Exhibit B

North Metro Fire Rescue District Impact Fee Study

FINAL REPORT

Final Report

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North Metro Fire Rescue District Impact Fee Study

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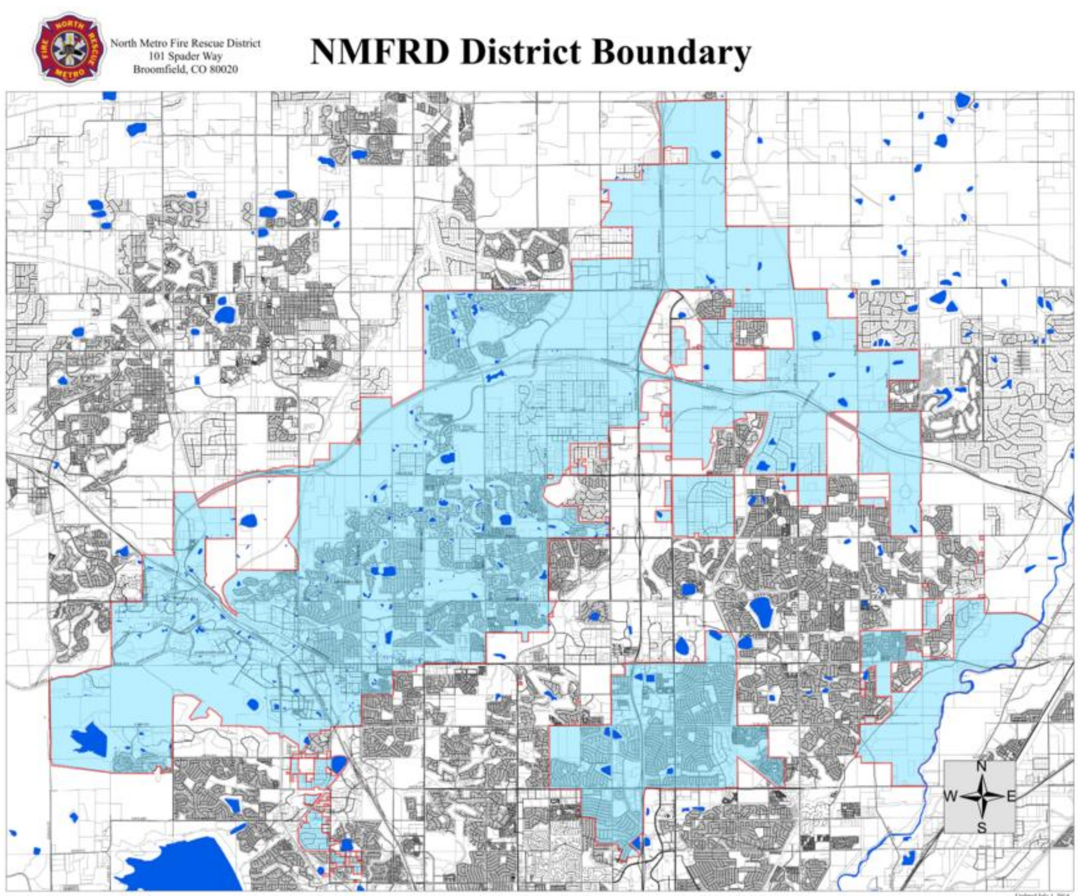
SECTION I.
Impact Fee Design Considerations

This report presents the analysis underlying calculation of proportional development impact fees for the North Metro Fire Rescue District (NMFRD or the District). This section describes fee design requirements and various implementation considerations.

Background and Objectives

The NMFRD provides fire, rescue and emergency medical services as well as public education to a 63 square-mile area that includes the City and County of Broomfield, the City of Northglenn and unincorporated areas of Adams, Boulder, Jefferson and Weld counties. The District serves about 117,000 residents and responds to roughly 11,000 calls per year. Figure 1-1 shows the District's service area.

Figure I-1.
North Metro FRD Service Area



Source: North Metro FRD.

In the 2016 legislative session, the Colorado General Assembly passed House Bill 16-1088 explicitly authorizing fire protection districts, with consent of local governments, to impose an impact fee on new development. After this legislative action by the state, NMFRD contracted BBC Research & Consulting to calculate proportional and defensible fees, which when implemented will provide assurance to the community that new growth is paying its own way and contributing to the fiscal health of the District.

This report documents BBC's analysis and recommendations for designing and implementing an impact fee system that would recover the proportional capital costs associated with all forms of new development.

