

***PARKS AND RECREATIONAL FACILITIES
IMPACT FEE RATE STUDY
City of Sequim, Washington***

Submitted to:
City of Sequim, Washington

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Prepared by:



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1. INTRODUCTION

This study of impact fees for parks and recreational facilities for the City of Sequim presents the methodology, summarizes the data, and explains the calculation of the fees. The methodology is designed to comply with the requirements of Washington law. This introduction describes the basis for parks and recreational impact fees, including:

- Definition and Rationale of Impact Fees
- Statutory Basis For Impact Fees
- Responsibility for Public Facilities
- Need for Additional Parks and Recreational Facilities
- Determining the Benefit of Parks and Recreational Facilities to Development
- Methodology and Relationship to Capital Facilities Plan
- Data Sources and Calculation

This study is based on the impact fee study compiled in 2009 by the Henderson Group.

Definition and Rationale of Impact Fees

Impact fees are charges paid by new development to reimburse local governments for the capital cost of public facilities that are needed to serve new development and the people who occupy the new development. New development is synonymous with “growth.”

Local governments charge impact fees on either of two bases. First, as a matter of policy and legislative discretion, they may want new development to pay the full cost of its share of new public facilities because that portion of the facilities would not be needed except to serve the new development. In this case, the new development is required to pay for virtually all the cost of its share of new public facilities¹.

On the other hand, local governments may use other sources of revenue to pay for the new public facilities that are required to serve new development. If, however, such revenues are not sufficient to cover the entire costs of new facilities necessitated by new development, the new development may be required to pay an impact fee in an amount equal to the difference between the total cost and the other sources of revenue.

There are many kinds of "public facilities" that are needed by new development, including parks and recreational facilities, fire protection facilities, schools, roads, water and sewer plants, libraries, and other government facilities. This study covers parks and recreational facilities for the City of Sequim, Washington. Impact fees for parks and recreational facilities are charged to all residential development within the City of Sequim.

¹ RCW 82.02.050 (2) prohibits impact fees that charge 100% of the cost, but does not specify how much less than 100%, leaving that determination to local governments.

Statutory Basis For Impact Fees

RCW 82.02.050 - 82.02.100 authorizes local governments in Washington to charge impact fees. The impact fees that are described in this study are not mitigation payments authorized by the State Environmental Policy Act (SEPA). There are several important differences between impact fees and SEPA mitigations. Two aspects of impact fees that are particularly noteworthy are: 1) the ability to charge for the cost of public facilities that are "system improvements" (i.e., that provide service to the community at large) as opposed to "project improvements" (which are "on-site" and provide service for a particular development), and 2) the ability to charge small-scale development their proportionate share, whereas SEPA may exempt small developments.

The following synopsis of the most significant requirements of the law includes citations to the Revised Code of Washington as an aid to readers who wish to review the exact language of the statutes.

Types of Public Facilities

Four types of public facilities can be the subject of impact fees: 1) public streets and roads; 2) publicly owned parks, open space and recreational facilities; 3) school facilities; and 4) fire protection facilities (in jurisdictions that are not part of a fire district). *RCW 82.02.050(2) and (4), and RCW 82.02.090(7)*

Types of Improvements

Impact fees can be spent on "system improvements" (which are typically located outside the development), as opposed to "project improvements" (which are typically provided by the developer on-site within the development). *RCW 82.02.050(3)(a) and RCW 82.02.090(6) and (9)*

Benefit to Development

Impact fees must be limited to system improvements that are reasonably related to, and which will benefit new development. *RCW 82.02.050(3)(a) and (c)*. Local governments must establish reasonable service areas (one area, or more than one, as determined to be reasonable by the local government), and local governments must develop impact fee rate categories for various land uses. *RCW 82.02.060(6)*

Proportionate Share

Impact fees cannot exceed the development's proportionate share of system improvements that are reasonably related to the new development. The impact fee amount shall be based on a formula (or other method of calculating the fee) that determines the proportionate share. *RCW 82.02.050(3)(b) and RCW 82.02.060(1)*

