



Town of Castle Rock

100 North Wilcox Street
Castle Rock, CO 80104

Agenda Memorandum

Agenda Date: 9/6/2016

Item #: 20. **File #:** DIR 2016-055

To: Honorable Mayor and Members of Town Council

From: David L. Corliss, Town Manager

Discussion/Direction: Impact and Development Fee Study

Executive Summary

The Town, like other Colorado municipalities, 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 they are aligned with market conditions. Toward this end, the Town engaged a consultant to help determine whether the fees being collected for development activity are adequate.

The consultant analyzed residential and nonresidential impact fees for transportation, fire, police, parks and recreation and municipal facilities, along with fees for the Development Services Enterprise Fund, which are charged for building permits and site development processes. Study results (**Attachment A**) identify that the Town should be charging significantly more for these fees, based upon estimated 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 an updated recommended fee structure on a sample 2,400-2,699-square-foot home to Council (**Attachment B**). The proposed structure gradually phases up fees to closer to the cost-justified level over a multiyear period.

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.

Discussion

Impact fees are paid when there is new construction in Town. They 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.)

Impact fees are one-time payments that must be used solely to fund system improvements needed to accommodate new development. In contrast to project-level improvements, impact fees fund growth-

related infrastructure that benefits multiple development projects and the entire Town.

Staff last fall issued a request for proposals for a consultant to study the impact and development fees the Town charges. After interviewing three qualified candidates, staff engaged Arcadis for the study. Arcadis is familiar with the Town of Castle Rock - the firm has participated in the development of the annual rates and fees study with the Town's Utilities Department for the past seven years.

Arcadis' study analyzed the costs of and potential fees associated with new development. For example, impact fees have recently been used to fund projects including the Miller Activity Complex and the Police Department basement build out, and they will be used to construct and equip the upcoming Fire Station 152 in Crystal Valley Ranch. The study calculated the maximum impact fees the Town may impose on a 3,000-square-foot home under Colorado law, and using generally accepted industry standards.

Another aspect of the study was an analysis of Development Services Enterprise Fund fees. This analysis identified that the valuation schedule currently used by the Town for building permits and building use tax - the sales tax on construction materials - is from 2003. The most recent valuation represents a 46% increase over that outdated model. It is common municipal practice to use the most recent valuation figures from the International Code Council. Therefore, staff has included within the Proposed 2017 Budget use of the updated valuation.

Nonutility Impact Fees

The Town's nonutility impact fees were last adjusted in 2011. If those rates were adjusted by 3% per year, they would be 19% higher than current rates. But, the rates have not increased at all. All the while, construction costs have been increasing dramatically in Colorado. This increase, combined with estimated future project needs, indicate the Town should be charging significantly higher impact and cost-of-service fees.

Impact fees generally are calculated based on 1) an equity buy-in approach or 2) an incremental approach. The equity buy-in method sets fees based on the current replacement cost of existing facilities. The incremental approach, meanwhile, is based on the expected cost of a defined set of capital projects the Town is planning to build. Both methodologies were incorporated within the study; Town staff and the consultant worked to determine the most appropriate approach for each fee, given the specific circumstances of each fund and department.

Since May, staff has worked with the development community to determine the best way to implement the needed fee increases. The focus has been on phasing in, or stair-stepping, increases to provide multiyear predictability for both developers and the Town. Another important item that resulted from these discussions is the proposed use of a square footage method to charge fees, rather than charging the same fees for all homes, to reduce the impacts on smaller units. Accordingly, the maximum fees in Attachments B, C and D have been scaled for a 2,400-2,699-square-foot home.

Staff initially presented a recommended structure in which total fees - which combine impact fees, water system development fees, use tax and permit fees - for a sample 2,400-2,699-square-foot

single-family home would increase 11.8% in 2017, 9.5% in 2018, 9.3% in 2019 and 4.4% in 2020, as further detailed in **Attachment C**.

The development community believed those increases were too steep. Staff worked with that group to reach a consensus, which resulted in the currently recommended fee structure in the below chart. Under this structure, fees for a sample 2,400-2,699-square-foot single-family home would increase 9% in 2017 and 8.5%, exclusive of any needed utility fee increases, in 2018. Staff and the developers' representatives agreed to continue working together in the coming months to achieve agreeable increases for 2019 and 2020. With Council's agreement, staff would like to try to achieve increases of 8% for both of those years, as outlined in **Attachment D**.

Currently Recommended Single Family (2,400-2,699 Square Feet) Detached Fees

FEE COMPONENT	CURRENT RATE	MAXIMUM FEE (ARCADIS)	PROPOSED 2017	PROPOSED 2018
Transportation Capital	\$2,725.00	\$12,010.00	\$3,159.00	\$5,900.00
Fire Capital	\$585.00	\$1,579.00	\$616.00	\$894.00
Police Capital	\$305.00	\$469.00	\$324.00	\$362.00
Parks and Recreation	\$2,836.00	\$6,414.00	\$3,079.00	\$3,303.00
Municipal Facilities	\$536.00	\$384.00	\$384.00	\$396.00
IMPACT FEE TOTAL	\$6,987.00	\$20,856.00	\$7,562.00	\$10,855.00
Water System Fees	\$23,219.91	\$23,713.74	\$23,713.74	*\$23,713.74
Use Tax	\$7,401.35	\$10,075.84	\$9,269.77	**\$9,672.81
Permit Fees	\$3,293.31	\$4,390.74	\$4,036.60	**\$4,149.45
GRAND TOTAL	\$40,901.57	\$59,036.32	\$44,582.11	\$48,391.00

**Subject to change following annual rates and fees studies*

***Valuations associated with building use tax are updated annually, which will result in increases to these items in future years*

Similar increases to fees will be recommended for multifamily and commercial developments, as well. Detailed information on the fees recommended for those types of developments will be provided at first reading, if Council directs staff to prepare an ordinance to adopt the recommended fees. As previously stated, the proposed impact fee increases are needed to ensure the Town's levels of service to the community can be maintained as Castle Rock continues to grow.

Included within Arcadis' study is comparison information comparing the Town's impact fees to some other municipalities. While not an "apples to apples" comparison, Appendix A supplies some benchmarking information.

Staff Recommendation

In order to ensure levels of service can be maintained as the Town grows, staff recommends Council direct staff to prepare the necessary ordinance to implement the impact fees as currently

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recommended.

Proposed Motion

"I move to direct staff to prepare for Council's consideration an ordinance to adopt nonutility impact fees as currently recommended."

Attachments

Attachment A: Development Impact Fee Study, Arcadis

Attachment B: Currently Recommended Fees

Attachment C: Initially Recommended Fees

Attachment D: Possible Next Steps

Attachment E: HBA Letter (August 31, 2016)