



STAFF REPORT

To: Honorable Mayor and Members of Town Council

From: David L. Corliss, Town Manager

Title: Ordinance Amending Chapter 3.16 Adding a New Section 3.16.005 Entitled Authority; Amending Section 3.16.030 Adjusting the Development Impact Fees for Residential and Non-Residential Uses; and Adding a New Section 3.16.035 Entitled Inflation (Second Reading - Approved on First Reading on September 4, 2018 with a vote of 6 to 0)

The Ordinance was approved on first reading on September 4, 2018 with a vote of 6 to 0 with changes as follows:

Town Staff has implemented a change to the index used to determine the inflationary factor for the Parks and Recreation, Police, Fire, and Municipal Facilities Fees. In the first reading of the Ordinance, the inflation factor was stated as the Consumer Price Index (CPI) for all categories except for the Transportation Impact Fee. Upon further discussion, Staff has identified the following inflation indices as more specific to each fee type:

Parks and Recreation – The Denver Construction Cost Index published by the Engineering News Record

Police – The Denver Building Cost Index published by the Engineering News Record

Fire – 40 percent of the total index based on the Denver-Aurora-Lakewood Consumer Price Index for all urban consumers and 60 percent of the total index based on The Denver Building Cost Index published by the Engineering News Record

Municipal Facilities – The Denver Building Cost Index published by the Engineering News Record

The Transportation Impact Fee will remain as stated in the Ordinance, first reading.

Executive Summary

The Town collects impact fees on new construction projects to ensure the Town's levels of service to the community can be maintained as Castle Rock continues to grow. The Town updates these and other fees periodically to ensure that they are aligned with market conditions.

Staff engaged Economic & Planning Systems, Inc. (EPS) to perform an assessment of impact fees for non-utility areas for the Town. This recent analysis concluded that the Town should be charging significantly higher impact fees based upon the estimated future project needs of a high-growth community and higher construction costs.

Staff has met with and discussed the needed fee increases on multiple occasions with the development community before presenting a recommended fee structure to Council at the work session last month. At that time, Staff indicated to Council that an ordinance to implement the proposed fees was in process which gradually phases the proposed fees up closer to needed levels over a multiyear period. The proposed changes to the impact fees were also included with the August 21 presentation of the 2019 Budget to Council. Council is being asked to approve that ordinance (**Attachment A**) on first reading tonight.

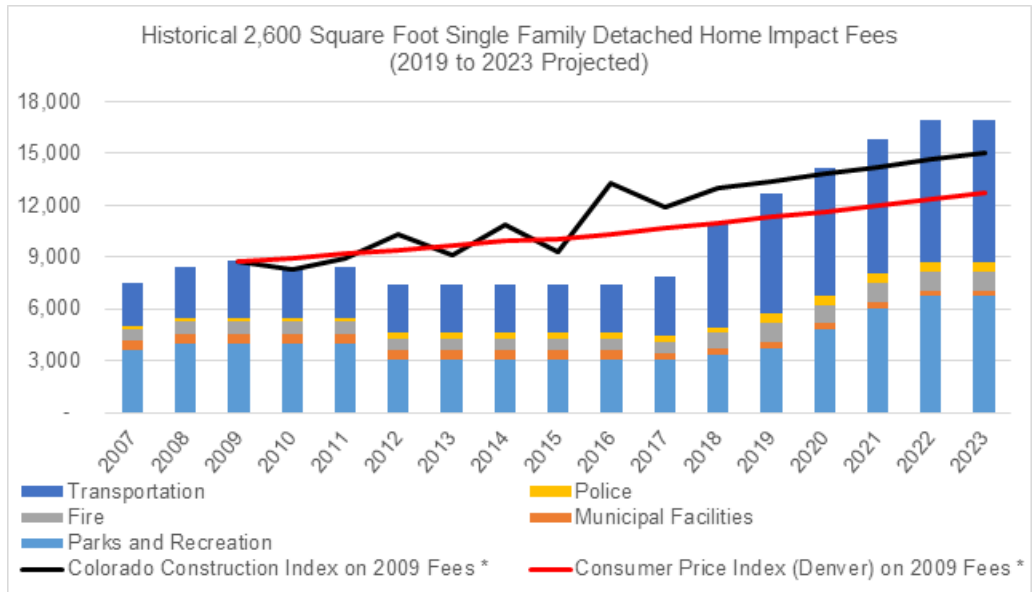
If impact fees are not increased, choices include 1) providing reduced levels of service to the community and/or 2) asking voters to provide for additional revenue sources to address the capital needs of a growing community, such as a property tax increase.