Reductions of Impact Fee Amounts

Impact fees rates must be adjusted to account for other revenues that the development pays (if such payments are earmarked for or proratable to particular system improvements). *RCW 82.02.050(1)(c) and (2) and RCW 82.02.060(1)(b)* Impact fees may be credited for the value of dedicated land, improvements or construction provided by the developer (if such facilities are in the adopted CFP and are required as a condition of development approval). *RCW 82.02.060(3)*

Exemptions from Impact Fees

Local governments have the discretion to provide exemptions from impact fees for low-income housing and other "broad public purpose" development, but all such exemptions must be paid from public funds (other than impact fee accounts). *RCW 82.02.060(2)*

Developer Options

Developers who are liable for impact fees can submit data and or/analysis to demonstrate that the impacts of the proposed development are less than the impacts calculated in this rate study. *RCW 82.02.060(5)*. Developers can pay impact fees under protest and appeal impact fee calculations. *RCW 82.02.060(4) and RCW 82.02.070(4) and (5)*. The developer can obtain a refund of the impact fees if the local government fails to expend the impact fee payments within 10 years, or terminates the impact fee requirement, or the developer does not proceed with the development (and creates no impacts). *RCW 82.02.080*

Capital Facilities Plans

Impact fees must be expended on public facilities in a capital facilities plan (CFP) element (or used to reimburse the government for the unused capacity of existing facilities). The CFP must conform to the Growth Management Act of 1990, as amended, and must identify existing deficiencies in facility capacity for current development, capacity of existing facilities available for new development, and additional facility capacity needed for new development. *RCW 82.02.050(4), RCW 82.02.060(7), and RCW 82.02.070(2)*

New versus Existing Facilities

Impact fees can be charged for new public facilities (*RCW 82.02.060(1)(a)*) and for the unused capacity of existing public facilities (*RCW 82.02.060(7)*), subject to the proportionate share limitation described above.

Accounting Requirements

The local government must separate the impact fees from other monies, expend the money on related CFP projects within 10 years, and prepare annual reports of collections and expenditures. *RCW 82.02.070(1)-(3)*

ISSUES RELATING TO IMPACT FEES

Prior to calculating impact fee rates, several issues must be addressed in order to determine the need for, and validity of such fees: responsibility for public facilities, the need for additional park and recreational facilities, the need for revenue for additional parks and recreational facilities, and the benefit of new parks and recreational facilities to new development.

Responsibility for Public Facilities

In general, local governments that are authorized to charge impact fees are responsible for the specific public facilities for which they may charge such fees. The City of Sequim is legally and financially responsible for the parks and recreational facilities it owns and operates within its jurisdiction. In no case may a local government charge impact fees for private facilities, but it may charge impact fees for some public facilities that it does not administer if such facilities are “owned or operated by government entities” (*RCW 82.02.090(7)*).

Need for Additional Park and Recreational Facilities

The need for additional parks and recreational facilities is determined by using standards for levels of service for park and recreational facilities to calculate the quantity of facilities that are required. The required quantity is then compared to the existing inventory to determine the need for additional land and facilities. The analysis of needed parks and recreational facilities must comply with the statutory requirements for identifying existing deficiency, reserve capacity and new capacity requirements for facilities.

For the purpose of quantifying the need for parks and recreational facilities, this study uses the City’s value of investment in existing parks and recreational facilities per capita. As greater growth occurs, more investment is required; therefore, more parks and recreational facilities are needed to maintain standards. The analysis and text documenting the investment in parks and recreational facilities per person is explained in Section 2 of this study.

Determining the Benefit to Development

The law imposes three tests of the benefit provided to development by impact fees: 1) proportionate share, 2) reasonably related to need, and 3) reasonably related to expenditure (*RCW 82.02.050(4)*).

A. Proportionate Share

First, the "proportionate share" requirement means that impact fees can be charged only for the portion of the cost of public facilities that is "reasonably related" to new development. In other words, impact fees cannot be charged to pay for the cost of reducing or eliminating deficiencies in existing facilities.