Impact Fee Design Requirements

There is no universally accepted definition of impact fees, but most studies emphasize the fee's one time use; application to new development; design requirements for proportionality; and restricted use for infrastructure expansion purposes only:

> *"Fees collected through a set schedule or formula, spelled out in a local ordinance….fees are levied only against new development projects as a condition of permit approval to fund infrastructure needed to serve the proposed development. Impact fees are calculated to cover the proportionate share of the capital costs for that infrastructure…[1]"*

The key requirements of impact fee design are set by Colorado Statute and a series of United States Supreme Court rulings.

Colorado requirements. Colorado statutes enable the use of impact fees and dictate the following fee requirements:

- Impact fees are a one-time payment levied on new development;
- Funds can only be used for growth-related capital infrastructure projects;
    - Applicable infrastructure must have at least a five year life;
    - No funds can be diverted for operations, maintenance, repair or facility replacement purposes;
- Fee revenues must be segregated from other general revenues and used for the purposes for which they were collected;
- Fees must be imposed on all forms of development and cannot be limited to one type of land use;
- Impact fee revenues must be used for capital infrastructure expansion. No funds can be used for correction of existing system deficiencies; and

[1]Juergensmeyer, Julian C., and Thomas E. Roberts. Land Use Planning and Development Regulatory Law. St. Paul, MN: WestGroup, 2003; and ImpactFees.com, Duncan Associates, 20 February 2008.

- There must be a reasonable expectation of benefit by the fee payer.

U.S. Supreme Court decisions. Impact fee design must also respect broad guidance offered by a series of United States Supreme Court rulings. The two most notable court decisions that speak to impact fee design and constraints on fee use are often referred to as *Nollan*[2] and *Dolan*[3].

Guidance from these decisions requires that there be an "essential nexus" between the exaction/fee and the state interest being advanced by that exaction. In the more recent *Dolan v. City of Tigard* (1994) decision, the U.S. Supreme Court held that in addition to an essential nexus, there must be a "rough proportionality" between the proposed exactions and the project impacts that the exactions are intended to mitigate. In *Dolan,* the court further states that rough proportionality need not be derived with mathematical exactitude but must demonstrate some relationship to the specific impact of the subject project:

> *"We think a term such as 'rough proportionality' best encapsulates what we hold to be the requirements of the Fifth Amendment. No precise mathematical calculation is required, but the city must make some sort of individualized determination that the required dedication is related both in nature and extent to the impact of the proposed development."*

Over the past two decades since *Dolan*, many communities have imposed impact fees; thus, there now is a broad set of common practices when considering how best to reflect these judicial and statutory requirements in fee design efforts.

Fee Applicability

As noted above, impact fee revenues can only be used to cover the expansion costs of public infrastructure needed to serve new development and fee amounts can only be set to recover the cost infrastructure expansion that is proportional to the needs of the new project.

Public infrastructure. *Public or capital infrastructure* is the physical component of public services, generally including buildings, facilities and related improvements, such as parking, lighting, ball fields or other support facilities. Capital infrastructure includes streets, parks, administrative facilities, specialized fire or police buildings, and developed recreation facilities. Under Colorado statute infrastructure can include all equipment that has at least a five-year lifetime. It does not include personnel or any element of service costs even in circumstances where new staff is required to operate the new facilities.

Nature of infrastructure investments. In considering fee requirements, it should be noted that not all capital infrastructure costs are associated with community growth or with the expansion of facility capacity. Most communities make frequent infrastructure investments regardless of growth pressures for repair and replacement of facilities. Communities considering impact fees must recognize three elements of infrastructure needs:

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2 Nollan v. California Coastal Commission, 483 U.S. 82; 1987 and Dolan v. City of Tigard (1994) 114S.Ct. 2309.

3 *Dolan v. City of Tigard* (1994) 114S.Ct. 2309

- **Repair and replacement of facilities**. The expense of maintaining current facilities, such as annual building maintenance, or replacing a roof.
- **Betterment of facilities**. Implementation of new services or improvement of existing facilities (e.g., adding better training equipment at a recreation center) without increasing service capacity.
- **Expansion of facilities.** e.g., expanding an existing city hall to accommodate growing personnel requirements occurring in association with community growth.

Impact fees can only cover those infrastructure costs associated with the expansion of facilities to serve the needs of new growth.

Other Fee Design Considerations

Over time a reasonable consensus has emerged as to how best to assure fee compliance with state statute and federal court dictates. In order to develop fees, there are three basic components: definition of community standards; calculation of proportional attribution to new growth and attribution of infrastructure needs across all major land uses. These issues and their resolution for this analysis are discussed below.

