



Council Finance Committee Meeting Minutes - Excerpt April 7, 2022

B. 2023 Capital Expansion Fee Updates

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EXECUTIVE SUMMARY

Since 2016, City staff has made significant changes to how we determine, update, and communicate the various development related impact fees that require City Council approval. Through coordination across service areas and functional teams, the City has consolidated the approach and attempted to consolidate the cadence of updates to City Council for approval of all fee changes. This update focuses primarily on the Capital Expansion Fee updates that are currently under way.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

What questions or input does Council Finance Committee have related to the Capital Expansion Fee Update?

BACKGROUND/DISCUSSION

Since the fall of October 2016, staff has worked to coordinate the process for updating all development related impact fees that require Council approval. This resulted in the completion of two studies, the Capital Expansion Fee Study dated August 2016 (CEF Study) for the neighborhood park, community park, fire, police, and general government capital expansion fees (CEFs) and the Transportation Capital Expansion Fee Study dated April 2017 (TCEF Study) for the transportation capital expansion fee (TCEF).

Development related impact fees that are approved by Council are CEFs, TCEFs, and five Utility plant investment fees (Utility PIFs).

Type of Fee	Fee Name
Capital Expansion	Neighborhood Park
Capital Expansion	Community Park
Capital Expansion	Fire
Capital Expansion	Police
Capital Expansion	General Government
Capital Expansion	Transportation
Utility	Water Supply Requirement
Utility	Electric Capacity
Utility	Sewer Plant Investment
Utility	Stormwater Plant Investment
Utility	Water Plant Investment

Previously, fee updates were presented to Council on an individual basis. However, it was determined that updates should occur on a regular two and four-year cadence and fees updates should occur together each year to provide a more holistic view of the impact of any fee increases.

Fee coordination includes a detailed fee study analysis for CEFs and the TCEF every four years. This is achieved through contracting with an outside consultant with data provided by City staff Findings by the consultant are also verified by City staff. For Utility PIFs, a detailed fee study is planned every two years. These are internal updates by City staff with periodic consultant verification. In the future, fee study analysis will be targeted in the odd year before Budgeting for Outcomes (BFO). In years without an update, an inflation adjustment occurs.

Additionally, a comprehensive Development Review and Building Permit Fee Study update was also completed in 2019. Due to a number of factors, the implementation of the new fee structure was delayed until January 2022.

Given the nature and magnitude of some of the fee updates, a phased approach was followed for implementation of the updated structures. The original schedule is highlighted below.

	2016	2017	2018	2019	2020	2021	2022
Capital Expansion Fees		Update	Step II	Step III	Inflation	Update	Inflation
Transportation Expansion Fee		Update	Step II		Inflation	Update	Inflation
Electric Capacity Fee		Update		Update	Inflation	Update	Inflation
Water Supply Requirement		Update		Update	Inflation	Update	Inflation
Water, Sewer, Stormwater PIFs			Update	Update	Inflation	Update	Inflation

Due to competing work objectives in 2021, the planned updates to the Capital Expansion Fees and Transportation Capital Expansion fees were deferred in the spring of 2021.

Currently, the work has been re-engaged on both the CEF and TCEF updates. Staff are evaluating study work plans and efforts in conjunction with other City-wide workstreams. Two options are under consideration for the projects.

- **Option 1** would accelerate the completion of the two studies in 2022 and return the update cadence to the original timeframe. The TCEF study was started in 2021 and paused in Q2. This option allows quicker re-engagement with the existing consultant.
- **Option 2** would have the fee updates targeted for completion in 2023. Pursuing this path could allow for potential integration and scoping with other significant workflows (revenue diversification, East Mulberry annexation evaluation), as well as allow for more fulsome outreach and engagement. The 4-year update cycle would then commence as planned.

The two scenario timeframes and update schedules are highlighted below.

Option 1

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Capital Expansion Fees		Update	Step II	Step III	Inflation	Inflation	Update	Inflation	Inflation	Update	Inflation	Inflation
Transportation Expansion Fee		Update	Step II		Inflation	Inflation	Update	Inflation	Inflation	Update	Inflation	Inflation
Electric Capacity Fee		Update		Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update
Water Supply Requirement		Update		Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update
Water, Sewer, Stormwater PIFs			Update	Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update

Option 2

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Capital Expansion Fees		Update	Step II	Step III	Inflation	Inflation	Inflation	Update	Inflation	Inflation	Inflation	Update
Transportation Expansion Fee		Update	Step II		Inflation	Inflation	Inflation	Update	Inflation	Inflation	Inflation	Update
Electric Capacity Fee		Update		Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update
Water Supply Requirement		Update		Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update
Water, Sewer, Stormwater PIFs			Update	Update	Inflation	Update	Inflation	Update	Inflation	Update	Inflation	Update

DISCUSSION / NEXT STEPS:

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

What questions or input does Council Finance Committee have related to the Capital Expansion Fee Update?