Second, there are several important implications of the proportionate share requirement that are not specifically addressed in the law, but which follow directly from the law:

- Costs of facilities that will be used by new development and existing users must be apportioned between the two groups in determining the amount of the fee. This can be accomplished in either of two ways: (1) by allocating the total cost between new and existing users, or (2) calculating the cost per unit (i.e., investment per capita), and applying the cost only to new development when calculating impact fees.
- Impact fees that recover the costs of existing unused capacity can be based on the replacement cost of the facility in order to account for carrying costs of the government's actual or imputed interest expense.

The third aspect of the proportionate share requirement is its relationship to the requirement to provide adjustments and credits to impact fees, where appropriate. These requirements ensure that the amount of the impact fee does not exceed the proportionate share.

- The "adjustments" requirement reduces the impact fee to account for past and future payments of other revenues (if such payments are earmarked for, or proratable to, the system improvements needed to serve new growth).
- The "credit" requirement reduces impact fees by the value of dedicated land, improvements or construction provided by the developer (if such facilities are in the adopted CFP and are required as a condition of development approval). The law does not prohibit a local government from establishing reasonable constraints on determining credits. For example, the location of dedicated land and the quality and design of a donated public facility can be required to conform to local standards for such facilities.

Without such adjustments and credits, the fee-paying development might pay more than its proportionate share.

B. Reasonably Related to Need

There are many ways to fulfill the requirement that impact fees be "reasonably related" to the development's need for public facilities, including personal use and use by others in the family and use by owners, employees and customers of business enterprises (direct benefit), and use by persons or organizations who provide goods or services to the fee-paying property (indirect benefit). These measures of relationship are implemented by the following techniques:

- Impact fees for parks and recreational facilities are charged to properties, which need (i.e., benefit from) new parks and recreational facilities. Parks and recreational facilities are provided by the City of Sequim for public use to all kinds of property throughout the City regardless of the type of use of the property. Impact fees for park and recreational facilities, however, are only charged to residential development in the City because the dominant stream of benefits redounds to the occupants and owners of dwelling units. As a matter of City policy, the City of Sequim elects not to charge parks and recreational

impact fees to non-residential properties because there is not sufficient data to document the proportionate share of parks and/or use of parks that is reasonably needed by non-residential development.

- The relative needs of different types of growth are considered in establishing fee amounts (i.e., single family dwelling units versus multi family dwelling units, etc.).
- Fee-payers can pay a smaller fee if they can demonstrate that their development will have less impact than is presumed in the calculation of the impact fee schedule for their property classification. Such reduced needs must be permanent and enforceable (i.e., through land use restrictions).
- Washington law requires one or more service areas as a way of connecting a unit of development and the benefits of public facilities paid for by impact fees. All impact fees paid by new development in the service area would be required to be spent on new park and recreational facilities in the same service area. Sequim parks and recreational facilities serve the entire City; therefore, the impact fees are based on a single district.

C. Reasonably Related to Expenditures

Two provisions of the law tend to reinforce the requirement that expenditures be "reasonably related" to the development that paid the impact fee. First, the requirement that fee revenue must be earmarked for specific uses related to public facilities ensures that expenditures are for identifiable projects, the benefit of which can be demonstrated. Second, impact fee revenue must be expended within 10 years, thus requiring a timeliness to the benefit to the fee-payer.

Methodology and Relationship to Capital Facilities Plan

Impact fees for parks and recreational facilities in the City of Sequim are based on the value per capita of the City's capital improvements for parks and recreational facilities. New development will be provided its share of the investment per capita, to be funded by a combination of general and capital improvement fund revenue and impact fees.

The amount of the impact fee is determined by charging each new development for the average number of persons per dwelling unit multiplied times the amount of the investment per capita that is to be paid by growth. The investment per capita for future population is made through parks projects listed in the City's Capital Facilities Plan.