Setting community standards. The first fee design issue involves determining appropriate capital standards for each category of infrastructure. Some states' enabling legislation describes capital standard criteria with specificity; for instance, Idaho requires that a city use an endorsed capital improvements schedule and then a process of attribution between growth related and other investments—Colorado does not have this same detailed guidance. Facility standards, such as library space per household or recreation facilities per household, can vary widely between communities; thus, it is not appropriate to use standards developed for other towns, or standards applied nationally.

Calculation methodology. There are two common methodologies employed in order to meet the standards described above, the current service standard (capital buy-in) and the capital improvement (plan-based):

- Typically, the buy-in fee design process involves documenting the replacement value of specific capital facilities and qualified equipment used for each category of infrastructure, and then defining that level of investment as the city's capital standard. For instance, a city of 2,500 homes with a 20,000 square foot recreation center (capital replacement value of $5.0 million) would have a recreation center standard of 8 square feet per housing unit (20,000 sq. ft./2,500 homes = 8 sq. ft. per home). At $250/square foot (replacement value of equivalent space), each existing residence would have an embedded recreational investment of $2,000 per home. This would be the community's present facility standard and this is what each new unit could be charged as a "buy-in" amount for a recreational impact fee.

- In the plan-based fee methodology, the cost of new infrastructure is allocated to new growth in proportion to that growth's anticipated demand of the infrastructure. This forward looking approach requires forecasts of households and commercial growth and detailed data on capital expansion plans. For infrastructure to be eligible for inclusion in the impact fee calculation, it must meet the requirement that only items with a useful life of five years or more are designated a fee-eligible capital asset, per CRS 29-20-104.5.[4] Any improvements used to address current service deficiencies or increase the level of service cannot be included in the fee calculation—in other words, the fee calculations must take into account the current level of service and exclude any elements of the plan that would result in a higher level of service.

BBC used the capital buy-in approach to calculate the impact fees presented in this report. This decision was mutually agreed upon by BBC and the NMFRD as it provides the most accurate and robust fee calculation methodology given all available information.

Adjustments for debt. Since facility standards are defined by a community's demonstrated investment in infrastructure, calculations of community standards must recognize, and net out, any applicable debt. Debt service will be paid by all future residents—new and old; it's not appropriate to charge new development a front end impact fee and then charge the same development again, after becoming residents or property owners, requiring them to also pay the remaining equity and interest costs. All capital infrastructure amounts used in the fee calculations are free of any debt financed components.

Fee design cost-recovery. The cost of this study can be recovered through fees and used to reimburse the general fund. Fee design costs have been included in the District's infrastructure valuation.

Proportionality. As part of the fee design process it is necessary to ensure that fees only cover the proportional expansion costs caused by new development. The state statutes and aforementioned court decisions require a demonstration of proportionality. In this instance, by using existing infrastructure and service population, then requiring new development to pay fees at an amount scaled by the current level of service, proportionality is reasonably and fairly derived.

Allocation by land use. The courts have indicated that all forms of development that have facility impacts (residential, industrial and commercial) must pay their fair share of expansion costs. If one land use is exempted from fees all other land uses have no reasonable expectation of seeing facility expansion completed. Quantification of current residential, commercial, industrial and related non-residential land uses is obtained from the county assessor's data.

Use specificity. Impact fee systems vary in how precisely they differentiate between varying forms and size of residential development and varying uses of commercial buildings. Detailed non-residential use or other specificity is merited when there is there is compelling evidence that use or size variations reflect substantive difference in the demand for public services. The proposed fee structure for NMFRD incorporates a four-tiered structure that assesses single family residential by unit, multifamily residential by unit, industrial facilities by the square foot and all other commercial by the square foot.

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[4] Impact Fee Enabling Statute: *CRS 29-20-104.5. Local Government Regulation of Land Use.*

Redevelopment/credits. Application of impact fees raises a series of questions about how to approve redevelopment of existing properties and the circumstances under which fees can be waived or adjusted. The redevelopment of a residence, even a complete demolition and home reconstruction, does not mean an increase in public service costs—it is still one residential unit with little or no implications for service delivery costs or capital needs. Redevelopment of larger lots with multiple homes would be assessed a fee based on the number of net new residences. Similarly, non-residential redevelopment will only be charged on the basis of net new space.

