

**WHAT IS A “REASONABLE RATE” FOR THE TRANSPORTATION IMPACT TAX?**

As previously noted, the last time the rate was examined was during the review of Subdivision Staging Policy in 2007. The methodology used in support of the analysis at that time is summarized in Table 4 below and involved the following steps (referencing the respective rows in Table 4):

- Row A – the capital funding requirements (local funds) contained in the CIP and regional Constrained Long Range Plan (CLRP) for projects adding network capacity and assuming that a similar level of funding (on an average annual basis) will be needed over the next 25 years.
- Rows B, C, and D - the forecast growth in County households (single family and multi-family) and jobs (office, retail, industrial, or other) from the Regional Cooperative Land Use Forecast
- Rows E and F - the estimate of the new daily trips generated by the new growth
- Row G – the cost attributable to that specific land use based upon the proportion of trips
- Estimate Tax Rate (last row) – the computed rate by land use based on the allocated costs (Row G) divided by the number of units (Row C) for residential land use or square feet (Row D) for commercial land use as applicable

**TABLE 4 – ARRIVING AT AN INITIAL GENERAL RATE FOR THE TRANSPORTATION IMPACT TAX**

A	County Capital Improvement Program (CIP) – Local \$ for Projects adding Network Capacity Expansion – 25 Year Estimate					
B	New Residential 25 Year Growth Estimate		New Commercial Growth 25 Year Growth Estimate			
C	Residential Units		Office Jobs	Retail Jobs	Industrial Jobs	Other Jobs
D	Single family	Multi-Family	Office SF	Retail SF	Industrial SF	Other SF
E	Trip Rate	Trip Rate	Trip Rate	Trip Rate	Trip Rate	Trip Rate
F	New Daily Trips	New Daily Trips	New Daily Trips	New Daily Trips	New Daily Trips	New Daily Trips
G	Cost (A) Allocated by Trips (F)	Cost (A) Allocated by Trips (F)	Cost (A) Allocated by Trips (F)	Cost (A) Allocated by Trips (F)	Cost (A) Allocated by Trips (F)	Cost (A) Allocated by Trips (F)
Est. Tax Rate	G/C	G/C	G/D	G/D	G/D	G/D

The next series of tables present a comparison of 2007 and the present using essentially the same methodology used in the review of the Transportation Impact Tax in 2007.<sup>10</sup> A summary of the variables and resultant unit rates (for broad land use categories) for the present is shown in Table 5.

**TABLE 5 – UPDATED CALCULATED 2016 RATES USING THE 2007 METHODOLOGY**

Variable	SF Residential	MF Residential	Office	Retail	Industrial	Other Commercial
Forecast Growth 2015-2040 <sup>11</sup>	11,218 DU	71,419 DU	128,822 Jobs	30,697 Jobs	12,180 Jobs	11,418 Jobs
SF of Commercial <sup>12</sup>			32,205,500	12,278,800	5,481,000	5,709,000
Vehicle Trip Gen Rate <sup>13</sup>	9.52 per DU	6.65 per DU	3.32 per job	21.47 per KGSF	2.77 per job	2.77 per job
Daily Vehicle Trip Ends	106,795	474,936	427,689	263,626	33,739	31,628
% of Total Trip Ends	8.0%	35.5%	32.0%	19.7%	2.5%	2.4%
Proportional Allocation of \$1.6 Billion <sup>14</sup>	\$129M	\$574M	\$517M	\$318M	\$41M	\$38M
Calculated Unit Impact Tax Rates	\$11,499 per DU	\$8,032 per DU	\$16.04 per GSF	\$25.93 per GSF	\$7.43 per GSF	\$6.69 per GSF

<sup>10</sup> While staff has not conducted a comprehensive review of the methodology used in other jurisdictions, the approach of considering the capital costs of projects programmed or planned, the growth in households and commercial building space, the application of trip rates, and the eventual calculation of a rate at least in part related to the type of land use is relatively common.