Data Sources and Calculation

A. Data Sources

The data in this study of impact fees for parks and recreational facilities in the City of Sequim, Washington was provided by the City of Sequim (e.g., City budget expenditures, Parks and Recreation Master Plan [November 2021]), Transportation Improvement Program [2021-2026], etc.) unless a different source is specifically cited.

B. Data Rounding

The data in this study was prepared using computer spreadsheet software. In some tables in this study, there will be very small variations from the results that would be obtained using a calculator to compute the same data.

The reason for these insignificant differences is that the spreadsheet software was allowed to calculate results to more places after the decimal than is reported in the tables of these reports. The calculation to extra places after the decimal increases the accuracy of the end results but causes occasional differences due to rounding of data that appears in this study.

2. CAPACITY COSTS

“Capacity” capital facility projects directly contribute to the City of Sequim’s physical inventory of park land and recreational facilities and represent new and/or expanded facilities. “Non-capacity” projects include only the repair, renovation, replacement of, remodel, etc. of existing parks and recreational capital facilities, and do not contribute additional new inventory to the City’s parks system. Impact fees can only be used to help pay for the growth cost of “capacity” facilities projects.

The cost of parkland includes land, design, landscaping, site improvements, some recreational facilities (e.g., equipment or apparatus not separately listed in this study), and legal and administrative costs (which includes contingency). The cost of recreational facilities includes design, site preparation, construction, and legal and administrative costs (which includes contingency). The cost of facilities does not include land if the facilities are customarily located at a park. If the facility is usually located at any site other than a park, the cost includes land.

The cost of new parks and recreational facilities in this rate study does not include any costs for interest or other financing. If borrowing is used to “front fund” the costs that will be paid by impact fees, the carrying costs for financing can be added to the costs, and the impact fee can be recalculated to include such costs.

Impact fees proposed in this rate study will help the City pay for the proportionate share of costs for facilities needed to support the City’s growth population for the next six years and to increase the parks and recreational facilities that serve the current population. As Table 1 shows, Columns 1 and 2 include the project name and description, respectively. Column 3 indicates the intended

year of construction. Column 4 identifies the planned facility cost derived from the capital project list in the 2021 Parks and Recreation Master Plan.

TABLE 1: CAPACITY COSTS (2022-2027)
CITY OF SEQUIM

Project		Year	Cost
Community Parks			
Carrie Blake Park	Tennis / Basketball sports court	2024	\$573,682
Carrie Blake Park	Skate/BMX park upgrades / expansion	2027	\$922,109
Carrie Blake Park	Rock climbing wall	2026	\$173,891
Carrie Blake Park	Playground	2024	\$456,050
Re-use Water Demonstration Site	Pathway pavement at amphitheater	2023	\$77,250
Re-use Water Demonstration Site	Playground with Born Learning Trail	2026	\$694,236
Neighborhood Parks			
Centennial Place	Master planning	2023	\$53,045
Gerhardt Park	Master planning	2023	\$53,045
Keeler Memorial Park	Master planning	2024	\$54,636
Margaret Kirner Park	Play equipment upgrades	2022	\$154,500
Land Acquisition	Acquisition to address distribution gap	2023	\$795,675
Land Acquisition	Acquisition to address distribution gap	2025	\$844,132
Land Acquisition	Acquisition to address distribution gap	2027	\$1,014,944
Pioneer Memorial Park	Perimeter paved loop with amenities	2027	\$119,405
Pioneer Memorial Park	Splash pad	2024	\$437,091
Trails & Pathways			
Bell Creek Trail	Trail development along Bell Creek	2026	\$1,674,000
Olympic Discovery Trail	Eastern extension	2026	\$420,000
System-wide	Acquisitions for trail connections	2024	\$546,364
		TOTAL	\$9,064,054

3. FUNDING OTHER THAN IMPACT FEES

As noted in the introduction to this report, impact fees must be adjusted to account for other (non-impact fee) revenue that is paid by new development. This section summarizes the planned use of other revenues to fund future parks and recreational facilities.