Waivers. The District should not waive impact fees unless the fund is reimbursed from other sources such as the general fund or the developer/owner is making other contributions to system expansion by other mechanisms that meet or exceed the calculated requirements.

Timing. Generally impact fees are collected either at the time of building permit or at the issuance of a certificate of occupancy. BBC recommends the District collect impact fees at the time of building permit, which allows the District more time to extend service.

Updating. Fees should be updated periodically; most communities update fees every five years. Inflationary adjustments are recommended on an annual basis.

SECTION II.
Impact Fee Calculations

This section documents the derivation of impact fees for NMFRD.

North Metro FRD Budget Overview

The 2017 NMFRD Budget indicates the District will collect revenues of approximately $26.4 million this year. Property taxes, generated from a 13.226 mill levy on assessed property values, along with specific ownership taxes account for 87 percent of the District's projected revenues. The SFPD is expected to incur operating and maintenance expenditures of $23.0 million before transferring any revenue to the Capital Improvement Fund.

The District currently funds capital investments through their Capital Improvement Fund, which is funded almost exclusively through budget transfers from the General Fund. Capital expenditures expected for 2017 total $4.7 million and include exhaust removal systems in one station, brush truck purchase, staff vehicle purchase, replacement of all cardiac monitors, bunker gear purchases, computer equipment and software purchases and the remodeling of one station.

In 2014, voters passed a Mill Levy increase to be used for "providing firefighters essential safety gear and communications equipment, such as air packs and radios, replacing aging response vehicles and repairing fire stations to address critical safety hazards." This mill increase, while necessary to maintain existing service standards and address routine maintenance and replacement needs, is not designed to recover additional capital expansion needs related to new growth within the District.

Additional property tax and specific ownership tax revenue from new growth will not likely be sufficient to fund the required level of growth-related capital expansion. Instead, these revenues are likely to be expended for ongoing District expenses and repair and replacement of existing infrastructure as they are currently.

If NMFRD chooses to implement impact fees of the type calculated later in this analysis, it would retain an independent and equitable source of revenue for capital expenditures required to serve new growth. Without impact fees, the District will likely have to increase property taxes district-wide, reduce service standards for all taxpayers, or do both in order to accommodate growth once the Capital Improvement Fund balance is exhausted.

With impact fees, new development pays only their equitable pro rata share of new infrastructure required to serve them while existing taxpayers will not subsidize growth. At the same time, the District's capital and operating funds will be reserved for fiscally appropriate, non-growth related uses.

Impact Fee Calculations

BBC's methodology for NMFRD impact fee includes the following tasks:

1. Quantify the fire infrastructure standards and investments needed to maintain the current level of service;
2. Account for outstanding debt, net-out of District total replacement value;
3. Develop estimates of the District's current service demand by development type (based on calls for service); and
4. Calculate the fire protection infrastructure costs per unit of development (per household, or per square foot of commercial development).

Fire infrastructure. A conservative method of establishing the District's current level of service for fire protection is to quantify its financial investment in infrastructure and capital equipment. Specifically, NMFRD has five types of capital infrastructure related spending that should be included in a calculation of current infrastructure investment:

- Land and buildings including eight stations, a fire training center and headquarter facility;
- Major apparatus such as fire engines and specialized vehicles located at each station;
- Radios, computers and specialized communication equipment;
- A variety of life-saving and fire-fighting apparatus located at individual fire stations or on pieces of equipment; and
- The cost of this impact fee study.

Figure II-1 on the following page presents the District's current capital infrastructure by type. Replacement values are based on information provided by NMFRD, including a detailed description of the District's capital assets from Colorado Special Districts Property and Liability Pool; fixed asset costs and depreciated values; and planned capital investments.

As discussed earlier in this report, only the District's equity share of assets can be included in the impact fee calculation; debt used to finance fire stations, vehicles and/or other equipment must be excluded.[5] Presently, the District has $25.7 million in outstanding debt as described below:

1) Certificates of Participation issued to fund Station 66, a portion of the Training Center, and a new fire engine (principal balance due as of 12/31/16 is 6,295,000); and

[5] See Section I page 5 for an explanation of debt adjustments.

2) General Obligation Bonds issued for Station 67, 68, portion of the Training Center, Fleet Maintenance facility and the District Headquarters facility (principal balance due as of 12/31/16 is $19,365,000).

All outstanding debt is excluded from the impact fee calculation, as shown by the "Debt Deduction" line item in Figure II-1.