Julie Pignataro; confirming that option 2 is the staff recommendation

Dave Lenz; yes, as a finance staff that is where we come down, there are other workstreams outside of ours – but we are central to a number of these workstreams; Revenue Diversification, Capital Expansion Fees, the Mulberry Annexation project too which has a number of resources on the finance side

Julie Pignataro; would one cost more in terms of person hours or collection or non-collection of fees?

Dave Lenz; the work itself would be the same regardless of the option – the big concern I have in updating these is thinking about some of the options for revenue diversification that might be integrated into this - if we have better definition about direction on one of those options we have the ability to adjust the study to reflect that potential for a different structure

Kelly Ohlson; disagree with staff recommendation for 2 - I think we should pull the plug on East Mulberry Annexation now – but that is not our discussion today

How sophisticated are we in the inflation rates we are charging?

Land inflation rates around here are very different than the standard inflation rate which is different for street projects (where asphalt went up) which is different from rates for construction
Standard one size fits all inflation rate

Travis Storin; the transportation capital expansion fee is indexed to construction inflation. The other 5 components - parks around construction or land acquisition and when you get to general government, fire and police is where you might see more of a plain vanilla consumer price index

Dave Lenz; it is a single index that reflects that - It is a more general inflationary component for those other key pieces and that is what we have based on the code that has been established - Transportation uses one indices reflective of that component and the rest of the fees are related to a general CPI – Denver, Boulder, Front Range inflationary fee

Kelly Ohlson; so, when we do this again I hope our model gets a little more sophisticated

The development review and building permit fee study was completed in 2019 and should have started January 1, 2020 (pre Covid) What are the real reasons for a full 2-year delay in implementing? What a two-year lag?

Dave Lenz; the study was completed in late 2019 but I don't think it was ever the intent to update those fees as of 1/1/20.

Travis Storin; on the development review side we had some software challenges from the permit side

Monica Martinez; Ocella platform - at that time Ocella had other significant projects - that is where the initial delay came from and then that was compounded by Covid

Caryn Champine; adding a bit of context, we made an intentional decision to not raise fees for customers because it was more of a policy choice given the pandemic and the constraints that businesses were experiencing we felt that coming out with increased customer fee was not the most contextually sensitive piece.

Kelly Ohlson; I guess I am an option 2 because I think Mulberry Annexation may go away and I am more troubled that we only use the standard inflation rate rather that something a bit more sophisticated

If we do option 2 – I am less enthusiast going to the wall for future new fees and taxes – I don't know when we have discussed this – was talked about in detail from 2005 – 2013 to get these on a regular schedule and to do regular updates and the interim inflation figures – this is not something new - we have been struggling with this for 17 years

Travis Storin; in terms of the two options, we are positioned and ready to do either one
There is enough runway to do a 1/1/23 implementation date. We are interested in getting back on the 4-year cadence for the reasons that you stated

Fees Effective January 2022

Land Use Type	Unit	N'hood Park	Comm. Park	Fire	Police	Gen. Gov't	TCEF	Total	Total % Δ
Residential, up to 700 sq. ft.	Dwelling	\$1,941	\$2,741	\$475	\$266	\$647	\$2,523	\$8,594	3.5%
Residential, 701-1,200 sq. ft.	Dwelling	\$2,599	\$3,669	\$643	\$360	\$873	\$4,686	\$12,830	3.9%
Residential, 1,201-1,700 sq. ft.	Dwelling	\$2,838	\$4,007	\$699	\$391	\$953	\$6,085	\$14,973	4.1%
Residential, 1,701-2,200 sq. ft.	Dwelling	\$2,867	\$4,048	\$711	\$397	\$968	\$7,115	\$16,106	4.3%
Residential, over 2,200 sq. ft.	Dwelling	\$3,196	\$4,513	\$791	\$442	\$1,077	\$7,626	\$17,645	4.2%
Commercial	1,000 sq. ft.	0	0	\$599	\$335	\$1,637	\$9,285	\$11,855	6.2%
Office and Other Services	1,000 sq. ft.	0	0	\$599	\$335	\$1,637	\$6,840	\$9,411	5.9%
Industrial/Warehouse	1,000 sq. ft.	0	0	\$140	\$78	\$386	\$2,208	\$2,811	6.2%

Kelly Ohlson; Slide - #15 Appendix (see above)

if you look at Land Use Type / Residential - Neighborhood Parks
Jumps are not in proportion
Between 1200 and 1700 sq. ft it goes up \$239
Between 1200 and 2200 sq ft it only goes up \$29

Dave Lenz; yes, I don't have the detail around why the fees are varied

Kelly Ohlson; different – jumping around – why would that be the case?

