



PLANNING AND ECONOMIC DEVELOPMENT

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MEMO

To: Mayor and City Council
From: Nikole Coleman, AICP, Planning Manager
Subject: Impact Fee Overview
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The purpose of this memo is to provide City Council with a comprehensive overview of the City's impact fee framework, including the current transportation and park impact fee programs and the potential addition of a fire impact fee. This discussion is intended to establish a common understanding of how impact fees function, how Poulsbo's programs are currently structured, and what policy considerations will be before Council as updated rate studies and potential code amendments are brought forward for consideration.

Impact fees are one of the primary tools available to cities under the Growth Management Act ([RCW 36.70A](#)) to ensure that infrastructure keeps pace with planned growth. At their core, impact fees are designed to ensure that new development contributes its proportionate share toward the cost of capital facilities needed to serve that development. Without impact fees, the cost of growth is shifted to existing residents, either through increased taxes or declining levels of service. As Poulsbo continues to grow under the adopted Comprehensive Plan, maintaining this balance between growth and infrastructure investment becomes increasingly important.

Legal Framework and Requirements

Impact fees in Washington are authorized under [RCW 82.02.050](#) through [.090](#), as well as [WAC 365-196-850](#). These provisions allow jurisdictions planning under the Growth Management Act to impose impact fees on new development for specific categories of public facilities, including transportation systems, parks and recreation facilities, schools, and fire protection facilities. However, the statute places clear limitations on how impact fees may be calculated and used, and those limitations directly shape the structure of the City's programs.

State law requires that impact fees be used only for system improvements, meaning capital facilities that serve the community at large, rather than project-specific improvements or ongoing operations and maintenance. Impact fees must also be proportionate to the impact of development, which means the City must demonstrate a clear relationship between the fee charged and the demand created by new growth. Recent updates to state law and guidance further reinforce this requirement by directing jurisdictions to use transparent methodologies that clearly allocate costs between new growth and existing deficiencies and avoid over-collection.

In 2023, the Legislature adopted [Engrossed Substitute Senate Bill 5258](#), which amended [RCW 82.02.060](#) to further refine proportionality requirements. This legislation requires that impact fees for residential development be structured to reflect the relative impact of different housing unit types, resulting in lower fees for smaller housing units. Jurisdictions must now calculate impact fees using a metric such as square footage, number of bedrooms, or trips generated to ensure that smaller units are not charged the same rate as larger units when their impacts are demonstrably lower. This represents a shift from flat fee structures toward more scaled and proportional fee schedules.

In the same legislative session, [Engrossed Substitute House Bill 1337](#) amended [RCW 36.70A.681](#) to address accessory dwelling units. This law requires that impact fees for ADUs may not exceed 50 percent of the fee charged for the principal dwelling unit on the same lot. This provision is intended to reduce barriers to ADU development and further support housing supply and affordability goals.

Additionally, impact fees cannot be used to correct existing deficiencies in infrastructure; they may only fund the portion of improvements attributable to future growth. This reinforces the requirement that costs be clearly separated between existing system needs and growth-related improvements. These requirements collectively ensure that impact fees are both legally defensible and equitable.

Another important statutory requirement is that impact fees must be based on adopted plans, including the [Comprehensive Plan](#) and the [Capital Facilities Plan](#). This ensures that fees are tied to clearly identified projects and levels of service. The law also requires that impact fees be only one part of a broader funding strategy, meaning they cannot fully fund a project on their own. Finally, impact fees must generally be expended or encumbered within ten years of collection, or they must be refunded to the property owner, which reinforces the expectation that fees will be used in a timely and transparent manner.

General Methodology and System Drivers

Although each impact fee program is tailored to a specific type of infrastructure, they all follow a consistent methodological framework established by state law and industry practice. The process begins with identifying future growth based on the Comprehensive Plan, including projected population, housing units, and employment. The City then applies adopted level-of-service standards to determine the amount of infrastructure needed to serve that growth. From there, the [Capital Facilities Plan](#) is used to identify specific projects required to meet that need, and the total cost of those projects is calculated.

Once the total cost of growth-related improvements is identified, the City accounts for other funding sources, such as grants, general fund contributions, or other revenues, to ensure that impact fees are only funding the portion attributable to new development. The remaining cost is then allocated across projected development to establish a per-unit or per-demand fee.

What differs between systems is the driver used to measure demand. Transportation impact fees are based on vehicle trips, reflecting how development affects the roadway network. Park impact fees are based on population, reflecting the relationship between residents and park demand. Fire impact fees are based on service demand, which is typically derived from historical emergency response data. These differing approaches ensure that each fee is tailored to the way development actually impacts each system.

Transportation Impact Fees

The City's transportation impact fee program was adopted in 2011 and has been periodically updated to reflect changes in costs and infrastructure needs. The program is codified in Poulsbo Municipal Code (PMC) [Chapter 3.86](#) and is based on a cost-per-trip methodology, which ties fees directly to the number of vehicle trips generated by development.

Under this approach, the City identifies transportation improvements needed to serve growth, such as intersection upgrades, roadway expansions, and multimodal facilities, through the Capital Facilities Plan. The total cost of these improvements is then divided by the projected number of trips generated by future development, resulting in a cost per trip. Each development project is then assessed a fee based on its expected trip generation, using industry-standard data sources such as the Institute of Transportation Engineers Trip Generation Manual.