<sup>11</sup> Round 8.3 Regional Cooperative Land Use Forecast – Montgomery County Growth Only

<sup>12</sup> Estimate arrived at by applying SF factor by job type (250 SF/job for Office, 400 SF/job for Retail, 450 SF/job for Industrial, and 500 SF/job for Other Commercial).

<sup>13</sup> ITE Trip Generation Manual, 9<sup>th</sup> Edition

<sup>14</sup> \$1.6 Billion estimate is arrived at by dividing the \$388 million total shown in Table 2 by the number of years in the CIP (6) and multiplying that annual number by 25 – the number of years the forecast growth is based upon.

A comparison of how the calculated rates in Table 5 for 2016 compare with (1) the rates calculated in 2007 using this same methodology and (2) the current rates is shown in Table 6 below.

**TABLE 6 – COMPARING CALCULATED 2016 and 2007 RATES WITH CURRENT RATES**

Variable	SF Residential	MF Residential	Office	Retail	Industrial	Other Commercial
Calculated Unit Impact Tax Rates – 2015-2040	\$11,499 per DU	\$8,032 per DU	\$16.04 per GSF	\$25.93 per GSF	\$7.43 per GSF	\$6.69 per GSF
2007 Calculated Unit Impact Tax Rates 2005-2030 <sup>15</sup>	\$8,380 per DU	\$5,884 per DU	\$11.56 per GSF	\$18.80 per GSF	\$5.39 per GSF	\$4.85 per GSF
<b>Current-General</b>	<b>\$13,966 per DU</b>	<b>\$8,886 per DU</b>	<b>\$12.75 per SF GFA</b>	<b>\$11.40 per SF GFA</b>	<b>\$6.35 per SF GFA</b>	<b>\$6.35 per SF GFA</b>
<b>Current-Metro Station</b>	<b>\$6,984 per DU</b>	<b>\$4,443 per DU</b>	<b>\$6.35 per SF GFA</b>	<b>\$5.70 per SF GFA</b>	<b>\$3.20 per SF GFA</b>	<b>\$3.20 per SF GFA</b>
<b>Current - Clarksburg</b>	<b>\$20,948 per DU</b>	<b>\$13,330 per DU</b>	<b>\$15.30 per SF GFA</b>	<b>\$13.70 per SF GFA</b>	<b>\$7.60 per SF GFA</b>	<b>\$7.60 per SF GFA</b>

A look at comparative percent increases of key variables is useful in attempting to arrive at any conclusion with respect to what might be a “reasonable” rate. In doing so, staff focused on two primary questions:

- How does the difference between the two calculated rates (2007 and 2016 using the 2015 – 2040 data set) compare with the difference in the actual rate increase over the same time period?
- Does the current rate meet the fair-share or pro-rata objective of the Code?

<sup>15</sup> The eventual adopted rates were not the same as the calculated rates arrived at during the review of 2007 Subdivision Staging (Growth) Policy. See Table 3 for the actual adopted rates.

In its simplest form, the first question can be addressed by comparing the rates for the single family dwelling units:

- The calculated rate resulted in the single family dwelling unit rate increasing from \$8,380 per unit in 2007 to \$11,499 per unit now, an increase of 37% over 8 years or an average of 4.6% per year. Roughly the same percentage increase applies to the other residential and commercial land use type as the data inputs (percentage increase in capital costs of the network improvements, growth forecast, and the actual trip rates) do not vary that much.
- The current rate for a single family dwelling unit has increased from \$10,649 per unit in 2007 to \$13,966 per unit in 2015, an increase of 31% over 8 years or an average of 3.9% per year.

The rate of the increase between the calculated rate and the current rate is relatively close and all other things being equal, one could therefore conclude that there may be a basis for an increase around ½ percent (but not much more) as the increase in the current rate trails the increase in the calculated rate by a small amount.

The second or pro-rata question might be addressed by comparing the growth forecast with the percentage of the expansion projects funded by the Transportation Impact Tax.