The City of Sequim has historically used local revenues, such as real estate excise tax, grants and other revenues within the City’s General Fund to pay for part of the cost of parks and recreational facility capital costs. Revenues that are used for repair, maintenance or operating costs are not used to reduce impact fees because they are not used, earmarked or prorated for the system improvements that are the basis of the impact fees.

Revenues from past taxes paid on vacant land prior to development are not included because new capital projects do not have prior costs; therefore, prior taxes did not contribute to such projects. The other potential credit that reduces capacity costs (and subsequent impact fees) are donations of land or other assets by developers or builders. Those reductions depend upon specific arrangements between the developer and the City of Sequim.

Column 1 in Table 2 below shows projects from Table 1 that are anticipated to include non-impact fee project resources. Columns 3 through 5 identify three potential sources of revenue: Real Estate Excise Tax (REET), Transportation Improvement Program (TIP), and State grants. Column 6 calculates the total amount of non-impact fee revenues for each capital project during 2022-2027.

**TABLE 2: FUNDING OTHER THAN IMPACT FEES (2022-2027)
CITY OF SEQUIM**

Project		REET	TIP	Grants/ Other*	Total Non- Impact Fee Funding
Community Parks					
Carrie Blake Park	Skate/BMX park upgrades / expansion			\$60,000	\$60,000
Re-use Water Demonstration Site	Pathways & Playground with Born Learning Trail			\$500,000	\$500,000
Neighborhood Parks					
Land Acquisition	Acquisition to address distribution gap			\$600,000	\$600,000
Pioneer Memorial Park	Splash pad	\$80,000			\$80,000
Trails & Pathways					
Bell Creek Trail	Trail development along Bell Creek		\$1,674,000		\$1,674,000
Olympic Discovery Trail	Eastern extension		\$420,000		\$420,000
System-wide	Acquisitions for trail connections		\$25,000		\$25,000
		TOTAL	\$80,000	\$2,119,000	\$1,160,000
					\$3,359,000

**Other -- Taxes/Grants/Loans: 1. Recreation and Conservation Office (RCO) Grants; 2. Aquatic Land Enhancement Account-ALEA (RCW 7924.580); 3. REET for Conservation Areas (RFCW 82.46.070); 4. Dedicated Motor Vehicle Fuel Tax - Trails (RCW 40.37.50); 5. Public Works Trust Fund; 6. CDBG/CTED; 7. North American Wetland Conservation Act Grant (NAWCA) -Associated with Ducks Unlimited. *Other-Local: 1. SEPA/Developer Mitigation - Sequim City Council (e.g., Fees-In-Lieu, Land Dedication, etc.); 2. Private Donations; 3. Street Vacations (RCW 75.39) - Sequim City Council.*

4. APPORTIONMENT OF POPULATION (2021–2027)

The revenues described in the preceding section are paid by both current and future residents, therefore it is necessary to apportion the revenues between the two population groups. The apportionment of the revenues will be based on each population groups proportion of the total. However, because growth occurs over time, and not all at once, the apportionment is based on the cumulative increase in population compared to the total cumulative population over the same time period. This analysis will be described below.

The City population represent the persons primarily served by the inventory of parks and recreational facilities, although a considerably number of “out of City” visitors also use Sequim’s park land and facilities. Columns 1 and 2 in Table 3 show the current year and six growth years, as well as the “base”, or current population for 2020 based on 2020 Census Redistricting population data. For each year beyond 2020, the base population will increase annually by 2.64% through 2025 and then annually by 2% for 2026 and 2027, shown in Column 3. Column 4 shows the cumulative growth increase from year-to-year. The total population as it increases each year is shown in Column 5. The totals of Columns 4 and 5 show that the cumulative population growth during 2022-2027 represents 10.86% of the year 2027 total population. This percent will be used to calculate the apportioned percentage of non-impact fee revenues that are paid by the current population and the growth population in Table 4 in the next section.

