a confusing audit process where we invested more than \$50,000 in city staff time. We have three suggestions for improvement so that these audit tax dollars are better spent in the future: 1)

clear audit objectives; 2) a focus on best practices; and 3) active involvement at the design phase of the audit so that we can ask questions we have about more efficient and effective practices.

Staff Summary of Testimony from Other Parties:

The intent behind impact fees is to offset the additional public-service costs of new development. Unfortunately, some of the audited cities are using creative interpretations to expand the use of impact fees beyond what the law allows. There are examples with regard to transportation impact fees, park impact fees, and fire impact fees. The City Of Olympia cannot demonstrate the connection between the impact fees and the growth that paid them, a violation of statute. An underlying issue not addressed in the audit is affordable housing. Impact fees, and other land use regulations, represent a burden of increased costs to new development. We ask the Legislature to consider the following recommendations: 1) the Legislature should clarify state law to provide cities with a narrow definition of the items that can and cannot be purchased with impact fees; and 2) the Legislature should require cities to post their annual impact fee reports on their websites.

Agencies Testifying:

The City of Maple Valley (Tony McCarthy, Finance Director)

The City of Olympia (Doug Mah, Mayor, and Steve Hall, City Manager)

Other Parties Testifying:

Brian Zapotocky, Evergreen Freedom Foundation