- The Round 8.3 Regional Cooperative Forecast for Montgomery County households estimates an increase from 377,500 in 2015 to 460,200 in 2040, an increase of 22 percent or 0.90 percent per year. Over a six year CIP period, this would amount to a total increase of 5.4 percent.
- The same forecast for employment for Montgomery County estimates an increase from 532,000 in 2015 to 715,000 in 2040, an increase of 34 percent or an average of 1.4 percent per year. Over a six year CIP period, this would amount to a total increase of 8.4 percent.

As previously noted (see Figure 1), the Transportation Impact Tax is estimated to provide \$40,423,000 in funds over the six- year life of the current CIP. Excluding the White Flint Special Tax District projects, this amount of revenue represents 10.4 percent of the total \$388 million in local funds used over the six- year period.

In terms of the percent of local funds supporting transportation projects that expand network capacity, one could conclude the current level of the Transportation Impact Tax (based on the estimates in the current CIP) is contributing slightly above its pro-rata share by somewhere between 2 and 5 percent when compared to the overall growth forecast (comparing the 10.4 percent portion of the CIP with the 5.4 or 8.4 percent increase for households and employment, respectively).

The comparison of the increase in the calculated rates (2007 vs 2016) therefore suggests an increase of about ½ percent may be in order; however, comparing the percent of local funds the tax provides with the growth forecast suggests the tax is covering (or exceeding) that “share” by a margin of between 2 to 5 percent. **Given the potential variances in the growth forecast, construction costs and timing, and other factors, there does not appear to be a strong argument for recommending any significant change in the rates at this time other than to update the impact tax rates using current transportation**

facility costs, land use forecasts and ITE trip generation rates in the same manner as the 2007 SSP review.<sup>16</sup>

In summary, it appears the Transportation Impact Tax is at a reasonable level, i.e., the current level is estimated to provide funding reasonably consistent – on a historical percentage basis - with anticipated growth and programmed capital costs for system expansion met through local funding sources.

Given that the historical relationship between the calculated and actual rates don't appear to vary significantly, a recommended set of Base (General District) Rates for 2016 was arrived at by applying the percentage change between the 2007 calculated and adopted rates to the 2016 calculated rates. Table 7 below reflects how the recommended set of Base Rates for 2016 is arrived using that approach.

**TABLE 7 – RECOMMENDED BASE (GENERAL DISTRICT) RATES USING DIFFERENCE BETWEEN 2007 CALCULATED and 2007 ADOPTED RATES**

Land Use	2007 Calculated Rates	2007 Adopted Rates	% Difference From Applicable 2007 Calculated	2016 Calculated Rates	2016 Rates When Applying 2007 Percentage Adjustment to 2016 Calculated Rates
Residential					
SF Detached	\$8,380	\$10,649	127.08%	\$11,499	\$14,613
MF Residential	\$5,884			\$8,032	
SF Attached	\$6,856	\$8,713	127.09%	\$9,359	\$10,208
Garden Apartments	\$5,884	\$6,776	115.16%	\$8,032	\$9,250
High - Rise Apartments	\$4,204	\$4,840	115.13%	\$5,739	\$6,607
Multi-Family Senior	\$1,682	\$1,936	115.10%	\$2,296	\$2,643
Commercial					
Office	\$11.56	\$9.69	83.82%	\$16.04	\$13.45
Industrial	\$5.39	\$4.85	89.98%	\$7.43	\$6.69
Bioscience		\$0.00		\$0.00	\$0.00
Retail	\$18.80	\$8.67	46.12%	\$25.93	\$11.96
Place of Worship		\$0.51	10.52%		\$0.70
Private School		\$0.77	15.88%		\$1.06
Hospital		\$0.00			\$0.00
Social Service Agencies		\$0.00			\$0.00
Other Non Residential	\$4.85	\$4.85	100.00%	\$6.69	\$6.69

Beyond the more quantitative (but still high level given the complexity of the issue) preceding look at the impact tax are questions that also might inform decision-making on the level and application of the impact tax. Four common questions are briefly explored below.

<sup>16</sup> It should be noted that the calculated resultant rates are generally below the corresponding residential rates and above the corresponding existing commercial existing commercial rates. The final rates set in 2007 established this pattern (when compared to the calculated rates at that time – see Table 3 and second row of Table 6).