This methodology includes several refinements to ensure proportionality. Fees are based on net new trips, meaning that redevelopment or changes in use are only charged for the increase in trip generation. Adjustments are also made for pass-by trips, which represent traffic already on the roadway, and for internal capture in mixed-use developments.

The current transportation impact fee rate is approximately \$5,126.75 for a single-family residential unit, \$3,801.36 for a multi-family unit, and \$2,563.30 for an accessory dwelling unit.

Park Impact Fees

The City's park impact fee program, codified in [Chapter 3.84](#) of the PMC, was also adopted in 2011. Park impact fees are based on a cost-per-capita methodology, which reflects the relationship between population growth and demand for park land and facilities. The City's adopted level of service establishes a target amount of park acreage per 1,000 residents, and this standard is used to calculate the total amount of park land needed to serve future growth. The cost of acquiring and developing that land is then estimated based on local market conditions and recent project experience.

The current park impact fee is \$1,316.33 per residential unit.

School Impact Fees

School impact fees are also authorized under state law but differ from other impact fees in that they must be implemented in coordination with the local school district through an interlocal agreement. Historically, the City

addressed school-related impacts through SEPA mitigation, rather than a formal impact fee program. These mitigation fees were typically assessed at approximately \$1,200 per residential unit and were intended to address the impacts of new development on school facilities.

More recently, the North Kitsap School District has indicated that enrollment has declined and that additional school capacity is not currently needed to serve new development. As a result, the City no longer collects SEPA-based school mitigation fees, and the District has not requested that the City establish a formal school impact fee program. Accordingly, school impact fees are not included in the current scope of work or Council consideration.

Fire Impact Fees

The City is also evaluating the potential adoption of a fire impact fee. Unlike transportation and parks, Poulsbo does not currently impose impact fees for fire protection facilities. However, state law explicitly authorizes such fees, and many jurisdictions have implemented them as a way to fund growth-related capital improvements for fire and emergency services.

Fire impact fees are typically based on a cost-per-service-demand methodology, which reflects the relationship between development and emergency response needs. This approach begins with identifying the capital facilities required to maintain adopted response times and service levels, such as new fire stations, apparatus, and facility expansions. These costs are then allocated to new development based on historical incident data, which helps establish the relative demand generated by different land use types.

The methodology may also include adjustments to reflect specific characteristics of development. For example, developments with fire sprinkler systems may receive a reduction in fees due to their reduced demand on fire services. Similarly, different occupancy types may be charged different rates based on their historical contribution to emergency calls.

Exemptions, Reductions, and Deferrals

State law provides both mandatory and discretionary tools that local governments may use to reduce, defer, or exempt impact fees under specific circumstances. These provisions are intended to balance the requirement that growth pays for growth with broader public policy goals, including housing affordability and equitable access to development opportunities. However, these tools must be implemented carefully to ensure continued compliance with proportionality requirements and to avoid unintended impacts on the City's ability to fund needed infrastructure.

Under [RCW 82.02.060](#), local governments are authorized to provide exemptions or reductions from impact fees for low-income housing, early learning facilities, and other public purpose developments. If a jurisdiction elects to grant such exemptions, the statute requires that the foregone revenue be identified and accounted for. In practice, this typically means that the City must determine whether the reduced revenue will be offset by other public funding sources or absorbed through adjustments to the capital facilities program. This requirement ensures transparency and reinforces that impact fees cannot simply be waived without consideration of how the associated infrastructure costs will be funded.

In addition to exemptions, [RCW 82.02.050](#) through [.090](#) authorizes jurisdictions to adopt deferral programs for impact fees. Deferrals allow payment of impact fees to be delayed until a later point in the development process, most commonly at final inspection, certificate of occupancy, or the time of sale. State law requires that jurisdictions offering deferrals must establish clear administrative procedures and may impose reasonable conditions, such as recording a lien on the property to secure payment.

Local governments also retain discretion to structure their impact fee programs in ways that improve proportionality and support policy objectives. This includes the ability to scale fees based on unit size or demand characteristics, provide credits for private infrastructure or amenities that offset system impacts, and adopt phased implementation schedules. While these approaches are not exemptions in the traditional sense, they function similarly by adjusting the fee to better reflect the actual impact of development.

From a policy perspective, the key distinction between exemptions and deferrals is that exemptions reduce or eliminate revenue, while deferrals primarily affect the timing of payment. As a result, deferrals are generally viewed as a more sustainable tool for supporting development and housing affordability, as they maintain the City's ability to fund capital facilities over time. In contrast, exemptions and reductions require a clear policy basis and a defined strategy for addressing the resulting funding gap.

As the City considers updates to its impact fee programs, Council direction will be important in determining how these tools are applied. This includes identifying priority uses, such as affordable housing, establishing clear eligibility criteria, and ensuring that any exemptions or reductions are aligned with the City's financial capacity and infrastructure investment goals.

Next Steps

Staff will return to City Council on May 13, 2026, for a detailed workshop on updated and new impact fee rate studies, including transportation, parks, and fire. This workshop will provide an opportunity for Council to review the technical analysis, ask questions, and provide policy direction. Based on that discussion, staff anticipates bringing forward ordinances for adoption in June 2026.