Discussion

The Town, like other Colorado municipalities, collects impact fees on new construction projects to ensure that the Town can meet its established levels of service to the community as Castle Rock continues to grow. Impact fees are collected when a building permit is issued to pay for growth-related improvements, facilities and equipment in the areas of transportation, fire, police, parks and recreation, and municipal facilities (system development fees for Castle Rock Water/Utilities are calculated separately, as part of the annual rates and fees study). These one-time payments must be used solely to fund system improvements that benefit multiple development projects and the entire Town.

The Town updates these and other fees periodically to ensure that they are aligned with community growth and market conditions. Given the economic conditions associated with the recession in early 2008 coupled with the slowdown in growth, the Town engaged a consultant to re-evaluate the level of impact fees being assessed. At that time, Single Family Residential impact fees were adjusted including a significant reduction in the park and recreation fee (\$955 or 28 percent for a 2,600 square foot home) as well as the transportation fee (\$84 or 3 percent for a 2,600 square foot home). After the economy began to rebound and the growth increased in the Town, impact fees were once again updated with an impact fee study performed by an external consultant in 2016. At that time, Council approved a fee structure that increased Building Use Tax to industry standards along with impact fees, in total, by 9 percent in 2017 and 8.5 percent in 2018, exclusive of any needed utility fee increases.

The following table shows impact fees over the past 11 years as well as a projection for the next five years on a 2,600 square foot house. As demonstrated by the table, the proposed fees would position the Town to pre-recession levels, plus inflation.



Given the high growth rates over the past couple of years and to stay responsive to changing market conditions, the Town engaged a consultant, Economic & Planning Systems, Inc. (EPS), to help determine whether the fees being collected for development activity are adequate given current economic conditions.

The consultant analyzed residential and non-residential impact fees for transportation, fire, police, parks and recreation, and municipal facilities. The Impact Fee Nexus Study: Proposed Castle Rock 2019 Impact Fee Program (**Attachment B**) identifies that the Town should charge significantly more for these fees based upon estimated growth and associated future project needs and higher construction costs.

Town staff has been discussing the needed increases with the development community in recent months and tonight, will present the consultant’s report to Council as support for the proposed fee increases.

Feedback from the Development Community at First Reading

During public comment at first reading, a representative of the Home Builders Association (HBA) proposed the following questions or comments. Staff has addressed the items as follows:

HBA comment #1: “We would like to see a formal credit / refund policy that includes some type of criteria that is evaluated for a credit or refund to the impact fees for each unique project. This remains an area of concern where balance has not yet been reached, and we’d like your help in ensuring that the Town creates a predictable process toward this outstanding item.”

Staff Response: Developers often have Development Agreement requirements that relate to the impact their development has on a specific capital need adjacent to the project or a contribution to the larger town-wide project. As stated above, each project is unique and credits are considered on a case-by-case basis. This flexible approach is stated in the impact fee document and in the Town's code. Town Staff believes the current credit / refund policy is sufficient to equitably address developer contributions as each situation is unique.

HBA comment #2: "Many Builders have already recorded plat maps, and we would like your consideration of grandfathering those recorded plats ensuring fairness and predictability."

Staff Response: Town practice has consistently been to apply the current fees at the time of permit application. Grandfathering fees on recorded plats would not be a consistent, equitable or reasonable process for Staff to follow. Staff recommends implementing the new fees based on the date the permit is pulled.

