

## **CITY COUNCIL MEMORANDUM**

**City Council Meeting: 04-17-25**

**Department:** Admin/Public Works

**Subject:** Proposal for Implementation of Impact Fees for Water, Sewer, and Drainage Infrastructure Upgrades

### **BACKGROUND**

#### **1. What are Impact Fees?**

Impact fees are charges imposed by a political subdivision (like a city or county) on new developments to fund the costs of building or expanding capital improvements necessary for the development. These fees help cover the cost of infrastructure such as:

- Water supply, treatment, and distribution systems
- Wastewater systems
- Stormwater, drainage, and flood control facilities
- Roadways

#### **2. Key Terms**

- **Capital Improvement:** Long-term facilities or infrastructure like water systems, drainage, or roads with a life expectancy of 3 or more years.
- **Capital Improvements Plan:** A plan that identifies capital improvements or expansions, for which impact fees may be assessed.
- **Impact Fee:** A fee charged on new developments to cover costs of capital improvements, not including things like land for parks or roads that developers may need to dedicate.

#### **3. Authorized Use of Impact Fees (Sec. 395.012)**

Impact fees can be used for:

- Construction costs, including contracts, surveying, engineering, land acquisition, and professional fees.
- Interest costs on bonds used to finance improvements.
- Municipalities may also pledge impact fees as security for paying bond debts for improvements.

#### **4. Items NOT Covered by Impact Fees (Sec. 395.013)**

Impact fees cannot cover:

- Operations and maintenance of existing or new facilities.
- Updates to meet stricter safety or regulatory standards.
- Administrative costs (except for some specialized entities like the Edwards Underground Water District).

## **5. The Capital Improvements Plan (Sec. 395.014)**

A capital improvements plan must:

- Be prepared by qualified professionals (engineers and financial experts).
- Include a description of existing infrastructure, capacity, and upgrades needed for new developments.
- Estimate the demand for new services and the total number of new service units expected from the development.
- Identify credits or reimbursements for costs related to new improvements (e.g., property taxes or utility revenue).

## **6. Calculating the Impact Fee (Sec. 395.015)**

- The fee is determined based on the costs of the necessary improvements minus any credits (e.g., property tax or utility contributions) and divided by the number of service units generated by new development.
- The fee cannot exceed the total costs needed for new improvements attributable to new development.

## **7. Public Hearing and Approval Process**

- Before imposing impact fees, political subdivisions must hold public hearings on the **land use assumptions** and **capital improvements plan**.
- Notices must be sent to property owners and published in local newspapers at least 30 days before the hearing.
- After the hearing, a resolution or ordinance is adopted to approve or reject the plan and fees.

## **8. Review and Update of Plans (Sec. 395.052)**

- The land use assumptions and capital improvements plan must be updated at least every five years.
- A hearing is held to discuss updates or amendments, and the public has the right to comment on them.

## **9. Special Agreements and Credits (Sec. 395.018, 395.023)**

- Political subdivisions can enter into agreements with property owners regarding payment methods for impact fees.
- Credits are available for developers who contribute to or build part of the infrastructure (e.g., roads or drainage systems).

## **10. Spending Impact Fees**

- Fees collected must be deposited into accounts specifically set up for each type of capital improvement.
- The funds can only be used for the improvements identified in the capital improvements plan, and any interest earned on these funds is subject to the same restrictions.

## 11. Other Key Points

- **Political Subdivisions' Authority:** Political subdivisions may only charge impact fees if they follow the procedures outlined in the code.
- **School Districts:** School districts do not have to pay impact fees unless they agree to by contract with the political subdivision.

## Summary of Procedures for Enacting Impact Fees

1. **Adopt a Capital Improvements Plan:** A plan identifying the necessary infrastructure and its costs.
2. **Public Hearing:** Hold a hearing on the land use assumptions and plan.
3. **Approval of Plan:** The political subdivision adopts or rejects the plan within 30 days of the hearing.
4. **Fee Adoption:** After the plan is approved, a hearing is held to consider the actual impact fees. The political subdivision approves or disapproves them.
5. **Ongoing Updates:** The plan and fees must be updated at least every five years.

## PROPOSAL

We anticipate holding a public hearing on the implementation of these impact fees in June 2025. This hearing will provide an opportunity for residents and developers to voice their opinions and concerns regarding the proposed fees and their implementation.