**TABLE 3: APPORTIONMENT OF POPULATION (2021-2027)
CITY OF SEQUIM**

Year	Base Population	Annual Growth	Cumulative Growth	Total Population
2020	8,024			8,024
2021	8,024	212	212	8,236
2022	8,024	217	429	8,453
2023	8,024	223	652	8,676
2024	8,024	229	881	8,905
2025	8,024	235	1,116	9,140
2026	8,024	183	1,299	9,323
2027	8,024	187	1,486	9,510
		Total	5,863	54,007
		Cumulative Growth % of Total Population	10.86%	

5. APPORTIONMENT OF FUNDING OTHER THAN IMPACT FEES

Table 4 apportions the non-impact fee revenues (\$3,359,000 from Table 2) in Column 2 and multiplies that amount by the respective base population (89.14%) and growth population (10.86%). The results of this calculation identify the dollar amount of non-impact fee revenue that each population group contributes to paying for capital projects during 2022-2027, as shown Columns 3 and 4.

**TABLE 4: APPORTIONMENT OF FUNDING OTHER THAN IMPACT FEES (2022-2027)
CITY OF SEQUIM**

<u>Source</u>	Total	Portion Paid by	Portion Paid by
	Non-Impact Fee Funding	Base Population	Growth Population
Funding Other Than Impact Fees	3,359,000	2,994,213	364,787

6. GROWTH'S SHARE OF PROJECT COSTS (2022-2027)

The investment in parks and recreational facilities needed to serve growth from Table 2 is shown in the first line in Table 5 below. Next, the current balance of PIF funds held by the City is subtracted to account for past payments into the system. Then, the base population's share of non-impact fee revenue is listed and subtracted from the total cost to determine growth population's share of capital project costs of \$4,290,951 during 2022-2027.

**TABLE 5: GROWTH'S SHARE OF PROJECT COSTS (2022-2027)
CITY OF SEQUIM**

Item	Calculation
Total Projects Cost	\$9,064,054
Current PIF Fund Balance	\$1,148,891
Cost Funded by Base Population	\$2,994,213
Cost to be Funded by Growth	\$4,920,951

7. GROWTH'S COST PER CAPITA (2022-2027)

In this section, the investment in additional parks and recreational facilities to be paid by growth (from Table 5) is used to calculate the park and recreational facilities growth cost per person which is then used to calculate the impact fee per dwelling unit. First, the total cost to be funded by growth is reduced by \$364,787 which is non-impact fee revenue paid by growth (from Table 4). The balance of \$4,556,163 will be paid by impact fees. The growth cost per capita is calculated by dividing the \$4,556,163 by the population growth of 1,486. The result is the amount per capita (\$3,066) that will be paid by growth through impact fees.

**TABLE 6: GROWTH'S COST PER CAPITA (2022-2027)
CITY OF SEQUIM**

Item	Calculation
Cost to be Funded by Growth	\$4,920,951
Growth's Portion of Non-Impact Fee Funding	\$364,787
Growth's Portion to be Paid by Impact Fees	\$4,556,163
Growth Population	1,486
Growth Cost per Capita for Impact Fees	\$3,066

8. IMPACT FEE RATES

Table 7 shows above the calculation of the impact fee cost per dwelling unit of parks and recreational facilities that needs to be paid by growth. Table 7 begins with the cost per new person for parks and recreational facilities that will be paid by growth from Table 6: \$3,066. The amount to be paid by each new dwelling unit depends on the number of persons per dwelling unit.

The number of persons per dwelling unit is the factor used to convert the growth cost of parks and recreational facilities per person into impact fees per dwelling unit. The data is based on the prior park impact fee study.

Table 7 ends by multiplying the growth cost per person by the number of persons per dwelling unit. The result is the impact fee per dwelling unit for parks and recreational facilities in the City of Sequim.

**TABLE 7: IMPACT FEE RATES
CITY OF SEQUIM**

Item	Single-Family	Multi-Family
	Houses	Dwelling Units
Growth Cost per Capita	\$3,066	\$3,066
Persons per Dwelling Unit	1.92	2.07
Impact Fee per Dwelling Unit	\$5,887	\$6,347