HBA comment #3: "We are disappointed at the magnitude of residential increases as compared to zero or slight commercial use increases."

Staff Response: As has been our practice in the past, the Town intentionally keeps the non-residential fees low with the intent of incentivizing non-residential development. This is done for a couple of reasons. First, one of the Town's main revenue sources is sales tax which is generated primarily through non-residential development, specifically retail development. By keeping the non-residential fees low, the Town is incentivizing additional sales tax generating establishments within the Town. Secondly, non-residential properties are already burdened with a much higher property tax than residential. In an effort to balance the scale, the Town continues to keep the impact fees lower for non-residential development.

Residential Fees

In order to accommodate capital needs necessitated by growth and maintain current levels of service, the Town would need to increase the current nonutility impact fees by approximately \$5,900, or 53 percent, for a 2,600-square-foot home (the average home size in Town for the past 10 years). Such an increase equates to approximately 0.37 percent of the value of a (sample size) \$450,000 home in Castle Rock.

Town Staff is recommending a four-year implementation period for the proposed increase equating to 15 percent in 2019, 11.7 percent in 2020, 11.7 percent in 2021, and 7 percent in 2022. This increase would set the fees at a supportable fee level as calculated in the consultant's study. Additionally, beginning in 2020, Staff proposes that impact fees increase each year based on a given inflationary index. The Transportation impact fee would be based on the Colorado Construction Cost Index published by the Colorado Department of Transportation and all other fees based on the Denver-Aurora-Lakewood, CO Consumer Price Index for all urban consumers.

The table below summarizes the proposed single-family residential fee changes for a sample 2,600 square foot home. As previously stated, the proposed increases are needed

to ensure the Town's levels of service to the community can be maintained as Castle Rock continues to grow.

Proposed Single Family (2,600 Square Feet) Detached Fees

| Fee | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 | 2023 |
|---------------------------------------|---------------------------------|----------------------------------|------------------|------------------|------------------|------------------|
| Parks and Recreation | \$ 3,303 | \$ 3,720 | \$ 4,789 | \$ 6,033 | \$ 6,726 | \$ 6,726 |
| Municipal Facilities | 396 | 355 | 355 | 355 | 355 | 355 |
| Fire | 894 | 1,098 | 1,098 | 1,098 | 1,098 | 1,098 |
| Police | 362 | 542 | 542 | 542 | 542 | 542 |
| Transportation | 6,104 | 7,004 | 7,416 | 7,826 | 8,237 | 8,237 |
| Total Impact Fees | \$ 11,059 | \$ 12,719 | \$ 14,200 | \$ 15,854 | \$ 16,958 | \$ 16,958 |
| Annual % Increase | | 15.0% | 11.7% | 11.7% | 7.0% | 0.0% |
| \$ Increase | | \$ 1,660 | \$ 1,481 | \$ 1,654 | \$ 1,104 | \$ - |
| Annual Increase % of Home Cost | | 0.37% | 0.33% | 0.37% | 0.25% | 0.00% |

The supportable Multi-Family fee in the EPS impact fee study is 86 percent higher than the Town’s 2018 current fee. Town Staff is recommending a 15 percent increase in 2019 and an 11.7 percent increase in years 2020 to 2023 for Multi-Family construction. These increases will result in a fee that is at 96 percent of the maximum supportable fee in 2023. The table below summarizes the proposed changes to Multi-Family fees.

Proposed Multi-Family Fees

| Fee (per unit) | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 | 2023 |
|-----------------------------|---------------------------------|----------------------------------|-----------------|-----------------|------------------|------------------|
| Parks and Recreation | \$ 2,480 | \$ 2,732 | \$ 3,011 | \$ 3,320 | \$ 3,669 | \$ 4,236 |
| Municipal Facilities | 312 | 233 | 233 | 233 | 233 | 233 |
| Fire | 502 | 721 | 721 | 721 | 721 | 721 |
| Police | 286 | 356 | 356 | 356 | 356 | 356 |
| Transportation | 2,931 | 3,445 | 4,039 | 4,703 | 5,441 | 6,089 |
| Total Impact Fees | \$ 6,511 | \$ 7,487 | \$ 8,360 | \$ 9,333 | \$ 10,420 | \$ 11,635 |
| % of Supportable Fee | 54% | 62% | 69% | 77% | 86% | 96% |
| Annual % Increase | | 15.0% | 11.7% | 11.7% | 11.7% | 11.7% |
| \$ Increase | | \$ 976 | \$ 873 | \$ 973 | \$ 1,087 | \$ 1,215 |