The full cost of infrastructure acquired specifically for fighting wildfires is also excluded from the total value used for the fee calculation. Additional residential or commercial development in the district will not directly contribute to capital requirements of fighting wildland fires. Therefore, the fee system should not replicate wildfire-specific infrastructure investments. NMFRD property tax or other revenue sources will maintain the wild land fire standard of service. Accordingly, the three Brush Trucks used exclusively for wildfires are not included in the impact fee calculations (shown as 0% "portion to include in impact fees" in Figure II-1).

The total replacement value of the District's current capital infrastructure eligible to be included in the impact fee calculation is approximately $33 million.

Figure II-1.
North Metro Fire Rescue District's Current Assets

Note:

(1) Equipment used exclusively for brush fire response and/or antique show vehicles are excluded from the impact fee calculation.

(2) Portion to include in Impact Fees multiplied by replacement value equals allocated replacement value..

Source:

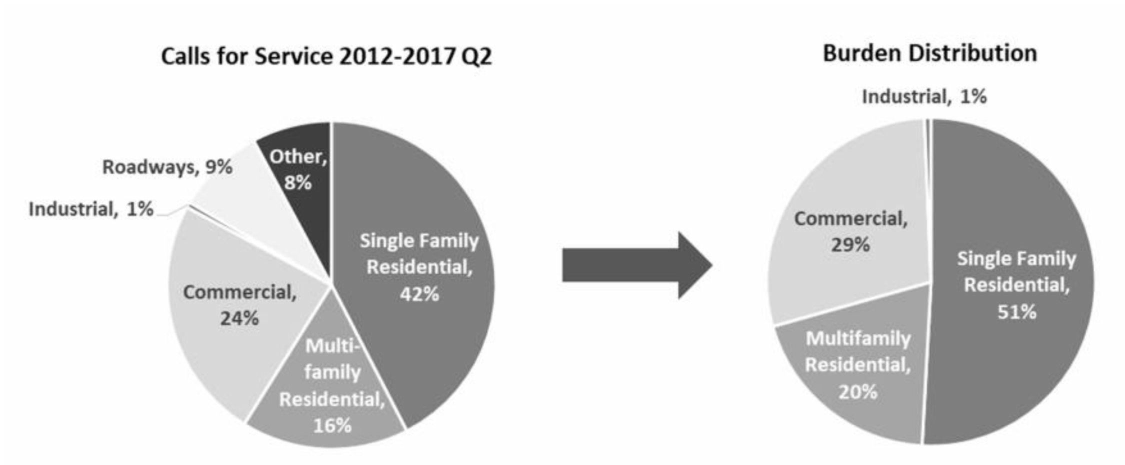
North Metro Fire Rescue District, Colorado Special Districts Property & Liability Pool Insurance Inventory and BBC Research & Consulting.

Type of Capital Infrastructure	Total Replacement Value	Portion to Include in Impact Fees (1)	Allocated Replacement Value (2)
Buildings and Land			
Fire Training Center/Fire Station #68	$20,034,294	100%	$20,034,294
Headquarters	$5,885,777	100%	$5,885,777
Fire Station #61	$2,091,942	100%	$2,091,942
Fire Station #62	$3,933,723	100%	$3,933,723
Fire Station #63	$1,300,393	100%	$1,300,393
Fire Station #64	$2,220,476	100%	$2,220,476
Fire Station #65 (Jeffco Airport)	$1,599,752	100%	$1,599,752
Fire Station #66	$3,938,652	100%	$3,938,652
Fire Station #67	$4,235,845	100%	$4,235,845
Vehicles			
Fire & Rescue	$6,979,418	100%	$6,979,418
Brush Trucks	$238,323	0%	$0
Other Vehicles	$903,639	100%	$903,639
Fire Equipment and Business Property			
Radios	$2,230,901	100%	$2,230,901
Computers	$327,674	100%	$327,674
Fire-fighting equipment	$3,241,858	100%	$3,241,858
Fee Study			
Cost of study	$10,000	100%	$10,000
Debt Deduction			
Outstanding debt on assets	($25,660,000)	100%	($25,660,000)
Total Value of Fire Infrastructure for Fee Calculation			**$33,274,344**

Demand for services by land use. Demand for services is not always equal across different land uses. BBC used existing calls for fire and EMS service as a proxy for demand in the fee calculations. In order to mitigate operational “busy-ness” (year-to-year fluctuations), BBC evaluated five and a half years (2012 through 2017 Q2) of call data to determine the average distribution. Figure II-2 displays NMFRD’s calls for service by land use category. Calls classified as “Roadways” and/or “Other” cannot be attributed to a specific land use and are excluded from the impact fee calculation model.