Emily Francis; regarding the same slide, why don't we charge commercial businesses for parks?

Dave Lenz; residents are driving the need for community / neighborhood parks

Travis Storin; when it comes to Council being able to establish a nexus for fees – fees have to exist to recover the cost of delivering services – if we don't associate any costs of delivering service for these land use types then we don't have the basis with which to establish a fee

John Duval; the way you describe it is accurate - I would add that in the constitutionality of fees one of the key points is that the fee payers must reasonably benefit from the payment of those fees. In the past the analysis has been that parks are used by residents not companies. I can't say there is any case law that gives us clear direction on this but that gives us the analysis.

Emily Francis; I disagree – I think that commercial businesses do benefit from having a park nearby. To confirm these capital expansion fees are the same fees we are talking about when we talk about how to pay for our parks, transportation, and housing.

Travis Storin; the parks fees we have suggested reconfiguring the code to allow for us to perform asset replacement work in existing parks whereas right now these fees can only be used for new park acquisition. They are one and the same.

Emily Francis; does that impact either of the timelines if we are talking about updating those?

Travis Storin; that was part of the rationale behind the recommendation for option 2 was to allow some integration with the ongoing revenue work but they are not mutually exclusive, and Council could update them for 1/1/23 and then still revisit them earlier than a 4-year cadence if they so desire - you would not be restricted around the revenue conversation based on which option you indicate your comfort with today

Emily Francis; when do we decide if we are going to update our methodology?

Travis Storin; so that is the fee study that is referenced, every 4 years we do a fee study and for the other 3 years you see inflationary updates. During those fee studies, we revisit the methodology, the legal nexus, and the assumptions that feed into the financial models that produce the pricing of the fee.

Emily Francis; I would like to choose the option that is more predictable and consistent for the end user. Smaller more frequent incremental increases are better than a large increase in one year. I don't know which approach is more consistent for the end user.

Dave Lenz; we are going to have cadence of updates that will hopefully be regular – when we do the full fee study update, we may come to a result that says this is too much to bring in at one point in time if it is a significant change – when they did the initial study some of those fees were graduated in over time. Ideally it won't result - we haven't decided to change the nexus – dependent on making a decision to change the code

Emily Francis; Option 2 would make more sense –mainly because I don't want us to do it and then re do it. Giving us the time to do it well makes more sense to me.

Julie Pignataro; appreciate Emily questions and Kelly's concerns – I am almost at 6 of one or half dozen of the other at this point - which would make me lean toward option 2 - your preference and staff's recommendation

Kelly Ohlson; delay in fees costs us – do we have any context for the amount per year – cost of delay?

If we are going to look at how we are doing parks fees to include refresh then it probably makes sense to get it done all at once.

Travis Storin; message received around sophistication in the inflation rates for the pricing models

Across our 6 fee categories – (excluding Utilities) \$11M per year of revenue

Each 1% of inflation that would be missed out on could be \$100K - \$110K per year

But again, with inflation rising as fast as it is - we will be making adjustments

Kelly Ohlson; not massive amounts of money – we are talking a relatively small amount of money – I had heard in the past a much more significant number

Travis Storin; low 6 figures – I am going off of 2020 revenue

Kelly Ohlson; less than \$1M

Travis Storin; yea

Kelly Ohlson - Let's make sure we do it right with the methodology inflation and the different in the size of the homes – let's have a state-of-the-art thing – I can live with Option 2

Travis Storin; it actually creates more pain the longer you wait to update fees so delays are as unattractive for staff as they would be from a policy making standpoint - firm commitment

Kelly Ohlson; when we don't do it – then you have that sticker shock

Travis Storin; summary / action items;

- 1) Support for Option #2 by consensus
- 2) Clear direction around the use of construction or land-based indices for inflation in the 3 off years the next time we update fees

Kelly Ohlson; and justification to explain to Council for the weird numbers on the appendix slide