Non-Residential

Similar to residential development, non-residential development also pays impact fees to account for the additional burden it puts on the Town’s capital needs and levels of service. Non-residential development includes retail, office, hotel, industrial and warehouse. The fees for these categories were analyzed in the impact fee study prepared by EPS based on metrics specific to commercial development.

As is customary in other communities, the Town does not charge a Parks and Recreation Fee to non-residential development. Although employees or visitors to the town may use the parks and recreation system, data shows the majority of the use is after hours and on the weekends. As such, no Parks and Recreation impact fee is assessed on non-residential development.

In past years, the Town has discounted the amount for non-residential development categories in order to incentivize specific types of building within Town. Town staff is recommending the continuation of this approach with the proposed 2019 – 2022 fees. In order to maintain our current level of service, the discounted amount of non-residential impact fees will be supplemented with general government funds. This is appropriate given the heavy reliance the Town places on sales tax (coming from non-residential retailers and other sources) to pay for the operating costs associated with growth in the community (e.g., new fire station requires sales tax support to operate with staffing). Without strong non-residential building and growth, Town sales tax revenue is likely to suffer and not provide sufficient resources for operations and maintenance needed to respond to growth needs.

Town Staff is recommending a 15 percent increase in the non-residential impact fees over a four-year period, with an inflationary index applied annually, beginning in 2020. The inflation index to be used for non-residential will be the same used for residential.

Fee summaries for the various classes of non-residential development in Town follow. As previously stated, the proposed increases are needed to ensure the Town’s levels of service to the community can be maintained as Castle Rock continues to grow.

Commercial/Shopping Center (50,000 sq. ft. or less)

| Fee (per 1,000 sq. ft.) | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 |
|------------------------------------|---------------------------------|----------------------------------|-----------------|-----------------|-----------------|
| Municipal Facilities | \$ 46 | \$ 47 | \$ 49 | \$ 50 | \$ 52 |
| Fire | 204 | 206 | 206 | 206 | 206 |
| Police | 97 | 102 | 102 | 102 | 102 |
| Transportation | 1,536 | 1,594 | 1,662 | 1,732 | 1,805 |
| Total Impact Fees | \$ 1,883 | \$ 1,949 | \$ 2,019 | \$ 2,090 | \$ 2,165 |
| Annual % Increase | | 3.5% | 3.6% | 3.5% | 3.6% |
| Cumulative Increase | | 3.5% | 7.2% | 11.0% | 15.0% |

Office (25,000 sq. ft. or less)

| Fee (per 1,000 sq. ft.) | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 |
|------------------------------------|---------------------------------|----------------------------------|-----------------|-----------------|-----------------|
| Municipal Facilities | \$ 64 | \$ 66 | \$ 69 | \$ 69 | \$ 69 |
| Fire | 212 | 213 | 213 | 213 | 213 |
| Police | 36 | 37 | 37 | 38 | 38 |
| Transportation | 1,399 | 1,456 | 1,517 | 1,581 | 1,648 |
| Total Impact Fees | \$ 1,711 | \$ 1,772 | \$ 1,836 | \$ 1,901 | \$ 1,968 |
| Annual % Increase | | 3.6% | 3.6% | 3.5% | 3.5% |
| Cumulative Increase | | 3.6% | 7.3% | 11.1% | 15.0% |