Over the five-year period, there were over 53,000 calls for service to NMFRD. After calls that cannot be classified by land use are excluded, 51 percent were to single family residential units, 20 percent were to multi-family residential developments, 29 percent were to commercial developments and 1 percent were to industrial developments.

Figure II-3.
Calls for Service (2012-2017 Q2) and Burden Distribution for Impact Fee Calculation



Note: Roadways and Other categories cannot be assigned to development type and are therefore excluded from the impact fee calculation.

Source: NMFRD and BBC Research & Consulting.

Impact fee calculation. Figure II-3 uses the District’s current service standards and infrastructure replication costs to determine appropriate household and commercial fees. The District’s calls for service by location category is used as a reasonable proxy for the assignment of costs to particular types of development.

Full cost-recovery impact fees for NMFRD, total $557 per single family residential dwelling unit and $436 per multifamily dwelling unit. Commercial fees total $0.38 per square foot and industrial fees total $.05 per square foot. The District can choose to charge less than this amount but discounts must be uniformly applied to all land use categories.

Figure II-3.
North Metro FRD Full Cost-Recovery Impact Fees

Source:
BBC Research & Consulting, 2017.

Calculation of Impact Fees	
Value of Fire Infrastructure	$33,274,344
Burden Distribution (based on calls for service)	
Single family Residential	50.8%
Multifamily Residential	19.7%
Commercial	28.7%
Industrial	0.8%
Costs by Category	
Single family Residential	$16,909,934
Multifamily Residential	$6,565,898
Commercial	$9,548,075
Industrial	$250,436
Existing Development	
Residential (in dwelling units)	45,434
Single family (in dwelling units)	30,376
Multifamily (in dwelling units)	15,058
Commercial (per square foot)	25,049,314
Industrial (per square foot)	4,680,561
Impact Fee by Land Use	
Single family (per dwelling unit)	**$557**
Multifamily (per dwelling unit)	**$436**
Commercial (per square foot)	**$0.38**
Industrial (per square foot)	**$0.05**

Summary and Recommendations

In light of the North Metro Fire Rescue District's expected growth, and its lack of a sustainable method to finance resulting capital expenditures absent fee revenue, impact fees are recommended for your consideration.

The fees listed in Figure II-3 should be considered maximum defensible amounts, although it is recognized that the District may choose not to adopt fees as high as the maximum defensible amounts set forth in this analysis.

We also offer the following recommendations for your consideration:

- The District should maintain the Impact Fee Fund separate and apart from the General Fund, withdrawn only to pay for growth-related infrastructure.
- The District should adhere to a written policy governing its expenditure of monies from the Impact Fee Fund. The Fund should be prohibited from paying for District operational expenses including the repair and replacement of existing infrastructure not necessitated by growth. In cases when new infrastructure is expected to partially replace existing capacity and to partially serve new growth, cost sharing between the General Fund and Impact Fee Fund should be allowed on a pro rata basis as determined by the District's board.

- The fees calculated in this study should be updated periodically as the District invests in additional fire protection infrastructure beyond what is listed in Figure II-1, and/or the District's population or inventory of commercial square footage change significantly.
- The fees should be updated annually based on established inflation indices, such as the Consumer Price Index or the Engineering News Record.
- Finally, consider a fee amount that balances infrastructure needs with economic development goals.

Summary of Impact Fees from all Districts:

Fire District	Current Study	Proposed IGA	Impact Fee (Single-Family)	Impact Fee (Multi-Family)	Impact Fee (Non-Residential)
Adams County Fire Protection	Yes	Yes	$422	$275	$0.30 per sq.ft
Bennett Fire	Yes	Yes	$1,500	$1500	$0.72 per sq.ft
Brighton Fire	Yes	Yes	$688	$550	$0.46 per sq.ft (commercial/retail) $0.06 per sq.ft (industrial/warehouse)
Byers Fire	-	-	-	-	-
Deer Trail Fire	Yes	Yes	$2,250	$2,250	$1.28 per sg.ft
North Metro Fire	Yes	Yes	$557	$436	$0.38 per sq.ft (commercial/ retail/office/institutional) $0.05 per sq.ft (industrial/flex)
Sable Altura	Yes	Yes	$679	$679	$0.47 per sq.ft
South Adams County	Yes	Yes	$732	$337	$0.46 per sq.ft
Southeast Weld	-	-	-	-	-
Strasburg Fire	Yes	Yes	$824	$526	$0.53 per sq.ft