Industrial

| Fee (per 1,000 sq. ft.) | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 |
|------------------------------------|---------------------------------|----------------------------------|-----------------|-----------------|-----------------|
| Municipal Facilities | \$ 35 | \$ 52 | \$ 52 | \$ 52 | \$ 52 |
| Fire | 215 | 161 | 161 | 161 | 161 |
| Police | 13 | 80 | 80 | 80 | 80 |
| Transportation | 1,390 | 1,418 | 1,479 | 1,542 | 1,608 |
| Total Impact Fees | \$ 1,653 | \$ 1,711 | \$ 1,772 | \$ 1,835 | \$ 1,901 |
| Annual % Increase | | 3.5% | 3.6% | 3.6% | 3.6% |
| Cumulative Increase | | 3.5% | 7.2% | 11.0% | 15.0% |

Warehouse

| Fee (per 1,000 sq. ft.) | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 |
|----------------------------|------------------------|-------------------------|-----------------|-----------------|-----------------|
| Municipal Facilities | \$ 21 | \$ 5 | \$ 5 | \$ 5 | \$ 5 |
| Fire | 120 | 16 | 16 | 16 | 16 |
| Police | 10 | 8 | 8 | 8 | 8 |
| Transportation | 1,281 | 1,622 | 1,622 | 1,622 | 1,622 |
| Total Impact Fees | \$ 1,432 | \$ 1,651 | \$ 1,651 | \$ 1,651 | \$ 1,651 |

| | | | | |
|----------------------------|--------------|--------------|--------------|--------------|
| Annual % Increase | 15.3% | 0.0% | 0.0% | 0.0% |
| Cumulative Increase | 15.3% | 15.3% | 15.3% | 15.3% |

Hotel

| Fee (per room) | 2018 Current Fee | 2019 Proposed Fee | 2020 | 2021 | 2022 |
|--------------------------|------------------------|-------------------------|---------------|---------------|-----------------|
| Municipal Facilities | \$ 17 | \$ 17 | \$ 17 | \$ 17 | \$ 17 |
| Fire | 80 | 64 | 64 | 64 | 64 |
| Police | 11 | 11 | 12 | 12 | 12 |
| Transportation | 780 | 827 | 859 | 892 | 927 |
| Total Impact Fees | \$ 888 | \$ 919 | \$ 952 | \$ 985 | \$ 1,020 |

| | | | | |
|----------------------------|-------------|-------------|--------------|--------------|
| Annual % Increase | 3.5% | 3.6% | 3.5% | 3.6% |
| Cumulative Increase | 3.5% | 7.2% | 10.9% | 15.0% |

Funding and Level of Service Considerations

The majority of the fee increases noted above are related to the capital needs necessitated by growth for transportation and parks and recreation. Transportation staff has worked within a fiscally constrained model in the past in order to accomplish various growth-related road projects. The funding mix for these projects has included impact fees, sales tax, intergovernmental revenue, and debt issuances that are ultimately paid back with impact fees. Growth helps pay for growth through impact fees, but growth does not carry the entire cost (**Attachment C**).

The Town-provided level of service for Parks and Recreation has continued to decline over the recent years due to a limited amount of capital funds available for parks and/or recreation construction. In early 2018, the Parks and Recreation Director presented Council and the community with the opportunity to select the location of the next neighborhood park. Although there are five park sites in Town ready for construction, the Town only has the fiscal ability to construct one park, largely due to artificially reduced park impact fees assessed in past years (**Attachment D**).

If impact fees are not increased, choices include 1) providing reduced levels of service to the community and/or 2) asking voters to provide for additional revenue sources, such as a property tax increase.

Staff Recommendation

In order to ensure levels of service can be maintained as the Town grows, Staff recommends Council approve the Ordinance as presented.

Proposed Motion

"I move to approve the Ordinance as introduced by title on second reading."

Attachments

Attachment A: Ordinance - Second Reading

Attachment B: Impact Fee Nexus Study: Proposed Castle Rock 2019 Impact Fee Program, EPS

Attachment C: Staff Report: Transportation CIP Forecasted Needs

Attachment D: Staff Report: Parks and Recreation CIP Forecasted Needs